

An Elusive Housing Recovery

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No V-Shaped US Housing Recovery

- Housing prices bouncing at the bottom
- Housing sales remain weak
- Housing inventory is not declining
- Housing starts remain depressed

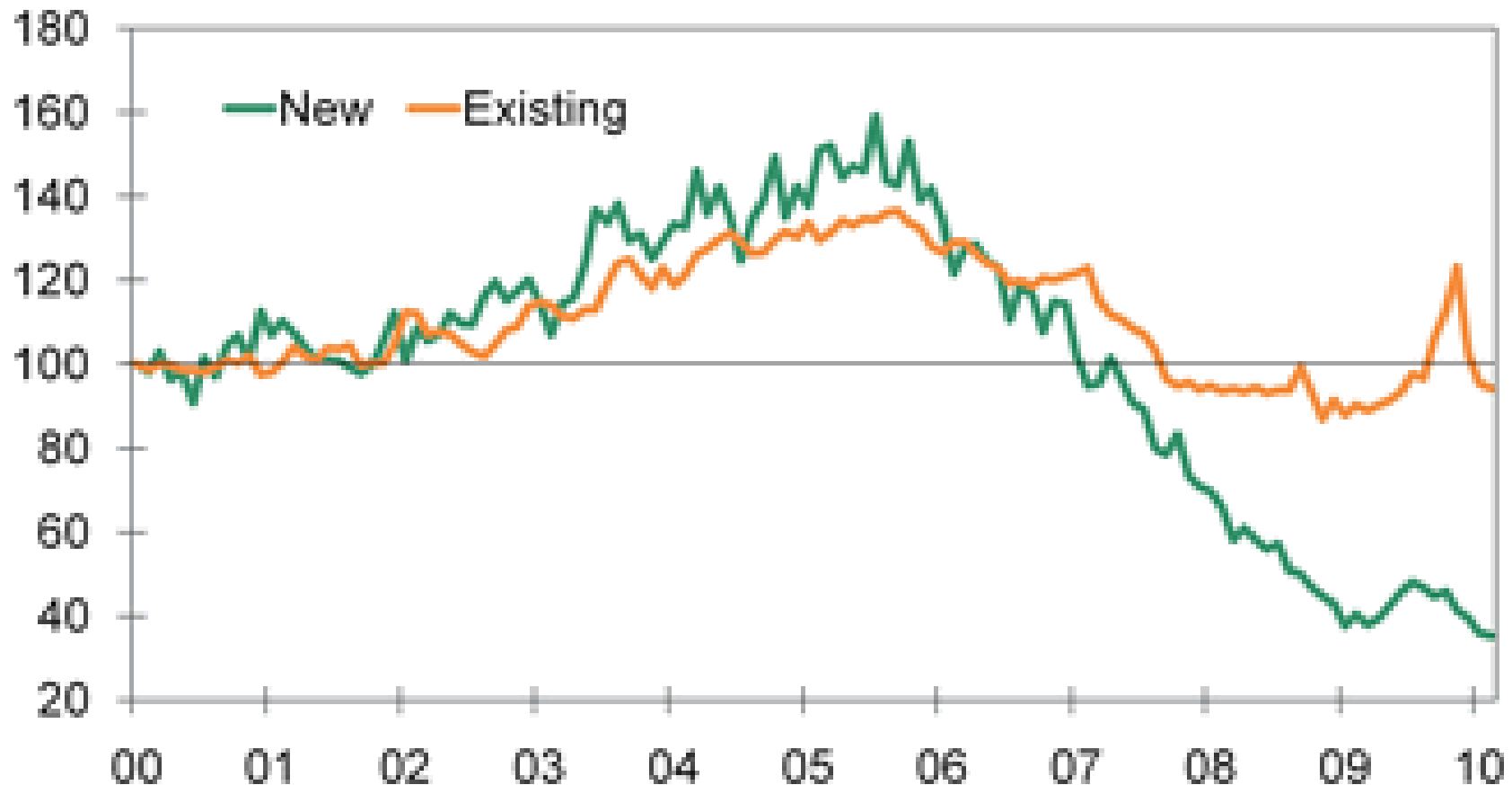
S&P/Case-Shiller Home Price Indices



Source: Standard & Poor's & FIServ

New-Home Sales Lag Behind

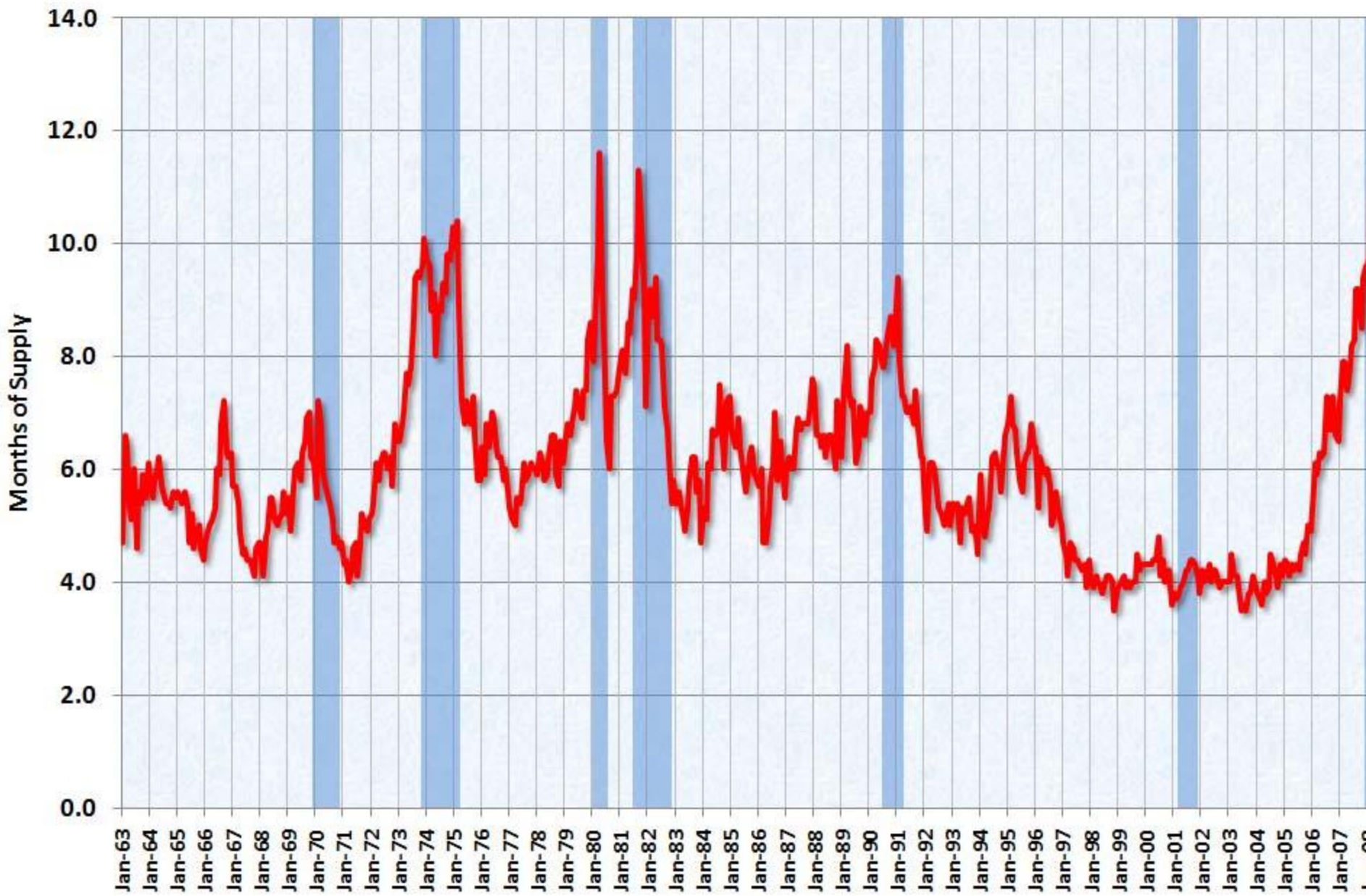
Single-family home sales, index, 2000m1=100



