



...weekly since 1976

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Housing

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New Home Sales

New home sales in July were weaker than expected, a continuation of the softer housing market of the past 4-8 months. Sales were at a 1.07 million unit annual rate, down 21.6% over the past year. By comparison, new homes sales set records in each of the past four years.

The median price (half cost less, half cost more) was \$230,000 in July, roughly flat versus prices a year ago for new homes. However, the median price is down 10.5% from the high set in April of this year.

Of great concern is the oversupply of new homes. New homes listed for sale, including those with permits but not yet started, numbered 562,000 units, up 22% from a year ago. A significant share of these won't be built.

The supply of new homes completed and available for sale totaled a record 137,000, up 33% from a year ago, and the highest level since record-keeping began in 1972. The current high total represents a 6.5 month supply of new homes, the highest level since November 1995.

Existing Home Sales

Sales of existing homes across the nation were also weaker-than-expected in July. Sales were at a 6.33 million unit annual pace, down 11.2% from a year ago, and the slowest pace since January 2004.

To add insult to injury, the number of units listed for sale jumped sharply to 3.86 million, a rise of nearly 40% in 12 months. As a result, the 7.3 month supply of existing homes is the highest since 1993.

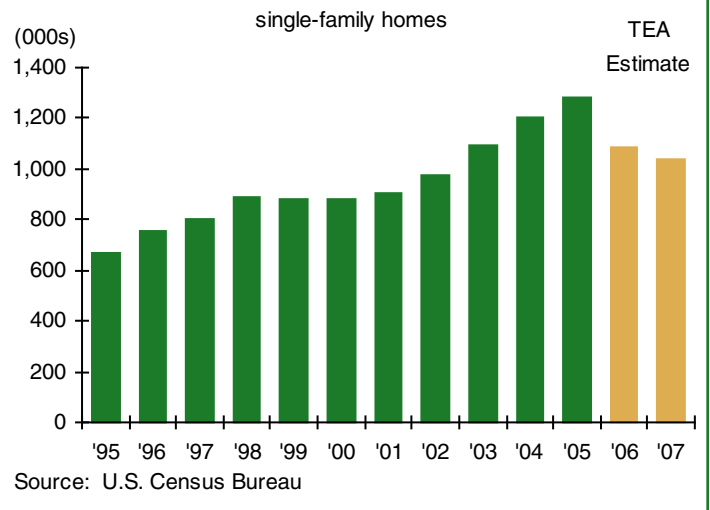
Median home prices were up only 0.9% during the past 12 months. The miniscule increase compares to the median price rise of 12.4% in 2005 and the 9.3% rise in 2004.

Sales were down in all four major regions of the country, with particular weakness in the West, where sales were down 18.0% from a year ago. Weakness in home sales in California, Arizona, and Nevada no doubt contributed to Western weakness.

Excesses

Financial markets of all types have always been prone to excess. The human experience leads us in that direction. I served as an adjunct professor of finance (teaching in the evening) at the University of Utah from 1982 until the beginning of the Century (that still sounds funny). I taught those close to graduation about "the real world" of the economy, the Fed, financial markets, job creation, inflation, etc.

U. S. New Home Sales



I used to tell my students that despite the near instantaneous flow of information around the world that was/is available today, financial market performance, especially in the near-term, still came down to two base human emotions...fear and greed.

Nasdaq Excess

A simple history of the past 6-7 years highlights investor excesses within the stock market. The Nasdaq was a great example of excessive greed. The Nasdaq peaked at 5049 in 2000's first quarter. As fear eventually took control, the Nasdaq plunged nearly 80% during the next 31 months to 1113, before its labored rise back north of 2100.

Similar behavior in emerging nation stock markets occurred over the past few years, with spectacular increases followed by harrowing dives. The rise of oil, gold, and copper also, to an extent, reflect greed driven markets.

Housing was another prime example. Solid U.S. economic growth of the past few years, combined with a rising population, low mortgage rates, and a lack of buildable land in many coastal markets did legitimately lead home prices higher... No argument here.

Aggressive Investors

Another major factor? Where was the aggressive investment money in the U.S. economy in the second half of the 1990s? It was in the stock market, with tens of billions of dollars parked in Internet and other technology stocks.

Where did that aggressive investment money go over the past 5-6 years, as investors quickly soured of stock market pain?

...tens of billions of dollars soon found their way into residential real estate, primarily on both coasts

Legitimate buyers and speculators drove coastal prices higher, with many markets seeing prices double over the past 5-6 years. The average American home rose 57% during the five-year period ending March 31, 2006 (*OFHEO*). The average District of Columbia home the past five years?...up 124%. California?...up 115%. Florida?...up 111%. Nevada?...up 106%. Arizona?...up 93%. Virginia?...up 83%. New York?...up 74%.

Flippers

As coastal home prices moved higher and higher, many speculators soon relocated to markets in Arizona and Nevada, as well as smaller communities in California and Florida. The typical developer's mindset also was too optimistic... "My new development will make me millions...it's the other builder who needs to cut back."

Thousands of speculators bid up prices in new housing developments hundreds or thousand of miles from "home"...with no intention of ever occupying the home or condo. Thousand of these "flippers" are now buried in costly properties, facing rising mortgage rates, and weakening

values. Thousands of properties will ultimately be foreclosed on by overly aggressive lenders that also got caught up in the game...

...greed was too long in control

Tens of thousands of homes and condos were also bought as second homes and/or retirement properties by Baby Boomers. Many of these properties have been or might be available for sale at an acceptable price. However, thousands of these properties will remain in Boomer "portfolios" for retirement usage in coming years.

The national media's fixation on all things negative would almost have you believe that the bottom has simply fallen out of the American housing market. This is not the case.

New home sales and existing home sales are clearly weaker than was the case last year. However, combined sales this year are likely to be the third or fourth best year on record! In addition, financial market anxiety about the housing situation and other signs of a slowing economy has pushed 30-year fixed-rate mortgages down by nearly one-half percent versus two months ago.

Reasonable Values

Many coastal states and communities are dealing with problems of prior excess. However, residents of many inland states and communities that largely missed the coastal excesses of the past few years are now enjoying their own housing renaissance.

Many housing markets in the Rocky Mountain states, parts of the Midwest, parts of the Southwest, and the deep South are doing extremely well as we speak. Homes at logical and affordable prices are readily available.

While many speculators will have their heads handed to them in various markets, the average homeowner will be just fine. Bear in mind that the typical legitimate home seller has been in their home for six years (*The National Association of Realtors*). Yes, they do feel anxiety about perhaps waiting too long to sell. However, they are still sitting on an asset that is worth roughly 60% more than they paid for it.

"TEA"sers

Trivia...

What is the only food that doesn't spoil? Honey

More money is printed every day for the game Monopoly than by the U.S. Treasury

Coco-Cola was originally green



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