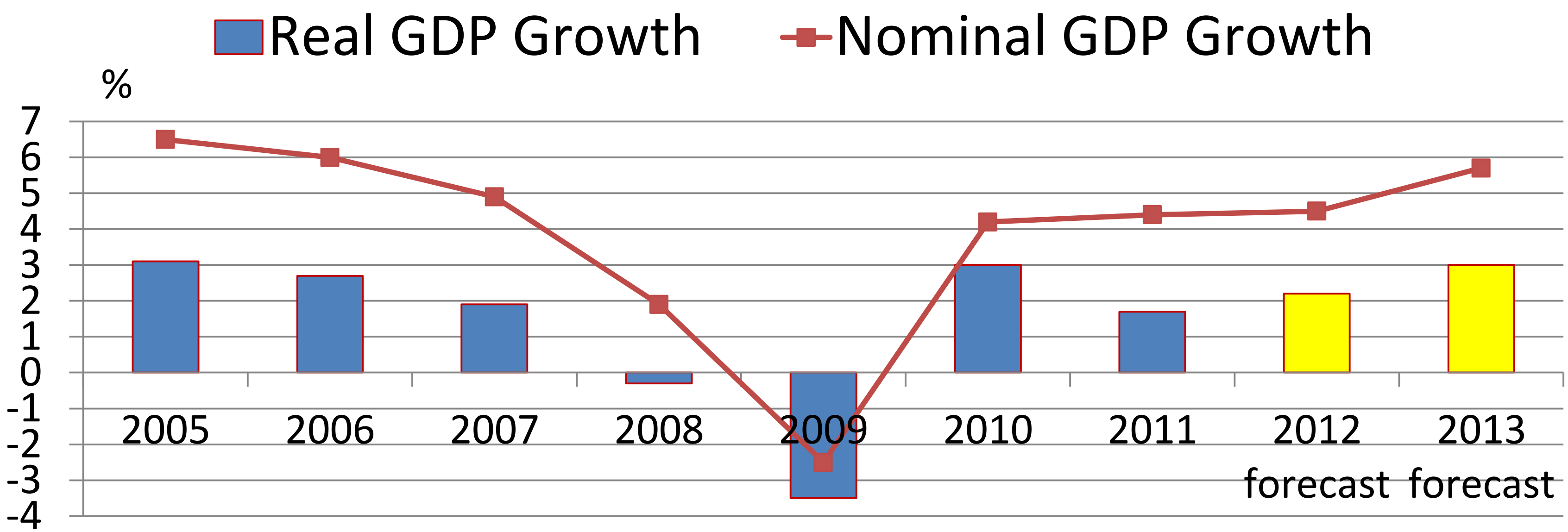
NAR Economic Forecast

By NAR Research

June 27, 2012

Economy



Real GDP is a measurement of everyone's and every entity's income all combined after subtracting away inflationary portion. This is the one reported by the media and used by analysts. Historically, GDP grows by 3 percent a year.

Nominal GDP is raw dollar figures with no adjustments made for inflation. It is used by many companies and governments for sales and tax revenue projections.

Latest and Forecast: GDP growth in the first quarter was 1.9 percent, subpar. It is forecasted grow at 2 to 2.5 percent for the remainder of the year. No recession, but also no robust expansion.