Source: NAR

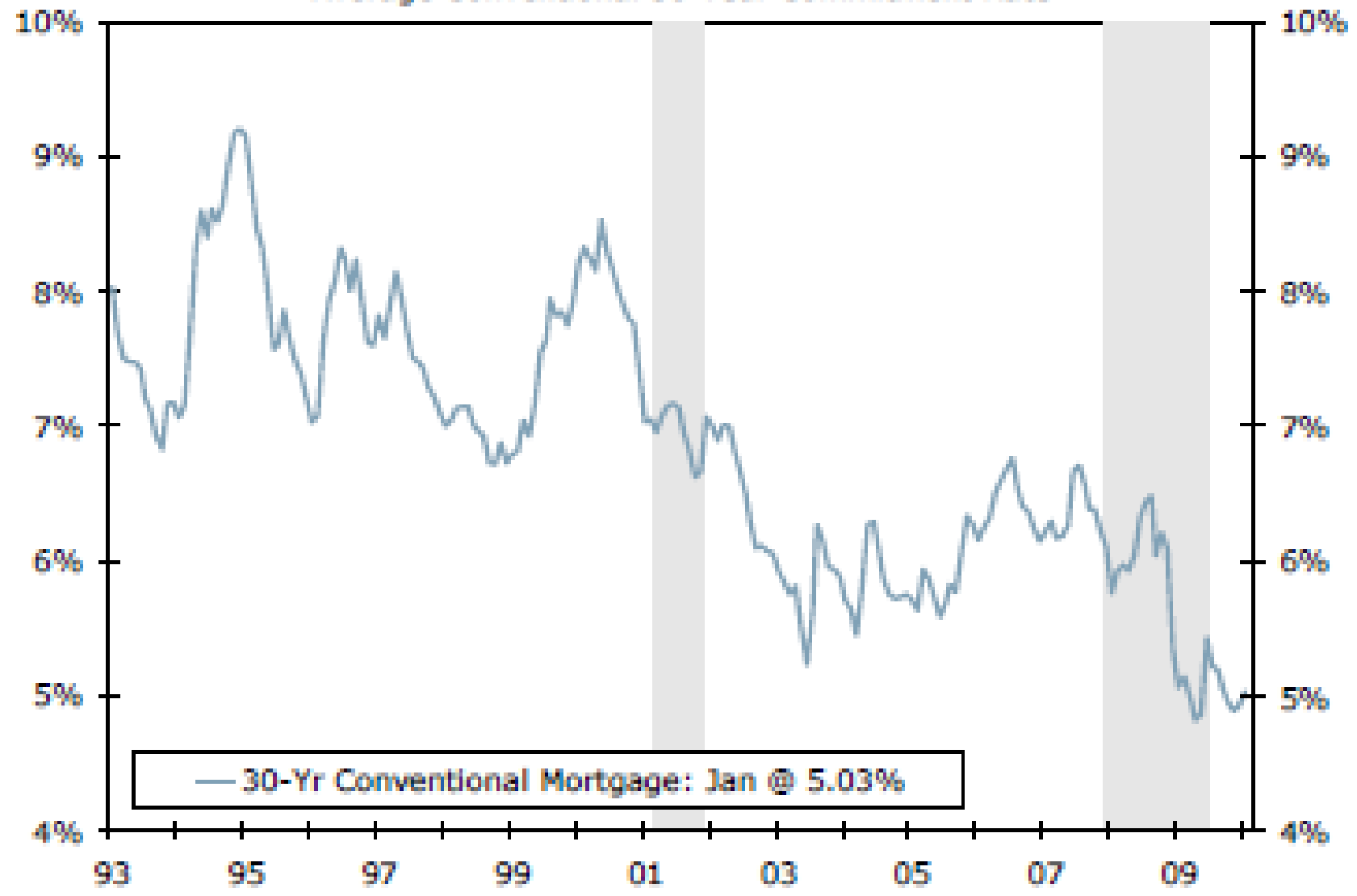
New Homes: Months of Supply

Recessions Months of Supply



Mortgage Rate

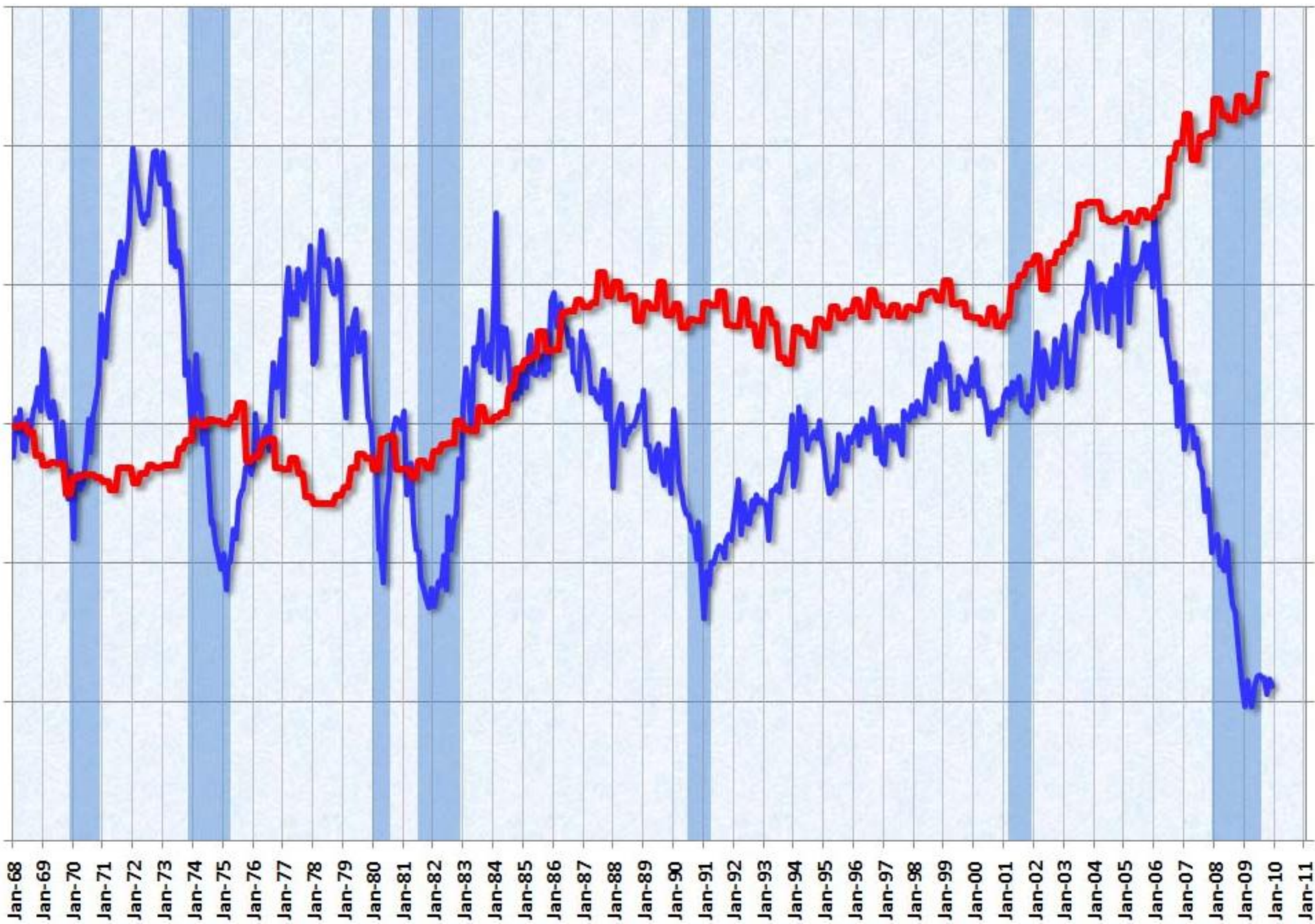
Average Conventional 30-Year Commitment Rate



Major housing supply overhang

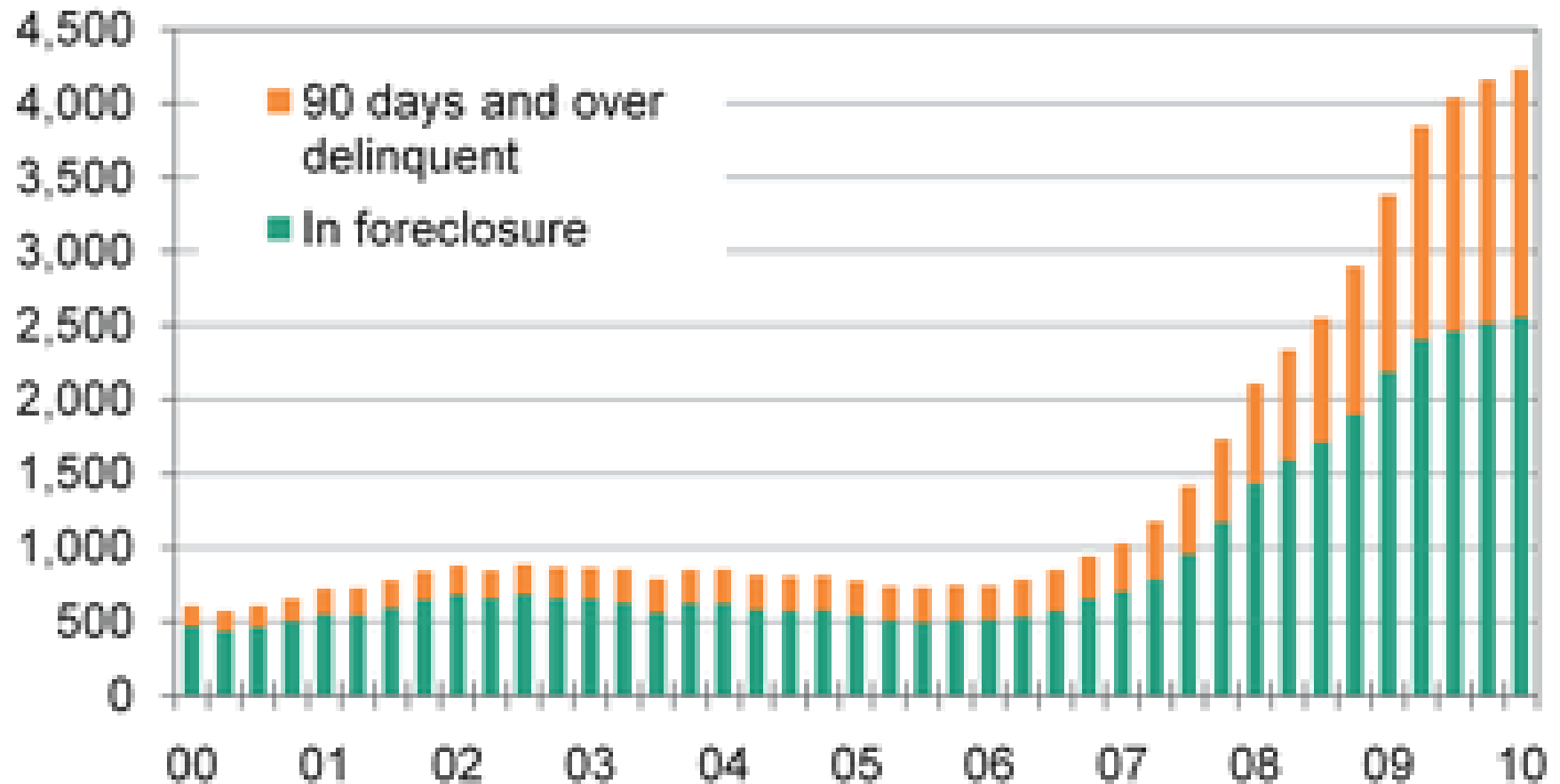
- Vacancy rates are near record levels
- Foreclosures continue to increase
- Option-Arm Resets set to peak

