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My Updated Economic Thoughts (3/22/02):

I've been right on the economy for the last two years folks. Here is a brief summary of my updated thoughts on the U.S. economy and various components of it.

he following are my updated thoughts on each of the subjects below:

1. **The Housing Market:** At this time low interest rates continue to stimulate new home sales and the refinancing of existing homes. Refinancing, as a percentage of total new mortgages, is accounting for approximately 75% of total volumes. I expect the housing market to remain strong as long as interest rates remain low. The overall interest rate environment should remain favorable due to a continuation of weak economic activity.
2. **The Stock Market:** The stock market will continue to languish due to weak top line growth in sales. Without sales growth companies must trim costs to grow EPS and, in the long-term, companies can only lay off so many workers before it impacts customer satisfaction results. Despite the recent stock market increases (joy for war?) I believe that people will have to "wake up and smell the coffee" at the end of the war. When they do they will realize we are running the largest government deficits in history, we have trillions in national debt, states are increasing tax rates, business investment continues to languish and that consumer spending is beginning to turn negative despite record low interest rates. I believe that valuations are only slightly overvalued today but the only reason they look somewhat attractive is because other options (banks, bonds, CD's) pay absolutely nothing. I think this year will be negative to flat (80% odds) with a slight chance (20%) of positive returns. I only say this because I don't see that many positive catalysts in the near future and a war ending sure as heck doesn't cause economic growth. Does anyone look at balance sheets anymore?
3. **Business investment:** Most businesses aren't investing in new capacity since recent industry data is showing that businesses are only running at 75% of their current capacity. I believe that this part of the equation will languish for some time. While they need to reinvest to remain competitive many businesses are trying to rebuild their balance sheets due to overspending in 1999 & 2000. It is tough to invest cash in new capacity when you have a lender saying "You owe me $100 million, payable next year, as your bonds come due since you spent like a pig a few years ago."
4. **Consumer spending:** Remember, the consumer is 2/3 of the U.S. economy. While business investment is important the U.S. consumer and their overall sentiment is the

most important driver of the U.S. economy. In general, this part of the equation has held up in 2001 and 2002 but only because the Federal Reserve Board has lowered interest rates to 50 year record lows to stimulate the economy. Despite record low interest rates the economy is barely growing and consumer spending is still growing at rates less than prior years.

5. **Auto sales:** This is one of the first cracks in the consumer side of the economy. In February 2003 we saw auto sales decline over 10%-20% depending on which automaker you follow. Given that this is a very large purchase and that this segment held its own last year (driven by dealer incentives and 0% rates) I believe the federal reserve should be VERY concerned about consumer spending languishing moving forward. The primary reason was that gas prices killed the sale of SUVs and trucks, the primary cash generator for U.S. auto companies. Since these vehicles have horribl gas mileage many are having a tough time buying a gas guzzler when gas = $2.00 a gallon in many cities.
6. **Home Sales/Refis**: I work in the mortgage industry for the third largest mortgage company in the U.S., Countrywide Financial Corporation (NYSE: CFC). Well, I actually work for a subsidiary of theirs, LandSafe Inc., that provides closing services (appraisals, flood determination, credit reports, Title & Home Inspection) to the mortgage origination side of the business. We also provide closing services for other mortgage companies and banks. Anyway, the mortgage industry originated over $2.6 trillion in mortgage volume last year, with over 50% of them being families refinancing their current mortgages. Lower interest rates are enabling consumers to lower their monthly payments by hundreds of dollars a month. These savings are being spent in the economy or utilized to pay down debt they incurred during the late 90's - early 2000. I believe that 2003 will go down as another HUGE year for the mortgage industry, driven by record low rates due to continued weakness in the U.S. economy. Some people will be refinancing their homes for the third time in four years after this year. **This is just my opinion but I believe that March 2003 will likely compete with October 2002 for the best month in the mortgage industry's history.**

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Since I launched this website in March 2003 I have published my thoughts on the economy, the stock market, the impact of a falling dollar and what my thoughts were about the housin market. A list of my previous work can be found in the below links.

8/1/02 - **Technical Analysis of the S&P 500**

7/31/02 - **Downward Revisions to Economic Growth are Here!**

7/27/02 - **Stock Market Valuations / EPS Forecasts - Still too high?**

7/26/02 - **Stock Options (The Untold Story)**

7/16/02 - **End of the "Housing Bubble?"**

7/12/02 - **A Falling U.S. Dollar - Why it Matters**

6/5/02 - **Stock Market Returns - Not Good**

4/28/02 - **The U.S. Housing Report**

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