

# Current U.S. Economy and Housing Market

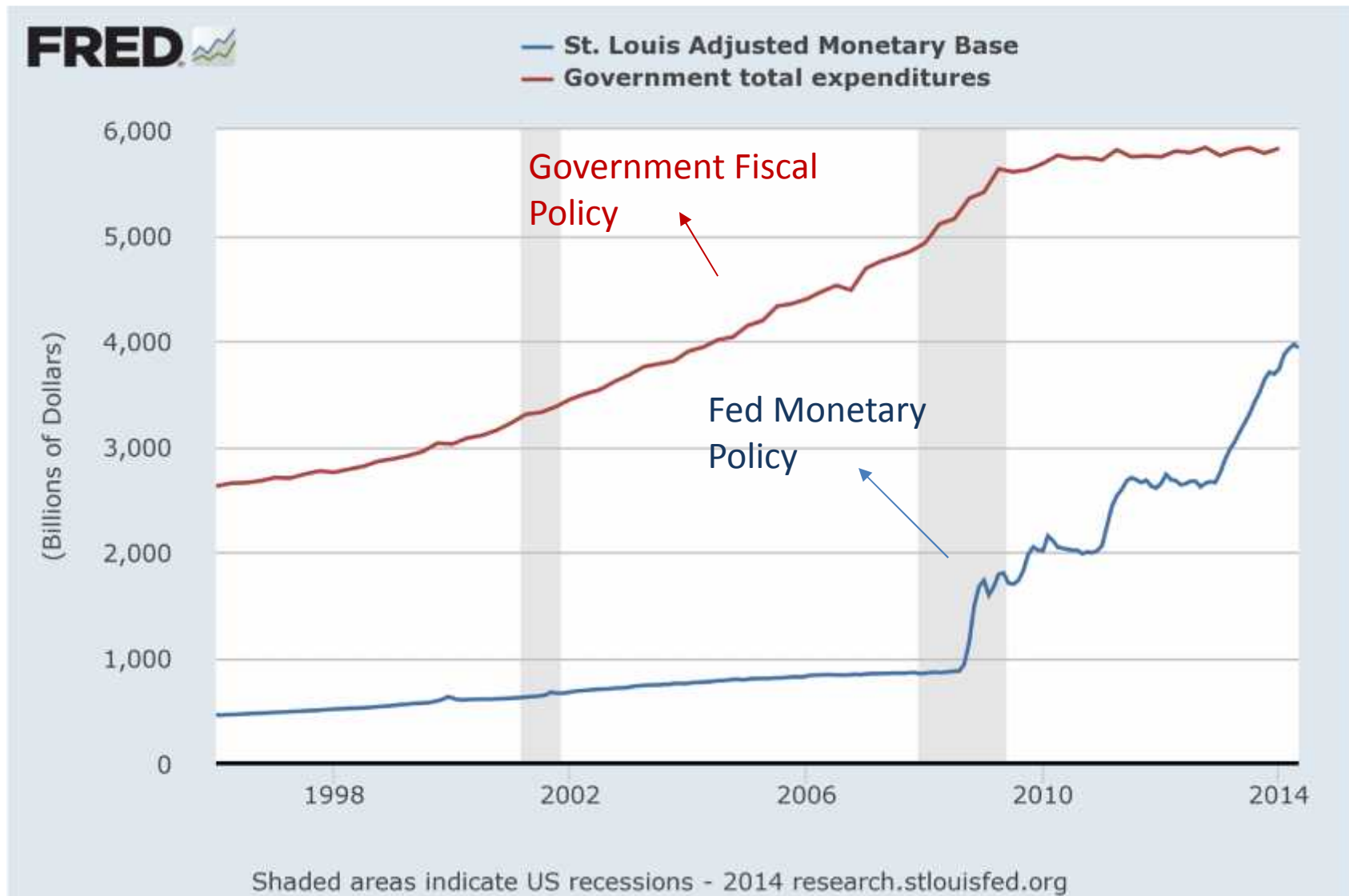
June 21, 2014

Jin Man Lee

DePaul University

President, Hansa Institute

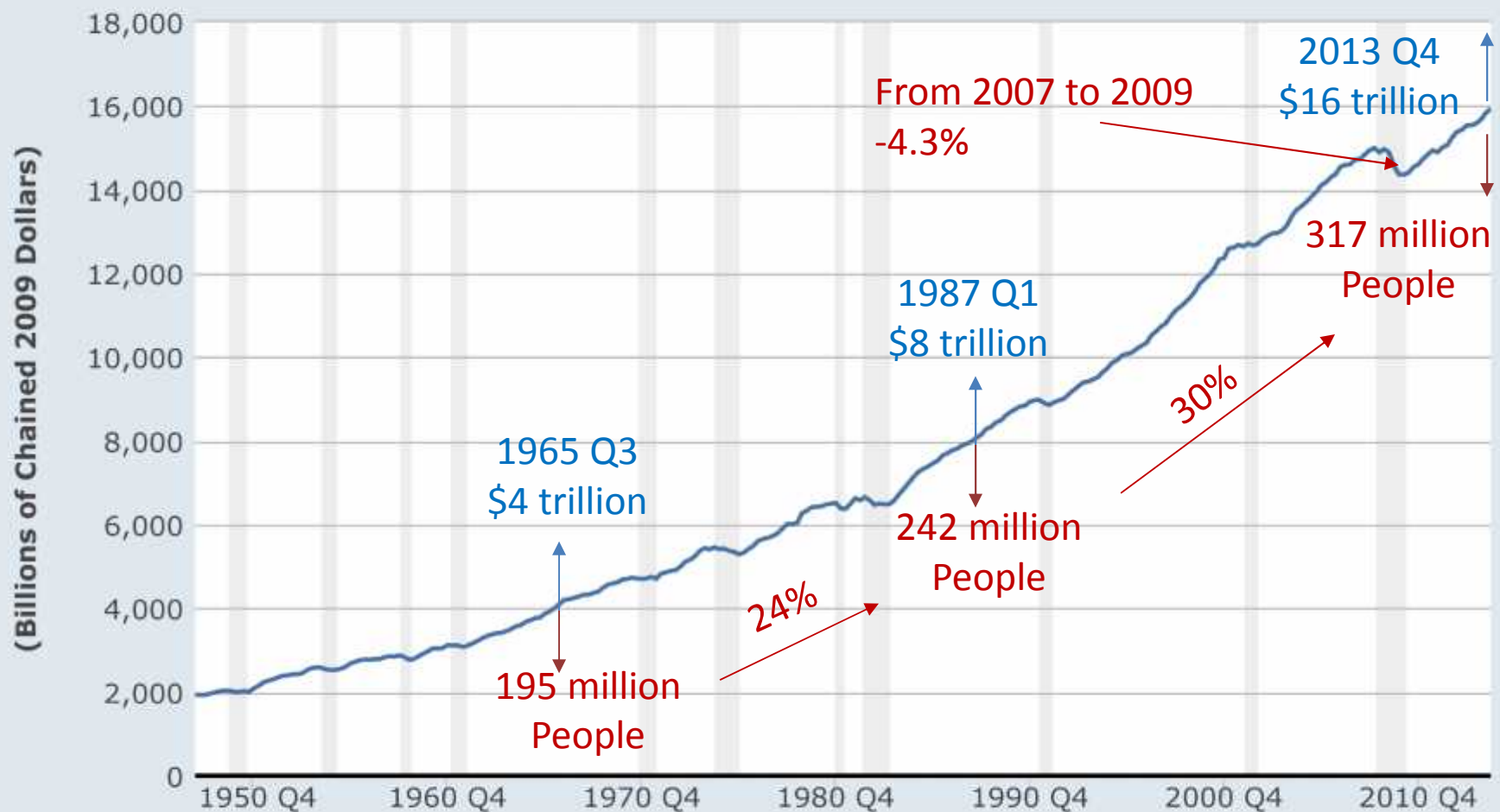
## Fiscal and Monetary Policy in U.S.



