THE FULL HOUSE TRADER MONTHLY FORECAST

October, 2007 Edition
Part 1: Economy
Oct. 18, 2007

LOGIC BEHIND FED RATE CUT

Home Woes May Take Further Toll

Bernanke Warns Downturn Likely to Hamper Growth Through Early Next Year

By SUDEEP REDDY

❖ **The News:** Federal Reserve Chairman Ben Bernanke said pressure on financial markets has been reduced since the recent turmoil, increasing the likelihood of moderate economic growth. While the housing sector continues to deteriorate, income growth is propping up consumer spending.

❖ **What's Next:** Fed officials don't appear inclined to cut rates further without signs that the housing downturn is spilling over into consumer or business spending.

Two weeks before the Federal Reserve's next meeting on interest-rate policy, Fed Chairman Ben Bernanke said yesterday the economy is performing much as expected: The housing market is continuing to deteriorate, but financial markets are under less stress in the wake of the central bank's actions last month.

In a speech to the New York Economic Club, Mr. Bernanke said the housing downturn is likely to remain "a significant drag" on economic growth through early 2008. He said that strong income growth has so far propped up consumer spending even in the face of signs—which he called "quite tentative"—of a cooling labor market.

Ben Bernanke

"It remains too early to assess the extent to which household and business spending will be affected by the weakness in housing and the tightening in credit conditions," he said, according to the prepared text of his remarks.

His remarks indicate Fed officials will keep a close eye on data to gauge the condition of the economy but didn't suggest an inclination to cut interest rates further when policy makers meet on Oct. 30 and Oct. 31. The Fed on Sept. 18 lowered its target for the benchmark federal-funds rate to 4.75% from 5.25%, the first cut in four years, in an attempt to prevent a broader economic downturn fueled by the housing sector's sharp decline and credit-market turmoil.

The Fed's action sparked a rise in stock prices, which hit a record last week, and eased pressure in the credit markets. At the same time, consumer prices have faced "moderate increases" despite higher costs for oil and other commodities and a weaker dollar.

Mr. Bernanke said the improvement in the financial markets "increases the likelihood of achieving moderate growth" in the economy, while keeping prices stable. He cautioned that "considerable strains remain" in financial markets. He also acknowledged the risk of reducing rates—a nod to concerns that such moves will encourage some investors to take even more risks.

"In such situations, one must also take seriously the possibility that policy actions that have the effect of reducing stress in financial markets may also promote excessive risk-taking and thus increase the probability of future crises," Mr. Bernanke said.

Still, he said, investors who made those risky bets in housing, through subprime mortgages for people with weaker credit, "have sustained significant losses" and mortgage firms that issued the loans have failed.

More fallout is expected from the housing downturn. The decline in residential construction has directly shaved three-quarters of a point off economic growth for the last year and a half. Tighter standards for mortgages are expected to depress construction activity further while also pushing prices lower.

The housing downturn hadn't led to "significant spillovers" into household and business spending as of the Fed's September meeting, Mr. Bernanke said. He said financial markets and consumers could still take a hit as a result. "Investors are continuing to reassess the risks they face and have not yet fully regained confidence in their ability to accurately price certain types of securities," he said. "The ultimate implications of financial developments for the cost and availability of credit, and thus for the broader economy, remain uncertain."

"... HOUSING TO REMAIN SIGNIFICANT DRAG.."

"... COOLING LABOR MARKET..."

"... CONSIDERABLE STRAINS IN FINANCIAL MARKETS.

"... ULTIMATE IMPLICATIONS REMAIN UNCERTAIN..."

E1

HOUSING MELTDOWN CONTINUES...
* 68% of BEAZER HOME ORDERS CANCELLED IN SEPT.
HAVE WE TRULY DISCOUNTED THIS YET??

