

Far From a Housing Market Bottom

Desmond Lachman

American Enterprise Institute

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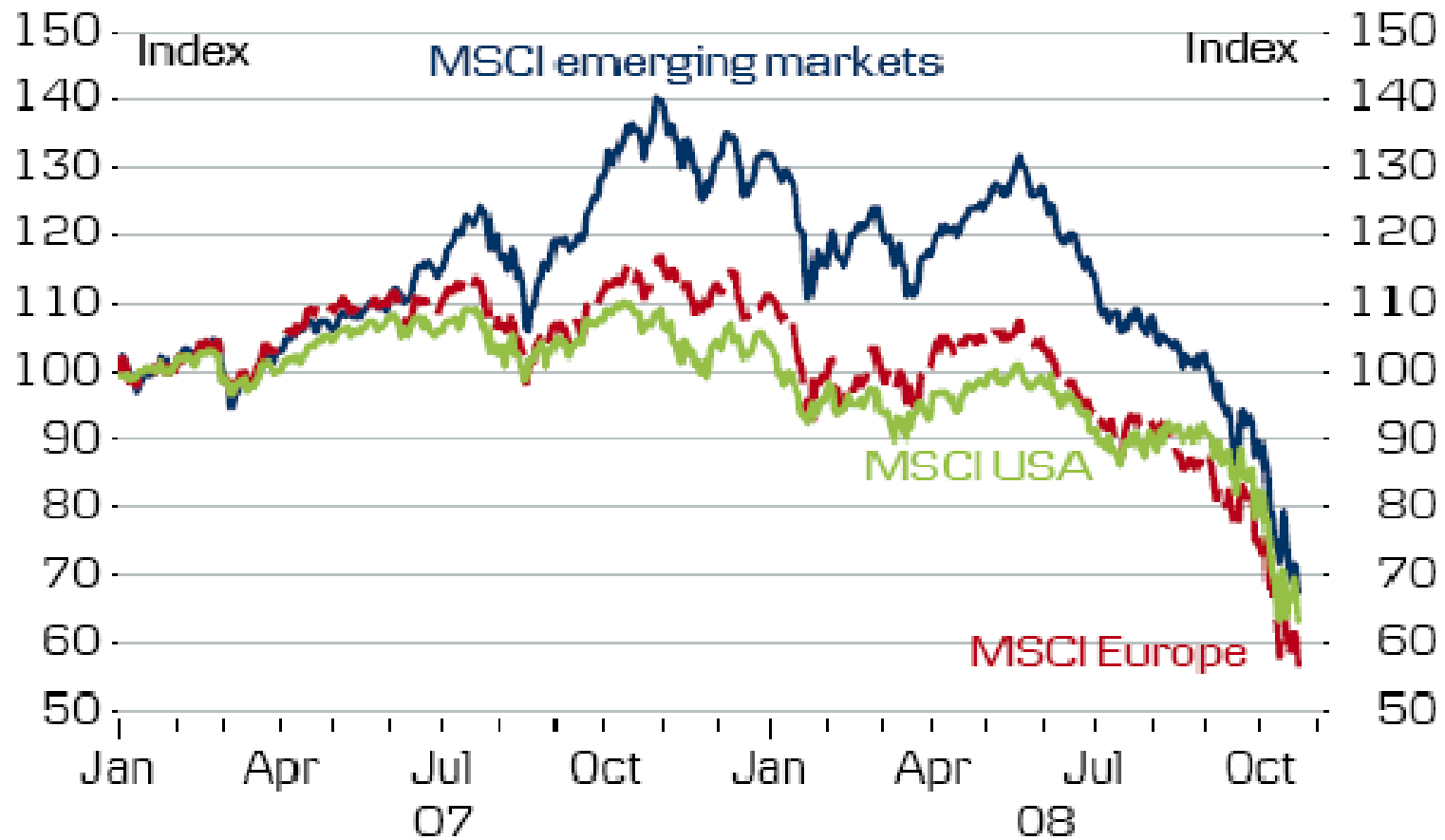
Deteriorating Housing Market Fundamentals

- Economic recession is deepening
- Unemployment is rising
- Large inventory overhang
- Foreclosures are accelerating
- Mortgage financing has dried up

