November 2012 Housing Commentary

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

Urs Buehlmann
Department of Sustainable Biomaterials
Virginia Tech
Blacksburg, VA
540.231.9759
buehlmann@gmail.com

Return TOC

Executive Summary

November's housing data was a mixed bag, with a few indicators decreasing and the remainder increasing. In many instances, these increases were due to large downward revisions in October's data, which in turn resulted in November increases. Overall, the housing market continues its "healing" process.

November 2012's report covers housing data, demographics, and macro factors influencing the United States housing market. This report includes data for new housing starts, new and existing sales, building permits, housing completions, and construction spending. Also, the report contains comments concerning delinquencies, foreclosures, shadow inventory, and underwater homes; housing prices; demographics and economics. Beginning this month, we will incorporate The Federal Bank of St. Louis's "Recession" indicator – and we hope this is of value to you in your planning.

Total starts, including single-family starts, and housing completions declined in November. Total building permits increased and private construction spending increased minimally month-over-month.

Existing and new house sales and prices increased. The number of available existing and new houses for sale decreased again – which is a positive. Private investors still remain as primary purchasers of existing, foreclosed, and bank-owned (REO) homes. The Case-Shiller® indices, and other indices, also reported house values increased.

Lastly, included this month are projections for 2013 housing starts and new home sales.

Return TOC

Table of Contents

Return TOC

November 2012 Housing Commentary

Opening Comments

Economic conditions in the Western world remain unchanged and China's economy appears to be improving

- Overall, Americans are "leveraging" up. However, traditional measures of personal debt are declining → student debt is the driver of increasing "leverage".
- Government debt: Federal, state, and local → still very problematic.
- Europe → the euro is increasing in value. Though the underlying unemployment and debt problems of several EU countries remain. And keep an eye on France.

"The fact that debt is growing as a percentage of total global money has profoundly negative implications for future economic growth and stability. Unlike equity, debt has to be serviced. As global debt grows, so does the volume of capital required to pay interest and repay principal. To the extent debt is used for purposes that fuel economic growth, the capital used to service this debt can itself be considered contributing (albeit indirectly) to growth. But to the extent debt is used for non-productive purposes, the capital used to service it is also unproductive. It is fair to say that much of the debt that has been created over the last decade has been devoted to unproductive and speculative uses rather than productive uses."[1]

- - Michael E. Lewitt, Editor, *The Credit Strategist*

Source: [1]The Nothing That Is, The Credit Strategist, 11 pp., 1/1/13

Return TOC

November 2012 Housing Scorecard

	M/M	Y/Y
Housing Starts[A]	▽3.0%	∆21.6%
Single-Family Starts[A]	▽4.1%	∆22.8%
Housing Permits[A]	∆3.6%	∆26.8%
Housing Completions[A]	▽9.7%	∆16.1%
New Single-Family House Sales[A]	∆4.4%	∆15.3%
Existing House Sales[B]	∆5.9%	∆14.5%
Remodeling Permits[C]	∆19.0%	∆13.0%
Private Construction Spending[A]	∆0.4%	∆19.0%

M/M = month-over-month; Y/Y = year-over-year

Source: [A]U.S. Department of Commerce-Construction ; [B] National Association of Realtors®; [C] BuildFax

Return TOC

2013 Housing Forecasts

Organization	Total Starts[1]	Single Family Starts[1]	New Home Sales[1]
APA – The Engineered Wood Association	905		
Freddie Mac	925		
Fannie Mae	936	659	452
National Association of Home Builders	932	644	439
Export Development Canada	1.05		
Metrostudy National Forecast		596	
Moody's Analytics	1.19	820	500
National Association for Business Economics	850		
The Conference Board	1.04		
UCLA Anderson Forecast	991		
Urban Land Institute		660	
Barclays	988		424
Goldman Sachs	1.0		
IHS Global Insight	900		
Merrill Lynch	976		466
Royal Bank of Canada	950		
Scotiabank	950		
Wells Fargo	990	680	460

[1] = 000s

Return TOC

New Housing Starts

	Total Starts*	Single-Family Starts	Multi-Family 2-4 unit Starts	Multi-Family 5 or more unit Starts
November	861,000	565,000	11,000	285,000
October	888,000	589,000	18,000	281,000
2011	708,000	451,000	9,000	239,000
M/M change	-3.0%	-4.1%	-61.2%	+1.4%
Y/Y change	+21.6%	+22.8%	+22.2%	+19.2%

* All start data are presented at a seasonally adjusted annual rate (SAAR)

November 2012: Total and SF starts → Decreased

"… stubbornly tight lending standards for home buyers and builders, inaccurate appraisals and proposals by policymakers to tamper with the mortgage interest deduction could dampen future housing demand. It's the single-family market that has the farthest to go, standing at only 40% of what is considered a typical market."[2]

-- David Crowe, Chief Economist and Senior Vice President,
National Association of Home Builders

Source: U.S. Department of Commerce-Construction, [2]www.realestateeconomywatch.com/2012/12/new-home-construction-is-still-only-40-percent-of-normal; 12/21/12

Return TOC

New Housing Permits and Completions

	Total Permits*	Single-Family Permits	Multi-Family 2-4 unit Permits	Multi-Family 5 or more unit Permits
November	899,000	565,000	27,000	307,000
October	868,000	566,000	24,000	278,000
2011	709,000	451,000	23,000	235,000
M/M change	+3.6%	-0.2%	+10.4%	+10.4%
Y/Y change	+26.8%	+25.3%	+17.4%	+30.6%

	Total Completions*	Single-Family Completions	Multi-Family 2-4 unit Completions	Multi-Family 5 or more unit Completions
November	677,000	520,000	7,000	150,000
October	750,000	533,000	5,000	212,000
2011	583,000	455,000	7,000	123,000
M/M change	-9.7%	-2.4%	+40.0%	-29.2%
Y/Y change	+16.1%	+14.3%	0.0%	+22.0%

Source: U.S. Department of Commerce-Construction

* All data are SAAR

Return TOC

New and Existing House Sales

	New Single-Family Sales*	Median Price	Month's Supply	Existing House Sales[3]*	Median Price[3]	Month's Supply[3]
November	377,000	$246,200	4.7	5,040,000	$180,600	4.8
October	361,000	$237,500	4.9	4,760,000	$176,900	5.3
2011	327,000	$214,300	5.7	4,400,000	$166,100	7.1
M/M change	+4.4%	+3.6%	-4.1%	+5.9%	+2.1%	-9.4%
Y/Y change	+15.3%	+14.8%	-17.5%	+14.5%	+10.1%	-32.4%

* All sales data are SAAR

Commentary on Housing Sales

New single-family house sales – increased after a substantial downward revision for October

Existing house sales -- an increase

"Without added mortgage supply, a genuine housing recovery lives only in the minds of the Pollyannas. The nation's sole supply of new mortgages, Fannie-Freddie-FHA-VA, has been the same since 2009, about $5.8 trillion. All other sources, …, are just as inert as they have been since 2007. When these mortgage aggregates begin to rise, then we'll know that housing really is healing, and the economy with it."[4]

- - Lou Barnes, Economist and Nationally Syndicated Real Estate Columnist

Source: U.S. Department of Commerce-Construction; [5]National Association of Realtors,
[4]www.inman.com/buyers-sellers/columnists/loubarnes/housing-recovery-hinges-mortgage-supply; 12/7/12

Return TOC

Existing House Sales

National Association of Realtors (NAR)[3]
November 2012 sales data:

Distressed houses: 22% of sales –

(12% foreclosures and 10% short-sales)

Distressed house sales: 24% in October
and 29% in November 2011

All-cash sales: **increased** to 30%; 29% in October

Investors are still purchasing a substantial portion of "all cash" sale houses – 19%;
20% in October 2012 and 19% in November 2011

First-time buyers: **decreased** again to 30% from 31% in October 2012
and first-time buyers were 35% in November 2011[5]

Source: [3]www.realtor.org/topics/existing-home-sales, 11/20/12

Return TOC

November 2012 Construction Spending

Private Construction: $295.31 billion (SAAR)

0.4% above the revised October estimate of $294.23 billion (SAAR)
19.0% above the November 2011 estimate of $248.18 billion (SAAR)

November SF construction: $143.33 billion (SAAR)
28.4% above November 2011: $110.78 billion (SAAR)

November MF construction: $23.87 billion (SAAR)
45.9% above November 2011: $16.36 billion (SAAR)

November Improvement[A] construction: $128.11 billion (SAAR)
5.8% above November 2011: $121.02 billion (SAAR)

Private residential construction spending increased slightly from October; as noted last month, these are reported in nominal dollars, and upon revision will likely indicate a decrease in private construction spending.

