

Economic and Market Watch Report

4th Quarter, 2004



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Consolidated Multiple Listing Service, Inc.
Economic and Market Watch Report

The Consolidated Multiple Listing Service, Inc. provides MLS service to over 5,000 real estate professionals in southwestern (Greater Fairfield County) Connecticut. We are committed to providing property information-based tools, resources and support services to enhance our member's success.

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FAIRFIELD COUNTY, CT

Buyer's Market	1	2	3	4	5	Seller's Market
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Labor Market :

Fairfield County saw 4,101 layoffs occur during October and November. Despite the decline in employment, the average monthly unemployment rate fell from 3.8% during the third quarter to 3.5% in the first two months of the fourth quarter. Despite the job losses, the labor market remains relatively strong leaving record low mortgage rates to drive home sales.

Housing Market :

	Q3' 04	Q4' 04	Q1' 05 (Forecast)
Average Price	\$675,500	\$634,600	↑
# Homes on the Market *	4,953	4,848	↔
# Homes Sold **	2,749	2,069	↓
# New Homes Built ***	528	262	↓
Avg # of Days on Market	68	79	↑

* Available as of Dec. 31, 2004.
 ** May not add to total of zip codes
 *** During the first two months of 4th quarter.

Bridgeport

Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06604	\$235,400	3.75%	23	-11.54%	79	96.4%
06605	\$309,600	17.01%	25	25.00%	99	96.7%
06606	\$227,900	19.88%	158	16.18%	67	97.6%
06607	\$134,100	50.00%	7	75.00%	100	96.4%
06608	\$143,300	35.32%	6	-25.00%	34	100.7%
06610	\$184,700	25.31%	38	-15.56%	64	96.1%



FAIRFIELD COUNTY, CT

Stamford

Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06902	\$728,300	-2.75%	66	-13.16%	64	98.1%
06903	\$954,200	-0.87%	63	8.62%	94	97.2%
06904	\$621,700	-	3	-	51	98.9%
06905	\$593,800	7.09%	43	-17.31%	74	98.5%
06906	\$521,800	24.12%	21	110.00%	64	98.4%
06907	\$530,400	4.93%	22	57.14%	65	98.1%

Norwalk

Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06850	\$528,500	-4.34%	55	44.74%	72	98.1%
06851	\$508,000	15.14%	77	0.00%	77	97.4%
06853	\$1,089,500	-1.89%	20	17.65%	101	96.0%
06854	\$682,300	65.73%	39	8.33%	75	95.7%
06855	\$970,900	99.28%	20	11.11%	122	97.0%

Danbury

Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06810	\$330,200	-0.93%	55	-24.66%	73	96.9%
06811	\$444,600	22.72%	63	-13.70%	82	97.8%
06812	\$379,000	-	1	-	59	97.2%

Fairfield

Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06824	\$837,600	-	118	-	66	98.8%



FAIRFIELD COUNTY, CT

Fairfield

Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06825	\$535,300	-	38	-	78	97.8%
OTHER	\$1,302,000	128.18%	4	-91.11%	395	91.3%

Greenwich

Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06830	\$1,589,800	42.39%	6	50.00%	105	92.6%
06831	\$999,500	-46.46%	6	100.00%	90	92.4%

Stratford

Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06614	\$308,400	9.63%	111	23.33%	68	97.2%
06615	\$247,800	17.05%	50	-7.41%	73	96.7%

Bethel

Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06801	\$382,700	9.50%	53	35.90%	64	97.8%

Brookfield

Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06804	\$519,400	25.40%	45	-21.05%	78	98.1%



FAIRFIELD COUNTY, CT

Darien

Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06820	\$1,821,900	49.51%	45	4.65%	96	111.7%

Easton

Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06612	\$812,600	7.46%	23	-30.30%	88	97.2%

Monroe

Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06468	\$479,700	10.66%	56	30.23%	74	97.8%

New Canaan

Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06840	\$1,610,000	23.35%	28	-36.36%	112	93.5%

New Fairfield

Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06812	\$435,700	21.64%	48	-15.79%	80	96.7%



