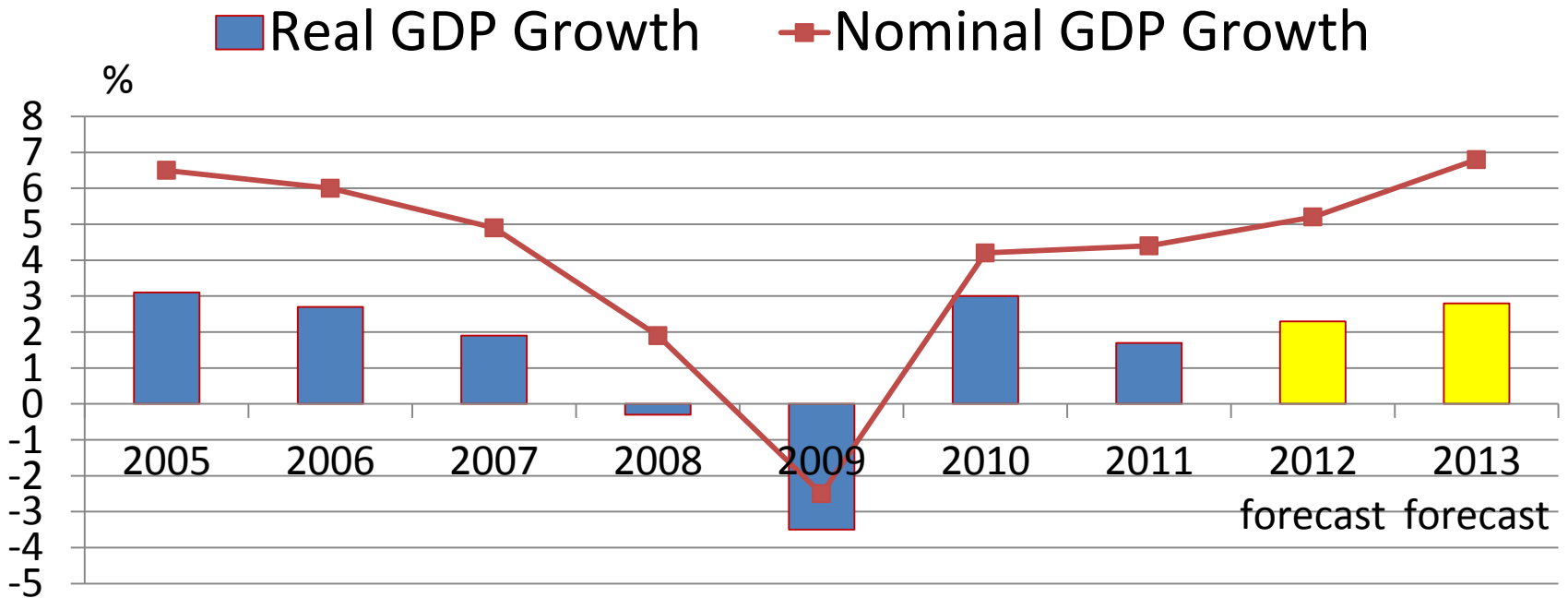


NAR Economic Forecast

By NAR Research

March 26, 2012

Economy

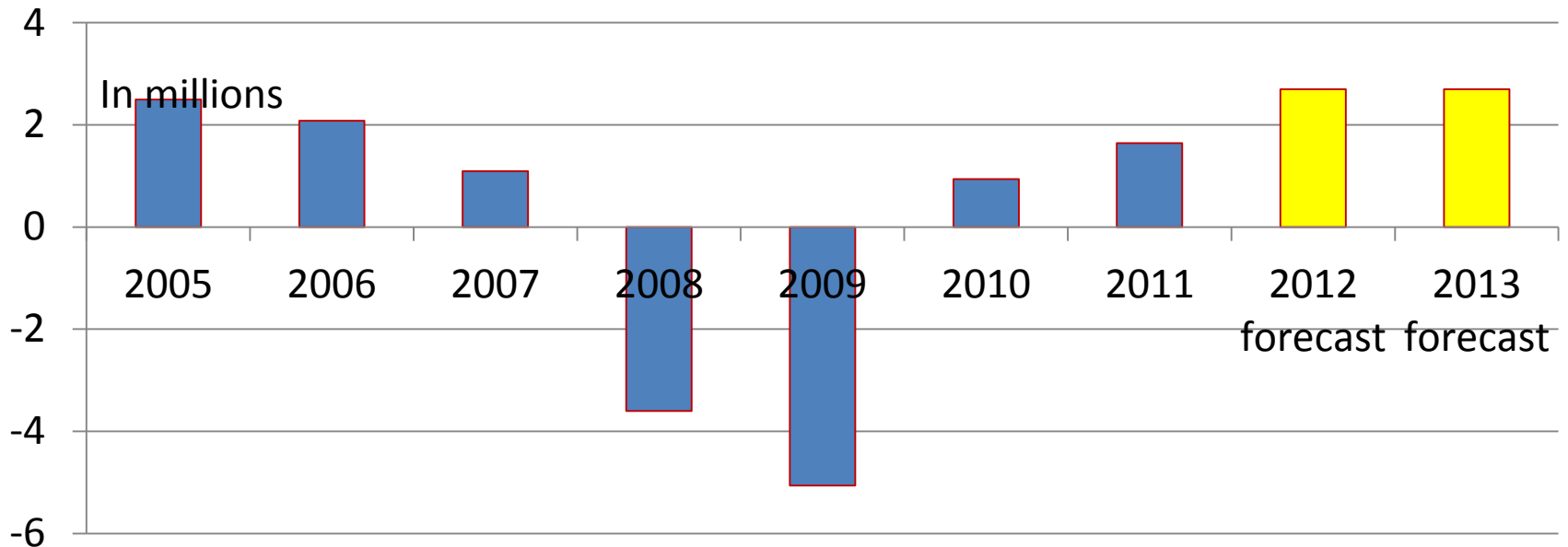


Real GDP is a measurement of everyone's and every entity's income all combined after subtracting away inflationary portion. This is the one reported by the media and used by analysts. Historically, GDP grows by 3 percent a year.

