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# Double dips a possibility - but no more than that

**CONCRETE ANALYSIS**
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Concerns over a possible double-dip recession in the United States linger, and while some analysts caution there may also be a double dip for the US housing market, others discount that prospect. A collapse in house prices was the main cause of the recent economic meltdown in the US, with home values dropping more than 30 per cent from their peak in 2005. Given the continuing fragile state of the housing market and the economy at large, a double dip in one could lead to a double dip in the other, argue some analysts.

GDP growth for the US in the second quarter was an anemic 1.6 per cent, following nearly 4 per cent growth in the first quarter. The unemployment rate for the month of August was 9.6 per cent - up from the 9.5 per cent reported in July. Homes sales fell 27 per cent in July to an annual rate of 3.83 million, the lowest level since 1999. New-home starts, an indicator of the overall health of housing, remain at a seasonally adjusted annual rate of approximately 550,000 units, which is one-fourth the peak volume of 2005 and one-third the average rate of the last century. Applying the supply and take-up demand, the US currently has more than one year of unsold housing inventory.

Compounding the bad news is the persisting foreclosure crisis. Nearly one-quarter of all US properties are in a negative equity position, meaning the loan balance is higher than the value of the property. More than 14 per cent of residential loans are either past due or in foreclosure. While the data looks bleak, some economists such as Paul Brewbaker, chief economist for US-based TZ Economics, point out that the fundamentals for the US housing market remain strong.

"Asset-price overshooting occurs in all asset classes including housing. Housing prices have fallen too far relative to long-term equilibrium," Brewbaker says, adding that the annual rate for new housing starts is too low to continue. "To accommodate population growth alone, the US must add a minimum of 1.5 million housing units annually. The current rate of 550,000 means the market is one million units short per year on the flow side."

Other economists are discounting the negative impact of the drop in overall sales, pointing to the fact that the number was artificially inflated earlier in the year by the federal tax credit of US$8,000, which expired in April; and federal stimulus spending. They also point to the fact that despite the drop in sales, price levels have continued to improve. Second-quarter data from the S&P/Case-Shiller National Home Price Index show US home prices increased 4.4 per cent compared with the first quarter of the year and are up 3.9 per cent over the levels of last year.

"Looking at macro-level numbers is good for macro-level comparisons, but the US market is not economically homogeneous," says Consulina Wong, director of Asia for ONEILL Group, a Hong Kong-based real estate firm specializing in US properties. "Markets like New York and Las Vegas are completely different. In the second quarter, sales volume was up 93 per cent in Manhattan compared to last year. In Las Vegas the sales volume has continued to slide and oversupply remains a barrier for recovery."

Asian property investors, led by Hong Kong and mainland Chinese, have increasingly become a factor in the property recovery, swooping up discounted US properties. Investors are reporting discounts in the prime US cities of 25 per cent and up to  60 per cent in the secondary cities. Some see the current economics as normal for a recovery following the worst recession since the 1930s. US housing prices dropped more than 30 per cent from the peak in 2006 to the trough in the middle of last year. The Dow Jones Industrial Average fell to a low of 6,626 in March last year. Since then, home prices have regained 15 per cent and the Dow Jones is over 10,000.

Brewbaker contends that much of the double-dip debate is spawned by non-economists. "For all the people saying there is going to be a double-dip recession, I can't find anybody for whom that is their forecast. A risk factor is not a forecast. The fact that there is a risk of a typhoon in the middle of typhoon season does not mean that we are forecasting a typhoon. Saying `double dip' gets you air time on financial news television."

It appears that the threat of the double dip in housing or the economy is small, but possible as the US continues to struggle with high unemployment, tight credit markets and high debt ratios. The housing market will likely produce mixed signals through next year, with continued deep-discount opportunities for investors.

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