Economic and Market Watch Report

1st Quarter, 2006

ARMLS
ARIZONA REGIONAL MULTIPLE LISTING SERVICE, INC.

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 **11**

Economic Monitor* **13**

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 47,379 jobs in Maricopa County during January, February and March. 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% for the fourth quarter to 4.2% in the three months of the first quarter. The solid job growth may provide strong home sales, while low mortgage rates should continue to spur sales.

Housing Market :

	Q4' 05	*Q1' 06*	*Q2' 06 (Forecast)*
Average Price	**$330,100**	**$341,900**	↑
# Homes on the Market *	**29,934**	**39,252**	↑
# Homes Sold **	**20,028**	**17,135**	↑
# New Homes Built	**9,077**	**5,160** ***	↑
Avg # of Days on Market	**26**	**44**	↓

* Available as of Mar. 31, 2006.
** May not add to total of zip codes.
*** During the first two months of 1st quarter.

Data by Zip Codes for Q1 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	$402,800	16.79%	32	-54.29%	87	97.9%
85004	$331,900	50.93%	18	5.88%	41	93.6%
85006	$226,100	51.74%	64	-20.99%	42	98.1%
85007	$308,500	60.68%	49	-14.04%	45	97.6%
85008	$217,300	43.62%	129	-2.27%	41	98.4%
85009	$154,300	42.21%	118	-4.07%	32	99.5%
85012	$468,200	75.82%	26	-18.75%	40	97.2%
85013	$307,500	40.22%	60	-42.86%	43	97.6%
85014	$240,600	28.18%	100	-31.03%	32	97.5%
85015	$202,500	44.13%	117	-36.41%	37	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 Q1 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)
85016	$419,400	61.37%	158	-31.60%	43	96.4%
85017	$167,900	47.67%	147	-3.92%	23	99.5%
85018	$474,100	23.62%	160	-36.76%	42	96.8%
85019	$177,100	35.81%	102	-20.31%	32	99.9%
85020	$332,700	39.32%	197	-10.45%	45	96.7%
85021	$332,600	28.27%	87	-29.84%	38	97.9%
85022	$285,500	18.22%	209	-18.36%	35	98.2%
85023	$292,200	35.53%	126	-19.23%	35	98.4%
85024	$290,900	20.96%	131	-10.27%	35	99.0%
85027	$228,400	34.75%	199	-1.49%	40	98.6%
85028	$458,800	39.50%	82	-28.07%	40	97.1%
85029	$209,200	34.27%	174	-13.00%	35	98.7%
85031	$191,600	55.65%	95	-24.60%	32	100.1%
85032	$266,400	32.34%	296	-23.12%	45	98.0%
85033	$167,500	36.18%	264	-10.81%	31	100.1%
85034	$197,600	36.94%	15	15.38%	70	98.9%
85035	$181,400	43.85%	140	-30.00%	33	100.1%
85037	$227,700	43.57%	269	-7.56%	36	99.7%
85040	$180,500	38.53%	101	-9.82%	30	99.6%
85041	$264,800	55.40%	191	-7.73%	43	99.5%
85042	$253,800	31.10%	142	-7.19%	40	98.6%
85043	$246,700	38.99%	132	-10.20%	42	99.5%
85044	$323,400	14.40%	149	-20.74%	39	98.4%
85045	$502,200	16.79%	37	-33.93%	45	97.6%
85048	$472,000	16.20%	163	-15.10%	46	97.4%
85050	$386,600	22.73%	142	-24.06%	45	97.7%
85051	$196,800	45.56%	202	-25.74%	36	99.1%
85053	$223,700	27.68%	126	-8.03%	37	99.1%
85054	$441,600	-16.80%	21	75.00%	20	98.1%
85085	$385,900	24.20%	54	-50.00%	57	97.8%
85086	$447,700	26.04%	247	-40.48%	59	96.9%
85087	$417,100	28.18%	26	-50.00%	63	97.9%
85201	$191,400	47.80%	182	-6.19%	33	98.9%
85202	$212,000	46.71%	158	-16.84%	35	98.9%
85203	$262,300	37.47%	103	-31.79%	39	98.2%
85204	$227,400	44.11%	241	-9.06%	35	99.3%
85205	$261,200	49.17%	200	-15.25%	35	98.2%

