

National Summary

An Overview of National and Local Conditions

October 2006

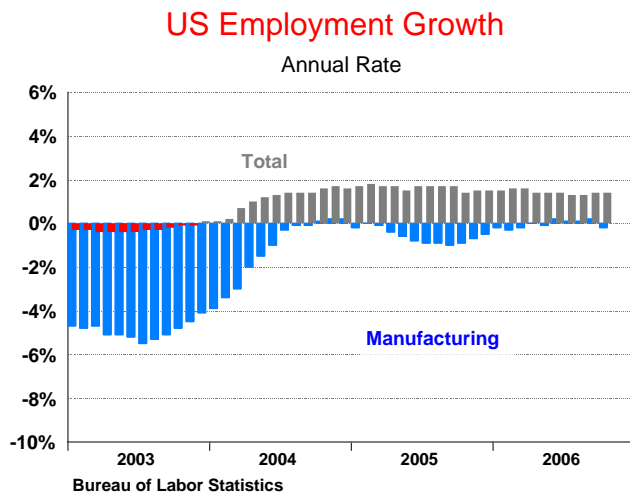
Written by Ingo Winzer

Economy: The economy is showing signs of slowing. **GDP** grew at a 1.6 percent annual rate in the third quarter, compared to 2.6 percent in the second quarter and 5.6 percent in the first quarter. **Industrial production** in September was 0.6 percent lower than on August, including a 1 percent drop in production of consumer goods. Home **construction permits** in the last three months were down 26 percent from the same period last year, and **existing home sales** in September were down 14 percent from the year-ago level.

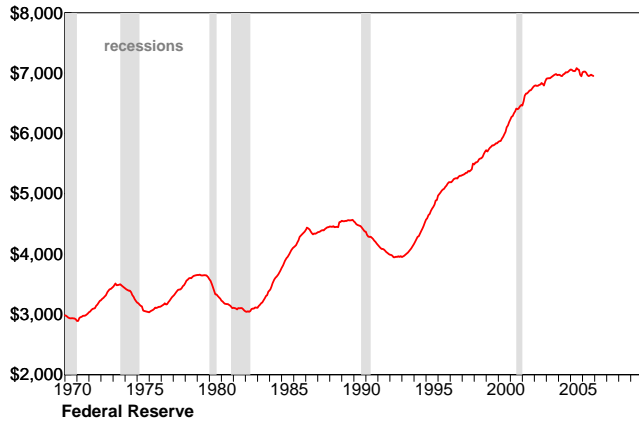
On the positive side, **jobs** in October increased 1.4 percent from last year, and the **unemployment rate** fell to 4.4 percent, from 4.6 percent in September. **Crude oil** prices in October were down 20 percent from the peak in July. **Mortgage rates**, at 6.4 percent, have been virtually unchanged for several months. And **retail sales** in August were up 6.5 percent from last year.

The positive job and sales data are probably misleading because they don't yet reflect the housing slowdown. The October figures still show construction jobs at their peak; we know they'll soon fall. Spending for items like furniture, electronics and appliances lags behind the real estate cycle—you don't buy that stuff until you move into the new home—so we won't see an effect there until next year. And jobs in retail trade were down 0.5 percent from last year, suggesting that consumer traffic is weak.

Note: **Consumer credit** has hit a peak and is apparently headed downward. As you can see in the chart on the next page, every time in the past 35 years that consumer credit has turned down, a **recession** has followed. It is clear to me that the economy will be growing at a more moderate rate in the next few years because consumers have gone into debt just about as far as they can and therefore aren't going to be spending as much money as they did a few years ago.

