

It's Payback Time

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It is now apparent to most everyone that the economy is slowing and the major culprit is housing. It was exactly one year ago that the housing market "topped" out. Those whom we follow closely in this area believe future GDP will experience a reduction of something on the order of 1 ½%. In other words, if the 2nd quarter real GDP of 2 ½% holds up, we are looking at 1% real growth in six months.

The above, of course, does not take into account other problems, which are looming. For example, we are seeing a notable reduction in same store sales for restaurants. The movie business also appears to be in a slowing trend. Have you noticed that some of the "stars" are having to reduce their fees? In our opinion, the all American consumer has met his match (debt) and pay back day is at hand.

Please keep in mind that when the American consumer catches a cold the rest of the world goes to the hospital. Bernankes' greatest fear, deflation, maybe the only thing that brings the consumer back into the spending matrix again.

Could the following chart taken from Merrill Lynch's economics department become the outlook for the stock market? Our opinion is yes.

Chart 1: NAHB housing market index and the S&P 500 ... 79% correlation

