

Housing, the Economy, and Wood Products Markets - - today and thoughts about tomorrow

Al Schuler (aschuler@fs.fed.us)

USDA Forest Service

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Housing Issues

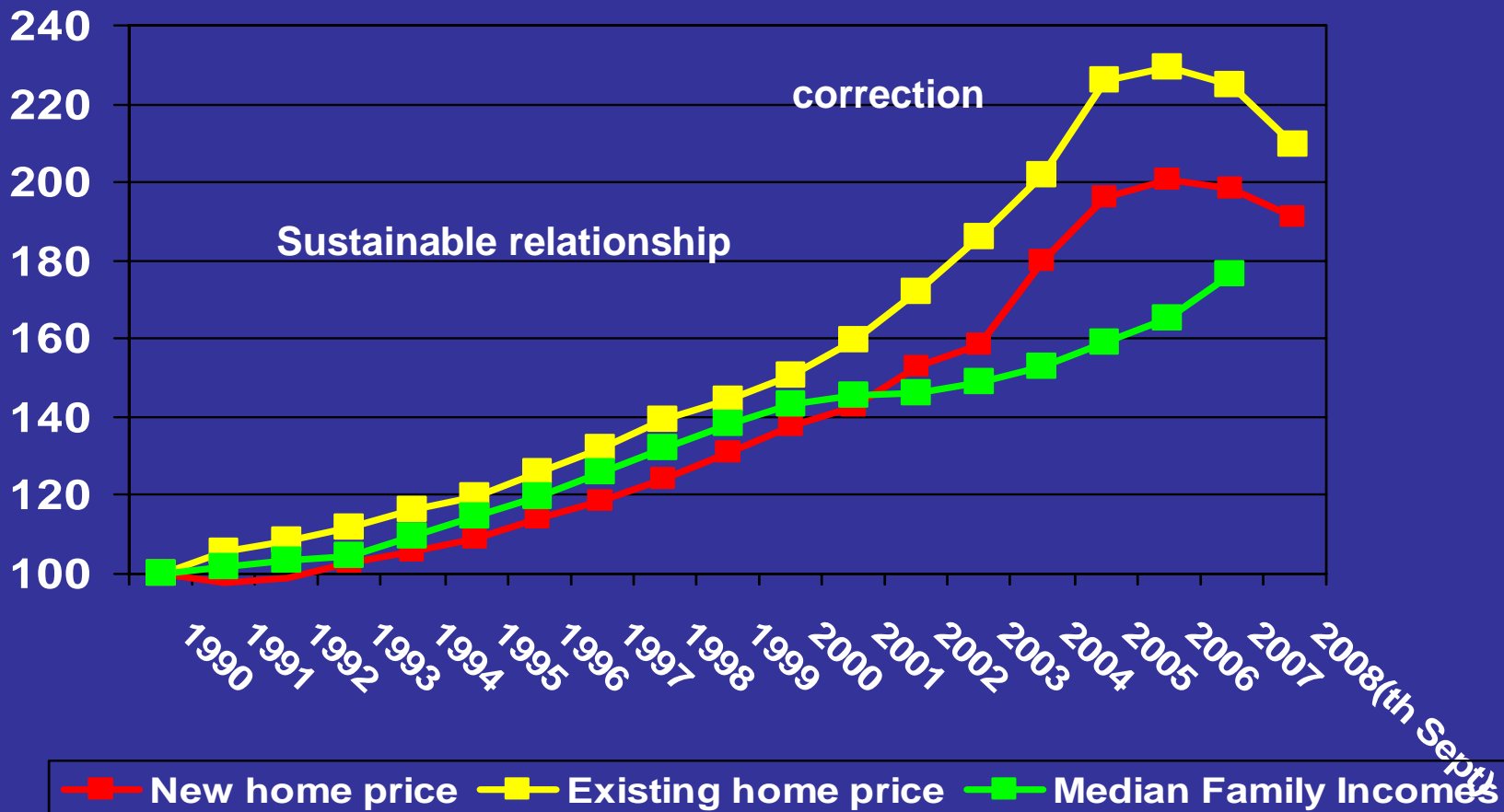
Today's Economic Crisis – A Chronology

1. Housing Collapse – easy credit, unrealistic expectations, weak regulation, greed, exotic financial instruments – CDO's, SIV's. As house prices reached unsustainable levels and mortgage rates increased, foreclosures increased and house prices tumbled. The financial people realized the assets (i.e., the houses) were overvalued, and the mortgage backed securities decreased in value – many became worthless. Banks lost money and the credit crunch began as banks began a “deleveraging” process – and stopped lending. House prices collapsed further as mortgages reset, forcing even more foreclosures, and more pain for banks.
2. The financial crisis that started with the mortgage market, spread to commercial real estate and credit cards as the entire financial system was freezing up.
3. This caused job losses in construction, and other industries, especially ones that rely on credit for business – autos and other big ticket items, etc.
4. Job losses escalate - - enter the recession.

Solution - - Stabilize housing markets by addressing foreclosure problem

Home prices and incomes must trend together
 - when price exceeds ability to pay (incomes)
 house prices must come down

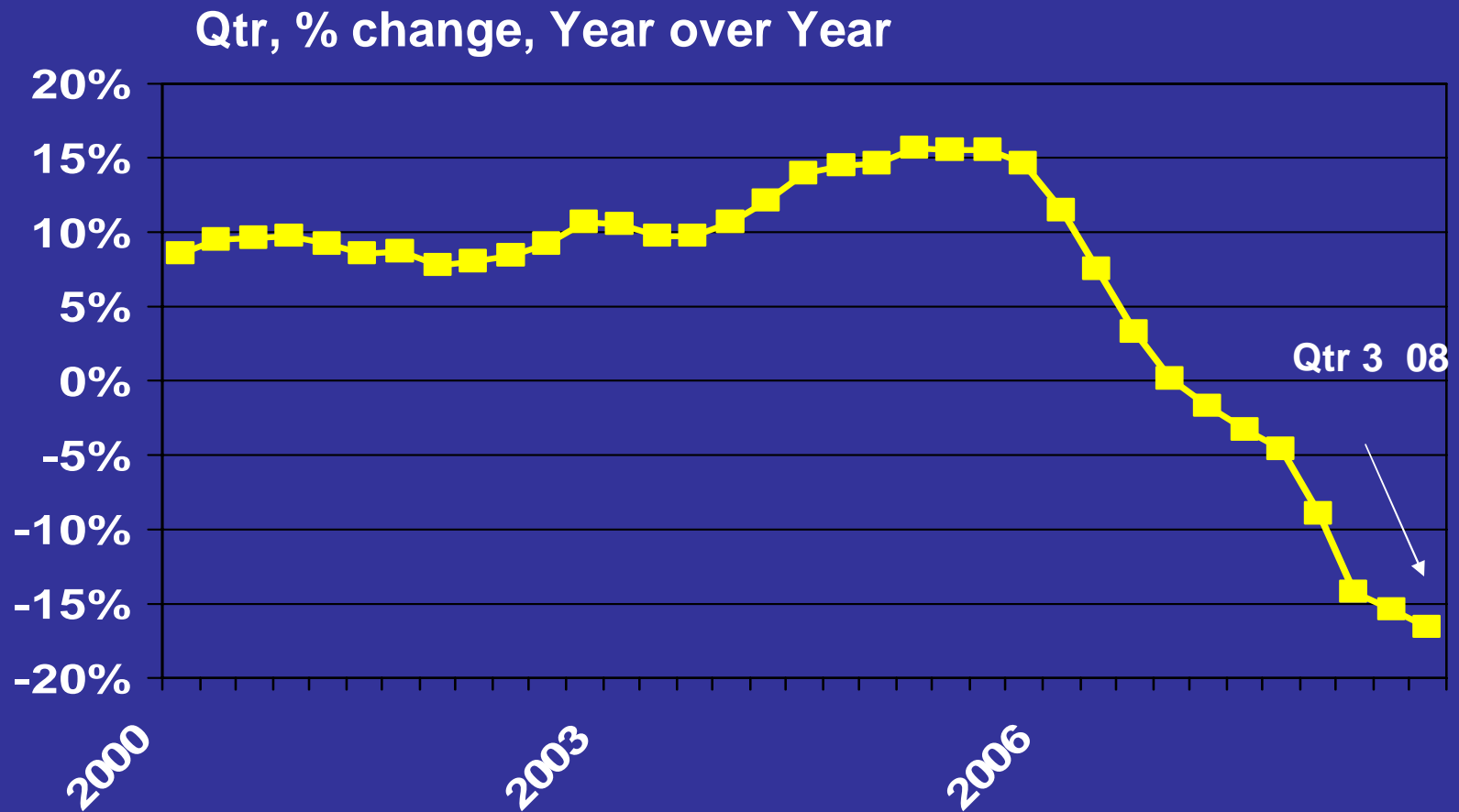
Income and Price set to
 Index of 100 in 1990



