

# U.S. Housing Analysis & Forecast

October 2011 (Data Through: October 7, 2011)



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# U.S. HOUSING ANALYSIS & FORECAST

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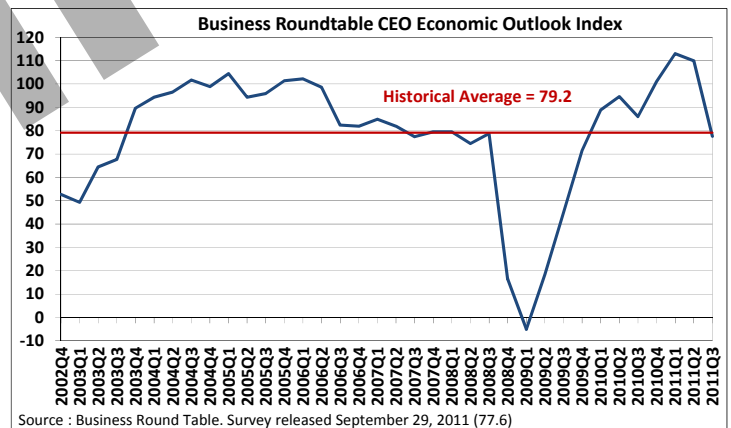
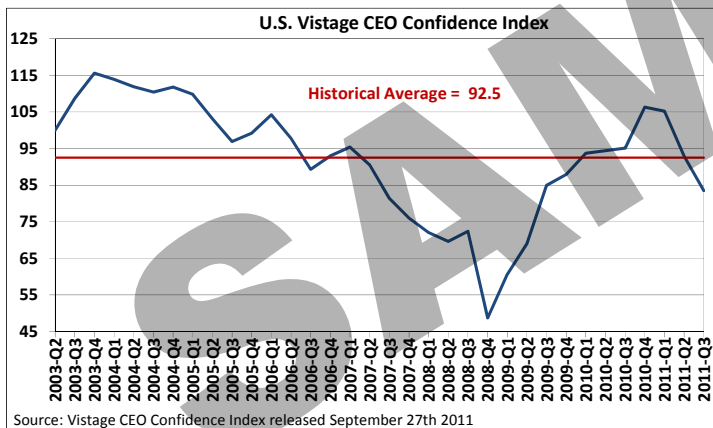
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SAMPLE

While all education levels and age groups are suffering, the pain is much worse for those with lower education levels and less experience. Not only is the unemployment rate higher for the young and less educated, the rate is significantly higher in comparison to historical averages than it is for the educated and experienced.

Unemployment Rate by Education Level					Unemployment Rate by Age							
	Less Than High School Diploma	High School Graduate, No College	Some College or Associate Degree	Bachelor's Degree and Higher	16 to 19 years old	20 to 24 years old	25 to 34 years old	35 to 44 years old	45 to 54 years old	55 years and over		
Current =	14.0%	9.7%	8.4%	4.2%	24.6%	14.7%	9.7%	7.5%	7.2%	6.7%		
Historical Avg. =	9.2%	5.5%	4.5%	2.7%	16.0%	9.2%	5.5%	4.2%	3.8%	3.7%		
Difference =	4.8%	4.2%	3.9%	1.5%	8.6%	5.5%	4.2%	3.3%	3.4%	3.0%		

Forward looking indicators continue to point towards a challenging remainder of the year, namely the business sentiment indices we monitor. This month we received 2011-Q3 updates from both the Vistage CEO Confidence Index as well as the Business Roundtable CEO Economic Outlook Survey. These indices show how business executives have become more conservative lately. The Vistage CEO Confidence Index surveys small and medium-sized business CEOs on topics such as economic growth prospects, hiring and capital investment plans, as well as revenue and profit expectations. The overall index sunk to 83.5 in 2011-Q3 (lowest reading since 2009-Q2), and has fallen 21% from its most recent peak of 106.5 in 2010-Q4. The Business Roundtable CEO Economic Outlook Index, which surveys CEOs from large corporations on similar topics, fell to 77.6 in 2011-Q3 (lowest reading since 2009-Q4), and has dropped 31% from its most recent peak of 113 in 2011-Q1.



