

# Economic Outlook in Uncertain Times

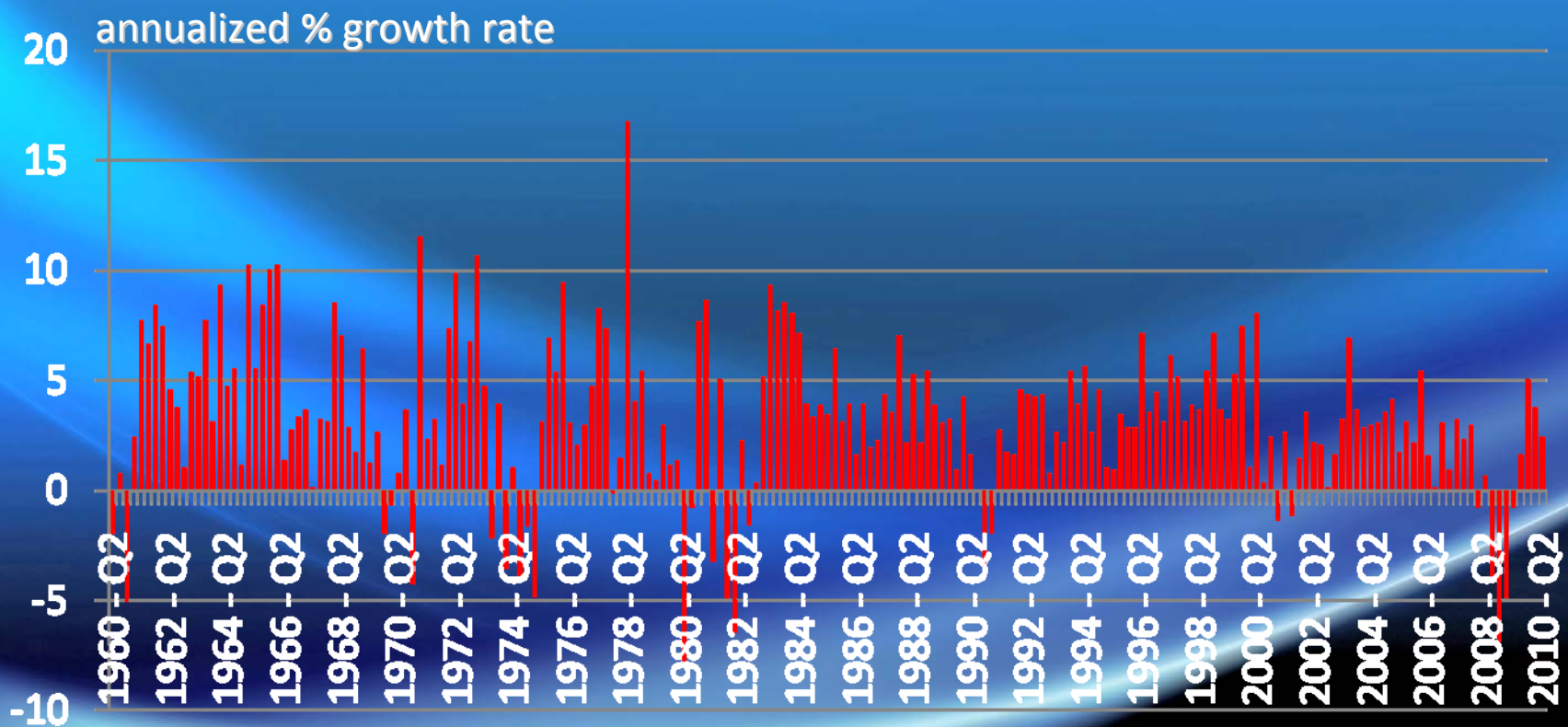
**Lawrence Yun, Ph.D.  
Chief Economist  
NATIONAL ASSOCIATION OF REALTORS®**

**Presentation to Silicon Valley Association of REALTORS®  
October 11, 2010**

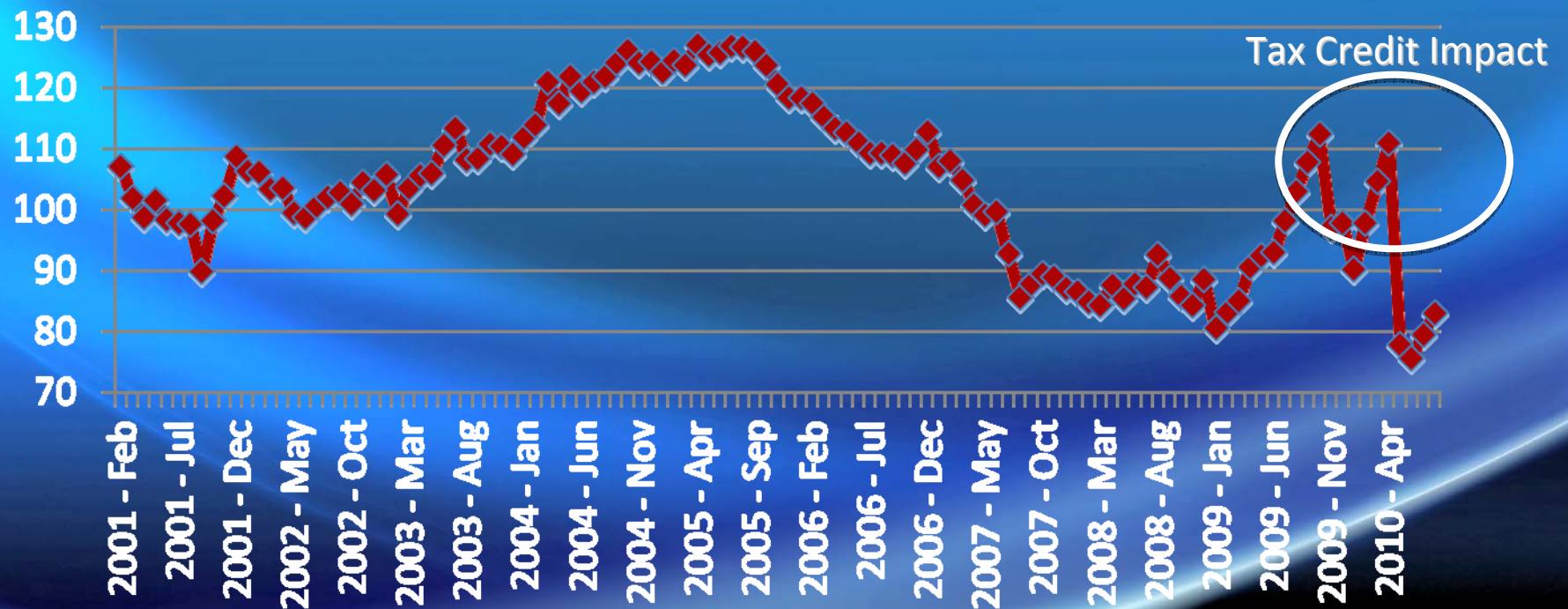
# Federal Reserve FOMC

- **Ben Bernanke** (Chairman):
  - “Outlook remains unusually uncertain”
- **Alan Greenspan** (former Chairman):
  - “If home prices start falling again, we could be facing a double-dip recession”
- **James Bullard** (St. Louis Fed):
  - “The U.S. is closer to a Japanese-style deflationary outcome”
- **Thomas Hoenig** (Kansas City Fed):
  - “Too rapid money creation results in eventual high inflation”
  - To speak at NAR conference in New Orleans

