

It Is Peak Housing, Not Peak Oil

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Since 2005 began the question has been: What will be the catalyst that slows down the US economy? Will it be a financial accident such as a hedge fund meltdown? Will it be a hard landing in China? Might it just be an overall slow down in consumer spending due to high debt? Will high oil prices do the trick? Maybe it will be the housing bubble – what do you think? Our answer at this time is the latter. Without any doubt in our mind we believe the housing bubble is now past its peak. However, the question remains open as to the final shape of the consequences. The signs of slowdown are everywhere. Note the following:

1. The National Association of Home Builders Housing Market Index is down drastically.
2. The Housing Affordability Composite Index has fallen to the lowest level in 15 years.
3. Inventories of unsold new homes are at an all time high.
4. And of course long-term fixed rates are now in excess of 6 ½%.

Why is the housing industry so important? It really does not, in itself, constitute such a large percentage of GDP – something like 4% historically. The answer is as follows and it is very compelling. The only reason consumer spending has grown over that last 4 years has been the extraction of cash coming from the increase in home prices. We, of course, have mentioned this time and time again, however, Wall Street, the world's greatest "Brainwashing Machine," has refused at every step of the way to buy into the "bubble theory." We believe now the evidence is so great that their tone must soon change.

Two other things have come to pass which we believe are of major significance as one looks to the future. The fact that we are in a deflationary environment rather than inflationary can be seen in the role of recent labor union actions. The New York transit strike was a huge mistake on the part of labor. Only a few Northeastern politicians had anything positive to say about the union position. This is to be expected, as after all they are more like socialist Europe than mainstream America, anyway this comes as no surprise. The breaking of this strike without concession may prove just as important as Reagan's action against PATCO (air traffic controllers) back in the early 80's. Recently another union proposed action is the purchase of several major newspapers, which have fallen on tough times. This action would be done to save their jobs. Are they to become the buyer of last resort? Are you kidding us? Has anyone heard of the Internet? As Earle Pitts would say "Wake up America."