Countrywide Lending Plunges

Lower Mortgage Volume Shows Pressure to Cut Costs as Focus Switches

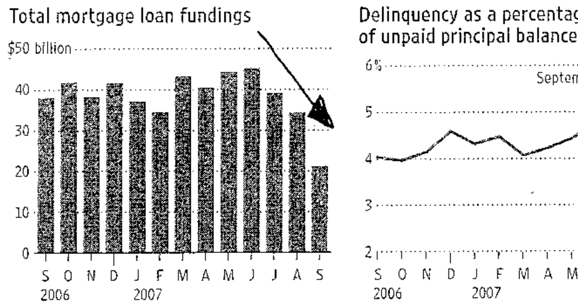
By JAMES R. HAGERTY

Countrywide Financial Corp., providing an update on how the housing slump and credit crunch are drastically shrinking its business, said total mortgage loans it made or acquired from other lenders in September fell 44% from a year earlier to $21 billion.

The disclosure illustrates the enormous pressure the nation's largest home-mortgage lender in terms of loan volume faces to cut costs as it makes fewer loans and focuses on conventional mortgages, which tend to be far less profitable than the riskier types of loans popular in recent years. Countrywide last month said it plans to chop its work force by as much as 12,000 jobs, or 20%.

Hard Times

Countrywide's lending plunged in September, while overdue loans continued to rise.



Source: the company

*Excludes lo

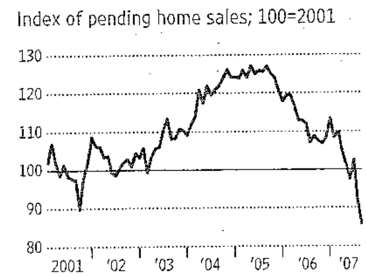
MORTGAGE ORIGINATIONS PLUNGE

is expected to report a large loss for the third quarter on Oct. 26. The range of estimates is huge, reflecting uncertainty over how much Countrywide will have to write down the value of

fore. Excluding forecl ments are 30 days or mo 5.85% of the unpaid bala services, up from 4.04% After having increa

PENDING SALES CONTINUE TO DECLINE

ECONOMIC SNAPSHOT



Source: National Association of Realtors

Pending Home Sales Decline As Reins Tighten on Lending

Pending home sales in August dropped a seasonally adjusted 6.5% from July, as tighter restrictions on mortgage lending made it tougher for some would-be buyers to get financing.

The decline, which came on the heels of a revised 10.7% drop in July, was steeper than expected. Pending home sales, as tracked by the National Association of Realtors, are now at their lowest since the data were first published in 2001.

Beazer Homes Reports Surge In Cancellations of Orders

By MICHAEL CORKERY

Home builder **Beazer Homes USA** Inc., moving to get legal and accounting problems behind it, now faces trying to ride out a downturn in a housing business that is being pummeled.

Beazer reported that 68% of its prospective home buyers canceled their orders in the company's fiscal fourth quarter, which ended Sept. 30. The cancellation rate was almost double the 36% of customers who canceled orders and gave up deposits in the prior quarter.

Beazer is one of the first large builders to detail results from September, when analysts believe the housing market bore the full brunt of the summer's credit-market turmoil. Beazer's pain may be more severe than other builders' because it focuses heavily on entry-level buyers who relied on the shrunken market for subprime mortgages, or loans to buyers with poor credit. Also, buyers may have been wary because of negative publicity tied to Beazer's legal troubles.

"But conditions certainly deteriorated" for the whole industry, said David Goldberg, an analyst at UBS. "I think you are going to hear a lot of that from builders in the coming months."

ers have denied. Earlier this month, HUD banned this type of down-payment assistance, partly out of concerns about high foreclosures.

"Beazer was trying to ensnare people in loans that they couldn't afford" by misrepresenting buyers' incomes and including the cost of the down-payment gift into the cost of the home, said Gary Jackson, a Charlotte attorney representing home buyers suing Beazer.

The Atlanta company declined to comment on the pending litigation.

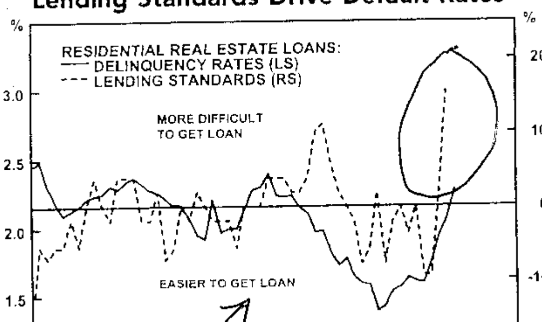
Beazer said it expects to pay regulators between $8 million and $15 million to settle losses or fines associated with the improper FHA loans. A few years ago, such loans were obtained by about 30% of Beazer's buyers; now they account for 10%.