FAIRFIELD COUNTY, CT

Newtown

Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06470	\$628,500	19.42%	63	-10.00%	103	113.4%

Redding

Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06896	\$686,500	-1.29%	36	63.64%	99	97.9%

Ridgefield

Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06877	\$890,300	14.66%	100	13.64%	79	97.6%

Shelton

Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06484	\$375,800	5.80%	103	-5.50%	73	97.7%

Sherman

Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06784	\$693,200	16.62%	18	38.46%	97	95.9%



FAIRFIELD COUNTY, CT

Trumbull

Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06611	\$455,200	10.16%	113	24.18%	76	97.9%

Weston

Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06883	\$1,046,900	8.62%	46	21.05%	108	95.1%

Westport

Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06880	\$1,366,200	13.05%	89	-16.82%	91	96.2%

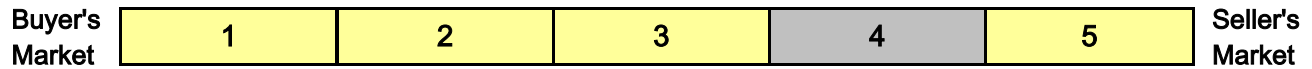
Wilton

Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06897	\$998,700	19.03%	65	38.30%	84	98.6%



LITCHFIELD COUNTY, CT



Labor Market :

Litchfield County saw 1,221 layoffs occur during October and November. Despite the decline in employment, the average monthly unemployment rate fell from 4.2% during the third quarter to 4.1% in the first two months of the fourth quarter. Despite the job losses, the labor market remains relatively strong leaving record low mortgage rates to drive home sales.

Housing Market :

	Q3' 04	Q4' 04	Q1' 05 (Forecast)
Average Price	\$459,800	\$437,000	↑
# Homes on the Market *	571	602	↔
# Homes Sold **	169	159	↓
# New Homes Built ***	225	138	↓
Avg # of Days on Market	94	98	↑

* Available as of Dec. 31, 2004.

** May not add to total of zip codes

*** During the first two months of 4th quarter.

Washington

Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06777	\$403,800	43.55%	2	-60.00%	51	97.9%
06793	\$1,141,700	33.55%	3	-57.14%	170	86.8%
06794	\$561,000	-31.28%	4	-20.00%	75	89.4%

Warren

Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06754	\$451,100	41.81%	6	-25.00%	174	98.5%



LITCHFIELD COUNTY, CT

Warren

Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06777	\$850,300	209.20%	2	100.00%	112	90.7%

Bridgewater

Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06752	\$588,700	8.18%	5	66.67%	106	96.6%

Kent

Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06757	\$345,600	-32.16%	10	150.00%	87	92.9%

New Milford

Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06776	\$374,800	4.90%	114	0.00%	87	97.3%

Roxbury

Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06783	\$945,300	23.07%	6	-50.00%	174	94.0%



LITCHFIELD COUNTY, CT

Sharon

Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06069	\$544,100	11.36%	7	40.00%	168	82.6%



NEW HAVEN COUNTY, CT

Buyer's Market	1	2	3	4	5	Seller's Market
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Labor Market :

New Haven County saw 3,375 layoffs occur during October and November. Despite the decline in employment, the average monthly unemployment rate fell from 5.1% during the third quarter to 4.7% in the first two months of the fourth quarter. Despite the job losses, the labor market remains relatively strong leaving record low mortgage rates to drive home sales.

Housing Market :

	Q3' 04	Q4' 04	Q1' 05 (Forecast)
Average Price	\$361,800	\$365,900	↑
# Homes on the Market *	683	686	↔
# Homes Sold **	329	287	↓
# New Homes Built ***	528	350	↓
Avg # of Days on Market	64	66	↑

* Available as of Dec. 31, 2004.
 ** May not add to total of zip codes
 *** During the first two months of 4th quarter.

