

Housing, the Economy, and Wood Products Markets - - today and thoughts about tomorrow

Al Schuler (aschuler@fs.fed.us)

USDA Forest Service

Remaining Competitive in Hardwood Components
Production

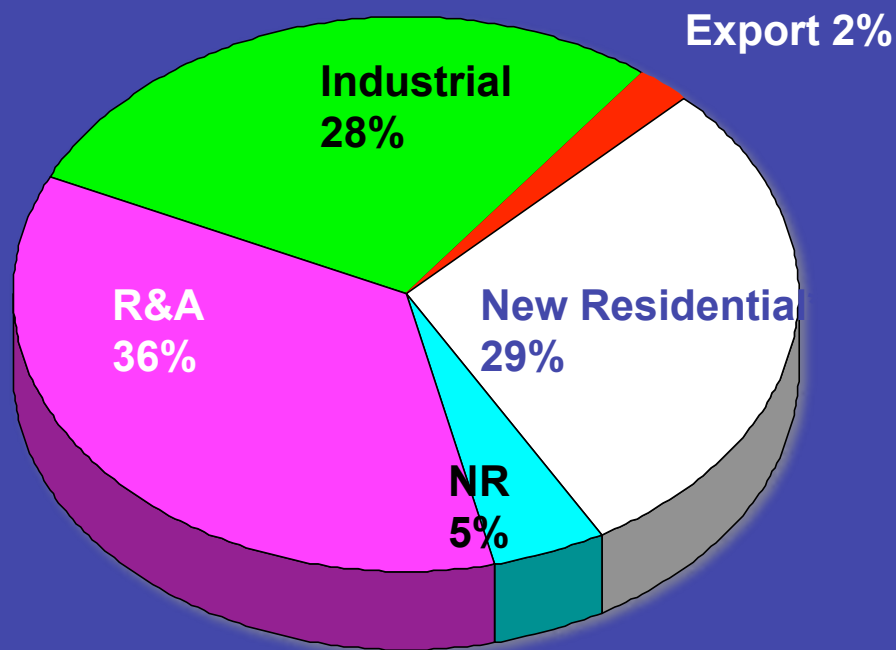
WERC Workshop

April 20, 2009.

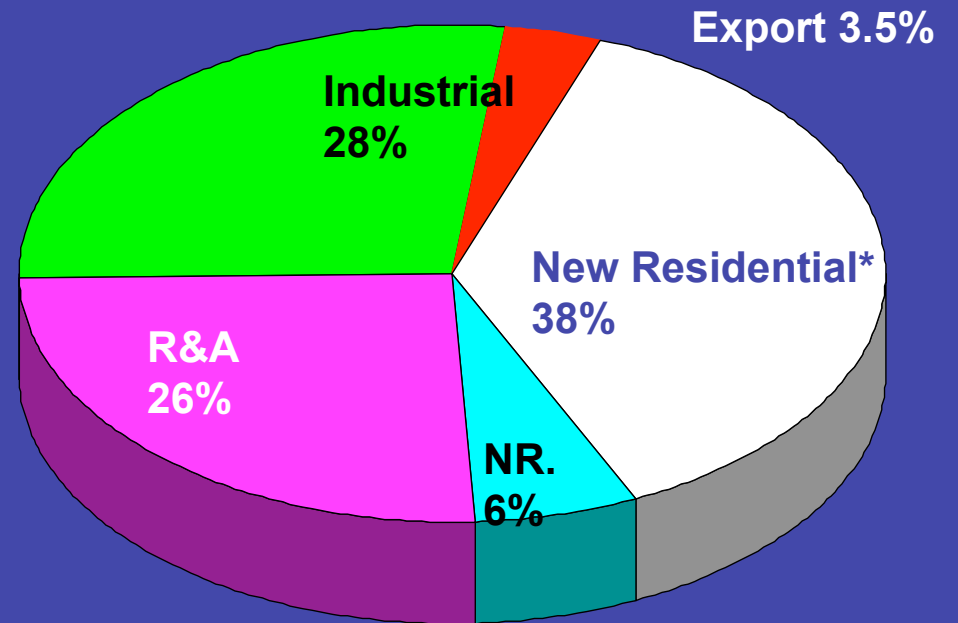
Wood Product Markets Macro View

Softwood Markets – 70% to housing

2008 U.S. Softwood Lumber Demand 41 BBF



2008 U.S. Structural Panels 26.4 BSF(3/8)

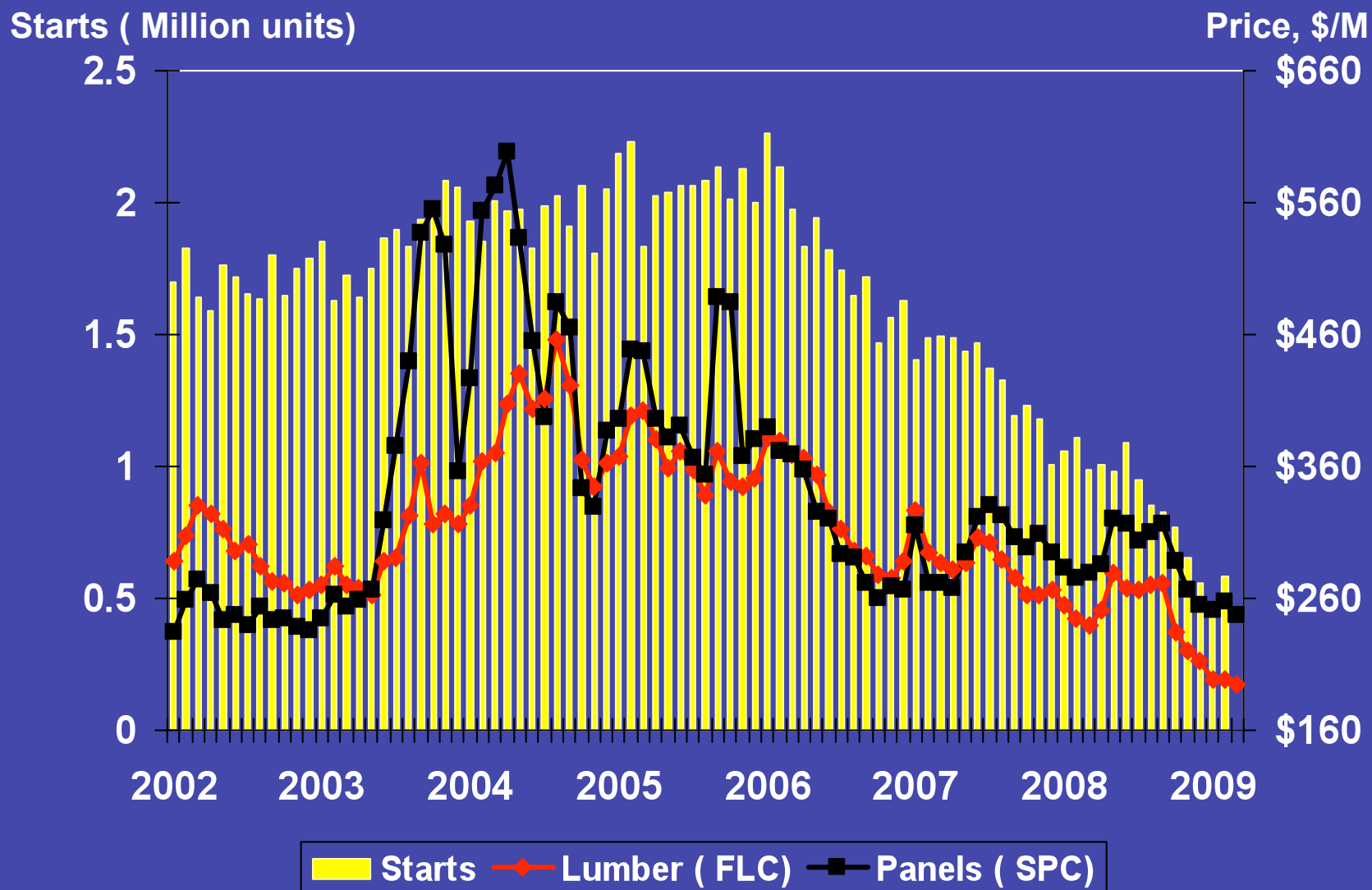


*New Residential incl. SF, MF, and Mobile Homes

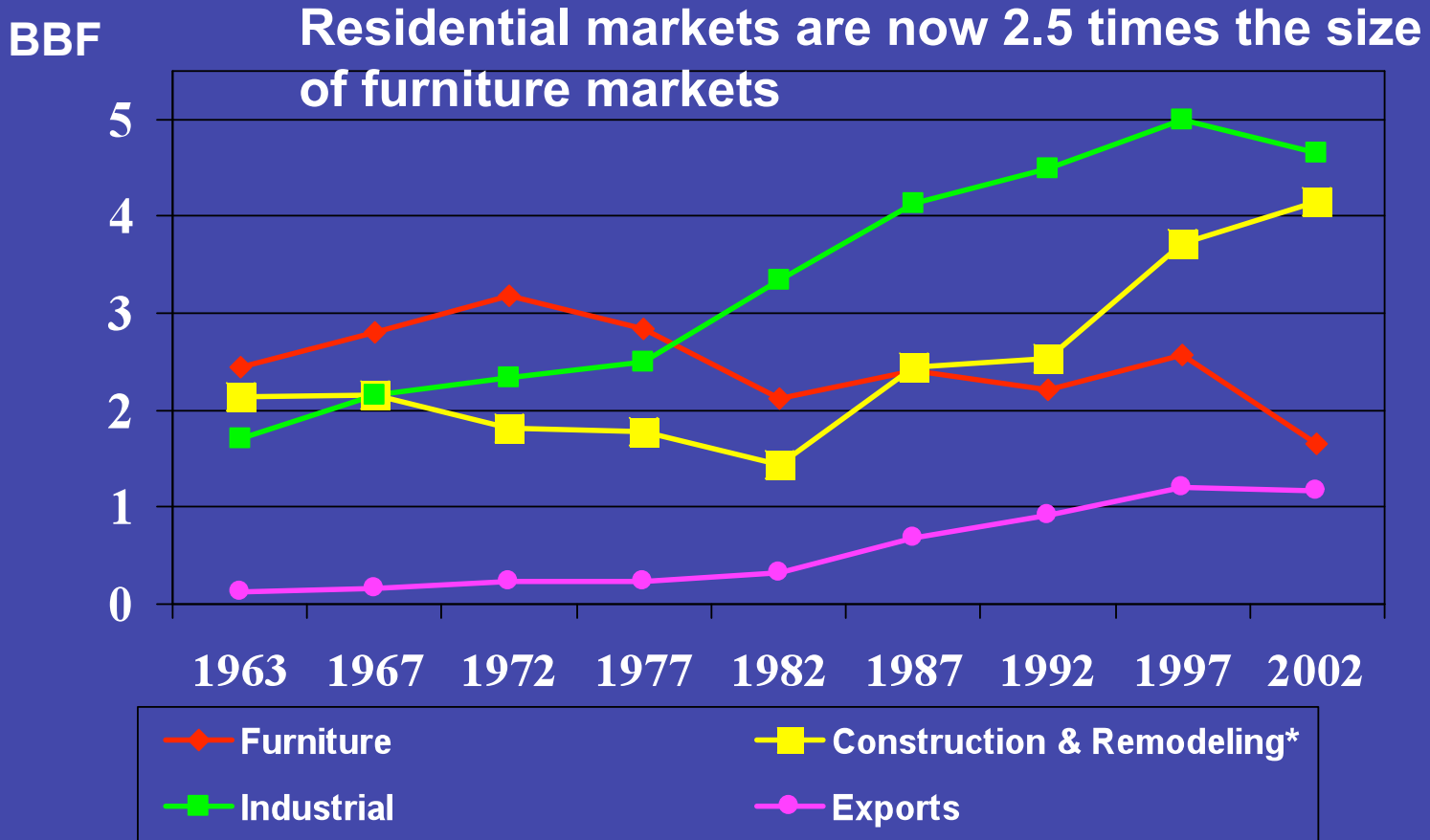
Source :Wood markets monthly (R. Taylor) RISI, 2008

Lumber and Panel Prices Follow Housing

lumber demand down 55% ; prices down 60%



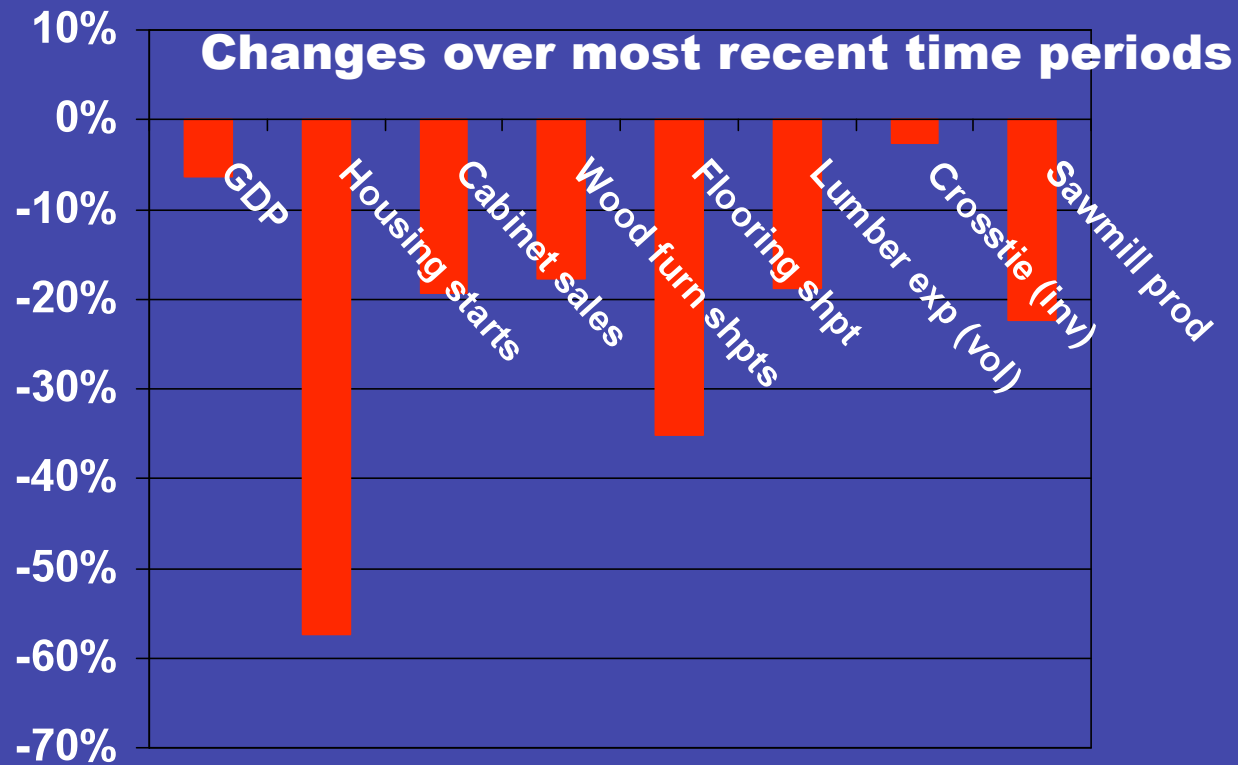
U.S. Hardwood Lumber Consumption Trends



* flooring, millwork, trusses, cabinets, & fabricated wood members

Source: Bill Luppold, USDA FS

Housing and Hardwood Product Markets - - strong linkages



Source: HMR Executive, March 2009

How to Fix the economy, housing , and the auto industry

There was an article in the St. Petersburg Times Newspaper on Sunday.