Sources: NAHB & NAR – Home prices; U.S. Census – family income

Case Shiller National Home Price Index*

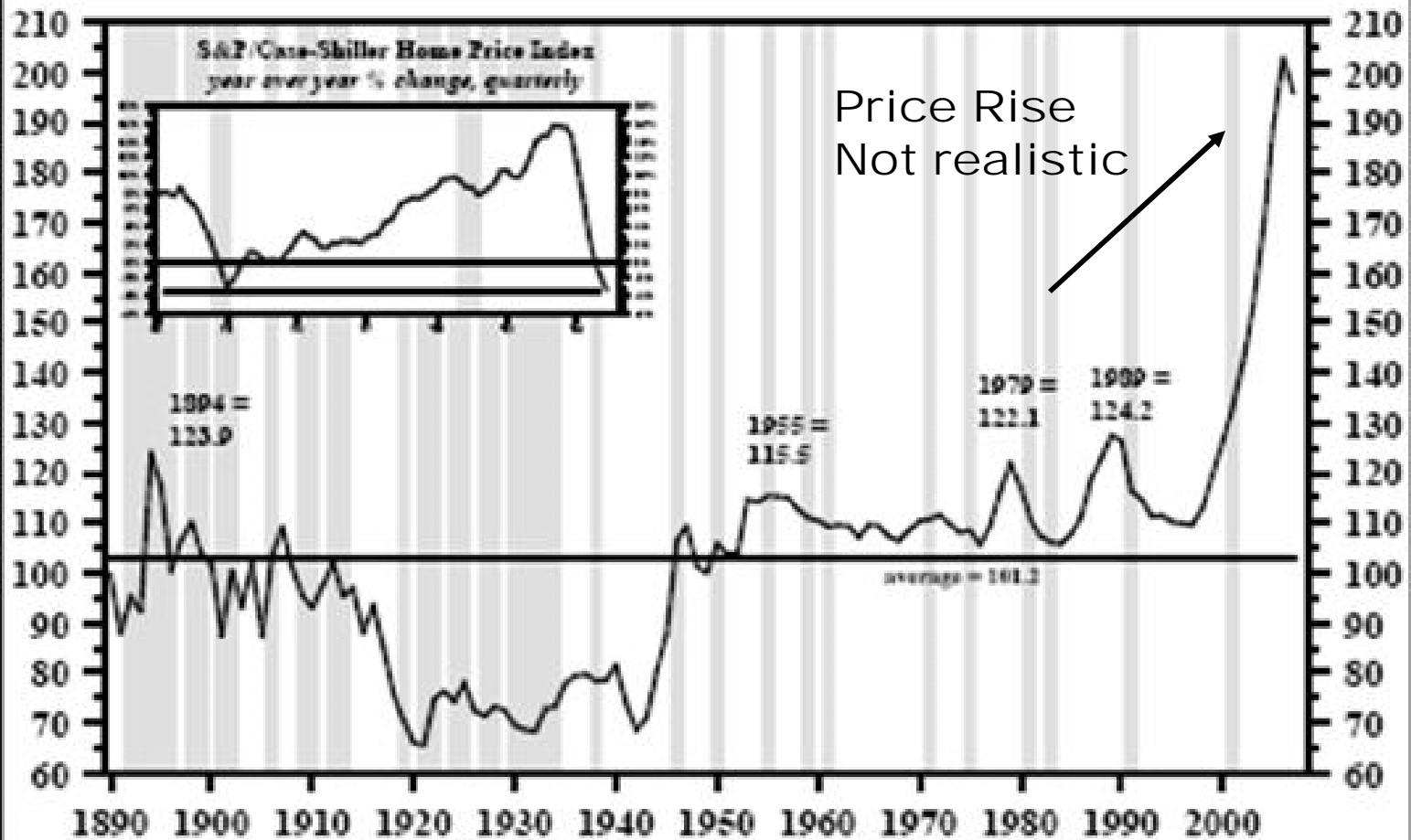
some analysts suggest prices need to fall another 15% to bring prices and incomes back to historical norms



* Existing homes

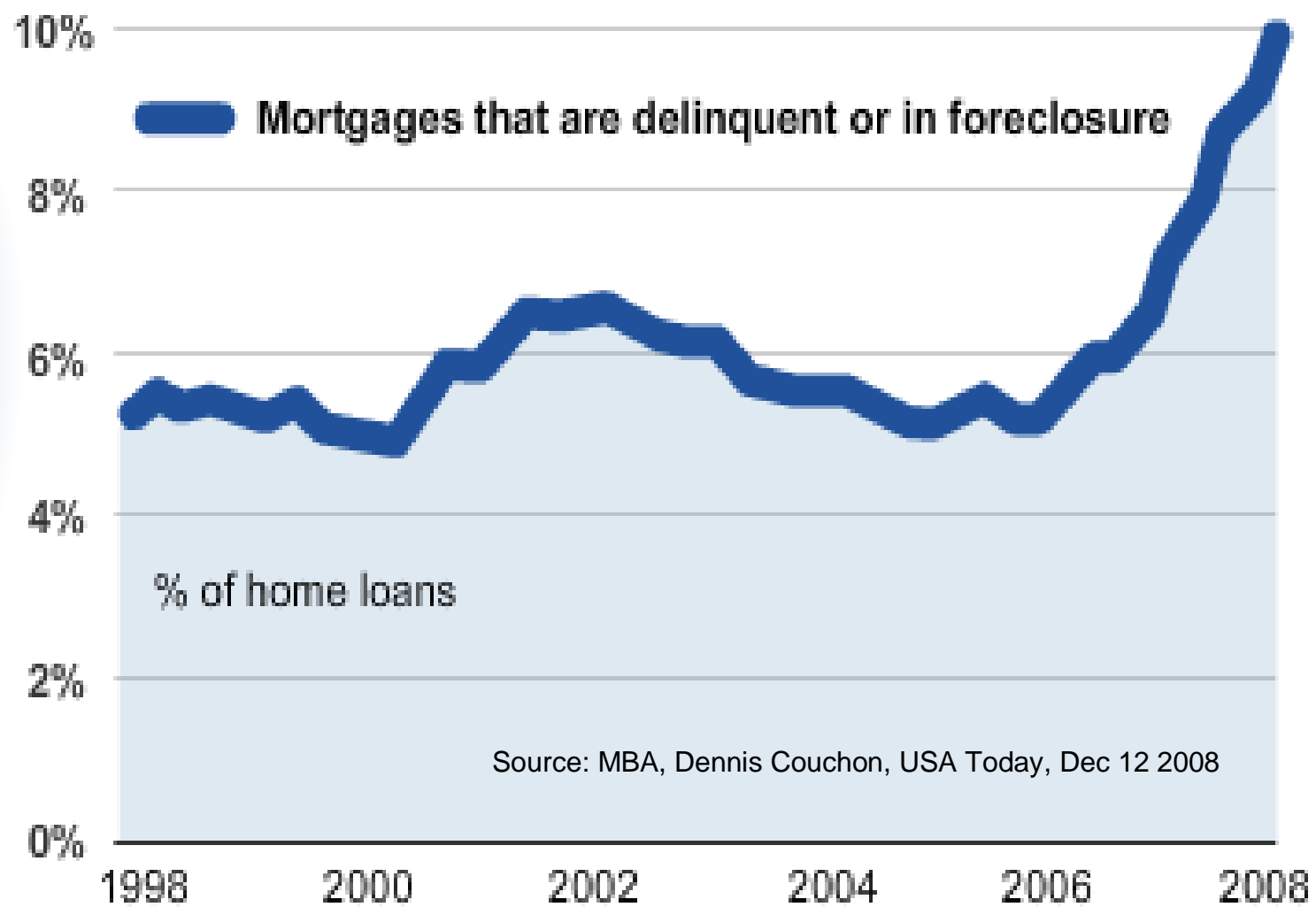
U.S. Real Housing Price Index 1890-2007

annual, index 1890 = 100



Sources: Robert Shiller, Yale University, *Irrational Exuberance*, 2nd Edition, Princeton: Princeton University Press, 2005. Year over year chart is through Q2 2007.

