

When Will U.S. Housing Bottom?

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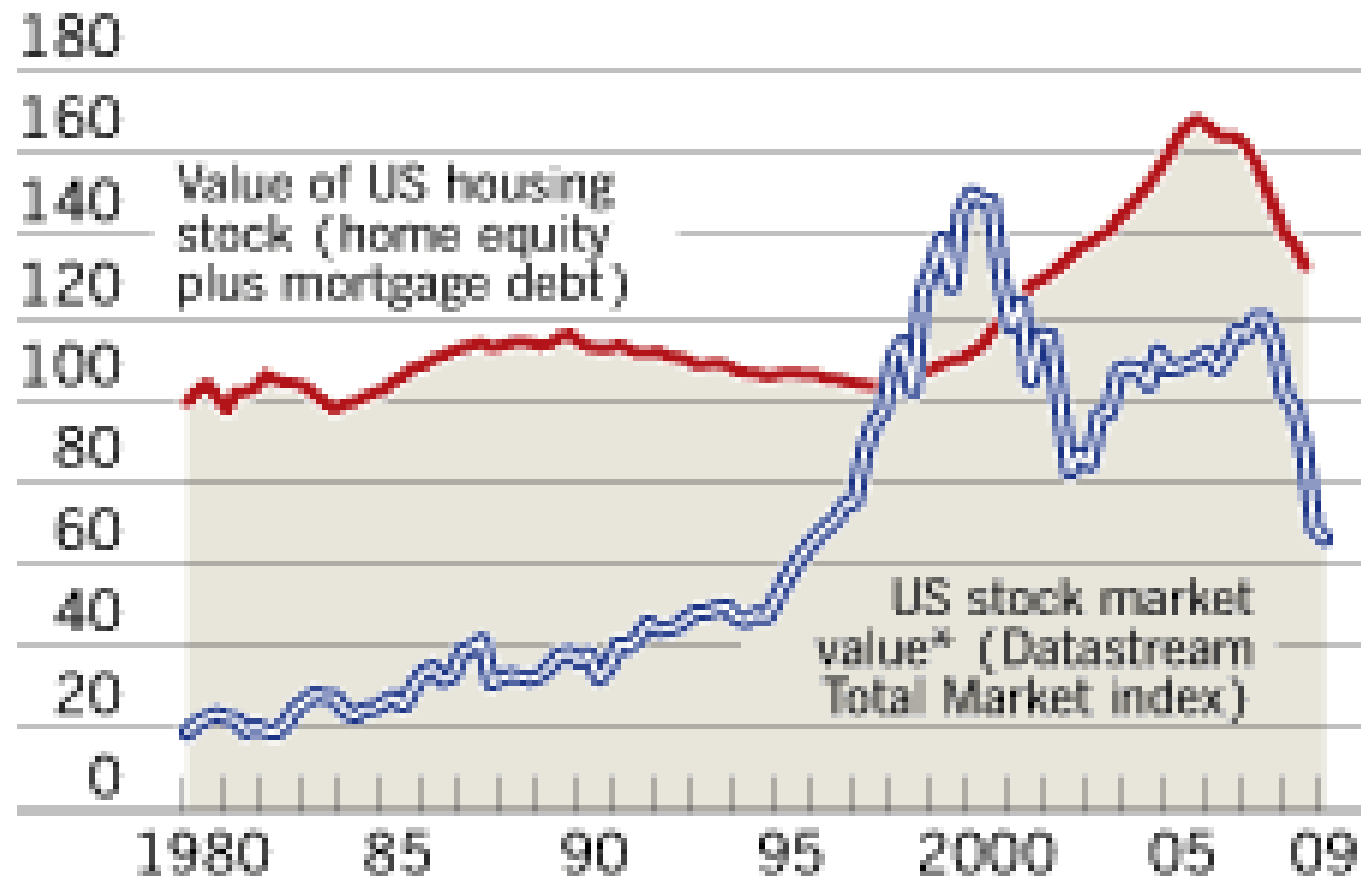
March 17, 2009

Housing and the U.S. Economy are joined at the hip

- Housing is the major component of U.S. household wealth
- Further mortgage loan losses will aggravate the credit crunch
- A weak economy and rising unemployment undermine the housing market

