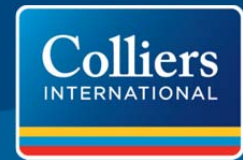


WEEKLY MARKET RECAP

MAY 30 – JUNE 03, 2011



by KC Conway, MAI, CRE

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MACRO ECONOMIC & R.E. NEWS OF THE WEEK

There was not a recap for the week of May 23-27 due to the Memorial Day holiday. It was my one weekend reprieve for Q2. However, the release of market news did not take a reprieve. **A quick review of what transpired May 23-27 is constructive for understanding this past week's data.** Let's begin with the economic calendar for May 23-27:

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1	2	3	4	5	6	7	8	9	10	11	12
13	14	15	16	17	18	19	20	21	22	23	24
25	26	27	28	29	30	31					

Monday May 23	Tuesday May 24	Wednesday May 25	Thursday May 26	Friday May 27
Market Focus Chicago Fed National Activity Index 8:30 AM ET 4-Week Bill Announcement 11:00 AM ET 3-Month Bill Auction 11:30 AM ET 6-Month Bill Auction 11:30 AM ET James Bullard Speaks 8:10 PM ET	Eric Rosengren Speaks 2:00 AM ET ICSC-Goldman Store Sales 7:45 AM ET Elizabeth Duke Speaks 8:25 AM ET Redbook 8:55 AM ET Thomas Hoenig Speaks 9:50 AM ET New Home Sales 10:00 AM ET	MBA Purchase Applications 7:00 AM ET Durable Goods Orders 8:30 AM ET FHFA House Price Index 10:00 AM ET EIA Petroleum Status Report 10:30 AM ET Narayana Kocherlakota Speaks 1:00 PM ET 5-Yr Note Auction 1:00 PM ET	Weekly Bill Settlement SDP 8:30 AM ET Jobless Claims 8:30 AM ET Corporate Profits 8:30 AM ET EIA Natural Gas Report 10:30 AM ET 3-Month Bill Announcement 11:00 AM ET 6-Month Bill Announcement 11:00 AM ET	Personal Income and Outlays 8:30 AM ET Consumer Sentiment 9:55 AM ET Pending Home Sales Index 10:00 AM ET SIFIMA Rec. Early Close 2:00 ET

The week of May 23-27 scored *"Bearish."* Housing data dominated the early part of the week as the market waited on the revised estimate of Q1 GDP. The noteworthy news and headlines are summarized as follows:

Statistics and Headlines for the week May 23-27:

- **Revised estimate of Q1 GDP was 1.8%.** The revised estimate stood in stark contrast to: i) 3.1% GDP in Q4, 2010; and ii) consensus forecasts well above 2.0%.
- **Banks on the FDIC's list of "problem banks" grew to 888, or 12% of all insured banks.** Banks on this confidential internal list are deemed to have inadequate levels of capital against future losses. The number of banks on the list is at the highest level since 1993.
- **RealtyTrac reported that banks now hold 872,000 foreclosed homes** on their books, and are in the process of foreclosing on another 1.0 million homes.

NAR (National Assoc of Realtors) reported that existing new home sales fell 0.8% to a seasonally adjusted annual rate of 5.05 million in April from a downwardly revised 5.09 million in March. Existing Home Sales are 12.9% below the 5.80 million pace at April 2010 - when the tax credit was in place. It's insightful to look at what existing housing has been selling by price point and region (South & West).

THE SHARE OF WHAT'S SELLING AT WHAT PRICE POINT:

Region	% Change in Sales from 1 Year Ago					
	\$0-100K	\$100-250K	\$250-500K	\$500-750K	\$750K-1M	\$1M+
Northeast	-13.5%	-28.5%	-32.9%	-28.1%	-17.2%	-6.3%
Midwest	-9.7%	-32.4%	-26.7%	-4.3%	14.3%	10.0%
South	6.2%	-23.3%	-16.6%	-3.3%	7.9%	11.2%
West	39.4%	-9.1%	-14.4%	1.9%	14.4%	22.7%
U.S.	2.6%	-23.1%	-22.2%	-10.7%	4.2%	11.1%

SOURCE: National Association of Realtors

- **From "Bearish" to "Bullish/Bewildering," new home sales increased.** The Commerce Department reported a 7.3% increase to 323,000 seasonally adjusted annualized units. Keep in mind, though, this number is a fraction of the 1.2 million annual sales prior to 2007. Possible explanations for April's increase are twofold: i) delayed deliveries from weather in Q1; and ii) there is a record low inventory of new homes for sale (175,000 units) causing "fence-sitters" to purchase.
- **Back to "Bearish:" A UK warning that mortgage rates could rise from 34% of take-home pay to 51% as borrowing costs rise is something for US banks to consider regarding future loan losses.** As borrowing costs rise in 2H2011/2012 due to new mortgage regulations, increased bank capital requirements, and end of monetary easing by US and European central banks, the rise in this key ratio could trigger more mortgage defaults and foreclosures. Interest rate risk is an item I've elevated in WMRs.
- **"Nearly half of Americans say they definitely or probably couldn't come up with \$2,000 in 30 days to meet a financial emergency,"** according to a just published paper by the National Bureau of Economic Research. The new research is raising concerns about the financial fragility of American households.

Statistics & Headlines for the week May 30-June 3:

Progressing onto the news from this past week, the *"Bears"* remained in the dominant position for a second consecutive week. This week's *"Bullish"* economists looked as surprised at week's end as did Miami Heat fans following game two of the NBA championship series when the Dallas Maverick's came back from a 15-point deficit to prevail in the final seconds. **"What happened to job growth, GDP, manufacturing, etc."** is the question *"Bulls"*

STATISTIC, QUOTE, & HEADLINE of the week:

Before dissecting the “*Bulls, Bears, & Bewildering*” news of the week, the statistic, quote, and headline of the week will add perspective to the past two weeks’ “*Bearish*” outlook.