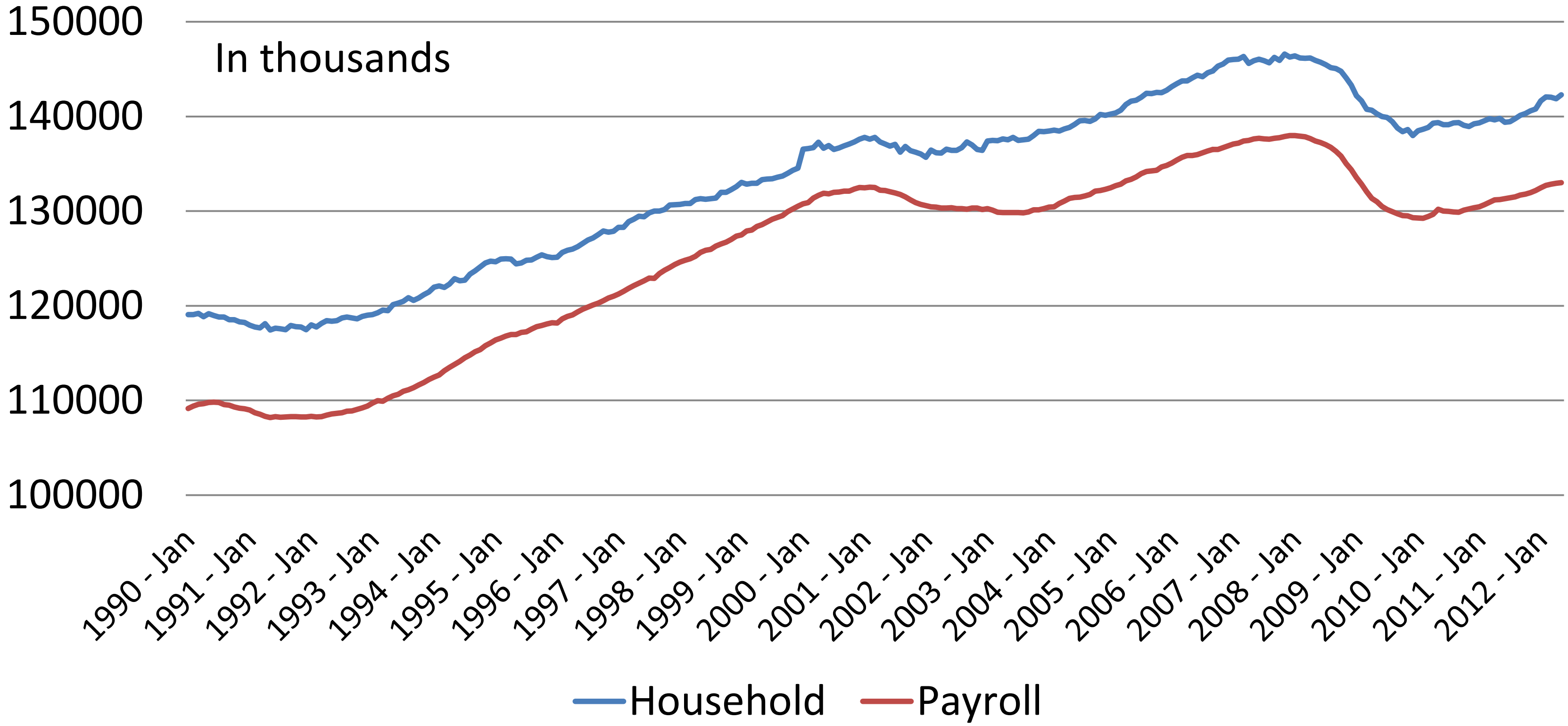
Payroll Jobs Changes

(December to December)

Payroll Jobs are based on figures reported by companies. It differs from *household employment* figures, which are based on survey of households and not companies. *Payroll data* is watched more closely regarding job creation or job cuts because of larger and more reliable sample. *Household data*, however, is used to compute the unemployment rate and about people staying in or out of the labor force.

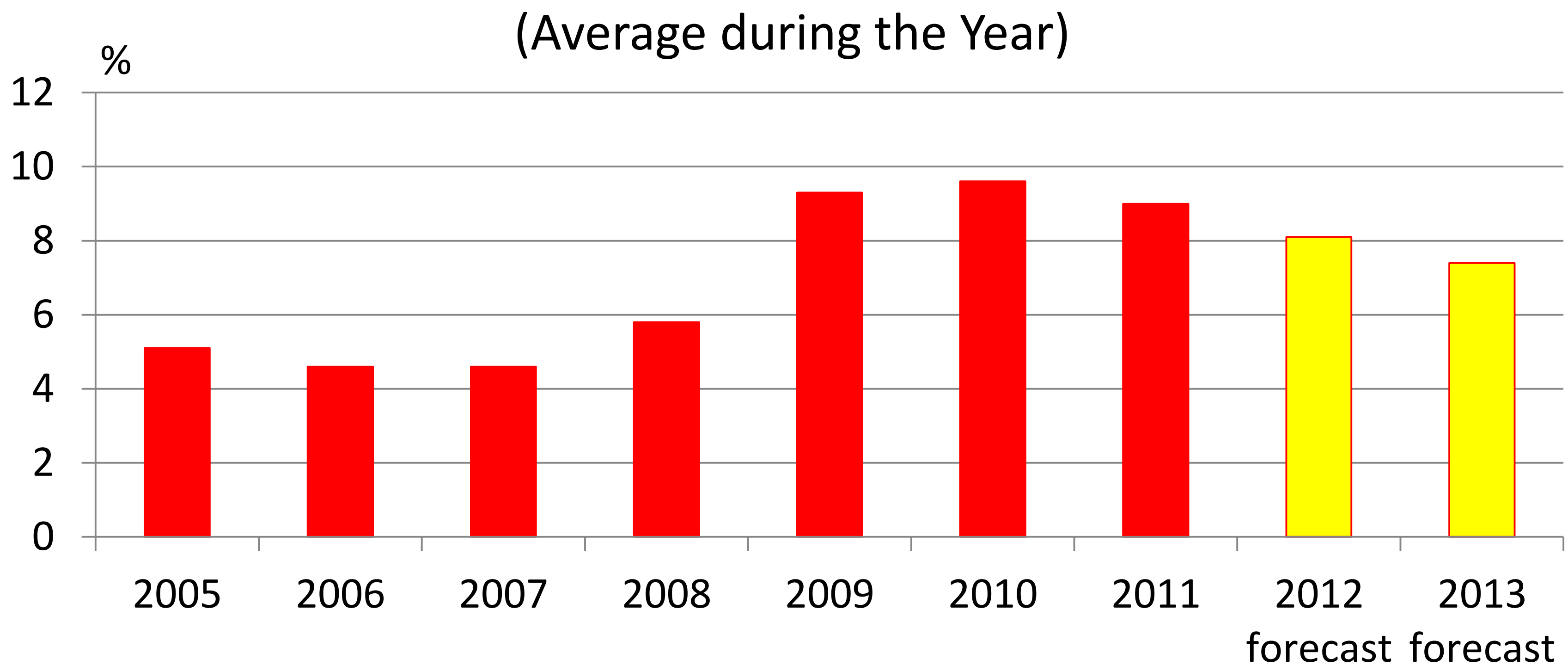
Latest and Forecast: Only 69,000 net new jobs in May. That is like treading water given 3 million additional people living in the country each year. Likely to generate 1.5 net new jobs in 2012, and then accelerate to 2.3 million new jobs in 2013.

Total Jobs: Payroll vs. Household



The two series generally moves together though they do not always match up. In some years, the gap between the two narrows or widens more than normal. One relevant example is REALTORS® who are mostly independent contractors and not on anyone's payroll. Yet, they would say they are working when asked via Household survey.

