

Economists' Commentary: Forecast for 2010

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In all, 4.4 million Americans look to take advantage of the home buyer tax credit before it expires by the middle of next year. From the enactment in February of this year through October, NAR estimates 1.8 million households would have qualified to claim the first-time home buyer tax credit. Now with the tax credit deadline extended till the end of June 2010 (for closings, with contracts signed by the end of April, 2010) and also available to many move-up buyers, an additional 2.6 million families would likely claim the home buyer tax credit.

The expected boost to existing home sales by more than 20 percent in the first half of 2010 from comparable period one year before will sufficiently trim away inventory such that home values will begin to show increases by the middle of next year in many parts of the country. The median existing home price could rise by 2 to 4 percent in 2010. New home sales could jump by nearly 50 percent, though from very depressed levels to figures that would be less than half the pace as during the peak sales year in 2005.

One assumption underlying the home sales forecast is that the mortgage rates will continue to remain at near historically low around 5 percent and not more than 5.5 percent. Meanwhile, the unemployment rate is projected to stay high at slightly above 10 percent through the first half of next year, before steadily inching down. Another assumption is that the economy as measured by the GDP continues to expand at nearly 3 percent, thereby laying the foundation for eventual consistent net job gains sometime in the spring of next year.

There was indeed good news on the job front. In November, payroll jobs were reduced by only 11,000. Of course, job cuts are bad, but the momentum of fewer layoffs with each passing month is clearly positive news. Consider this: job cuts averaged 688,000 per month in the first quarter, 512,000 per month in the second quarter, 288,000 per month in the third quarter, and 111,000 in October. In the construction sector, the job loss in November was 27,000, but the pace of cuts has also been diminishing.

The average hours worked by an employee rose in November as well, implying more full-time hours over part-time. Moreover, employment information from households and not from established companies suggests a net job addition. A total of 227,000 jobs were added when based on household survey, thereby nudging the unemployment rate lower to 10.0 percent in November from 10.2 percent in the prior month. Usually, many start-up companies and consultancy jobs are not counted in the company survey data, which explains for the differences between household and company surveys on jobs. So as long as the job momentum moves for the better, the housing market forecast of 20 percent higher sales and stabilizing home values should hold up. An improving housing market and the very important development of home values and housing wealth stabilization will in turn better stimulate economic recovery.

Not all markets are equal, however. Detroit is hemorrhaging with 17 percent unemployment rate. The Washington D.C. area is buffered from so much government spending with the jobless rate at only 6 percent. Even if a bridge is built in Alaska, somehow jobs get created in D.C. Something right is being done in North Dakota with labor shortages and a state budget surplus. Bismark and Fargo have exceptionally low unemployment rates of only 3 percent.

On interest rates, the borrowing rate for a home purchase and refinance on a primary home has never been lower than it is now. The average rate on a 30-year fixed rate mortgage was 4.8 percent in early December. The rates will not move lower than this in 2010. All indications in fact point toward higher rates next year. The Federal Reserve could end the purchase of mortgage-backed securities (MBS) in March as currently scheduled, though my guess is that MBS purchases will continue for a bit further, though less aggressively. Even in the absence of the Fed's MBS purchase, mortgage rates will not suddenly rise to alarming levels. At most, mortgage rates will rise to the high fives (5.6 to 5.8 percent). Given global financial market inter-linkages, we need to be mindful that the Australian central bank has already begun to raise its rates and Canada is looking to do the same very soon. The European central bank, though not planning on raising interest rates anytime soon, indicated it is looking to stop its quantitative easing policy and possibly move in reverse very soon. That means that, rather than the central bank buying government and private market bonds out of newly printed money, it plans to mop up excessive cash floating in the system to assure inflation does not suddenly pop out of the bottle. With these developments, the U.S. Federal Reserve will surely have to raise its fed funds rate sometime in the second half of 2010 and stop the purchase of private bonds, including MBSs. Otherwise, the dollar will lose its ground to other currencies and steadily cut into our standard of living here at home.

The very high federal budget deficits could also do us in. After an all-time high of \$1.4 trillion in budget deficit in the fiscal year 2009, another trillion dollar deficit is on the card for 2010 and near trillion in 2011 and

2012. A big factor in lessening the deficit is how the economy grows. If the economy expands and leads to robust job creation, then the deficit will be lower than projected. If the economy hits many speed bumps along the way then the deficit will get quite ugly. Therefore, a way to get out of the deficit jam is to promote policies leading to economic growth. But unfortunately, the high deficit could also put focus on ways to raise more tax revenue by chipping away at mortgage interest deduction, property tax deduction, and capital gains tax exclusion on primary residence. This discussion could come alive in 2010 and if it does surface NAR will vigorously defend homeownership policies that have been the very foundation of stable middle-class based democracy, civic participation, and long-term middle class wealth accumulation. Any housing policy leading to unsuccessful homeownership (such as the ones associated with the recent housing bust and foreclosures) should be dropped. But policies that promote responsible and sustainable homeownership have incalculable societal benefits and must be defended. In addition, given that homeowners already pay nearly 90 percent of all federal income taxes, trying to extract more out of homeowners will in the end be counter-productive economically and politically.

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Fast Facts

Nearly one-quarter of first-time buyers are single females who purchased their first home on a median income of \$47,400.

Source: [2008 NAR Profile of Home Buyers and Sellers](#)

(<http://www.realtor.org/prodser.nsf/p-45-08?OpenDocument>).

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