



## NOW IS THE TIME TO BUY

by Mark Schniepp

*Recessions bring rare opportunities.*

*While there is limited demand and price deflation, cars, refrigerators, and homes are a steal*

A month ago we made the call that the recession is over. Most economists now support that assessment. And even the gloomy financial network CNBC acknowledges that positive growth in the gross domestic product is probable this quarter.

We also explained last month that housing should be leading the economic recovery, but is not. There are further reasons for this, but the largest is the general fear by potential home buyers that the economy remains uncertain, their job security remains uncertain, and they are cautious about making any expenditures, let alone the purchase of a home.

A third of potential homebuyers surveyed recently by Realtor.com cited concern about their jobs as the main reason they would shy away from the housing market. (Worries about selling their current home are stopping 16 percent of the prospective buyers surveyed, while just under 8 percent said they fear home prices will keep falling).

## Home sales and prices on the rise

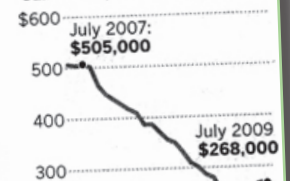
Demand for entry- and mid-level houses has led to bidding wars. But many foreclosures are still off the market.

PETER Y. HONG

Southern Californians are shopping for homes again, optimistic that values have been

### Uptick

Median home price in Southern California (Scale in thousands)



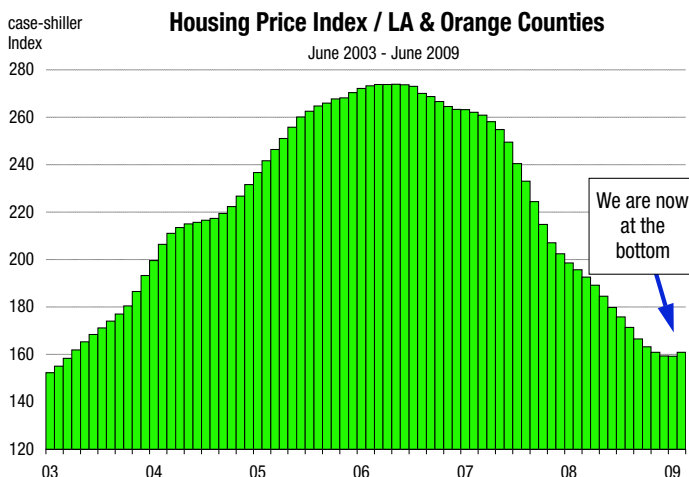
Los Angeles Times August 19, 2009, front page

## Dispelling Common Beliefs

While it is true that labor markets are weak and unemployment is at a 26 year high and still rising, there is enough compelling evidence that further deterioration of economic conditions has passed, the worst is clearly over, and fewer layoffs are occurring. Homes are selling faster now in California and unsold inventory has declined sharply. Home prices are no longer in decline.

Home values are indeed rising again, albeit modestly. This suggests that housing---now at the most affordable levels nationwide in 28 years----is both a bargain and a prudent investment once again. With mortgage rates also relatively low, now is the time to buy a home. If you are a first time home buyer, then a further incentive is the \$8,000 tax credit you'll receive on your 2009 federal tax return.

Consequently, there are "perfect storm" conditions that have conspired to set the stage for a rare buying opportunity in the housing market: rock bottom prices during this



cycle, low mortgage rates, and the potential for a large federal tax credit. Note that the tax credit window is closing. You'll have to purchase and close on the sale no later than November 30 of this year.

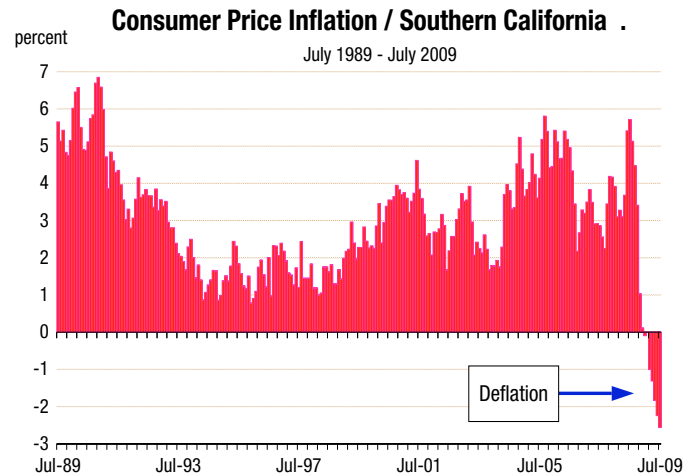
## Deflation

Declining asset values are the major symptom of deflation. And clearly, the values of stocks, homes, and commercial real estate have fallen sharply.

Similar conditions are also affecting many consumer durable goods now. The sluggish recovery will not be led by consumers who are 401K, stock portfolio, and home-equity poor. Therefore demand for televisions, refrigerators, Hummers, computers, and furniture will stay weak. Prices have declined sharply on these higher valued goods, and the general inflation reports validate this notion. For the first time since 1955, we are now in a period of deflation, where the general price level is lower today than it was a year ago.

Recessions bring opportunities. Re-loading your home with new appliances and furnishings, or replacing the family car should be a priority if your debt is well-managed, you have savings to withdraw or an empty credit card with a low financing rate, a steady income, or a combination of these factors. You will not find today's deals on consumer durable goods a year from now. Ditto cars and homes. The window is wide open and will remain so for awhile, but some of the best selection and price slashing on consumer goods is occurring today.

Prices on energy and on raw materials will rise as the Asian, Canadian, and European economies recover and raise their demand for crude oil, natural gas, copper, lumber, cement, etc. Higher raw material prices and gradually increasing consumer demand in this country will surely push prices of finished goods higher. Furthermore, you are likely to see less of your income available



for discretionary purchases if the \$9 trillion federal budget deficit now projected by the Congressional Budget Office is addressed with a hike in federal tax rates, as we all expect.

## Bottom Line

The time to purchase cars, homes, consumer durables, or to refinance your home is now. Many consumer product prices have been slashed, home prices are at bottom, and mortgage rates are low. Look for investment opportunities that include both under- and over-valued sectors of the stock market, a rental property with positive cash flow, a bank-offered foreclosed home with clear income potential or as a vacation home, or a distressed office building that has occupancy potential when the economic growth accelerates in the 2nd half of 2010.

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