# Monetary Policy on Housing and Stock Market

- Credit Flow to Stock Market
- Wealth Effect on Housing Market

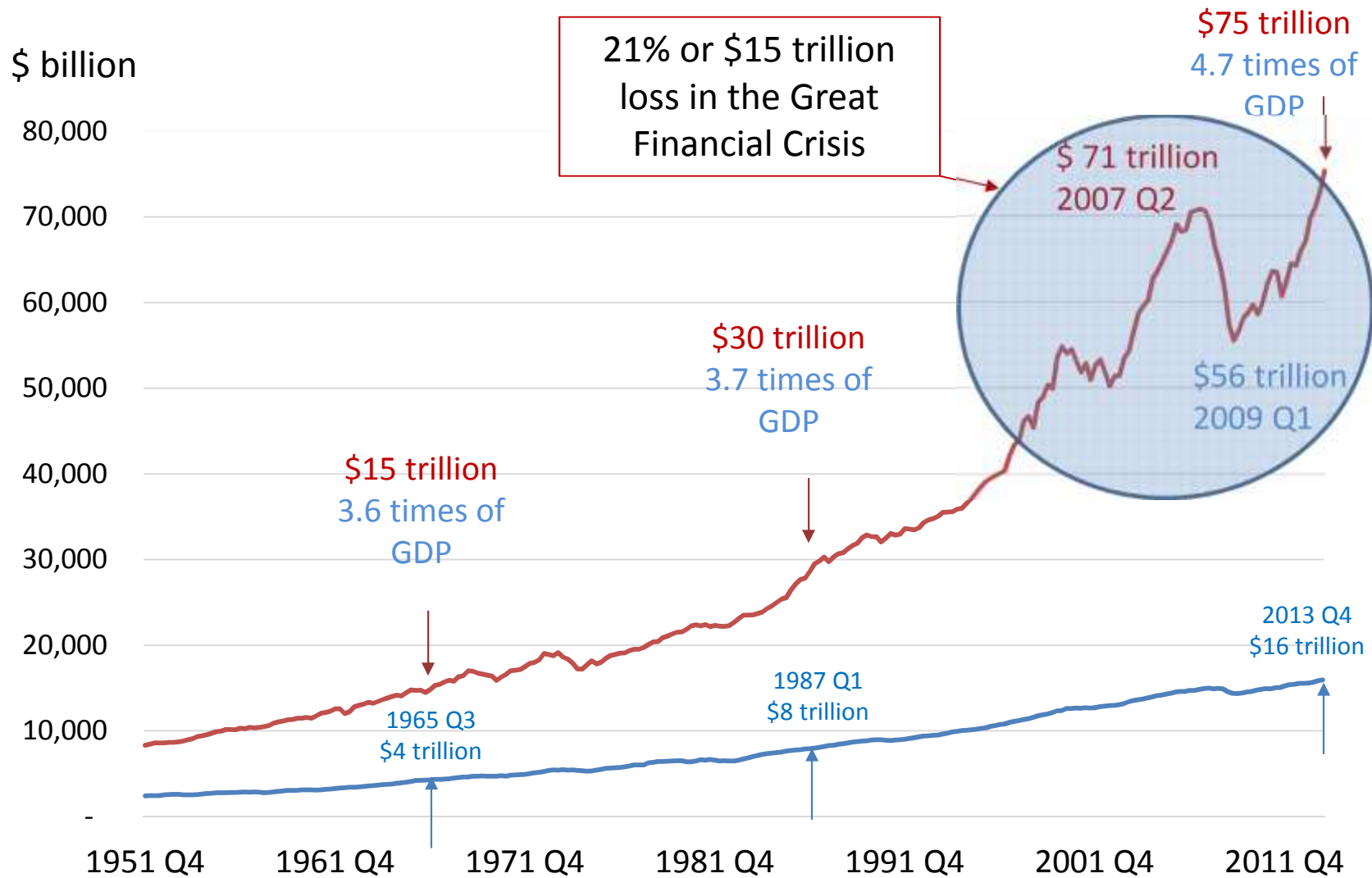
