Economic and Market Watch Report

3rd Quarter, 2006

110 South Priest Drive
Tempe, Arizona 85281
(602) 955-1707

© 2006 Arizona Regional Multiple Listing Service, Inc.
and NATIONAL ASSOCIATION OF REALTORS®
Reproduction, reprinting, or retransmission in any form is prohibited without written permission.

ARMLS Economic and Market Watch Report

Arizona Regional Multiple Listing Service, Inc. (ARMLS) has been providing multiple listing services to its subscribers since its inception in 1982. ARMLS was one of the first regional multiple listing services in the country. Our service area includes all of Maricopa County and portions of Pinal and Yavapai Counties. With more than 35,000 subscribers, ARMLS is one of the largest multiple listing services in the country.

Index

Local Report

Arizona

Maricopa County **1**

Pinal County **6**

Trends **8**

Chief Economist's Commentary* **9**

Local Forecast **10**

Economic Monitor* **12**

The statistical information presented in this report is compiled from information provided by Arizona Regional Multiple Listing Service, Inc and may not include all sales activity in the market.

*Reprinted from Real Estate Outlook: Market Trends and Insights. ©2006 NATIONAL ASSOCIATION OF REALTORS ®. Used with permission. Reproduction, reprinting, or retransmission of this article in any form (electronic media included) is prohibited without permission. For subscription information please call 1-800-874-6500.

ARMLS
ARIZONA REGIONAL MULTIPLE LISTING SERVICE, INC.

Local Report

Maricopa County, AZ

Buyer's Market	1	2	3	4	5	Seller's Market

Labor Market :

Employment increased by 2,112 jobs in Maricopa County during July and August. However, the number of job seekers also increased. The combined effect of these two trends was an increase in the average monthly unemployment rate from 3.5% for the second quarter to 3.6% in the first two months of the third quarter. The solid job growth may help to offset the effect of rising mortgage rates on home sales.

Housing Market :

	Q2' 06	*Q3' 06*	*Q4' 06* *(Forecast)*
Average Price	**$349,800**	**$337,100**	↑
# Homes on the Market *	**47,802**	**48,740**	↓
# Homes Sold **	**19,781**	**16,224**	↑
# New Homes Built	**9,349**	**4,107** ***	↑
Avg # of Days on Market	**49**	**58**	↓

* Available as of Sep. 30, 2006.
** May not add to total of zip codes.
*** During the first two months of 3rd quarter.

Data by Zip Codes for Q3 2006

Zip Code	Average Price	Price Change ****	Total # Homes Sold (Quarter)	% Change in # Homes Sold ****	Average Days on Market	% of Asking Price (Sold/List Price)
85003	$367,900	-15.99%	27	-6.90%	92	95.7%
85004	$410,300	0.34%	10	-56.52%	37	94.9%
85006	$214,100	3.43%	59	-34.44%	49	96.6%
85007	$319,700	13.53%	26	-55.93%	45	95.2%
85008	$213,700	9.48%	111	-30.19%	44	99.0%
85009	$160,900	19.81%	106	-18.46%	46	99.1%
85012	$490,200	33.61%	20	-39.39%	37	95.7%
85013	$321,200	9.48%	67	-27.96%	52	97.5%
85014	$286,400	6.03%	75	-33.04%	54	95.7%

**** % Change of current quarter compared to the same quarter to year ago.

ARMLS
ARIZONA REGIONAL MULTIPLE LISTING SERVICE, INC.

