

# Economic and Housing Data

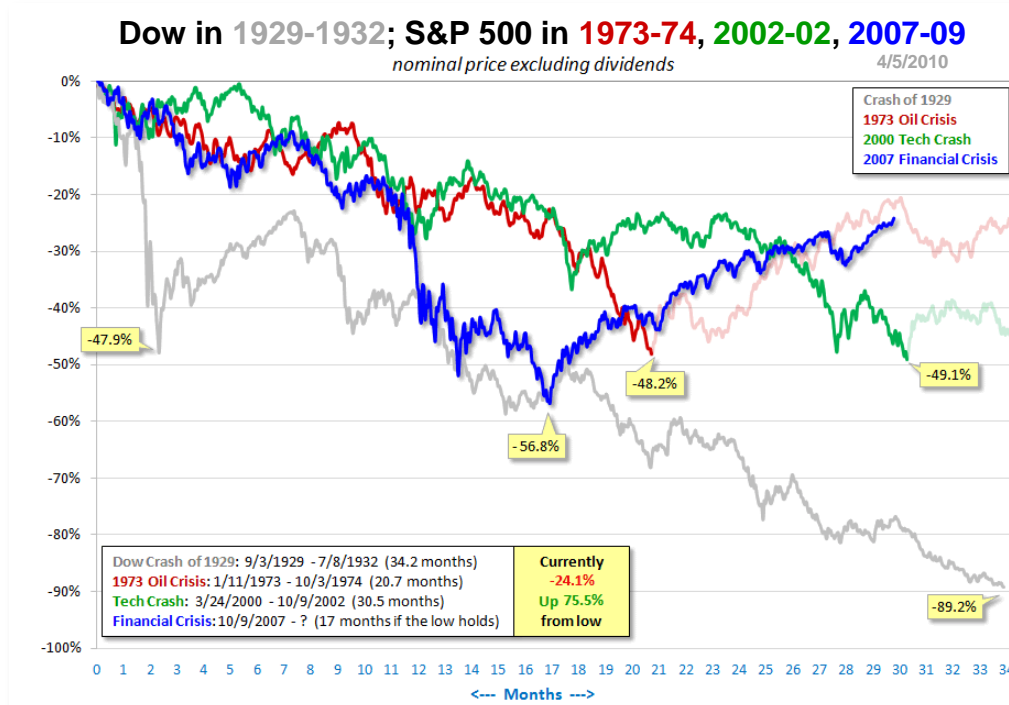
April 2010



# Economy



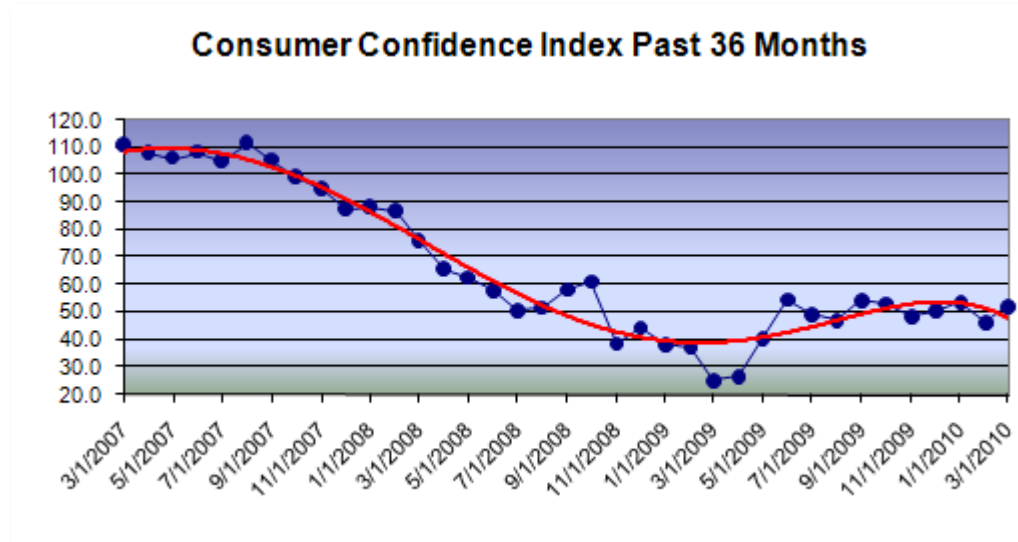
# The Road to Recovery?



- The S&P 500 index is 75.5% above the March 9<sup>th</sup>, 2009 low, but still 24.1% below the peak in October 2007. Year-to-date, the index is up 6.49%.
- The composite of home improvement industry stocks gained 23 points in the latest week of trading. The market basket of 27 industry stocks ended at 1131, up 13 percent year-to-date. Grainger is up 16%, Home Depot is up 13%, and the newly formed Stanley Black and Decker is up 15%. Masco is up 17% and Lowe's is up 6%. Ingersoll Rand is up 2% for the year.



