

MGIC Market Trend Analysis

The key to success in financial services today is to understand and react to the dominant forces in your markets. To help you in better understanding your market, MGIC continually researches and analyzes the current economic, real estate and employment conditions of select Core Based Statistical Areas (CBSAs). Then we take that information, as well as our observations on each market, and publish it in our Market Trend Analysis on a quarterly basis.

It is our intention that this information will be of assistance to you in making business decisions. Any questions on this material or requests for more information should be directed to your MGIC Account Manager or MGIC's corporate office.

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MARKET ASSESSMENT CATEGORIES

An assessment of current housing market conditions and a short-term projection is made for each of the major market areas. The following definitions represent the current market assessment categories utilized in determining a market's overall housing condition:

- Strong:** Property values appreciating in most segments. This is typically associated with housing demand exceeding supply due to economic factors such as rapid job growth or supply limiting factors such as limited availability of land for development. A strong market generally has marketing times of under 90 days combined with a housing supply of under 6 months.
- Stable:** Property values are appreciating at a moderate rate. This is typically associated with a market balanced between home buyers and sellers. The majority of housing markets fall into this group with housing price and supply levels comparable to national averages. There is usually stability in the local economy.
- Soft:** Property values are flat or slightly declining in some segments. In a soft market, housing supply exceeds demand as is indicated by extended marketing times. The oversupply of housing is often due to over-building or job losses.
- Weak:** Property values are declining in most segments. Generally, a weak housing market has over a 10-12 months' supply, suggesting that further value declines are almost certain. Housing sales are very weak as buyers perceive the potential for the loss of equity. Economic conditions normally include prolonged job losses in primary employment sectors.

Given the above market ratings, a short-term projection of housing trends over the next 6 to 9 months is made.

The following definitions apply:

- Stabilizing:** Housing and economic conditions indicate the potential for future change in the overall housing market rating to a lower level.
- Softening:** A potential decline may be due to a pending layoff by a major employer or a sharp rise in housing supply.
- Weakening:**
- No Change:** Little change from the current housing trend is expected.
- Improving:** Housing and economic conditions indicate the potential for future movement in the overall housing market rating to a higher level. Such a potential increase may be due to expansion plans by a major employer or a sharp decline in the housing supply.

To highlight quarterly changes in a market's current condition and short-term projection, changes will be identified through bold typeset.

DEFINITIONS

An overall picture of the economic health in each market area is obtained by analyzing six major economic variables which are illustrated in the graphs on the following pages. These variables are defined as follows:

Income Trend:	The percent change in total income and wage and salary income earned in the current quarter from the same period one year prior.
Employment:	The line plot shows the unemployment percentage rate by quarter. The bars represent the year-to-year percent change in the total number of people employed.
Housing Affordability Index:	Estimate of housing affordability based on the price of the median existing single-family home, median income, mortgage rates and assumptions concerning down payment, property taxes and insurance.
Home Price Index:	The year-to-year percent change in the FHFA/OFHEO Conventional and Conforming Home Price Index. Also, the National Association of Realtors Median Sales Price of an existing single-family home.
Mortgage Originations:	Total dollar volume of origination. Data for the MSAs are collected from financial institutions as required by the Home Mortgage Disclosure Act (HMDA). National originations are based on data collected by HUD and may vary from the HMDA data.
Single Family Permits:	The bar plot shows the actual level of annualized housing permits.
Single-Family Permits vs. Household Growth:	The bar plot shows the actual level of annualized housing permits. The line plot shows the year-over-year percent change in households.
State and MSA Employment Maps:	The percent change in state employment from the same period one year prior.
State and MSA Home Prices Maps:	The year-to-year percent change in home prices utilizing the FHFA/OFHEO House Price Index.
State and MSA Home Sales Maps:	The year-to-year percent change in the sale of existing single-family homes.
State Delinquencies Maps:	The percent of all loans 90 days past due.
State Foreclosures Maps:	The percent of loans in foreclosure at the end of the quarter.