Chart 4

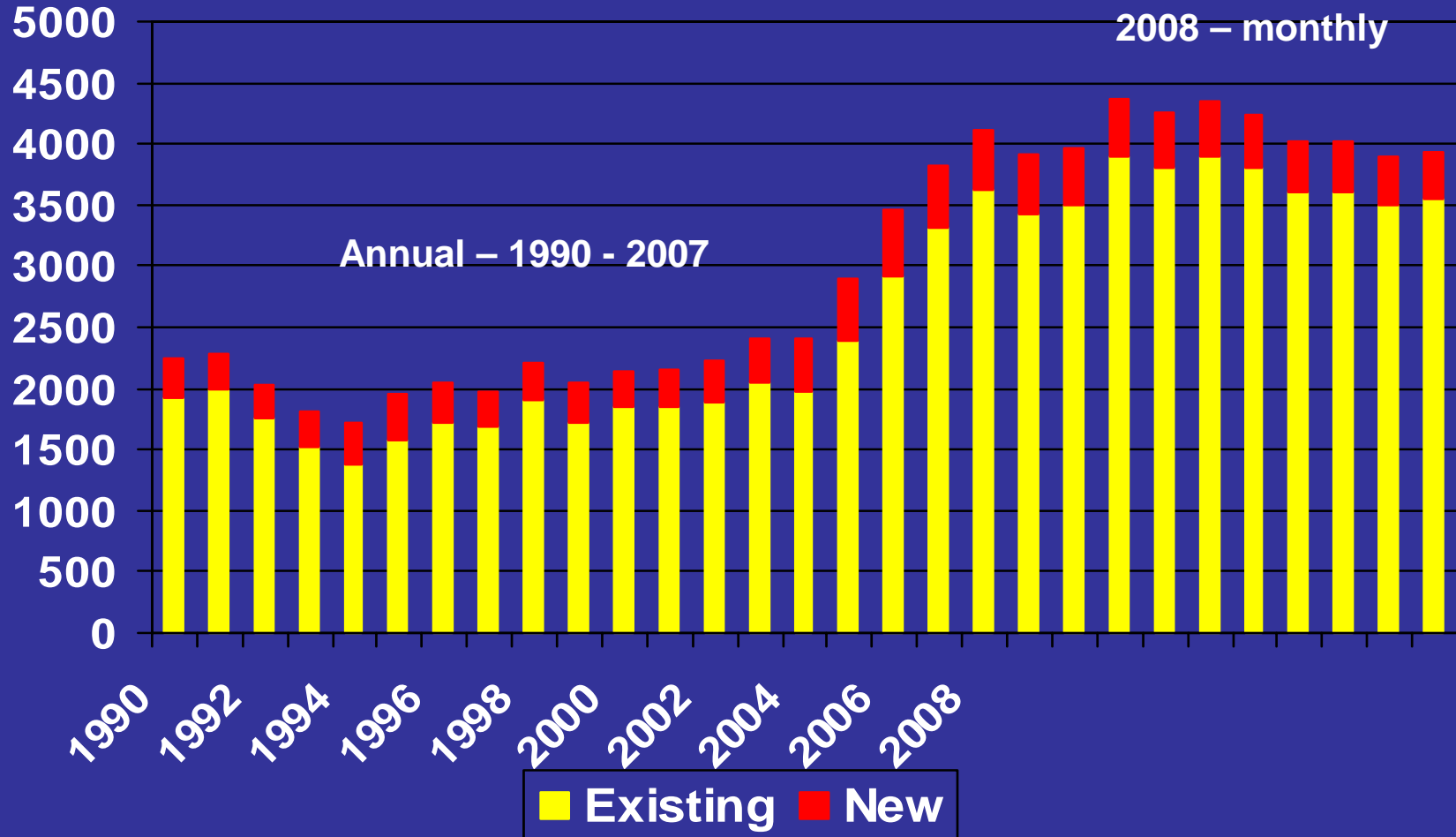


Source: MBA, Dennis Couchon, USA Today, Dec 12 2008

Housing Inventory

Still too large

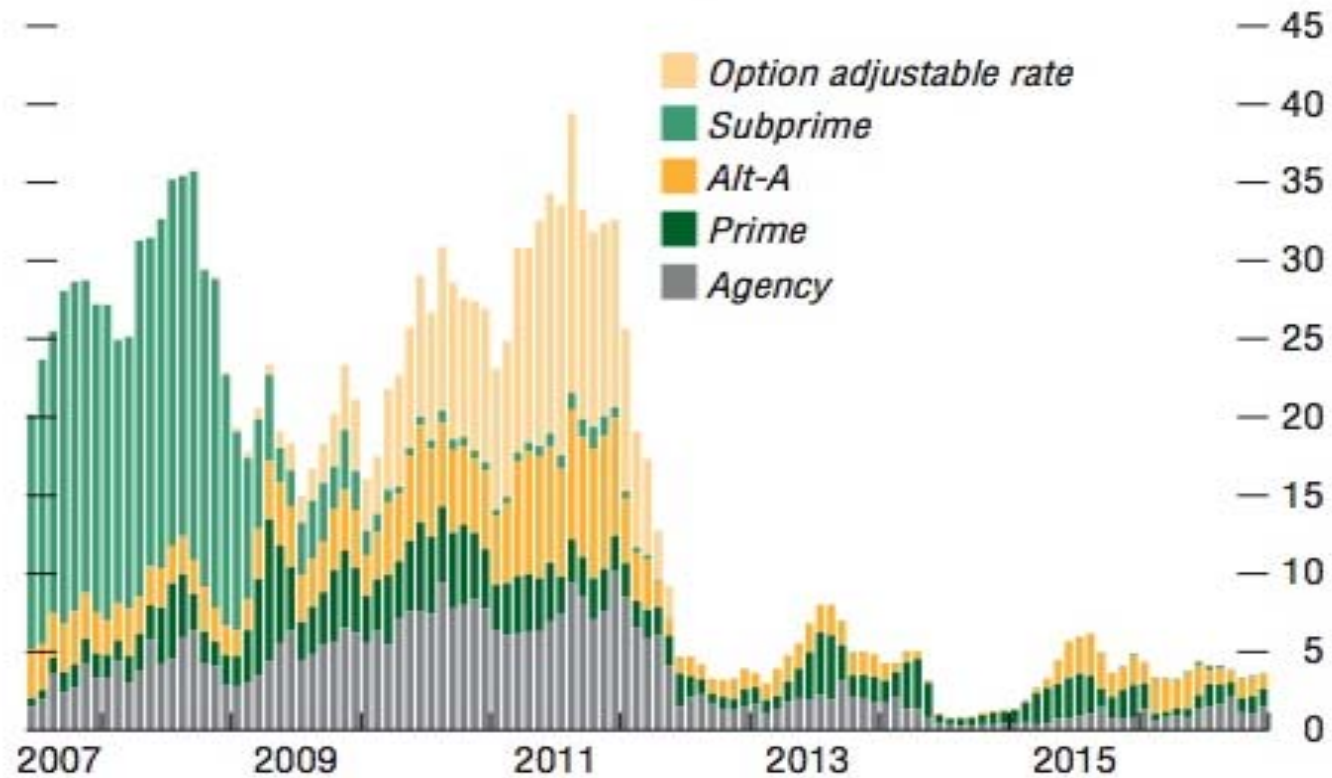
Thousand Units, Single Family



Adjustable and fixed Rate Mortgage Resets - -

To date, most of the problems came from subprime mortgages, however, over the next 4 years, there are toxic mortgage resets that exceed the subprime problem by 50% or \$500 billion

Figure 1.7. Monthly Mortgage Rate Resets
(First reset in billions of U.S. dollars)



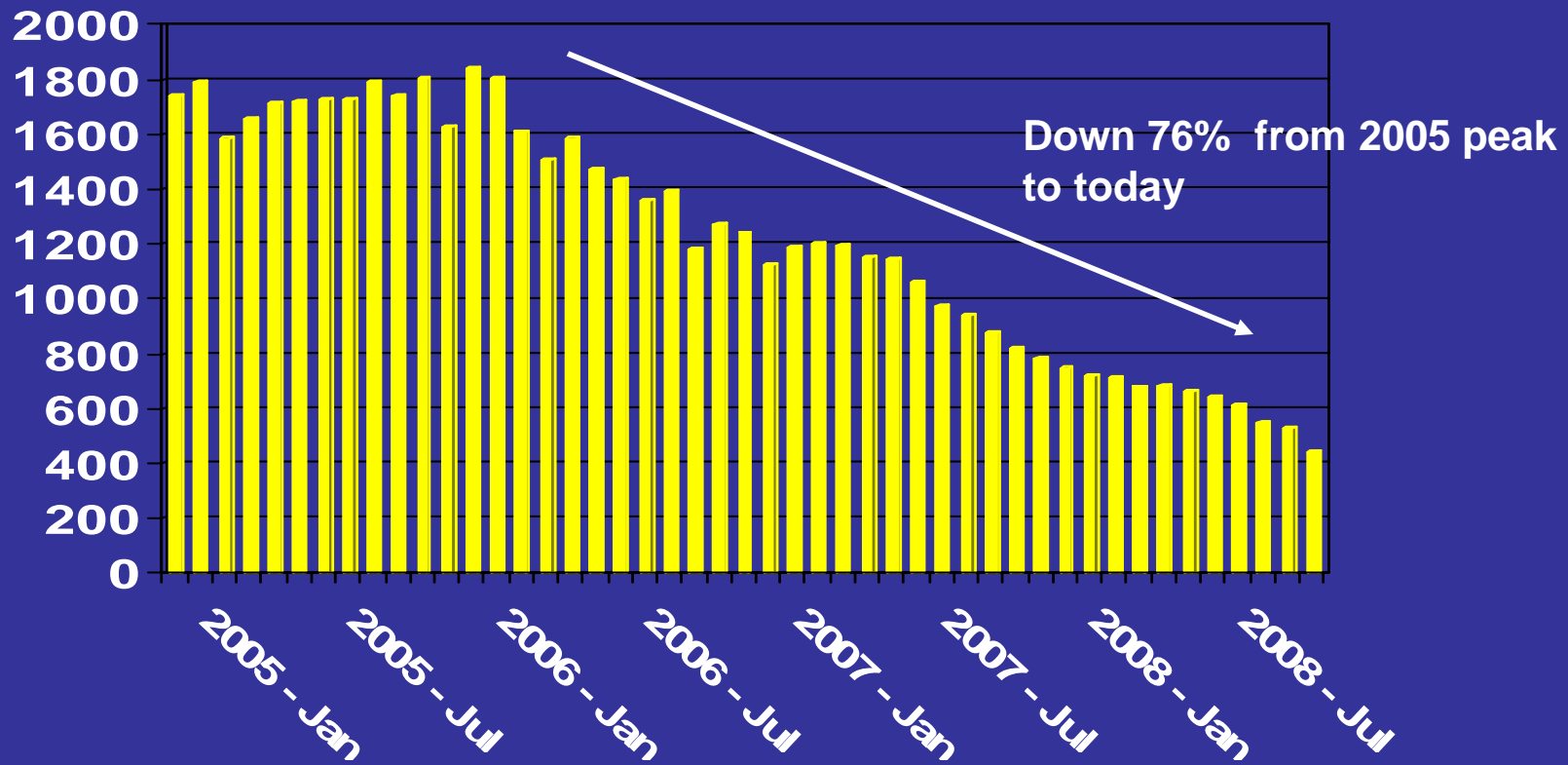
Source: Credit Suisse.

