

May 6, 2007 Review

Comments

It's not different this time.

I was amazed to hear that certain pundits have pulled out that tired old explanation that valuations make sense because there has been a fundamental change. It's been almost seven or so years since that was widely touted (as in the "New Economy"). Everyone recall how that turned out for the New Economy faithful?

While in the amusing news department, I saw last night on Bloomberg that Asian was rallying on the hope of rate cuts in the US. I couldn't make this stuff up.

The weekly review will be less voluminous until things begin to make sense again. Suffice it to say that conditions continue to build towards a calamitous collapse. My latest wild guess would be sell off soon, summer rally, fall collapse.

We will see . . .

Credit

- May 7 (Bloomberg) -- Consumer borrowing increased in March by the most in four months as Americans charged more purchases to their credit cards and took out more car loans, Federal Reserve figures showed. Consumer credit, or non-mortgage loans to individuals, increased \$13.5 billion, or 6.7 percent at an annual rate, to \$2.425 trillion, the Fed said today in Washington. In February, consumer debt rose \$5.6 billion. Consumers faced with tapped out home equity loans and falling real estate values may be turning to higher-interest- rate credit cards to keep spending. Gary Thayer, chief economist at A.G. Edwards & Co. in St. Louis, said low unemployment is also providing support for consumer spending, which accounts for two-thirds of economic growth. "The jobs situation is favorable and people probably have the income to spend with the jobs still growing but at a modest pace," Thayer said before the report. "We'll probably see modest spending growth going forward." The increase for March was the largest since a \$20.1 billion gain in November, according to Fed statistics. **U.S. Consumer Credit Increased \$13.5 Billion in March** [I have not looked into seasonality, but one would assume that November would traditionally be one of the highest months due to holiday shopping. Obviously that would not be the case for March, but it does coincide nicely with the credit tightening on home loans]
http://www.bloomberg.com/apps/news?pid=20601087&sid=avBx6ZRcr_r8&refer=home

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Housing

- May 8 (Bloomberg) -- U.S. home price declines this year are going to be steeper than earlier forecast because of the drop in subprime mortgage lending and the adoption of stricter lending standards, the National Association of Realtors said. The group today revised its forecast for home prices and sales. The 2007 median price for an existing home likely will drop 1 percent to \$219,800 from 2006, the Chicago-based association said in a report. The median price for new homes is projected to be fall \$100 to \$246,400, the first decline since 1991. Record-high defaults by subprime borrowers, those with flawed or insufficient credit histories, have prompted mortgage lenders to limit the number of people who qualify for a home loan, according to the realtors' report. At the same time, unemployment is down and household incomes are up, which should help bring a housing recovery in 2007's third and fourth quarters, the group said. "If it weren't for a favorable economic backdrop, housing would probably have a hard landing," Lawrence Yun, the group's senior economist, said in the report. "We see this as a soft landing with home sales rising gradually in the second half of the year and prices recovering a bit later." Sales of previously owned homes, 85 percent of the market, probably will total 6.29 million this year, the group said, less than the 6.34 million it called for on April 11. New home sales probably will fall to 864,000, lower than the 904,000 in the month-ago forecast, the association said. **U.S. Home Prices to Drop in 2007, First Since 1930s**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=aoMSaUJr0qD4&refer=home>

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