

Annual Financial Forecast



Taking a look at the economy and the year ahead.

By Jacob Yadegar

Once again it's time for me to lay out my forecast for the year ahead. Looking back at last year's predictions, we were "on the money." In fact, the predictions on interest rates were almost exact!

So what does 2007 hold in store for us? Let's start with interest rates. Bernanke picked up where Greenspan left off tightening interest rates to cool down the economy as a means of fending off inflation. With the economy showing signs of gradual slowing, interest rates should stay fairly stable with mortgage rates maintaining a 6-6.50% range.

With a cooling economy, we may see some minor increases in unemployment

but overall the unemployment rate should stay stable. A stable job market will be good news for the housing market. Low unemployment translates to income which keeps people in their homes since they have money to pay their mortgage. While some have over extended themselves and developers have over built, the overall housing market will continue to have bumps in the road with no major "crash and burn" scenario in the near future.

Seventeen consecutive rate hikes have purposely been implemented to slow down the economy. It takes about nine months to feel the effects of rate hikes. 2007 will see those rate increases and their effects

to work their way through the economy. The recent pause by the Fed should stay in place for 2007 with no additional increases in sight unless we see a sudden increase in inflation which I don't expect to happen.

The Fed is closely watching the economic data in the first and second quarter of the year because of the slowing economy. If the economy shows signs of major slowing, we could see the Fed drop interest rates as soon as the third quarter but at the pace things are moving, I think any rate drops by the Federal Reserve will not take place until the fourth quarter of 2007.

For all the consumers that have taken variable rate loans or equity lines of credit, this will be a welcome reprieve from the seventeen rate increases. The risks still warrant fixed interest rates for 2007. Variable rates will continue to remain high and the risks are too great to consider taking short term loans and variable rates.

Other issues to pay attention to in 2007 are oil prices and geo-political issues that may affect the market. If oil prices stay at current levels, expect stock prices to continue to climb and the economic environment to stay favorable. If on the other hand we see continued problems

on the geo-political front and increased oil prices, the economy may cool faster than expected and take the steam out of consumer spending and the overall market.

In conclusion, interest rates should be slightly lower in 2007 than they were in 2006, the housing market which was expected to "crash and burn" will continue an orderly decline and stabilize out towards mid-year with moderate increases coming towards the end of the year and once again this year, the wildcard will be the geo-political quagmire that we are in.

Just like last year, remember that nothing is more important than your health and the health of your family and friends. Take advantage of retirement plans, invest in your future, check the health of your insurance policies both life and health and again and most importantly, take care of yourself and your loved ones.

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