

HANLEY WOOD MARKET INTELLIGENCE

KEY INDICATOR ALERT

HOUSING MARKET ECONOMIC NEWS AND ANALYSIS

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Containing the Foreclosure Flood

A shift in strategy for the government's bail-out package has brought up concerns on whether financial institutions are stable enough to forgo the shedding of their troubled assets and if putting the funds to work elsewhere is the best use of government money. After the commitment to shell out \$250 billion to directly purchase preferred stock as part of the TARP's Capital Purchase Program, the government has decided not to focus on purchasing these toxic mortgage assets from banks which was once the foundation of their bail-out strategy. Other than ensuring a stable financial system, Treasury Secretary Hank Paulson stated that his other two top priorities were to support important markets for securitizing credit outside of the banking system like credit cards, auto loans, and student loans and find methods to reduce foreclosures.

Major banks have now taken the initiative to curb further damage in the housing market by implementing moratoriums on foreclosures and taking a proactive stance by reaching out to potentially at-risk borrowers to renegotiate terms. Efforts like these that have recently been announced by Citi, JP Morgan Chase, and Bank of America are a key step to help stop the bleeding which may help the housing markets to stabilize and in turn will lead to a quicker recovery for the U.S. economy. While promising, FDIC Chairman Sheila Bair described the plans as a step in the right direction but falling short of what is needed to impact market fundamentals in a broad manner.

After the Dow Jones Industrial Average briefly traded below 8,000 intraday, a market rally spurred by bargain hunters helped the DJIA to jump 553 points at the close of trading. The DJIA has been down in 5 out of past 7 trading days after the elections on concerns that another bail-out would be needed for the U.S. automakers in order to prevent a mass collapse of an entire industry. Slower global economic growth has pushed crude prices to its lowest levels in almost two years to close trading on Thursday at under \$60/barrel. Weak consumer confidence caused the economy to contract in the third quarter and until the consumer returns, the economy will remain in the doldrums.

The Economy

The unemployment rate jumped to its highest levels in over a year to 6.5% as more jobs were shed in October. Seasonally adjusted non-farm payrolls fell by 240,000 in October while a total of 1.18 million payrolls have been shed so far this year. Non-seasonally adjusted total non-farm employment in October was 1,181,000 jobs lower than in October 2007.

Advance estimates for third quarter gross domestic product showed the economy contracting as troubles in the financial and housing markets along with tight credit conditions have put a halt to economic growth. Advance estimates show the economy

contracted 0.3% in the third quarter. Although the economy contracted, advance GDP estimates were better than most had anticipated. This was the steepest contraction in the economy since the second quarter of 2001. It was also the second time in the past year that the economy has posted contraction in economic activity.

The consumer confidence index in October plunged to an all-time low due to ongoing concerns about the economy and the financial crisis. The index plunged to 38.0 in October from 61.4 in September which represents a 23.4 point drop from the previous month. October's drop in the consumer confidence index is the third-largest monthly decline on record. All nine regions surveyed in the nation posted a monthly decline in consumer confidence.

Housing Market

National average mortgage rates declined to 6.20% in the latest Primary Mortgage Market Survey released weekly by Freddie Mac on November 6th. In the week ending November 5th, the MBA's seasonally-adjusted Purchase Index dropped to 260.9 from 303.1 in the previous week. This is the largest weekly drop in purchase application activity since January and the lowest the purchase index has been since January 2001. The latest figure reflects a 13.92 percent drop from last week and a 36.78% drop from the same period last year.

Housing reports produced mixed signals last month as increased sales activity came at the expense of falling home prices. Both new and existing home sales posted gains in September. New home sales in September increased 2.7% to a seasonally-adjusted annual pace of 464,000 units. Sales for the previous three months, however, were revised lower by 12,000 units. The number of new homes for sale continued to decline as builders continue to scale back production. New home inventory declined to 396,000 which is the lowest it has been since June 2004. New home prices remained weak in September as it recorded its second straight monthly decline. Median new home prices now stand at \$218,400 which is the lowest median price recorded since September 2004.

Annualized sales of total existing homes in September rebounded 5.5% from August levels to 5.180 million units which is the highest annualized pace of existing home sales since August 2007. Sales of existing homes are now up 1.4% from the 5.11 million units in September 2007. Median existing home prices in September declined to \$191,600 which is the lowest it has been since August 2004 and the third straight month that median existing home prices have recorded a decline. Inventory figures continued to improve last month as the number of existing homes for sale fell for the second straight month to a preliminary 4.266 million units for sale. Inventory levels are now at their lowest since March.

For market-level data and analysis please visit our website at <http://www.hwmarketintelligence.com>. For more detailed information on the indicators discussed in this key indicator alert, please visit the following links:

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|--|-------------|----|
| <u>Employment Growth</u> | (1,181,000) | D- |
| <u>Unemployment Rate</u> | 6.5% | C- |
| <u>Real GDP Growth</u> | (0.3%) | F |
| <u>Consumer Confidence</u> | 38.0 | F |
| <u>Purchase Mortgage Applications</u> | 284.4 | F |
| <u>Mortgage Rates</u> | 6.14% | A+ |
| <u>Median Price Existing Home</u> | \$191,600 | F |
| <u>Existing Home Sales</u> | 5,180,000 | C |
| <u>Existing Home Inventory</u> | 4,266,000 | F |

| | | |
|-------------------------------------|-----------|----|
| <u>Existing Home Affordability</u> | 56.7% | B+ |
| <u>Median Price New Home</u> | \$218,400 | F |
| <u>New Home Sales</u> | 464,000 | F |
| <u>New Home Inventory</u> | 396,000 | F |
| <u>New Home Affordability Ratio</u> | 51.3% | A |



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