

**Today's Notes:**

- 1. Unemployment**
- 2. Days for Reflection**

## **1. UNEMPLOYMENT**

The US unemployment numbers came in yesterday. Unfortunately they surprised on the downside. This was more like a “cockroach” rather than the hoped for “green shoots.” Economic “green shoots” are now becoming endangered species. Cockroaches, unfortunately, do not appear in one’s and two’s. When you see one you normally see many more; often they get larger. Since peaking at 750,000 in January US unemployment had steadily decreased each month till June. The chart below shows 467,000 newly unemployed in June. Unemployment is a lagging indicator in a recession. Therefore it has little forecasting value relative to the end of this challenging time for North America’s economy. However weekly-hours-worked also decreased to 33 which means that employers are not yet calling back furloughed workers and lengthening the work week – before incurring the costs of hiring. Hours-worked is usually a leading economic indicator and it also turned negative.

The new numbers will delay the ultimate end of the recession. The U3 unemployment rate is now 9.5% (14.7 million Americans now seek work, ~ 42% of the population of Canada). 6.5 to 7.2 million jobs have been lost since the economic contraction began 19 months ago. This is no longer a garden variety recession. It is instead a much more malignant contraction, with different roots, continuing to extend its tentacles. Underlying this recession is the near collapse of the banking system and the economic fabric of our lives.

More important, such numbers bring into question the efficacy of the Administration’s fiscal program<sup>1</sup>. In December President Obama suggested that if Congress acted immediately and passed a \$787 billion recovery bill, unemployment could be constrained to 8%. No chance of that now. Please remember that the US population is growing – which requires 100,000 new jobs each month just to keep unemployment level.



<sup>1</sup> The \$787 billion fiscal program was called the American Recovery and Reinvestment Act

The unemployment rate in the great Depression peaked at 25% but failed to fall below 15% through the double dip recession 1937 because the “hawks” forced President Roosevelt to tighten<sup>2</sup>. Ultimately World War II fixed the unemployment problem.



Christina Romer, President Obama’s Chairwoman of the Council of Economic Advisors is humbled by the sequence of events (Economist June 18, 2009),

*“... dealing with the current crisis required increasing the deficit substantially. To switch to austerity in the immediate future would surely set back recovery and risk a 1937-like recession-within-a-recession. ... The fundamental source of long-run deficits is rising health-care expenditures. By coupling the expansion of coverage with reforms that significantly slow the growth of health-care costs, we can dramatically improve the long-run fiscal situation without tightening prematurely.”*

*As someone who has written somewhat critically of the short-sightedness of policymakers in the late 1930s, I feel new humility. I can see that the pressures they were under were probably enormous. Policymakers today need to learn from their experiences and respond to the same pressures constructively, without derailing the recovery before it has even begun.”*

Is this then the Administration’s plan, to deal with unemployment by implementing a health care system to avoid tightening prematurely? The president shall feel compelled to consider a new and much larger spending plan – one without meaningless and wasteful “earmarks.”

Yet, on June 23, 2009 President Obama said we do not need new stimulus spending. He will wait on the current \$787 billion package. We may need more stimuli – now, and they must be properly focused and not loaded with Congressional earmarks. But can we afford it?



<sup>2</sup> *The Lessons of 1937*, The Economist June 18, 2009.

Let's face it, the hard unemployment, part timer and marginally employed rate is above 10% today. The Table below tells the tale. U6 unemployment, as calculated by the BLS, is now 16.5% and almost certainly headed for 20% as States like California, New Jersey and New York cut their spending and hence work forces. Finally, those who have stopped seeking jobs from sheer discouragement are not included in these statistics.