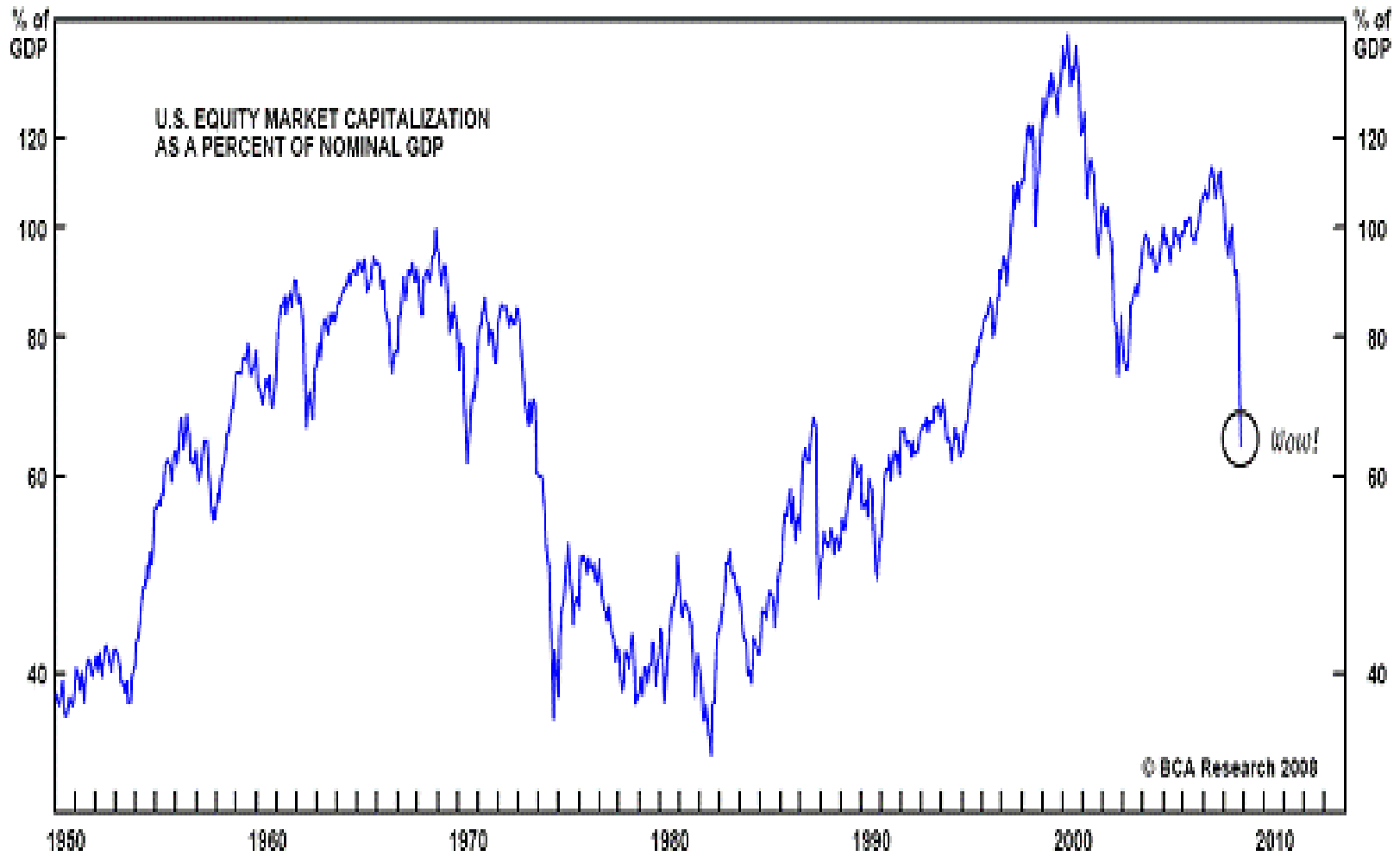
Adverse Feedback Loops

- U.S. is experiencing worst asset price deflation since the 1930s.
- Banks and non-banks are de-leveraging
- Falling asset prices and tighter credit will cause a deep recession
- Economic recession worsens asset price deflation and causes more credit tightening

