



One Day Later, Fed Looking Smart

By Andrew Farrell

September 19, 2007--It could take months, or years, to determine the true impact of the Federal Reserve's decision to cut interest rates but, one day later at least, the decision seems to have yielded benefits. Government data released Wednesday exhibited further signs of a sputtering economy and manageable inflation.

The Commerce Department reported Wednesday that U.S. housing starts and permits for future construction last month fell to their lowest levels in more than a decade. Housing starts declined 2.6% in August, to an annual rate of 1.3 million. It is the lowest level since June 1995. Housing starts measure the number of residential unit constructions begun.

Building permits fell 5.9% in August, to an annual rate of 1.3 million. It was the lowest level since June 1995. Building permits measure the number of permissions granted to allow construction of new residential units.

The drop in housing starts and permits comes as homebuilders like D.R. Horton and Centex pull back sharply on construction because of a weak housing market. Years of heavy building left an abundance of homes just as demand pulled back.

U.S. consumers aren't only buying fewer homes; they're also buying fewer cars. Shares of CarMax plummeted \$3.21, or 12.8%, to \$21.85, after the used auto retailer lowered its guidance. The Richmond, Va.-based company warned of an "industry-wide slowdown in auto sales."

Alan B. Lantz, director of investment research firm, LantzGlobal said the weak housing data confirms that the Fed's rate cut was on track. Lantz also pointed to fresh economic data showing inflation is at tolerable levels. Lower interest rates encourage inflation so a rate cut can be risky if inflation is already running high.

The Labor Department reported Wednesday that its Consumer Price Index dropped 0.1% in August. Economists expected the index to remain flat last month. The August increase swung from a 0.1% gain in July. The decline was the first drop in consumer prices since October 2006. It was driven by a sharp decline in energy bills, which fell by 3.2% in August.

The core Consumer Price Index, which strips out volatile food and energy costs, rose 0.2% in August. The rise was in line with expectations and mirrored July's increase.

The Federal Reserve cut its federal funds target rate by 50 basis points to 4.75% on Tuesday. The cut set off a stock market rally that continued on Wednesday. The Dow Jones industrials gained 0.3%, or 45.93, to 13,785.32, in afternoon trading.

In market news, Morgan Stanley revealed third-quarter results hobbled by decreasing loan values. Morgan Stanley is the second brokerage to release earnings this week. Lehman Brothers announced better-than-expected results on Tuesday. Bear Stearns and Goldman Sachs are to release results later this week.