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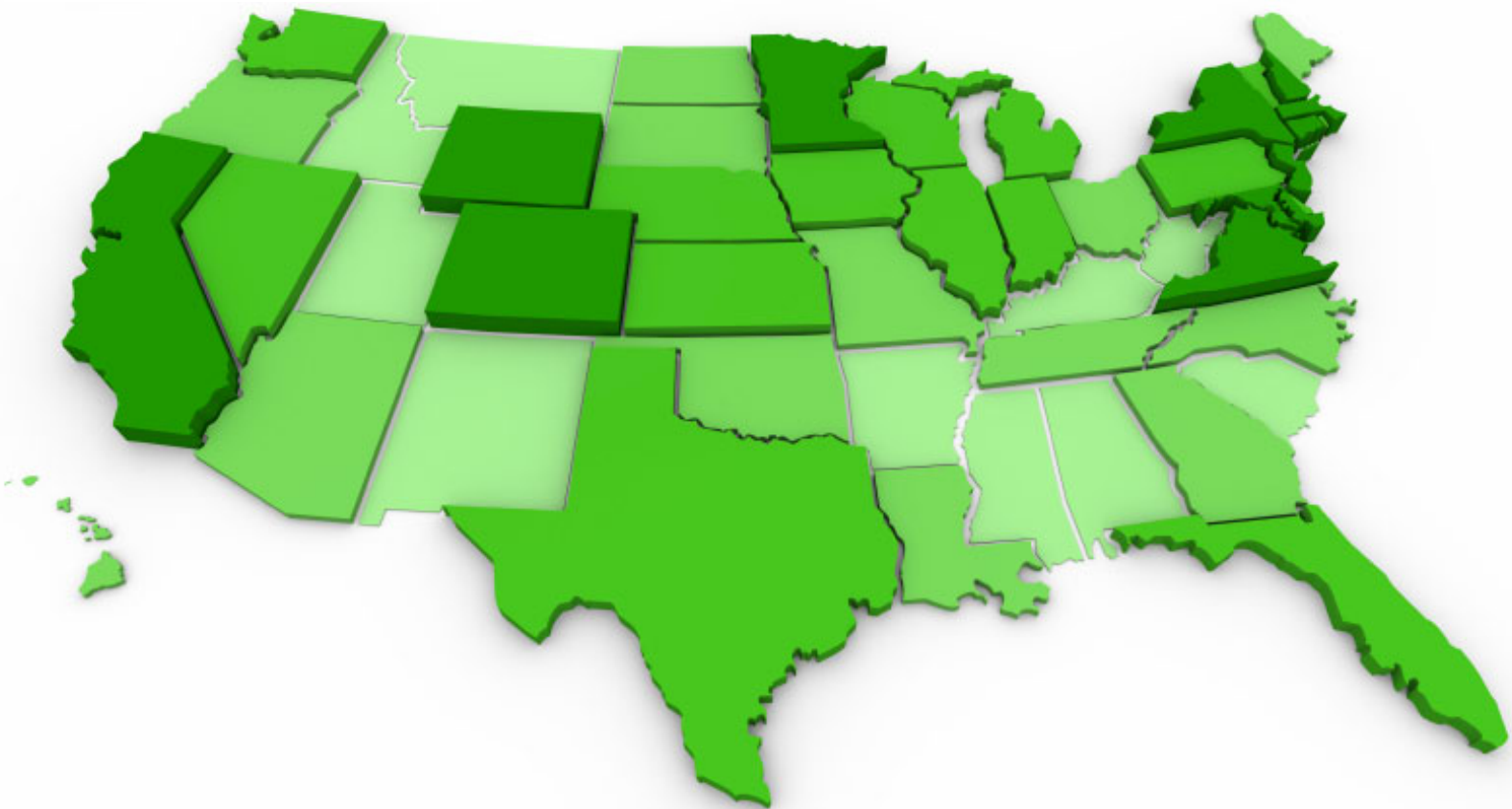
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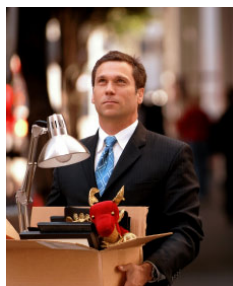
Financial Forecast

As the first fiscal quarter draws to a close, we take a look at the state of the U.S. economy and a look ahead at what we can expect as the year unfolds.



An increase in consumer spending has given a boost to the **stock market**, but analysts fear we may not be out of the woods yet.

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Unemployment hovers around 10 percent for the first time in decades. Take a look inside the numbers of the so-called "jobless recovery."

