STATE OF THE ECONOMY
1st Quarter 2006

Introduction

Economic activity rebounded sharply in the first quarter of 2006 with real gross domestic product (GDP) increasing by 4.8% at an annual rate as compared to an increase of 1.7% in the fourth quarter of 2005 and an increase of 3.5% for the full year 2005. This increase in economic activity is the highest quarterly growth rate since the third quarter of 2003 when real GDP increased at an annual rate of 7.2%. Despite continued high energy prices and further tensions stemming from geopolitical risks, economic activity in the first quarter advanced at a favorable rate due to strength in personal consumption expenditures, increased federal spending, and increases in nonresidential fixed investment.

The surprising strength in economic activity during the first quarter of 2006 may yet suggest that the effects of the hurricanes in the third quarter of 2005 were transitory and did not have a sustained detrimental economic impact. Furthermore, the apparent resilience of the economy even in light of continued high energy prices may be attributed to an acceptance of higher energy costs by consumers and businesses alike. However, the likelihood of higher energy prices adversely impacting consumer sentiment and stoking inflationary pressures continues to be an event with an increased probability, which may tend to suggest economic temperance in the coming quarters. To be sure, the economy in the remainder of 2006 is likely to exhibit signs of slowing, with growth advancing at a rate that may be comparable to that of the fourth quarter of 2005, particularly as interest rates may rise further.

Gross Domestic Product

Advance estimates[1] released by the Bureau of Economic Analysis (BEA) indicate that real GDP increased at an annual rate of 4.8% in the first quarter as compared to a revised rate of 1.7% in the fourth quarter. This increase in GDP is higher than the 3.8% increase in real GDP in the first quarter of 2005 and reflects the highest growth rate since the third quarter of 2003. Economic growth during the first quarter was in line with the consensus forecast of 4.4% (revised upward from 3.7% anticipated when surveyed during the fourth quarter) annual growth in real GDP anticipated by fifty-three forecasters

A MEMBER OF THE NATIONAL ASSOCIATION OF CERTIFIED VALUATION ANALYSTS &
THE INSTITUTE OF BUSINESS APPRAISERS
1221 BRICKELL AVENUE, 9TH FL, MIAMI, FL 33131 > 305.347.5170 T > 305.374.6146 F
PO BOX 6895, MYRTLE BEACH, SC 29572 > 843.457.2546
www.HighlandGlobal.com

surveyed by the Federal Reserve Bank of Philadelphia[2]. The consensus forecast is for a 3.4% increase in real GDP in the second quarter and an increase of 3.2% for the full year. The fourth quarter growth in real GDP was slightly higher on a revised basis at 1.7% at an annual rate as compared to earlier estimates of 1.1% growth[3]. Real GDP increased at an annual rate of 3.5% in 2005 as compared to an increase of 4.2% in 2004 and 2.7% in 2003.

Real personal consumption expenditures, which accounts for about two-thirds of economic activity, gained strength in the first quarter of 2006, increasing by 5.5% as compared to a 0.9% increase in the fourth quarter. This advance in real personal consumption expenditures in the first quarter is the highest rate of increase since the third quarter of 2003 during which real personal consumption expenditure increased by 5.8%. Purchases of durable goods, which decreased by 16.6% in the fourth quarter, surged ahead by 20.6% during the first quarter. This strong increase in purchases of durable goods was due largely to a 19.8% increase in expenditure on motor vehicles and parts as compared to a 13.8% decrease in the fourth quarter. This increase in purchases of motor vehicles may be attributed to the resumption of promotions offered by the major auto manufacturers during the first quarter. Purchases of furniture and household equipment increased by roughly 23% in the first quarter as compared to a 3% increase in the previous quarter. Data from the Federal Reserve Beige Books released late in the fourth quarter of 2005 and early first quarter of 2006 indicated that almost all of the Federal Reserve Districts noted declines in motor vehicle sales during the fourth quarter and sluggish sales early in the first quarter. Auto sales picked up late in the first quarter with many Districts noting improvements from prior surveys but sales levels still below the same period in the prior year. In addition, the trend towards more fuel efficient vehicles in light of the elevated energy prices and preference for foreign brands over domestic automobiles continued.

Personal consumption expenditures on nondurable goods increased by 5.4% during the first quarter as compared to 5.0% during the fourth quarter. Retail sales showed noticeable strength during the first quarter as compared to modest gains during the fourth quarter. The strength in retail sales during the first quarter may have been a result of unseasonable warm weather and the redemption of holiday gift cards. Retail inventories were generally at desired levels throughout the Districts according to the Beige Book reports.

Real nonresidential fixed investment increased at a 14.3% rate in the first quarter as compared to a 4.5% increase in the fourth quarter. Equipment

A MEMBER OF THE NATIONAL ASSOCIATION OF CERTIFIED VALUATION ANALYSTS & THE INSTITUTE OF BUSINESS APPRAISERS
1221 BRICKELL AVENUE, 9TH FL, MIAMI, FL 33131 > 305.347.5170 T > 305.374.6146 F
PO BOX 6895, MYRTLE BEACH, SC 29572 > 843.457.2546
www.HighlandGlobal.com

and software investment activity, which increased by 5% in the fourth quarter, increased by a robust 16.4% in the first quarter.

Following an increase of $37.9 billion in the fourth quarter, private businesses increased inventories by $21.9 billion in the first quarter. The first quarter real change in inventories subtracted 0.52% from first quarter real GDP. In the fourth quarter, however, the real change in inventories added 1.89% to the quarter's change in real GDP. This increase in inventories may tend to suggest that businesses began replenishing inventory stocks that were drawn down during the holiday season and during the first quarter. Businesses may also have increased production in order to increase inventory levels in anticipation of increased demand in coming quarters. Should actual demand not meet previous expectations, investment in private business inventories could slow in the coming quarters as businesses allow stocks to be drawn down to a level where supplies are consistent with demand.

Real residential fixed investment increased by 2.6% in the first quarter as compared to a revised 2.8% in the fourth quarter. This follows a 7.3% increase in the third quarter and a 10.8% increase in the second quarter. This lower growth rate is likely indicative of a slowing in real estate activity, which has been discussed at length as related to the potential existence of a real estate bubble. This slower rate of real residential fixed investment is likely the result of continued removal of accommodative monetary policy by the Federal Reserve and a subsequent increase in mortgage rates along with more cautious lending by financial institutions for real estate transactions.

Data on new residential construction from the U.S. Census Bureau and U.S. Department of Housing and Urban Development indicated that activity continued to remain tepid in the first quarter. Privately-owned housing units authorized by building permits ended the fourth quarter at 2,075,000. For the first quarter, new privately-owned housing units authorized by building permits advanced in January to 2,216,000 before falling to 2,179,000 in February and 2,059,000 in March. On a year-over-year basis, new privately-owned housing units authorized by building permits increased by roughly 3.7% in January, 4.1% in February, and 1.9% in March.

