

# **All Flow and No Go**

## **March 20, 2006**

**Believe it or not the National Association of Home Builders (NAHB) is forecasting a drop in home sales this year. They are generally very optimistic therefore the above forecast has a special meaning. It seems as if all we hear everywhere is that the direction of the US economy is dependent upon the housing industry. It makes one wonder if there is something else we are missing, which is not so well recognized that will greatly influence economic activity more than just housing. Be that as it may, as one examines the large amount of information relative to housing and the economy its importance in sustaining economic growth over the last 5 years is paramount. Without the explosive increase in this area there would have been a Japan like economy.**

**There seems to be little question but what the economy is in a slowing phase. As previously reported many look for a rebound in economic activity in the first quarter. A 5% number has been bantered about, however, of late, most are now shaving that number to around 4%. We have a suspicion that the weather, plus spending on Katrina, may have much to do with the expected rebound.**

**Please take note of the following flow of funds data compiled by the Federal Reserve. This is the “infamous” Z.1 report, which was released last week. Let there be no question about what this is revealing. Without a shadow of doubt we are collectively borrowing ourselves into oblivion. If this economy cannot at some point obtain organic growth (produce real income) the much feared brick wall, which economic conservatives**

have warned of ad nauseam will be reached. It is not a matter of if but when. In our opinion the die has been cast.

Flow of Funds Schedule				
Year	Total	Households	Corporate	Government
2000	\$1376.2 B	\$551.1 B	\$346.0 B	\$-280.4 B
2001	\$1695.8 B	\$660.5 B	\$221.4 B	\$100.2 B
2002	\$2055.2 B	\$736.2 B	\$25.0 B	\$401.5 B
2003	\$2595.7 B	\$946.3 B	\$84.7 B	\$513.8 B
2004	\$2956.1 B	\$1023.4 B	\$174.5 B	\$480.1 B
2005	\$3499.3 B	\$1204.7 B	\$289.3 B	\$484.2 B
	154%	119%	-16%	N/A

The above are some selected highlights. Please note in particular the 119% increase in household borrowing – this is where the problem is! How can the so-called economic experts in Washington and New York consider this economy to be on solid ground? Saint Peter may have built his house on a rock; we on the other hand have built ours on sand.