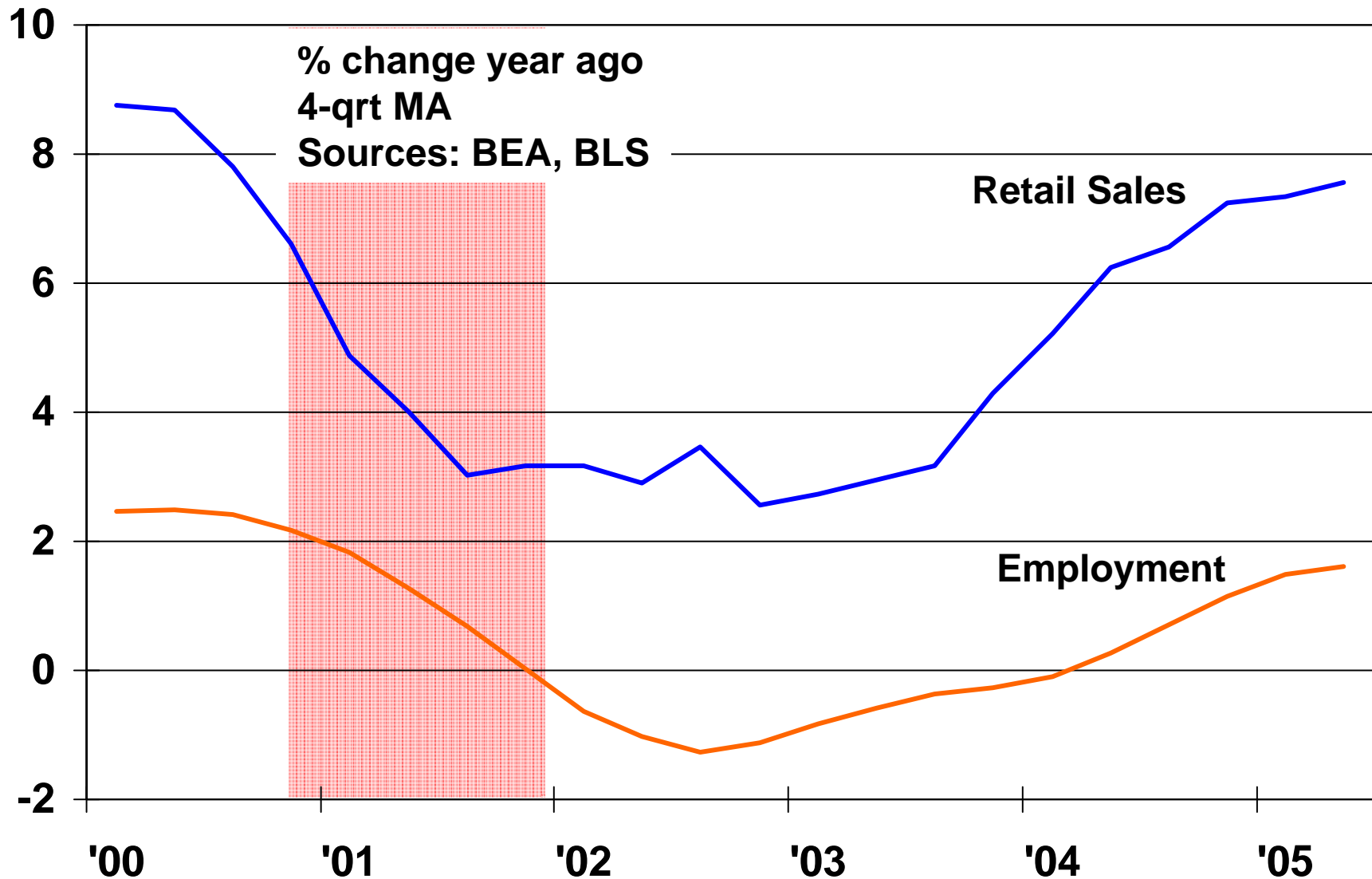


The Economic and Housing Market Outlook

Presented by

Mark Zandi
Chief Economist

The Economy is Performing Well

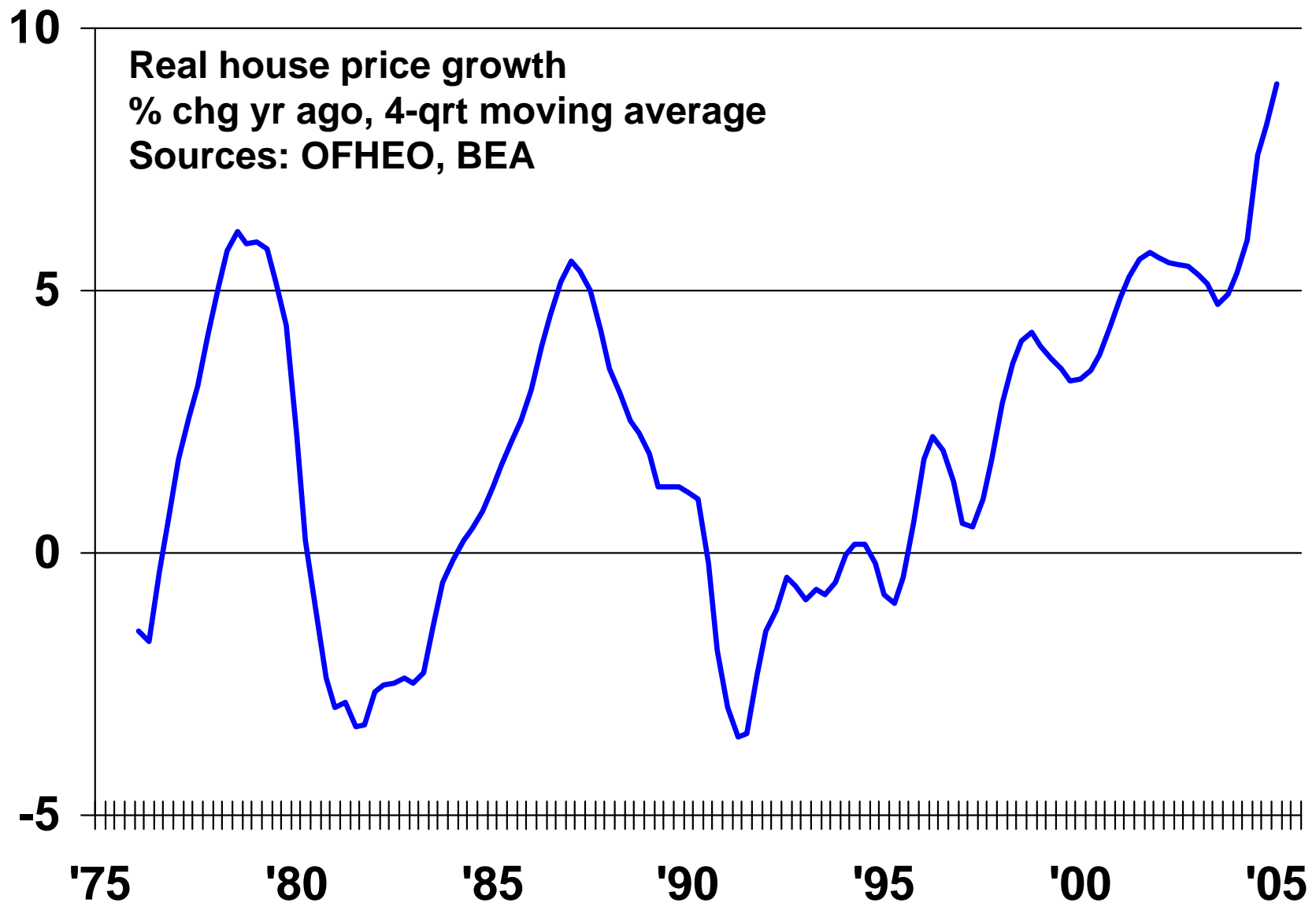


The Economic Impact of Katrina

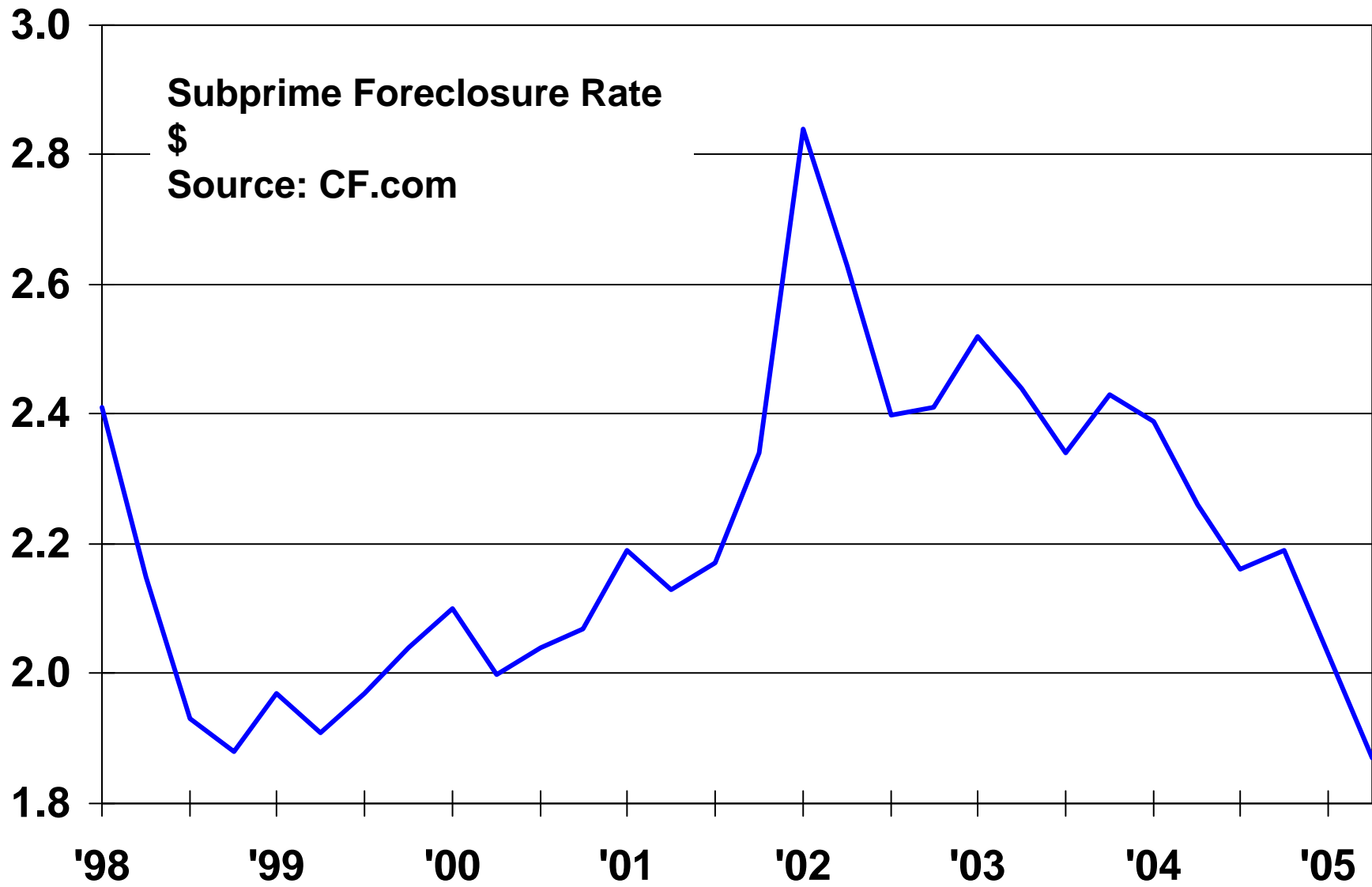
The Economics of Disasters									
Billions 2005\$									
	Impacted		Economic Loss			Economic Aid			Economic Aid
Disaster	Region	Date	Destruction	Lost Output	Total Loss	Insurance	Government Aid	Total Aid	as a Share of Economic Loss
Hurricane Katrina	Gulf of Mexico	August 2005	100.0	25.0	125.0	25.0	35.0	60.0	48.0
Hurricane Ivan	Gulf of Mexico	September 2004	7.2	6.5	13.7	7.3	6.3	13.6	99.3
9/11	Entire Nation	September 2001	25.7	61.8	87.5	20.2	67.3	87.4	99.9
Los Angeles Northridge Quake	Los Angeles	January 1994	23.6	12.5	36.1	16.1	15.5	31.6	87.5
Midwest Floods	MN to MO	Summer 1993	6.1	9.4	15.5	1.3	7.0	8.4	53.9
Hurricane Andrew	Miami, FL	August 1992	36.7	11.6	48.4	21.3	10.8	32.1	66.3
Loma Prieta Quake	Bay Area, CA	October 1989	10.6	5.4	16.0	1.6	7.6	9.2	57.3
Hurricane Hugo	Charleston, SC	September 1989	14.5	4.7	19.2	6.6	3.1	9.7	50.4
Notes:									
Lost output associated with the Midwest floods includes \$5 billion in crop losses									
The Bay Area includes the metro areas of San Francisco, Oakland, San Jose and Santa Cruz									
9/11 insurance includes only property coverage									
Lost output due to Katrina does not include the impact of higher energy prices									
Sources: ISO, Insurance Information Institute, Economy.com									