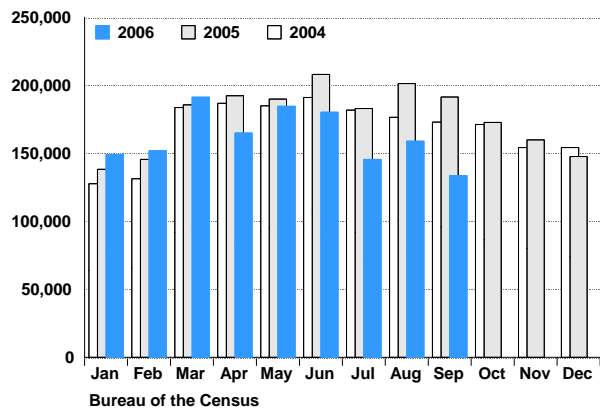


Consumer Credit Per Capita - Inflation Adjusted



US Home Building Activity

New Housing Permits Issued



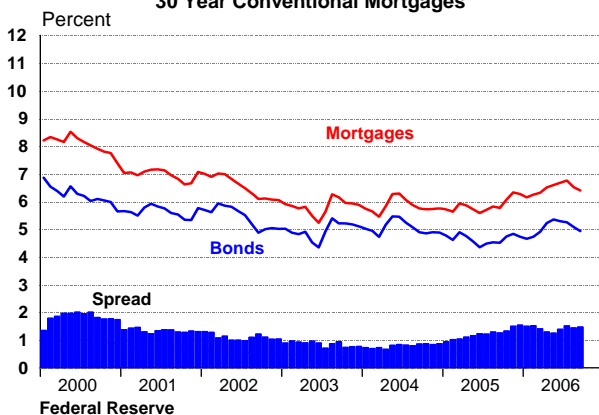
Housing: The National Association of Realtors says that “the worst is behind us as far as a market correction”. Don’t you believe it. Real estate cycles move in years, not months, and this slowdown has just begun. With the economy showing other signs of slowing, we could still be at the beginning of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

Home prices in the second quarter of 2006 were still up 10 percent, on average, from last year, but the rate of increase has slowed as speculative fever has receded. I expect price increases to slow rapidly in markets where speculation has been strongest in recent years, including Myrtle Beach, Panama City, Naples, Wilmington NC, Cape Coral, Sarasota, and Vero Beach. So far, there has been no slowdown of construction activity in Myrtle Beach or Vero Beach, either a good or a very bad sign.

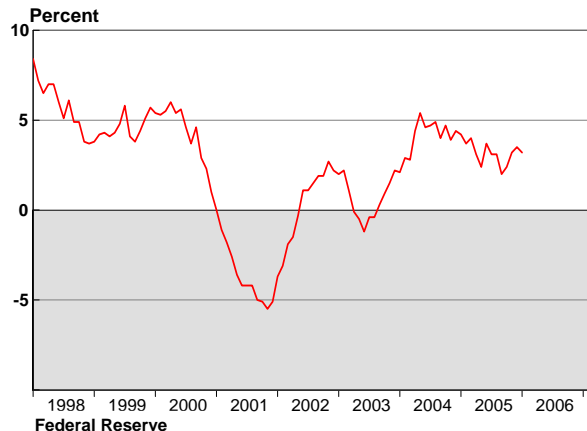
The best bets for good demand in the next few years may be those markets where population growth is well above average but where home prices increases have been moderate in recent years—probably because vacancy rates have been high: Atlanta, Austin, Charlotte, Dallas, Greeley, Houston, McAllen, Ogden, Raleigh, and San Antonio,

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 Annualized Growth Rate



Quick Review

Economic Growth

Best Employment Growth

1. Las Vegas NV	5.9%
2. Naples FL	5.6%
3. McAllen-Edinburg TX	5.1%
4. Phoenix-Mesa AZ	5.0%
5. Boise City ID	4.9%
6. Tucson AZ	4.7%
7. Cape Coral-Fort Myers FL	4.6%
8. Salt Lake City UT	4.5%
9. Reno NV	4.4%
10. Sarasota-Bradenton FL	4.4%
11. Raleigh NC	4.2%
12. Provo-Orem UT	4.1%
13. Port St. Lucie-Fort Pierce FL	3.7%
14. Brownsville-Harlingen TX	3.7%
15. Orlando FL	3.6%
16. Baton Rouge LA	3.6%
17. Seattle-Tacoma WA	3.6%
18. Fayetteville-Springdale AR	3.5%
19. Albuquerque NM	3.4%
20. Greeley CO	3.3%
21. Ogden-Clearfield UT	3.1%
22. Riverside-San Bernardino CA	3.0%
23. Sebastian-Vero Beach FL	3.0%
24. Charleston SC	3.0%
25. Jacksonville FL	2.9%

