



Housing Prices and the California Economy

Jed Kolko

Public Policy Institute of California

PPIC



Outline

- Where are prices now?
- How did we get here?
- What do prices mean for the economy?



Depends on whom you ask

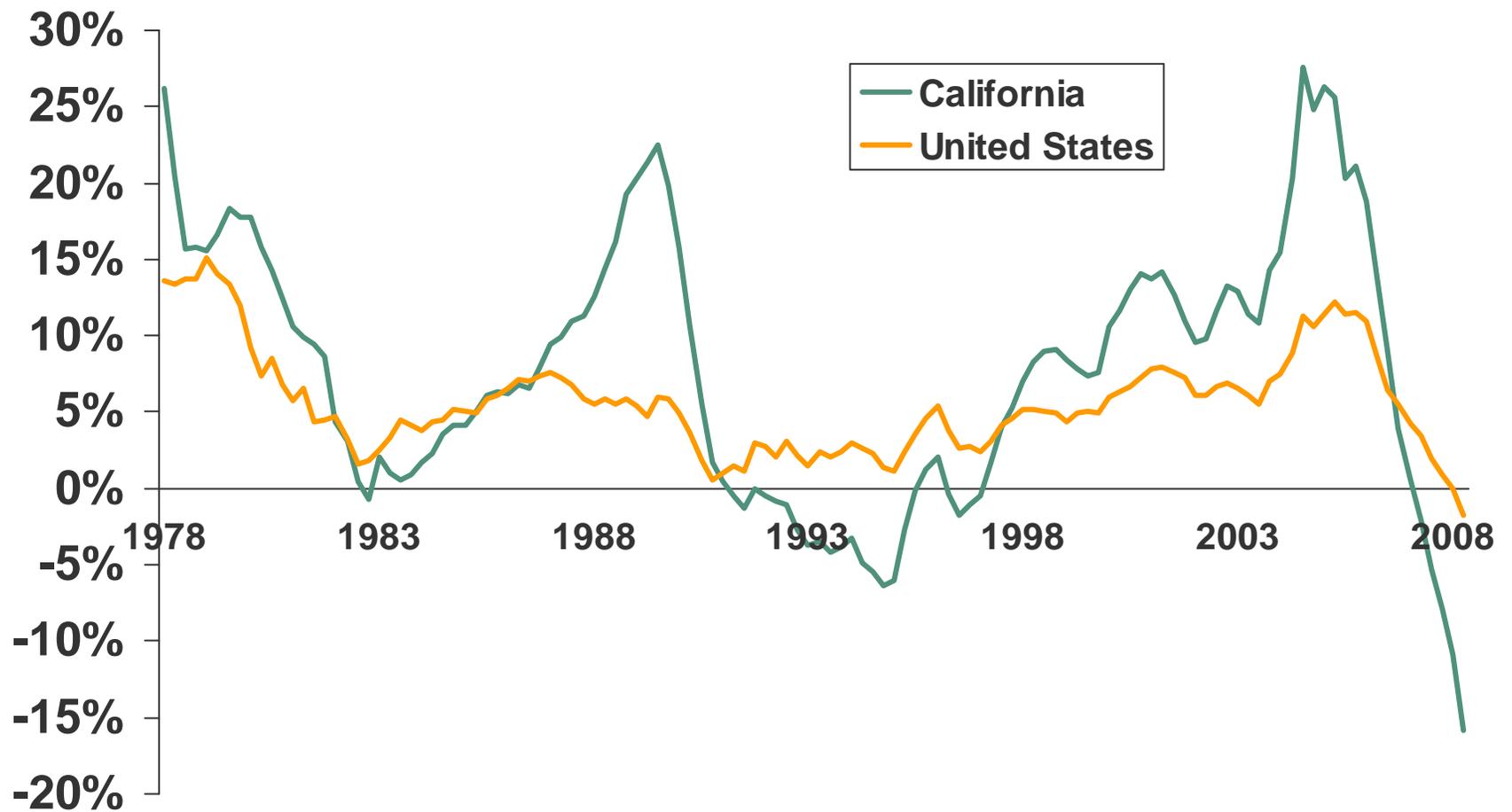
Source	U.S.	California	Los Angeles - Orange County	Main methodological concern
Realtors (CAR/NAR)	-6.1%	-37.7%	-32.3% (LA) -22.5% (Orange)	Strongly affected by composition of sales
OFHEO	-4.8% (purchases only)	-15.8%	-14.3% (LA) -15.3% (Orange)	Omits many transactions
Case-Shiller	-15.4%	n/a	-25.3%	Only 20 metros; questionable weighting
Zillow	-9.9%	-22.1%	-21.4%	Estimation method not transparent