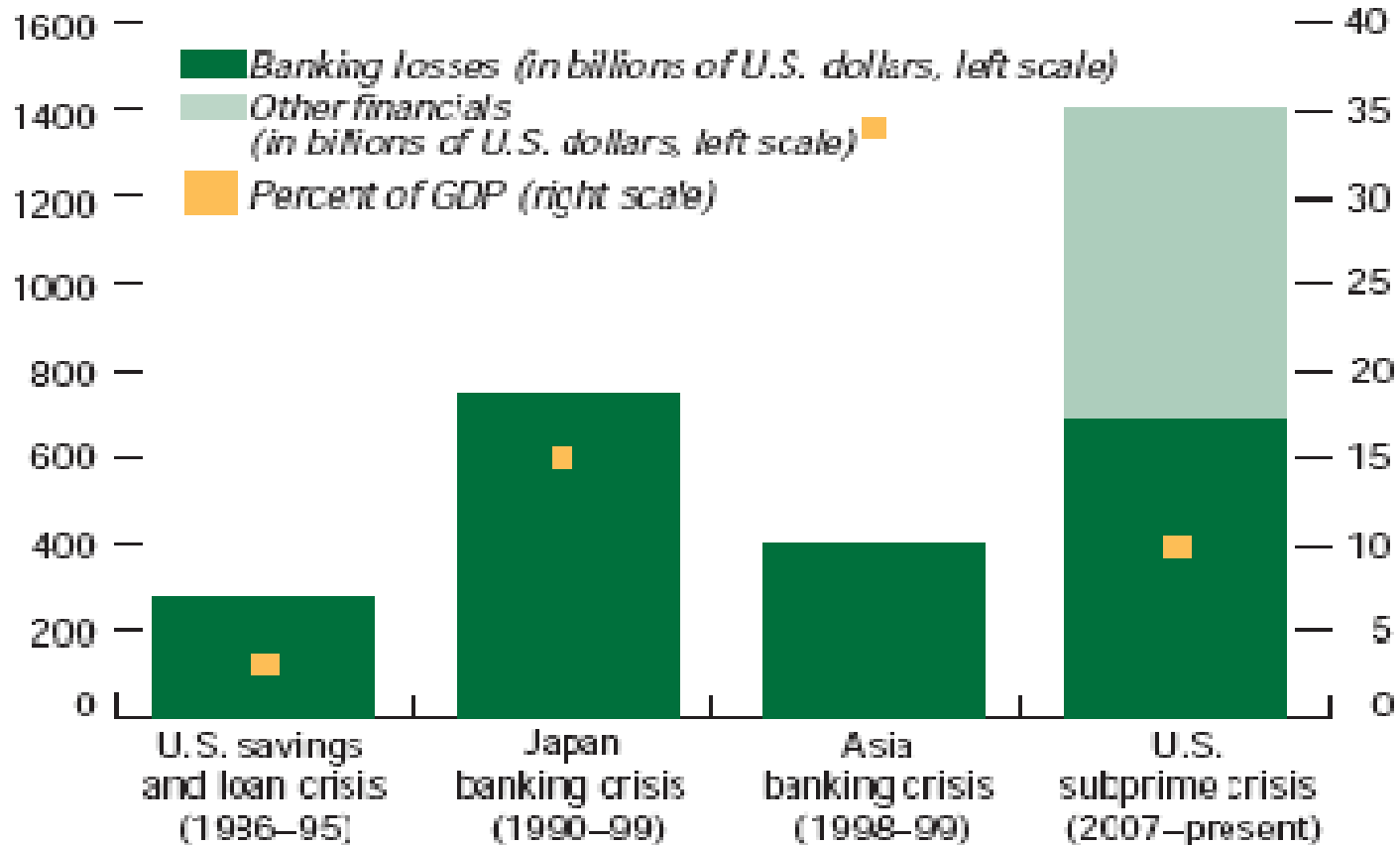
Equity markets almost 50% down



Back To The 1980s



Comparison of Financial Crises

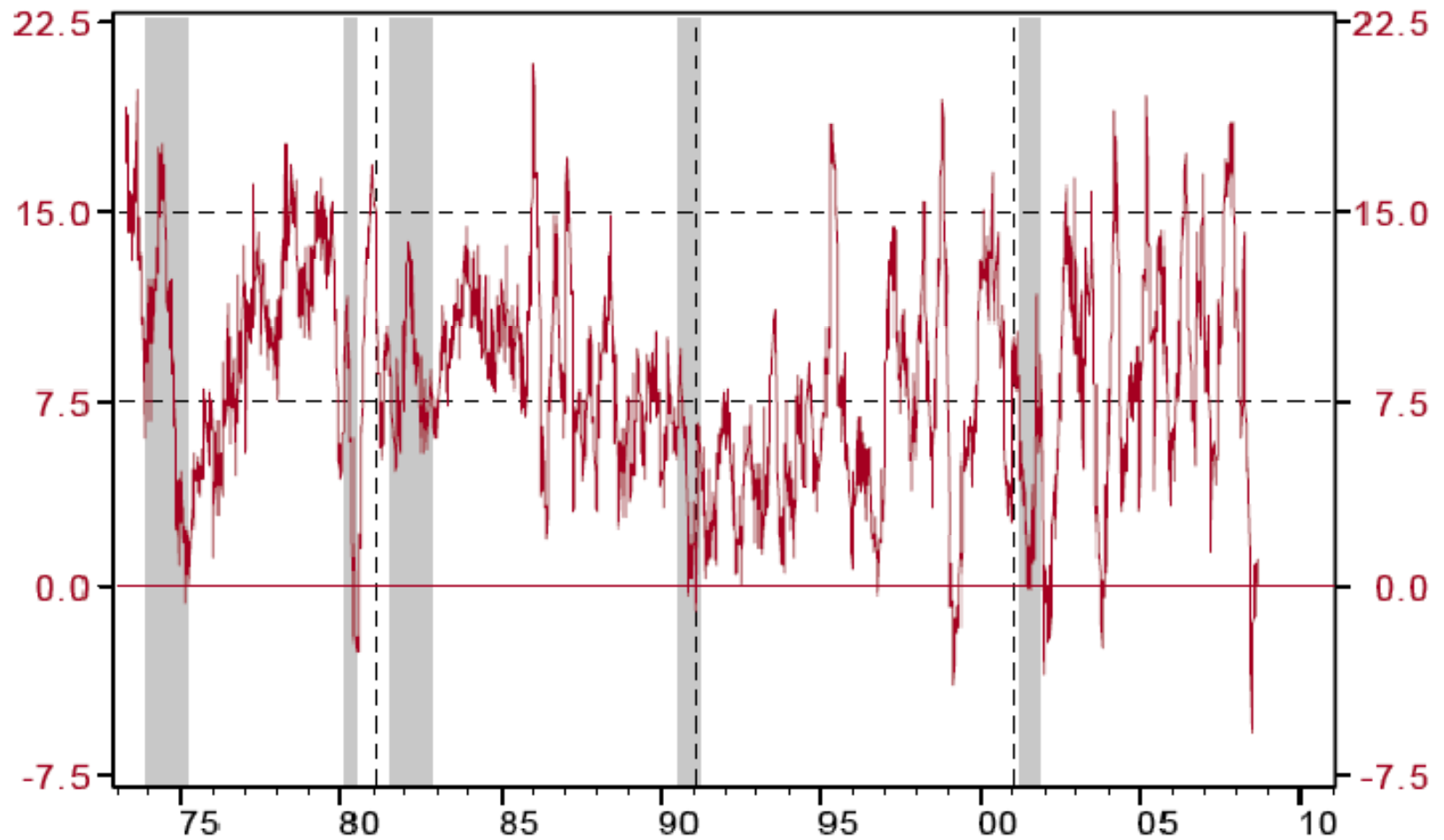


Sources: World Bank; and IMF staff estimates.

Note: U.S. subprime costs represent staff estimates of losses on banks and other financial institutions from Table 1.1. All costs are in real 2007 dollars. Asia includes Indonesia, Malaysia, Korea, the Philippines, and Thailand.

