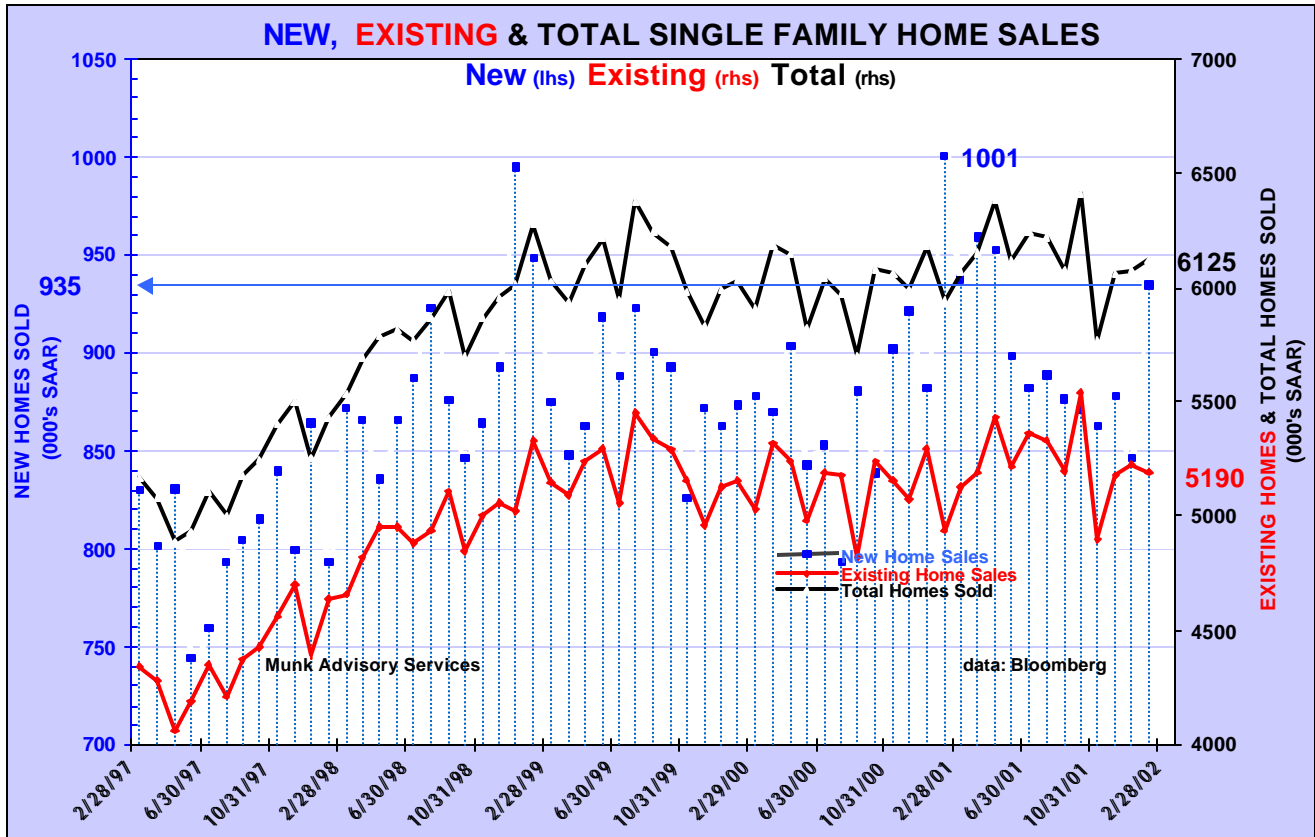




ECOMENTARY™

MAS 012801

December Total Home Sales Higher on Sales of New Homes but Fed Dilemma Continues



Single family home sales continue to indicate brisk demand, no doubt stimulated by very attractive mortgage rates. December total sales were boosted largely by sales of new home while existing home sales fell slightly. New home sales were revised downward for November from 934,000 to 846,000, but the total sales of new and existing single-family homes expanded to an estimated 6,125,000 (saar). With a continuing mild winter, new housing construction will no doubt expand again. Meanwhile, inventories of new single-family homes have been kept quite modest with new home sales largely exceeding housing starts. (See the chart below).