[A] The US DOC does not report improvements directly, this is an estimation.

Source: U.S. Department of Commerce-C30 Construction

November 2012 Construction Spending

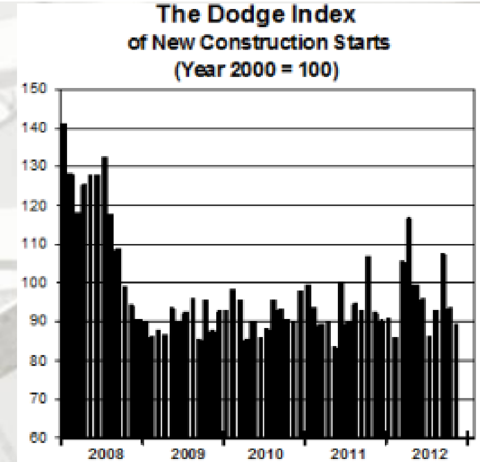
"Residential building in November grew 3% to $183.9 billion (annual rate). Single-family housing held steady, maintaining the improved activity reached in October, while multifamily housing climbed 17%. The multifamily increase in November was supported by the start of four condominium / apartment projects valued each at $100 million or more… .

During the first 11 months of 2012, residential building advanced 28% compared to the same period a year ago. Single family housing climbed 29%, as the result of this year-to-date performance by geography – the West, up 41%; the Midwest, up 30%; the South Atlantic, up 27%; the South Central, up 23%; and the Northeast, up 14%. Multifamily housing rose a similar 27%, as the result of this year-to-date performance by geography – the West, up 40%; the South Atlantic, up 31%; the South Central, up 26%; the Northeast, up 25%; and the Midwest, up 12%.

The 3% pickup for total construction starts at the national level during the first 11 months of 2012 was the result of a mixed performance at the five region level. Year-to-date gains for total construction were also reported for the South Central and the Midwest, each up 7%. Year-to-date declines for total construction were reported for the Northeast, down 5%; and the West, down 10%."[5]

- - Robert Murray, Vice President, Economic Affairs, McGraw-Hill Construction

November 2012 Construction Starts



Monthly Construction Starts
Seasonally Adjusted Annual Rates, In Millions of Dollars

	November 2012	October 2012	% Change
Nonresidential Building	$136,764	$131,688	+4
Residential Building	183,890	177,870	+3
Nonbuilding Construction	100,635	132,560	-24
Total Construction	$421,289	$442,118	-5

The Dodge Index
(Year 2000=100, Seasonally Adjusted)

November 2012……..89
October 2012……….94

Year-to-Date Construction Starts
Unadjusted Totals, In Millions of Dollars

	11 Mos. 2012	11 Mos. 2011	% Change
Nonresidential Building	$134,894	$154,784	-13
Residential Building	148,756	115,973	+28
Nonbuilding Construction	140,728	139,556	+1
Total Construction	$424,378	$410,313	+3

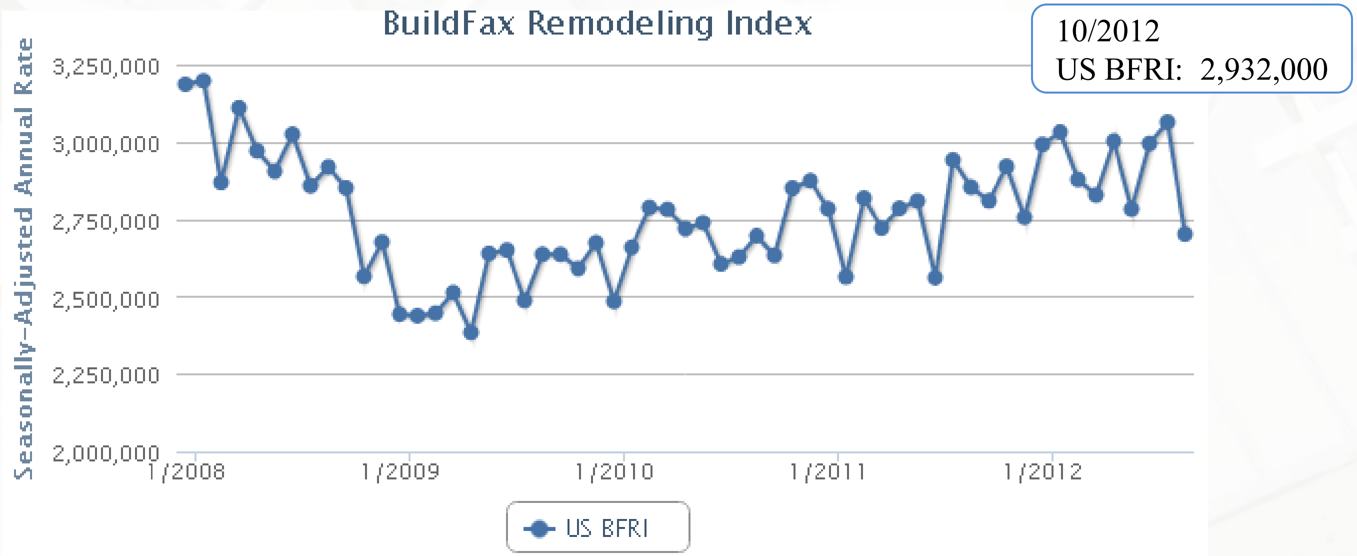
Source: [5]www.construction.com/about-us/press/November-construction-slipls-5-percent.asp; 12/20/12

Return TOC

Residential Remodeling October 2012

October Residential Remodeling Permits: 2,932,000 (SAAR)

19% <u>above</u> the revised September estimate of 2,454,000 and 13% <u>above</u> September 2011's 2,587,000 permits



"Remodeling across the country in October 2012: Northeast, 512,000 (up 9% from September and up 17% from October 2011); South, 1,396,000 (up 30% from September and up 46% from October 2011); Midwest, 508,000 (up 11% from September and down 12% from October 2011); West, 739,000 (up 15% from September and up 3% from October 2011) (SAAR).

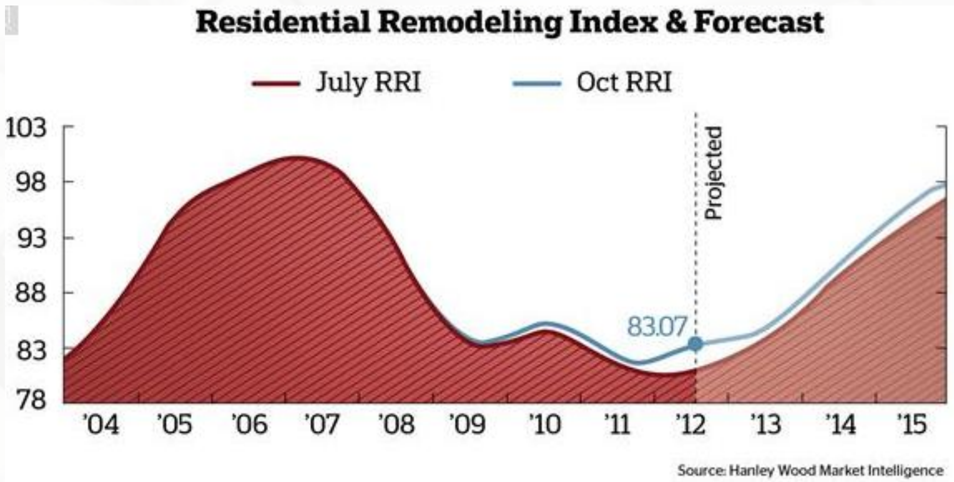
October showed a dramatic increase in residential remodeling volume from September, which was significantly lower than prior months; it is most likely that some work was deferred, and, as such, both months should be considered at least slightly anomalous."[6] - - Joe Emison, Chief Technology Officer, BuildFax

Source: [6]www.buildfax.com/public/remodeling/index.html; 12/27/12

Return TOC

Residential Remodeling 2012-2013

Q3 2012 Remodeling & Replacement Continue to Improve



"The seasonally adjusted Residential Remodeling Index (RRI) 3rd quarter national composite registered a score of 83.07, a 0.6% improvement over the revised 2nd quarter result of 82.60. Hanley Wood is now forecasting just over 10.1 million remodeling and replacement projects in 2012 and back up to 10.5 million projects in 2013.

