



America...Please Keep Spending.

by Joe Average,

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“The United states is on track to deliver a record current account deficit of close to \$US900 billion this year as the widening trade gap and increasing funds flowing overseas fuelled the second-largest deficit on record in the June quarter....Demand for US goods, services, stocks & bonds is slowing.”

Robert Guy, New York.

A Slow Boat to the U.S. (via China).

“US housing bust contagion could spread.”

Australia’s resources are on a slow boat to the US via China...

It’s election season in the US and down suburban streets colourful political posters are popping up on front lawns. But there’s something else competing for attention as you drive by: “For Sale” signs. Lots of them....The US housing bubble has started to deflate.....

It’s worth remembering the US housing market has been one of the engines of the US and the world economy in recent years.

The contagion that follows a US housing bust are easy to understand: if there’s less demand for Chinese goods- that in turn means less demand from the Chinese for Australia’s raw materials and, so, suddenly those BHP Billiton shares are looking over-priced.

The big question for everyone is will the deflation of the US housing market be a soft or hard landing? A nasty snap-back in some property markets looks inevitable...

“One of the things that might make it more difficult in the US, than Australia, is that just as Australia’s housing market was sinking it got a big lift with China and the demand for commodities,” adds (economist) Zandi.”

THE AUSTRALIAN , Sept. 14, 2006.

Geoff Elliott, Washington Correspondent.

A few days later, again in The Australian, David Uren went on to describe how **“Panic about the US current account could bring our mining boom to a nasty end...There is a nightmare scenario for the resources industry which has mining companies commissioning their sparkling new expansion projects next year as the US economy plunges into recession.”**

Writing in The Sunday Times David Smith posed an interesting question:

“Was the ‘China effect’ (i.e. where low-cost imports help keep prices and inflation down) just a short-term party that gave the West a housing boom and consumer boom but not much in the long term?”

Smith reiterates his past concern that the “China effect” may be coming to an end as the Chinese economy overheats and ends up itself being ravaged by inflation due to rapidly rising wages, real estate prices, and oil and commodity prices. If this were to happen then the West will be forced to pay ever higher prices for Chinese imports which will then act to raise rather than depress inflationary forces in Western economies.

Smith wonders: **“Have we sacrificed much of what remained of our manufacturing industry without gaining permanently lower prices?”**

At the recent China Business Summit Chinese officials acknowledged the problem of rising costs and prices in their manufacturing sector, and outlined a strategy to counter this threat by moving higher up the value-added chain into science, innovation and technology.

Looking into the future it sounds like a lot more jobs than just those in the manufacturing sector of Western economies may one day be at risk due to globalisation.

“Cash-Strapped” and Deep in Debt.

The mother-of-all-property-booms arguably peaked in Australia in late 2003. Since then the real estate market has “come off the boil” in many areas (hitting hardest in Sydney where prices had escalated the most), but has continued to “sizzle” in Western and Northern Australia...huge, sparsely populated states which depend primarily on the mining and export of commodities such as iron ore, uranium, coal, etc.

The recent global resources boom has been very kind to Australia, and has helped enormously in helping this nation avoid a “crash landing” in the aftermath of the property boom.

Like the U.S., this nation of just over 20 million has also been quick to **take advantage of historically low interest rates and inflated property values to extract equity and borrow (some would argue recklessly) and embark on the mother-of-all-consumer-spending-binges.**

We all know where the money went...big screen plasma TV's, home theatre systems, second or third investment properties, overseas vacations, SUV's, plastic surgery...you name it.

Trouble is, many consumers are now up to their eyeballs in debt, and starting to feel a touch uncomfortable now that real estate prices are no longer rising to make them richer... and the average Joe's wages certainly haven't gone up much at all during this time. The fact that house prices have fallen in a number of areas is making some of “the herd” decidedly skittish.

Many have spent themselves to a standstill, and are starting to worry about increasing interest rates and loan repayments. Some may even be astute enough to worry that if the economy slows down further that employers might begin to lay off workers or cut back hours. **The general mood seems to be swinging away from unbridled exuberance to caution and concern.**

So it came as quite a surprise when ACNielsen (<http://us.acnielsen.com/news/20050613.shtml>) recently released the results of their Internet survey (of 21,000 people in 40 countries) and announced that Americans had topped the list of “cash-strapped” consumers who “Have No Spare Cash”...a whopping 28%!

Brazil came 3rd at 23%, Canada came 6th at 19%, and Greece came 10th at 17%.

Here was I, worried about the Australian consumer ... **and Australia didn't even make it into the Top10!**

It sure doesn't make me feel any better to know that consumers in many other parts of the globe have gone on an even greater spending binge than we have here.

The Plunge Protection Team and Free Markets.

Many Elliott Wavers are warning it is “time to head for the hills” as their reading of the charts leads them to predict a horrible, pain filled unravelling of the great asset bubbles of the past decade lies directly ahead.

Robert McHugh, Ph.D. (www.technicalindicatorindex.com) too is bearish, but does place the following caveat on his predictions:

“Bearish patterns are complete. Elliott wave counts are finished. Overbought readings are everywhere. If stock prices do not drop sharply over the next three weeks then stick a fork in Free Markets, because it means the Federal Reserve and other members of the Plunge Protection team have forgone their independence and are supporting this market for political purposes. Period.

Has it come to this? The incumbents window dress the country just prior to the election as if some mutual fund approaching end of quarter, or a corporation at year end? Guess we're gonna find out pretty soon. It is for times like this, that the Master Planners had the foresight to hide M-3 from voters."

Could this be the final round in the epic fight between the Master Planners (aka Plunge Protection Team) and the forces of nature (aka the economic cycle)?

All the best, Joe.
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