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The Forecast

Thirty-Nine Years of Home Price Gains

by Lawrence Yun, *Senior Forecast Economist*

Despite all the news headlines over the past year about the housing market bubble and housing market slump, the final figures for 2006 actually look quite respectable. Home prices squeaked out a gain of 1.1% for the year. That means that in our 39 years of tracking sales and prices, each and every year has posted positive home price growth.

Existing-home sales in 2006 posted 6.48 million units – an 8.4% decline from 2005, but still the third best year on record. The more cyclical new home sales fell by 17.3% to 1.06 million in 2006 for the fourth best year on record. All in all, not that bad.

Nothing to Sneeze At

With the economy and job market performing nicely, 2007 will likely bring another respectable housing year. The number of existing-home sales will essentially match that of last year and home prices again will squeeze out a gain. As for the new home construction sector, the jury is still out. There are few additional months of adjustment left we need to wait for the high inventory of new homes to trim down before builders start to increase production.

The latest fourth quarter economic expansion was much stronger than anticipated. GDP grew by 3.5% in the fourth quarter of 2006 – compared to the 2.4% originally forecast. The job market also is stronger. A regular once-a-year benchmark revision by the Labor Department shows that it had undercounted payroll employment by three quarters of a million people for most of 2006. That's almost like saying that all of the jobs in the Super-Bowl celebrating Indianapolis area were left out of the original count and are only now being added to the official figures.

The current unemployment rate of 4.6% and the 2.15 million net new job additions over the past 12 months are both indications that the state of the U.S. economy is all fine and good. Record stock market and record housing market valuations also lifted the aggregate U.S. household net worth to \$54 trillion – the highest ever. That is five times as high as the U.S. annual consumption. In other words, we have enough wealth to buy the same amount of things and maintain the same standard of living for the next five years without even bothering to work.

Export Advice

But Americans *will* be working. It is part of the American spirit to want to accumulate even more wealth. One particular sector that will be busy is companies involved in exports. U.S. exports have increased significantly in the past year and were the prime reason for the robust fourth quarter GDP growth. And while the dollar has been on a steady decline since peaking in 2002, a weaker dollar helps those exports since a weaker dollar means U.S.-made products are cheaper abroad. There is generally a long several-year lag time before exports actually kick-in from the fall in the dollar, but it looks like we have already reached that point. Exports grew by 12.5% in 2006, and will again one

February 2007

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Existing-Home Sales

2006 was third-highest year for home resales.

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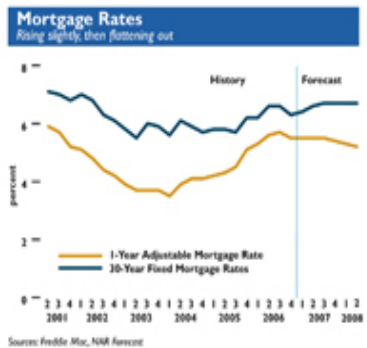


of the key drivers of the economy in 2007. From Peoria (Caterpillar earth-moving equipment) to Seattle (Boeing aircraft), companies producing exportable products will make significant gains.

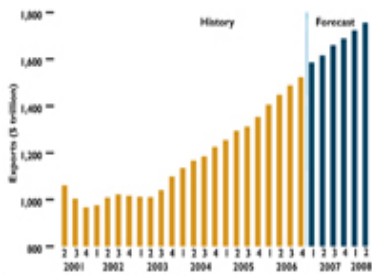
Job additions overall should be close to two million in 2007. With mortgage rates projected to remain favorable throughout 2007 (averaging 6.6%), the two million new jobs would typically lead to 250,000-350,000 more home sales. But we are still in an a typical year with a high housing inventory overhang brought on by the exit of investors/speculators. The inventory needs to thin out before the housing market revs back up to cruising speed. Home sales are, therefore, projected to not increase in 2007. But come 2008 and beyond, a steady 3% to 5% increase in home sales will be the norm. Home prices by then will also begin to outpace CPI inflation growth. Housing will again prove it can provide attractive long-term investment returns.

The Forecast: Charts

Click the chart to view a full-size version
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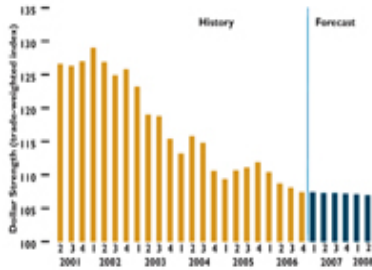


U.S. Exports U.S.-made products less expensive for foreign buyers



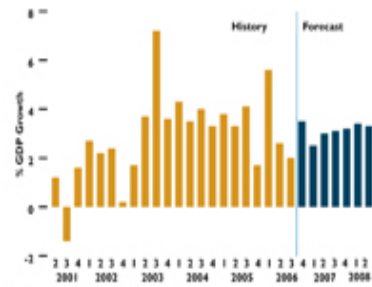
Sources: Bureau of Economic Analysis, NAR Forecast

U.S. Dollar Weaker dollar (vs. foreign currencies) help drive U.S. exports



Sources: Federal Reserve, NAR Forecast

Economic Growth Steady as the goes



Sources: Bureau of Economic Analysis, NAR Forecast

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