The restatement will affect Beazer's financial results from 1999 through the year ended Sept. 30. One accounting problem stemmed from setting aside excessive reserves and accrued liabilities in previous years and then shifting them into the company's income accounts in 2006 as the housing market slowed. Another accounting problem is related to the timing of when profit and revenue were recorded from the sale

* WILL EVERY BUILDER LOSE 68% OF ORDERS??

CHART 8

Lending Standards Drive Default Rates



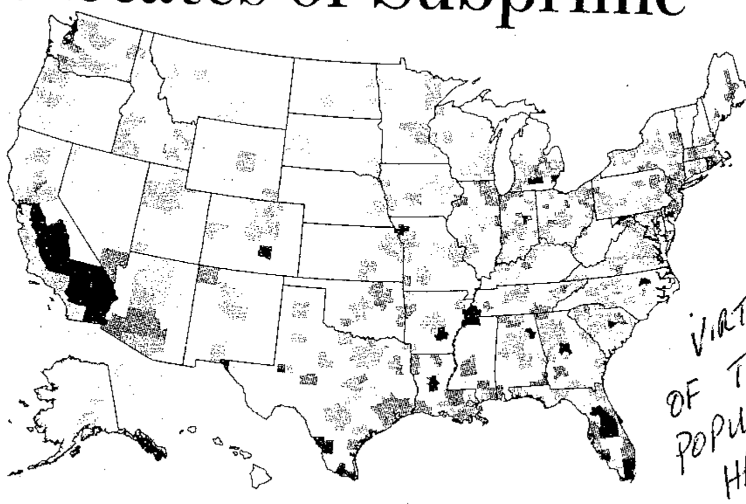
TIGHTENED MORTGAGE LENDING STANDARDS

(E2)

The United States of Subprime

Data Show Bad Loans Permeate the Nation; Pain Could Last Years

By Rick Brooks
And Constance Mitchell Ford



Percentage of new mortgages that were high-interest-rate loans, by dollar volume, between 2004 and 2006, when the U.S. housing market was peaking

5% 15% 20% 25% 40%

Note: Areas shown are metropolitan statistical areas

Source: Home Mortgage Disclosure Act data

VIRTUALLY ALL OF THE NATION'S POPULATION CENTERS HAVE 15-40% TOTAL MORTGAGE EXPOSURE TO SUB-PRIME

As America's mortgage markets began unraveling this year, economists seeking explanations pointed to "subprime" mortgages issued to low-income, minority and urban borrowers. But an analysis of more than 130 million home loans made over the past decade reveals that risky mortgages were made in nearly every corner of the nation, from small towns in the middle of nowhere to inner cities to affluent suburbs.

The analysis of loan data by The Wall Street Journal indicates that from 2004 to 2006, when home prices peaked in many parts of the country, more than 2,500 banks, thrifts, credit unions and mortgage companies made a combined $1.5 trillion in high-interest-rate loans. Most subprime loans, which are extended to borrowers with sketchy credit or stretched finances, fall into this basket.

High-rate mortgages accounted for 29% of the total number of home loans originated last year, up from 16% in 2004. About 10.3 million high-rate loans were made in the past three years, out of a total of 43.6 million mortgages. High-rate lending jumped by an even larger percentage in 68 metropolitan areas, from Lewiston, Maine, to Ocala, Fla., to Tacoma, Wash.

To examine the surge in subprime lending, the Journal analyzed more than 250 million records on mortgage applications and originations filed by lenders under the federal Home Mortgage Disclosure Act. Subprime mortgages were initially aimed at lower-income consumers with spotty credit. But the data contradict the conventional wisdom that subprime borrowers are overwhelmingly low-income residents of inner cities. Although the concentration of high-rate loans is higher in poorer communities, the numbers show that high-rate lending also rose sharply in middle-class and wealthier communities.