Subprime, Alt A, and Option Adjustable Arm Mortgages

- **Subprime** – loans to people with poor credit scores – FICO score less than 620. **These are the mortgages that caused the initial housing crisis!**
- **Alt A** – loans given to people with good credit scores, but you don't have to submit all of the documentation required for a straight loan
i.e., don't have to show or prove their income or ability to pay for the loan
- **Option adjustable rate mortgage** – adjustable rate mortgages with flexible payment options – two onerous options are interest only payment, and “minimum payment amount (doesn't even include full amount of interest due). Problem occurs when this mortgage resets
- Size comparison: (1) subprime \$1 trillion ; (2) Alt A \$1 trillion
(3) Option adjustable ARMS \$600 billion
- Problem – Alt A and Option ARMs will reset between 2009 – 2012
Default rates are high, so we could see a continuation of the housing crisis for another 4 years **UNLESS we solve the Foreclosure problems**

Single Family Housing starts

Thousand units



Source: U.S. Census

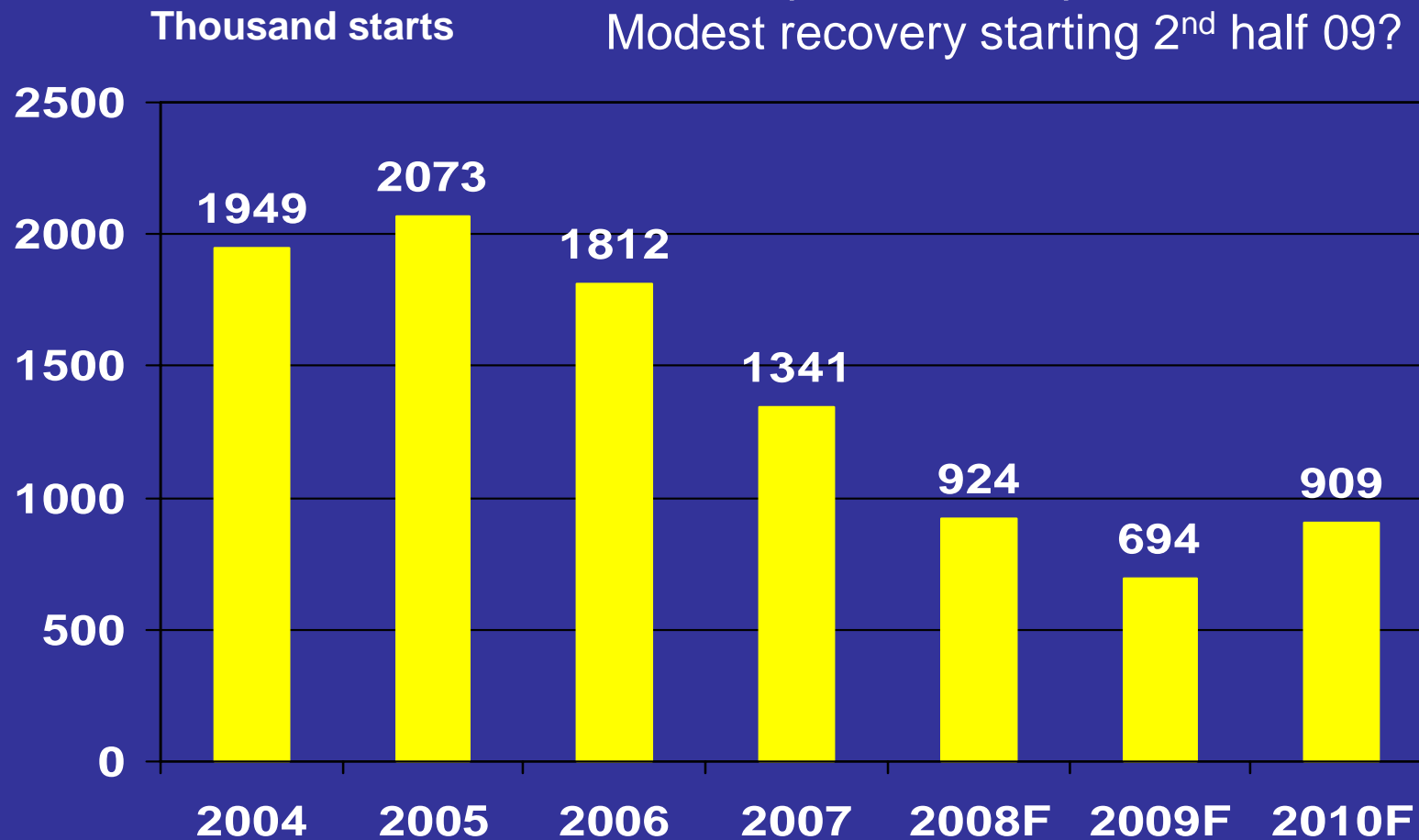
Forecast of Experts 2009 Housing Starts (thousands)

	Single Family	Multifamily	Total
Fannie Mae	513	285	798
NAHB	501	193	694
MBA	535	285	820
NAR	445	286	731
HIS global Insight	476	186	662
Average	494	247	741

Forecast dates: latest available
Jan 13 – 2009.

NAHB's Latest Forecast

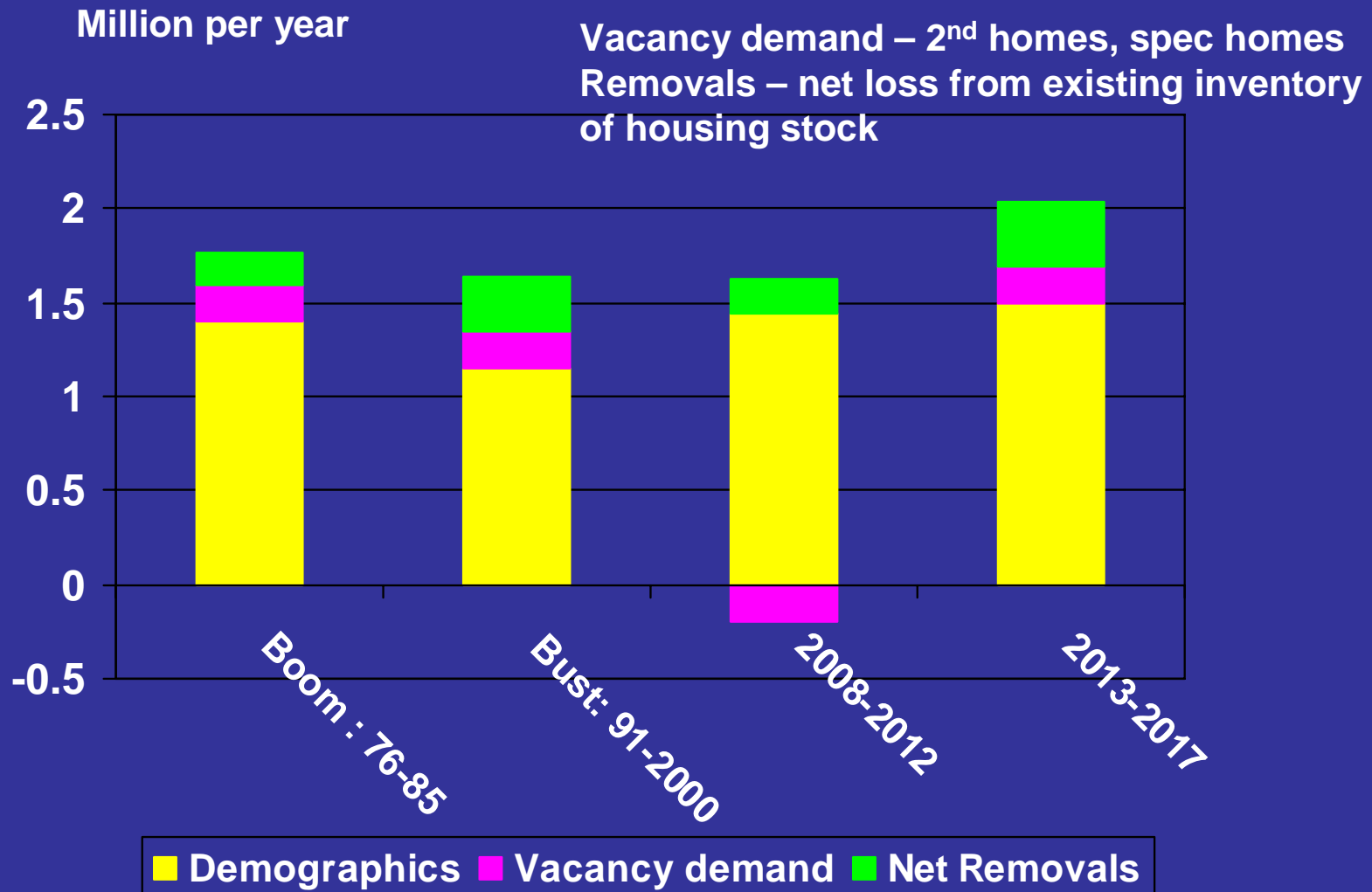
67% drop from 2005 peak to 2009 bottom
Modest recovery starting 2nd half 09?



