will not seek re-election, there is no immediate political pressure to invigorate the economy. Therefore, in attempts to add some level of stability to the plunging dollar, we expect interest rates to continually increase, despite the downward pressure it will add to already sluggish job growth and the looming economic slowdown.

REAL ESTATE FIZZ

The red-hot real estate market, after four straight years of gains averaging nearly seven percent, will lose some sizzle and could turn cold in 2005.

Similar to the 1929 stock market crash story of Joseph Kennedy knowing it was time to sell when the shoeshine boy gave him stock tips, now legions of job-seeking unemployed have become real estate agents and mortgage brokers, while novice speculators flip properties… all hoping to turn a quick buck.

During Campaign 2004, it was put forth, and mostly left unchallenged, that the lowering of taxes among upper income Americans provided the trickle down monetary juice needed to grow the economy and push the nation out of recession. However, the real recession anecdote was the 46-year low interest rates that set the real estate market on fire and sparked the easy money re-financing boom that led homeowners to tap the equity in their homes, lower monthly payments and go on a spending spree. Pure and simple it was an interest rate recovery brought on by 13 rate cuts.

But those days are over. Interest rates have already been pushed up five times last year, and with more hikes anticipated this year, the United States is caught in an economic Catch 22. Will the Federal Reserve risk slowing down the already tepid economy by continually raising rates, hoping to protect the diving dollar while keeping foreign investors from diverting into higher yielding non-dollar denominated assets? Or, will the fed keep interest rates low and the dollar cheap in order to spur export growth and assist domestic businesses and consumers so they can keep building and borrowing?

OUTSIDE PRESSURE

Therefore, as goes interest rates, so goes the economy. And, as goes interest rates so goes the real estate market. Given the global realities of America's trillion dollar plus yearly trade and budget deficits and the necessity of foreigners to finance them, despite the direction of Federal Reserve takes, interest rates will remain on the up-trend and the nation's economy will trend downward… dangerously moving toward recession.

TRENDPOST: *As the gap between the rich and poor continues to widen, real estate will follow similar patterns that prevail in the retail marketplace. On the high end, the luxury and upscale real estate sectors will experience both stability and growth. The greatest decline in housing will be felt in some of the less attractive upper mid-range markets that have been overbuilt, down through the mid-lower end which is the most vulnerable to an economic downturn and is susceptible to oversupply of mass market product. Depending on the extent of a looming dollar crisis or a wild card event such as a terror strike against America, the upper middle to low end markets could be jolted by as much as a 20 percent pull back.*

While events that spur change do not always follow a predetermined time line, we believe a clearer picture of real estate's future will be seen by April, when housing is traditionally expected to pick up speed and when more evidence will be available to determine the overall state of the nation's economic health. Until that time, we suggest exercising caution, unless of course, the deal is so good that it won't be seriously effected by worst case economic conditions.

AFFORDABLE SOPHISTICATION

As the economy slows and disposable income levels decline, for those American's who acquired a taste for the finer things in life during the Roaring 90s and cheap money 2000s, a step down in quality will be a hard fall to take.

No longer able to freely splurge on shopping sprees and unable to afford the top of the line disposable and durable goods products, while not broke, but cautious, an estimated 35 percent of the population will still buy into quality when possible.

The Home: Unlike the lower income demographic, the ones that line up early the day after Thanksgiving to storm the stores for loss-leader bargains and clutter their homes with non-essential items, knickknacks, and box-store furnishings, the affordable sophisticates will buy less quantity but stay with high quality. The same will hold true with fashion. What they buy will have a fine touch, regardless of whether it comes from Marshalls or Bergdorf's

Food and beauty: Strong growth potential will remain in the organic and high-end food and beverage sectors. Such operations as the growing Whole Foods chain to family run organic butcher shops

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such as the Peace Corps … rather than confining them to US based institutions.