Privately-owned housing starts, which ended the fourth quarter at 1,989,000 (below the 2,160,000 level at the end of the third quarter), increased in January to 2,307,000 then declined in February and March to 2,126,000 and 1,960,000, respectively. On a year-over-year basis, privately-owned

HIGHLAND GLOBAL, LLC
A MEMBER OF THE NATIONAL ASSOCIATION OF CERTIFIED VALUATION ANALYSTS & THE INSTITUTE OF BUSINESS APPRAISERS
1221 BRICKELL AVENUE, 9TH FL, MIAMI, FL 33131 > 305.347.5170 T > 305.374.6146 F
PO BOX 6895, MYRTLE BEACH, SC 29572 > 843.457.2546
www.HighlandGlobal.com

housing starts increased 5.4% in January, 1.6% in February, and 6.9% in March.

Though housing starts in the first quarter decreased from the fourth quarter levels, there were noticeable gains in activity on a year-over-year basis. Though the decline in the number of housing starts may be indicative of less robust growth in the real estate markets and may support other data that indicates such, the year-over-year gains in activity remain firm[4]. However, sales of new and existing homes continued to decelerate during the first quarter. Data from the National Association of Realtors (NAR) indicates that, after ending December at 6,750,000 units on a seasonally adjusted annualized basis (down from 7,200,000 in September), existing home sales continued to decline in January, falling to 6,570,000. Existing home sales rose to 6,900,000 in February and 6,920,000 in March. On a year-over-year basis, sales of existing homes decreased 1% in March. The inventory of existing homes on the market, however, increased during the first quarter to 3,194,000 in March. As a result, the backlog of existing homes increased further from 5.1 months in December to 5.5 months in March. New home sales also declined in the first quarter of 2006, falling 5.5% in January to 1,197,000, 10.9% in February to 1,066,000, and increasing sharply by 13.8% in March to 1,213,000. On a year-over-year basis, however, new home sales in March declined 7.2%. The inventory of new homes also continued to increase to 5.5 months supply in March, a sharp increase from the prior year's level of 4.3 months.

The national median sales price of all existing homes fell from $222,000 in December to $218,000 in March, lower than the high of $229,000 first set in June 2005. For the full year 2005, the median price was $219,600. The median price of new homes was $224,000 in March, a decline of 2% in the last year[5].

Ben Bernanke, Chairman of the Federal Reserve, suggested that the real estate markets were likely experiencing a period of cooling activity, stating in testimony to the Committee on Financial Services, U.S. House of Representatives, on February 15, 2006 upon delivering the *Semiannual Monetary Policy Report to the Congress*[6]:

> *…Some cooling of the housing market is to be expected and would not be inconsistent with continued solid growth of overall economic activity. However, given the substantial gains in house prices and the high levels of home construction activity over the past several years, prices and*

> *construction could decelerate more rapidly than currently seems likely. Slower growth in home equity, in turn, might lead households to boost their saving and trim their spending relative to current income by more than is now anticipated…*
>
> *…However, as I have already noted, some signs of slowing in the housing market have appeared in recent months: Home sales have softened, the inventory of unsold homes has risen, and indicators of homebuilder and homebuyer sentiment have turned down. Anecdotal information suggests that homes typically are on the market somewhat longer than they were a year or so ago, and the frequency of contract offers above asking prices reportedly has diminished. Financial market conditions seem to be consistent with some moderation in housing activity…Thus, at this point, a leveling out or a modest softening of housing activity seems more likely than a sharp contraction, although significant uncertainty attends the outlook for home prices and construction.*

The Beige Books released on January 18, 2006, March 15, 2006 and April 26, 2006 indicated moderation in residential real estate activity in most of the twelve Districts during the first quarter, following some cooling of activity during the fourth quarter. Homes sales reportedly slowed in many Districts, with the inventory of homes available for sale increasing as well as the amount of time homes were on the market, and price appreciation experienced a more muted rate. However, residential construction was mixed throughout with country, with continued strong activity in the West and South. Kansas City, Minneapolis, St. Louis, and Chicago all noted slower residential construction activity. Condominium projects throughout the South were put on hold during the first quarter as demand for condos remained soft. Overall, the data included in the Beige Books continues to confirm signs of cooling that had begun to manifest in the third quarter of 2005 and that continued into the fourth quarter.

Thirty-year conventional mortgage rates, according to Freddie Mac[7], rose slightly during the first quarter from 6.27% at the end of 2005 to a high of roughly 6.37% in early March before ending the quarter at 6.35%. By mid-April, thirty-year rates had increased further to 6.49%. After ending the fourth quarter at approximately 5.82%, fifteen-year mortgage rates increased to 6.00% by early March. After ending the first quarter at 6.00%, fifteen-year rates increased further to 6.14% by mid-April.

HIGHLAND GLOBAL, LLC
A MEMBER OF THE NATIONAL ASSOCIATION OF CERTIFIED VALUATION ANALYSTS & THE INSTITUTE OF BUSINESS APPRAISERS
1221 BRICKELL AVENUE, 9TH FL, MIAMI, FL 33131 > 305.347.5170 T > 305.374.6146 F
PO BOX 6895, MYRTLE BEACH, SC 29572 > 843.457.2546
www.HighlandGlobal.com

The rise in mortgage rates coincides with U.S. Treasury yields on the 10-year note, which increased from 4.39% at the end of December 2005 to 4.53% by the end of January. By the end of the first quarter, the yield on the 10-year note had increased to 4.86%. The yield continued to increase through mid-April to roughly 5%. By the end of the fourth quarter, the yield curve had inverted with the two-year yield rising just slightly above the yield on the ten-year note[8]. Though this inversion was reversed in early January, the yield curve inverted once again by the middle of the month before reversing by the end of January. The yield curve remained virtually flat during the remainder of the first quarter.

Further interest rate increases, prompted by increases in the federal funds rate as the Federal Reserve removes accommodative monetary policy, may contribute to further slowing of real estate activity in the coming quarters. Such further increases in rates may have an unwelcome, adverse impact upon speculators in the real estate markets and investors who have committed to degrees of leverage which they may not be able to service as rates increase. This could have the effect of continuing to remove some of the "froth" in certain local real estate markets throughout the U.S.

Following a revised increase of 5.1% in the fourth quarter, real exports of goods and services for the first quarter increased 12.1%. Imports, a subtraction from GDP, increased 13% in the first quarter as compared to a 12.1% increase in the fourth quarter.

The dollar/sterling ($/£) exchange rate ended 2005 at $1.75, stronger than at the beginning of 2005 when the exchange rate was roughly $1.92. During the first quarter, the dollar weakened to $1.79 against the pound sterling by the end of January before gaining to end the quarter at $1.72. The dollar/euro ($/€) exchange rate was $1.35 at the end of the fourth quarter of 2004 and $1.20 at the end of the fourth quarter of 2005. During the first quarter of 2006, the dollar weakened to $1.22 against the euro by the end of January. By the end of the quarter, the dollar had strengthened to $1.20. At the end of the fourth quarter of 2004, the yen/dollar (¥/$) exchange rate stood at ¥104. By the end of 2005, the dollar had strengthened to ¥116. During the first quarter of 2006, the dollar continued to gain strength against the yen. By early February, the dollar had strengthened to ¥119[9] before retrenching slightly to ¥118 by the end of the quarter.

