

# **Economic and Market Watch Report**

**1st Quarter, 2006**



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# **ARMLS Economic and Market Watch Report**

Arizona Regional Multiple Listing Service, Inc. (ARMLS) has been providing multiple listing services to its subscribers since its inception in 1982. ARMLS was one of the first regional multiple listing services in the country. Our service area includes all of Maricopa County and portions of Pinal and Yavapai Counties. With more than 35,000 subscribers, ARMLS is one of the largest multiple listing services in the country.

## **Index**

### **Local Report**

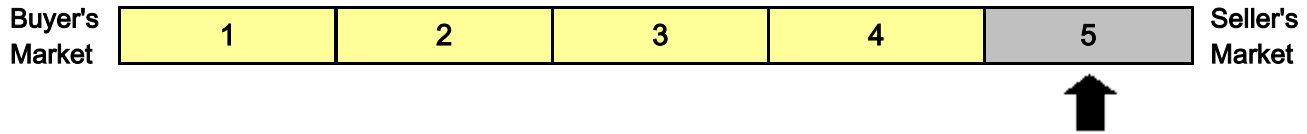
#### **Arizona**

<b>Maricopa County .....</b>	<b>1</b>
<b>Pinal County .....</b>	<b>6</b>
<b>Trends .....</b>	<b>8</b>
<b>Chief Economist's Commentary* .....</b>	<b>9</b>
<b>Local Forecast .....</b>	<b>11</b>
<b>Economic Monitor* .....</b>	<b>13</b>

***The statistical information presented in this report is compiled from information provided by Arizona Regional Multiple Listing Service, Inc and may not include all sales activity in the market.***

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## Maricopa County, AZ



### Labor Market :

Employment increased by 47,379 jobs in Maricopa County during January, February and March. However, the number of job seekers also increased. The combined effect of these two trends was an increase in the average monthly unemployment rate from 4% for the fourth quarter to 4.2% in the three months of the first quarter. The solid job growth may provide strong home sales, while low mortgage rates should continue to spur sales.

### Housing Market :

	Q4' 05	Q1' 06	Q2' 06 (Forecast)
Average Price	\$330,100	\$341,900	↑
# Homes on the Market *	29,934	39,252	↑
# Homes Sold **	20,028	17,135	↑
# New Homes Built	9,077	5,160 ***	↑
Avg # of Days on Market	26	44	↓

\* Available as of Mar. 31, 2006.

\*\* May not add to total of zip codes.

\*\*\* During the first two months of 1st quarter.

### Data by Zip Codes for Q1 2006

Zip Code	Average Price	Price Change ****	Total # Homes Sold (Quarter)	% Change in # Homes Sold ****	Average Days on Market	% of Asking Price (Sold/List Price)
85003	\$402,800	16.79%	32	-54.29%	87	97.9%
85004	\$331,900	50.93%	18	5.88%	41	93.6%
85006	\$226,100	51.74%	64	-20.99%	42	98.1%
85007	\$308,500	60.68%	49	-14.04%	45	97.6%
85008	\$217,300	43.62%	129	-2.27%	41	98.4%
85009	\$154,300	42.21%	118	-4.07%	32	99.5%
85012	\$468,200	75.82%	26	-18.75%	40	97.2%
85013	\$307,500	40.22%	60	-42.86%	43	97.6%
85014	\$240,600	28.18%	100	-31.03%	32	97.5%
85015	\$202,500	44.13%	117	-36.41%	37	97.7%

\*\*\*\* % Change of current quarter compared to the same quarter to year ago.



















## The Forecast

By Lawrence Yun, *Senior Research Forecaster*

Immigration is a not an easy subject to tackle. Should the U.S. have fully open borders and allow anyone from any country to come to the U.S. and contribute to and take advantage of American culture and citizenship? Or, should our nation build a fence around itself to protect it against illegal immigration and possible entry from potential terrorists? There are passionate feelings displayed by those who support a more open borders approach to immigration (such as allowing illegal immigrants to remain in the country), and those who would restrict immigration or otherwise suppress activities by those who come here from another county. There are many well-reasoned arguments on both sides. The topic has led to intra-party disunity within both the Republican and Democratic parties.