All data are change 2007q2 to 2008q2



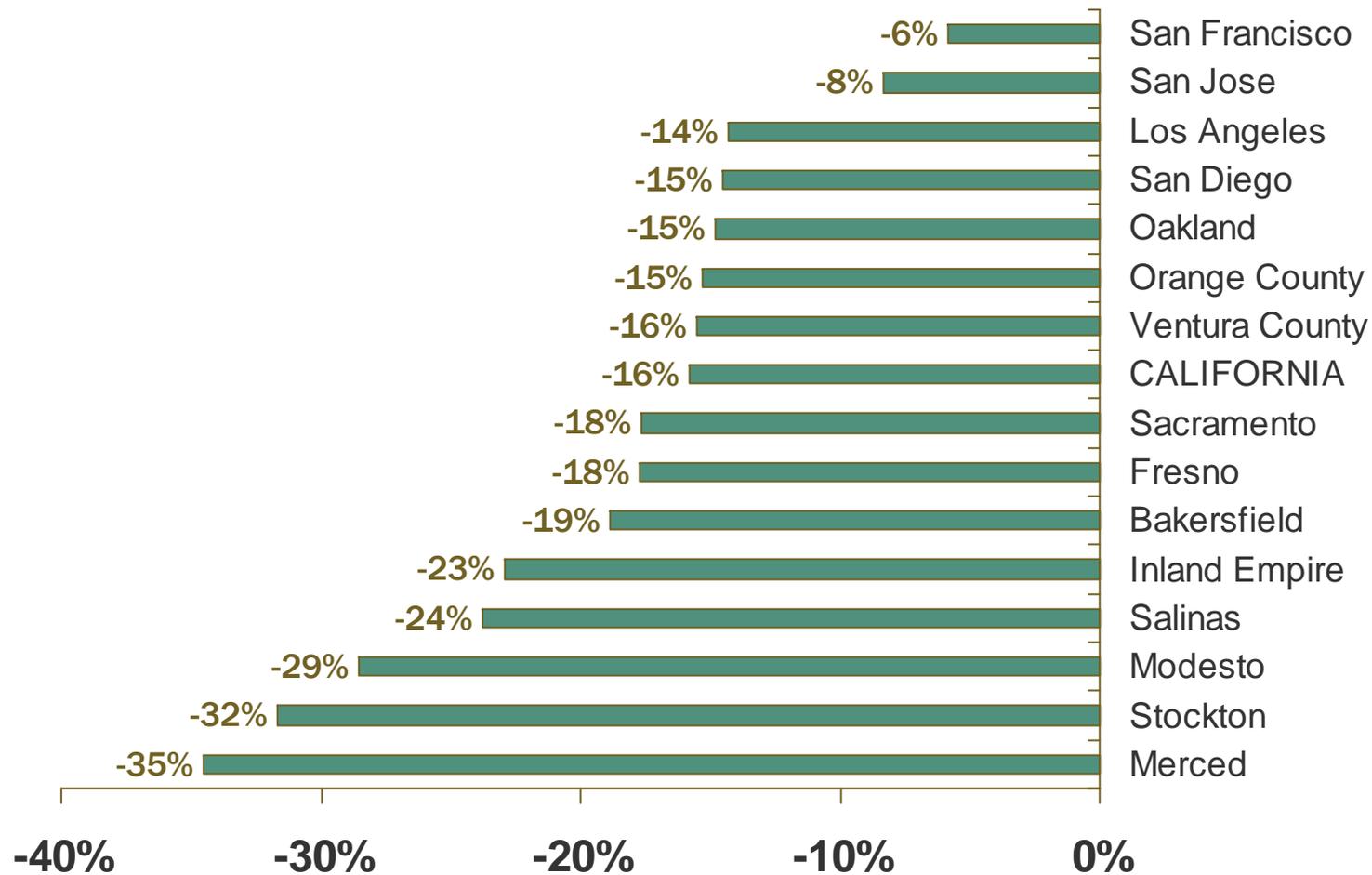
Unprecedented declines

California and U.S. annual price change, all transactions (OFHEO)