Recession Total Starts Total Vacancy Rate



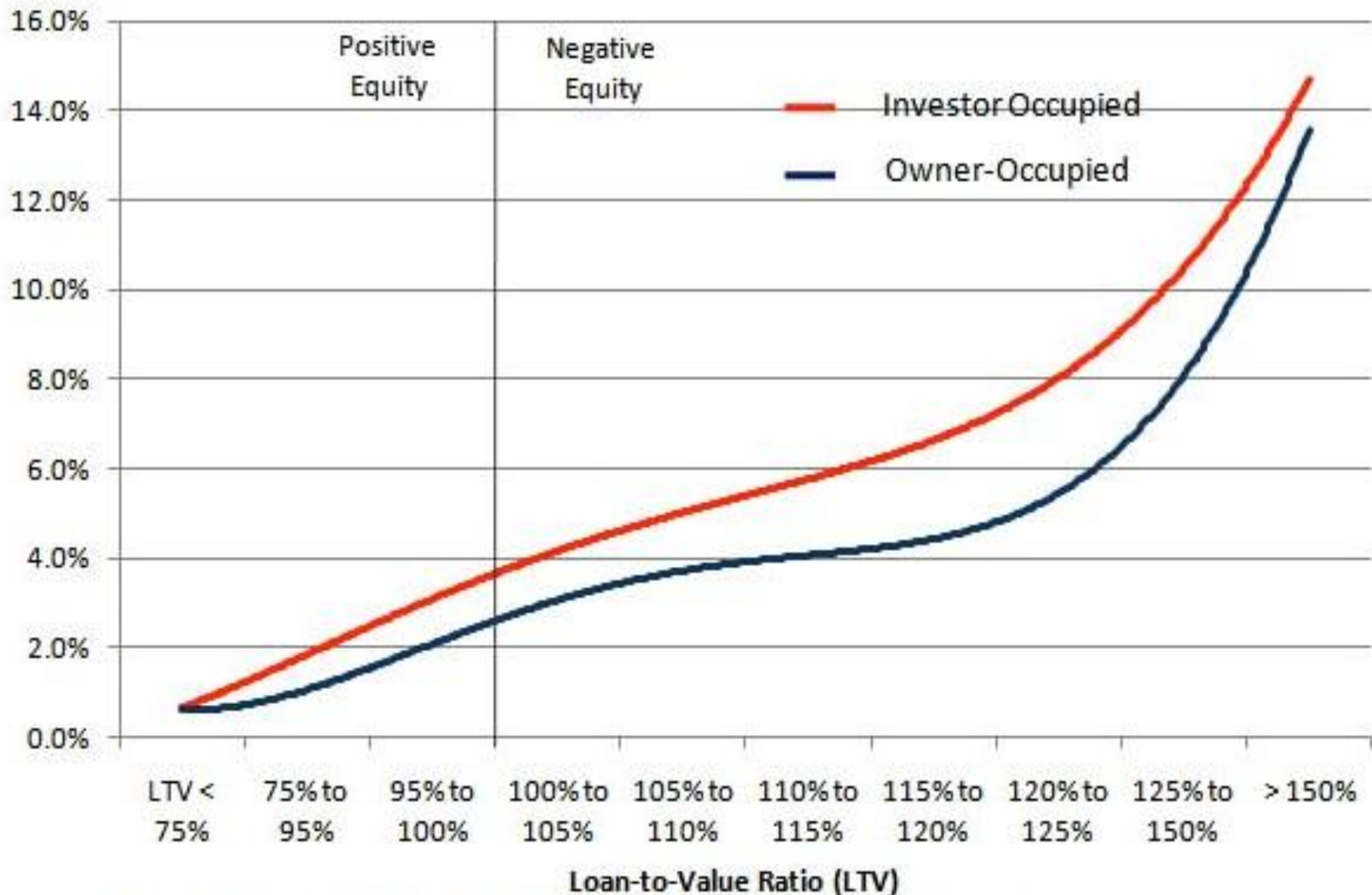
The Foreclosure Crisis Continues to Mount

First mortgage loans, ths



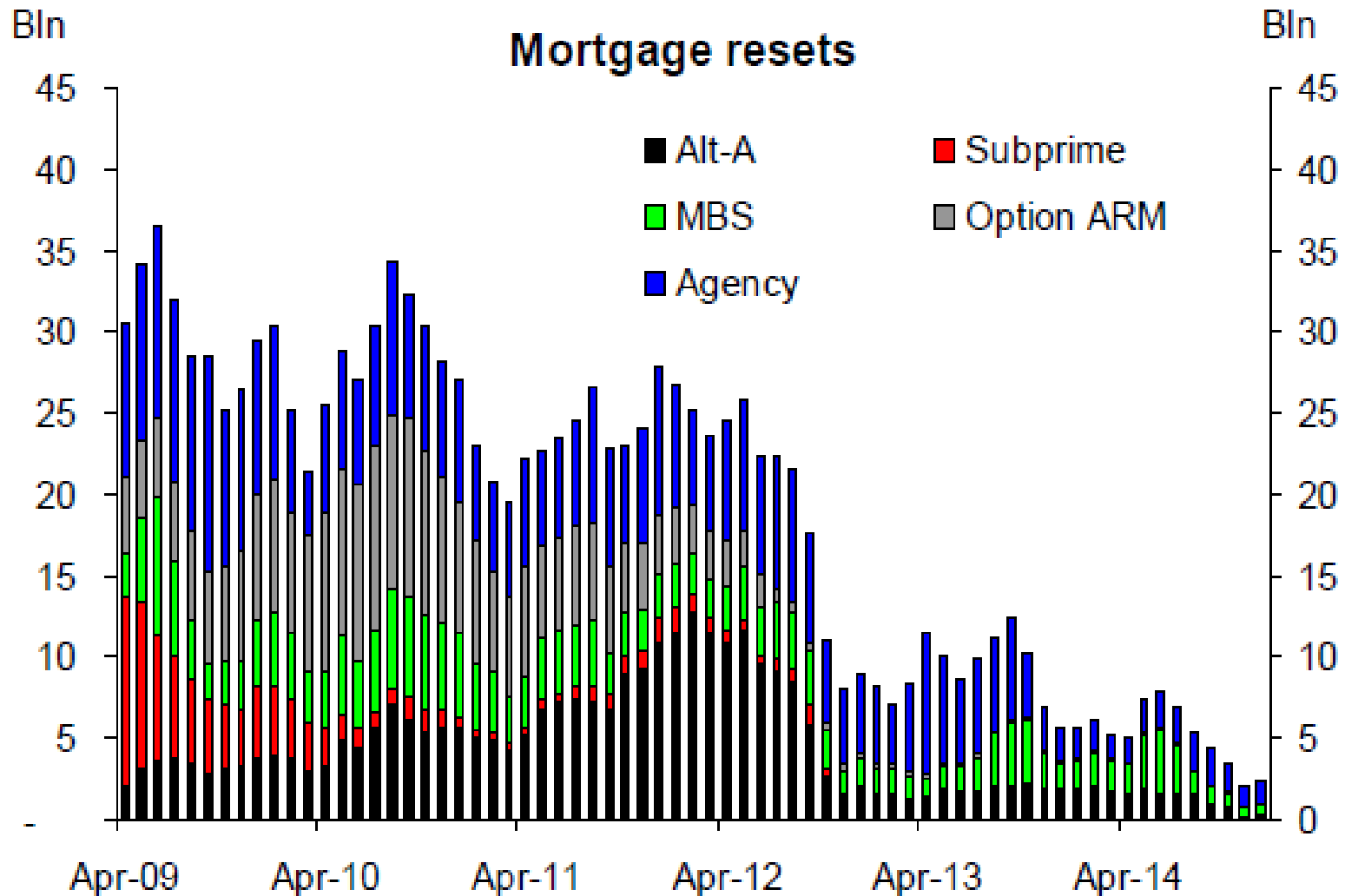
Sources: Equifax, Moody's Economy.com

Figure 4: Pre-Foreclosure Rate* by Equity Segment and Owner Type



* A pre-foreclosure is a Notice of Default (NOD) or the first step in the public recording of default. There are some NODs for loans with LTVs below 100% which is indicative of distress, but that does not necessarily mean these borrowers will proceed to foreclosure and RFD given the borrower has equity.

Mortgage reset problem to continue



Temporary housing supports to fade

- Tax credit to new home buyers ends in June
- Federal Reserve MBS purchases have ended
- Delays to foreclosure process ends