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.

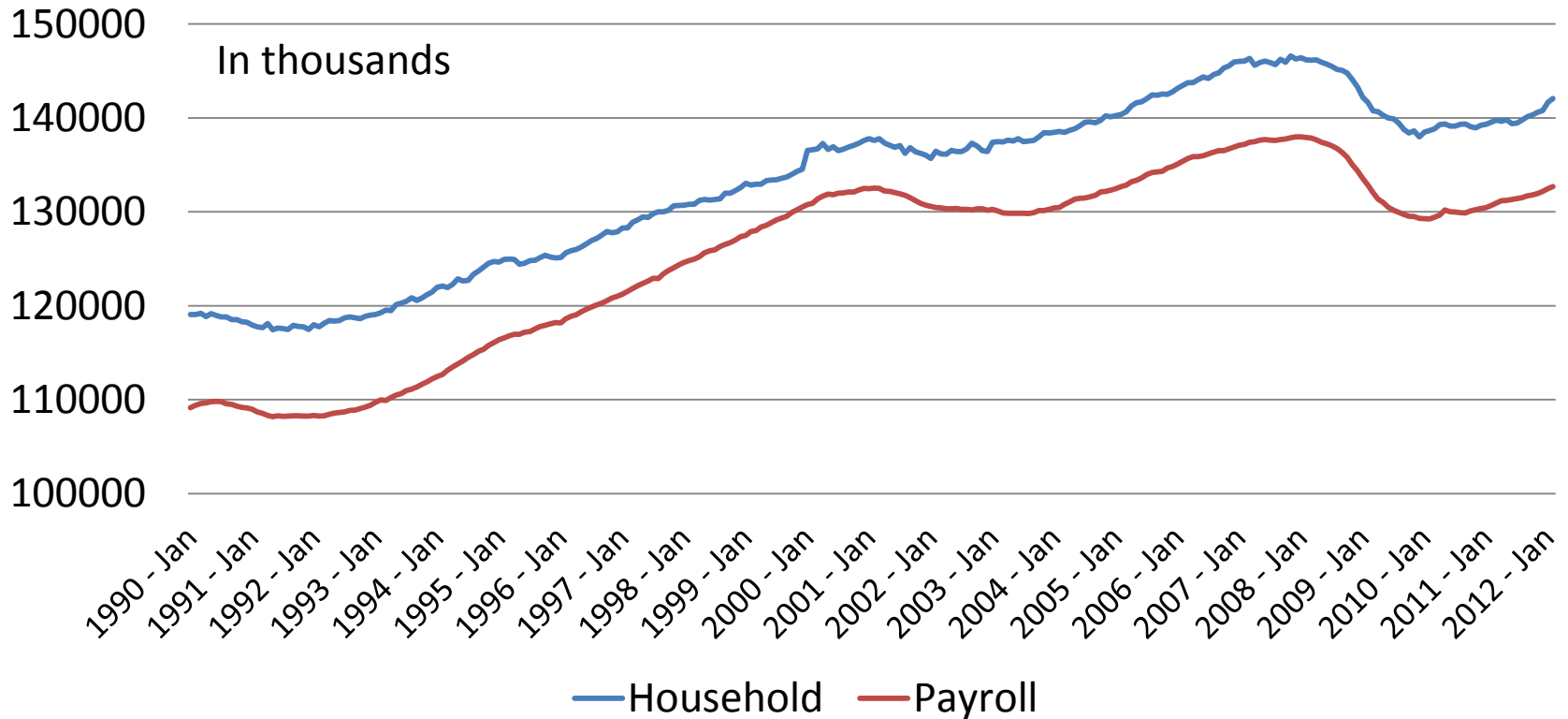
Payroll Jobs Changes

(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.