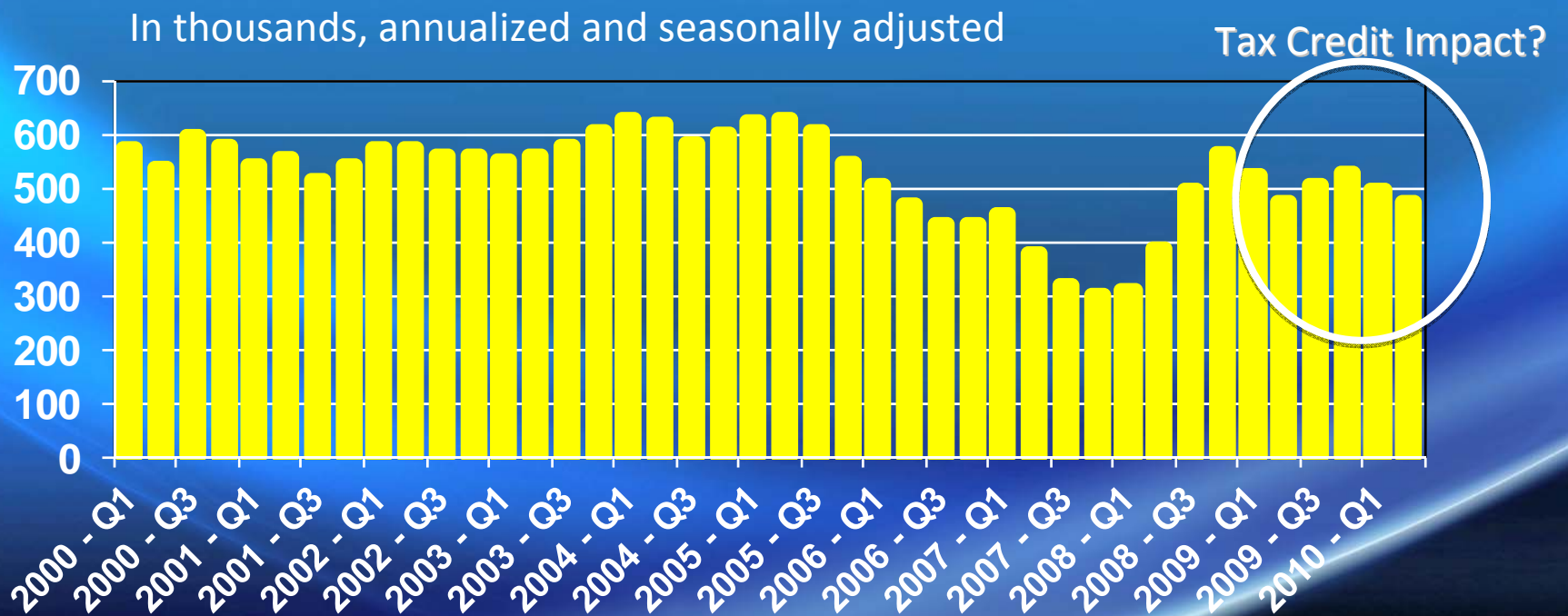
# GDP Growing, but Decelerating



# Pending Contracts on Existing Homes



# California Existing Home Sales: Quarterly Change

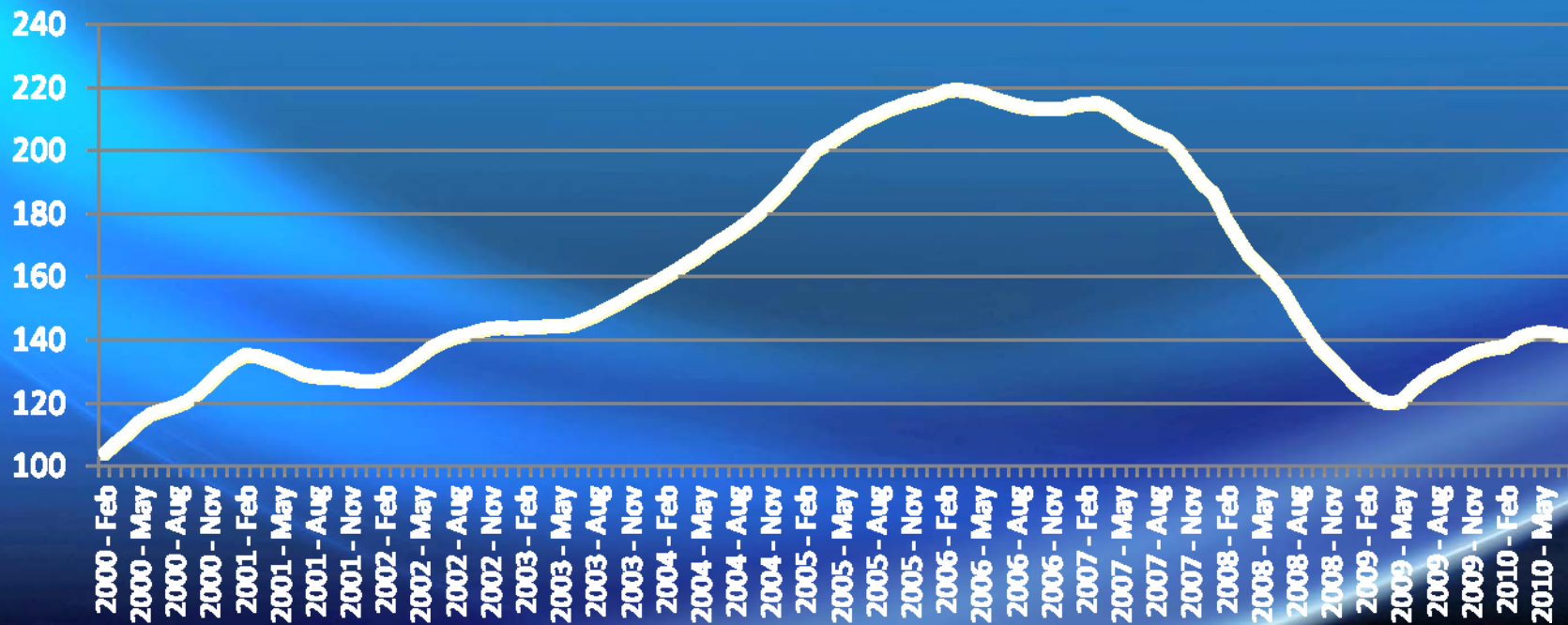


# Metro Median Home Price

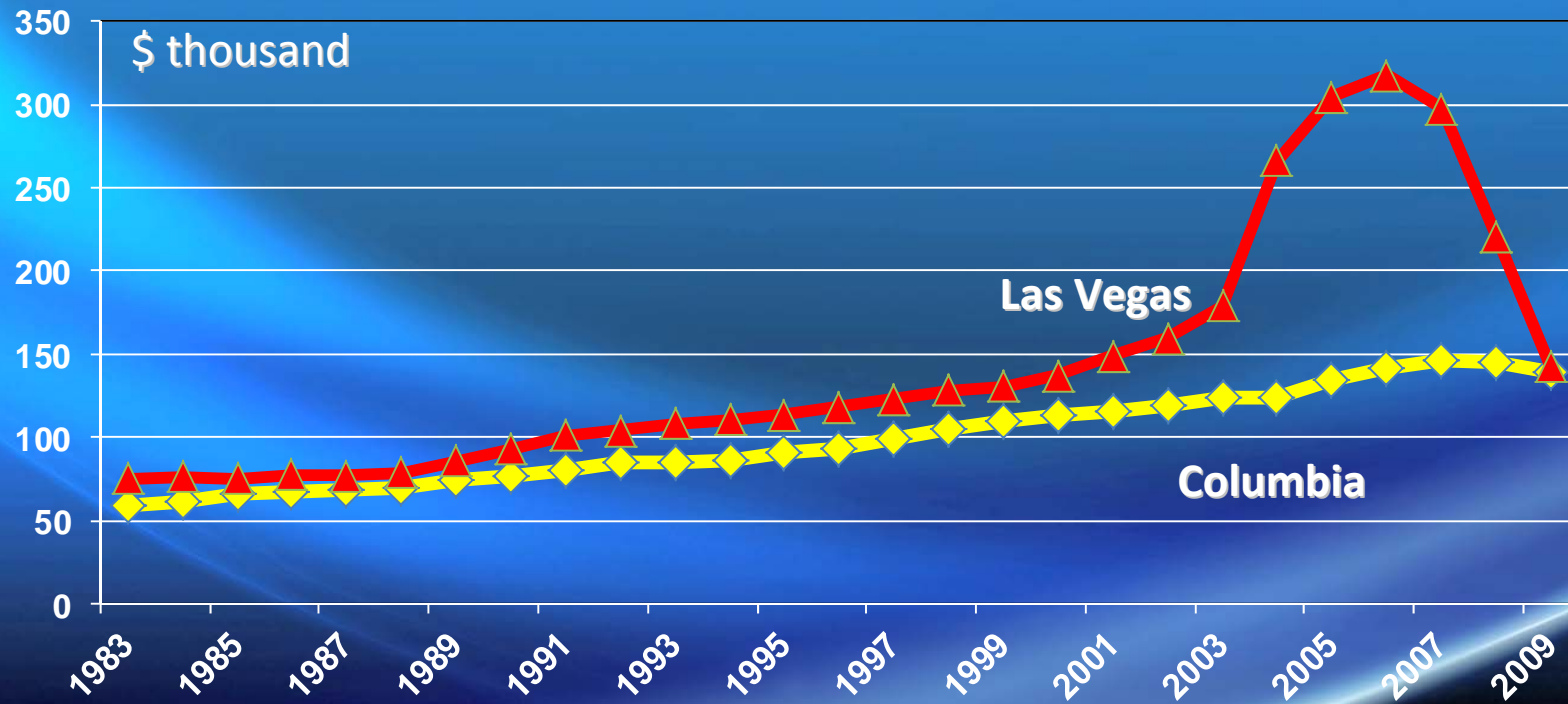


Source: NAR

# Case-Shiller Home Price for San Francisco



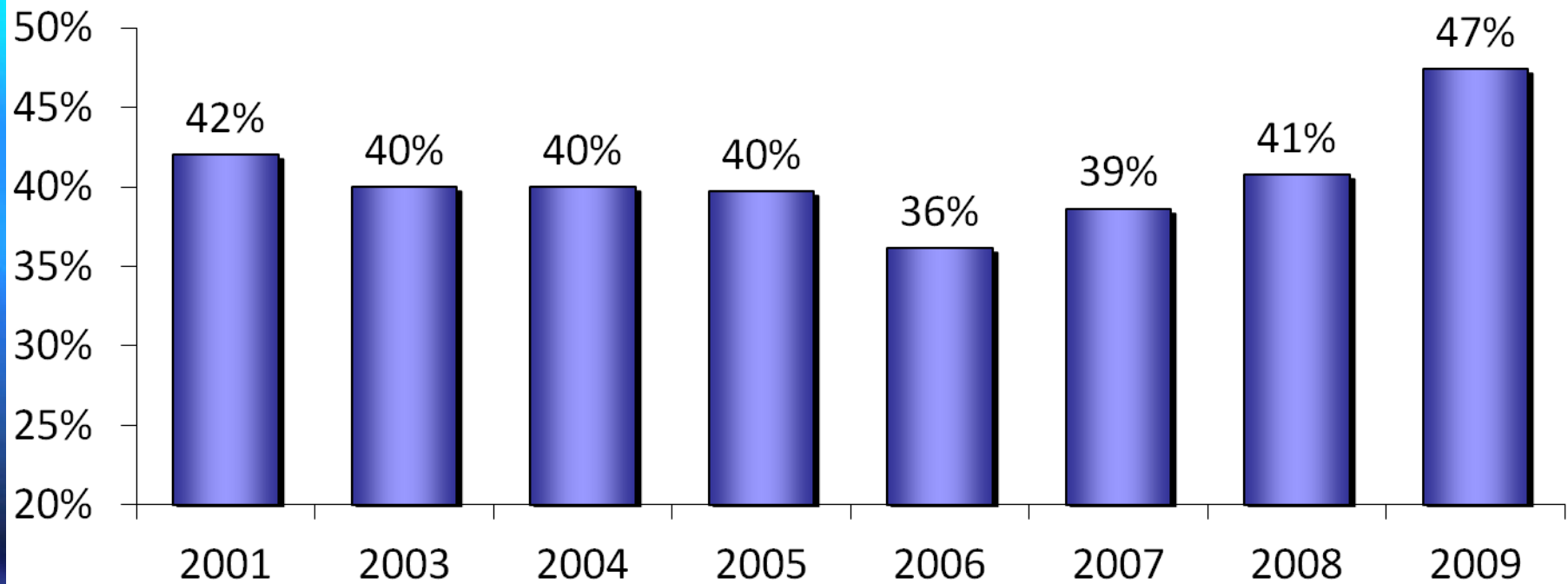