**** % 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 Q1 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)
85206	$235,300	35.15%	163	-31.22%	45	97.6%
85207	$398,100	43.98%	214	-16.41%	47	97.0%
85208	$202,300	15.27%	266	-51.01%	44	97.9%
85210	$185,600	38.51%	143	-24.34%	34	98.8%
85212	$307,500	24.19%	118	-53.91%	47	98.6%
85213	$334,300	36.67%	100	-15.25%	43	98.2%
85215	$308,200	8.37%	83	-31.97%	41	98.0%
85224	$290,600	32.15%	187	-23.67%	33	98.5%
85225	$258,900	33.38%	303	-33.84%	38	98.7%
85226	$306,700	27.53%	179	14.01%	40	97.2%
85233	$336,800	21.50%	167	-30.71%	43	98.4%
85234	$339,300	22.67%	179	-21.15%	41	98.2%
85236	$356,800	35.20%	97	8.99%	47	98.7%
85242	$392,000	25.60%	114	-20.83%	62	97.8%
85248	$399,500	26.10%	304	-16.71%	46	97.2%
85249	$399,800	21.70%	303	-11.66%	46	97.5%
85250	$397,600	47.15%	141	-9.62%	50	96.8%
85251	$298,800	35.08%	192	-26.72%	40	97.5%
85253	$1,832,700	46.44%	118	-22.88%	84	95.2%
85254	$467,600	11.52%	211	-20.38%	56	97.2%
85255	$940,200	29.34%	295	-26.80%	55	96.4%
85257	$270,600	27.94%	112	-15.15%	50	97.7%
85258	$586,800	37.97%	210	-28.08%	46	96.3%
85259	$933,100	24.23%	161	3.21%	57	96.4%
85260	$463,900	11.92%	232	-11.11%	49	97.2%
85262	$1,071,000	17.32%	212	-34.57%	68	96.5%
85263	$581,800	23.00%	33	-36.54%	53	95.7%
85264	$1,166,700	22.81%	3	50.00%	214	87.6%
85268	$544,900	28.00%	219	-30.03%	70	96.9%
85269	$424,000	-	1	-	31	101.0%
85281	$240,900	28.21%	117	-22.52%	38	97.9%
85282	$249,000	28.95%	153	-10.53%	39	97.6%
85283	$287,100	32.49%	139	0.72%	31	97.9%
85284	$508,100	19.52%	66	-4.35%	46	97.3%
85296	$367,300	32.94%	246	-38.96%	45	98.4%
85297	$402,000	30.52%	221	-14.67%	54	98.3%
85301	$172,000	36.94%	166	-14.87%	32	99.6%