Local Report

Maricopa County, AZ

Data by Zip Codes for Q3 2006

Zip Code	Average Price	Price Change ****	Total # Homes Sold (Quarter)	% Change in # Homes Sold ****	Average Days on Market	% of Asking Price (Sold/List Price)
85015	$206,300	18.02%	121	-30.06%	46	97.5%
85016	$524,000	49.76%	138	-32.35%	72	96.4%
85017	$186,700	31.57%	124	-18.42%	38	99.8%
85018	$484,400	1.30%	179	-24.15%	61	95.0%
85019	$197,700	21.44%	69	-51.41%	32	100.1%
85020	$306,700	12.55%	137	-46.90%	52	96.8%
85021	$260,400	-12.47%	111	-21.28%	34	96.8%
85022	$297,200	0.61%	171	-38.49%	53	97.0%
85023	$304,200	3.01%	120	-33.70%	46	98.3%
85024	$328,700	4.48%	125	-36.22%	57	97.4%
85025	$250,000	-	1	-	102	100.0%
85027	$230,800	2.44%	172	-45.40%	47	98.7%
85028	$439,400	0.83%	74	-16.85%	56	96.1%
85029	$225,200	14.55%	167	-34.77%	49	98.8%
85031	$193,200	17.52%	81	-39.10%	35	99.6%
85032	$264,600	-0.82%	271	-45.80%	59	97.5%
85033	$184,500	25.51%	225	-32.23%	38	99.9%
85034	$201,100	20.13%	9	-43.75%	84	93.3%
85035	$199,200	24.50%	138	-9.21%	27	100.1%
85037	$224,400	5.60%	240	-41.03%	44	99.3%
85040	$163,400	2.77%	156	15.56%	26	99.4%
85041	$255,000	7.10%	238	-16.20%	59	98.8%
85042	$249,200	-2.66%	131	-35.47%	47	98.8%
85043	$236,900	0.08%	168	-26.32%	44	99.5%
85044	$387,100	15.79%	185	-23.87%	60	96.7%
85045	$504,300	5.50%	44	-22.81%	74	97.6%
85048	$482,800	8.96%	159	-37.65%	64	97.1%
85050	$439,700	16.76%	135	-36.62%	61	95.7%
85051	$206,500	15.17%	194	-18.83%	41	100.0%
85053	$240,800	11.64%	130	-24.42%	49	99.0%
85054	$488,700	-23.95%	14	-44.00%	57	97.6%
85085	$408,800	0.57%	114	-33.33%	71	96.2%
85086	$435,300	-0.25%	209	-58.37%	75	97.0%
85087	$429,200	2.83%	24	-45.45%	81	94.2%
85201	$212,000	17.39%	139	-37.95%	38	98.8%
85202	$224,400	6.91%	160	-37.50%	39	98.1%

**** % Change of current quarter compared to the same quarter to year ago.

ARMLS
ARIZONA REGIONAL MULTIPLE LISTING SERVICE, INC.

Local Report

Maricopa County, AZ

Data by Zip Codes for Q3 2006

Zip Code	Average Price	Price Change ****	Total # Homes Sold (Quarter)	% Change in # Homes Sold ****	Average Days on Market	% of Asking Price (Sold/List Price)
85203	$245,900	2.46%	108	-37.57%	43	98.3%
85204	$225,100	5.53%	184	-48.17%	44	99.0%
85205	$253,400	-1.44%	152	-41.98%	51	98.1%
85206	$245,300	4.12%	139	-32.20%	62	97.5%
85207	$383,000	18.98%	173	-48.36%	71	96.5%
85208	$218,100	-4.51%	165	-72.41%	60	98.0%
85210	$198,700	14.06%	143	-33.18%	49	98.6%
85211	$300,000	-	1	-	49	80.0%
85212	$300,200	-2.50%	122	-64.43%	61	97.8%
85213	$374,500	2.52%	122	-31.46%	53	96.7%
85215	$339,500	8.61%	73	-44.70%	65	95.9%
85224	$290,400	7.64%	196	-41.14%	49	98.1%
85225	$262,600	4.54%	310	-42.91%	51	98.4%
85226	$312,000	-0.45%	183	-27.09%	47	97.9%
85233	$323,300	-1.52%	177	-49.86%	63	98.1%
85234	$366,100	10.24%	162	-51.35%	66	97.1%
85236	$310,300	-4.29%	81	-47.74%	60	97.7%
85242	$370,700	-0.27%	151	-23.74%	74	95.9%
85244	$306,000	42.33%	1	0.00%	5	98.7%
85246	$960,000	-	1	-	100	101.1%
85248	$387,000	0.00%	261	-29.84%	67	96.4%
85249	$450,000	12.02%	304	-41.98%	65	97.4%
85250	$370,200	9.88%	111	-30.63%	64	96.0%
85251	$306,000	5.12%	149	-46.79%	63	96.2%
85253	$2,147,300	57.04%	67	-61.71%	102	91.0%
85254	$537,500	2.54%	223	-31.38%	73	96.8%
85255	$884,400	14.37%	225	-47.06%	77	95.5%
85257	$278,100	6.88%	101	-49.25%	58	97.3%
85258	$547,200	12.04%	136	-47.08%	66	95.8%
85259	$825,900	3.98%	128	-44.35%	67	96.6%
85260	$492,300	-3.43%	194	-29.45%	76	95.9%
85262	$1,162,200	17.43%	154	-40.08%	94	95.6%
85263	$631,200	13.53%	14	-12.50%	99	92.9%
85268	$531,300	-1.50%	137	-42.44%	85	96.2%
85281	$235,200	-4.74%	116	-41.41%	42	96.9%
85282	$253,800	1.68%	169	-23.18%	42	97.7%

**** % Change of current quarter compared to the same quarter to year ago.

ARMLS
ARIZONA REGIONAL MULTIPLE LISTING SERVICE, INC.

