

# A False Dawn for the US Housing Market?

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# Lessons from the Housing Bust

- Housing and economy joined at hip
- Bubbles need the Fed's attention
- GSEs are a bad idea
- Home lending needs regulation
- Structured mortgage products need caution

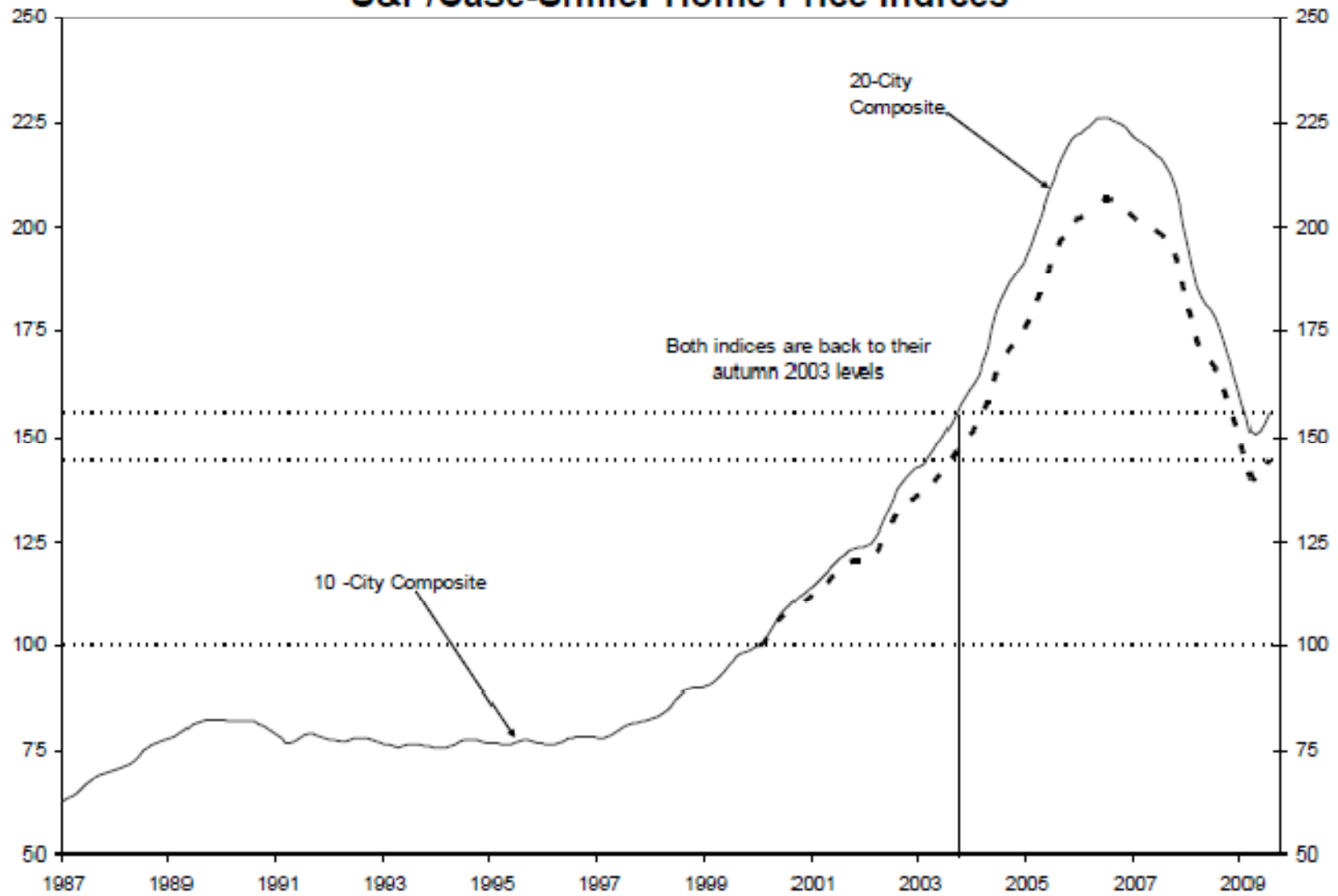
# Housing and the economy are joined at the hip

- Housing is main component of wealth.
- Housing is the primary collateral for consumer borrowing
- Banks losses rise if home prices fall
- Weak economy delays a housing bottom

# The Good News

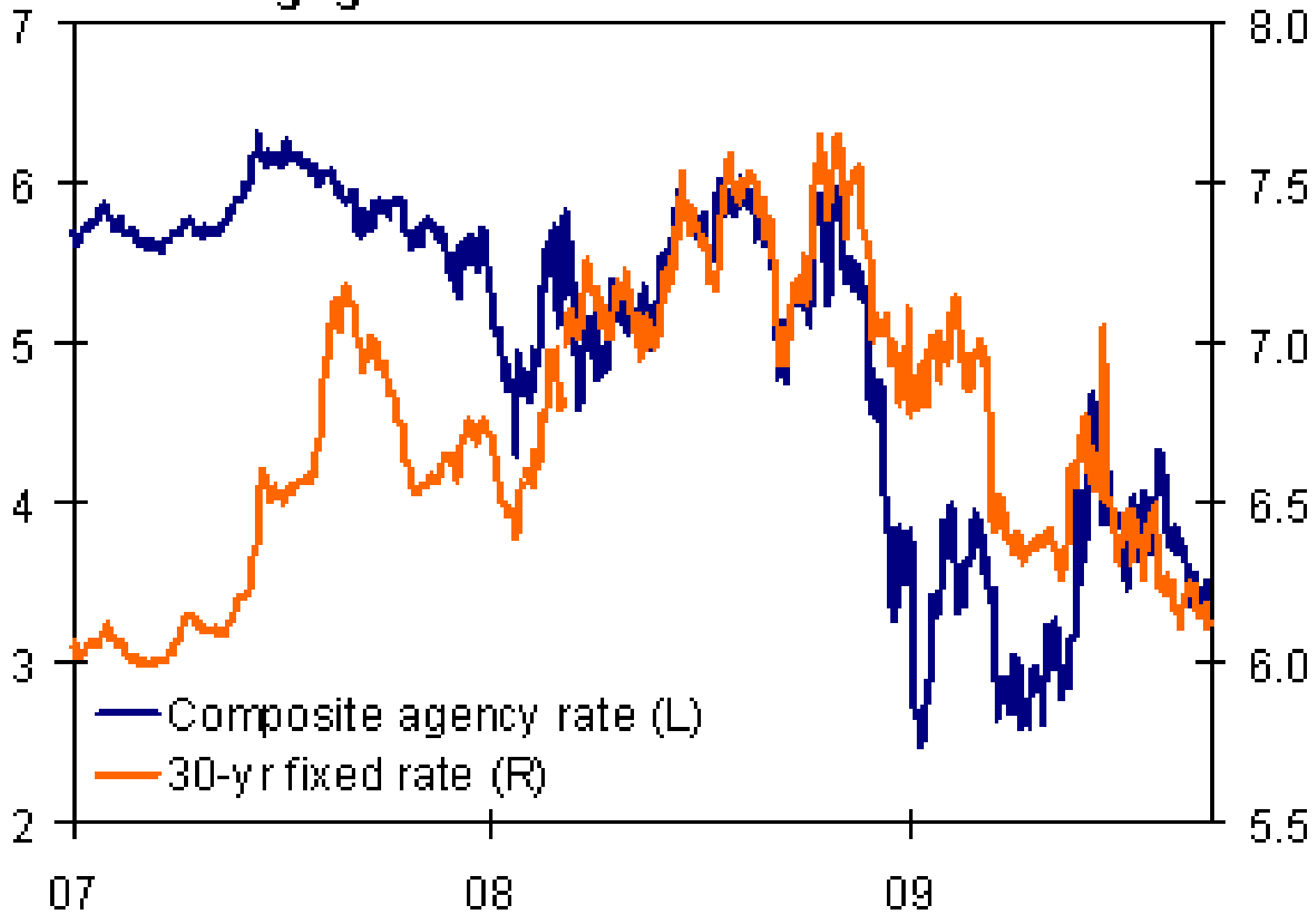
- House prices are no longer over-valued
- Mortgage rates are down
- Housing affordability is at record high
- Low housing construction helps work down inventories