Ansonia

Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06401	\$219,200	7.93%	39	0.00%	59	97.0%

Beacon Falls

Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06403	\$283,900	9.74%	17	6.25%	89	96.6%



NEW HAVEN COUNTY, CT

Derby

Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06418	\$214,700	-7.46%	13	-48.00%	51	97.4%

Milford

Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06460	\$396,000	17.23%	113	-4.24%	51	95.7%

Oxford

Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06478	\$435,400	16.54%	42	5.00%	85	99.7%

Seymour

Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06483	\$317,200	11.73%	31	-35.42%	81	96.4%

Southbury

Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06488	\$499,100	13.77%	32	-3.03%	91	97.3%

Others

OTHER

Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06039	\$2,600,000	1305.41%	1	0.00%	238	56.5%
06068	\$1,332,500	35.73%	2	-33.33%	257	89.0%
06098	\$280,000	-	1	-	119	93.4%
06405	\$1,499,200	12.04%	3	-57.14%	102	140.6%
06410	\$320,000	-	1	-	166	100.2%
06437	\$1,664,500	-16.78%	3	200.00%	70	97.6%
06460	\$270,000	-	1	-	82	96.5%
06468	\$529,900	30.07%	1	-50.00%	0	99.1%
06473	\$307,400	-42.92%	2	100.00%	93	99.2%
06477	\$439,200	-2.23%	23	109.09%	71	95.6%
06482	\$507,900	27.90%	42	27.27%	110	98.4%
06483	\$534,800	70.05%	1	0.00%	110	98.2%
06498	\$339,000	-	1	-	153	88.1%
06512	\$281,000	-35.18%	2	0.00%	64	99.3%
06514	\$218,300	-24.28%	4	100.00%	40	98.4%
06515	\$313,100	49.95%	4	100.00%	83	97.5%
06516	\$252,500	28.43%	29	26.09%	62	95.6%
06517	\$135,500	-	2	-	36	98.6%
06518	\$366,000	-	2	-	76	99.6%
06524	\$425,000	-7.77%	1	0.00%	57	100.1%
06525	\$443,100	7.21%	10	400.00%	80	96.6%
06705	\$139,800	136.95%	3	200.00%	99	98.8%
06706	\$119,900	-83.39%	1	-50.00%	57	96.0%
06708	\$175,200	28.35%	5	400.00%	54	97.4%
06710	\$500,000	-	1	-	140	83.5%
06712	\$380,000	29.16%	3	-40.00%	69	96.2%
06716	\$340,500	-	1	-	51	98.4%
06751	\$321,000	-19.51%	7	16.67%	135	97.5%
06755	\$294,000	-16.88%	2	-50.00%	105	98.2%
06756	\$845,900	-	4	-	135	90.4%
06759	\$622,300	15.50%	9	350.00%	68	94.7%

Others

OTHER

Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06762	\$326,700	-10.07%	3	-25.00%	95	97.5%
06763	\$447,500	-64.90%	2	100.00%	142	91.8%
06770	\$229,800	6.59%	45	60.71%	67	97.0%
06779	\$170,000	0.06%	1	0.00%	66	94.5%
06782	\$374,300	-	3	-	118	106.7%
06785	\$1,550,000	484.91%	1	0.00%	9	93.9%
06790	\$179,900	-	1	-	42	100.0%
06795	\$284,300	-17.35%	3	50.00%	86	98.6%
06796	\$570,000	-	1	-	174	95.8%
06798	\$453,400	7.31%	11	-31.25%	176	95.6%
06810	\$980,000	-	1	-	41	99.0%
06831	\$895,000	-2.19%	1	0.00%	22	96.8%
06840	\$622,500	-	1	-	217	83.0%
06870	\$4,495,000	436.20%	2	-33.33%	36	105.5%
06878	\$819,000	-9.37%	1	-75.00%	21	96.5%
06890	\$1,214,700	-	18	-	84	96.2%
06897	\$850,000	-	1	-	62	91.5%

Back to the Basics: Supply and Demand

By Ken Fears, Economist

The year 2004 was a historic one for the housing industry. Nearly 6.7 million existing home sales were registered nationally, an increase of 9.4%. Amazingly, 2004's record came on the heels of a record 6.1 million home sales in 2003. While sales shot up, mortgage rates did not. The 30-year fixed rate mortgage averaged 5.8% in 2004, unchanged from 2003. The strong buying was likely driven by buyers who anticipated an increase in rates and wanted to get in on the improved affordability while it lasted. In deed, indicators of the general price level are beginning to show mild increases and the Fed is hinting that it could take a more aggressive stance to hamper any inflation by raising the Federal funds rate. Mortgage rates are likely to rise as a result. The rates are forecast to rise to 6.2% by the National Association of Realtors®.

