

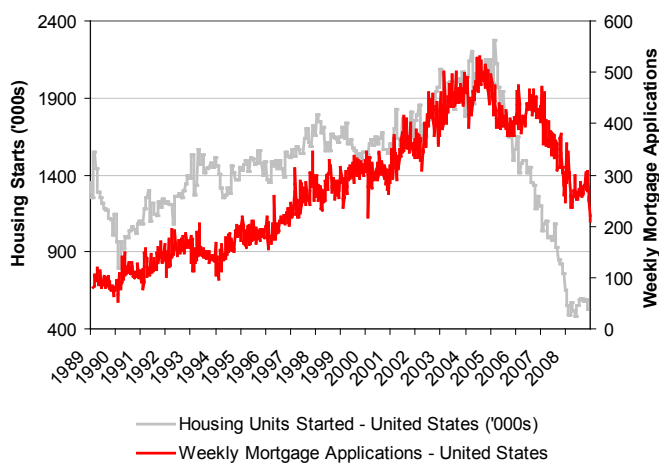
US housing showing signs of weakness - fiscal stimulus extended.

November 2009

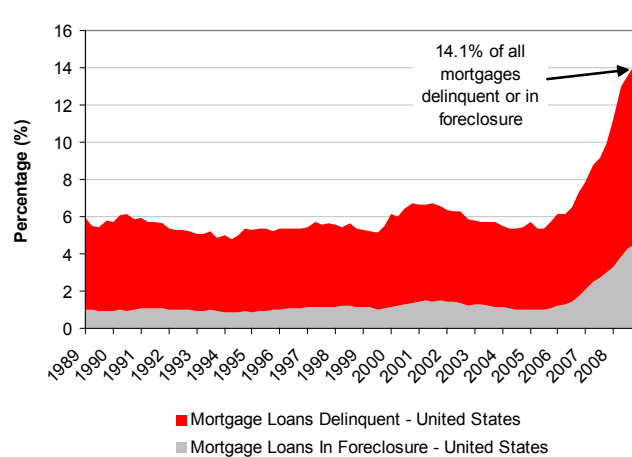
Over the past twelve months we have said that one of the key signals of a sustainable recovery would be the stabilisation of US house prices. We have also said that we thought there could be further fiscal stimulus in the US as although the stimulus has stabilised the US economy, final demand has not yet materialised and US consumer spending remains weak.

The latest housing data reinforces our views. US housing starts dropped significantly in October (left chart, grey line), and home builder confidence weakened with mortgage purchase applications slowing considerably (left chart, red line). Of concern is the fact that 4.47% of all US homes are now in foreclosure (right chart, grey line) and a further 9.64% are delinquent (right chart, red line) making a total of 14.1% of US homes being either delinquent or in foreclosure.

US Housing: Mortgage Applications and Starts



US Housing: Delinquent & Foreclosed Mortgages



Source: Factset, Mortgage Bankers Association

Fiscal stimulus extended

The drop off in the mortgage applications and housing starts was caused by the expiration of the \$8,000 tax credit for first home buyers, which was due to expire at the end of November. This has subsequently been extended to the end of April 2010 and has been expanded to include a further \$6,500 for those who have owned a home for more than five years.

US house prices have come off significantly and as a result the fiscal stimulus is not adding much to affordability, although it has helped bring new buyers into the market.

Conclusion:

The balance of forces suggests that the US housing market will continue to struggle for some time yet. The extension of the fiscal stimulus will help support this very weak market with a strong recovery still appearing to be many years away in our view, particularly given the continuing rise in US unemployment.

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