## S&P/Case-Shiller Home Price Indices

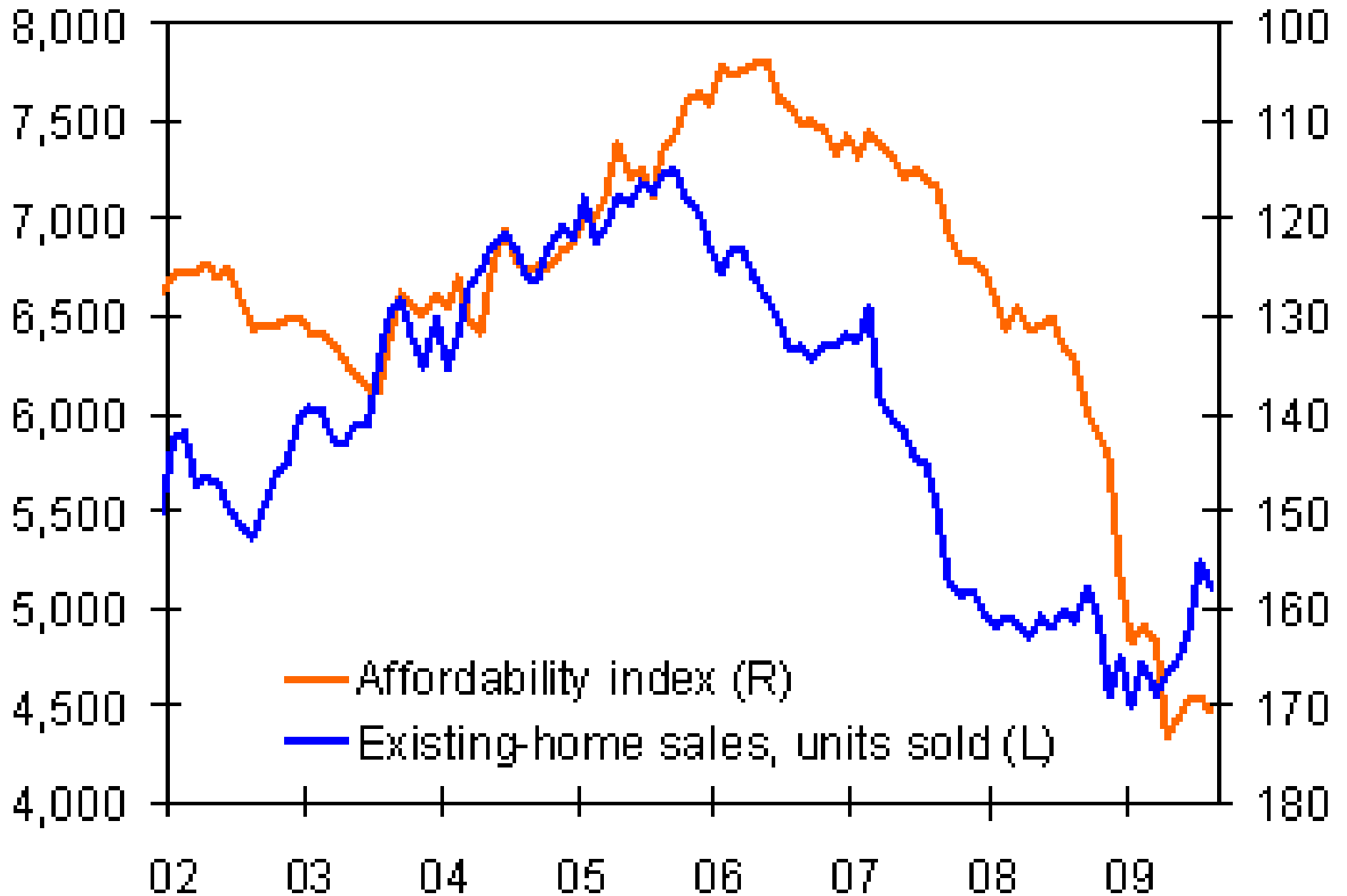


Source: Standard & Poor's and Fiserv

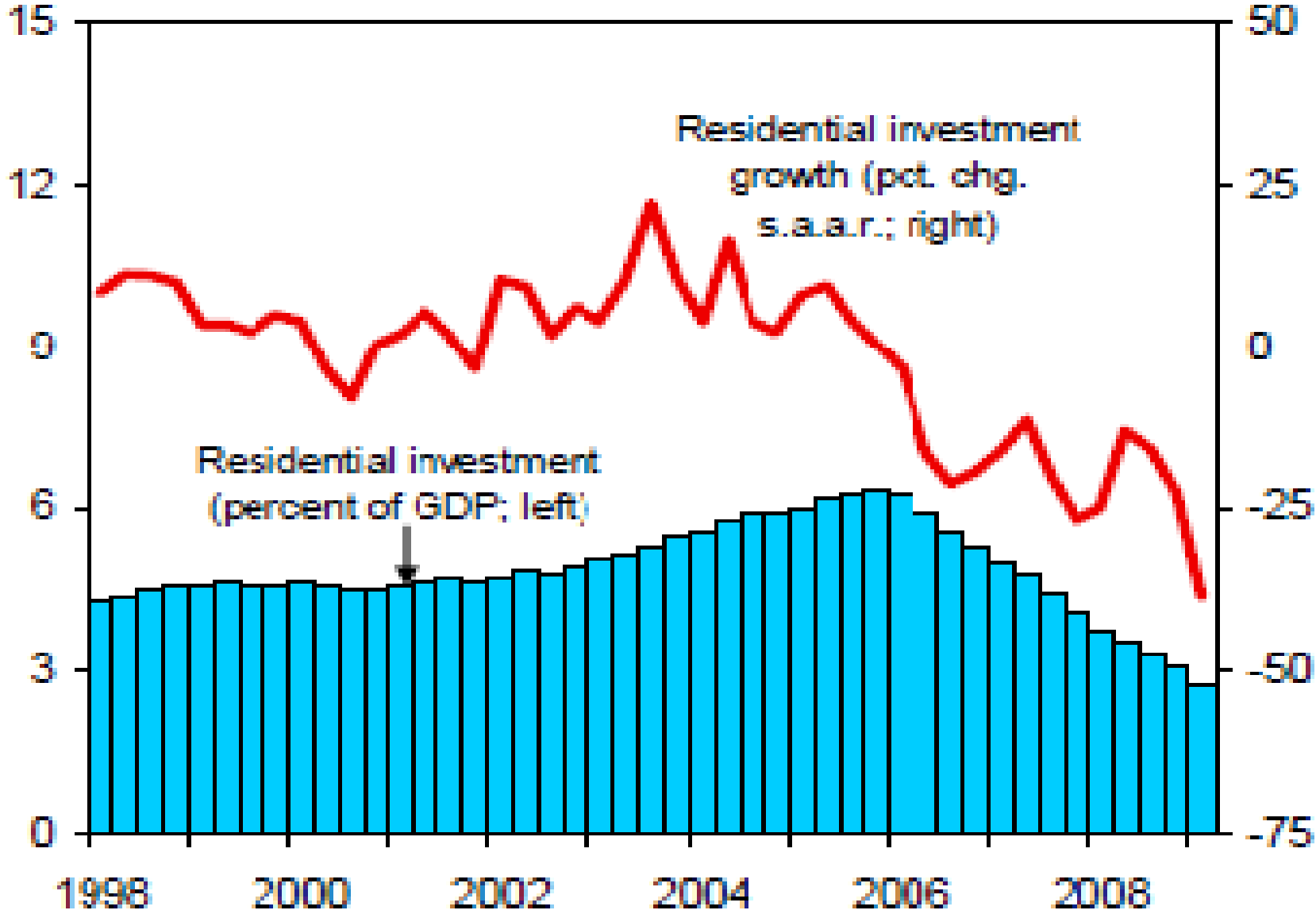
# Mortgage Rates to Remain Focus of FOMC



