

The Kiplinger Letter

FORECASTS FOR MANAGEMENT DECISIONMAKING

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Dear Client:

Washington, April 18, 2008

Amid the housing doom and gloom...
rising foreclosures, plunging housing starts,
scores of unsold homes and falling prices...
It's hard to even imagine a recovery.
But still obscured in the ashes...
Seeds of rebirth are germinating.

HOUSING OUTLOOK

Plummeting housing starts will help
to trim the number of homes for sale.
As those homes are purchased, with the help
of more realistic selling prices...finally...
the inventory of unsold homes in many areas
will shrink, allowing building to perk up.

Expect starts to hit bottom by Jan.
But the upturn will be long and slow.

Housing starts will total just under 1 million
this year and just over 1 million next year.
Strict lending rules requiring a down payment
of at least 5%, as well as more foreclosures
this year, will be big drags on the recovery.

Full health is about three years away.

In 2011, we expect starts as well as sales
of new and existing homes to near the numbers of the late 1990s.

Look for home prices to continue to fall in many areas into 2009.

Hurting the most: Detroit, Cleveland and other Midwest cities
heavily dependent on the beleaguered auto industry for employment.
Also, New York City and nearby suburbs in New Jersey and Connecticut,
plagued by a large wave of layoffs in financial services industries.

The rate of decline is slowing in once superhot cities
such as Las Vegas and San Diego, where prices have fallen about 20%
over the past year or so. Ditto for Miami, Phoenix and Los Angeles.

Among cities with climbing prices: Houston and Austin, Texas;
Salt Lake City; Huntsville, Ala.; Knoxville, Tenn.; Raleigh, N.C.;
and Oklahoma City. They can expect more single-digit increases.

Home builders aren't finished with additional markdowns...
up to \$100,000 on homes once priced at \$300,000, for example.
And they're sealing deals by adding flat panel TVs and other amenities.

But more and more buyers won't wait much longer to try and catch
the absolute bottom price. With mortgage rates at low levels...under 6%
for a 30-year fixed...qualified buyers are pulling the trigger.

Also helping the housing recovery: A new law coming soon
that will give local governments \$4 billion to buy foreclosed properties
plus provide more mortgage revenue bonds to refinance subprime loans.

ECONOMIC FORECASTS

↓	GDP growth Slowing to 1% in '08
↓	Interest rates Prime rate at 5% by mid-'08, 10-year T-notes yielding 4%
↓	Inflation Easing to 3% in '08
↓	Job growth Falling to 100,000 in '08
↑	Crude oil NEW Averaging about \$96 this year
↓	Housing sales Falling 10% in '08
↓	Retail sales growth Slowing to 2% this year
↓	Trade deficit Easing to 4.3% of GDP in '08

Complete economic outlook at
kiplingerbiz.com/outlooks