# FRED — Real Gross Domestic Product



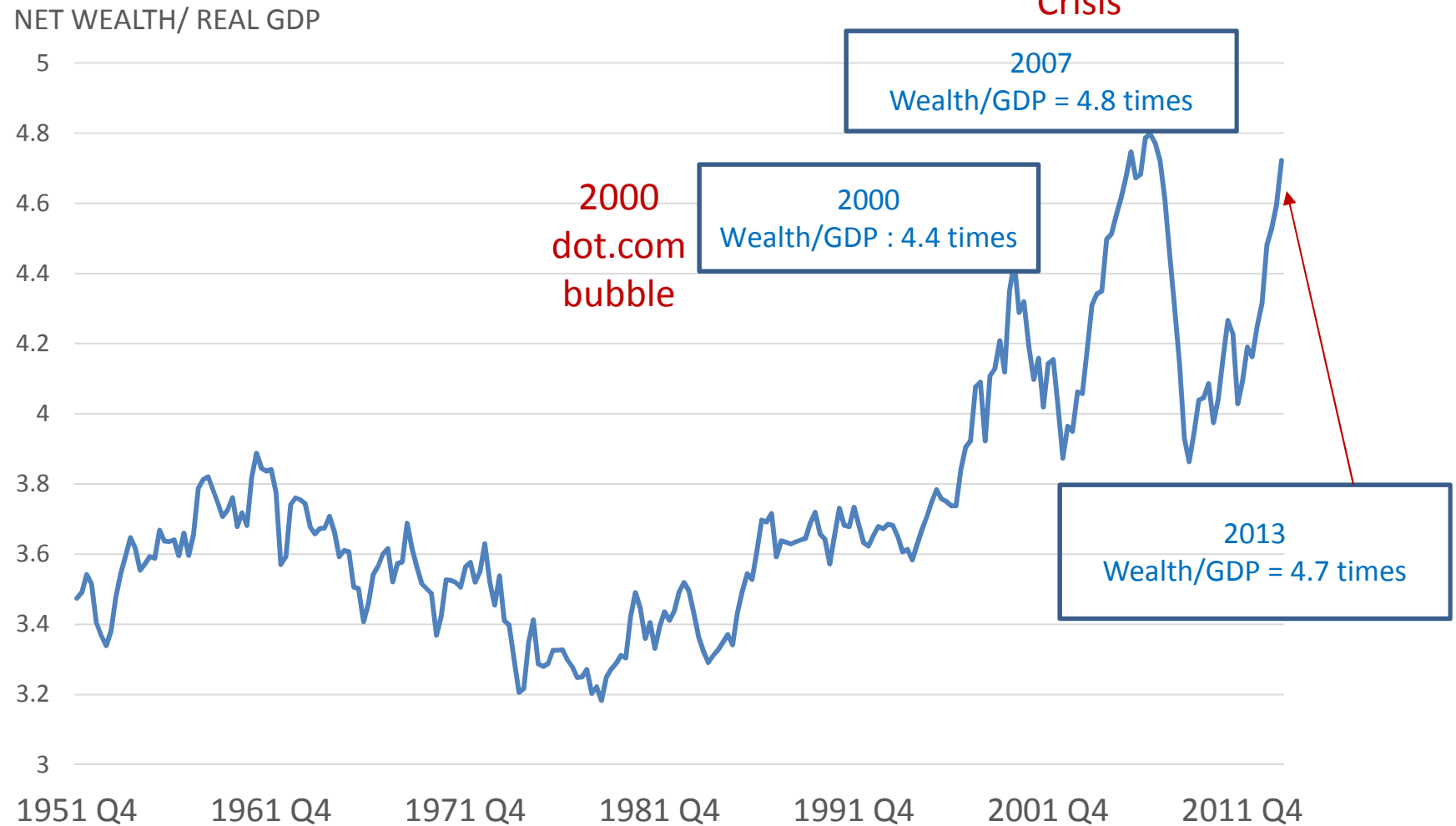
Source: U.S. Department of Commerce: Bureau of Economic Analysis