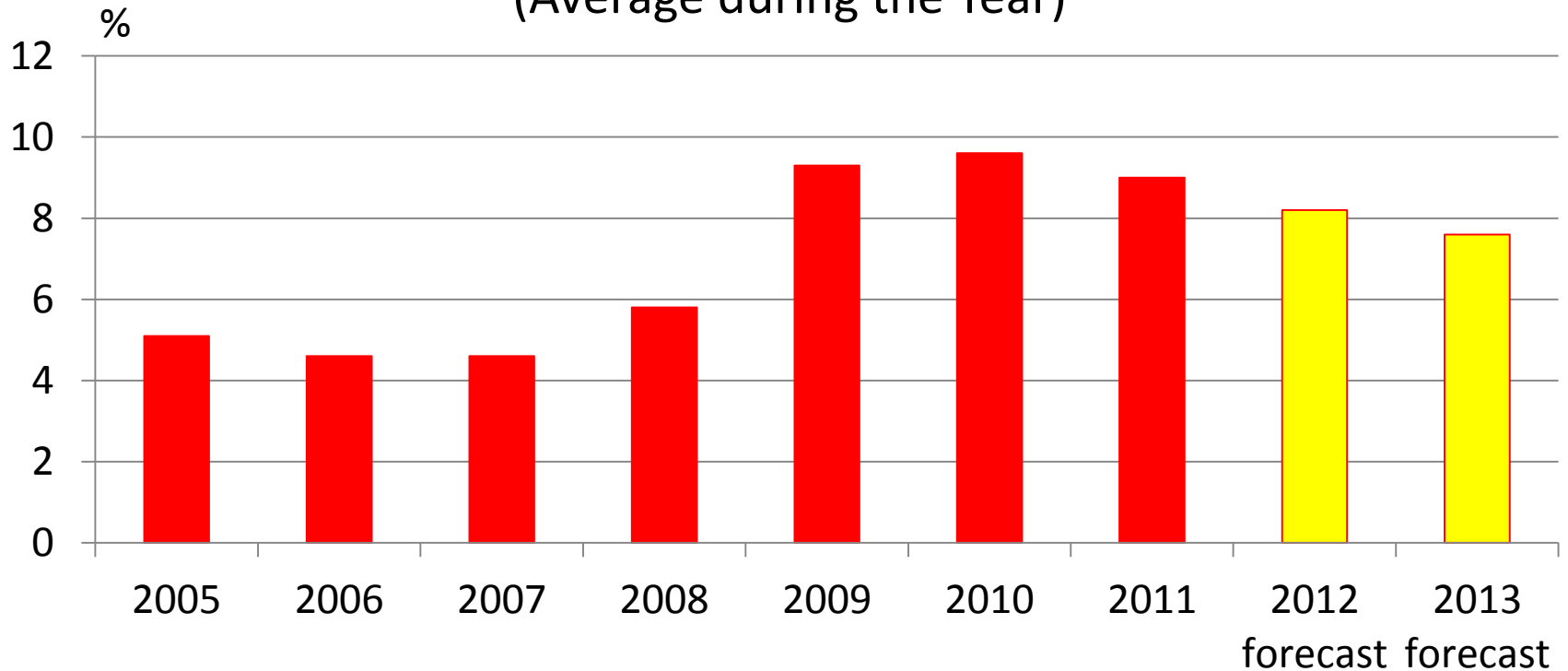
Total Jobs: Payroll vs. Household



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.

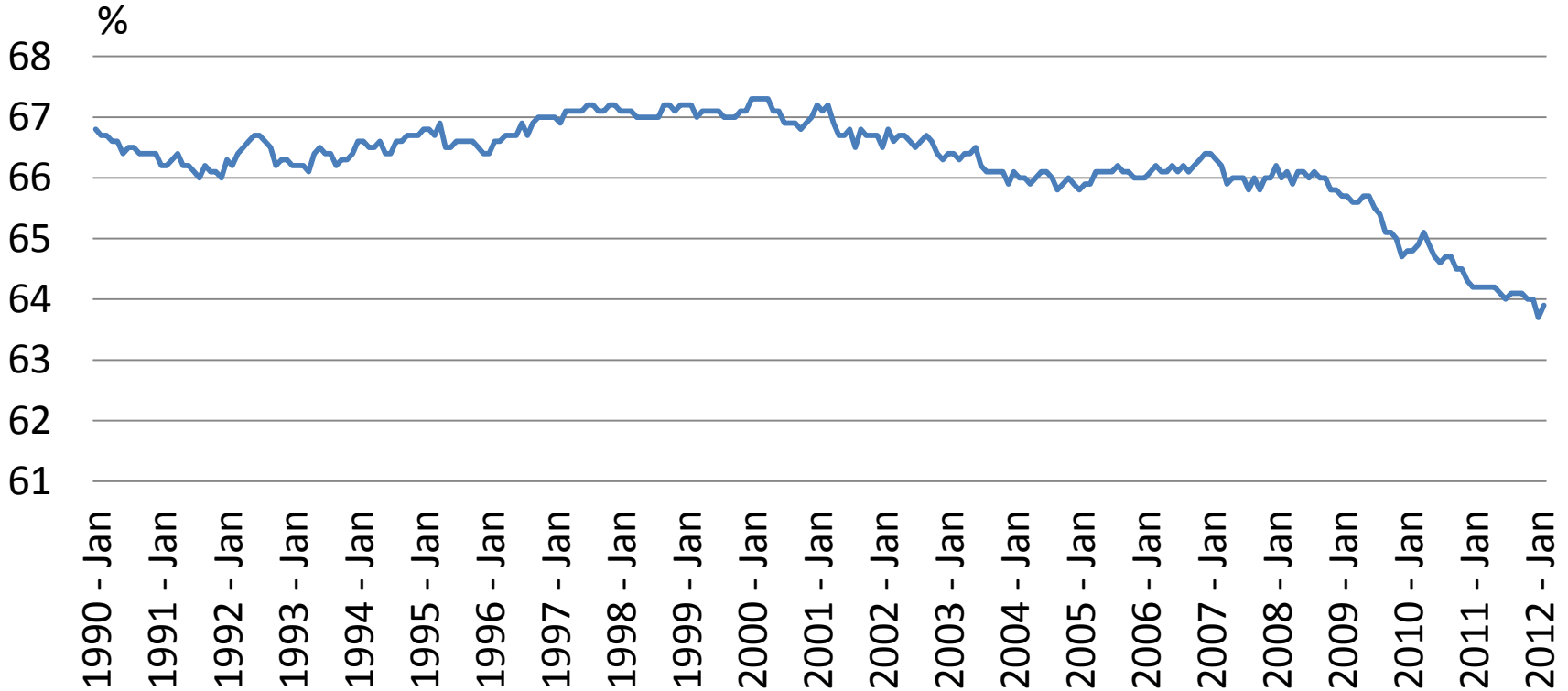
Unemployment Rate

(Average during the Year)



