

## And the Beat Goes On

The consensus of opinion on GDP (Gross Domestic Product, the total of goods and services in the U.S., a measurement that defines the health of the economy) was for a rise of 2% in the third quarter. After a 2.6% increase in the second quarter, the Commerce Department announced today a sharp slowdown to 1.6%. It was the slowest year-over-year growth in three years. The main catalyst for this slowdown? The housing industry. Investment in housing fell 17.4% in the third quarter, the largest decline since the final quarter of 1991. Housing has subtracted 1.1 % from third quarter growth. I believe it will get worse. But the pundits, especially the TV kind, said “So what”, “No big deal”, “We’ll do better next quarter.” And the beat goes on.

Yesterday, it was announced that homebuilders slashed prices in September at the fastest pace in thirty-six years. Of course, incentives such as upgrades, vacations, and new cars are not figured into that calculation, making the real number even worse. A client told me they bought a house in Arizona 10% below list: \$250,000 minus a \$25,000 discount, for a \$225,000 cost. The builder also threw in \$50,000 of incentives. Lets see, \$250,000 minus \$25,000 minus \$50,000 = \$175,000. In my calculation, that’s slashing prices by 30%, three times what was announced yesterday. That home sale was the norm and not the exception. Therefore, can the economy really show growth if the homebuilders have to resort to this type of tactic? Probably not. But the pundits, especially the mad ones on TV, say “So what”, “No big deal,” “We’ll do better next time.” And the beat goes on.

The media’s selective information and spinning has usually made the investor the last to know. Remember Enron, WorldCom, Global Crossing? Currently, I believe the homebuilding industry is in a death spiral, one that has not been seen since 1988-1991. Inventories of unsold houses climbing, unsold completed homes at record levels, foreclosures mounting, and median prices declining to record levels. But the pundits, especially the MAD ones on TV say “So what”, “No big deal, “It’s almost over.” My response: It’s just begun. The higher we go, the harder we fall. And the beat goes on.

Till next time,

Bill

Securities offered through First Allied Securities, Inc. MEMBER: NASD/SIPC

Email sent through the internet is not secure. Do not use email to send us confidential information such as credit card numbers, changes of address, PIN numbers, passwords or other important information. Do not email orders to buy or sell securities, transfer funds, or send time sensitive instructions. First Allied will not accept such orders or instructions. This email is not an official trade confirmation for transactions executed for your account. Your e-mail message is not private in that it is subject to review by the firm, its officers, agents and employees.