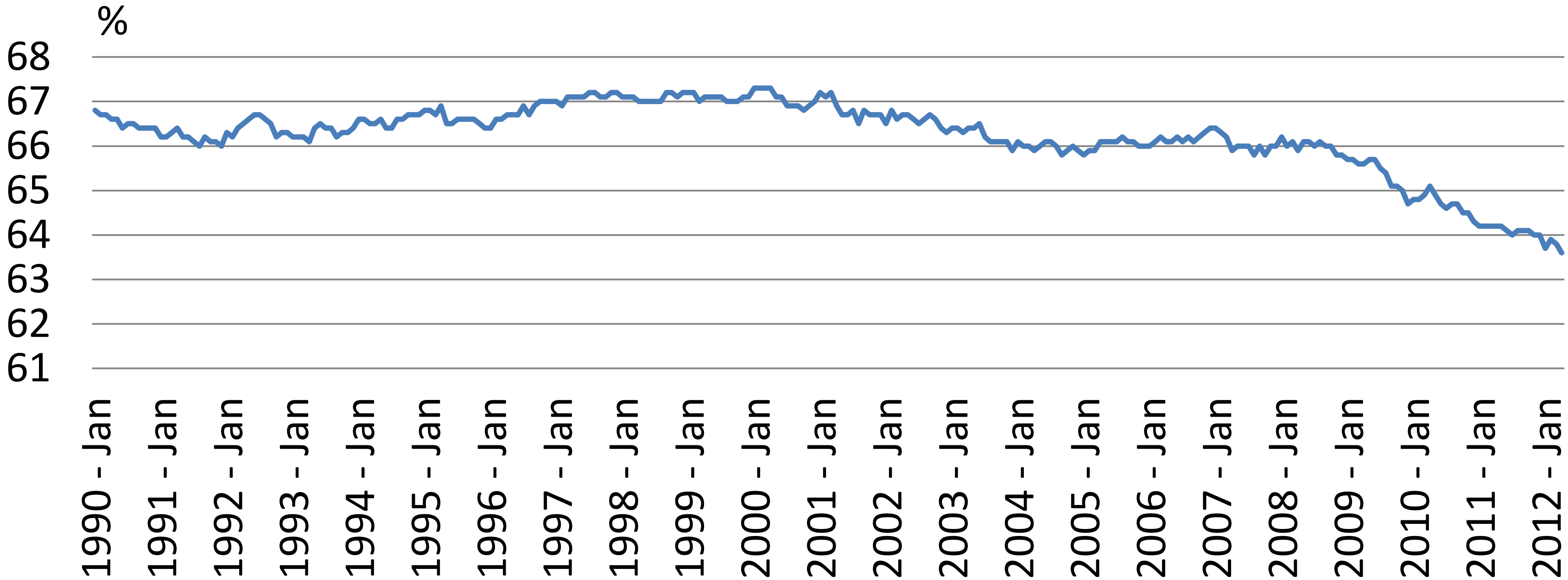
Unemployment Rate



Unemployment Rate is simply the number of unemployed people divided by the number of people in the labor force. The unemployed people have to be looking for a job to be counted as being in the labor force. If they stopped looking for a job then they are counted as being out of the labor force and not unemployed. It is based on household data and not company payroll data.

Latest and Forecast: The unemployment rate rose a notch to 8.2% in May because of lackluster job creation. It will remain at near 8% for most of 2012, even with 1.5 million net new jobs because labor force participation will slightly edge up.

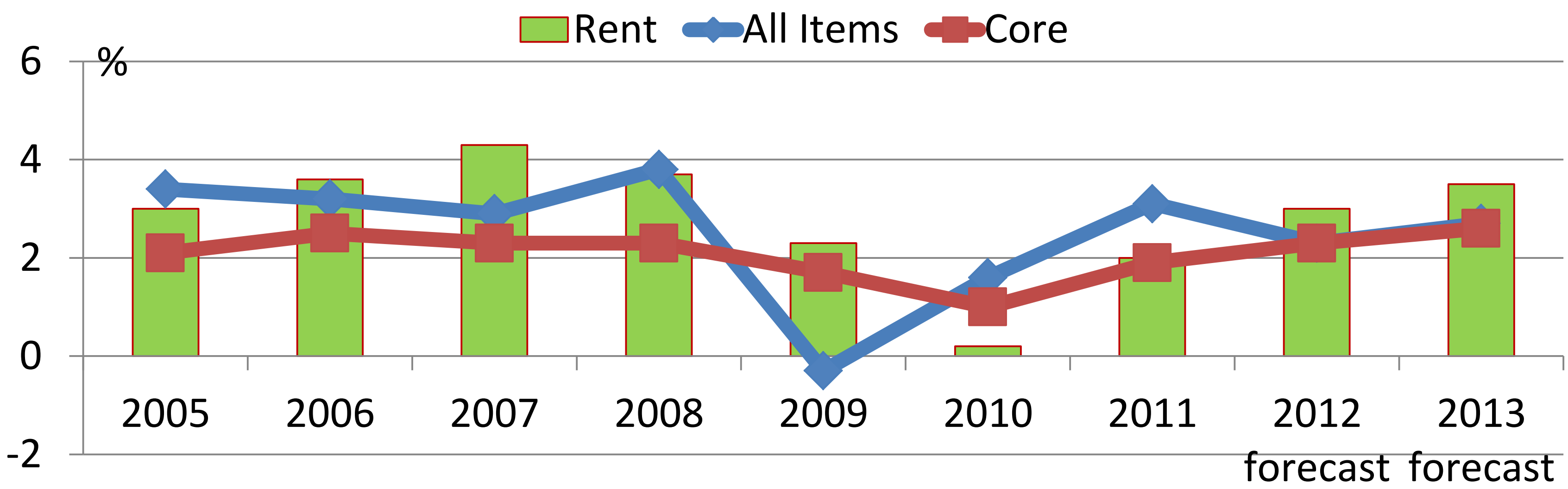
Labor Force Participation Rate



Labor Force Participation Rate has been falling at the beginning of the recession. Many went to school or took early retirement packages and are therefore no longer counted as part of the labor force. Some went on disability benefits. If the labor force participation were to be normal (or had it not fallen) then the corresponding unemployment rate would be closer to 11%.