Unemployment is key problem

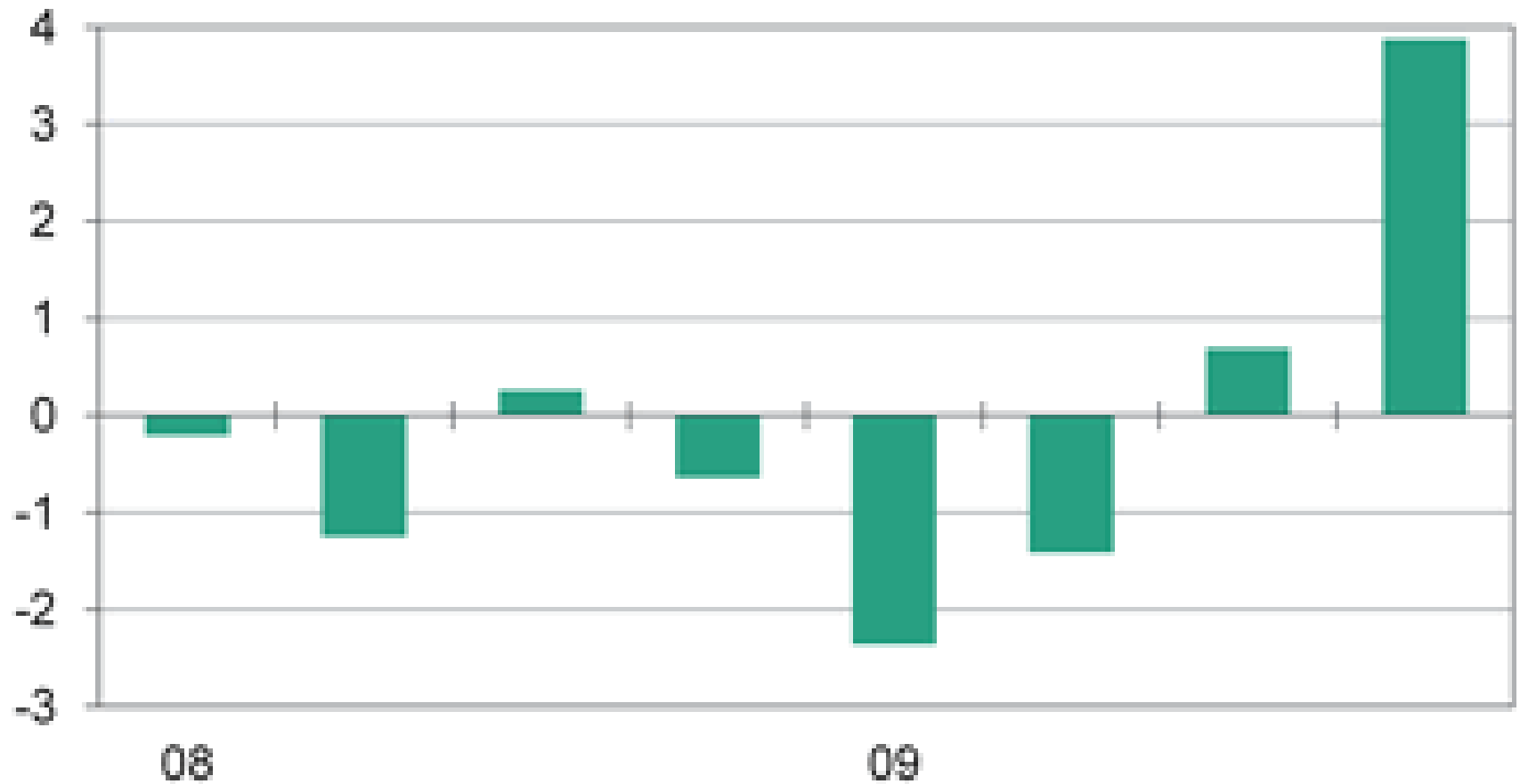
- Unemployment remains high
- Involuntary part time employment at record
- US economy risks double dip recession

Artificial support to US recovery

- Inventory cycle provides major temporary support
- Fiscal stimulus now provides peak support
- Inventory cycle and fiscal stimulus soon fade
- State budget tightening will be a drag on growth

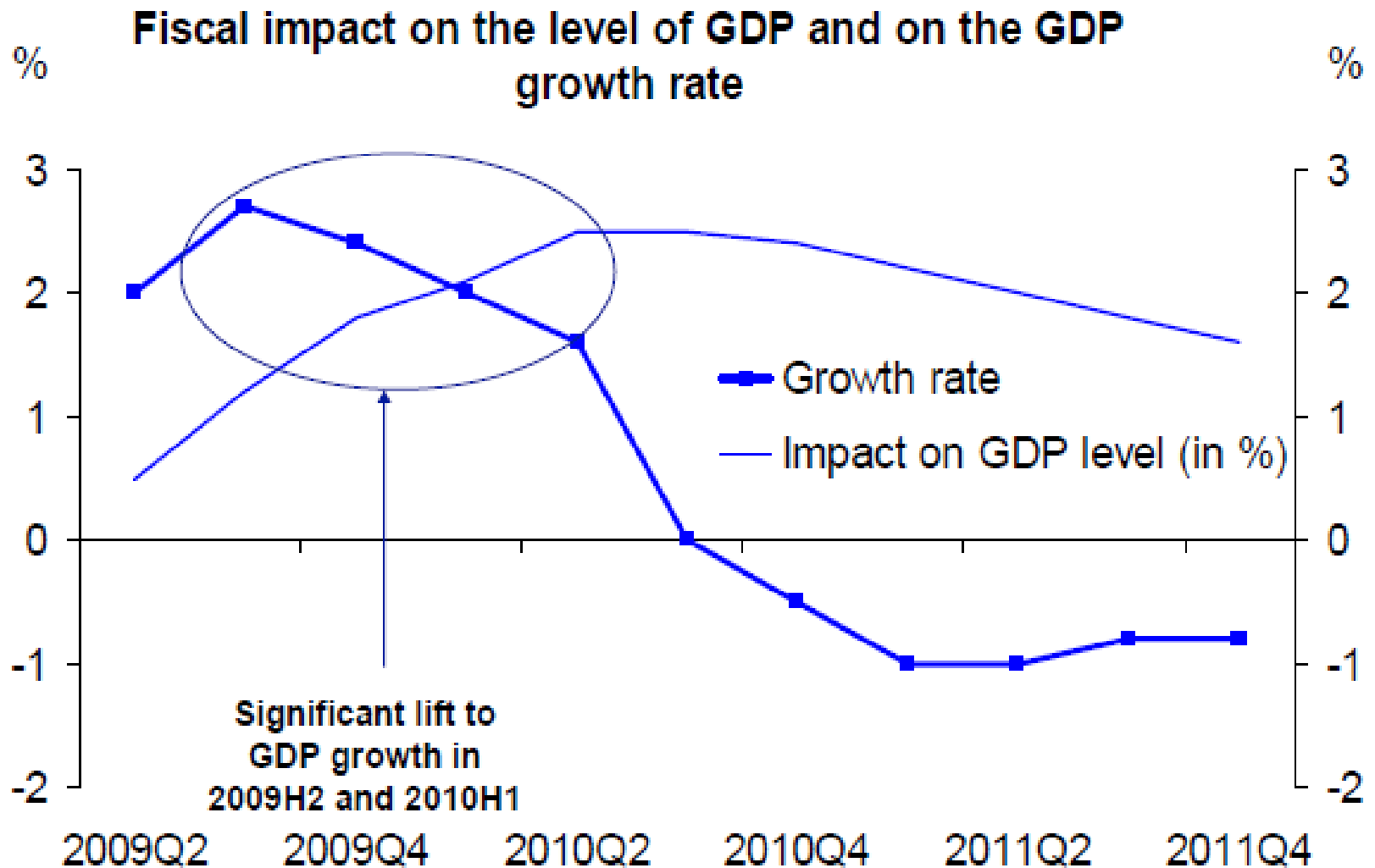
...As Inventory Swing Fades

Inventories contribution to GDP, %



Source: Bureau of Economic Analysis

Fiscal stimulus should boost GDP growth until 2010H2

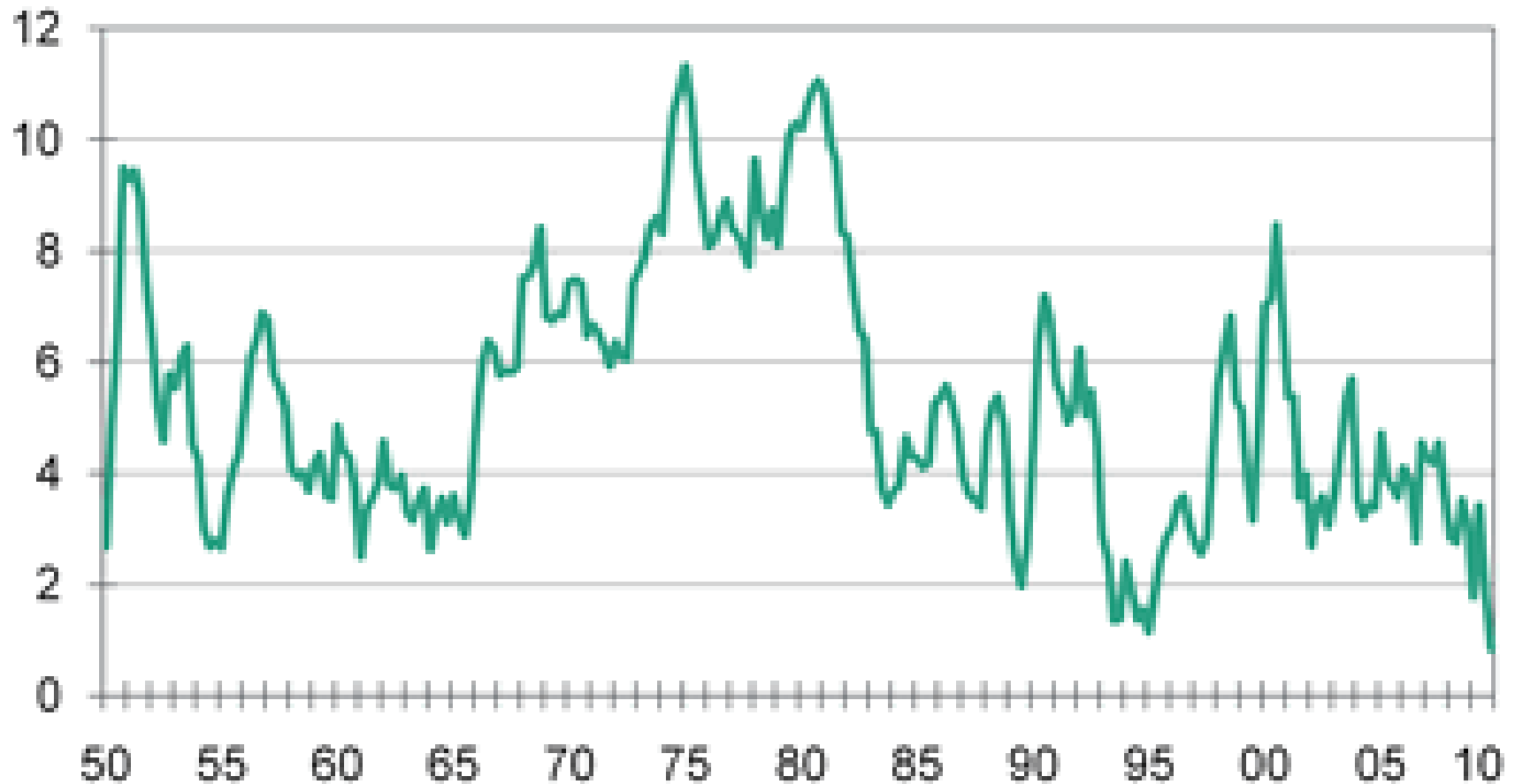


Factors pointing to US double dip

- Labor market gaps prevent income growth
- Banks are not lending
- Foreclosures continue to surge
- Commercial real estate bust

