



WILL THE DOUBLE DIP IN HOUSING SPREAD TO THE GENERAL ECONOMY?

by Mark Schniepp

Housing remains reclusive despite the lowest mortgage rates in 2011

The most recent information on U.S. housing markets is that prices for home nationwide continue to decline, and are now at the lowest levels in 9 years.

At the same time, fixed mortgage rates slid for the seventh consecutive week, but the lowest rates of the year have done little to lift the struggling housing market.

According to Freddie Mac, the average rate on the 30-year loan fell to 4.55 percent this week from 4.60 percent last week. The average rate on the 15-year fixed mortgage, a popular refinance option, slipped to 3.74 percent from 3.78 percent. Both are lows for the year.

These rates track in nearly lockstep fashion the yield on the 10-year Treasury note, which has declined over fears that the economic rebound is floundering (again) and the economy is slowing down.

Reasons abound but higher energy prices are the principal reason given by talking heads on TV. Other explanations involve Tsunamis, Libya, Tornados, and Charlie Sheen.

Despite the lowest mortgage rates for the calendar year, most people are unable to take advantage of them because they can't meet tougher lending requirements. And those who could afford to refinance likely did so last year, when rates fell to the lowest levels since the 1950s.

Sales of new and previously occupied homes rose in April. But sales are well below healthy levels for the nation as a whole, in California, and in Ventura and Santa Barbara Counties. Waves of foreclosures have pushed prices down. Furthermore, an increasing pool of would-be home buyers are postponing their purchase, worried that home prices have yet to hit bottom.

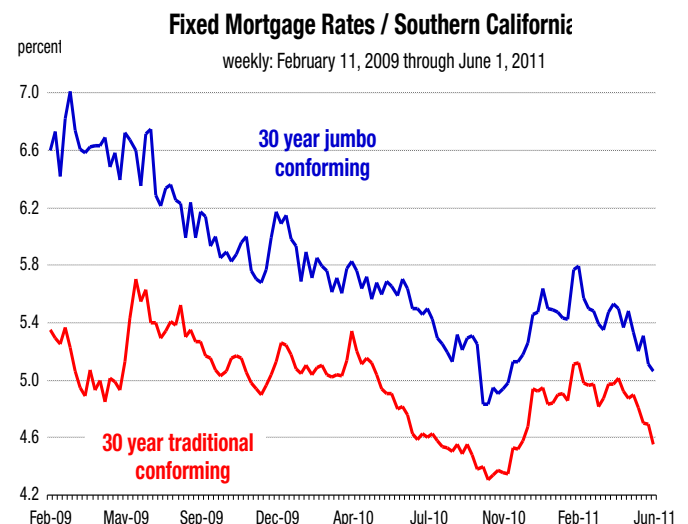
HOME PRICES SLUMP TO NEW LOWS

A gauge of housing in 20 metro areas declines 3.6% in March, confirming a U.S. 'double dip.'

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Home prices hit new lows in March, falling past the bottom reached two years ago and renewing concerns about the economy's ability to fully recover from the grip

Los Angeles Times, June 1, 2011, front page



Don't worry about Housing Prices

Though U.S. aggregate home prices still appear to be falling, real estate is a regional issue, not a national one. There is not much change in housing values locally though the median price for this year is slightly lower than last year.

In Ventura County, the median selling value is about 3.5 percent lower. In Southern Santa Barbara County, prices are off about 1 percent.

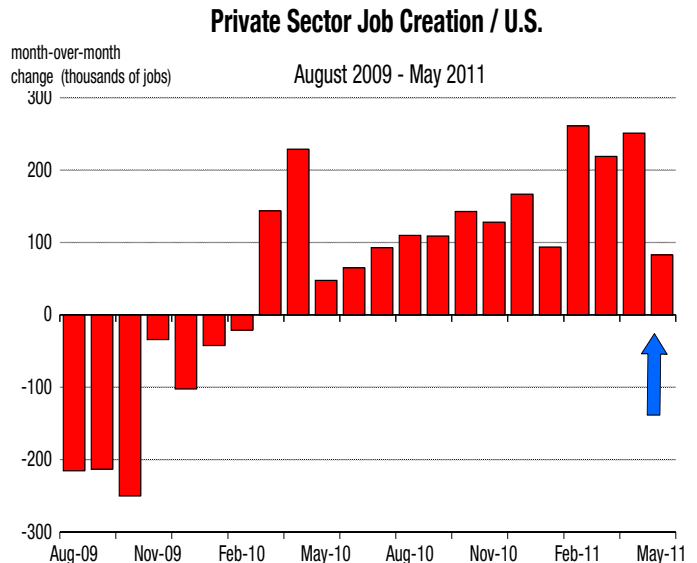
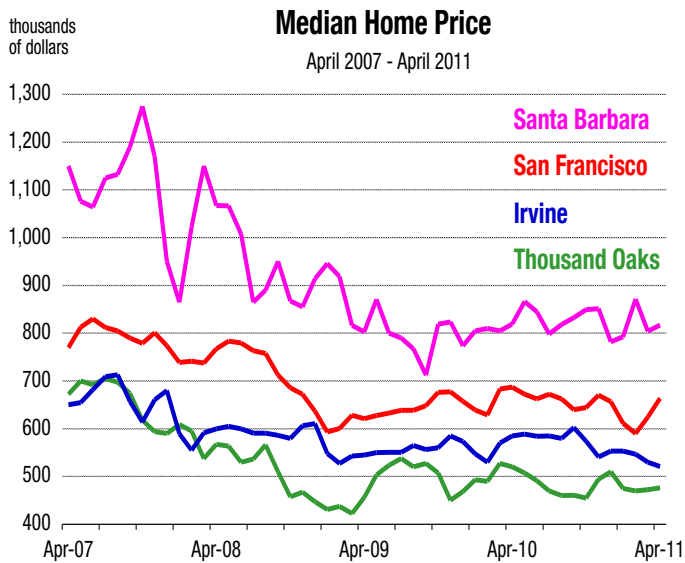
Prices are expected to remain flat until the glut of foreclosures for sale is reduced, firms start hiring in greater force, banks ease lending rules and the sense of urgency pushes more people to buy a house. In some markets, that could take years. In California, the recovery in housing is scheduled for this year because the average household size is at record levels and job creation is ramping up now.

Don't worry about the Stock Market

Yes, I know the Dow Jones Industrial Average has declined 4.8 percent since May 1st. But don't worry. The June swoon is on. It's more a typical or even traditional Wall Street correction after a huge bull run than the beginning of another crisis.

Granted however, the May jobs report was disappointing, with the private sector creating just 83,000 jobs (following stellar reports in February, March, and April). The report follows several other weak economic reports over the last week, prompting newspapers and TV commentators to suggest the possibility of a double dip recession.

General economic growth may experience a respite now but that's not uncommon. There are few fundamental reasons why the economy would stall. Faster growth is slated for the rest of the year, including the creation of jobs and improvement in the housing markets as a result.



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