## Affordability at Recent Highs



# U.S. Residential Investment



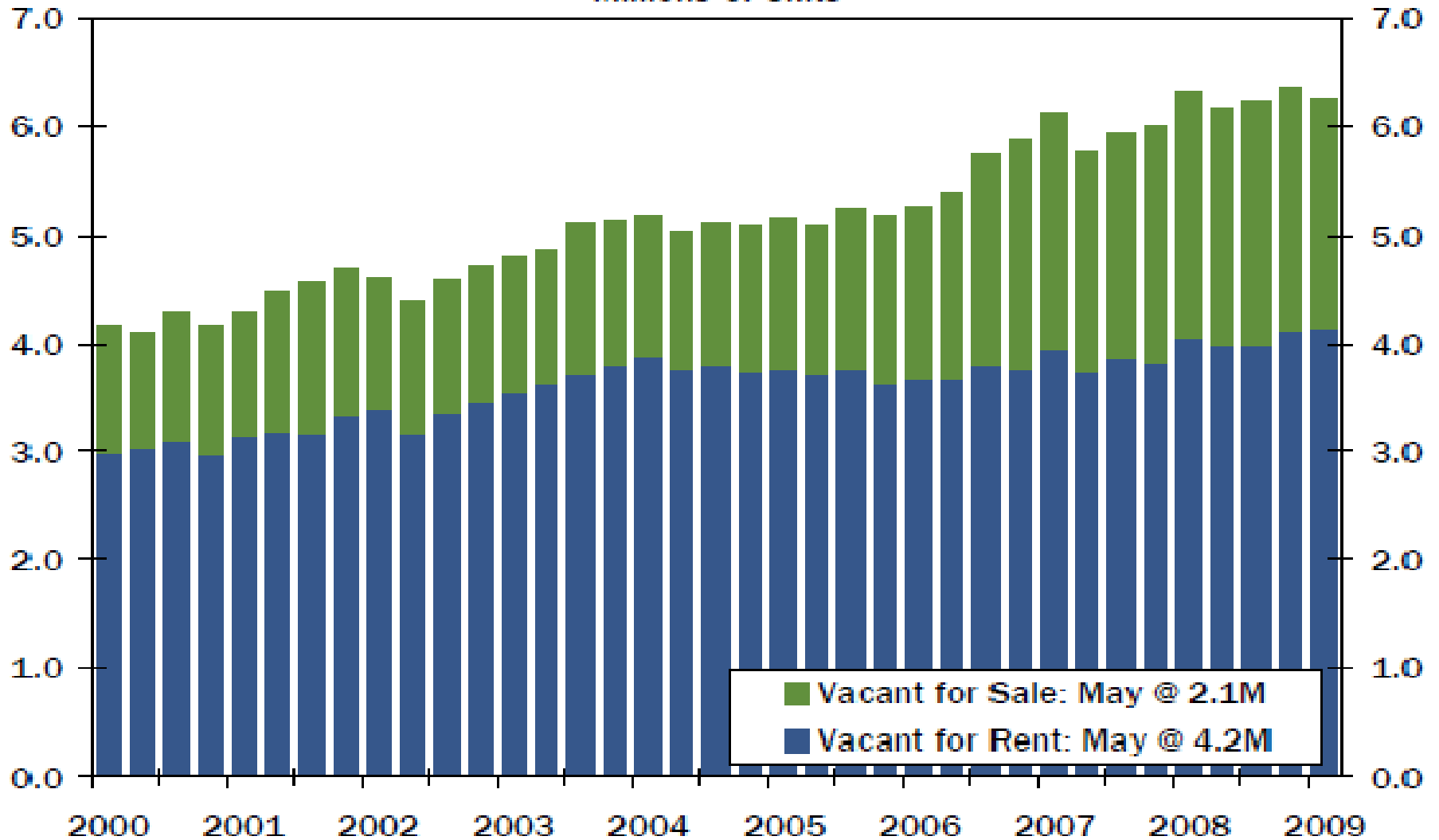
Source: IMF

# The Bad News

- Housing inventories overhang market
- Foreclosures are high and more households have negative home equity
- Temporary first-time tax incentive expires soon
- Option-Arms reset
- Unemployment is high and rising