All data, except for home prices, households and the housing affordability index are seasonally adjusted, annual rate data. The data have been "smoothed" to reduce the volatility of quarterly data and to make trends more apparent.

MARKET SUMMARY
HOUSING MARKET CONDITION*
 January 1, 2012

<u>MSA</u>	<u>Current Rating</u>	<u>Projection</u>	<u>MSA</u>	<u>Current Rating</u>	<u>Projection</u>
ALBANY, NY.....	STABLE	NO CHANGE	MILWAUKEE, WI.....	SOFT	NO CHANGE
ALBUQUERQUE, NM.....	SOFT	NO CHANGE	MINNEAPOLIS, MN	SOFT	NO CHANGE
ATLANTA, GA.....	WEAK	NO CHANGE	NASHVILLE, TN.....	STABLE.....	NO CHANGE
AUSTIN, TX.....	STABLE	NO CHANGE	NASSAU-SUFFOLK, NY.....	SOFT	NO CHANGE
BALTIMORE, MD.....	SOFT	NO CHANGE	NEW ORLEANS, LA.....	STABLE.....	NO CHANGE
BATON ROUGE, LA	STABLE	NO CHANGE	NEW YORK, NY	SOFT	NO CHANGE
BIRMINGHAM, AL.....	SOFT	NO CHANGE	OAKLAND, CA.....	WEAK.....	NO CHANGE
BOSTON, MA	SOFT	IMPROVING	OKLAHOMA CITY, OK	STABLE.....	NO CHANGE
BUFFALO, NY	STABLE	NO CHANGE	OMAHA, NE.....	STABLE.....	NO CHANGE
CHARLESTON, SC	SOFT	NO CHANGE	ORLANDO, FL.....	WEAK.....	NO CHANGE
CHARLOTTE, NC.....	SOFT	NO CHANGE	PHILADELPHIA, PA	STABLE.....	NO CHANGE
CHICAGO, IL	WEAK	NO CHANGE	PHOENIX, AZ	WEAK.....	NO CHANGE
CINCINNATI, OH	SOFT	NO CHANGE	PITTSBURGH, PA	STABLE.....	NO CHANGE
CLEVELAND, OH.....	WEAK	NO CHANGE	PORTLAND, OR.....	SOFT	NO CHANGE
COLUMBUS, OH.....	SOFT	NO CHANGE	PROVIDENCE, RI.....	WEAK.....	NO CHANGE
DALLAS, TX.....	STABLE	NO CHANGE	RALEIGH, NC	STABLE.....	SOFTENING
DAYTON, OH.....	SOFT	NO CHANGE	RICHMOND, VA	SOFT	NO CHANGE
DENVER, CO	SOFT	NO CHANGE	RIVERSIDE-		
DES MOINES, IA	STABLE	NO CHANGE	SAN BERNARDINO, CA.....	WEAK.....	NO CHANGE
DETROIT, MI.....	WEAK	NO CHANGE	ROCHESTER, NY	STABLE.....	NO CHANGE
EDISON, NJ.....	SOFT	NO CHANGE	SACRAMENTO, CA	WEAK.....	NO CHANGE
FT. LAUDERDALE, FL.....	WEAK	NO CHANGE	SALT LAKE, UT	SOFT	NO CHANGE
GRAND RAPIDS, MI	WEAK	NO CHANGE	SAN ANTONIO, TX.....	STABLE.....	NO CHANGE
GREENSBORO, NC.....	STABLE	SOFTENING	SAN DIEGO, CA.....	SOFT	NO CHANGE
GREENVILLE, SC	STABLE	NO CHANGE	SAN FRANCISCO, CA	WEAK.....	IMPROVING
HARTFORD, CT	SOFT	NO CHANGE	SAN JOSE, CA.....	SOFT	IMPROVING
HONOLULU, HI.....	STABLE	IMPROVING	SANTA ANA, CA	SOFT	NO CHANGE
HOUSTON, TX	STABLE	NO CHANGE	SEATTLE, WA.....	SOFT	NO CHANGE
INDIANAPOLIS, IN	SOFT	NO CHANGE	SPRINGFIELD, MA.....	SOFT	NO CHANGE
JACKSONVILLE, FL.....	WEAK	NO CHANGE	ST. LOUIS, MO.....	STABLE.....	SOFTENING
KANSAS CITY, KS-MO	STABLE	SOFTENING	SYRACUSE, NY.....	STABLE.....	NO CHANGE
LANSING, MI	WEAK	NO CHANGE	TAMPA, FL.....	WEAK.....	NO CHANGE
LAS VEGAS, NV	WEAK	NO CHANGE	TOLEDO, OH.....	WEAK.....	NO CHANGE
LOS ANGELES, CA.....	WEAK	IMPROVING	TUCSON, AZ.....	WEAK.....	NO CHANGE
LOUISVILLE, KY	STABLE	NO CHANGE	TULSA, OK	STABLE.....	NO CHANGE
MEMPHIS, TN	SOFT	NO CHANGE	WASHINGTON, DC.....	STABLE.....	NO CHANGE
MIAMI, FL	WEAK	NO CHANGE	WEST PALM BEACH, FL	WEAK.....	NO CHANGE