**** % 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 Q1 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)
85302	$227,000	38.67%	172	-14.43%	31	98.8%
85303	$257,800	51.11%	149	-13.37%	39	99.4%
85304	$258,300	26.43%	113	-16.30%	42	98.4%
85305	$357,900	44.84%	38	22.58%	41	99.4%
85306	$232,300	34.59%	90	-10.89%	39	98.5%
85307	$236,100	17.76%	33	-15.38%	57	98.4%
85308	$348,800	35.51%	267	-20.30%	42	98.0%
85310	$418,500	24.29%	132	-23.70%	53	98.3%
85322	$169,900	-	1	-	13	100.0%
85323	$271,200	27.32%	358	-25.73%	52	98.6%
85326	$273,600	48.53%	204	-2.86%	52	98.3%
85329	$261,800	-	9	-	60	100.0%
85331	$598,400	27.10%	134	-38.53%	72	96.9%
85335	$228,300	32.96%	170	-49.55%	47	99.7%
85337	$56,300	-81.23%	4	300.00%	28	91.2%
85338	$330,300	34.27%	211	-45.90%	54	98.1%
85339	$325,300	23.17%	95	5.56%	44	98.3%
85340	$400,600	40.61%	130	-35.00%	55	98.3%
85342	$283,500	32.23%	9	-35.71%	69	94.7%
85345	$225,300	37.88%	262	-14.38%	38	99.4%
85351	$179,300	27.98%	296	-31.32%	38	97.2%
85353	$258,400	30.18%	96	-20.00%	55	97.4%
85354	$178,900	52.13%	47	17.50%	44	98.0%
85355	$482,700	16.57%	9	-40.00%	89	97.5%
85361	$252,700	40.47%	37	-27.45%	85	96.1%
85363	$167,600	33.76%	37	19.35%	42	99.5%
85373	$213,900	26.87%	106	-28.86%	54	96.6%
85374	$257,700	20.70%	348	-44.32%	50	97.8%
85375	$261,200	26.80%	196	-34.45%	40	97.4%
85377	$839,600	10.27%	38	-33.33%	72	97.1%
85378	$249,000	71.72%	1	0.00%	24	100.0%
85379	$305,400	39.64%	219	-20.36%	53	98.6%
85381	$309,400	31.60%	108	-5.26%	39	97.9%
85382	$321,200	35.19%	196	-34.01%	44	98.5%
85383	$482,000	30.16%	104	-25.71%	58	97.6%
85387	$323,500	16.37%	38	-29.63%	52	97.8%
85390	$299,900	20.30%	49	-18.33%	76	96.6%

**** % 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 Q1 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)
OTHER	$269,900	40.21%	280	204.35%	41	98.0%

**** % 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 3,410 jobs in Pinal County during January, February and March. 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 5.5% for the fourth quarter to 5.7% in the three months of the first quarter. The solid job growth may provide strong home sales, while low mortgage rates should continue to spur sales.

Housing Market :

	Q4' 05	*Q1' 06*	*Q2' 06 (Forecast)*
Average Price	**$231,200**	**$229,700**	↑
# Homes on the Market *	**3,385**	**4,467**	↑
# Homes Sold **	**1,475**	**1,263**	↑
# New Homes Built	**2,153**	**1,514** ***	↑
Avg # of Days on Market	**34**	**52**	↓

* Available as of Mar. 31, 2006.
** May not add to total of zip codes.
*** During the first two months of 1st quarter.

Data by Zip Codes for Q1 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	$354,300	18.93%	102	-33.33%	60	97.1%
85219	$281,300	36.03%	89	-49.43%	47	97.7%
85220	$180,400	39.52%	141	-28.06%	40	98.1%
85222	$192,600	41.10%	200	-12.28%	58	96.6%
85223	$165,400	50.36%	130	11.11%	40	98.3%
85228	$157,000	60.86%	52	48.57%	46	98.5%
85231	$160,100	41.93%	21	-4.55%	54	112.9%
85232	$166,900	24.83%	57	-3.39%	62	96.6%
85237	$88,100	-84.49%	12	1100.00%	17	92.3%
85239	$266,900	46.09%	130	5.69%	54	97.8%

**** % 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 Q1 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)
85272	$525,000	329.27%	1	-66.67%	26	93.8%
85273	$115,300	-6.94%	4	300.00%	20	91.7%
85291	$150,000	-	1	-	0	100.0%
OTHER	$264,700	35.81%	323	-15.00%	58	98.1%

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

The Rising Tide of Mortgage Rates

By Ken Fears, Economist

After a brief respite in the middle of January, mortgage rates continued their climb past the 6.0% mark this spring. The average mortgage rate for the 30-year fixed rate contract reached 6.24% in the first quarter of 2006. Unfortunately, mortgage rates will only rise from here. But the news isn't all bad. While prices are at record highs and mortgage rates are on the rise, employment and incomes are also on the rise.