Banks and other mortgage lenders have long charged higher rates to borrowers considered high risk, either because of their credit histories or their small down payments. As home prices accelerated across the country over the past de-

Please turn to page A16

Continued from Page One

cade, more affluent families turned to high-rate loans to buy expensive homes they could not have qualified for under conventional lending standards. High-rate loans are those that carry interest rates of three percentage points or more over U.S. Treasurys of comparable durations.

The Journal's findings reveal that the subprime aftermath is hurting a far broader array of Americans than many realize, cutting across differences in income, race and geography. From investors hoping to strike it ri ch by speculating on condominiums to the working poor chasing the homeownership dream, subprime loans burrowed into the heart of the American banking system—and now are bringing deepening financial woe.

The data also show that some of the worst excesses of the subprime binge continued well into 2006, suggesting that the pain could last through next year and beyond, especially if housing prices remain sluggish. Some borrowers may not run into trouble for years.

"We had an aggressive home-mortgage industry trying to get people into homes they couldn't afford at a time when home prices were very high. It turned out to be a house of cards," says Karl Case, an economics professor at Wellesley College. "We're in the early stages of the clean up."

The Journal's analysis indicates that some major subprime lenders, such as Washington Mutual Inc.'s Long Beach Mortgage unit, began scaling back or tightening their standards a year or more ago. But commercial banks and thrifts filled the void

Debt Trouble

Selected metropolitan areas with high proportions of new high-rate mortgages, 2004-2006

Metropolitan Statistical Area	Number of high-rate loans	High-rate loan volume, in billions	All loan volume, in billions	Percentage high-rate
McAllen-Edinburg-Mission, Texas	17,511	$1.41	$3.61	**39.1%**
Detroit-Livonia-Dearborn, Mich.	112,183	9.84	30.64	**32.1**
Miami-Miami Beach-Kendall, Fla.	170,938	29.32	92.78	**31.6**
Bakersfield, Calif.	53,881	8.10	26.75	**30.2**
Ocala, Fla.	15,085	1.67	6.21	**27.0**
Stockton, Calif.	46,447	10.66	40.63	**26.2**
Cape Coral-Fort Myers, Fla.	52,106	8.50	33.17	**25.6**
Lewiston-Auburn, Maine	3,843	0.40	1.71	**23.8**
Las Vegas-Paradise, Nev.	149,892	25.70	109.44	**23.4**
Tacoma, Wash.	42,335	6.07	27.97	**21.7**

Source: Home Mortgage Disclosure Act data

study in the Journal of the American Planning Association, Daniel Immergluck, an associate professor at Georgia Institute of Technology in Atlanta, found a similar pattern between foreclosures occurring in early 2006 and cities with high subprime lending in 2003.

There are some less gloomy signs, too. Last year, the number of new high-rate loans fell 2% to about four million, after jumping 88% in 2005. That reflects the collapse of some of the most aggressive lenders and tightening credit standards at oth

a 1977 federal law, prodded banks to extend more credit in communities where they operated. That warmed many of them to lower-income and minority borrowers. The Federal Housing Administration, a New Deal-era mortgage insurer targeting buyers with little or poor credit, began losing market share to aggressive subprime lenders. These commercial lenders usually charged higher interest rates but promised less paperwork, faster approval and no-

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Retail Sales Outlook Diminishes

Sluggish Figures Suggest Weakness For Holiday Season

By JAMES COVERT

CONSUMER WEAKNESS PERSISTS

The nation's retailers posted weaker-than-expected September sales, stoking worries that the housing slump and credit crunch will crimp spending during the crucial holiday season.

Blaming unusually balmy weather that quelled demand for fall fashions, department stores and apparel retailers reported some of the most disappointing results. **J.C. Penney** Co., **Nordstrom** Inc. and **Limited Brands** Inc. all cut their estimates for third-quarter profits. Disappointing results at upscale retailers Nordstrom and **Saks** Inc. sparked fears that a bumpy stock market may threaten holiday spending by well-heeled shoppers.

Wal-Mart Stores Inc., however, raised its earnings forecast, with analysts citing strong controls on costs and inventory.

1% Year-over-year increase = very sluggish consumer.