# Consumer Confidence



## Consumer Confidence Index Rebounds in March

- The Consumer Confidence Index rose to 52.5 in March, recovering about half of the nearly 11 points it lost in February. February's 46.4 marked the lowest level since April 2009 and also erased three consecutive months of improvement. In January, the reading was 56.5.
- February's plunge in confidence jolted investors, but March's report appeared to confirm that last month's reading was an aberration. Many factors had dampened confidence, including severe weather that had shut businesses and thwarted job searches, and a stock market hurting because of international worry about Greece's national debt. Still, March's reading, buoyed in part by a rally in the stock market, shows consumers no more optimistic than when the economic recovery started nine months ago. In June 2009, the reading hit 49.3.
- Says Lynn Franco, Director of The Conference Board Consumer Research Center: "Consumer confidence, which had declined sharply in February, managed to recoup most of the loss in March. However, despite this month's increase, consumers continue to express concern about current business and labor market conditions. And, their outlook for the next six months is still rather pessimistic. Overall, consumer confidence levels have not changed significantly since last spring."
- A reading above 90 means the economy is on solid footing. Above 100 signals strong growth. Economists watch consumer sentiment because spending on goods and services for consumers, including housing and health care, accounts for about 70 percent of U.S. economic activity by federal measures.

# Economic Summary

- The incoming data have been pointing to a continuing, if moderate, recovery in the U.S. economy. The pace of growth may not be even – it has been better for manufacturing than services and was faster in the fourth quarter than we will see going forward – but it is recovery nonetheless.
- The U.S. economy in March added the most jobs in any month in three years. Payrolls increased by 162,000 in the previous month while the nation's unemployment rate remained unchanged at 9.7%. This is the third consecutive month that the unemployment rate has remained at these levels.
- Economic growth was revised slightly lower in the final fourth quarter GDP report. Final estimates showed that gross domestic product increased 5.6% which is slightly lower than the previous estimate of 5.9% growth. Growth remained much faster than the 2.2% pace recorded in the third quarter and marked the second straight quarter in which the economy expanded.
- The consumer confidence index increased to a reading of 52.5 in March from an upwardly revised February figure of 46.4. The consumer confidence index has posted increases in four out of the past five months. Consumers' expectations of business conditions, employment, and income in the next six months all turned more optimistic in March.

# Retail Sales



# Retail Sales

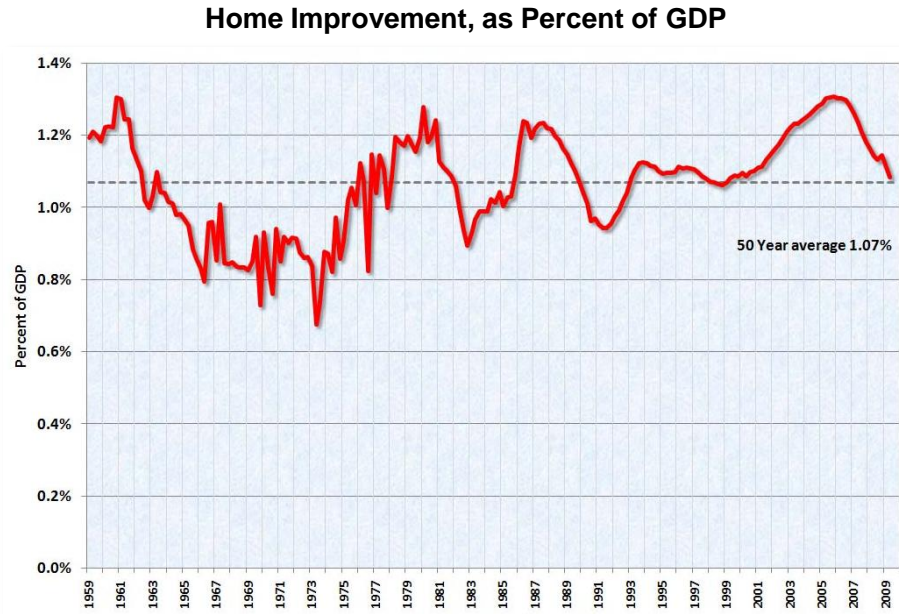


## Retail Sales Increase in February

- Retail sales posted a surprising increase in February as consumers did not let major snowstorms stop them from storming the malls. The advance, the biggest since November, provided hope that the recovery from the Great Recession is gaining momentum.
- On a monthly basis, retail sales increased 0.3% from January to February (seasonally adjusted, after revisions), and sales were up 4.5% from February 2009.
- Retail sales are up 6.0% from the bottom, but still off 6.4% from the peak.

- Retail sales for Building Materials and Supplies fell in January (1.7%) after a 1.0% decline in December.
- This graph shows real retail sales since 1992. This is monthly retail sales, seasonally adjusted (total and excluding-gasoline).

