November 2011 Housing Notes

Urs Buehlmann
Department of Wood Science & Forest Products
Virginia Tech
Blacksburg, VA
540.231.9759
buehlmann@gmail.com

Delton Alderman
USDA Forest Service – NRS 01
Forestry Sciences Laboratory
Princeton, WV
304.431.2734
dalderman@fs.fed.us
Overview

U.S. Housing

New housing starts
Housing permits
Housing completions
New home sales
Existing home sales
Case-Shiller Indices
Shadow Inventory & Distressed homes

Europe

European sovereign debt
World sovereign debt
European banking debt

Conclusion
Table of Contents

Slide 4: Opening Comments
Slide 8: Single-Family Starts
Slide 9: Multi-Family Starts
Slide 11: Housing Permits
Slide 12: Housing Completions
Slide 13: New Single-Family House Sales
Slide 15: Existing House Sales
Slide 18: Housing Prices and Indices
Slide 21: Delinquencies, Foreclosures, and Shadow Inventory
Slide 41: Europe
Slide 45: Conclusions
Commentary on Housing

Comments

• New home starts are stagnant
  • New home starts are 75% below 2006’s record level
  • Since December 2008, housing starts have averaged an Seasonally Adjusted Annual Rate (SAAR) of 579 m units

• Multi-family starts are the driver for the current increase:
  • 5+ multi-family units increased by 25%
  • In November, ‘all’ apartment starts increased 180.5% year-over-year

Source: U.S. Department of Commerce-NAICS 23, Construction
Comments

• New home sales are the lowest since 1967 and appear to be trending lower

• Existing home sales, after revisions, indicate a weaker housing market than previously estimated

• Shadow inventory and distressed home numbers are still extremely elevated –

“…it puts downward pressure on home prices, which hurts home sales and building activity while encouraging strategic defaults” (Mark Fleming, Chief Economist – CoreLogic)

Source: U.S. Department of Commerce-NAICS 23, Construction; NAR®; CoreLogic
Commentary on Housing

Comments

• Economic deterrents to a meaningful recovery are unchanged
  • Increasing U.S. debt – Federal and State governments
  • Personal debt increasing
  • Exploding student loan debt
  • European sovereign debt crisis
  • European bank crisis
  • China – continued growth, a soft or hard-landing???
U.S. Housing Units & Starts: 1880 – 2011

Source: U.S. Department of Commerce-NAICS 23, Construction
New Housing Starts

Commentary

For 2011, Single-family (SF) starts are muddling along:

427 m\(^1\) starts, up by 2.3% from October 2011

From Nov 2010 to Nov 2011 – a decrease of 1.5%

From a wood utilization perspective, this critical series is indicating no improvement – stagnation at best

As presented in the previous slide, SF starts are at levels not witnessed since World War II and the Great Depression

\(^1\) m = thousand
Source: U.S. Department of Commerce-NAICS 23, Construction
New Housing Starts

Commentary

For 2011, Multi-family (MF) starts – increasing:

230 m: (≥ 5 units) up by 32.2% from October

From Nov 2011 to Nov 2010 – an increase of 180.5%

8 m: 2-4 unit buildings

From a utilization viewpoint this sector, to date, is not a large consumer of hardwood products

Historically, MF starts are considered to be volatile (up 42.5%-September; down 20.2%-October; up 32.2%-November)

Source: U.S. Department of Commerce-NAICS 23, Construction
New Housing Starts

Average annual starts: 2008 to *December 2011

Source: U.S. Department of Commerce-NAICS 23, Construction; *December 2011 extrapolated from 2011 data
Commentary on Housing

Housing Permits

November building permits – privately-owned housing:
681,000 units (SAAR)

5.7% above revised October rate of 644 m
20.7% above November 2010 estimate of 564 m

SF authorizations
435 m: 1.6% above the revised October figure of 428 m

MF authorizations
5 units or more – 224 m in November

Source: U.S. Department of Commerce-NAICS 23, Construction
Commentary on Housing

Housing Completions

November housing completions – privately-owned:
542,000 units (SAAR)

5.6% below revised October rate of 574 m
1.6% below November 2010 estimate of 551 m

SF completions
440 m: 0.7% below revised October figure of 443 m

MF completions
5 units or more – 99 m in November

Source: U.S. Department of Commerce-NAICS 23, Construction
Commentary on Housing

New Single-Family Home Sales

November 2011 new SF home sales: 315,000 (SAAR)
1.6% above the revised October rate of 310 m
9.8% above the November 2010 estimate of 287 m