Retailers collectively reported a 1% increase in September same-store sales, or sales at stores open at least a year, according to an index of 39 major chains compiled by Lazard Capital Markets LLC. That is well below the 3.9% gain seen a year earlier, and is among the weakest monthly showings in several years, said Todd Slater, an analyst at the New York investment firm.

"I think this confirms pessimistic views about the holiday season," Mr. Slater said. "The consumer needs a reason to buy, and there are probably not as many 'must-haves' this year as in the past."

The downbeat retail-sales data underscored the importance of other sources of growth to the nation's economy, notably exports, which continued to rise in August. Indeed, yesterday's report of a smaller-than-expected August trade deficit led many economists to boost their estimates of how much the economy grew in the third quarter. Economists have also grown less pessimistic about the outlook for the economy since the Federal Reserve cut interest rates last month. (See articles on page A2.)

Retailers came under pressure in September as lingering summer weather forced them to make early markdowns on fall apparel. That pushed sales growth below this year's already-weak clip, said Michael Niemira, chief economist at the International Council of Shopping Centers. Recent data on employment—a top driver of consumer spending—have been encouraging, and

Falling Fortunes

Retail sales for September 2007

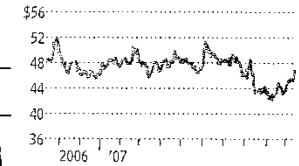
	Total September sales		Comparable stores
Discounters	In millions	Chg. from year ago	Chg. from year ago
Wal-Mart[1]	$34,406.0	+9.7%	+1.4%
Costco[2]	6,050.0	+9.0	+4.0
Target	5,190.0	+6.2	+1.2
Department Stores			
Macy's	$2,274.0	-1.1%	-2.7%
J.C. Penney[3]	1,362.0	-1.2	-4.6
Kohl's	1,327.2	+5.9	-3.2
Nordstrom	762.2	+4.1	+3.2
Dillard's	649.2	-5.0	-7.0
Neiman Marcus	466.0	+8.6	+6.0
Saks	307.4	+9.5	+7.7
Apparel			
TJX	$1,800.0	+5.0%	+2.0%
Gap	1,430.0	-3.0	-7.0
Limited	713.2	-9.0	-4.0
AnnTaylor	246.7	+6.2	+0.5
Teen Apparel			
Abercrombie & Fitch	$297.4	+1.0%	-4.0%
American Eagle Outfitters	222.8	-5.0	-2.0

[1]Comparable sales for U.S. stores only, excluding fuel sales
[2]Comparable sales for U.S. stores only
[3]Department stores only

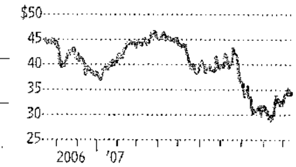
Sources: the companies; WSJ Market Data Group

52-week share price

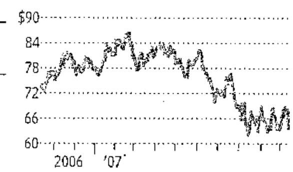
Wal-Mart
Yesterday: $46.90, up 2.9%



Macy's
Yesterday: $33.84, down 1.9%



J.C. Penney
Yesterday: $63.27, down 7%



crease. The Plano, Texas, department-store chain slashed its third-quarter earnings estimate to between $1 and $1.04 a share, down from $1.28 a share. **Kohl's** Corp. posted a 3.2% decline and said third-quarter results will likely come in at the low end of the range it previously forecast.

Macy's Inc., which faced tough comparisons with a year ago when it staged an ad blitz to launch the Macy's brand nationwide, posted a 2.7% decline. In a written statement, Chairman and Chief Executive Terry J. Lundgren said shoppers have "reacted positively" to the September launch of the Martha Stewart Collection, a proprietary line of home products.

Elsewhere in the mall, Limited Brands warned it may miss its quarterly earnings estimates after posting a larger-than-expected same-store-sales drop of 4%. **Gap** Inc.'s same-store sales fell 7%, steeper than the 4.6% drop analysts had expected.

—Greg Ip contributed to this article.

WSJ.COM

ONLINE TODAY: See a sortable chart of more than a dozen retailers' results, at **WSJ.com/OnlineToday**

If consumer softens, then exports + capital spending must pick up the slack... but will they?