Local Report

Maricopa County, AZ

Data by Zip Codes for Q3 2006

Zip Code	Average Price	Price Change ****	Total # Homes Sold (Quarter)	% Change in # Homes Sold ****	Average Days on Market	% of Asking Price (Sold/List Price)
85283	$297,700	12.72%	132	-34.65%	39	97.2%
85284	$470,600	0.79%	54	-42.55%	62	97.6%
85296	$358,000	-0.67%	281	-43.46%	62	97.9%
85297	$399,100	4.59%	272	-29.35%	63	97.4%
85301	$188,400	19.32%	166	-22.43%	34	98.9%
85302	$227,900	10.10%	145	-36.40%	46	99.0%
85303	$254,800	9.12%	124	-41.51%	57	99.0%
85304	$272,500	4.37%	110	-41.80%	56	98.0%
85305	$337,400	4.20%	34	-44.26%	54	98.6%
85306	$251,000	13.42%	95	-35.81%	45	98.5%
85307	$253,700	2.59%	29	-39.58%	33	98.2%
85308	$331,900	0.82%	265	-43.62%	57	97.8%
85310	$413,900	6.16%	135	-41.56%	58	97.3%
85320	$550,000	-	1	-	59	100.0%
85322	$233,500	62.94%	2	-33.33%	0	97.3%
85323	$276,000	1.55%	338	-49.40%	64	98.8%
85326	$265,900	-2.57%	208	-23.25%	61	98.3%
85331	$539,800	-4.61%	147	-36.36%	77	96.9%
85335	$220,700	-2.30%	200	-52.38%	72	99.6%
85338	$324,900	7.19%	267	-41.83%	72	97.3%
85339	$313,100	-0.25%	142	14.52%	55	97.0%
85340	$381,300	6.84%	125	-45.65%	73	97.0%
85342	$255,000	31.24%	6	-40.00%	78	94.0%
85345	$225,200	4.16%	269	-42.40%	48	99.0%
85351	$173,700	3.15%	217	-36.55%	68	96.0%
85353	$255,500	1.03%	109	-43.23%	62	99.6%
85354	$201,800	22.15%	40	-33.33%	71	100.6%
85355	$457,800	6.49%	16	-33.33%	84	97.2%
85361	$310,900	25.87%	24	-52.00%	79	97.0%
85363	$190,600	4.67%	34	13.33%	54	98.7%
85373	$207,600	-3.53%	99	-24.43%	58	95.4%
85374	$252,300	-4.58%	248	-56.18%	80	97.4%
85375	$247,000	0.61%	172	-28.93%	81	95.5%
85377	$909,900	7.67%	26	-35.00%	111	96.5%
85378	$217,000	-	1	-	26	98.7%
85379	$287,700	-1.07%	328	-28.07%	70	96.4%

**** % Change of current quarter compared to the same quarter to year ago.

ARMLS
ARIZONA REGIONAL MULTIPLE LISTING SERVICE, INC.

Local Report

Maricopa County, AZ

Data by Zip Codes for Q3 2006

Zip Code	Average Price	Price Change ****	Total # Homes Sold (Quarter)	% Change in # Homes Sold ****	Average Days on Market	% of Asking Price (Sold/List Price)
85381	$314,600	-1.69%	95	-34.03%	44	97.4%
85382	$297,800	-0.53%	198	-41.59%	56	97.9%
85383	$483,100	2.96%	150	-25.00%	60	97.4%
85387	$333,400	1.49%	43	-37.68%	82	98.1%
85390	$359,300	29.20%	28	-59.42%	61	93.8%
OTHER	$290,200	16.13%	342	208.11%	63	97.4%

**** % Change of current quarter compared to the same quarter to year ago.

ARMLS
ARIZONA REGIONAL MULTIPLE LISTING SERVICE, INC.

Local Report

Pinal County, AZ

Buyer's Market	1	2	3	4	5	Seller's Market

Labor Market :

Employment increased by 96 jobs in Pinal County during July and August. However, the number of job seekers also increased. The combined effect of these two trends was an increase in the average monthly unemployment rate from 4.9% for the second quarter to 5% in the first two months of the third quarter. The solid job growth may help to offset the effect of rising mortgage rates on home sales.