New home sales are still depressed

Number of new homes on the market - - lowest in 47-years

Both new home sales and starts are anemic

Source: U.S. Department of Commerce-NAICS 23, Construction
Commentary on Housing

New Home Sales

Median new house sales price in November: $214,100
Average November sales price: $242,900

Estimate of new homes for sale at November’s end: 158 m (SAAR)

7.4 months inventory (median)

2011 monthly estimates are in a fairly tight range:

281 m to 317 m

Source: U.S. Department of Commerce-NAICS 23, Construction
Commentary on Housing

Existing Sales

National Association of Realtors (NAR) revised 2007-2011 sales data

2007 – 11% lower (5,040 mm² vs. 5,652 mm)
2008 – 16% lower (4,110 mm vs. 4,913 mm)
2009 – 16% lower (4,340 mm vs. 5,156 mm)
2010 – 15% lower (4,190 mm vs. 4,908 mm)

October 2011’s annual estimate – 4.25 mm home sales

A decrease of 14.5% from the previous estimate of 4.97 mm

November existing home sales estimate: 4.42 mm (SAAR)

2 mm = million
Source: NAR® – November 2011
Commentary on Housing

Existing Sales

Four-Year Total

Over-Estimate: 2,949,000 less existing homes sold
– a decease of 14%

Essentially the same quantity of existing homes sold from January through October 2011

Distressed sales (foreclosures and short sales)
– 30% of all existing home sales

A decrease of 33% (first quarter 2011) and 34% year-over-year

Source: NAR® – November 2011
Commentary on Housing

Existing and new home sales: 1967 to 2011

Source: U.S. Department of Commerce-NAICS 23, Construction and NAR®
Commentary on Housing

Standard & Poor’s/Case-Shiller Home Price Indices

“Home Prices Weaken as the Third Quarter of 2011 Ends”

In October, only Washington DC and Detroit posted price increases (year-over-year)

19 of 20 cities (Case-Shiller 20-City Composite) recorded price declines – October over September

National home prices are still lower than one-year ago

Atlanta, Cleveland, Detroit, and Las Vegas: October average home prices are lower than January 2000 price levels

Source: Case-Shiller® and Case-Shiller Indexes® and Fiserv® - December 2011
Commentary on Housing

S&P/Case-Shiller U.S. National Home Price Index

- US National, index level (left)
- US National, % change (right)

Nationally, home prices are back to their 2003 Q1 levels

Record low decline of 18.9% in 2009 Q1 (solid line)

Source: S&P Indices and Fiserv

Source: Case-Shiller® and Case-Shiller Indexes® and Fiserv - December 2011
Commentary on Housing

Home prices back to 2001 levels

Source: Case-Shiller® and Case-Shiller Indexes® and Fiserv - December 2011
Commentary on Housing

Shadow Inventory and Distressed Homes

October 2011: Shadow inventory still at 1.6 mm units

Of the 1.6 mm Shadow Inventory properties:

- 770 m: Seriously delinquent
- 430 m: In some stage of foreclosure
- 370 m: Real Estate Owned (REO)

Represents 50% of the known 3 mm properties that are: Seriously delinquent, in foreclosure, or are REOs

Source: CoreLogic – November 2011
Commentary on Housing

Shadow Inventory and Distressed Homes

Shadow inventory is 1.6 mm units

\[ \approx 4X > \text{the low-point: 380 m at the housing bubble peak in mid-2006} \]  

According to CoreLogic:

“For every two homes available for sale, there is one home in the “shadows” ” (see next slide)
Commentary on Housing

Shadow Inventory Detail (in millions, not seasonally adjusted)

Source: CoreLogic – November 2011
From the Federal Reserve: Negative equity number likely understated because of incomplete data on junior rents. Nonprime includes alt-A and subprime loans.
Europe

Why is it important or is it?

Al, in the past, has documented the many “headwinds’ currently encountered by the housing industry

In this month’s commentary, we look at one indirect effect →

Europe

What happens “across the pond” may affect the United States housing market
Europe

Why is it important or is it?

“European financial pressure on U.S. economic growth constitutes a "continuing risk" and has dampened the confidence of households and firms; if the debt problems in Europe affect U.S. banks, the Federal Reserve will provide ‘liquidity’”

- - U.S. Federal Reserve Chairman Ben Bernanke

Contagion Risk – U.S. Money Market

In September 2011, $555 billion or 37% of the $1.5 trillion U.S. money-market funds were invested in European bank bonds & CDs
Europe

Why is it important or is it?