The Business Section asked readers for ideas on "How Would You Fix the Economy?"

Here is the BEST idea submitted thus far:

Dear Mr.President:

Patriotic retirement:

There's about 40 million people over 50 in the work force. Pay them \$1 million a piece severance with three stipulations:

- 1) They leave their jobs. Forty million job openings - Unemployment fixed.**
- 2) They buy NEW American cars. Forty million cars ordered - Auto Industry fixed.**
- 3) They either buy a house or pay off their mortgage - Housing Crisis fixed.**

Source: St. Petersburg (FL) Times, March 29th

Housing Issues

Today's Economic Crisis – A Chronology

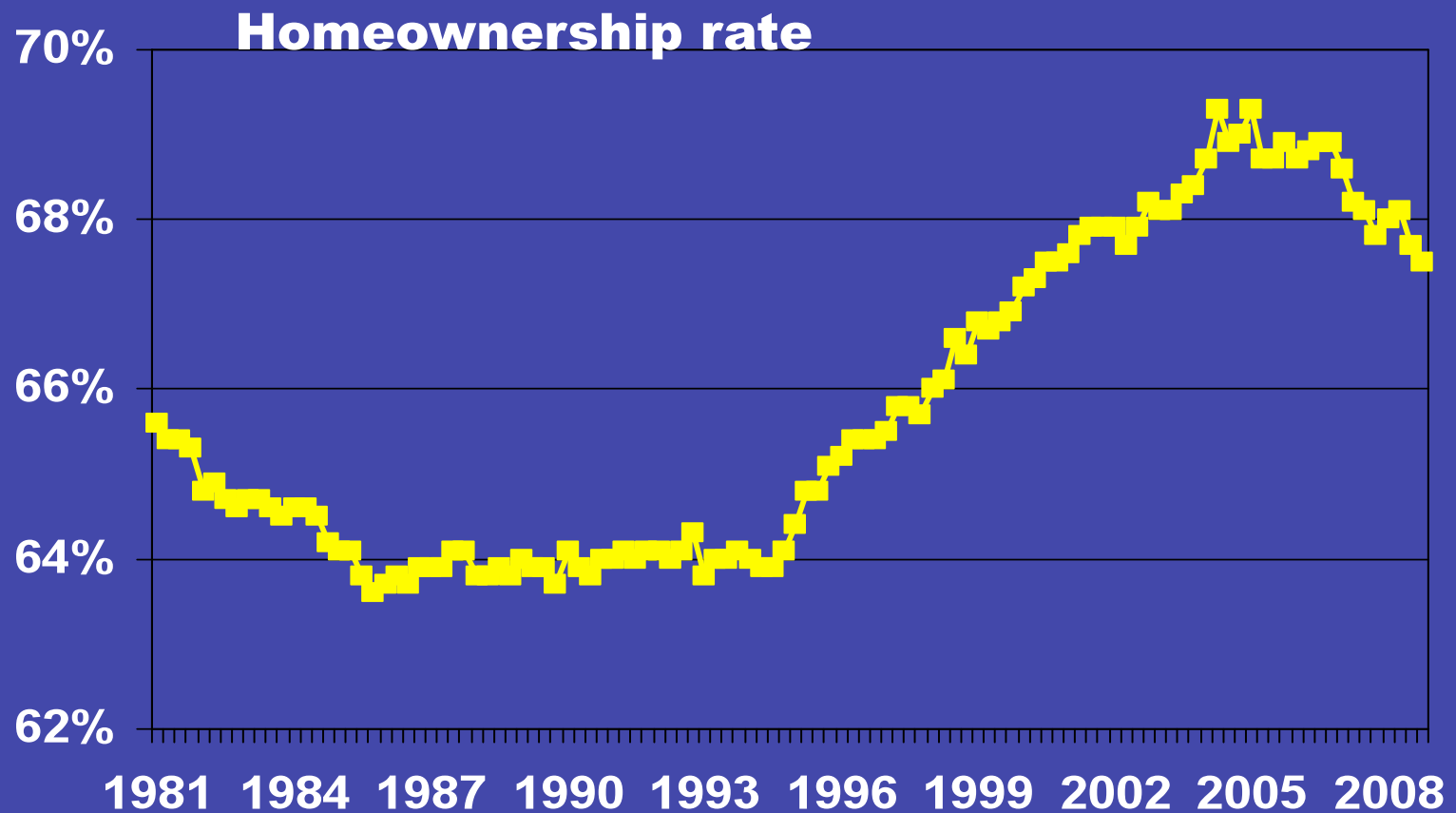
- 1. Housing Collapse – easy credit, unrealistic expectations, weak regulation, greed, exotic financial instruments – As house prices reached unsustainable levels and mortgage rates increased, foreclosures increased and house prices tumbled. The credit crunch began as banks began a “deleveraging” process – and stopped lending.**
- 2. The financial crisis that started with the mortgage market, spread to commercial real estate and credit cards as the entire financial system was freezing up.**
- 3. This caused job losses in construction, and other industries, especially ones that rely on credit for business – autos and other big ticket items, etc.**
- 4. Job losses escalate - - enter the recession.**

Solution - - Stabilize housing markets by addressing foreclosure problem

Many are at fault for this colossal mess

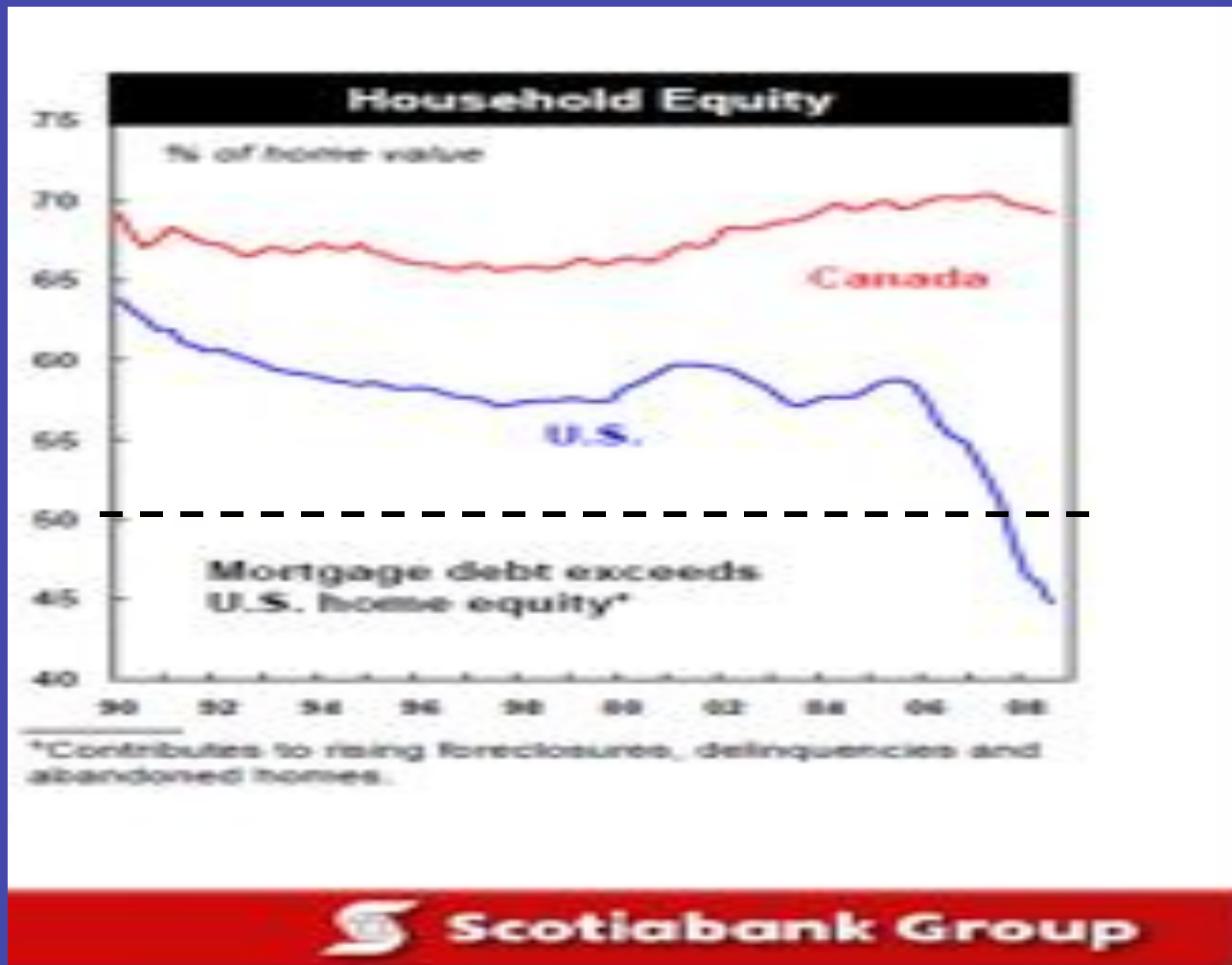


**Everybody can't afford a home –
Home ownership is not the “Holy Grail” – downside is lower
Mobility, too much investment in non performing assets ...**



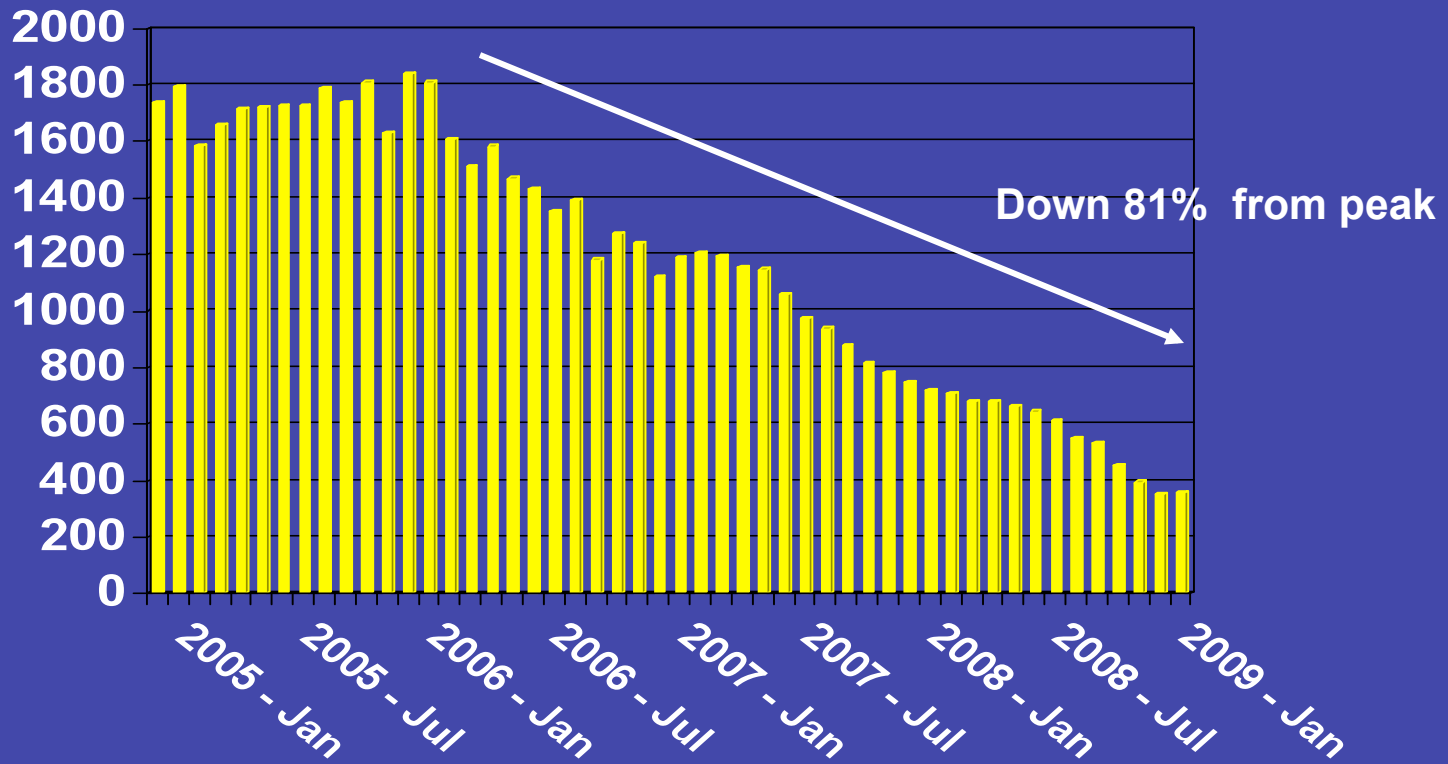
Source: U.S. Census – (www.census.gov/hhes/www/housing/hvs/hvs.html)

Using our homes as “piggy banks” left many homeowners Vulnerable!!