**Distressed Sales are the Biggest Wild Card**

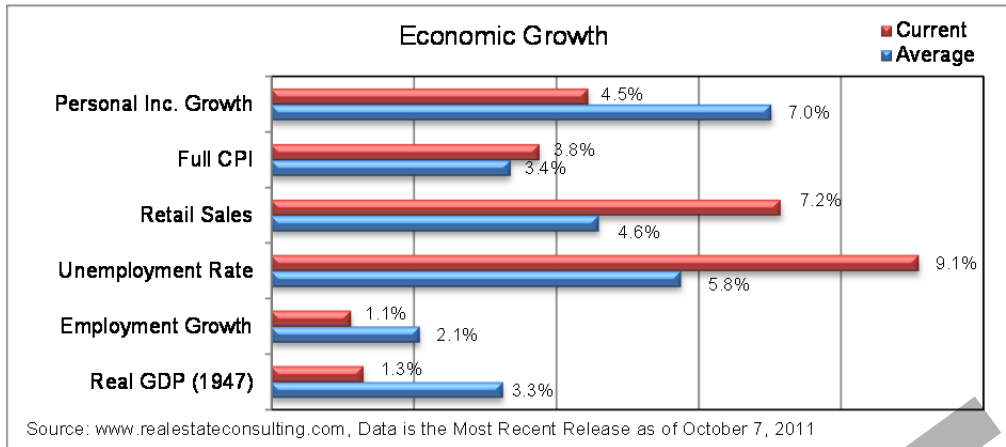
At 31% of all resale transactions, distressed sales continue to hamper the recovery in housing. In total, we estimate that roughly 8.2 million distressed home sales will occur from 2011 through 2016, representing approximately 26% of all transactions. Distressed sales will continue to apply downward pressure on home prices until the percentage of distressed transactions declines significantly. However, as a result of banks having to limit the pace of distressed liquidations due to a myriad of legal and regulatory issues, we are only 41% of the way through the distressed sales of this down cycle. The volume of distressed sales is likely to remain high into 2014. Here is our forecast for distressed sales through 2016.

**III. Economic Growth**

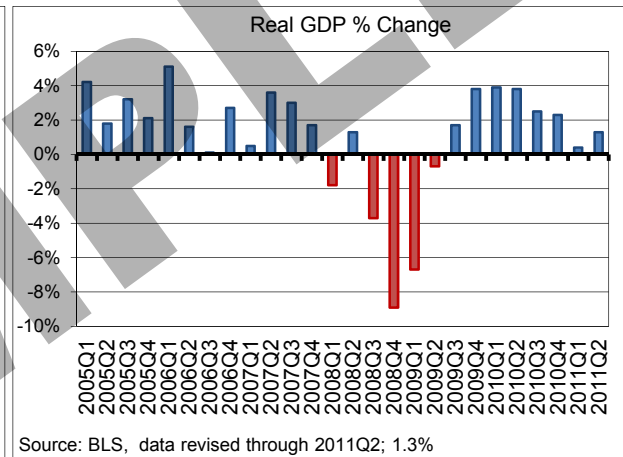
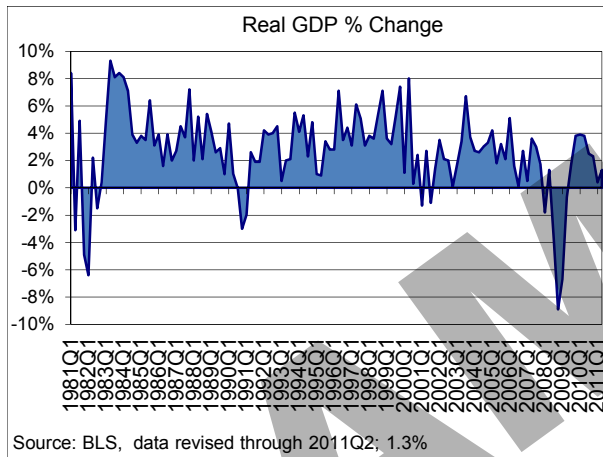
The U.S. job market showed some improvement this month, with September job growth coming in above expectations along with upward revisions for August and July. Here are some notable developments regarding overall economic growth:

