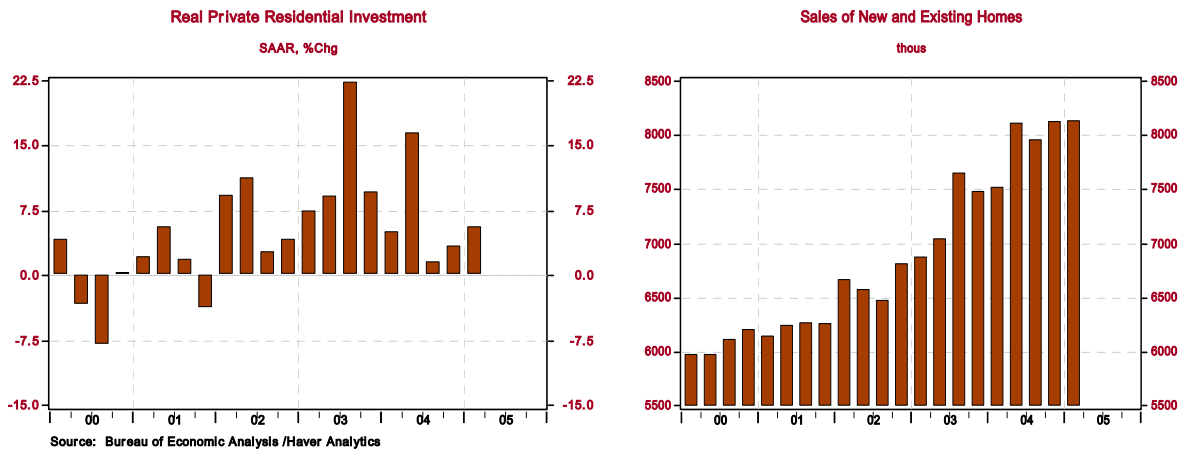


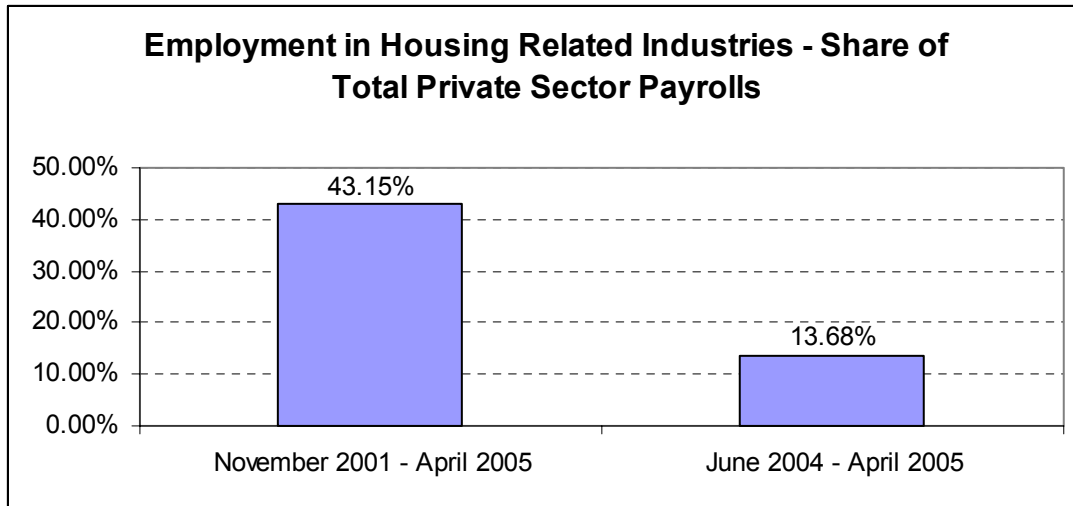


## Housing Market – Another Information Tidbit

The housing market is featured almost daily in newspapers with catchy titles. The main issue is if a housing bubble exists. There are a range of opinions on this issue from the worrisome contenders pinning the next recession on an unwinding of the housing market bubble to those at the other end who see no major distortion of prices in the housing market and therefore foresee no disruption. Chairman Greenspan noted last week that there is froth in regional housing markets with few worrisome issues at the national level. Historically, the housing sector is the first to succumb to the central bank's monetary policy tightening. The housing sector escaped the 2001 recession unscathed and set a historical precedent.



Residential investment outlays have made a sizable contribution to the growth of real GDP in the current business expansion and sales of new and existing homes have soared to set new records. The future of the housing market is tied to employment conditions in the economy. The sluggish performance of payroll employment is the primary reason for the FOMC to take a measured path toward bringing the federal funds rate to a neutral level. At the same time, the performance of the housing market has played a visible role in payroll growth. Employment in housing and related industries (sum of employment in the establishment survey under various categories related to housing industry) accounted for about 43.0% of the increase in private sector payrolls since the economic recovery began in November 2001. The Fed began raising the federal funds rate in June 2004. During the June 2004 and April 2005 period, housing and related industries have accounted for 13.0% of private sector payrolls. The point I am trying to make is that a cooling off the housing market will have an impact via fewer new jobs in addition to other adverse effects. The number of job losses could be significant given the role the housing sector has played in the current recovery.



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