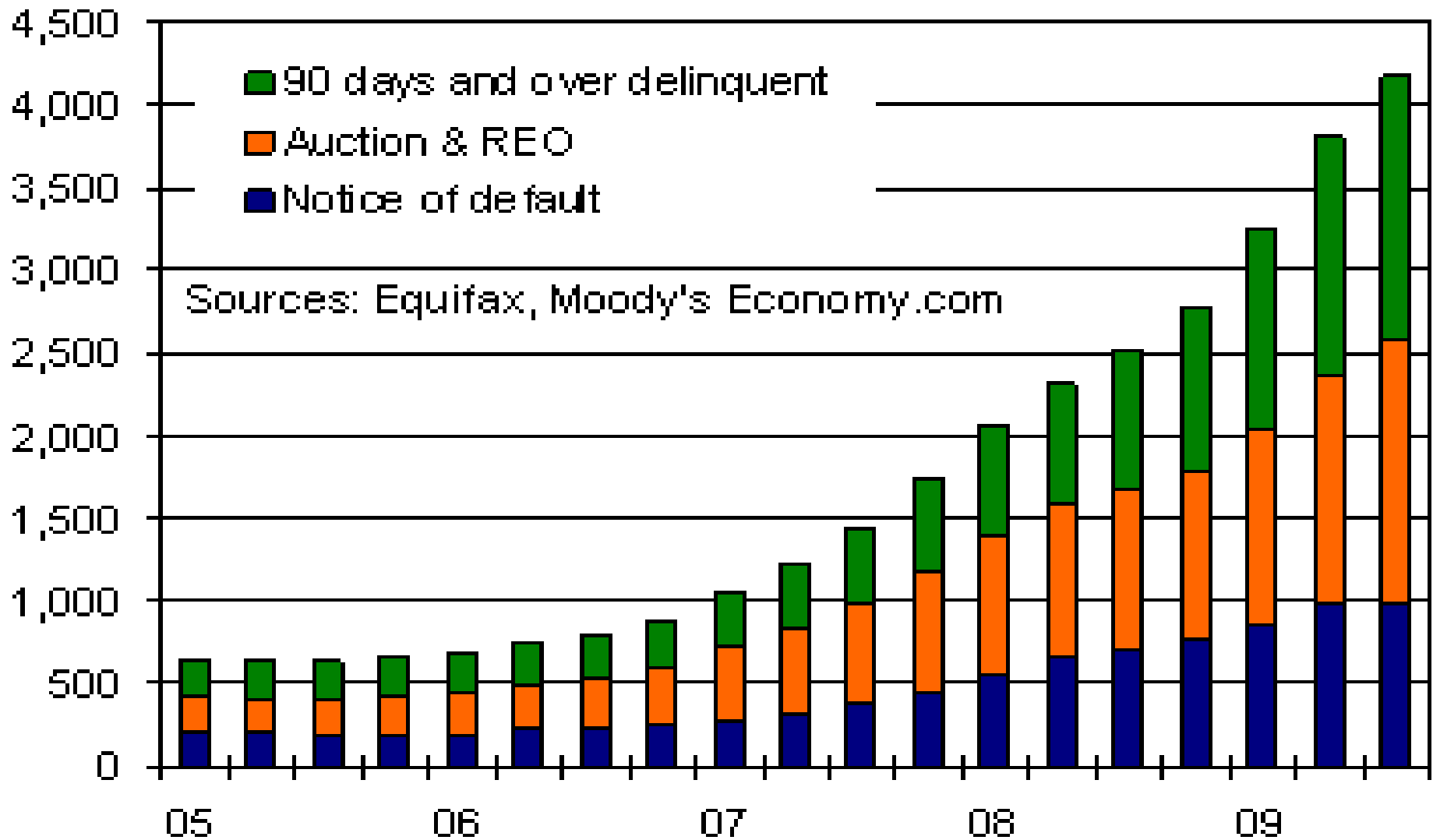
# Housing Vacancies

Millions of Units

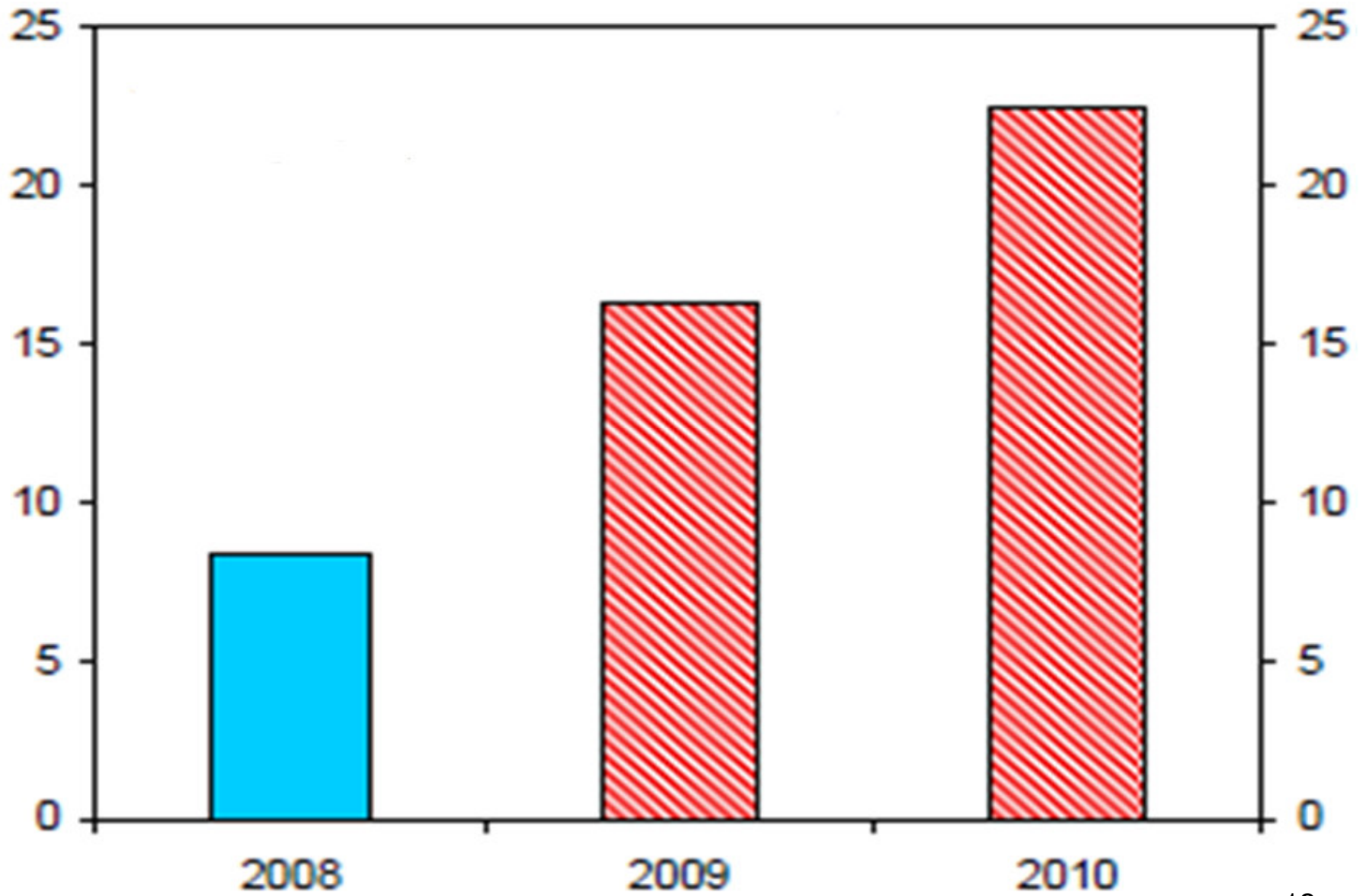


# Foreclosure crisis looms over U.S. recovery

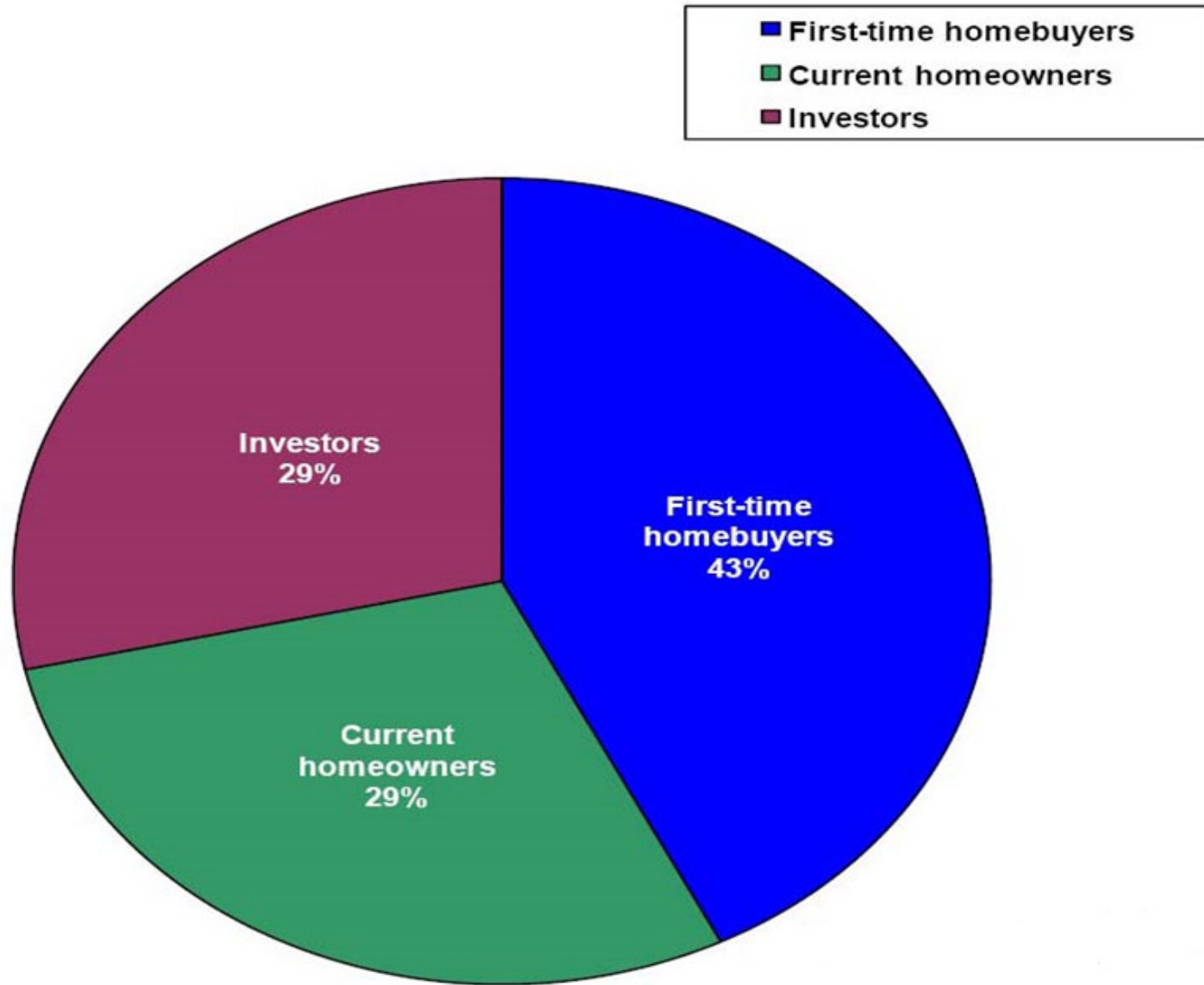
## Thousands of loans



Homeowners with negative equity (millions)



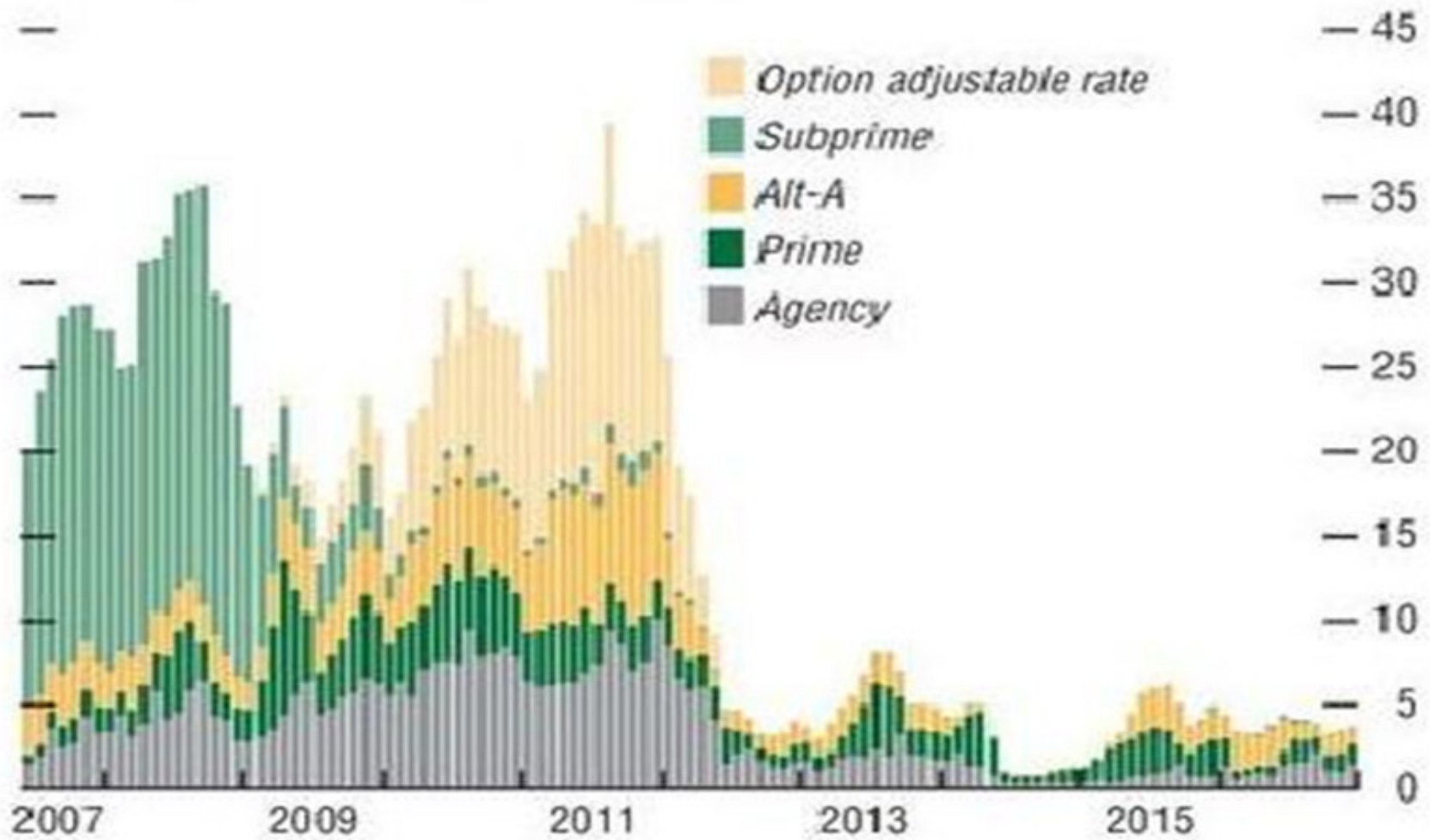
## Home Purchase Market by Homebuyer Type for April, May, June