***Bold indicates a change from the previous quarter.**

Economic Highlights

GDP growth improved over past quarters, but remained subpar to spark a meaningful recovery.

The economy grew 1.8% during the 3rd quarter, according to the Bureau of Economic Analysis third estimate of GDP data. This is an improvement over the 1st and 2nd quarter estimates, which registered at 0.4% and 1.3%, respectively. Typically, 3% GDP growth is associated with a healthy economy. Weakness in the numbers reflects the various challenges the country faced in 2011, such as higher food and energy prices, supply disruptions from the Japan's Tohoku earthquake, continued contraction in government, and the Euro debt crisis. During the 3rd quarter, consumer spending, business fixed investment, and net exports improved, yet some of these gains were offset by a large contraction in private inventories. Below are highlights from the 3rd quarter GDP release.

- Consumer spending accelerated from 0.7% in the previous quarter to 1.7%, adding 1.2 percentage points to GDP growth. Spending on durable goods bounced back, growing 5.7% after contracting by 5.3% in 2011:Q2. Spending on services grew 1.9%.
- Business fixed investment rose to 13.0% from 10.3% reported in the 2nd quarter. Stronger growth was primarily due to a pick-up in software and equipment investment from 6.2% the previous quarter to 16.2%. Spending on structures continued to post solid growth at 14.4%. Business investment added 1.5 percentage points to overall growth.
- Residential fixed investment slowed to 1.3%, after growing 4.6% in the 2nd quarter. This is first time since 2005 that housing has posted two consecutive quarters of growth.
- Net exports continued to improve. Last quarter, net exports added 0.2 percentage points to growth followed by a 0.4 percentage points increase this quarter. Export growth rose modestly to 4.7% from 3.6%, highlighting moderate demand for U.S. products. Imports, which subtract from GDP growth, fell from 1.4% to 1.2%.
- Inventory investment contracted by \$2 billion, shaving 1.4 percentage points from economic growth. This followed a 0.3 percentage point subtraction in the previous quarter. Businesses have been hesitant to add to inventories as consumers showed little appetite to spend prior to this holiday season. Without the drag of inventory depletion, the economy would have grown 3.2%, suggesting that there is some strength in underlying demand.
- Government expenditures continued to contract, albeit at a slower rate, declining 0.1% in the 3rd quarter compared to -5.9% and -0.9% in the 1st and 2nd quarters, respectively. State and local government spending remained the primary drag on government expenditures, falling 1.6%, as they coped with declining tax revenues and worked to balance budgets.

Lackluster job creation and high unemployment continue to plague labor markets.