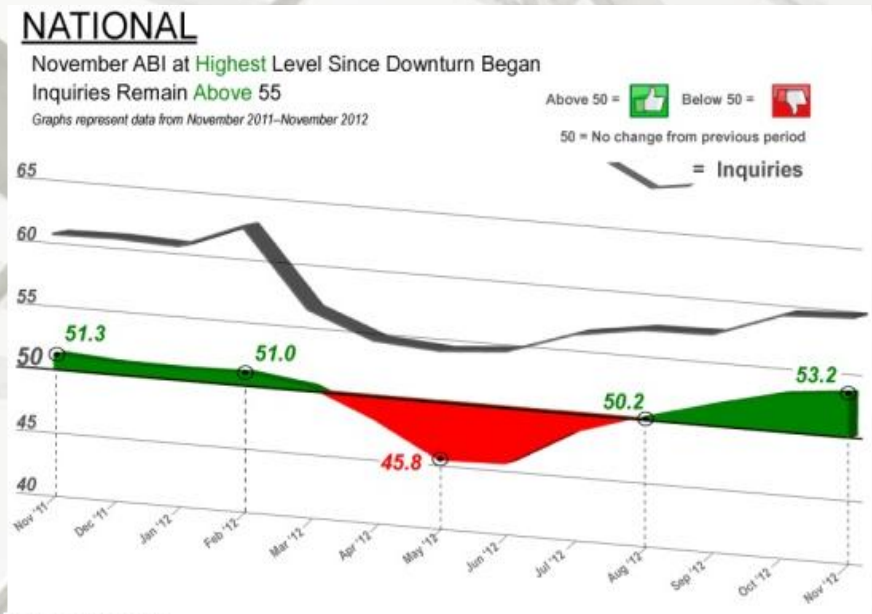
We had forecasted growth in remodeling and replacement activity in 2012 and the actual results are coming in close to expectations. Housing fundamentals are actually improving more quickly than we are seeing remodeling activity pick up. As it becomes clearer to consumers that the improving housing environment is not a head fake, we expect to see activity pick up even more."[7]

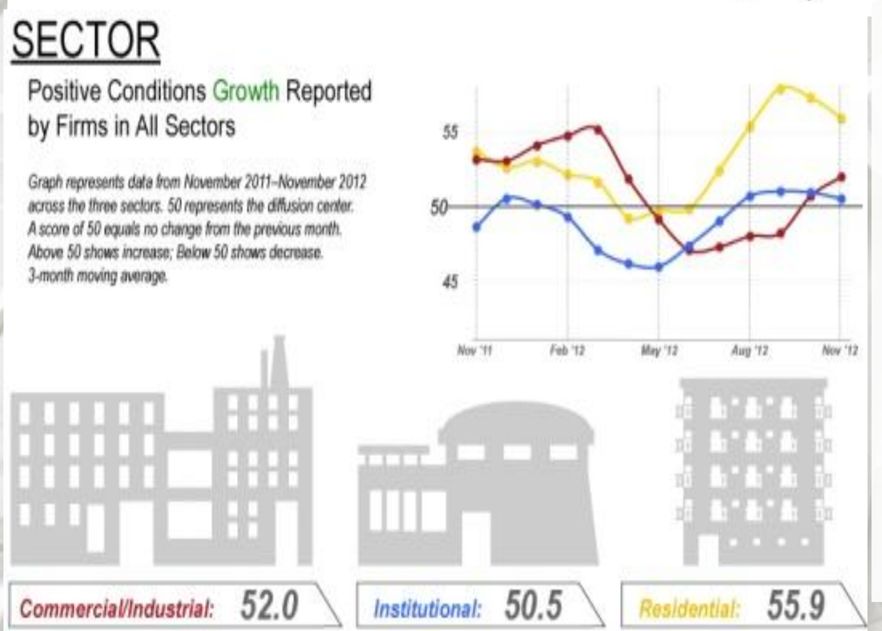
-- Jonathan Smoke, Executive Director, Hanley Wood Market Intelligence

Source: [7]www.remodeling.hw.net/rri/hanley-wood-rri-q3-2012-remodeling--replacement-c.aspx; 12/6/12

Return TOC

Architectural Billing Indicators





Latest ABI Reflects Strongest Growth in Nearly Five Years

"November saw the fourth straight monthly increase in the AIA's Architecture Billings Index (ABI), with the pace of growth accelerating each month. At 53.2, the ABI is reflecting the strongest growth in billings at architecture firms since the end of 2007, just before the recession in design revenue began.

By construction sector, clearer patterns are beginning to emerge. The residential index was 55.9 for November. This index has been above 55 for four straight months. That level of growth has not been seen since late 2005 near the end of the housing boom. The commercial/industrial index moved back into growth territory, and the institutional index remained barely in growth territory, with an index reading just above the 50 threshold. Both of these sectors are currently fragile enough that they are more vulnerable to the fluctuations of the broader economy, particularly the federal budget/debt negotiations.

Only modest growth projected for 2013

Like the last several years before it, 2012 turned out to be financially challenging for many architecture firms. This coming year is expected to be only modestly better. Projected growth is just 3.0%, barely above 2012 levels; 20% of firms are expecting that revenues will decline. Larger firms (revenues of $5 million or more) are the most pessimistic about their prospects for 2013, as this group is projecting just 2.8% growth in gross revenues for the year, with almost a 1/4 expecting a decline."[8]

- - Kermit Baker, Chief Economist,
The American Institute of Architects

Source: [8]www.aia.org/practicing/AIAB096284; 12/20/12

Return TOC

Halfway Home: Housing Recovery Crosses 50% Mark

"In November 2012, home sales saw strong increases, and the delinquency + foreclosure rate held steady–both signs of market improvement. However, new construction starts declined. Hurricane Sandy appears to have lowered construction (and sales, to a lesser extent) in the Northeast. Average monthly construction starts were 14% higher nationally in October and November – the months affected by Sandy – than in the previous four months, but 5% lower in the Northeast. Average monthly home sales were 7% higher nationally in October and November than in the previous four months, but just 3% higher in the Northeast.

Construction starts dipped in November but remain strong. Starts in November were at an 861,000 annualized rate, down 3% month-over-month and up 22% year-over-year. For the past three months, construction starts have remained solidly above 800,000–the highest level since September 2008. Nationally, construction starts are 37% of the way back to normal.

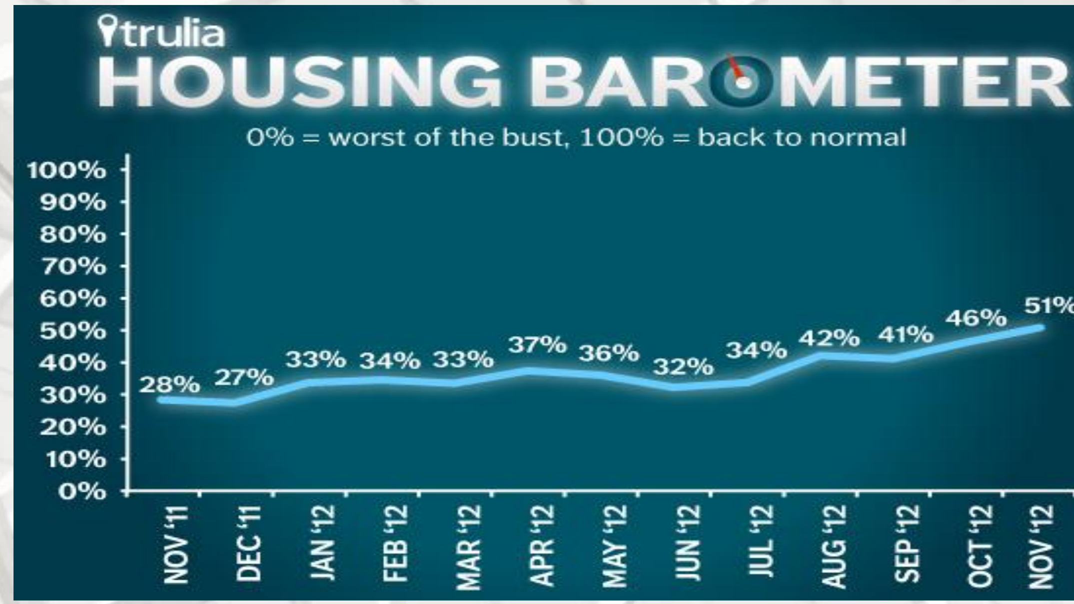
Existing home sales rose once again in November. After climbing in October, existing home sales rose 6% month-over-month to 5.04 million in November–the highest level since November 2009. Sales are 73% back to normal. Even better, "distressed" sales (foreclosures and short sales) represent a declining share of overall sales, making way for more "conventional" home sales.

