Testimony of

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House Financial Services Committee

My name is Patrick Newport. I am the Director of long-term forecasting at IHS Global Insight, an economic forecasting and consulting company based in Lexington, Massachusetts.

I have been with IHS Global Insight since 1998 and am part of the U.S. Macroeconomic Service, where I cover the national housing market.

I have a Ph.D in Economics from Harvard University and an undergraduate degree from Louisiana State University.

Thank you for inviting us to this hearing.

I have been asked to discuss IHS Global Insight's U.S. housing outlook, with a focus on housing prices and the tax credit for first-time homebuyers.

I want to start by discussing housing prices.

According to a number of measures, housing prices are stabilizing. They are stabilizing nationally and across most large cities. They are stabilizing across the world.

You can see this in the first chart, which tracks the Federal Housing Finance Agency's (FHFA) seasonally adjusted purchase-only house price index (HPI) at a monthly interval.

Over the period from 2000 through 2006, inflation-adjusted housing prices rose about 33%, peaking in March 2006. Since then, real prices have dropped 14% and are now about 13% above their average value in 2000.

Nominal housing prices-which are not adjusted for inflation-rose 63% over the same period (2000-06), and have since dropped about 11% from their peak. The FHFA HPI bottomed out in April 2009, and has risen now for three straight months.

A second measure of house prices, the Case-Shiller house price indices, is showing a similar pattern. In July, seasonally adjusted prices increased in 17 of the 20 cities that Case-Shiller covers. Nine cities saw prices rise for the third straight month. Las Vegas was the only city reporting a steep decline.

The key reason for this recent stabilization, which I would characterize as occurring much sooner than expected, is the decline in long-term interest rates.

My third chart plots the yield on the 10-year Treasury note, which, as you can see, is near its lowest level since 1960. The fourth chart tracks long-term fixed mortgage rates, which are also now near historical lows.

There are more reasons that prices are stabilizing. One is that prices have fallen so far that, by some yardsticks, they are below their long-run equilibrium value.

A third reason is the tax credit for first-time homebuyers, which has stimulated demand. I would like to briefly discuss this factor because it plays an important role in IHS Global Insight's housing outlook for 2009 and 2010.

According to recent surveys of real estate agents by Campbell Surveys, about 1.6 million of the 3.9 million homes sold through mid-September went to first-time homebuyers. If one extrapolates these numbers, first-time homebuyers will total about two million in 2009. About 400,000 of these, according to the survey's methodology, will be incremental buyers-that is, buyers who would not have bought a home this year without the tax credit.

The impact of the tax credit, thus, is not trivial.

The main effect of the tax credit is to shift demand from 2010 into 2009. Therefore, once the tax credit expires, demand will take a hit-home sales will drop-and house prices will resume their downward course, depressed by the weight of rising foreclosures and rising unemployment rates. Our view is that home prices will drop another 5% from current levels, hitting bottom in 2010.

My fifth chart is our forecast for home sales. You can see that the pace has accelerated since bottoming out in the first quarter of this year, and we expect it to reach about a six-million-unit annualized pace in the fourth quarter of 2009. The drop seen in 2010 is the result of the tax credit expiring. We expect sales to tail off to about 5.5 million units in 2010.

Although we do see bond yields heading substantially higher over the long term, it is too early for a major bear market to begin, since we judge the economy as too weak and inflation as too distant a threat. Markets appear to have taken the same view, and yields are now below 3.5%. We expect them to remain below 4.0% in 2010 and most of 2011.

Our forecast assumes that the first-time homebuyers' tax credit is neither extended nor expanded.

Let me stress that IHS Global Insight does not take a position on whether the tax credit should be extended or expanded. We have clients on both sides of this and most other issues. Indeed, our forecast assumptions are based on current law.

Again, thank you for inviting me. I am prepared to answer all questions about IHS Global Insight's U.S. economic outlook.

Chart 1

Housing Prices Are Stabilizing...