Housing is Through the Roof

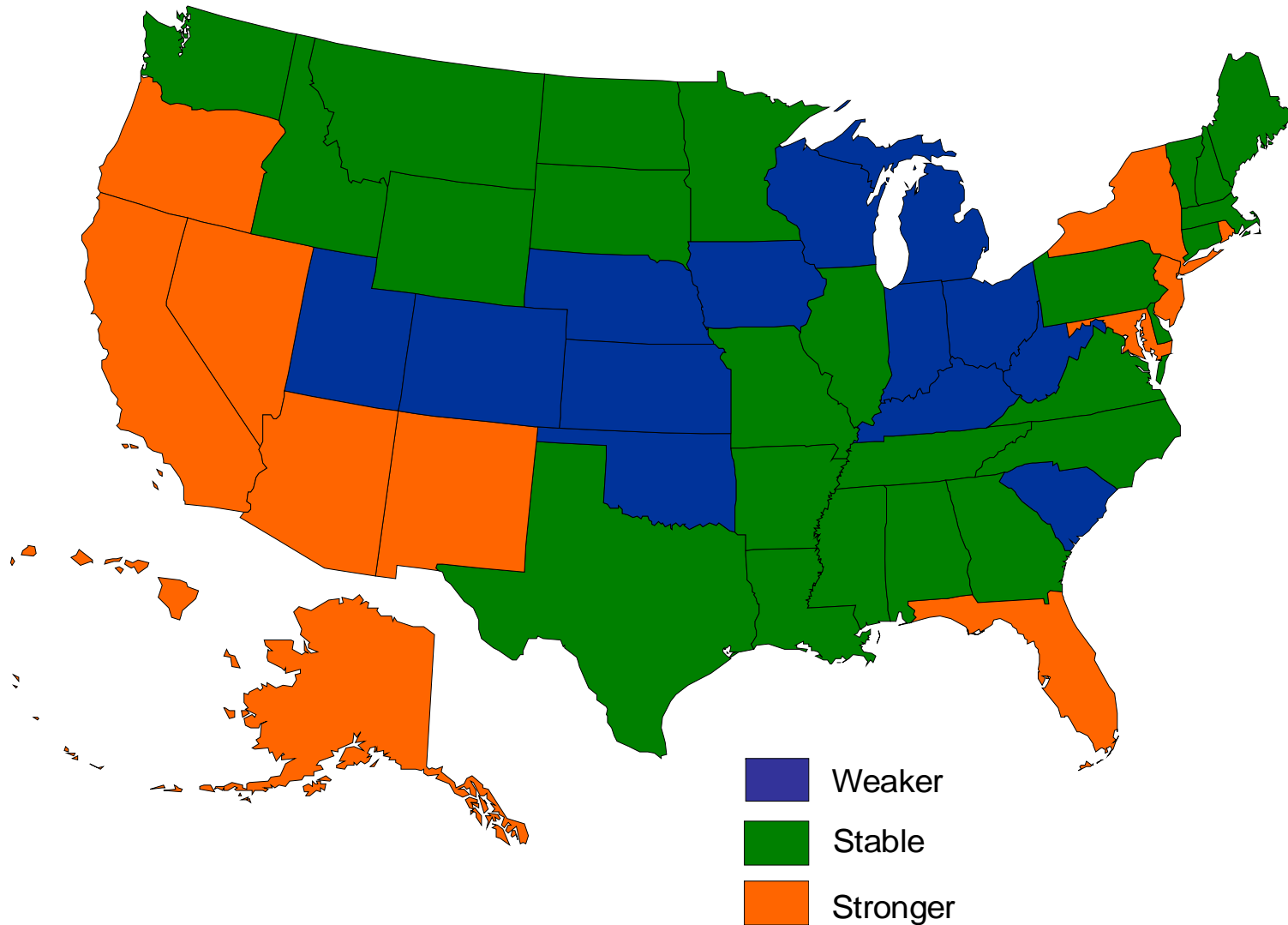


Mortgage Loan Quality is Strong...

