



ECONOMIC FOCUS™

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What's Next For Housing?

It has been 5 years since US housing peaked and in the pursuant years we have endured the most severe market adjustments.

The current weakness in housing is viewed as a payback from stimulus-induced highs. Many economists project that housing will stabilize once the correction has been made.

Housing Related Jobs - Housing-related employment and construction have taken their hits and are less vulnerable. At its housing and construction accounted for 7% of all US jobs; not it accounts for 5%. Preceding the boom, residential construction approached 5% of GDP and today it accounts for 2%. A rebound in the greater labor market is needed to sustain a durable rebound.

New Inventory - Homebuilders have been keeping construction below sales, thus containing inventories. In May when new home sales fell to a record low, inventories declined further.

Home Prices - Most analysts predict house prices will slide a little further before they reverse. However, declines of another 5% do not compare with the 28% plunge over the past few years.

Household Wealth - Nearing the bottom of the housing market also means that the associated wealth loss has also been essentially absorbed.

Threats to economic and housing market recovery:

Shadow Inventory - Banks, Lenders and Investors continue to hold substantial "shadow" inventories of REOs (real estate owned) that they have and continue to foreclose on and repossess. The speed that these properties are offered could further prolong a soft market.

Interest Rates - These are in the hands of the Fed and their ability to borrow on the global market. Rates are directly tied to the confidence in the credit markets. Most importantly, confidence in the US's ability to repay its National Debt will weigh heavily on our cost of borrowing and availability of credit. A sharp pullback from risk in the credit markets could drive rates up and dampen housing.

Investor Confidence - A broad retreat in the financial markets could prolong or even further deepen the recession.

Nevertheless, the future of housing looks bright. Good news, considering the dark days of recent years.

Key Economic Reports Released This Week

RELEASE DATE	ECONOMIC INDICATORS	RELEASED BY	CONSENSUS	Wt.	INFLUENCE ON INTEREST RATES
Tue 07/05 8:30 am et	ISM Index (Non-Mfg) <i>for June '10</i>	National Association of Purchasing Mgt.	55.0%	**	▲ If above consensus ▼ If below consensus
Tue 07/05 1:00 pm et	Weekly Bill Auction	Dept. of the Treasury	N/A	**	▼ If strong demand ▲ If weak demand
Wed 07/06 7:00 am et	MBA Mtg Apps Survey <i>for week ending 07/02</i>	Mortgage Bankers Association of America	N/A	*	Undetermined
Thu 07/07 8:30 am et	Jobless Claims <i>for week ending 07/03</i>	Bur. of Labor Statistics Department of Labor	460K	*	▼ If above consensus ▲ If below consensus
Thu 07/07 3:00 pm et	Consumer Credit <i>for May '10</i>	Federal Reserve Board	-\$2.0B	*	▲ If above consensus ▼ If below consensus
Thu 07/07	Chain Store Sales <i>for June '10</i>	International Counsel of Shopping Centers	3.0%	**	Undetermined See Retail Sales
Fri 07/08 10:00 am et	Wholesale Trade <i>for May '10</i>	Bureau of the Census Dept. of Commerce	0.4%	**	Undetermined

* Low Importance

** Moderate Importance

*** Important

**** Very Important



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