



RADAR LOGIC OPINION

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Sure, Jobs Matter. But They Are Not the Answer for Housing.

You cannot open a newspaper these days without reading (again) about how bad the housing market is. In fact, now many pundits are saying housing is in a double dip. At least The Wall Street Journal got it right when they pointed out this may be a continuation of the housing slide rather than a new dip. We at Radar Logic have been saying exactly that for months.

Many experts are saying we need strong job gains to bolster housing, but we think this is somewhat backward. During the housing boom, a very large number of jobs were created in the home building sector. The bulk of those jobs disappeared when the housing market collapsed and builders stopped building new homes. Now builders' concerns over competition from distressed property sales are keeping housing starts near historic lows. The problem is that there is a huge supply of foreclosed homes for sale or in inventory, and a huge supply of homes on their way to foreclosure. It could take years for the inventory of distressed homes to be absorbed and for prices to stabilize to the point where new construction is deemed to be a worthwhile endeavor. As such, sustained and robust job creation will not occur in the construction sector until the excess supply of homes is absorbed and homebuilding resumes in a sustained and robust manner. And even then, not all of the construction jobs lost in the great recession will return.

Over time we have seen RPX values as a leading indicator relative to the US economy overall. This has been evident in the correlations between RPX and consumer confidence, consumer spending and even the S&P 500. Among the reasons for this phenomenon is the correlation between Americans' perceptions of their own wealth as expressed in the value of their homes and their willingness to recycle some of that wealth into our economy. So again, it seems to us that a recovery in housing values will precede a real recovery in our economy, spending, jobs and all.

So rather than strong job growth driving a robust recovery in the housing market, we expect to see slow absorption of excess housing supply and a slow stabilization in housing values eventually spur housing construction and consumer confidence, and in turn drive a recovery in jobs.

If you want a real measure of when housing bottoms, rather than watching for rapid job growth, watch the banks. Banks are currently requiring large down payments, mostly because they recognize that current dynamics suggest further declines in value and they want more equity supporting their loans. They, more than most, know how bad the inventory overhang really is, as they own (or expect to own) most of it. The sign that housing markets have hit bottom will be when banks start lending 85% loan to value as opposed to 70% or 75%. Either they will have concluded that the market has hit bottom or they will have figured out a new way to manage the risk that it has not. But, as many have said, lending will, at least in this form, lead the way.