

Data Trends

Turning Data Into a Strategic Asset

Demographic Projections . Demand Forecasting . Competitive Analysis

Demographic Trends

- Demographic Demand for Homes to Increase.
- Rocky Mountain High to Return.
- More People Will Be Moving.
- Concrete Homes on Solid Growth Track.

Inside this issue:

Determining Housing Prices 2

What Is Demographic Demand? 2

Concrete Homes, Only for the Rich? 2

The Benefits of Global Warming 3

Baby Boomers and Second Homes 3

The Hollowing Out of the Coasts 3

Why Aren't More People Moving? 4

Large Shifts in Migration Patterns Expected

During the next ten years migration patterns will be sharply different than during the past ten years according to Dr. David Chereb. Some of this is due to the natural shift in comparative advantage among areas, some of it is due to technological changes and some of it is due to the War on Terror.

We've been used to the Sunbelt trend: people and jobs moving South and West. This trend was temporarily disrupted by the Internet boom during 1994-2001. The Internet boom caused talent and jobs to concentrate in hi-tech areas with well established high speed communications links.

Post 9/11 and post Internet

boom a new set of attractors is driving people and companies to relocate. Now safety, baby boomer retirements and the cost of living are moving up the ladder in importance. The areas that will benefit from these relocation drivers are not along the coasts. New areas are emerging, such as near Jackson Hole, Wyoming, that are drawing early retirees and people building second homes.

In some sense the 'hollowing out' of America is about to be reversed and the counties that will benefit are far different than during the past ten years. Areas that are safer and cheaper will be the winners.



New urban-suburban-rural patterns are emerging.

The conclusions of this story are derived from our County Forecasts Report. For more information please visit our web site at:

www.countyforecasts.com

Do Company Leading Indicators Work?

The Federal Reserve uses the U.S. Leading Indicator as one of its inputs in formulating monetary policy. Why don't more businesses use a leading indicator?

The U.S. Leading Indicator works. Over the years the pieces have been revised (and no doubt will be revised in the future as the economy changes) so that the indicator gives a 6-

12 month lead time on changes in Gross Domestic Product .

Most companies use leading indicators — their order backlog. But not everyone has order backlogs to look at and sometimes the backlog is fuzzy (ask Cisco about their 2001 backlog—it disappeared just as they ramped up production).

To make your own company

leading indicator, combine both inside data with outside data. In many cases, major sales changes are driven by outside events (higher oil prices, mortgage rates, etc.). By combining inside and outside information in a weighted average you will get a better, unbiased, early warning on market changes.

It's not nice to surprise CEOs.

About Us . . .

David Chereb

Specializes in data mining and demographic trends. Dr. Chereb focuses on structural change and migration patterns. Some of his past work includes, 'Data Mining Lite' (with John Mercer), 'A Golden Age of Growth' and 'Does Data Mining Improve Business Forecasting?' (presented at the 18th Annual Internal Symposium on Forecasting in Edinburgh Scotland. Dr. Chereb was a member of the Air Force space team designing NASA Space Shuttle requirements. He holds a B.S. from the USAF Academy, an M.A. from UCLA in econometrics and a Ph.D. from USC in economics.

Demographic Demand is very useful for determining which areas have pent-up demand.



Determining Housing Prices

A quick look around the country will show an astounding difference in price among houses of the same size and age. The real estate adage of 'location, location, location' is right on the mark when it comes to explaining these differences.

For analysts, however, the phrase would be, '**density, density, density**'. That is, places where the population per square mile is high, have high housing prices.

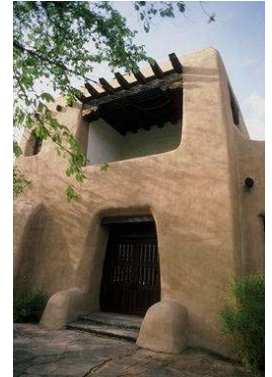
The reason is simple—crowded places are expensive places to

build new housing. If the area is a high income area, then it is very expensive to build.

Using population density as the main gauge is a surrogate for using the price of land. Places with high population density and high incomes, have high land prices; ergo, high home prices.

When forecasting where home prices will increase the most during the next ten years, look for areas that are growing, are crowded (or at least it's difficult to build more homes), have good cli-

mates and do not have high prices now. Not many areas fit the bill do they? But there are a few.



What is Demographic Demand?

Demographic demand is the level of home building that can be sustained year in and year out due to population growth and the depreciation of existing homes.

Take two examples: Douglas County, Colo. with only 175K people builds 4,000 new homes per yr. and Wayne County, Mich with 2.1 million people builds 5,000 new homes per yr. Most new homes

in Douglas Co. are built to satisfy rapid population growth. Just the opposite is true for Wayne Co., which is losing population and where most of the homes are replacement homes for older homes that are knocked down.

When most of the demand for new homes comes from population growth, home building lives or dies from population growth. Any slowing of growth and new

home demand plunges. For slow growing areas such as Wayne Co. the home building cycle is less pronounced.