**Table A-12. Alternative measures of labor underutilization**  
(Percent)

Measure	Not seasonally adjusted			Seasonally adjusted					
	June 2008	May 2009	June 2009	June 2008	Feb. 2009	Mar. 2009	Apr. 2009	May 2009	June 2009
U-1 Persons unemployed 15 weeks or longer, as a percent of the civilian labor force .....	1.8	4.6	4.8	1.9	3.4	3.7	4.0	4.5	5.1
U-2 Job losers and persons who completed temporary jobs, as a percent of the civilian labor force .....	2.7	5.8	5.9	2.9	5.0	5.4	5.7	6.2	6.2
<b>U-3 Total unemployed, as a percent of the civilian labor force (official unemployment rate) .....</b>	<b>5.7</b>	<b>9.1</b>	<b>9.7</b>	<b>5.6</b>	<b>8.1</b>	<b>8.5</b>	<b>8.9</b>	<b>9.4</b>	<b>9.5</b>
U-4 Total unemployed plus discouraged workers, as a percent of the civilian labor force plus discouraged workers .....	6.0	9.5	10.1	5.9	8.5	8.9	9.3	9.8	10.0
U-5 Total unemployed, plus discouraged workers, plus all other marginally attached workers, as a percent of the civilian labor force plus all marginally attached workers .....	6.7	10.3	10.9	6.6	9.3	9.8	10.1	10.6	10.8
U-6 Total unemployed, plus all marginally attached workers, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all marginally attached workers .....	10.3	15.9	16.8	10.1	14.8	15.6	15.8	16.4	16.5

NOTE: Marginally attached workers are persons who currently are neither working nor looking for work but indicate that they want and are available for a job and have looked for work sometime in the recent past. Discouraged workers, a subset of the marginally attached, have given a job-market related reason for not looking currently for a job. Persons employed part time for economic reasons are

those who want and are available for full-time work but have had to settle for a part-time schedule. For more information, see "BLS introduces new range of alternative unemployment measures," in the October 1995 issue of the Monthly Labor Review. Updated population controls are introduced annually with the release of January data.



Yes, this recession will end. This sorry episode in our country is apolitical. Chairwoman Romer highlights the difficulty of any economist or politician (regardless of political affiliation) to pull the trigger on increased spending or restraint exactly at the correct moment and precisely by the correct amount. They all walk the razor's edge balancing monetary and fiscal policy – easing or tightening. So far neither is working. The truth is that the economic tools we have are not effective.

We have a long way to go before we talk of Green Shoots again. It is most difficult to understand how a new health care or energy program, such as passed by the House, can help us to escape this employment dilemma. Can millions of **additional, new jobs** be created near term in these two sectors of the economy? Recent experience in Spain (alternative energy employment) reveals that more jobs will be destroyed than created thus increasing the unemployment rate significantly. I am not convinced of the job creation claims. Neither is the equity market. All the major indexes fell over 2% yesterday. I love the freedoms that we all share. We must not abuse them. Let's get educated, involved and help to correct these misguided policies.

Yesterday Nassim Taleb ("*The Black Swan*") commented in the *Journal Ecommerce*,

***"You may have green shoots, whatever you want to call them, you may have temporary relief, but you are still in a world that's breaking ... the monkey on our back is debt."***

Mr. Taleb believes that only half the crisis is past. He implores governments to desist from trying to inflate through fiscal and monetary schemes (there have been many TARP, TALF

PPIP, etc.). Such inflation is simply an attempt at bubble re-inflation. To an extent I agree. He suggests that conversion of debt (home mortgages for example) to equity is a better way to go forward, to keep people in their homes, avoid foreclosures and save the financial system. Otherwise Mr. Taleb predicts the potential for a collapse of the banking system.

I have written, in previous Morning Notes, that I do not now see a collapse of the banking system. However, I am concerned when I observe currency fluctuation such as yesterday. The US dollar and Yen were much stronger while commodities fell. This currency volatility, always and everywhere, reveals extensive deleveraging. Mr. Taleb believes there is still \$70 trillion of debt that is *“the monkey on our back.”* If this is true we have a long way to go before the US currency can find its way permanently lower. This will provide the hiatus for you to take positions in your inflation hedge portfolio. In the meantime (2 to 3 years?) the US economic recovery will be anemic at best. Unemployment will climb and remain high and ultimately, as deficits soar under current Washington thinking, the demise of the dollar will be upon us. With Al Franken’s ascension to the Senate this week, we have seen the high water mark of Democratic control of Congress. Be careful what you wish for, you may just get it.

