EconomyChat

It's what the Economists talk about

Check todays hot topics or Suggest a new feed

You are not Logged in!
Do you want to Log In or register

- Select Area
- Feeds
- Forums
- Events

Home › Feeds

Subscribe via RSS
subscribe

Search :
Search

Now | **Aug. 8, 2006 and the start**

Husing: Soft Landing for Inland Empire Housing

Feed: Calculated Risk

tag reddit

CalculatedRisk Jul 21, 2006 1:35 a. m. - 2 weeks ago

Rate this: Rate This

Tags: Dr. Husing, LA, employment, housing, San Diego, San Bernardino, DoD, slowdown, Inland, construction, California, Dr. John Husing, aerospace, Christopher Thornberg, Riverside,

Thornberg: Housing a "Classic Bubble"

Feed:Calculated Risk

tag reddit

CalculatedRisk Jul 20, 2006 6:48 a.m. - 2 weeks ago

Rate this: Rate This

Tags: decline, consumer, housing, Christopher Thornberg, percent, UCLA, bust, California, Los Angeles, year, economist, San Bernardino, bubble, price

UCLA Economist Christopher Thornberg is quoted in the San Bernardino Sun: Region's home sales looking like 'classic bubble'

> "The soft-landing people are full of nonsense," said Christopher Thornberg, senior economist at UCLA. "This is a classic bubble. And unit sales are falling faster than in past bubbles."
>
> "We are in the middle of this decline. If we are lucky, prices will go flat. But we are not going to

Popular Places

- Outside the Beltway: Lieberman Loss = President Gore?
- The Intangible Economy: Innovation metrics workshop
- General
- General - compliments and criticism
- Smart Economist:Report 173 - Corporate Cronyism and Performance
- Oikos:The rise of the electric car?
- status
- Emirates Economist: Foreign businesses threaten to snub pricey Dubai :: ITPBusiness.net
- Marginal Revolution: Insurance markets in everything

economist, Empire

Private economist Dr. John Husing is quoted in the San Bernardino Sun: Husing still optimistic

> There's just too strong an economy and too much job growth for much other than the "soft landing" Husing and other economists have been predicting for the end of the five-year housing boom.
>
> "We are right on the cusp of a very powerful period in job growth," Husing said. "Local [Inland Empire, San Bernardino/ Riverside area] unemployment in May was 4.2 percent, and that's the lowest I have

> have prices fall like the stock market. You won't see declines of 10 percent or 15 percent per year. What will happen is that prices will flatten out," he said, adding that there might not be housing appreciation until 2011.
>
> Next year will be critical from the standpoint of how the consumer will react to not having "a house cash machine" that can be tapped for spending thanks to rapidly appreciating value.
>
> "A major pullback in consumer spending could get ugly very quickly," he said.

I think Thornberg is optimistic.

Click on graph for larger image.

This graph shows the price of Los Angeles housing based on the OFHEO housing index. For the real price, the nominal price is adjusted by CPI, less Shelter, from the BLS.

Although I agree prices will probably not fall 10%+ per year, I think the bust will last longer than 5 years and prices will fall steadily in real terms. In the previous California housing bust, prices declined for 6 1/2 years and the median house lost almost 34% in real terms.

Here is a chart of the year to year price declines in Los Angeles according OFHEO.

Year of Housing Bust	Nominal Annual Price Decline	Cumulative Nominal Price Decline	Real Annual Price Decline	Cumulative Real Price Decline
1	-1.9%	-1.9%	-5.1%	-5.1%
2	-1.0%	-2.9%	-3.8%	-8.7%
3	-5.5%	-8.2%	-7.9%	-15.9%
4	-7.3%	-14.9%	-9.8%	-24.2%
5	-6.1%	-20.1%	-8.2%	-30.4%
6	+0.2%	-19.9%	-2.6%	-32.3%

- Joshua Gans:Counting of the Jedi
- Oikos:Climate change: the jury is still out?!
- Joshua Gans:Burying the hatchet (in Telstra)
- Smart Economist:Report 164 - Dollar and Yuan: A Chinese Perspective
- Oikos:Environmental economics blogs
- Eclect Econ:English Heat and the Problem of Melting Highways
- VDare:An Important New Ally? And Basic Immigration Economics

Highest Rated

- Healthcare Economist: Physician-Patient email communication: a review
- Healthcare Economist:The Effects of HMO on the Survival of Hospital Services
- Ecological Economics: Inconvenient Truth
- Healthcare Economist: Nearest doc: 200 miles
- Ecological Economics:The Three Lenses of Threat Perception
- Ecological Economics: Global Warming Blamed for Increasingly Destructive Wildfires
- Oikos:Climate change: the

seen for May in 42 years of studying the local economy.
...
Senior economist Christopher Thornberg of UCLA's Anderson School of Management had called the soft-landing theory "nonsense" on Tuesday and said we are in a "classic bubble."

"If we are lucky, prices will go flat," he said, suggesting that we could see five years without price appreciation.

That may be true elsewhere, Husing said, but it won't happen here.

"Is the housing

6.5	-1.2%	-20.9%	-2.4%	-33.9%

The worst annual declines occurred in the 3rd, 4th and 5th years of the housing bust.

jury is still out?!
- Environmental Economics: Do Monopolies Undermine The Environment?
- Oikos:Environmental economics blogs
- VDare:Barlett And Steele Gone From Time

Popular Tags

- Politics
- Economics Generally
- Bushisms
- Moral Responsibility
- Utter Stupidity
- Social Security
- Weblogs
- debate
- unquote
- school
- Fed
- GDP
- Ms Bartiromo
- Australian Politics
- article
- growth
- deficit
- Times
- Economics: Macro
- Economics: Growth

Account Options

- Login
- Register

> market vulnerable?" he asked. "Yes, it is. But is a bubble likely to happen? No, it is not. The underlying strength of our economy is too great."

Click on graph for larger image.

I disagree with Dr. Husing. I think the Inland Empire is one of the most vulnerable areas to a housing slowdown. Construction is far more important to the San Bernardino/Riverside economy than most other areas of the state.

As the homebuilders start to layoff workers, a larger percentage of workers in the San Bernardino and Riverside area are at risk. During the previous housing bust, the Inland Empire unemployment rate rose from 4.9% to over 12% (NSA) in just three years.

Areas

- Your Preferences

Bookmark On

- del.icio.us
- reddit
- change

With regards to timing, I noted earlier:

> Historically Construction Employment continued to rise for a year or more after the peak in housing transactions.

So I expect construction employment in the Inland Empire to start to fall during the next couple of quarters.

UPDATE: DoD Employment as Percent of Nonfarm Employment.

A common question is: how much did the aerospace / DoD spending slowdown in the early '90s impact employment? Although I don't have aerospace data (I'll look), this graph shows DoD employment was far more important for San Diego than the Inland Empire.

DoD and aerospace were probably most important for LA and San Diego in the '90s

Note that DoD

employment was far less than construction employment. Also, DoD employment only fell slightly faster than total employment in the early '90s. Construction employment fell sharply. DoD employment was fairly flat during the mid-90s, so the percentage of total employment continued to fall as the California economy added jobs.

Although the aerospace slowdown probably precipitated the general economic slowdown in California during the early '90s, the housing slowdown had a larger impact. This time, many of us are suggesting that the housing slowdown will most likely be the precipitating event.