# Metro Median Home Price



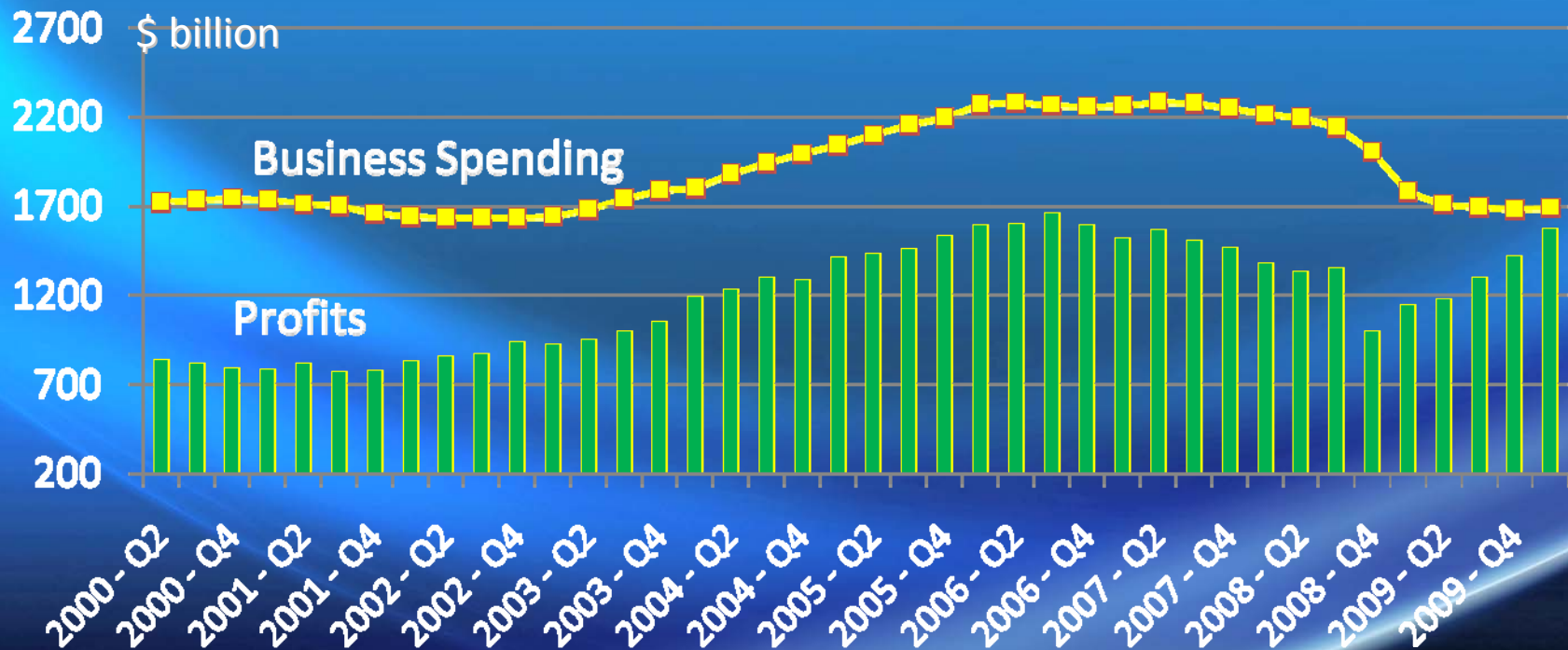
Source: NAR



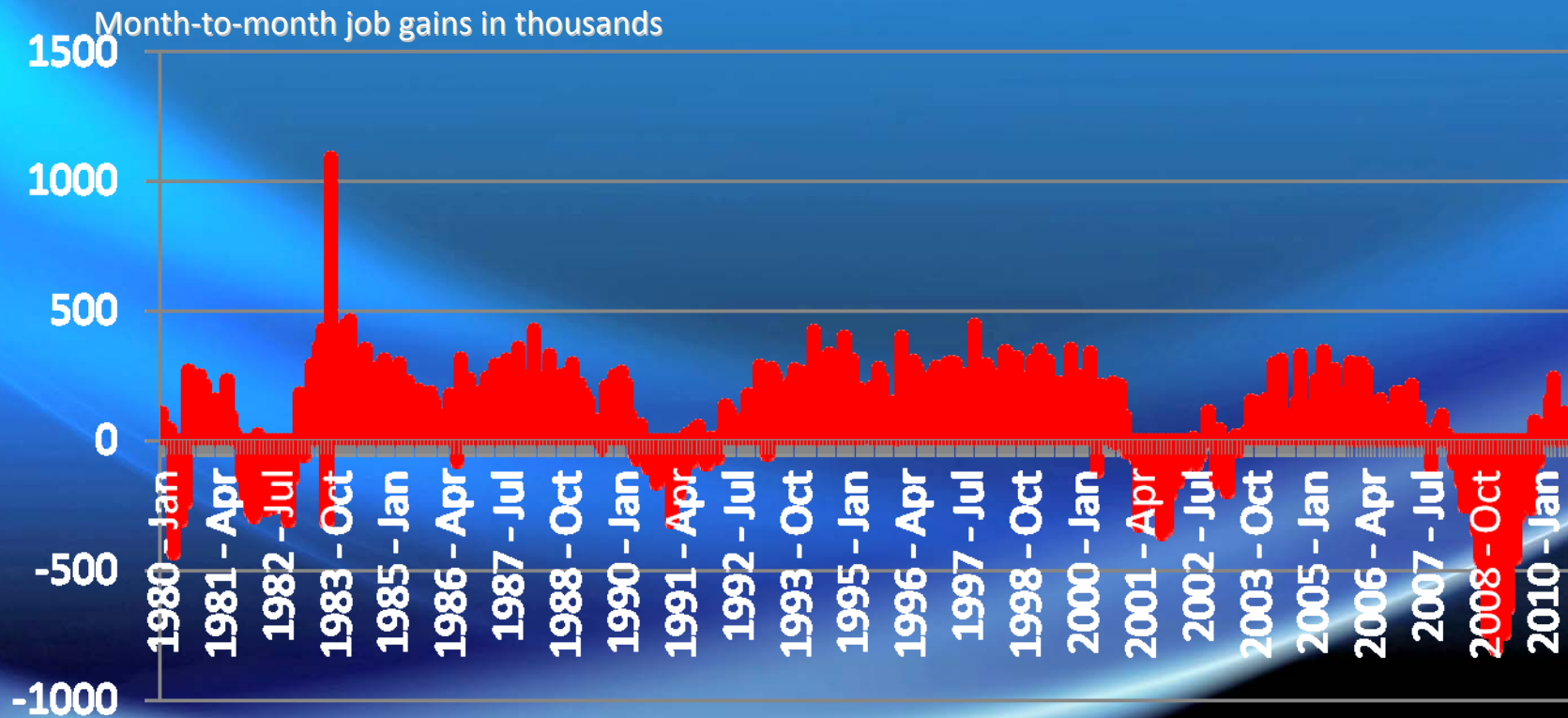
# Share of First-Time Buyers



# Corporate Profits and Business Spending

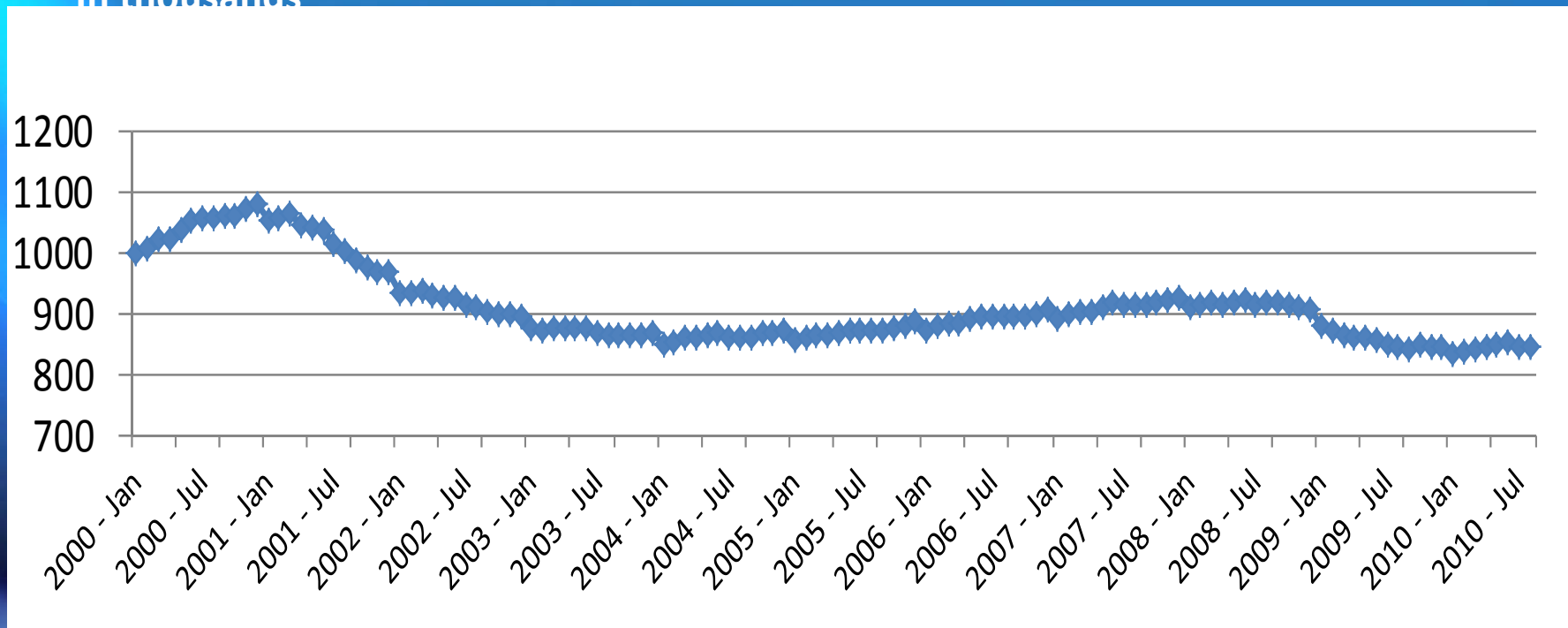


# U.S. Private Sector Job Gains (763,000 from Jan. to Aug. 2010)



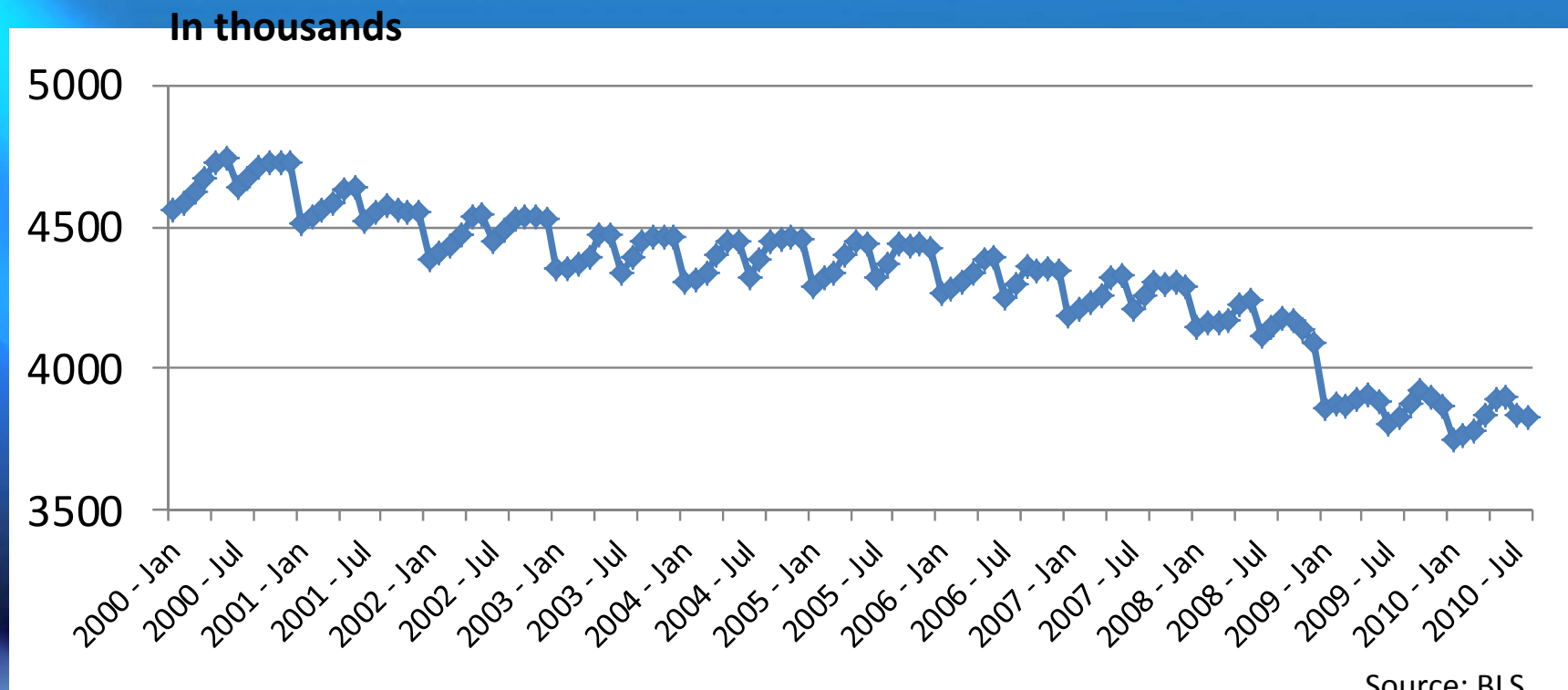