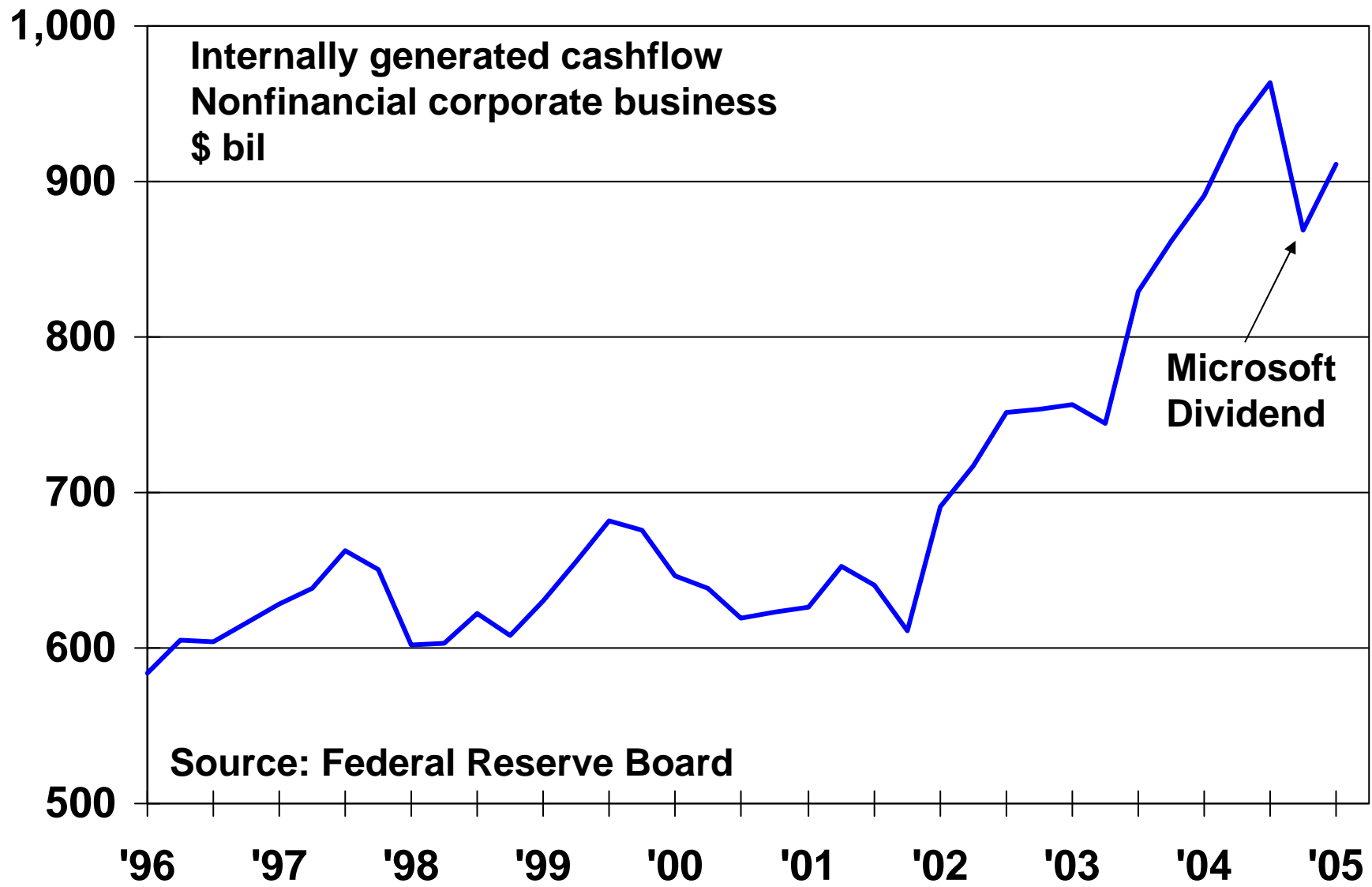


...Particularly Where Housing is Strongest

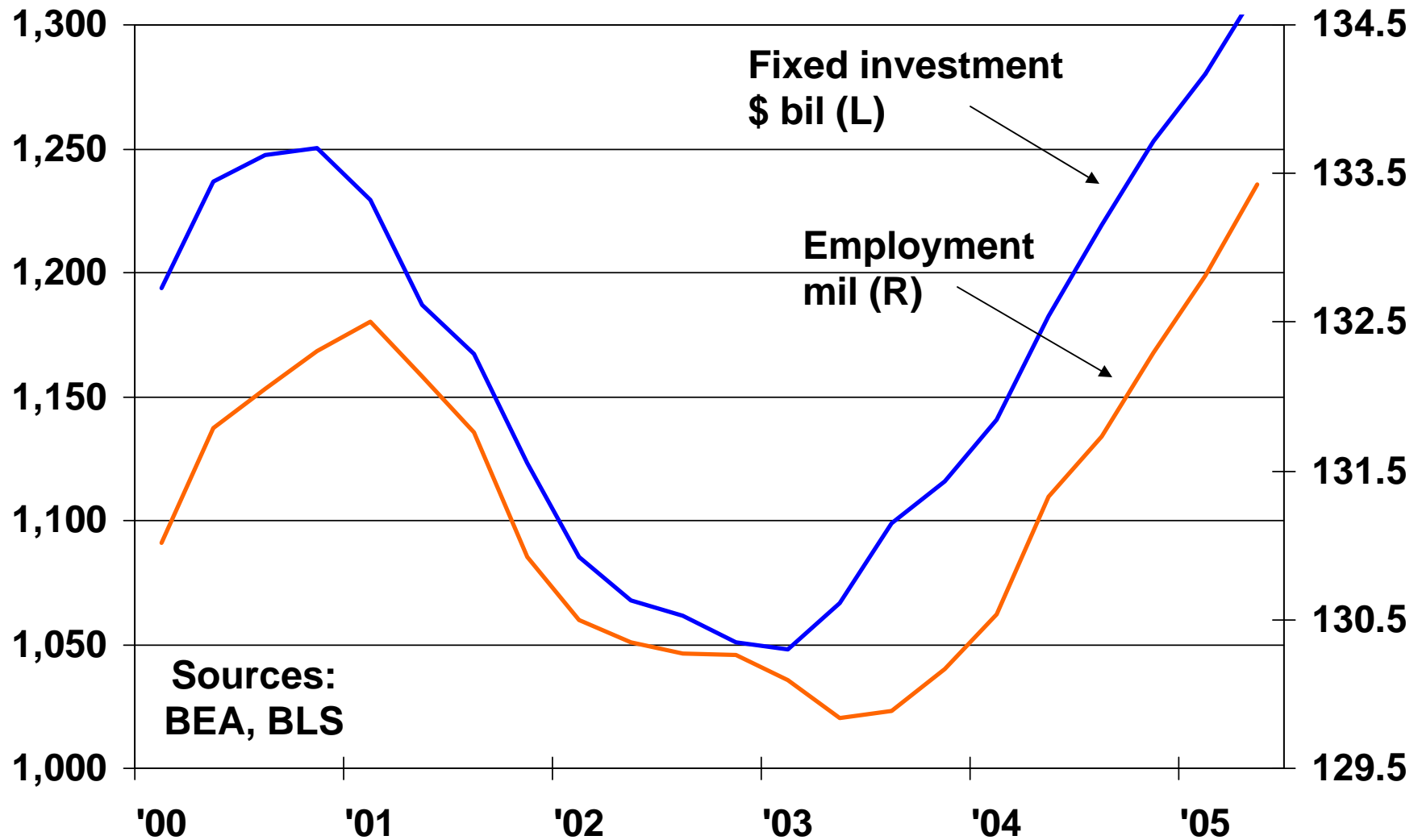
Change in subprime first mortgage \$ foreclosure rate, 2005q2-2000q2, U.S. = 0.0



Businesses Are Flush...

