

'US housing woes near end, may see sharp rebound'

By LEE CHERNG WEE

THE housing problem in the US is near its end and could be followed by a sharp rebound according to an asset management firm.

Capital Dynamics Asset Management Sdn Bhd (CDAM) managing director Tan Teng Boo said according to historical data since 1959, the housing problem in the US is now near its historic bottom.

"We can expect a reversal in the US housing starting. Based on previous years, a V-shape recovery will take place when housing starts to reach the bottom," Tan told reporters after icapital.biz Bhd's AGM in Kuala Lumpur yesterday.

CDAM is the fund manager of icapital.biz, a closed-end fund that invests in local companies.

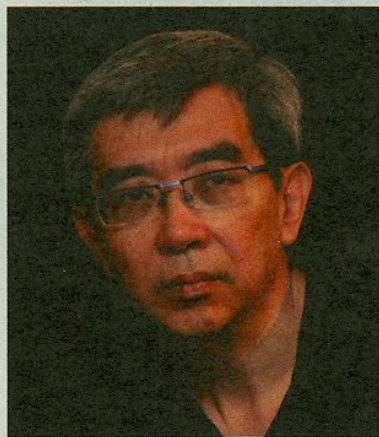
Tan noted that historically,

a V-shape recovery will take place when housing starts reaching the bottom.

"The US population increases about two million to three million a year. Since the subprime started a few years back, there has been an increase of nine million people. They need to buy houses," Tan added.

For the last two-and-a-half years, the housing sector has negatively affected the US economic growth. However, exports remain strong and has grown 15% from June 2007 to May 2008, lifting the gross domestic product (GDP) growth to 1.9% in the second quarter from 0.9% in the first quarter, said Tan.

He attributed the increase in US exports to the demand from other countries around the world. "The rest of the world is buying from the US.



Pic by Shahrill Rani

'The global inflation, which is driven by high commodity prices, is expected to ease when oil price declines,' says Tan

Orders for durable goods has not plunged. Boeing planes and caterpillar trucks are being sold to the Middle-East and Russia," said Tan.

"Instead of the US dragging down other countries, the rest of the world has supported the US from falling into a recession. The US economy has decoupled from the rest of the

world since five to six years ago," he added.

A research done by icapital.biz shows that developed countries like the US and Europe account for 25% of world economic growth while the rest of the world led by China accounted for the remaining 75%.

On the recent decline in oil prices, Tan expects oil price to come down in the next few months to around US\$110 (RM359.76) per barrel on lower demand.

"Previously the rate of change has matched the increase in oil price until lately when it hit a high of US\$145 per barrel.

"Now everyone feels the pain and will automatically start reducing consumption. It could go higher than current prices in the next three to five years but by then we would

have adjusted to it," he said.

Tan said the global inflation, which is driven by high commodity prices, is expected to ease when oil price declines.

"The central banks in Asia are cautious, between curbing inflation and killing economy growth, central banks prefer to let inflation rise a little bit rather than curtailing the economy," he said.

Despite the decline in the local stock market, icapital.biz remains optimistic on the market and has been a net buyer in the past few months.

"The negative sentiment was compounded by political uncertainty. The current political landscape is unprecedented but it is a temporary distraction. The uncertainties will subside and sentiment on Bursa will improve next year," said Tan.