The Statistic of the Week:

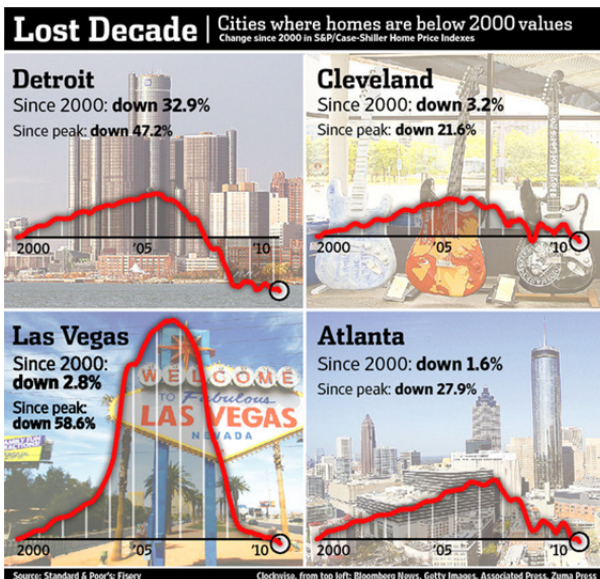
I had a pair of statistics tie for this week’s honor:

1. *The 10-Year Treasury hitting 3.0% for a brief period this past week; and*
2. *Another 4.2% decline in home prices during Q1 2011, according to the S&P/Case-Shiller National Home Price Index.*

The 10-Year Treasury: With respect to the 10-Year Treasury, it’s hard to reconcile: i) \$14.3 trillion in debt; ii) \$80 trillion in unfunded liabilities; iii) an impending downgrade of the US AAA debt rating; and iv) <2% GDP with a 3% long-term debt yield. What will be the 10-Yr Treasury on Aug 2nd?

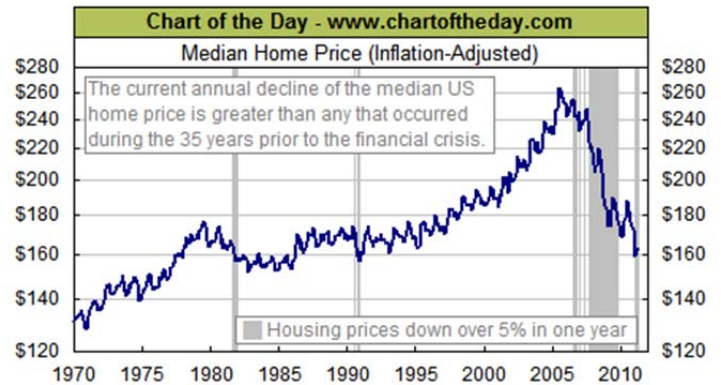
S&P/Case-Shiller Home Price Appreciation: With respect to the latest S&P/Case-Shiller home price data, it’s not possible for me to buy into a housing recovery story in the next 2-3 years when one recognizes:

- Home prices have now sunk to 2002 levels, effectively wiping out almost a decade’s worth of home equity.
- According to the S&P/Case-Shiller monthly 20-City Composite Index, home prices have tumbled for eight straight months. In March, they slid to their lowest level since the start of the 2006-2009 downturn.



- Another 5% decline in home prices will increase the share of underwater homeowners with mortgages to 28%, up from 23% at the end of 2010, according to CoreLogic Inc. A 10% drop will leave more than one-third of all US borrowers underwater.
- US banks currently hold 872,000 foreclosed homes in inventory, and are in the process of foreclosing on another 1.0 million.

This past week’s chart from *Chart of the Week.com* puts home prices in perspective:



The Quote of the Week:

“You have to be nice to snakes.” – Al Lewis with MarketWatch

This quote is from a story regarding a foreclosed home by JP Morgan Chase that is infested with garter snakes. Located in Idaho, the home was recently featured on Animal Planet. JP Morgan Chase has drawn criticism for attempts to rid the snakes by reptilian-rights activists arguing that:

“The eviction actions violate reptilian rights.”

Idaho “Snake House”/hibernaculum



The quote came from a JP Morgan public relations representative as a result of backlash from Animal Planet’s coverage of the bank’s attempts to eradicate the thousands of snakes that slide through the yard, the crawl space, the walls, the ceilings, even across the floors. The snakes also give off malodorous secretions when alarmed, and can even leave the well water tasting a bit like the way they smell.

I wonder what legal argument will be utilized by the homeowner’s attorney to argue for forbearance.

The Headline(s) of the week:

Like the statistic of the week, I had a pair of headlines that tied for recognition this week.

1. From *Dodd-Frank* to *“Frank-N-Dud: How Financial Reform may be going wrong – by Jesse Eisinger with ProRepublica.*

Without getting into too much detail, the above headline is from a reporter that has done some excellent investigative work on the bank financial crisis and behind the scenes implementation of Dodd-Frank. This most recent article highlights how the respective regulatory agencies are jockeying over how to implement Dodd-Frank. The implementation process is turning out to be as bitterly contentious and politicized as passing Dodd-Frank in the first place. **The OCC, Federal Reserve and FDIC are allegedly inserting exemptions as they formulate rules to enforce the law.** “Some regulators, facing severe budget constraints, caution that they may not be able to carry out some of Dodd-Frank’s key provisions.” Concerns are finally being voiced that aspects of the law could erode American competitiveness. Banks are finally mounting a determined lobbying campaign to blunt provisions it failed to defeat on the floors of the House and Senate a year ago. The lobbyists have now coined the implementation process of Dodd-Frank as “Frank-N-Dudd.”

2. *Arizona Land Sells for 8% of Price Paid at Peak – by John Gittelsohn with Bloomberg*

This headline relates to a large-tract land sale last month that highlights how far residential land values have declined. The story discusses how a 10,200-acre desert site in Arizona sold for \$32.5 million after being acquired just 5 years ago for \$400 million by one of the nation’s largest pension funds – CalPERS.

Arcus Property Solutions LLC, a private-equity fund with about \$100 million under management, paid cash for the property located outside Phoenix in Goodyear, AZ - about 60 miles southwest of Phoenix. The site, now called Amaranth Land LLC, had been planned for a 42,000-home community by CalPERS when it was purchased in 2006.

