

16 March 2009

PERIODICAL REVIEW MARCH 2009 – HOUSING, AN UPDATE

As you know, we are watching U.S. family home prices closely and communicating with US contacts on this on a regular basis. We have previously stated the pivotal role that we believe stabilising single family home prices and increased activity in the residential real estate market will play in turning around the U.S. economy, and by extension, the world economy.

Below are three tables, which show as follows:

1. Table 1 - Trends in Median Home Prices, Mortgage Rates and Affordability in U.S. Housing;
2. Table 2 - Activity in Single Family Home Sales;
3. Table 3 – A Confidence Index showing Realtors Expectations for Housing Market Activity and Prices.

Points to note are as follows:

1. Based on the January 2009 provisional data, released in late February 2009, the median price of family homes for the country as a whole has not yet bottomed, although region by region outcomes vary.
2. Mortgage Rates have continued their downward trend.
3. This has made Housing Affordability (a higher number in the Composite Affordability Index means houses are more affordable) the best it has been for several decades.
4. Examination of the Housing Sales data shows that, according to Lawrence Yun, Chief Economist for the National Association of Realtors “regional breakouts are here”. Sales in the Western region and most notably in California, Nevada and Arizona have shown a strong increase year on year and the rise in some



markets is quite spectacular, with Bakersfield (near Los Angeles) and San Diego showing some 60% gains from one year ago as buyers took advantage of tumbling home prices. The \$8,000 tax credit for new home buyers recently introduced by President Obama (expiring on 1 December 2009) and the fact that home prices in these States fell earliest and furthest has seen them start to recover first. Mr Yun expects other regions to systematically pick up as part of a rolling break out for both prices and sales across the U.S. – in his view this would be a normal recovery as the total U.S. housing market rarely moves uniformly, both with respect to timing and degree of activity.

5. The Realtors Confidence Index indicates that expectations for all four regions into which the Association divides the market are anticipating better conditions than they did in December 2008 and in two of the regions (the West and the Northeast) better conditions than existed a year ago as well.

FOOTNOTE

The Conference Board in the U.S. has for many decades been the generally accepted key provider of data on Leading, Lagging and Coincident Indicators of economic activity for various Economies. Chart 1 shows the most recently published data from the Board showing both the Conference Board Leading Economic Index (LEI) as well as the Conference Board Coincident Economic Index (CEI) for the U.S. economy.

The CEI shows that the economy is experiencing tough times, but we do not need to be told that – it is being reported everywhere. There will be more tough news no doubt, and unemployment (a lagging indicator) will surely rise further in the near term. More importantly, the LEI, which is a composite of ten economic indicators that turn in advance of turns in the economy has for the last two months **increased** (0.4% in January 2009 following a 0.2% increase in December 2008). This followed a considerable period when it was in a downtrend. We have not seen this reported anywhere yet, at least here in Australia, but it may be what is giving Mr Bernanke some of the confidence he has been exhibiting recently on when the U.S. economy might turn.

The uptick is not yet strong and all our many years following this Index have taught us that we would like to see at least three months of an uptick before a decisive flex point may be indicated. Some followers of this series also like to see a strong upturn across a majority of the ten underlying indicators that form the composite index before they become convinced that it is signalling a (near) future turn in activity. In January 2009 five of the ten indicators were indicating a turn in the economy. In December 2008 it was three, and in November, two.

Sincerely,

Peter J Harper



TABLE 1

NATIONAL ASSOCIATION OF REALTORS - HOUSING AFFORDABILITY INDEX

Year		Median Priced Existing Single Family Home	Mortgage Rate	Monthly P&I Payment	Payment as a % of Income	Median Family Income	Qualifying Income*	Affordability Index		
2006	r	221,900	6.58	1,131	23.2	58,407	54,288	107.6		
2007	r	217,900	6.52	1,104	22.2	59,575	52,992	112.4		
2008	r	196,600	6.15	958	19.0	60,350	45,984	131.2		
2008	Jan	197,200	6.04	950	18.7	60,877	45,600	133.5		
2008	Feb	193,600	5.94	923	18.2	60,781	44,304	137.2		
2008	Mar	197,600	6.10	958	18.9	60,685	45,984	132.0		
2008	Apr	199,600	6.03	960	19.0	60,589	46,080	131.5		
2008	May	206,000	6.10	999	19.8	60,493	47,952	126.2		
2008	Jun	213,600	6.28	1,055	21.0	60,397	50,640	119.3		
2008	Jul	208,900	6.48	1,054	21.2	59,528	50,592	117.7		
2008	Aug	201,900	6.53	1,024	20.7	59,434	49,152	120.9		
2008	Sep	190,300	6.22	934	18.9	59,340	44,832	132.4		
2008	Oct	185,700	6.23	913	18.5	59,246	43,824	135.2		
2008	Nov	179,900	6.26	887	18.0	59,152	42,576	138.9		
2008	Dec	175,000	5.59	803	16.3	59,058	38,544	153.2		
2009	Jan p	169,900	5.21	747	15.0	59,821	35,856	166.8		
									This month	Month Ago
Northeast		232,100	5.21	1,021	18.3	67,073	49,008	136.9	127.1	106.7
Midwest		136,400	5.39	612	12.0	61,336	29,376	208.8	198.0	187.4
South		153,000	5.13	667	14.9	53,706	32,016	167.7	156.5	144.9
West		224,200	5.17	982	18.8	62,647	47,136	132.9	119.1	91.6

* Based on a 25% qualifying ratio for monthly housing expense to gross monthly income with a 20% down payment.

