

# National Summary

An Overview of National and Local Conditions

April 2007

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**Economy:** The national US economy remains in a tepid state, with growth continuing at a moderate pace, interest rates low, and the stock market at new highs, but with worries about real estate markets and energy prices.

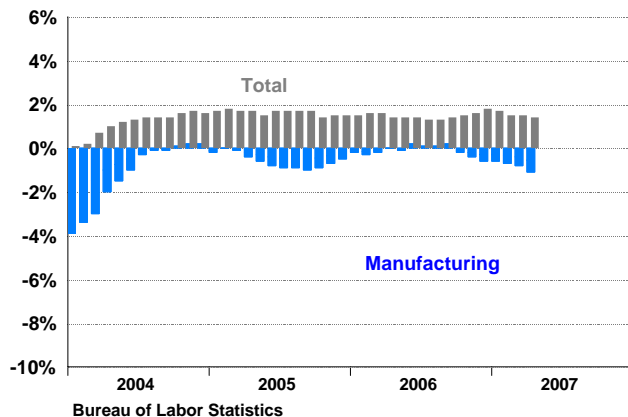
On the positive side, compared to a year ago, the number of **jobs** in April was 1.4 percent higher and **industrial production** was up 1.9 percent. Interest rates drifted lower in the last two months, with **mortgage rates** at the lowest levels in a year. But these figures obscure the fact that growth was better just a few months ago. The larger picture can be seen in **GDP**, which grew at a 1.3 percent annual rate in the first quarter, compared to 2.5 percent in the fourth quarter of 2006, and 5.6 percent in the first quarter of 2006. On the negative side, **new home sales** in March were down 24 percent from a year ago, and **oil prices** rebounded close to \$65 per barrel in April, after falling below \$55 early in the year.

A significant part of the economic slowdown is due to lower activity in **real estate markets**. While a decrease in construction has been heralded for some time now by the sharp drop in new residential building permits, the economic effect of the slowdown are just beginning to be felt. Only in the last few months have there been **fewer jobs** in residential construction - 2.5 percent in April - and only recently has the manufacture of construction materials decreased. I expect sharper losses in construction jobs through the rest of the year.

The financial effects of the end of the real estate boom also are just coming into view, with more bad news likely in the future. **Delinquency rates** on residential mortgages at big banks rose to 1.97 percent at the end of 2006, the highest rate since 2003. Although sub-prime mortgage loans have recently received the most press attention, the effects on the economy of higher delinquencies from regular mortgages will be much more important.

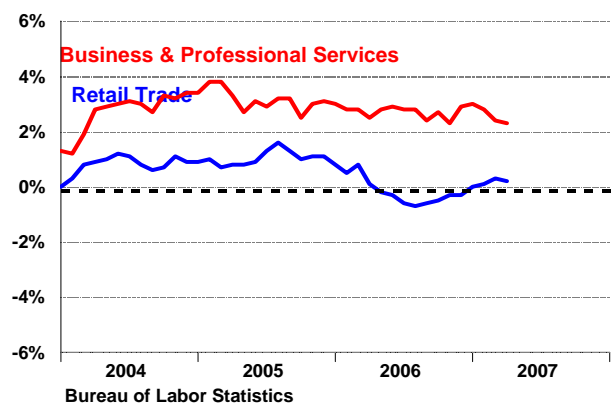
US Employment Growth

Annual Rate

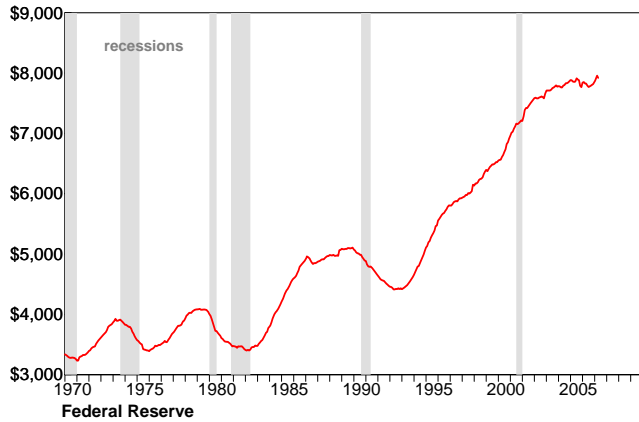


US Employment Growth

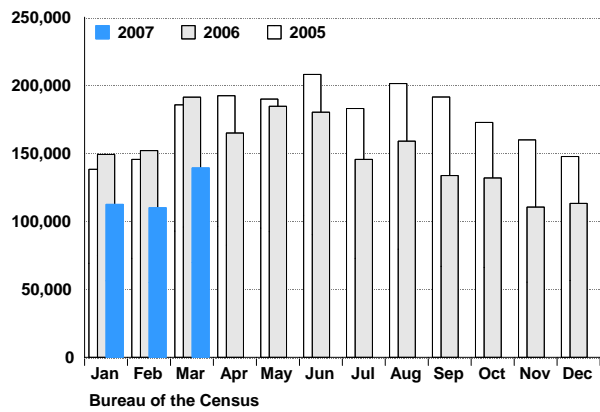
Annual Rate



## Consumer Credit Per Capita - Inflation Adjusted



## US Home Building Activity New Housing Permits Issued



**Housing:** The National Association of Realtors says “the worst is behind us as far as a market correction”. Don’t you believe it. Real estate cycles move in years, not months, and this slowdown has just begun. With the economy showing other signs of slowing, we could be only at the beginning of an extended real estate turndown.