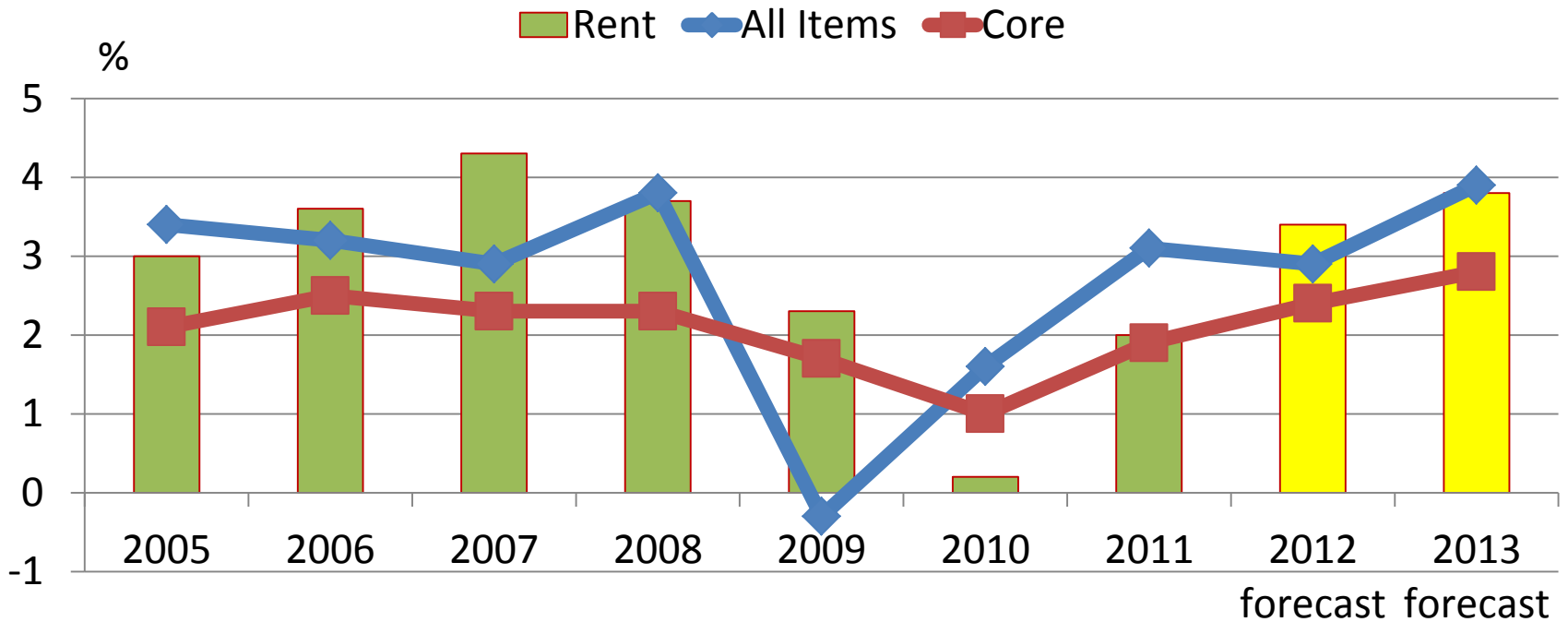
Unemployment Rate is simply the number of unemployed people divided by the number of people in the labor force. The unemployed people have to be looking for a job to be counted as being in the labor force. If they stopped looking for a job then they are counted as being out of the labor force and not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

Labor Force Participation Rate



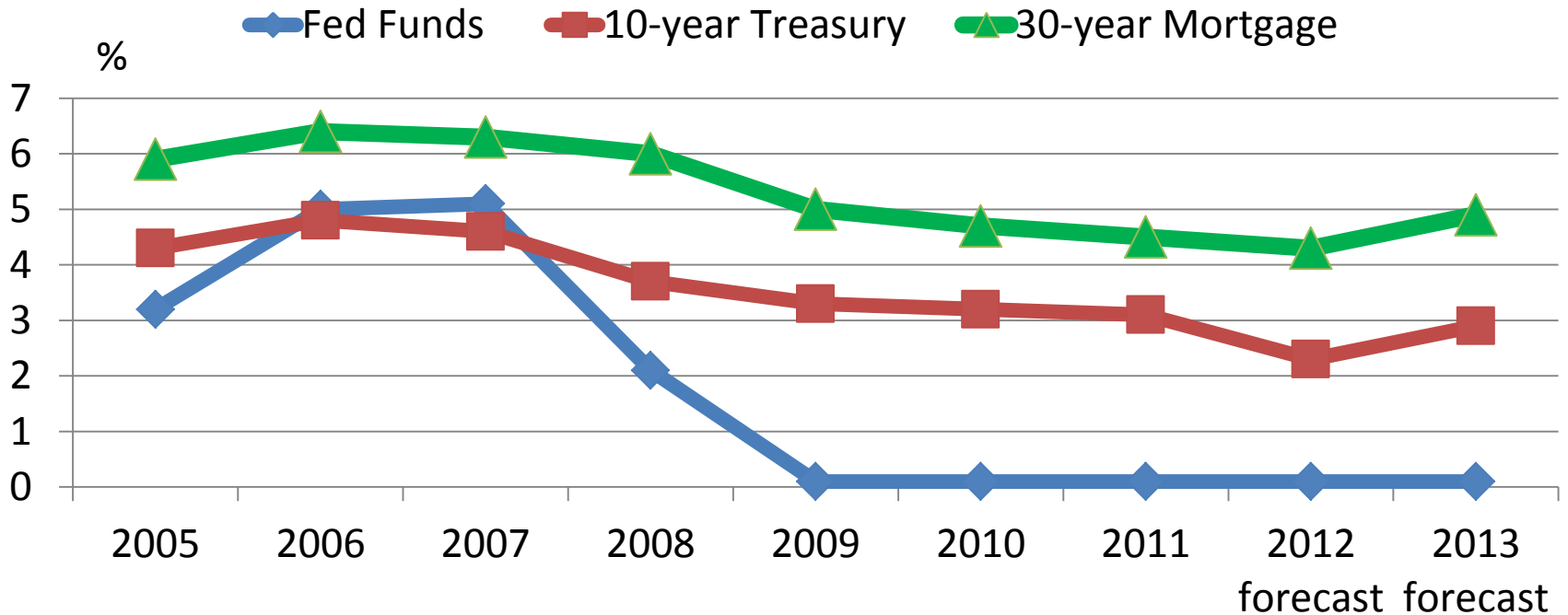
Labor Force Participation Rate has been falling at the beginning of the recession. Many went to school or took early retirement packages and are therefore no longer counted as part of the labor force. If the labor force participation were to be normal (or had it not fallen) then the corresponding unemployment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