The relative strength of the dollar may stem from a variety of issues such as weak economic data in the euro zone, increases in interest rates as part of the Federal Reserve's removal of accommodative monetary policy, and low inflation expectations in the United States. The initial weakening of the dollar during January may have been the result of weak economic data for the fourth quarter. As growth expectations were revised upwards and expectations for a rebound in economic activity began to manifest mid-quarter, investors may have had renewed confidence in prospects for economic growth in the U.S. This may have prompted the strengthening of the dollar late in the first quarter.

However, the U.S. current account deficit remains a significant threat to the strength of the dollar. For the fourth quarter of 2005, the deficit hit $225 billion or roughly 7% of gross domestic product, an increase from $185.4 billion in the third quarter[10]. For the year 2005, the current account deficit was $805 billion. To be sure, continued rapid rises in the current account deficit are unsustainable in the long-term. In order to reduce the current account deficit, U.S. exports would have to increase by roughly 70% or the dollar would have to depreciate significantly accompanied by a sharp reduction in domestic demand. With foreigners acquiring U.S. assets in order to satisfy the U.S. consumption of imported goods, there is a great risk to economic growth stemming from reliance upon foreigners' continued willingness to fund the current account. Should the proclivity of foreign investors towards dollar denominated assets fall, the dollar would likely weaken significantly and interest rates would be forced to rise significantly in order to attract investment in U.S. financial assets.

Real federal government consumption expenditures increased by 10.8% during the first quarter as compared to a decrease of 2.6% in the fourth quarter of 2005. National defense spending, which increased by 10.3% in the first quarter as compared to a decrease of 8.9% in the fourth quarter, contributed to the increase in real federal government consumptions expenditures. Nondefense spending increased by 11.7% in the first quarter and the fourth quarter.

The Federal Reserve

The Federal Reserve continued its removal of monetary policy accommodation during the first quarter of 2006, with the Federal Open Market Committee (FOMC) increasing the federal funds rate to 4 ¾%[11]. At its meeting

1221 BRICKELL AVENUE, 9TH FL, MIAMI, FL 33131 > 305.347.5170 T > 305.374.6146 F
PO BOX 6895, MYRTLE BEACH, SC 29572 > 843.457.2546

on January 31, 2006, the final meeting chaired by Alan Greenspan, the FOMC agreed its fourteenth twenty-five basis point increase in the target for the federal funds rate to 4 ½%[12]. The FOMC stated that it believed economic activity remained solid, with core inflation remaining relatively low and long-term inflation expectations contained. The Committee also judged that resource utilization increases and continued high energy prices could add to inflationary pressures. The Committee further concluded that further policy firming could be necessary.

At its meeting on March 28, 2006, the first chaired by Ben Bernanke, the FOMC agreed another twenty-five basis point increase in the target for the federal funds rate to 4 ¾%[13]. The Committee indicated the following:

> *The slowing of the growth of real GDP in the fourth quarter of 2005 seems largely to have reflected temporary or special factors. Economic growth has rebounded strongly in the current quarter but appears likely to moderate to a more sustainable pace. As yet, the run-up in the prices of energy and other commodities appears to have had only a modest effect on core inflation, ongoing productivity gains have helped to hold the growth of unit labor costs in check, and inflation expectations remain contained. Still, possible increases in resource utilization, in combination with the elevated prices of energy and other commodities, have the potential to add to inflation pressures.*
>
> *The Committee judges that some further policy firming may be needed to keep the risks to the attainment of both sustainable economic growth and price stability roughly in balance. In any event, the Committee will respond to changes in economic prospects as needed to foster these objectives.*

In the *Monetary Policy Report to the Congress*, released February 15, 2006, the Federal Reserve policymakers indicated that the economy was expected to perform well in 2006 and 2007, despite higher energy prices that would exert some restraint on activity. Though core inflation was expected to feel some upward pressures from the pass through of higher energy costs, cost pressures are anticipated to wane during the year. The Federal Reserve Board of Governors and Federal Reserve Bank Presidents project that real GDP will increase by 3 ¼%-4% in 2006 as compared to real GDP growth of 3.5% in 2005[14]. Real GDP is expected to increase by 3%-4% in 2007. The personal consumption expenditures chain-type price index (the Federal Reserve's preferred measure of inflation) excluding food and energy is expected to range from 1 ¾%-2 ½% in 2006, as compared to the 1.9% increase in 2005. For 2007, the PCE index excluding food and energy is expected to range from 1 ¾%-2%. The civilian unemployment rate is anticipated to range from 4 ½%-5% in 2006, against 5% for 2005, and 4 ½%-5% in 2007.

In testimony accompanying delivery of the *Semiannual Monetary Policy Report to the Congress* before the Committee on Financial Services, U.S. House of Representatives, on February 15, 2006 Chairman Ben Bernanke indicated the following:

> *Not all of the risks to the economy concern inflation. For example, a number of indicators point to a slowing in the housing market. Some cooling of the housing market is to be expected and would not be inconsistent with continued solid growth of overall economic activity… Slower growth in home equity, in turn, might lead households to boost their saving and trim their spending relative to current income by more than is now anticipated. The possibility of significant further increases in energy prices represents an additional risk to the economy; besides affecting inflation, such increases might also hurt consumer confidence and thereby reduce spending on non-energy goods and services.*
>
> *Although the outlook contains significant uncertainties, it is clear that substantial progress has been made in removing monetary policy accommodation. As a consequence, in coming quarters the FOMC will have to make ongoing, provisional judgments about the risks to both inflation and growth, and monetary policy actions will be increasingly dependent on incoming data.*

The FOMC initially anticipated that the hurricanes in the third quarter would have little economic impact. Though that assessment seemed to have been misguided given the significant deceleration in economic growth during the fourth quarter, the strong growth during the first quarter of 2006 may have supported their original conclusion. However, the impact from this rebuilding may prove ephemeral, which could contribute to a slowing of growth in coming quarters. In addition, the impact of higher energy prices is likely to be felt for quarters to come. Inflation may continue to feel upward pressures, placing the FOMC in a precarious position of confronting higher inflation during a period of slowing economic growth. Though the engines of economic growth in America roared back during the first quarter, they are unlikely to continue running at such a robust pace in the short-term, particularly under the burden of higher energy prices, rising interest rates, mounting inflationary pressures and the attending impacts these factors have upon consumer sentiment and consumption.

The Federal Reserve Beige Books[15] released on January 18, 2006, March 15, 2006, and April 26, 2006 suggested continued solid economic expansion during the first quarter throughout the twelve Districts[16]. The Beige Book conclusions included the following:

- Consumer spending remained in expansion with retail sales showing signs of improvement as a result of unseasonably warm weather and redemption of holiday gift cards. Retail inventories were characterized as being at desired levels throughout the country. Automobile sales were characterized as sluggish across the nation, though sales of foreign brands were particularly strong. Vehicle inventories were above desired levels.