Source: NAHB, November 24, 2008

Long Term Housing Demand Drivers

Longer term outlook is solid based on demographics
(household formations plus net immigration)



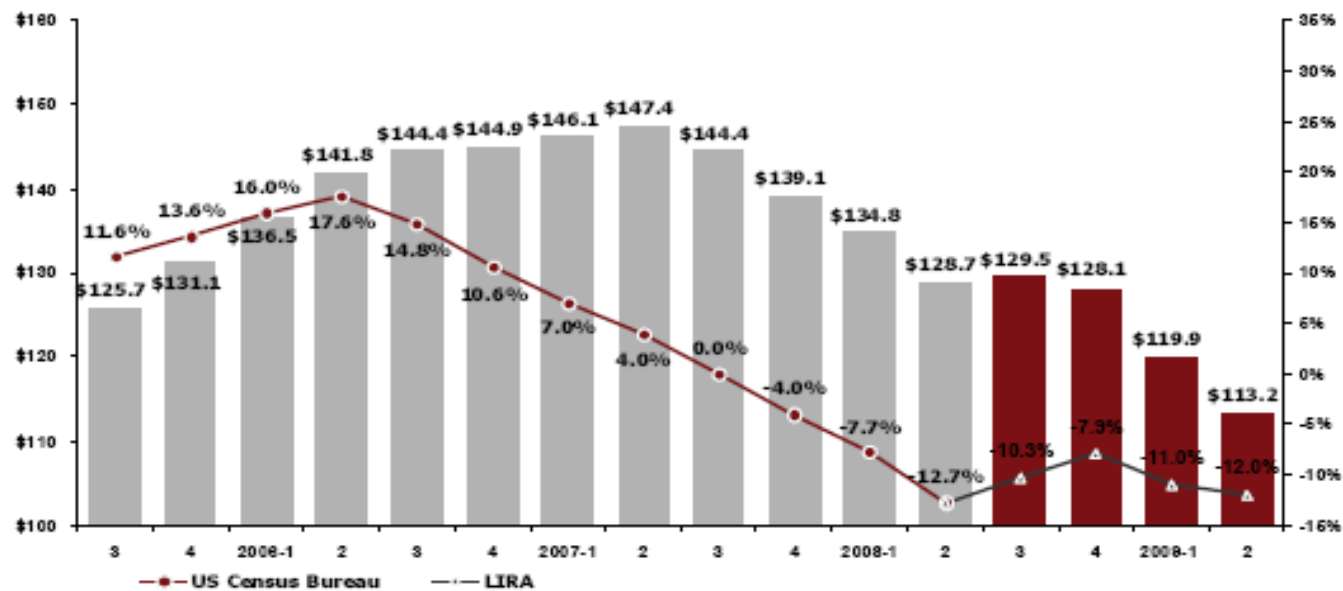
Source: NAHB, June 2008

Remodeling Market - - Pulling back in response to poor economy

Leading Indicator for Remodeling Activity - Third Quarter, 2008

Homeowner Improvements
Four-quarter moving totals in Billions of \$

Four-Quarter Moving
Rate of Change

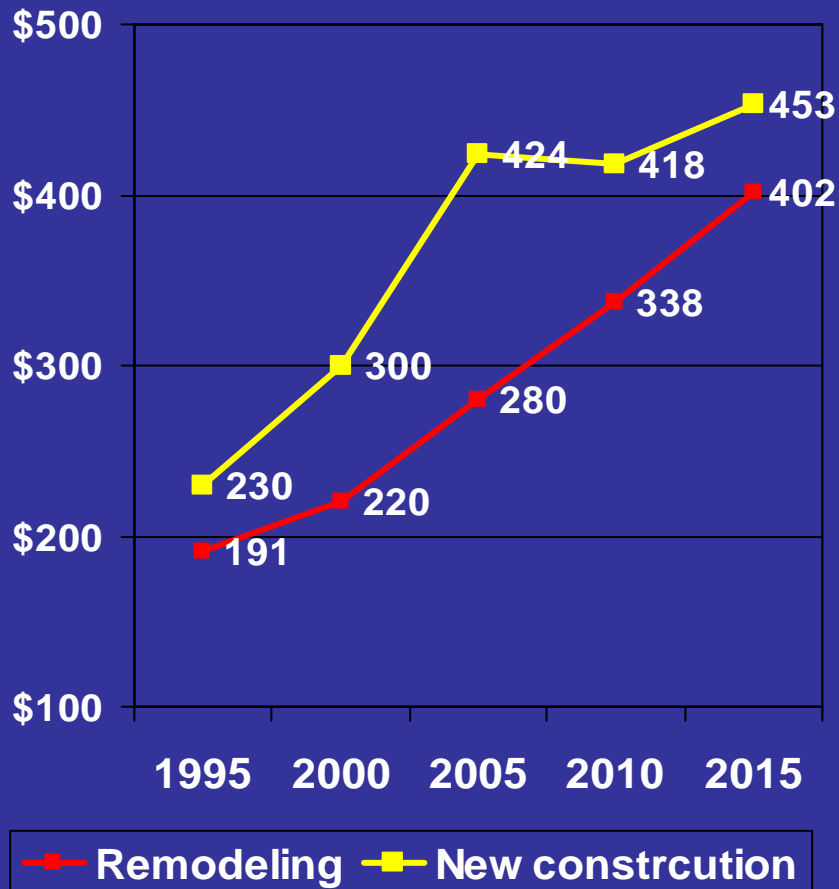


Source: Joint Center for Housing Studies.

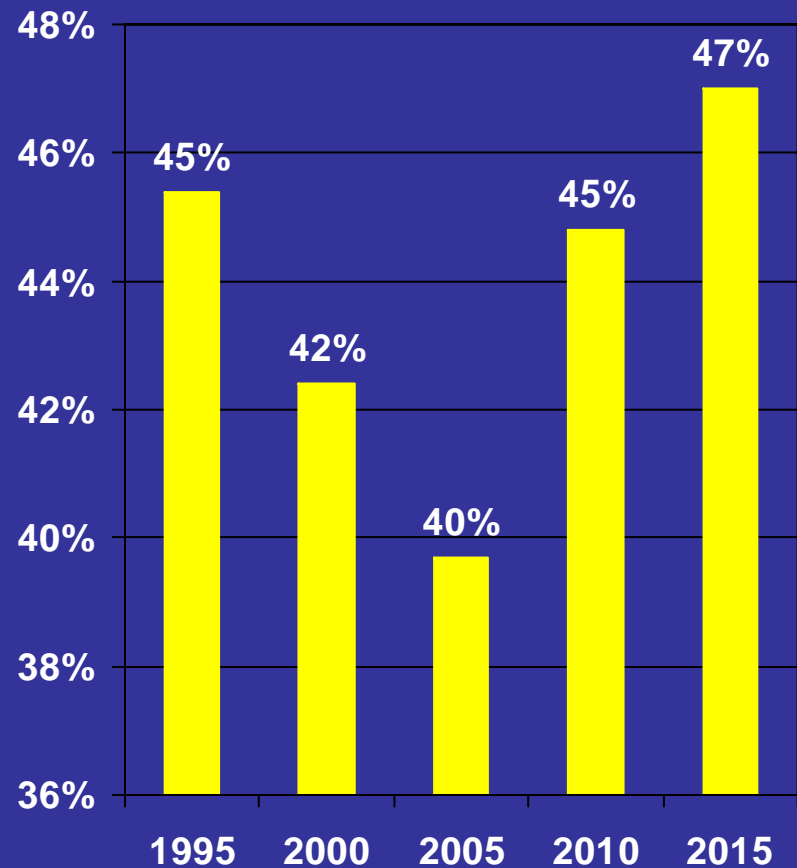
Long Term - New Construction vs Remodeling