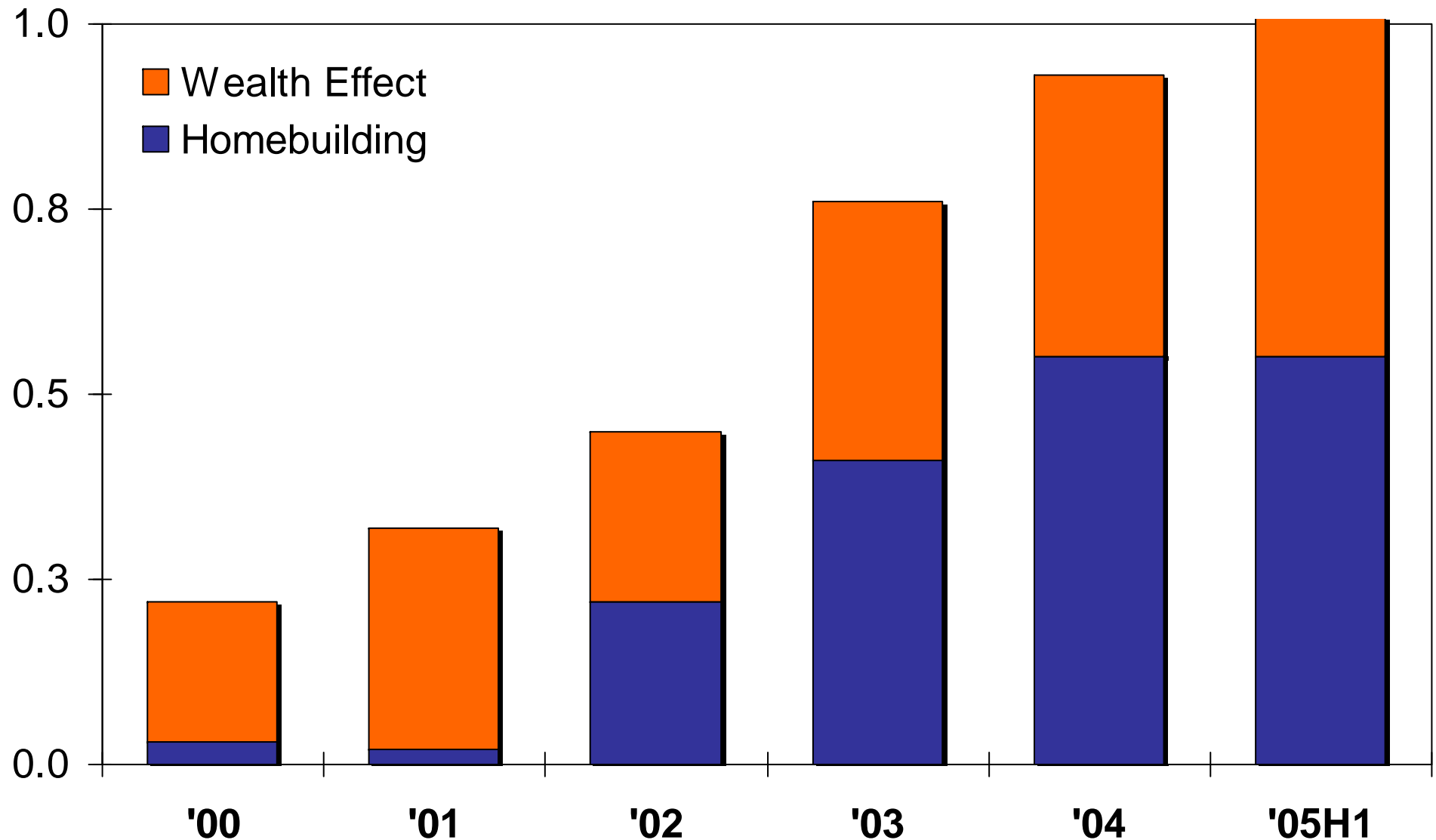


...Prompting Them to Expand

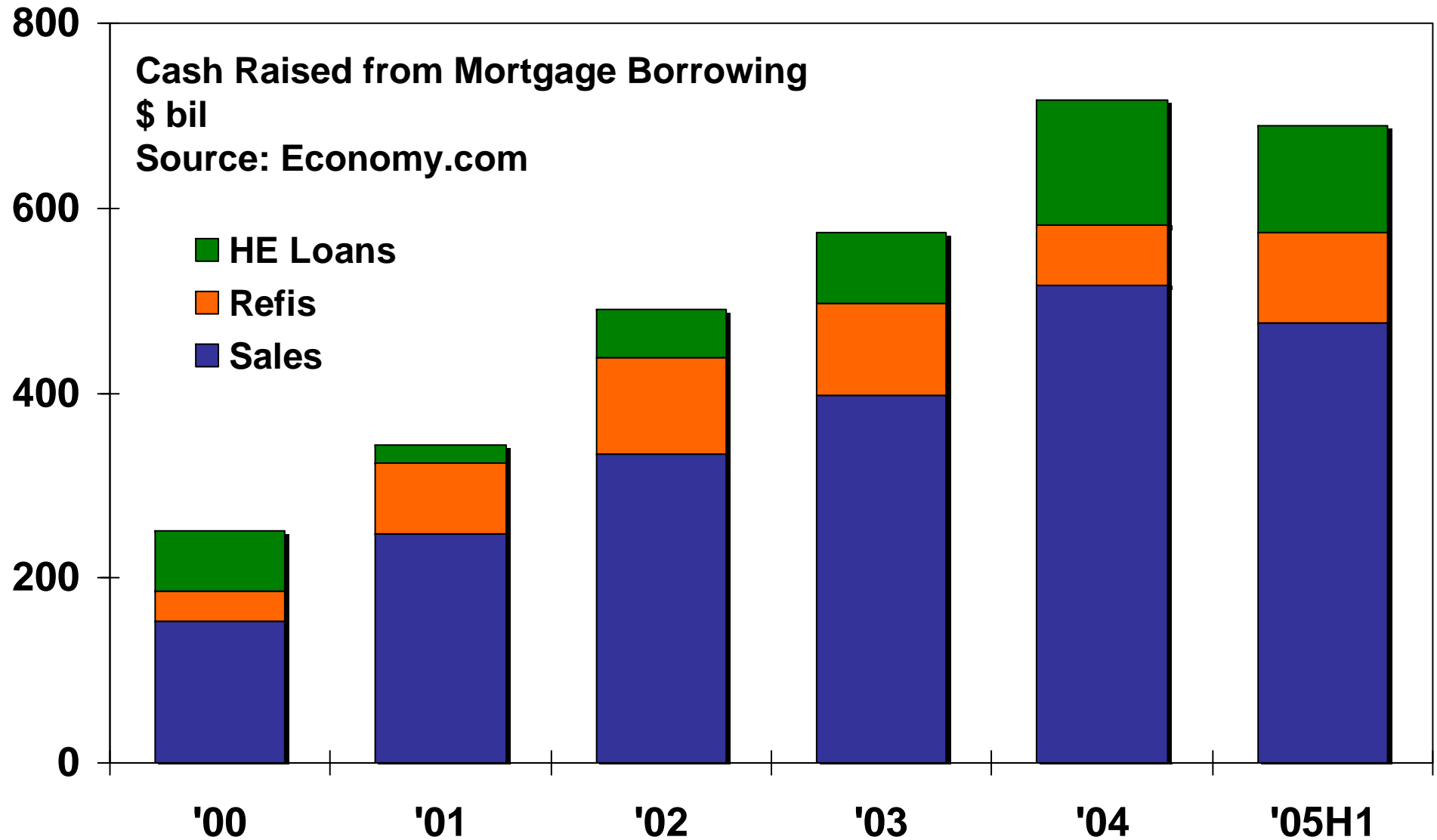


Housing's Outsized Contribution to Growth

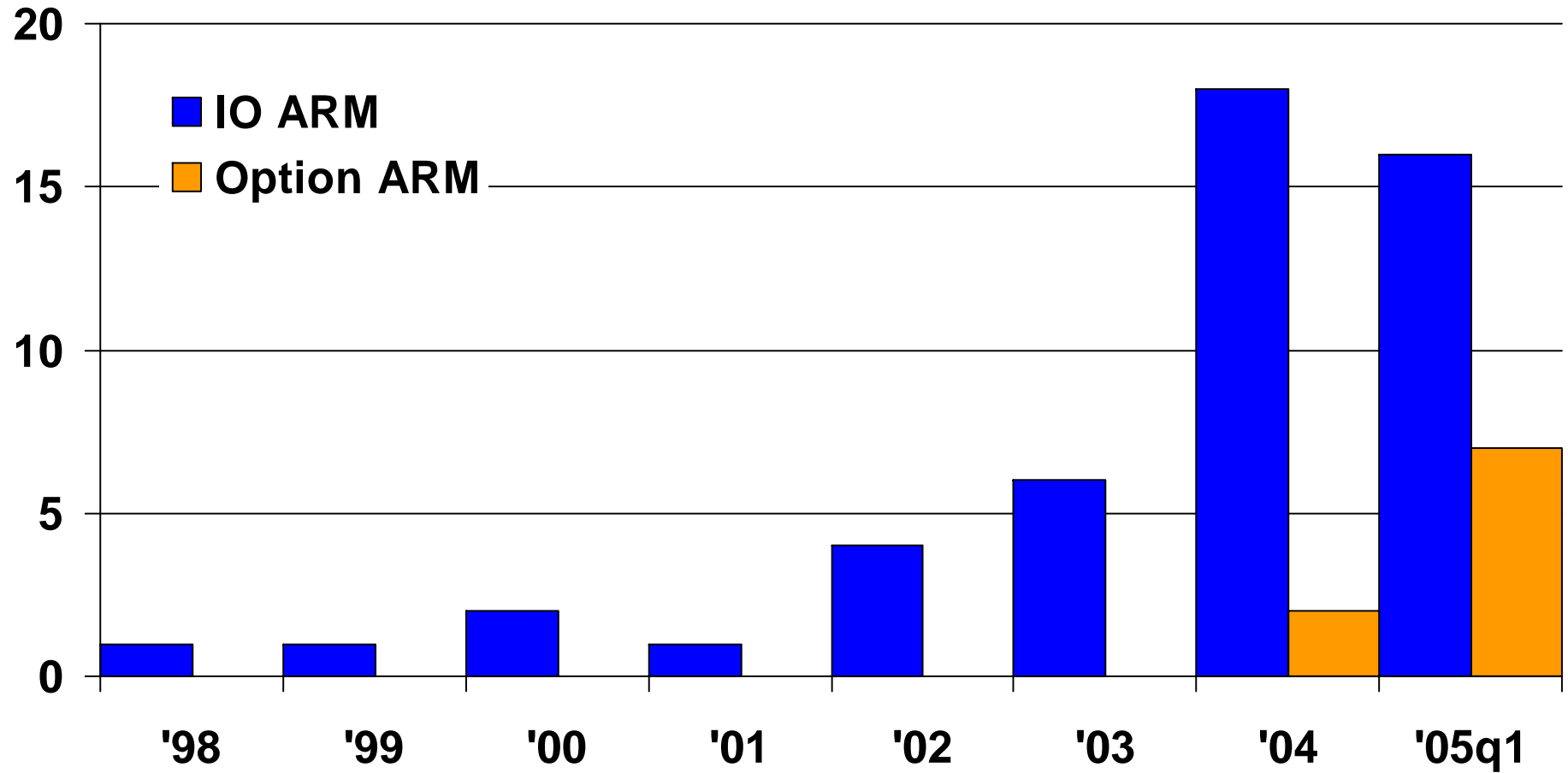
Percentage point contribution to real GDP growth, Source: Economy.com



The Home Has Become a Cash Machine



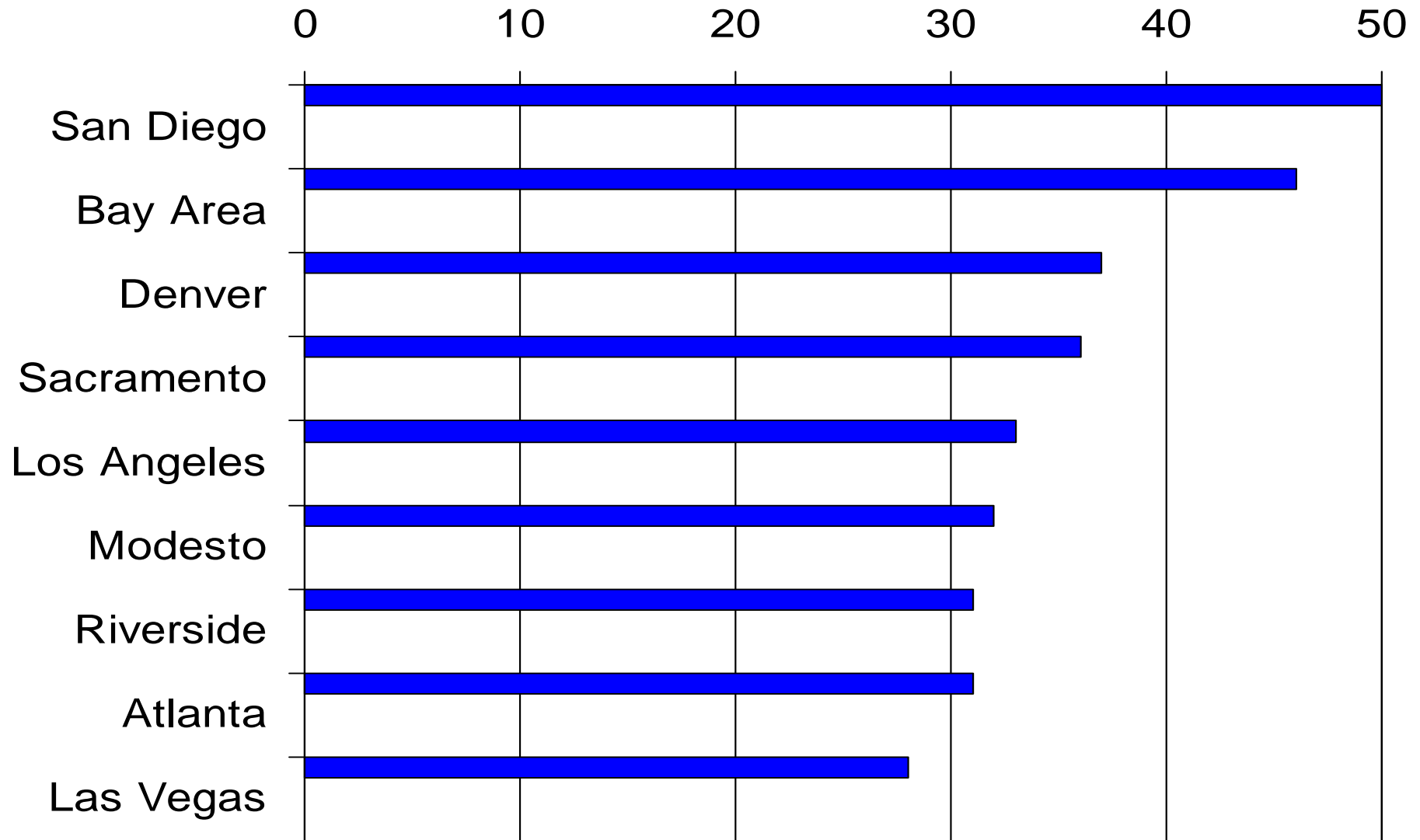
Exotic Mortgage Lending is Surging...



