

ECONOMIC CAUTION IS THE BOTTOM LINE
BY JULIANNE MALVEAUX



Merrill Lynch lost more than \$8 billion on shaky mortgage products this year. The loss triggered the departure of CEO Stan O'Neal, who walked away with a \$200 million package amidst the glare of harsh publicity. Merrill's flawed investment in a slumping housing market cost O'Neal his job, but what will it cost the rest of us?

The Fed hoped to contain these cuts by lowering the federal funds rate to 4.5 percent, making money cheaper for investors. It's not cheaper for the rest of us – you need to have plenty money and stellar credit to get a better deal on your mortgage, home equity line of credit, or your credit card bill. The stock market responded favorably to the interest rate cut, so those Americans (about half of us) who are stock market investors may feel secure about our investments. What about the rest of the economy? Oil prices have skyrocketed to nearly \$100 a barrel, and the average price of gasoline now exceeds \$3 a gallon. In some cities, people are paying as much as \$3.30 a gallon for gas, crimping their pocketbooks at a time when retailers are hoping for rousing fourth-quarter holiday spending.

Simple forces of supply and demand keep the price of gasoline rising. If we slowed down on our gasoline use, the price might drop. Too many of us depend on our cars to get to work and to school; with few public transportation options available, we are locked into our gasoline consumption patterns in the short run.

That means that retailers are likely to be disappointed and the combination of a slumping housing market and high gasoline prices may contribute to a slowdown in the economy, if not now, then in the first quarter of next year. The slowdown hits the most vulnerable hardest; that includes the poor, the marginally employed, and urban residents. It has the potential to hit all of us. If sales slow at holiday retail outlets, so does holiday employment. Already, analysts suggest that shakeups at Merrill Lynch and Citicorp may translate into smaller bonuses for Wall Street workers, who collected more than six figures last year when the economy was much stronger. Nobody is whipping their hankie out at someone's loss of a bonus, but when less money is pumped into our economy, everybody suffers.

Every indicator suggests that people are careful, now, about spending and investing money, and they should be. People aren't buying houses. They are buying gas instead of gifts. They are tightening their belts because they don't know what will happen next.

The macroeconomic number say we are healthy – the economy grew by 3.9 percent last quarter. Market indicators suggest we can't sustain this growth forever. From the headlines to your pocketbook, caution is the word.