Remodeling becoming increasingly important & is the key market for wood products

Billions 2005 dollars



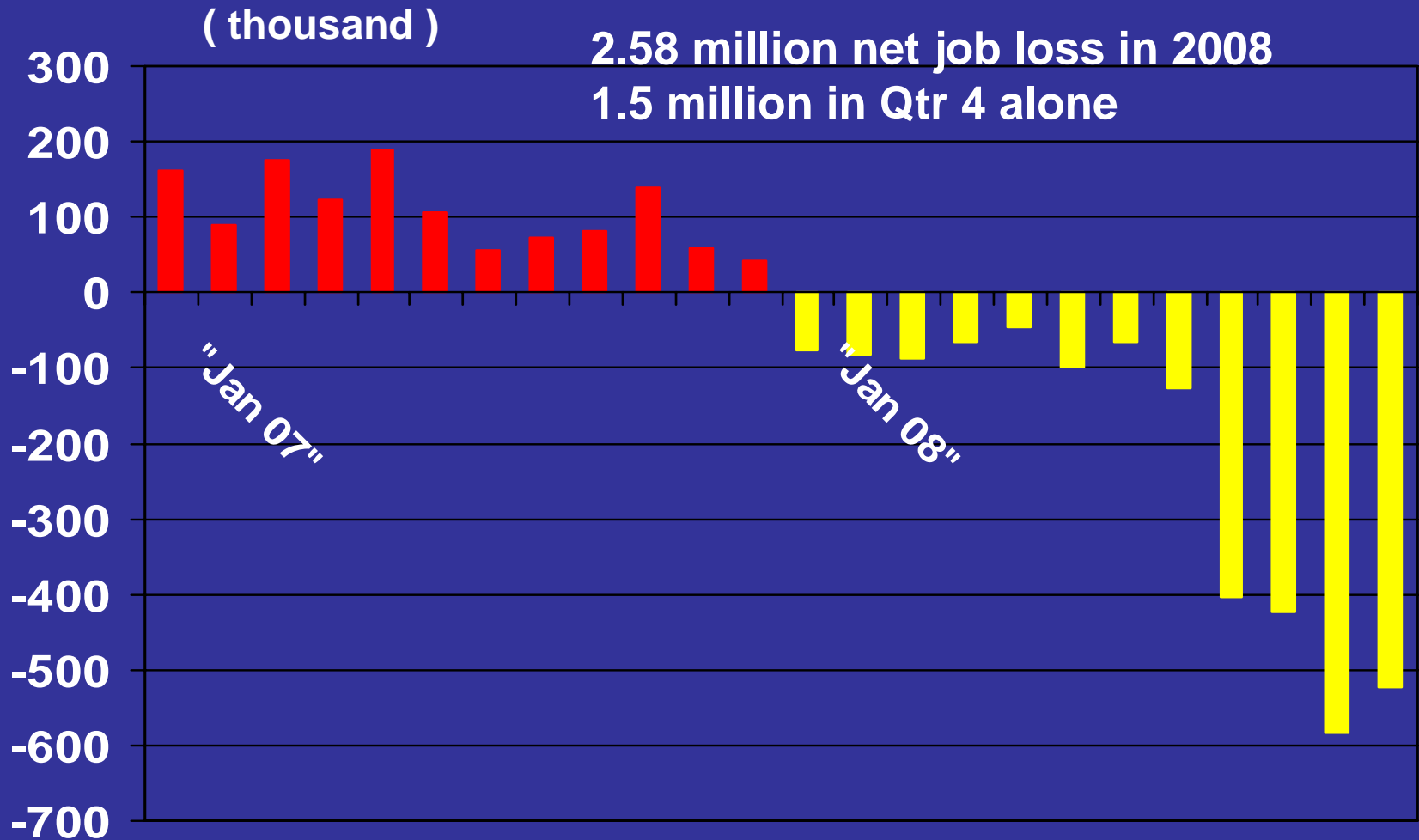
Remodeling share of residential investment



Source: Harvard JCHS 2007

The Economy

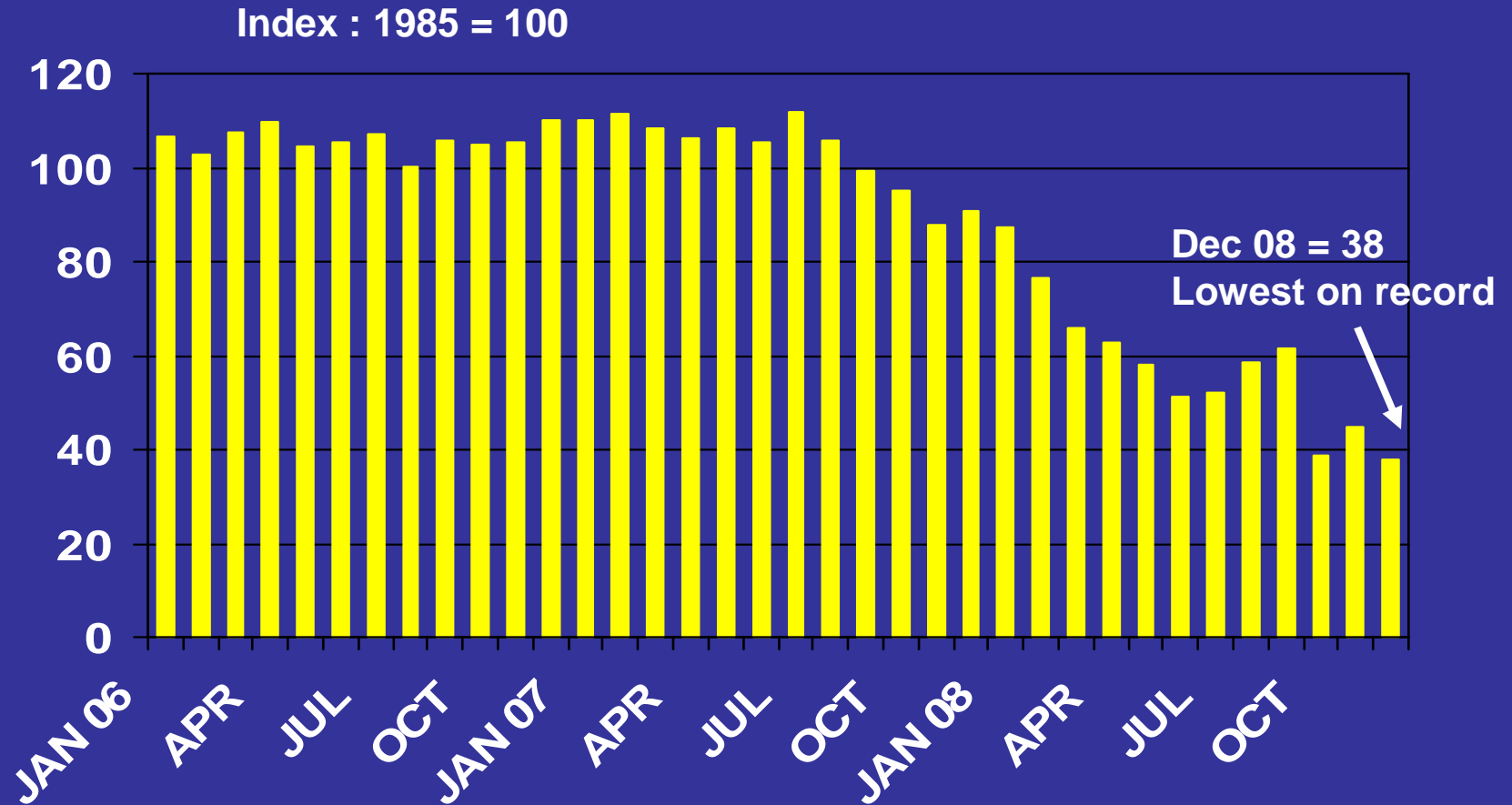
Net change in Non Farm payrolls



Source: U.S. BLS (www.bls.gov)

Consumer Confidence

Key to future consumption, investment and lending



Source: Conference Board (<http://www.conference-board.org/economics/ConsumerConfidence.cfm>)

Wood Product Markets

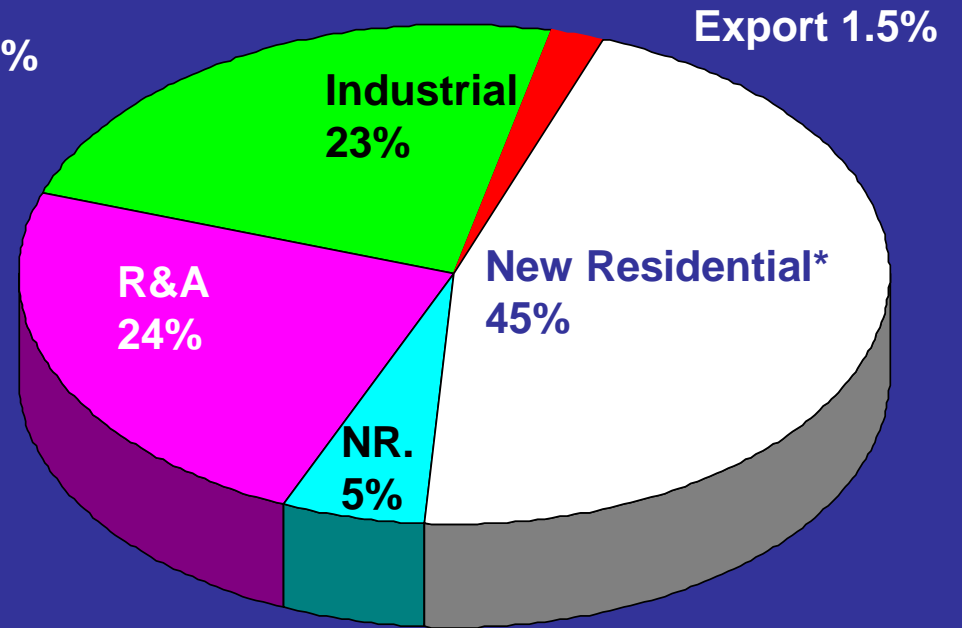
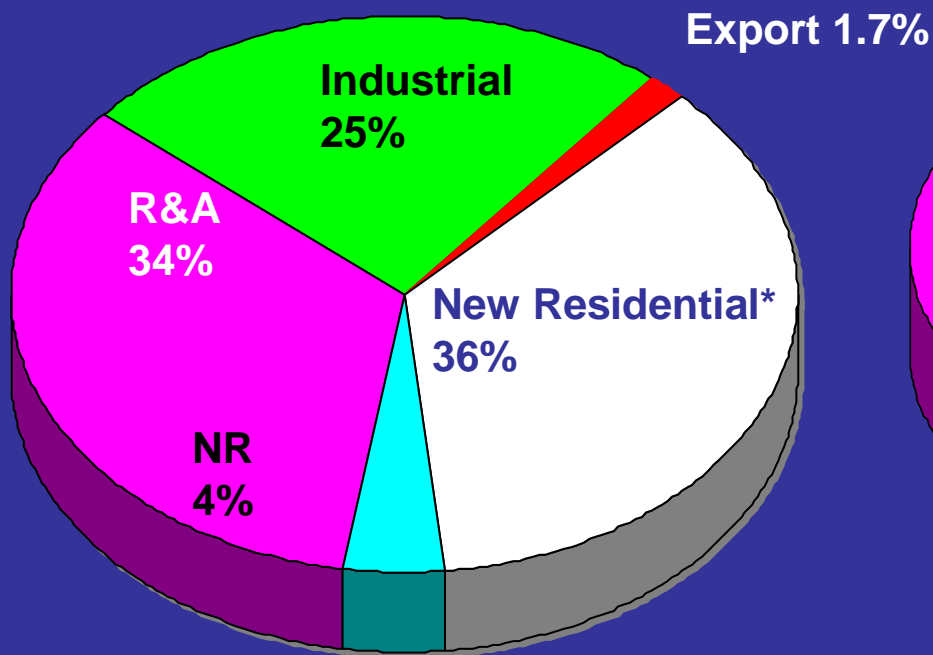
Softwood Markets