The Bulls, The Bears & The Bewildering

Although the past week appeared as “*Bearish*” as a springtime landscape in Alaska with bears covering the landscape from a winter of hibernation, there was a fair amount to be “*Bullish*” over this past week. The “*Bullish*” news of the week came from:

- More evidence of liquidity for CRE
- Improvement in CMBS loan delinquencies
- Office CRE
- Hotel CRE
- Improvement in overbuilt condo markets like Miami

As previously noted, the “*Bearish*” news dominated with disappointing data releases on auto sales, bank foreclosures, consumer confidence, employment, housing, and manufacturing..

The “*Bewildering*” news of the week was dominated by the DOW, pending home sales and industrial CRE. As noted in the scoreboard, the “4-week Moving Average” has turned “*Bearish*” for the first time in 2011.

The Bulls:



CRE Liquidity:

For a number of weeks I've been highlighting the increase in commercial real estate activity as a key “*Bull*” story – up 70% in Q1 2011 over Q1 2010 (Real Capital Analytics). Providing further evidence of this liquidity for real estate were several asset transactions:

- **Allied Irish Bank’s** sale of a portfolio of roughly \$1.0 billion in US commercial mortgages to Blackstone Group, LP, and Wells Fargo & Co. Allied said it was taking advantage of the recovery in US commercial property, and received a price materially higher than it would have just 6 months ago.
- **Edgewood Capital** (a private real estate investment firm focused on acquiring performing, sub-performing and non-performing loans, and acquiring value-add real estate assets) reported this past week it has **originated or acquired over \$100 million of high-yield real estate debt and equity assets in the past 12 months.** Representatives from Edgewood report: i) assets are beginning to free up; ii) the bid-ask spread for assets has narrowed due to Cap Rate compression; and iii) market conditions are improving in markets beyond the core MSAs that institutional capital has been focused upon creating an investment opportunity where other capital won’t go.
- **The CMBS delinquency rate fell 5 basis points** in May to 9.6% (the largest decline in approximately 2 years) as both: i) new issuance increased; and ii) nearly \$1.0 billion of defaulted loans are being resolved/sold per month.

Office CRE:

Office conditions are stabilizing enough in core MSAs to facilitate the refinancing of portfolios acquired at the peak of the market. One such example is Blackstone Group LP’s

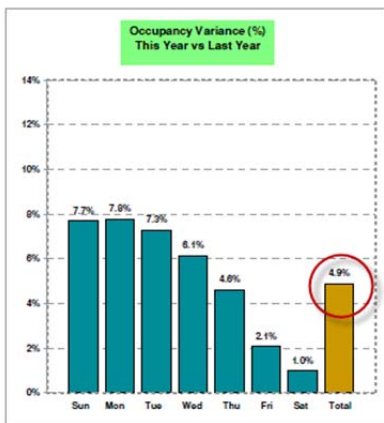
(BX) disclosure last week that it's close to borrowing as much as \$1.35 billion from lenders including MetLife Inc. (MET) to replace debt coming due on 21 office properties. The office buildings, mostly in California, came mainly from New York-based Blackstone's 2006 acquisition of CarrAmerica Realty Corp. MetLife, the largest US life insurer, and New York Life Insurance Co., plan to underwrite a two-year senior mortgage of about \$850 million, with three one-year extensions. The Government of Singapore Investment Corp. will reportedly provide a mezzanine loan of \$450 million. The refinancing is scheduled to be completed in July, and shows how both US and international institutional capital is willing to make and hold US real estate loans as market conditions improve – especially in core MSAs.

Hotel CRE:

According to the latest Smith Travel Research data, the US hotel industry reported increases in all three key performance metrics during the last week of May.

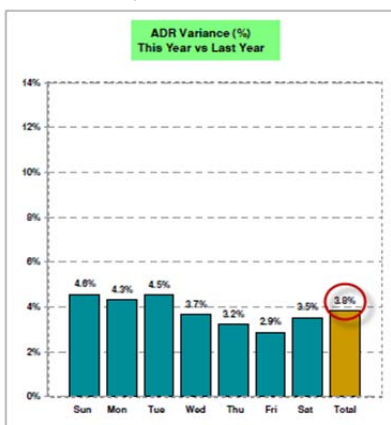
In year-over-year comparisons:

- **Occupancy rose 4.9% to 64.2%,**

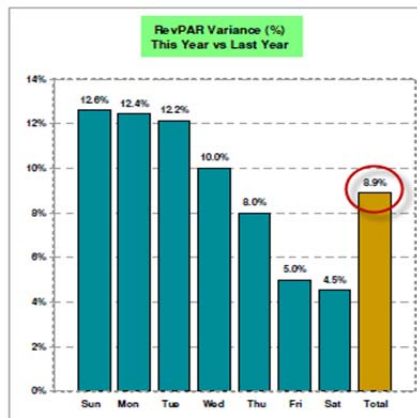


Source: Smith Travel Research
 You may quote this data when properly attributing it to Smith Travel Research, Inc.

- **ADR(average daily rate) increased 3.8% to US\$100.93,**



- **RevPAR (revenue per available room) finished the week up 8.9% to US\$64.81.**



Among the Top 25 Markets, Detroit, experienced the largest occupancy increase, rising 22.9% to 65.7%, followed by Orlando, Florida, with a 15.5% increase to 64.7%.

Four markets reported double-digit ADR increases:

- Nashville, Tennessee (+12.4 percent to US\$91.44);
- Anaheim-Santa Ana, California (+11.1% to US\$116.38);
- San Francisco/San Mateo, California (+10.9% to US\$149.84); and
- New Orleans, Louisiana (+10.2% to US\$128.51).

Finally, Improvement in Miami Condo Market:

“Miami Renters Fuel a Boomlet” was the WSJ headline May 31 in a featured story on the recovery of the Miami condo and rental market. When the condo and real estate market collapsed five years ago, Miami became an emblem of the worst excesses of the condo building boom. Glittering new towers sat mostly vacant. Those towers are now filling up much sooner than most analysts and lenders predicted just last year.