But, there is one area where there is a little disagreement. Immigration has helped the housing market. Why? The answer is simple: people need a home in which to live. So it should not be surprising that dynamic housing markets are frequently those in regions that have significant immigrant populations. The fast growing regions of Las Vegas, Phoenix, Washington D.C. and much of Florida have seen strong housing demand – and a significant run-up in home prices – due in no small part because these markets have strong immigrant populations.

So, what happens to housing markets when there is no immigration? Here's an example. Home prices in Japan have been stagnant for the past 20 years. One reason is that the country's population has been virtually unchanged during that same time period. The same stagnation is also present in eastern Germany (where many have left for the better western half). Similar situations can be found in areas of the U.S. like Elmira, New York and Danville, Illinois. What happens to those empty homes when people leave and there are no new households to occupy them?

An interesting study by the Philadelphia Federal Reserve Bank showed that home prices in immigration-heavy neighborhoods rise much more slowly than other neighborhoods in the local region. That is, the “there goes the neighborhood” reaction may be at work as established residents flee an area as newcomers move in. However, home prices in any overall metro region with a high number of immigrants in general rose at a significantly faster clip than those metro regions with little immigration. More people translates into more housing demand.

The concerns of whether or not the current swelling number of immigrants will eventually assimilate into the U.S. society are an open and legitimate question that needs to be addressed fully. But housing demand will remain healthy — and certainly healthier for the foreseeable years than it would otherwise be in the absence of immigration. As for 2006, home sales will reach their third best year ever; home prices are projected to rise 6.4%. These are both solid figures in a rising interest-rate environment. The national job market also looks to perform well in 2006. The best guess for now is for 2.3 million net new jobs. Moreover, the stock market has been flirting with a 5-year high, which will translate into higher demand for vacation homes. The construction of these homes, as many in the homebuilding industry will affirm, would not have been possible without immigrants.

As for the local area, the job market has been very positive in recent quarters (6.3% growth in the latest quarter). At the same time, higher mortgage rates have reduced affordability. Home sales, as a result, has been pulling in different directions. Sales were 22% lower in the first quarter compared to the year before. Home prices have continued to increase though because few are forced to sale in a job creating environment. Given the strength in the national economy, the local economy looks to catch part of that upward tide by the year end. Home sales are expected to definitively turn positive once interest rates stabilized while jobs get added. The forecast is for 10% decline in home sales in 2006 followed by a 3% rise in 2007. Home prices will increase 17% in 2006 and then 6% in 2007.