“The Eurozone sovereign debt problem could affect the U.S. …

• It undermines the euro’s role as a reserve currency leading to a flight out of the euro and into the U.S. dollar …

• A depreciation of the euro relative to the U.S. dollar makes Eurozone exports cheaper in global markets, increasing competitive pressure on U.S. exports”

Source: USDA- Economic Research Service
Europe

Why is it important or is it?

“Europe is systemically important for at least three huge reasons:

First, it is the largest economic area in the world and, as such, an important source of demand for the rest of the world.

Second, with its banks holding large claims on nonresidents, their forced deleveraging will transmit waves of credit rationing well beyond the EU.

Third, by fueling volatility and uncertainty, the European crisis has a material influence on the functioning of global markets.”

- - Mohamed El-Erian, CEO and co-CIO of PIMCO

Source: www.foreignpolicy.com, Downward Spiral, December 15, 2011
Europe

Public Debt and Debt to GDP - 2010

Source Data: CIA World Factbook
Europe

Budget Deficit and Public Debt to GDP - 2010

Source Data: CIA World Factbook
Europe

2011-2012 debt to be ‘rolled over’ by 3-European countries
Europe

European Sovereign Debt

In addition to the three previous slides, this from Standard & Poors:

“We believe that the ratings on:

Austria, Belgium, Finland, Germany, The Netherlands, and Luxembourg could be lowered 1-notch (if at all)

Estonia, France, Ireland, Italy, Malta, Portugal, Slovak Republic, Slovenia, and Spain lowered two-notches (if at all)”

Lower ratings typically result in rising interest rates – which increases payments on sovereign debt

Source: www.standardandpoors.com
Europe

European Sovereign Debt

Italy is just one-example of Eurozone debt problems, other countries are at risk (previous slide) and also Britain

Where will the financing come from?

The European Central Bank holds US$3.2 trillion in assets (i.e., a lot of debt) and is leveraged 30X (a enormous amount of leverage)

As compared to the U.S. Federal Reserve’s $2.9 trillion

Even China appears to be unable to help at this point in time

Well, there is this joke going around:

* A Greek, a Portuguese, an Italian, and a Spaniard go into a bar and all order a drink. The bartender asks them, “Who’s going to pay?” and they all answer simultaneously... “The Germans!”
European Sovereign Debt

Let’s look at Italy – some call it a country ‘too big to fail’

- Can Italy finance its public debts?

Needed to refinance €192 billion euro – 2011
€68 billion euro – 2012
€100 billion euro – 2013

Italy is the world's third-largest sovereign borrower – public debt estimates of €1.7 to 2.0 trillion euro

Public debt ≈ equal to national income (similar to GDP), and interest payments are about 10% of income

Source: CIA and Reuters
Europe

European Sovereign Debt

Fitch’s current credit rating for Italy: A-plus

– according to Fitch, an A-plus credit rating probably indicates there will be great difficulty in debt repayment (“changes in circumstances or economic conditions may affect the capacity for timely repayment to a greater degree than is the case for financial commitments denoted by a higher rated category”)

David Riley, Fitch's head of Global Sovereign ratings: Fitch will likely downgrade Italy by January’s end

The point, Italy’s borrowing costs are increasing due to rising interest rates – thus more spent servicing debt

- - instead of investment, infrastructure, or payments to other programs

Europe

Eurozone debt web: Who owes what to whom?

The circle below shows the gross external, or foreign, debt of some of the main players in the eurozone as well as other big world economies. The arrows show how much money is owed by each country to banks in other nations. The arrows point from the debtor to the creditor and are proportional to the money owed as of the end of June 2011. The colours attributed to countries are a rough guide to how much trouble each economy is in.

ITALY
- GDP: €1.2 tn
- Foreign debt: €2 tn
- €32,875 Foreign debt per person
- 163% Foreign debt to GDP
- 121% Govt debt to GDP
- Risk Status: HIGH

Italy has a large amount of debt, but it is a relatively wealthy country compared with Greece and Portugal. However, doubt about Italy’s leadership and fears that its debt load could grow more quickly than the Italian economy’s capacity to support it have left the markets jittery. France is most exposed to Italian debt.

Source: Bank for International Settlements, IMF, World Bank, UN Population Division
Select World Debt

Net expected revenues are not adequate to continue funding social policies.

Source: David Rhodes and Daniel Stelter, *Collateral Damage*, 2012
“Debt in itself makes it more difficult to grow out of debt.