Housing Market :

	Q2' 06	*Q3' 06*	*Q4' 06 (Forecast)*
Average Price	**$231,800**	**$224,900**	↑
# Homes on the Market *	**5,257**	**5,442**	↓
# Homes Sold **	**1,409**	**1,255**	↑
# New Homes Built	**2,501**	**1,033** ***	↑
Avg # of Days on Market	**57**	**66**	↓

* Available as of Sep. 30, 2006.
** May not add to total of zip codes.
*** During the first two months of 3rd quarter.

Data by Zip Codes for Q3 2006

Zip Code	Average Price	Price Change ****	Total # Homes Sold (Quarter)	% Change in # Homes Sold ****	Average Days on Market	% of Asking Price (Sold/List Price)
85218	$411,600	12.83%	59	-52.80%	81	94.5%
85219	$252,800	3.48%	57	-66.86%	65	97.3%
85220	$190,900	9.40%	78	-55.93%	59	97.6%
85222	$196,900	9.21%	197	-34.77%	57	97.0%
85223	$153,800	7.18%	102	-32.00%	77	99.0%
85228	$139,400	-11.99%	29	-53.23%	45	98.5%
85231	$141,500	36.85%	28	-15.15%	84	97.9%
85232	$191,700	13.36%	59	-13.24%	50	97.3%
85237	$113,500	284.75%	8	700.00%	49	92.8%

**** % Change of current quarter compared to the same quarter to year ago.

ARMLS
ARIZONA REGIONAL MULTIPLE LISTING SERVICE, INC.

Local Report

Pinal County, AZ

Data by Zip Codes for Q3 2006

Zip Code	Average Price	Price Change ****	Total # Homes Sold (Quarter)	% Change in # Homes Sold ****	Average Days on Market	% of Asking Price (Sold/List Price)
85239	$248,600	-6.05%	197	16.57%	70	96.2%
85241	$83,000	-	1	-	7	92.3%
85243	$249,300	-	74	-	47	94.5%
85272	$162,800	16.70%	1	-50.00%	1	100.0%
85273	$128,500	-10.58%	6	20.00%	78	100.1%
OTHER	$238,300	-7.60%	359	-43.46%	74	97.7%

**** % Change of current quarter compared to the same quarter to year ago.

A Failure to Communicate

By Ken Fears
Manager of Regional Economics

Over the last five years, the median home price has grown tremendously. Nationally, the median price rose 25% over this period, but some markets grew in excess of 200%. This run up in prices was precipitated by the sharp fall in mortgage rates from 2000 through 2005, which improved affordability. But over time, prices were bid up to the point that affordability fell to its long term trend. In some markets, however, the feeding frenzy caused affordability to fall below the long term average.

Today, affordability is squeezed and home buyers are focused, more than ever, on the bottom line; the monthly mortgage payment. While prices have reached dizzying heights, what matters to buyers is this simple actuarial accounting. Currently monthly payments are too far out of bounds for many first time and trade up buyers.

Sellers should be keen to note this trend, but as of yet they have resisted. While non-price concessions are on the rise (it is hard to quantify this as there is no data to track, but regular discussions with brokers and agents supports the claim that this trend is widespread), price concessions have been few and far between. Sellers, who've seen their neighbors make tremendous profits over the last 6 years expect to reap the same reward. In fact, they often come into the process with a figure in their head of what they expect to make. This seller psychology makes it hard to convince them of alternative pricing strategies that could save them money and consternation in the long term.

Currently, about 70% of the markets around the U.S. are experiencing declining sales, while 30% are still growing. Astonishingly, while sales have fallen, in most markets prices continue to rise! How can this happen? By refusing to take concessions, sellers are driving buyers to the sidelines. The best properties are moved at the higher prices, while the rest sit.

Truthfully, some sellers, particularly trade up buyers, are in a bind where they have purchased their trade up property expecting to be able to use the proceeds from their home on the market. With affordability stretched, they are likely to take a loss if they don't realize all of the gains from their first property. Consequently, they face an immediate bite to equity and may choose to cling to a high asking price. But this is a special case and hardly typical of all sellers.