## Economic and Housing Market Outlook: Second Quarter 2006

	2005			2006				2007			2004	2005	2006	2007
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3				
<b>U.S. Economy</b>														
<i>Annual Growth Rate</i>														
Real GDP	3.3	4.1	1.7	5.0	3.9	3.6	3.4	3.2	3.1	3.1	4.2	3.6	4.0	3.8
Nonfarm Payroll Employment	1.6	1.6	1.2	2.1	1.5	1.8	1.7	1.6	1.2	1.5	1.1	1.6	1.6	1.7
Consumer Prices	3.7	5.5	3.2	3.3	2.6	2.5	3.1	2.6	2.2	2.3	2.7	3.4	3.0	2.0
Real Disposable Income	0.2	-1.4	6.7	4.4	4.2	4.3	4.4	4.7	3.4	3.4	3.4	1.3	4.6	4.4
Consumer Confidence	102	99	96	106	108	107	108	109	110	110	80	100	105	109
<i>Percent</i>														
Unemployment Rate	5.1	5.0	4.9	4.7	4.8	4.8	4.7	4.7	4.8	4.8	5.5	5.1	4.9	4.7
<i>Interest Rates, Percent</i>														
Fed Funds Rate	2.9	3.5	4.0	4.4	4.9	5.0	5.0	5.0	5.0	4.8	1.3	3.2	4.5	4.5
3-Month T-Bill Rate	2.9	3.4	3.8	4.4	4.8	4.9	4.9	4.9	4.9	4.7	1.4	3.2	4.3	4.3
Prime Rate	5.9	6.4	7.0	7.4	7.9	8.0	8.0	8.0	8.0	7.9	4.3	6.2	7.5	7.5
Corporate Aaa Bond Yield	5.1	5.1	5.4	5.5	5.9	6.1	6.2	6.3	6.4	6.4	5.6	5.3	6.0	6.2
10-Year Government Bond	4.2	4.2	4.5	4.6	4.9	5.1	5.2	5.3	5.4	5.3	4.3	4.3	4.9	5.1
30-Year Government Bond	4.5	4.4	4.7	4.7	5.0	5.3	5.4	5.6	5.7	5.7	5.1	4.6	5.1	5.2
<i>Mortgage Rates, percent</i>														
30-Year Fixed Rate	5.8	5.7	5.8	6.2	6.6	6.8	6.9	7.0	7.1	7.0	5.8	5.9	6.5	6.8
1-Year Adjustable	4.3	4.5	5.1	5.3	5.6	5.7	5.7	5.7	5.7	5.6	3.8	4.5	5.4	5.5
<b>National Housing Indicators</b>														
<i>Thousands</i>														
Existing Single-Family Sales	7,193	7,180	6,943	6,729	6,669	6,592	6,662	6,674	6,716	6,731	6,784	7,072	6,787	6,821
New Single-Family Sales	1,287	1,298	1,286	1,182	1,169	1,122	1,091	1,088	1,086	1,176	1,203	1,282	1,209	1,198
Housing Starts	2,044	2,101	2,059	2,139	2,025	1,954	1,890	1,855	1,856	1,857	1,956	2,065	1,936	1,943
Single-Family Units	1,693	1,747	1,716	1,757	1,677	1,606	1,537	1,494	1,490	1,488	1,604	1,714	1,600	1,544
Multifamily Units	351	354	343	382	348	348	353	360	366	370	345	350	337	399
Residential Construction*	599	610	614	626	627	614	600	588	583	584	562	604	607	595
<i>Percent Change -- Year Ago</i>														
Existing Single-Family Sales	4.7	6.5	0.9	-3.0	-7.3	-8.2	-4.1	-0.8	0.7	2.1	9.7	4.2	-4.0	0.5
New Single-Family Sales	7.0	11.5	3.5	-5.3	-9.1	-13.5	-15.2	-8.0	-7.1	4.8	10.8	6.6	-5.7	-0.9
Housing Starts	6.3	6.4	4.3	2.7	-0.9	-7.0	-8.2	-13.3	-8.3	-5.0	5.2	5.6	-6.2	0.3
Single-Family Units	5.9	6.9	5.9	2.8	-1.0	-8.1	-10.4	-15.0	-11.2	-7.4	6.6	6.4	-6.7	-3.5
Multifamily Units	8.6	4.2	-2.6	2.1	-0.8	-1.6	3.0	-5.7	5.2	6.1	-0.9	1.4	-3.7	18.5
Residential Construction	6.1	7.2	7.6	7.2	4.5	0.7	-2.3	-6.1	-7.0	-5.0	10.3	7.6	0.4	-2.0
<b>National Home Prices</b>														
<i>Thousands of Dollars</i>														
Existing Home Prices	209.3	216.3	214.7	209.6	222.3	227.1	224.6	219.0	231.8	236.9	185.2	209.1	219.7	228.1
New Home Prices	230.2	236.6	239.5	235.2	238.7	246.3	250.3	246.0	249.7	258.1	221.0	237.3	245.2	256.3
<i>Percent Change -- Year Ago</i>														
Existing Home Prices	13.3	14.2	13.4	10.1	6.2	5.0	4.6	4.5	4.3	4.3	8.5	12.9	5.1	3.8
New Home Prices	6.3	10.5	5.2	2.3	3.7	4.1	4.5	4.6	4.6	4.8	3.9	7.4	3.3	4.5
<b>Local Region</b>														
Payroll Jobs (in thousands)	1777.9	1785.5	1847.7	1848.2	1886.4	1889.1	1949.3	1946.2	1986.3	1991.1	1683.7	1787.4	1893.2	1997.4
Home Sales	29622	28484	21759	18604	27613	26292	20987	18547	27945	26979	96870	103744	93496	96124
Home Prices (in thousand \$)	300.3	315.6	324.2	334.4	357.4	354.4	352.7	355.1	375.3	375.0	222.3	300.3	350.9	370.6
<i>Percent Change -- Year Ago</i>														
Jobs	6.2%	6.6%	6.1%	6.3%	6.1%	5.8%	5.5%	5.3%	5.3%	5.4%	3.9%	6.2%	5.9%	5.5%
Home Sales	8.1%	8.8%	-7.9%	-22.1%	-6.8%	-7.7%	-3.6%	-0.3%	1.2%	2.6%	23.4%	7.1%	-9.9%	2.8%
Home Prices	36.4%	41.4%	38.3%	28.5%	19.0%	12.3%	8.8%	6.2%	5.0%	5.8%	13.2%	35.1%	16.9%	5.6%

Quarterly figures are seasonally adjusted annual rates.

