



## Buyers undaunted by Wall St. collapse

In the wake of recent events on Wall Street, analysts have been scouring the economy for any and every indication of how consumers are responding.

Consumer spending, after all, accounts for two-thirds of the Gross National Product, and the stock market crash reduced the nation's wealth, at a minimum, by \$600 billion. In the aftermath, conclusive evidence about the disposition of the buying public has not come easily.

But if housing is any indication, Black Monday, perverse as it sounds, may actually have done some good.

Prospective home buyers who went to sleep before Oct. 19 and have just awakened will find a significant decline in mortgage interest rates. On the eve of the crash, fixed-rate mortgages were at their highest point, rising above 12 percent. Today they are in the 10½ to 10¾ percent range.

That's enough to reduce the monthly payment for principal and interest on a \$90,000 mortgage by more than \$100. The income needed to qualify for this loan at 10½ percent has dropped from more than \$46,000 to \$41,700.

Before the crash, our industry was increasingly concerned about rising interest rates. Conceivably, rates were

headed into the 13 percent range in 1988. At that level we would expect to see a drop-off in housing sales, especially in a marketplace that is increasingly dominated by trade-up buyers who can afford to be more discretionary about the timing of their purchases.

**SINCE INTEREST RATES** first began to rise last spring, we have seen a resurgence in adjustable rate mortgages, which have been bargain priced, with initial rates as much as three percentage points lower than the going cost of fixed-rate loans. Even lower-priced ARMS, however, would not have had enough magic to prevent some drop in sales had interest rates continued to rise.

The pre-collapse economic scenario did not look encouraging for housing. While the post-collapse outlook may be less than ideal, it is nevertheless an improvement.

Afraid of repeating the mistakes of the crash of 1929, the Federal Reserve Board has moved quickly to pump liquidity into the economy. Housing and other interest-sensitive industries have benefited.

Interest rates may still trend up-

ward later in 1988, but if they do we now estimate that they are liable to be about one percentage point lower than they would have been otherwise.

Conversely, the stock market crash has slowed somewhat the pace of the economy, alleviating inflationary pressures that some analysts believed were brewing. Housing prices have moderated in some of our hottest markets. We expect to see especially good housing values in 1988.

The alarm sounded on Wall Street has also focused attention on the budget deficits. It was years ago that the National Association of Home Builders started its campaign against America's ticking deficit time bomb.

With the stock market putting Washington on notice that the bomb was about ready to go off, we have since seen a redoubling of efforts in both the Congress and the White House to turn the corner on this problem once and for all. Deficit reduction is pivotal if we want our economy to perform in the future as effectively as it has in the past. It now looks hopeful that a lasting solution will be deferred no longer.

has also served to emphasize the enduring investment value of owning a home and the tax advantages of home ownership. American consumers have always preferred safe investments with good track records. Housing is one of those investments, and as a result, many Americans have most of their wealth invested in the homes in which they live.

Buying a home gives families a chance to leverage buying power, shelter their incomes from taxes and save for the future.

Compare two identical families, each with two working adults and a small child, a \$40,000 income and \$10,000 down and taking out a \$90,000 mortgage at 10½ percent interests. The other family continues to rent a \$700 a month apartment and purchases a \$10,000 Treasury Bill, with a yield of 5½ percent compounded quarterly.

Assuming that family incomes and the values of homes and rents rise five percent a year and inflation increases at four percent, at the end of the first year the home owning family pays \$1,343 less in federal taxes and the value of their home increases by \$5,000.

THE STOCK MARKET debacle

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