Shaded areas indicate US recessions - 2014 research.stlouisfed.org

# Net Wealth Owned by Household and Nonprofit in U.S.

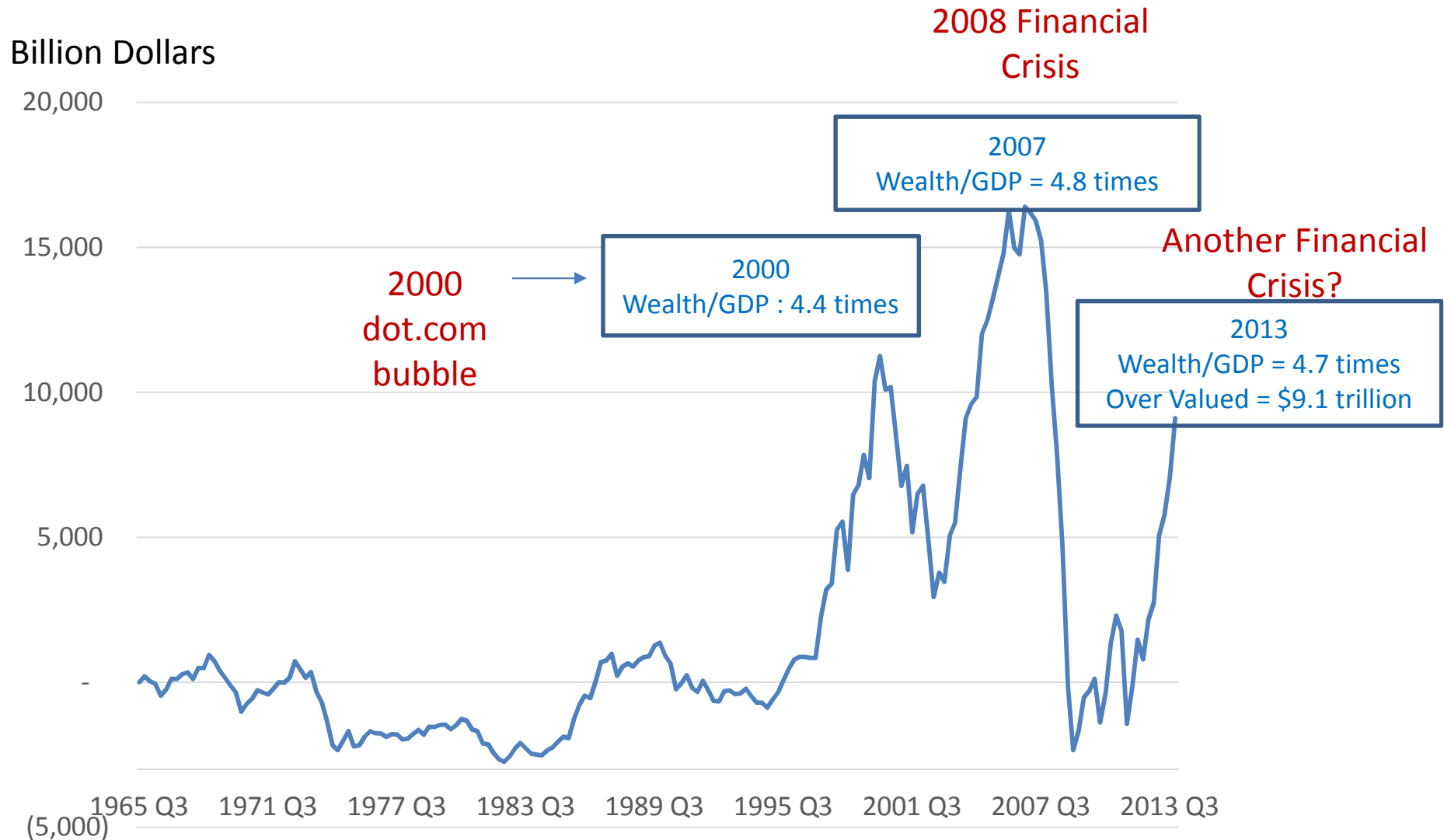


## The Ratio of Net Wealth/ Real GDP



# Simulated Over and Under Valued Wealth

(Assuming 2.87% of Real GDP is added to Wealth)



