VOLUME XIII No. 58 F R I D A Y March 25, 2011

IT'S NOT ALL BEER AND SKITTLES IN THE LAND OF THE FREE AND THE HOME OF THE BRAVE

While the world, rightfully, is mesmerised by the very worrying situations in North Africa and the Middle East, in the largest, single economy of the world, that of the United States of America, the situation is far from being healthy.

This may be considered contrary to that which one may have read in the popular US Press of late and it is, certainly, a far distance from the statements about the improving US economic statistics as stated, on numerous public occasions, by President Barack Hussein Obama.

Just yesterday, The US Department of Commerce reported that the sales of newly built homes in The Land of The Free and The Home of The Brave, during the month of February, had hit their lowest level of the past 48 years.

In the second month of 2011, the statistics indicated that about 250,000 new homes were sold on a seasonally adjusted basis.

That figure was down about 17 percent, compared with the sales of January.

Construction companies in the country, concentrating on building new homes, have to compete with wave after wave of repossessed houses, flooding the market.

As a direct result of banks and finance companies, willing to offload some of their inventories of repossessed houses at discounts in order to clean up balance sheets, the median price of new homes fell in February by about 14 percent.

In **TARGET**'s opinion, the worst is yet to come in respect of the US housing market.

If it is still true that the health of an economy may be adjudged by the market value of real property, then, the United States of America is in tsuris.

The latest report from The National Association of Realtors (of the US) should, also, be extremely worrying when read in the context of other US economic indicators.

On Monday (March 21, 2011), The National Association of Realtors reported that existing home sales for the month of February dropped about 9.60 percent to a seasonally adjusted annual rate of 4.80 million units. That compared with January's revised figure of 5.40 million units.

The reason for the continued fall-off in US home sales is, of course, the lack of bank support for prospective home buyers: Banks in the US and, in fact, in many countries of the Western World, have been bitten hard in the past few years, their balance sheets, still bloated with what have come to be known as acidic (or toxic) assets that are eating away at the banking industries' ability to assist its customers in the manner of days of yore.

Many US banks are, still, sitting on mountains of property assets, forcibly having been taken into their balance sheets when home-owners walked away from their debts due to an inability to meet financial obligations to lending entities, their homes, being their last, single-remaining collateral.

In the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), banks, also, are not too happy to finance prospective home-owners, but not for the same reasons as in the US.

In the HKSAR, it is a matter of trying to cool down the red-hot, property market so that banks and other lending organisations are being pressured by the Government to require a prospective home-owner to be in a position to finance at least 40 percent of the bank's/finance organisation's estimate of the current market value of a new flat/house etc, the bank/finance organisation or other lending institution, then willing to front up with the remaining 60 percent.

Getting back to the situation in the US, for those with cash, today may be a wonderful time to pick up a new home at bargain-basement prices.

The US national median of an existing-home price, today, for all types of homes, is about $US156,100. That price is about 5.20 percent below the February 2010 price.

So, while incomes in the US have been rising in the past year or so, the price of a home has fallen by about 5.20 percent.

As for the level of inventory of homes in the US in February, it stood at about 3.49 million units, up about 3.50 percent, compared with January's inventory level, representing 8.60 months' supply at the current sales' pace. January's total housing inventory stood at about 7.50-months' supply level.

Turning to distressed home sales in the US in February, many of these distressed homes, being held by banks and finance houses of all sorts, about 39 percent of the sales were attributed to this source. This is due, most likely, to banks/finance houses, willing to accept material discounts to the market price of the acidic assets in order to try to square their books in accordance with US Government requirements for such lending organisations.

As banks and other finance houses panic, being willing to offload acidic assets at whopping discounts, it pulls down the overall price of homes, making them more affordable, one would think.

But the affordability factor is only for those prospective home-owners who are able to finance their purchases with little or no assistance from lending organisations.

Residential Construction

Turning to residential construction in the US, housing starts fell in February to an annualised rate of about 479,000 units.

That figure of 479,000 units is a fall of about 22.50 percent from the January statistic.

For single-family housing starts, only, the decline was about 11.80 percent, according to the US Government's Department of Commerce.

On an annualised basis, February's housing starts in the US are down about 20.80 percent.

The record low for housing starts was recorded in April 2009 when the statistic was 477,000 units, annualised.

What is very apparent, according to The Department of Commerce, is that residential construction is failing to gain any momentum, with housing starts, kissing record lows.

Once again, the inability to have banks and finance houses come to the party, so to speak, makes it difficult to visualise a turnabout situation in new residential construction in the US.

Multiple foreclosures of homes do not help matters, also: The downside risk is, definitely, staring prospective home-owners, squarely in their faces, making them hesitate to take the plunge.

Add to this, the multiple political problems in the Middle East, the very difficult situation in North Africa – Libya especially – and the crippling economic situation in Japan where some 200,000 people are known to have been killed or missing by the 8.90 Richter Scale earthquake of March 11, 2011, followed, almost immediately, by a 30-foot tsunami and, then, the Fukushima Daiichi nuclear power plant disaster, all go to make one ponder how the world can cope with such a preponderance of international catastrophes, all of which have come, more or less, together.

Rebuilding Japan

Rebuilding Japan will take about 5 years, according to the latest estimates.

The World Bank has suggested that the present cost of rebuilding the country is about $US235 billion.

Such a cost is equivalent to between 2.50 percent and 4.00 percent of the country's **G**ross **D**omestic **P**roduct (**GDP**) of 2010.

Reconstructing Japan will require many buckets of money and international banks are known to be assessing their prospects and opportunities for cashing in on Japan's requirement for immediate financing in order to start the rebuilding programme in earnest.

The big question is, of course: Will countries of East Asia be affected by the reconstruction of Japan?

The short answer: Yes.

Trade and finance, definitely, will feel the pinch and, already, the levels of radioactivity in Japan are having a telling effect in the HKSAR where importers of Japanese food products and companies, dependent on Japanese manufactured goods, are looking for alternate sources of supply of similar goods.

Trade and finance will feel the pinch, almost immediately, but long-term, there is the question of whether or not Japan will be able to restart its automotive and electronic component industries in a timely manner.

If not, it could have a disastrous ripple effect, worldwide.

Also, Japan will find it nearly impossible to meet its international financial commitments in light of its many and varied problems.

If, as many international bankers have suggested, Japan will welcome international financial help, such help is, also, guaranteed to lead to higher inflation levels in the country and, in order to keep inflation within acceptable limits, this will, in turn, come to mean lower growth of the country's GDP, this year and next.

With the US economy in trouble, Japan in dire straits, widespread political problems in the Middle East – and Iran has, yet, to figure into this equation – it does not bode well for the world … with one clear exception: The economy of the People's Republic of China.

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