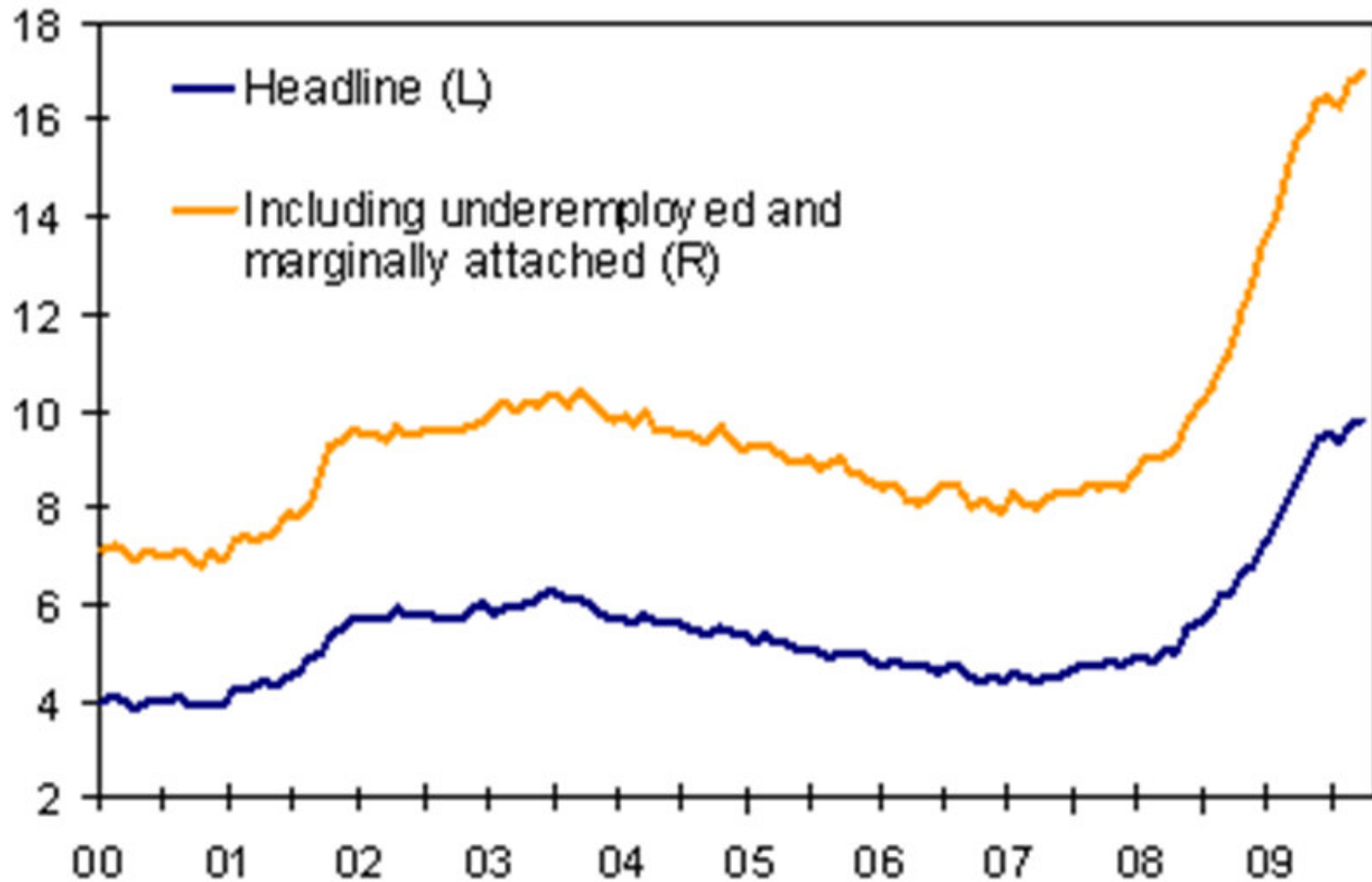
Source: <http://www.campbellsurveys.com/>

# Monthly Mortgage Rate Resets

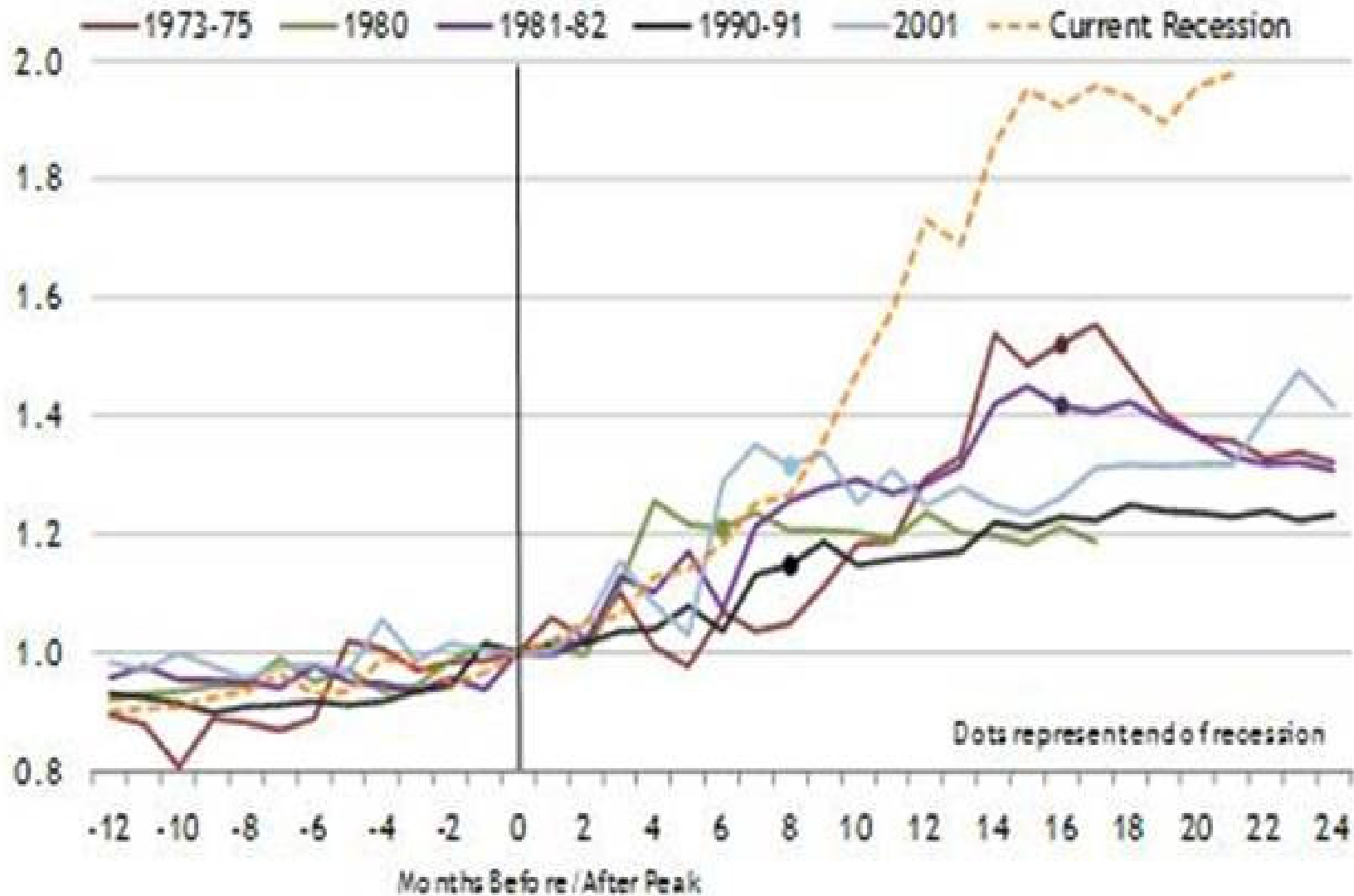
(First reset in billions of U.S. dollars)



