

# HOUSING

The  
Portland  
Observer

## Slow U.S. growth causes housing decline

BY RICH MILLER

A senior Federal Reserve policy-maker said Tuesday he saw signs the economy may be slowing from its hectic second quarter pace, but added that the central bank needed to be vigilant because risks remained.

"We have to be on our guard," Fed Gov. Edward Kelley said in an interview. "The upside risks are certainly there, coming off a strong second quarter."

The central bank is hoping that the economy will slow to a more sustainable rate of growth in the months ahead in order to keep inflation in check and thus extend the expansion.

The economy grew at a 4.2 per-

cent annualized pace in the second quarter—its fastest rate in two years.

"We're obviously coming out of the second quarter with very strong momentum," Kelley said. "It may, repeat, may be that we are seeing a slowing that could relieve some of that upside pressure," he added.

Housing sales slipped in June. Automobile sales were down in July. Retail sales have a "soft tone" and construction seems to be slowing after an Olympics-driven surge, Kelley said.

Stock and bond markets raced ahead last week as investors bet that a spate of statistics showing slowing growth would convince the Fed not

to raise interest rates at its next policy-making meeting on Aug. 20.

But Kelley's remarks suggest that he has yet to make up his mind about whether a rate increase will be needed.

"I'm working on it," he said, when asked if short-term interest rates were at an appropriate level given the state of the economy.

After cutting rates by a quarter percentage point in January, the central bank has held monetary policy steady as growth first waned, then waxed.

The Fed has not raised the federal funds rate—the rate that commercial banks charge each other for over-

night loans—since February 1995. The rate now stands at 5.25 percent.

Kelley said that the performance of inflation to-date had been "very favourable," and added that he did not see any signs it was about to break out higher.

After stripping out volatile food and energy prices, consumer prices rose at a year-on-year rate of 2.7 percent in June.

The Fed governor said the central bank will closely scrutinize upcoming producer and consumer price data for July for any signs that inflationary pressures are building up.

"We do see pressures in things like labour markets," he said. "In

other areas, there has not yet been an emergence of pressures. Commodity markets generally have been benign."

Kelley called the labour market "the most obvious area of potential concern" about inflation.

If companies start bidding up wages in order to attract employees, that could lead to higher inflation if it is not matched by increased worker

productivity.

Non-farm payrolls expanded by 193,000 last month. Although that growth was somewhat slower than the previous month's 220,000, it still was what Kelley termed a "strong number."

"It is clear that the labor market is becoming tighter and tighter," he said.

## Humanity housing project goes international

Honeywell employees will volunteer their time, talent and energy to build a Honeywell-sponsored house during the first ever Jimmy Carter Work Week to be held in Europe.

The Habitat for Humanity project takes place the week of August 12 when 20 Honeywell employees come together from around the world to work on one of 10 single-family homes being built in Vac, Hungary, near Budapest.

"We are proud to be associated with the Habitat for Humanity organization and its important mission to provide housing in partnership with people in need all over the world," said Michael R. Bonsignore, Honeywell chairman and chief executive officer. "We are especially excited about being a major participant this year in the first Habitat Jimmy Carter Work Week to be held in Europe. Honeywell's involvement in this event is a great opportunity to demonstrate our commitment to community service, to showcase one of Honeywell's finest products, and to emphasize Honeywell's internation-

al leadership."

The homes in the Vac build have been designed by Hungarian architects working with the local Habitat for Humanity affiliate.

The houses will combine Habitat's philosophy of simple, decent houses with design elements that make them distinctly Hungarian. They will contain energy-saving programmable Honeywell thermostats that can help the homeowners save energy and lower their utility bills.

The employees participating in the build have worked on previous Honeywell Habitat projects and have a history of volunteering. An international effort, the build team consists of fifteen employees from throughout North America and five European-based employees.

Honeywell has a long-standing relationship with Habitat, being the first and only corporate sponsor to provide product for every new Habitat-built home in North America and Europe last year. In 1996, Honeywell has continued to expand its partner-

ship with Habitat for Humanity. The company has fully sponsored and Honeywell employees have teamed up with homeowners to build individual homes in Atlanta, Phoenix, Albuquerque and Vac, Hungary, and cooperatively sponsored homes in Minneapolis.

