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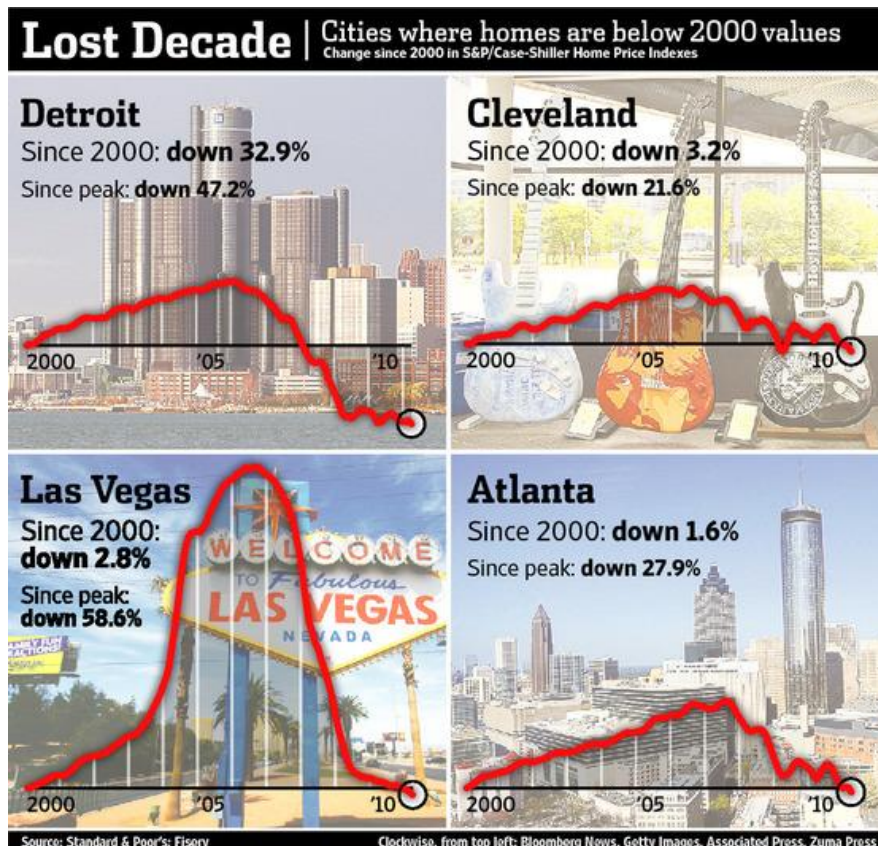
Housing Imperils Recovery

Home Prices Sink to 2002 Levels; Consumer Confidence Falls as Pessimism Grows

By [S. MITRA KALITA](#) And [NICK TIMIRAOS](#)

Home prices have sunk to 2002 levels, effectively wiping out almost a decade's worth of home equity across the U.S. and imperiling the fragile economic recovery as Americans confront the falling value of their biggest investment.

A closely watched home-price index released Tuesday, the S&P/Case-Shiller National Index, showed that prices nationwide fell 4.2% in the first quarter after declining 3.6% in the fourth quarter of 2010. The index had seen increases in 2009 and early 2010.



Home prices continue on their downward spiral with no relief in sight," said David M. Blitzer, chairman of S&P's index committee. The report signals "a double dip in home prices across much of the nation," he said.

That doesn't bode well for the economy, which historically has depended on home buying and other consumer spending to rebound. Falling prices hurt economic growth in a number of ways. Not only do homebuyers curb spending when their homes are losing value, but continued price erosion keeps families stuck in homes they can't sell because they are worth less than what they owe.

Another 5% decline in prices will increase the share of underwater homeowners with mortgages to 28%, up from 23% at the end of 2010, according to CoreLogic Inc. A 10% drop will leave more than one-third of all U.S. borrowers underwater.

Declining home values, rising prices and unemployment continue to weigh on consumer confidence. Another wild card is wrangling over the debt-ceiling in Washington, where lawmakers remain at odds over raising the nation's \$2.4 trillion cap.

The Conference Board, a business research group, said Tuesday that its confidence index fell to 60.8 last month, down from 66.0 in April, as Americans grew more pessimistic about the economy.

Economists are similarly downbeat, revising expectations downward for second-quarter growth; Goldman Sachs last week notched its forecast down to 3% from a previous 3.5%.

WSJ's Mitra Kalita reports U.S. housing prices have dropped to pre-bubble levels, their lowest level since 2002. Photo: ROBYN BECK/AFP/Getty Images

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"If you had to identify one thing in particular that's been responsible for the subpar nature of this cycle, it would be housing," said Joshua Shapiro, chief U.S. economist for MFR Inc. "The bad news is I don't expect it to turn around any time soon."

Economists say it could take years for the housing market to return to health and it will take faster growth, strong job gains and improvements in consumer confidence to make it happen.

Residential construction has subtracted from growth in gross domestic product, the broadest measure of all goods and services produced in the economy, in four of the seven quarters since the recession ended in June 2009. That's a contrast with the past three recoveries when housing added to economic growth for at least a year and half following the downturns in the 1980s, 1990s and early 2000s.

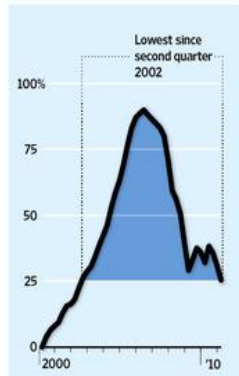
New Lows

Home prices hit new lows in 12 metro areas. (Shown here and on page A1.)