REAL ESTATE RECESSION: The great American housing boom has gone bust. Artificially engineered by the Federal Reserve to blast the US out of the 2001 recession by cutting interest rates to 46 year lows – in a bait and switch – the Fed, by raising rates 17 consecutive times over two years, has now pushed America into a housing recession. (See "Real Estate Fizz," *Trends Journal*, Winter 2005.)

By virtually every indicator, real estate is on a downtrend. New and existing home sales, inventory of unsold homes, new construction, mortgage applications and mortgage delinquencies … all are trending negative. Month after month as the data adds up, the facts can't be denied. For example, construction starts, down some 20 percent from a year ago, plunged 6 percent in August to the lowest level in more than three years. Year to year home prices fell for the first time in 10 years, while inventories of unsold homes reached an 11-year high.

With pundit predictions ranging from a real estate crash to modest adjustment, what is not in dispute is that the best days of the housing boom are over, as is the cheap money liquidity cycle that fueled it.

Trendpost: *Regardless of the hype coming from real estate associations and developers, we estimate, that on average, real estate sales are off between 25 and 35 percent nationwide. Of course there are hot market sectors, but a leading future indicator that does not lie is the price of lumber, which is nearing ten-year lows. There is a flood of building product on the market and until demand increases significantly, and supply tightens, housing and commercial real estate prices will continue to soften.*

Trendpost: *Now that interest rates are paused from going higher (until possibly after the Midterm Elections), we believe the immediate risk of a housing meltdown has been temporarily ameliorated. However, with hedge funds failing, geopolitical tensions intensifying, the dollar weakening and the risk for a variety of worldwide "wild card" events rising … a sudden jolt could cause a financial panic and a real estate meltdown. Should the Fed raise rates, the real estate recession risks devolving into a real estate depression.*

Trendpost: *With polls showing nearly 60 percent of first-time home buyers concerned that home prices are out of reach and that they won't find enough money for a down payment, they'll be forced to downsize future expectations. As fewer people enter into the homebuyers' market, apartment rentals will continue to gain strength along with speculative interest for multi-family dwellings.*

Trendpost: *We further forecast a resurgence in desirable old-town locations where prices didn't exorbitantly rise during the hyper-inflated 2002–2005 building boom. Those towns, villages, and little cities (urban and exurban) with the most potential for near future growth will already have a budding population of twenty and thirty-somethings with artistic sensitivities combined with an immigrant/working class mix that will be fertile for creating "Soho" style communities.*

Trendpost: *There is a new trend in the making that won't become readily apparent to the general media for another few years. Just as there are so many young people today that can't afford to leave home or are being forced to live in cramped quarters with "roommates" … the many McMansions that baby boomers have built over the past 15 years will soon become 21st century "rooming houses."*

Cash strapped owners and empty nesters, looking for extra income to help offset rising costs, higher taxes, shrinking income, increasing debt and lower home equity will take in boarders, just like they did in the old days.

RETAIL RECESSION: *With gas-at-the-pump nearing two year lows and a barrel of oil down 24 percent since mid July, retailers predict that with less money being put into gas tanks, more will go into their cash registers. Per September's retail figures, which showed moderate strength, pump prices dropped as retail sales increased. However, with winter setting in and the cost of heating a home added to the gasoline bill, we see this as a temporary up-tick … especially since OPEC has cut production and promises to cut deeper if prices fall further.*

Last year, the National Association of Retailers predicted a 10 percent increase in Christmas sales at the onset of the holiday shopping season. Undeterred after December 05 receipts edged up only 0.2 percent (excluding autos which were heavily discounted), they now project a 5 percent rise for 2006 holiday sales. We disagree. Singing the same optimistic tune as they do every Christmas in hopes of suckering in investors and consumers, their unrealistic projections are made to persuade people to purchase more of what they're selling.

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Small nations, such as Cuba, that already serve global health customers, can become prime medical destinations and enjoy vast wealth if their health tourism business is developed and managed wisely.