Value of US housing stock and equity market

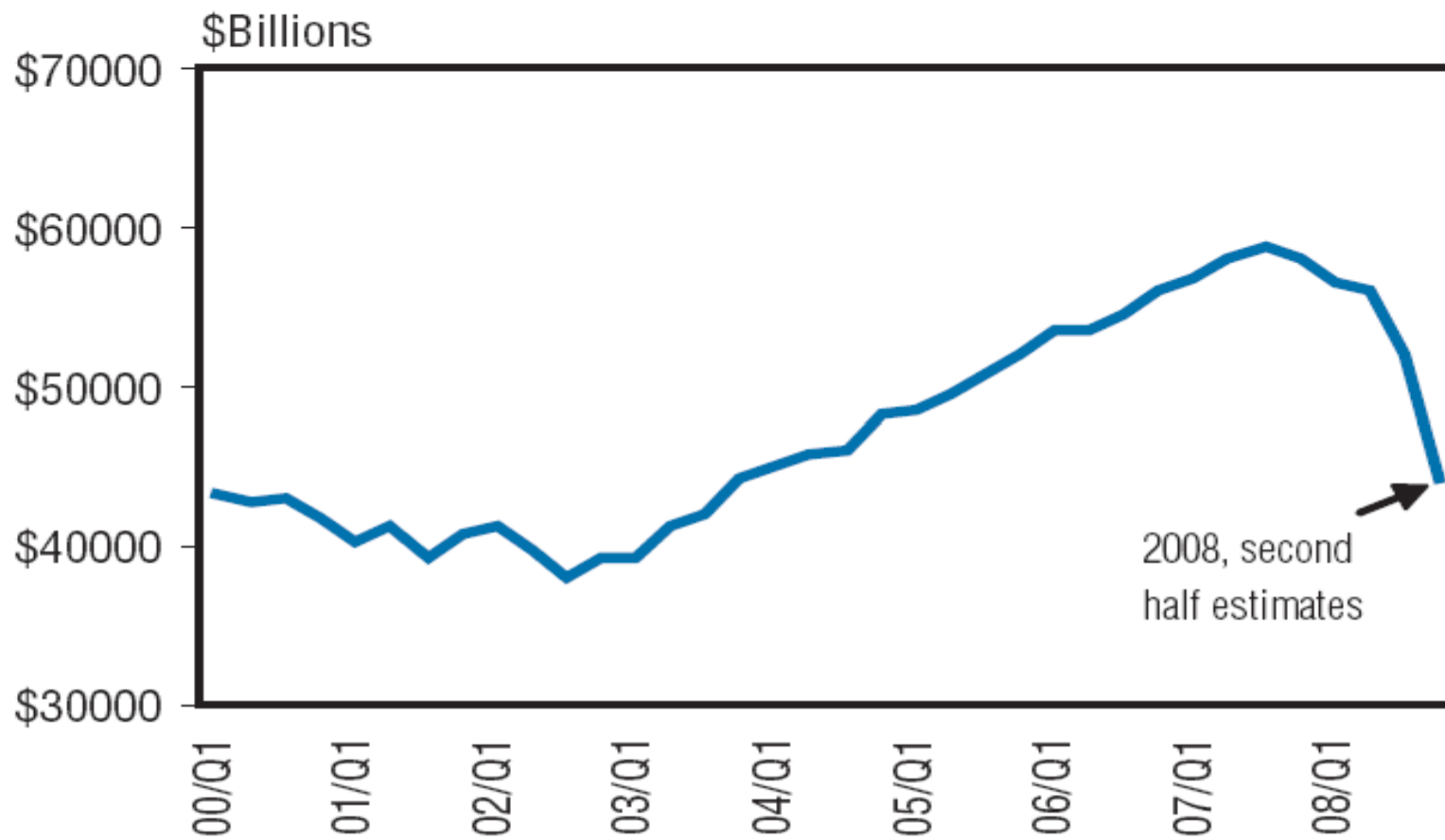
As a % of GDP



* Updated using Consensus forecasts for GDP

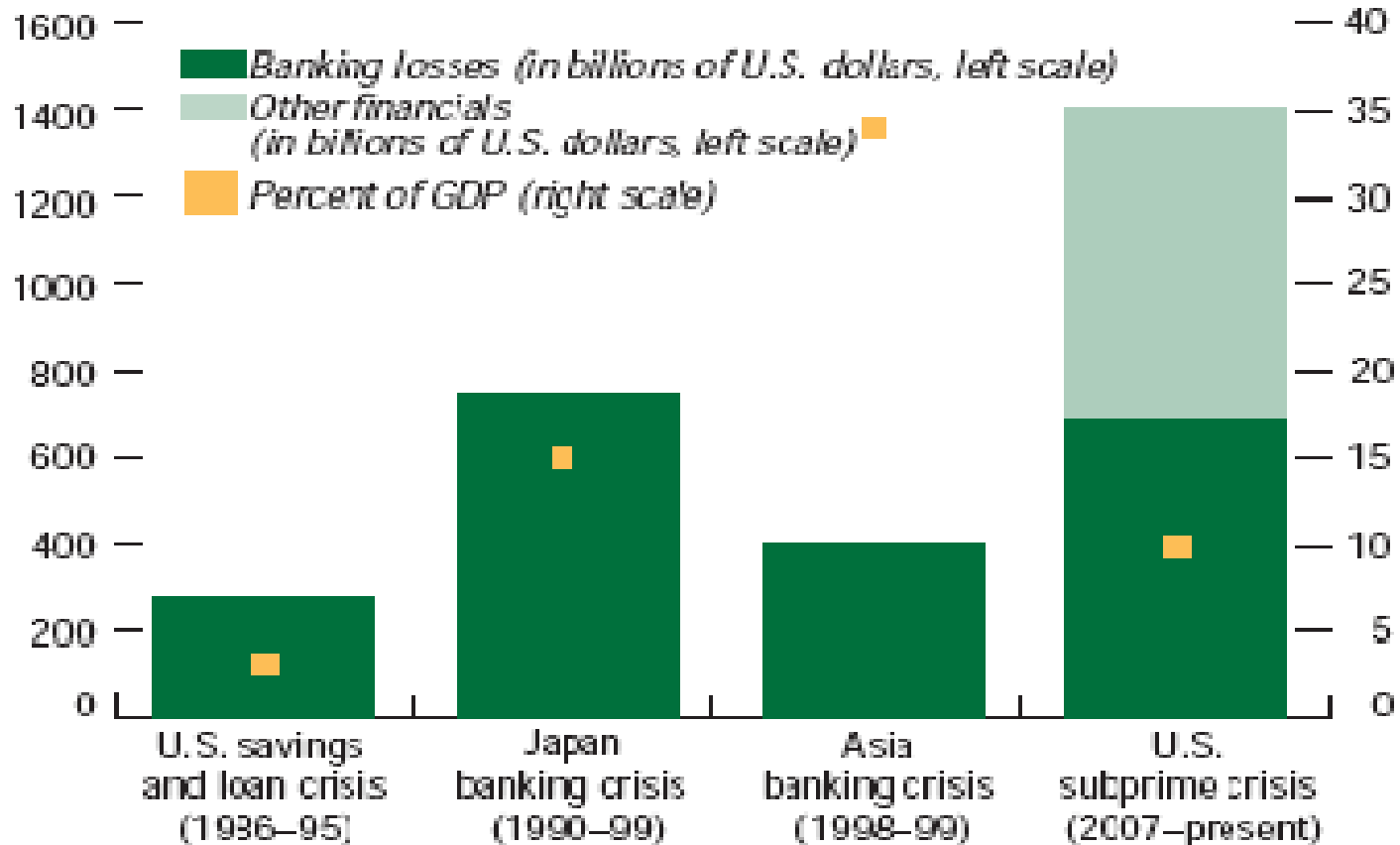
Sources: Federal Reserve; Freddie Mac; Consensus Economics