Labor markets have gained less than one-third of the 8.8 million jobs lost during the recession. Third quarter job growth showed slight improvement following dismal gains in the previous quarter. However, the overall theme remained the same: the government continued to shed jobs while private sector payroll growth progressed slowly. Job creation is nowhere near levels needed to meaningfully lower the unemployment rate and its malaise has translated into the lowest labor force participation rate in three decades. Below are highlights on labor market conditions.

- In the 3rd quarter, the economy added 441,000 or approximately 147,000 jobs per month. Private non-farm payroll growth was a bit stronger adding 155,000 jobs per month, on average. In the 1st and 2nd quarters of 2011, payrolls rose by 497,000 and 290,000, respectively.
- Subpar job growth continued in 4th quarter with a total of 220,000 jobs added in October and November. Hiring weakness continued to be broad-based as fewer industries added to payrolls.

The Bureau of Labor Statistics one-month diffusion index, which measures the percent of industries expanding their employment, was 54.7 in November after reaching 70.8 in February.

- The unemployment rate averaged 9.1% in the 3rd quarter and fell to 8.6% in November. The drop in the unemployment rate, however, had more to do with people dropping out of the labor force than actual job creation. More than 13 million Americans are unemployed, and about 43% of those have been jobless for over 6 months.
- In September, President Obama offered a jobs plan that stalled in the legislature as Republicans and Democrats could not agree on all policy elements of the bill or how to pay for it. The only two policies getting strong consideration are extending both the payroll tax holiday and unemployment benefits. Hence, more debate on job policy will likely resume in 2012.

A Patient Recovery. Many analysts predict that the economy will improve modestly in 2012.

Recent economic data has shown slight improvement over weaker data released this summer, calming recession fears in the short-run. The modest improvement, however, was not enough to boost the overall economic outlook for 2012. Many economists predict that 2012 will look very similar to 2011. Economic growth will be reserved. Small gains are more likely to occur than major rebounds out of any one component. Here is a summary of several 2012 forecasts.

- **GDP growth.** While many economists expect 2011:Q4 GDP growth around 3%-3.5%, given the need to replenish inventories and the improvement in consumer sentiment and spending, many 2012 forecasts suggests below trend GDP growth, ranging from 1.8%-2.6%. Large amounts of uncertainty exist, especially from the European debt crisis and the seeming inability for Washington lawmakers to come to a compromise on fiscal austerity. Given current conditions, the U.S. remains vulnerable to exogenous shocks. Economists suggest the strength of the economy heavily depends on how policymakers respond the downside risks.
- **Consumer spending.** Numerous economic forecasts predict the pace of consumer spending will remain below trend in 2012 as pressures from sluggish job and income growth continue into the new year. Moreover, consumers will cautiously wait to see whether the 2 percentage point payroll tax holiday as well as emergency unemployment benefits will be extended through 2012. With projected marginal improvement in income growth, economists suggest the consumer will remain cautious by increasing savings in the short-run to protect against potential negative job, income, and wealth risks.
- **Jobs and the unemployment rate.** Payroll forecasts for 2012 are around 1.5 million or about 123,000 to 130,000 jobs per month. This is much lower than the 200,000 job average that is commonly believed to be needed to spur strong economic growth and lower the unemployment rate. Thus, the unemployment rate is expected to remain stubbornly high. Several forecasts predict the jobless rate will average slightly above 9% in 2012, but will fall into the 8% range by the second half of the year.
- **Housing market.** While housing has been a significant economic driver in past recoveries, it only is expected to show modest growth in 2012. Conditions will likely remain weak until markets work through high level of distressed existing inventory. Single-family home starts are expected to improve after coming off of record low levels, but are a long way from recovery. Economists peg home prices to fall another 3%-5% through mid-2012, resulting in peak-to-trough declines around 35%, according to one index. Prices are expected to rebound in 2013. On average, economists project 5% cumulative appreciation through 2015, with one estimate as high as 14%. In general, once values stabilize, appraisals and underwriting standard should return to normal, setting the stage for a solid housing recovery. In the interim, a patient and slow recovery will most likely continue to unfold.