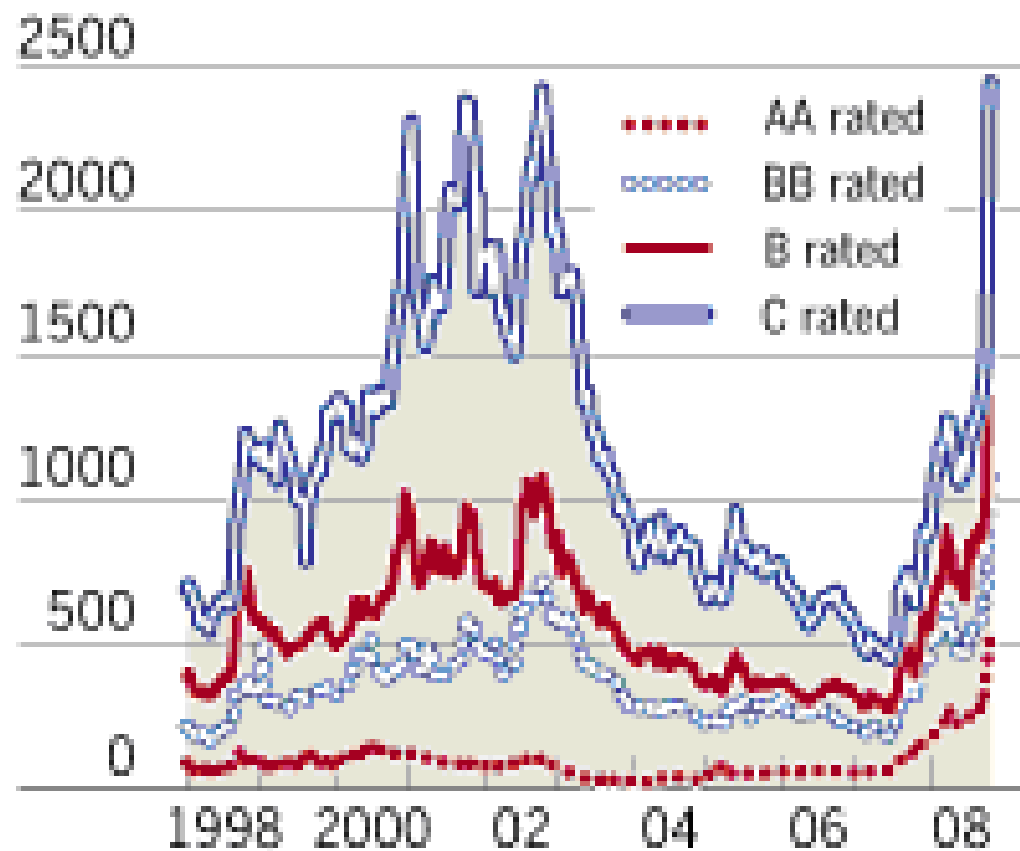
Bank Credit: All Commercial Banks

13-week %Change-ann SA, Bil.\$ (I)



Source: Federal Reserve Board /Haver Analytics

US corporate bond spreads Over Treasuries (basis points)

