

In the last couple of weeks we received report cards for our 7th grader and our freshman in college. For some reason it appears that my children received most of their scholastic abilities from their mother (thank goodness!) and their grades are pretty good. With that in mind, I thought it was time to grade myself on my financial predictions from 2007. Just to see how my grades compared to my 7th grader and my college freshman.

Last year I gave predictions in the following general categories: short term interest rates, economic growth and inflation, mortgage interest rates and the stock market. Overall, since I am a generous grader, I am going to give myself a C-. Not a good grade at all.

Specifically, I gave myself a D on short term interest rates (I predicted an increase and there was a 1% decrease), a B+ on inflation, C+ on mortgage rates and a C in stocks. Frankly I have done better in the past. This year I again did research from more multiple sources and have formulated the following predictions...

- 1. Short term interest rates:** With the impending changes in Washington, this year's prediction is really a guess. The prime rate (the rate banks charge for loans to their best commercial customers) currently stands at 7.25%. Last year at this time that rate stood at 8.25%, and the Fed is talking about more rate cuts. Adjusting rates is the Fed's primary weapon against inflation, so I am predicting that prime will decrease another ½% over the next year.
- 2. Economic growth and inflation:** Where this goes depends on a lot of variables, who wins the election, the war in Iraq, global warming, oil prices, home sales, consumer debt and consumer spending, job growth and many other factors that I do not have space to list. Last year inflation was just under 4%, a little higher than the previous 6 year average at approximately 3.3%. Everything I have read indicates that inflation will continue at about that same pace, maybe a little lower, depending of course, on the variables.
- 3. Mortgage interest rates:** This is a very difficult category to predict this year. The number of houses for sale is higher than we have seen in a while, resulting in lower prices, and new housing starts are minimal. Interest rates have gone up and down and currently are right at or slightly below 6%. Sub-prime loans are no longer an option and may continue to tighten the availability of money for everyone else. I see housing continuing to be slow, and given the predicted decrease in

inflation, and the fact housing is in a serious slump, I think rates are going to stay about where they are.

- 4. Stocks:** Right now the stock market is trying to figure out where it wants to go. The housing credit crunch will play a big part in the performance of the market. So will the fact that it is an election year, which typically means better stock performance, I predict up 10% in 2008.

There you have it, my predictions for our short term economic future, based on my quick research and experience. Please do not make any major decisions based solely on what you have read here today. Based on my most recent grades compared to my kids, you might do better asking them.

Small Business Today is a bi-weekly feature written by Tom Friedman, president of 1st National Bank, Ankeny.