Housing affordability depends on a number of factors: mortgage rates, home prices, and incomes. As mortgage rates rise, affordability falls. The same is true of home prices. In both cases, as these factors rise, the size of the required monthly payment also rises. However, as incomes rise, the amount that an individual can spend per month rises, and the monthly payment is really the crucial factor.

Over the last few years, people have been amazed that home prices continued to rise. However, what this trend has shown is that the monthly payment is what really matters to the homebuyers. For instance, if a home is priced at $200,000, then the monthly payment for this home if mortgage rates are 10% (assuming 20% down) is $1,468. However, if mortgage rates fall to 5%, the monthly payment becomes $955. Affordability rises in this case, so people can buy a larger home, or save the difference. Over time demand will rise and the price of the home will be bid up until the monthly payment on it is nearly the same as before the rate change. The new price is roughly $308,000, or a 50% increase in the home price for a 50% decline in rates.

The one factor that is closest to set-in-stone in the purchase equation is the percentage of buyer's income that she will devote to housing, which is roughly 28%. But rising incomes will increase the monthly payment that buyers can afford. For example, a person with an annual income of $50,000 can afford a monthly payment of $1,167. If their income were to grow 4.0%, then the monthly payment that the homebuyer could afford rises to $1,202, an increase of $35. While this may not sound like much, it is important to note that real disposable income rose 12.9% from 2000 to 2005. In this example, that would increase the feasible monthly payment to $1,317, or an increase of $150.

First Quarter	Average Home Price	Average Rate on 30-Year FRM	Monthly Payment
2000	$168,760	8.26%	$1,079
2004	$209,077	5.61%	$1,058
2005	$261,862	5.75%	$1,342
2006	$334,362	6.24%	$1,793

In the area covered by the Arizona Regional MLS, we've seen an increase in the average price of roughly 98.1% since 2000. The average monthly payment has risen by roughly $715. But what does this mean for the future? How will buyers continue to afford homes as prices rise? Luckily, the growing economy continues to create more jobs and grow incomes. NAR® Research expects job growth to continue at a healthy clip, rising 1.6% in 2006 and 1.4% in 2007. More importantly, incomes, which grew 1.5% last year, are expected to increase 3.7% in 2006 and 4.0% in 2007. Rising employment will help to increase the pool of persons looking for housing, while rising incomes will help to offset the eroding power of rising mortgage rates.

The booming economy continues to create healthy drivers for a more stable, long-term real estate market. Rising incomes will help to soften the landing for the real estate market as a whole as it transitions to an environment of higher mortgage rates.

A Tale of Two (types of) Cities

by David Lereah, *Chief Economist*

Well, the boom is over and most of our nation's hot housing markets are cooling. Home sales are off 5 to 20 percent in some markets that were once setting annual sales records. But there have been no signs of bubbles bursting as of yet. Real estate activity began slowing about six months ago, and – perhaps with some fingers and toes crossed – our nation's housing industry is managing a soft landing. And quite nicely, thank you. It is true, some of those "hot hot hot" markets are experiencing more of a cooling down than are others, but there is also a silver lining to that: some of America's non-boom markets are showing signs of life.

During the real estate boom's five-year run (2001 to 2005), about 65 of the 135 metropolitan areas on which the National Association of REALTORS® tracks price data experienced robust price appreciation. The households living in – and investors investing in – those 65 boom markets during those five years enjoyed substantial equity gains on their properties and no doubt engendered the envy of non-boom homeowners and investors. Indeed, to the dismay of the remaining 70 metro areas, the boom seemed to discriminate as it passed over them. But today, the housing coin has flipped – sales are softening in (former) boom cities and gaining momentum in non-boom cities. It appears the haves and the have-nots have reversed places.

What is driving that reversal of fortune? The answer is: affordability. Quite simply, affordable metros are in favor and unaffordable metros are experiencing a correction. Let's look at both situations.