2007 U.S. Softwood Lumber

55 BBF (144 million Cubic Meters)

2007 U.S. Structural Panels

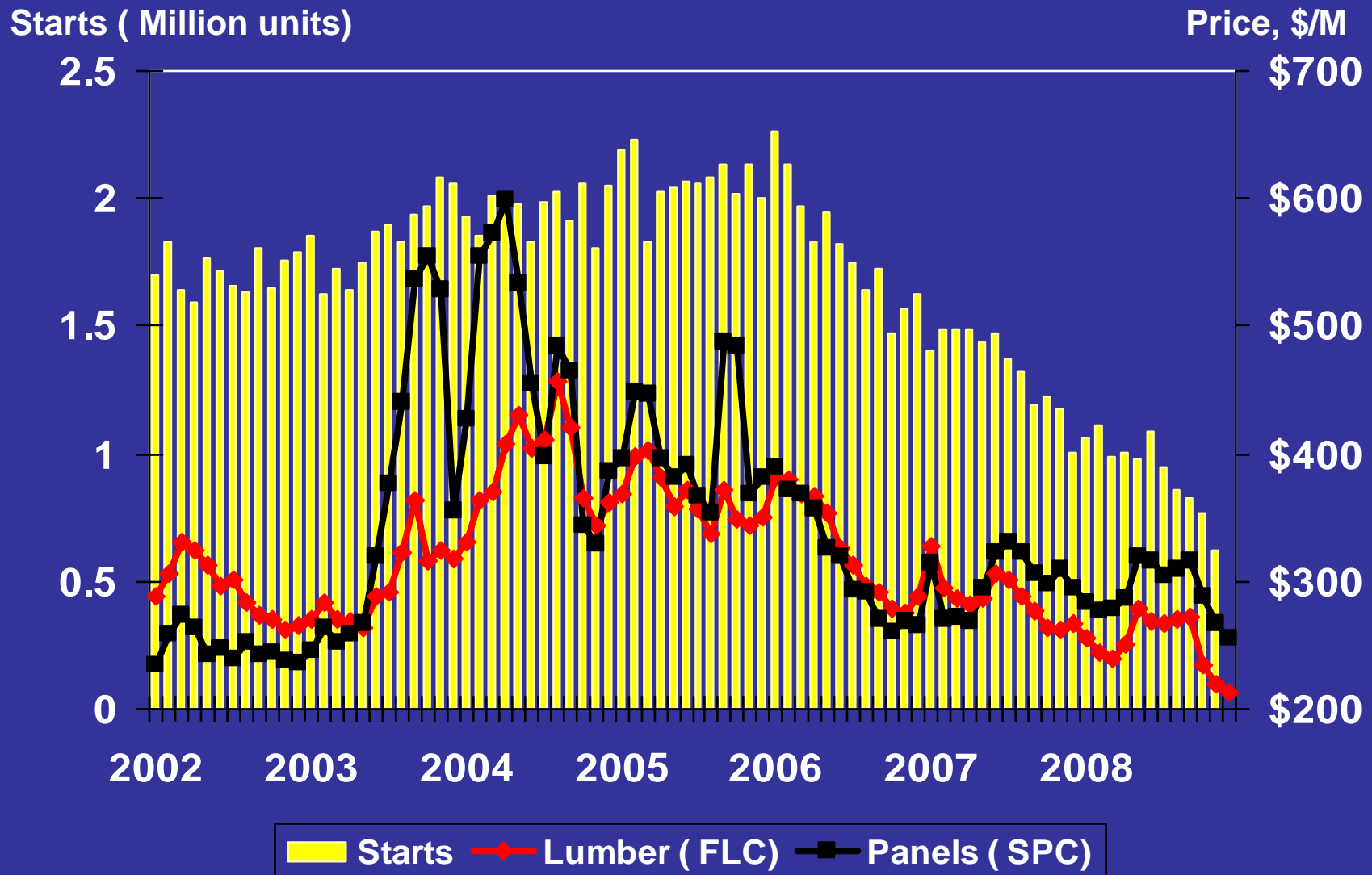
35.2 BSF(3/8) (36 million Cubic Meters)



*New Residential incl. SF, MF, and Mobile Homes

Source: RISI, 2008

Lumber and Panel Prices Follow Housing and, ... stumpage prices track lumber prices



Softwood Lumber Stats

- **U.S. Consumption (BBF):**

2005	2006	2007	2008	2009(E)*
64	60	52	41	35

- **Western Production (BBF):**

19.4	18	16.3	13.4	11.8
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- **Southern Production :**

19.0	18.6	16.7	13.9	12
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- **PRICES**

SPC down \$288/M from April 2004 (Peak) – today 52% drop

FLC down \$234/M from Aug 2004 (Peak) - today – 49% drop

- **Stumpage & Del'vd Log Prices & SYP Sawtimber: 2004 - 2008**

Stumpage down 48% constant dollars

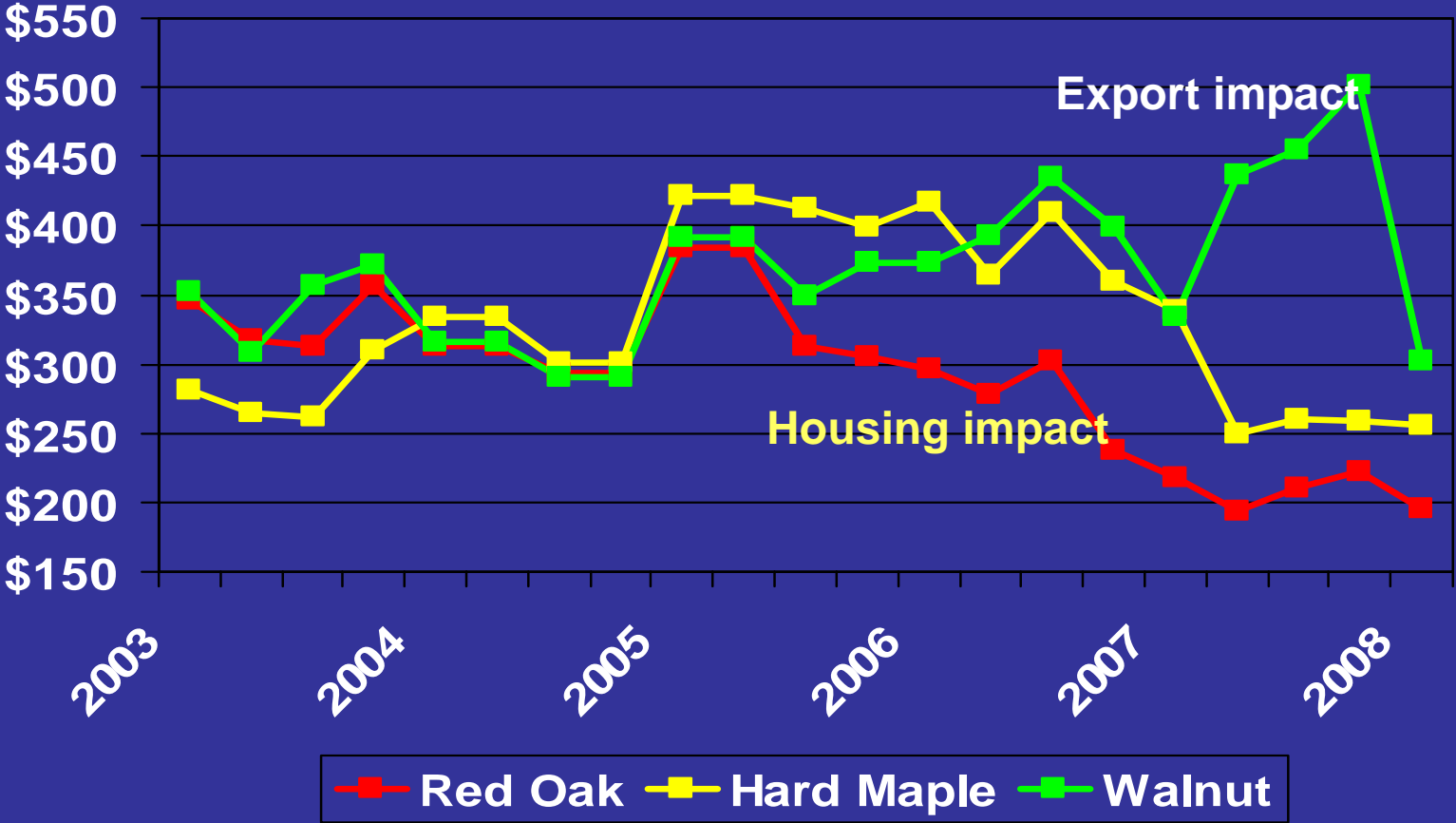
Delivered logs prices down 30% constant dollars