Household Net Worth Declines



Source: Haver Analytics

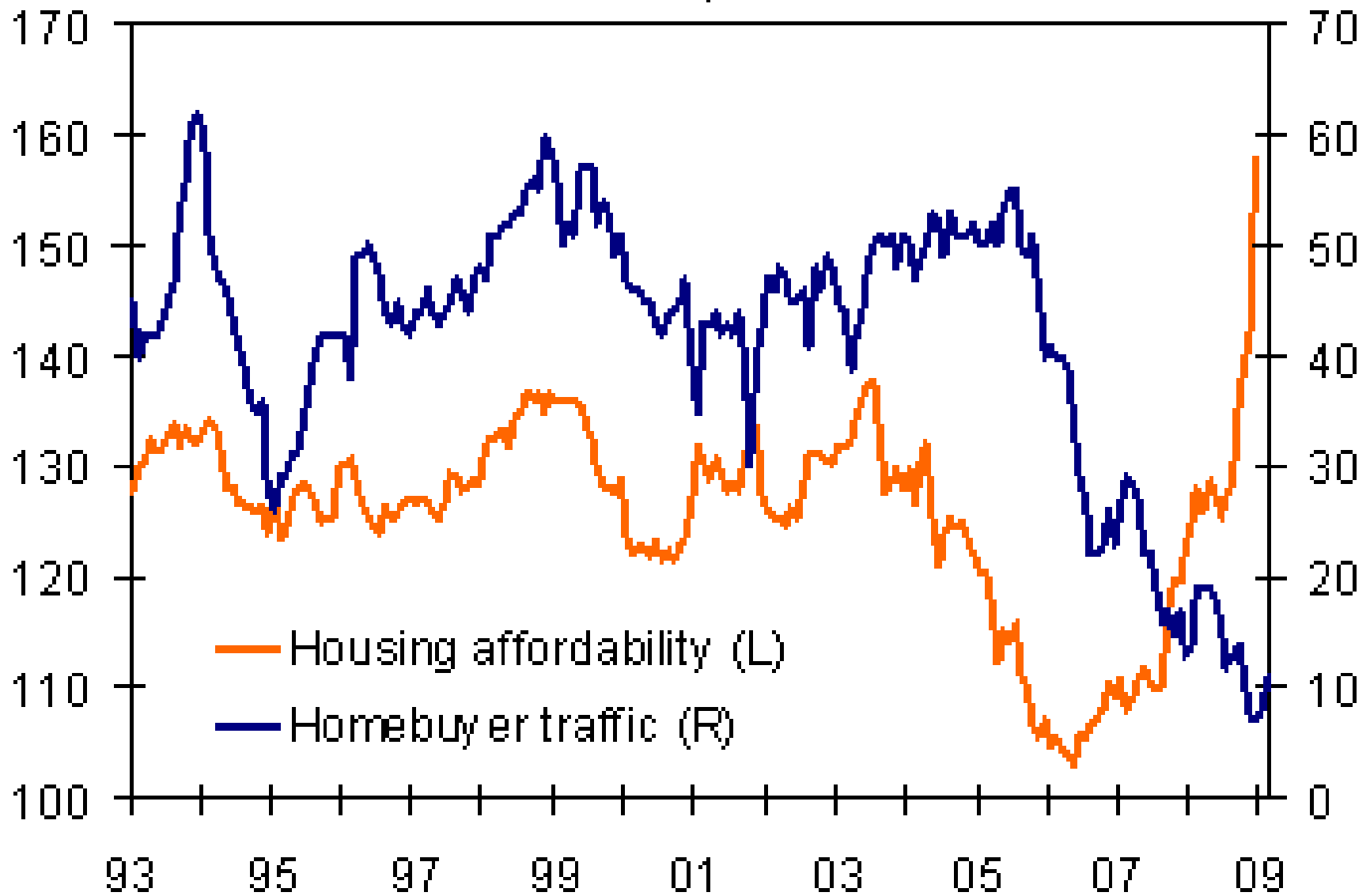
Comparison of Financial Crises



Sources: World Bank; and IMF staff estimates.

Note: U.S. subprime costs represent staff estimates of losses on banks and other financial institutions from Table 1.1. All costs are in real 2007 dollars. Asia includes Indonesia, Malaysia, Korea, the Philippines, and Thailand.

Lack of Confidence Weighs on Housing Index, SA



The Good News in the Housing Market

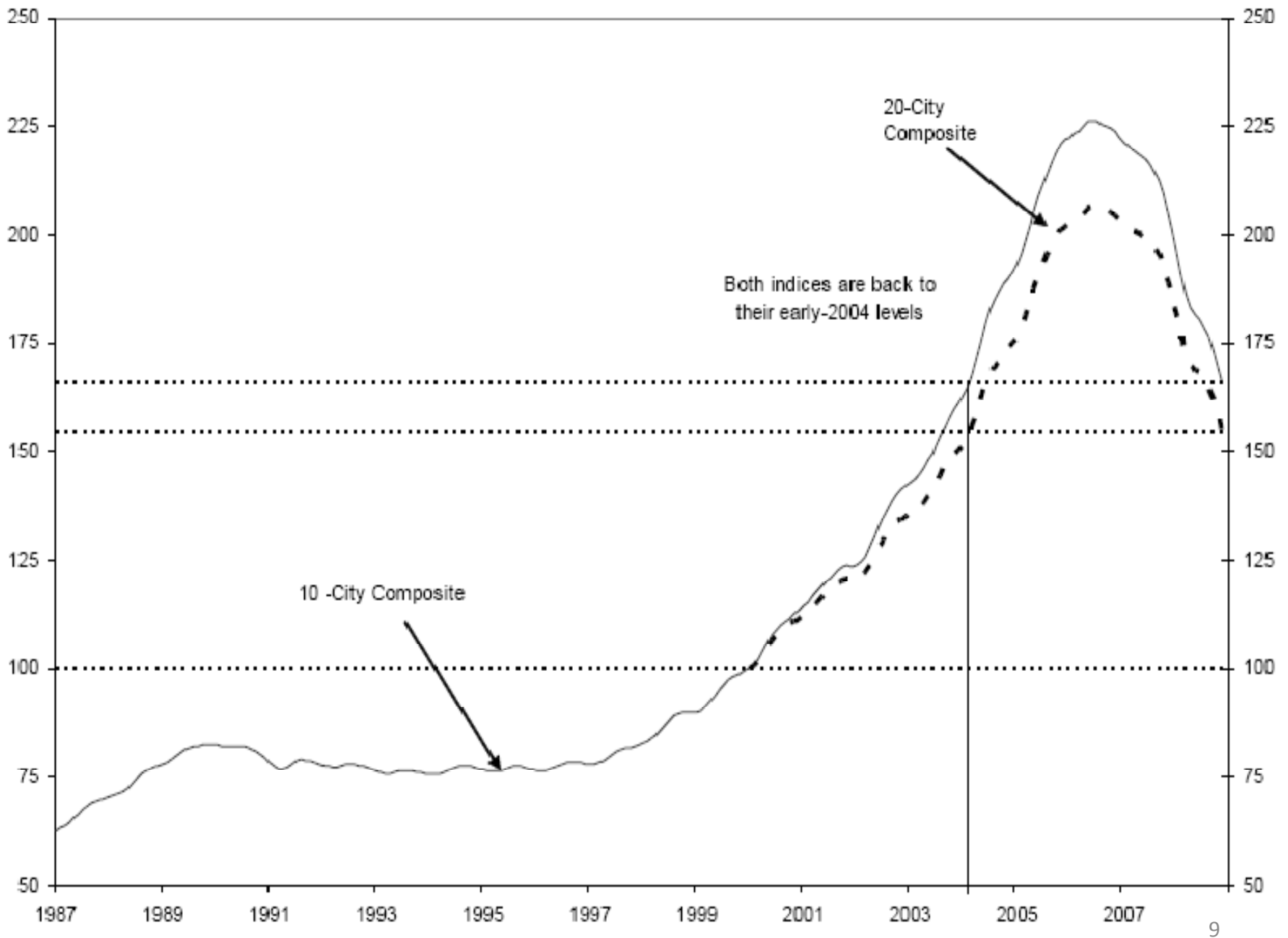
- Mortgage rates have declined for conforming loans
- Housing prices are down 27 per cent from their peak
- Housing affordability has improved to its best level
- Housing construction is at record lows