SYSTEMIC RECESSION

The US is sliding into a long-term economic downturn that will eat away at the nation's well-being before it shows up in the official numbers. Despite what Washington says, the Dow does or Wall Street claims … during 2007 the facts of life on Main Street will clearly show what Americans are already beginning to feel – "Recession."

Weighed down with massive loads of debt and locked into jobs that limit opportunities to pay it off, the paycheck to paycheck public will feel the pinch in their pocket books and businesses will be hit hard in their bottom lines long before recession becomes "official." Like mindlessly waiting for the word from the higher ups to finally declare the bloody Iraq civil war, a "Civil War" … by the time the "experts" decide their basket of statistics adds up to recession, economic conditions will have long since deteriorated.

For example, even with the many indicators that spell "Real Estate Recession" – and with the numbers getting worse with each new quarter – the "R" word is never used to define the industry's sharp decline. Instead it's said the market's "slowed" and conditions are "soft."

As data proves and the facts bare out, it was the Federal Reserve's induced 46-year low interest rates that ignited the building boom and sparked the home equity refinancing mania that pulled the US out of the 2001 recession. However, after raising rates 17 consecutive times, and with little room to bring them lower (without risking a dollar crash), there are no Fed tools left to boost the housing market or re-spark a re-fi boom. (See "A Bernanke Recession," *Trends Journal*, Summer 2006.) Without the cash to build or the means to borrow, the nation's engine of growth is out of fuel and there is no industry, service or product in the pipeline to drive future economic growth.

REAGAN RE-DO

In addition to the many indices that point to a sustained downturn, and ample evidence that conditions will not improve, the changing political tides are leaving the nation's people with little faith in a leader whose popularity keeps plunging. Although history is re-written to recast failed presidents as "elder statesmen" (after they've left office), when Ronald Reagan's Teflon coat began to peel, the loss of public confidence prompted us to forecast the 1987 stock market crash:

> *Celente said much of the nation's recent prosperity was built on citizens' confidence in President Reagan. A number of recent events, including the Iran/Contra arms scandal, congressional override of Reagan's veto of South African sanctions and Nicaragua's capture of a crew member in a US registered plane carrying unauthorized arms have damaged that "confidence shield," according to Celente.*
>
> *The President has "proven himself merely to be a politician of the same cloth as any other politician who has lied to the public," he said. ("1987: The Year it All Collapses,"* Daily Freeman, *23 January 1987.)*

Similarly, as President Bush's popularity slumps and his skills are questioned, a lack of public confidence in those who govern seeps deeply into the nation's psyche. With fading hope for sound solutions – as it was just before the stock market crash in 1987 when Ronald Reagan's credentials were being questioned and when the dollar was also in crisis – today another perfect storm is brewing that will hit US financial markets before 2007 ends.

Trendpost: *Businesses should consider expanding options by moving in new directions to find additional income streams as old ones dry up and/or diminish in value as prices are cut and margins shrink in response to fighting fierce competition. The trend for a long-term decline in America's standard of living has long been forecast and there is nothing on the horizon that will renew post WWII levels of prosperity (jobs, education, health care services, etc.) which the country once enjoyed. (See "Dealing with a 'Five-O' Economy,"* Trends Journal, *Winter 2002.)*

Beyond real estate, among the sectors hardest hit in the continuing downturn will be mid and low retail markets and the mid-range restaurant business. In this low income/high debt climate, consumers … looking for high taste but having less income … will spend into the affordable sophistication sectors that provide up-range quality at moderate price points. (See "Affordable Sophistication," Trends Journal, *Winter 2005.)*

People in sales jobs in declining sectors, or workers in those areas that are already feeling the economic pinch and will be hit even harder as recession sets in, should be actively hunting for new opportunities to find employment.

Trendpost: *The prognosis is simple and our prediction is clear. If the beleaguered US dollar (nearing 2-year lows against the euro and at a 14-year low against the British pound) continues to dive, it could trigger a sell-off*