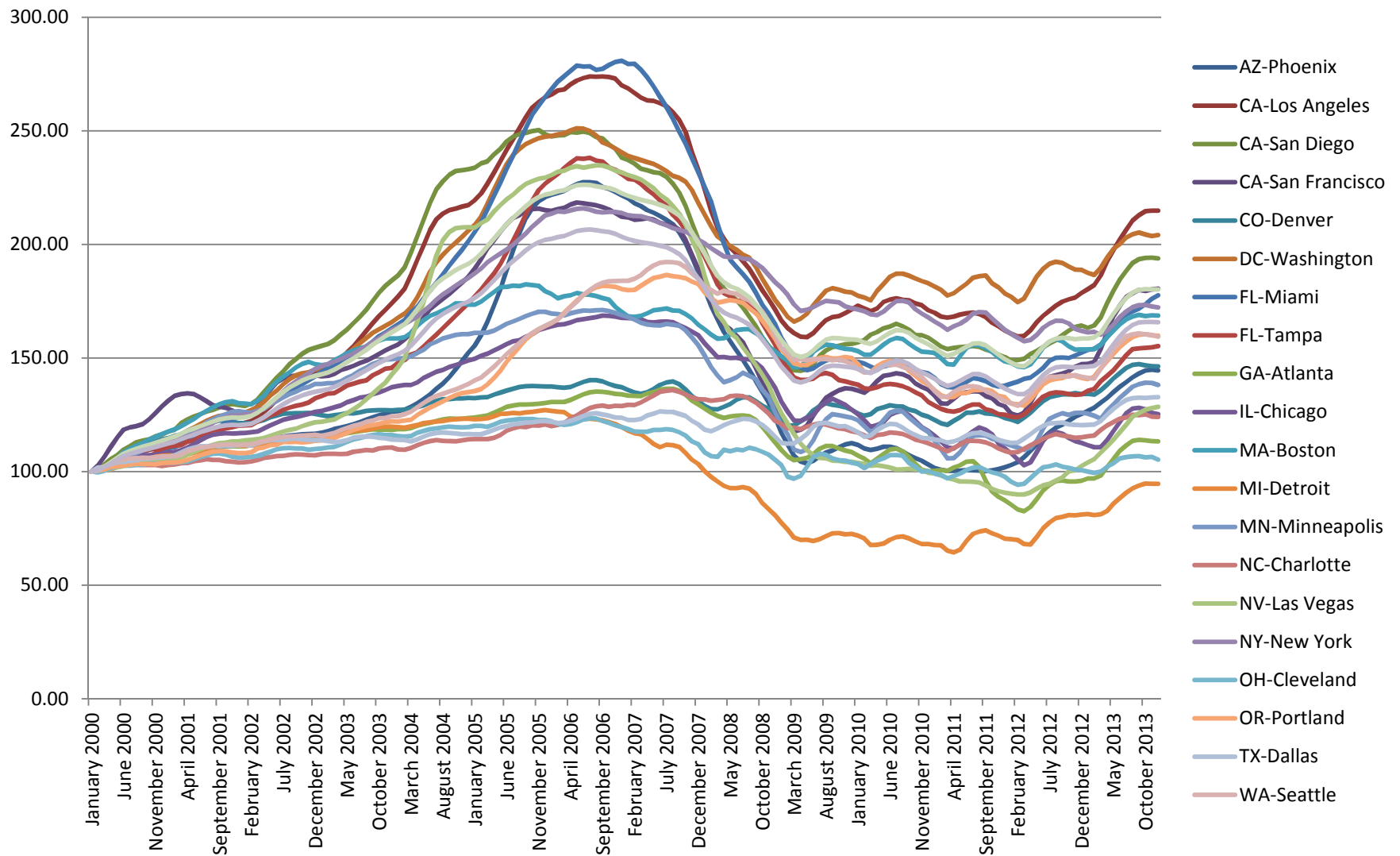
# Effects of Monetary Policy

YEAR	Total Capitalization of Stocks	Consumer Net Wealth	GDP	Consumption
2007	19,947	67,753	14,690	9,902
2008	11,738	57,180	14,547	9,851
2012	18,668	70,863	16,420	11,286
Change from 2008-2012	6,930	13,683	1,873	1,435
	60%	24%	13%	15%