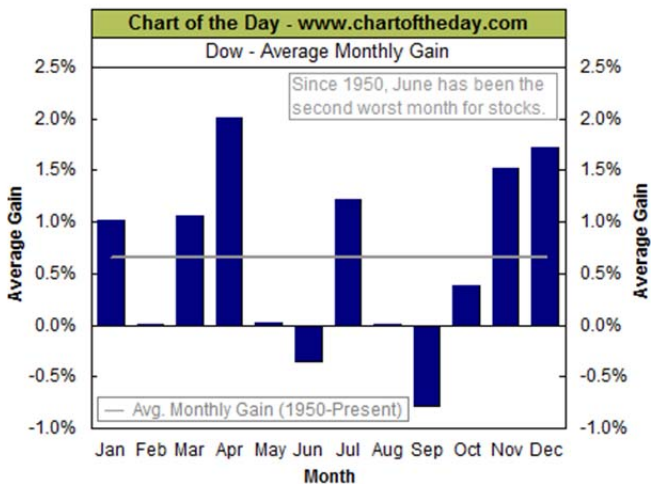
A February report by the Miami Downtown Development Authority found that 85% of new condo units, those built since 2003, were occupied, up from 74% in 2010 and 62% in 2009.

The residential population of downtown Miami now numbers about 70,000, compared with 40,000 a decade ago. Another 10,000 people are expected to move in by 2014, according to the Development Authority. As a result, ambitious new projects are on the way. In April, Hong Kong-based Swire Properties unveiled plans for Brickell CitiCentre, a five-million-square-foot development with a hotel, residences, office towers and retail outlets. Construction is expected to begin next year. Last week, Genting Malaysia Berhad, of Kuala Lumpur, Malaysia, announced a deal to buy 14 acres of waterfront property where the Miami Herald building currently sits. The company plans to build a complex with restaurants, entertainment venues, and if the Florida legislature authorizes it, casino gambling. If you haven't revisited your perceptions of the Miami market in the past six months, you are out of date. Contact Sandy Londono, MAI in our south Florida office for an update Alexandra.Londono@Colliers.com.

The Bears:



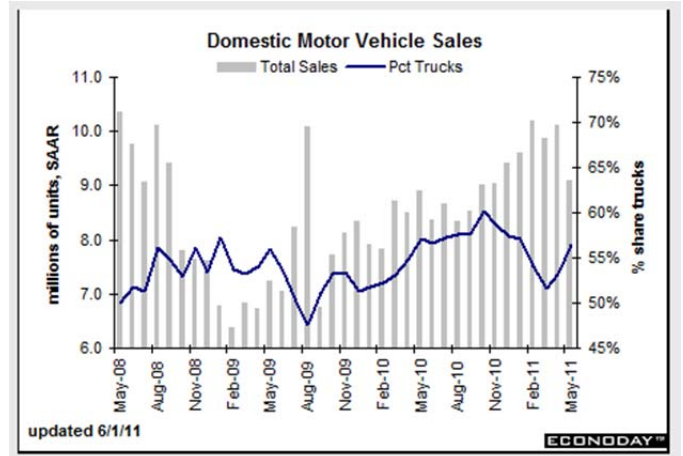
It was more than housing and inflation that made the markets “Bearish” this past week. Declining auto sales, disappointing employment data on all fronts – ADP, On-line Monster.com and the Labor Department, falling consumer confidence, and contraction in manufacturing all converged to bring the market down to one of its worst closes thus far in 2011. However, if one studies the stock market, they should know that June and September are historically the two worst performing periods of the calendar year - regardless of the “Bullish” or “Bearish” mood of the market. According to data compiled by *Chart of the Day.com*, June has been the second worst month of the year for stocks since 1950.



Auto Sales:

The story behind the numbers suggest that the 10% decline in May’s auto sales: i) could be reversed in Q3 or Q4 when supply disruptions are less of an issue; and ii) could mean higher profits for US auto retailers due to product scarcity. Before the market jumps off a cliff over May’s auto sales figures, it might be worth noting:

- Sharp declines for Japanese brands pulled down North American-made vehicle sales to an 8.8 million annual rate. US brands have continued to sell with less than a 45-day supply of inventory on the lots.

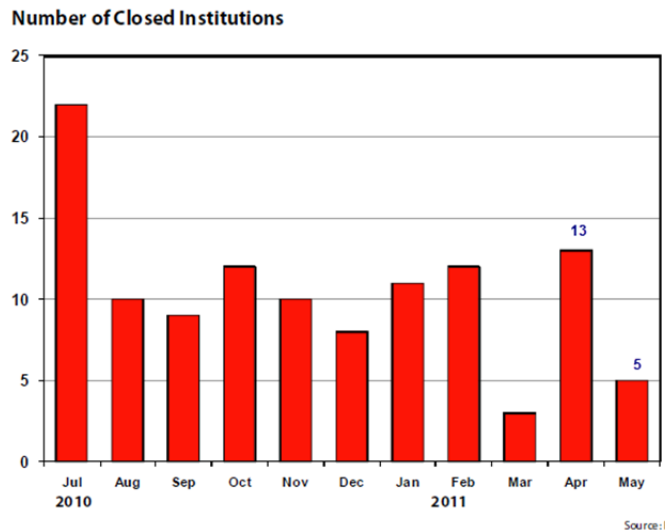


- Sales of domestic light motor vehicles rose to 10.1 million in April from 9.9 million the prior month. Imports slipped to 3.1 million from 3.2 million annualized.
- Lack of available Japanese brands pushed up related prices

Bank Failures Continue – 5 more in May:

Bank failures continue. While the pace of bank closings in May slowed to 5 from 13 in April, the primary reason for failure did not – high concentration of nonperforming real estate loans.