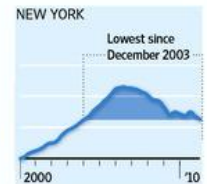
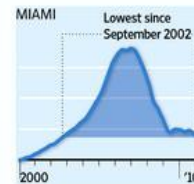
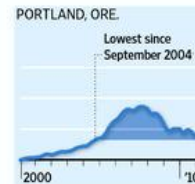
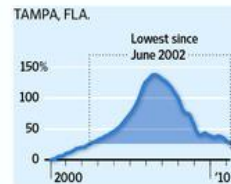
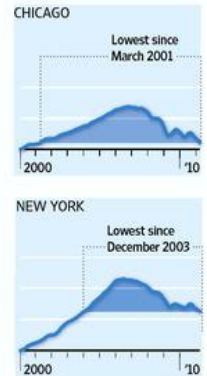
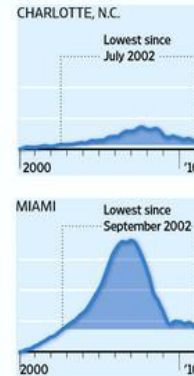
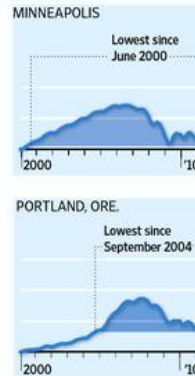
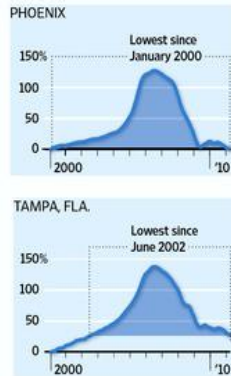
Charts show percentage change since 2000 in S&P/Case-Shiller national quarterly home-price index and in monthly indexes for U.S. metropolitan areas through March 2011.

Sources:
Standard & Poor's; Fiserv

National Home Price Index



Some metropolitan areas where home prices fell to 2004 levels, or lower



Two years ago, home prices stopped falling as low prices, along with home-buyer tax credits, spurred a surge in sales. But demand collapsed last summer after those credits expired and left markets without enough buyers to absorb a steady flow of foreclosed properties.

Home prices have tumbled for eight straight months, and in March they slid to their lowest level since the start of the 2006-2009 downturn, according to the S&P/Case-Shiller monthly 20-City Composite Index.

Indeed, 12 of the 20 metropolitan areas tracked in the index posted new lows in March. Only the Washington, D.C., and Seattle markets saw month-to-month growth of 1.1% and 0.1%, respectively. Minneapolis led the declines, with prices falling 3.7%; on an annual basis, its prices were down 10%.

Sellers such as Julie Lindsay are feeling the pinch. Ms. Lindsay, a retired state worker, listed her three-bedroom house in the St. Paul, Minn., suburb of Centerville for sale in April, thinking it would show better in the spring. "The flowers are planted. Things look nice," she said. "But it's not been great. I've had two people come see it, a couple of phone calls and that's about it."

More

- [Sortable Chart: Home Price by Metro Area](#)

She has lowered the price to \$145,000—and tries not to think about the home's value three or four years ago. "It was worth \$200,000 then," she says. "Now the county says it's worth \$92,000. Holy mackerel."

Ms. Lindsay suspects a number of more affordable foreclosures nearby are hurting her chances of selling. "You can get newer houses for what I am asking for my old house if you buy a foreclosure," she said.

One bright spot: as prices fall, affordability is returning to pre-bubble levels in a growing number of markets. Prices in Atlanta, Cleveland, Detroit, and Las Vegas have fallen below their January 2000 levels, while prices in Phoenix are only slightly above that mark.

Economists say a shortage of "trade up" buyers has become one of the biggest drags on housing, leaving many markets dependent on first-time buyers and investors who land discounts on foreclosures by making all-cash bids.

"There's just no equity," says Christopher Thornberg, a housing economist at Beacon Economics in Los Angeles. "You add that up and what you're dealing with is, of course, a situation where there's not enough demand to really push the market forward."

Investors are making it harder for some buyers to enter the market. The National Association of Realtors recently reported that while overall sales are weaker this year than last, the volume of homes sold for \$100,000 or less in the first quarter—many to investors in all-cash deals—was 8.9% higher than the same period last year.

Consumer Confidence Tumbles

Case-Shiller quarterly data reflect sales recorded during the January-March period, which were negotiated several months ago. The real-estate industry had hoped strong spring sales would turn the tide.

That hasn't happened. While mortgage rates last week fell to their lowest level of the year, there is little evidence that sales have gained momentum.

Lending remains tight, but buyers are also spooked and unwilling to lock in purchases amid the prospect of further price declines.

"People are reluctant to reduce their price to the place where the consumer says, 'I'm getting a great deal,'" says Ivy Zelman, chief executive of Zelman & Associates, a housing-research firm.

Dow Jones Newswire's Kathleen Madigan reports on the Markets Hub.

Some industry watchers say last year's price gains were artificially driven.

"The market showed a little stability that was largely stimulated by the tax credit, but that stability was very short-lived," said Michael Feder, chief executive of Radar Logic. "To call this a double dip is an overstatement. The fact is we have never really started to recover."

—*Sara Murray*
contributed to this article.

Courtesy of JB Goodwin