All Nominal Values

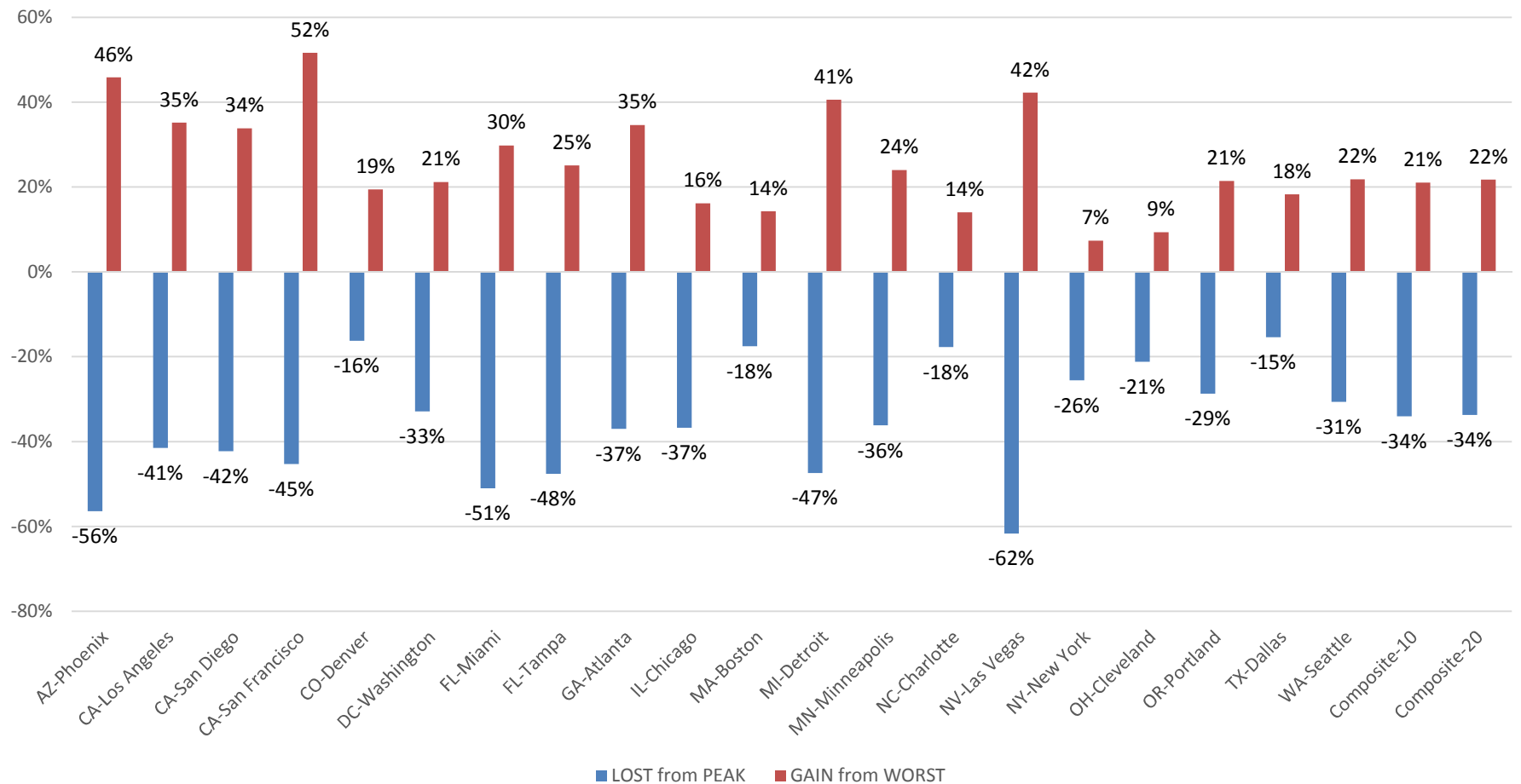


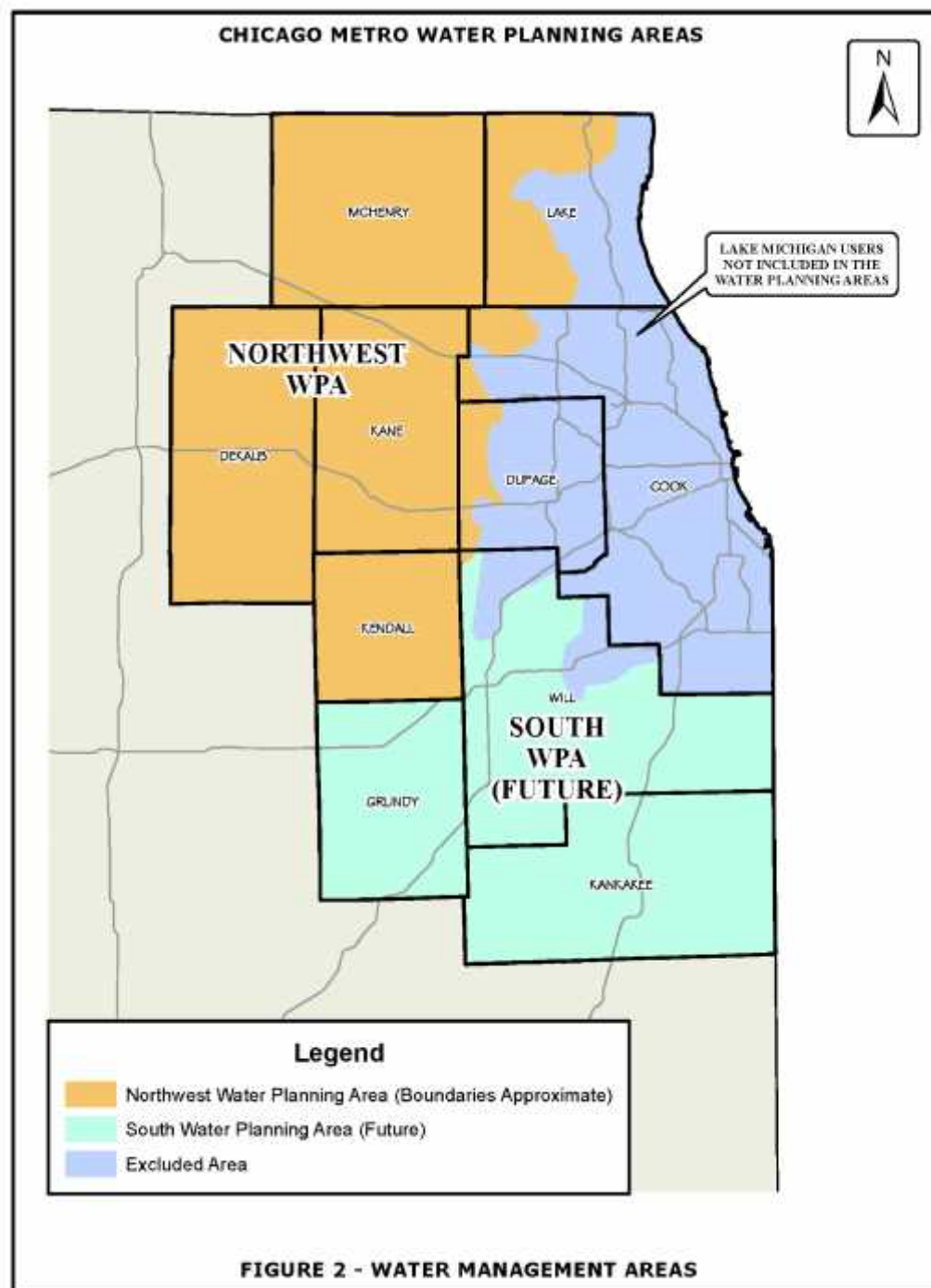
# How about Housing Market?