Monthly Bank Failures – Since Mid-2010



CRE loans represented the largest source of nonperforming loans for the group of failed banks in May, 2011. Some other key observations from the TREPP Monthly Bank Failure report include:

- For the group of five failed banks in May, **commercial real estate (CRE) loans comprised \$152 million (or 76%) of the total \$201 million in nonperforming loans.** Construction and land loans made up \$109 million or 54% of the total, while commercial mortgages comprised \$44 million (22%) of the total nonperforming pool.

- The residential real estate loan category was second, with \$31.4 million in nonperforming loans, or 16% of the total nonperforming balance.
- The remainder was comprised of C&I loans (\$5.8 million, 3% of the total) and consumer and other loans (\$11.1 million, 6% of the total).

Bank Failures – May 2011 – Nonperforming Loan Attribution

Bank	State	Const./Land	Commercial	Residential	C&I	Other	Ctrs on Watch List
First Heritage Bank	WA	59.2%	17.7%	22.6%	0.5%	0.0%	8
Summit Bank	WA	58.6%	5.6%	30.5%	4.3%	1.1%	3
First Georgia Banking Company	GA	41.6%	25.0%	22.1%	7.8%	3.5%	6
Atlantic Southern Bank	GA	62.2%	20.0%	8.1%	1.3%	8.4%	8
Coastal Bank	FL	29.9%	37.7%	32.3%	0.0%	0.0%	9
Group Total		54.2%	21.7%	15.6%	2.9%	5.5%	

- Three of the failures occurred in the Southeast – two (2) in Georgia, and one (1) in Florida. Two of the failures occurred in the West, in the state of Washington.
- Georgia continues to lead the country in bank failures, with 12 year-to-date in 2011, and 64 since the cycle started in 2007.
- Florida ranks second for bank failures, with 5 failures year-to-date in 2011, and 50 since 2007.

Consumer Confidence:

The Conference Board Consumer Confidence Index®, which had improved in April, decreased in May. **The Index now stands at 60.8 (1985=100), down from 66.0 in April.** The Present Situation Index decreased to 39.3 from 40.2. The Expectations Index declined to 75.2 from 83.2 last month. According to the Conference Board:

“A more pessimistic outlook is the primary reason for this month’s decline in consumer confidence. Consumers are considerably more apprehensive about future business and labor market conditions as well as their income prospects. Inflation concerns, which had eased last month, have picked up once again.”

Construction Spending:

The US Census Bureau of the Department of Commerce announced last Wednesday that construction spending during April 2011 was estimated at a seasonally adjusted annual rate of \$765.0 billion, 9.3% below the April 2010 estimate of \$843.1 billion. The culprit declines in public construction as both: i) stimulus spending winds down; and ii) states defer projects as part of their budget tightening to address deficits.

The following table from the Department of Commerce highlights:

- Total Construction has slowed by 9.3% from a year ago.
- Residential construction has slowed at a much faster rate (-12%) than commercial construction (-8.0%).
- Private Construction has slowed faster than public construction as a result of the stimulus spending. As a result, construction spending will likely slow further in 2H2011 as stimulus spending winds down.

Table 1. Value of Construction Put in Place in the United States, Seasonally Adjusted (Millions of dollars. Details may not add to totals due to rounding.)

Type of Construction	Apr 2011 ^P	Mar 2011 ^I	Feb 2011 ^I	Jan 2011	Dec 2010	Apr 2010	Percent change Apr 2011 from -	
							Mar 2011	Apr 2010
Total Construction	764,981	762,072	761,020	776,877	784,800	843,148	0.4	-9.3
Residential	240,859	233,655	235,510	249,289	238,427	273,686	3.1	-12.0
Nonresidential	524,122	528,417	525,511	527,587	546,374	569,461	-0.8	-8.0
Lodging	8,168	8,586	8,369	7,876	9,889	11,630	-4.9	-29.8
Office	33,505	34,146	34,225	34,354	34,600	38,295	-1.9	-12.5
Commercial	39,213	39,648	39,849	38,684	37,807	41,929	-1.1	-6.5
Health care	40,497	39,805	39,498	39,118	40,017	39,549	1.7	2.4
Educational	80,631	81,991	80,241	81,990	81,279	87,810	-1.7	-8.2
Religious	4,461	4,588	4,404	4,891	4,872	5,476	-2.8	-18.5
Public safety	10,564	10,624	10,449	10,202	9,983	12,566	-0.6	-15.9
Amusement and recreation	15,104	15,657	15,732	15,505	16,550	16,931	-3.5	-10.8
Transportation	37,753	39,531	38,459	39,116	38,510	42,868	-4.5	-11.9
Communication	18,145	17,371	17,808	17,545	18,006	18,107	4.5	0.2
Power	82,609	80,598	79,647	78,801	93,427	80,662	2.5	2.4
Highway and street	77,503	78,804	80,240	83,679	84,450	82,227	-1.7	-5.7
Sewage and waste disposal	22,279	22,869	22,744	23,691	24,715	25,041	-2.6	-11.0
Water supply	14,027	14,086	14,941	15,672	15,229	15,052	-0.4	-6.8
development	6,828	6,982	7,303	6,906	6,514	6,529	-2.2	4.6
Manufacturing	32,836	33,131	31,602	29,560	30,526	44,790	-0.9	-26.7
Total Private Construction¹	482,959	474,659	472,589	479,988	486,949	538,350	1.7	-10.3
Residential	232,134	225,071	226,564	239,619	229,071	264,229	3.1	-12.1
New single family	104,674	105,683	106,893	108,129	107,083	120,080	-1.0	-12.8
New multi-family	12,839	12,846	13,068	12,686	13,129	13,894	-0.1	-7.6
Nonresidential	250,825	249,588	246,025	240,369	257,878	274,121	0.5	-8.5
Lodging	7,668	8,024	7,907	7,408	9,100	11,328	-4.4	-32.3
Office	21,643	22,356	22,265	22,298	22,937	25,163	-3.2	-14.0
Commercial	35,844	36,314	36,693	35,504	34,890	39,462	-1.3	-9.2
Health care	29,828	29,581	29,523	28,721	30,177	30,286	0.8	-1.5
Educational	13,286	12,786	12,230	12,052	12,627	14,154	3.9	-6.1
Religious	4,428	4,559	4,382	4,870	4,833	5,410	-2.9	-18.2
Amusement and recreation	5,483	5,338	5,297	5,435	6,093	6,545	2.7	-16.2
Transportation	8,441	9,074	9,600	9,583	9,031	8,297	-7.0	1.7
Communication	18,129	17,318	17,798	17,538	17,988	18,054	4.7	0.4
Power	72,301	70,071	68,056	66,832	78,930	70,076	3.2	3.2
Manufacturing	32,247	32,579	31,008	28,933	30,019	44,122	-1.0	-26.9
Total Public Construction²	282,022	287,413	288,432	296,889	297,852	304,798	-1.9	-7.5
Residential	8,725	8,584	8,946	9,671	9,355	9,457	1.6	-7.7
Nonresidential	273,297	278,830	279,486	287,218	288,496	295,341	-2.0	-7.5
Office	11,862	11,791	11,960	12,055	11,663	13,142	0.6	-9.7
Commercial	3,369	3,334	3,156	3,180	2,917	2,467	1.0	36.6
Health care	10,669	10,224	9,975	10,398	9,839	9,263	4.4	15.2
Educational	67,344	69,205	68,010	69,938	68,653	73,656	-2.7	-8.6
Public safety	10,380	10,475	10,350	10,124	9,909	12,212	-0.9	-15.0
Amusement and recreation	9,621	10,319	10,435	10,070	10,457	10,386	-6.8	-7.4
Transportation	29,311	30,457	28,858	29,533	29,479	34,571	-3.8	-15.2
Power	10,308	10,528	11,591	11,969	14,497	10,586	-2.1	-2.6
Highway and street	77,483	78,721	80,168	83,593	84,335	82,090	-1.6	-5.6
Sewage and waste disposal	21,591	22,148	22,294	23,207	24,266	24,642	-2.5	-12.4
Water supply	13,401	13,486	14,336	15,159	14,624	14,722	-0.6	-9.0
development	6,821	6,947	7,265	6,871	6,504	6,518	-1.8	4.6