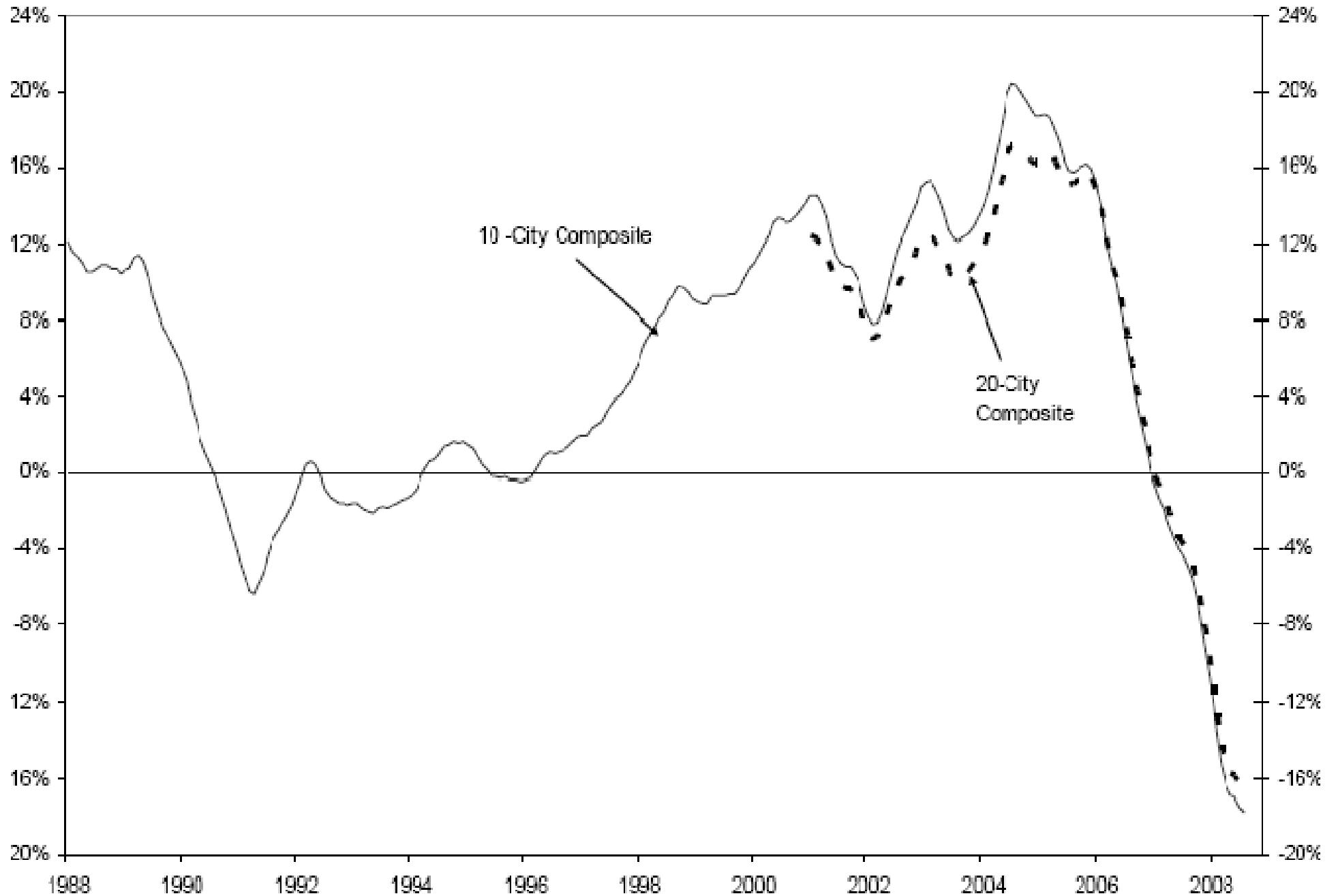


Source: Thomson Datastream

Housing Market is Not Clearing

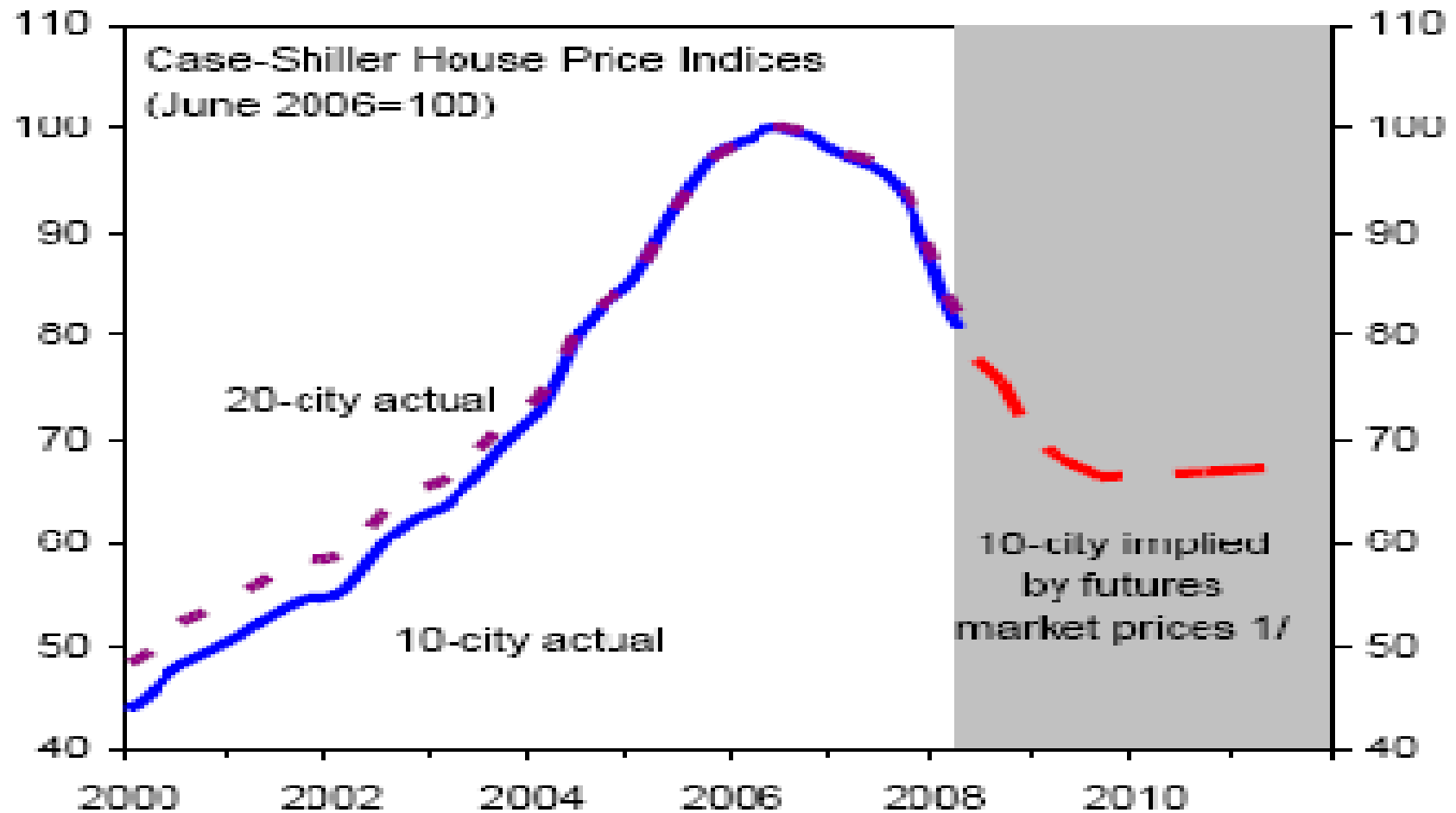
- Home prices have fallen by almost 20 per cent
- Future prices suggest a further 15 percent fall
- Inventories are at record 11 month supply

S&P/Case-Shiller Home Price Indices



Source: Standard & Poor's & Fiserv

House Prices



Sources: Haver Analytics; Bloomberg, L.P.; and Fund staff calculations.

1/ Illiquidity in market may lend a downward bias to prices implied by futures contracts.

House Price Declines Implied by Case-Shiller Future Contracts

CUMULATIVE % CHANGE IN HOME PRICE, FROM JULY 2008

CITY	Nov-09	Nov-10	Nov-11
Boston	-8.11%	-9.58%	-7.74%
Chicago	-12.83%	-12.70%	-9.76%
Denver	-10.30%	-14.83%	-9.55%
Las Vegas	-15.80%	-16.96%	0.29%
Los Angeles	-19.50%	-21.89%	-19.50%
Miami	-13.72%	-17.58%	-13.83%
New York	-9.81%	-14.99%	-12.40%
San Diego	-15.91%	-17.65%	-12.43%
San Francisco	-15.86%	-16.88%	-8.59%
Washington, DC	-13.14%	-15.60%	0.16%

Data as of Oct 24, 2008. (July 2008 base prices)

U.S. Housing Starts and Months Supply of Existing Homes

thousands,
at annual rates

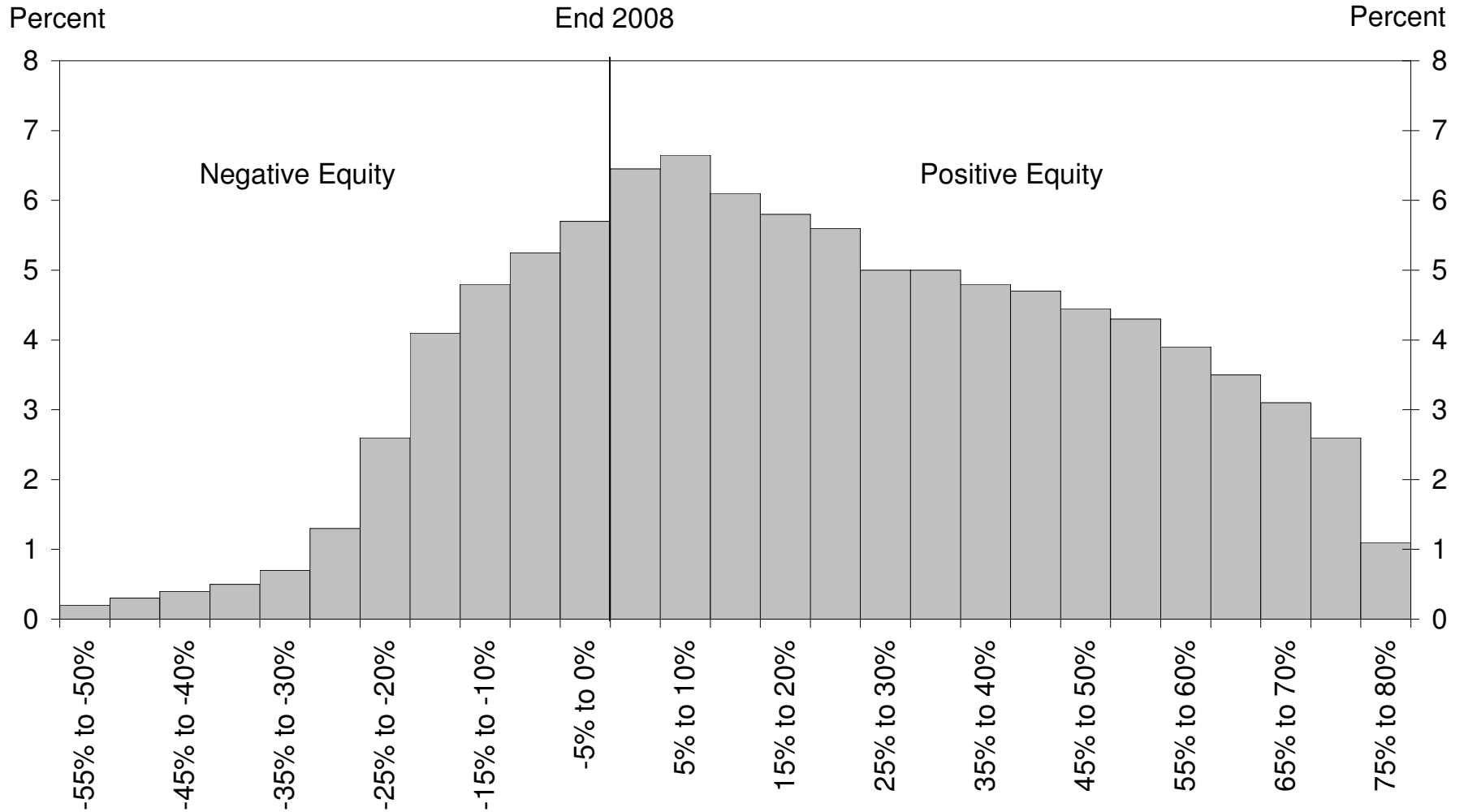
level, months supply at
current sales rate