- Manufacturing activity remained positive with expansion continuing throughout the country. Construction inputs, steel, machine tools, and aircraft equipment exhibited strength in many Districts. Automotive activity was mixed, with manufacturers indicating that higher inventory levels would likely lead to retrenchment in production in coming months.

- Residential real estate activity continued to show signs of cooling during the first quarter. Most Districts noted continued slowing home sales and price appreciation, rising inventory levels, and longer selling times of existing homes. Commercial real estate activity continued the strengthening trend that originally began during the third quarter with office vacancy rates falling in some Districts and rental rates exhibiting some upward pressures. New commercial construction activity is still anticipated to improve in 2006.

- Labor markets continued to experience favorable gains throughout most of the Districts, with tightening conditions contributing to modest signs of upward pressure on wages particularly for skilled positions.

Consumer Confidence

The Conference Board's Consumer Confidence Index[17] ended 2005 at 103.8 and continued the strengthening trend in the first quarter, rising to

A MEMBER OF THE NATIONAL ASSOCIATION OF CERTIFIED VALUATION ANALYSTS & THE INSTITUTE OF BUSINESS APPRAISERS
1221 BRICKELL AVENUE, 9TH FL, MIAMI, FL 33131 > 305.347.5170 T > 305.374.6146 F
PO BOX 6895, MYRTLE BEACH, SC 29572 > 843.457.2546
www.HighlandGlobal.com

106.8 in January, 102.7 in February, and 107.2 in March. At the end of the first quarter, the Consumer Confidence Index had risen to the highest level in nearly four years. Lynn Franco, Director of The Conference Board's Consumer Research Center, indicated the following with respect to the consumer confidence figures:

> *The improvement in consumers' assessment of present-day conditions is yet another sign that the economy gained steam in early 2006. Consumer expectations, while improved, remain subdued and still suggest a cooling in activity in the latter half of this year.*

After ending 2005 at 92.6, the Expectations Index declined to 92.1 in January and 84.2 in February before rising to 89.9 in March. The decline in the Expectations Index during the first quarter may be attributed to consumers' anticipation of slowing economic growth and less favorable jobs prospects. The drop to 84.2 in February placed the Expectations Index at its lowest level in three years, with the exception of the two months following Hurricane Katrina. The weakness in the Expectations Index is likely to suggest the potential for slowing economic activity in the coming quarters.

Consumers' outlook for the next six months was less favorable during the first quarter. In January, February, and March, 17.9%, 16.2%, and 18%, respectively, expected business conditions to improve in the next six months. Those expecting conditions to worsen decreased in March to 9.9% from 10.9% in February and 10.5% in January.

Consumers' assessment of current business conditions was mixed during the first. With 24.4% of respondents characterizing current conditions as "good" in December 2005, this figure improved to 25.9% in January, 26.4% in February, and 28.3% in March. Those characterizing conditions as "bad" stood at 14.9% in December 2005. In January, February, and March, 15.9%, 15.4%, and 14.7% characterized conditions as "bad," respectively.

The improvement in the first quarter may be the result of momentum in consumer confidence that parallels momentum in economic activity during the first quarter. Though a jump in any one month may be a temporary phenomenon rather than a sustained shift in consumers' expectations regarding the economic outlook, the deterioration in optimism may indicate that consumers are becoming cognizant of the actual long-term threats to economic growth stemming from factors such continued elevated energy prices,

HIGHLAND GLOBAL, LLC
A MEMBER OF THE NATIONAL ASSOCIATION OF CERTIFIED VALUATION ANALYSTS &
THE INSTITUTE OF BUSINESS APPRAISERS
1221 BRICKELL AVENUE, 9TH FL, MIAMI, FL 33131 > 305.347.5170 T > 305.374.6146 F
PO BOX 6895, MYRTLE BEACH, SC 29572 > 843.457.2546
www.HighlandGlobal.com

increased interest rates, a slowing housing market, etc. As the actual impact these factors have upon economic activity begins to manifest in coming months, consumer confidence may fall and prompt restrained spending, which could contribute to weakened economic growth during the coming quarters.

The Business Sector

Industrial production, as compiled by the Federal Reserve[18], increased at a revised annual rate of 5.3% during the fourth quarter of 2005 and by a rate of 4.5% for the first quarter of 2006[19]. For the full year 2005, industrial production increased 3% over the 2004 level. On a year-over-year basis, industrial production increased by 3.1%, 3.3%, and 3.6% in January, February, and March, respectively.

Manufacturing production, which increased at an annual rate of 9.1% in the fourth quarter, increased by 5.4% in the first quarter of 2006. The continued strength in manufacturing is confirmed by anecdotal evidence contained in The Beige Book releases from the Federal Reserve, which indicated generally favorable manufacturing gains throughout the twelve Districts. Manufacturing production increased by 4.5%, 4.2%, and 4.8% on a year-over-year basis in January, February, and March, respectively.

Durable goods production, which increased by 2.8% in the fourth quarter, declined at an annual rate of 1.9% in the first quarter. Nondurable goods production, which increased by 1.4% in the fourth quarter, experienced no growth in the first quarter of 2006. Defense and space equipment production continued to experience strong gains, increasing by 7.0% in the first quarter compared with increases of 8.1% in the fourth quarter of 2005. Following a fourth quarter increase of 17.4%, construction supplies decreased by 1.1% in the first quarter. This retrenchment in construction supplies may be the result of gradually emerging signs of a cooling in housing activity.

On a quarterly basis, capacity utilization increased once again in the first quarter of 2006 to 81% as compared to 80.5% for the fourth quarter. This level of 81% is in line with the 1972 to 2005 average. The trend of increasing capacity utilization coincides with the increased activity in manufacturing activity evident through a number of other figures and resources. Manufacturing capacity utilization increased to 80.4% in the first quarter from 79.8% in the fourth quarter. At this level, capacity utilization in the first quarter is now above the 1972 to 2004 average of 79.8%.

HIGHLAND GLOBAL, LLC
A MEMBER OF THE NATIONAL ASSOCIATION OF CERTIFIED VALUATION ANALYSTS & THE INSTITUTE OF BUSINESS APPRAISERS
1221 BRICKELL AVENUE, 9TH FL, MIAMI, FL 33131 > 305.347.5170 T > 305.374.6146 F
PO BOX 6895, MYRTLE BEACH, SC 29572 > 843.457.2546
www.HighlandGlobal.com

The Department of Commerce's[20] advance monthly sales for retail trade and food services showed solid gains in the first quarter. In March, retail and food service sales increased by approximately 0.6%[21] from February to $361 billion. Total retail sales increased by 0.7% in March from the February level to $326.2 billion.