## Unemployment and Under-employment as per cent



## Part-Time for Economic Reasons Indexed to Start of Recession=1

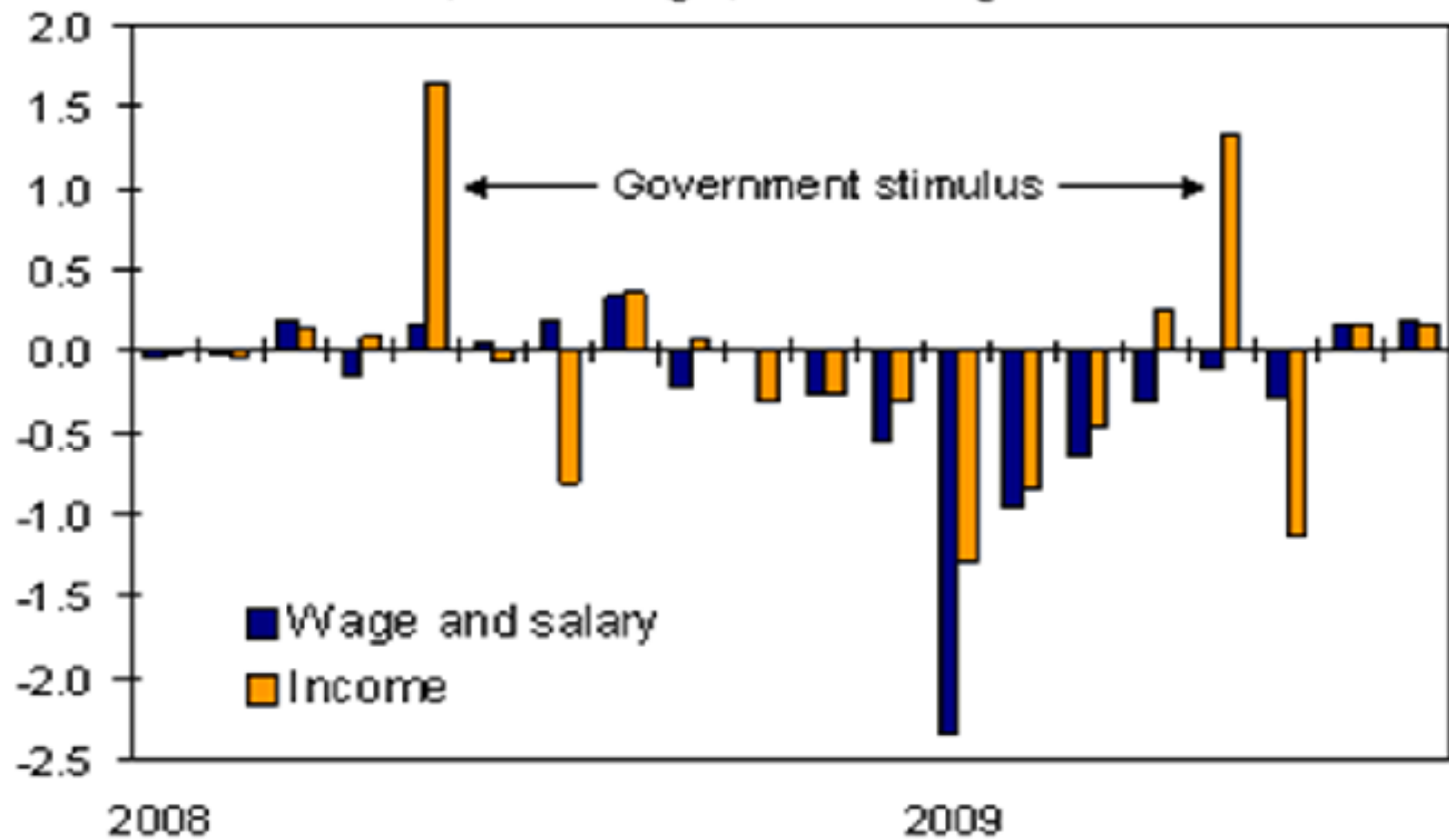


Source: Atlanta Federal Reserve

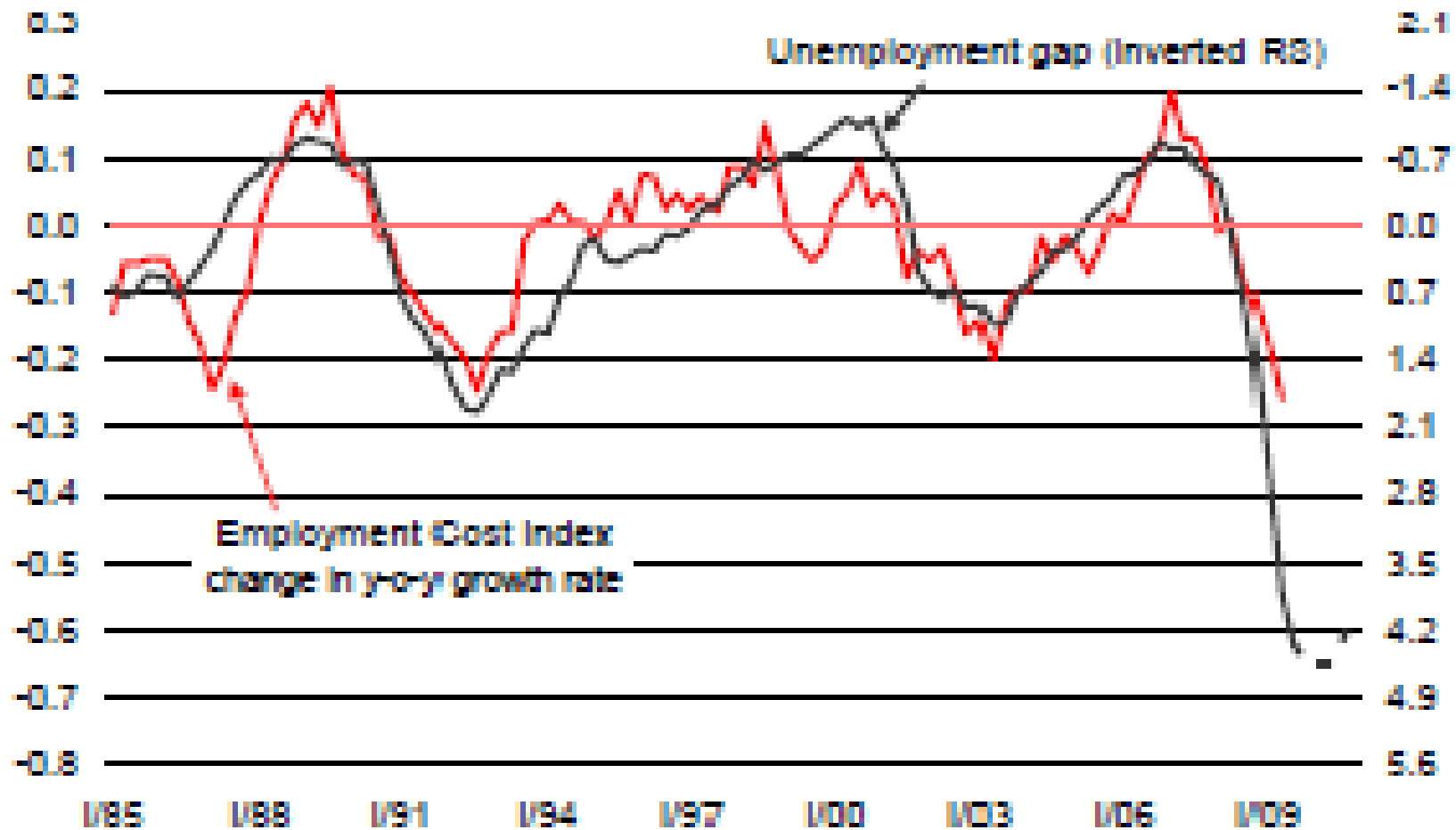
# A fragile economic recovery

- Wages could fall as unemployment rises
- Households save to repair balance-sheets
- Credit crunch continues
- Commercial real estate is imploding