Foreclosures Add to Supply

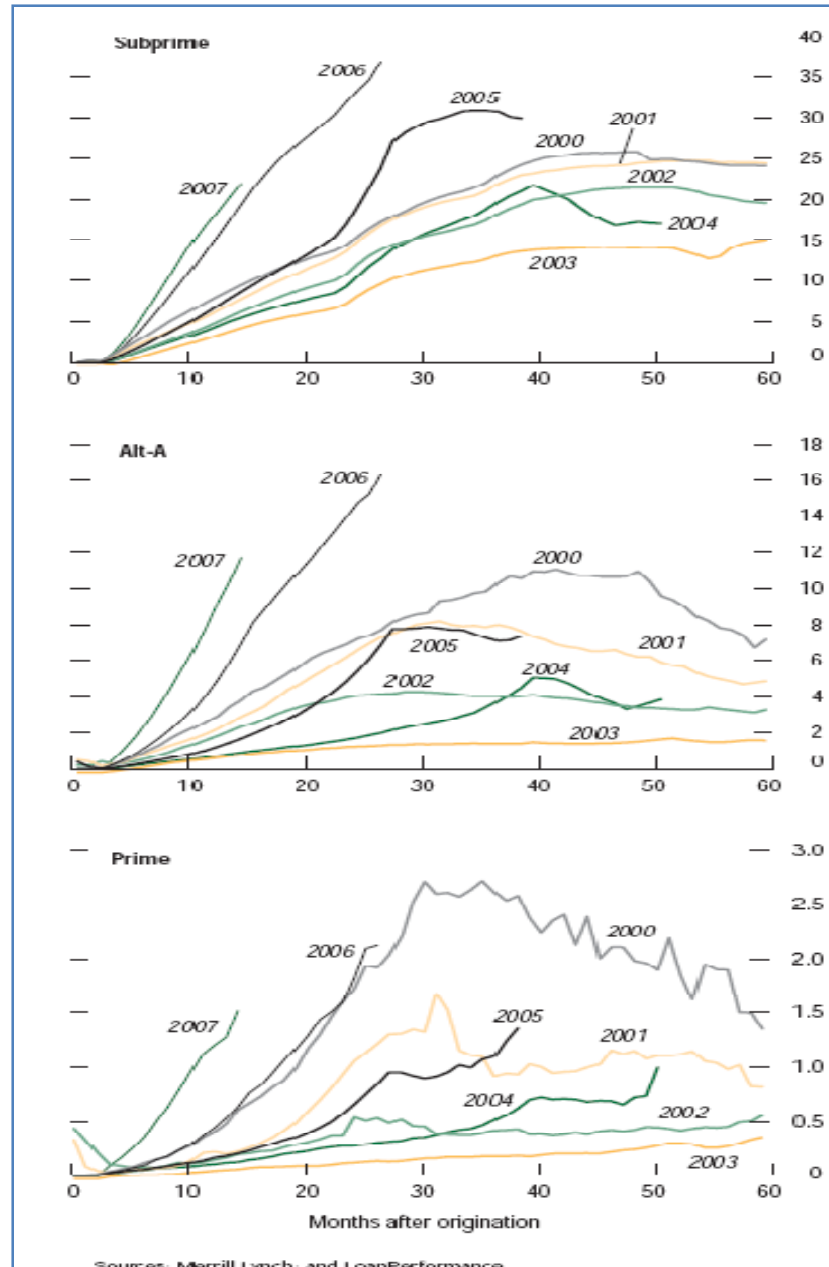
- Falling house prices lead to negative equity
- Negative equity reduces incentive to service mortgage
- Delinquencies are running at record rates
- Foreclosure procedures initiated are running at around 3 million units a year