On a year-over-year basis, monthly sales for retail trade and food service increased 9.4% in January, 7.5% in February, and 7.9% in March. For the first quarter, advance monthly retail and food service sales increased 3.2% from the fourth quarter. On a year-over-year basis, advance monthly sales for retail trade and food services increased 8.3% in the first quarter. For the first quarter, retail sales increased by 3.2% from the fourth quarter and by 8.2% on a year-over-year basis. Total sales excluding motor vehicles and parts increased by 2.7% in the first quarter from the fourth quarter and by 9.7% on a year-over-year basis. Sales of motor vehicles and parts, which declined by 3.8% in the fourth quarter as compared to the third quarter and by 1.8% from the fourth quarter of the prior year, increased in the first quarter by 5.2% and by 3.3% on a year-over-year basis.

The Chief Executives' Confidence Measure, compiled by the Conference Board in the quarterly *CEO Confidence Survey*, indicated that CEOs' confidence improved slightly in the first quarter with the index increasing to 57 from 56 in the fourth quarter[22]. Though CEOs' assessment of current conditions improved, with roughly 49% saying current economic conditions are better, they are less optimistic regarding the outlook for the next six months. Only 35% of the CEOs surveyed expect better conditions in the coming months, a decline from 41% in the fourth quarter. In addition, roughly 46% anticipate an increase in employment levels whereas those expecting a decline in jobs increased to 24% for the quarter from 11%. Lynn Franco, Director of The Conference Board Consumer Research Center, stated the following with respect to the survey:

> *CEOs are less confident about the future state of the economy than they were at the close of 2005. As a result, many anticipate hiring plans to cool and employment levels to decline. This is yet another sign the second half of 2006 is not likely to be as strong as the first half.*

Following the build-up of private inventories during the fourth quarter 2005 and first quarter 2006, manufacturing activity may be expected to temper

1221 BRICKELL AVENUE, 9TH FL, MIAMI, FL 33131 > 305.347.5170 T > 305.374.6146 F
PO BOX 6895, MYRTLE BEACH, SC 29572 > 843.457.2546

somewhat in the coming quarters as businesses allow inventories to be drawn down. The pace at which these inventories are drawn down is contingent upon a variety of factors including the strength of retail sales, consumer confidence, strength of exports, etc. However, with energy prices expected to remain elevated and interest rates continuing to rise, consumer confidence may be dampened and prompt a retrenchment in consumption expenditures, which could have an adverse impact upon retail sales and production. In addition, deterioration in the robust level of real estate activity and home price appreciation may further dampen consumer confidence and prompt increased saving by consumers. Overall, these factors may yet suggest that the strength of economic activity in the first quarter may be a temporary aberration and that the slowdown in economic activity during the fourth quarter of 2005 may continue ultimately to foster weaker economic conditions in the coming quarters of 2006.

Inflation

Following a 3.4% increase in the consumer price index (CPI) [23] for the full year 2005 at a seasonally adjusted annual rate, the CPI increased by a compound annual rate of 4.3% in the first quarter of 2006. The CPI increased 0.7% in January, 0.1% in February, and 0.4% in March on a seasonally adjusted basis. For the twelve months ending in March, the CPI increased at an annual rate of 3.4%.

For 2005, the energy index increased by 17.1% on a seasonally adjusted annual basis. For the first quarter of 2006, the energy index increased by 21.8%, as a result of continued elevated energy prices. For the twelve months ending in March, the energy index advanced by 17.3%. Food prices during 2005 increased at an annual rate of 2.3%. For the first quarter of 2006, the food index advanced at an annual rate of 2.5%. For the twelve months ending in March, the food index increased by 2.6%.

Removing the effects of food and energy, the core CPI increased by 2.8% in the first quarter. The core CPI advanced at a rate of 2.2% for both 2004 and 2005. For the twelve months ending in March, the core CPI advanced at a rate of 2.1%.

In addition to the CPI, the price index for personal consumption expenditures (PCE) from the BEA[24] rose by 2.0% in the first quarter as compared to a 2.9% increase in the fourth quarter and a 2.8% increase for the full year 2005. On a year-over-year basis, the PCE rose by 3.0% in the first quarter. Excluding volatile food and energy prices, the PCE rose by 2.0% for the first quarter as compared to an increase of 2.0% in 2005. The PCE excluding food and energy prices increased 1.9% on a year-over-year basis.

With respect to inflation, Chairman Ben Bernanke indicated the following in his Congressional testimony from February 15, 2006:

> *In the announcement following the January 31 meeting, the Federal Reserve pointed to risks that could add to inflation pressures. Among those risks is the possibility that, to an extent greater than we now anticipate, higher energy prices may pass through into the prices of non-energy goods and services or have a persistent effect on inflation expectations. Another factor bearing on the inflation outlook is that the economy now appears to be operating at a relatively high level of resource utilization. Gauging the economy's sustainable potential is difficult, and the Federal Reserve will keep a close eye on all the relevant evidence and be flexible in making those judgments. Nevertheless, the risk exists that, with aggregate demand exhibiting considerable momentum, output could overshoot its sustainable path, leading ultimately--in the absence of countervailing monetary policy action--to further upward pressure on inflation. In these circumstances, the FOMC judged that some further firming of monetary policy may be necessary, an assessment with which I concur.*

Though it does not appear that core inflation accelerated at a more alarming rate in the first quarter as compared to 2005, continued high energy prices may ultimately prompt upward inflationary pressures at a more rapid rate in the coming months. The inflationary pressures could be further pronounced should businesses begin to pass along cost increases to consumers. This may force the Federal Reserve to continue tightening monetary policy beyond levels currently anticipated by the markets or risk higher inflation premiums that would tend to suppress economic growth.

Labor Market

After averaging 5.0% in the fourth quarter of 2005, the unemployment rate continued to trend lower in the first quarter to an average 4.7%[25]. On a monthly basis, unemployment was 4.7% in January, 4.8% in February, and 4.7% in March.

A MEMBER OF THE NATIONAL ASSOCIATION OF CERTIFIED VALUATION ANALYSTS &
THE INSTITUTE OF BUSINESS APPRAISERS
1221 BRICKELL AVENUE, 9TH FL, MIAMI, FL 33131 > 305.347.5170 T > 305.374.6146 F
PO BOX 6895, MYRTLE BEACH, SC 29572 > 843.457.2546
www.HighlandGlobal.com

Total nonfarm payroll employment increased by 154,000 in January, by 225,000 in February, and by 211,000 in March, for a first quarter average of 197,000 monthly job gains. As a result of these gains, total nonfarm payroll employment increased by 590,000 during the first quarter of 2006 as compared to an increase of 477,000 during the first quarter of 2005. In March, total nonfarm payroll employment stood at 134.996 million.

Payroll gains in the quarter included increases in professional & business services and hospitality. Professional & business service employment's increased roughly 93,000 in the first quarter as compared to a 123,000 gain in the fourth quarter. The hospitality industry, which added 69,000 jobs in the fourth quarter, added an additional 106,000 jobs in the first quarter. Manufacturing employment lost roughly 10,000 during the first quarter after adding approximately 39,000 in the fourth quarter.