Mortgage Rates

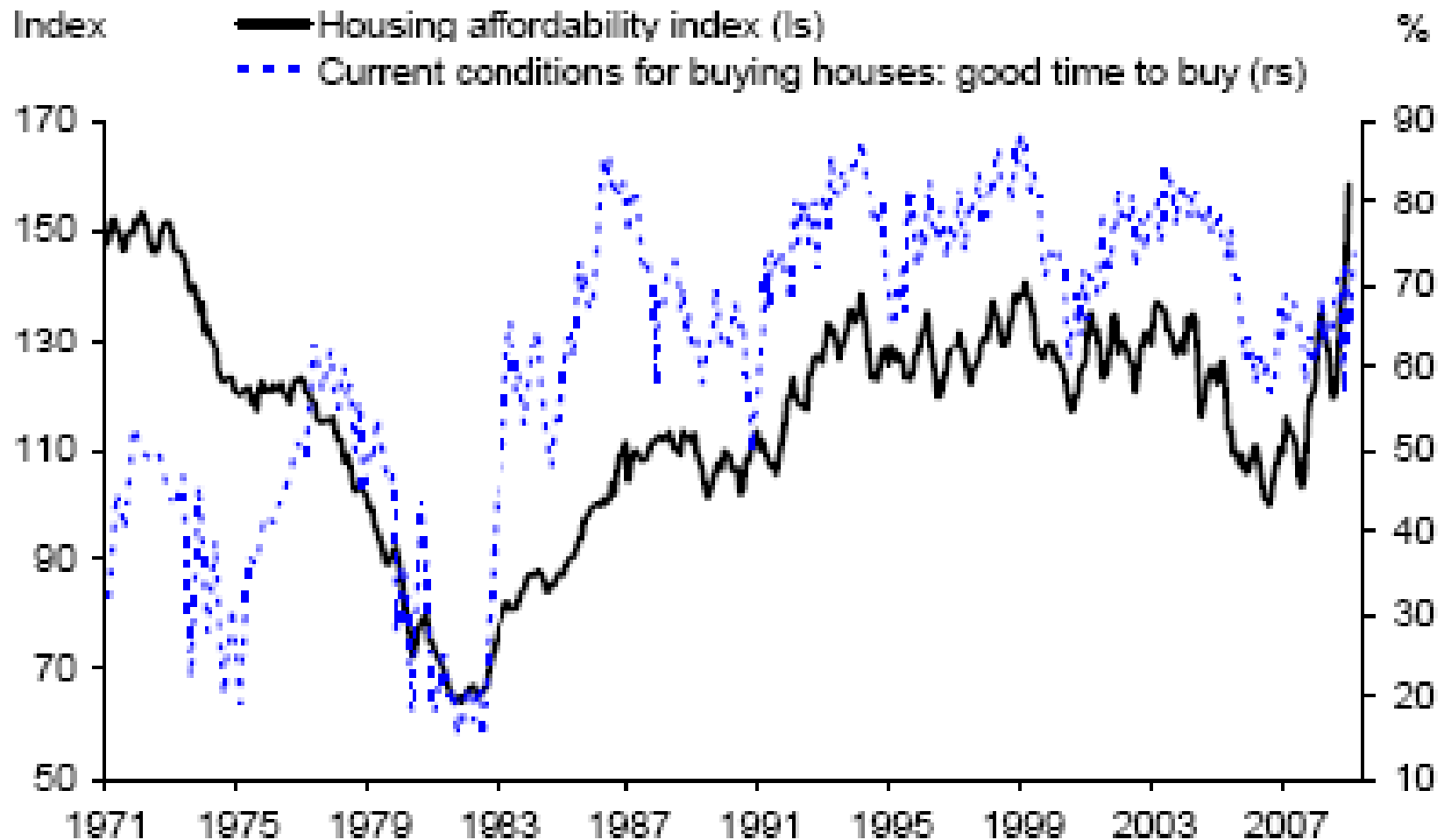


Source: FRB, Bloomberg, DB Global Markets Research

S&P/Case-Shiller Home Price Indices

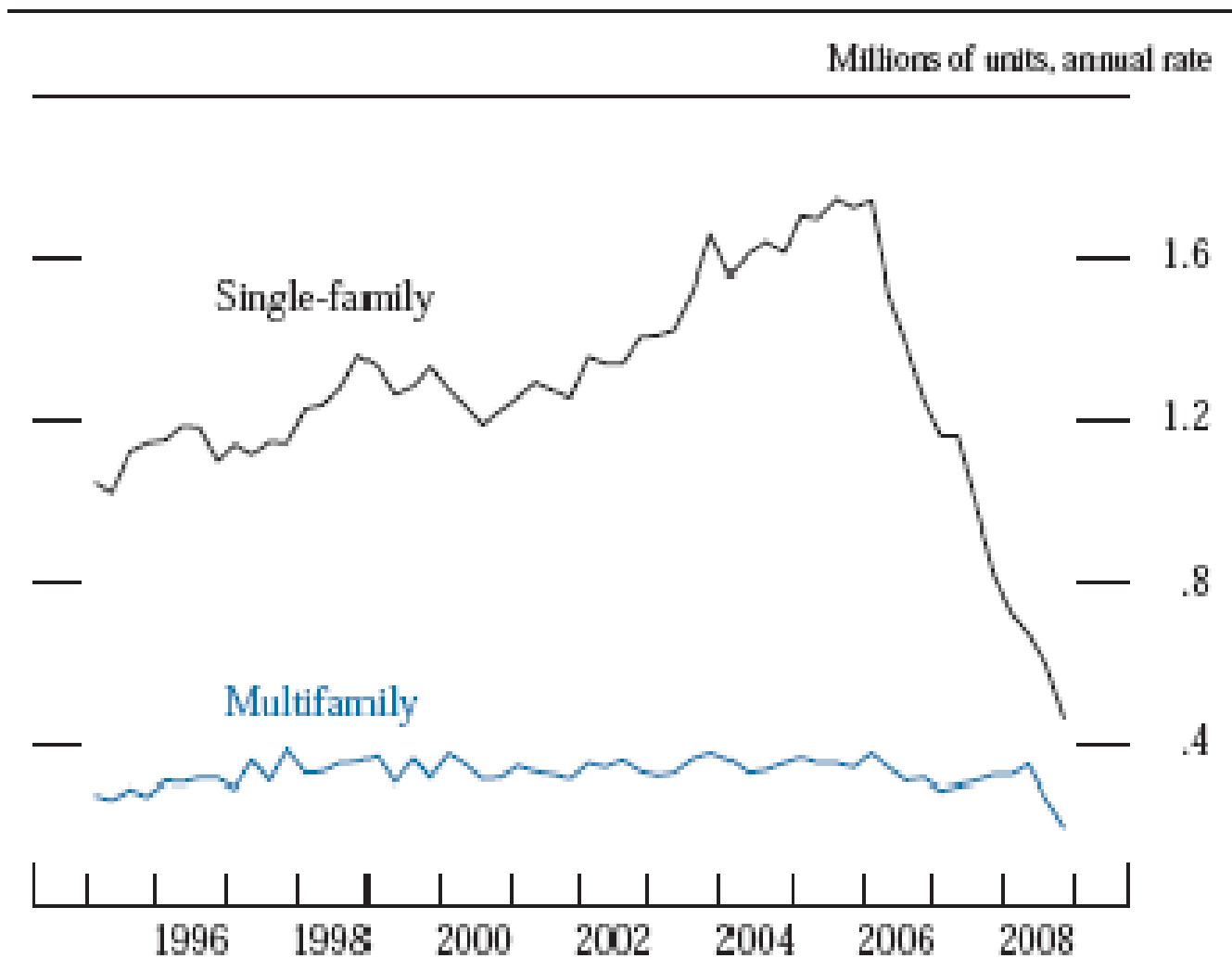


Housing Affordability



Source: Univ. of Michigan, NAR, DB Global Markets Research