# Total Payroll Jobs in San Jose-Sunnyvale-Santa Clara

In thousands



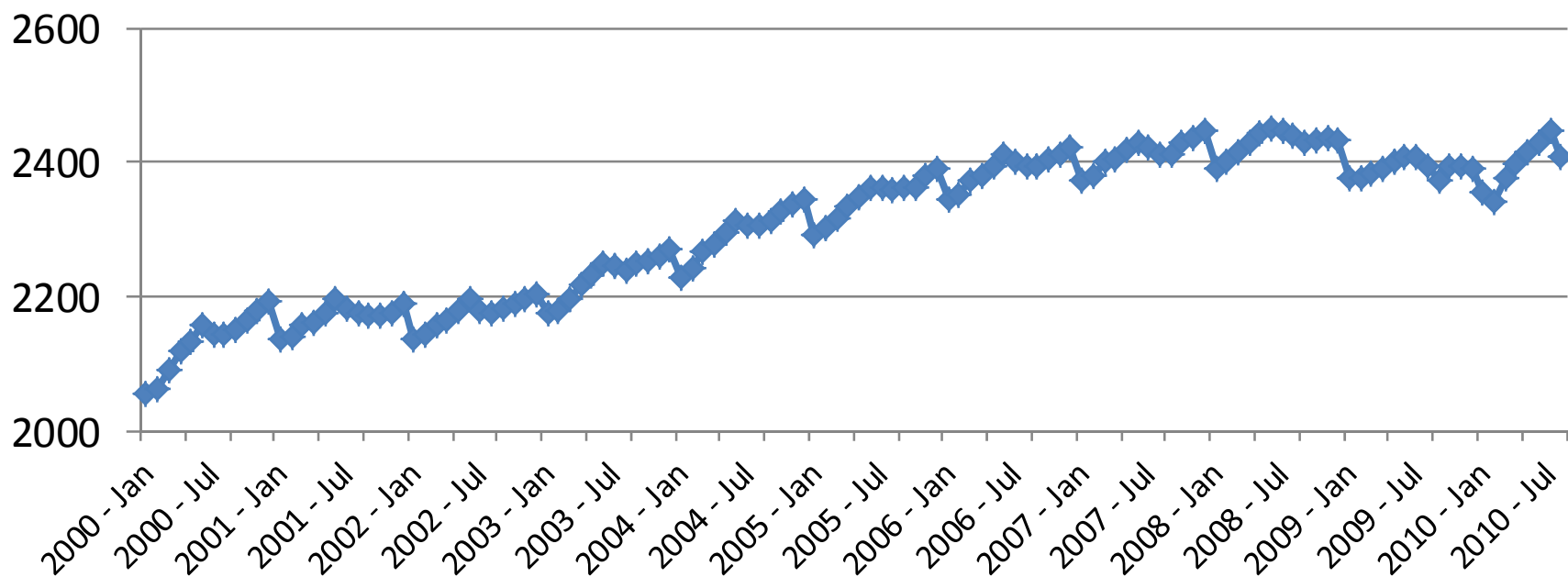
Source: BLS

# Total Payroll Jobs in Michigan



# Total Payroll Jobs in Washington D.C. Metro

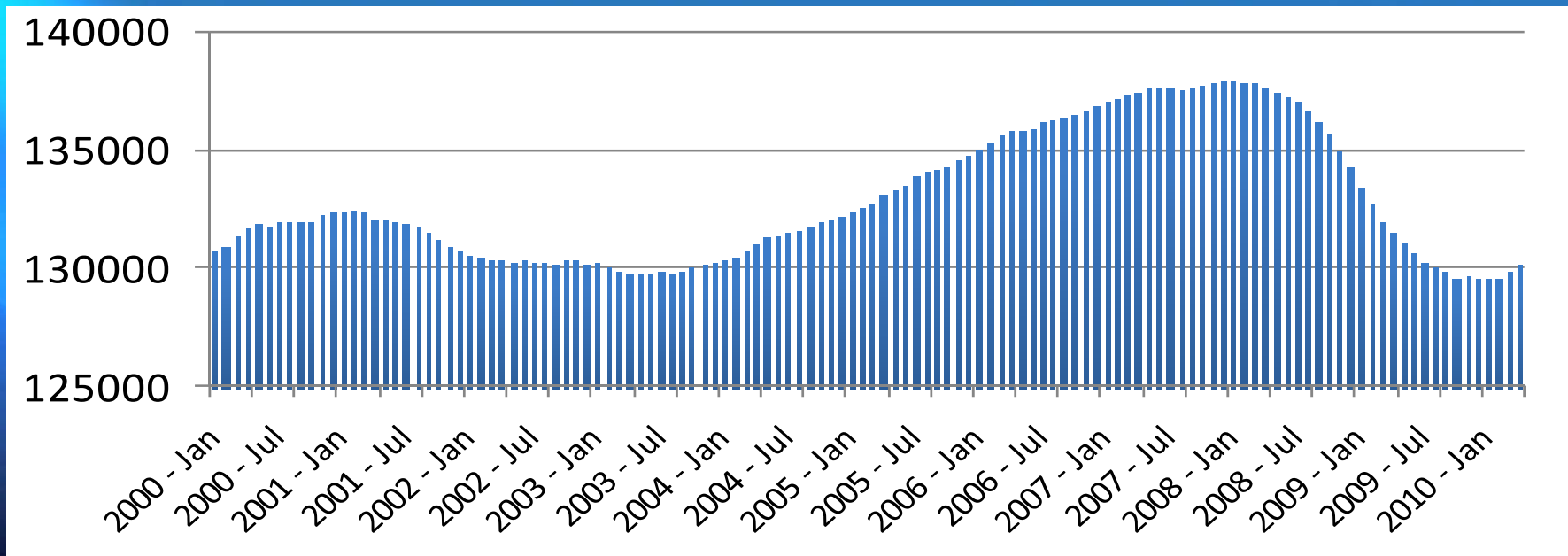
In thousands



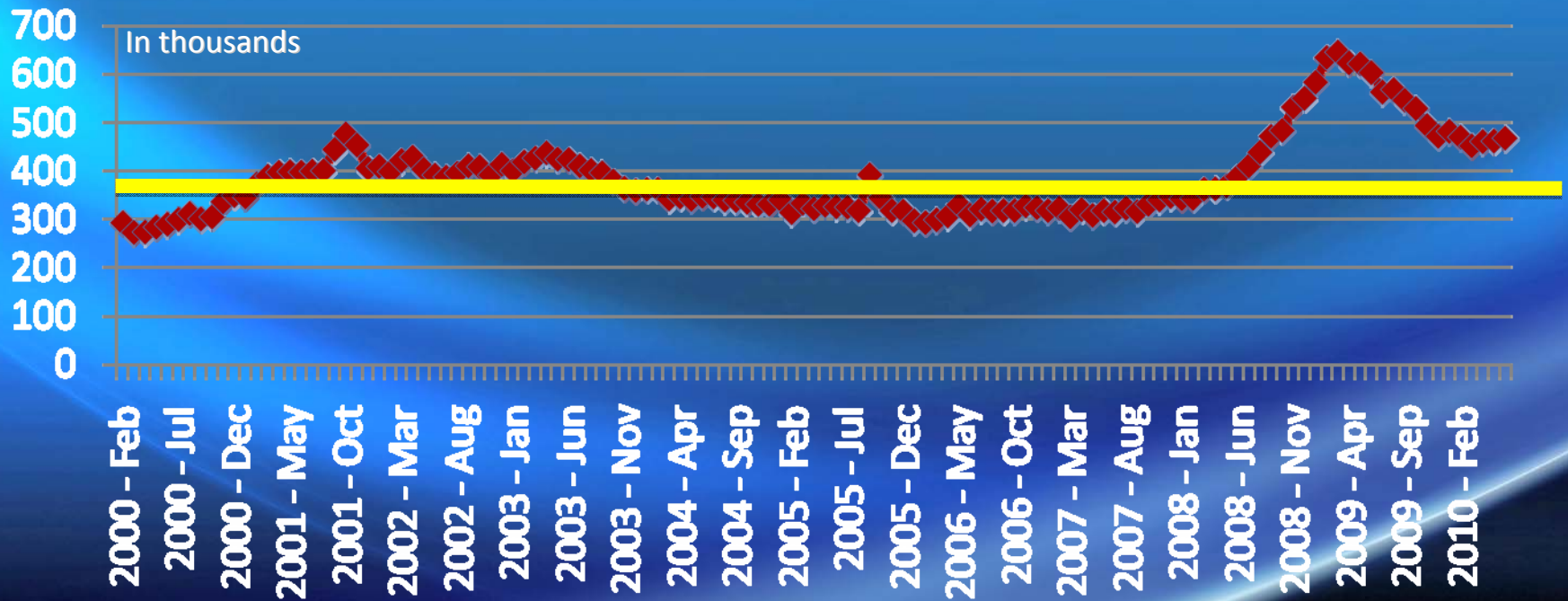
Source: BLS)