- **Job Growth Picks Up:** The economy added 103K jobs in September, up from 57K in August. However, subtracting out the one-time addition of 45K Verizon workers returning from strike, payrolls were up a more modest 58K in September. The unemployment rate is unchanged at 9.1%, while the U-6 (a broader measure of unemployment that covers part-time workers who would like full-time work and those who have given up looking for work), increased from 16.2% to 16.5%. In addition, the average length of unemployment in the labor force rose from 40.3 weeks in August to 40.5 weeks in September, a new record high.
- **Personal Income Falling:** While still up YOY, personal income fell sequentially in August for the first time since October 2009. Moreover, real personal income excluding government transfers was down sequentially for the second month in a row. This metric is one of the four variables included in the NBER recession dating process.
- **Economy Expanding at Modest Clip:** The U.S. economy grew at a 1.3% annual rate during 2Q11, an upward revision from the advance estimate of 1.0%. Consumption (the largest component of aggregate growth) slowed to a 0.49% growth rate in 2Q11, its lowest since 4Q09. August retail sales grew at a healthy clip, however, at 7.2%.
- **Strong Rental Market:** The number of renters has increased 3.8% over the last year, while the number of owners has declined 0.8%.

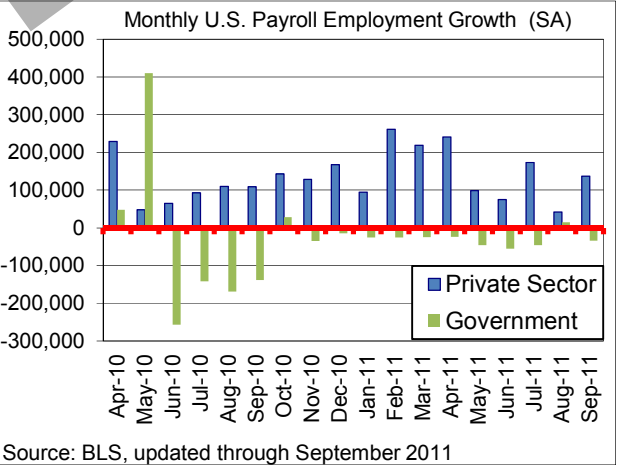
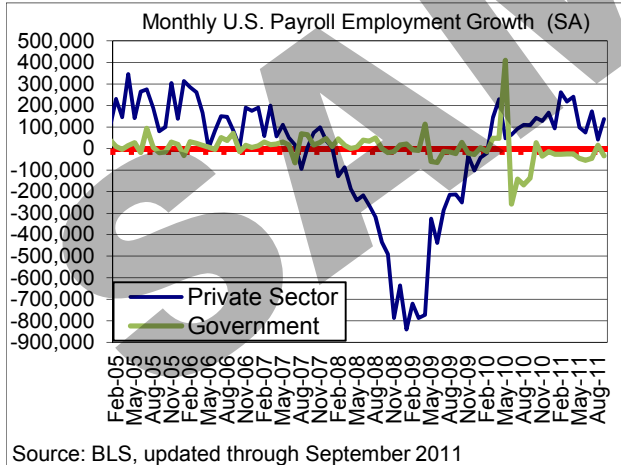
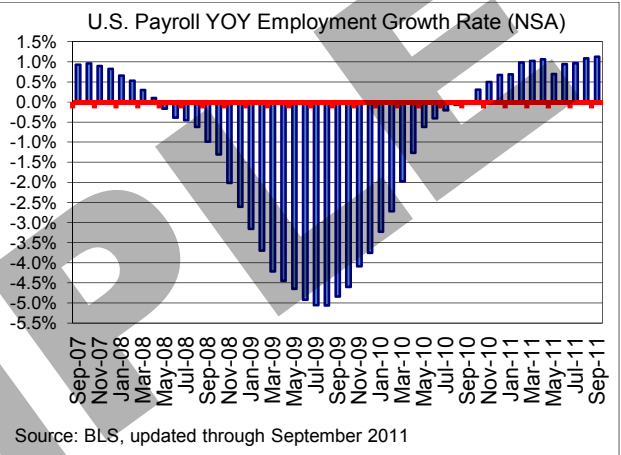
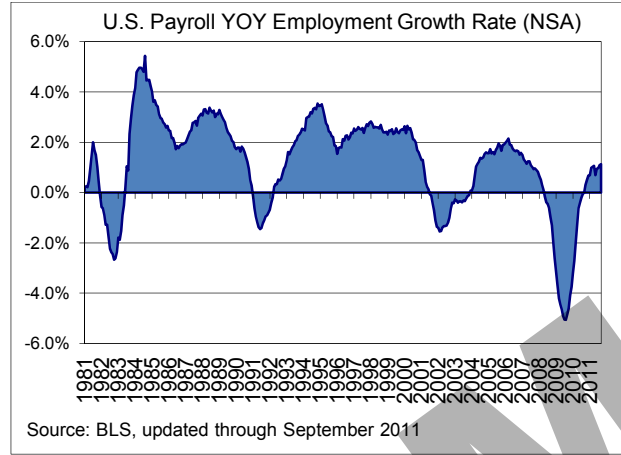
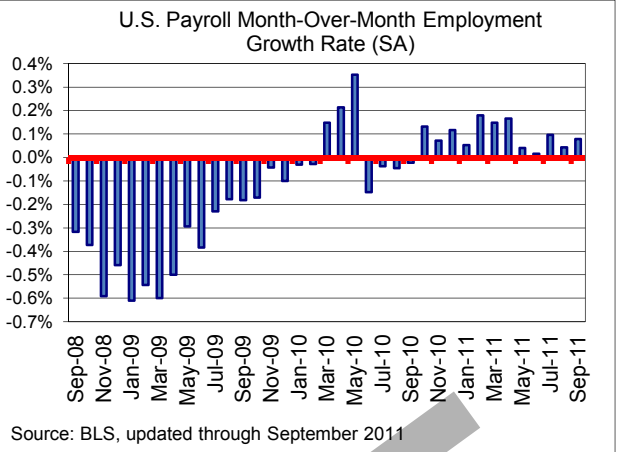
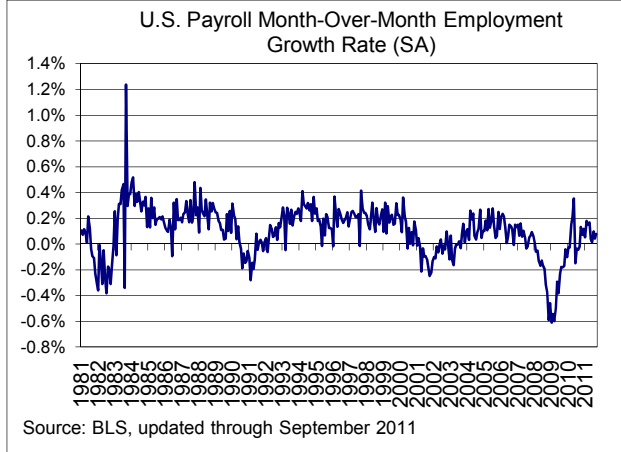
Economic Growth	Grade*	Period	Statistic	Direction**	Historical Range			
					Minimum	Average	Maximum	1st Year
Real GDP (annual rate)	<b>C</b>	2011Q2	1.3%	Rising	-10.4%	3.3%	17.4%	1947
Employment Growth (1-year Change)								
- Non-ag Payroll, NSA	<b>C</b>	Sep, 2011	1,462,000	Improving	-6,916,000	1,395,067	5,243,000	1940
Employment Growth Rate								
- Non-ag Payroll, NSA	<b>C</b>	Sep, 2011	1.1%	Improving	-7.6%	2.1%	16.4%	1940
Unemployment Rate	<b>D-</b>	Sep, 2011	9.1%	Flat	2.5%	5.8%	10.8%	1948
Average Length of Unemployment (Weeks)		Sep, 2011	40.5	Increasing	7.1	14.3	40.5	1948