Single Family Housing starts

Thousand units, SAAR



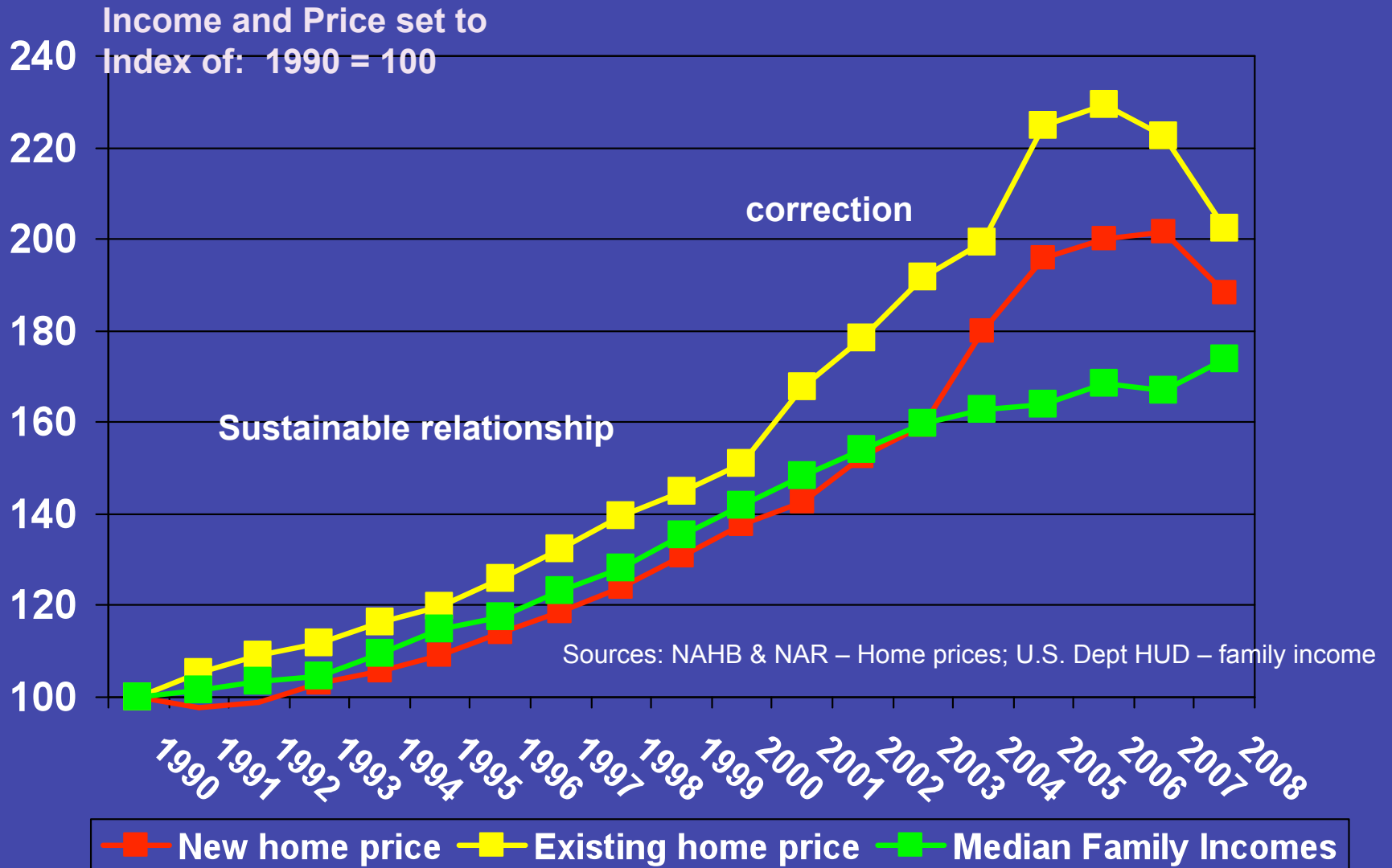
Source: U.S. Census

Housing Rebound – How to Spot One

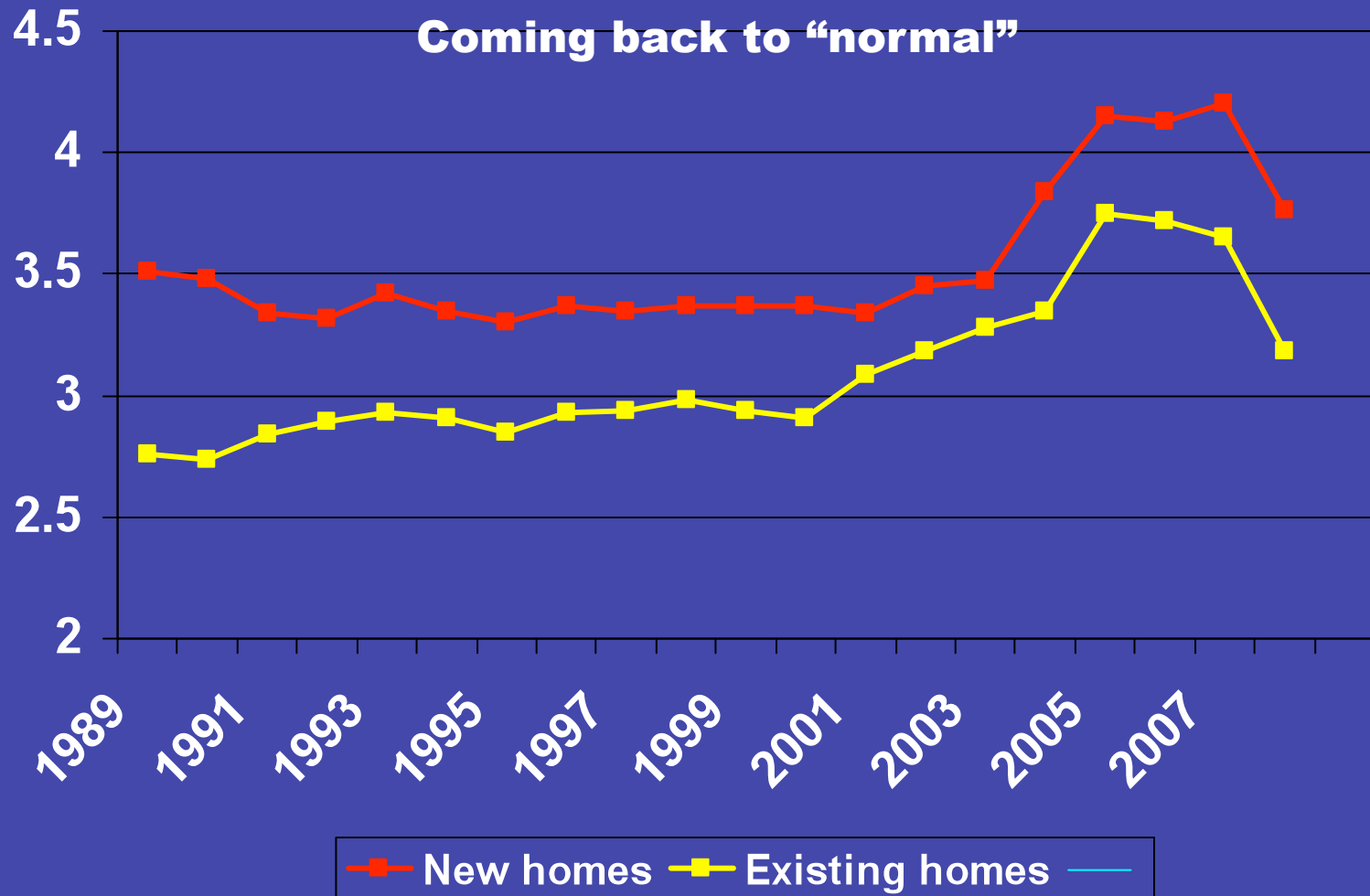
- **Inventory** – six months supply is “typical” and time on market is about 90 days (www.nahb.com, www.nar.com)
- **Sales** – look at year over year growth to eliminate seasonality impact (www.nahb.com)
- **Rate of price decline** – is it slowing? (www.nar.com)
- **House price to rent ratio** – buying becomes more attractive when the P/R ratio is 15 or lower (www.nar.com).
- **Housing affordability** – when a significant percentage of households can afford to buy homes, sales will rise. The “Housing Opportunity Index” is calculated by NAHB for 220 metro areas (www.nahb.org).
- **Rate of foreclosures** – if it is falling, that is a good sign. Realty - Trac (www.realtytrac.com) and MBA (www.mba.com) track foreclosures.

Source: Amanda Gengler, Money Magazine – July 16, 2008.

Basic math tells us that prices and incomes must trend together



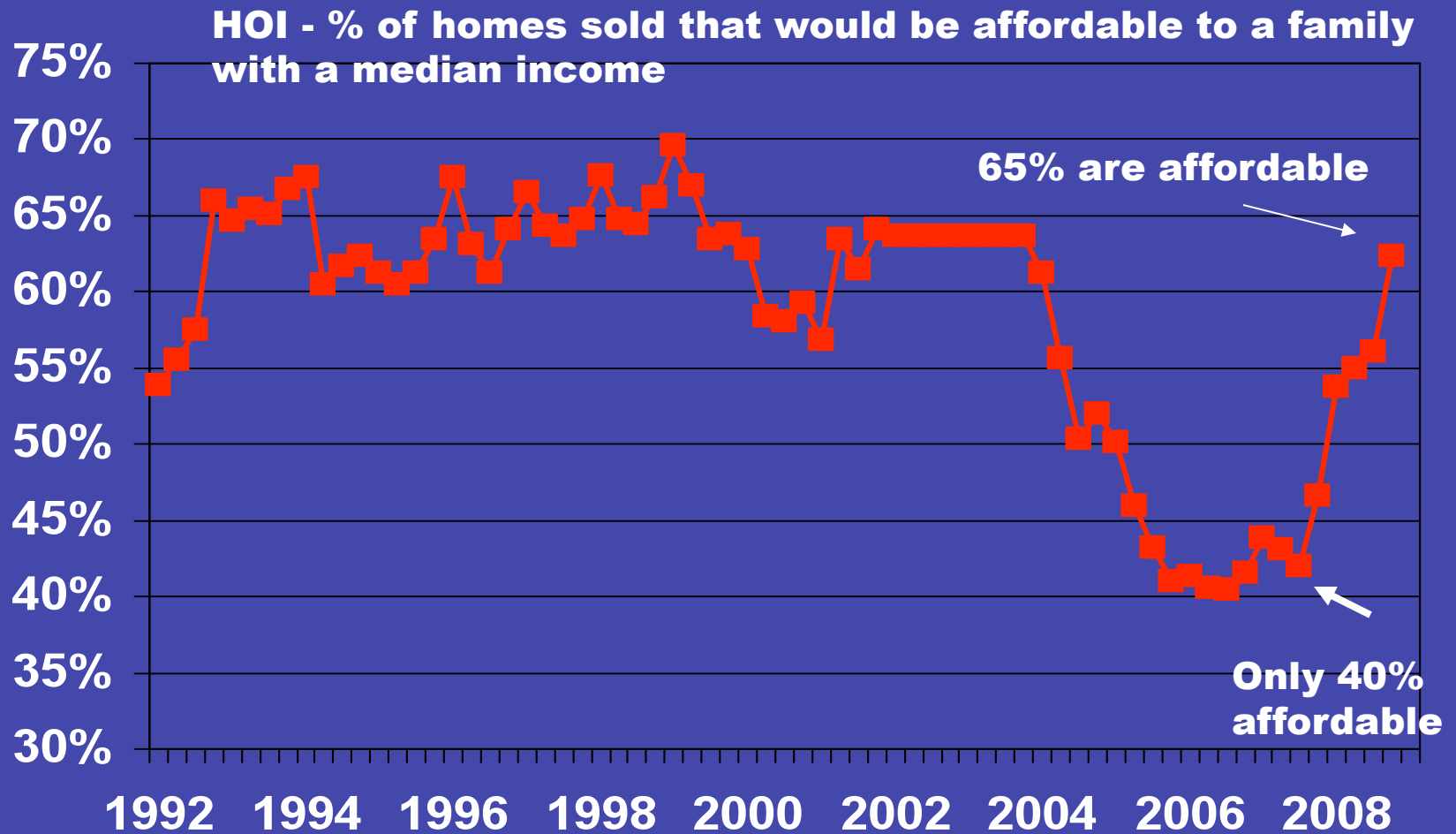
Ratio of Median home prices to median family income



Source: Income – HUD; prices – NAR and Census

Housing Affordability

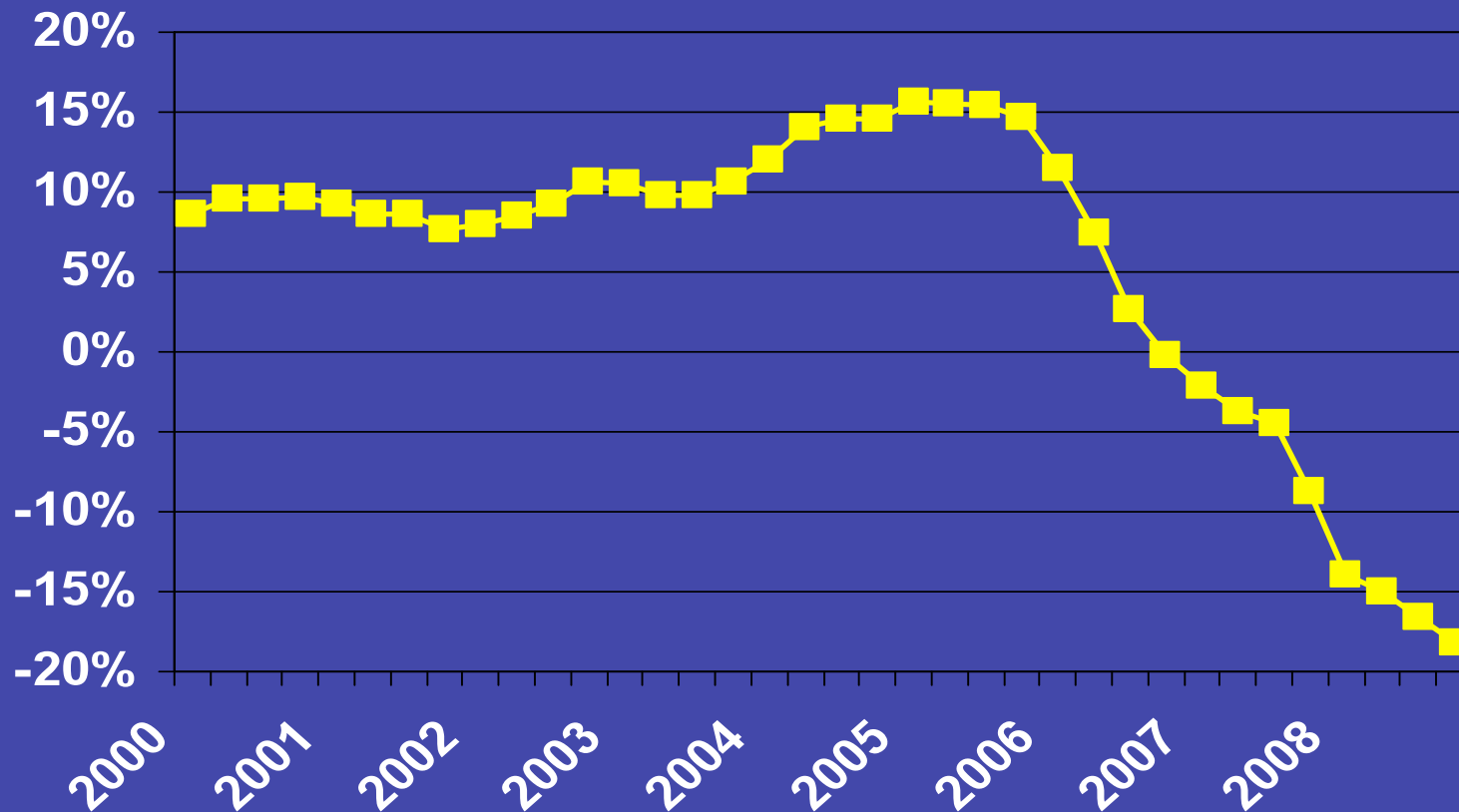
Getting better



Source: NAHB

Case Shiller National Home Price Index*
Prices are down 26.5% from the peak (Qtr 1 2006)
many analysts expect 10% to 15% further drops