Price	Number of Homes Sold in 2004 Q4	Number of homes for sale on 12/31/04	Months Supply
<\$100K	27	54	6.2
\$100K-\$199K	203	328	4.8
\$200K-\$299K	503	846	5.0
\$300K-\$399K	539	996	5.5
\$400K>	1,515	4,882	9.7

With such strong sales in recent months and mortgage rates likely to creep upward over the coming years, Realtors® must begin to hone in on areas of strong and soft demand, in order to maximize their profits. To this end, the table above presents the homes sold in the fourth quarter of 2004; these numbers can be viewed as recent demand in the area covered by Consolidated MLS. In addition, numbers are given for the stock of homes that were still on the market as of December 31st 2004. These figures measure the stock or supply of homes. By comparing the two, one can see that,

- The largest number of homes sold, are sold in the upper price ranges.
- The supply of homes is largest in the upper price ranges.
- The number of months supply, the number of months it would take to exhaust the given inventory, was lowest in the middle price ranges.

The low months-supply indicates that demand is strongest relative supply in the middle price ranges, while supply is outpacing demand at the upper price ranges. Though it is common to have a higher months supply at the upper end, the bulge in supply at the upper price ranges could cause some price softening in this area. But any price concessions would be mild as long as mortgage rates remain low. Consequently, one can expect a faster turnover at the middle price ranges and it may require price concessions in the upper price ranges.

Overall, 2005 looks to be another strong year for home sales. The ebb and flow of demand (along with price concessions and increases) will work any bulges out of the supply chain. Arming yourself with the knowledge of where these bulges are today and how to move through them will help you maximize your business through this period.

Jobs, Dollars, and Fannie, Oh My

By David Lereah. *Chief Economist*

Real estate markets have turned conventional economic wisdom on its head. Job gains are sluggish, the U.S. dollar is falling in value and the largest housing company in the world—Fannie Mae—has been hit by scandal. But REALTORS, lenders and homebuyers could not be happier. The housing sector is still healthy, and its future prospects are still bright.

Astonishingly, non-farm payroll gains have risen a scant 0.9 percent since the economy began expanding three years ago. This growth in jobs pales compared with the three-year periods after the last two recessions. Non-farm payrolls posted 4.2 percent growth during the 1991-1994 recovery and a hefty 10.9 percent during the 1982-1985 recovery. The notion that you need a healthy job market to sustain a healthy housing market no longer applies today. What's going on here?

One reason why housing is thriving during a period of weak job creation is because the link between job growth and housing activity is no longer as strong as it once was. Productivity gains and global competition have diluted the role of domestic job gains in influencing economic activity. Today's 5.4 percent unemployment rate is virtually the same as it was a decade ago. In recent years, the economy has been growing at a three to four percent pace, despite the sluggish performance of the domestic job market. Relating this to the housing market is not difficult. What is important is that households possess the financial wherewithal and confidence to purchase homes; and as long as economy is growing at a healthy pace, the housing sector will continue to perform at acceptable, and even better-than-usual levels.

Housing markets also benefit from a less than robust job market because sluggish job growth keeps economic growth sustainable and so inflation is held at bay. As a consequence, the Federal Reserve can follow a "measured" approach to raising interest rates because both economic growth and inflation are not off to the races. Simply stated, modest gains in jobs translate into a more favorable interest-rate environment for housing activity.

As for a weak dollar, a different story may unfold for the housing markets. The dollar has lost about five percent of its value against the euro this year, while losing about three percent against the Japanese yen. This makes the price of imported goods and services more expensive. If this weakness of the U.S. dollar persists throughout 2005, there will be upward pressure on inflation, raising eyebrows at our nation's central bank. There is also the possibility that China will revalue its currency, the yuan, sometime next year. This will add fuel to current inflationary pressures. All of this could force the Fed to act more aggressively next year, raising interest rates at a pace, not compatible with the desires of housing market participants.