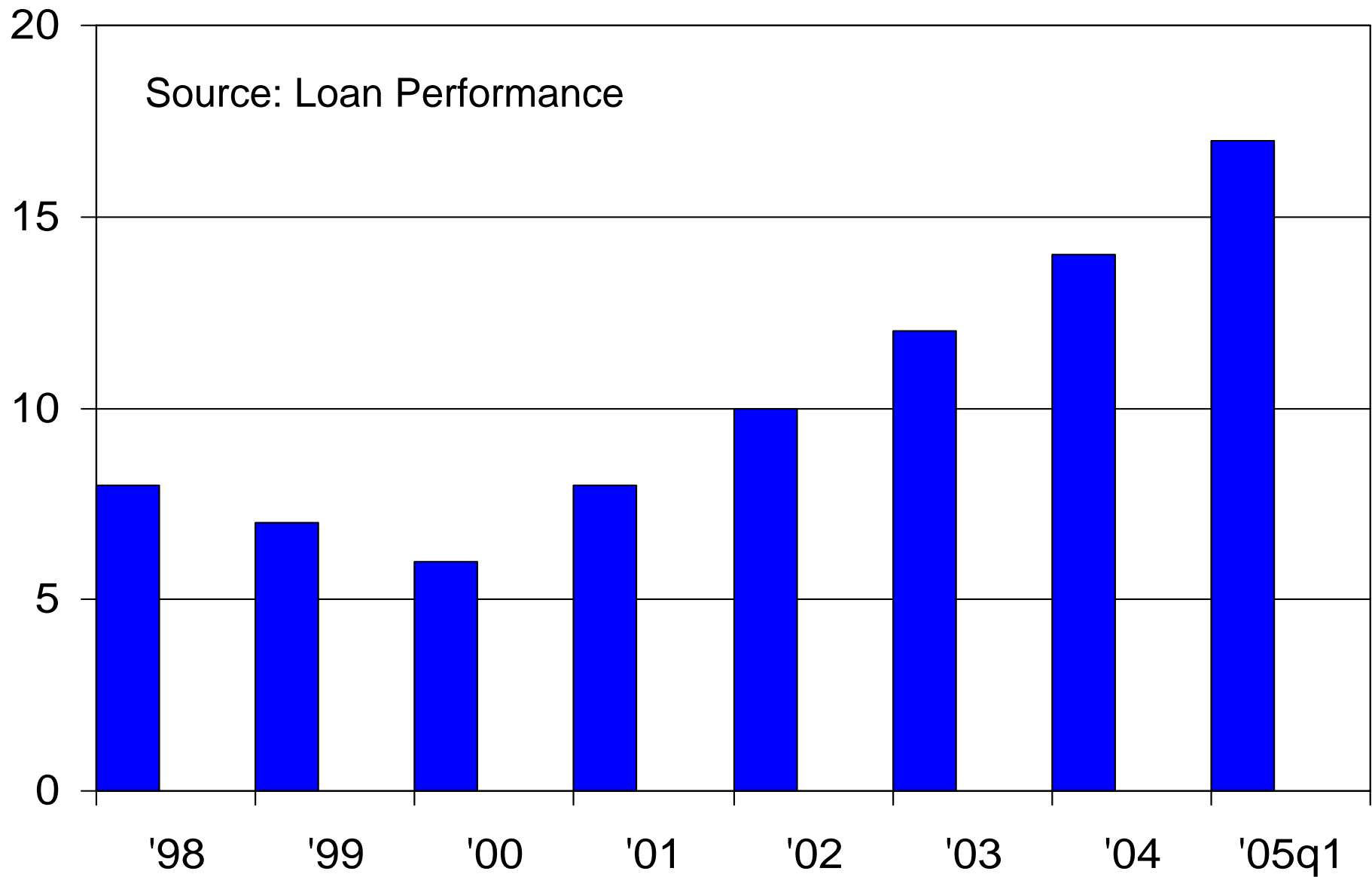
Source: LoanPerformance

...Especially in These Markets

10 ARM share of Originations, 2004, Source: LoanPerformance

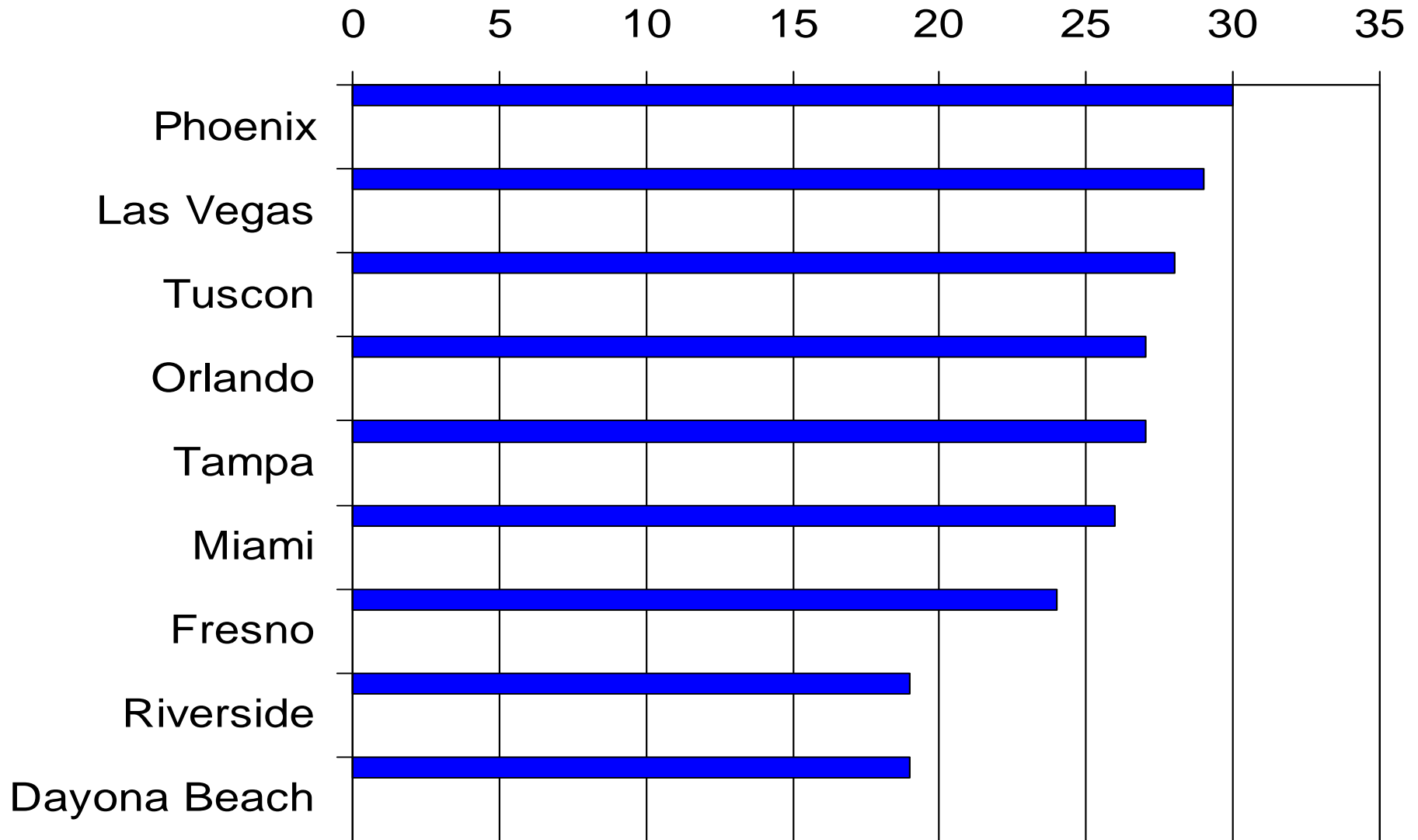


Investor Share of Home Sales Soars...

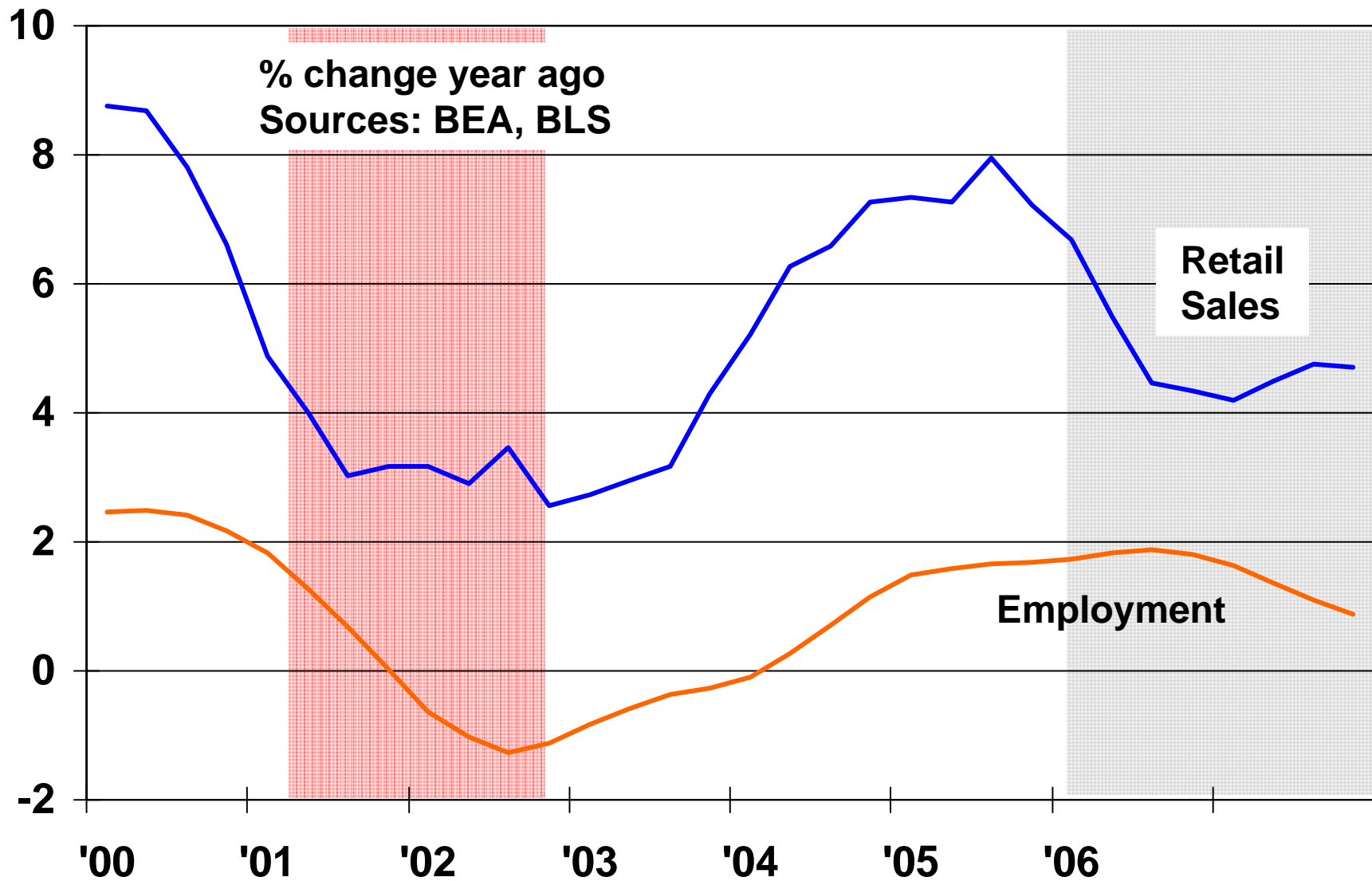


...Especially in These Markets

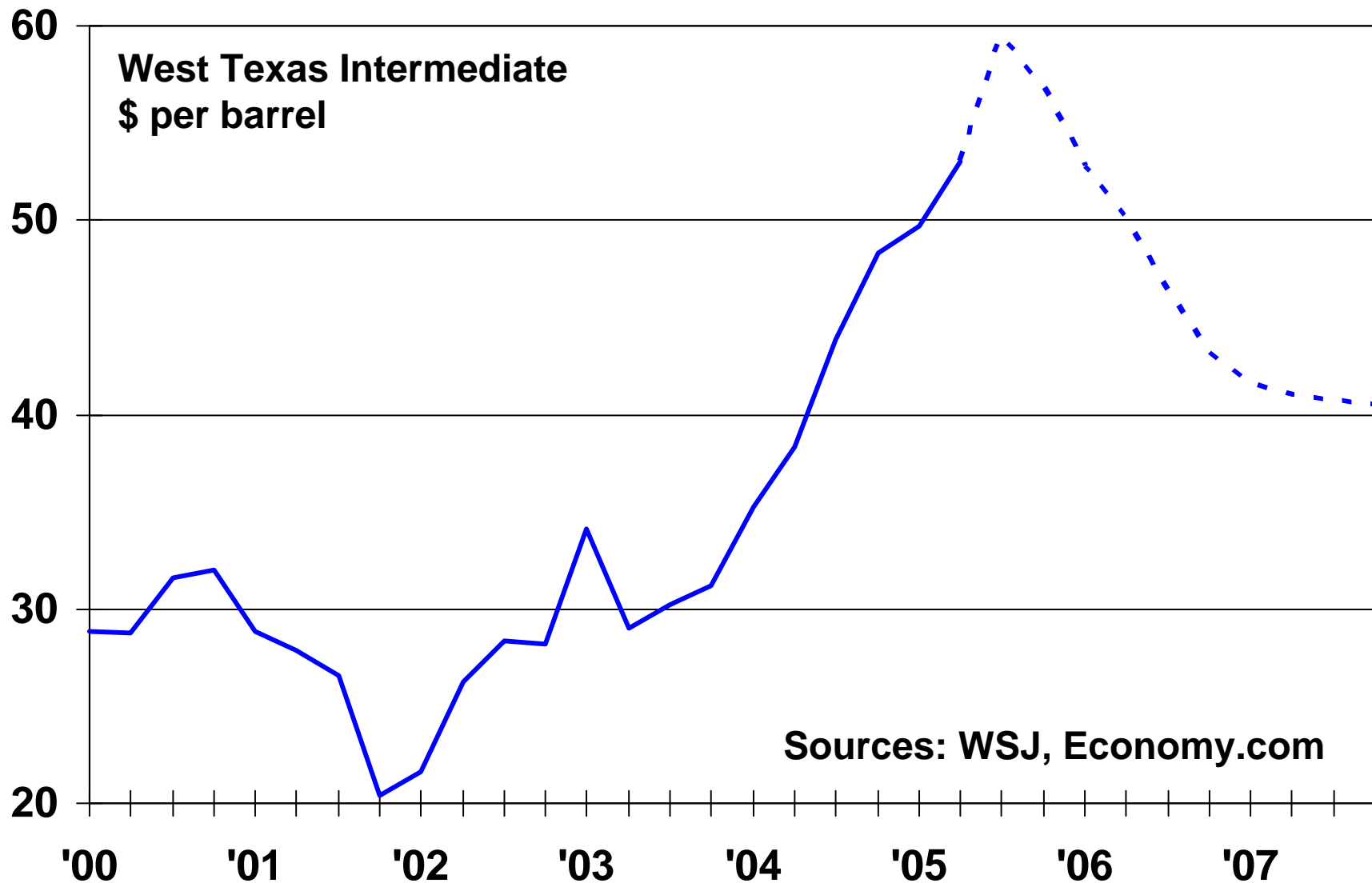
Investor Share of Home Sales, 2005q1, Source: LoanPerformance