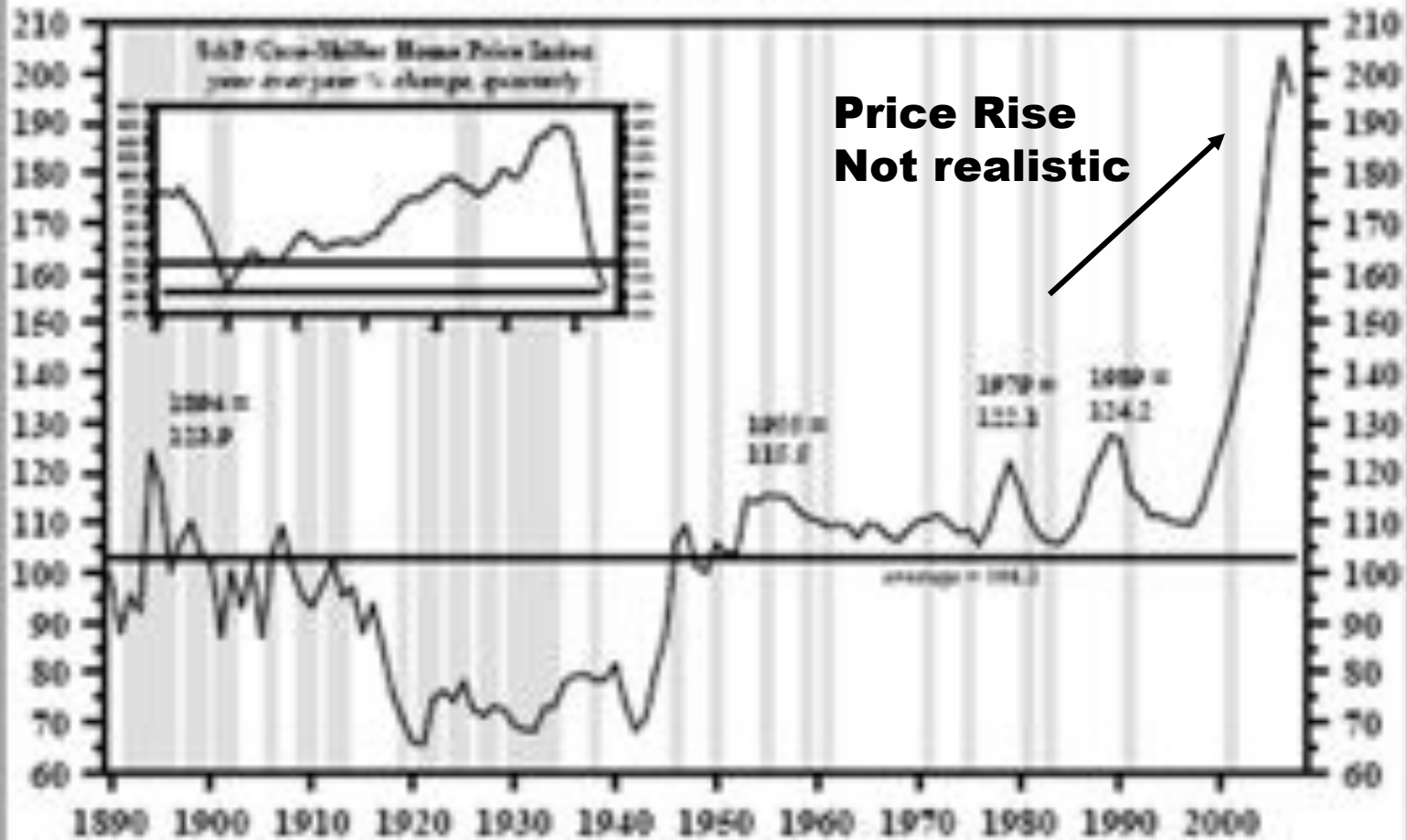
Qtr, % change, Year over Year



* Existing homes

U.S. Real Housing Price Index 1890-2007

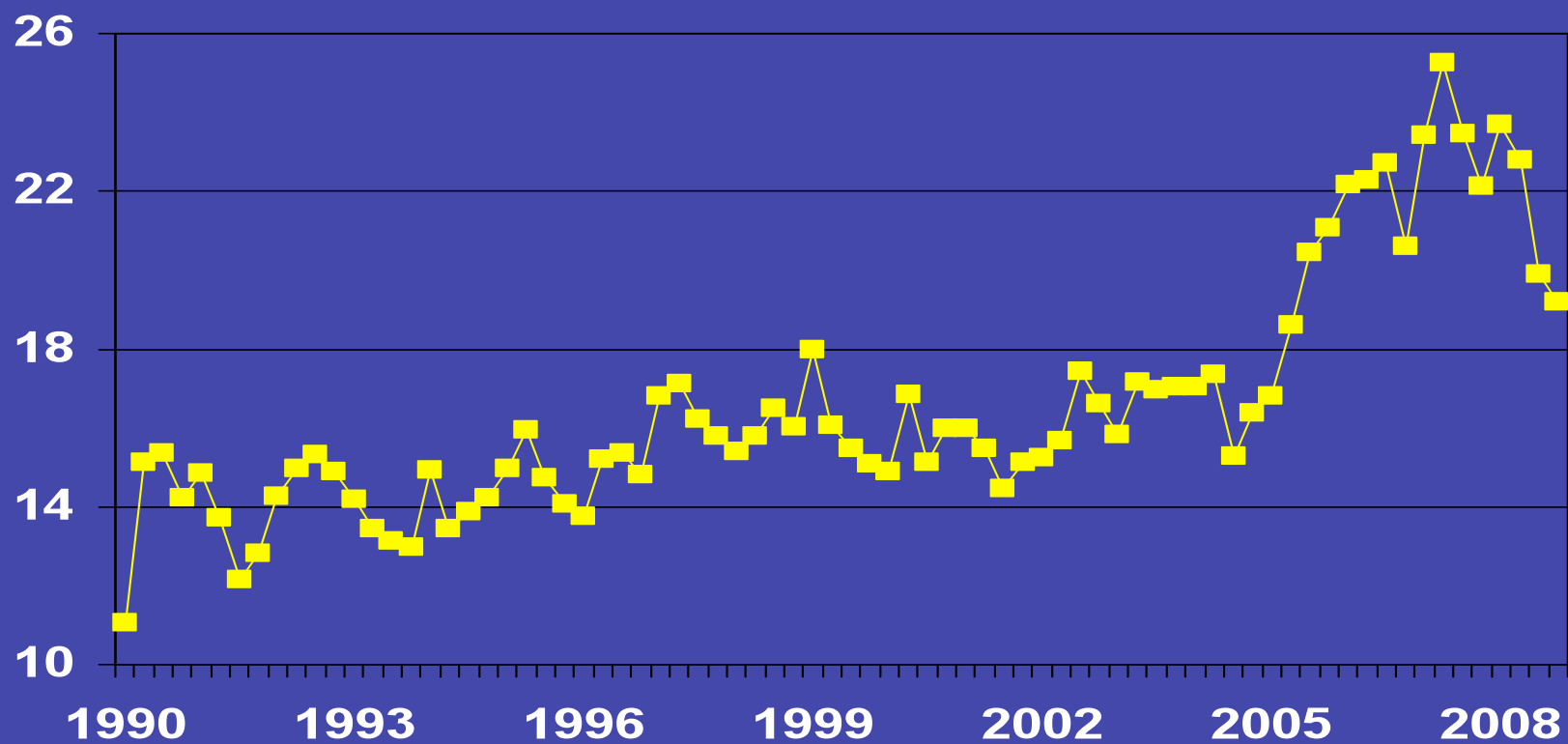
annual, index 1890 = 100



Source: Robert Shiller, Yale University, *Irrational Exuberance*, 2nd Edition, Princeton: Princeton University Press, 2005. Year over year chart is through Q4 2007.

Chart 4

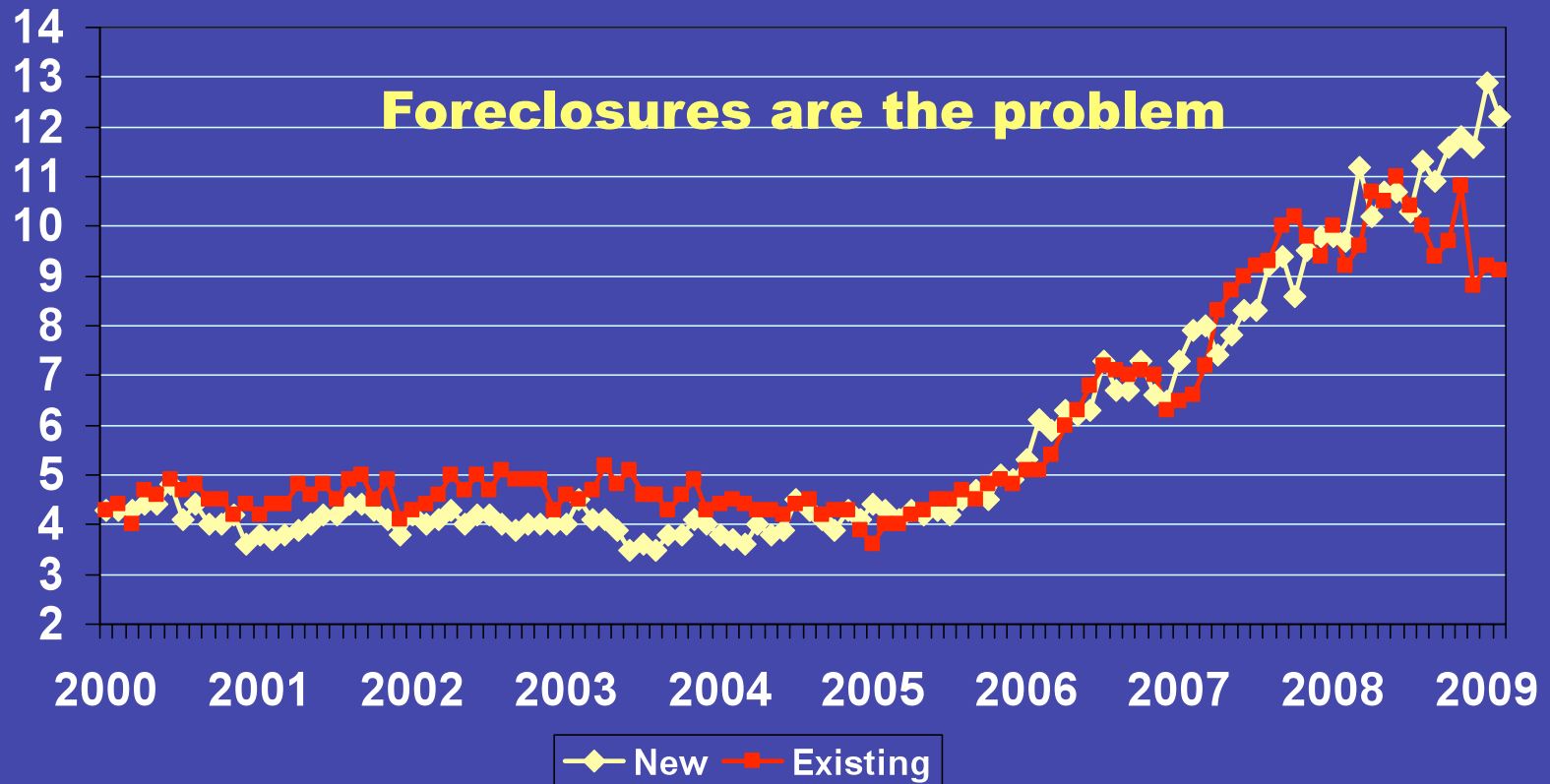
House Price to Rent Ratios Improving



Source: Economagic time series (<http://www.economagic.com/>)

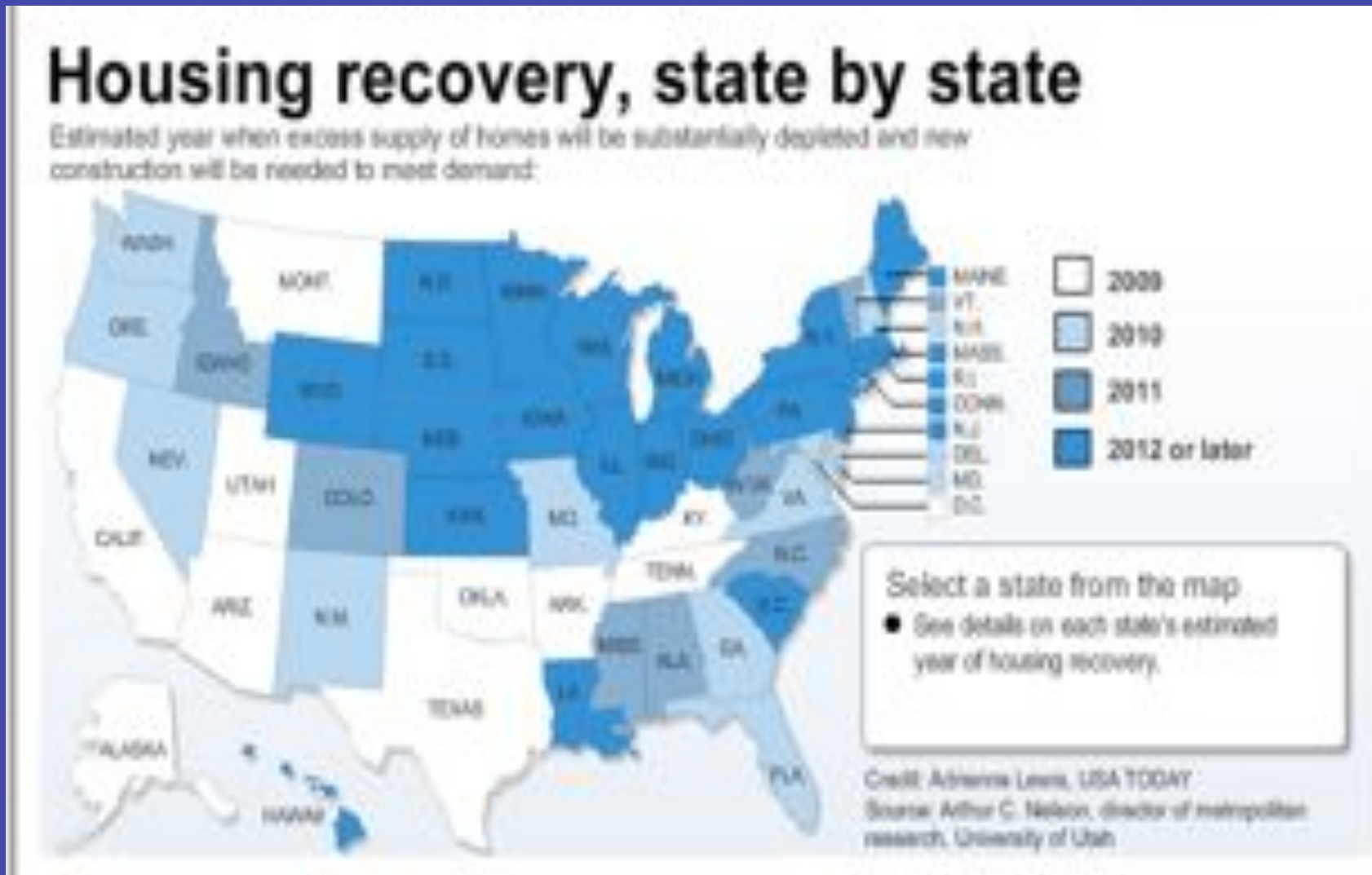
Home Inventory

Months supply single family



Source: U.S. Census Bureau, New Residential Sales, CB06, Table 1.