The delinquency + foreclosure rate maintained a new post-crisis low. In November, 10.63% of mortgages were delinquent or in foreclosure, down a hair from 10.64% in October. The combined delinquency + foreclosure rate is at its lowest level in four years and is 41% back to normal."[9]

- - Jed Kolko, Chief Economist, Trulia Housing Research

Source: [9]http://trends.truliablog.com/2012/11/housing-market-recovery-accelerating; 11/28/12

Housing is 51% Back to “Normal”



Averaging these three back-to-normal percentages together, the housing market is now 51% of the way back to normal, compared with 28% in November 2011. Trulia’s Housing Barometer has jumped five points in each of the last two months. Does halfway back to normal mean the glass is half-full or half-empty? The half-empty view is that our three housing measures hit bottom (on average) in 2009, so it’s taken the market a long time – three years – to get to the halfway mark. But the half-full view is that halfway back to normal is better than anyone – myself included – predicted for 2012 at the start of this year.”[9]

- - Jed Kolko, Chief Economist, Trulia Housing Research

Source: [9]http://trends.truliablog.com/2012/11/housing-market-recovery-accelerating; 11/28/12

Return TOC

Shiller, Wetenhall, and Emerson Speak on Housing

Robert Shiller

Case-Shiller Indices® and Professor of Economics, Yale University

Housing Long-Term Outlook Is 'Fuzzy'

Robert Wetenhall

Director of Equity Research, Royal Bank of Canada

More Housing Upside in 2013

William Emerson

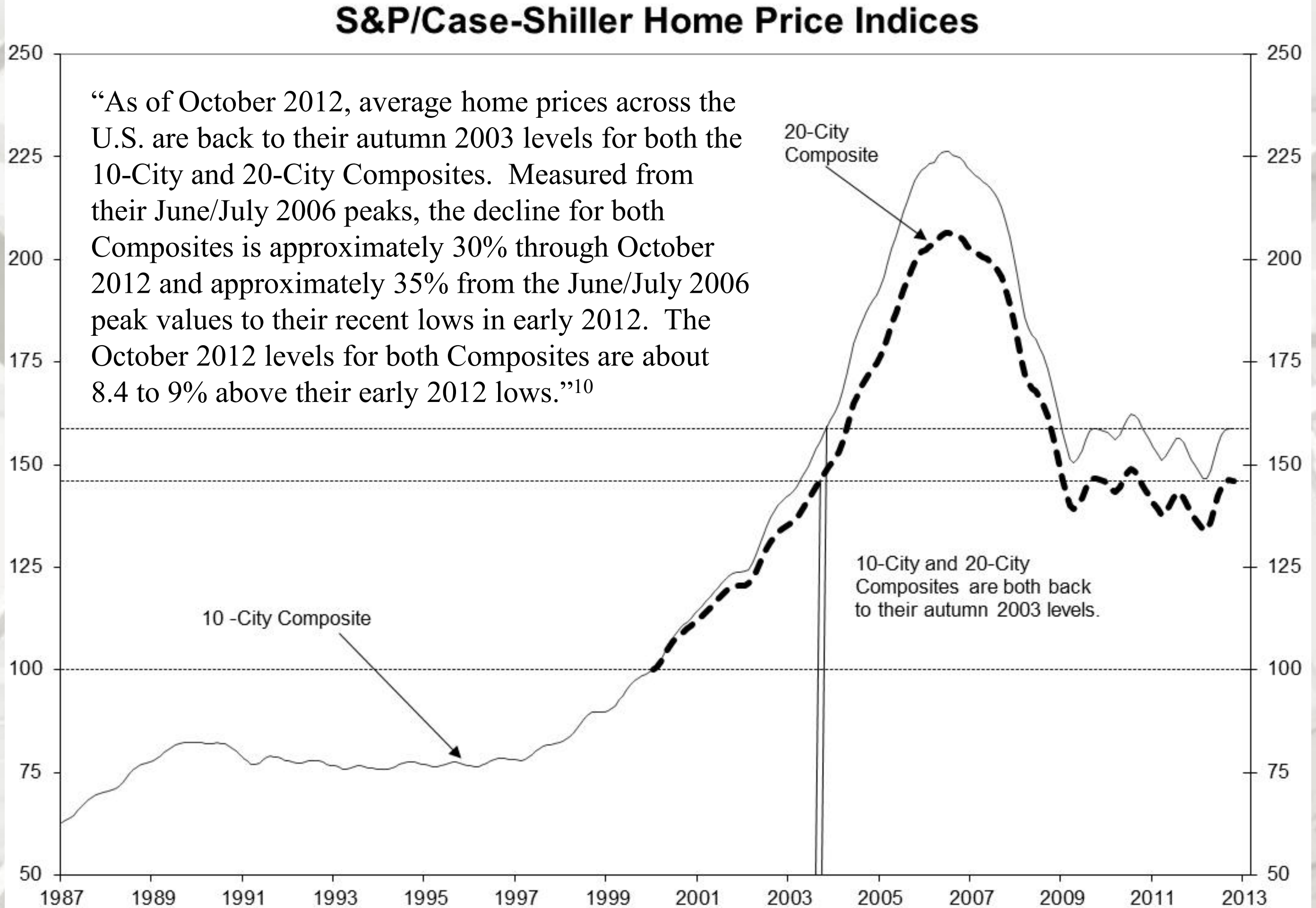
Chief Executive Officer, Quicken Loans

No 'Full-Blown' Housing Recovery

Double click on the photo for the link

Return TOC

S&P/Case-Shiller August Home Price Indices



"The October monthly numbers were weaker than September as 12 cities saw prices drop compared to seven the month before. Annual rates of change in home prices are a better indicator of the performance of the housing market than the month-over-month changes because home prices tend to be lower in fall and winter than in spring and summer. Looking over this report, and considering other data on housing starts and sales, it is clear that the housing recovery is gathering strength."[10]

- - David Blitzer, Chairman of the Index Committee at S&P Dow Jones Indices

Source: [10]Case-Shiller® and Case-Shiller Indexes® and Fiserv; 12/26/12

Return TOC

Delinquencies, Foreclosures, Negative Equity, and Shadow Inventory

November 2012

	Delinquent	Foreclosure	Negative Equity	Shadow Inventory
CoreLogic®[D]	1.2 million	55,000 foreclosures 1.06 million	10.8 million	2.29 million
LPS®[E]	3.54 million	130,053 starts 2.12 million	-	
RealtyTrac®[F]	-	77,494 starts 180,817 notices	+12 million	-
Zillow®[G]	-	5.26 per 10,000 homes	+14 million	-

Each firm has different estimating methods – thus the discrepancy in the data.

Source: [D]www.corelogic.com: 1/3/13; [E]www.lpsvcs.com: 12/10/12; [F]www2.marketwire.com, 11/12/12; [G]www.zillow.com; 12/19/12

Return TOC

November Distressed Housing Commentary

"The drop in overall foreclosure activity in November was caused largely by a 71-month low in foreclosure starts for the month, more evidence that we are past the worst of the foreclosure problem brought about by the housing bubble bursting six years ago. But foreclosures are continuing to hobble the U.S. housing market as lenders finally seize properties that started the process a year or two ago — and much longer in some cases. We're likely not completely out of the woods when it comes to foreclosure starts, either, as lenders are still adjusting to new foreclosure ground rules set forth in the National Mortgage Settlement along with various state laws and court rulings."[11]

-- Daren Blomquist, Vice President, RealtyTrac

"The pace of completed foreclosures has significantly improved over a year ago as short sales gain popularity as a disposition method. Additionally, the inventory of foreclosed properties continues to decline while the housing market demonstrates an ongoing ability to absorb the distressed sales that result from completed foreclosures."[12]