Currency	<u>Chg%</u> <u>X=1\$USD</u>	NY Time	X=	X\$USD	Gold	Gold	Gold
			1\$USD	=1	Price/oz	Chg	Chg%
<u>US Dollar</u>	--	07/02-09:45	--	--	928.50	-11.80 ▼	1.25%
<u>Australian Dollar</u>	-1.58%	07/02-09:40	1.2567	0.7958	1166.67	+3.48 ▲	+0.30%
<u>Brazilian Real</u>	-0.91%	07/02-09:45	1.9455	0.5140	1806.20	-6.70 ▼	-0.37%
<u>British Pound</u>	-0.81%	07/02-09:44	0.6115	1.6355	567.67	-2.67 ▼	-0.47%
<u>Canadian Dollar</u>	-0.62%	07/02-09:45	1.1563	0.8649	1073.46	-7.08 ▼	-0.66%
<u>Chinese Yuan</u>	+0.05%	07/02-07:41	6.8265	0.1465	6337.72	-84.62 ▼	-1.32%
<u>Euro</u>	-1.06%	07/02-09:45	0.7139	1.4009	662.81	-1.37 ▼	-0.21%
<u>Hong Kong Dollar</u>	-0.12%	07/02-08:30	7.7545	0.1290	7199.28	-83.63 ▼	-1.15%
<u>Indian Rupee</u>	-0.31%	07/02-08:30	47.9250	0.0209	44493.57	-429.26 ▼	-0.96%
<u>Japanese Yen</u>	+0.58%	07/02-09:45	96.0600	0.0104	89191.71	1660.08 ▼	-1.83%
<u>Mexican Pesos</u>	-0.43%	07/02-09:45	13.1655	0.0760	12224.17	-102.70 ▼	-0.83%
<u>Russian Ruble</u>	-0.91%	07/02-09:40	31.2155	0.0320	28980.47	-107.71 ▼	-0.37%
<u>S.African Rand</u>	-1.56%	07/02-09:45	7.8615	0.1272	7299.40	+21.01 ▲	+0.29%
<u>Swiss Franc</u>	-1.01%	07/02-09:45	1.0853	0.9214	1007.65	-2.56 ▼	-0.25%

**Yesterday there was significant dollar and yen strength across the board even in light of higher unemployment numbers. The Yuan appears pegged.**

**This means we are still deleveraging. We cannot inflate out (devalue the \$) till the de-leveraging is finished. Commodities will be under pressure –**

**This is your opportunity to position in this sector.**

## 2. IMPORTANT DAYS TO REFLECT

This past week I Chaired the Latin American Mining Congress in Miami. It was a very positive experience. Today and tomorrow Americans will celebrate Independence Day. Earlier this week, Canadians celebrated Canada day. Personally I celebrate both days. I love Canada and the opportunities it afforded Kate and I (University of Waterloo was a highlight) lots of snow, good hockey (I was known as the best road hockey goalie in

London, Ontario) and a very high quality lifestyle. I am just now coming to know Saskatchewan a little better though my involvement with the 49 North Resources Fund. This fund is incubating a nascent capital market in that province.

The US has been my home for 36 years and my children and grandchild Lucy. The ability to take risks has been a hallmark of the opportunities in this country. Common roots, a long and open border and an enduring friendship between our two countries have made the quality of life better for North Americans.

During the LATAM Congress I had a distinctly different feeling. Colombia, Brazil, Argentina and Mexico, to name a few countries, are also part of this feeling of solidarity. Canadian companies such as Scorpio, Quaterra Resources, Endeavour Silver, Goldcorp and Coeur D'Alene are also contributing to the welfare of the Latin Americans every day. Just listen to the presentation of Scorpio Mining CEO Peter Hawley. Scorpio operates an operating silver lead zinc copper mine (Nuestra Senora) in Mexico's Sinaloa.

In his presentation he said that the priority of events for a Canadian mining company in Latin America (Scorpio's in particular) was as follows:

- 1) Always understate and outperform.
- 2) Develop community relationships. Exploration rather than exploitation.
- 3) Develop solid state and local government relationships.
- 4) Develop local livelihoods through training and infrastructure.
- 5) Jointly build roads, schools, clinics and supply water.
- 6) Bring modernization, and new mine technology.
- 7) Protect the environment – Scorpio uses starch instead of cyanide.
- 8) Exhibit pride in the work of mining / providing the community with a better QOL.
- 9) Remember that as a foreigner you are a guest.
- 10) Exhibit willingness to learn from the local population.

Please have a look at Scorpio Mining. The company is in production and the shares are a value.



The Scorpio Mining story is only one of many in Latin America that spread the good will of the US and Canada to millions of impoverished citizens of these countries. Companies such as Ventana in Colombia, Endeavour Silver in Mexico and CGX Energy in Guyana are ambassadors of good will. I strongly recommend attendance at these hemispherical resource congresses. They are real eye openers because they lead to a better understanding

of how private industry and multinational institutions such as the World Bank, IADB and OPIC can cooperate with the indigenous population in improving quality of life in the Americas.

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