Median Length of Unemployment (Weeks)		Sep, 2011	22.2	Increasing	4.0	8.0	25.5	1948
% of Labor Force Unemployed (27 weeks and over)		Sep, 2011	4.1%	Increasing	0.1%	0.9%	4.4%	1948
Total Payroll Monthly Emp. Growth (SA)		Sep, 2011	103,000	Increasing	-1,966,000	116,297	1,114,000	1939
Private Sector Payroll Monthly Emp. Growth (SA)		Sep, 2011	137,000	Increasing	-1,773,000	95,658	1,088,000	1939
Gov. Sector Payroll Monthly Emp. Growth (SA)		Sep, 2011	-34,000	Declining	-260,000	20,639	410,000	1939
U.S. Initial Jobless Claims	<b>C</b>	Sep, 2011	395,000	Declining	162,000	363,051	695,000	1967
Mass Layoff Events, SA (YOY % Change)	<b>C</b>	Aug, 2011	4%	Increasing	-49.1%	4.8%	132.1%	1995
Productivity	<b>C-</b>	2011Q2	-0.7%	Declining	-10.8%	2.3%	17.5%	1947
Retail Sales	<b>B</b>	Aug, 2011	7.2%	Declining	-10.9%	4.6%	11.0%	1992
Capacity Utilization	<b>D+</b>	Aug, 2011	77%	Increasing	67.3%	80.8%	89.4%	1967
Inflation								
Core CPI	<b>B</b>	Aug, 2011	2.0%	Rising	0.6%	3.9%	13.6%	1958
Full CPI	<b>C</b>	Aug, 2011	3.8%	Rising	-15.8%	3.4%	23.7%	1914
Personal Income Growth, nominal	<b>C-</b>	Aug, 2011	4.5%	Declining	-5.7%	7.0%	14.1%	1960
Personal Income Excluding Government Transfers, real	<b>C</b>	Aug, 2011	2.2%	Declining	-8.5%	3.0%	9.0%	1960
Federal Deficit (last 12 mos., \$mil curr.)	<b>F</b>	Aug, 2011	-\$1,293,161	Increasing	-\$1,554,588	-\$357,444	\$359,025	1980
Federal Deficit per Household		Aug, 2011	-\$11,469	Increasing	-\$13,955	-\$3,549	\$3,386	1981
U.S. Gross Government Debt as Percentage of GDP	<b>F</b>	2010	94%	Increasing	41%	62%	94%	1980
U.S. Immigration as a % of Total Population	<b>C+</b>	2010	0.3%	Declining	0.1%	0.3%	0.7%	1950
Total Population Growth	<b>D</b>	2010	1.1%	Increasing	0.9%	1.2%	2.0%	1951
Total Households		2011Q2	112,473,000	Increasing	56,848,000	88,708,030	112,473,000	1965
- Growth Rate	<b>D</b>	2011Q2	0.7%	Increasing	0.0%	1.5%	4.1%	1966
Owned Households		2011Q2	74,131,000	Decreasing	35,728,000	58,092,863	75,991,000	1965
- Growth Rate	<b>F</b>	2011Q2	-0.8%	Decreasing	-1.2%	1.6%	4.1%	1966
Rented Households		2011Q2	38,342,000	Increasing	21,052,000	30,491,320	38,342,000	1965
- Growth Rate	<b>B+</b>	2011Q2	3.8%	Increasing	-3.0%	1.3%	5.1%	1966