(FHFA Purchase-Only House Price Index, Jan 2000 = 1.0)

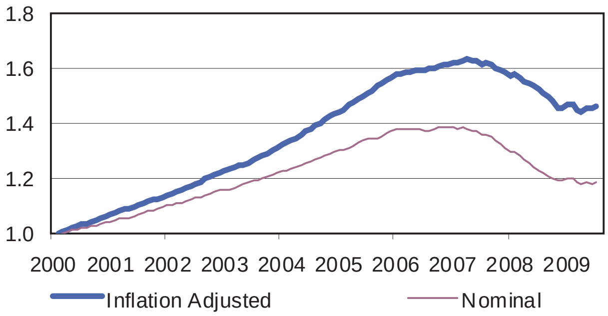

Chart 2

...But Will Decline Further

(FHFA Purchase-Only House Price Index, 2000:1 = 1.0)

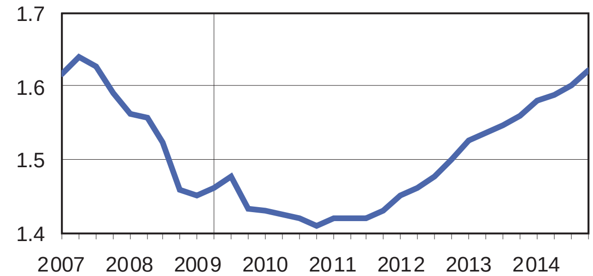

Chart 3

Long-Term Interest Rates Near 50-Year Lows

(Yield on 10-year Treasury notes, percent)

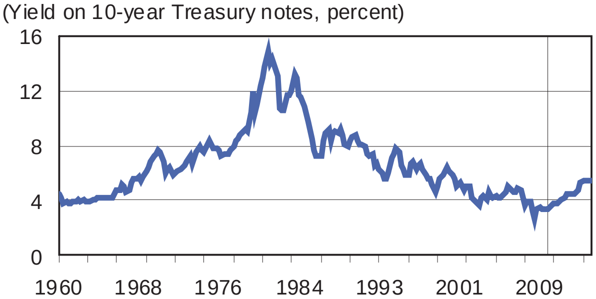

Chart 4

Mortgage Rates Are Also Down

(Commitment rate on conventional 30-year mortgage, percent)

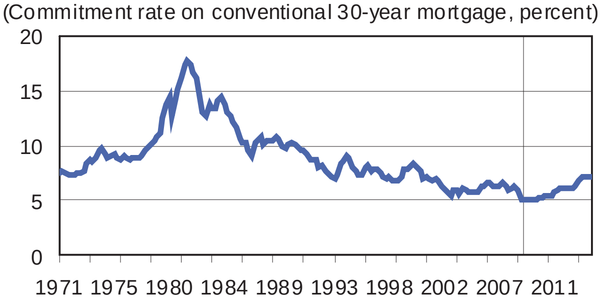

Chart 5

New and Existing Home Sales

(Million units, annual rate)

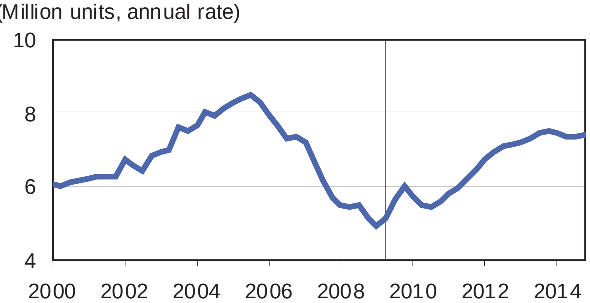

Chart 6

Mortgage Delinquency and Unemployment

(Percent)

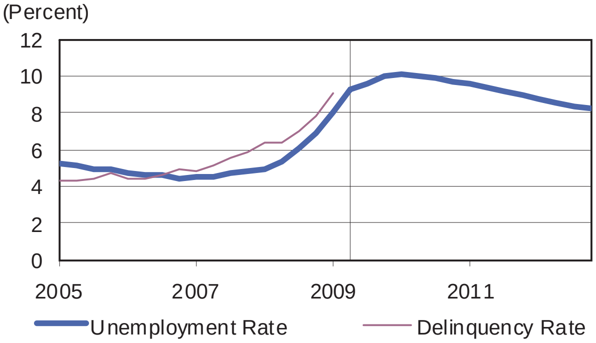

Chart 7

Interest Rates Will Climb Slowly

(Percent)