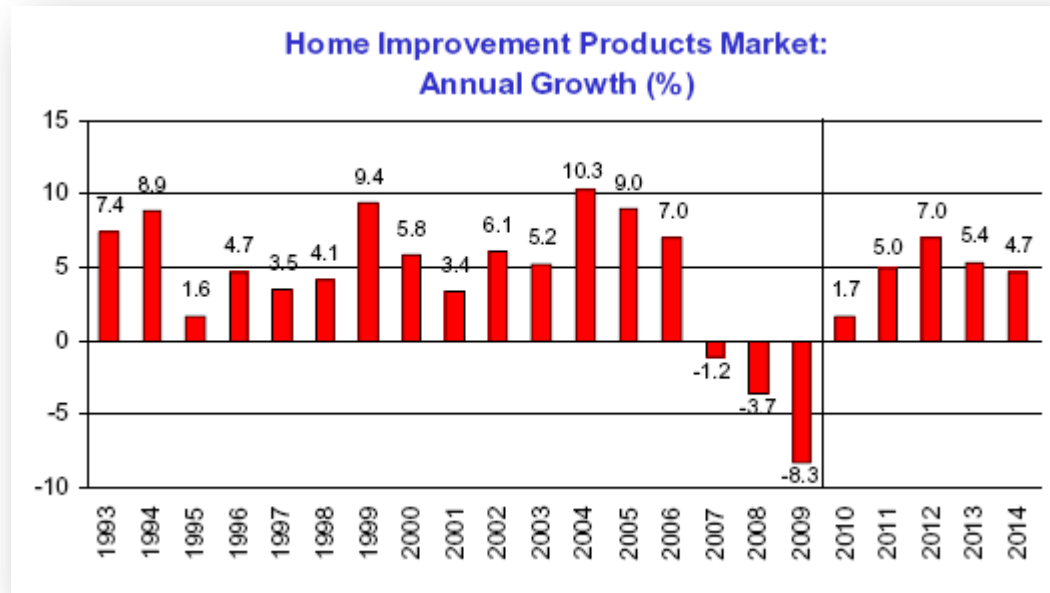
# Home Improvement Sales



## Home Improvement Sales as Percent of GDP

- This graph shows home improvement investment as a percent of GDP.
- Home improvement has held up better than other areas of residential investment.
- Home improvement is at 1.08% of GDP, well off the high of 1.31% in Q4 2005 - but just back to the average of the last 50 years of 1.07%.

# Home Improvement Products Market

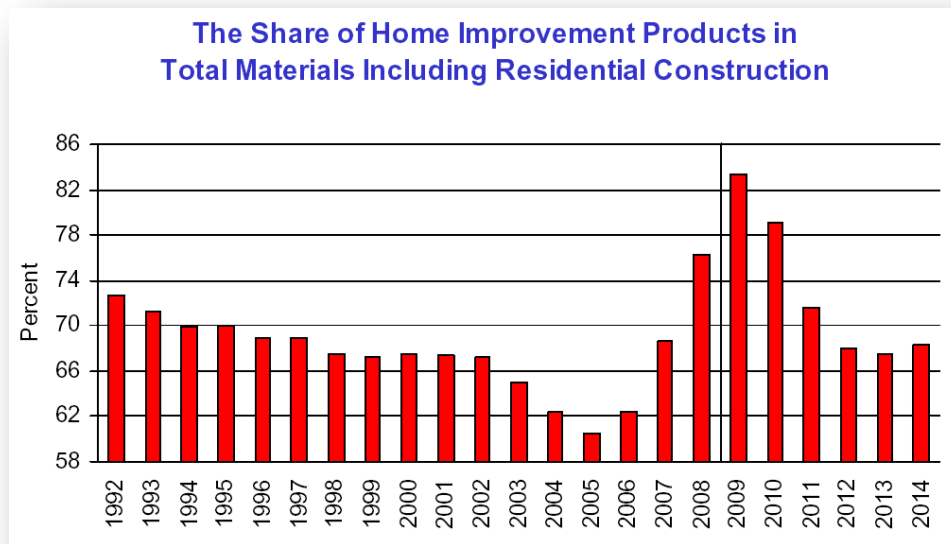


## Outlook for Home Improvement Products Market

- Sales of home improvement products declined for a third year in 2009, falling 8.3%.
- Sales of home improvement products are expected to return to positive in 2010, but with consumer spending sluggish, home improvement products are expected to increase by only 1.7 percent.
- As employment growth accelerates and housing markets improve further in 2011 and 2012, we will see a cyclical rebound in home improvement product sales. Growth of 5.0% in 2011 and 7.0% in 2012 is expected.

# Home Improvement Products Market

## Home Improvement Products Compared to Materials in New Residential Construction



- With the strong pace of home building in 2003-2005, the ratio of home improvement product sales to new residential construction declined to a historical low
  - The share of home improvement products began to rise in 2006 as residential construction began to slow and decline
  - .Despite the three-year decline of home improvement product sales, 2007-2009, the home improvement products share rose to a high of 83% in 2009
- The share of home improvement products will fall gradually over the next four years, since residential construction is expected to show stronger growth rates.

# Retail Sales Summary

- While the forecast for 2010 growth in home improvement products market has improved slightly (from 1.2% to 1.7%), the recovery will be constrained by slow employment growth and little improvement in the unemployment rate this year.
- Even as employment begins to recover, households will spend cautiously in an effort to reduce debt burdens and rebuild retirement savings. After falling 0.6% in 2009, real consumer spending will rise 2.4% this year.
- As employment growth accelerates and housing markets improve further in 2011 and 2012, we will see a cyclical rebound in home improvement product sales. We expect growth of 5.0% in 2011 and 7.0% in 2012, with the pace then slowing to average 5% in the following two years.
- Total retail sales of Building Materials in the country declined 1.1 percent in December to \$19.311 billion from \$19.524 billion in November. Sales remain down 6.1 percent from December 2008 levels.