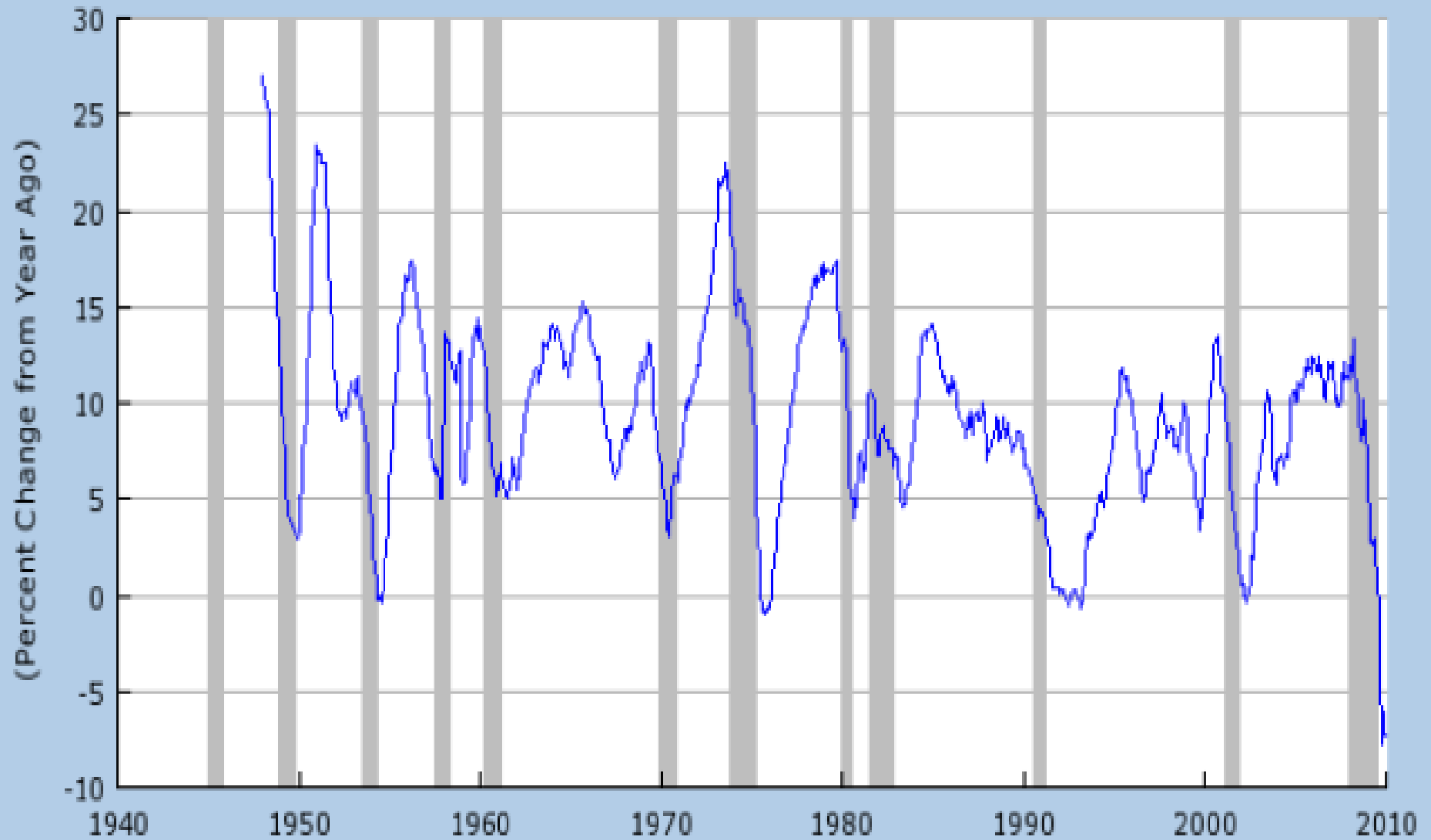
Labor Compensation Threatens to Stall

% change yr ago, compensation per hour



Sources: BLS, Moody's Economy.com

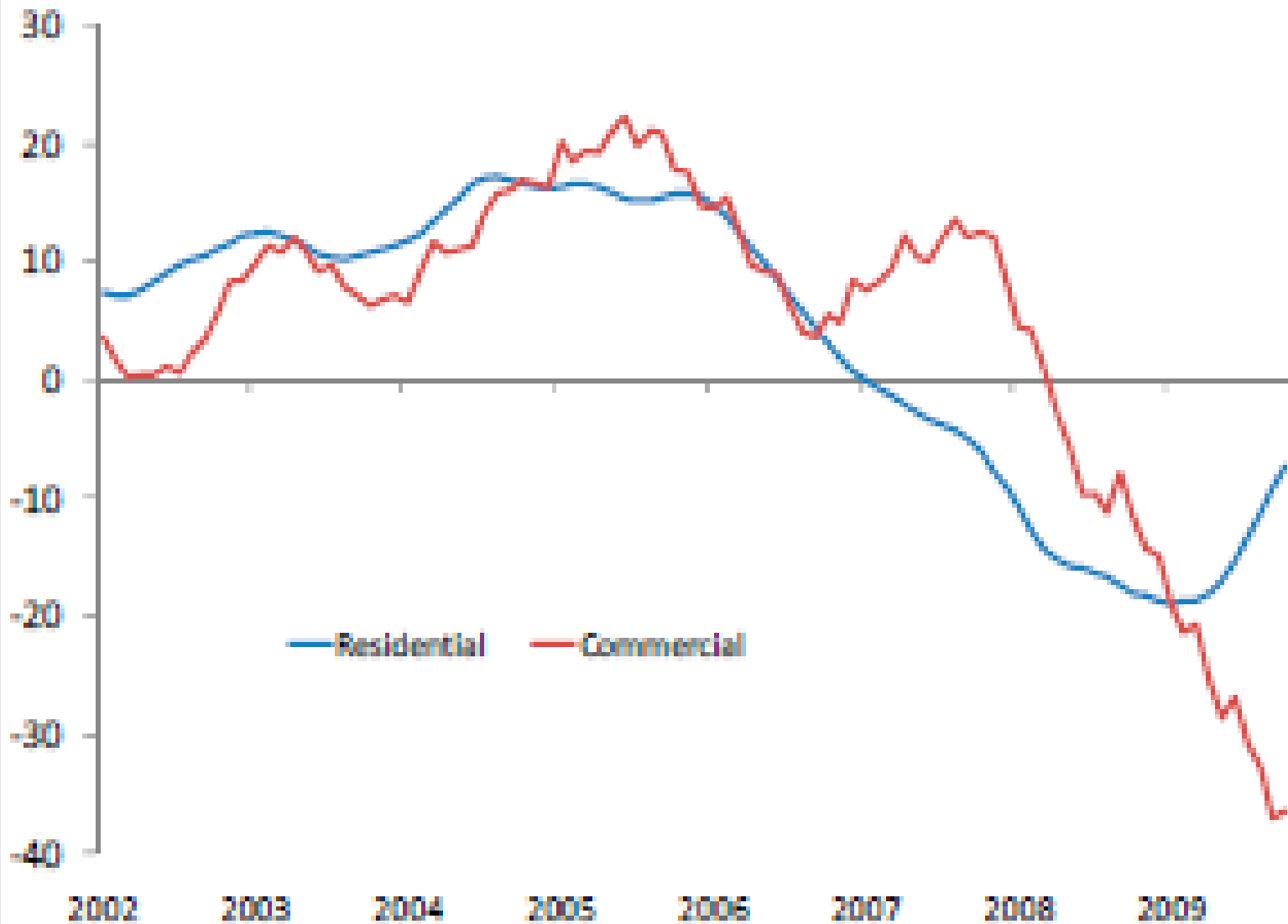
Total Loans and Leases at Commercial Banks (LOANS)
Source: Board of Governors of the Federal Reserve System



Shaded areas indicate US recessions.
2010 research.stlouisfed.org

Figure 2 - U.S. Real Estate Market Performance

(Percent year-on-year)



Source: Moody's; S&P/Case-Shiller.