Latest and Forecast: Highly unusual for the labor force participation rate to collapse so steeply since late 2008. There will be school graduates who will need to re-enter the workforce as prolonged student loan borrowing is not sustainable.

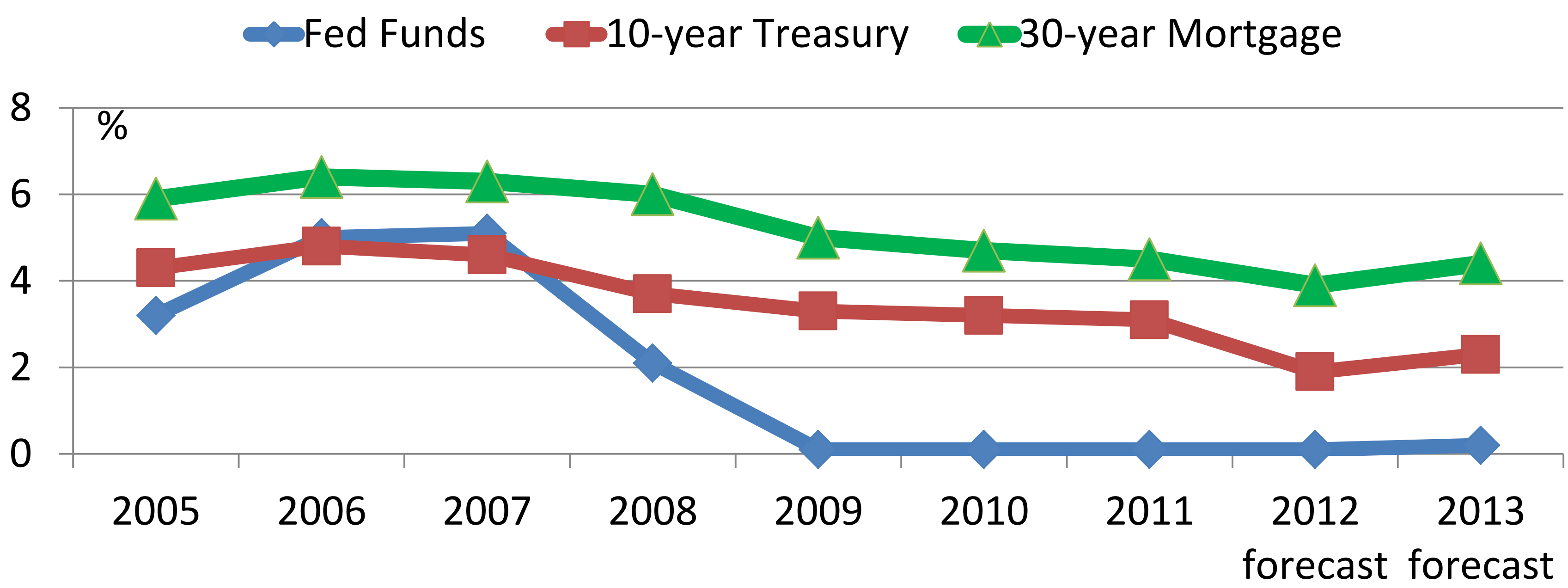
Consumer Price Inflation



Consumer Price Inflation is what it cost to buy stuff. Higher inflation means corresponding chipping away at the purchasing power of money. ***All Item*** inflation tends to be somewhat volatile because it accounts for food and energy prices that tend to swing at times. ***Core Inflation*** is a measure of all inflation after subtracting away the food and energy component, and hence has less volatility. ***Rent*** is in essence what the renters are facing, though there are assumptions regarding what homeowners would pay to rent their own house.

Latest and Forecast: Falling commodity prices, including oil, is pushing down inflation. But rising rent is forcing up the core-inflation rate. Inflation and the cost-of-living adjustment in 2013 will be around 2.5%.

