

### THE U.S. ECONOMY: A DOOMDAY SCENARIO

The US Federal Reserve is, clearly, concerned about the health of the largest single economy of the world – and there is every reason for The Fed to be concerned.

The writing might well be on the wall.

The fighting in Lebanon between the Iran-backed Hezbollah guerrillas and the Israeli Defence Force (IDF), the army of Israel, is set to expand, with Hezbollah, being reinforced by volunteers from other Muslim countries, all willing to shoot to kill Israelis ... or, perhaps, any passing Jew in any country?

The situation in the Middle East is approaching crisis proportions to be sure.

It is the one thing that the world has feared over the past month, ever since the IDF initiated its armed offensive into Lebanon in order to neutralise Hezbollah.

The knock-on effects could well lead to violent sectarianism as the Muslim wage war against non-believers (the infidels), be they Jewish and/or Christian.

Ironically, it was Hezbollah that started the latest round of killing, but this particular political boil has been festering for many years, in any event, and, if it had not been the current incident of the capture of an IDF soldier, it, definitely, would have been another incident in the fullness of time.

Recently, it was reported on live television coverage that, in Tehran, Iran, in a period of just one hour, more than 6,000 Iranians had signed up to go to Lebanon in order to fight alongside their Hezbollah '*brothers*'.

These young men and women want to be part of the killing, joining the Hezbollah guerrillas and/or be suicide bombers to attack Israel on its home turf.

The Government of Iran has, openly, stated that it wants to wipe Israel off the map of the world.

In Indonesia, one has seen proof positive of Indonesian Muslims, putting their names on documents which, in essence, represents a moral promise to go to Lebanon to fight the IDF.

One must assume that many of these Indonesian Muslims will end up in the black uniforms of the Hezbollah.

Meanwhile, the United Nations struggles to find a solution to the conflict, one which will appease Lebanon, Hezbollah and Israel.

And, in the meantime, the US Government states that Israel has the right to defend itself.

Even if the United Nations is able to pen an acceptable ceasefire treaty among Israel, Lebanon and the Hezbollah, it seems obvious that Hezbollah will not honour it and, with seemingly unlimited resources in the shape of military aid from Iran and, perhaps, Syria, and with the Muslim nations in Asia and the Middle East, willing to supply this guerrilla movement with tens of thousands of young men and women, willing to die for the cause (?), there would appear to be no incentive for Hezbollah to seek a truce with what it

considers to be its arch enemy.

All this is likely to result in more unrest in the Middle East for many years to come.

The price of crude oil will be used as the weapon of choice by the stated enemies of the Jewish state and its allies, with the US Government, high on the list of countries to be punished.

Iran has, already, warned that it would not hesitate to push up the price of crude oil to \$US200 per barrel if the United Nations imposes sanctions on the country because this fundamentalistic Muslim country refuses to budge in its avowed promise to become a nuclear power.

Last Tuesday, from Washington, D.C., the US Federal Reserve determined not to raise interest rates for the eighteenth time.

The following is part of that which The Fed released, last Tuesday:

*'The Federal Open Market Committee decided today to keep its target for the federal funds rate at 5-1/4 percent.*

*'Economic growth has moderated from its quite strong pace earlier this year, partly reflecting a gradual cooling of the housing market and the lagged effects of increases in interest rates and energy prices.*

*'Readings on core inflation have been elevated in recent months, and the high levels of resource utilization and of the prices of energy and other commodities have the potential to sustain inflation pressures. However, inflation pressures seem likely to moderate over time, reflecting contained inflation expectations and the cumulative effects of monetary policy actions and other factors restraining aggregate demand.*

*'Nonetheless, the Committee judges that some inflation risks remain. The extent and timing of any additional firming that may be needed to address these risks will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.'*

In short, the US economy is slowing while inflation is accelerating.

### **The Future Problems In The US**

The Fed's statement, '*a gradual cooling of the housing market*', is very telling because it poses a huge problem for the US economy.

In fact, it was foretold, on numerous occasions, by the former Chairman of The Fed, Dr Alan Greenspan.

The effects of a prolonged and material deterioration in the price of homes in the US will be to see:

1. Consumer spending in the US dry up;
2. A fast, fall-off in key indices of US equity markets;
3. Bankruptcies/insolvencies reaching near record levels; and,
4. The potential of the beginning of another US recession.

The economic growth in the US has slowed, appreciably, over the past few quarters, and this must have frightened The Fed because, on the one hand, it has to contain inflation in the country and, on the other hand, it must not add to the deterioration of the US economy by making things any more difficult than they are difficult, already.

In the second quarter, the **Gross Domestic Product (GDP)** – the annual total value of goods, produced and services provided in a country, excluding transactions with other countries – was about 2.50 percent.

The third quarter was little changed from the second quarter.

It would take little for the fourth quarter to fall below 2 percent.

In the past year, the prices of homes in the US have fallen by about 10 percent, on average.

The stock of unsold inventories of homes is staggering, by all accounts.

If the homes cannot be sold, many construction companies could go to the wall.

It is almost a guarantee that the prices of homes in the US will fall much faster as the year progresses and, all things being equal, prices will fall even further, deep into 2007, also.

Stubborn US home-owners will, most likely, not be willing to let go of their prized possessions in a hurry.

They will hang on as long as possible ... until a force majeure situation is reached and finance companies take the bit between their teeth and serve notice on home-owners to vacate.

Bankruptcy courts will, then, be inundated with applications of one sort or another.

This will lead to even speedier declines in the price of homes and finance companies, having foreclosed on properties, will sell these property assets at knock-down prices as soon as buyers can be located.

In the meantime, the problems, associated with the US housing market, will put added pressure on consumers who will rein in spending in the High Street: They will not have any spare cash left.

Those home-owners, holding onto equities, may well opt to sell some or all of their shares and this will cause the Dow Jones Industrial Average, a key index of The New York Stock Exchange, and The NASDAQ's Composite Index to fall to much lower levels.

A rout could, then, be on the cards.

But the professional investor will not wait for the penny to drop: He will make his move in anticipation of the inevitable.

For this reason, it is quite likely that indices of US equity markets will start to drift to lower levels in the very near future.

While the risk of recession, at this time, may be considered low, come the spring of 2007, it may well be a different story, again.

The problems, plaguing the US economy, could well be exacerbated by the current problems in the Middle East.

The Israeli-Arab problem (or should that read, the Muslim-Jewish problem?) has been fermenting for the past 58 years, with both sides, quite unable to live together in peace.

The battle lines have been drawn up with Iran – which is a very powerful country; one would be foolish to

think otherwise – backing any and all enemies of the Israeli State, and with the US and its allies, quite unwilling to desert its friends in Middle East.

Miracles have been said to have taken place in the past, but **TARGET** does not believe in them.

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