The Illusion of an Economic Recovery: The Backlash of Higher Gasoline Prices…

By Bob Chapman
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The housing recovery seems to have been a temporary affair. Preliminary data frames March as weak as last October. It looks like lower interest rates boasted sales. Those rates are up from 4.72% to 5.02%.

Worse yet, Operation Twist is over. That is where the Fed sold the short end of the bond market and bought notes and bonds of 5, 7, 10 and 30 years. Even though the BIS, The Bank for International Settlements, said the program was a resounding success, it was not. American friends knew the Fed was a buyer, so they proceeded in selling long dated paper destroying what the Fed policy was trying to accomplish. Now we expect QE 3, which we have expected for sometime. Lest we not forget the slight easing of credit and the government's FHA low down payment programs.

A large negative we did not face several months ago was higher gasoline prices, which the public believes are going to stay at current levels for the next few years.

If a new house is purchased it has to be close to work and that often is not an easy task.

Making plans more difficult is that only half of the homes being sold will be lived in by the owners – the rest are owned by speculators, who for the past 5 years have been eminently unsuccessful in picking a bottom in the housing market.

We wonder if these buyers are aware that the administration, which we reported on a few weeks ago, have proposed to have Fannie Mae and Freddie Mac dump 560,000 under water defaulted properties on the hedge funds and others in blocks of $1 billion or more to be eventually rented and put into REITS. Buyers also have to contend with builders building 513,000 new homes a year when 6.8 million homes are already on sale.

Now that banks have cleaned up most of the defaults at the low end of the market they'll now concentrate on the smaller middle sector and the top of the market. This lender policy will add many more homes to defaulted inventory and could take that number to 9.8 million defaulted homes for sale. Those looking for a let up will have to wait beyond 2014. That means you should continue to rent over that timeframe. That means depending on type and area, homes over that period should fall another 10% to 20%. What is disconcerting is the perpetual buying by lenders (banks), Wall Street, government statistics, the National Association of homebuilders and the National Association of Realtors – all produce bogus figures to trick the public into buying. There is also a shrinking number of people eligible to be buyers. These facts at our disposal tell us that there is no housing recovery in progress and that the economy needs QE 3 ASAP. The Fed is trapped and has to print more money just to keep the game going sideways. That, of course, pushes inflation higher, which pushes gold and silver higher.

You have to ask yourself how can there possibility be a recovery?

The stock market may be approaching old highs due to the Fed manipulating money, but there is no recovery on Main Street, nor will there be.

We do not know if you noticed, but the Dow has just gotten back to even after its 57% plunge of March 2009. In that correction we recommended sale of 14,200 with a bottom at 6,600. The actual bottom was 6,550.

The Fed also has to continue zero interest rates. As rates rise more money is needed to fund debt and that means the Fed has to print more money to offset the cost of borrowing at higher levels.

As far as building over 600,000 new homes a year we have been asking for more than five years how can builders be building with an enormous for sale inventory hanging over the market. Construction payrolls are at a 16-year low and quite frankly we do not know why there is any construction at all?

Articles by: Bob Chapman