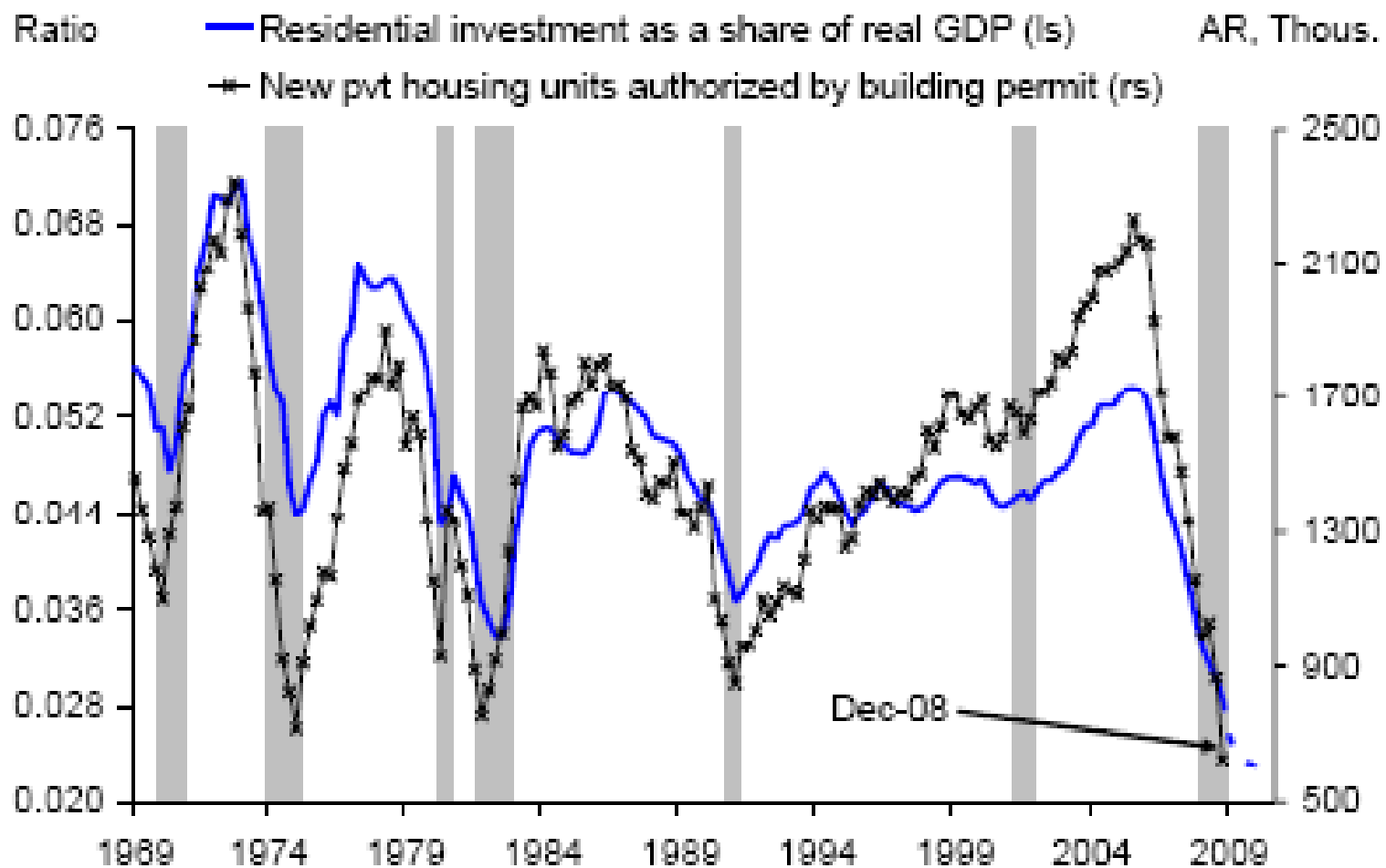
Private housing starts, 1995–2008



NOTE: The data are quarterly and extend through 2008:Q4.

SOURCE: Department of Commerce, Bureau of the Census.

Residential Investment and Housing Starts



Source: BEA, Census, DB Global Markets Research