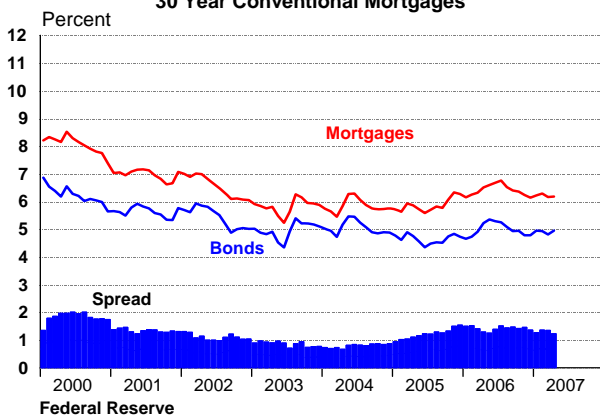
**Home construction** in the last six months was off 27 percent from last year, with especially large decreases in the boom markets of Florida, where construction was down 46% in Jacksonville, 43% in Miami-West Palm, 35% in Orlando, 51% in Melbourne, and 73% in Lakeland. Compared to last year, new permits in March were down 51% in Florida, 61% in Nevada, 25% in Texas, and 16% in California.

With the exception of Atlantic City, the 20 most **over-priced markets** are all in Florida and California. The significance of being most over-priced is that the re-adjustment period will be longer in those markets. In some of these markets, particularly small Florida coastal markets, home prices will actually decline. But in most over-priced markets, prices will stagnate for years. The more they are over-priced, the longer the period of stagnation.

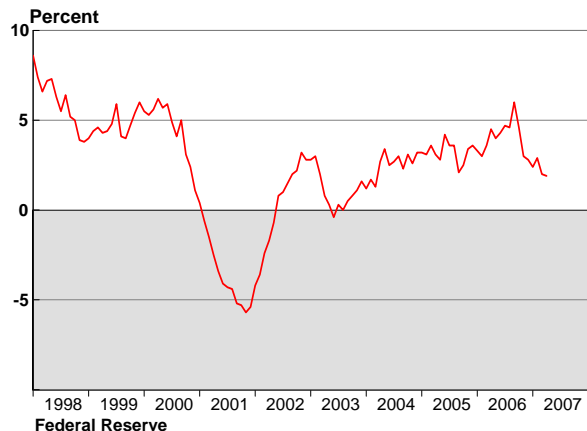
Markets where **home prices** are likely to grow best in future years include Austin, Charlotte, Fayetteville NC, Houston, Knoxville, McAllen, Nashville, Ogden, Provo, and Salt Lake City.

**Reminder:** I believe that we are at the end of the national real estate boom that started in the late 1990s. Home buyers, home builders and mortgage lenders must become more cautious. The value of homes will drop in some markets, the number of home sales will decrease, and the number of mortgage foreclosures will rise in the next few years.

## Interest Rates 20 Year Treasury Bonds 30 Year Conventional Mortgages



## Industrial Production 12 Month Growth Rate



# Quick Review

## Economic Growth

April 06 to April 07

### Best Employment Growth

1. Myrtle Beach-Conway SC	6.1%
2. New Orleans-Metairie LA	6.1%
3. Provo-Orem UT	5.8%
4. Salt Lake City UT	4.6%
5. Austin-Round Rock TX	4.4%
6. Wichita KS	4.4%
7. Boise City-Nampa ID	4.3%
8. Phoenix-Mesa AZ	4.2%
9. Wilmington NC	4.1%
10. Greeley CO	3.8%
11. Durham NC	3.8%
12. Tucson AZ	3.7%
13. Riverside-San Bernardino CA	3.5%
14. Houston-Baytown TX	3.5%
15. Bakersfield CA	3.5%
16. Dallas-Fort Worth TX	3.3%
17. Ogden-Clearfield UT	3.1%
18. Seattle-Tacoma WA	3.0%
19. Cape Coral-Fort Myers FL	2.9%
20. Las Vegas-Paradise NV	2.9%
21. Sacramento-Arden-Arcade CA	2.8%
22. San Jose-Sunnyvale CA	2.8%
23. Orlando FL	2.7%
24. Ocala FL	2.7%
25. McAllen-Edinburg TX	2.7%