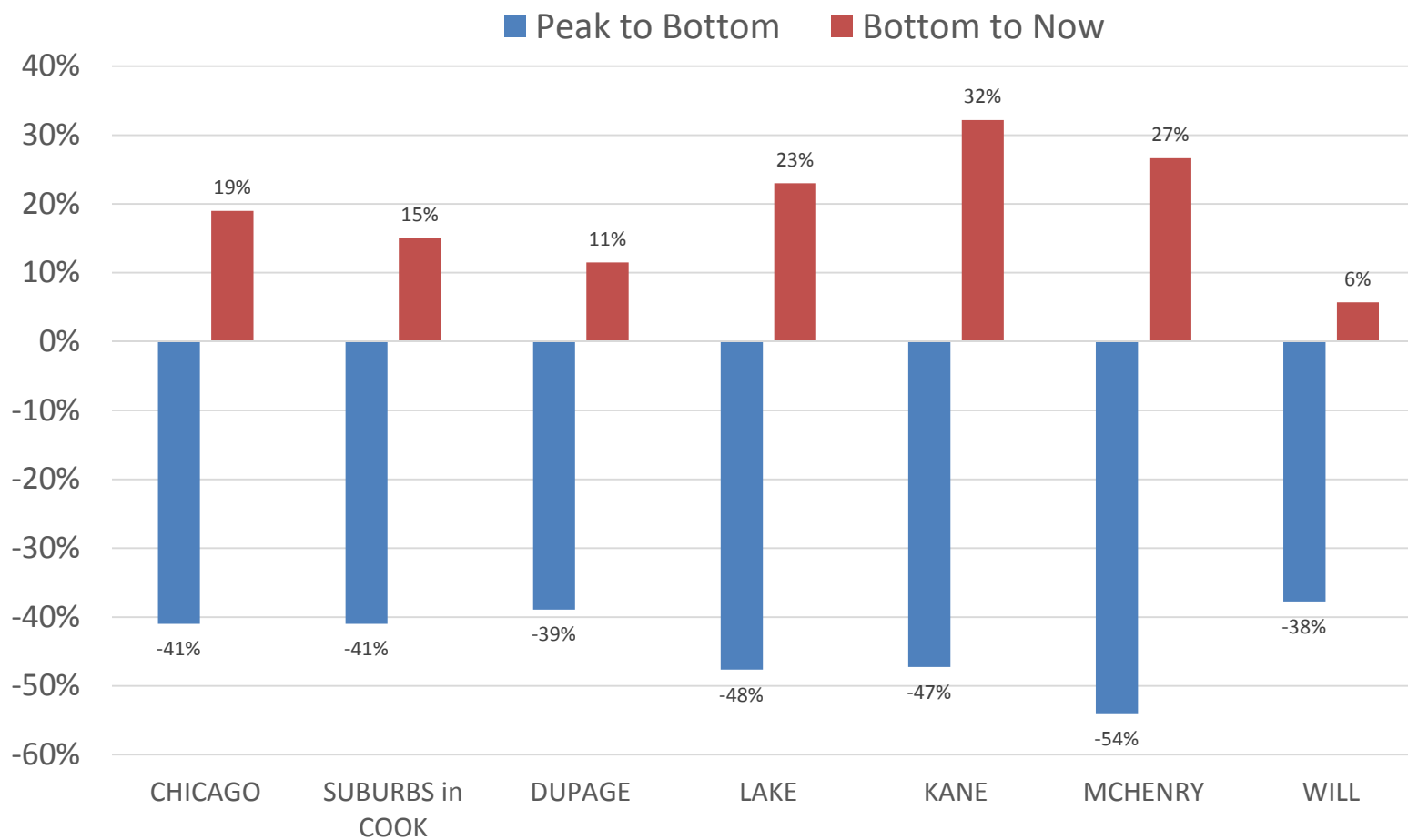
# Housing Market Boom and Bust

## Lost from Peak and Gain from Worst as of Dec 2013