*Personal income, % change, month ago*

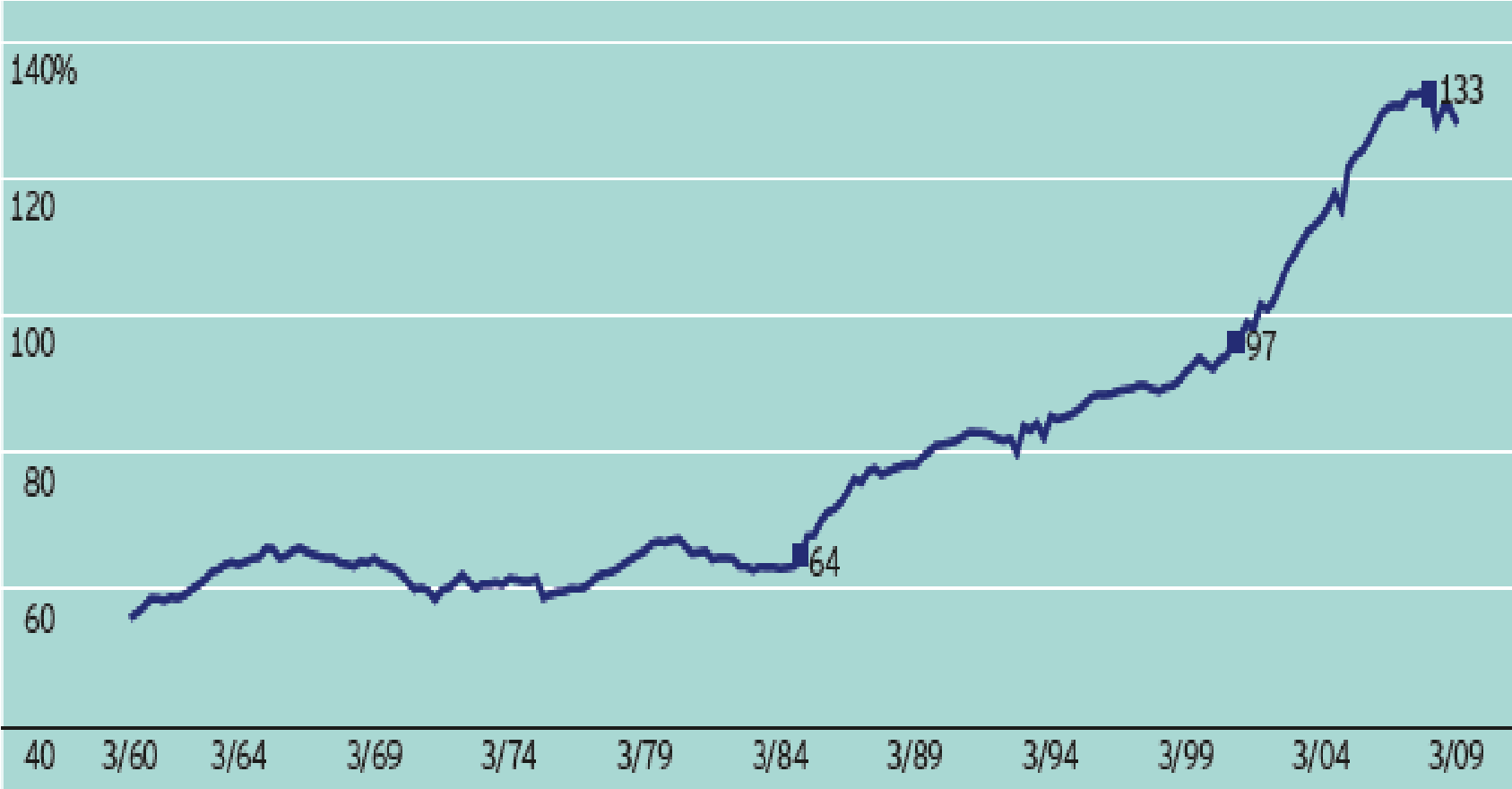


## Change in the growth rate, in percentage points



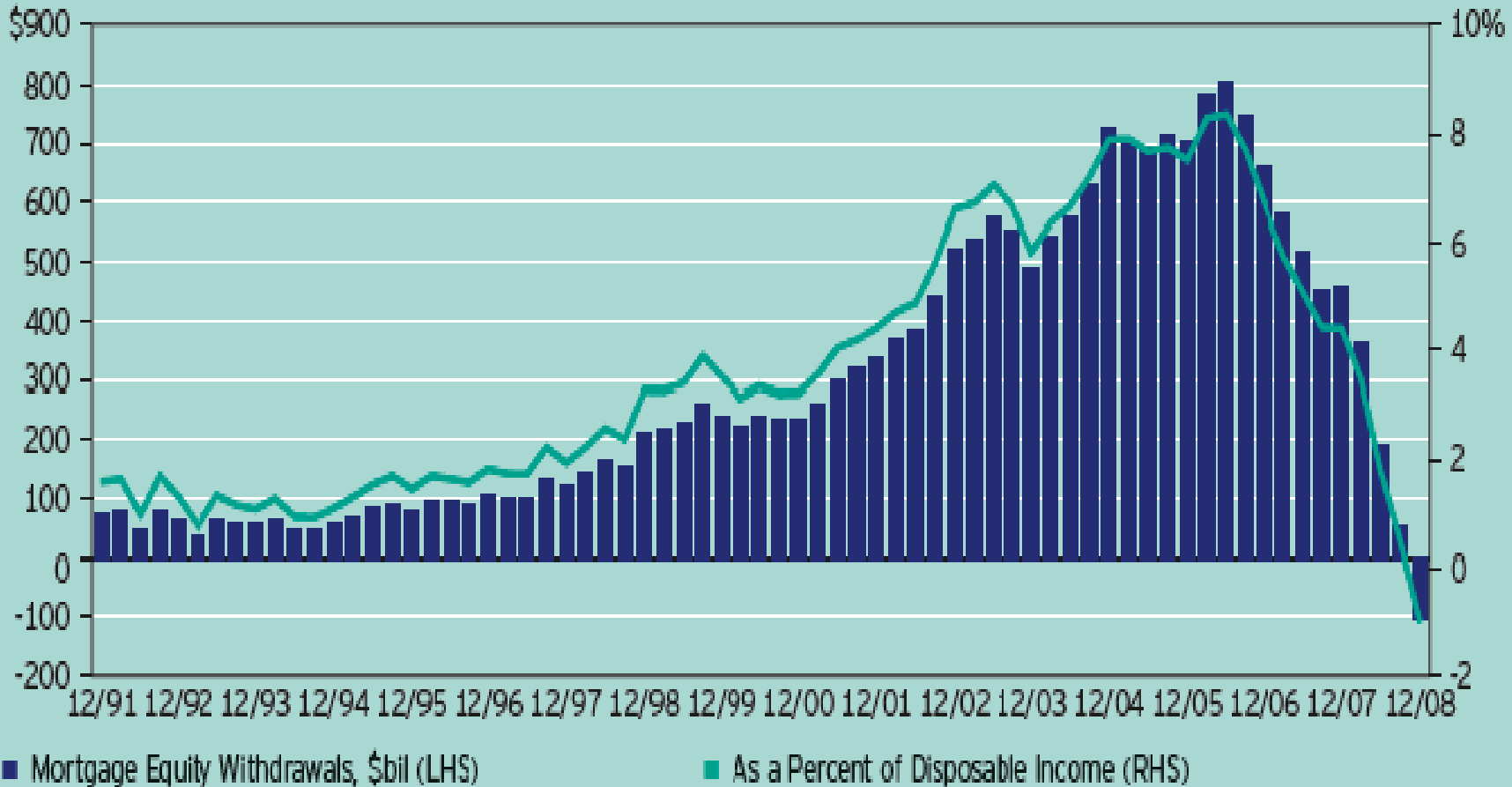
Source: Bureau of Labor Statistics, Thomson Datastream, UniCredit Research