Affordable Metros

The recent real estate boom seemed to have bypassed Denver, Salt Lake City, Houston, and Albuquerque, New Mexico; now those markets are raising some eyebrows. In recent months, they have shown a pick up in sales activity. What all four of these metros have in common is a healthy local economy (evident in their job creation figures) and affordable housing prices. It is becoming increasingly clear that in the aftermath of the boom, households are now seeking affordable property to purchase (and live in). For example, there are cases where households living in pricey northern California neighborhoods (such as San Francisco) are moving from an area where the median home price is a lofty $730,000 to areas with substantially lower median home prices. Denver and Salt Lake City – as well as some still-hot markets like Las Vegas and Phoenix – could be the fortunate recipients of that trend.

Another way of viewing a healthy housing market is to look at the direction of months' supply of homes available for sale (the housing inventory). The top ten metros ranked by the largest year- over-year decrease in months' supply in February, reveals that nine out of those ten areas are *affordable* markets. Led by Austin, Texas, which experienced the largest decrease (falling from a 5.0-months' supply in February 2005 to 4.3-months' supply in February 2006), the remaining nine metros were Houston, San Antonio, Raleigh-Cary, Albuquerque, Mobile, Fort Myers-Cape Coral, Kansas City, Beaumont-Port Arthur, Texas and Baton Rouge. Only Fort Myers-Cape Coral, Florida experienced the real estate boom and has a median home price higher than the national median home price.

Again, all of these metros share the two characteristics that are attracting future home buyers – a healthy local economy and a relatively low median home price. I expect these metros as well as other affordable and healthy metros to exhibit slow- to moderate growth during the remaining months of this year.

Boom Metros

Phoenix, Naples, Florida, and Washington, DC all experienced the boom during the past five years, but are now showing strong signs of cooling. What they all have in common are a history of robust price appreciation and a healthy local economy. Ranking the top ten metros by the largest increase in months' supply (which is a sign of a "cooling" market) in February reveals that all ten metros were boom metros. From first to tenth are Phoenix, Palm Bay-Melbourne, Florida, Pensacola, Florida, Chicago-Naperville, Hagerstown-Martinsburg, Tucson, Orlando, Boston, Washington DC, and Worcester, Massachusetts. Phoenix experienced the greatest increase, where its months' supply rose from 1.2 months in February 2005 to 5.6 months in February 2006. Sales in all of these metros have also fallen within the past 6 months.

A Happy Ending

The good news is that affordable metros are beginning to expand while boom metros are cooling into a soft landing. There have been no bubbles bursting, as predicted by so many academics and Wall Street analysts during the past several years. The last time a bubble burst was in Boston in 1990/91.What happened in Boston? It experienced a negative local economic event – a sharp recession. During that time, Boston lost 15 percent of its labor force and the months' supply of homes climbed up to a remarkable 16 months! Something had to give so prices tumbled downward for the next four years. The difference between Boston's experience and today's cooling metros is the health of the local economy. Boston's economy experienced a contraction, while our boom markets all possess healthy, expanding economies. With job creation and income growth, households will continue to have the wherewithal to purchase property even in cooling local markets. That is a perfect recipe for a soft landing.

*Want more insights from NAR Chief Economist David Lereah? Visit **REALTOR.org** to see some of his latest comments from press interviews and speeches at **www.REALTOR.org/Research.nsf/Pages/housingoverview***

The Forecast

By Lawrence Yun, *Senior Research Forecaster*

Immigration is a not an easy subject to tackle. Should the U.S. have fully open borders and allow anyone from any country to come to the U.S. and contribute to and take advantage of American culture and citizenship? Or, should our nation build a fence around itself to protect it against illegal immigration and possible entry from potential terrorists? There are passionate feelings displayed by those who support a more open borders approach to immigration (such as allowing illegal immigrants to remain in the country), and those who would restrict immigration or otherwise suppress activities by those who come here from another county. There are many well-reasoned arguments on both sides. The topic has led to intra-party disunity within both the Republican and Democratic parties.

But, there is one area where there is a little disagreement. Immigration has helped the housing market. Why? The answer is simple: people need a home in which to live. So it should not be surprising that dynamic housing markets are frequently those in regions that have significant immigrant populations. The fast growing regions of Las Vegas, Phoenix, Washington D.C. and much of Florida have seen strong housing demand – and a significant run-up in home prices – due in no small part because these markets have strong immigrant populations.