\* Billion dollars

Source: Forecast produced using Macroeconomic Advisers quarterly model of the U.S. economy.

Assumptions and simulations by Dr. David Lereah and Dr. Lawrence Yun.

This table reflects data available through April 10, 2006.

Monthly Indicator	Recent Statistics	Likely Direction Over the Next Six Months	Forecast
<p><b>Mortgage Rates</b> The 30-year fixed-rate mortgage edged up in March to 6.32% – an increase of seven basis points from February’s level. Mortgage rates are expected to rise further as concerns on inflation put upward pressure on interest rates. The one-year adjustable rate increased eight basis points in March to 5.42%.</p>	Jan 6.15 Feb 6.25 Mar 6.32	↓	Expanding global economy puts upward pressure on rates
<p><b>Existing Home Sales</b> rose 5.2% in February to a seasonally adjusted annualized rate of 6.91 million units – ending five consecutive months of declines. Home prices continued to show strength, with the median price of an existing home rising 10.6% from February 2005 to \$209,000. The inventory of homes for sale rose by 150,000 in the past month to 3.03 million – a 5.3 months’ supply at the current sales pace.</p>	Dec 6,750 Jan 6,570 Feb 6,910	↓	Higher rates cutting home sales, particularly in high-priced markets
<p><b>New Home Sales</b> In February, new home sales posted 1.08 million seasonally adjusted annualized units. The sales pace represents a 10.5% decrease from January’s revised figure of 1.21 million units, and is 13.4% below the level in February of 2005. Inventory of newly constructed homes increased to 548,000 – a 6.3-months’ supply at the current sales pace.</p>	Dec 1,275 Jan 1,207 Feb 1,080	↓	A huge rise in unsold inventory
<p><b>Housing Starts</b> declined in February to 2.12 million seasonally adjusted annualized units after soaring to their highest level in over 30 years in January. Both single-family and multifamily starts posted declines. But the current construction pace is still very robust. The 1.8 million single-family starts is higher than the last year’s record of 1.7 million.</p>	Dec 1,989 Jan 2,308 Feb 2,120	↓	Mostly down, but affordable job creating regions may buck the trend
<p><b>Employment</b> The economy added 211,000 jobs in March – stronger than the 190,000 most analysts had anticipated. Both February and January employment numbers were revised downward to 225,000 and 154,000, respectively. Unemployment decreased to 4.7% – its lowest level in 4 1/2 years.</p>	Jan 154 Feb 225 Mar 211	↑	Two million net new jobs on tap for 2006
<p><b>Purchase Applications</b> The Mortgage Bankers Association’s purchase index inched up to 407.6 in March. While the housing market begins cooling in most markets with both new and existing home sales expected to soften due to rising mortgage rates, the index level is still considerably strong and will remain healthy this year.</p>	Jan 452.7 Feb 406.6 Mar 407.6	↓	Will be a difficult year for mortgage brokers
<p><b>Housing Affordability</b> NAR’s housing affordability index rose 0.8% in February to 117.6. Last month’s index was revised upward slightly. Going forward, the affordability index should hover at similar levels for the remainder of the year as moderating home prices somewhat offset rising mortgage rates.</p>	Dec 117.0 Jan 116.7 Feb 117.6	↑	Home prices rose faster than income over the past five years
<p><b>Inflation</b> The consumer price index (CPI) rose 0.1% in February. Two sectors – fuel and apparel – fell sharply, which helped to minimize the increase in the core index which rose 0.1%. The CPI should continue to grow at a projected average monthly rate of 0.3% for the next three months.</p>	Dec -0.1% Jan 0.7% Feb 0.1%	↔	Inflation at the upward end of the comfort zone

Notes: All rates are seasonally adjusted. New home sales, existing home sales, and housing starts are shown in thousands. Employment growth is shown as month-to-month change in thousands. Inflation is shown as the month-to-month change in the Consumer Price Index. Sources: NAR, Bureau of the Census, Bureau of Labor Statistics, Freddie Mac, and the Mortgage Bankers Association