Title:
Housing Market Fallout

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Summary:
While some economists, during the early fall of the real estate boom, predicted that the situation will be soon under control, the latest forecast predicts a very uneven and rough road ahead for the housing market. And even a near miss with depression.

Keywords:
housing market

Article Body:
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David Shulman, a senior economist for the quarterly University of California, LA, in his "A Near Recession Experience" report, stated from that the nation's economic performance is expected to be "almost as close as you can get to avoid the technical definition of a recession." That indicates the low growth in the nation's Gross Domestic Product. It is predicted that there will be a growth of only 1 per cent during the last quarter of 2007 and in the first quarter of 2008.

Such a slow economy with 1 per cent GDP growth pace has a high risk of falling into an actual recession. This increases the danger of things becoming worse.

According to David Shulman, this forecast is based on a Federal Reserve's last week's report that gave an idea about the dull employment numbers, and the slight fall in the value of dollar in recent weeks. Both these factors would probably have further reduced expectations in the forecast.

While the previous forecast called for housing starts to bottom out at an annual rate of 1.2 million to 1.3 million, the forecast report revealed today expects a range of 1 million to 1.1 million for housing starts. This forces the belief that the recovery will be more halfhearted with starts hardly recovering to a

1.4 million unit annual rate by the end of 2009.

With home prices falling 10 percent to 15 percent, housing starts are expected to witness a 55 to 60 percent peak to trough decline. A very similar drop-off took place during the years of 1986 to 1991.

As Shulman said, home price declines are expected to drop by the end of 2009. Florida Arizona, California and parts of the Northeast are probably at the most risk to the larger price drops.

According to the report, the credit tightening in the mortgage market has complicated property purchases in the high-priced states and the mortgage industry is moving towards more full documentation, real cash down payments and more serious income standards and that is going to take a lot of people out of the market at the current price structure. The problems in the mortgage market could take towards some harsh adjustments in the home prices.

The report also mentions that the national scope of the real estate foreclosure problem in some ways look similar to the great depression in the market. The forecast expects that by the end of this year, the Federal Reserve will cut down the federal funds rate from 5.25 percent to 4.50 percent. The cut will be done to support the economy and not for the financial market.

The report also mentions that the mortgage defaults and the foreclosure of the mortgages is the main reason in the fall of the local housing market.