The Mortgage Corner

Dr. Robert Shiller Says No Housing Boom?

By **Harlan Green** / Special to CASA

DR. ROBERT SHILLER, Yale Econ Professor and co-creator of the Case-Shiller Home Price Index, has just written an article that says don't expect much in the way of a housing boom in 2013. He isn't even sure prices will continue to rise as they have over the past three years given all the headwinds, such as tighter mortgage regulations, declining percentage of homeowners versus renters, and low consumer expectations in general.

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"On the one hand, there were sharp price increases in 2012, with the S.&P./Case-Shiller 20-City Index, said Dr. Shiller, "which I helped devise, up a total of nine percent over the six months from March to September. That comes after what was generally a decline in prices for five consecutive years. And while prices dropped very slightly in October, the trend was quite encouraging for the market...it is hard to find an exact cause for the rebound in home prices. But that isn't unusual — we hardly ever know the real causes of major changes in speculative prices. Yet we do know that any short-run increase in inflation-adjusted home prices has been virtually worthless as an indicator of where home prices will be going over the next five or more years."

Then he cites a consensus of some 100 economists that real prices will rise one to two percent over inflation in coming years. Folks, that is the historical norm for housing prices in the 20th century that Shiller himself cites in the second edition of Irrational Exuberance.

Why so much pessimism from the Oracle who actually coined the term 'irrational exuberance' that Fed Chairman Greenspan used in his famous speech so many years ago?

I believe he is neglecting what is behind the current surge in home buying—pent up demand and record low interest rates that the Fed has vowed to keep low until the unemployment rate falls to the six percent range from the current 7.8 percent. Pent up demand from the prolonged plunge of sales during the Great Recession is a powerful driver of home building, for one thing. And household formation is predicted to double to some 1.3 million per year in coming years from as low as 350,000 annually during the recession. While this won't bring us back to boom times, it will at least restore housing to its proper place in the economy.

Even though national existing-home sales declined 1.0 percent to a seasonally adjusted annual rate of 4.94 million in December from a downwardly revised 4.99 million in November, sales are 12.8 percent above the 4.38 million-unit level in December 2011, says the National Association of REALTORS.

The result is that the total housing inventory at the end of December fell 8.5 percent to 1.82 million existing homes available for sale, which represents a 4.4-month supply at the current sales pace, down from 4.8 months in November. This is the lowest housing supply since May of 2005.

This means new-home construction will have to pick up to satisfy the increasing demand for housing, as we have said in past weeks. And the outlook is good, with privately-owned housing starts in December at a seasonally adjusted annual rate of 954,000. This is 12.1 percent above the revised November estimate of 851,000 and is 36.9 percent above the December 2011 rate of 697,000, according to the US Census Bureau.

On a year-over-year basis, private residential construction spending is now up 19 percent. Non-residential spending is up eight percent year-over-year mostly due to energy spending. On the other hand, public spending is down three percent year-over-year, and that is the real problem. Governments should be spending much more on public infrastructure, when and if the economy returns to more normal growth.

Harlan Green has been the 11-year Editor-Publisher of PopularEconomics.com, a weekly syndicated financial wire service. He writes a Popular Economics Weekly Blog. He is an economic forecaster and teacher of real estate finance with 30-years experience as a banker and mortgage broker.