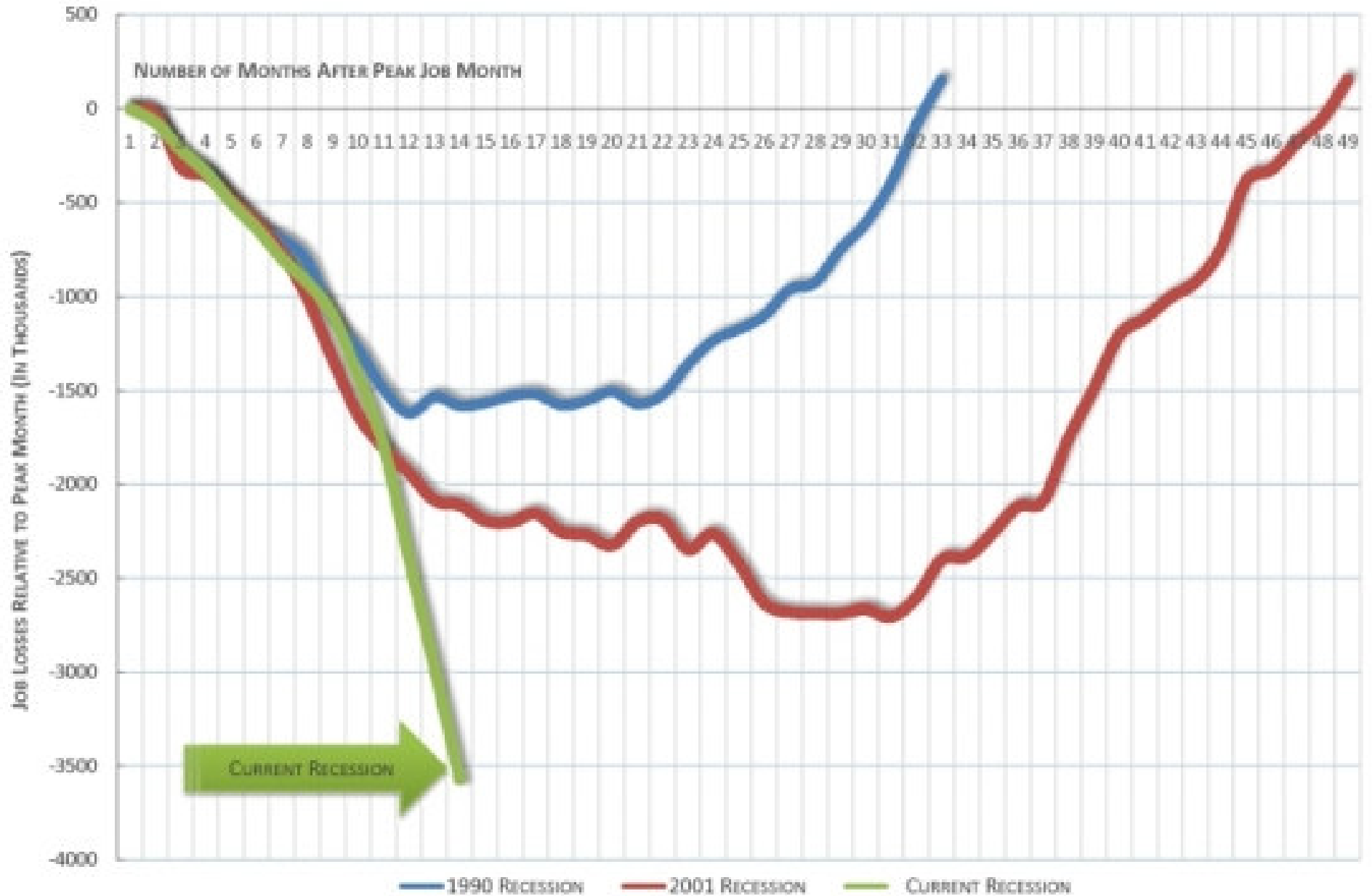
The Bad News Still Dominates

- The labor market is rapidly deteriorating
- Excess inventories still overhang market
- Foreclosures continue to mount
- Negative equity is a real problem
- Option ARM resets are large in 2009 and 2010¹³