So, what happens to housing markets when there is no immigration? Here's an example. Home prices in Japan have been stagnant for the past 20 years. One reason is that the country's population has been virtually unchanged during that same time period. The same stagnation is also present in eastern Germany (where many have left for the better western half). Similar situations can be found in areas of the U.S. like Elmira, New York and Danville, Illinois. What happens to those empty homes when people leave and there are no new households to occupy them?

An interesting study by the Philadelphia Federal Reserve Bank showed that home prices in immigration-heavy neighborhoods rise much more slowly than other neighborhoods in the local region. That is, the "there goes the neighborhood" reaction may be at work as established residents flee an area as newcomers move in. However, home prices in any overall metro region with a high number of immigrants in general rose at a significantly faster clip then those metro regions with little immigration. More people translates into more housing demand.

The concerns of whether or not the current swelling number of immigrants will eventually assimilate into the U.S. society are an open and legitimate question that needs to be addressed fully. But housing demand will remain healthy — and certainly healthier for the foreseeable years than it would otherwise be in the absence of immigration. As for 2006, home sales will reach their third best year ever; home prices are projected to rise 6.4%. These are both solid figures in a rising interest-rate environment. The national job market also looks to perform well in 2006. The best guess for now is for 2.3 million net new jobs. Moreover, the stock market has been flirting with a 5-year high, which will translate into higher demand for vacation homes. The construction of these homes, as many in the homebuilding industry will affirm, would not have been possible without immigrants.

As for the local area, the job market has been very positive in recent quarters (6.3% growth in the latest quarter). At the same time, higher mortgage rates have reduced affordability. Home sales, as a result, has being pulling in different directions. Sales were 22% lower in the first quarter compared to the year before. Home prices have continued to increase though because few are forced to sale in a job creating environment. Given the strength in the national economy, the local economy looks to catch part of that upward tide by the year end. Home sales are expected to definitively turn positive once interest rates stabilized while jobs get added. The forecast is for 10% decline in home sales in 2006 followed by a 3% rise in 2007. Home prices will increase 17% in 2006 and then 6% in 2007.

