

## Mid-Cycle Slowdown in Progress

- The latest evidence on the U.S. economy reveals rising inflation and weaker growth.
- Ongoing decline in the housing markets and inventory corrections should continue. The fallout in the subprime mortgage market is expected to increase both foreclosures and the overhang of homes for sale, while the stricter lending standards that are following should place a new drag on demand.
- Consumer spending and exports are supporting the economy at present. Expectations for the first half of the year average just 1.5–2.0% GDP growth.
- Inflation is remaining stubbornly outside of the Fed's comfort range. Core PCE inflation edged higher in February, to 2.4% year-over-year, moving further away from the 1-2% comfort zone.

### West:

- The West's economy has slowed in recent months and yet it continues to outpace the U.S. About half of the region's larger metro areas have seen some improvement in economic performance, enjoying falling unemployment rates and rising industrial production.
- The West is the only region that did not suffer a decline in industrial production in fourth quarter 2006, due to strength in both the commercial aerospace and tech-producing industries.
- Arizona and Utah, have slowed somewhat, and Nevada had slowed previously during the second half of 2006. All of these states have suffered from weakened housing markets.

**Seattle:** Financial service providers were unable to duplicate their rapid 2005 growth in 2006, and weakness is likely to continue this year.

**San Francisco:** The median home sales price is holding steady, although with greater month-to-month volatility. Overall job growth prospects are excellent.

**San Jose:** Metro area is gaining from the expansion of a broad range of technology-producing and financial service industries.

**Orange County:** Employment outlook is altered with at least 4,000 jobs in the mortgage finance industry lost, resulting in an overall decline in financial services employment.

**Nevada:** Steady expansion in gaming and related services has supported growth despite a weakening housing market.

**Dallas:** Three major telecoms (Alcatel, Nortel and TI) have announced further layoffs in the coming year.

**Austin:** A slew of tech-related expansions in the metro, from Samsung to AMD to Dell, should continue to drive growth.

### RELATIVE RATES OF JOB GROWTH: 2007-2008

- Significantly faster than the U.S. average: 2.4% per year or greater
- Exceeding the U.S. average: 1.6% to 2.3% per year
- Adding jobs at or near the U.S. average: 0.9% to 1.5% per year
- Lagging the U.S. average: Less than 0.8% per year

Source: Economy.com and RREEF Research

Graphics: Anne McGillicuddy

## Regional Perspective: 2007-2008

- The South Atlantic region continues to lead the rest of the East Coast; however, the Middle Atlantic and New England are also showing signs of life.
- Although growth has slowed over the past six months, the South's economy is leading the nation, along with the West.
- Falling unemployment rates and rising industrial production have aided the West's economy; about half of the region's larger metro areas have seen improvement in economic performance in recent months.
- Missouri and Iowa showed significant improvement in job growth in recent months.

### Midwest:

- Real estate activity continued to sink at the start of the year. Permitting is down by one-third in January on a year-over-year basis, with the biggest declines reported in Michigan and Minnesota.
- High corn prices are inducing more farmers to shift from planting soybeans to corn. Demand for agricultural land is picking up as well.

**Minneapolis:** Strong employment growth in office-using industries, such as professional services and healthcare.

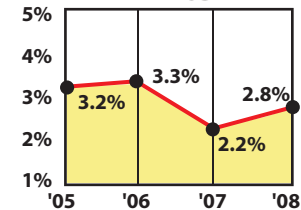
**Chicago:** Through mergers and restructuring, the state's position as a banking and insurance center may weaken.

### East:

- House prices in the Northeast fell again in the fourth quarter, marking the second consecutive year-over-year decline in the single-family existing home market.
- Despite falling house prices region wide, prices for homes in the Northeast are down only 2% from their fourth quarter 2005 level.
- The Northeastern metro areas also have shown recent acceleration in employment growth.

## May 2007

### REAL GDP



Source: RREEF Research & Global Insight

**Boston:** Many Massachusetts educational institutions are undertaking expansions, especially in the Greater Boston area, supporting construction employment.

**New York:** Wall Street bonuses provide a near term boost to the state, as job and income growth have slowed.

**New Jersey:** The state's manufacturing and information industries continue to shed jobs, while growth is also moderating in financial services and healthcare.

**Maryland:** Biotech investment from venture capital in Maryland hit a record high last year.

**Virginia Beach:** Expanded funding for NASA Langley Research Center resulted in a budget that includes almost \$300 million for construction projects at local military bases.

**North Carolina:** Good news for the Greensboro metro as Honda Aircraft Co. Inc. announces that it will build its jets in the area.

**Kentucky:** Transportation/utilities remain strong given the presence and expansion of UPS's Worldport hub in Louisville.

**Atlanta:** Home Depot's announcement that it will create 15,000 new jobs nationwide this year bodes well for the metro.

**New Orleans:** The metro economy is emerging from its lull. Hiring accelerated over the final four months of last year but total employment is still down almost 90,000, or 15%, from its pre-Katrina peak.

**Houston:** Job growth in the energy industry accounted for almost 50% of total job growth in the metro in 2005 and 2006.

**Miami:** Condo construction boom is transforming the city's urban landscape, and appears to be producing an overbuilt market.

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