

THE U.S. ECONOMY: THE SIGNS GROW MORE OMINOUS

While many, if not most, Wall Street financial hotshots talk of a continuing bullishness for the rest of the year for both the economy of the US and equities, listed on US stock markets, **TARGET** wonders whether or not the word, 'bullishness', should be spelt slightly differently.

As far as this medium is concerned, the US economy is performing almost exactly as expected as was published in our prognostications on August 30, 2006 (Please see [TARGET Intelligence Report, Volume VIII, Number 164](#)).

That which **TARGET** suggested in that report appears to be coming to pass.

What **TARGET** had suggested on Wednesday, August 30, 2006, was that the economy of the US was cooling and the prospects appeared to be that the cooling process would be accelerated during the next months, up to the end of the year.

The first paragraph of that report stated:

'Make no mistake: The largest economy of the world could well be in for a difficult time before the year is out.'

Regardless of US interest-rate rises or falls, the economy of The Land of The Free and The Home of The Brave is in for a hard landing, according to the way that things stand, today.

The latest piece of evidence, substantiating **TARGET**'s position, was published just last Tuesday by The US Department of Housing and Urban Development.

This is the essence of that which this US Government Department announced:

'NEW RESIDENTIAL CONSTRUCTION IN AUGUST 2006

'The U.S. Census Bureau and the Department of Housing and Urban Development jointly announced the following new residential construction statistics for August 2006:

'BUILDING PERMITS

'Privately-owned housing units authorized by building permits in August were at a seasonally adjusted annual rate of 1,722,000. This is 2.3 percent ($\pm 1.2\%$) below the revised July rate of 1,763,000 and is 21.9 percent ($\pm 1.3\%$) below the August 2005 estimate of 2,205,000.

'Single-family authorizations in August were at a rate of 1,279,000; this is 3.5 percent ($\pm 1.2\%$) below the July figure of 1,325,000. Authorizations of units in buildings with five units or more were at a rate of 370,000 in August.

'HOUSING STARTS

'Privately-owned housing starts in August were at a seasonally adjusted annual rate of 1,665,000. This is 6.0 percent ($\pm 9.2\%$) below the revised July estimate of 1,772,000 and is 19.8 percent ($\pm 5.0\%$) below the August 2005 rate of 2,075,000.

'Single-family housing starts in August were at a rate of 1,360,000; this is 5.9 percent ($\pm 8.1\%$) below the July figure of 1,445,000. The August rate for units in buildings with five units or more was 265,000.'*

'HOUSING COMPLETIONS

'Privately-owned housing completions in August were at a seasonally adjusted annual rate of 1,868,000. This is 3.2 percent ($\pm 10.4\%$) below the revised July estimate of 1,929,000 and is 4.4 percent ($\pm 7.4\%$) below the August 2005 rate of 1,954,000.'

'Single-family housing completions in August were at a rate of 1,618,000; this is 2.5 percent ($\pm 11.1\%$) below the July figure of 1,660,000. The August rate for units in buildings with five units or more was 230,000.'

Down! Down! Down!

It is doubtful that this is the end of the story; not by a long shot, in **TARGET**'s opinion.

Because this could be just the beginning of a deluginous situation to affect, adversely, most of the US economy.

For the past 7 months, the number of housing starts has fallen 6 months, consecutively.

Even Wall Street pundits, normally quite vocal and normally looking to over-generalise any and all tricky little economic situations, were taken aback by the latest statistics.

Actually, however, the pundits and gurus of Wall Street should have been able to read the writing on the wall because, as **TARGET** pointed out on August 30, 2006, there were plenty of indications on which to base a sound economic judgment about the US economy.

It was at the tail end of last week that the statistics with regard to framing lumber were released.

These statistics showed a 25-percent fall, Year-On-Year, in respect of the cost of framing lumber, used in house construction.

As for plywood and oriented strand board, there had been an even steeper price decline: A 45-percent fall in the price per thousand square feet, Year-On-Year.

And, as for Week-On-Week statistics, there had been a fall in the price of oriented strand board of about 8.05 percent.

Prices of framing lumber have collapsed, it seems, because supply has vastly outstripped demand.

That is not the end of the story, however, because prices of oriented strand board are quite likely to fall much further and much faster in the coming months due to the coming on stream of a number of new plants, specialising in this product.

Stocks have to be moved and, in order to clear inventories, prices will have to be slashed in order to entice builders to buy forward in anticipation for the next turnabout situation in the US housing market.

The (US) National Association of Home Builders accepts that there will be more falls in the prices of homes, with rising sales cancellations and a build-up of inventories.

In a survey of builder sentiment, the National Association of Home Builders determined recently that sentiment had fallen for the eighth consecutive month, the lowest level in the past 15 years, at least.

The effects of a collapse in the housing market cannot be ignored or dismissed because it will cascade down the US economy, touching nearly every aspect of it, from supermarket sales, to sales of clothes for the kiddies in the High Street, to reduced numbers of people, taking annual holidays, to reduced volumes of activity on equity markets.

It is on the cards for there to be a large correction on major equity markets of the US, leading to similar corrections in Europe and Asia.

It has happened before; it is quite likely to happen again.

It is unlikely the US Federal Reserve can do anything to prevent the inevitable.

TARGET recalls the many warnings, issued by the former Chairman of The Fed, Dr Alan Greenspan, who took every opportunity, when delivering speeches, just prior to his retirement, to warn of the consequences of a hard landing for the US housing market.

The situation in the US suggests a very worrying trend which, to a great extent, is being ignored.

It could well be to the peril of many if they, as did Admiral Lord Horatio Nelson at the Battle of Copenhagen (1801), put their proverbial telescopes up to the blind eyes and claim that they did not see the order to withdraw.

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