(page 2)



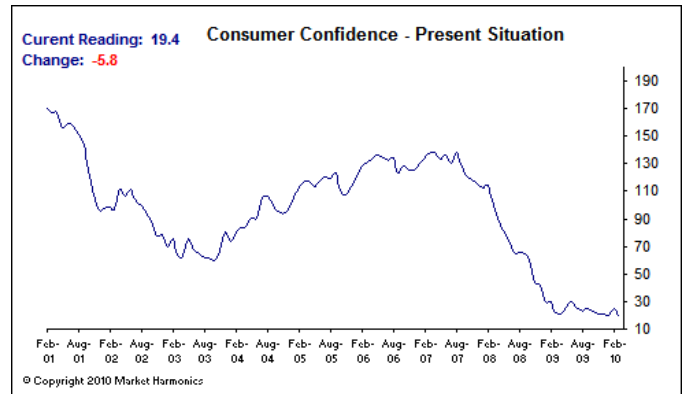
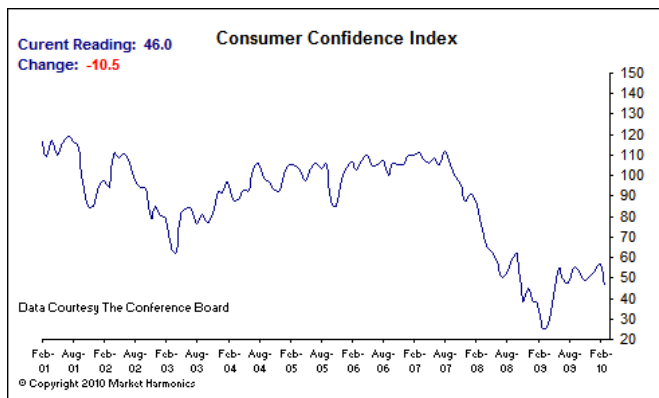
The **housing market** has finally found some stability, but what happens when the government takes the training wheels off?

(page 3)

Consumer Spending & Stocks

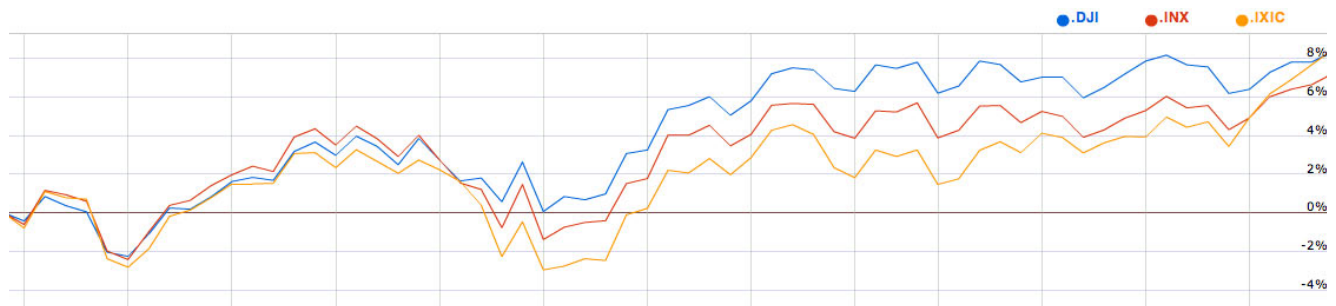
Consumer spending increases for four straight months

Consumer spending accounts for nearly two-thirds of the U.S. economy, which is why its sudden dip at the beginning of the recession was so worrisome. Over the past four months, consumer confidence has been ticking upward and consumer spending has followed, though not as quickly as experts initially predicted—a disparity brought about by a failure to anticipate the severity or scope of the unemployment problem.



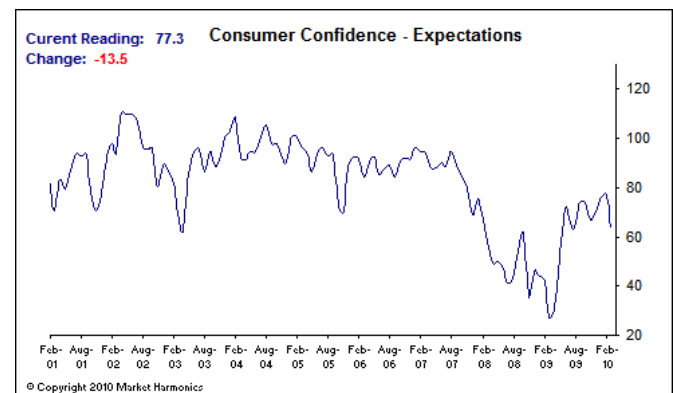
Stock market responds to consumer spending

The stock market has responded to the gradual increase in consumer spending with a gradual increase in the major indices, which are up an average of nearly 4 percent since the New Year. The NASDAQ has fared particularly well—up almost 7 percent in the first quarter of 2010. Most of this increase has occurred since mid-February, which means the last six weeks have been particularly rewarding for investors.