At present, the dollar's slide against other major currencies has not meaningfully influenced interest-rate levels. Thirty-year mortgage rates are still hovering below six percent. And recent inflation numbers (the November consumer price index was only 0.2 percent) continue to demonstrate that inflationary pressures remain relatively tranquil. However, fingers and toes will be crossed, hoping the dollar's slide will soon subside.

If sluggish jobs and a falling dollar have not slowed the housing sector, how about a scandal at the nation's largest housing company? Fannie Mae has been hit with an accounting scandal of great magnitude (i.e., billions of dollars of restated earnings and capital depletion). Two of their top senior executives have stepped down, yet the financial markets took these events in stride – even a yawn. It is business as usual in the housing industry. Both existing and new home sales activity continues to hover near peak levels, while mortgage rates remain below six percent.

Looking towards next year, expect more of the same—the Bush Administration just revised its projections for job growth in 2005 downward, calling for slower job gains despite forecasting solid economic growth. This is the best of both worlds for housing activity. It is my view that by the end of 2005, the Fannie Mae fallout will be a distant memory. The economy will hum along at a four-percent growth pace. Job gains will be strong, but modest. The dollar will have regained some of its lost strength, and the Fed will have raised interest rates in a measured, modest manner throughout the year, leaving 30-year mortgage rates well below seven percent. This is the type of backdrop that will provide for a healthy operating environment for all housing participants.

The Forecast

By Lawrence Yun, *Senior Research Forecaster*

In January, many major media outlets give you a year-end review and a “what’s ahead for the next year” wrap-up. So, for the new year, here is NAR’s top ten “predictions” for the U.S. economy and housing markets.

1. **Home prices will rise twice as fast as the overall consumer price index in 2005.** Any talk of a housing price bubble and home price deflation should be dismissed. Home prices are firmly grounded in the fundamentals of demand outstripping supply. Both the average number of months a newly constructed home sits on the market and the months supply of existing homes are at historic lows. Mortgage rates would have to surpass **9 percent** before home prices flatten out.
2. **Both consumers and governments will be more disciplined.** The all-important consumer spending will advance nicely – growing by 3.8% in 2005 and 3.4% in 2006. But these increases will be less than the income growth for the first time since 2000. That bodes well for a higher savings rate. Government spending at all levels is set to grow under 2% for the first time since 1998. The federal budget deficit will shrink to \$310 billion in 2005 from \$415 billion in 2004.
3. **Oil prices will sink below \$40 per barrel.** A lot of speculation had pushed the oil price alarmingly high in late 2004. But we should have known that it would be temporary. Oil companies can still turn a decent profit if the price is at \$25 per barrel. Anything above that induces more production to bring the price back in line.
4. **The trade deficit will begin to shrink.** While the U.S. will not by any means experience a trade surplus, the size of the trade deficit will first stabilize in the early part of 2005 and then start to decline in the latter part of the year. Lower oil prices and the weaker dollar lessen import demand. U.S. manufacturers will see an export boom.
5. **Over the next 24 months, 4.5 million net new jobs will be added to the economy.** Outsourcing of jobs will continue as before. But with so many new job openings don’t expect to hear too many complaints. Look at the 1980s and 1990s when we heard that giant “sucking sound” led by textile companies moving south of the border. Even then, the economy added 38.5 million net new jobs – including hamburger flipping jobs at McDonalds (et al.) and at companies that did not exist prior to those decades – such as Microsoft and Amgen (biotech company).
6. **The fastest employment growth will be in South Florida.** Look out Sunshine State. Naples, Ft. Myers, Sarasota, West Palm Beach, Ft. Pierce and Port St. Lucie all look to benefit as well-to-do Yankee retirees march into town. These folks will need plenty of service workers to pamper them. There will be a plenty of shopping money left after trading in their \$800,000 home up north for a new and larger \$300,000 air-conditioned home in South Florida.
7. **Effective mortgage rates will stay well under 7 percent.** Though the 30-year fixed mortgage rate will rise only to 6.7% by the end of 2005, more and more homebuyers will take advantage of even lower rates offered through hybrid adjustable rate mortgages. Most American homeowners typically move every 7 to 10 years. And they are beginning to understand 7-year fixed ARMS are just as fixed for the first seven years as 30-year mortgages, but at a lower interest rate.
8. **Today’s lofty home price will be look unimaginably cheap.** In 1975, a typical home could be purchased for \$35,300. NAR’s most recent figures report a median sales price (for an existing single-family home) of \$188,200. Fast forward 30 years down the road: a typical home will be around \$800,000 to \$900,000. (So what was that about a housing bubble???)
9. **Home sales in the Consolidated MLS region will fall modestly in 2005 before heading up in 2006.** As expected with the national home sales, the local region will succumb to a modest fall from higher interest rate environment. An anticipated 3% decline is very mild after posting a robust 5% increase in sales in 2004. Job creating economy will lift sales in 2006.
10. **Home prices in the Consolidated MLS region will continue to rise in 2005 and 2006.** Fundamentals suggest absolutely no bubble in the local market. The rise in home price of better than 7% in 2005 will mean about \$3,000 housing wealth gain per month for a typical local homeowner.