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TABLE 2

EXISTING SINGLE FAMILY HOME SALES

Year		U.S	Northeast	Midwest	South	West
2006 r		5,677,000	787,000	1,314,000	2,352,000	1,224,000
2007 r		4,939,000	723,000	1,181,000	2,053,000	982,000
2008 r		4,350,000	623,000	1,022,000	1,721,000	984,000
2008	Jan	4,360,000	610,000	1,080,000	1,820,000	850,000
2008	Feb	4,390,000	640,000	1,090,000	1,810,000	850,000
2008	Mar	4,350,000	660,000	1,050,000	1,770,000	870,000
2008	Apr	4,300,000	630,000	1,000,000	1,777,000	900,000
2008	May	4,380,000	650,000	1,030,000	1,760,000	940,000
2008	Jun	4,310,000	620,000	1,010,000	1,720,000	960,000
2008	Jul	4,390,000	650,000	1,020,000	1,700,000	1,020,000
2008	Aug	4,370,000	630,000	1,030,000	1,720,000	990,000
2008	Sep	4,540,000	630,000	1,050,000	1,720,000	1,140,000
2008	Oct	4,390,000	620,000	1,010,000	1,690,000	1,070,000
2008	Nov	4,060,000	550,000	930,000	1,530,000	1,050,000
2008	Dec	4,250,000	570,000	980,000	1,600,000	1,100,000
2009	Jan p	4,050,000	480,000	930,000	1,530,000	1,110,000
Vs last mth		-4.7%	-15.8%	-5.1%	-4.4%	0.9%
Vs last yr		-7.1%	-21.3%	-13.9%	-15.9%	30.6%

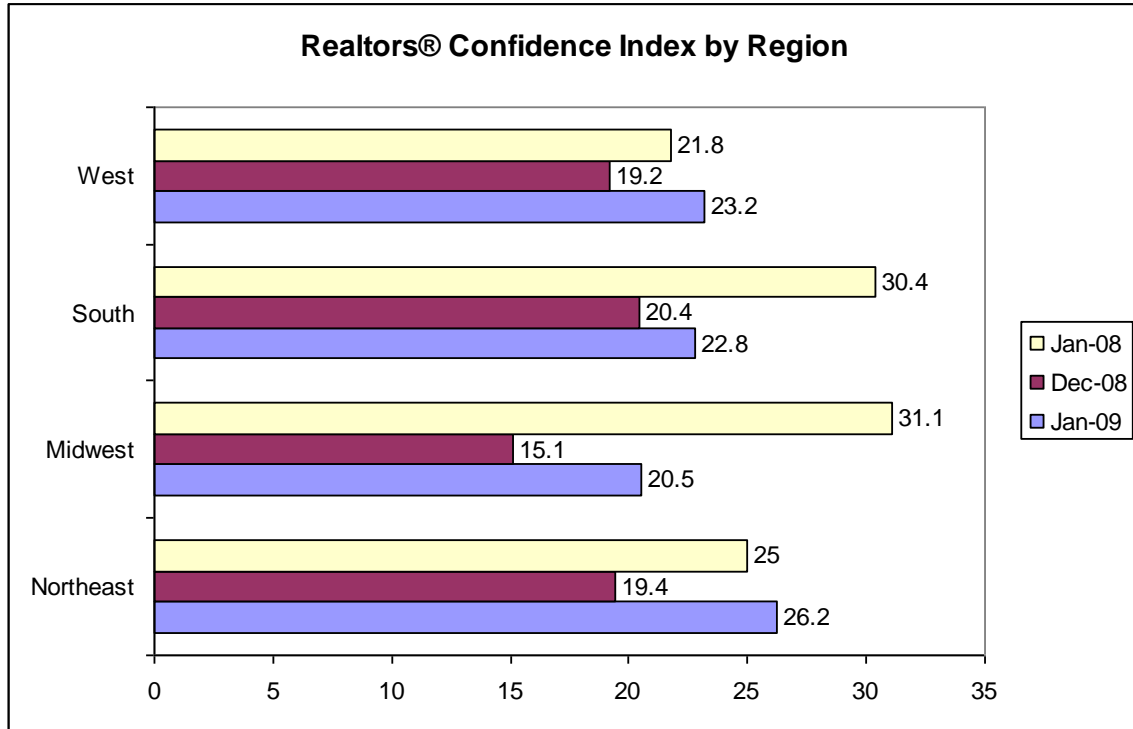
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TABLE 3

REALTORS CONFIDENCE INDEX



The **REALTORS® Confidence Index** measures the strength of the current housing market and expectations about the future. It is computed using data obtained from the surveys of a random panel of REALTORS®.

Each month participants respond to questions regarding the current and expected demand for homes, prices of homes and other economic conditions. Their answers are then quantified and used to create the confidence index.



CHART 1

THE CONFERENCE BOARD LEADING ECONOMIC INDEX™ FOR THE USA