E4

See also: how important is the consumer to corporate profits

Economists' Outlook Turns Rosy

Majority in Survey Say Fed's Rate Cut on Target; Recession Fears Ease a Bit

By Phil Izzo

The Federal Reserve may have stopped the economic bleeding caused by a summer credit crunch, the latest WSJ.com forecasting survey suggests, as economists turned more optimistic in the past month.

The survey, conducted Oct. 5-9, showed the average forecast for the chance of recession moved lower, to 34%. That was the first decrease since June and followed a forecast in the September survey of a 36% probability of recession.

What's Next?

Get full survey results and download the data, including forecasts for housing, interest rates and energy prices. Go to **WSJ.com/Economist**

Expectations for payroll growth and corporate profits rose for the first time in the second half. Meanwhile, most forecasts for gross domestic product either stayed the same or moved higher following four consecutive downward revisions. Only expectations for the fourth quarter were lowered, by a slight 0.1 percentage point, to 1.8% growth.

The economists overwhelmingly approved of the Fed's decision Sept. 18 to cut the target for the federal-funds rate by a larger-than-expected half percentage point to 4.75%. Some 76% said the move was appropriate, compared with 22% who thought it was too aggressive. Just one economist said the cut wasn't aggressive enough.

"Some of the uncertainties have faded, partly due to the fact that the Fed moved more aggressively," said Lou Crandall, chief economist at Wrightson ICAP. "The Fed's willingness to pull out all the stops played a role in bolstering the economy."

Confidence in the central bank was reflected in the economists' average grade for Ben Bernanke. In the wake of the interest-rate cut, the Fed chairman scored 90 out of 100, the highest mark he has received in the survey since his tenure began in February of last year.

European Central Bank President Jean-Claude Trichet, who in August was the first to respond to the credit crunch by injecting liquidity into markets after BNP Paribas SA froze three of its asset-backed-securities funds, also received a score of 90.

The Bank of England's governor, Mervyn King, didn't fare quite so well, scoring a 78. Mr. King largely stood on the sidelines while the Fed and ECB pumped liquidity into markets, stepping in only after credit problems at Northern Rock PLC triggered a bank run on the midsize lender.

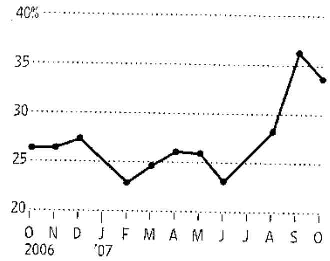
Scott Anderson of Wells Fargo & Co. singled out Mr. Bernanke, saying his "response to financial and economic risks has been closest to the mark."

The economists seem to think the Fed has more work ahead. On average, they expect the federal-funds target to be reduced once more this year, by a quarter percentage point, with 30 of the 54 respondents forecasting 4.5% as the year-end rate. Not one of the economists sees an increase this year. However, the first half of next year isn't quite as clear. The average forecast is for 4.5%, with 21 economists choosing that level, 20 economists forecasting a lower rate and 13 projecting higher. *

The Fed isn't without its critics. "I don't think the economy is necessarily in need of a lower fed-funds rate," said Stephen Gallagher of Société Générale SA. "It's not a huge mistake, but maybe they did it too soon....The drag [from housing and the credit crunch] is going to deepen more than diminish. The Fed can't really avoid that."

Abating Jitters

Odds that forecasters put on a recession in the next 12 months



Source: WSJ.com survey of economists

The economists still paint a bleak picture of the U.S. housing market. They marked down their projections for housing starts for this year and next for the fourth consecutive time. Home prices as measured by the Office of Federal Housing Enterprise Oversight's housing-price index, which has never registered a year-to-year decline, are seen falling 1.26% this year and 2.55% next year, down from previous estimates of 1.16% and 2.25% drops, respectively. "The risk's not gone," said Mr. Crandall of Wrightson ICAP. However, "we've gotten through much of that particular episode."

Among other findings of the survey:

■ Economists took issue with projections by former Fed Chairman Alan Greenspan in his memoir, "The Age of Turbulence: Adventures in a New World." When asked to characterize Mr. Greenspan's expectations of average 4% to 5% inflation between now and 2030, 84% of respondents said it was too high, while 14% judged it about right. Similarly, 77% said the ex-chairman's forecast of Treasury yields at 8% or higher during the same period was too high, while 23% said it was about right.

