

Monetary Analysis and Forecasts for the Future

By John V. Kamin

A number of new developments merit your attention. Most significant is the announcement of all the red ink in the Trade Deficit-Balance of Payments. USA government just announced that the red ink for November (goods sold abroad vs. goods purchased) was -\$60.3 billion. In addition, the previous month, Trade Deficit ran \$50.3 billion red ink, a total deficit of \$110+ billion for just 2 months, or an annualized rate of \$660 billion and growing fast!

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China is the largest creator of USA Trade Deficit among individual countries. China sells way more to USA than the small amount it buys from USA; therefore the major contributor to the U.S. deficit. The second major contributor is Japan.

More Red Ink Projected?

USA Tsunami aid mean a lot of unpaid (free) goods going to Indonesia, Thailand, Somalia and Sri Lanka to help the Tsunami victims and nations. But USA will not be paid for the goods and aid rendered by USA military and those items given away or used up and personnel paid will have to be paid for by taxpayers. Undoubtedly a good cause, but expect the bills will come in later! How much? (E.G. Comparable figures came out recently showing that USA military pays an average of \$5.50 per gallon for fuel in Iraq, as one faraway example, while gas stations in Iraq sell gas to the public for nine cents per gallon.)

Other interesting figures: an estimated 30% to 40% of the cargo carried by USA military convoys in Iraq is water...just water, and convoys are heavily targeted by insurgent attacks! The point is that taxpayers will pick up heavy bills for our efforts in Asia, the Mideast and elsewhere; ***thousands percent higher than what locals pay.***

Prediction: More USA deficits ahead, followed by bigger 2005 trade deficits, new record levels! Bigger military bills, too, for ordinary but necessary items, costly experiences borne by taxpayers.

Forecast: Record domestic government budget deficits and record red ink from imports WILL require more borrowing and possibly weaken the USA dollar over time. This will require taxpayers to simply kick in more money for support, higher interest charges on the growing debts and other bills.

Prediction: A lower U.S. dollar over time and higher interest rates (being raised by FOMC meeting after meeting) are likely to influence the price of gold worldwide and might send precious metal much higher.

Other Indicators: Financial Dangers Ahead

Evidence: Weekly government auctions of 180-day T-bills set a new current record at 2.6%, but the rate is still relatively low compared to past decades.

Forecast: I expect interest rates to keep rising, perhaps until the Federal Funds rate doubles from the present 2.25 % to near 4.5 % or maybe even higher in the next two to three years. Higher interest rates may be necessary to attract more borrowed capital from abroad, to finance USA deficits, but government interest-paid bills will rise. Higher rates are also necessary to prop the U.S. dollar and attract capital, if USA dollar starts to falter as world's favorite reserve currency. Careful here.

Other Repercussions

Forecast for Inflation: Rising home prices, rising prices of tangible assets, rising raw

materials and building material prices, are likely to engender greater inflation rates. It's not just a real estate bubble or greed kicking in. It costs builders 20% more just to put up structures on land they already own.

Currency in Circulation (greenbacks printed) is reflecting increasing high velocity monetary demand, increasing at the rate of about five percent per year. CIC is high velocity money quickly re-spent repeatedly. CIC can add inflation pressures in an inflation-prone economy, or "too much money chasing too few goods".

Forecast: CIC usually drops off early in each New Year, then bumps to new records just before Easter. Expect more greenbacks to be issued at record rates come March --that's this economist's forecast!

Fastest Growing Areas

There's a job explosion in Clark County, Nevada (Las Vegas area). New hotels are planned and construction is underway. Up to 86 condo type projects are planned for the South Strip, in and around South Las Vegas Blvd., one long-time realtor tells me. I, myself, witnessed many signs recently looking to hire experienced construction personnel, from concrete-forming to carpenters to steel workers.

Mr. Wynn's new hotel requires about 2,900 service work applications, and they're searching now...just one single employer. Other hotels are seeking to expand. MGM Grand expansion will add a reported 9,000 new jobs.

Meanwhile, the population continues to surge (1.6 million). An estimated 97% of the land in Nevada is owned by governments, Federal, State and local. That leaves developable land in and near the largest metro major area (Clark County) in demand.

Homebuilders had such a long waiting list that they boosted prices some 50% last year, before buyers rebelled. Builders were making more money from just boosting prices than they were from building units.

Another 1,900-home subdivision is planned for West Diamond Road. This winter, snowbirds and icebelters will descend upon the area to get some sunshine and warmth.

Many potential retirees will stay, due to low property taxes (mostly paid by gambling) and no State Income Tax, no State Corporate Tax. Every time other nearby states raise taxes, more businesses surge into Clark County, Nevada.

What's the point? If you're stuck in an area that has stagnant job growth, or is losing jobs, and you have experience in the construction industries or the tourist and hotel services industries, it might be worth buying a plane ticket and exploring a new area where they actually want workers; especially if your unemployment benefits have run out. Clark County, Nevada, has been the fastest growing area in the USA for decades. Even in the few years when it was not the #1 growth area, it was usually #2 or occasionally #3. It's hard to make financial progress if you don't have some reliable sources of income, or you're stuck in areas that are losing jobs and losing population.

Other fast-growing metro areas are: Orlando, Atlanta, Phoenix and a few others, all gaining population and many job openings.

Wynn, for example, reports job applications pouring in from as far away as Vietnam! They're "staffing up". More on this later.

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