

## Is housing market strong? Ask the 8 Ball

NEW YORK -- March 27, 2006 -- With all the economic reports that the government and private agencies produce, sometimes it seems a Magic 8 Ball would do just as good a job in helping investors predict the Federal Reserve's next move.

Just take the data seen over the past few weeks in the housing sector, which is particularly rate-sensitive. Overall home prices are up and existing home sales are strong, yet sales of new homes are substantially lower.

The conventional wisdom on Wall Street is that a strong housing market bodes ill for lower rates, because the Fed will try to counter inflation in that market with higher interest. But is the housing market strong? As the Magic 8 Ball says, "Reply hazy. Try again."

The same goes for nearly every other piece of economic data out there. Overall factory orders may be lower, but durable-goods orders are up. Retail inflation is low, yet wholesale inflation was narrowly higher last month -- high enough to worry about? Perhaps not even the Magic 8 Ball knows.

Toss in a jump in crude oil futures last week that brought a barrel of crude past \$64 per barrel, and uncertainty over the economy and its potential for creating inflation is running high.

On Tuesday, the Fed will release its latest take on the economy, alongside a widely expected hike in interest rates that will leave the nation's benchmark rate at 4.75 percent. Unfortunately, the Fed's policy statement is about as obfuscatory as the English language will allow. Unless Chairman Ben Bernanke takes the unusual step of spelling out his intentions in clear prose, Wall Street's uncertainty will continue -- and could mean that the stock market will have trouble moving higher.

Certainly, the uncertainties of the past week did nothing to help investors, as the major indexes finished narrowly mixed. For the week, the Dow Jones industrials were flat, while the Standard & Poor's 500 fell 0.33 percent and the NASDAQ composite index gained 0.27 percent.

### **Economic data**

There are few market-moving economic reports due in the coming week, but there are a few that could prompt investors to change their strategies.

On Tuesday morning, the Conference Board will release its consumer confidence index for March. Economists expect a reading of 102, up slightly from 101.7 in February. A sharp rise in confidence could pressure stocks, as investors may worry about increased demand and pricing pressure. However, with the Fed announcement later in the day, this report could be overlooked.

The Commerce Department will issue its final report on the fourth-quarter's gross domestic product Thursday morning. Final GDP is expected to have risen at an annual rate of 1.7 percent, up from the previous estimate of 1.6 percent.

## Earnings

A handful of earnings reports in the week ahead will give investors some insights into particularly important sectors.

Home builder Lennar Corp. is expected to earn \$1.54 per share, up from \$1.17 per share a year ago, when it reports earnings Tuesday morning. After a strong 2005, Lennar's stock has fluctuated widely as investors questioned whether the housing boom is over or not. The stock closed Friday at \$59.92, down 13 percent from its 52-week high of \$68.86 July 28.

In the retail sector, Best Buy Co. Inc., which reports earnings Thursday morning, has seen relatively steady share growth over the past year, and is up 70 percent from its 52-week low of \$31.93 on April 18, 2005. Best Buy, which closed Friday at \$54.38, is expected to earn \$1.29 per share for the quarter, up from \$1.03 per share a year ago.

Finally, Red Hat Inc.'s earnings, expected Tuesday afternoon, could provide insight into corporate spending in the technology sector. Red Hat, which makes Linux operating systems and other software for personal computers, is expected to earn 12 cents per share, double the 6 cents per share it earned a year ago. Red Hat's stock has had a strong year, nearly tripling from its 52-week low of \$10.42 on April 15, 2005, to close Friday at \$28.59.

## Events

The Fed is expected to announce its decision on interest rates, and issue its statement on the economy, at 2:15 p.m. EST Tuesday. Expect the markets to be volatile in the first 20 to 30 minutes, with investors reacting to each nuance discussed on the business news channels. After that, the market generally picks a direction that investors can use to determine how to trade.



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