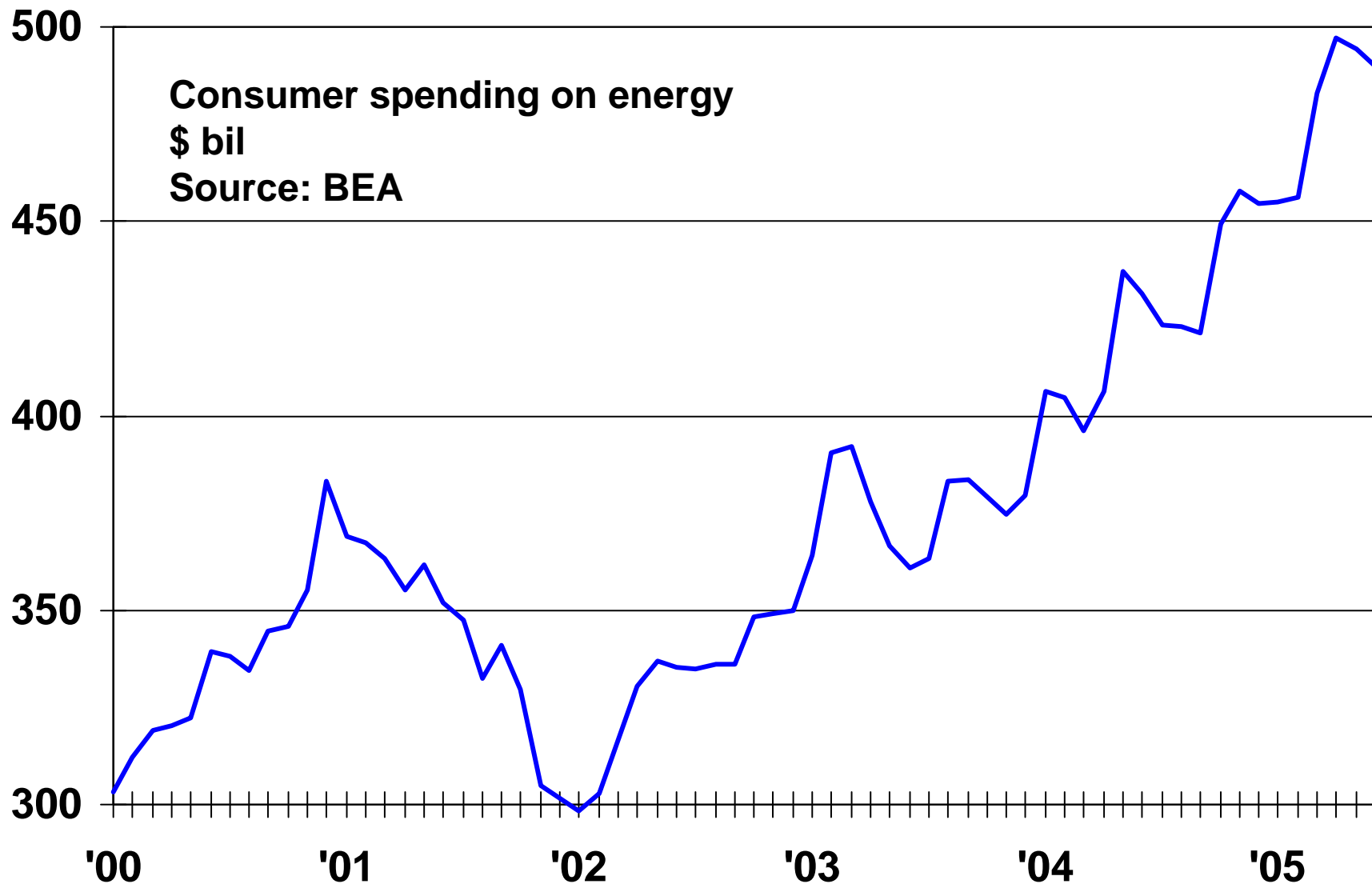
Slower, But Continued Growth



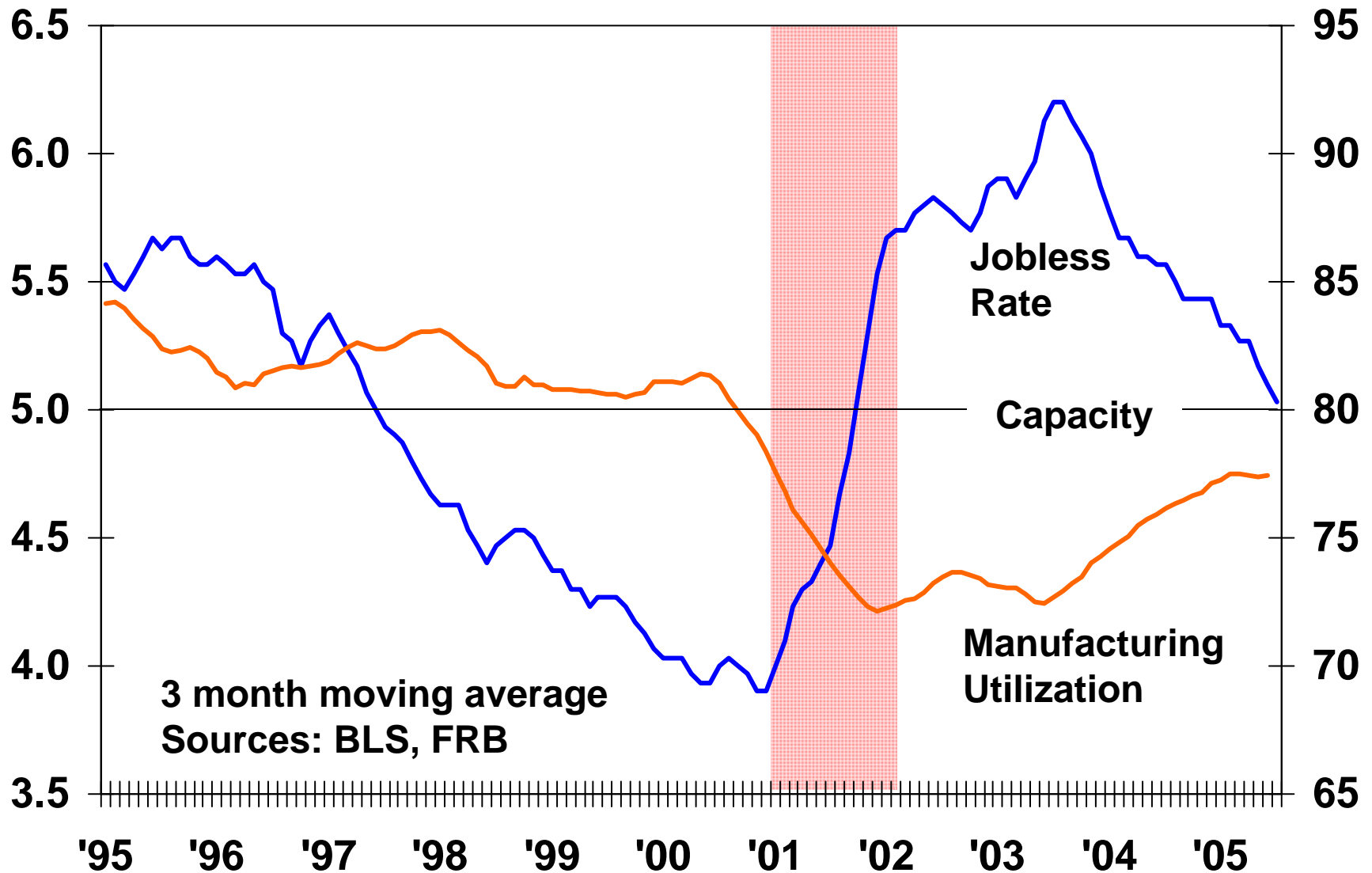
Oil Prices Are Expected to Moderate...



