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US Current Account deficit

The U.S. current account deficit increased to a new record its ninth record high in 10 years. The number for last year was \$804 billion. The number for the last quarter of last year was \$224.9 billion, as RIO predicted the trend is still upward. At the current rate, the current account deficit will hit \$1 trillion within a year or two. It is already at 7% of GDP a figure that would normally only be seen in a banana republic or an empire going bananas.

Consider the following facts

The United States requires \$2.5 billion dollars every day just to cover its borrowing needs. As mentioned in our previous report; China has lent the USA in currently holds almost \$1 trillion dollars worth of U.S. government debt.

"U.S. tells China to cut its trade surplus," reads a headline in the Financial Times. Many may wonder where the equal was and opposite headline: "China tells U.S. to cut its trade deficit." But, we could find it anywhere.

After all the Chinese are the ones holding the stick; they could dump their U.S. debt holdings and clobber the American economy any time they wanted. But wait - aren't American companies extremely profitable? Aren't American companies setting up plants overseas, buying overseas companies, and making deals to leverage their technology, their brands, and their know-how on the world markets? Yes, of course they are. But that, too, is reflected in the current account numbers. In the fourth quarter of last year, for example, foreigners actually earned more from their U.S. holdings than Americans earned from their holdings overseas: \$132.6 billion compared to \$129 billion. Even in the technology sector, where the United States is supposed to have a commanding lead; Americans bought more from foreigners than they sold to them.

Fraud and decrepitude seeps into the whole society. People begin to believe things that couldn't possibly be true: deficits are good, savings are unnecessary, and that they don't actually have to make anything, they can just "think" our way to prosperity.

And as the structure degenerates and weakens, practically everyone in the US holds up his or her hands to try to prop it up. We see in Grant's Interest Rate Observer, for example, the efforts of real estate appraisers to keep the bubble expanding. The Homebuilders Index is at a three-year low. Inventories are growing; yet, the L.A. papers tell us that prices are still going up, pushed up in part by appraisers. This is revealed in the difference between the House Price Index of the FHFI - the Federal Housing Enterprise Oversight, no doubt a worthy and important agency - and its "Purchase Only Index." The House Price Index includes refinancing, which are based on appraisals. The Purchase Only Index does not; it is based only on what buyers were willing to pay.

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