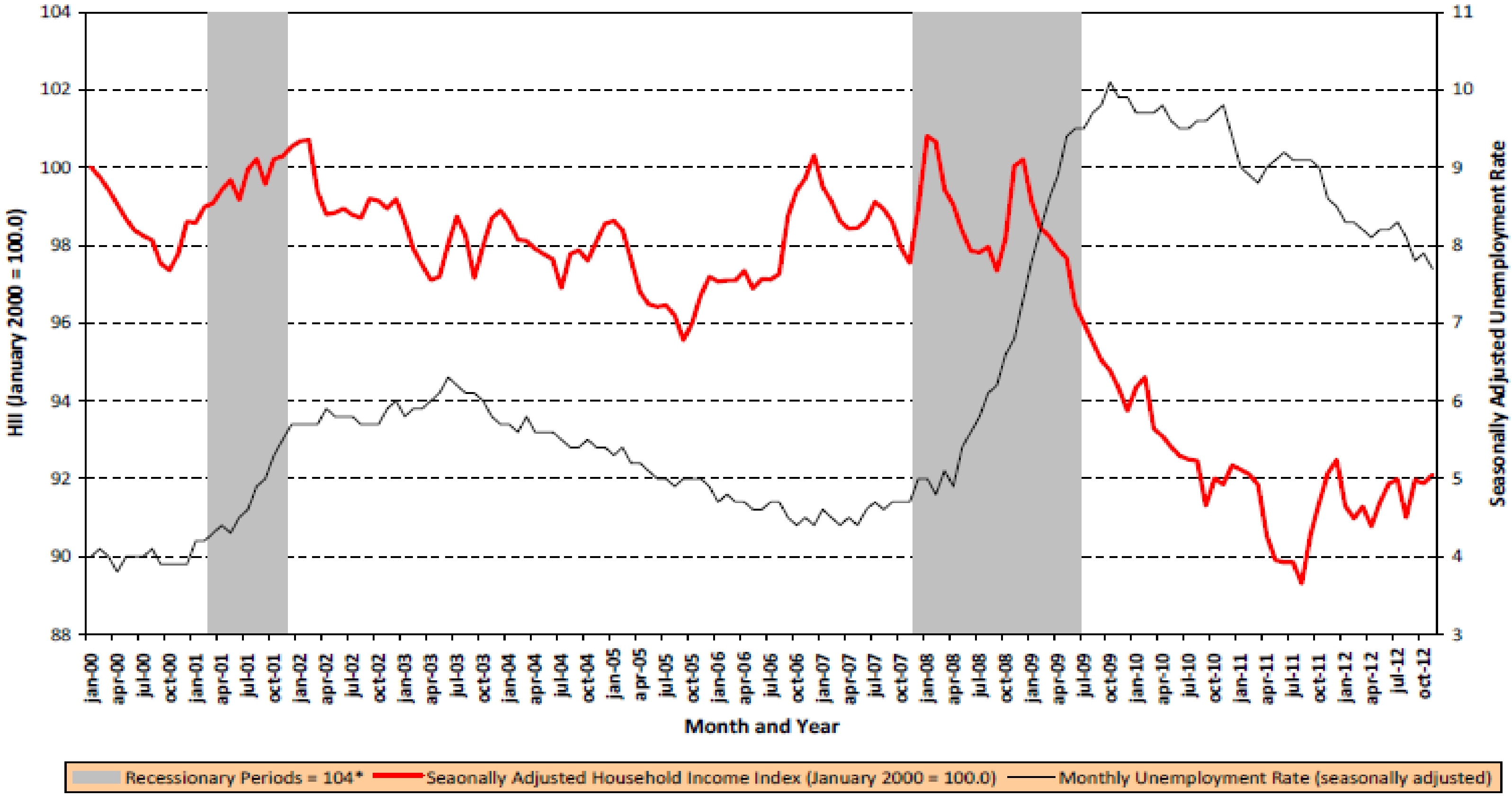
-- Mark Fleming, Chief Economist, CoreLogic

Source: [11]www2.marketwire.com/mw/frame_multimedia?prid=641471&attachid=1307869; 11/12/2012; [12]www.corelogic.com/research/national-foreclosure-report-november-2012.pdf; 1/3/13

Return TOC

Demographics and Economics

Median Household Income Index and Unemployment Rate by Month: Jan 2000 to Nov 2012

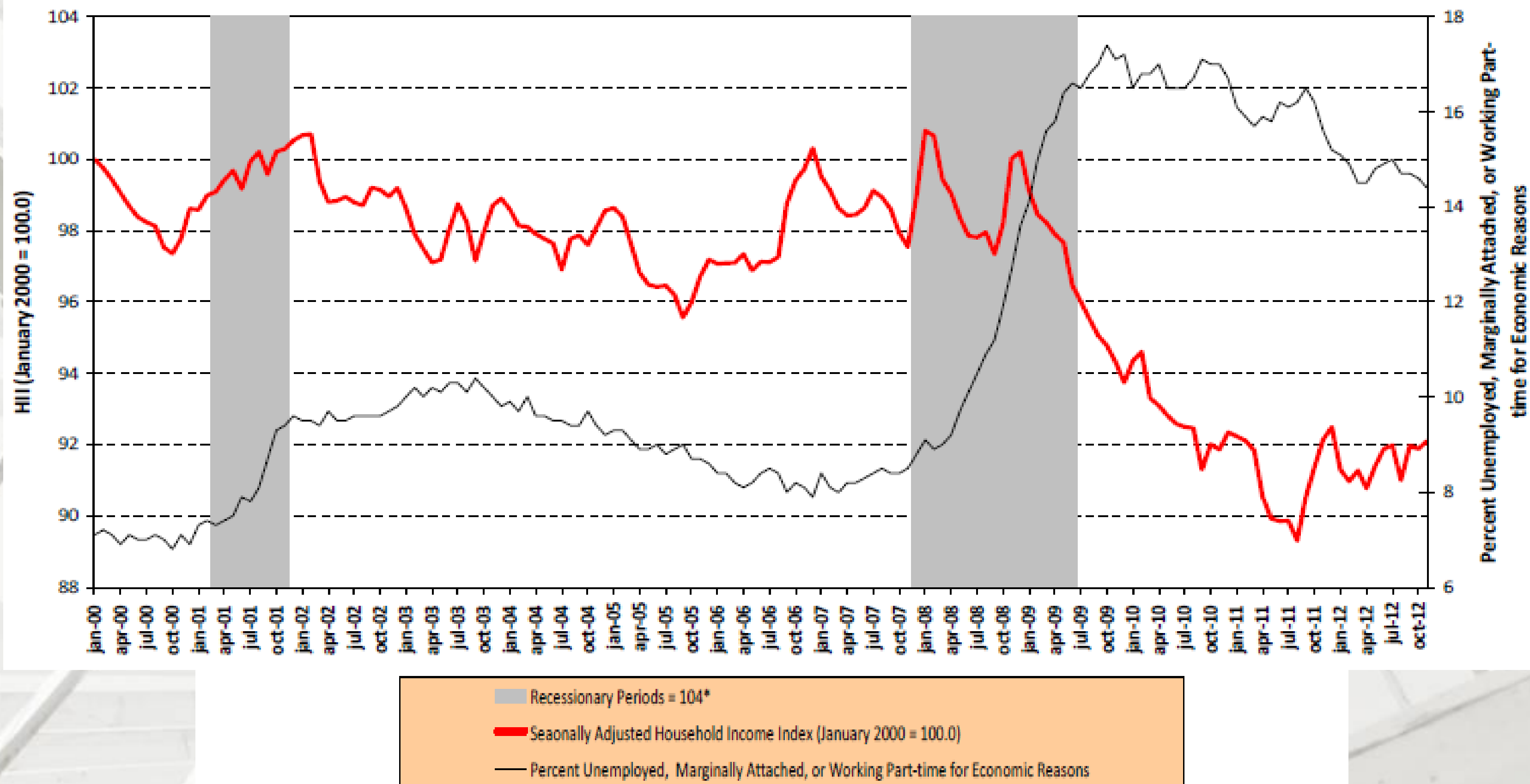


"The November 2012 level of real median annual household income is $505 higher than January 2012 ($50,805), 6.9% lower than the median of $55,093 in December 2007, and was 7.8% lower than the median of $55,650 in January 2000 - - reflecting some improvement in an economy that has lingering signs of weakness. Real median annual household income is essentially at its November 2011 level. Even though we are technically in an economic recovery, real median annual household income has gained little traction. These comparisons demonstrate how significantly real median annual household income has fallen over the past decade, and how much ground needs to be recovered to return to income levels that existed more than ten years ago."[13]