Employment:

Regardless of how you cut it, the employment picture is discouraging. ADP, On-Line Monster.com and the Labor Department all provide a picture of a weak labor market in which government is the primary culprit for job losses. While the private sector is creating jobs, it's not yet at a level sufficient to fill the void from a withdrawal of stimulus that would typically occur at this stage of a recovery. As a result, questions now arise about a QE3 at a time when Congress can't agree on extending the national debt ceiling and the US stands on the verge of losing its AAA credit rating. Here is how the numbers looked:

ADP: May produced only 38,000 private-sector jobs

May's ADP National Employment Report suggests that employment growth slowed sharply last month. Employment in the nonfarm private-business sector rose an anemic 38,000 from April to May on a seasonally adjusted basis.

May's ADP Report estimates employment in the service-providing sector rose by 48,000, marking 17 consecutive months of employment gains - while employment in the goods-producing sector fell 10,000 following six months of increases. Manufacturing employment fell 9,000 in May following seven consecutive monthly gains.

Size of Payroll	Seasonally Adjusted						Change from: Apr. 2011 - May 2011p
	Dec. 2010	Jan. 2011	Feb. 2011	Mar. 2011	Apr. 2011p	May 2011p	
Total nonfarm private.....	107,693	107,883	108,088	108,291	108,468	108,506	38
Small (1-49).....	48,722	48,824	48,920	49,017	49,101	49,128	27
Medium (50-499).....	41,552	41,634	41,734	41,819	41,902	41,932	30
Large (> 499).....	17,419	17,425	17,434	17,455	17,465	17,446	-19
Goods-producing.....	17,688	17,718	17,738	17,776	17,812	17,802	Auto -10
Small (1-49).....	6,594	6,604	6,609	6,620	6,631	6,633	2
Medium (50-499).....	7,666	7,683	7,703	7,724	7,751	7,758	7
Large (> 499).....	3,428	3,431	3,426	3,432	3,430	3,411	-19
Service-providing.....	90,005	90,165	90,350	90,515	90,656	90,704	48
Small (1-49).....	42,128	42,220	42,311	42,397	42,470	42,495	25
Medium (50-499).....	33,886	33,951	34,031	34,095	34,151	34,174	23
Large (> 499).....	13,991	13,994	14,008	14,023	14,035	14,035	0
Addendum:							
Manufacturing.....	11,561	11,587	11,605	11,641	11,661	11,652	Auto -9

Challenger, Gray & Christmas Job Cuts Report:

If there is a silver lining in May's employment data it's that job cuts have not increased materially.

JOB CUTS BY INDUSTRY

	MAY	Year-To-Date
Government/Non-Profit	14,755	67,415
Aerospace/Defense	5,778	17,570
Retail	2,944	21,612
Consumer Products	2,367	7,999
Telecommunications	1,581	6,333
Transportation	1,454	5,084
Health Care Products	1,392	6,298
Energy	1,200	2,400
Industrial Goods	1,161	8,660
Electronics	997	3,269
Financial	759	11,413
Insurance	742	2,069
Food	432	5,687
Services	410	6,057
Automotive	193	4,620
Apparel	171	1,276
Media	160	2,787
Entertainment/Leisure	143	6,781
Construction	136	3,959
Pharmaceutical	135	3,689
Legal	114	2,509
Chemical	80	1,311
Utility	31	2,038
Computer		2,301
Real Estate		1,237
TOTAL	37,135	204,374

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The pace of downsizing remained virtually unchanged in May, as US employers announced plans to cut 37,135 positions from their payrolls during the month. That's just 1.8% more than the 36,490 job cuts in April. The key item to note from the Challenger, Gray May report is government leads all industry categories for job cuts. It's followed by retail (consistent with the weekly declines in retail spending since mid April) and financial services (also consistent with the 18 bank failures since the end of March and weak absence of bank earnings excluding release of loan loss provisions).