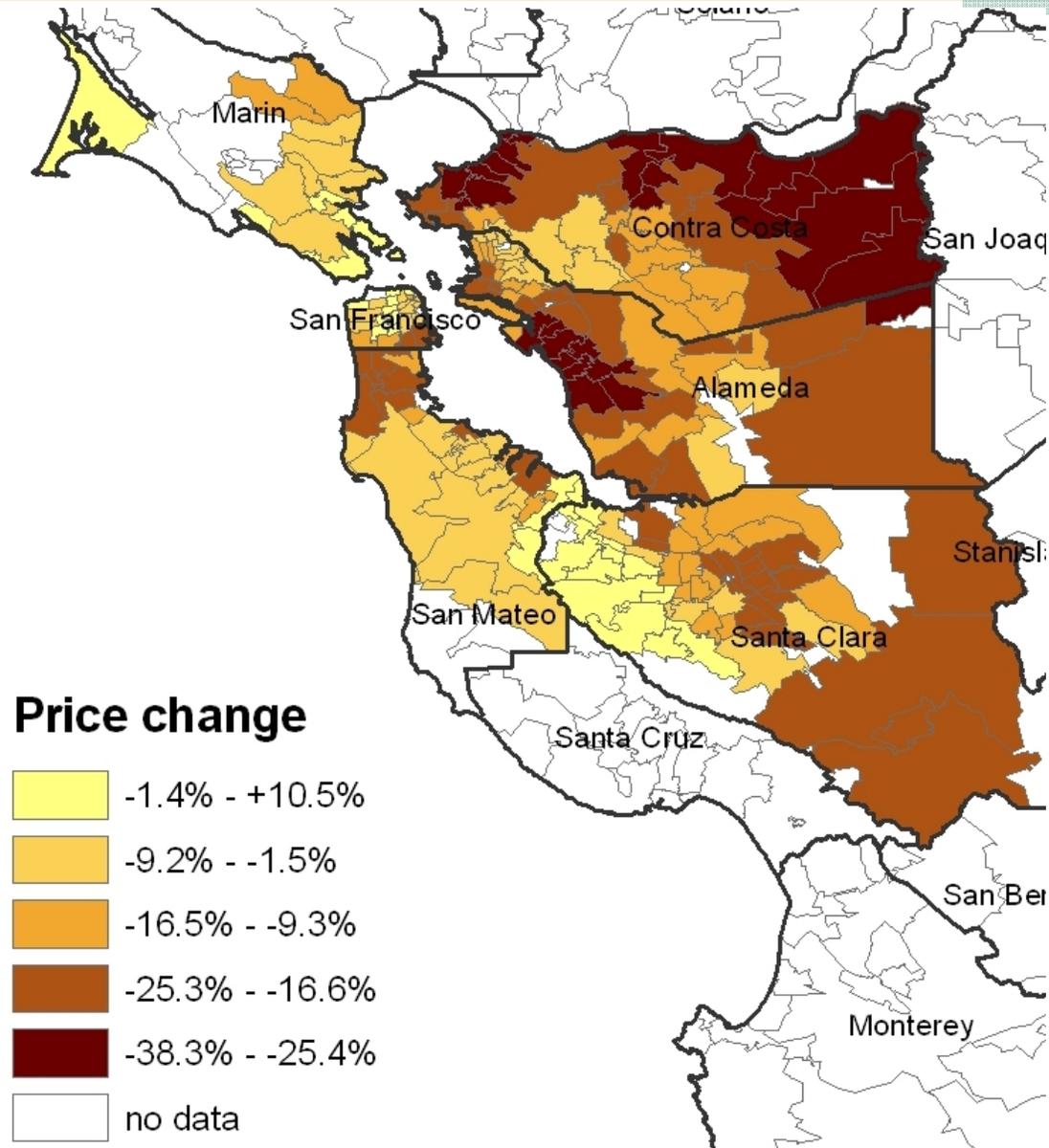


Big within-state variation

Metro annual price change, all transactions (OFHEO), 2007q2 to 2008q2



Big variation in the Bay Area



Source:
Zillow
2007q2 to 2008q2



History lesson: slow fall to bottom

Metro area price change, all transactions (OFHEO)

