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FINANCIAL SERVICES UPDATE - AUGUST 5, 2011

Aug 05, 2011

Economy Adds 117,000 Jobs in July

On Friday, the Department of Labor announced that the United States economy added 117,000 jobs in July causing the unemployment rate to fall to 9.1 percent from 9.2 percent in June. The Labor Department also revised its estimate of job growth in June to 46,000 from the previously reported 18,000.

European and Asian Leaders Call for Global Economic Cooperation

On Friday, the leaders of Germany, France and Spain scheduled an emergency conference after China and Japan called for global policy cooperation in response to the selloff in international markets. On Thursday, the European Central Bank (ECB) reactivated its dormant bond-buying program in an attempt to halt the deepening sovereign debt crisis, but the ECB only purchased Portuguese and Irish debt. Japanese Finance Minister Yoshihiko Noda called on global policymakers to confront currency distortions, the debt crises and concerns about the U.S. economy. Chinese Foreign Minister Yang Jiechi also said U.S. debt risks were escalating and countries should step up cooperation on global economic risks.

Congress Passes and President Signs Debt Limit Deal Averting Default

On Monday, the House of Representatives approved a compromise deal to raise the debt limit by a vote of 269-161. The bill, which was brokered Sunday night in last-minute negotiations between the White House and congressional leaders, passed with the support of 174 Republicans and 95 Democrats. On Tuesday, the Senate passed the bill by a vote of 74 to 26, and President Obama signed the legislation into law. The compromise allows a debt ceiling increase by as much as $2.4 trillion in total, with an immediate increase of $400 billion. President Obama is permitted to request a $500 billion increase in the coming months, which Congress could vote to disallow by a veto proof two-thirds margin. The agreement calls for more than $900 billion over ten years in spending cuts from defense and non-defense related programs, agencies and day-to-day spending, however Medicare, Medicaid, and Social Security cuts are prohibited. A further increase of the debt ceiling between $1.2 trillion and $1.5 trillion would be available after the "Super Committee" of six Republicans and six Democrats identifies matching levels of additional spending cuts. The

Committee must complete its work by November 23, and if the Committee passes by a simple majority vote a recommendation of cuts and/or tax increases matching the debt ceiling increase, Congress must hold an up or down vote on the Committee recommendations by December 23. The Committee could overhaul the tax code or find savings in Medicare or other entitlement programs, however Congress can not modify the Committee's recommendation before voting. Should the committee deadlock or should Congress reject the Committee's recommendations, automatic across the board spending cuts of at least $1.2 trillion would automatically go into effect. The agreement also requires that the House of Representatives and the Senate vote on a Balanced Budget Amendment to the Constitution. The deal also includes changes to Pell Grants and student loan programs. Pell Grants will receive a $17 billion increase for low-income college students, which will be financed by the elimination of subsidized student loans for most graduate students. The compromise does not include any immediate revenue additions or tax increases.

Temporary FAA Agreement Reached

On Thursday, Congressional leaders reached an agreement on a six week extension of funding for the Federal Aviation Administration (FAA), ending a stalemate over the agency's reauthorization. It was uncertain after the bill's passage if Congress would act to restore back pay to the furloughed FAA employees or other non-federal airport workers who have been laid off since July 23. Unless the House and Senate negotiators are able to reach an agreement on a new funding package within six weeks, they will again force the FAA to furlough employees.

More Information

If you have any questions regarding any of these issues, please contact:

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