Studies by Carmen Reinhardt and Kenneth Rogoff and the Bank for International Settlements indicate that once government debt reaches 90% of GDP, the real rate of economic growth is reduced.

This also applies to the debt of nonfinancial corporations and private households.”

Reinhardt and Rogoff (2009), *This Time Is Different: Eight Centuries of Financial Folly*; Princeton University Press
“Total debt-to-GDP levels in the 18 core countries of the Organization for Economic Co-operation and Development (OECD) rose:

from 160% in 1980 to 321% in 2010.

Disaggregated and adjusted for inflation…

the debt of nonfinancial corporations increased by 300%
the debt of governments increased by 425%
and the debt of private households increased by 600%.”

Source: David Rhodes and Daniel Stelter; Collateral Damage, 2012
European Bank Debt

STRATFOR
“If anything, Europe’s banks are as damaged as the governments that regulate them”

McKinsey & Co.
“Europe's banks will require US$3.5 trillion to $5 trillion in additional capital to meet the new Basel III global banking regulations”.

Bloomberg
“Goldman Sachs estimates the latest bailout amounts to nearly 63% of all European bank debt maturing in 2012. Euro banks borrowed a record €489 billion in December 2011.

In Europe, the 90 largest banks must finance €5.4 trillion euro in debt over the next 24 months – 45% of EU GDP”

Where are the euros going to come from?

European Bank Debt

Dexia N.V. S.A (Belgium) – failed and bailout in progress
UniCredit (Italy) – on the verge of failure? It holds more than €1.2 trillion in euro debt and has €74 billion euros in equity

Some other troubled banks:
Deutsche Postbank AG, Commerzbank AG, Societe Generale L-T counterparty credit, Intesa Sanpaolo
Credit Agricole S.A., Eurohypo, Rabobank Nederland, CACEIS, Banca IMI SpA, Ulster Bank, Banque Kolb, Bank Polska Kasa Opieki S.A.

The gist – European banks own massive Eurozone sovereign debt plus their own - - who bails out or recapitalizes these banks?

- - ECB, U.S. Federal Reserve, or individual countries (hardly likely when they’re ‘up to their gills’ in debt)?

Source: David Rhodes and Daniel Stelter; Collateral Damage, 2012
Europe

BANK EXPOSURE TO FOREIGN MARKETS, BY COUNTRY

PERCENT OF TOTAL ASSETS

Sweden: Others, United States, United Kingdom, Baltics and Denmark, Central Europe and Cyprus, PIIGS and Belgium, AAA-rated European countries

Netherlands: Others, United States, United Kingdom, Baltics and Denmark, Central Europe and Cyprus, PIIGS and Belgium, AAA-rated European countries

Austria: Others, United States, United Kingdom, Baltics and Denmark, Central Europe and Cyprus, PIIGS and Belgium, AAA-rated European countries

United Kingdom: Others, United States, United Kingdom, Baltics and Denmark, Central Europe and Cyprus, PIIGS and Belgium, AAA-rated European countries

Spain: Others, United States, United Kingdom, Baltics and Denmark, Central Europe and Cyprus, PIIGS and Belgium, AAA-rated European countries

France: Others, United States, United Kingdom, Baltics and Denmark, Central Europe and Cyprus, PIIGS and Belgium, AAA-rated European countries

Germany: Others, United States, United Kingdom, Baltics and Denmark, Central Europe and Cyprus, PIIGS and Belgium, AAA-rated European countries

Belgium: Others, United States, United Kingdom, Baltics and Denmark, Central Europe and Cyprus, PIIGS and Belgium, AAA-rated European countries

Greece: Others, United States, United Kingdom, Baltics and Denmark, Central Europe and Cyprus, PIIGS and Belgium, AAA-rated European countries

Ireland: Others, United States, United Kingdom, Baltics and Denmark, Central Europe and Cyprus, PIIGS and Belgium, AAA-rated European countries

Portugal: Others, United States, United Kingdom, Baltics and Denmark, Central Europe and Cyprus, PIIGS and Belgium, AAA-rated European countries

Italy: Others, United States, United Kingdom, Baltics and Denmark, Central Europe and Cyprus, PIIGS and Belgium, AAA-rated European countries

PIIGS = Portugal, Italy, Ireland, Greece, and Spain

Source: Bank of International Settlements, European Central Bank

Copyright STRATFOR 2011 www.STRATFOR.com

Source: STRATFOR October 2011
European Bank Debt

One area not receiving much attention is eastern Europe

Many home loans in Hungary, Poland, Czechoslovakia, Romania, and some Baltic countries were pegged to the Swiss Franc

– when investors flocked to (i.e., bought) the Swiss Franc for safe haven purposes
– many home loans became underwater or in arrears due to currency valuations

Some estimate another €1.5 trillion – €2 trillion Euros will have be borrowed by banks in the upcoming years

Source: David Rhodes and Daniel Stelter; Collateral Damage, 2012
United States Debt

Lastly, let’s look at U.S. debt

Recently *FitchRatings* downgraded U.S. debt, is this why?