The Habitat sponsorship reflects Honeywell's commitment to be a good corporate citizen and support non-profit organizations in communities where it has major operations. In 1995, Honeywell contributions totaled more than \$9 million.

Habitat for Humanity International is a non-profit organization dedicated to building affordable housing with people in need throughout the

world. Funds, building materials and labor are donated by individuals, churches, corporations and other organizations who share Habitat's goal of eliminating substandard housing in the world.

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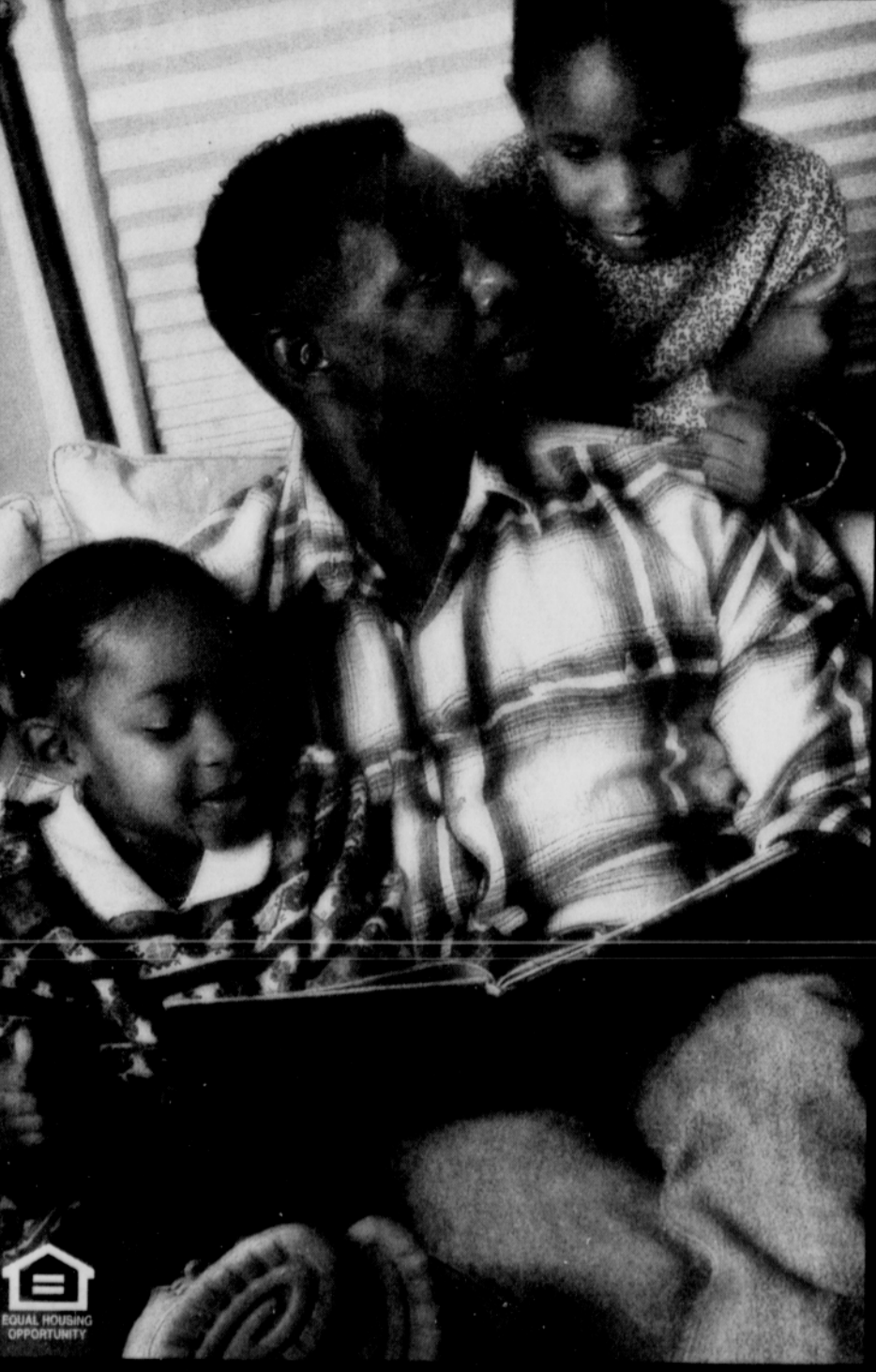
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