Falling Prices Leave Homeowners with Negative House Equity



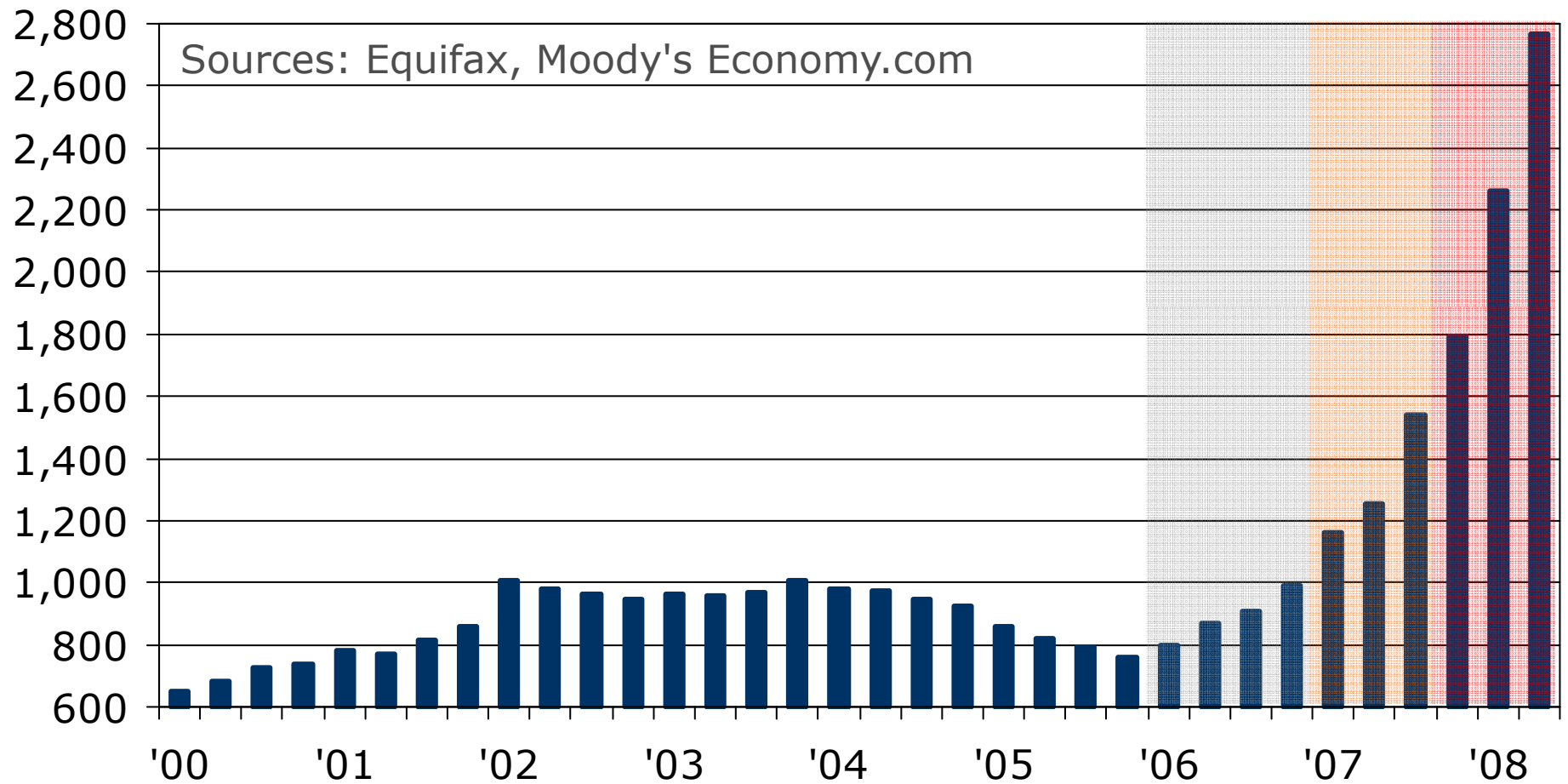
Note: All data as of December 2006.
 Source: First American CoreLogic, Inc.

U.S. Mortgage Delinquencies by Vintage Year (60+ day delinquencies, in percent of original balance)



Foreclosures Surge...