	Average Price	Equity Appreciation Vs. Q3 2006	Percent Gain
2000	$171,421	$158,949	92.7%
2001	$173,641	$156,729	90.3%
2002	$181,920	$148,451	81.6%
2003	$196,409	$133,961	68.2%
2004	$234,853	$95,517	40.7%
2005	$302,066	$28,304	9.4%
Q3 2006	$330,370	$0	0.0%

If sellers are forced to take a mild concession, how much would that mean? The strong price appreciation over the last five years in the area covered by the Arizona Regional MLS has created lots of equity for homeowners. For example, if you had bought your home 5 years ago and sold it at the current median home price of $330,370, you would have realized an appreciation of $156,729, or a gain of 90.3% from your purchase. However, if prices were to fall 5% to $313,852, then the equity gain would still be $140,211, or an appreciation of 80.7% on your investment.

For those few buyers who are using new equity in their current home to trade up, a concession may be painful. But, the majority of buyers still hold large equity gains in their homes to use as a buffer. Taking a small concession now will save sellers the consternation of longer days on the market and a potentially larger concession down the road. Currently, demand has been driven to the side lines as buyers wait for mortgage rates or prices to moderate and bring monthly payments in line with what they can afford. But with interest rates high, 6.41% in September of 2006, and unlikely to fall further, prices must come down further to entice buyers back to the market. If this stalemate between buyers and sellers takes too long, buyers could leave the market all together, which would require further concessions by sellers to corner the remaining buyers. In short, a small pin prick now is better than worse later.

Waiting in the Wings

David Lereah, Chief Economist

The U.S. housing sector has entered uncharted territory. Despite historically low mortgage rates and a growing economy, it is contracting. What is going on here?

This market anomaly is defying the lessons of Economics 101. For the past century, every major downturn in the housing sector has been attributed to rising interest rates and a sluggish economy. Everyone knows that higher mortgage rates raise the costs of financing. And job losses due to a lack of economic growth can diminish many households' financial health and so not be able to qualify to purchase a home. But low-cost financing and jobs are plentiful today — both 30-year mortgage rates and the nation's unemployment rate are hovering near historic lows, about 6.6 percent and 4.7 percent, respectively. Meanwhile, the housing market is cracking.

And that crack is widening. In former boom markets that are now cooling — such as Miami, San Diego and Washington, DC — home sales have dropped substantially, posting 15 to 40 percent declines. For the nation as a whole, existing home sales are expected to drop by 8 percent by the end of the year, while new home sales are expected to fall by 16 percent. Adding insult to injury, housing inventories continue to mount. The nation's months supply of homes has risen sharply to over 7 months from 4 months in just a half a year's time, reflecting an excess supply of homes available for sale.

Many of the reasons for today's real estate slide are obvious: home values got too high, affordability deteriorated and the homebuying public lost confidence. Households and investors are now sitting comfortably and patiently on the sidelines waiting to get back into the real estate game, but only when property prices come down to more suitable levels. The good news is that prices are beginning to soften. Price growth (year over year) turned negative in the West and Northeast regions of the nation during July. Hopefully, this trend can continue for the next several months. With price reductions come gains in home *sales*. If prices continue to fall, the decline in sales might have bottomed out in July.

So prices now need to take center stage. Sellers need to abandon unreasonable expectations about the value of their homes. But there should be few worries for consumers. Most homeowners today have enjoyed substantial equity gains on their properties during the real estate boom years. Cutting prices by 5 or 10 percent will not wipe out their home equity gains.

Those of us involved in the real estate profession find ourselves in the awkward position of favoring price softening. REALTORS are asking (pleading) sellers to accept market realities and reduce their listing price. And it is important to remember that the true measure of health in a nation's housing markets is sales *growth*, not price appreciation. The housing sector and the U.S. economy need home sales (transactions) more than home price appreciation. Every time a home is purchased, other industries, such as furniture and appliances are positively impacted. (Economists call this the "multiplier" effect.) You purchase a home; you then need to purchase furniture, appliances, and so on. In fact, a healthy housing market impacts about 20 percent of gross domestic product — GDP. Once sales pick up, housing inventories drop. That places welcome upward pressure on home prices once again. And the cycle of life in the real estate markets as we know it, continues.

A price correction reduces the severity of the contraction (declining home sales) as well as its duration. Today's low mortgage rates and a growing economy provide a favorable backdrop for buyers and investors to purchase property at a right and affordable (low enough) price.

Of course, some cooling metro markets will "correct" faster than others will. For example, households living in a healthy metropolitan area experiencing solid economic growth, job and income gains, and positive migration numbers are more likely to purchase property again at the right prices than households living in a metro area that is experiencing job losses and a loss of population. Washington, DC, which boasts a healthy local economy, will likely need a smaller price decline to stop the sales bleeding than some metropolitan areas in California where affordability conditions are forcing households to move to other locations.

