INTEGRITY

BUILDERS PLAN

March, 2008

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ASHTABULA COUNTY BUILDERS ASSOCIATION

" The Voice of the Industry in Ashtabula County"

MARK YOUR CALENDAR

March 13th	General Meeting Elks Club
April 10th	General Meeting Elks Club
May 8th	General Meeting Elks Club
June 12th	Steak Fry Elks Club
July 10th	Golf Outing To Be Announced
August 14th	Summer Social To Be Announced
September 11th	General Meeting Elks Club
October 9th	General Meeting Elks Club
November 13th	General Meeting Elks Club
December 11th	Christmas Party Elks Club

Happy hour is 6:00pm - 7:00pm
Dinner 7:00pm
RSVP by Monday prior to meeting date and
if you need to cancel please call by Tuesday evening.

PRESIDENT'S COMMENTARY

February, was our first annual Builder's Expo and I loved it! It was Valentine's Day and all, but watching builder's with new products is like watching kids with new toys. It was a great event and thanks to all our vendors who participated. They provided some great products and ideas to help with that "Better Build" this year. I look forward to next years event which I'm sure will be even bigger and better.

March, will it come in like a lion or a lamb? You decide. Our March meeting will be a general/regular meeting of the membership. Your Board of Directors will be there to provide a status report and to get your ideas, input, and recommendations on a wide variety of topics that will include: your meals, program selection, membership benefits, updating of the By-Laws and the recent vote on Growth Partnership. We will be following a standard agenda that will be listed on page two of this newsletter. Which will include an open discussion of these matters during the Old/New business segment.

This should be considered one of the most important meetings of your year and I hope to see 100% attendance, Remember this is your Association and without you...

Frank

MEETING AGENDA FOR MARCH

1. President's Comments

2. Director's Report

3. Treasurer's Report

4. Report on Codes

5. Old / New Business -

   Topics to be discussed

   A. Meals
   B. Programs
   C. By-Laws
   D. Member Benefits
   E. Growth Partnership

NATION'S BUILDING NEWS

The Official Online Weekly Newspaper of NAHB

Sponsored by McGraw-Hill Construction and Freddie Mae

Eye on the Economy: Housing Will Improve Later This Year

Growth of U.S. economic output (real Gross Domestic Product) slowed to a meager 0.6% annual rate in the final quarter of 2007, according to the "advance" estimate released by the Commerce Department on Jan. 30. The weakest parts of the economy in the fourth quarter were sectors affected directly or indirectly by the housing downswing.

Residential fixed investment (RFI) fell at an annual rate of 23.9%, the steepest decline yet in the two-year downslide, and growth of personal consumption expenditures (PCE) slowed to a 2% annual pace — presumably weighed down by loss of housing equity and by concerns about the course of house prices in some areas.

The labor market also shows serious recent signs of weakness, largely because of job losses in residential construction and related areas (including housing finance). Total payroll employment actually fell slightly

— by 17,000 — in January as private payrolls were essentially flat while government payrolls declined. Furthermore, average weekly hours worked in the private sector contracted a bit, and aggregate hours worked in the nonfarm business sector contracted significantly

— with negative implications for GDP growth in the first quarter.

Another shoe dropped on Feb. 5 when the Institute for Supply Management (ISM) released its index of activity in the nonmanufacturing sector for January — covering construction and private services (including finance). The index plummeted to a recession-like level (compared with 2001) and, although an upward revision is possible, fundamental weakness at the beginning of 2008 undoubtedly is being conveyed by the ISM measure.

The recent weakness of GDP, the labor market and the nonmanufacturing sector, along with systematic decline in the Conference Board's index of leading economic indicators since last fall, have stoked recession worries among financial market participants and policymakers in Washington.

The probability of near-term recession certainly is elevated — close to 50% — and the actual outcome will depend on the true condition of various economic fundamentals, the performance of financial markets and the degree of near-term support provided by monetary and fiscal policy.

Housing Data Still Are Downbeat

Housing data received in recent weeks, pertaining primarily to conditions in late-2007, have yet to signal imminent stabilization of the housing market.

Sales of existing homes fell by 2.2% in December, reflecting declines in both single-family and condo markets and median sales prices were down by 6.0% (6.5% for single-family) on a year-over-year basis.

In the new-home market, sales were down by 4.7% in December and the median sales price was down by 10.4% year-over-year.

Inventory levels declined modestly in December for both new and existing homes, although inventory/sales ratios showed little change due to the fall in sales volume. The Commerce Department's quarterly measure of vacant year-round housing units for-sale (whether new or existing) still was hanging around a record level in the fourth quarter of last year as was the measure of vacant units for-rent.

These inventory data, in conjunction with the weak pace of home sales, point toward further weakness in housing starts in coming months.

The downtrend in housing starts through the end of last year naturally translated into further declines in measures of construction put-in-place. Single-family construction (in nominal terms) fell by 5.4% in December and was down by 31% on a year-over-year basis. Multifamily construction also has been falling systematically, contracting by 1.9% in December and 20.6% on a year-over-year basis.

Spending on improvements to residential structures (additions and alterations) was essentially flat during 2007 and accounted for a lofty 37% of total residential construction at the end of the year.

Financial Market Stress Refuses to Go Away

The financial market turmoil that erupted last summer still is a major problem for the U.S. economy.

The severe liquidity problems in short-term funding markets (including interbank markets here and abroad) have eased to some degree since late 2007, due partly to the Fed's new auctions of discount-window credit ? the Term Auction Facility.

The commercial paper market has improved in the process, particularly the beleagued asset-backed market, although this market still is not functioning normally.