-- Dr. Gordon Green, Sentier Research

Source:. [13]www.sentierresearch.com; 12/28/12

Median Household Income Index, Percent Unemployed, Marginally attached or Working Part-time for Economic Reasons: January 2000 to November 2012



"The Household Income Index (HII) shows the value of real median annual household income in any given month as a percent of the base value at the beginning of the last decade (January 2000 = 100.0%). The HII for November 2012 stood at 92.1, about the same level as July 2012 (92.0), but lower than the December 2011 reading of 92.5. Before the fluctuation in income that has occurred since the beginning of this year, the HII had increased steadily from August 2011 to December 2011: 89.3 in August, 90.5 in September, 91.4 in October, 92.1 in November, and 92.5 in December.." [13]

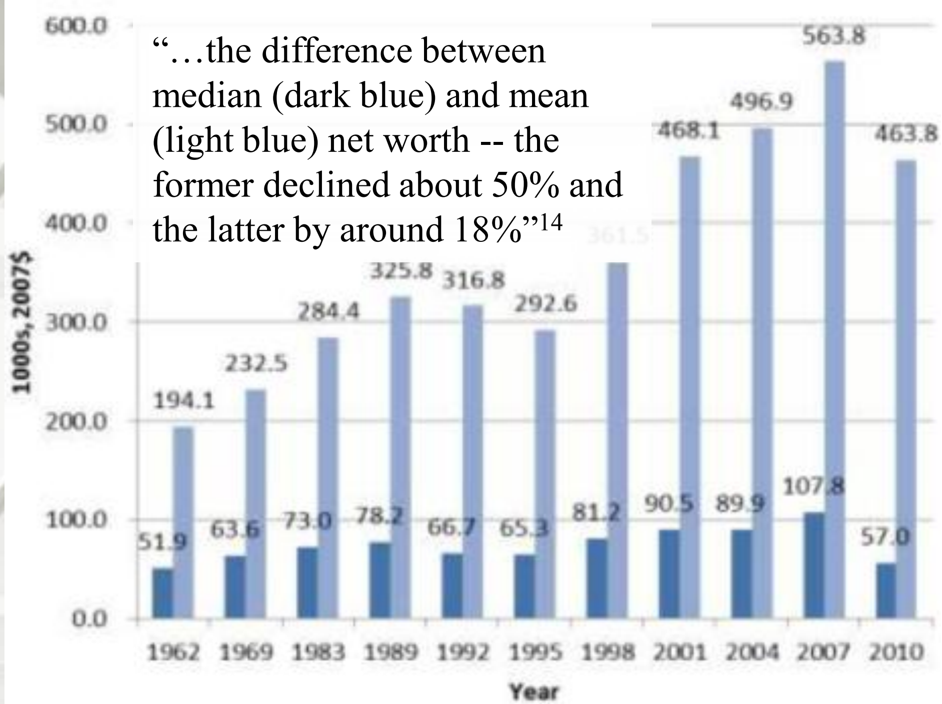
-- Dr. Gordon Green, Sentier Research

Source:. [13] www.sentierresearch.com; 12/28/12

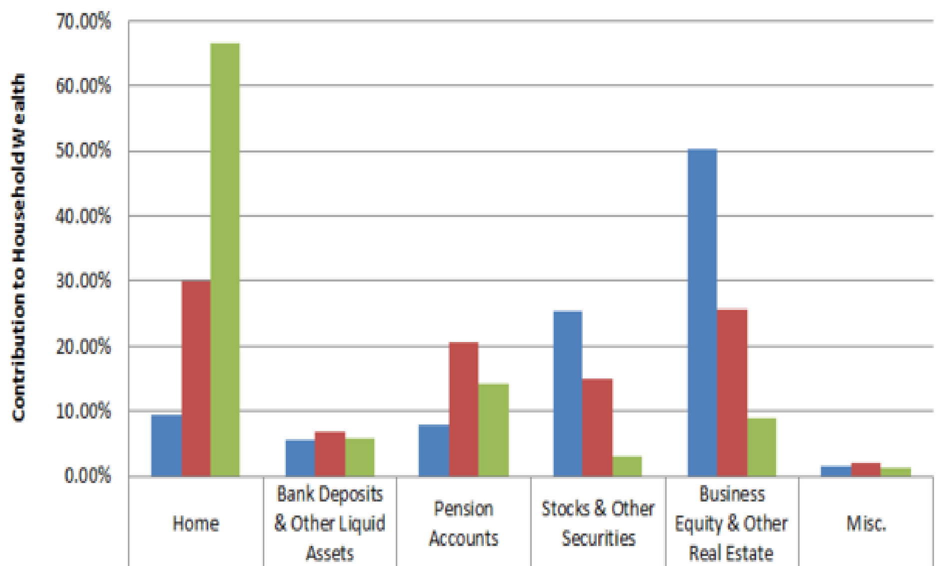
Return TOC

Demographics and Economics

Figure 1. Mean and Median Net Worth,
1962 - 2010



What Do Americans Own?
Makeup of Assets by Household Wealth: 2010
(Edward Wolff: The Asset Price Meltdown and the Wealth of the Middle Class, 2012)



	Home	Bank Deposits & Other Liquid Assets	Pension Accounts	Stocks & Other Securities	Business Equity & Other Real Estate	Misc.
Top 1%	9.40%	5.50%	7.80%	25.40%	50.30%	1.60%
Next 19%	30.10%	6.80%	20.60%	14.90%	25.60%	2%
Middle 60%	66.60%	5.90%	14.20%	3.10%	8.90%	1.30%

"Between 2007 and 2010, the median net worth of U.S. households fell by 47%, reaching its lowest level in more than 40 years, adjusted for inflation. In other words, middle class wealth virtually evaporated in this country. A good chunk of the population got sucked through a financial wormhole back to the 1960s.

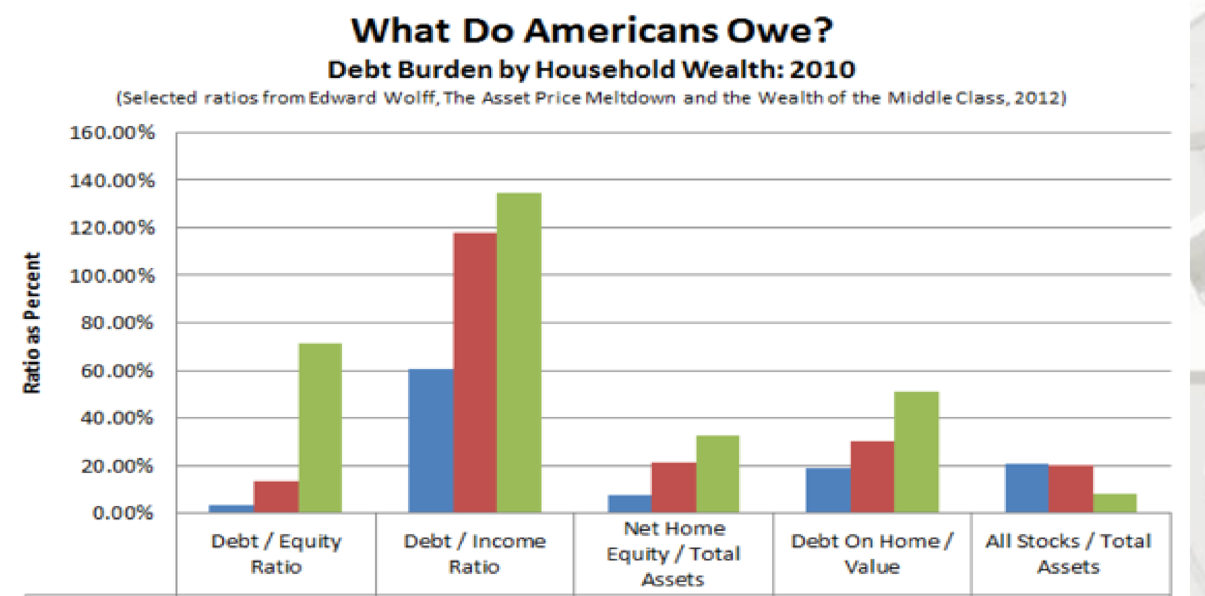
There were two big reasons why the middle class suffered disproportionately. First, the economic crisis was first and foremost a housing crisis, and homes are by far the biggest store of wealth for most middle class Americans (shown in green above). In fact, even after the housing crash, home equity still made up 66.6% of middle class assets -- higher than in the late 1990s. "[14]

-- Jordan Weissmann, Associate Editor, *The Atlantic*

Source:. [14]www.theatlantic.com/business/archive/2012/12/the-recessions-toll-how-middle-class-wealth-collapsed-to-a-40-year-low/265743; 12/4/12

Return TOC

Demographics and Economics



	Debt / Equity Ratio	Debt / Income Ratio	Net Home Equity / Total Assets	Debt On Home / Value	All Stocks / Total Assets
Top 1%	3.50%	60.60%	7.70%	18.90%	20.60%
Next 19%	13.70%	117.90%	21%	30.10%	20.10%
Middle 60%	71.50%	134.50%	32.40%	51.30%	8.20%

"The pain families felt from the housing crash was exacerbated by debt -- loads and loads of debt, which Wolff argues they piled up borrowing to cover everyday expenses. In 2007, middle class households owed 61 cents for each dollar of wealth they possessed, up from 41 cents in 2001 (that stat is shown as the debt-to-equity ratio, above). When the value of a house or any other asset drops, debt makes the owner's net worth fall faster than it otherwise would if they were debt free. Because the wealthy were never as deeply in hock as the middle class, their finances didn't suffer as much when the economy soured.