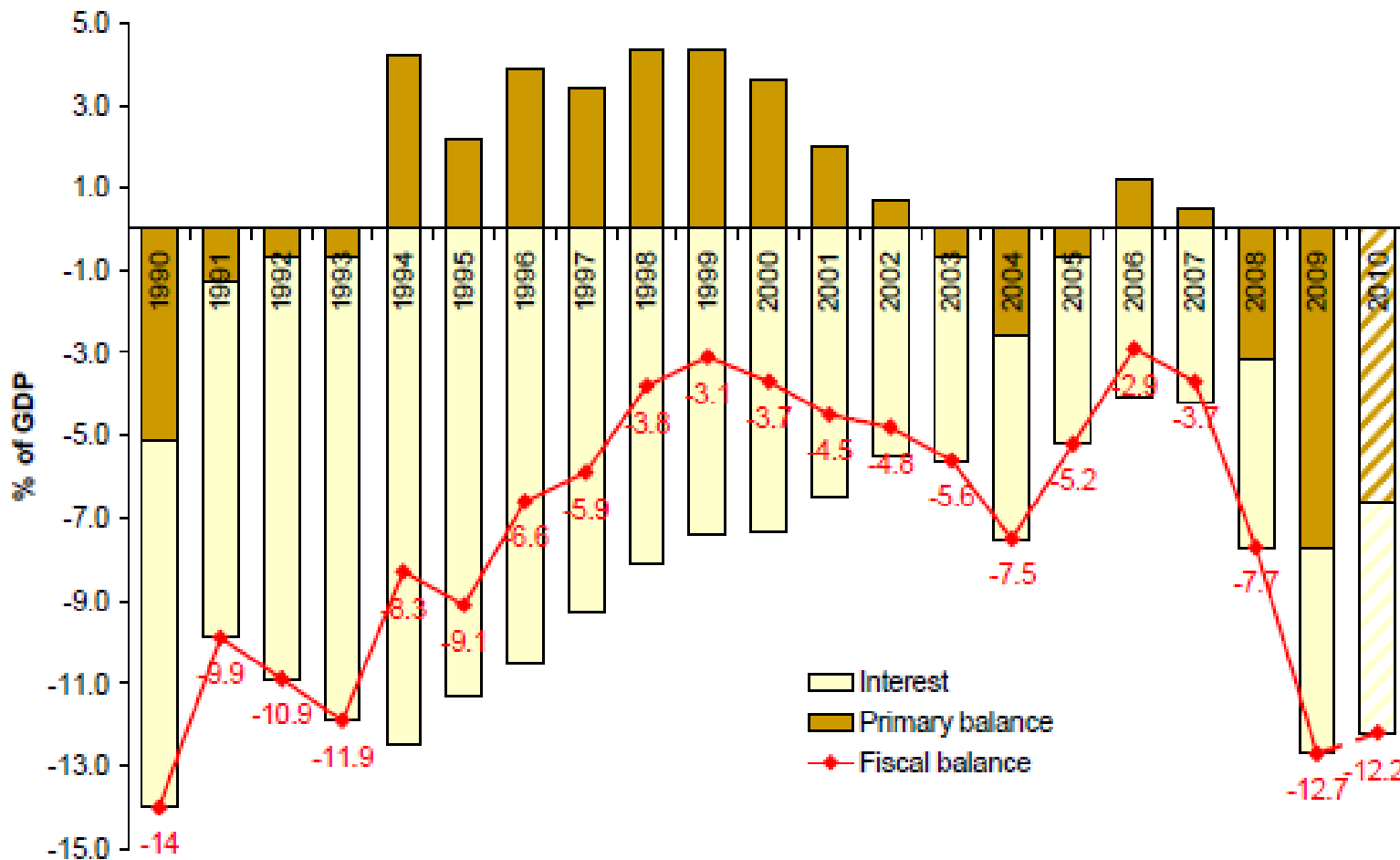
Unraveling of Euro-zone

- Greece needs debt restructuring and cheaper currency
- Spain, Ireland, and, Portugal also face solvency issues
- German taxpayers oppose bailouts

Stylized Greek Facts

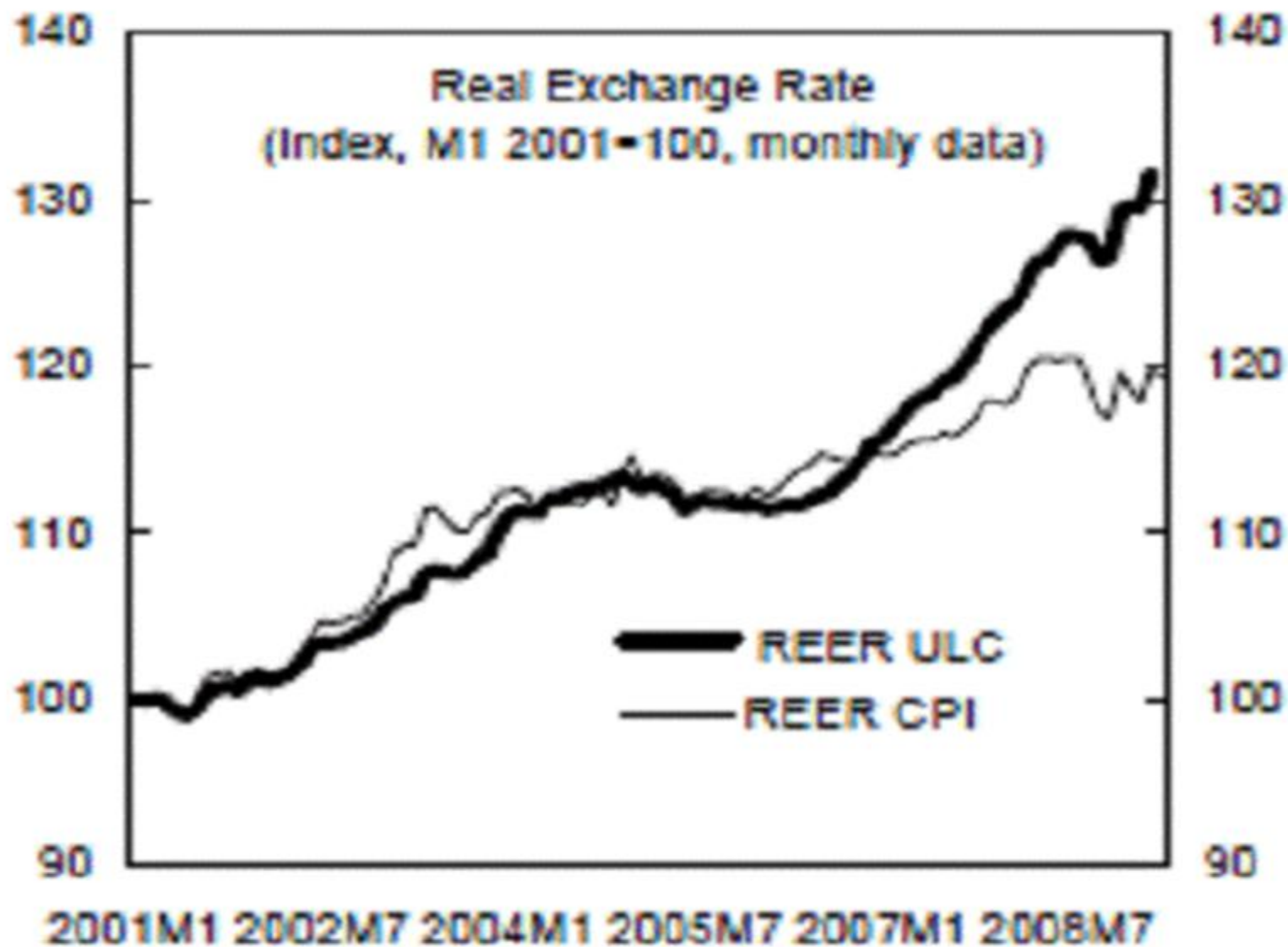
- Budget deficit of 13 percent of GDP versus Maastricht 3 percent limit
- Public debt at 120 percent of GDP versus Maastricht 60 percent limit
- 30 percent loss in international competitiveness
- Current account deficit of 10 percent of GDP

Figure 1: Greece's budget deficit history shows only short periods of improvement



Source: European Commission

Greece's real exchange



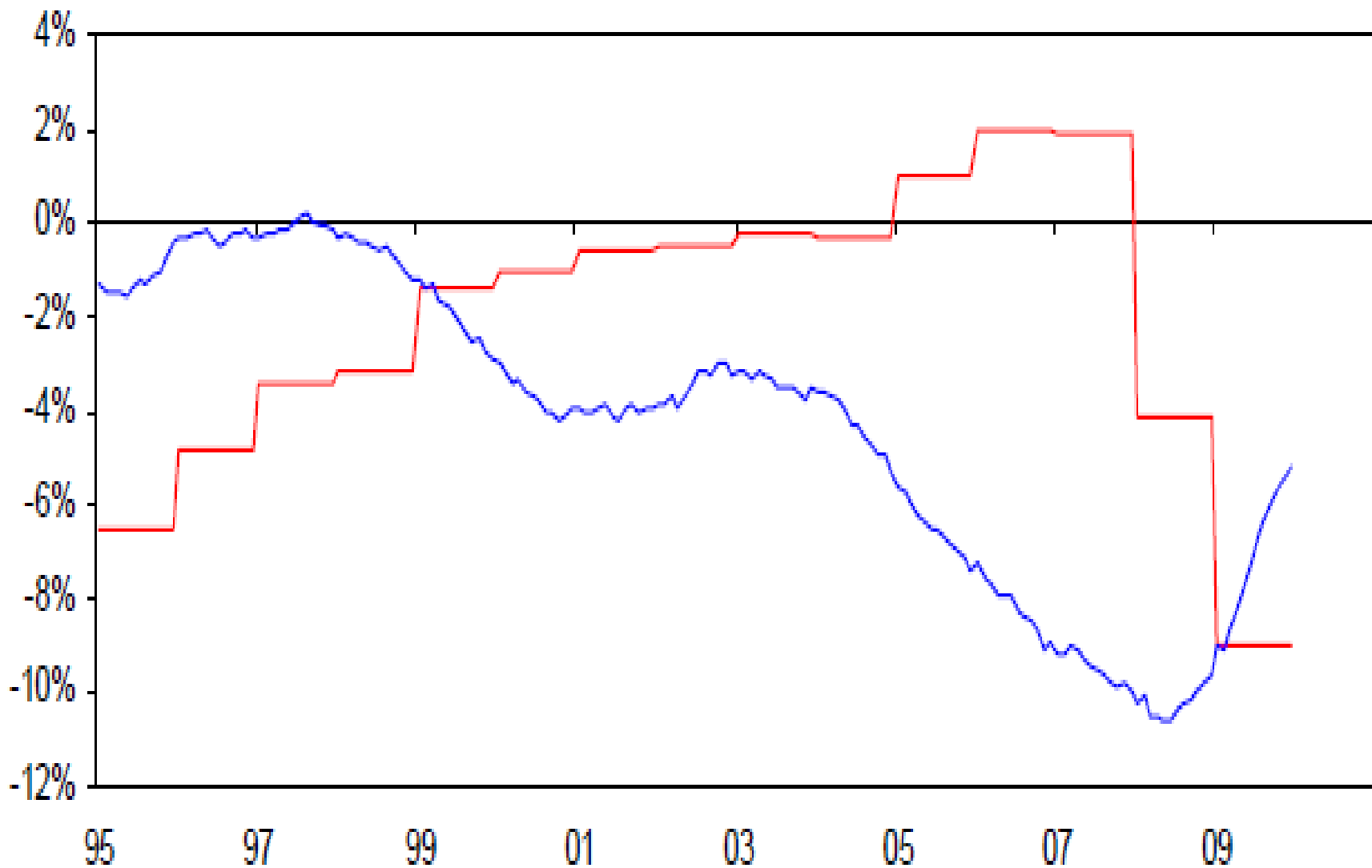
Unpleasant Greek Arithmetic

- Regaining competitiveness implies at least 20 percent price deflation
- Greece's taxes are 35 percent of GDP
- Correcting budget deficit by 10 percent of GDP implies 15-20 percent GDP decline
- Deflation and depression will boost debt to GDP ratio to above 180 percent