Consumer Price Inflation



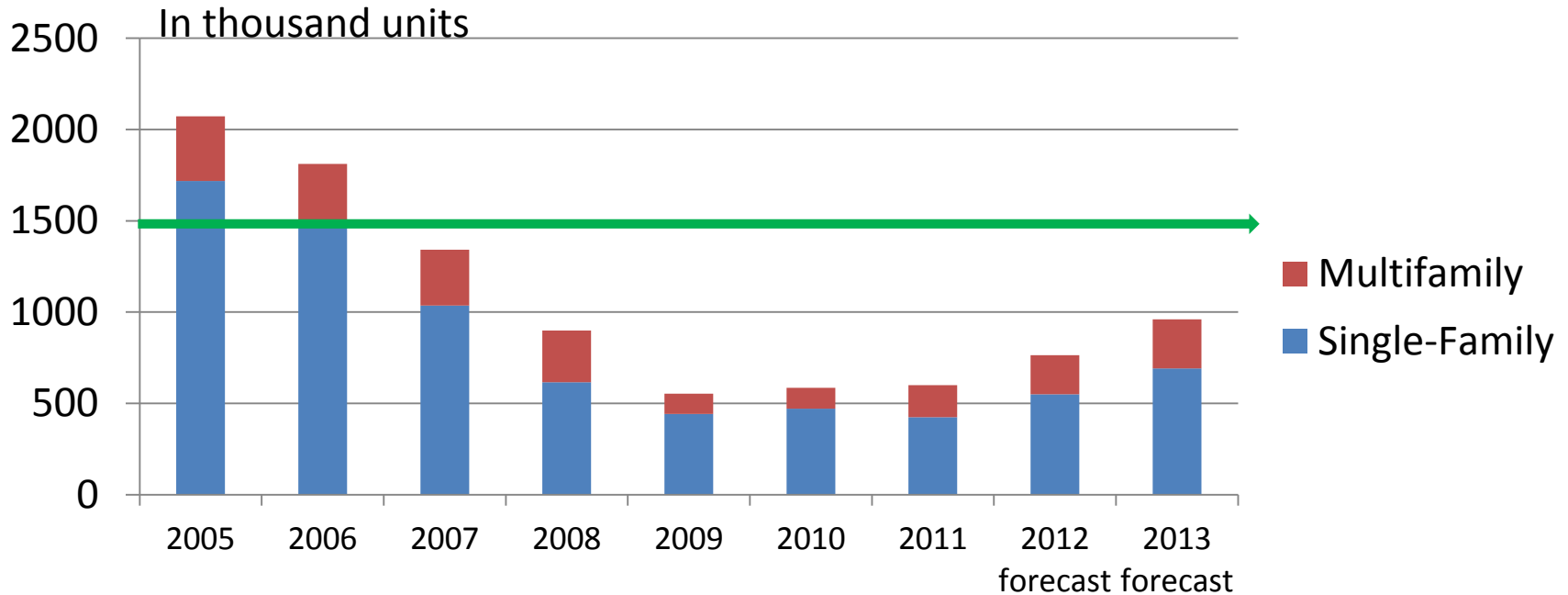
Consumer Price Inflation is what it cost to buy stuff. Higher inflation means corresponding chipping away at the purchasing power of money. **All Item** inflation tends to be somewhat volatile because it accounts for food and energy prices that tend to swing at times. **Core Inflation** is a measure 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.