Metro	Peak	Trough	Total drop*
Los Angeles	1990 Q1	1996 Q3	22%
Midland, TX	1982 Q2	1990 Q1	36%
Stockton	2006 Q2	?	37%
Sacramento	2005 Q4	?	24%
Inland Empire	2006 Q4	?	24%
Oakland	2006 Q2	?	18%



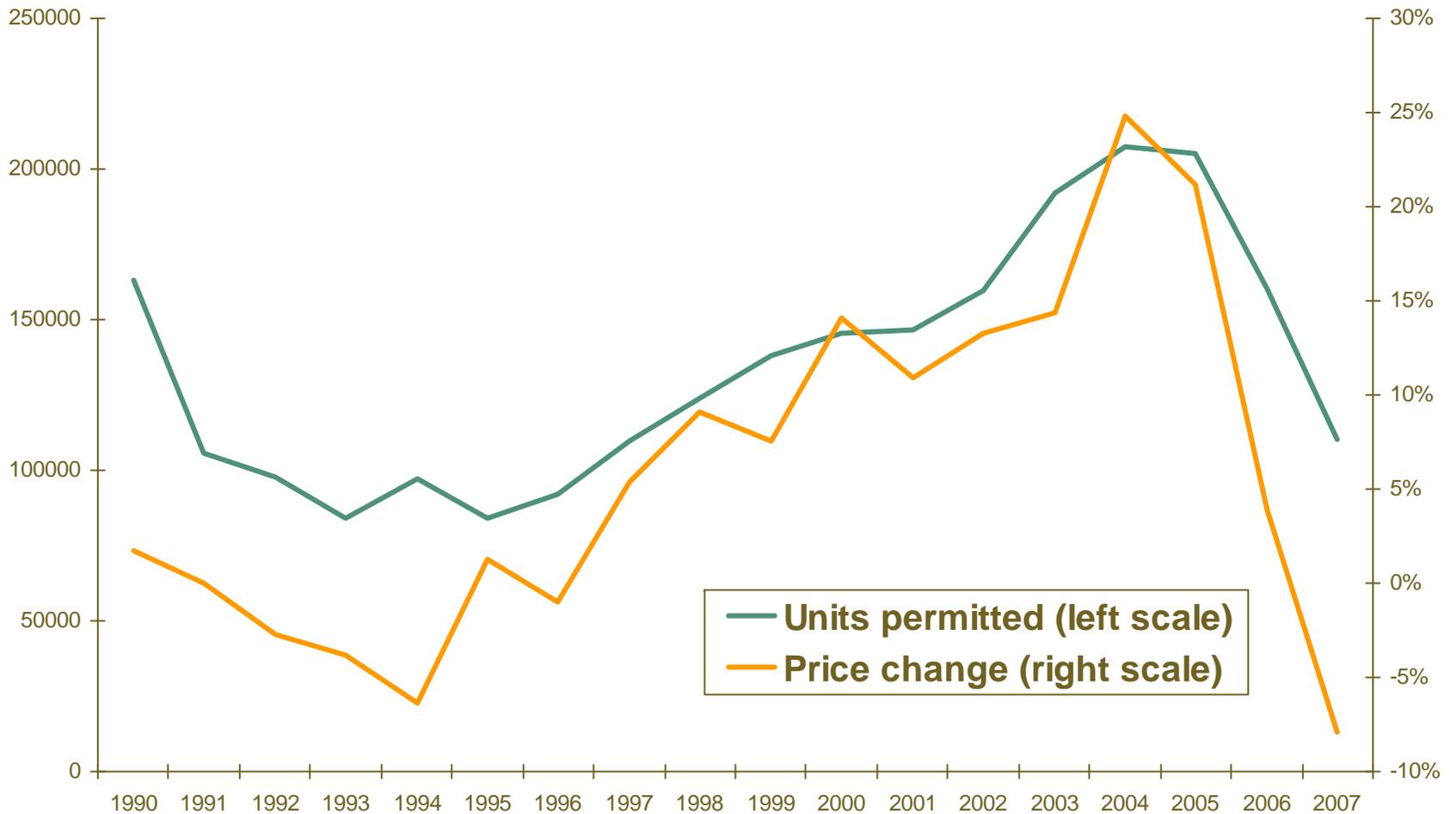
Outline

- Where are prices now?
- How did we get here?
- What do prices mean for the economy?