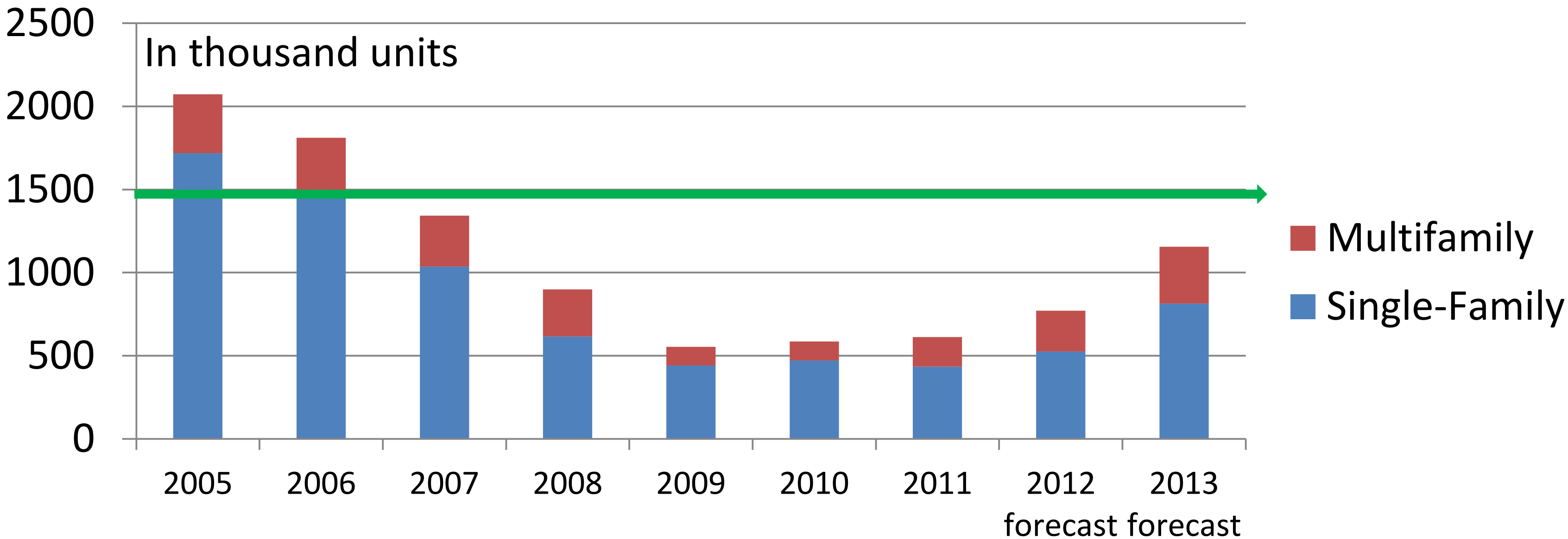
Fed Policy and Interest Rates



Fed Funds Rate is one primary instrument for the Federal Reserve to steer the economy. It is a very short term borrowing rate between the banks. If rents rise as anticipated than the Fed will be forced to raise rates much earlier than planned. Late 2013 is the likely period of the first rate hike since 2006. The longer-dated interest rates do not move in lock-step with the Fed Funds Rate. The long-term rates like the **10-year Treasury** will also be impacted by the budget deficit and inflationary pressures. The **30-year fixed mortgage rate** generally move in close tandem with the 10-year Treasury rate.

Latest and Forecast: Despite public statements by the Fed to keep interest rate low well into 2014, the fed funds rate may need to be increased as early as Autumn in 2013. Core inflation rate is already above its desired pace and is anticipated to rise higher because of rent increases.

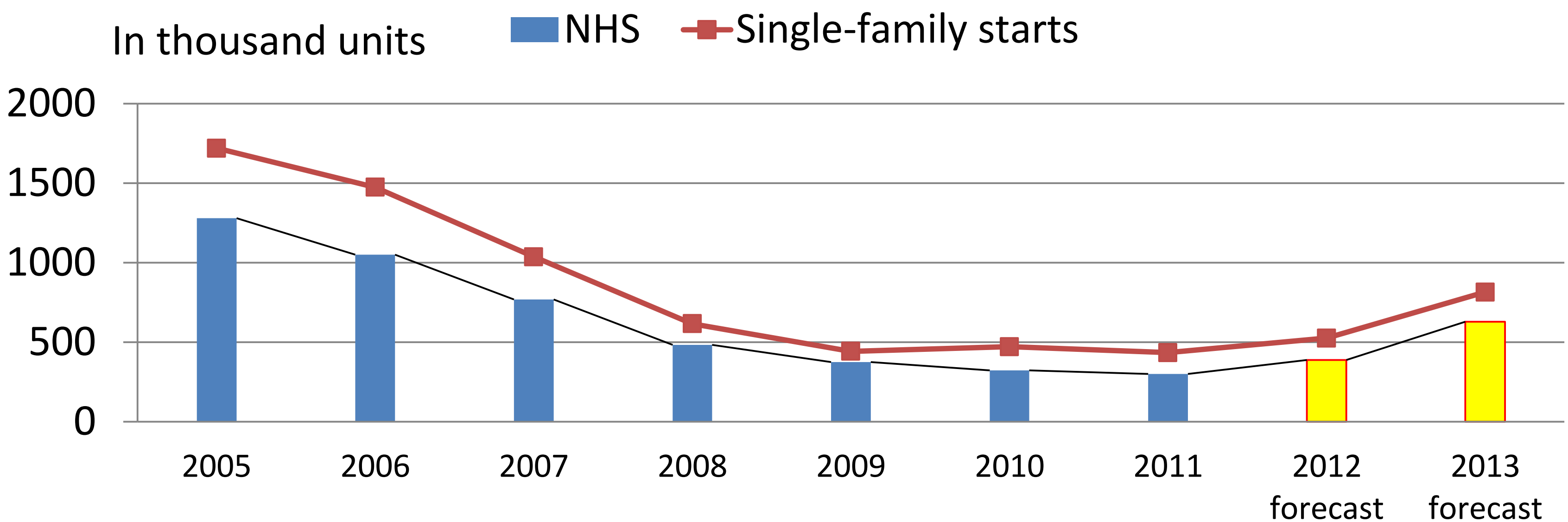
Housing Starts



Housing starts measure the number of newly constructed homes**.** U.S. Population grows generally by 3 million each year (though it is estimated have slowed to 2 million in 2011). Based on population growth and the need to replace some of the demolished housing units, most economists believe about 1.5 million housing units need to be built each year, which also happens to be the historical average. But in any given year, the housing starts will be much different from the average. In recent years, new home construction has been well below the norm. Multifamily unit are predominately for rentals, and that sector is likely to experience a stronger recovery because of the rising rent trends.