An uncertain future

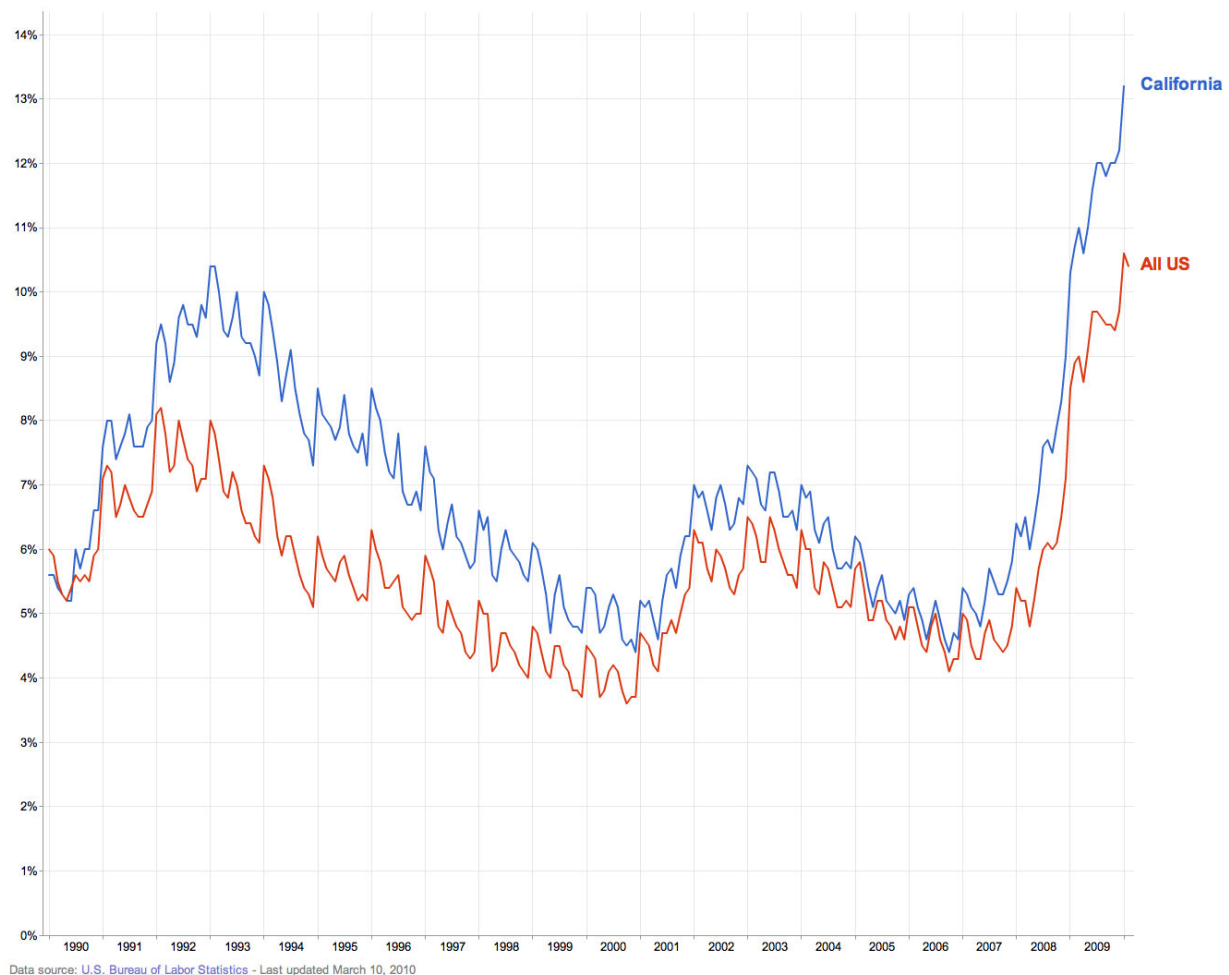
At this point, analysts are split on the prospects for continued recovery. On the one hand, it is encouraging to see consumers spending more money. If that trend continues, the stock market will continue to perform well, freeing up more money for community loans, thus reinforcing the stabilizing housing market. On the other hand, if unemployment continues to fester around 10 percent, all bets are off. Americans' unease about the future is reflected in the nation's fluctuating expectation ratings.