According to the Conference Board's Consumer Confidence Survey, consumers' optimism regarding employment was mixed during the first quarter. Consumers expecting more jobs to become available in the next six months decreased in January to 13.6% from 14.3% in December. In February and March, 13.4% and 13.9% expected more jobs to become available, respectively. Those expecting fewer jobs to become available ended 2005 at 17.7%. In January, February, and March, 15.2%, 19.9%, and 16.6% expected fewer jobs to become available in the next six months, respectively.

Though further increases in economic activity may yet provide a foundation for continued increases in payroll employment for the coming quarters in 2006, a slowdown in the rate of gains in economic activity may result in lower payroll employment gains for the corresponding period. In addition, should continued elevated energy prices and rising interest rates negatively impact consumer sentiment, consumers' optimism regarding employment may deteriorate, particularly if businesses and manufacturers adjust payrolls to compensate for waning demand. Further drops in the unemployment rate may prompt tight labor market conditions in some areas of the country, particularly for skilled workers. As a result, wages may feel some inflationary pressures as employers seek to fill vacancies with qualified workers. This could, ultimately, contribute to further upward pressures on overall inflation.

Equity Markets

The Dow Jones Industrial Average (DJIA) ended 2005 at roughly 10,718[26]. The S&P 500 and the NASDAQ composite ended 2005 at 1,248 and 2,205, respectively. During the first quarter, the DJIA gained roughly 4.7% (through March 29th) to 11,216. The NASDAQ and the S&P 500 gained 6.0% and 4.4%, respectively, ending the quarter at roughly 2,338 and 1,303. During the first quarter, the S&P 500 crossed the 1,300 level for the first time since May 2001.

The improved performance may have been a result of investor optimism regarding improvements in economic activity and corporate earnings. In addition, the diminishing opportunity for superior returns in the real estate market may have prompted investors to return to the equity markets. However, elevated oil prices and the potential for adverse impacts upon economic activity, uncertainty regarding geopolitical events, tightening of monetary policy by the Federal Reserve, and increased inflation expectations are risks that remain but which do not seem to have significantly dampened investors' confidence in the equity markets. Should investors begin to recognize a higher degree of risk stemming from these factors and demand a higher risk premium, equity markets could experience some weakness.

In addition, sustained high energy prices could have a significant adverse impact upon corporate profits. Inflationary pressures stemming from higher energy prices feeding into the core inflation figures could also have an adverse impact upon investor confidence. As a result of the aforementioned risk factors, the ability of the equity markets to post significant gains over the coming quarters may yet be tenuous, particularly as a number of factors may contribute to economic softness in the coming quarters.

Oil Prices

West Texas Intermediate (WTI) oil prices, which fluctuated in a band from $56 to $64 during the fourth quarter, remained at elevated levels during the first quarter of 2006. Oil prices rose throughout January, reaching nearly $70 per barrel by late in the month on concerns of shortages of refining capacity and the potential supply shortfalls for the anticipated increase in demand during the second quarter.

At the January 31, 2006 meeting in Vienna, Austria[27], OPEC ministers maintained its current production level of 28.0 million barrels per day and noted the following with respect to energy markets:

1221 BRICKELL AVENUE, 9TH FL, MIAMI, FL 33131 > 305.347.5170 T > 305.374.6146 F
PO BOX 6895, MYRTLE BEACH, SC 29572 > 843.457.2546

The Conference also noted that, although the market is well supplied with crude oil, and commercial oil stock levels in the OECD remain healthy, prices have continued to rise. This, however, is primarily a result of refining bottlenecks and other non-fundamental factors…

…Early indications suggest that the world economy will perform well in the first half of 2006; indeed, the forecast for world GDP growth for the whole of this year has already been increased slightly, reflecting improved expectations for Europe, Japan, and China, though risks remain visible on global financial imbalances, and higher interest rates, particularly in the US. With substantial increases expected in non-OPEC supply during the year and with OPEC production already at much higher levels than current demand, it is clear we are fairly confident about the market outlook for the year…We remain totally committed to market stability, with prices at reasonable and sustainable levels. We firmly recognize the importance of a stable, orderly oil market to world economic growth, long-term investment, and the advancement of global prosperity.

Prices eased in February, falling below $60 per barrel briefly before stabilizing around $60-$63 per barrel, perhaps as a result of crude inventory data showing stockpiles at the highest level since May 1999. At its March 8, 2006 meeting in Vienna[28], OPEC members agreed to maintain its current production ceiling of 28 million barrels per day. In its press release, OPEC indicated the following:

Having reviewed the oil market outlook, the Conference observed that world economic performance remains strong. The Conference also noted that, although all indicators show that the market is fundamentally well-supplied with crude oil and that commercial oil stocks in the OECD are at high levels, world crude oil prices remain volatile, these being driven by geopolitical factors and associated concerns regarding potential future supply disruptions, as well as downstream bottlenecks, exacerbated by more stringent US fuel quality standards. These factors are reflected in the increased activity observed in the futures market and the pattern of disconnect between prices and commercial stock levels, that has become apparent since 2004.

By the end of the quarter, however, prices had once again increased to around the $66 level, perhaps as a result of the loss of roughly 500,000 barrels per day in supply due to militant attacks on the Nigerian oil infrastructure.

It is likely that elevated energy prices contributed to the softness in economic activity in the fourth quarter of 2005. Economic activity in the first quarter may have been boosted by the fall in oil prices in late January and early February. If there is indeed a correlation between the two, the tipping point at which oil prices begin to slow growth may be around the $63-$65 range.

To be sure, there are still a number of energy market-related risks that could weaken the strength of economic growth. Rising demand growth as a result of China's rapidly expanding economy and concerns over inadequate refining capacity may contributed to continued elevated oil prices for the immediate future. Concerns of geopolitical risks such as Iran's suspected nuclear program and the potential for an Iranian oil embargo as a result of the nuclear showdown with the West could create an additional premium in the price of oil. Furthermore, speculative activity in the oil markets, which has been ongoing since 2004, may artificially inflate the price of oil. In addition, exogenous shocks in the oil markets may result in short-term price spikes in excess of $70 or $80 per barrel, which would likely have a significant adverse impact upon global economic growth and U.S. economic activity. Therefore, the risks to economic activity stemming from higher energy prices remain weighted towards conditions that may perpetuate further economic weakness in the coming quarters.