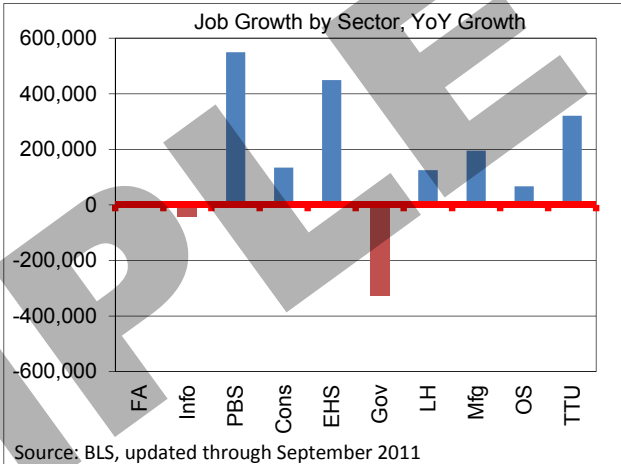
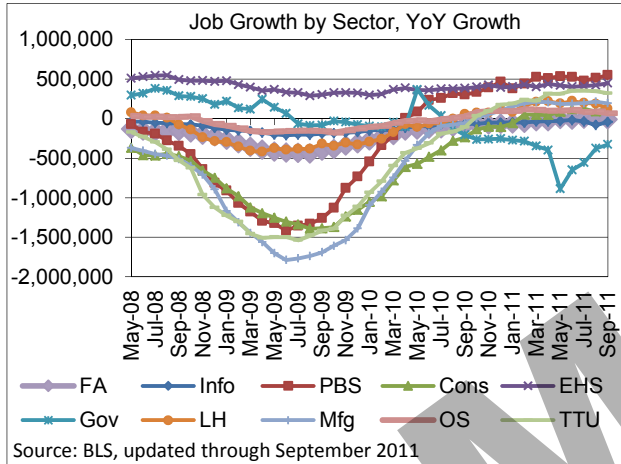
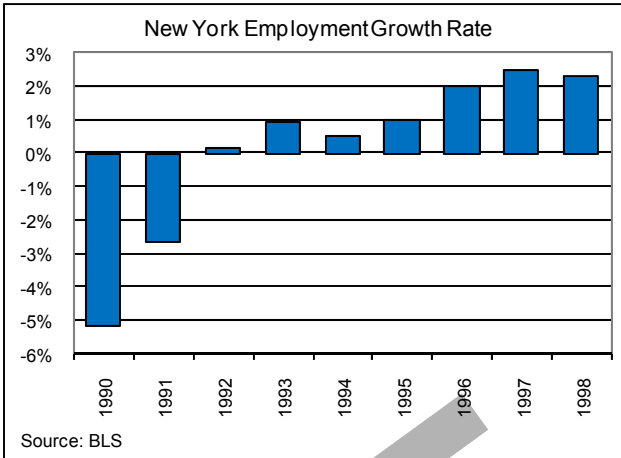
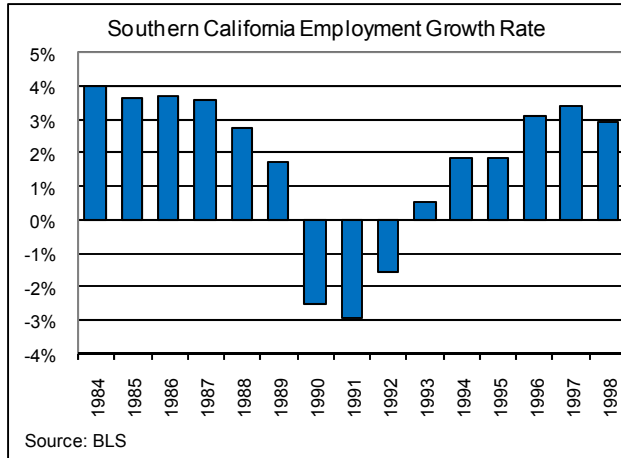