Economic and Housing Market Outlook: Second Quarter 2006

	2005			2006				2007						
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	2004	2005	2006	2007
U.S. Economy														
Annual Growth Rate														
Real GDP	3.3	4.1	1.7	5.0	3.9	3.6	3.4	3.2	3.1	3.1	4.2	3.6	4.0	3.8
Nonfarm Payroll Employment	1.6	1.6	1.2	2.1	1.5	1.8	1.7	1.6	1.2	1.5	1.1	1.6	1.6	1.7
Consumer Prices	3.7	5.5	3.2	3.3	2.6	2.5	3.1	2.6	2.2	2.3	2.7	3.4	3.0	2.0
Real Disposable Income	0.2	-1.4	6.7	4.4	4.2	4.3	4.4	4.7	3.4	3.4	3.4	1.3	4.6	4.4
Consumer Confidence	102	99	96	106	108	107	108	109	110	110	80	100	105	109
Percent														
Unemployment Rate	5.1	5.0	4.9	4.7	4.8	4.8	4.7	4.7	4.8	4.8	5.5	5.1	4.9	4.7
Interest Rates, Percent														
Fed Funds Rate	2.9	3.5	4.0	4.4	4.9	5.0	5.0	5.0	5.0	4.8	1.3	3.2	4.5	4.5
3-Month T-Bill Rate	2.9	3.4	3.8	4.4	4.8	4.9	4.9	4.9	4.9	4.7	1.4	3.2	4.3	4.3
Prime Rate	5.9	6.4	7.0	7.4	7.9	8.0	8.0	8.0	8.0	7.9	4.3	6.2	7.5	7.5
Corporate Aaa Bond Yield	5.1	5.1	5.4	5.5	5.9	6.1	6.2	6.3	6.4	6.4	5.6	5.3	6.0	6.2
10-Year Government Bond	4.2	4.2	4.5	4.6	4.9	5.1	5.2	5.3	5.4	5.3	4.3	4.3	4.9	5.1
30-Year Government Bond	4.5	4.4	4.7	4.7	5.0	5.3	5.4	5.6	5.7	5.7	5.1	4.6	5.1	5.2
Mortgage Rates, percent														
30-Year Fixed Rate	5.8	5.7	5.8	6.2	6.6	6.8	6.9	7.0	7.1	7.0	5.8	5.9	6.5	6.8
1-Year Adjustable	4.3	4.5	5.1	5.3	5.6	5.7	5.7	5.7	5.7	5.6	3.8	4.5	5.4	5.5
National Housing Indicators														
Thousands														
Existing Single-Family Sales	7,193	7,180	6,943	6,729	6,669	6,592	6,662	6,674	6,716	6,731	6,784	7,072	6,787	6,821
New Single-Family Sales	1,287	1,298	1,286	1,182	1,169	1,122	1,091	1,088	1,086	1,176	1,203	1,282	1,209	1,198
Housing Starts	2,044	2,101	2,059	2,139	2,025	1,954	1,890	1,855	1,856	1,857	1,956	2,065	1,936	1,943
Single-Family Units	1,693	1,747	1,716	1,757	1,677	1,606	1,537	1,494	1,490	1,488	1,604	1,714	1,600	1,544
Multifamily Units	351	354	343	382	348	348	353	360	366	370	345	350	337	399
Residential Construction*	599	610	614	626	627	614	600	588	583	584	562	604	607	595
Percent Change -- Year Ago														
Existing Single-Family Sales	4.7	6.5	0.9	-3.0	-7.3	-8.2	-4.1	-0.8	0.7	2.1	9.7	4.2	-4.0	0.5
New Single-Family Sales	7.0	11.5	3.5	-5.3	-9.1	-13.5	-15.2	-8.0	-7.1	4.8	10.8	6.6	-5.7	-0.9
Housing Starts	6.3	6.4	4.3	2.7	-0.9	-7.0	-8.2	-13.3	-8.3	-5.0	5.2	5.6	-6.2	0.3
Single-Family Units	5.9	6.9	5.9	2.8	-1.0	-8.1	-10.4	-15.0	-11.2	-7.4	6.6	6.4	-6.7	-3.5
Multifamily Units	8.6	4.2	-2.6	2.1	-0.8	-1.6	3.0	-5.7	5.2	6.1	-0.9	1.4	-3.7	18.5
Residential Construction	6.1	7.2	7.6	7.2	4.5	0.7	-2.3	-6.1	-7.0	-5.0	10.3	7.6	0.4	-2.0
National Home Prices														
Thousands of Dollars														
Existing Home Prices	209.3	216.3	214.7	209.6	222.3	227.1	224.6	219.0	231.8	236.9	185.2	209.1	219.7	228.1
New Home Prices	230.2	236.6	239.5	235.2	238.7	246.3	250.3	246.0	249.7	258.1	221.0	237.3	245.2	256.3
Percent Change -- Year Ago														
Existing Home Prices	13.3	14.2	13.4	10.1	6.2	5.0	4.6	4.5	4.3	4.3	8.5	12.9	5.1	3.8
New Home Prices	6.3	10.5	5.2	2.3	3.7	4.1	4.5	4.6	4.6	4.8	3.9	7.4	3.3	4.5
Local Region														
Payroll Jobs (in thousands)	1777.9	1785.5	1847.7	1848.2	1886.4	1889.1	1949.3	1946.2	1986.3	1991.1	1683.7	1787.4	1893.2	1997.4
Home Sales	29622	28484	21759	18604	27613	26292	20987	18547	27945	26979	96870	103744	93496	96124
Home Prices (in thousand $)	300.3	315.6	324.2	334.4	357.4	354.4	352.7	355.1	375.3	375.0	222.3	300.3	350.9	370.6
Percent Change -- Year Ago														
Jobs	6.2%	6.6%	6.1%	6.3%	6.1%	5.8%	5.5%	5.3%	5.3%	5.4%	3.9%	6.2%	5.9%	5.5%
Home Sales	8.1%	8.8%	-7.9%	-22.1%	-6.8%	-7.7%	-3.6%	-0.3%	1.2%	2.6%	23.4%	7.1%	-9.9%	2.8%
Home Prices	36.4%	41.4%	38.3%	28.5%	19.0%	12.3%	8.8%	6.2%	5.0%	5.8%	13.2%	35.1%	16.9%	5.6%