August 2005 - August 2006

Worst Employment Growth

New Orleans LA	-28.4%
Detroit MI	-1.1%
Greensboro NC	-0.7%
Ann Arbor MI	-0.3%
Indianapolis IN	-0.1%
Cleveland OH	-0.1%
Fresno CA	0.0%
St. Louis MO	0.4%
Grand Rapids MI	0.5%
Panama City FL	0.5%
Santa Barbara-Santa Maria CA	0.6%
Columbus OH	0.6%
San Jose CA	0.6%
Pittsburgh PA	0.9%
Boston MA	0.9%
New York-North New Jersey NY	1.0%
Louisville KY	1.0%
Birmingham AL	1.0%
Kansas City MO	1.1%
Los Angeles-Anaheim CA	1.1%
Winston-Salem NC	1.1%
Chicago IL	1.2%
Hartford CT	1.2%
Milwaukee WI	1.2%
Richmond VA	1.2%

Home Building Activity

Largest Increase in Permits

1. Provo-Orem UT	31%
2. Wichita KS	19%
3. Austin TX	18%
4. Ocala FL	15%
5. Houston TX	15%
6. Baton Rouge LA	15%
7. Charlotte NC	14%
8. Raleigh NC	13%
9. Fayetteville NC	12%
10. Seattle-Tacoma WA	10%
11. Dallas-Fort Worth TX	7%
12. Atlanta GA	5%
13. Memphis TN	4%
14. Salt Lake City UT	3%
15. Columbia SC	3%
16. Knoxville TN	3%
17. Tulsa OK	1%
18. San Francisco-Oakland CA	0%
19. Portland-Vancouver OR	0%
20. Myrtle Beach SC	-1%
21. Bakersfield CA	-2%
22. McAllen-Edinburg TX	-3%
23. Orlando FL	-3%
24. Denver CO	-4%
25. Ogden-Clearfield UT	-4%

Latest Six Months to August 2006

Worst Increase in Permits

Honolulu HI	-52%
Vallejo-Fairfield CA	-47%
Sarasota-Bradenton FL	-46%
Port St. Lucie-Fort Pierce FL	-46%
Palm Bay-Melbourne FL	-44%
Stockton CA	-44%
Ann Arbor MI	-40%
Detroit MI	-39%
Deltona-Daytona Beach FL	-38%
Sacramento CA	-37%
Pensacola FL	-36%
Columbus OH	-34%
San Diego CA	-34%
Jacksonville FL	-33%
Colorado Springs CO	-31%
Washington-Arlington DC	-30%
Tampa-St. Petersburg FL	-30%
Milwaukee WI	-30%
Santa Barbara-Santa Maria CA	-29%
Cape Coral-Fort Myers FL	-28%
Louisville KY	-27%
Tucson AZ	-27%
Virginia Beach-Norfolk VA	-27%
Madison WI	-26%
Reno NV	-26%

Quick Review

Overpriced Home Markets

Naples FL	89%	Orlando FL	38%
Miami-West Palm Beach FL	76%	Tucson AZ	37%
Santa Barbara-Santa Maria CA	71%	Panama City FL	37%
Riverside-San Bernardino CA	69%	Reno NV	29%
Modesto CA	68%	Wilmington NC	28%
Stockton CA	64%	Ocala FL	28%
Los Angeles-Anaheim CA	64%	Las Vegas NV	27%
Port St. Lucie-Fort Pierce FL	60%	Honolulu HI	26%
San Jose CA	60%	Jacksonville FL	26%
Sarasota-Bradenton FL	56%	Provo-Orem UT	24%
San Diego CA	55%	Pensacola FL	22%
Fresno CA	55%	Lakeland FL	19%
Vallejo-Fairfield CA	54%	Baltimore MD	19%
Cape Coral-Fort Myers FL	51%	Boston MA	19%
San Francisco-Oakland CA	50%	Salt Lake City UT	19%
Sebastian-Vero Beach FL	50%	Portland-Vancouver OR	18%
Atlantic City NJ	50%	Virginia Beach-Norfolk VA	17%
Bakersfield CA	46%	Charleston SC	17%
Sacramento CA	46%	Myrtle Beach SC	17%
Tampa-St. Petersburg FL	45%	Boise City ID	16%
Deltona-Daytona Beach FL	45%		
Palm Bay-Melbourne FL	42%		
New York-North New Jersey NY	42%		
Phoenix-Mesa AZ	41%		
Washington-Arlington DC	39%		

High Foreclosure Risk Rating

Detroit MI
Greensboro NC
New Orleans LA