Fed Policy and Interest Rates



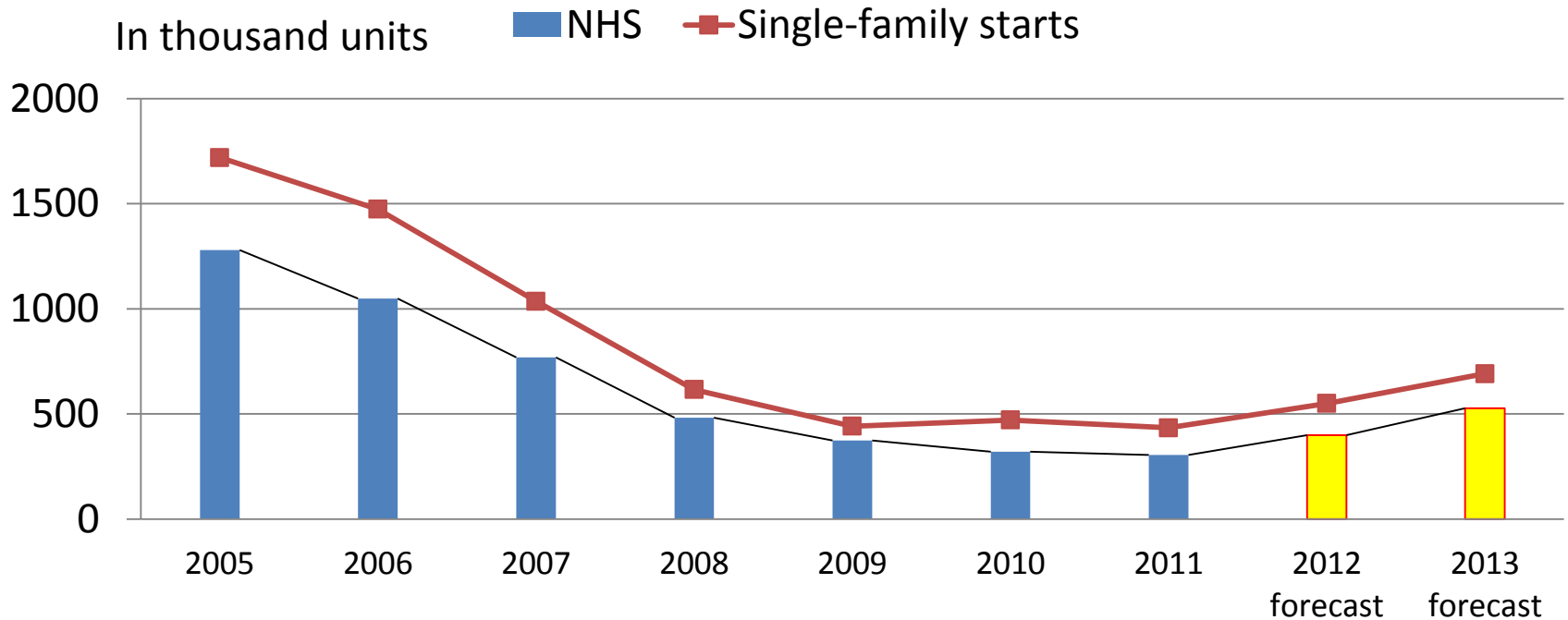
Fed Funds Rate is one primary instrument for the Federal Reserve to steer the economy. It is a very short term borrowing rate between the banks. The longer-dated interest rates do not move in lock-step with the Fed Funds Rate. The long-term rates like the **10-year Treasury** will also be impacted by the budget deficit and inflationary pressures. The **30-year fixed mortgage rate** generally move in close tandem with the 10-year Treasury rate.

Housing Starts



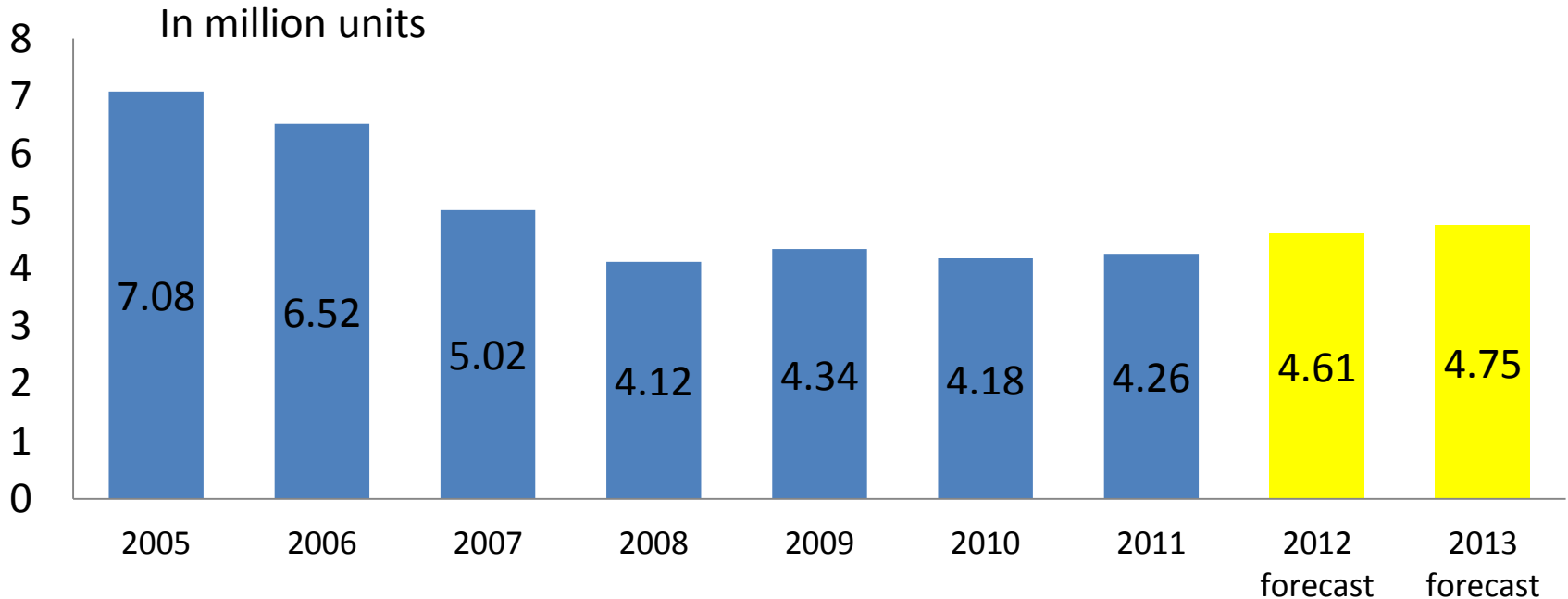
Housing starts measure the number of newly constructed homes. U.S. Population grows generally by 3 million each year (though it is estimated have slowed to 2 million in 2011). Based on population growth and the need to replace some of the demolished housing units, most economists believe about 1.5 million housing units need to be built each year. Moreover, housing starts historical average has been at 1.5 million per year. 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.

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.

