

ECONOMIC NOTES

By Patrick O'Keefe

Director of Economic Research, J.H. Cohn LLP

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GIVING THE CREDIT CREDIT

New home sales hit a record-keeping low in July. The end of eligibility for the Federal homebuyer tax credit in April has been blamed for the drop. But does it deserve the credit?

Although circumstantial, the following data suggest that the credit's demise caused the collapse:

- Sales of both existing and new homes have fallen by one-third since eligibility for the credit expired in April;
- Pending home sales (contracts pending closing) were off only slightly less (-31.7%); and
- Prices and interest rates were both lower in July than in April, which *cet par* should have increased sales.

A sharp decline in sales was expected. But, while many have been quick to proclaim a double-dip in housing, it may be imprudent to draw inferences about the housing sector's future from its recent past.

The credit did not fundamentally address the sector's longer term impediments to recovery, including *inter alia*: weak economic fundamentals (viz., employment and after-tax incomes), diminished household net worth, financing constraints, regional surpluses, and inter-generational imbalances.

Simply put: in too many places there is too much housing whose owners (or builders) cannot afford to sell at prices that job-insecure purchasers can finance. Economic growth (and inflation) will eventually address these incongruities; but as the experience subsequent to the early-1990s bust suggests, it will take several years—in some regions even longer.

In that context, the credit had the potential, on the margin, to accelerate the timing of purchases that would have otherwise occurred after its scheduled demise. The sharp drop-off in post-credit sales (and contracts) suggests that the credit achieved that end.

Some unknown portion of March and April's gains was borrowed from the post-credit months. Even so, it enabled builders to reduce inventory by controlling the pace of construction—which should benefit them going forward.

Just as it is premature to assess the extent to which the credit accelerated sales, it is too soon for conjecture about the degree to which other factors (e.g., job growth, rising net worth) may have reduced the impediments to housing's long-term recovery.

Credit the credit for the spring's increases and the summer's slump. It wasn't designed to do much else.

Patrick J. O'Keefe is director of economic research at J.H. Cohn LLP. He can be reached at pokeefe@jhcohn.com or 877-704-3500.

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California

Los Angeles

11755 Wilshire Boulevard
17th Floor
Los Angeles, CA 90025
310-477-3722

San Diego

4180 Ruffin Road
Suite 235
San Diego, CA 92123
858-535-2000

Warner Center

21700 Oxnard Street
7th Floor
Woodland Hills, CA 91367
818-205-2600

Cayman Islands

P.O. Box 1748 GT
27 Hospital Road
George Town, Grand Cayman
877-704-3500 x7839

Connecticut

Glastonbury

180 Glastonbury Blvd.
Glastonbury, CT 06033
860-633-3000

New Jersey

Roseland

4 Becker Farm Road
Roseland, NJ 07068
973-228-3500

Eatontown

27 Christopher Way
Eatontown, NJ 07724
732-578-0700

Lawrenceville

997 Lenox Drive
Lawrenceville, NJ 08648
609-896-1221

Metro Park

333 Thornall Street
Edison, NJ 08837
732-549-0700

New York

Manhattan

1212 Avenue of the Americas
Suite 1200
New York, NY 10036
212-297-0400

Charles Brucia & Co.,
A Division of J.H. Cohn LLP
1212 Avenue of the Americas
New York, NY 10036
212-682-2459

Frederic Kantor & Company,
A Division of J.H. Cohn LLP
1212 Avenue of the Americas
New York, NY 10036
212-727-2300

Long Island

100 Jericho Quadrangle
Suite 223
Jericho, NY 11753
516-482-4200

White Plains

1311 Mamaroneck Avenue
White Plains, NY 10605
914-684-2700



877-704-3500
www.jhcohn.com

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