Latest and Forecast: Starts have been rising by better 20% so far this year. Falling inventory means builders need to ramp up production. But many small time homebuilders cannot obtain construction loans. Starts will rise by 75% over the 2 years if lending improves.

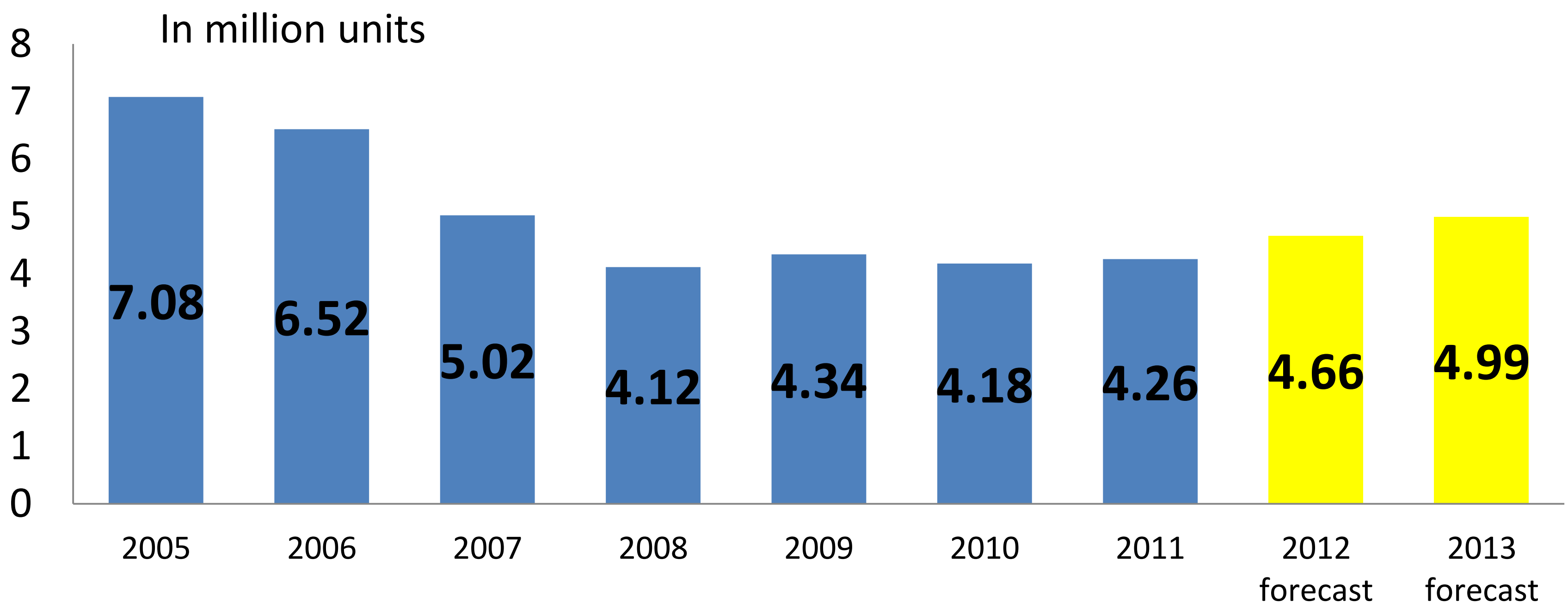
New Home Sales



New Home Sales measure contract signings. At the moment, the Census do not publish the actual closing figures for new home sales. Not all of the single-family housing starts are counted as new home sales, which explains for the gap between starts and sales. Those housing construction initiated by owners and never comes up for sale would be an example of data inclusion into housing starts but not new home sales. New home sales tend to swing more widely than existing home sales, with steeper downturns and more robust upturns.

Latest and Forecast: New home sales have been rising by 20% so far in 2012 and could reach 600,000 by 2013. That would in essence double the 2011 figure of 300,000 new home sales. During the peak bubble year of 2005, new sales hit 1.2 million.