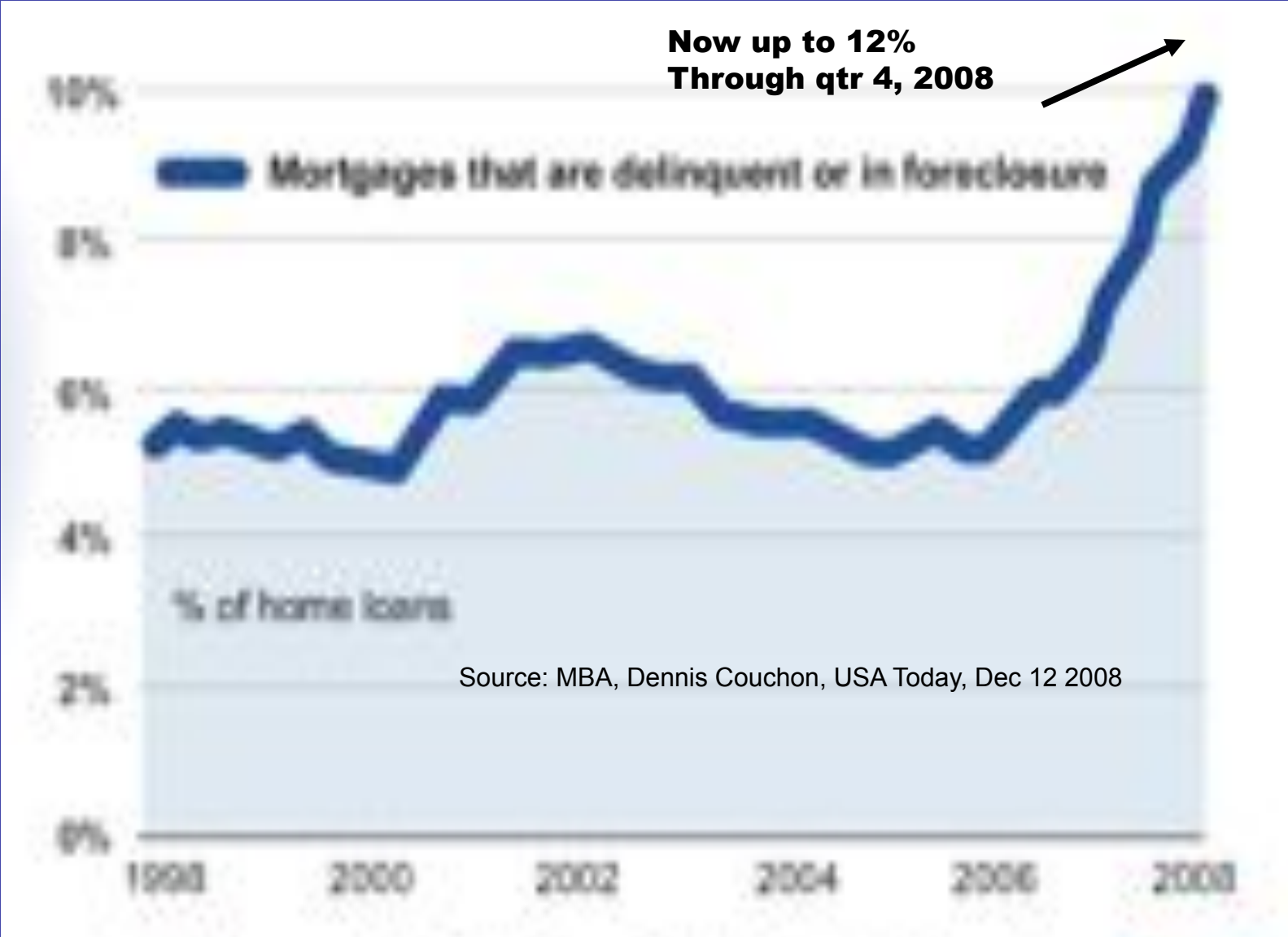
Housing is Regional !!!!!



Source: USA Today April 10 –

(http://www.usatoday.com/money/economy/housing/2009-04-09-vacanthomes_N.htm)

At year end, 12% of homeowners were delinquent or in foreclosure – 5.4 million homeowners. (MBA, March 2009)

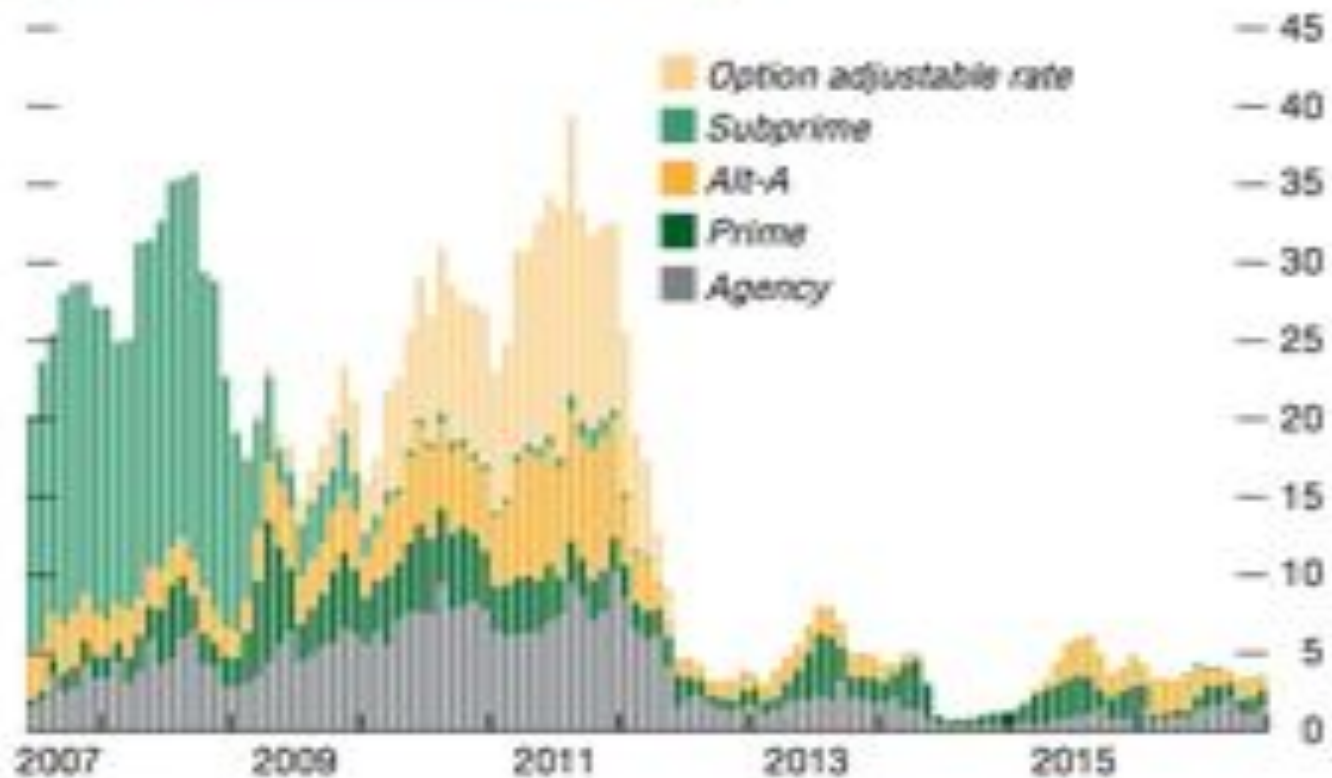


Adjustable Mortgage Resets - -

To date, problems came from subprime mortgages (FICA <620)

Over next 4 years, Alt "A" (no doc loans) and option adjustable mortgage (no DP, interest only), resets exceed the subprime problem by 50% or \$500 billion

Figure 1.7. Monthly Mortgage Rate Resets
(First reset in billions of U.S. dollars)



Source: Credit Suisse.

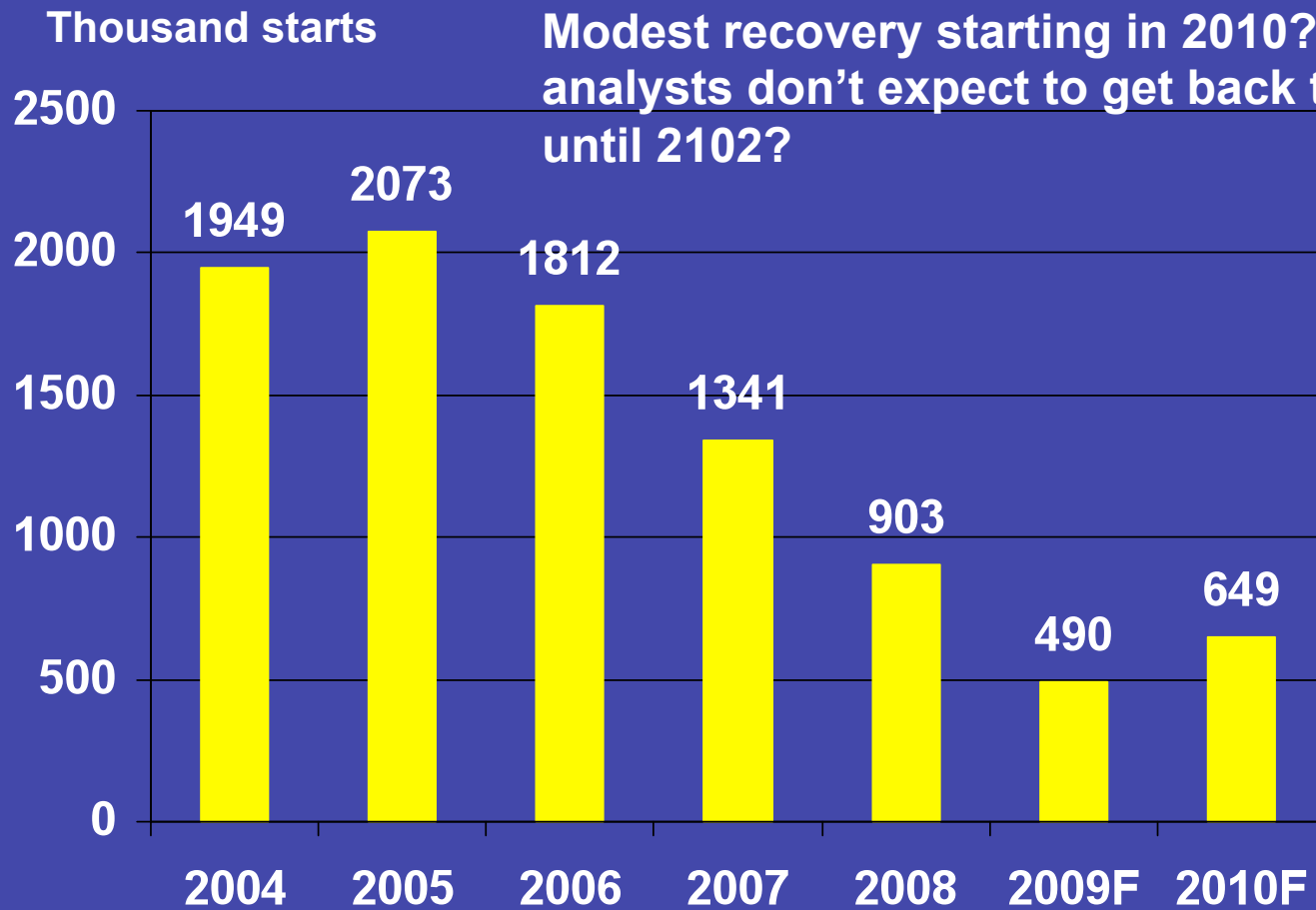
Forecast of Experts 2009 Housing Starts (thousands)

	Single Family	Multifamily	Total
Fannie Mae	317	128	445
NAHB	360	130	490
MBA	324	139	463
NAR	338	211	549
Average	334	152	486

Forecast dates: latest available
March– 2009.

NAHB's Latest Forecast

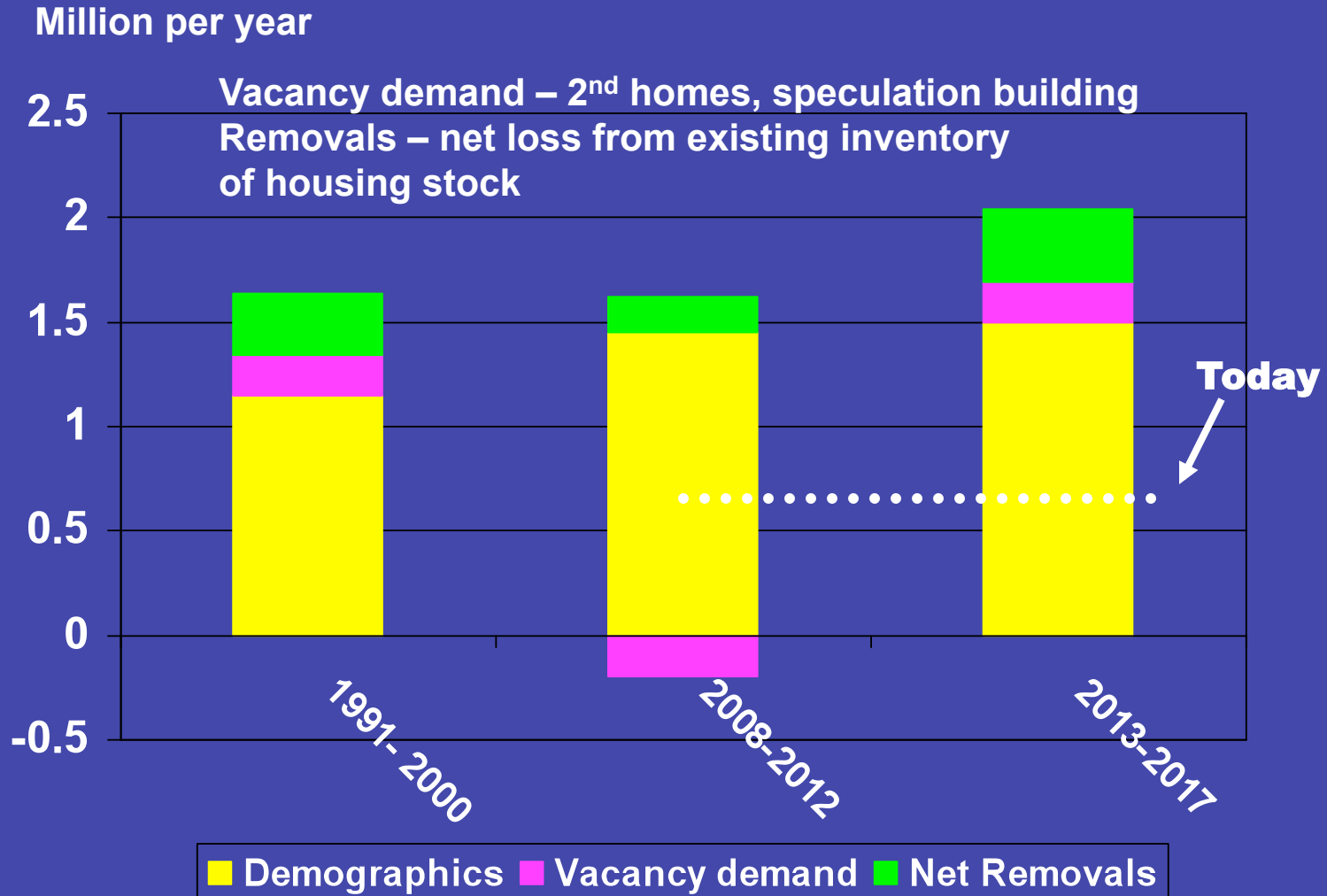
77% drop from 2005 peak to 2009 bottom
Modest recovery starting in 2010? Most analysts don't expect to get back to 1.5 million until 2102?