Spanish Stylized Facts

- Budget deficit over 11 percent of GDP
- 20 percent loss in price competitiveness
- Massive external CA deficits and an external debt ratio above 130 percent of GDP
- A deep recession and unemployment at 20 percent
- A housing bubble that is still bursting

Spain Budget Balance (% GDP) — Spain Current Account Balance (% GDP)



Spain Government Debt (% GDP) Spain Total External Debt (%GDP)

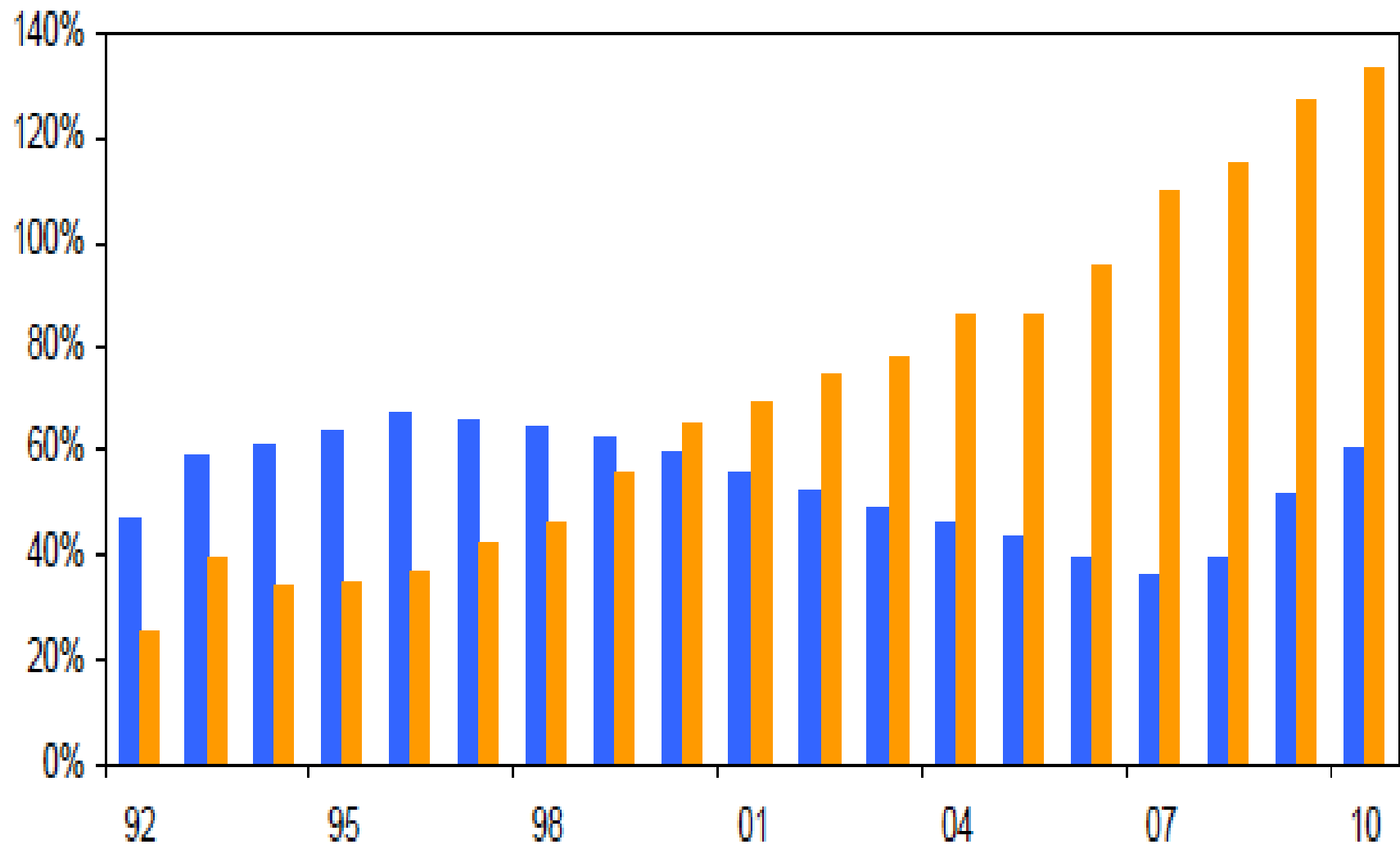


Exhibit 17: Unemployment rate (%)