Existing Home Sales

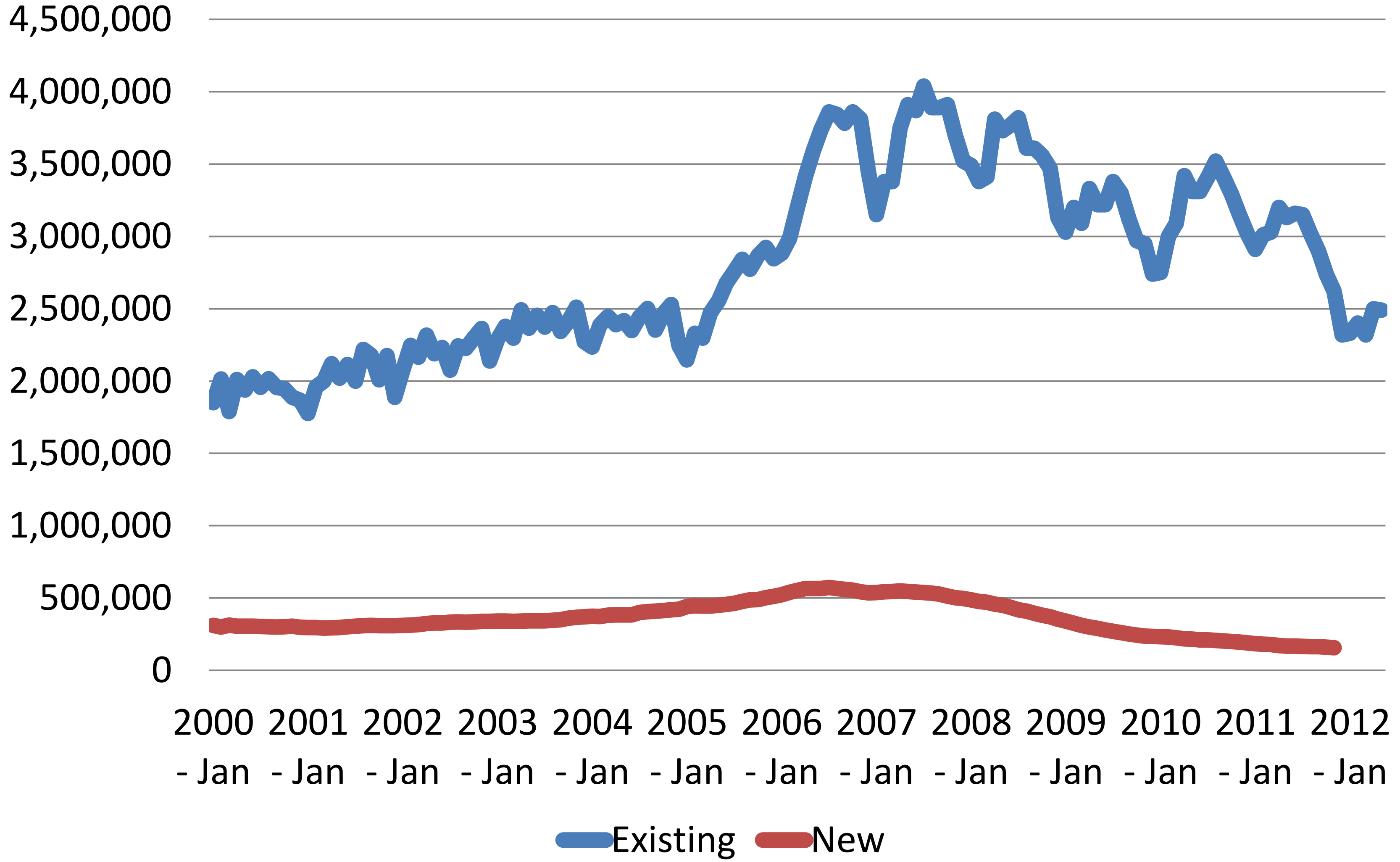


Existing Home Sales measure actual closings of all home sales that are not newly built. It is an estimation based on MLS sales count but benchmarked periodically to Census data about household movement patterns.

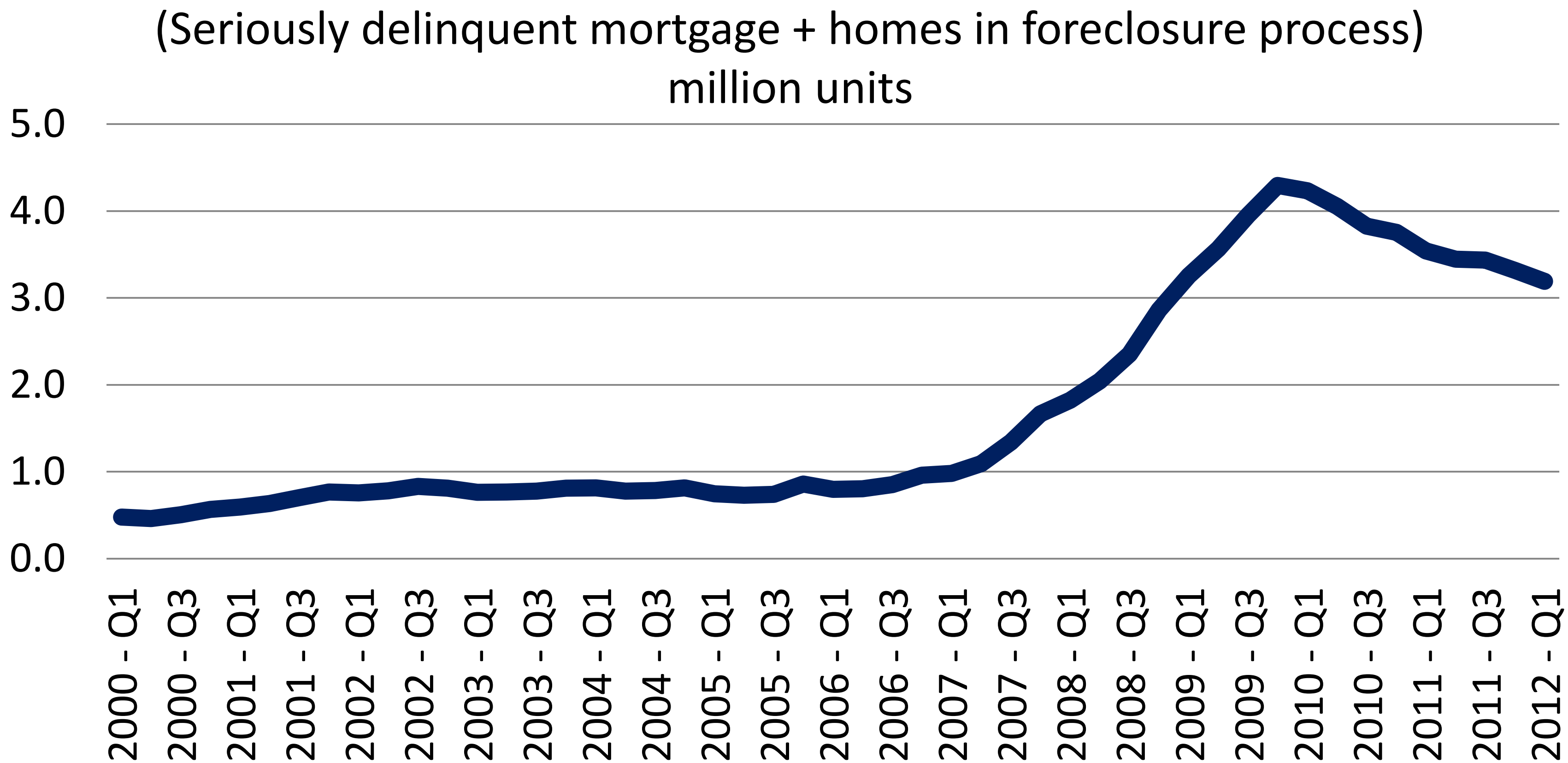
Latest and Forecast: Existing home sales have been rising roughly at 10% from comparable period one year ago. Shortage of inventory in some markets and excessively tight underwriting standards are hold back potentially bigger gains. Sales will rise to nearly 5 million in 2013.