U.S. Economic Outlook: January 2005

	2004				2005				2006		2003	2004	2005	2006
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2				
U.S. Economy														
<i>Annual Growth Rate</i>														
Real GDP	4.5	3.3	4.0	3.9	4.3	4.1	3.7	3.8	3.8	3.8	3.0	4.4	4.0	3.8
Nonfarm Payroll Employment	1.1	2.3	1.2	1.8	1.7	2.0	1.9	1.7	1.8	1.8	-0.3	1.0	1.8	1.8
Consumer Prices	3.6	4.7	1.9	3.6	2.2	2.1	2.3	2.5	2.2	2.3	2.3	2.7	2.6	2.3
Real Disposable Income	2.4	2.8	1.9	2.9	5.0	4.8	3.8	3.9	5.1	4.2	2.3	3.0	3.8	4.3
Consumer Confidence	92	96	100	96	104	105	106	106	107	107	80	96	105	107
<i>Percent</i>														
Unemployment Rate	5.6	5.6	5.4	5.4	5.3	5.2	5.2	5.1	5.1	5.1	6.0	5.5	5.2	5.0
<i>Interest Rates, Percent</i>														
Fed Funds Rate	1.0	1.0	1.4	1.9	2.4	2.8	3.1	3.4	3.6	3.9	1.1	1.3	2.9	3.9
3-Month T-Bill Rate	0.9	1.1	1.5	2.0	2.4	2.8	3.0	3.3	3.4	3.7	1.0	1.4	2.9	3.8
Prime Rate	4.0	4.0	4.4	4.9	5.4	5.8	6.1	6.4	6.6	6.9	4.1	4.3	5.9	6.9
Discount Rate	5.5	5.9	5.6	5.5	5.6	5.8	5.9	6.1	6.4	6.5	5.7	5.6	5.8	6.6
Corporate Aaa Bond Yield	4.6	4.3	4.2	4.2	4.4	4.7	4.8	5.0	5.3	5.4	4.0	4.3	4.7	5.5
30-Year Government Bond	5.0	5.4	5.1	4.9	5.2	5.4	5.5	5.7	5.9	6.1	5.1	5.1	5.5	6.1
<i>Mortgage Rates, percent</i>														
30-Year Fixed Rate	5.6	6.1	5.9	5.7	5.9	6.1	6.3	6.5	6.8	7.0	5.8	5.8	6.2	7.0
1-Year Adjustable	3.5	3.9	4.1	4.1	4.4	4.8	5.0	5.3	5.5	5.7	3.8	3.9	4.9	5.8
National Housing Indicators														
<i>Thousands</i>														
Existing Single-Family Sales	6,203	6,787	6,677	6,858	6,558	6,508	6,469	6,389	6,419	6,487	6,100	6,644	6,481	6,595
New Single-Family Sales	1,197	1,206	1,160	1,195	1,124	1,128	1,107	1,094	1,078	1,074	1,086	1,189	1,113	1,066
Housing Starts	1,943	1,920	1,969	1,931	1,898	1,872	1,881	1,821	1,798	1,783	1,848	1,941	1,868	1,774
Single-Family Units	1,570	1,596	1,632	1,575	1,556	1,516	1,521	1,457	1,429	1,406	1,499	1,593	1,513	1,393
