

Housing bust? Already over, several experts are saying

PHILADELPHIA – Nov. 3, 2006 – Could the housing bust be over already?

That seems hard to believe – wasn't it only yesterday we were warning that the stratospheric rise of home prices couldn't continue forever?

But it could be true. At least in the view of several hard-boiled economy-watchers, there's reason to think that the much-anticipated collapse of residential real estate has now happened, more or less.

Housing markets are showing signs of having bottomed, with the inventory of unsold homes stabilizing after a big increase this last summer.

Mortgage rates, too, seem to be holding steady, with the average 30-year fixed rate around 6.3 percent, quite low by historic standards.

If rates don't rise further, there's reason to hope buyers will start showing up again, gradually absorbing the excess units that were built during the big speculative rush of 2004 and 2005.

"The situation is no longer deteriorating" for home builders, according to Zoltan Pozsar, who follows the numbers for Moody's Economy.com in West Chester.

Pozsar thinks builders will be able to sell off their current backlog of homes within a year, essentially putting the housing market back on a modest growth path.

But that's not to say the housing bubble can now be considered yesterday's news. Or that builders, speculators, and real estate salespeople will be able to party like it's 2005 any time soon.

"This will be a lengthy process," Pozsar says. "The focus now is on the secondary effects of the housing slowdown."

Some of those won't be pleasant, particularly for people who have made good livings in construction or real estate sales in recent years, Pozsar says.

Take commissions. Nationwide, sales agents received about \$100 billion in commissions in 2005; next year's total should be around half that amount, Pozsar forecasts.

Builders, meanwhile, have yet to downsize their payrolls to match the decline in construction. About 1.2 million jobs were created since housing really took off in 2003, Pozsar says, and employment in the sector is still only about 75,000 jobs shy of its peak.

That means we can expect a lot more layoffs in the next 12 months as the sector shrinks back to a more sustainable size.

As a side note, Pozsar says housing overemployment is the key to understanding yesterday's announcement of surprisingly weak productivity numbers.

Productivity tracks how many hours of work it took to produce the economy's current output. Since housing output fell faster than housing employment, it depressed the overall growth in productivity, making headlines and scaring Wall Street.

But it's only a temporary blip, Pozsar says, predicting productivity will rebound in the next month or so as housing-related employment shrinks.

Home prices should continue to shrink, too, at least for a while. Pozsar predicts a 5 percent fall in average home prices before the bottom arrives next summer.

Yet he doesn't think that poses a threat to the wider economy. Homeowners may feel less wealthy, and may spend less as a result – but, as long as the rest of the economy holds up, there should be no major fallout, Pozsar says.

"As long as everyone else outside of housing continues to hire, that should generate enough income growth to keep consumers in the game," he told me.

One bright spot is international trade. Europe and Japan are growing more strongly than in recent years, creating more demand for U.S.-made products. Moreover, the dollar has depreciated, making our exports more competitive vs. the rest of the world.

As a result, the U.S. economy should get through 2007 without a significant setback, according to Pozsar.

"I don't see a recession out there at all," he says.

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