Going forward, restoring buyer confidence is the key to ending today's real estate contraction. Only price reductions can bring confidence back to the market. So let's give a round of applause for prices taking center stage for a brief turn. The sooner home prices drop, the sooner we can stop the bleeding. Expect home prices to fall for most of the remainder of this year. Although it may seem to go against your better judgment, this is a good thing for the long-term health of housing.

The Forecast

By Lawrence Yun, *Senior Research Forecaster*

Home prices have come down. The 2.2% national price decline in September (from a year ago) marks the first back-to-back months of decline since 1990. In some markets, prices have been cut by more than 10%. Such price declines are very rare. We have to go back to the late 1980s and early 1990s to find an example of a sharp price correction.

In Los Angeles, prices declined from $224,600 in the second quarter of 1991 to $167,100 in the fourth quarter of 1996. Los Angeles prices returned to their peak only in 2000. The catalyst for the decline was major job cuts — particularly in industries affected by cutbacks in federal defense spending after the collapse of the Berlin Wall and the subsequent disintegration of the Soviet Union. From peak (1989) to trough (1994) a total of 633,600 jobs were lost in the region. The Houston housing market also crumbled under the weight of heavy job losses in the 1980s, the result of the oil price collapse and the savings and loan scandal. Home prices corrected by 32% in Houston.

But the current weakening in home prices, in most part of the country, is not due to any major job cuts that force people to sell their homes at any price. In fact, job creation has been quite robust in those markets currently experiencing large price declines (aside from the Detroit region). Florida added 243,300 net new jobs in the past 12 months. The D.C. region has been consistently adding about 70,000 net new jobs over the 12-month time span for the past three years -- essentially a stadium full of people with new jobs every year (and causing similar stadium-related traffic jams).

Only prolonged job losses, subsequent forced home sales and rising foreclosures will lead to sustained home price declines. So what's going on with the price declines? It's the fact that the artificially high demand for homebuying has dissipated. What I mean by "artificial" is those buyers who were looking to net quick bucks from flipping properties. At the same time, with prices falling these non-owner occupied homes are being put on the market. That, in turn, artificially elevates housing inventory levels. Higher inventory (more supply) lessens pressure on prices. Hence, prices fall even as the job market continues to steamroll. It will take several months for inventory to ease back down to more manageable, balanced levels. When that happens, home prices will quickly re-enter positive territory.

Some have a hard time accepting this common sense logic. UCLA's Anderson School predicted prices to fall 30% in Las Vegas. That was in 2002. (In fact, home prices in Vegas rose from $160,000 in 2002 to $319,000 currently.) Moody's Economy.com has been getting a lot of headlines recently about its home price forecasts. They call for nation-wide price declines of 3.5% and much more significant declines in some local markets: Las Vegas to correct by 13%, and Cape Coral, Florida to fall by 19%. Our forecast is for price to begin *increasing* in many U.S. markets from mid-2007 if not sooner - primarily due to price reductions in combination with job gains.

As to the Phoenix area, the demand will inevitably pick up due to the robust job growth. The best guess is for the sales to slowly turn positive by the summer of 2007. For all of 2007, home sales will fall 9% compared to 31% projected drop in 2006. In order to work off some excess inventory, home prices will be flat in 2007 after having risen by 11% in 2006.