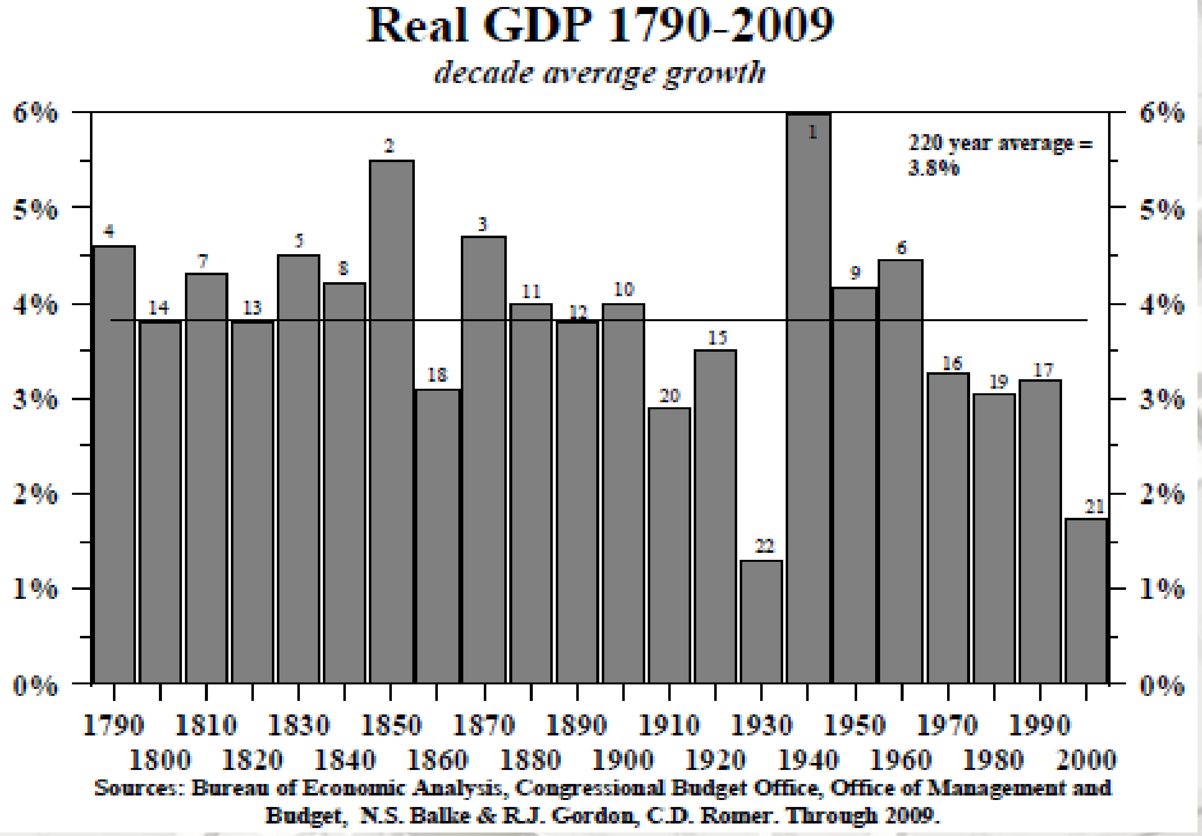
Our economy still fundamentally runs on middle class spending -- on houses, on cars, on trips to the mall -- and those families saw their finances eviscerated in a way unlike what's happened during any recession since World War II. Today, home prices have started recovering, but the bounce-back has been modest. Household debt is falling, but it's still high. Until we can fix those things, our recovery is going to move at more of a crawl than a sprint. "[14]

-- Jordan Weissmann, Associate Editor, *The Atlantic*

Source:. [14]www.theatlantic.com/business/archive/2012/12/the-recessions-toll-how-middle-class-wealth-collapsed-to-a-40-year-low/265743; 12/4/12

Return TOC

Economics



"The Erosion of Economic Growth"

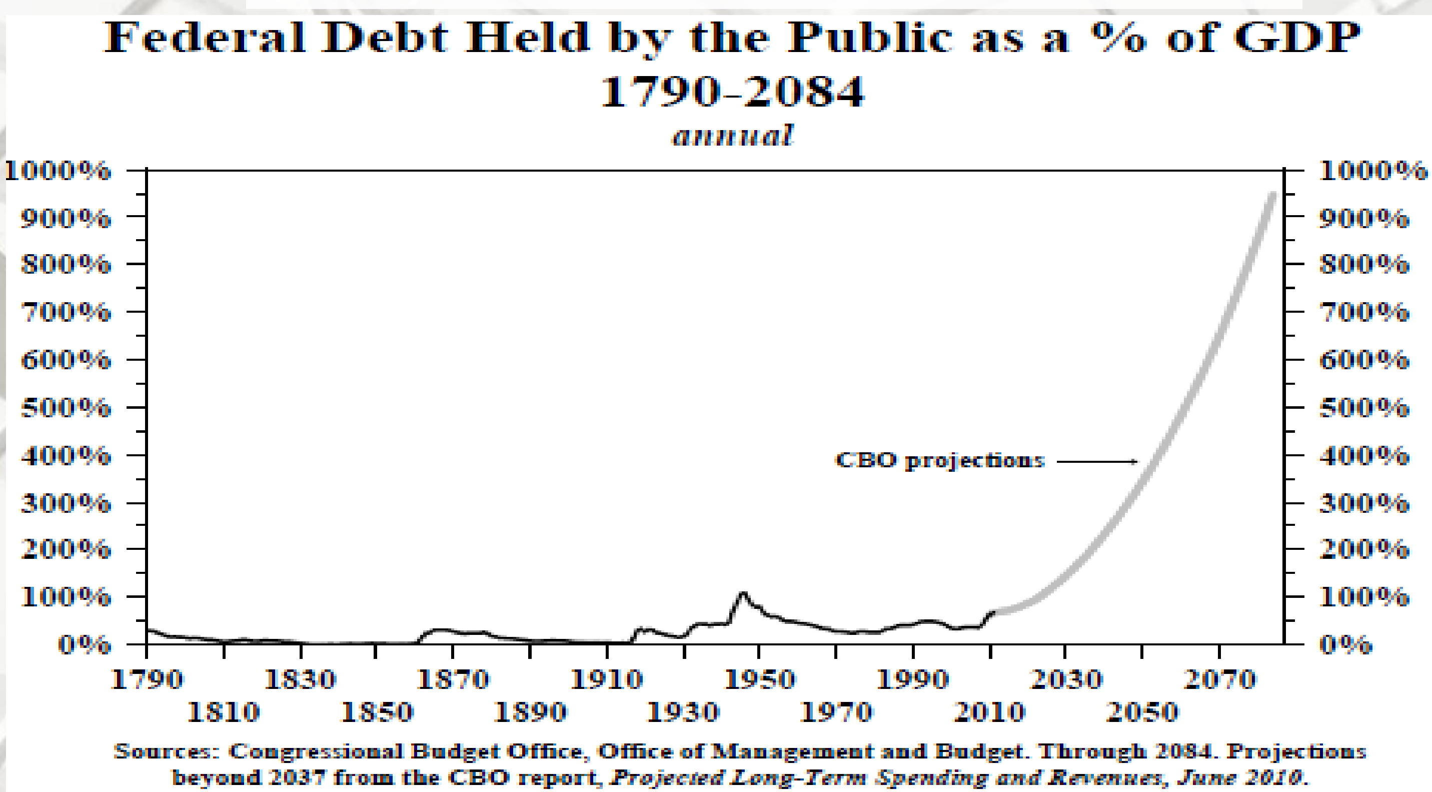
"The one complete decade of the 21st century (2000 through 2009) ranks as the 21st slowest growth in real GDP of the entire 22 decades since 1790. Only the experience in the 1930s was worse. The 1960s was the last decade when the economic growth rate was above the post 1790 average, indicating that the deterioration in economic conditions is not a new phenomenon. In the thirteen years of this century, the GDP growth rate has averaged just 1.8%, or less than half of the 3.8% average since 1790, suggesting that the erosion of the economy is continuing.."[15]