...But Higher Prices Pose a Substantial Threat

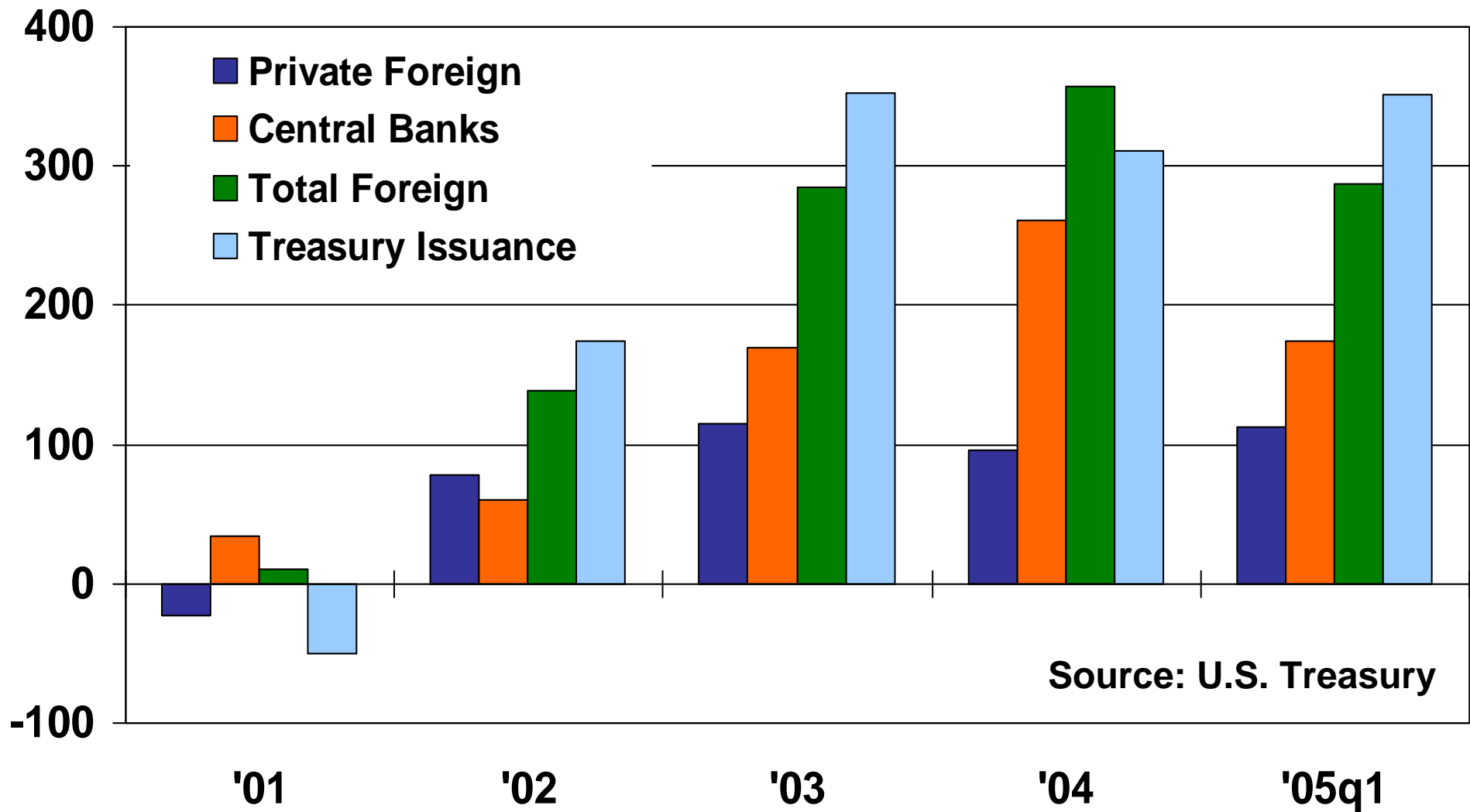


Running Out of Room

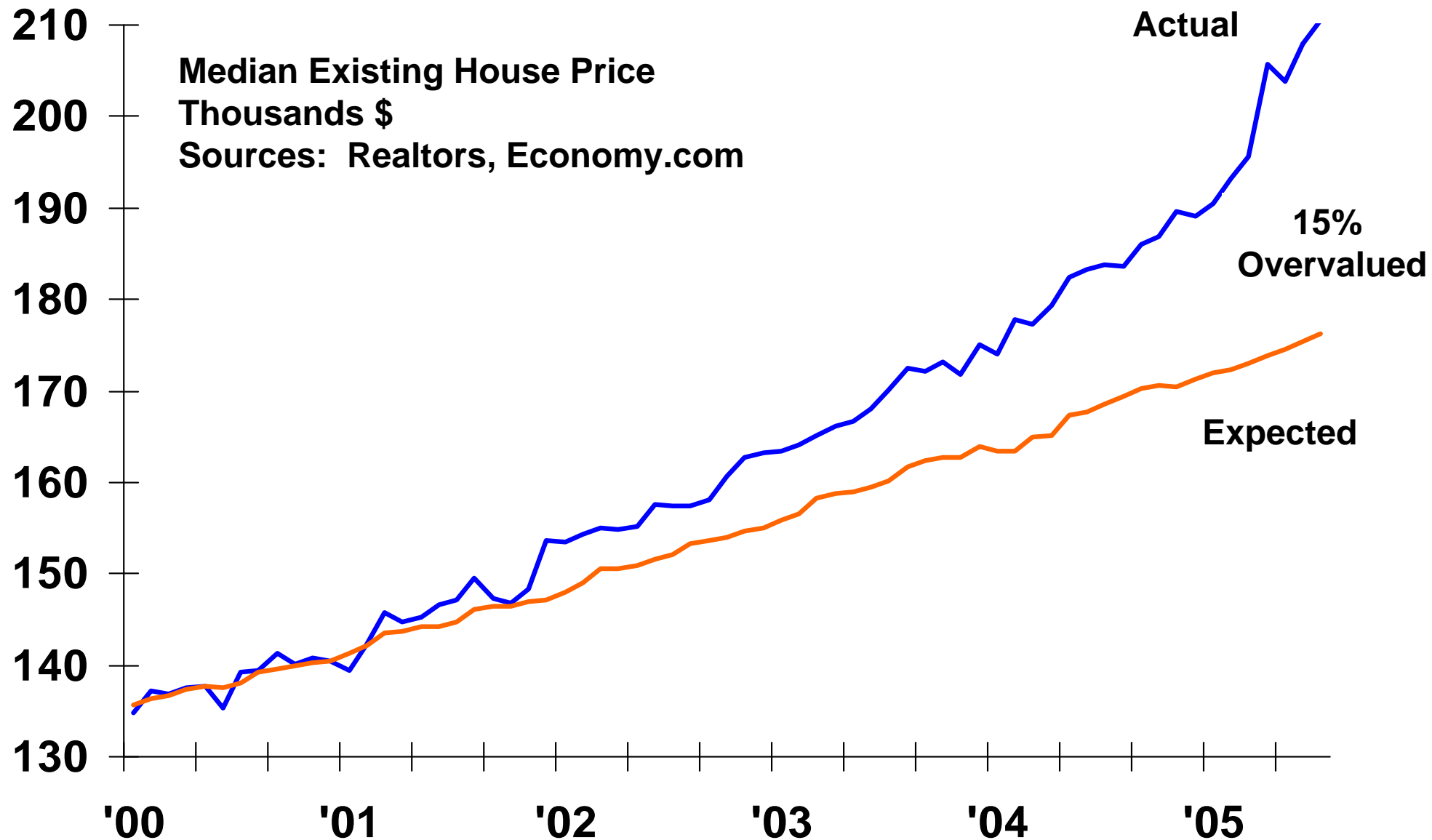


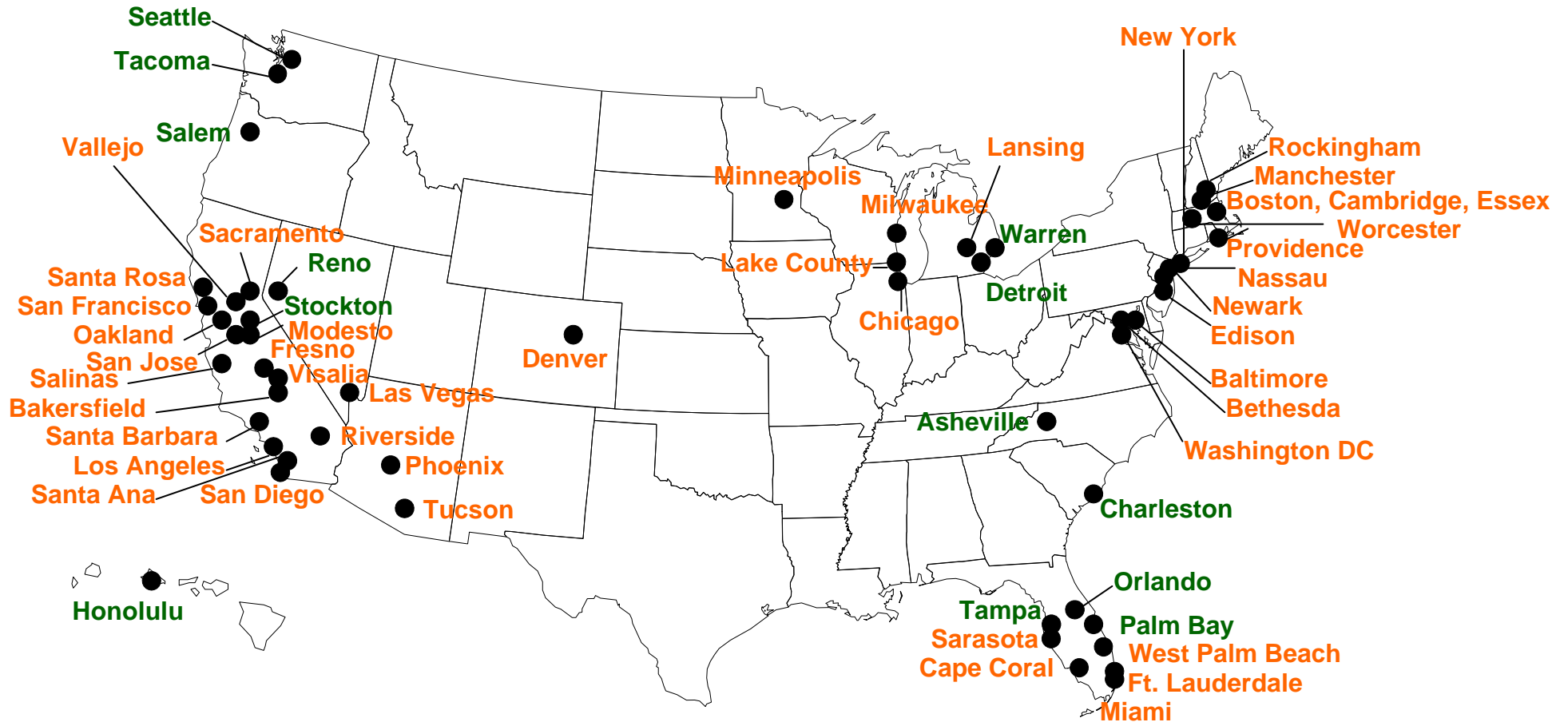
Foreign Investors Will Turn More Circumspect

\$ bil



Housing is Increasingly Overvalued...





Highly overpriced

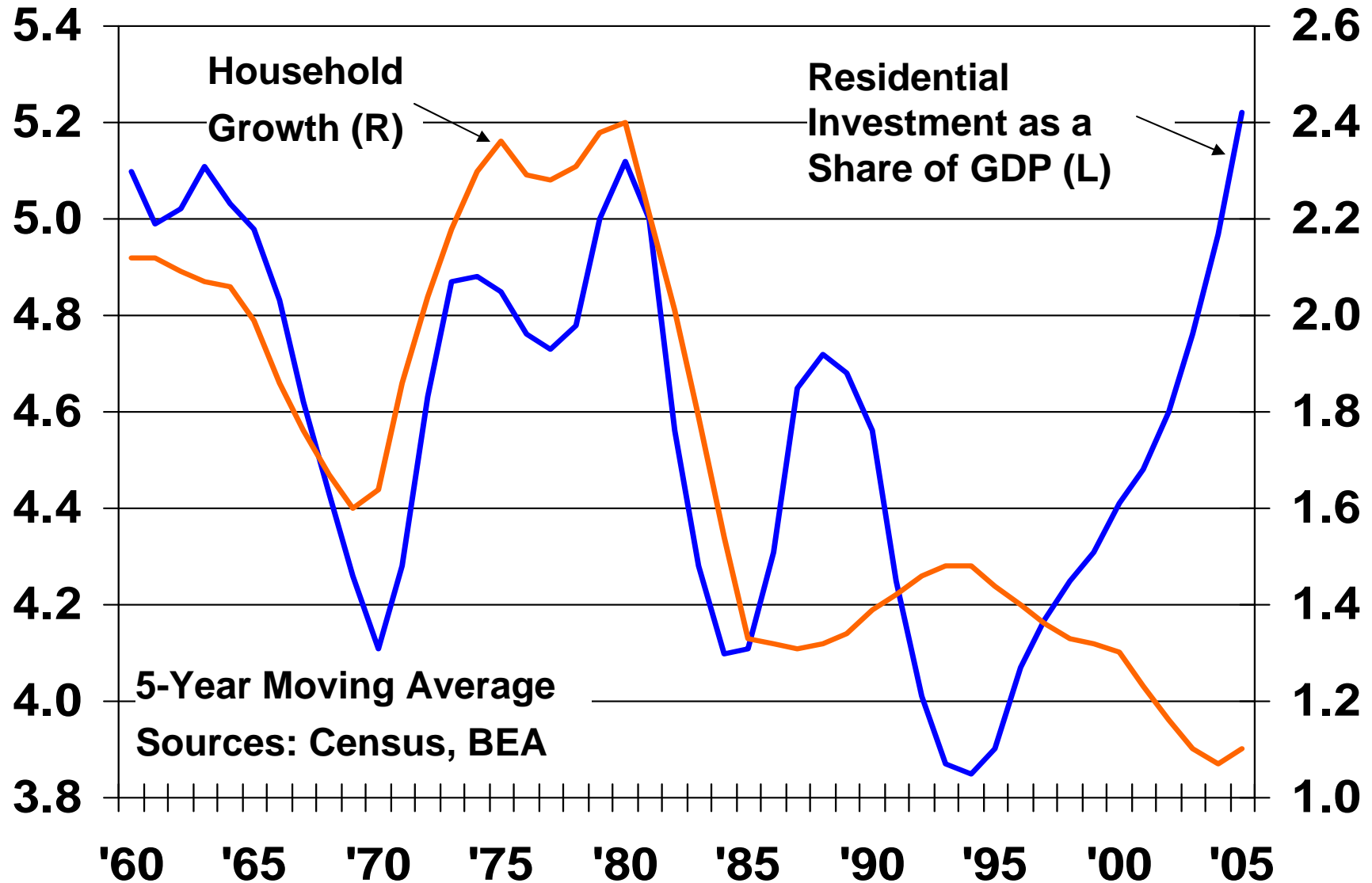
> 2 SD from historic average

Overpriced

> 1 SD from historic average

Based on the NAR median existing house price index, 2005Q1

Overbuilding...



