

Leading Economists Cite Importance of Home Buying Stimulus to Economic Recovery

WASHINGTON, January 29, 2009 – In a teleconference this week on the economic stimulus package moving through Congress, leading economists from around the country emphasized the importance of stimulating home buying demand in the recovery effort.

“Three million home building-related jobs across the country have been lost as a result of the slowdown in housing production, which represents \$145 billion in lost wages and \$4.9 billion in lost purchases,” said NAHB Chief Economist David Crowe. “Deterioration in these jobs has now spilled over into virtually all sectors of the U.S. job market and the economies of states across the country. Consumer and builder confidence measures are at an all-time low, and foreclosures continue climbing to record levels. As a result, the nation is in the midst of its worst economic crisis since the Great Depression.”

“We are clearly in a deep recession,” said David Lereah, president of Reecon Advisors and formerly the chief economist for the National Association of Realtors. “We have had construction numbers, a manufacturing sector that’s contracting, and our fourth-quarter gross domestic product (GDP) is projected to be down by approximately five percent -- the worst in two decades for quarterly contractions. And as we all know, there is a crisis in the credit markets and the financial sector. The housing bust helped to create this economic crisis, and now the current economy is harming housing and preventing it from recovering.”

Existing home sales were down 13 percent last year, he noted, while residential construction declined 45 percent and mortgage originations fell 25 percent.

“The current congressional stimulus package dedicates about 60 percent in spending and 40 percent in tax programs. But there is something sorely missing – a stimulus for the housing sector,” continued Lereah. “Such a program must be included for two reasons: First, the housing bust was the cause of this economic crisis, and we need to treat the cause. Second, the housing sector is one of the most influential sectors in the economy. Housing accounts for 16 percent to 20 percent of the GDP, so as the housing sector recovers, so will other industries. We need to reduce the supply of houses and stimulate demand for homes, which will help the economy recover in a meaningful way.”

Right now, the lack of demand for housing has created a self-perpetuating downward spiral that shows no signs of abating, he warned. Potential home buyers are fearful of entering the market out of concern that the house they buy today will be worth less in six months, he said. When there are no buyers, prices continue to fall, thus confirming buyers’ worst fears. “It is a classic market failure that is pulling down the entire economy,” he said.

“Falling house prices are clearly the symbol of this economic crisis,” said Dwight Jaffee, a professor of finance and real estate at the Haas School of Business at the University of California, Berkeley. “A strong and direct stimulus to housing demand is absolutely essential to have a timely and dependable economic recovery. Historically, we have seen that housing leads the economy out of recession. The 1973-1975 experience is the classic example, but it has been consistent over the years. Housing led us into this recession, and we really need a stimulus for it to lead us out.”

Jaffee added that “the freefall in home prices must be stopped if we are to have a prompt and significant economic recovery. We won’t see success in foreclosures until we get the prices to stop falling. Consumer sentiment won’t turn, employment won’t rise and expenditures won’t increase until we can stop this freefall. Once you stop the freefall, and get home sales going, the multiplier to the rest of the economy is enormous. In fact, every key economic indicator -- GDP, employment, consumer confidence and housing market activity -- rebounds significantly faster if housing is included in the stimulus package.”

The Fix Housing First Coalition, which organized the gathering of economists, is advocating a specific housing recovery proposal:

1. A 10 percent tax credit for all qualified home buyers capped at 3.5 percent of FHA, Freddie Mac or Fannie Mae loan limits (equaling \$10,000 to \$22,000 depending on geographic market). All primary home purchases through December 31, 2009, would be eligible. Repayment would be required only if the home was sold within three years. And the credit would be available at closing, making it easier for buyers to use it as a downpayment;
2. A below-market 30-year fixed-rate mortgage for home purchases. The second component of the stimulus plan would provide qualified home buyers with 30-year fixed-rate mortgages at 2.99 percent interest on contracts closed until June 30, 2009 and 3.99 percent interest on closings between June 30 and December 31, 2009; and
3. Continued measures to reduce foreclosures and keep people in their homes.

Recently, Jaffee contributed to a study, conducted by California-based expert services consulting firm LECG LLC, that showed that when housing stimulus is combined with a general economic recovery program like that under discussion by President Obama and Congress, economic activity grows strongly across all sectors of the economy.

Jaffee underscored that adding these housing stimulus provisions to the anticipated economic recovery bill would, over a four-year period:

- Increase GDP by one percent annually;
- Create 940,000 new jobs annually;
- Increase average home owner equity by \$25,000 by 2012;
- Increase aggregate home owner equity by more than \$2 trillion by 2012; and
- Generate revenues at the federal and state levels that will exceed the cost of the program.

“A lot of what we hear now is how long it will take for the initiatives in the stimulus package to take hold,” said Jaffee. “Another key advantage of a housing demand stimulus is that it would be very timely, providing urgent help right now when we need it the most.”

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The Fix Housing First Coalition is a diverse group of housing stakeholders – including home owner and community groups, home builders and manufacturers – dedicated to addressing the root cause of our economic troubles. The coalition is advocating for a short-term incentive for qualified home buyers that would stop the fall in home values, restore consumer confidence, create jobs and lift our entire economy. For more information, visit www.fixhousingfirst.com.