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 April 10, 2006.

Monthly Indicator	Recent Statistics		Likely Direction Over the Next Six Months	Forecast
Mortgage Rates The 30-year fixed-rate mortgage edged up inMarch to 6.32% – an increase of seven basis points fromFebruary's level.Mortgage rates are expected to rise further asconcerns on inflation put upward pressure on interest rates.The one-year adjustable rate increased eight basis points inMarch to 5.42%.	Jan Feb Mar	6.15 6.25 6.32	↓	Expanding global economy puts upward pressure on rates
Existing Home Sales rose 5.2% in February to a seasonallyadjusted annualized rate of 6.91 million units – ending five con-secutive months of declines.Home prices continued to showstrength,with the median price of an existing home rising 10.6%from February 2005 to $209,000.The inventory of homes forsale rose by 150,000 in the past month to 3.03 million – a 5.3months' supply at the current sales pace.	Dec Jan Feb	6,750 6,570 6,910	↓	Higher rates cutting home sales, particularly in high-priced markets
New Home Sales In February,new home sales posted 1.08 mil-lion seasonally adjusted annualized units.The sales pace representsa 10.5% decrease from January's revised figure of 1.21 millionunits,and is 13.4% below the level in February of 2005.Inventoryof newly constructed homes increased to 548,000 – a 6.3-months' supply at the current sales pace.	Dec Jan Feb	1,275 1,207 1,080	↓	A huge rise in unsold inventory
Housing Starts declined in February to 2.12 million seasonal-ly adjusted annualized units after soaring to their highest levelin over 30 years in January.Both single-family and multifamilystarts posted declines.But the current construction pace is stillvery robust.The 1.8 million single-family starts is higher thanthe last year's record of 1.7 million.	Dec Jan Feb	1,989 2,308 2,120	↓	Mostly down, but affordable job creating regions may buck the trend
Employment The economy added 211,000 jobs in March –stronger than the 190,000 most analysts had anticipated.BothFebruary and January employment numbers were revised down-ward to 225,000 and 154,000,respectively.Unemploymentdecreased to 4.7% – its lowest level in 4 1/2 years.	Jan Feb Mar	154 225 211	↑	Two million net new jobs on tap for 2006
Purchase Applications The Mortgage Bankers Association'spurchase index inched up to 407.6 in March.While the housingmarket begins cooling in most markets with both new andexisting home sales expected to soften due to rising mortgagerates,the index level is still considerably strong and will remainhealthy this year.	Jan Feb Mar	452.7 406.6 407.6	↓	Will be a difficult year for mortgage brokers
Housing Affordability NAR's housing affordability index rose0.8% in February to 117.6.Last month's index was revised upwardslightly.Going forward,the affordability index should hover at sim-ilar levels for the remainder of the year as moderating homeprices somewhat offset rising mortgage rates.	Dec Jan Feb	117.0 116.7 117.6	↑	Home prices rose faster than income over the past five years
Inflation The consumer price index (CPI) rose 0.1% inFebruary.Two sectors – fuel and apparel – fell sharply,whichhelped to minimize the increase in the core index which rose0.1%.The CPI should continue to grow at a projected averagemonthly rate of 0.3% for the next three months.	Dec Jan Feb	-0.1% 0.7% 0.1%	↔	Inflation at the upward end of the comfort zone

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