Double Dip Has Come and Gone

May 2nd, 2011 by Lee Adler

The S&P/Case Shiller Home Price Indices reported Tuesday are, as usual, so far behind the curve that not only did they miss the "double dip" that has come and gone, it will be at least July or August before it reports an apparent upturn in prices in March and April. S&P's view of the data was dour. "There is very little, if any, good news about housing. Prices continue to weaken, trends in sales and construction are disappointing, " said S&P's David Blitzer. "The 20-City Composite is within a hair's breadth of a double dip."

There's just one problem with that. Other price indicators that are not constructed with the Case Shiller's large built in lag, passed the 2009-2010 low months ago. The FHFA (the Federal Agency that runs Fannie and Freddie) price index showed a low in March 2010 that was broken in June 2010 and never looked back. That index is now 5.6% below the March 2010 low. Zillow.com's proprietary value model never even bounced. It shows a year over year decline of 8.2% as of February. Zillow's listing price index shows a low of $200,000 in November 2009, followed by a flat period lasting 6 months. As of March 31, that index stood at $187,500, down 6.25% from the 2009-2010 low for data.

The Case Shiller Indices for February held slightly above the January level (not seasonally adjusted). I follow their 10 City Index due to its longer history. It was at 153.70 in February versus 152.70 in January. These levels are still above the low of 150.44 set in April 2009.

The Case Shiller index showed a recovery in prices in 2009-10 only because of the weird methodology it uses. Not only does it exclude the impact of distress sales that have been such a big part of the market, but it takes the average of 3 months of data instead of using just the most recent available month. The current data purports to represent prices as of February. In fact, it represents the average price for December, January, February, with a time mid point of mid February. These are closed sales which generally represented contracts entered in mid to late November, on average. That means that the current Case Shiller index actually represents market conditions as of 5 months ago. Things can change in 5 months, and in this case, they have changed.

Another weakness which the Case Shiller shares with all price measures is that they do not account for the false price reports resulting from the two home-buyers' tax credit programs in 2009 and 2010. Aside from the fact that the credits distorted the market by pulling demand from

the future and induced people to buy who may never have otherwise been in the market, the buyers did not pay what the sales prices reflected. You as a taxpayer, via Uncle Sam, contributed $6,500 to $8,000 of the purchase price. As a result of that, the amounts that buyers actually paid were overstated by that amount.

Case Shiller was not only very late in reporting a decline that actually resumed in August 2010 immediately after the ending of the home-buyers' tax credits, but it is now missing an apparent solid uptick in prices that began in March.

The Wall Street Journal originally reported the evidence of this uptick in early April (Are Home Price Declines Easing?).

Subsequent data confirms the uptick, which is probably just a dead cat bounce but ***should not be ignored***. That uptick was picked up by the NAR's median sale price data for March. Data from Housingtracker.net for the 10 cities in Case Shiller's 10 City Index also shows an ongoing uptick. As of April 25, the unweighted month to month change was +1.1%. That's on top of 3.1% in March. The 3 month change is 4.4%. Case Shiller's Double Dip has come and gone. Their index missed it. Next year they'll be talking about a triple dip.

A criticism of using listing prices is that they do not represent actual transaction values. Sellers may be unrealistic. However this data has correlated well over time with subsequently revealed sales data. Sellers have been so beaten up in recent years that they have become more realistic about where there offerings should be priced. Spreads between listing prices and sales prices don't vary that much over time. Therefore the listing price data is usually a good barometer of current conditions. Sellers get instant feedback from their agents about market conditions, and their pricing has been a good barometer of that.

This is the only real time barometer we have, and it has proven to be reasonably reliable. It told us immediately last August that the market was cracking. That reality was not revealed in the conventional pricing measures until late October-November news releases, and the true depth of the decline wasn't revealed until February and March of this year. By then the decline was apparently ending. Now we are seeing evidence that prices have bounced since February.

Another interesting trend in the real time listings data is a year to year reduction in inventory, most likely due to the problems banks are having completing foreclosures and getting the properties on the market. If they are deliberately withholding them, I think it's a mistake. The longer these properties remain off the market, the more they deteriorate and the more of a time bomb they become for the institutions holding them.

There's still a ton of inventory on the market and employment is still weak, so the underlying supply and demand fundamentals are still poor. This bounce in prices may represent the beginning of a return of an inflationary mindset in the market. Rather than evidence of a housing market recovery, it could be further evidence of the inflation that the Fed has, till now, refused to acknowledge. The use of lagging sales data, such as the Case Shiller Indices enables that denial to continue at a time when conditions may have already changed.