-- Van R. Hoisington and Lacy H. Hunt, Hoisington Investment Management Company

Source: [15]www.hoisingtonmgt.com/hoisington_economic_overview.html; 1/12/13

Return TOC

Economics



"The Entitlement Problem"

"In the past three fiscal years, federal outlays averaged about 24% of GDP, the highest levels since World War II. As recently as 1998 to 2000, outlays averaged 18.7% of GDP. Federal outlays will grow sharply since 10,000 people will reach full eligibility for Social Security and Medicare each day in the next 17 years.

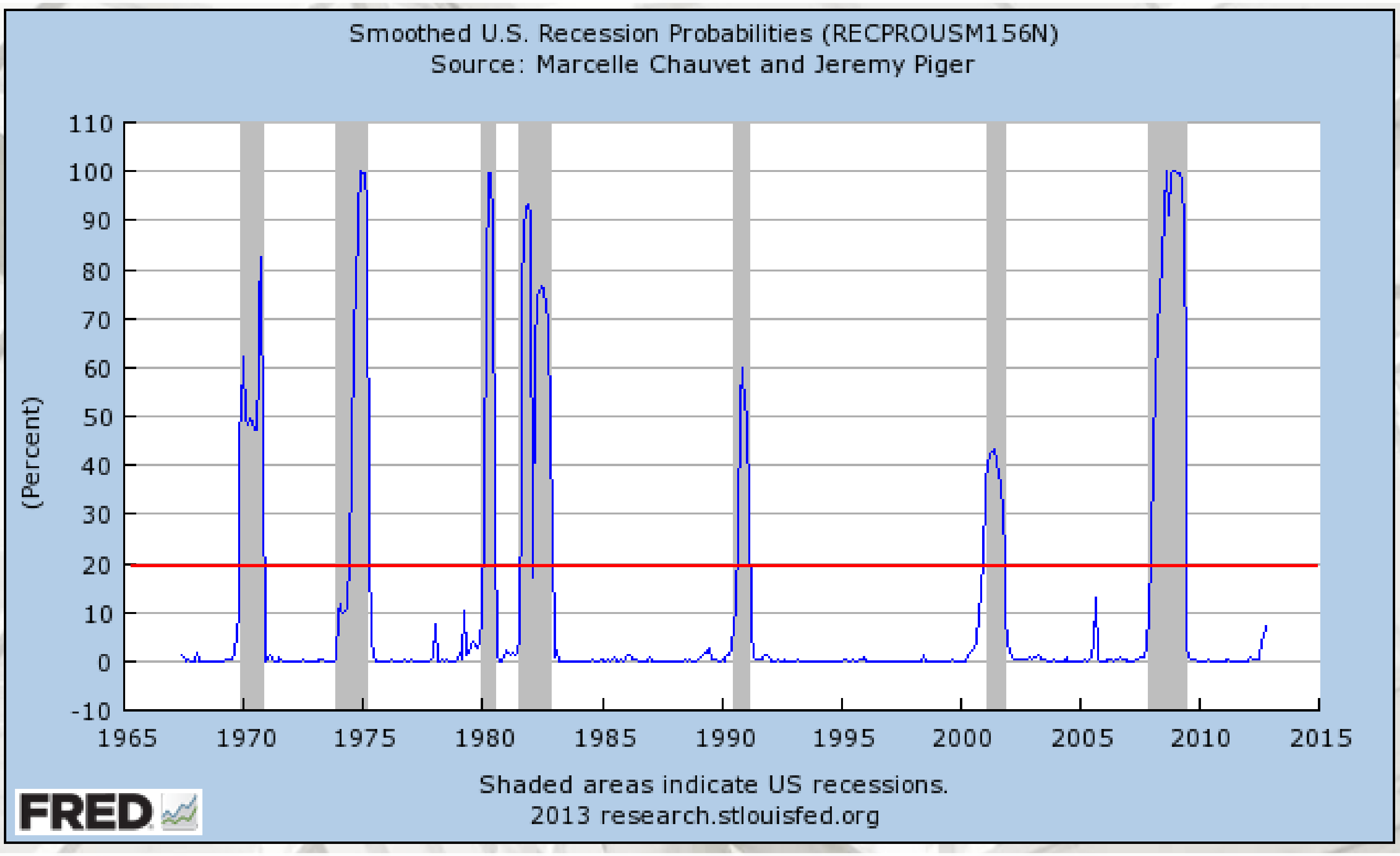
Barry Eichengreen, a Yale Ph.D. in economics and University of California Professor, estimated that without law changes in Social Security and Medicare, federal outlays will reach a staggering 40% of GDP in 25 years (Exorbitant Privilege, Oxford University Press, 2010). Of course this assumes that the U.S. government will be able to borrow the funds to meet these obligations."[15]

-- Van R. Hoisington and Lacy H. Hunt, Hoisington Investment Management Company

Source: [15]www.hoisingtonmgt.com/hoisington_economic_overview.html; 1/12/13

Return TOC

Recession Indicator:
The Federal Bank of St. Louis



Smoothed U.S. Recession Probabilities

7.34 percent
Monthly, Not Seasonally Adjusted, updated: 2013-01-02

Historically, when this index reaches 20% a recession has followed. In 46 years, this has occurred six times.

Source: http://research.stlouisfed.org/fred2/series/RECPROUSM156N; 1/14/13

Conclusions

November housing construction data was mixed – starts and completions declined and permits indicated a moderate increase. Generally, this is to be expected as we go into the winter season.

New and existing house sales, and permits, recorded modest increases – once again these indicators are significantly below long-term averages. The number of available new and existing houses for sale continue to decline, are at historically low-levels, and are positives for the construction market. Interest rates remain at historically low-levels but we still have stricter lending standards and declining real incomes. These might be contributing factors in the continued decline of first-time house buyers (in absolute numbers). The remodeling sector continues to be projected as a promising sector; however, recent data suggests stagnation in remodeling.

Projections for 2013 housing starts suggest a very modest increase, in numbers, as compared to 2012. Total start estimates range from 850 thousand to 1.19 million and the range for single-family starts are 596 to 820 thousand units. We hope starts do rise, as increases are a boost to the industry and the economy, no matter how small.

We have included several slides that pertained to debt and declining real incomes. Incomes are critical at this point; with prices increasing in conjunction with stricter lending standards – these may become a drag on housing – even with record high home affordability. Also, how will consumer psychology be affected by the a decline in real incomes? We do not know if purchasing psychology will be affected, but we should have indicators by 2013s end.

Return TOC

Conclusions

Government debt is a different matter at this point in time; it may not directly affect the housing market now – but in the future it might. Debt will have to be dealt with sometime – as mentioned in Slides 2 and 24 through 27 – as excessive debt is detrimental to economic growth. This has been researched by Economists Carmen Reinhart and Kenneth Rogoff[16] (and others), who demonstrated that when government debt exceeds 90% of a country's GDP, the servicing of debt has a negative impact on a country's economic growth rate.

The housing market continues to heal and most projections for 2013 indicate modest increases in starts. In regards to a robust U.S. housing market, our outlook remains unchanged – there remain too many potential negative macro-factors at this point in time for a robust housing recovery. Why?

1) Consumer confidence – while rising, most report it is fragile,
2) a lack of well-paying jobs,
3) a sluggish economy
4) declining real median annual household incomes,
5) strict home loan lending standards, and
6) new financing and banking regulations to be implemented in the near future.

Until next month.

Source: [16] http://www.nber.org/papers/w15639.pdf?new_window=1; 1/10

Return TOC

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). The USDA is an equal opportunity provider and employer.

Return TOC