Monthly Unemployment Rate 1982 - 2009



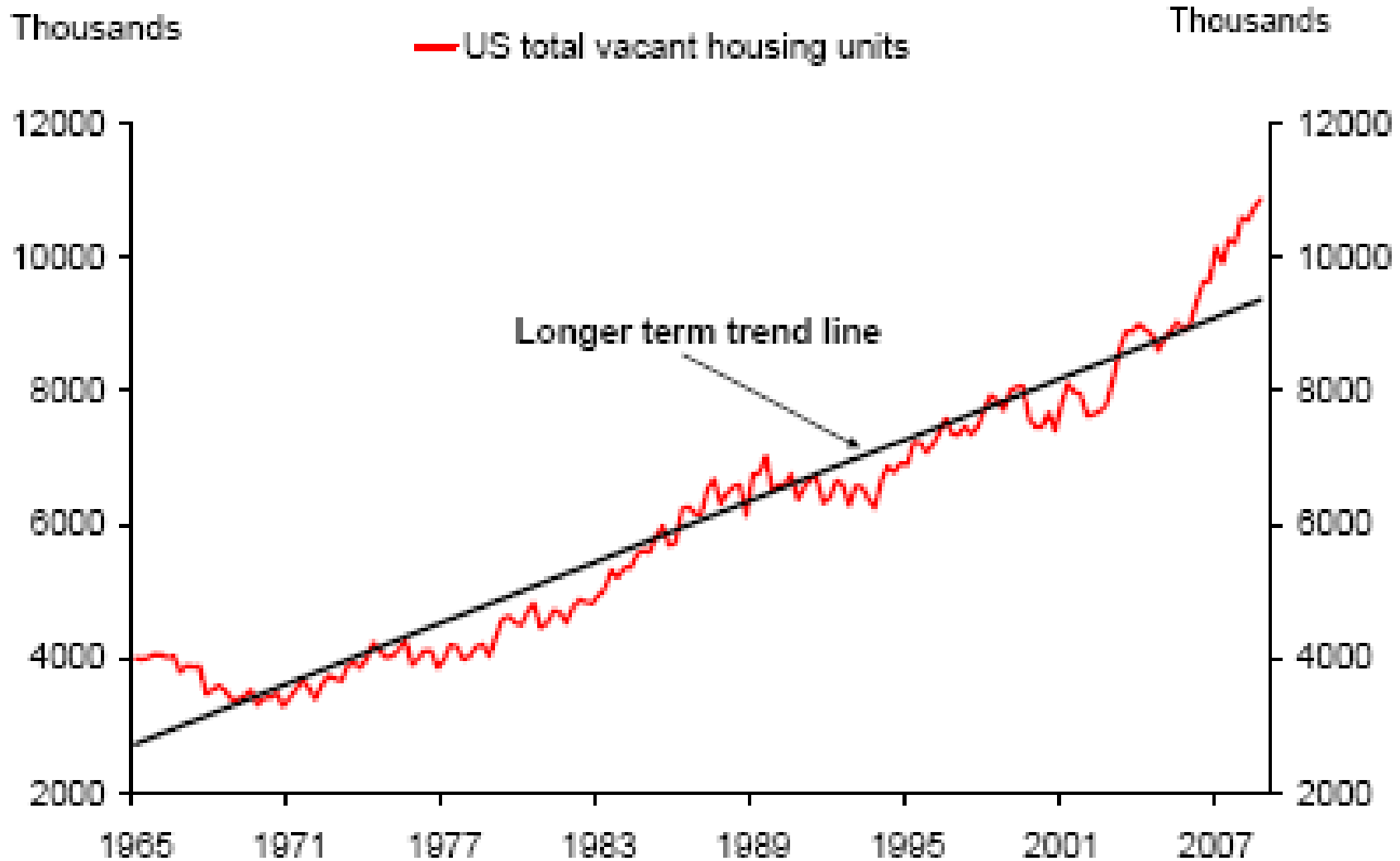
JOB LOSSES IN RECENT RECESSIONS



SOURCE: BUREAU OF LABOR STATISTICS

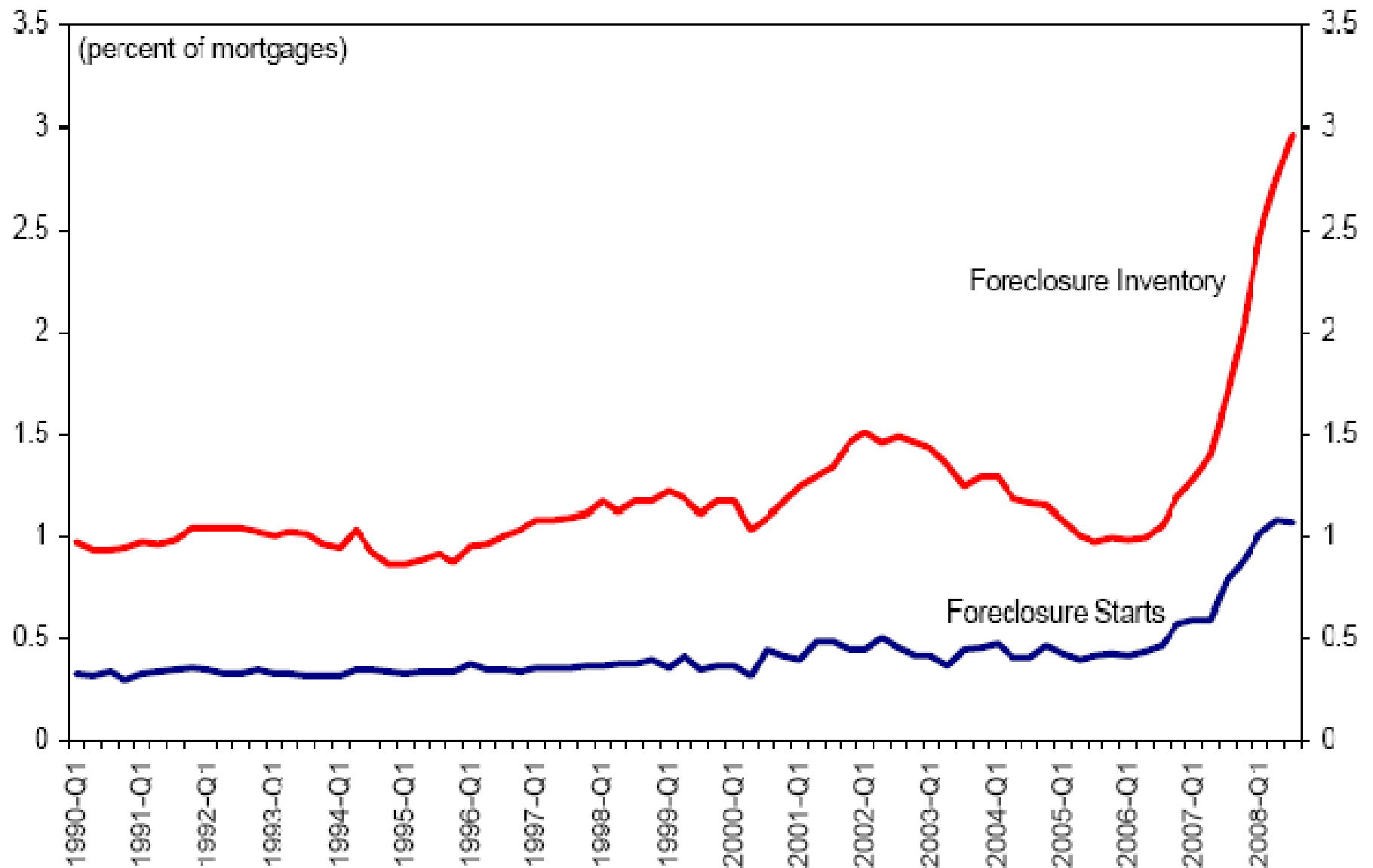
OFFICE OF THE SPEAKER, 2/6/09

Excess stock of vacant homes



Source: Census, DB Global Markets Research

Foreclosure Inventory and Foreclosure Starts



Source: Mortgage Bankers Association.

Policies Needed to Stabilize the Economy

- A front-loaded and well designed fiscal stimulus package
- A coherent plan to get credit flowing again
- Policies to stabilize the housing market

