

Forecasts & Trends

by Gary D. Halbert

The Commerce Department's final report on fourth quarter GDP was revised from +2.2% to +2.5%. For all of 2006 GDP rose by +3.2%. The outlook for 2007 is for continued slow to moderate growth (2-3% in GDP) in the economy, with reasonably low inflation; a recession is not likely this year. Recent economic reports have been mostly mixed to slightly negative, although unemployment fell to a new low of only 4.4% in March.

It is primarily the very strong jobs market that is keeping the US economy firmer than many analysts have predicted. With unemployment low and falling, consumers have money to spend, and personal consumption expenditures rose 4.2% in the fourth quarter as compared to 2.2% in the third quarter. Given the strong employment environment and the fact that consumer spending accounts for approximately two-thirds of GDP, the US economy should remain in positive territory all year, despite predictions to the contrary.

The housing market remains in a slump, and there are continued worries that the troubles in the "sub-prime" mortgage market could spill over into the prime mortgage market, thus causing even more trouble for the industry overall. But as I discussed last month, these concerns appear to be overblown, and we have seen such fears move off the front pages.

The stock markets have been in a trading range following the plunge in late February/early March. This correction from very overbought levels may continue for a few months, but a bear market is not the most likely scenario. Periods of weakness should provide buying opportunities.

As expected, the Democrats have passed legislation that will eliminate the Bush tax cuts when they expire. We will look at who pays most of the income taxes in the US, and debunk the liberal claims that tax cuts only help the "rich." As we can see, the top 50% of income earners paid almost 97% of all income taxes paid, while the bottom 50% of income earners paid only 3.3% of all income taxes paid. The top 5% of income earners pay over 57% of all income taxes paid, and the top 1% pay almost 37% of all taxes paid. **So much for the myth that the "rich" don't pay their fair share!**

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