First mortgage loan defaults, ths, SAAR

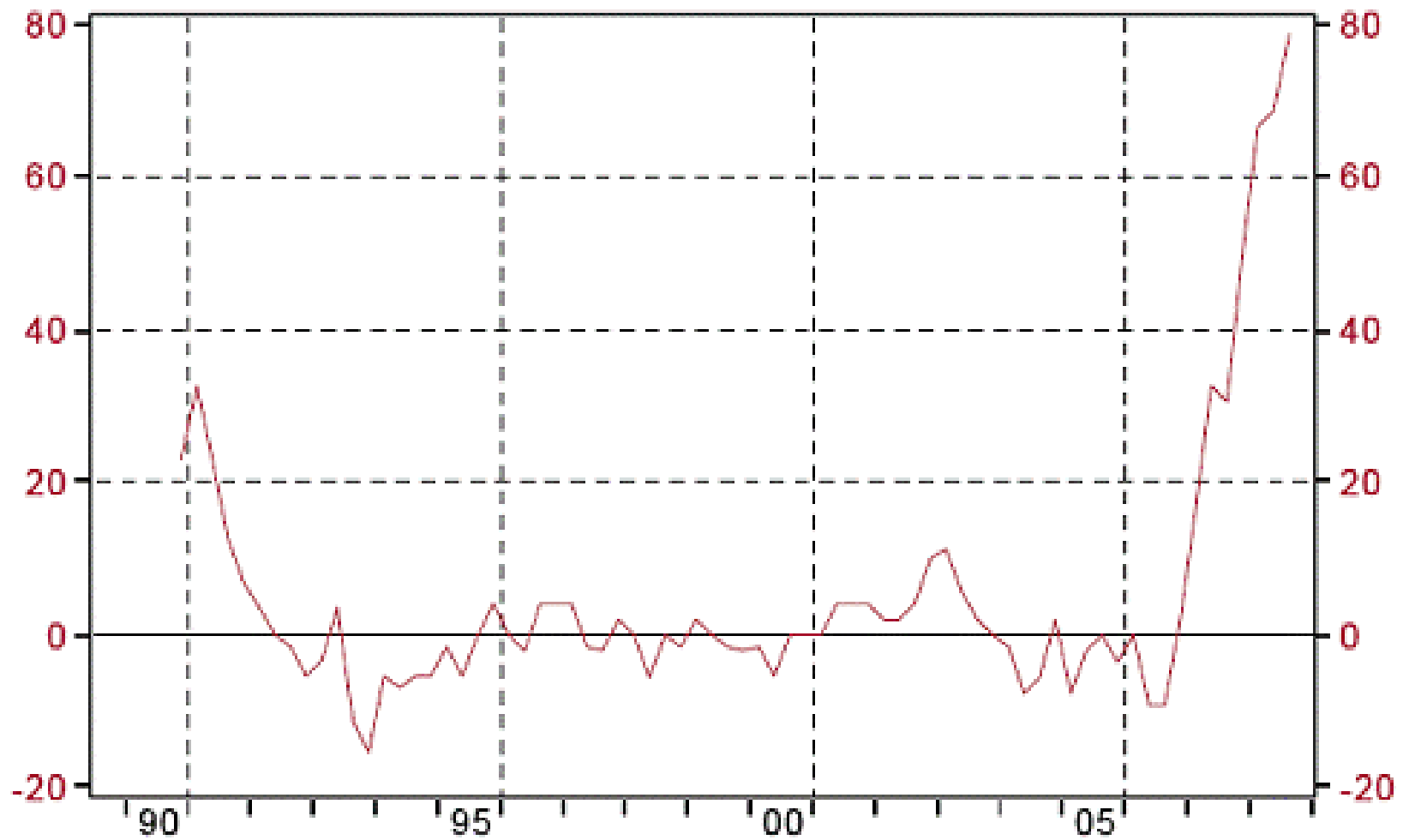


Mortgage Financing has Dried Up

- Private mortgage financing has evaporated
- Fannie and Freddie have been in disarray
- Mortgage interest rates are rising
- Option-Arms are a big problem in 2009 and 2010

FRB Sr Loan Survey: Res Mortgages: Net Share, Banks Tightening

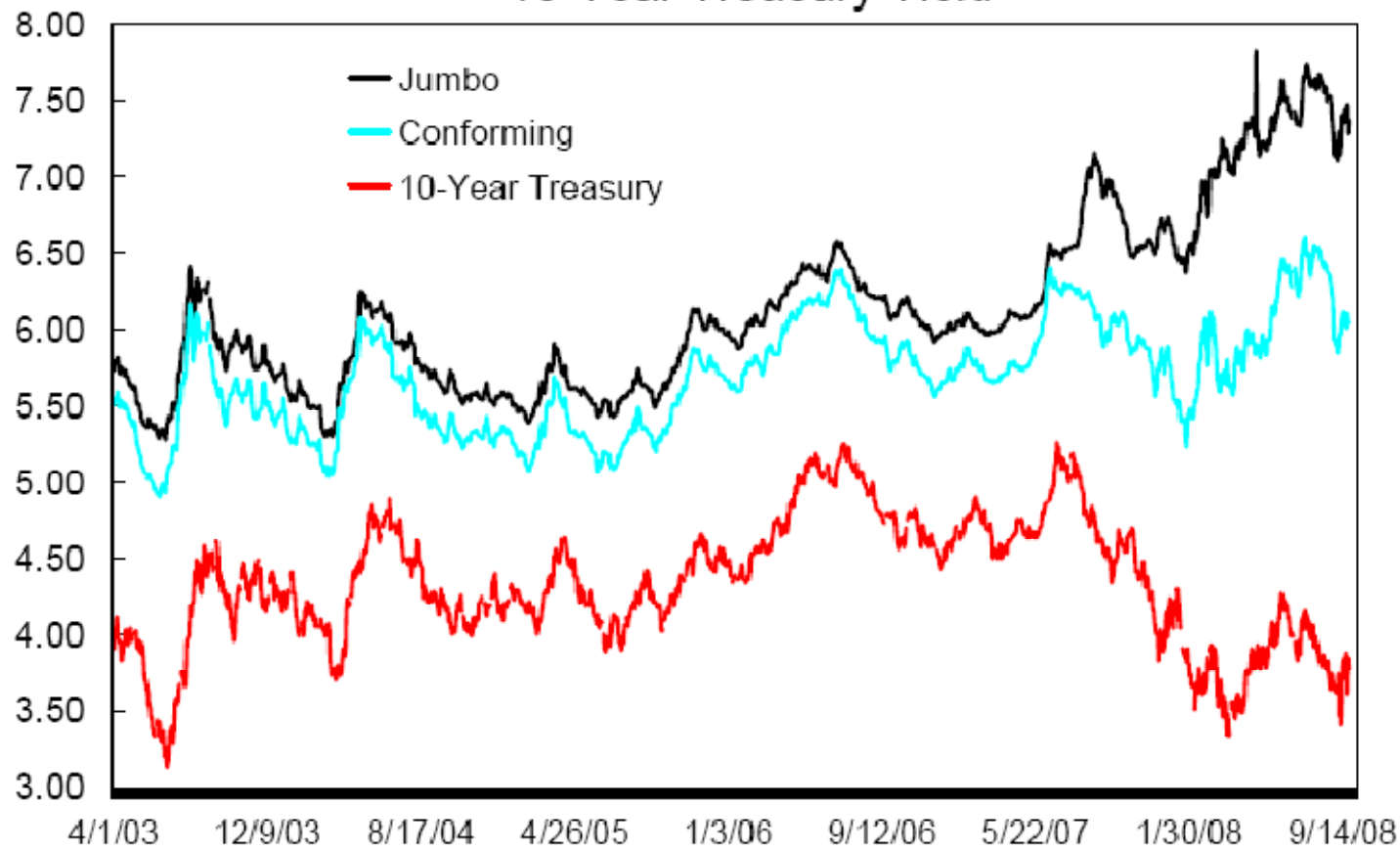
Haver Est, %



Source: Federal Reserve Board /Haver Analytics

Mortgage Rates Decline Slightly After Quasi-Nationalization of Housing GSEs

Fixed Conforming and Jumbo 30-Year Mortgage Rates vs
10-Year Treasury Yield



Source: FRB, Bankrate, Haver

Government Intervention is Needed

- Negative dynamics can cause home prices to undershoot fundamental value
- Intervention is needed to set floor
- A new Home Owners' Loan Corporation could buy mortgages
- Mortgage terms could be reset
- Large fiscal policy stimulus and monetary easing are needed