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Market's turmoil and economic turbulence persist

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The vitality of our local commercial market and substantial institutional construction activity are both foils to the market turmoil and economic turbulence that has dominated the financial media. Combined with increasing exports and business investment, both of which favor our regional economy, commercial real estate and non-residential construction have sustained moderate regional economic growth. Of course the housing slump and the credit crunch resulting from the sub prime market have impacted our region as well as other regional markets. Fundamentals appear to support sustained moderate growth.

President Bush and Fed Chairman Bernanke announced action steps on Friday August 31 to stabilize markets. President Bush needs Congressional approval for some of his initiatives and Chairman Bernanke only promised to do what was necessary if turmoil persists. National and local government moves to restore residential mortgage market and assist borrowers in trouble are meaningful. Most do feel the turmoil and turbulence should be sufficient for the Fed to reduce its target for the federal funds rate - overnight, interbank lending rate - from 5.25% on September 18 when policy makers meet. Economists are marginally shaving the forecast for the last two quarters of 2007.

Local banks like the "back to basics" lending in the single-family and, now, the commercial real estate market. With the shutdown of non-government, mortgage-backed securities market resulting from sub prime defaults, traditional bank and other institutional capital sources re-entered the bidding market which had become too competitive, too cheap for them. Resetting the real estate capital markets will take time. However, transaction deal flow has already restarted and most are optimistic about commercial mortgage markets. Freddie Mac reported Friday, August 24, 30-year fixed rate mortgages averaged 6.52%, down from 6.62% the previous week and the lowest since 6.42% during the week of May 31.

Beige Book report for First Districtâ€”Boston dated September 5, 2007 reported that many contacts said that turmoil in financial markets is obscuring their near-term outlook. They also said price pressures have eased, skilled workers are in short supply, head counts are generally stable to increasing across sectors, commercial markets continue to strengthen, residential markets in Massachusetts show moderate improvement and markets elsewhere remain soft. The uncertainty raised by the turmoil and turbulence has raised caution among the Beige Book respondents.

The Fed rate cut or cuts will not be a panacea. Such a move might support consumer and business spending through lower interest rate credit and improved comfort and confidence in the economy. The move will support economic activity and stability, the Fed's raison d'etre.

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