2009 estimates from WWPA, Jan 2009

(<http://www2.wwpa.org/ABOUTWWPA/Newsroom/tabid/817/Default.aspx>)

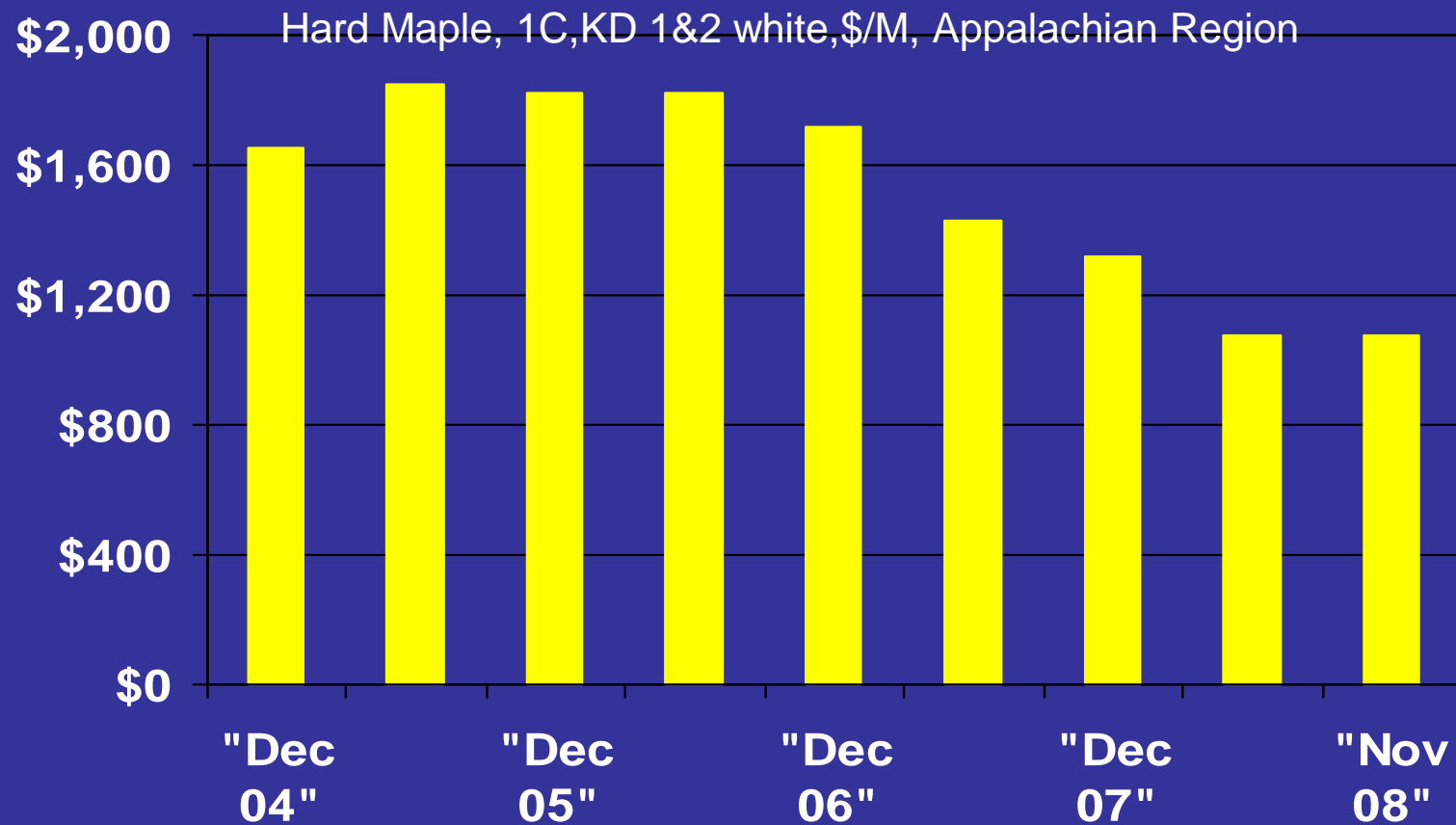
WV Hardwood Stumpage Prices

Qtr, \$/M, International



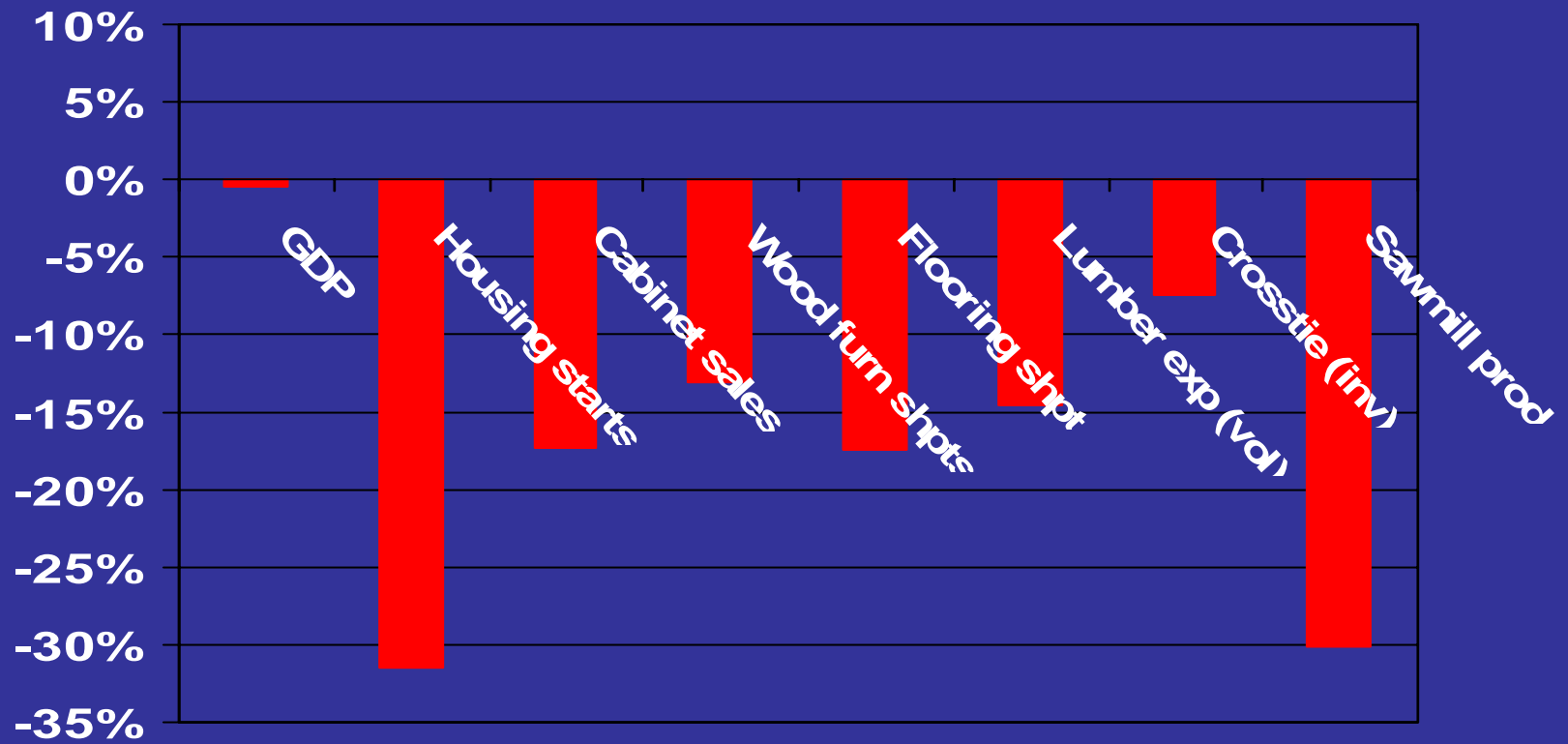
Source: WVU AHC

Yes - Hardwood Lumber Prices tied to Housing!



Source: HMR

Housing and Hardwood Product Markets - - strong linkages



Source: HMR Executive, December 2008