Labor & Unemployment

While experts argue over the meaning of a gradual rise in consumer spending, there is little argument about what the devastating unemployment numbers are doing to the economy at large. Federal unemployment is above 9 percent right now—near a 27-year high. Some states (such as California) have been hit even harder, with unemployment rates well over 13 percent. When unemployment reaches those levels, it unleashes a tragic domino effect. The state collects less money in income taxes, while paying out more in unemployment services. The state has no choice but to slash government programs, which leads to out-of-work teachers, firefighters, and construction workers, thus accelerating the cycle.

Unemployment Rate 1990-2010



To complicate things further, unemployment numbers are notoriously misleading. Unemployment numbers do not account for workers who have given up on finding a job (some studies suggest these numbers may be at an all-time high). Additionally, unemployment numbers do not account for the underemployed—people who are working in jobs for which they are overqualified. Recent anecdotes about workers removing degrees, certifications, and work experience from their resumes in order to compete for jobs typically beneath their pay grade underscore the frequency of this type of worker misplacement. For all that is uncertain, it is painfully obvious that unemployment has reached crisis level and demands serious attention.

The federal government has insisted that the remainder of 2010 will be devoted to fixing the job crisis. While it is unclear what options exist for lawmakers, there are still several bullets left in the chamber. Most of them are costly and none of them is likely to solve the problem completely, but we can expect to see an array of hiring incentives, tax breaks, and measures focused on freeing up capital for small businesses. Experts believe that if these programs are correctly implemented and sequenced, we will see a slow reduction in the unemployment rate throughout the remaining three quarters of 2010.

Housing Market

Signs of stability

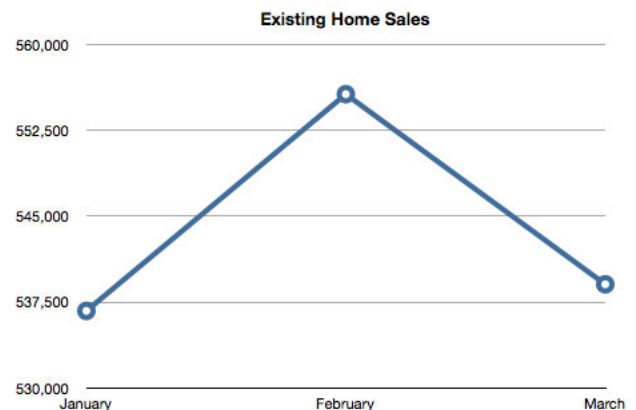
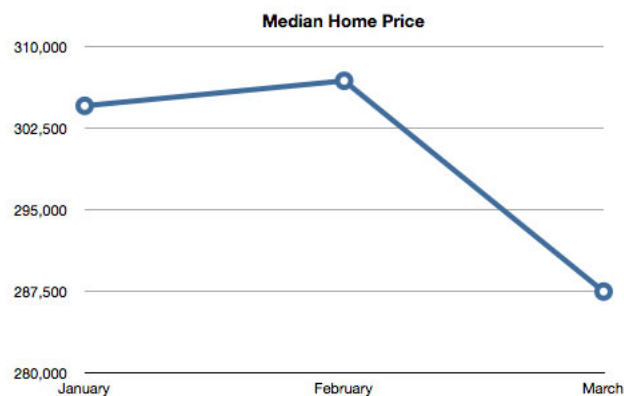
The most promising news is coming from the housing sector. Mortgage applications are up nearly 15 percent from last year. Activity in the housing market continues to accelerate, with most activity concentrated in the low end of the housing market. In fact, one of the biggest problems in the real estate market right now is the shortage of available properties in lower price ranges.

Uneven recovery

The real estate recovery is taking different shapes in different parts of the country. Some regions have already seen a complete return to normalcy, while others are still working through massive amounts of foreclosures and rapidly falling prices. In California, it appears the worst is over. Better yet, California seems to be working through the housing crisis more quickly than other states that were similarly affected (Arizona, Nevada, Florida).

[Click here for regional housing data.](#)

As you can see below, California has experienced small fluctuations in key statistics throughout the first quarter of 2010. However, when contrasted with the last two years, the trend is undeniably positive.



Training wheels coming off

For all of the good news in the housing market, it comes with a big caveat. The federal government has done a lot to support the growth of the housing market throughout the recovery. The tremendously popular first-time homebuyer tax credit (\$8,000) and move-up homebuyer tax credit (\$6,500) are set to expire soon. It is unclear how much of the recent success in the housing market is attributable to these credits, but we may soon find out.

California is unlikely to feel the effect of these expirations for a while, since it recently enacted a [state tax credit](#) of up to \$10,000. This state credit kicks in on May 1 and is set to expire in August of 2011. However, if history is any indication, this credit will likely expire before the end of the year. A similar credit enacted in California in 2009 expired in five short months, after the fund was overwhelmed with over 12,000 requests.