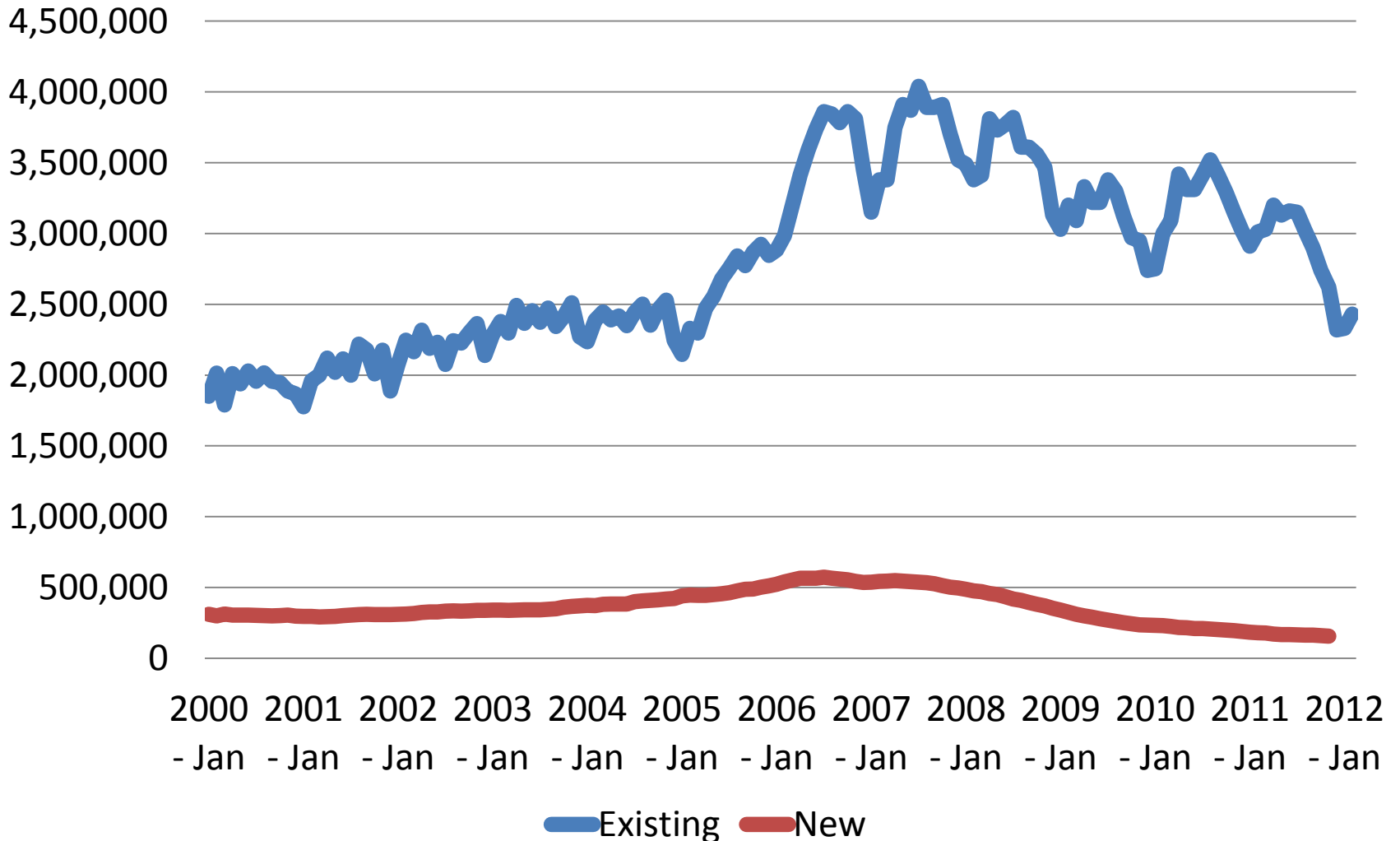
Existing Home Sales



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.

Note that the Census data is needed as a third-party validator to assure integrity to a private industry data source. Census data would capture FSBO sales. However, house flippings within 12 months would not be captured by Census.