# Housing



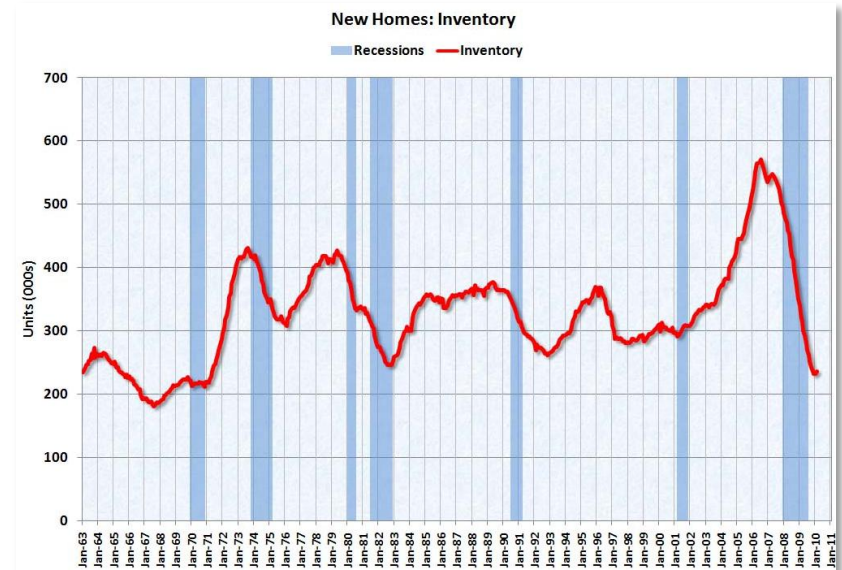
# New Home Sales

## New Home Sales Fall to Record Low in February



- Sales of new homes fell in February to a seasonally adjusted rate of 308,000 units. This is a new record low and a 2.2 percent decrease from the rate of 315 thousand in January.
- Sales plummeted dramatically in parts of the country that were hit with bad weather. In the Northeast, they fell 20 percent from a month earlier. Midwestern sales fell 18 percent. Sales fell nearly 5 percent in the South but rose 21 percent in the West.

- In February, new home inventories increased slightly to 236,000 units on a non-seasonally adjusted basis. New home inventory levels are near all-time lows, and while declining sales activity remains a concern, lower levels of inventory will help the new home market stabilize sooner.
- There were 9.2 months of supply in February. Rising, but still significantly below the all time record of 12.4 months of supply set in January 2009.



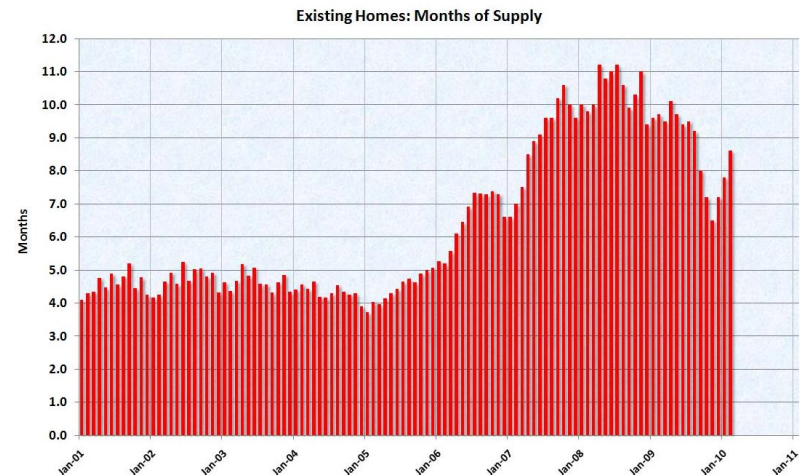
# Existing Home Sales

## Existing Home Decline Slightly in February



- Existing-home sales – including single-family, townhomes, condominiums and co-ops – dropped 0.6 percent to a seasonally adjusted annual rate of 5.02 million units in January from 5.05 million in January, but remain 7.0 percent above the 4.69 million-unit level in February 2009.
- Regionally, existing-home sales in the Northeast rose 2.4 percent in February and are 12.0 percent above a year ago. In the Midwest sales increased 2.8 percent and are 8.8 percent higher than February 2009. In the South, existing-home sales slipped 1.1 percent but are 6.9 percent above a year ago. Sales in the West fell 4.7 percent but are 3.4 percent higher than February 2009.

- Total housing inventory at the end of February rose 9.5 percent to 3.59 million existing homes available for sale, which represents an 8.6-month supply at the current sales pace, up from a 7.8-month supply in January.
- Pace of sales changed only slightly, but Inventory increased significantly, so "months of supply" increased. A normal market has under 6 months of supply, so this remains slightly high.



# The “Distressing” Gap



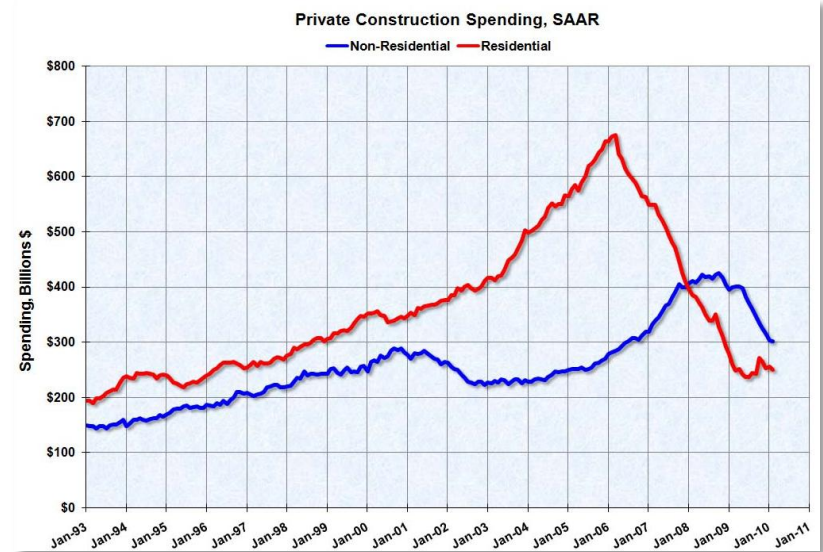
## Ratio of Existing to New Home Sales at Record High