Economic Outlook 2005

After ending the fourth quarter at 138.6, the Conference Board's Leading Economic Indicators ended the first quarter at 138.4[29], weakening somewhat during the first three months of 2006. In January, the leading index increased 0.4% before declining 0.5% and 0.1% in February and March, respectively[30]. From June to December of 2005, the leading index increased 1.0%. From July to January 2006, the leading index increased 1.7%. For the six months ending in February and March, the leading index increased 1.1% and 1.9%, respectively. The average six month growth rate at an annual rate during the first quarter was 3.2% as compared to an average growth rate of 2.7% in the fourth quarter. The strengths among the indicators were widespread during

HIGHLAND GLOBAL, LLC
A MEMBER OF THE NATIONAL ASSOCIATION OF CERTIFIED VALUATION ANALYSTS &
THE INSTITUTE OF BUSINESS APPRAISERS
1221 BRICKELL AVENUE, 9TH FL, MIAMI, FL 33131 > 305.347.5170 T > 305.374.6146 F
PO BOX 6895, MYRTLE BEACH, SC 29572 > 843.457.2546
www.HighlandGlobal.com

the first quarter, which would tend to imply strength in economic growth. However, growth of the leading index has slowed since 2004 and is now exhibiting behavior that would tend to indicate a moderate pace of economic growth in the near term.

In the *Monetary Policy Report to the Congress*, released February 15, 2006, the Federal Reserve policymakers indicated that the economy was expected to perform well in 2006 and 2007. The Federal Reserve Board of Governors and Federal Reserve Bank Presidents project that real GDP will increase by 3 ¼%-4% in 2006. Real GDP is expected to increase by 3%-4% in 2007. The personal consumption expenditures chain-type price index excluding food and energy is expected to range from 1 ¾%-2 ½% in 2006. For 2007, the PCE index excluding food and energy is expected to range from 1 ¾%-2%. The civilian unemployment rate is anticipated to range from 4 ½%-5% in 2006 and 4 ½%-5% in 2007.

The fifty-three forecasters participating in the Philadelphia Fed's *Survey of Professional Forecasters* expect real GDP growth of 3.4% in the second quarter and an annual rate of growth in real GDP of 3.2% for 2006 and 2007. CPI inflation is expected to equal roughly 2.4% for 2006 and 2.3% in 2007. The unemployment rate is forecast at 4.8% for 2006 and 4.9% for 2007.

The fifty-three forecasters surveyed by the National Association for Business Economics expect real GDP growth of 3.3% for 2006 and 3.1% for 2007[31].

In remarks at the Howard University Economics Forum on March 3, 2006, Roger W. Ferguson, Jr., Vice Chairman of the Federal Reserve, indicated that the long-term prospects for the U.S. economy remained favorable, particularly as the slowdown in the fourth quarter may have been the result of transitory factors[32]. With incoming data indicating that the economy is off to a solid start in 2006, Vice Chairman Ferguson further suggested that the fundamentals would support continued economic expansion, particularly in light of strength in underlying productivity growth, good prospects for economic activity abroad, and favorable financial positions of households and businesses. In addition, in the absence of further increases in already elevated energy prices, economic activity may begin to accelerate. However, Vice Chairman Ferguson indicated the following with respect to risks to the economic outlook:

> *All told, the U.S. economic expansion appears to be solidly on track. Nevertheless, the outlook for real activity faces a number of significant risks, including the possibility that house prices and construction could retrench sharply and that energy prices could rise significantly further.*

Based on the current assessment of a number of economic factors previously discussed, the engines of economic growth may begin to slow as a result of adverse systemic impacts of elevated energy prices and a slowdown in the housing market. Continued high energy prices, acting as a tax upon consumers, along with rising interest rates and weaker real estate activity could have an adverse impact upon consumer confidence and consumer spending—the latter of which has been an underlying cause of the economic growth over the last two years. A retrenchment in consumer spending could precipitate slower economic growth. A severe weakening of the real estate market could also precipitate further weak economic activity. These factors, combined, could have a severe toll on economic activity in the coming quarters. These factors suggest that the risks to the economy are weighted more towards weaker economic activity in the coming quarters.

The preponderance of evidence does not seem to point to a recession, and we believe that the probability of the economy slipping into recession is low. However, we feel that economic growth is likely to be at a much more tempered pace for the foreseeable future. There does appear to be a growing possibility that the U.S. economy may exhibit a period of low growth and higher inflationary pressures for the remainder of 2006.

Our assessment of the current state of the economy indicates the following:

- Interest rates may yet rise further in the coming quarters, which could further dampen real estate activity, removing some of the speculative froth that had developed in many markets.

- Oil prices will likely remain at elevated levels throughout 2006, which could prompt slower economic growth globally and in the U.S.

- Inflation will likely remain at levels above recent trends and prompt slower economic growth.

HIGHLAND GLOBAL, LLC
A MEMBER OF THE NATIONAL ASSOCIATION OF CERTIFIED VALUATION ANALYSTS & THE INSTITUTE OF BUSINESS APPRAISERS
1221 BRICKELL AVENUE, 9TH FL, MIAMI, FL 33131 > 305.347.5170 T > 305.374.6146 F
PO BOX 6895, MYRTLE BEACH, SC 29572 > 843.457.2546
www.HighlandGlobal.com

- With the build-up of inventories in the fourth quarter of 2005 and the first quarter of 2006, manufacturing activity and industrial production may be tempered in the coming months.

Our expectations for the economy include:

- Real GDP growth of 2 ¾% - 3 ¼% for 2006.

- The Federal Reserve is likely to continue to tighten monetary policy at a measured pace. The federal funds rate is likely to top out at 5 ½%, though this is contingent upon incoming data in the coming months.

- Inflation is likely to increase in 2006 with the core CPI increasing by roughly 2 ½% - 2 ¾%.

- As economic activity becomes more tempered, payroll employments are likely to increase at a lower rate. It is possible that the economy will generate increases in payroll employment of 100,000 per month on average for the year. Unemployment, then, is likely to fall to roughly 4¾% for 2006.

- Continued geopolitical concerns along with concerns over demand and supply imbalances and tight refining capacity may result in continued elevated oil prices. It is unlikely that OPEC will increase production in the coming quarters of 2006. However, even if OPEC were to do so, these increases will not likely have a material impact on lowering the price of oil. Given the developments in the oil markets in recent months, oil prices (WTI) are likely to average $60-$65 per barrel for 2006. Oil prices are likely to trade in a range of $55-$70 per barrel in the coming months.

On the other hand, there are a number of risks to the economy in 2006, which could have significant adverse impacts upon economic performance during the year.

- Continued geopolitical risks and tensions regarding instability and security in the Middle East may create uncertainty that could fuel a premium in oil prices. Escalating tensions over Iran's nuclear programs could also have an adverse impact upon oil prices.

HIGHLAND GLOBAL, LLC
A MEMBER OF THE NATIONAL ASSOCIATION OF CERTIFIED VALUATION ANALYSTS & THE INSTITUTE OF BUSINESS APPRAISERS
1221 BRICKELL AVENUE, 9TH FL, MIAMI, FL 33131 > 305.347.5170 T > 305.374.6146 F
PO BOX 6895, MYRTLE BEACH, SC 29572 > 843.457.2546
www.HighlandGlobal.com

- Continued elevated oil prices may have an adverse impact upon global economic growth and economic activity in the U.S. and lead to unwelcome inflationary pressures throughout the broader economy. This could ultimately prompt some retrenchment in consumer spending, which would contribute to further soft economic performance.