Long-Term Housing Math

Annual averages over the next decade

Housing Demand = 1.90 Million

Household Formations = 1.30 Million

Second and Vacation Home = 0.20 Million

Obsolescence = 0.40 Million

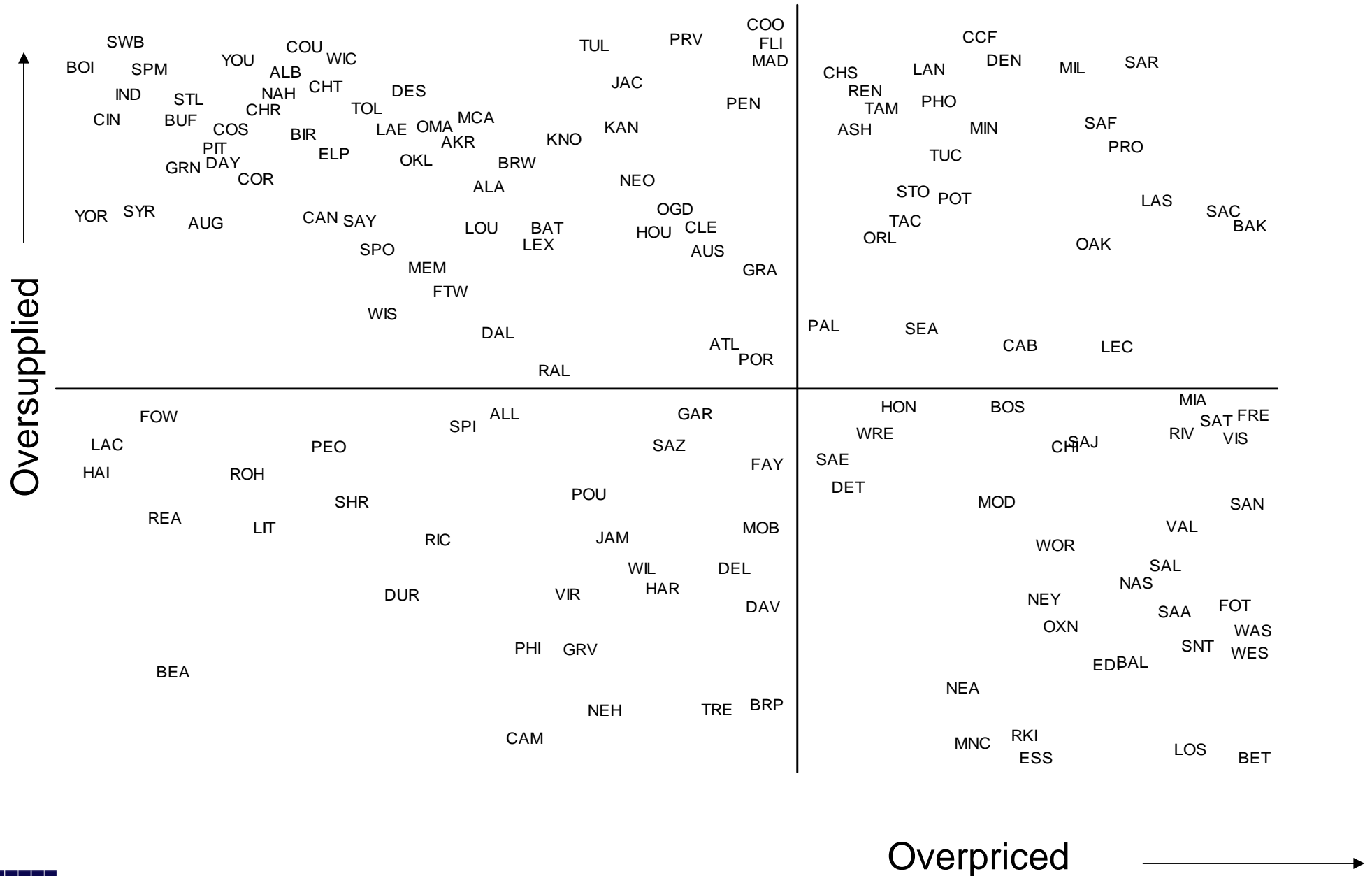
Housing Supply = 1.90 Million

Single Family = 1.30 Million

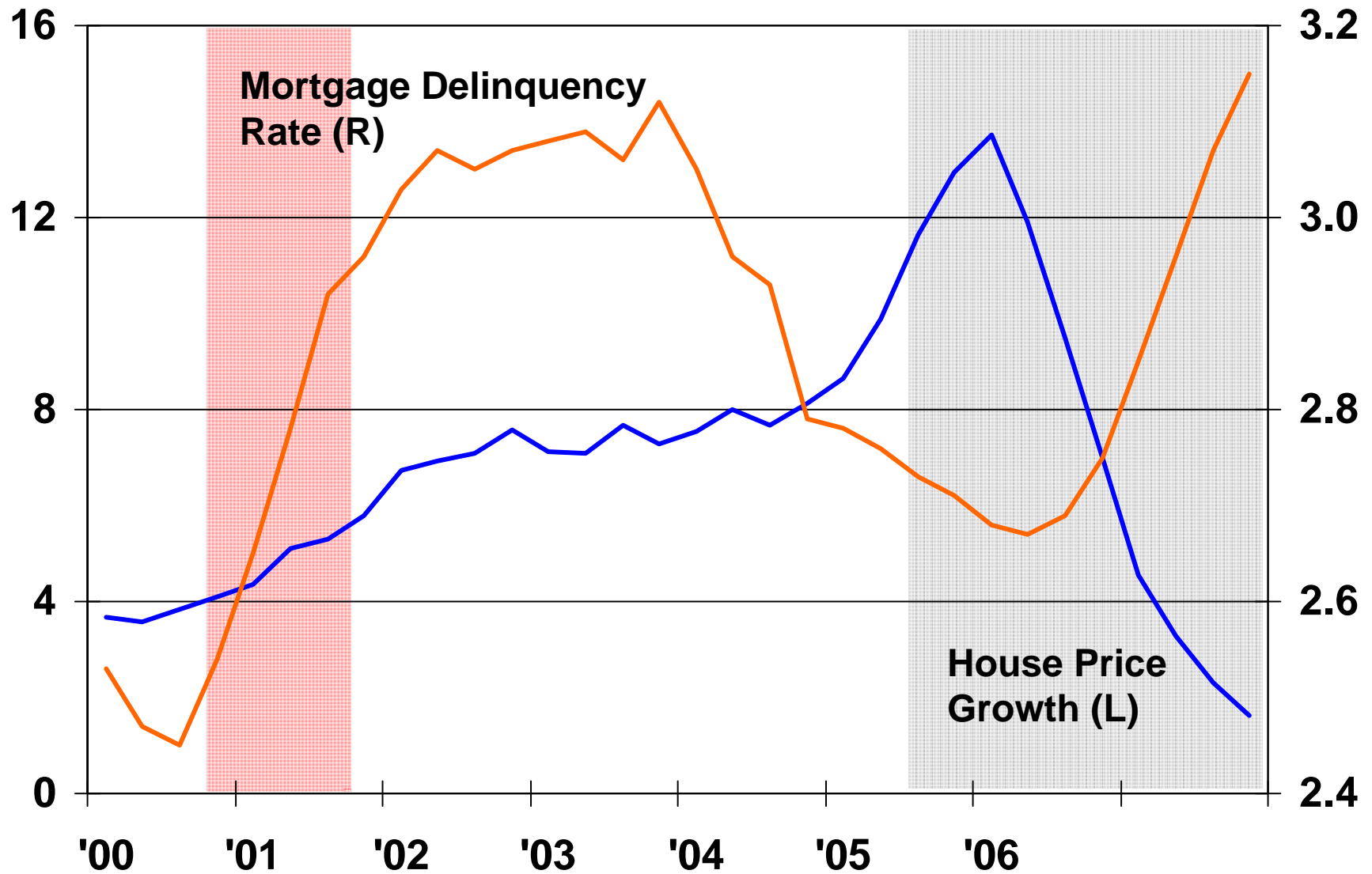
MultiFamily = 0.35 Million

Manufacturing Housing = 0.25 Million

Supply-Price Balance in the Top 150 Metro Areas

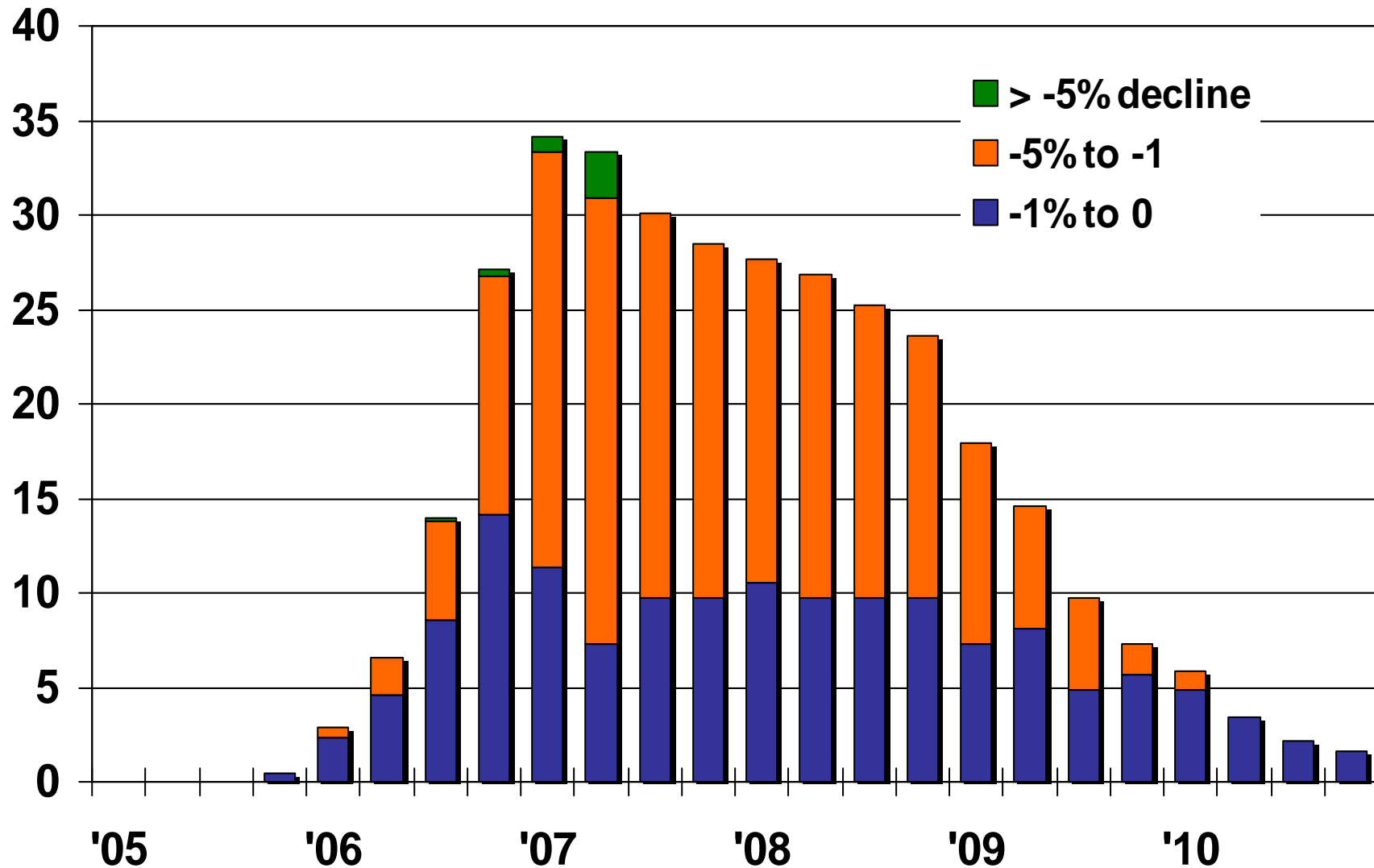


Weakening House Price Growth, Credit Quality



House Price Declines Under a 7.5% Fixed Rate

% of metro areas where house prices decline on a year-over-year basis



Outlook Summary

- **The single-family housing market is booming. Home sales, single family housing starts, and house price growth are robust.**
- **Single-family demand has been supported by extraordinarily low borrowing costs, falling transaction costs, aggressive lending, portfolio shifting, and nesting.**
- **Speculation is increasingly evident in housing markets in California, the Southwest, the Northeast corridor and Florida.**
- **Single-family demand and house prices will appreciably weaken with even a modest rise in mortgage rates.**
- **Mortgage credit quality will erode despite an sturdy job market.**