■ A majority of economists, some 61%, said the portfolio limits of Fannie Mae and Freddie Mac should be increased, but 19 of the 29 who favored the rise said it should only be temporary.

■ Forecasts for the price of crude oil were again moved higher. On average, the economists see the cost at $72.57 by year end and $68.58 by June. However, both projections are well below the current price of over $80 a barrel.

ECONOMISTS' OUTLOOK IMPROVES AFTER FED RATE CUTS...

...BUT IS 4.5% GDP GROWTH (ABOVE TREND) REALISTIC FOR 1ST H. 2008?

THE IMF IS FORECASTING 1.9%...WHO'S RIGHT?

GLOBAL ECONOMY SLOWING BUT NOT TANKING.

World's Economy to Stay on Its Axis

By SUDEEP REDDY

The world economy is expected to largely shrug off the effects of the recent financial turbulence, according to a Washington think tank whose projections often mirror those of the International Monetary Fund.

Economists at the Peterson Institute for International Economics said the U.S. will continue to face sluggish expansion stemming from the housing downturn, which is depressing construction and may weaken consumer-spending growth.

The institute's forecast is seen as foreshadowing the global-economic forecast by the IMF, which is expected to be released next week. Michael Mussa, a senior fellow at the institute, helped devise the IMF's forecasting models when he served as the fund's chief economist during the 1990s.

In releasing the Peterson Institute's forecast yesterday, Mr. Mussa said he expects global growth to be "moderately weaker" in 2008, slowing to a rate of 4.25% from 4.75% this year and 5.25% in 2006.

"Things are slower, and the slowdown importantly reflects growth in the U.S. this year," he said.

Concern about financial turbulence in U.S. and European markets "has perhaps been a little bit overdone" in what it means for an economy, Mr. Mussa said. He noted that bearish forecasts for the U.S. after the 1987 stock-market crash and the 1998 market turbulence were far off the mark; strong growth followed both episodes. And growth of 4.25% next year would continue a period of strong global expansion.

The IMF is expected to cut its global-growth forecast in its report expected to be released during meetings in Washington next week.

A person with access to the IMF report said it will predict that the world economy will expand at a 4.8% pace in 2008, down from the 5.2% estimate made in July. The IMF is expected to cut its forecast for U.S. growth to 1.9% from 2.8%, and to lower its prediction for euro-zone growth to 2.1% from 2.5%.

Some parts of Europe may face a greater risk from the market upheaval stemming from investments in the U.S. subprime-mortgage market.

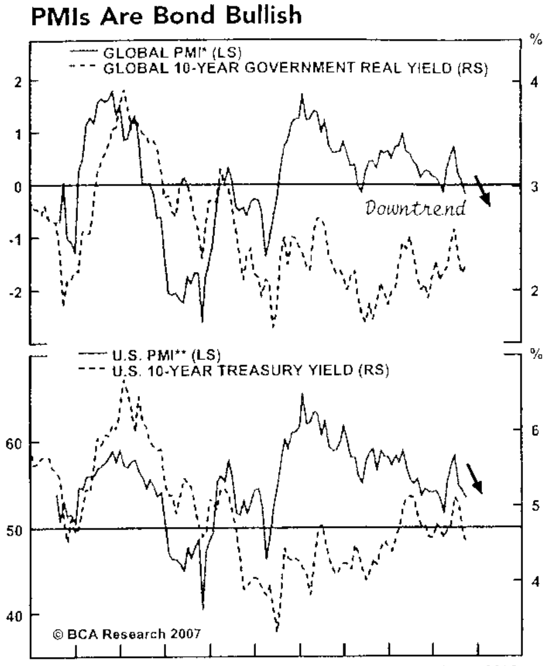
Even though the financial shock started in the U.S., the financial structures and oversight in the euro zone are more fragile, said Adam Posen, the institute's deputy director. Spain, Ireland and the United Kingdom all have "significant" real-estate bubbles presenting risks to those economies, he said.