Source: NAHB, March 20, 2009

Long Term Housing Demand Drivers

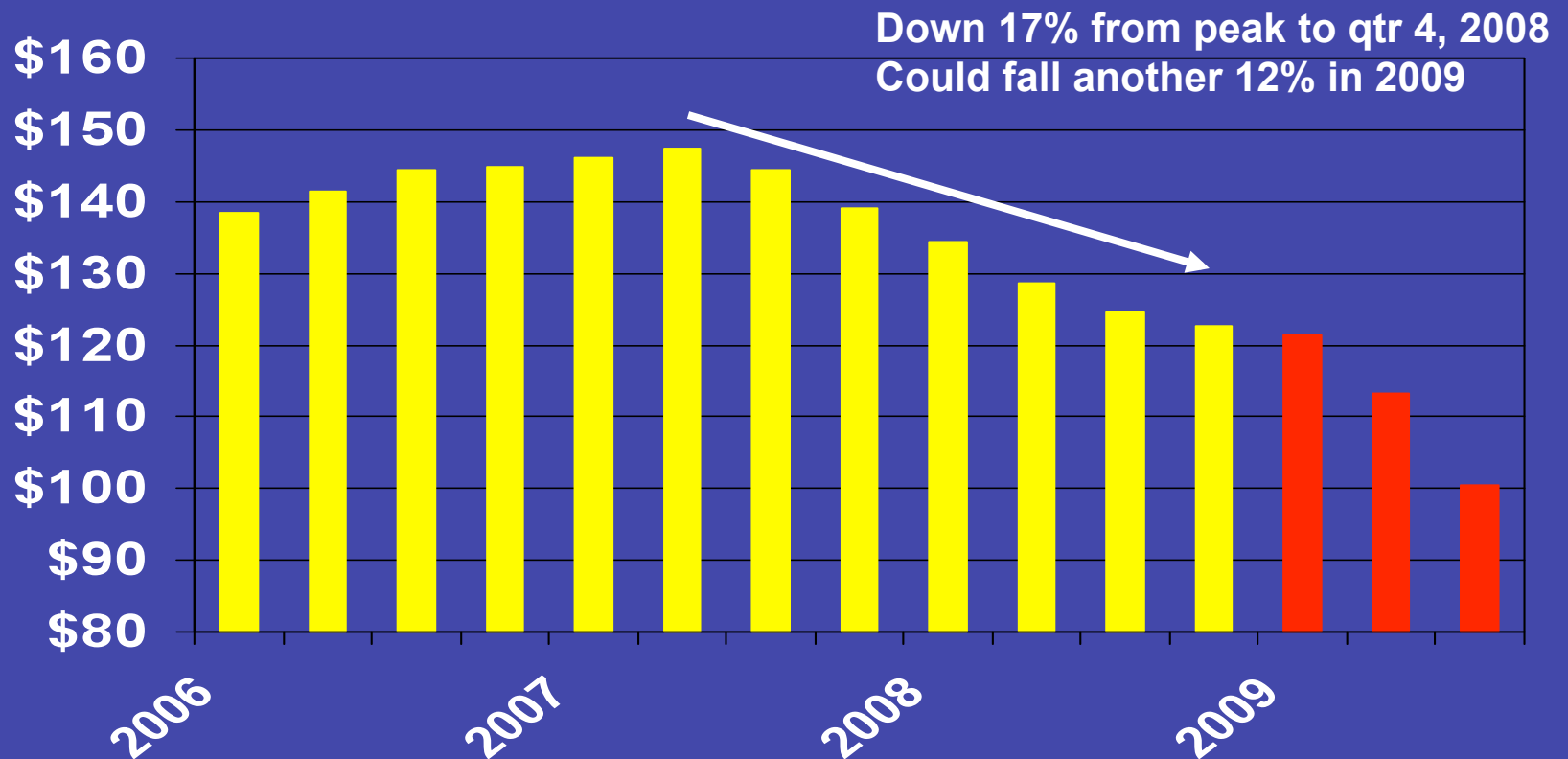
Longer term outlook looks good



Remodeling Market

pulling back with economy, but not nearly as bad as new construction

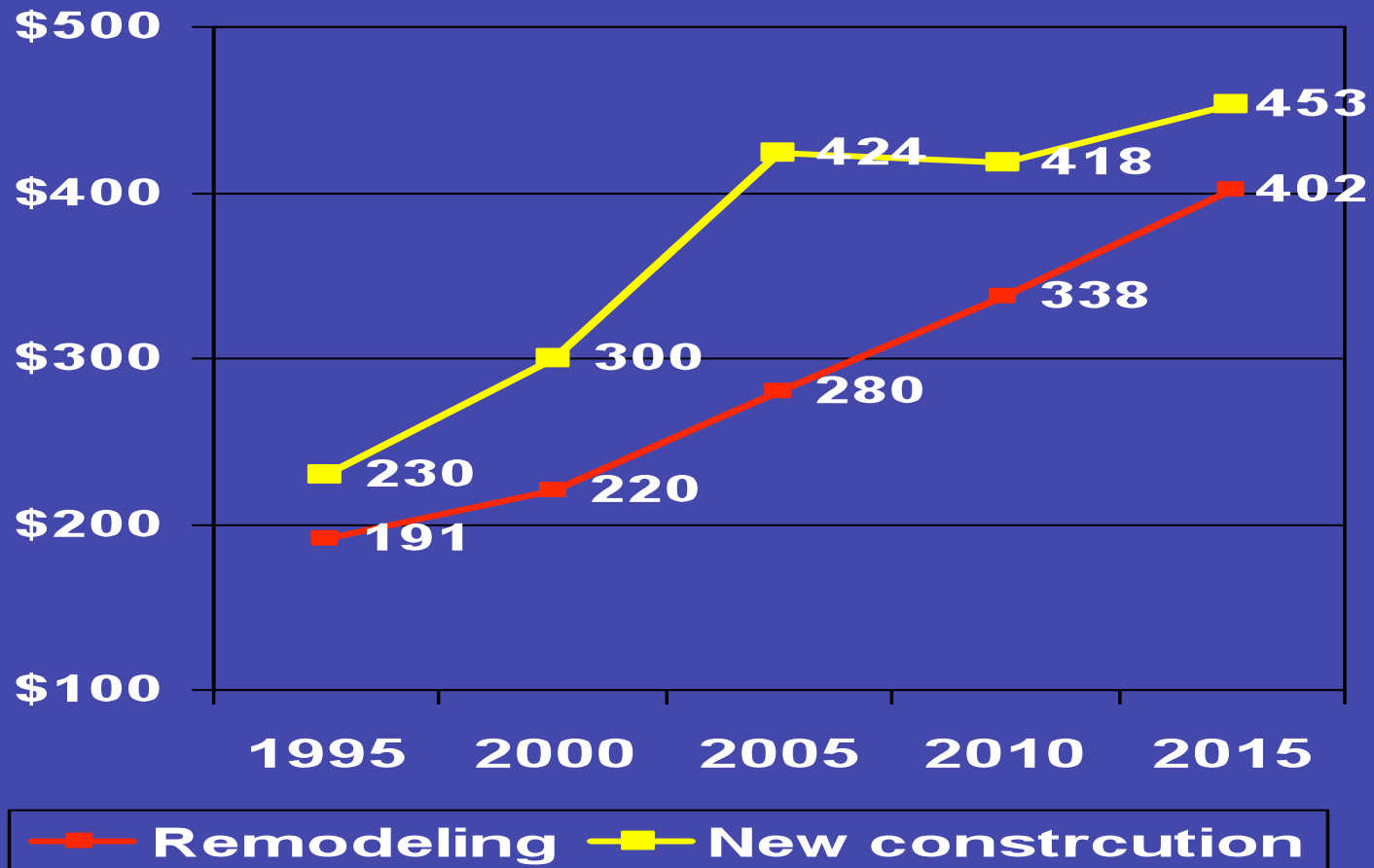
Four qtr moving totals, Billion \$



Source: Harvard joint center for housing studies

Long Term, Remodeling becoming increasingly important & is the key market for hardwood products

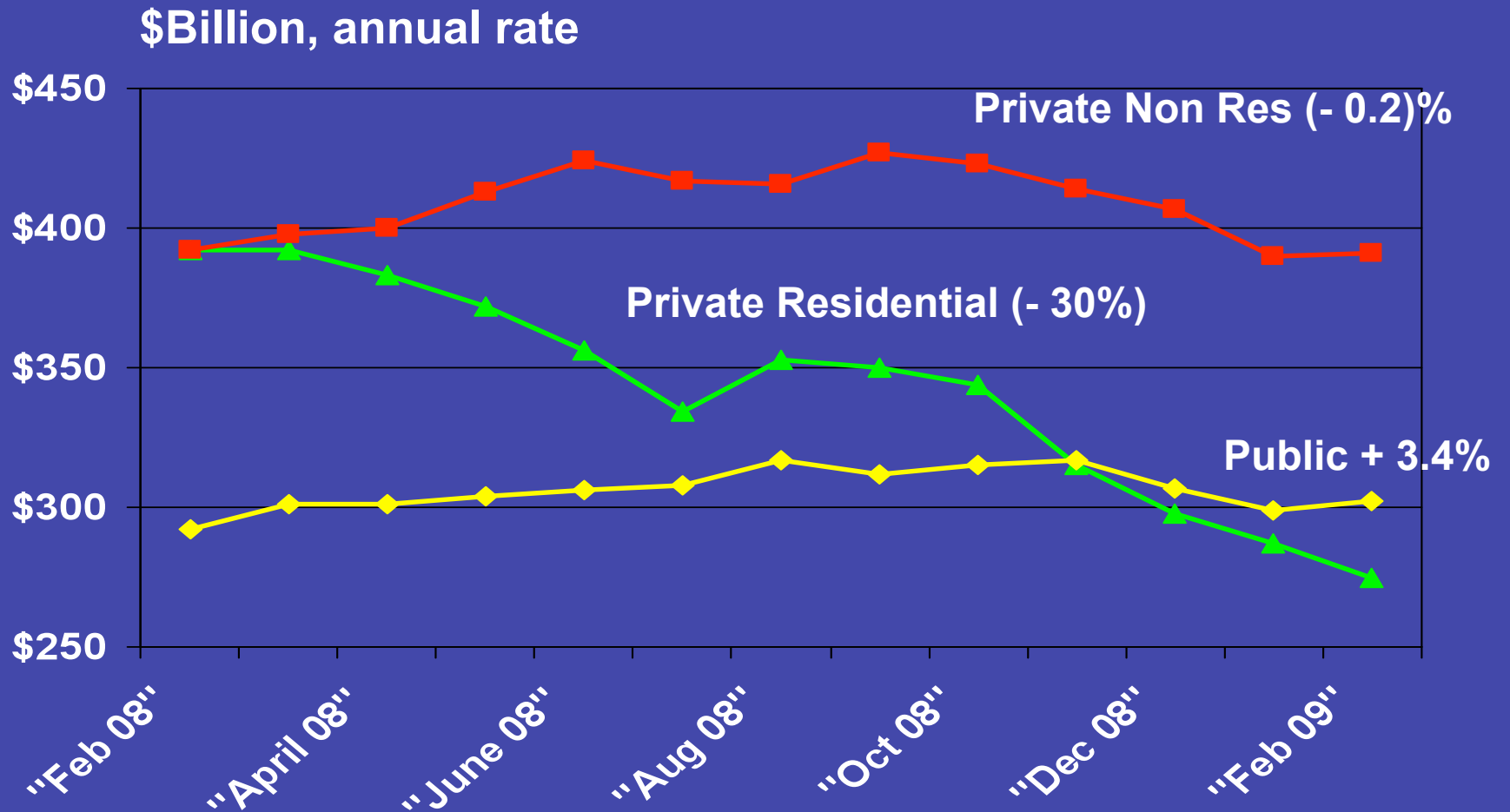
Billions 2005 dollars



Source: Harvard JCHS 2007

Construction Spending Trends

Feb 08 – Feb 09



Source : U.S. Census, C30 (<http://www.census.gov/const/C30/>)

The Economy

- **Consumer spending ~ 2/3rd's of economy**
- **Economic driver of U.S economy in past two decades**
- **Not any more –**
 - **Consumer debt at record highs**
 - **Employment losses are devastating confidence**
 - **Savings rate starting to inch up**
- **Rapidly growing government deficits - inflation and higher interest rates**
- **Next 2 - 3 years will be very challenging – after that, what happens?**

