

BULLISH FORECAST FOR AMERICAN CONSUMER SPENDING

Here's the bullish case for the **American** consumer: *People have new sources of spending money from rising wages, salaries, and a booming stock market*, and thus recent research suggests that consumer spending may not decrease.

Economist also worry that booming house prices has inflated a spending bubble that is being pricked. The game of using your house as an ATM, known as "*net equity extraction*", peaked in the third quarter of 2005 at a seasonally adjusted annual rate of \$864 BILLION in spending, according to calculations by **FEDERAL RESERVE** senior economist **James E. Kennedy** and former **FED Chairman Alan Greenspan**. The rate fell to \$387 BILLION by the last quarter of 2006.

But pay and capital gains are taking over from housing as the engines of spending growth. **WAGES** and **SALARIES** grew about \$360 BILLION in 2006 vs. average growth of just \$275 BILLION in the previous two years. Also note, that **STOCK MARKET** wealth has risen about 13% over the past year, judging by the **DOW JONES WILSHIRE 5000 COMPOSITE INDEX**. That more than compensates for the roughly 1% fall in housing values. **STOCK MARKET** wealth is only a little smaller than home values. So even if housing prices were to fall, say, by an unprecedented 4% from here, the hit to net worth would be fully offset if **STOCKS** rose by just 5%.

STREET TRANSLATION

NOTE: WHILE MORE HOUSING WEALTH STIMULATES CONSUMPTION, LESS DOES NOT REDUCE IT.

People get into a spending pattern given their level of wealth that is hard to adjust downward. However, we must all be cognizant of the fact that there is a 50-50 chance of a recession, stemming from a steep drop in the housing sector itself and ancillary businesses.

If you have any questions and/or require assistance, simply...

ASK THE WIZ!!!