Economic and Housing Market Outlook: November 2006

	2005		2006				2007							
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2004	2005	2006	2007
U.S. Economy														
Annual Growth Rate														
Real GDP	4.2	1.8	5.6	2.6	1.9	2.5	3.6	3.2	3.0	2.6	3.9	3.2	3.3	2.9
Nonfarm Payroll Employment	1.6	1.2	1.7	1.2	0.2	0.8	0.9	1.2	1.7	1.3	1.1	1.5	1.3	1.0
Consumer Prices	5.5	3.2	2.2	5.0	2.6	1.0	2.2	2.3	1.7	1.8	2.7	3.4	3.4	2.1
Real Disposable Income	-0.6	5.5	4.6	1.7	5.1	5.0	4.1	2.8	2.4	2.1	3.6	1.2	3.4	3.7
Consumer Confidence	99	96	106	107	104	106	106	105	106	106	80	100	106	106
Percent														
Unemployment Rate	5.0	4.9	4.7	4.6	4.7	4.8	4.9	4.9	4.9	4.8	5.5	5.1	4.7	4.9
Interest Rates, Percent														
Fed Funds Rate	3.5	4.0	4.5	4.9	5.3	5.3	5.3	5.2	5.0	4.8	1.4	3.2	5.0	5.1
3-Month T-Bill Rate	3.4	3.8	4.4	4.7	5.1	5.1	5.0	5.0	4.8	4.5	1.4	3.1	4.8	4.8
Prime Rate	6.4	7.0	7.4	7.9	8.3	8.3	8.3	8.2	8.0	7.8	4.3	6.2	8.0	8.1
Corporate Aaa Bond Yield	5.1	5.4	5.4	5.9	5.7	5.6	5.8	5.8	6.0	6.0	5.6	5.2	5.6	5.9
10-Year Government Bond	4.2	4.5	4.6	5.1	4.9	4.8	4.9	5.0	5.0	5.1	4.3	4.3	4.8	5.0
30-Year Government Bond	4.4	4.7	4.6	5.1	5.0	5.0	5.1	5.2	5.3	5.3	5.1	4.6	4.9	5.2
Mortgage Rates, percent														
30-Year Fixed Rate	5.7	6.2	6.2	6.6	6.6	6.5	6.6	6.7	6.7	6.8	5.8	5.9	6.5	6.7
1-Year Adjustable	4.5	5.1	5.3	5.6	5.7	5.7	5.6	5.6	5.6	5.5	3.9	4.5	5.6	5.6
National Housing Indicators														
Thousands														
Existing Single-Family Sales	7,180	6,943	6,790	6,687	6,211	6,207	6,335	6,406	6,391	6,462	6,779	7,075	6,445	6,395
New Single-Family Sales	1,297	1,280	1,111	1,124	1,003	997	978	985	972	981	1,203	1,283	1,061	979
Housing Starts	2,101	2,060	2,123	1,873	1,680	1,696	1,679	1,683	1,651	1,618	1,956	2,068	1,843	1,658
Single-Family Units	1,748	1,718	1,747	1,530	1,348	1,356	1,322	1,322	1,278	1,257	1,611	1,716	1,495	1,295
Multifamily Units	353	342	376	343	332	340	357	361	372	360	345	352	348	363
Residential Construction*	620	619	619	601	568	543	535	533	532	527	560	608	582	532
Percent Change -- Year Ago														
Existing Single-Family Sales	6.5	0.9	-2.2	-7.0	-13.5	-10.6	-6.7	-4.2	2.9	4.1	9.8	4.4	-8.9	-0.8
New Single-Family Sales	11.9	3.1	-11.5	-12.5	-22.7	-22.1	-11.9	-12.4	-3.1	-1.6	10.8	6.7	-17.3	-7.8
Housing Starts	6.3	4.8	2.6	-9.3	-20.0	-17.6	-20.9	-10.1	-1.7	-4.6	5.2	5.7	-10.9	-10.0
Single-Family Units	6.5	6.7	2.6	-10.4	-22.9	-21.1	-24.3	-13.6	-5.1	-7.3	6.6	6.5	-12.9	-13.4
Multifamily Units	4.9	-3.7	2.9	-3.8	-5.9	-0.5	-5.1	5.2	12.0	6.0	-0.9	1.9	-1.2	4.3
Residential Construction	9.1	9.0	6.1	-1.5	-8.5	-12.3	-13.4	-11.2	-6.4	-2.9	10.3	8.6	-4.2	-8.7
National Home Prices														
Thousands of Dollars														
Existing Home Prices	227.3	225.3	218.7	226.7	223.5	222.0	219.1	229.9	227.5	227.5	195.4	219.6	223.0	226.4
New Home Prices	236.6	240.1	244.8	242.2	237.0	238.5	245.5	245.6	242.3	244.7	221.0	240.9	240.5	244.5
Percent Change -- Year Ago														
Existing Home Prices	14.2	13.4	9.5	3.0	-1.7	-1.5	0.2	1.4	1.8	2.5	9.3	12.4	1.6	1.5
New Home Prices	10.5	5.4	6.5	5.2	0.2	-0.7	0.3	1.4	2.2	2.6	13.3	9.0	-0.2	1.6
Local Region														
Payroll Jobs (in thousands)	1785.5	1847.7	1848.2	1873.3	1878.9	1938.2	1931.4	1952.0	1957.8	2021.6	1683.7	1787.4	1884.7	1965.7
Home Sales	28479	21751	18531	21409	17805	13877	13676	18519	18054	14751	96870	103728	71622	65000
Home Prices (in thousand $)	315.6	324.1	334.4	341.9	329.6	329.6	334.4	343.3	333.9	335.6	222.3	300.3	334.5	337.1
Percent Change -- Year Ago														
Jobs	6.6%	6.1%	6.3%	5.4%	5.2%	4.9%	4.5%	4.2%	4.2%	4.3%	3.9%	6.2%	5.4%	4.3%
Home Sales	8.8%	-8.0%	-22.4%	-27.7%	-37.5%	-36.2%	-26.2%	-13.5%	1.4%	6.3%	23.4%	7.1%	-31.0%	-9.2%
Home Prices	41.4%	38.3%	28.6%	13.8%	4.4%	1.7%	0.0%	0.4%	1.3%	1.8%	13.2%	35.1%	11.4%	0.8%