Starting to see glimmers of hope

Editorial Cartoon by Gordon Campbell, Freelance

Thursday, April 9, 2009



Saturday, April 4, 2009

© 2009 Gordon Campbell

Sign of the times

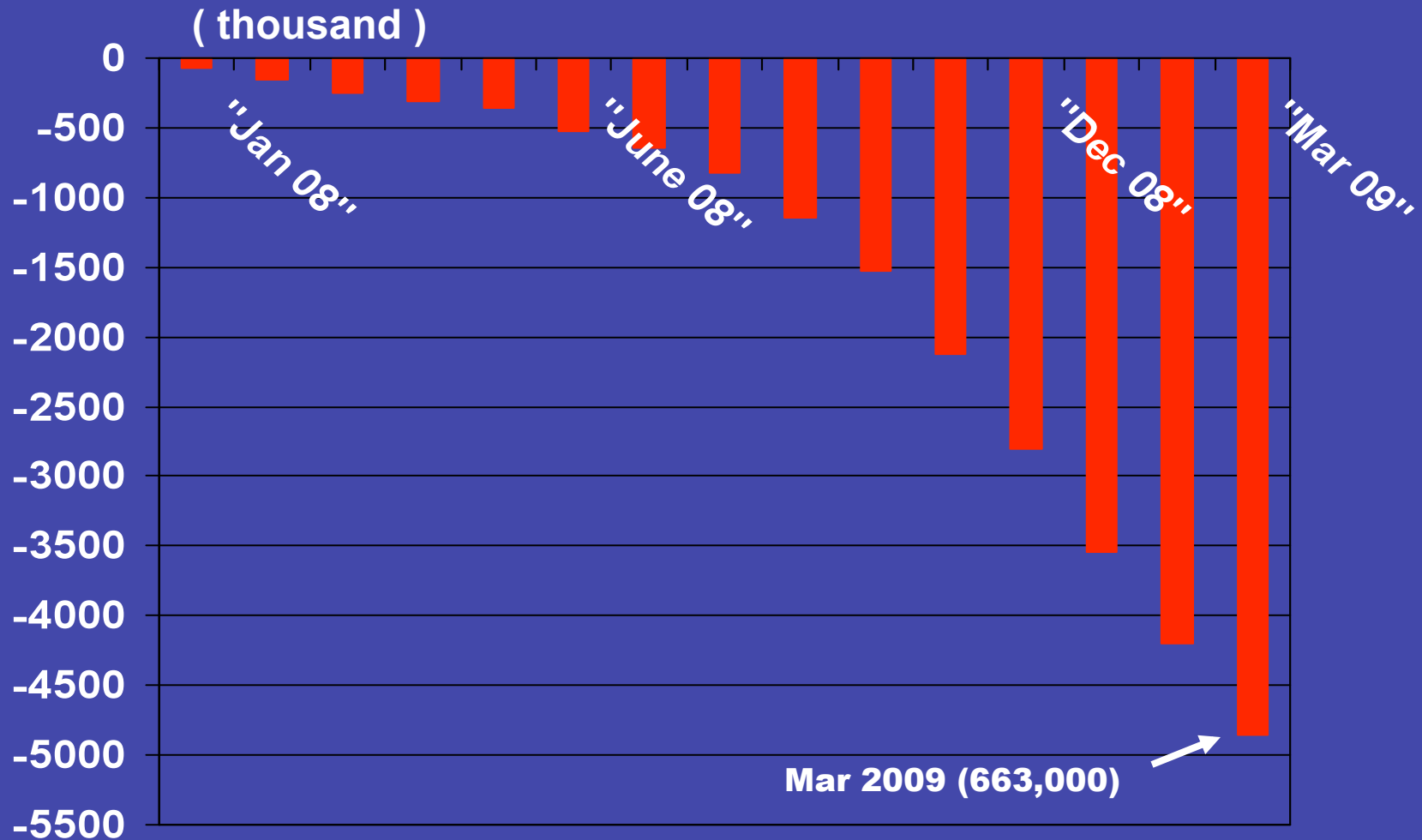


Cumulative Net change in Non Farm Payrolls

4.86 million in past 15 months

2.05 million in past 3 months –

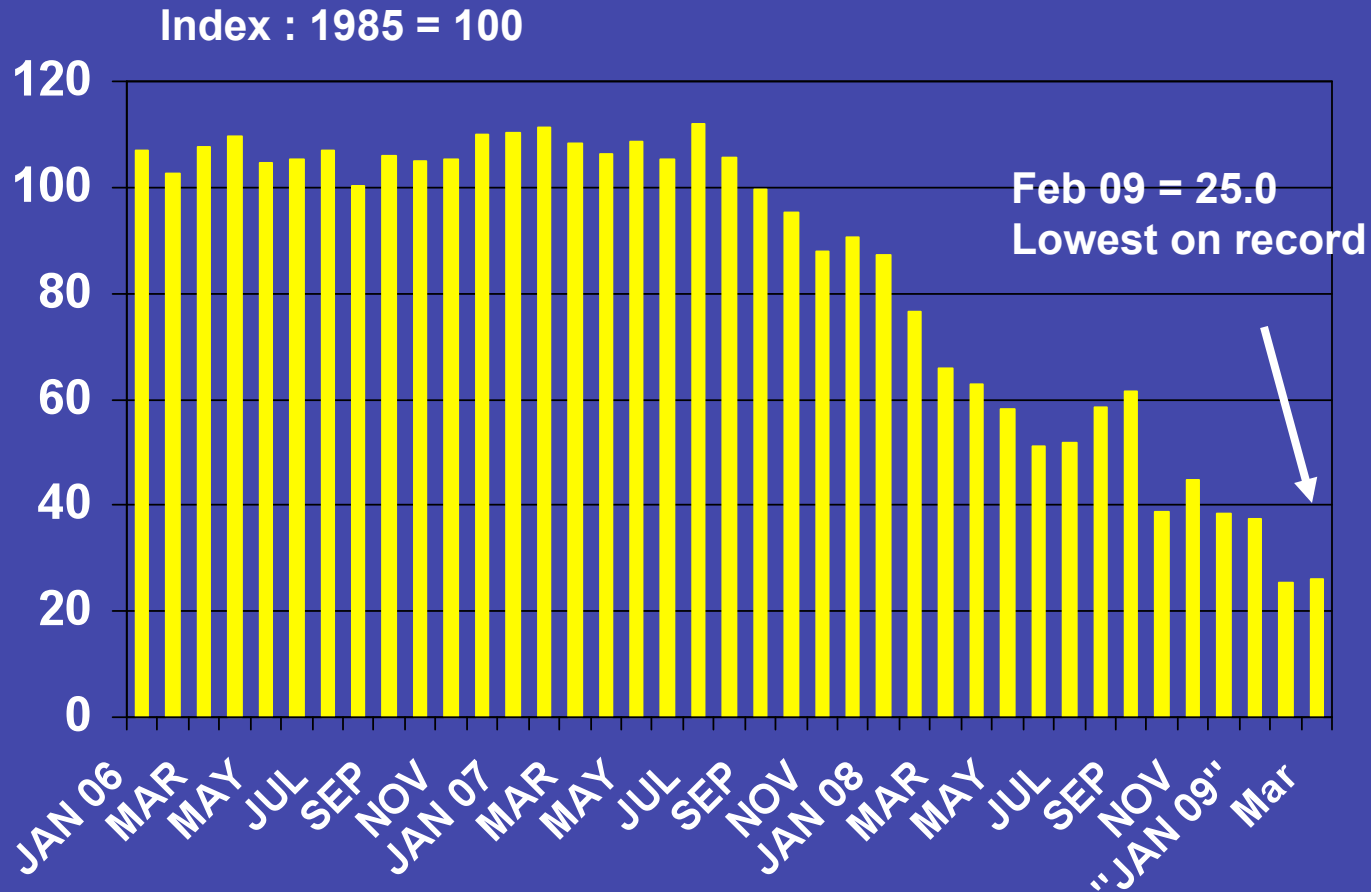
unemployment at 8.5% - highest in 25 years



Source: U.S. BLS (www.bls.gov)

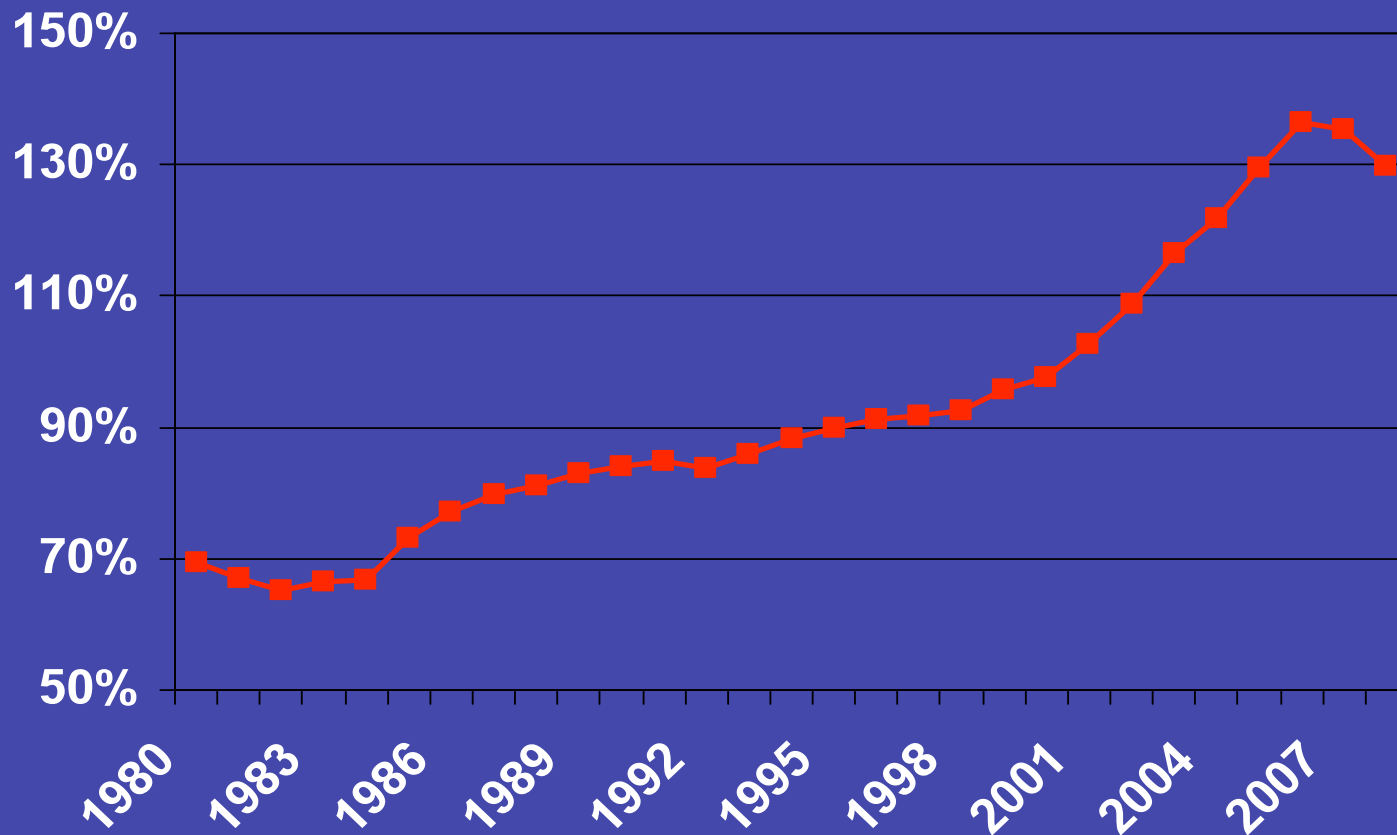
Consumer Confidence

Key to future consumption (and investment and lending)



Source: Conference Board (<http://www.conference-board.org/economics/ConsumerConfidence.cfm>)

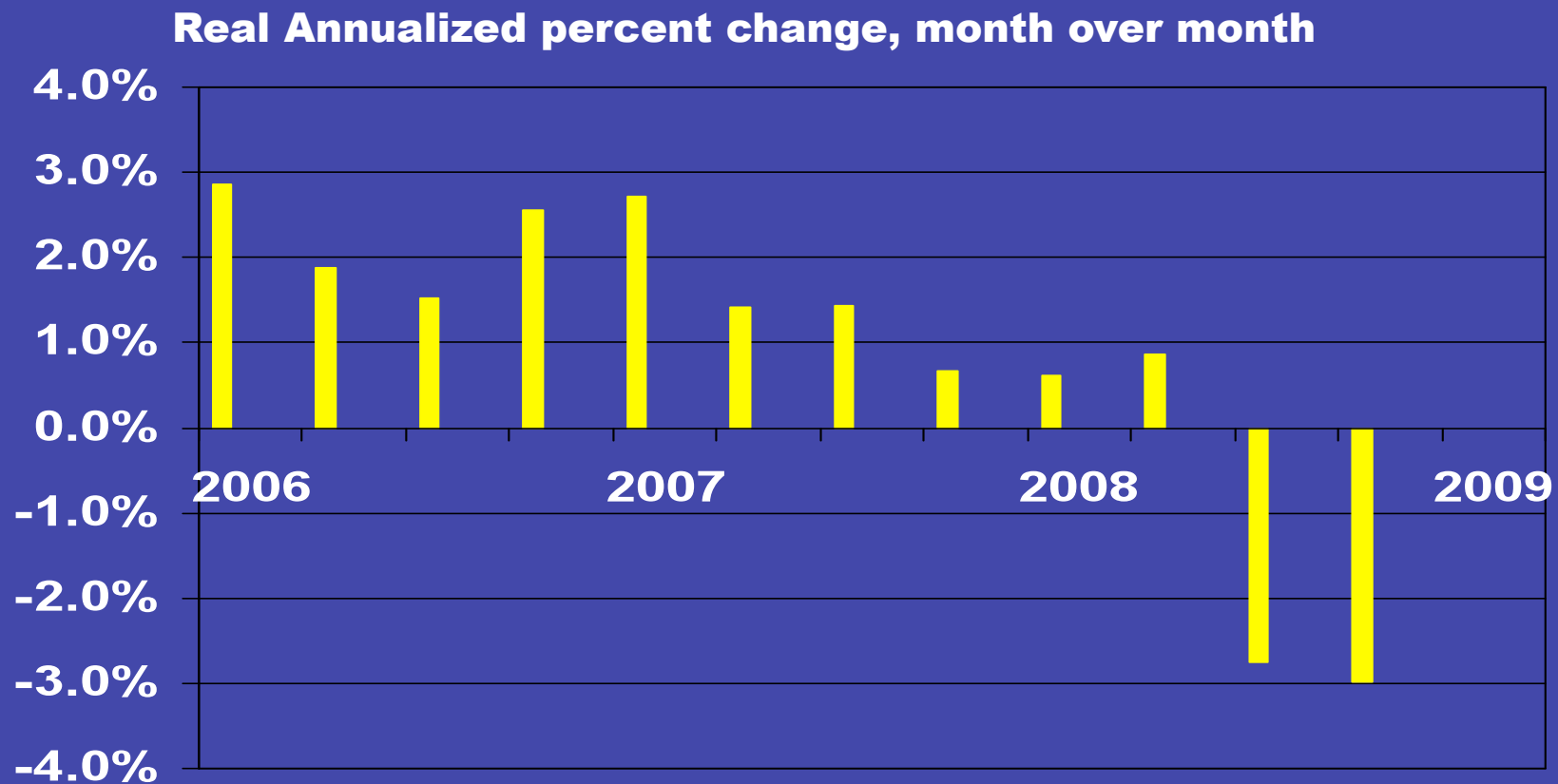
Household Debt* to Personal Disposable Income



* Home mortgage plus consumer credit

Source: Federal Reserve, Flow of Funds Account Table D3, F10

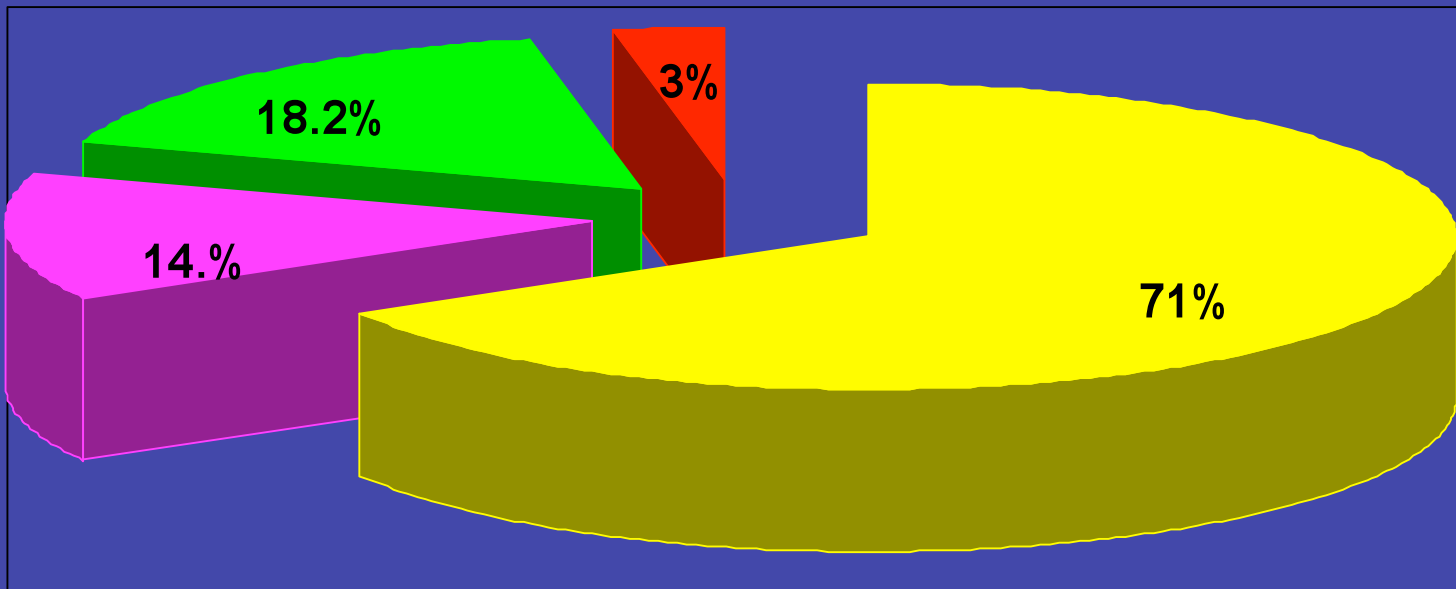
Contribution to percent change in GDP by consumer spending