# Total Payroll Jobs ... Long Way to Go Before Full Recovery

In thousands

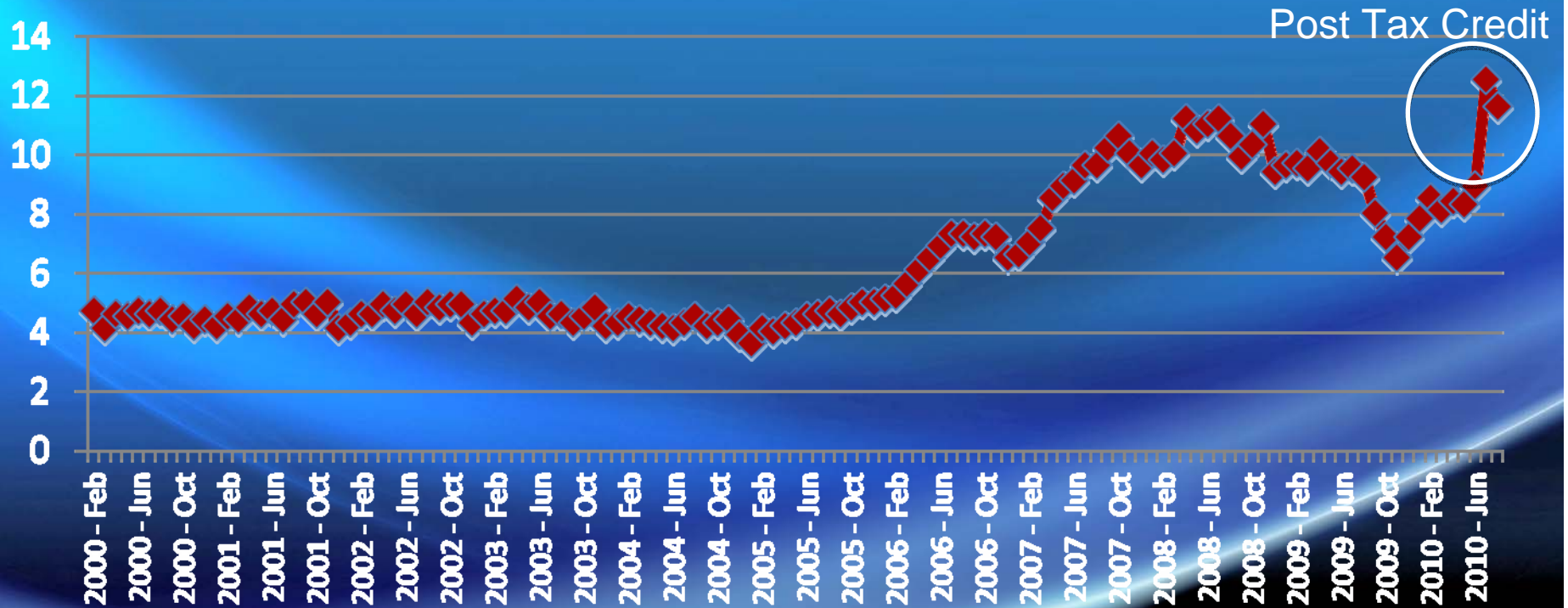


# Weekly 1<sup>st</sup> time Unemployment Claims: Need to Fall Further

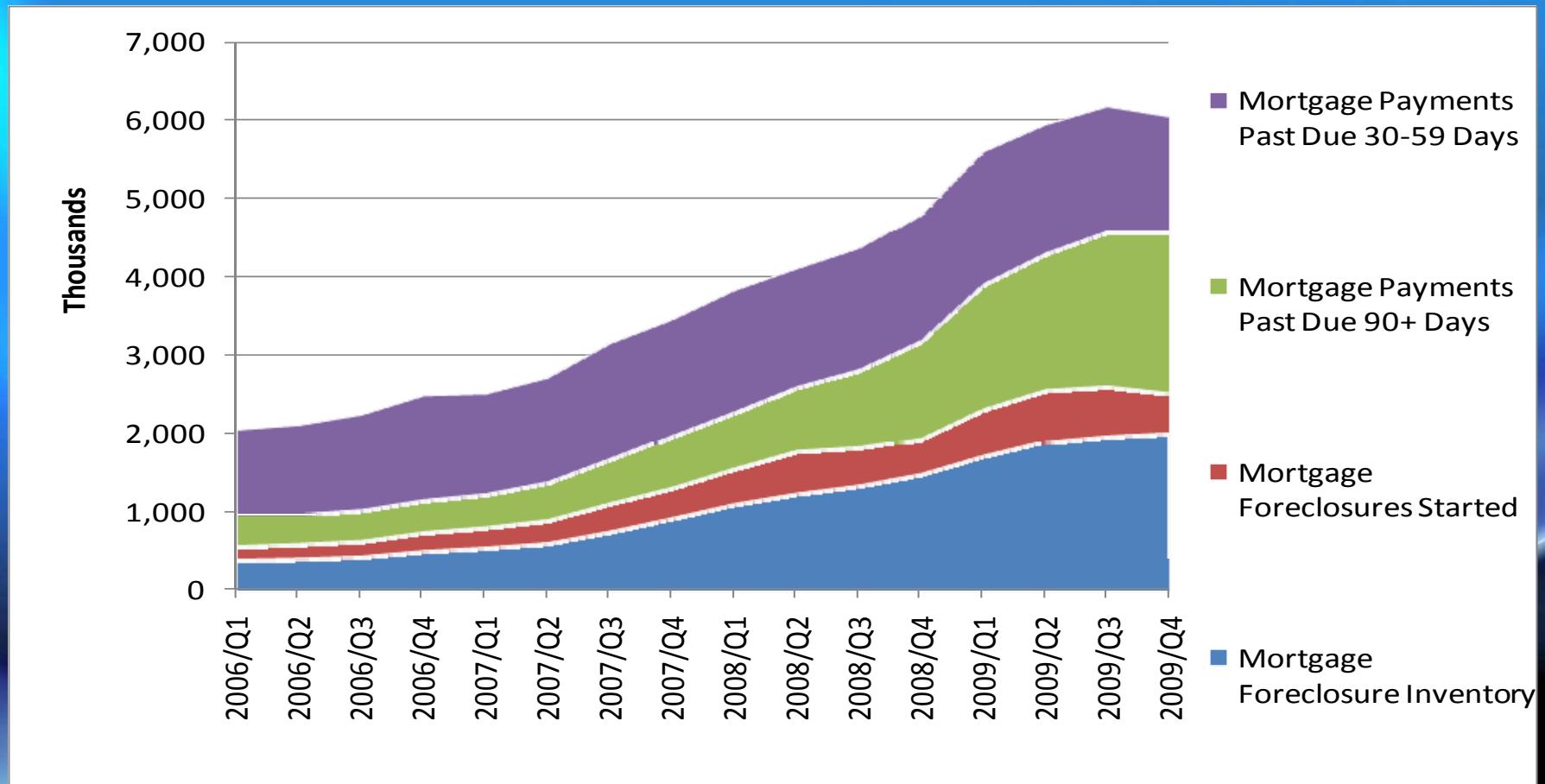




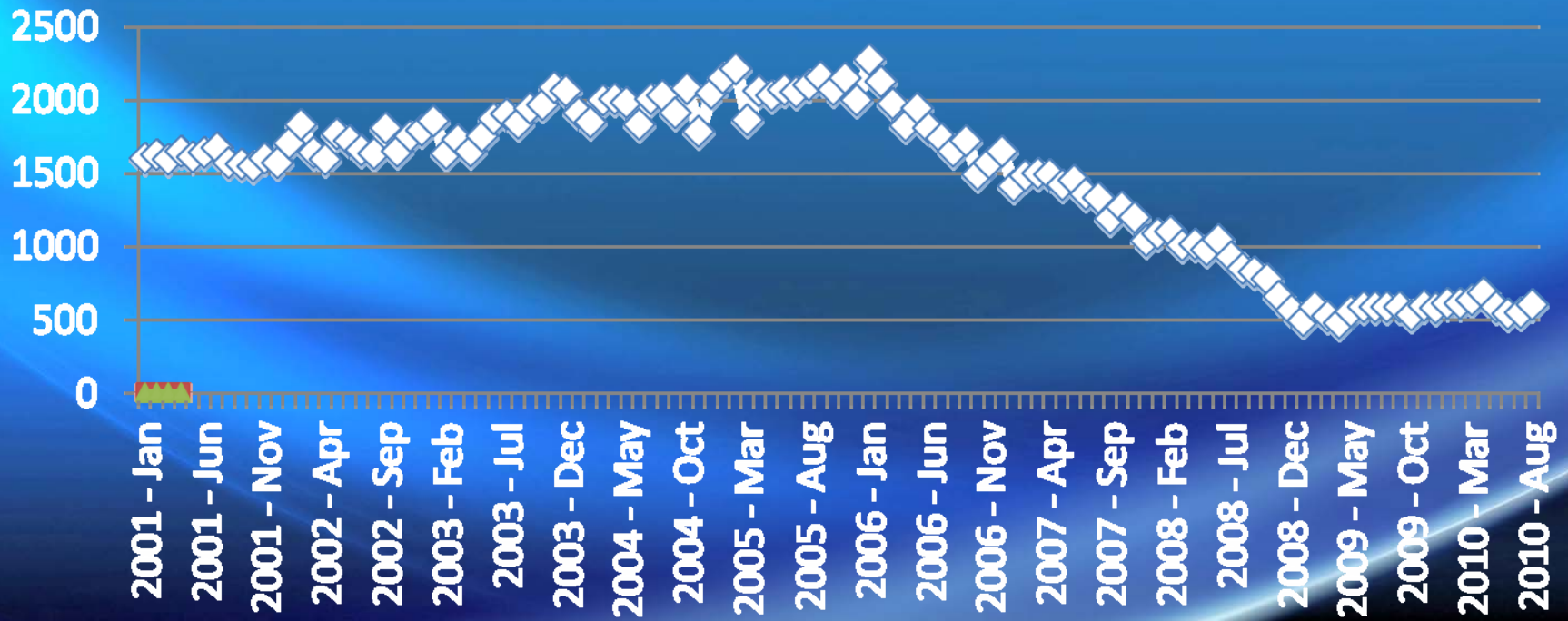
# Still High Months Supply of Existing Home Inventory