# Household Debt to Personal Income Ratio US (Quarterly) as of March 2009



Sources: Federal Reserve, Bureau of Economic Analysis, Bloomberg

# Mortgage Equity Extraction (Net Mortgage Equity Withdrawal, Trailing 12 Months) as of December 31, 2008

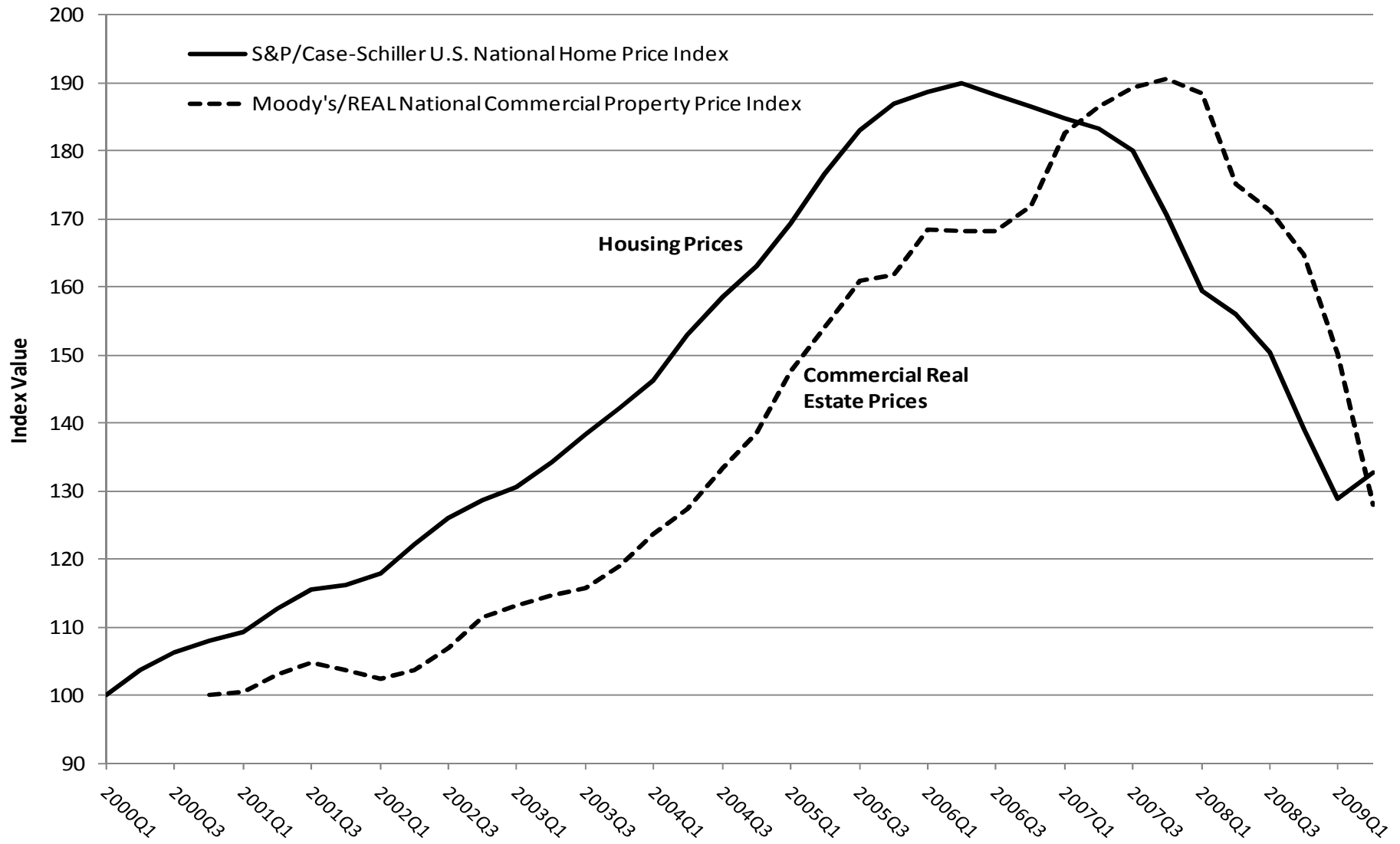


Source: Federal Reserve, Bureau of Economic Analysis, Bloomberg



# The Real Estate Double Bubble

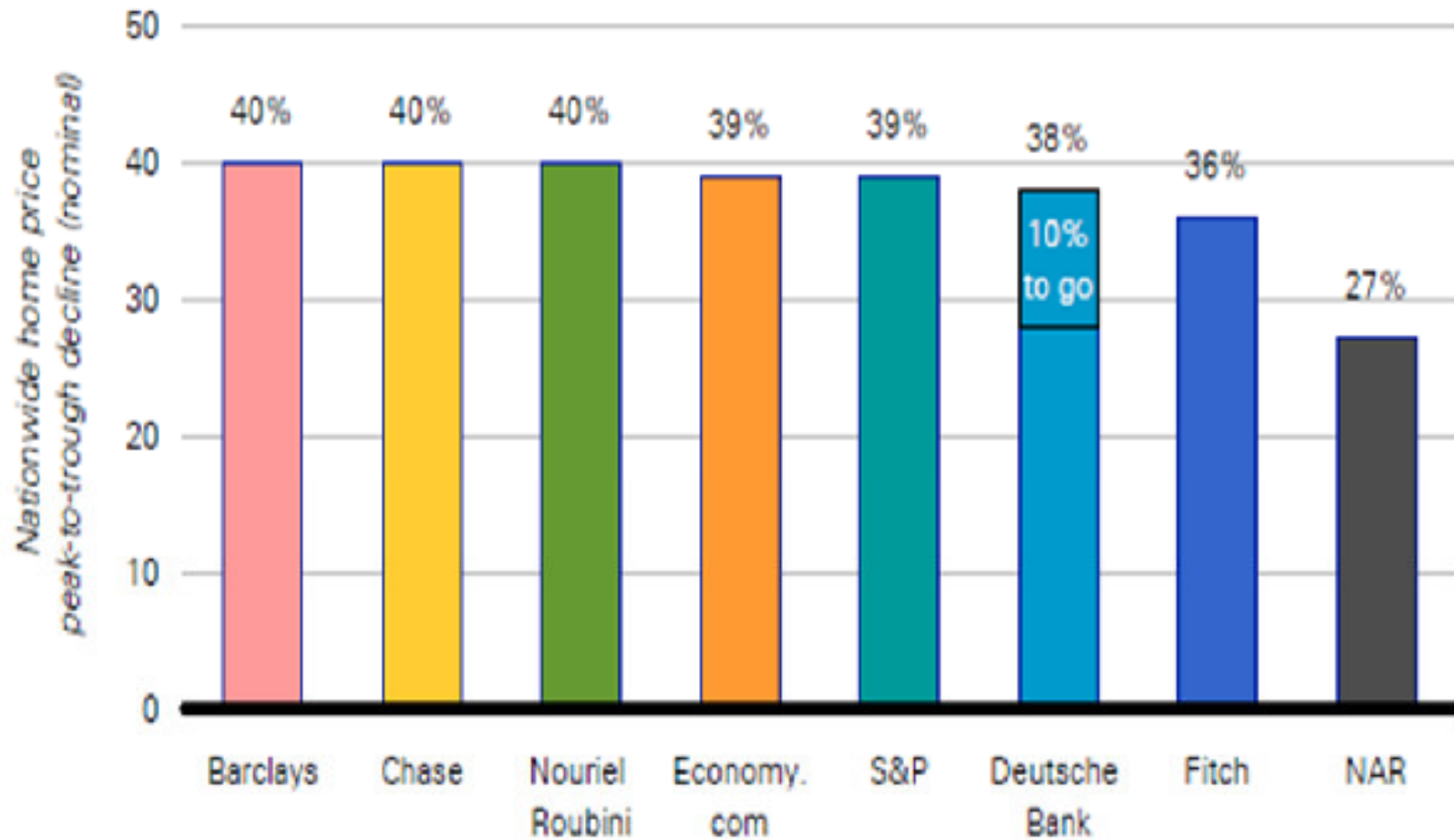
## Commercial and Residential Property Price Indices



# The Bottom line

- Housing construction has bottomed
- Home prices will fall 10 percent more
- Further home price falls threaten double dip for the US economy

## HPD forecasts have clustered



Source: Economy.com, S&P, Fitch, Calculated Risk