- The ratio of existing to new home sales is at an all time high. The ratio increased initially as a result of the flood of distressed sales, keeping existing home sales elevated, but keeping new home sales depressed when builders couldn't compete with the low prices of all the foreclosed properties.
  - The recent spike in existing home sales was due primarily to the first time homebuyer tax credit. Eventually - when the housing market is more healthy - the ratio of existing to new home sales will probably return to the historical relationship.
- Existing home sales play an important role in the economy because they allow people to move for new job opportunities, or to move to larger or smaller homes for various reasons. It is the *reason* that people move that contributes to the economy; churning homes does little except generate some fees and commissions. Nothing has been added to the housing stock or the wealth of the nation.
  - Of more direct importance to the economy are new home sales, housing starts and residential investment. As the graph shows, there has been much less improvement in these key indicators - and excess inventory will have to be reduced before improvements are seen here.

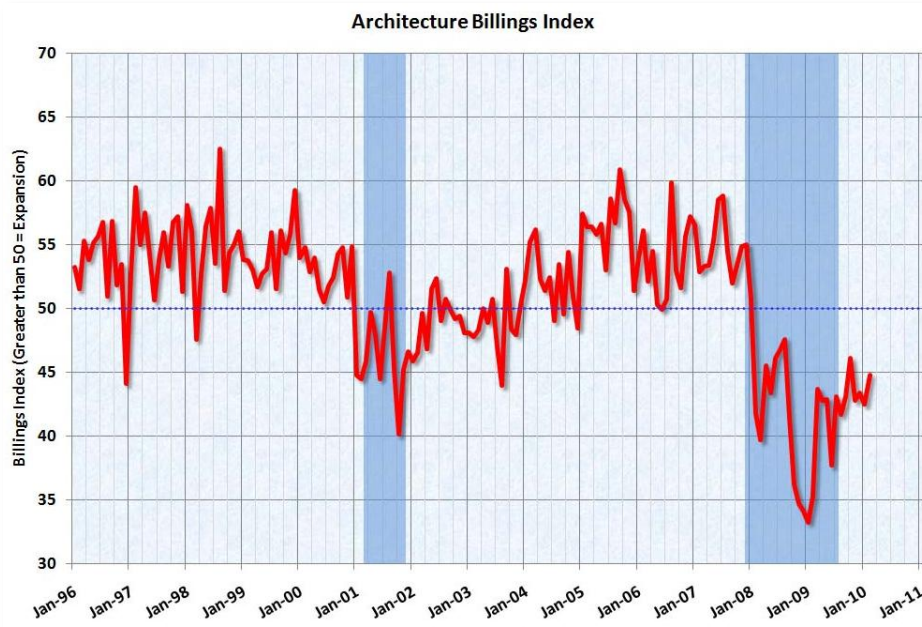
# Construction Spending

## Construction Spending Declines in February

- U.S. construction spending during February 2010 was estimated at a seasonally adjusted annual rate of \$846.2 billion, 1.3 percent below the January estimate of \$857.8 billion. The February figure is 12.8 percent below the February 2009 estimate of \$970.4 billion.
- Spending on private construction was 1.2 percent below the January estimate. Residential construction was 2.1 percent below the January estimate. Nonresidential construction was 0.4 percent below the January estimate.
- Private residential construction spending is now 62.9% below the peak of early 2006. Private non-residential construction spending is 29.0% below the peak of late 2008.
- Residential spending will probably exceed non-residential spending later this year - mostly because of continued declines in non-residential spending as major projects are completed.



# Architecture Billings



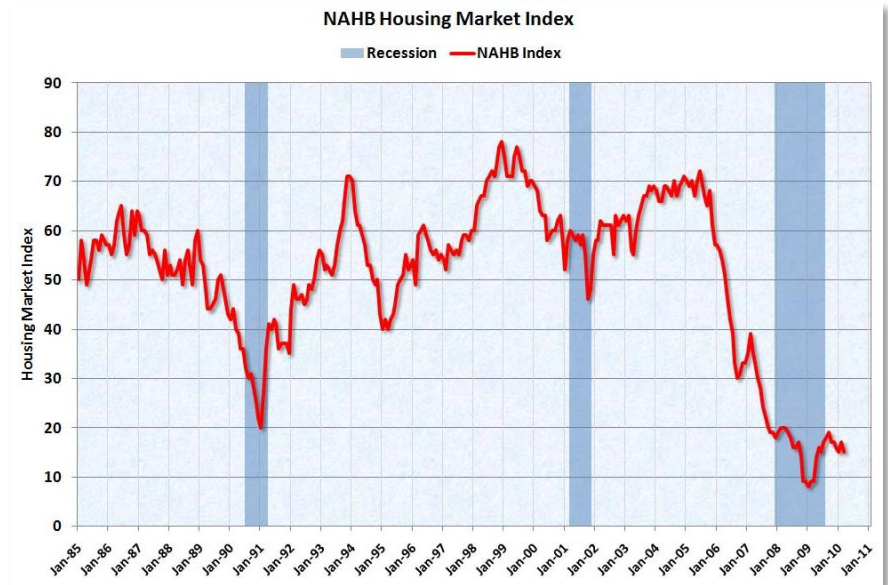
## Architecture Billings Index Up in February