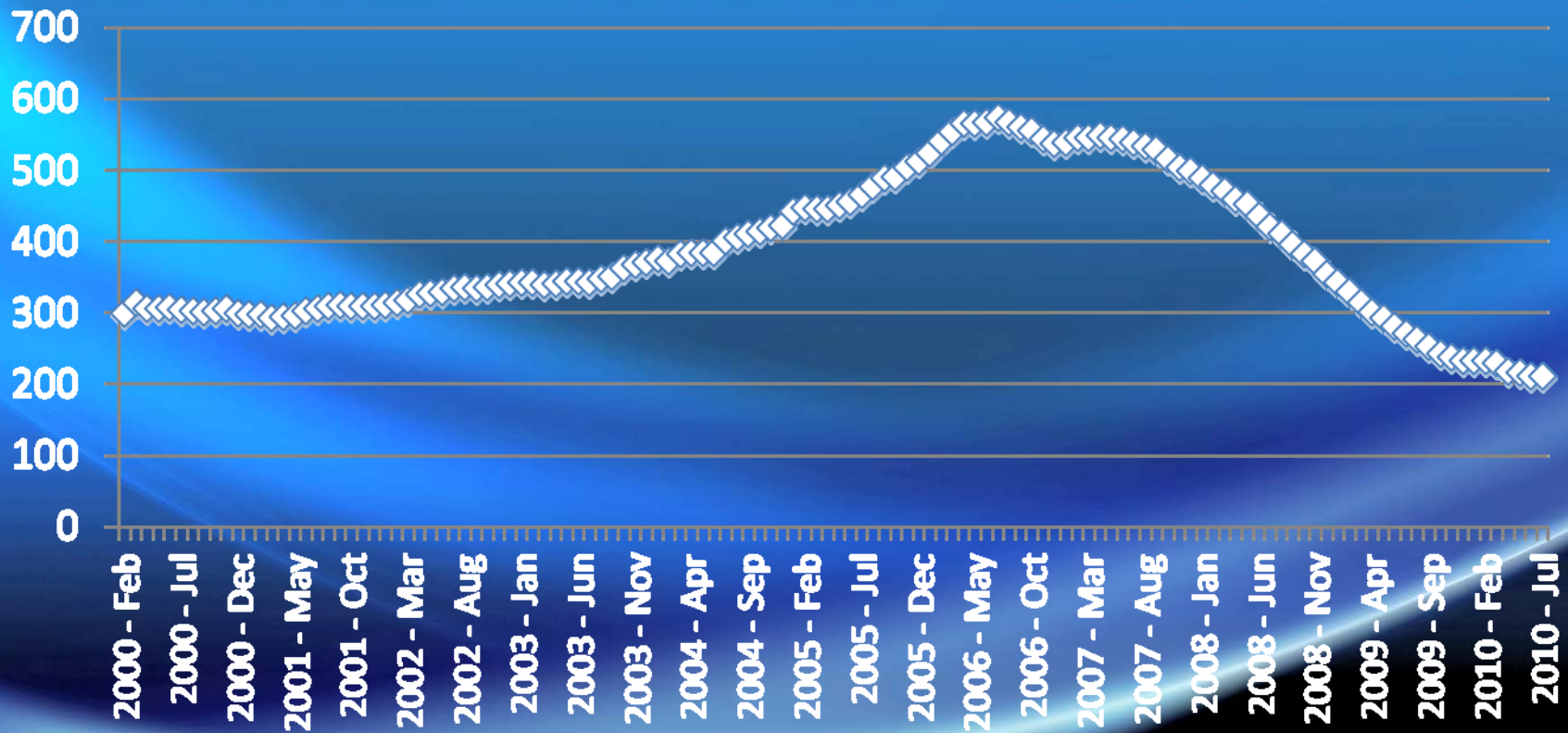
# Number of Distressed Loans



# U.S. Housing Starts

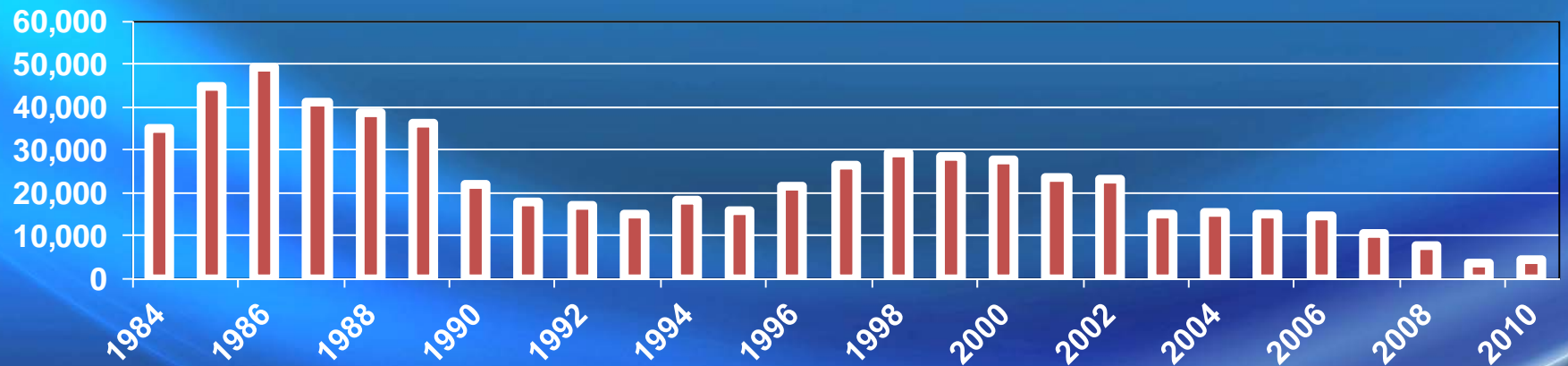


# Newly Built Homes on the Market



# Depressed Housing Starts in Bay Area MSA (S.F., San Jose, Oakland, Fremont)

In thousands



# 10-Year Treasury impacted by Inflationary Expectations



# Inflationary Pressure ?

Indicator	% change from one year ago
Consumer Price Index	1.2%
Producer Price Index (Finished Product)	3.0%
Producer Price Index (Intermediate Product)	5.0%
Producer Price Index (Crude Product)	18.2%
Dow Jones Commodity Spot Price Index	21.1%
Gold Price	Record High Price

## Baseline Outlook

- Moderate GDP Expansion 2 to 2.5% in the next 2 years (historical average is 3%)
- 1 to 1.5 million annual job additions in the next 2 years
- Unemployment rate of 8% in 2012 ... and normal 6% in 2015



## Baseline Outlook Cont.

- Mortgage Rates rising to 5.7% in 2011 and 6.2% in 2012 and higher in later years
- Home values – no meaningful change in the national price in the next 2 years
- Housing Starts to rise 40% to 50% in 2011 to about 900,000 ... from exceptionally low levels of the past two years (historical normal is 1.5 million)
- Home sales will struggle in the near term (after tax credit hangover) and then rise in line with job growth

# Alternative Outlooks

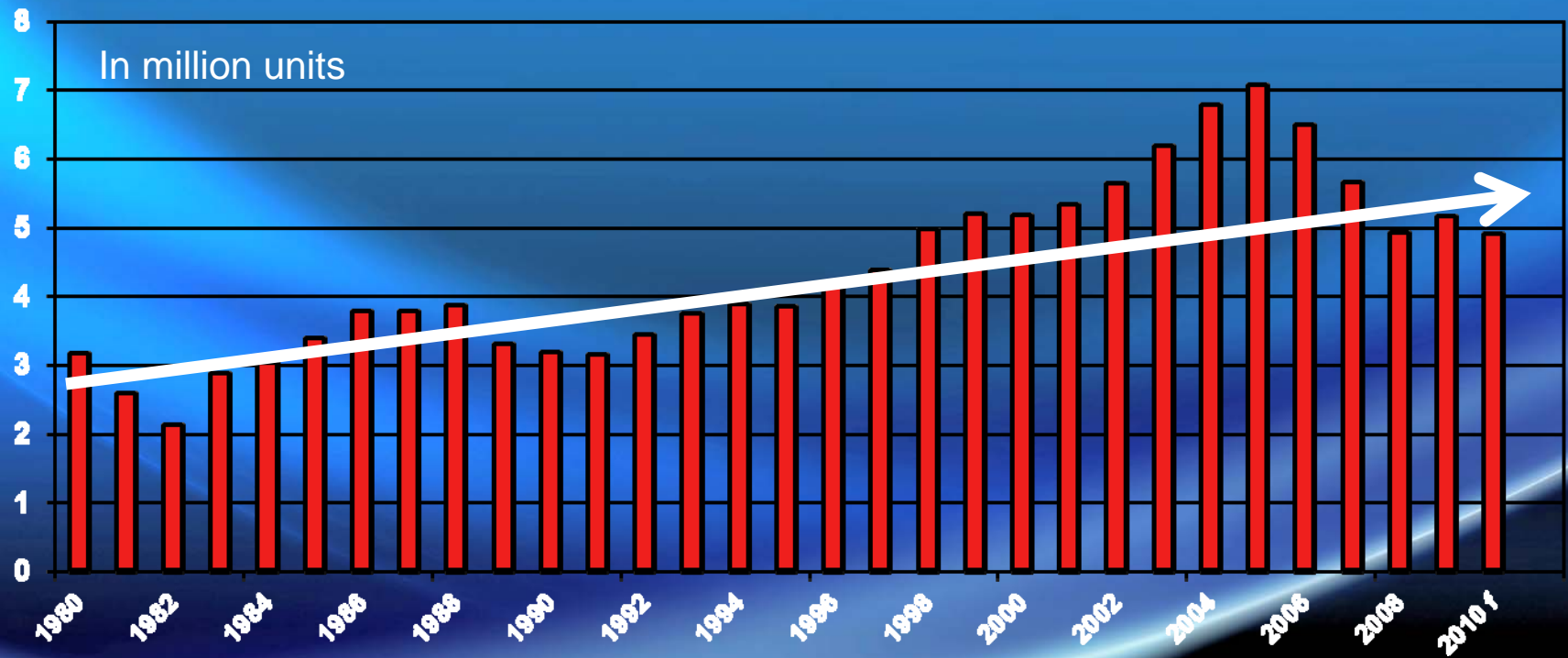
- High inflation ... people desire tangible investment like real estate, but interest rate will be higher
- Deflation ... people hold back for better price ... holds back economy
- Budget deficit tipping point ... higher interest rate and sharp cut back in standard of living
  