Weekly Jobless Claims:

Although "First-Time" and "4-Week Moving Average" claims each declined modestly for the week ending May 28th, both remain well above the threshold 400,000 claims level. The states with the largest increases in claims were due to slowing in manufacturing, construction and the service industries (refer to the following tables).

UNEMPLOYMENT INSURANCE DATA FOR REGULAR STATE PROGRAMS					
WEEK ENDING	Advance May 28	May 21	Change	May 14	Prior Year ¹
Initial Claims (SA)	422,000	428,000	-6,000	414,000	464,000
Initial Claims (ISA)	377,421	375,720	+1,701	361,573	418,873
4-Wk Moving Average (SA)	425,500	439,500	-14,000	440,250	465,750

STATES WITH A DECREASE OF MORE THAN 1,000

State	Change	State Supplied Comment
AL	-1,448	Fewer layoffs in the service, apparel, and manufacturing industries.
OR	-1,104	No comment.

STATES WITH AN INCREASE OF MORE THAN 1,000

State	Change	State Supplied Comment
WI	+1,019	Layoffs in the <u>manufacturing and service</u> industries.
SC	+1,066	Layoffs in the <u>service</u> industry.
MA	+1,948	Layoffs in the <u>construction and service</u> industries.
CA	+7,053	Layoffs in the <u>service</u> industry.

Labor Department's Monthly Jobs Report:

Consistent with the preceding employment reports leading up to last Friday's monthly jobs report, the Labor Department also reported disappointing job creation figures. Nonfarm payrolls increased a paltry 54,000 (one-third expectation), and the unemployment rate rose to 9.1%. The job creation slowdown confirmed the economic weakness already flagged by other data from consumer spending to manufacturing.

The Labor Department also noted that the severe weather last month, including tornadoes and flooding, in the Midwest and the South did not materially affect data collection. In other words, there were no weather excuses for this abysmal jobs report.

Finally, the ISM Manufacturing Index:

No surprises here - The ISM's manufacturing index declined below 60 to 53.5 for the first time in 2011, and the 12-month average is now also below 60 at 57.7.

ISM PMI Manufacturing Index

Month	PMI	Month	PMI
May 2011	53.5	Nov 2010	58.2
Apr 2011	60.4	Oct 2010	56.9
Mar 2011	61.2	Sep 2010	55.3
Feb 2011	61.4	Aug 2010	55.2
Jan 2011	60.8	Jul 2010	55.1
Dec 2010	58.5	Jun 2010	55.3
Average for 12 months - 57.7			
High - 61.4			
Low - 53.5			

The ISM's May index also showed that every measure in the index slowed. Of most concern were the declines in New Orders (-10.7%), Backlog of Orders (-10.5%), and Inventories (they contracted for the first time in 2011 reinforcing the concerns surrounding declines in consumer spending).

MANUFACTURING AT A GLANCE MAY 2011						
Index	Series Index May	Series Index April	Percentage Point Change	Direction	Rate of Change	Trend* (Months)
PMI	53.5	60.4	-6.9	Growing	Slower	22
New Orders	51.0	61.7	-10.7	Growing	Slower	23
Production	54.0	63.8	-9.8	Growing	Slower	24
Employment	58.2	62.7	-4.5	Growing	Slower	20
Supplier Deliveries	55.7	60.2	-4.5	Slowing	Slower	24
Inventories	48.7	53.6	-4.9	Contracting	From Growing	1
Customers' Inventories	39.5	40.5	-1.0	Too Low	Faster	26
Prices	76.5	85.5	-9.0	Increasing	Slower	23
Backlog of Orders	50.5	61.0	-10.5	Growing	Slower	5
Exports	55.0	62.0	-7.0	Growing	Slower	23
Imports	54.5	55.5	-1.0	Growing	Slower	21
OVERALL ECONOMY				Growing	Slower	24
Manufacturing Sector				Growing	Slower	22

*Number of months moving in current direction.

The "Bewildered:"

The market's reaction to what should have been anticipated weak employment and manufacturing data was the most "Bewildering" item of the week. The market's reaction would be analogous to the Miami Heat surrendering the NBA championship series after game two to the Dallas Mavericks because Dallas did as they have done all season - come from behind late in the game to win. Miami will adjust and I bet this will be a down-to-the-wire, final-game Championship NBA series. This past week's auto sales, construction spending, employment and manufacturing data should have been anticipated. The signs of "less growth while we cut big debt" have been present for weeks - if not months. It's not game over or double-dip recession, yet. Let's wait and see

what Congress does in resolving the debt ceiling next month, and how auto assembly rebounds after supply disruptions are mitigated in Q3 and Q4 2011.

WEEKLY REVIEW OF KEY ECONOMIC & FINANCE RATES

US Unemployment (MAY):
 U-3 (official rate) 9.1%
 U-6 (total rate) 15.8%

Treasury Rates (June 3):
 2-Year Tr 0.43%
10-Year Tr 2.99%

Jobless Claims: (MAY 28)
 Initial (May 28) 422,000
 Initial (Prior Wk) 428,000
4-Wk Average 425,500
 (Down from 439,500)

LIBOR (6-mo): 0.41%
 3-Month 0.26
 1-year 0.74
PRIME % (US) 3.25%
 (Fed FOMC Mtg April 26:
 No change in rates)

Home Foreclosures:
 CY 2010 1,005,000
 CY 2009 918,000
 Dec 2010 69,847

Mortgage Rates (June 3):
 30-yr Fixed 4.84%
 (down 13 basis points)
 15-yr Fixed 4.09%
 (down 14 basis points)

Gross Domestic Product:
Q1 2011(revised) +1.8%
 Q4 2010 +2.8%
 Q3 2010 +2.6%
 CY 2010 +2.9%

Consumer Price Index:
Apr 2011 +0.4%
 Mar 2011 +0.5%
 Feb 2011 +0.5%
 Mar 2010 0.0%