Source: BEA

U.S. GDP Shares – 2008 Qtr 4 \$14.2 Trillion

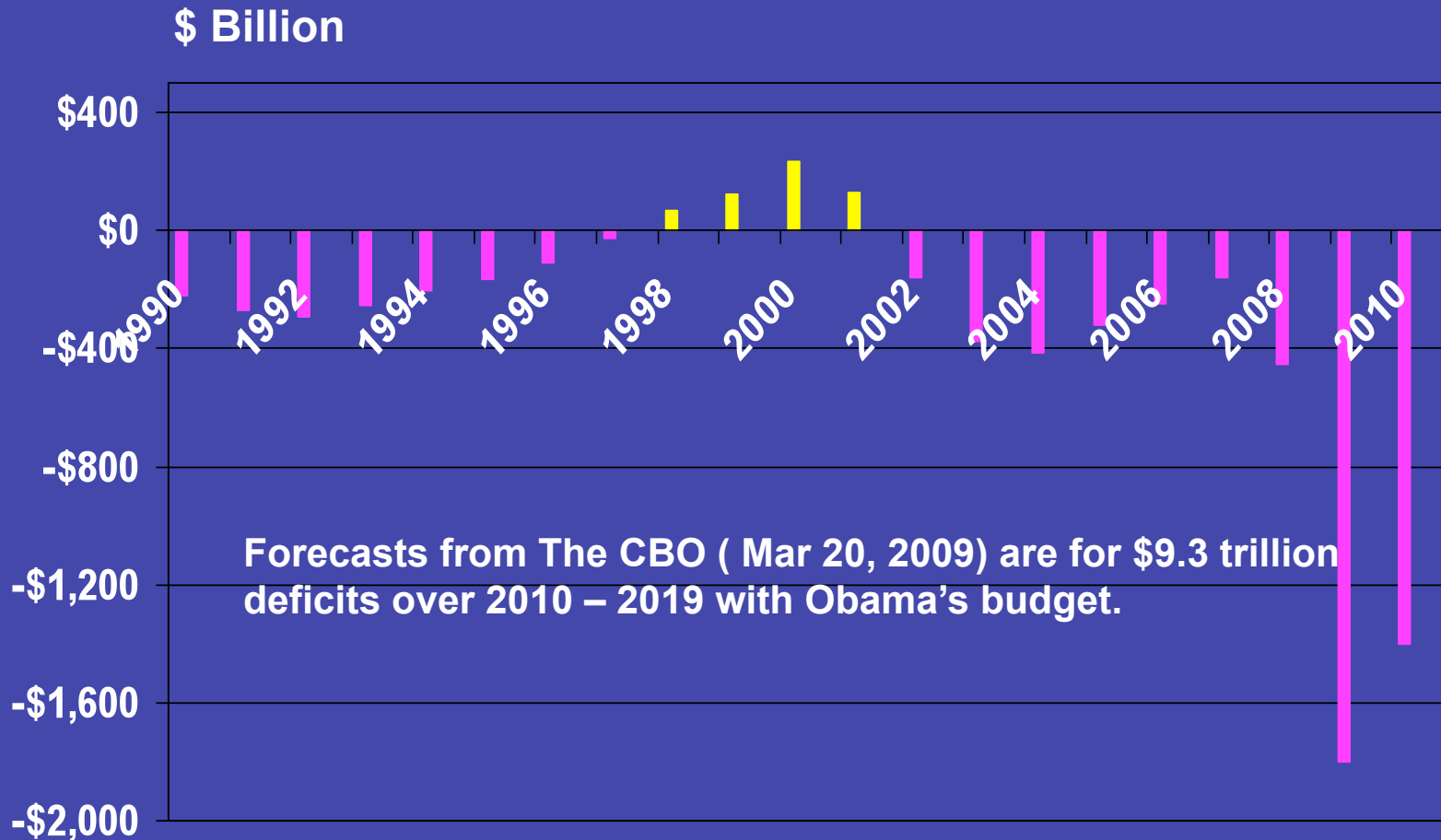
Government pumping Trillions into the economy
to get consumer spending again – **there are consequences**



■ Personal Consumption	■ Private Investment
■ Government spending	■ Net Exports

Source: BEA (<http://bea.gov/national/nipaweb>)

Federal Budget Balances

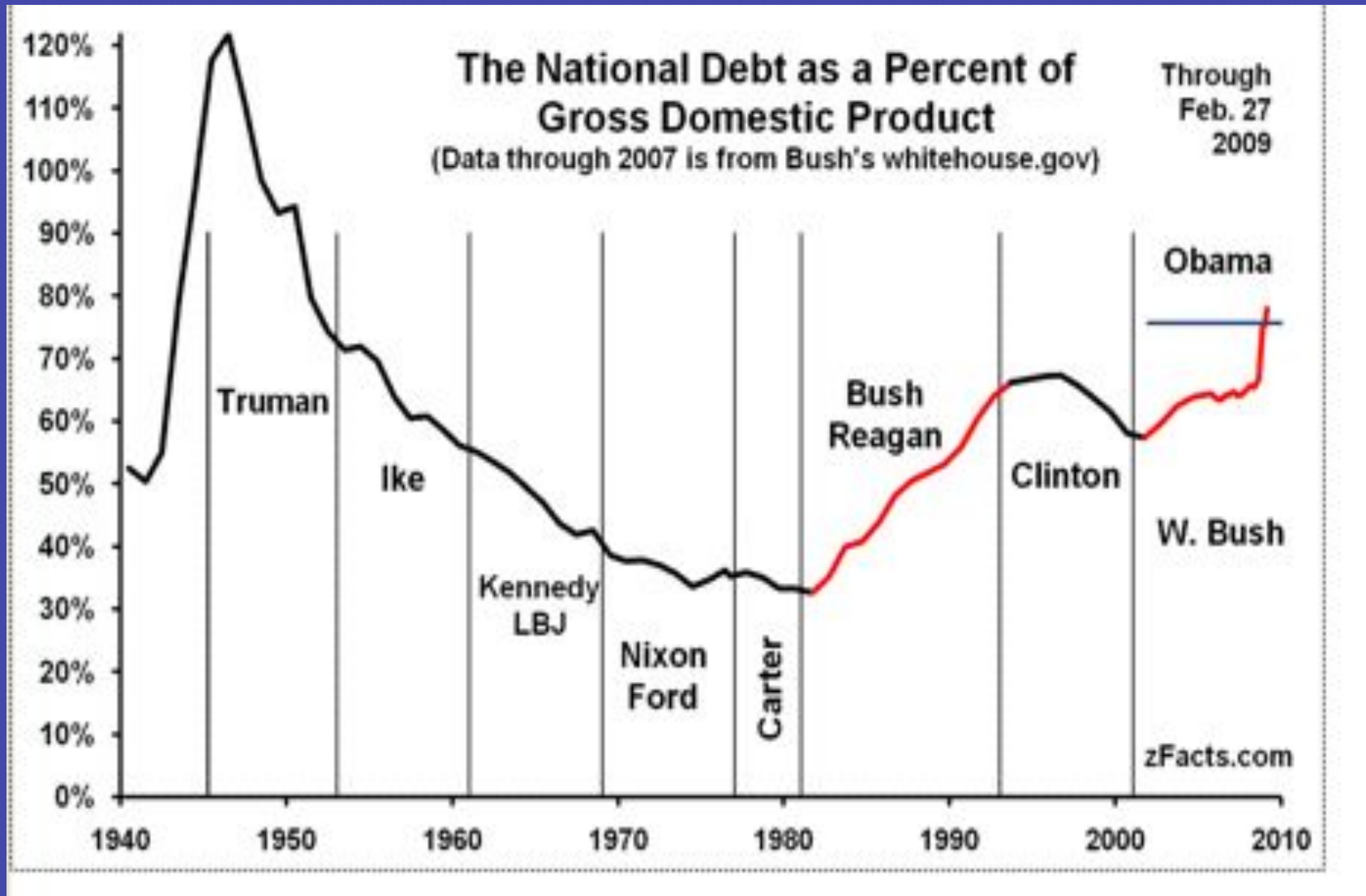


Source: CBO (Congressional Budget Office)

Total debt = \$11 trillion (\$6 trillion held by public)

Interest on the Debt is \$412 billion in 2008

3rd highest budget item behind defense & transfer payments



Debt is "financed" by inflation, higher interest rates, Higher taxes, and probably fewer services?



Printing Money = Inflation

17 December 2007

∴ monopoly rules ∴



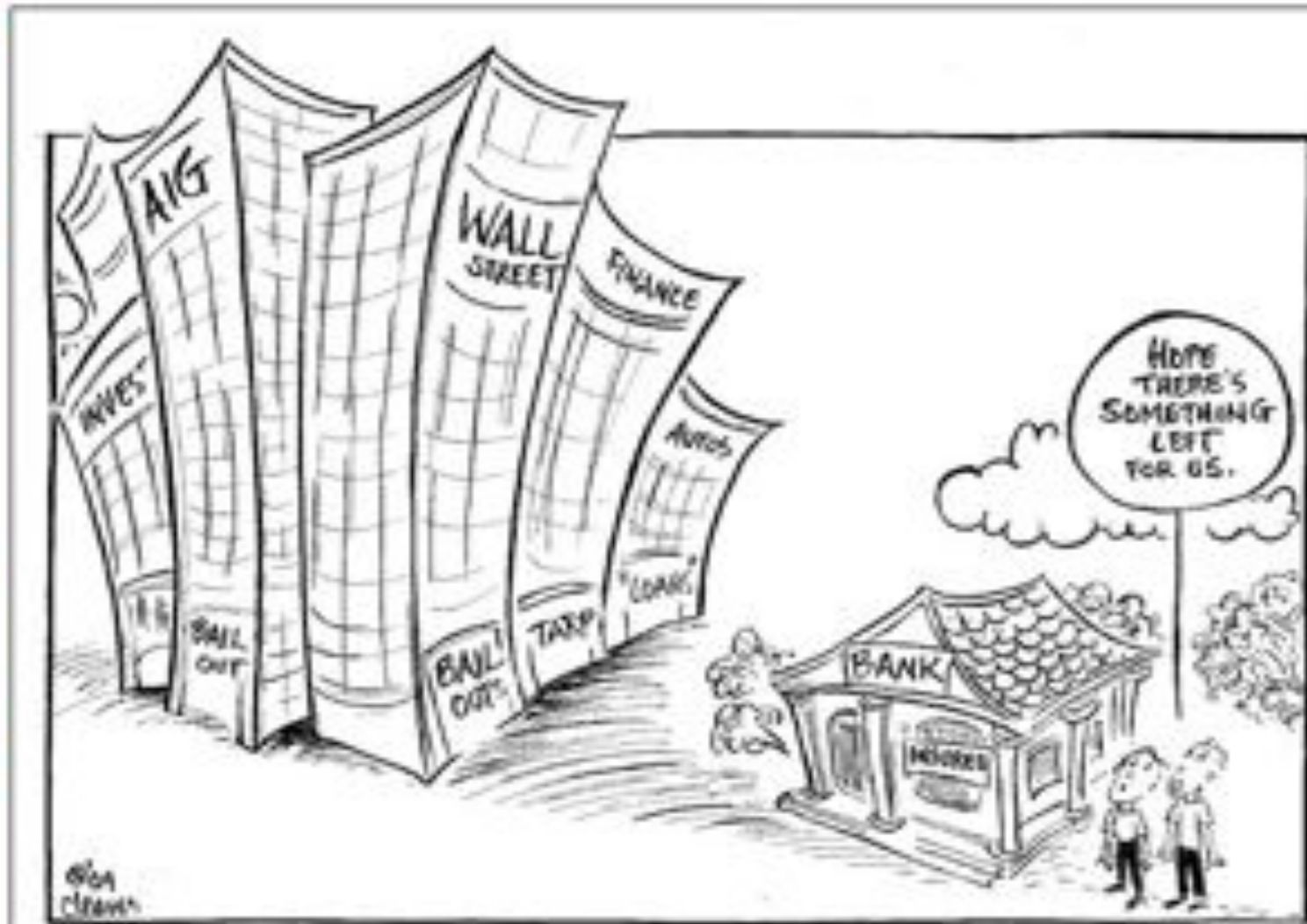
Jeff Dazinger - 16 December 2007

Posted by: [dimash](#) - 1:09 PM MST
Tags: [Editorial Cartoons](#) - [Jeff Dazinger](#)

Biggest loser is the taxpayer ?

Editorial Cartoon by Ann Cleaves, Freelance

Thursday, April 9, 2009



Particularly, future taxpayers



Lisa Benson
(April 2, 2009)

Lisa Benson
Washington Post Writers Group

Government ownership – pros and cons

Thursday, April 9, 2009

Editorial Cartoon by Lisa Benson, Victor Valley Daily Press



Wednesday, April 1, 2009

© 2009. Published originally in Victor Valley Daily Press.

Economic Outlook

Over the next 12 – 18 months,
Consumer spending and business investment will be weak
With the government the only one spending

	2007	2008	2009	2010
GDP	2.0	1.1	-2.6	1.6
CPI (total)	2.9	3.8	-1.0	1.9
Unemployment Discouraged workers, marginally employed, part time for economic reasons	4.6	5.8	8.8 16%	9.6

Source: M. Zandi (Economy.com) - April 9, 2009

- **Bottom line – need to fix the foreclosure problem 1st**
- **That will improve the bank's capital ratios**
- **That will unthaw the credit markets**
- **Then, consumers will spend, investors will invest, and banks will lend**
- **The economy will take care of itself after that**
- **Housing will correct (eventually – when inventories return to normal levels)**
- **Time line for turning the corner (my guess) - housing to bottom this year, but recovery will be slow – economy will pick up late 2009 – employment will be last**