Multifamily Units	373	323	338	356	342	356	360	364	369	377	349	348	355	381
Residential Construction*	543	564	566	559	557	552	550	546	539	535	560	558	551	533
<i>Percent Change -- Year Ago</i>														
Existing Single-Family Sales	6.6	16.0	4.0	8.9	5.7	-4.1	-3.1	-6.8	-2.1	-0.3	9.6	8.9	-2.5	1.8
New Single-Family Sales	22.1	9.1	0.3	7.1	-6.1	-6.4	-4.6	-8.5	-4.1	-4.8	11.6	9.5	-6.4	-4.2
Housing Starts	11.2	10.0	4.6	-5.1	-2.3	-2.5	-4.5	-5.7	-5.3	-4.8	8.4	5.0	-3.8	-5.0
Single-Family Units	10.7	12.4	7.2	-5.0	-0.9	-5.0	-6.8	-7.5	-8.2	-7.3	10.3	6.3	-5.0	-7.9
Multifamily Units	13.5	-0.4	-6.5	-5.6	-8.2	10.0	6.5	2.2	7.7	5.9	0.9	-0.3	2.0	7.3
Residential Construction	11.3	13.2	8.0	4.4	2.7	-2.0	-2.8	-2.3	-3.2	-3.2	8.8	9.1	-1.3	-3.3
National Home Prices														
<i>Thousands of Dollars</i>														
Existing Home Prices	170.8	183.5	188.2	186.3	183.9	193.1	198.2	193.2	192.0	200.6	170.0	183.1	192.8	200.9
New Home Prices	212.9	216.6	213.4	218.4	224.0	229.2	225.9	229.6	233.4	235.9	195.0	215.3	227.2	236.6
<i>Percent Change -- Year Ago</i>														
Existing Home Prices	6.0	8.8	7.5	8.2	7.7	5.2	5.3	3.7	4.4	3.9	7.5	7.7	5.3	4.2
New Home Prices	15.3	13.4	11.8	9.7	5.2	5.8	5.9	5.1	4.2	2.9	3.9	10.4	5.5	4.1
Local Region														
Payroll Jobs (in thousands)	192.8	196.3	196.4	198.5	194.3	197.9	198.4	200.9	197.1	200.8	195.7	196.0	197.9	200.7
Home Sales	2006	3309	3551	2789	2032	3153	3469	2655	2058	3248	11124	11655	11310	11700
Home Prices (in thousand \$)	542.3	609.4	617.4	582.4	590.0	655.1	661.2	622.0	625.4	688.5	516.0	593.8	637.5	672.2
<i>Percent Change -- Year Ago</i>														
Jobs	0.2%	-0.3%	0.1%	0.6%	0.8%	0.8%	1.0%	1.2%	1.4%	1.5%	-1.2%	0.1%	1.0%	1.5%
Home Sales	5.7%	17.5%	-4.3%	3.3%	1.3%	-4.7%	-2.3%	-4.8%	1.3%	3.0%	-1.6%	4.8%	-3.0%	3.5%
Home Prices	15.2%	18.9%	13.2%	14.0%	8.8%	7.5%	7.1%	6.8%	6.0%	5.1%	9.2%	15.1%	7.4%	5.4%

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 January 7, 2004.

