

Analyst: Hysteria about economy is overblown

[The Orange County Register](#)

January 28, 2009 - 4:33PM

A Southern California housing analyst said that while area home prices will continue to decline, the hysteria about the U.S. marketplace is overblown.

Chris Thornberg, a former UCLA economics professor who co-founded Beacon Economics, told the Orange County Building Industrial Association that the overall financial picture is about as bad as the recession of 1982 and other severe recessions.

“2009 is going to be brutal. But it’s not that bad,” said Thornberg, who began predicting that a housing bubble was due to burst since at least 2003. “It’s not a depression. ... This is sort of a normal, bad downturn.”

San Bernardino County house prices will drop another 31.6 percent from the third quarter of '08, according to Brad Kemp, Beacon’s director of regional research. Riverside County prices are expected to fall another 28 percent. Prices may not bottom until late 2011, according to Beacon Economics.

Other comments by Thornberg:

- Mortgage meltdown: The collapse of subprime loans was due to reliance on CDOs — collateralized debt obligations, aka mortgage-backed securities. The entire financial market was based on folks making short-run returns. That’s got to be fixed.

- Liquidity crisis: It’s not a liquidity crisis, it’s just that lenders have no appetite for risk these days. “You can get business from the bank. You’ve just got to put skin in the game. ... You can get money. You’ve just got to reduce their risk. That’s the new reality.”

- Wealth effect: People stopped saving because they thought they were rich because their stock values and home values had gone so high.

They actually never were worth what people thought they were, and assets merely are collapsing “back to normal values,” he said.

Americans “just woke up from a 14-year frat party with the mother of all Bud Lite hangovers.”

- Proposition 13: California isn't a high-tax state. "It's a dumb-tax state." It places high income taxes on the wealthy, who make up about 1 percent of the tax base. The state instead should levy smaller tax hikes on a bigger tax base and it should eliminate Proposition 13, which is inequitable and limits revenues.