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Presents

Weekly Economic Update for the Week of October 1, 2007

Quote of the week. “Nothing is more obstinate than a fashionable consensus.” – Margaret Thatcher

Consumers spend more, worry more.

Consumer spending increased 0.6% in August as core consumer prices rose only 0.1% for the sixth month in a row. This is very good news for a Federal Reserve scrutinizing inflation pressures. Core inflation is up 1.8% across the last 12 months, within the Fed’s stated 1-2% target margin. However, the Conference Board’s Consumer Confidence Index sank to 99.8 from 105.6 in August -- the lowest reading in two years. Only 2.7% of consumers polled said they were planning a home purchase in the next six months.

Dismal August housing data. On Thursday, the Commerce Department announced that sales of new homes fell 8.3% in August to the lowest level in seven years, with new home construction proceeding at its slowest pace since 1995. The National Association of Realtors offered more depressing news: residential resales dropped to their lowest level in five years in August, with the average resale price falling 1.8% from July—the steepest month-over-month drop since 1991. Additionally, the National Association of Home Builders said that its index of builder confidence fell in September to 20, tying the lowest level on record.

Credit crunch trims corporate profit.

A new Bloomberg survey of corporate profit forecasts estimates that 3Q earnings of member firms of the S&P 500 may rise by an average of 2.7%, well below the 10%+ profit growth these firms have averaged for 20 quarters in a row. So far, Bloomberg has tallied more

than 50 companies in the S&P 500 whose 3Q forecasts have met or fallen short of the estimates of analysts.

Jump in mortgage defaults.

The Mortgage Insurance Companies of America website notes that 58,441 borrowers fell 60 or more days behind on mortgage payments in August. Defaults on privately insured home loans went up 30% from August 2006.

Mild gains for stocks. The indicators were troubling, but the indexes weren’t exactly suffering.

% Change	1-Week	4-Week	Y-T-D
DJIA	+0.54	+3.87	+10.30
NASDAQ	+1.12	+3.89	+10.14
S&P 500	+0.07	+3.46	+7.12

(Source: CNNMoney.com, 9/28/07)

Riddle of the week. Sharks have skeletons, yet they don’t have bones. How is this possible?

Read the answer here next week.

Answer to last week’s riddle.

1 in 36.
Flipping heads: 1 out of 2. Rolling a 4: 1 out of 6.
Picking a red marble: 2 in 6. Multiply the results, so:
 $1/2 \times 1/6 \times 2/6 = 1/36$.

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