Monthly Indicator

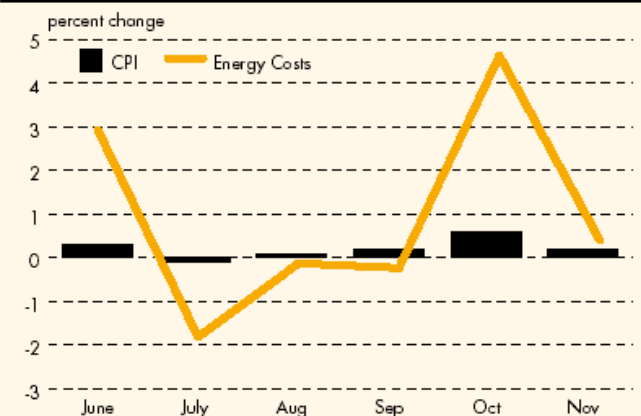
	Recent Statistics	Likely Direction Over the Next Six Months	Forecast
<p>Mortgage Rates The 30-year fixed mortgage was 5.75% in December, rising only slightly from November's 5.73% level. One-year adjustable rates rose to 4.18% from 4.15% in November. Since 1971, there have been only four months when mortgage interest rates were lower.</p>	Oct 5.72 Nov 5.73 Dec 5.75	↑	Mindful of the Fed hikes throughout 2005.
<p>Existing Home Sales hit a new high in November of 6.94 million seasonally adjusted annualized units, beating the previous record of 6.92 million set in June of 2004. The inventory of homes for sale was unchanged at 4.3 months supply. 2004 will be a record setting year for resales.</p>	Sep 6,760 Oct 6,760 Nov 6,940	↔	Resales to take a slight breather.
<p>New Home Sales declined 12% in November, posting 1.125 million units (seasonally adjusted annualized rate)-the lowest figure in five months. The goodnews: October's sales figure was revised up by more than 50,000. The inventory of new homes for sale rose significantly at 4.5 months supply.</p>	Sep 1,227 Oct 1,278 Nov 1,771	↓	Plentiful choice of affordable new homes in the Midwest.
<p>Housing Starts tumbled sharply in November to 1.77 million annualized units - the lowest level of new construction activity in more than 18 months. Still, the year-to-date figure for starts is strong and on pace to easily clip last year's mark of 1.85 million total starts.</p>	Sep 1,905 Oct 2,039 Nov 1,771	↓	Tapering off a notch but at historic highs.
<p>Employment Growth Payroll employment advanced by 157,000 in December, somewhat lower than expected. The fastest job growth occurred in the service sectors. Education and health services added 47,000 jobs.</p>	Oct 312 Nov 137 Dec 157	↑	2.2 million in the past 12 months, even more in the next 12.
<p>Purchase Applications The Mortgage Bankers Association's purchase applications index was 470.4 in December. While this is a slight decrease off November's index, financing activity is still in healthy territory, with mortgage rates low and homebuying attractive.</p>	Oct 458.8 Nov 471.7 Dec 470.4	↓	Following sales.
<p>Housing Affordability The Housing Affordability Index dipped in November to 131.7. An increase in the median sales price of homes was primarily responsible. Still, the index shows that the typical family with the median family income can afford to purchase a median priced home.</p>	Sep 132.7 Oct 132.2 Nov 131.7	↓	Income growth lagging behind home price growth.
<p>Inflation The Consumer Price Index (CPI) rose 0.2% in November. The core index (excluding food and energy) also increased 0.2%. Prices rose evenly across the board in November. Core prices are up 2.2% over the last 12 months.</p>	Sep 0.2 Oct 0.6 Nov 0.2	↔	Not yet a concern, but need to be watchful.

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

The latest inflation report has the usual good news/bad news. Core prices remained stable while the headline number moderated from last month, but not as much as expected. Fuel prices remained higher than expected. In fact, fuel prices eased in November, but the decline in prices was not passed on to consumers by as much as was expected. Rising heating costs offset some of the moderation in gasoline prices. Fuel prices have since fallen sharply in early December while temperatures remained warm, but will turn around again as winter demand for heating oil rises and problems in Iraq escalate as elections there near. The good news? The Fed will maintain its policy of moderate rate increases as the core CPI ticks upward, but serious inflation is not a worry as of yet. The CPI will continue to grow at a projected average monthly rate of 0.2% for the next three months.

By Wannasiri Chompoopet and Hristina Toshkova
 This table reflects data available through January 7, 2005.

Inflation - No Real Worries



Source: Bureau of Labor Statistics