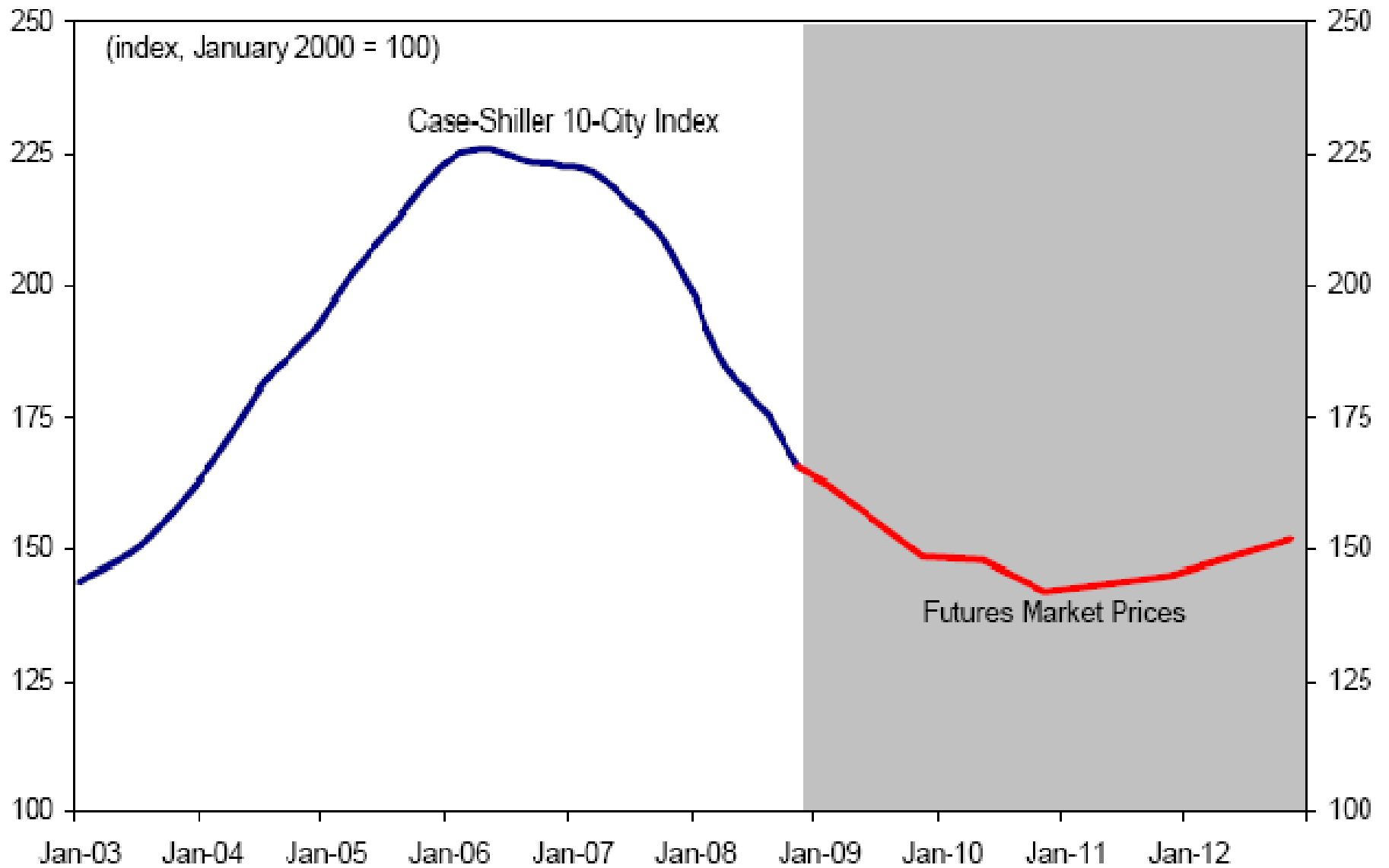
The New Administration is Failing to Deliver

- Fiscal stimulus is back-loaded and does not get bang for the buck
- Financial rescue plan looks like the improvisation of TARP I
- Foreclosure mitigation appears too modest

Housing will not bottom in 2009

- The economy will not recover till 2010
- Unemployment will rise to over 9 percent
- Any economic recovery will be anemic
- Futures prices suggest a 14 percent decline in home prices over the next year

House Prices



Source: Haver Analytics and Bloomberg LP.