Since demographic demand does not include mortgage rates, it cannot be used for annual homebuilding forecasting. Even so, demographic demand is very useful for determining which areas have pent-up demand and which areas are overbuilding.

Concrete Homes, Only for the Rich?

In 1907 Thomas Edison built concrete homes. His purpose was to build low cost homes for about \$1,200.

The enterprise didn't work out for Edison and he abandoned the effort. But concrete homes have been built ever since and now a new market niche is being targeted—the high end home.

Concrete homes have always been touted for their fire safety characteristics, as witness their excellent performance during the past few years of Western fire storms. Now they are being marketed for their grand look and durability.

High end architects and builders are creating grand designs that make a statement.

As a percent of new homes concrete homes remain very small (14% according to Aggregates Mgr.). Going forward, however, it seems this home building material will grow and capture market share as the Western U.S. population grows. Some believe concrete homes will grow to over 20% of new homes by 2015.

The Benefits of Global Warming (surprised)?

When I read a story about Global Warming, I always wonder, did they ask anyone from Milwaukee if they're unhappy that the temperature may increase by 1 degree during the next few decades?

The only news I ever see is that Global Warming is bad. As an economist it reminds me of an increase in interest rates. It's usually seen as a bad sign because mortgages will increase and the cost of capital will increase. But for retirees who receive a significant portion of

their retirement income from certificates of deposit (CDs), it is good news.

So too with Global Warming. I'm not saying it's a good thing, but I'm certain that some people, some countries and some species, will benefit from warmer weather. Our current average global temperature just happens to have been around a long time. When it was warmer a long time ago, species that adapted thrived. When it was colder a long time ago, species that adapted thrived.

Not all animals and plants will be hurt by Global Warming. If anyone says that, they have a political agenda, not a scientific perspective (even if they are a scientist).

One degree in one hundred years. I think technology will come up with much cheaper ways to deal with it than the cost of implementing the Kyoto treaty. Maybe that's why all U.S. Senators that voted on the resolution in 1997, voted against Kyoto (95-0).



Baby Boomers and Second Homes

Second homes have always been for the few rich families, but not anymore. Second homes are growing in importance and will soon reach 7% of new home demand (about 120K units in our estimate).

Many of these homes are vacation homes but more and more of them are becoming true second homes where families spend 3+ months per year, not just two weeks.

The increasing wealth of Baby Boomers is driving this phenomena. While most analysts think of demographic demand for homes to be solely a function of the growth of households, economists know that part of effective demographic demand is driven by income and wealth. As a result of increasing wealth, the demand for new homes will increase in the future, not decrease, even as population

growth slows.

It's not just the rich who will have second homes. At one time families only had one TV and one car. Now?

The increasing wealth of Baby Boomers is driving this phenomena.

The Hollowing Out of the Coasts (yes, the coasts)

We have all witnessed the hollowing out of the Heartland (farm country) as the U.S. has become, first an industrial economy, and more recently a service economy. In addition productivity gains in agriculture have been phenomenal during the last fifty years. The result is that farms need fewer people to harvest the same crops.

The people left the farms and went to the industrial cities. Later they left the industrial cities and moved to the financial and high-tech centers. Now they are moving again.

This time the drivers are communications and computer technology, increasing wealth and safety.

As high speed communications become ubiquitous in the U.S., companies have more options on where to locate. As the price of homes and labor becomes exorbitant in coastal cities, resources are being driven away from these areas.

The Heartland is beginning to beat faster.



Technology is changing the economies of scale for large urban areas.

DCG, Inc.

Place Stamp Here

23052 Alicia Pkwy #609
Mission Viejo, CA 92692
949-458-7794
Fax 458-9084
dc@countyforecasts.com

New Tools for the Changing Economy

Demographic Projections . Demand Forecasting . Competitive Analysis

www.countyforecast.com

Why Aren't More People Moving?

When Money Magazine or some research institute lists the best places to live, why don't more people move to those areas?

While most demographers focus on migration, the thing that strikes me is that it's hard to get people to move. Look around your neighborhood or your office. Most people grew up within 50 miles of where they are now.

So why don't more people move? We think it's inertia: a body at rest tends to stay at rest. I know we usually think of a body moving, but inertia works for the moving and the not moving.

There are some obvious rea-

sons why people don't move as shown in the short, partial, list below.

| <i>Why People Don't Move</i> |
|------------------------------------|
| Keep current job. |
| Kids in school. |
| Family and friends near by. |
| Like current area. |

It's no wonder then that **only 2% of people move to another county or further in a year.**

Will migration increase or decrease in the future? The answer depends on lots of things, and, as usual, the Baby Boom-

ers are one of the biggest ingredients. If Baby Boomers retire and move in higher percentages than the prior generation, then migration will increase. Our bet? Migration will increase and the destinations will be more varied than during the prior twenty years.