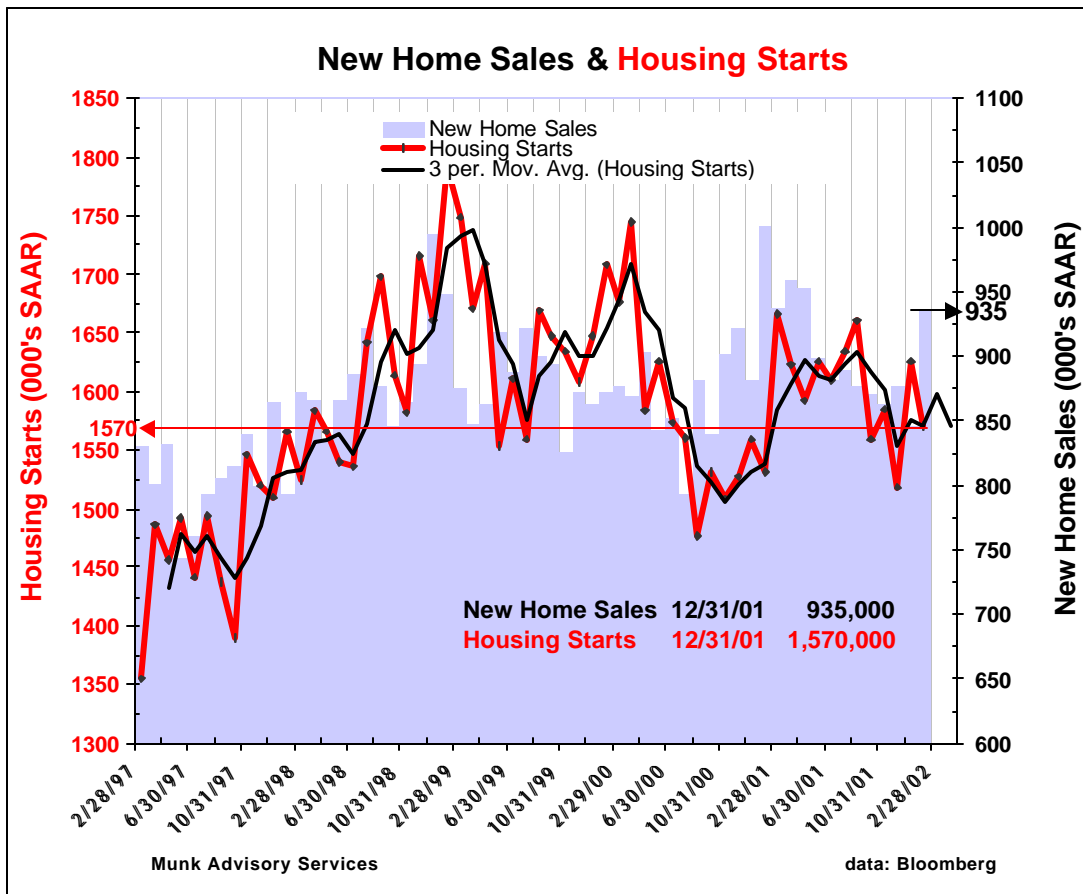
With reports of brisk sales of autos even after the blowout sales at year-end 2001, the issue that must yet be resolved is whether consumer balance sheets can be stretched even more until business expansion begins once again. Greenspan reversed his 'tone' last week in front of the Senate Budget Committee and the Fed Funds market now prices in **no positive probability** of a cut on January 30th. The Bloomberg poll (which has now expanded to 64 respondents) shows only six 'bravehearts' calling for another 25 basis point cut.



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The stretch of consumer balance sheets and the timing of a re-ignition of business spending have to be the prime issue facing the Fed.

The public may be occupied with the Enron scandal---and certainly the Congress finds the scandal an interesting diversion of its attention from the more troublesome fare of budgets, expenditure allocation and a



hardy menu of “unresolvables.” Social security; health care and energy policy will require another crisis to generate any forward progress. From a policy standpoint, the Congress is likely to do nothing while it enjoys pillorying the accounting profession, Wall Street analysts and the skullduggery of stock promotion by a now-fallen high flyer. California Governor Davis has been handed a potent excuse to cover up the boondoggle of taking over electrical supply in California. The Enron affair may save Governor Davis in the forthcoming elections, but in the end, the California taxpayer will pay...dearly. We are back to Fedwatching because this drama may have additional acts.

Having done a ‘mea culpa’ over his (gloomy) January 11th speech, Chairman Greenspan has in effect told the market that there will be no rate cut on Thursday. A more interesting question is whether the Bias will be removed. That is not what the market expects and this Chairman does not like to surprise credit markets. No rate cut and no bias change does not mean it will not be possible for the Fed to cut once more---if the economy fails to begin its recovery, but this time they want to watch the data, too!