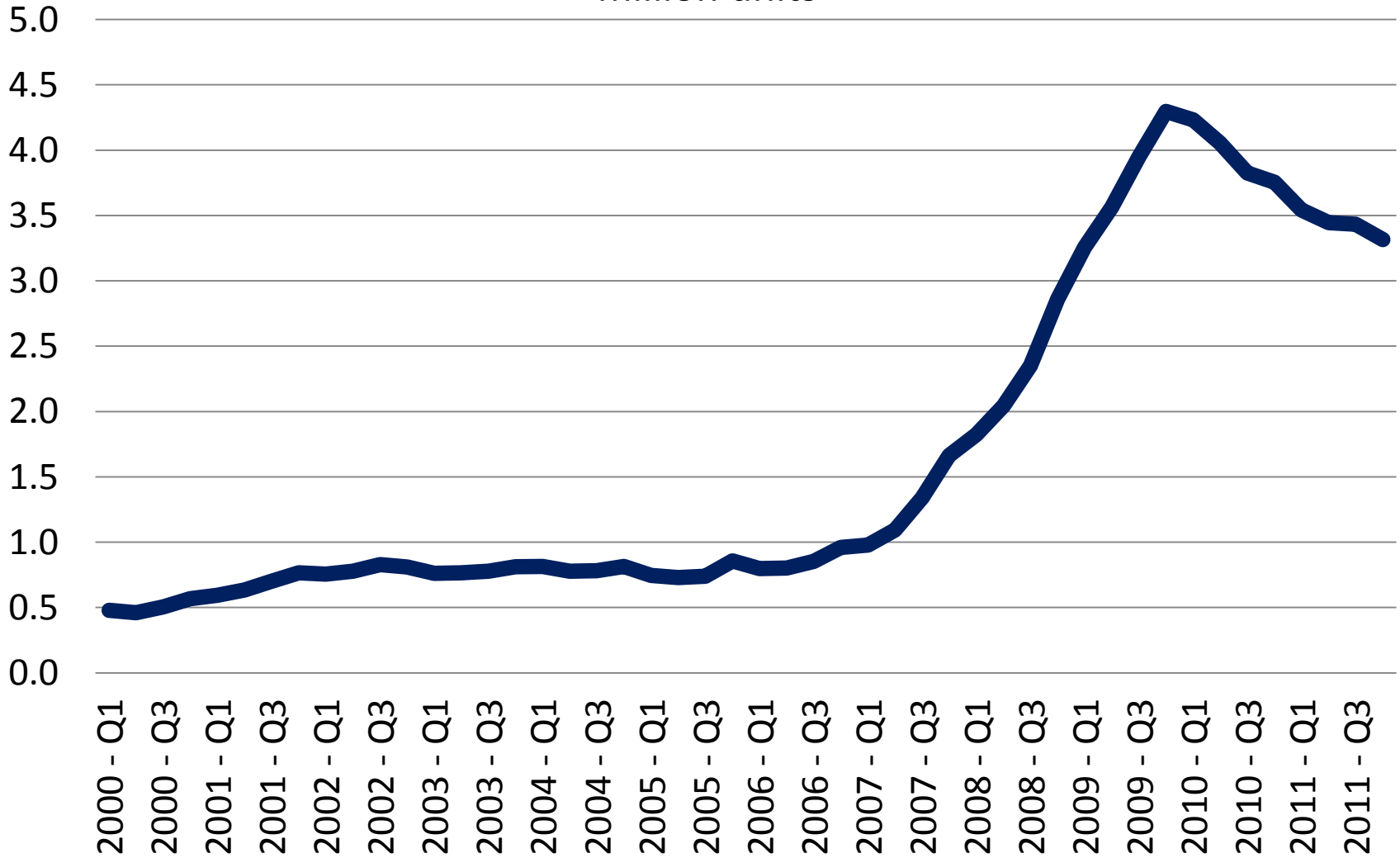
Visible Housing Inventory



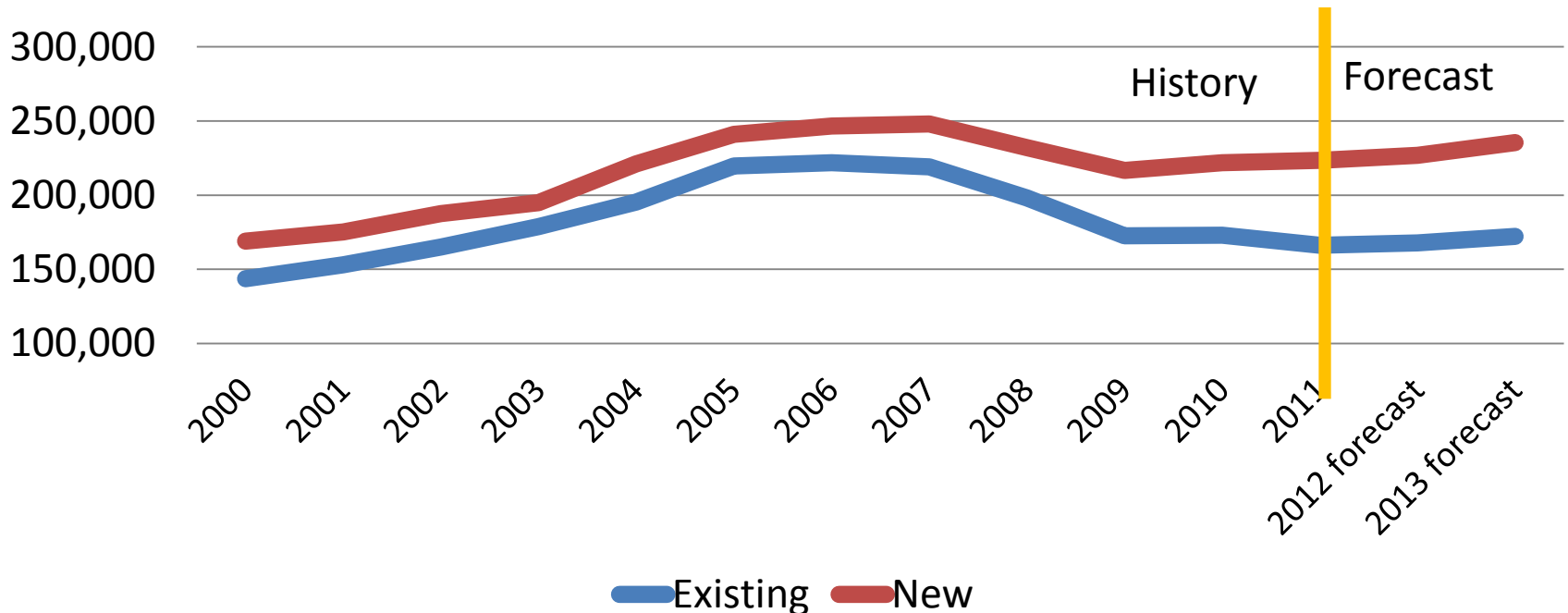
Shadow Inventory

(Seriously delinquent mortgage + homes in foreclosure process)

million units



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.

Annual Forecast

	2011 History	2012 Forecast	2013 Forecast
Existing Home Sales	4.26 million	4.65 million	4.71 million
New Home Sales	304,000	400,000	530,000
Housing Starts	611,000	760,000	960,000
Existing Home Price	\$166,100	\$168,000	\$172,000
GDP Growth	+1.8%	+2.3%	+3.1%
Payroll Job Gains	+1.7 million	+2.7 million	+2.7 million
Fed Funds Rate	0.1%	0.1%	0.1%
30-yr Mortgage	4.7%	4.3%	4.9%