Quarterly figures are seasonally adjusted annual rates.
* Billion dollars
Source: Forecast produced using Macroeconomic Advisers quarterly model of the U.S. economy.
Assumptions and simulations by Dr. David Lereah and Dr. Lawrence Yun.

Economic Monitor

This table reflects data available through September 5, 2006.

Monthly Indicator	Recent Statistics	Likely Direction Over the Next Six Months	Forecast
Existing Home Sales fell 4.1% in June to a seasonally adjusted annualized rate of 6.33 million units – the lowest resale pace since January 2004. Existing home inventory rose to 3.86 million – a 7.3 month supply. The median price of $230,000 in July was only 0.9% higher from one year ago.	May 6,710 June 6,600 July 6,330	↔	Much lower than a year ago but now stabilizing
New Home Sales also declined in July, dipping 4.3% to a seasonally adjusted annualized rate of 1.07 million units. So far in 2006 new home sales are 14% below last year's pace. The inventory of unsold new homes rose modestly to a 6.5 month supply.	May 1,130 June 1,120 July 1,072	↓	New and higher priced homes are more sensitive to the higher interest rate environment
Housing Starts fell 2.5% in July to a seasonally adjusted annualized rate of 1.795 million units – their lowest level since November of 2004. Builder's sentiment has continued to fall, and rising constructions costs are cutting into business profitability – both implying lower new construction activity in thecoming months.	May 1,953 June 1,841 July 1,795	↓	Inventory needs to be worked off before builders regain confidence
Housing Affordability NAR's housing affordability index was 102.8 in July, continuing a fall that began in February of this year. Increases in most of the major components of the affordability index – interest rates, qualifying income, and the median existing-home sales price – contributed to the decline.	May 111.9 June 108.7 July 104.5	↔	Home price appreciation measurably slowing, but modestly higher rates keep affordability on an even keel
Purchase Applications dipped in August. The Mortgage Bankers Association purchase application index averaged 383.2 per week in August. Both existing and new home sales are expected to cool down. With the current 30-year fixed rate at its lowest since spring, more refinancing activities are anticipated.	June 412.0 July 408.8 Aug 403.5	↓	Mortgages for existing home sales are stabilizing but new home mortgages continue to decline
Employment The economy added 128,000 new jobs in August, and the three-month average is just as unimpressive at 128,000. About 200,000 net additions would be considered healthy. Still, in the past 12 months, 1.71 million jobs have been added to the economy.	June 134 July 121 Aug 128	↔	Subpar economic and employment growth for the next four quarters
Mortgage Rates The 30-year fixed mortgage rate declined to 6.55% in August – its lowest level since April. Rates are expected to remain below 7% throughout the rest of the year. The one-year adjustable rate fell to 5.66% from 5.79% in July.	June 6.68 July 6.76 Aug 6.55	↑	Up, but only modestly
Inflation The consumer price index (CPI) rose 0.4% in July. The core index (excluding food and energy) increased 0.2%, lower than expected and below June's core index figure. The CPI will continue to grow at a projected average monthly rate of 0.4% for the next three months.	May 0.4% June 0.2% July 0.4%	↓	Prices at the pump are finally declining,while "core" prices are mostly under control

Notes: All rate are seasonally adjusted. New home sales, existing home sales, and housing starts are shown in thousands. Employment growth is shown as month-to-month change in thousands. Inflation is shown as the month-to-month change in the Consumer Price Index. Sources: NAR, Bureau of the Census, Bureau of Labor Statistics, Freddie Mac, and the Mortgage Bankers Association