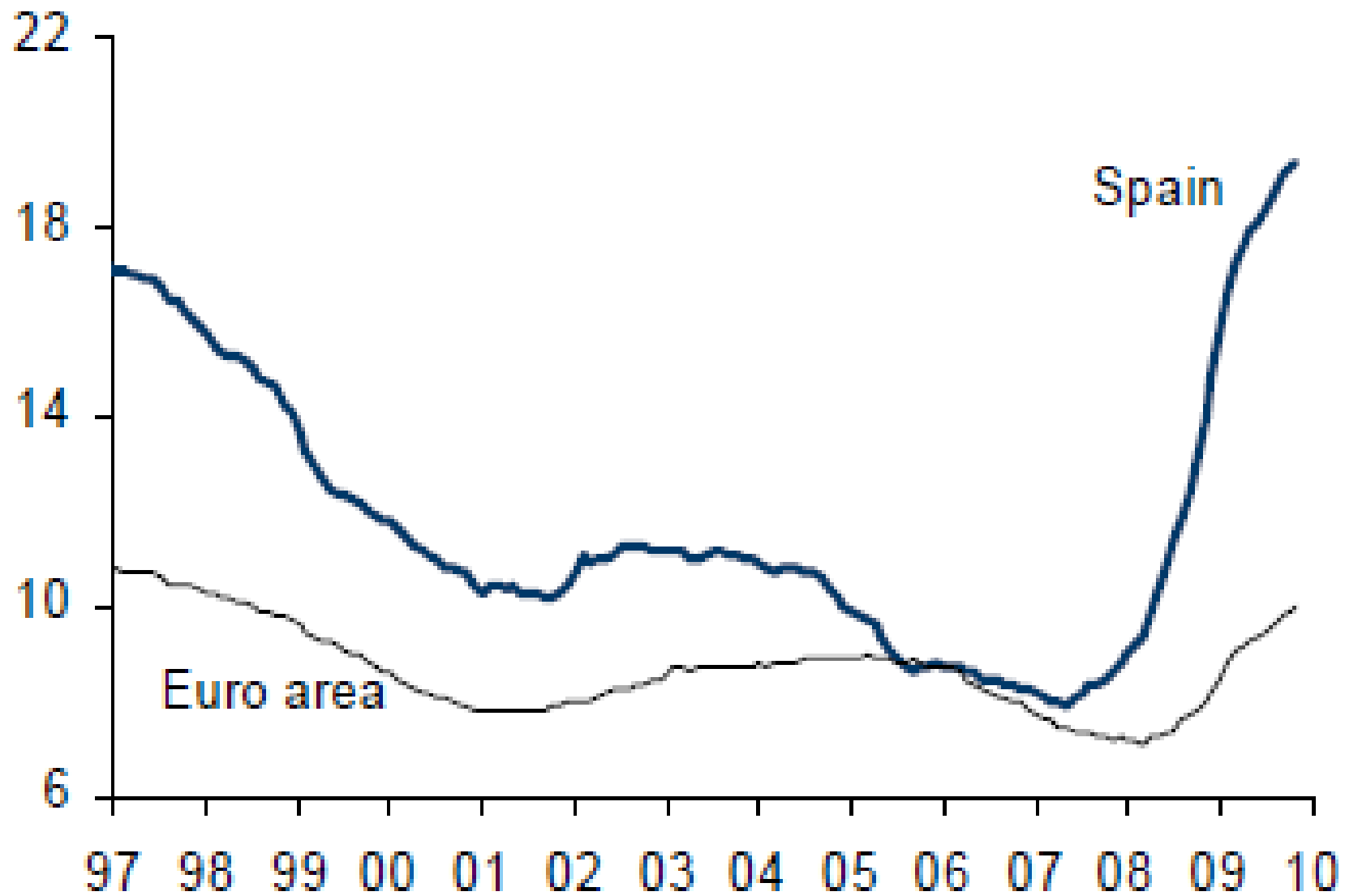
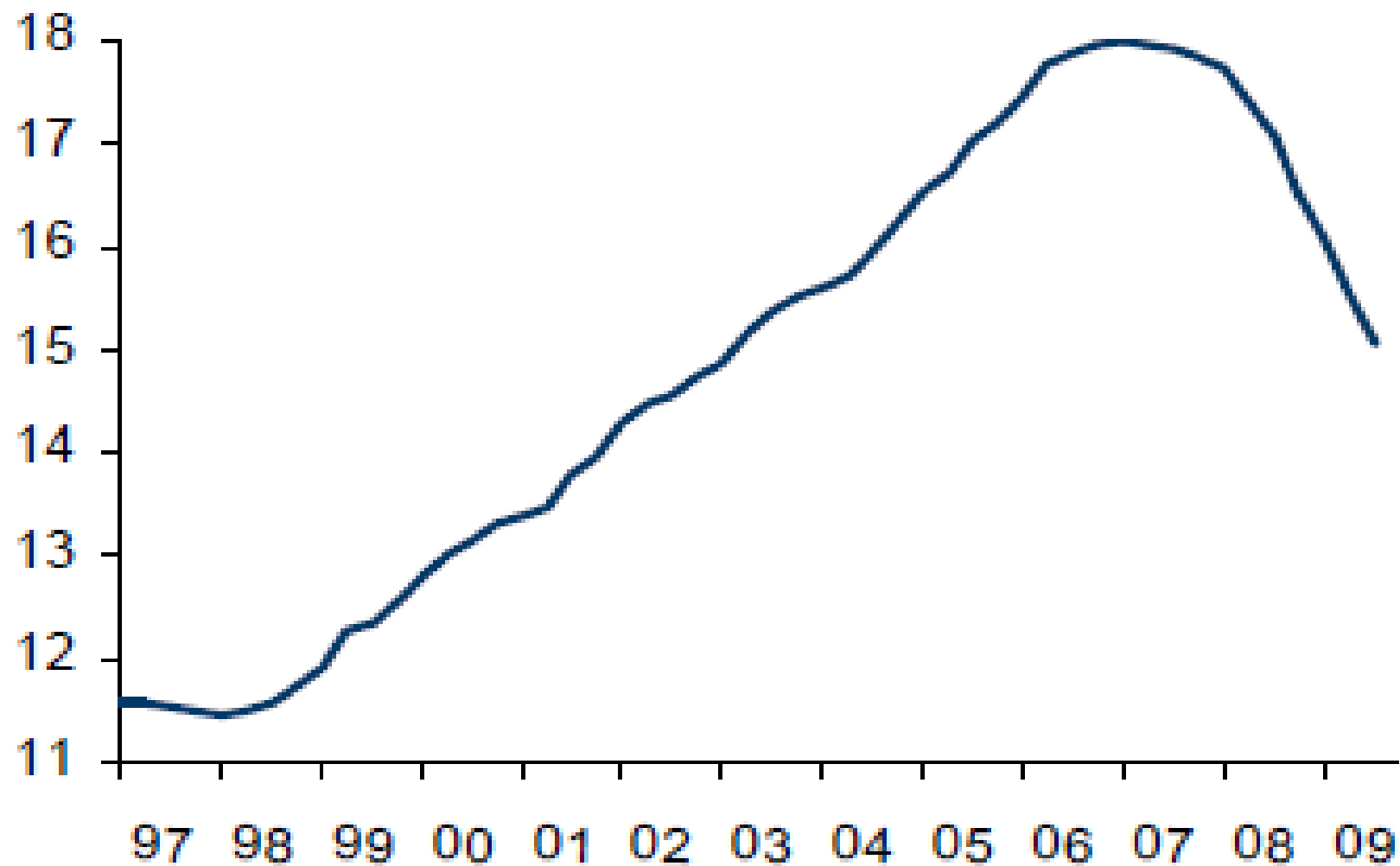
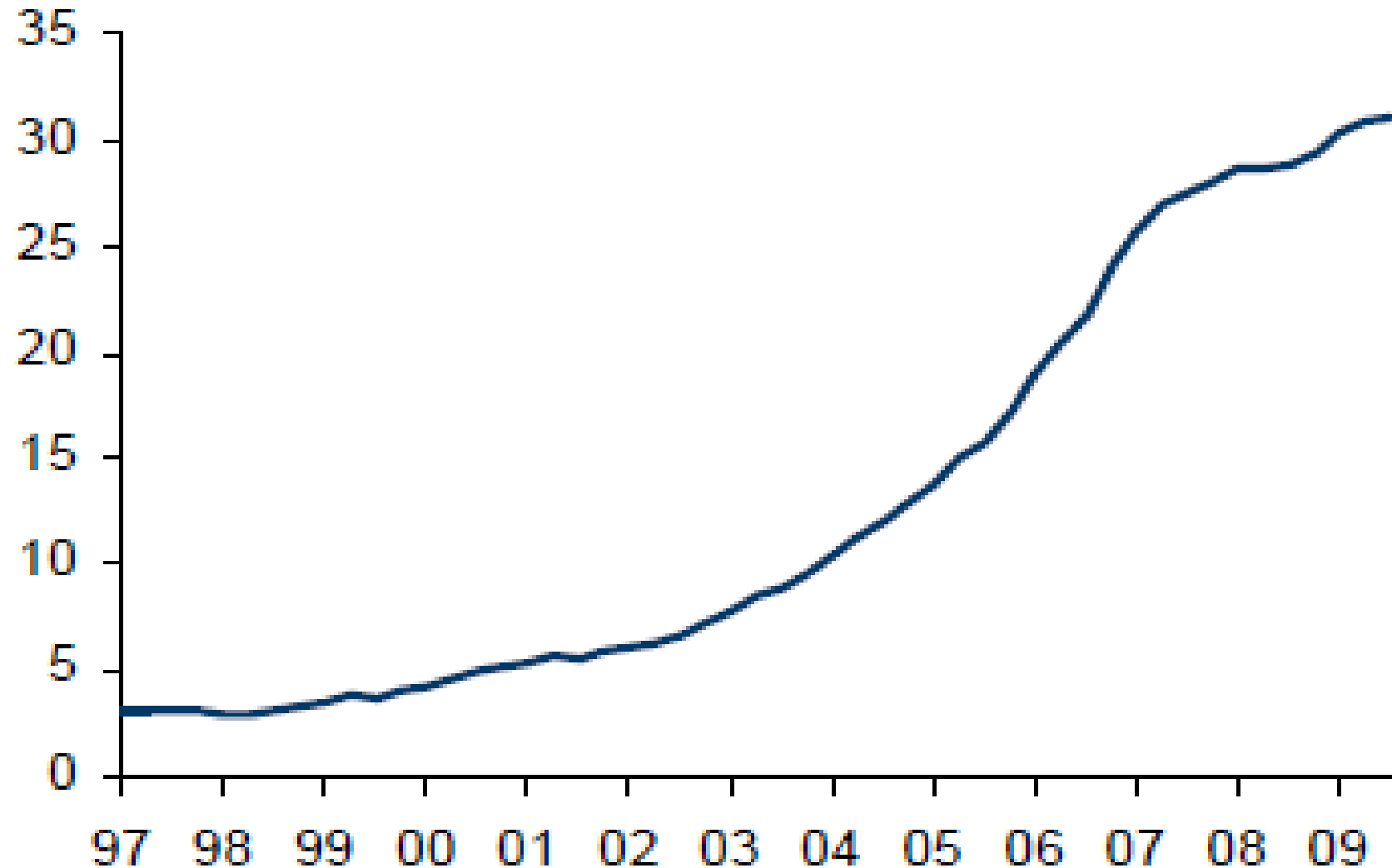


Exhibit 7: Construction as % of GDP

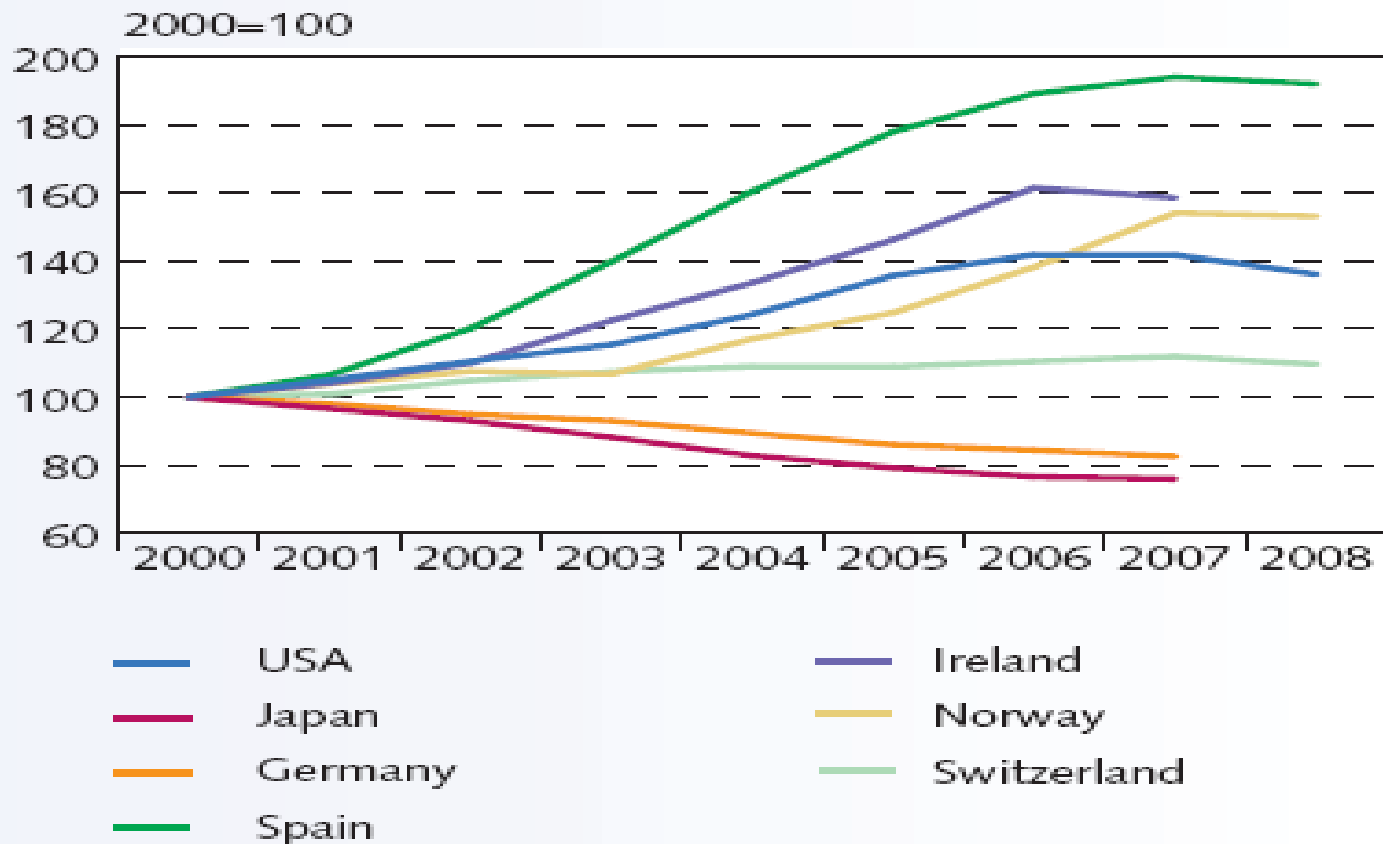


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Exhibit 10: Credit real estate firms as % of GDP



Real house price index¹



1. Data for the year 2007 are averages for available quarters, as data were not available for the year 2007 and figures for 2008 are based on the first quarter.

Source: OECD.