- U.S. tax revenue: $2,170,000,000,000
- Fed budget: $3,820,000,000,000
- New debt: $1,650,000,000,000
- National debt: $14,271,000,000,000
- Recent budget cuts: $38,500,000,000

Now let's remove 8 zeros and pretend it's a household budget...

- Annual family income: $21,700
- Money the family spent: $38,200
- New debt on the credit card: $16,500
- Outstanding balance on the credit card: $142,710
- Total budget cuts: $385 – Anonymous

And keep in mind, this is a representation of funded liabilities and does not include unfunded liabilities: Social Security, Medicare, and Medicaid
Conclusions

New housing starts are stagnant

Multi-family building is the current driver in starts
Single-family starts are about $\frac{1}{4}$ of what most indicate is necessary for a thriving forest products industry

Existing sales are still trending downwards in spite of declining interest rates

U.S. GDP and Eurozone GDP estimates are being revised lower

Will the Eurozone sovereign & bank debt crisis be a contagion?
Will it spread to the U.S.?
Conclusions

Fiscal problems in the U.S. and abroad must be addressed

“…the temptation among politicians will be to avoid making any active choices. But that would constitute a huge mistake. It would further reduce their future degrees of freedom due to an even narrower set of possibilities and, with that, erode their ability to influence outcomes.” - - Mohamed El-Erian

Source: www.foreignpolicy.com, Downward Spiral, December 15, 2011

“The emerging fight over the future of the welfare state, a paradigm without serious political challenge in eight decades, is accentuating the center’s declining. The welfare state has run up against a brick wall of economic reality and fiscal book-keeping. Congress, having enacted increases in entitlements without visible means of funding them, is on the brink of a stalemate… .” - - Alan Greenspan, former Chairman of the U.S. Federal Reserve


We can only hope that these problems are addressed and there is not more of “Kicking the can down the road” and hoping things will solve themselves
Disclaimer of Non-endorsement
Reference herein to any specific commercial products, process, or service by trade name, trademark, manufacturer, or otherwise, does not necessarily constitute or imply its endorsement, recommendation, or favoring by the United States Government. The views and opinions of authors expressed herein do not necessarily state or reflect those of the United States Government, and shall not be used for advertising or product endorsement purposes.

Disclaimer of Liability
With respect to documents available from this server, neither the United States Government nor any of its employees, makes any warranty, express or implied, including the warranties of merchantability and fitness for a particular purpose, or assumes any legal liability or responsibility for the accuracy, completeness, or usefulness of any information, apparatus, product, or process disclosed, or represents that its use would not infringe privately owned rights.

Disclaimer for External Links
The appearance of external hyperlinks does not constitute endorsement by the U.S. Department of Agriculture of the linked web sites, or the information, products or services contained therein. Unless otherwise specified, the Department does not exercise any editorial control over the information you may find at these locations. All links are provided with the intent of meeting the mission of the Department and the Forest Service web site. Please let us know about existing external links you believe are inappropriate and about specific additional external links you believe ought to be included.

Nondiscrimination Notice
The U.S. Department of Agriculture (USDA) prohibits discrimination in all its programs and activities on the basis of race, color, national origin, age, disability, and where applicable, sex, marital status, familial status, parental status, religion, sexual orientation, genetic information, political beliefs, reprisal, or because all or a part of an individual's income is derived from any public assistance program. (Not all prohibited bases apply to all programs.) Persons with disabilities who require alternative means for communication of program information (Braille, large print, audiotape, etc.) should contact USDA's TARGET Center at (202) 720-2600 (voice and TDD). To file a complaint of discrimination write to USDA, Director, Office of Civil Rights, 1400 Independence Avenue, S.W., Washington, D.C. 20250-9410 or call 800.795.3272 (voice) or 202.720.6382 (TDD). USDA is an equal opportunity provider and employer.