**1. Real GDP, (C)** – The U.S. economy grew at a 1.3% annual rate during 2Q11, an upward revision from the advance estimate of 1.0%. Consumption (the largest component of aggregate growth) slowed to a 0.49% growth rate in 2Q11, its lowest since 4Q09.



**2. Employment Growth, (C)** – The economy added 103K jobs in September, up from 57K in August. Year-over-year job gains have now been positive for the past 13 months as the employment market has added roughly 1.49 million non-farm payroll jobs in the last year, up from 1.36 million YOY job gains experienced last month. As such, annualized job growth increased from 1.09% to 1.12%. Annual job losses continue in Government (-327K), Information (-42K), and Financial Activities (-11K). Sectors with strong positive YOY job growth include Professional and Business Services (+549K); Education and Health Services (+449K); as well as Trade, Transportation and Utilities (+321K). The severity of job losses in the U.S. in the recent economic downturn is similar to the regional downturns in both Southern California and New York through the early 1990s. During this time, Southern California lost 7% of its employment base from 1991 to 1994 and didn't recover all of the lost jobs until 1997. New York also experienced job losses totaling almost 8% between 1991 and 1992 and did not return to the previous peak level until 1999.





(FA) - Financial Activities  
(Info) - Information  
(PBS) - Professional & Business Services  
(Cons) - Construction  
(EHS) - Education & Health Services  
(Gov) - Government  
(LH) - Leisure & Hospitality  
(Mfg) - Manufacturing  
(OS) - Other Services  
(TTU) - Trade, Transp. and Utilities

**3. Unemployment Rate, (D-) –** Unemployment was unchanged this month at 9.1%. However, the U-6 – a broader measure of unemployment that covers part-time workers who would like full-time work and those who have given up looking for work – increased from 16.2% to 16.5%, the highest it has been all year. The unemployment picture varies across different segments of the population, with non-college graduates and younger demographic cohorts particularly hard hit in the current recession.