- Sharp 4% to 5% GDP growth ... release of pent-up housing demand (30 million more people today versus 2000 when home sales were similar) ... surprisingly higher home sales and home prices

# Homeownership Matters Campaign

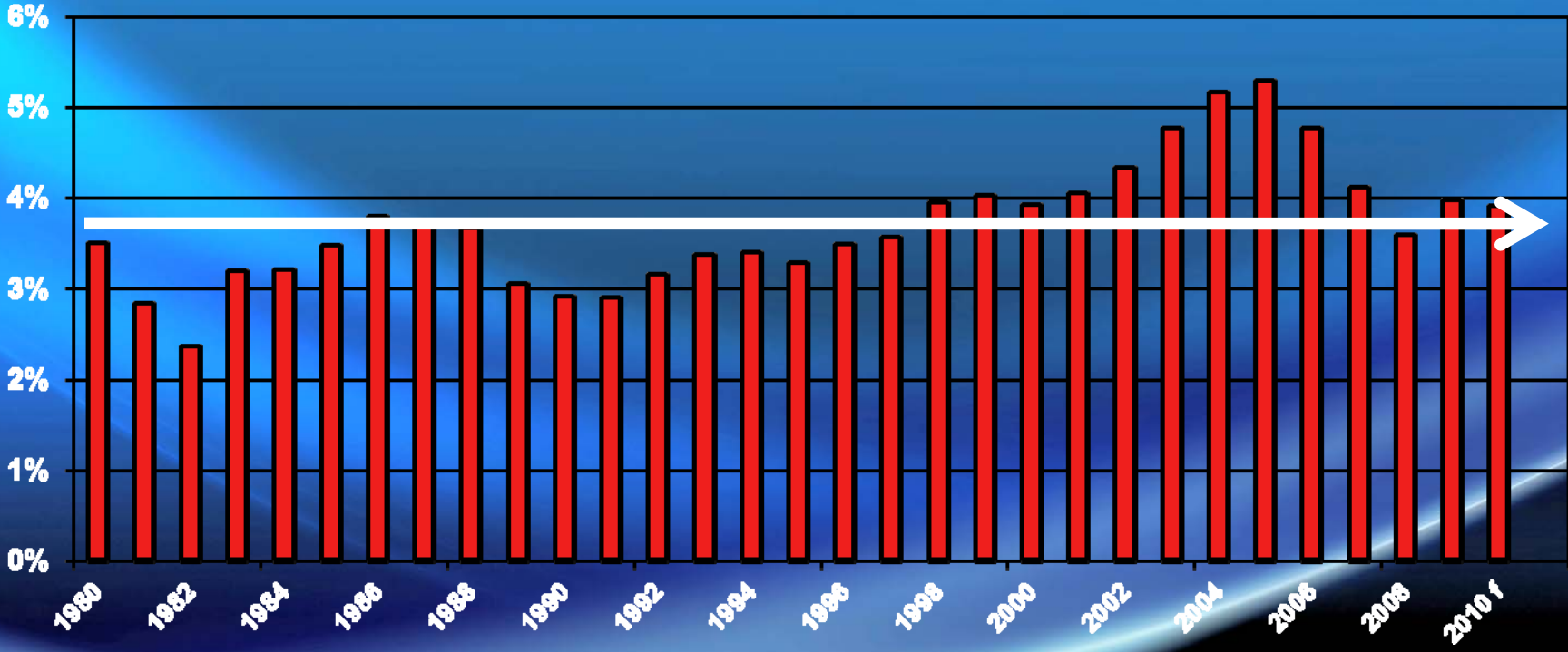
# Housing Market Bubble and Collapse

- Unprecedented Boom and Bust: 2000 to 2010
- Sales Boomed and Retreated
- Prices Overshot and Corrected
- Fundamental Back to Justifiable Levels
- Why? Not Long-standing Housing Policy but from Credit Market Bubble

