

Dutta's Economic Daily

Headache for housing & high-end

Friday, July 13, 2012

Housing still in a fragile bottoming process

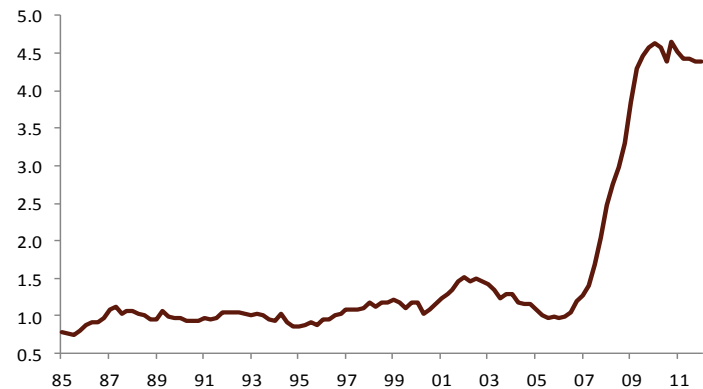
- Calling a bottom in housing does not automatically imply a meaningful turn is imminent. With banks facing less legal blowback after the foreclosure settlement reached earlier this year, the foreclosure process is beginning to pick-up. With more foreclosure inventory yet to come to market, new single-family construction will remain soft.
- According to RealtyTrac, over 1 million properties received some type of foreclosure filing in the first six months of the year – up 2% from the second half of 2011. Meanwhile, foreclosure starts rose 9% sequentially, with volumes rising in over half the states in the country – more folks entering the first phase of the foreclosure process.
- The improvement in prices to date has to do with more distressed property investors fighting over dwindling supply. More foreclosures imply more housing supply coming to market. With demand for housing still weak, particularly among the first-time buyer demographic, prices will likely come under increasing pressure.
- Housing sentiment has improved markedly. Part of that is justified: builders have rationalized their business models, consolidated, moved into the multi-family sector, which is expanding briskly. However, additional foreclosure supply is likely to add competition to builders. And, we have a hard time seeing how housing, which is largely cyclical, can decouple from a slowing in the broader economy.

High-end getting a headache

- High-end consumers tend to be more forward-looking. We expect the risk of higher taxes on the rich next year will have a negative consumption impact on high-income households today. Companies that cater to high-end household will come under selling pressure.
- In the June University of Michigan survey, drop in consumer sentiment was driven exclusively by the high-end consumer.
- Investment taxes from the Affordable Care Act along with the possible expiration of the Bush-era tax rates will disproportionately hit the high-end consumer. Roughly speaking, if Bush tax cuts expire for the top 1% of income earners, we are looking at roughly at \$40bn hit to disposable income (hat tip to Brian Herlihy).

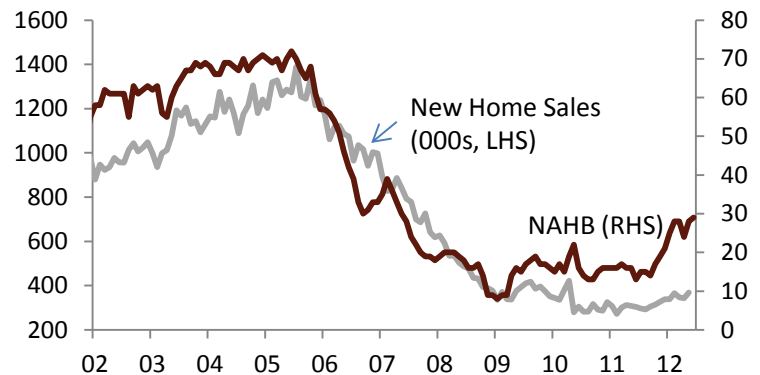
Limited movement on foreclosures

Mortgage foreclosure inventory (%)



Source: Mortgage Bankers' Association

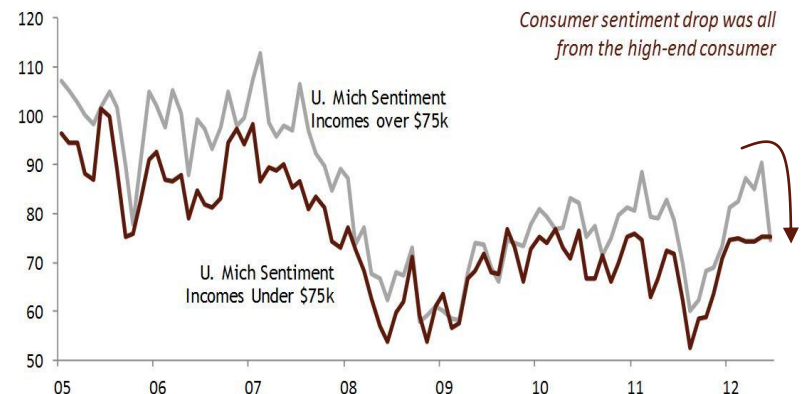
Consolidation: Sentiment up, new homes basically flat



Source: Census Bureau, NAHB

Low hopes for the high-end

University of Michigan Consumer Sentiment (Index level)



Source: Haver Analytics

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