Construction and prices

California permits issued (Census) and house price change (OFHEO)



More building = steeper price drops

Housing permit boom vs. price declines from peak



Outline

- Where are prices now?
- How did we get here?
- What do prices mean for the economy?



The job slowdown is national

Annual employment growth: California and U.S.

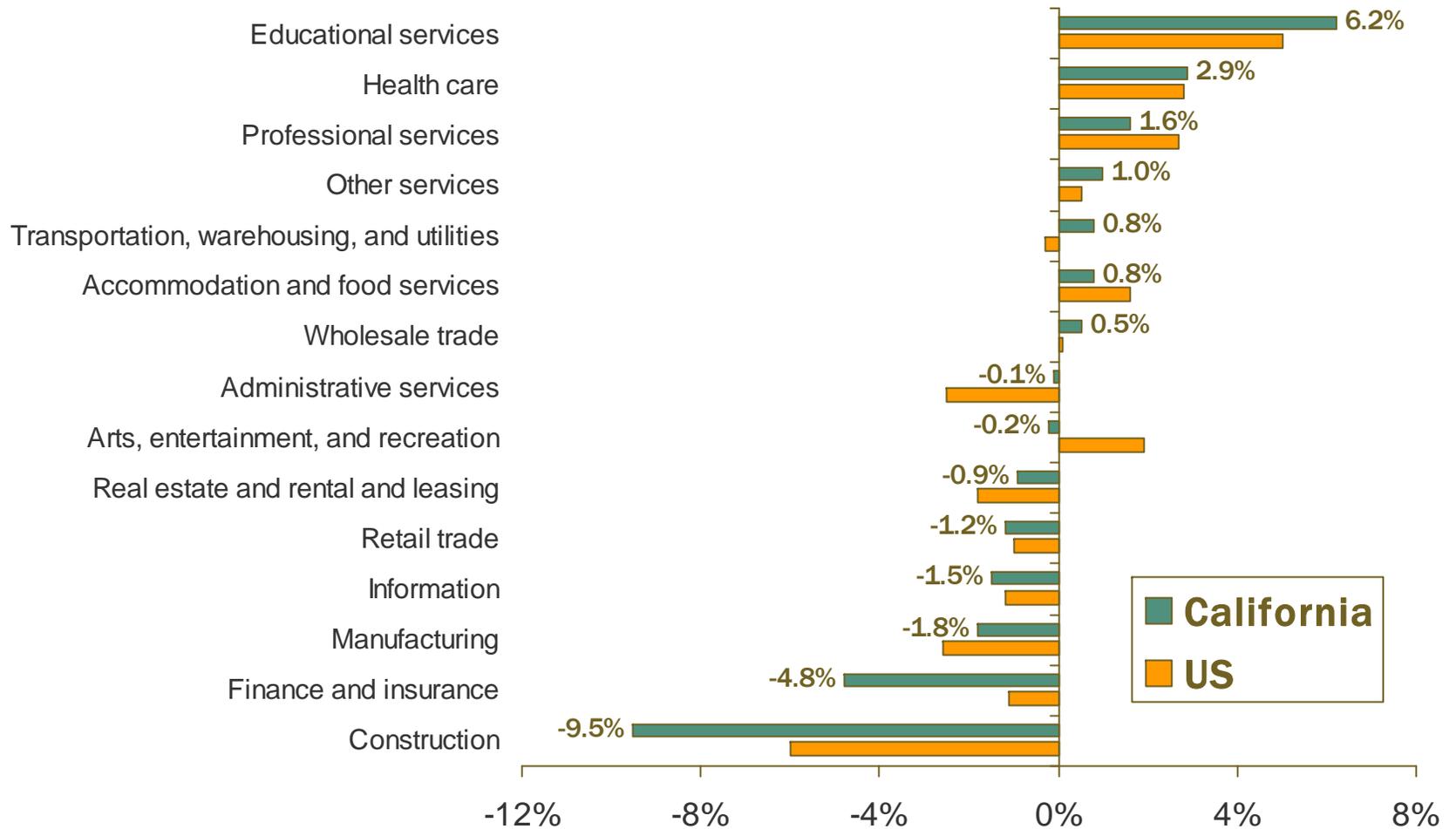


Note: 2008 figure is annualized growth Jan-Jun
Bureau of Labor Statistics (BLS)