- Further increases in interest rates by the FOMC may continue to reduce the unsustainable rate of gains in the real estate markets to a more sustainable level. The adverse systemic impact stemming from a bursting of the bubble in some real estate markets could dampen economic growth significantly.

- An unwelcome rise in core inflation could dampen consumer confidence and business executives' confidence, prompting a slowdown in economic activity, which could be further aggravated by a potentially more aggressive tightening of monetary policy by the Federal Reserve in response.

Conclusion

Economic activity roared back to life in the first quarter of 2006 with real GDP increasing at an annual rate of 4.8%. This follows a weak fourth quarter of 2005 when real GDP advanced by only 1.7%. Personal consumption expenditures performed well during the first quarter, despite continued high oil prices and rising interest rates. Both of these latter factors may create uncertainty regarding future economic growth in the coming quarters. Inflation remained largely contained but increased at levels not typically consistent with maximum sustainable economic growth. Based on our assessment of the state of the economy in the first quarter, conditions are likely to foster tepid economic activity during 2006. As such, the risks are weighted mainly towards growth at a more subdued rate and towards conditions that generate a higher level of inflation than in the previous year.

---

[1] The BEA press release on April 28, 2006 states the following with respect to advance estimates: The Bureau emphasized that the first-quarter "advance" estimates are based on source data that are incomplete or subject to further revision by the source agency. The first quarter "preliminary" estimates, based on more comprehensive data, will be released on May 25, 2006.

[2] *Survey of Professional Forecasters*, Research Department Federal Reserve Bank of Philadelphia, February 13, 2006.

HIGHLAND GLOBAL, LLC
A MEMBER OF THE NATIONAL ASSOCIATION OF CERTIFIED VALUATION ANALYSTS &
THE INSTITUTE OF BUSINESS APPRAISERS
1221 BRICKELL AVENUE, 9TH FL, MIAMI, FL 33131 > 305.347.5170 T > 305.374.6146 F
PO BOX 6895, MYRTLE BEACH, SC 29572 > 843.457.2546
www.HighlandGlobal.com

[3] Quarterly data is expressed at a seasonally adjusted annual rate. Real estimates are in chained (2000) dollars.
[4] With respect to trends in housing data, the U.S. Department of Commerce/U.S. Census Bureau and the U.S. Department of Housing and Urban Development state in the new residential construction press releases

> *In interpreting changes in the statistics in this release, note that month-to-month changes in seasonally adjusted statistics often show movements which may be irregular. It may take 4 months to establish an underlying trend for building permit authorizations, 6 months for total starts, and 6 months for total completions.*

[5] Data from National Association of Realtors, *Existing Home Sales* and *New Home Sales* statistical releases.
[6] Testimony of Chairman Ben Bernanke, *Semiannual Monetary Policy Report to the Congress*, Before the Committee on Financial Services, U.S. Congress, February 15, 2006.
[7] Data from Freddie Mac Weekly Mortgage Market Survey
[8] The yield curve inversion resulted from an increase in short-term rates associated with the Federal Reserve's removal of accommodative monetary policy at a measured pace and market expectations of slower economic growth in the future. Since the 1970s, every U.S. recession has been preceded by an inverted yield curve. However, not all inverted yield curves have historically been followed by a recession.
[9] Source: *The Economist*
[10] "U.S. deficit data fuel anxieties on dollar," Christoper Swann, *The Financial Times*, March 15, 2006.
[11] The Board of Governors also increased the discount rate by to 3 ¾% by the end of the first quarter of 2006.
[12] The Board of Governors also increased the discount rate by twenty-five basis points to 5 ½%.
[13] The Board of Governors also increased the discount rate by twenty-five basis points to 5 ¾%.
[14] Changes are from average for fourth quarter of 2005 to average for fourth quarter of 2006.
[15] The press release on January 18, 2006 states the following: This document summarizes comments received from businesses and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.
[16] The Twelve Districts of the Federal Reserve system include: Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco.
[17] The Consumer Confidence Survey is based on a representative sample of 5,000 U.S. households. The monthly survey is conducted for The Conference Board by TNS. TNS is the world's largest custom research company.
[18] Industrial production data from the Federal Reserve's Industrial Production and Capacity Utilization statistical release.
[19] Quarterly industrial production figures based on revised data from the December 2005 Industrial Production and Capacity Utilization statistical release.
[20] Press release from the Department of Commerce.
[21] Adjusted for seasonal, holiday, and trading day differences but not for price changes. Removing the impact of prices changes/inflation, the growth figures would be lower. For example, total retail sales increased by 6.2% on a year-over-year basis during the fourth quarter. The twelve month inflation rate, based on the CPI, was 3.4% for the twelve months ending December 2005. This would imply a real growth in total retail sales of 2.8%. Removing

HIGHLAND GLOBAL, LLC
A MEMBER OF THE NATIONAL ASSOCIATION OF CERTIFIED VALUATION ANALYSTS & THE INSTITUTE OF BUSINESS APPRAISERS
1221 BRICKELL AVENUE, 9TH FL, MIAMI, FL 33131 > 305.347.5170 T > 305.374.6146 F
PO BOX 6895, MYRTLE BEACH, SC 29572 > 843.457.2546
www.HighlandGlobal.com

the impact of food and energy prices from the CPI, the inflation rate would be 2.2%. This would imply a real growth in total retail sales of 4.0% for the fourth quarter.

[22] *CEO Confidence Survey*, The Conference Board, April 10, 2006.

[23] Based on data from the Consumer Price Index press releases by the Bureau of Labor Statistics, United States Department of Labor.

[24] Bureau of Economic Analysis, Gross Domestic Product: First Quarter 2006 (Advance) release, April 28, 2006.

[25] Bureau of Labor Statistics, United States Department of Labor, The Employment Situation press release.

[26] Based on data from *The Economist*.

[27] OPEC press release following the 139th (Extraordinary) Meeting of the OPEC Conference in Vienna, Austria on January 31, 2006.

[28] OPEC press release following the 140th Meeting of the OPEC Conference in Vienna, Austria on March 8, 2006.

[29] From The Conference Board's February 17, 2005, March 17, 2005, & April 21, 2005 press releases for US Leading Economic Indicators.

[30] From The Conference Board's November 21, 2005 press releases for US Leading Economic Indicators.

[31] "NABE Outlook: Economy Surging in Early 2006," National Association for Business Economics, February 2006.

[32] Remarks by Vic Chairman Roger W. Ferguson, Jr., *Economic Outlook for the United States*, at the Howard University Economics Forum, Washington, D.C., March 3, 2006.

HIGHLAND GLOBAL, LLC
A MEMBER OF THE NATIONAL ASSOCIATION OF CERTIFIED VALUATION ANALYSTS & THE INSTITUTE OF BUSINESS APPRAISERS
1221 BRICKELL AVENUE, 9TH FL, MIAMI, FL 33131 > 305.347.5170 T > 305.374.6146 F
PO BOX 6895, MYRTLE BEACH, SC 29572 > 843.457.2546
www.HighlandGlobal.com