- The American Institute of Architects (AIA) reported the ABI rating increased to 44.8 in February from 42.5 in January. It was at 46.1 in October.
  - The index has remained below 50, indicating contraction in demand for design services, since January 2008.
  - The ABI is considered a measure of non-residential construction activity nine to 12 months in the future.
- The ABI fell off a cliff in early 2008 and that decline started showing up in non-residential construction spending in Q4. Since the index is still below 50 this suggests an overall decline in demand for design services (any score above 50 indicates an increase in billings).
  - Regional averages: Northeast (44.1), South (40.7), Midwest (49.4), West (43.6).
  - Sector index breakdown: commercial / industrial (43.2), multi-family residential (47.3), mixed practice (43.3), institutional (44.2).

# NAHB Builder Confidence

## Builder Confidence Declines in March

- Builder confidence in the market for newly built, single-family homes fell back two points to 15 in March as poor weather conditions and distressed property sales posed increasing challenges to both builders and buyers.
- All three components of the index fell in March, reversing February's across the board gains. The index for current sales fell from 17 to 15 and the index for expected sales fell three points to 24. The index for traffic of prospective buyers fell two points to 10.
- Regionally, the HMI results were mixed in March. While the Northeast posted a five-point gain to 23 and the West posted a one-point gain to 15, the Midwest HMI slid three points to 10 and the South HMI edged down one point to 18.



# Housing Affordability Index

Year	Median Priced Existing Single Family Home		Monthly P & I Payment	Payment as a % of Income	Median Family Income	Qualifying Income	Affordability Indexes			
	Rate	Rate					Composite	Fixed	ARM	
2007	\$ 217,900	6.52	\$ 1,104	21.7	\$ 61,173	\$ 52,992	115.4	115.3	117.6	
2008	\$ 196,600	6.15	\$ 958	18.1	\$ 63,366	\$ 45,984	137.8	137.4	143	
2009	\$ 172,100	5.14	\$ 751	14.6	\$ 61,845	\$ 36,048	171.6	171.3	N/A	
2009	Jan	\$ 164,200	5.21	\$ 722	13.6	\$ 63,758	\$ 34,656	184.0	184.2	N/A*
2009	Feb	\$ 167,900	5.12	\$ 731	13.8	\$ 63,410	\$ 35,088	180.7	181.0	N/A*
2009	Mar	\$ 169,700	5.14	\$ 740	14.1	\$ 63,061	\$ 35,520	177.5	177.8	N/A*
2009	Apr	\$ 166,000	4.96	\$ 710	13.6	\$ 62,714	\$ 34,080	184.0	184.3	N/A*
2009	May	\$ 174,600	4.95	\$ 746	14.4	\$ 62,366	\$ 35,808	174.2	174.2	N/A*
2009	Jun	\$ 181,900	5.16	\$ 795	15.4	\$ 62,019	\$ 38,160	162.5	162.1	N/A*
2009	Jul	\$ 181,700	5.34	\$ 811	15.8	\$ 61,671	\$ 38,928	158.4	157.8	N/A*
2009	Aug	\$ 177,100	5.33	\$ 789	15.4	\$ 61,324	\$ 37,872	161.9	161.3	N/A*
2009	Sept	\$ 175,900	5.24	\$ 776	15.3	\$ 60,978	\$ 37,248	163.7	163.1	N/A*
2009	Oct	\$ 172,000	5.10	\$ 747	14.8	\$ 60,631	\$ 35,856	169.1	168.4	N/A*
2009	Nov	\$ 169,300	5.09	\$ 735	14.6	\$ 60,285	\$ 35,280	170.9	170.2	N/A*
2009	Dec	\$ 169,600	5.00	\$ 728	14.6	\$ 59,939	\$ 34,944	171.5	170.4	N/A*
2010	Jan	\$ 163,600	5.08	\$ 709	14.1	\$ 60,498	\$ 34,032	177.8	177.3	N/A*

## Housing Affordability Improves, Remain at Historic Highs

- Housing affordability increased in January as home prices declined, and remain at historic highs. The housing affordability index was 177.8 in January, up from 171.5 in the previous month.
- To interpret the indices, a value of 100 means that a family with the median income has exactly enough income to qualify for a mortgage on a median-priced home. An index above 100 signifies that family earning the median income has more than enough income to qualify for a mortgage loan on a median-priced home, assuming a 20 percent down payment.
- The index indicates that the typical family has 177.8 percent of the income necessary to qualify for a standard 30-year mortgage on a median priced existing single family home in the country. For all of 2007, the Index averaged 115.4. In 2008, the Index was at 137.8, and in 2009 it was 171.6.