CMBS Delinquency: 9.60% - May 2011 - down 5 bps
(Source: TREPP) 9.65% - April 2011 - up 23 bps
 9.42% - March 2011 - up 3 bps
 9.39% - February 2011 - up 5 bps
 9.34% - January 2011 - up 32 bps

Commodities:

Gold (\$/oz June 3) 1,542 Oil (WTI) Jun 03' 11 \$100.22
Gold (high: 5/4/11) 1,541 Oil (High) Jun 13' 08 \$135.00
Gold (5-yr low: 1/06) 540 Oil (Low) Jan 09/ 09 \$ 40.83

THE WEEK AHEAD: JUNE 06 - JUNE 10

Monthly	Weekly	Daily	Today	1:43 AM ET																									
Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec																		
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
Monday Jun 6						Tuesday Jun 7						Wednesday Jun 8						Thursday Jun 9						Friday Jun 10					
Market Focus »						ICSC-Goldman Store Sales * 7:45 AM ET						MBA Purchase Applications * 7:00 AM ET						Weekly Bill Settlement						Import and Export Prices * 8:30 AM ET					
Charles Plosser Speaks 3:30 AM ET						Redbook * 8:55 AM ET						Quarterly Services Survey * 10:00 AM ET						Charles Plosser Speaks 5:00 AM ET						Treasury Budget * 2:00 PM ET					
4-Week Bill Announcement * 11:00 AM ET						4-Week Bill Auction * 11:30 AM ET						EIA Petroleum Status Report * 10:30 AM ET						International Trade * 8:30 AM ET											
3-Month Bill Auction * 11:30 AM ET						Dennis Lockhart Speaks 12:30 PM ET						Tom Hoenig Speaks 12:20 PM ET						Jobless Claims * 8:30 AM ET											
6-Month Bill Auction * 11:30 AM ET						3-Yr Note Auction * 1:00 PM ET						10-Yr Note Auction * 1:00 PM ET						Bloomberg Consumer Comfort Index * 9:45 AM ET											
Treasury STRIPS * 3:00 PM ET						Consumer Credit * 3:00 PM ET						Beige Book * 2:00 PM ET						Wholesale Trade * 10:00 AM ET											
Ben Bernanke Speaks 3:45 PM ET																													

For the week ahead, market participants will be focused on Federal Reserve Chairman Bernanke's speech on Monday June 6th to gauge his reaction to last week's employment and manufacturing data. Otherwise, it will be a pretty tame week until the Weekly Jobless Claims data on Thursday.

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec																			
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31
Monday May 23				Tuesday May 24				Wednesday May 25				Thursday May 26				Friday May 27														
Market Focus »				Eric Rosengren Speaks 2:00 AM ET				MBA Purchase Applications 7:00 AM ET				Weekly Bill Settlement				Personal Income and Outlays 8:30 AM ET														
Chicago Fed National Activity Index 8:30 AM ET				ICSC-Goldman Store Sales 7:45 AM ET				Durable Goods Orders 8:30 AM ET				GDP 8:30 AM ET				Consumer Sentiment 9:55 AM ET														
4-Week Bill Announcement 11:00 AM ET				Elizabeth Duke Speaks 8:25 AM ET				FHFA House Price Index 10:00 AM ET				Jobless Claims 8:30 AM ET				Pending Home Sales Index 10:00 AM ET														
3-Month Bill Auction 11:30 AM ET				Redbook 8:55 AM ET				EIA Petroleum Status Report 10:30 AM ET				Corporate Profits 8:30 AM ET				SIFMA Rec. Early Close 2:00 ET														
6-Month Bill Auction 11:30 AM ET				Thomas Hoenig Speaks 9:50 AM ET				Narayana Kocherlakota Speaks 1:00 PM ET				EIA Natural Gas Report 10:30 AM ET																		
James Bullard Speaks 8:10 PM ET				New Home Sales 10:00 AM ET				5-Yr Note Auction 1:00 PM ET				3-Month Bill Announcement 11:00 AM ET																		
												6-Month Bill Announcement 11:00 AM ET																		

exceed the Texas requirements; and 3) the appraiser satisfies the Texas board's honesty, trustworthiness and integrity standards. Under current law, the Texas Appraiser Licensing and Certification Board have the discretion to decide whether to issue a reciprocal license. These new requirements are intended to bring Texas into compliance with the provisions of the Dodd-Frank Act related to reciprocity.

The new law is effective immediately.

How many other states have pending legislation?

Discussion Item:

The discussion item this week relates to monitoring state regulatory changes. Our industry is in a state of major change and re-regulation. States are being required to update their nearly 2-decade old appraisal licensing laws to comply with Dodd-Frank. **Therefore, how are we staying abreast of these legislative changes?**

I will use Texas as my discussion item example. Texas's new licensing and certification requirements impact appraisers, brokers and banks. On May 27th, Texas Gov. Rick Perry signed legislation into law that will make:

licensing or certification as an appraiser mandatory for any appraisal activity, regardless of whether the appraisal is being done in conjunction with a federally related transaction.

Prior to the enactment of House Bill 2375, licensed real estate agents and brokers were permitted to perform appraisals so long as licensing or certification was not required under federal law. Banks need pay attention to this change as it relates to the handling of their REO.

The new law also makes changes to the state's laws regarding broker price opinions. Under the new law, a licensed real estate broker or "a salesperson acting under the authority of a sponsoring broker" will be permitted to provide "another person with a written analysis, opinion, or conclusion relating to the estimated price of real property if the analysis, opinion, or conclusion ... is related to the actual or potential acquisition, disposition, encumbrance, or management of an interest in real property." Under the old law, a BPO could only be provided to a potential seller, purchaser or third party regarding the recommended listing or purchase price of real property. However, this change does not make an exemption for banks and their unlicensed employees to perform BPOs.

The law also will require the issuance of a reciprocal license to an appraiser from another state so long as: 1) the appraiser's home state licensing certification program is in compliance with Title XI of FIRREA; 2) the appraiser home state requirements for licensing or certification meet or