The housing downturn and weaker business confidence present risks to spending in the U.S. economy, said Douglas Holtz-Eakin, a senior fellow at the institute. But exports continue to bolster the economy, and the Federal Reserve's recent actions have cushioned the real economy from the credit-market turbulence, he said.

The U.S. economy "has a phenomenal capacity to withstand adverse shocks" and is recovering toward its long-term growth trends, said Mr. Holtz-Eakin, who is a former director of the Congressional Budget Office and served as chief economist for President Bush's Council of Economic Advisers.

—Andrea Thomas contributed to this article.

CHART 2
PMIs Are Bond Bullish



*GDP WEIGHTED AVERAGE OF U.S., U.K., JAPAN, EURO AREA & CANADA; STANDARDIZED
**AVERAGE OF MANUFACTURING AND SERVICE INDEXES, SOURCE: ISM

trending lower for the past year. Now, growth in most other G7 countries also appears set to slow. Purchasing managers indexes (PMI) are in a weakening trend across the board. Our aggregate PMI index for the major countries, which includes both manufacturing and services, is softening (**Chart 2**). Other indicators for global growth are sending the same message. The global PMI does not lead the bond market, but its downtrend supports our above-benchmark duration stance.

The U.S. economy is less important for world growth than it was in past years. Nonetheless, the global economy is still dependent on U.S. consumer spending as an offset to Asia's tendency to over-produce, especially given the reluctance of European and Japanese consumers to open their wallets. Australia is the only major developed country that has not yet shown any clear signs of slowing.

E8

CURRENT ECONOMIC FORMULA:

1) KEEP DOLLAR WEAK

2) EXPORT TO A STRONG GLOBAL ECONOMY

Dollar Lifts Exporters, Blunting Housing Bust

Foreign Clients Buoy Hotels, Manufacturers; Splurging at Tiffany's

By TIMOTHY AEPPEL

PITCAIRN, Pa.—Gary Bence sees the impact of a weaker U.S. dollar every time he wheels his truck into the sprawling rail terminal in this gritty Pittsburgh suburb.

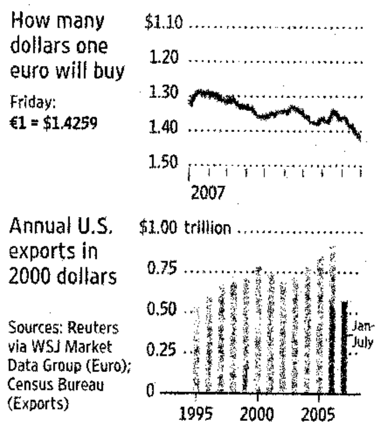
As a driver for AGX Intermodal, which hauls containers for local companies here, the 57-year-old has seen a surge in recent months of boxes filled with locally made products headed to customers overseas. Of about 15 loads he handles each week, 10 are for export, he estimates, including a shipment of mineral oil bound for Bolivia that he dispatched earlier in the day.

"I was in the scrap business for 30 years, and we exported nothing, and now we [in the region] export a lot," he says, just before he climbs into the cab of a Mack truck pulling a gray 40-foot container and kicks up a cloud of dust on his way out.

Mr. Bence is one of the people benefiting from one of the few bright spots in a slowing U.S. economy. While a weaker dollar hurts consumers by raising the price of imported goods, it also is helping the economy stave off a deeper slowdown, by making U.S. exports more competitive and influencing more foreigners to visit Disney World or the Statue of Liberty.

Yet currency rates are so intertwined with other crosscurrents in the economy that the impact varies from

Weak Dollar, More Exports



one individual or company to another, even within the same business. Someone who works for a company that relies heavily on foreign trade or a hotel catering to European visitors might get a plump raise or avoid a layoff because of the weaker greenback. An employee of a hotel getting less foreign business—or one whose company has lots of foreign hotels catering to American tourists—may fare worse.

If the dollar falls too far and too fast, it could spur a run-up in interest rates and shake the stock market—which would be bad for the economy. A rapidly falling dollar would raise the price of imports, stoking inflation, and in an extreme case could prompt foreign investors to dump U.S. bonds, pushing their yields higher.

But as long as the dollar's decline is gradual, most economists see it as a modest plus overall. Joshua Feinman,

Please turn to page A19

E9