Despite some easing of short-term liquidity issues, the stock market is being battered and the markets for longer-term credit remain under considerable stress. Quality spreads in corporate bond and mortgage markets still are quite elevated, and some components are essentially shut down (including the subprime and Alt-A mortgage markets).

In this regard, recent Federal Open Market Committee (FOMC) statements have stressed that "credit has tightened further for some businesses and households," despite the Fed's aggressive easing campaign since last fall.

It's clear that investors here and abroad have been traumatized by the realization of risks embedded in many of the securitized vehicles they hold, particularly those with U.S. subprime mortgage exposure. They have turned extremely risk-averse — forcing down risk-free (government) interest rates but widening out quality spreads dramatically in private markets and shutting some down entirely.

It will take considerable time for Wall Street to develop (and rate) transparent securitized investments that investors will accept. In the meantime, the banking system will have to take up a good bit of the slack in the credit creation process.

Lending Standards at Banks Still Are Tightening

Mortgage interest rates are quite low at this time, at least on prime conventional conforming loans and FHA/VA mortgages. However, the Federal Reserve reports that bank lending standards are tightening in all major components of the conventional home mortgage market — prime, subprime and "nontraditional" including interest-only, payment-option, and Alt-A adjustable-rate loans.

The Fed's January Senior Loan Officer Opinion Survey on Bank Lending Practices shows that standards have been tightening substantially for nearly a year on subprime and "nontraditional" mortgages, and standards started to tighten last fall on prime mortgages as well.

Indeed, a net 41% of banks said they had tightened standards for prime loans in the quarterly report released last October, and that proportion was up to 53% in the January survey.

The Fed's survey also documents major declines in demand for home mortgages at commercial banks, particularly for subprime and "nontraditional" loans. A net 60% of banks also reported considerable weakening in demand for prime mortgage loans in the January survey, following a large decline in the previous quarterly report last October.

The Federal Reserve Pulls Out the Stops

On Jan. 22, the Federal Reserve announced 75 basis point cuts to both the federal funds rate and the discount rate. These definitely were "emergency" cuts, enacted just eight days prior to the next regularly scheduled FOMC meeting. Indeed, this was the first intermeeting cut since September 2001 (in the wake of 9/11) and the single largest rate cut in 24 years.

The Jan. 22 FOMC statement cited weakening of the economic outlook (including deepening of the housing contraction) and deterioration of financial market conditions (other than short-term funding markets). The statement noted that appreciable downside risks to growth remained — even after the emergency rate cut. The statement also moved earlier inflation concerns well off to the sidelines.

The Fed cut short-term rates by an additional 50 basis points at the regularly scheduled FOMC meeting on Jan. 30, bringing the cumulative reduction in the funds rate so far this year to a whopping 125 basis points. The FOMC statement once again cited considerable stress in financial markets, deepening of the housing contraction and softening in labor markets. The statement also reiterated concern about remaining downside risks to growth and pushed inflation concerns further into the background — opening the door to further monetary ease down the line. We're currently assuming an additional half-point cut at the March 18 FOMC meeting, followed by another quarter-point cut on April 30. These moves will push the nomnal funds rate down to 2.25% and the real (inflation adjusted) funds rate below 1%.

The Fed could be even more aggressive if economic and financial market conditions demand even more monetary stimulus in the near term.

Economic Stimulus

The White House and Congress are firmly committed to a short-term economic stimulus package that will help the weakened economy avoid recession in 2008. Fed Chairman Ben Bernanke has endorsed the effort as a welcome complement to simulative monetary policy and the President apparently will sign legislation that comes out of Congress — hopefully soon. (To read a related story in in this issue of Nation's Building News.) Timely passage of such a housing stimulus is a major factor behind NAHB's housing and economic outlook for 2008.

There Are a Few Encouraging Leading Indicators of Housing Demand

There are some tentative signs that the dramatic downswing in home sales since late 2005 may soon be approaching a bottom.

In this regard, measures of housing affordability have moved up significantly from their lows last summer — due to lower mortgage rates, lower house prices and higher levels of personal income. Furthermore, NAHB's most recent survey of single-family builders in early February shows some pickup in builder assessments of traffic of prospective buyers, a critical first step in the eventual recovery process.

Buyer traffic doesn't ensure home sales, of course, but surveys of consumer sentiment conducted through January by the University of Michigan suggest modest improvement in consumer attitudes toward home buying since the lows of late 2007. Lower house prices are the key reason cited by consumers who now say buying conditions are "good." The question is; when will conditions be good enough?

Housing and the Economy Will Improve Later This Year

NAHB's forecast shows firming of overall economic activity and the beginnings of housing recovery during the second half of this year — with help from the Federal Reserve, Congress and the Administration.

Our forecast also assumes that oil prices will recede over the course of the year and that the economy will not be shocked by unforeseen events, such as a global stock market crash.

Our baseline (most probable) economic forecast shows GDP growth of less than 1% in the first half of this year, and a mild recession certainly is possible.

Our projected GDP pattern generates only meager growth of payroll employment and involves further increases in the unemployment rate during the next few quarters. But we expect GDP growth to rise to about 2.8% by late in the year, strengthening the job market and paving the way for solid economic performance in 2009.

We do not expect core inflation to be a serious problem at any time during the 2008-2009 period.

Our housing forecast shows substantial reductions in home sales, housing starts and residential fixed investment for 2008 as a whole, but we're looking for stabilization of all three measures (in that order) during the year. 2009 stacks up as a solid recovery year, and there will be plenty of room for growth of the housing sector in future years as well.

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