HAI Formulas /  
Methodology



Source: National Association of Realtors

# Housing Recovery at Risk?

- The recovery in the housing market may be at risk of collapsing. Home sales are sliding, prices are stalling and foreclosures are rising. And mortgage rates are likely to go up when the Federal Reserve ends a program that has driven them down. Economists are warning the trend could threaten the broader economy. People whose home equity is stagnant or shrinking are less likely to spend freely.
- Only a few months ago, the housing market had been showing signs of strength as it recovered from the most painful downturn in decades. Much of the improvement, though, came from government programs that held down mortgage rates and provided tax breaks for buyers. Since the fall, sales have sunk. And the government support is running out.
- The latest sour news came when the Commerce Department reported sales of new homes fell in February to their lowest point on record. It was the fourth straight drop. That news followed a report a day earlier that sales of existing homes fell for the third straight month in February, to their lowest level since July. To cope with falling demand, the homebuilding industry has slashed the pace of construction. But thousands of foreclosed homes have been dumped on the market at bargain prices. That glut has made it hard for builders to compete.
- Prices have followed sales down. The median sales price for previously occupied homes fell to \$165,100 in February, down from a peak of \$230,300 in July 2006, according to the National Association of Realtors. Falling home prices mean builders can't recoup their construction costs. And that means fewer construction jobs. It also signals that the building industry won't be giving much of a lift to the economic recovery.
- There was some positive news for builders, though: The median sales price for a new home climbed to \$220,500, up more than 5 percent from a year earlier and about 6 percent from January. Some large homebuilders say their outlook is brightening. Lennar Corp., one of the nation's largest, reported an 18 percent surge in new home orders and fewer buyers canceling contracts in the last quarter.

# Housing Summary

## Housing Struggles as the Economy Slowly Grows

- The housing market is tough to read these days. Recent data appear to have been subdued by strong winter storms and continuing weak consumer confidence. Builders remain concerned as well, as the NAHB/Wells Fargo Housing Market Index (HMI) reflects. After a brief rebound in February to 17, from 15 in January, the HMI fell back to 15 in March (anything above 50 indicates more positive responses than negative and anything below 50 the reverse). The best that can be said at this point is that the index has been essentially flat for nearly a year now, moving in a narrow range.
- Home sales in both the new and existing home markets posted declines again in February. New home sales fell 2.2% in February to a seasonally-adjusted annual pace of 308,000 units. This was the fourth consecutive month that new home sales volume has declined while hitting a new all-time low.
- Existing home sales fell for the third straight month in February to a seasonally-adjusted annual rate of 5,020,000 units which is a 0.6% decline from January levels.
- U.S housing starts dropped 5.9% to a seasonally-adjusted annual rate of 575,000 units in February with a sharp drop in multi-family activity accounting for most of the decline. Construction activity was limited due to winter storms that crippled the Northeast and South regions in February.
- Building permits also fell in February which suggests that construction activity will remain slow in the coming months. Building permits fell 1.6% last month to a seasonally-adjusted annual rate of 612,000 units.

# Forecast and Summary

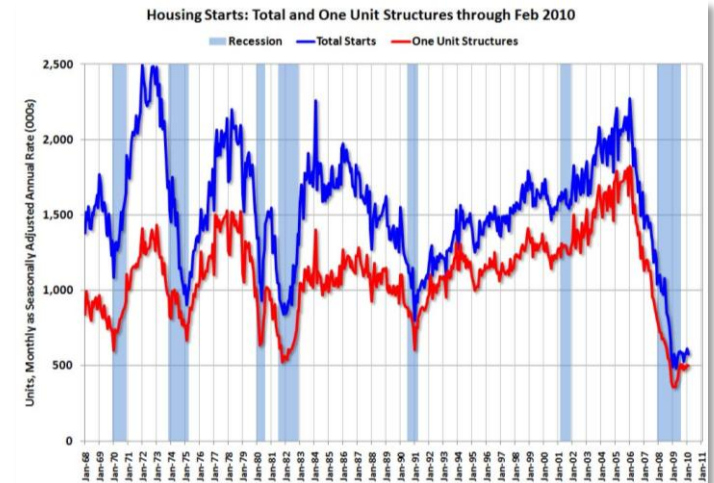


# Housing and Economic Data

Indicator	Jan / Feb	Last Mo	1 Yr Ago	1 Mo Change	1 Yr Change
Housing Starts	575,000	611,000	574,000	↓ -5.9%	↑ 0.2%
Housing Permits	612,000	622,000	550,000	↓ -1.6%	↑ 11.3%
30-yr fixed mortgage (FHLMC)	5.1%	4.9%	5.1%	↑ 0.2%	0.0%
Unemployment Rate	10.0%	10.2%	6.7%	↓ -0.2%	↑ 3.3%
Consumer Confidence Index	55.9	53.6	37.4	↑ 2.3	↑ 18.5
Leading Economic Index	106.4	105.2	98.8	↑ 1.1%	↑ 7.7%
S&P 500	1,073.9	1,115.1	825.88	↑ -3.7%	↑ 30.0%

## Housing Starts Decline in February

- Total housing starts were at 575 thousand (SAAR) in February, down 5.9% from the revised January rate, and up 20% from the all time record low in April 2009 of 479 thousand (the lowest level since the Census Bureau began tracking housing starts in 1959). Starts had rebounded to 590 thousand in June, and have moved mostly sideways for nine months.
- Single-family starts were at 499 thousand (SAAR) in February, down 0.6% from the revised January rate, and 40% above the record low in January and February 2009 (357 thousand). Just like for total starts, single-family starts have been at about this level for nine months.
- Permit issuance, which can be an indicator of future building activity, declined fell to 612000. This is 1.6 percent below the January rate of 622,000, but is 11.3 percent above the February 2009 estimate of 550,000. Single-family authorizations in February were at a rate of 503,000; this is 0.2 percent below the revised January figure of 504,000 units.