Visible Housing Inventory

(Existing inv. At 6-year low; New inv. at 50-year low)



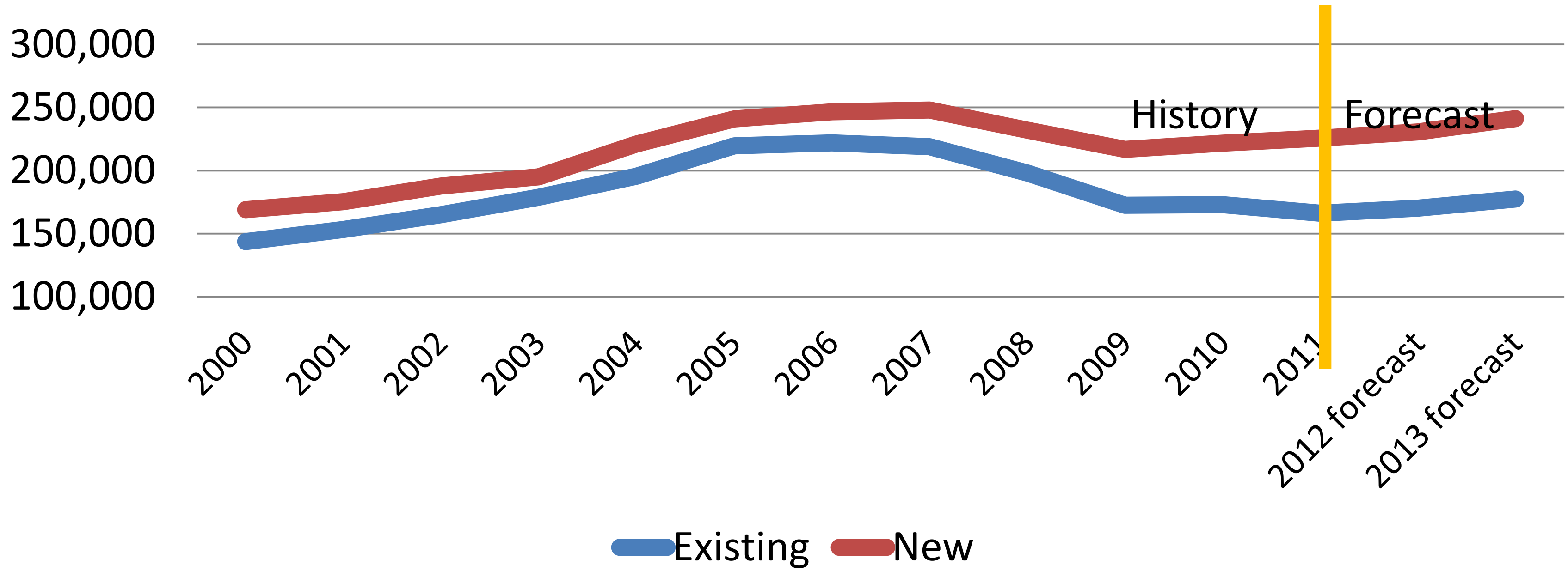
Shadow Inventory



Shadow Inventory can be defined as those distressed properties not yet on the market but will at some point appear given the serious delinquency situation.

Latest and Forecast: Shadow inventory admittedly is still high, but it is about 1 million fewer than two years ago and is anticipated to steadily diminish over time. The falling share of distressed properties over time will lead to the median price of all homes that gets transacted to be higher.

Median Home Price



Median Price reflects the middle price of all homes sold during a period. In normal times where types of homes do not change measurably from one period to the next, then the median price can be a good gauge about home price appreciation or depreciation. However, the median price can also be a reflection not about price change but about the type of homes being sold. If, for example, mostly distressed properties are being sold then the median will be low. If mostly high-end homes are being sold, then the median will be high. Supply and Demand dynamics impact both new and existing home prices. But new home prices are also to a greater degree impacted by changes in the cost of construction, such as commodity prices and labor costs.

Latest and Forecast: Prices have not only stabilized, but already increasing at the national level. Nationally, prices will rise by 3% in 2012 followed by 6% gain in 2013. Low inventory and low housing starts are the key reasons for the price gain. Phoenix could see 10% to 15% price gain 2012.

Forecast Summary

	2011 History	2012 Forecast	2013 Forecast
Existing Home Sales	4.26 million	4.7 million	5.0 million
New Home Sales	301,000	390,000	630,000
Housing Starts	611,000	770,000	1,160,000
Existing Home Price	$166,100	$171,000	$181,000
GDP Growth	+1.8%	+2.2%	+3.0%
Payroll Job Gains	+1.7 million	+1.5 million	+2.3 million
Fed Funds Rate	0.1%	0.1%	0.2%
30-yr Mortgage	4.7%	3.9%	4.4%