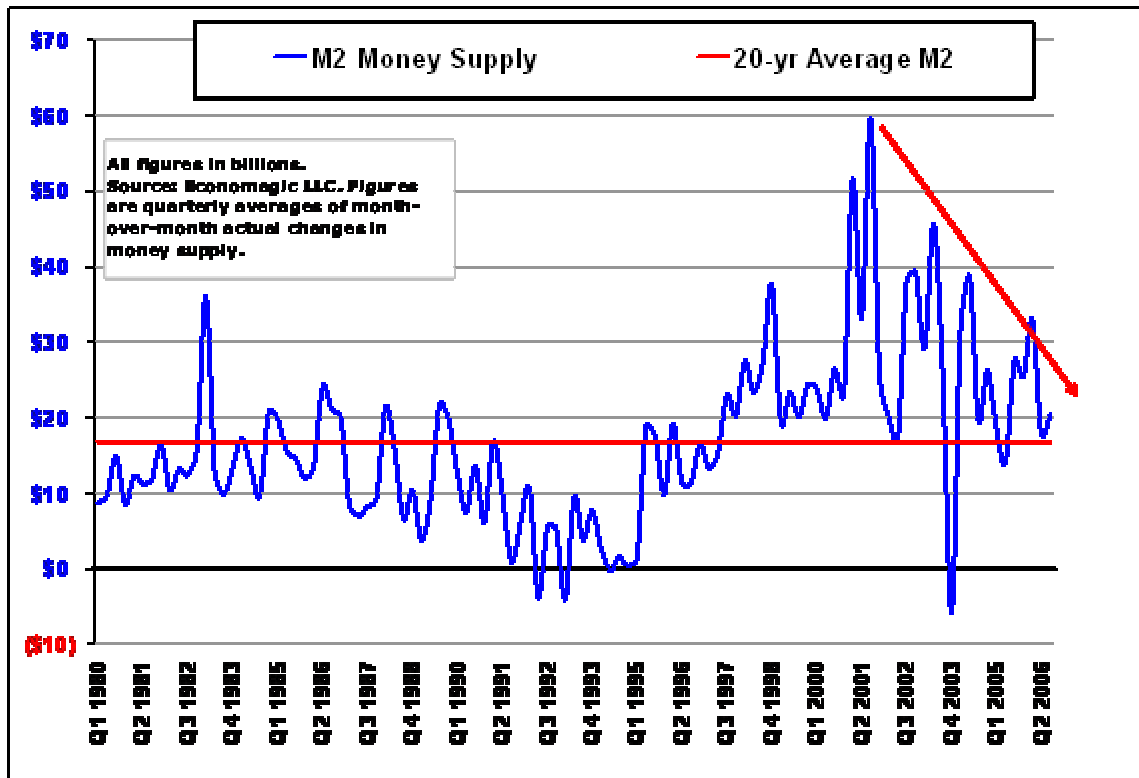


## PUSHING ON A STRING? 1/8/07

On a seasonally adjusted basis, total borrowing in the U.S. economy declined by 24.7% third quarter 2006 vs. third quarter 2005. This is the first sizeable decline in borrowing over the last six years. This reduction in borrowing is more than double the second quarter decline comparisons of 2006 and 2005. One should keep in mind, however, that a good deal of borrowing continues to take place. The consumer's debt load continues to climb, but at a lesser rate.

Maybe one cannot declare a trend as of yet, but it's obvious a real slowdown is underway. Please note the chart below depicting the trend in M2 money supply growth.



Taken from Financialsense.com

What does this mean? It means that we may have entered that dreaded area of the Fed “pushing on a string.” The inflationists have always believed that the Fed can create

money. No, they absolutely cannot. They can do many things to create an environment conducive to borrowing, such as creating reserves which are necessary for the banks to make loans, but they have no way to force people to borrow it.

If the consumer is beginning to run out of money—and it appears he may be—then this recovery and expansion is coming to a halt. Is there any sector that can pick up the slack? Most say capital spending by business, but where are the shortages that call for such action? Why are companies buying back their own stock? The answer is that there is no shortage, and companies have no better use of their record profits—profits, by the way, which have come on the backs of employees.