# Housing and Economics Report Card

**Current Grades for the Economy and Housing Markets**  
**(Arrows indicate change since last month)**

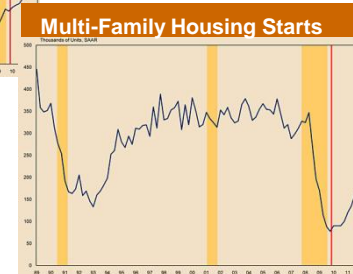
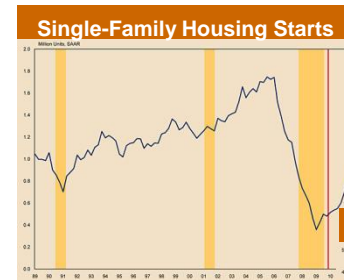
Indicator	Current Stat	Grade	Stat Last Month	Grade
Employment - 1 Year Growth	(3,235,000)	↑ D+	(3,949,000)	F
Unemployment Rate	9.7%	F	9.7%	F
Real GDP Growth	5.6%	↑ A+	2.2%	C-
Consumer Confidence	52.5	↑ D-	46.4	F
Total Housing Starts	575,000	C-	611,000	C-
Mortgage Rates	5.0%	A+	4.9%	A+
Median Price Existing Home	\$165,100	F	\$164,900	F
Existing Home Sales	5,020,000	↑ B	5,050,000	A-
Existing Home Inventory	3,589,000	↓ D-	3,277,000	C-
Existing Home Affordability	68.2%	A+	68.1%	A+
Median Price New Home	\$220,500	B	\$207,900	D
New Home Sales	308,000	↓ F	315,000	D
New Home Inventory	233,000	↓ F	231,000	D-
New Home Affordability Ratio	56.8%	A+	59.1%	A+

# Housing and Economic Forecast

Economic and Housing Forecast Mar 24, '10														
	Economic Activity			Interest Rates				New Housing Units					Home Sales	
	Real GDP	CPI	Unemp Rate	Fed Funds	Prime	Mortgages		Starts			Mfg. Homes	Total New Housing	New	Single-Family Existing
						Fixed Rate	Adj Rate	Total	Single Family	Multi-Family				
	% Change		Percent	Percent				Thousands of Units						
<b>Annual Data</b>														
<b>2006</b>	2.7%	3.2%	4.6%	5.0%	8.0%	6.4%	5.5%	1,812	1,474	338	118	1,930	1,049	5,712
<b>2007</b>	2.1%	2.9%	4.6%	5.0%	8.0%	6.3%	5.6%	1,342	1,036	306	96	1,437	769	4,960
<b>2008</b>	0.4%	3.8%	5.8%	1.9%	5.1%	6.0%	5.2%	900	616	285	82	982	481	4,341
<b>2009</b>	-2.4%	-0.3%	9.3%	0.2%	3.3%	5.0%	4.7%	553	441	113	50	603	371	4,567
<b>2010</b>	3.3%	2.1%	9.6%	0.1%	3.2%	5.4%	4.5%	643	550	93	57	700	422	5,150
<b>2011</b>	3.6%	1.6%	8.9%	0.6%	3.6%	6.1%	5.4%	991	841	150	81	1,072	700	5,938

## U.S. Housing and Economy Forecast

- The series of blizzards in the eastern part of the country took a substantial toll on seasonally adjusted economic data for February, particularly in the labor market and the housing sector. The negative weather effects presumably are being reversed in March, however, and the economic picture for the first quarter as a whole still looks reasonably bright.
- The new-home market is expected to experience a temporary bounce in coming months as adverse weather effects are reversed and as the homebuyer tax credits stimulate some sales prior to their scheduled expiration.
- Forecasts for new-home sales and single-family housing starts show solid gains in 2010 and even stronger growth in 2011. The volatile multifamily market bottomed out recently, at a record low, but multifamily starts are still expected to be down in 2010 (year-over-year) before staging a recovery in 2011 that gets starts back to roughly half their long-term trend.



# Housing and Economic Summary

## Stock Market Gains But Housing Unsteady

- Despite fairly positive growth in equity markets, lackluster housing data remains a lingering concern. Both housing starts and building permits fell in the month of February which is evidence that conditions in the housing market are still sluggish.
- A steady flow of moderately positive economic news along with the Fed's restated commitment to a lower interest rate environment pushed markets higher over the past week. Both the DJIA and the broader S&P 500 index reached their highest levels in 17 months. A drop in initial unemployment claims this past week showed the employment situation continuing to stabilize.
- While sales activity during March and April are expected to increase, demand may fall off significantly after the homebuyer tax credit expires at the end of April and with interest rates eventually heading higher later in the year. Slower sales activity early on in the year along with weaker construction activity sent homebuilder confidence lower in March. The NAHB Housing Market Index declined two points, and all three component indexes declined as well. The index measuring traffic of prospective buyers this month fell to its lowest levels since March 2009.
- Despite all the headwinds, builders successfully reduced their inventory of new single-family houses in 2009 to levels last seen in 1971 — for a population that has grown by 80% since that time. NAHB is forecasting 550,000 single-family starts in 2010, a 25% increase over 2009.