### Worst Employment Growth

Atlantic City NJ	-2.3%
Detroit-Warren MI	-1.6%
Cleveland-Elyria OH	-0.4%
Palm Bay-Melbourne FL	-0.2%
Pensacola-Ferry Pass FL	-0.2%
Ann Arbor MI	-0.1%
Madison WI	0.2%
Modesto CA	0.3%
Cincinnati-Middletown OH	0.3%
Pittsburgh PA	0.4%
Colorado Springs CO	0.5%
Baltimore-Towson MD	0.5%
Columbus OH	0.5%
Grand Rapids-Wyoming MI	0.6%
Sebastian-Vero Beach FL	0.6%
Milwaukee-Waukesha WI	0.8%
Deltona-Daytona Beach FL	0.8%
San Diego-Carlsbad CA	0.8%
New York-Northern New Jersey N	0.8%
Philadelphia-Camden PA	0.9%
Chicago-Naperville IL	0.9%
Port St. Lucie-Fort Pierce FL	0.9%
Santa Barbara-Santa Maria CA	0.9%
Hartford-West Hartford CT	0.9%
Columbia SC	1.1%

## Home Building Activity

Latest Six Months to February 2007

### Largest Increase in Permits

1. New Orleans LA	268%
2. Baton Rouge LA	31%
3. Louisville KY	23%
4. San Jose CA	22%
5. Santa Barbara-Santa Maria CA	16%
6. Charlotte NC	12%
7. Honolulu HI	10%
8. Seattle-Tacoma WA	6%
9. Houston TX	5%
10. Provo-Orem UT	0%
11. Augusta GA	-2%
12. Winston-Salem NC	-3%
13. Knoxville TN	-7%
14. Nashville TN	-7%
15. Austin TX	-9%
16. Greensboro NC	-10%
17. Boston MA	-10%
18. Pensacola FL	-11%
19. Raleigh NC	-11%
20. Milwaukee WI	-12%
21. Columbia SC	-13%
22. New York-North New Jersey NY	-13%
23. Tulsa OK	-13%
24. El Paso TX	-14%
25. Portland-Vancouver OR	-14%

### Worst Increase in Permits

Lakeland FL	-73%
Reno NV	-68%
Sarasota-Bradenton FL	-67%
Cape Coral-Fort Myers FL	-66%
Sebastian-Vero Beach FL	-64%
Ann Arbor MI	-59%
Port St. Lucie-Fort Pierce FL	-54%
Las Vegas NV	-52%
Tampa-St. Petersburg FL	-52%
Palm Bay-Melbourne FL	-51%
Colorado Springs CO	-50%
Detroit MI	-50%
Madison WI	-50%
Tucson AZ	-49%
Indianapolis IN	-49%
Ocala FL	-49%
Riverside-San Bernardino CA	-48%
Greeley CO	-48%
Deltona-Daytona Beach FL	-47%
Jacksonville FL	-46%
Minneapolis-St. Paul MN	-44%
Little Rock AR	-43%
Modesto CA	-43%
Columbus OH	-43%
Miami-West Palm Beach FL	-43%

# Quick Review

## Overpriced Home Markets

Naples FL	90%	Panama City FL	41%
Riverside-San Bernardino CA	75%	Orlando FL	40%
Modesto CA	74%	Tucson AZ	40%
Miami-West Palm Beach FL	69%	Honolulu HI	33%
Stockton CA	69%	Reno NV	33%
Santa Barbara-Santa Maria CA	68%	Provo-Orem UT	32%
Port St. Lucie-Fort Pierce FL	67%	Las Vegas NV	32%
San Jose CA	65%	Wilmington NC	32%
Los Angeles-Anaheim CA	63%	Ocala FL	32%
San Diego CA	60%	Jacksonville FL	30%
Fresno CA	60%	Pensacola FL	27%
Vallejo-Fairfield CA	59%	Lakeland FL	26%
Sarasota-Bradenton FL	57%	Salt Lake City UT	23%
San Francisco-Oakland CA	54%	Boston MA	23%
Atlantic City NJ	53%	Baltimore MD	23%
Sebastian-Vero Beach FL	53%	Portland-Vancouver OR	21%
Sacramento CA	51%	Virginia Beach-Norfolk VA	21%
Cape Coral-Fort Myers FL	50%	Charleston SC	19%
Bakersfield CA	50%	Myrtle Beach SC	19%
Deltona-Daytona Beach FL	49%	Boise City ID	18%
Tampa-St. Petersburg FL	48%	Seattle-Tacoma WA	16%
New York-North New Jersey NY	47%	Philadelphia PA	16%
Palm Bay-Melbourne FL	45%		
Phoenix-Mesa AZ	44%		
Washington-Arlington DC	43%		

## High Foreclosure Risk Rating

Detroit MI  
Palm Bay-Melbourne FL  
Pensacola FL  
Port St. Lucie-Fort Pierce FL