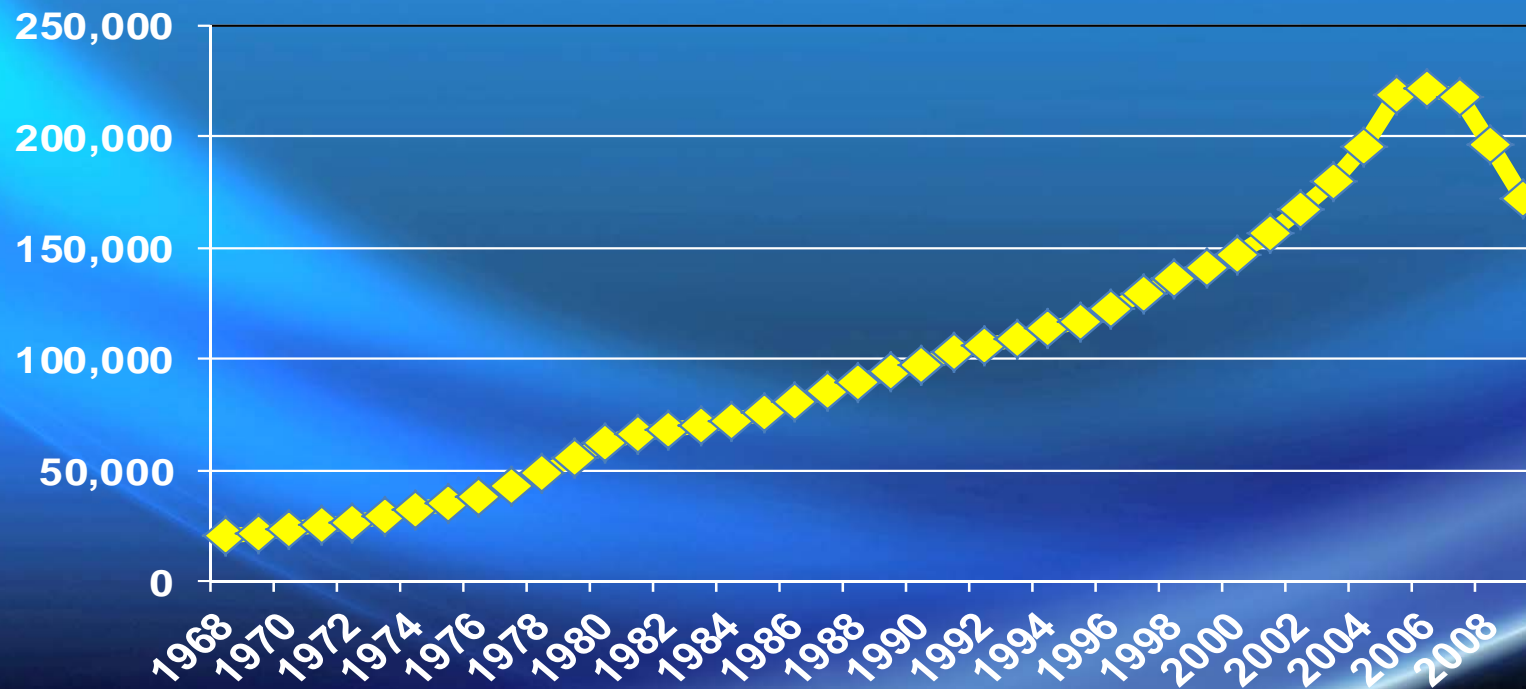
# Existing-Home Sales



# Home Sale to Jobs

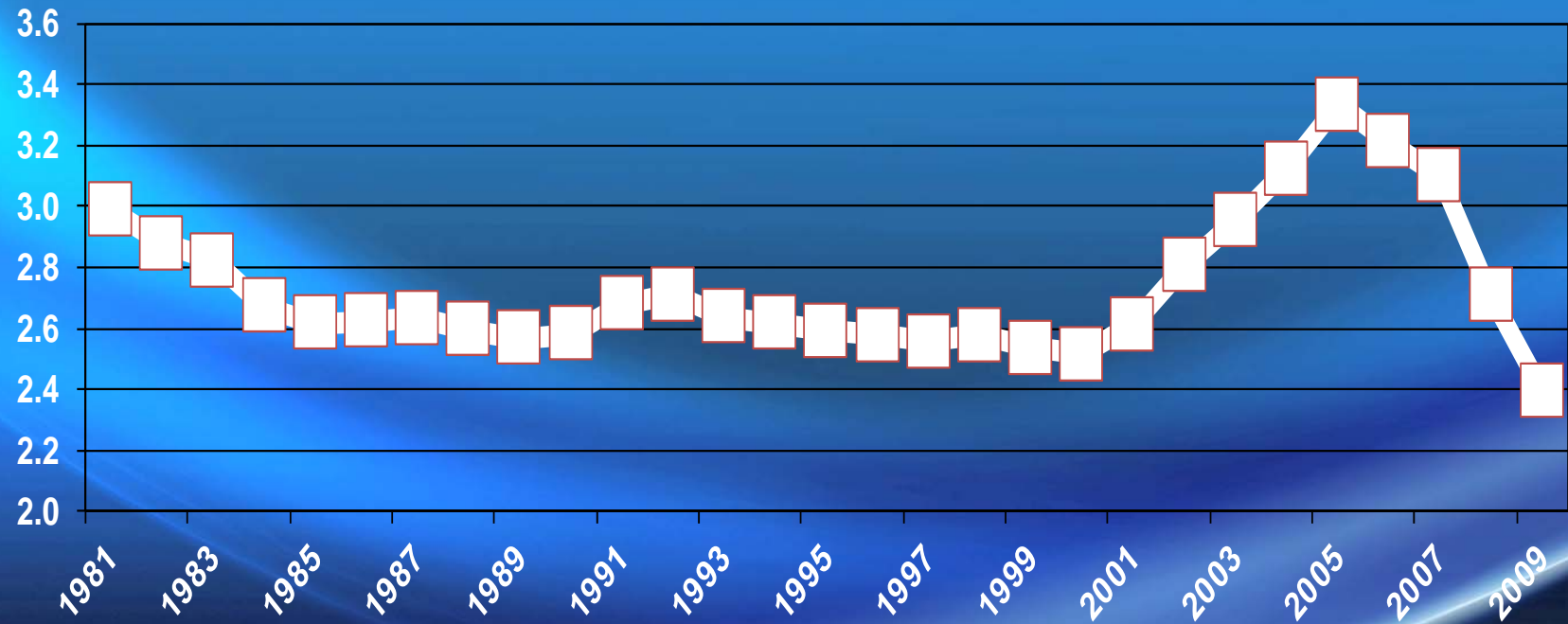


# National Median Home Price



Source: NAR

# Home Price to Income Ratio

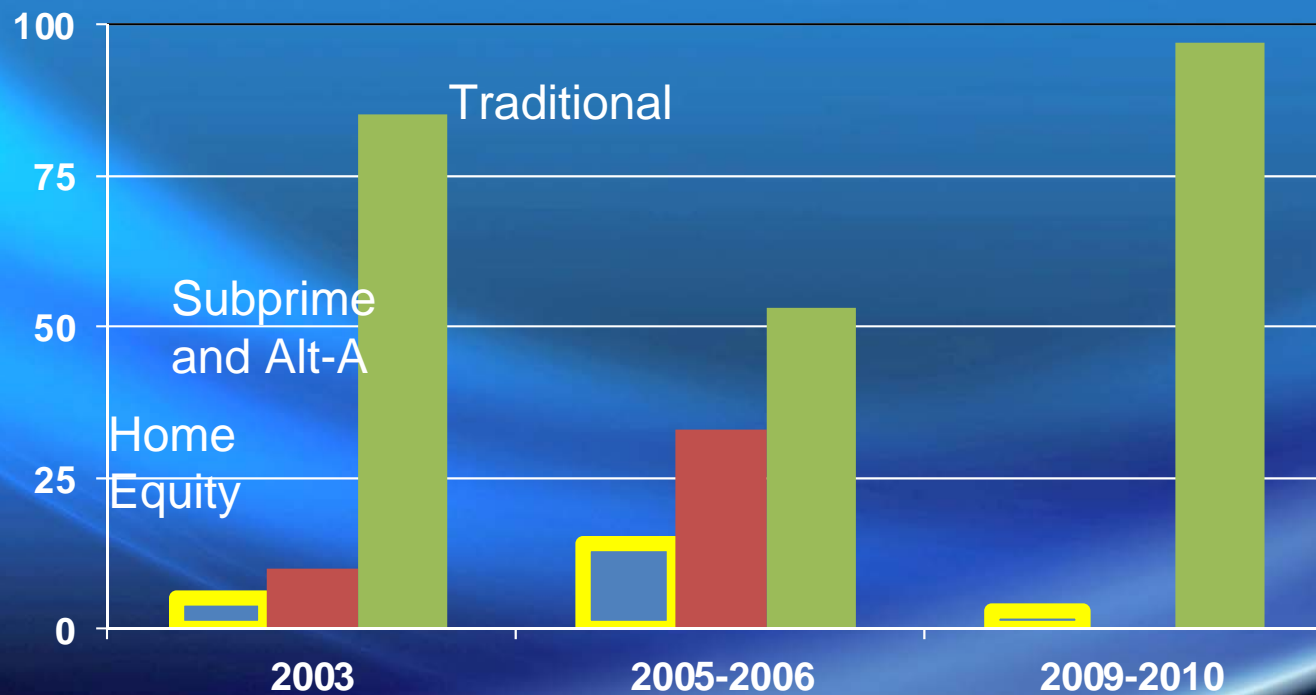


Stay within Budget and all will be OK !

Source: NAR

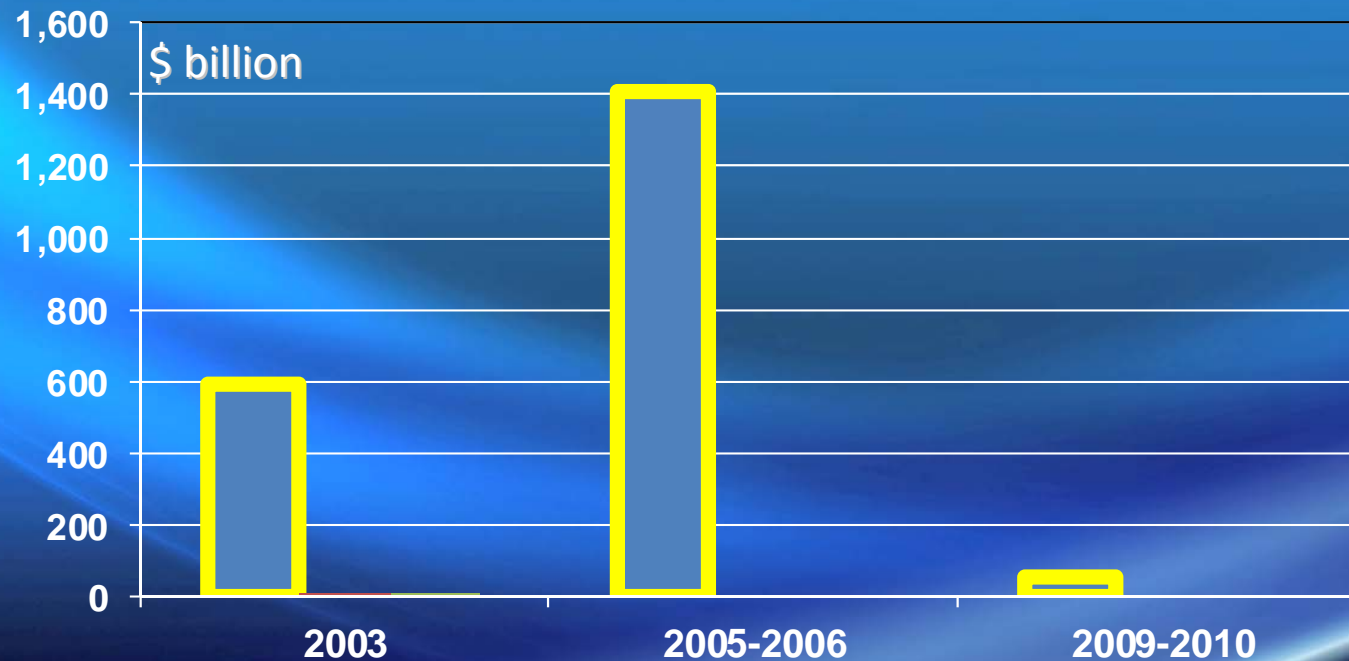


# Mortgage Credit Market Share



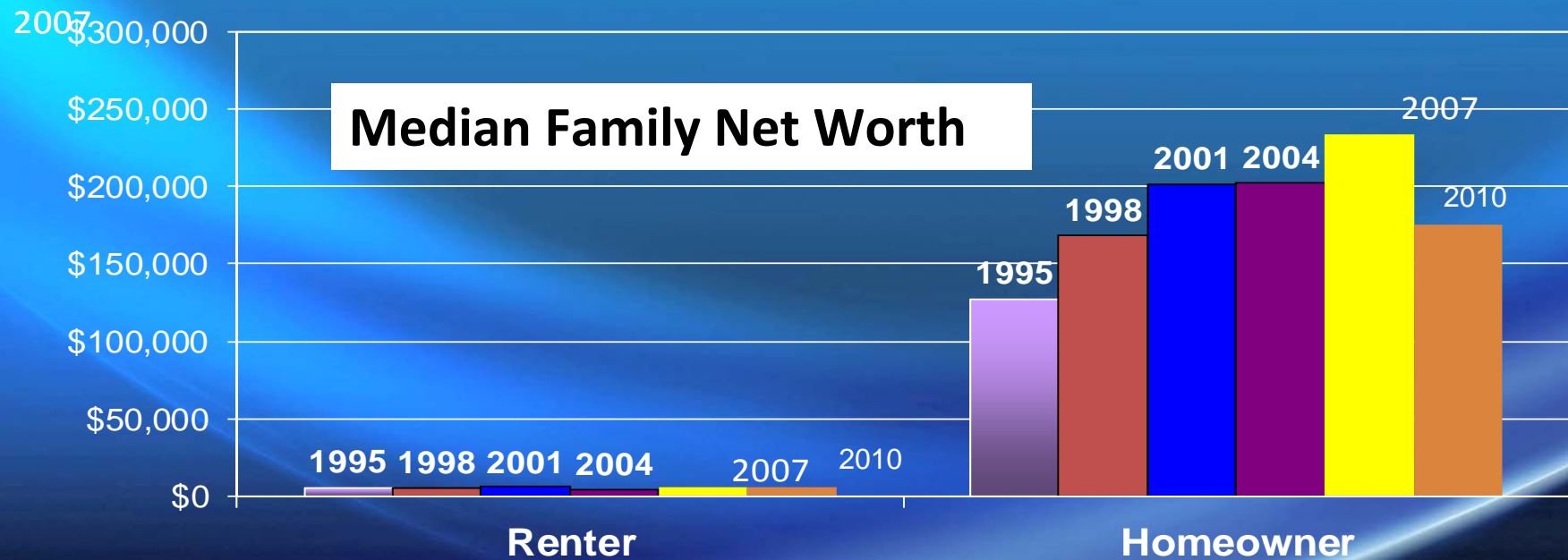
Source: NAR

# Subprime/Alt-A/Home Equity Mortgage Credit Dollars



Source: NAR estimate based on Inside Mortgage Finance data

# Long-Term Path to Self Reliance may be Helped from Long-Term Housing Wealth Gains



Source: Federal Reserve, NAR estimate for 2010

# Housing Policy

- Mortgage Interest Deduction
- FHA
  - Self-financing without ever needing taxpayer funds (as of yet)
- GSE
  - Made mistakes and need to be restructured
- Affordable Housing Goals
  - Need to assure successful outcome not numbers of homeowners initially helped