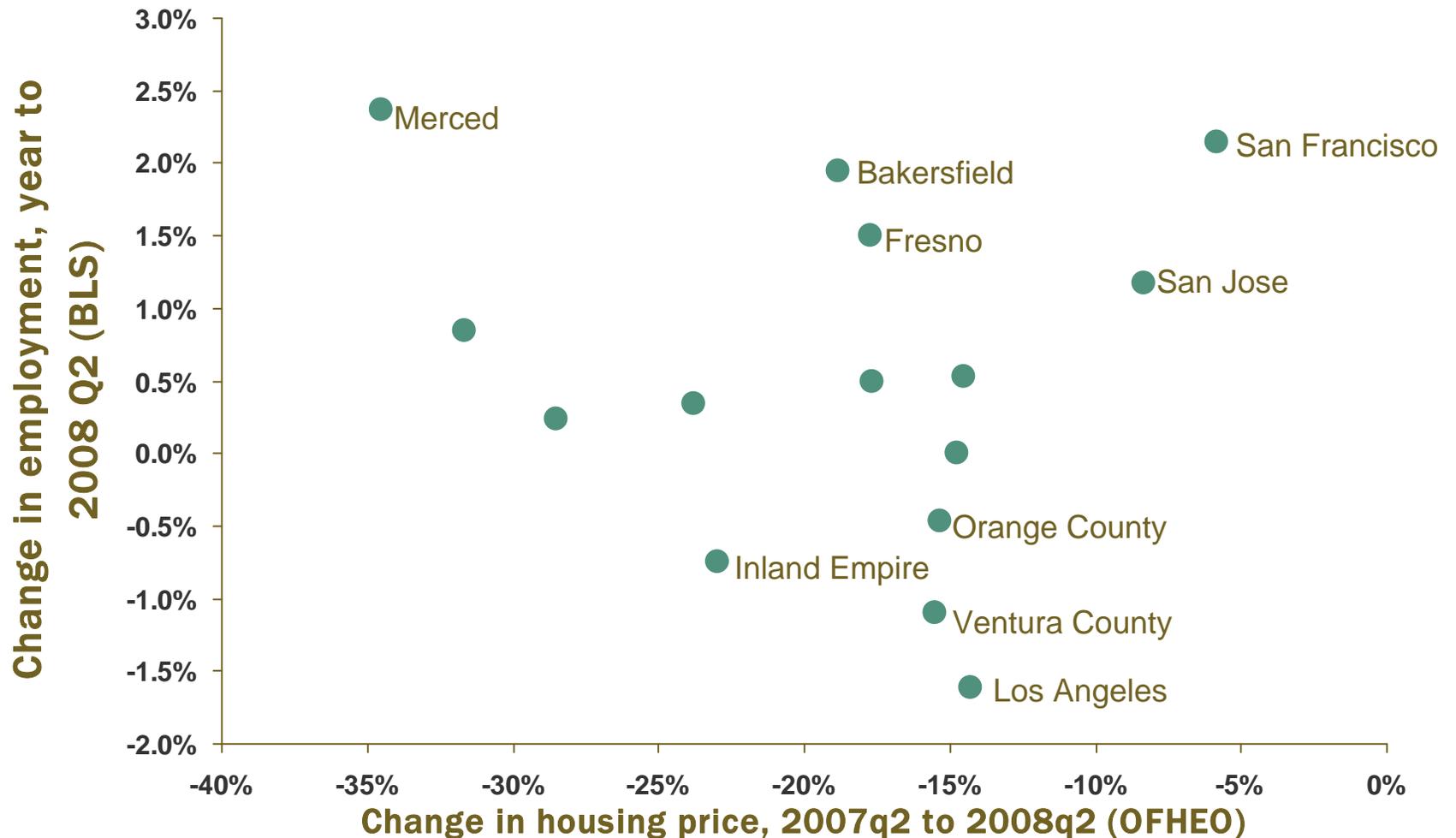
Sector employment growth

Employment growth, June 2007 – June 2008 (BLS)



Housing market = job market ? No

Employment change and housing price change, 2007q2 to 2008q2



Wrap up

- Housing markets are local
- Overbuilding led to price declines
- Locally, house prices don't predict job growth
- Any silver lining?
 - Greater affordability and wealth redistribution
 - Reduction in unsold inventory