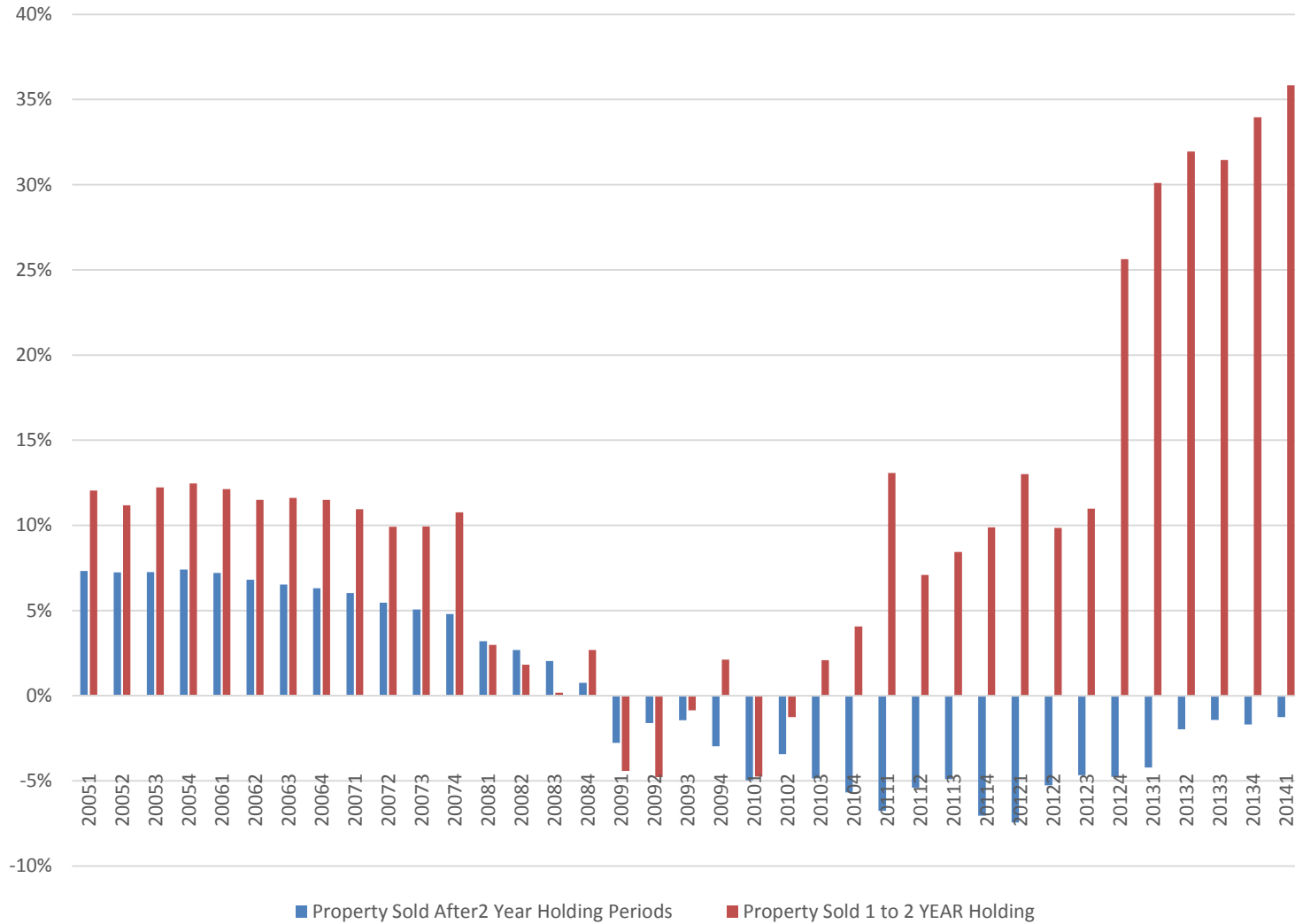




## House Price in Chicago Collar Counties with Stressed Sales (December 2013)



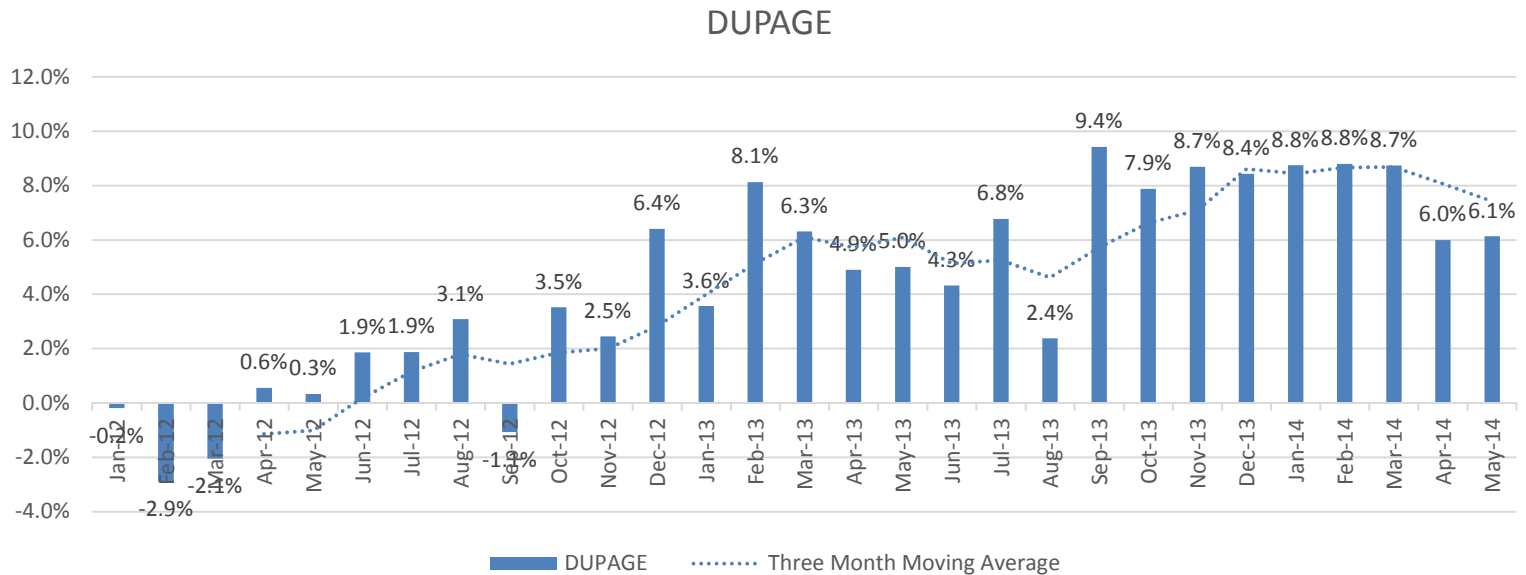
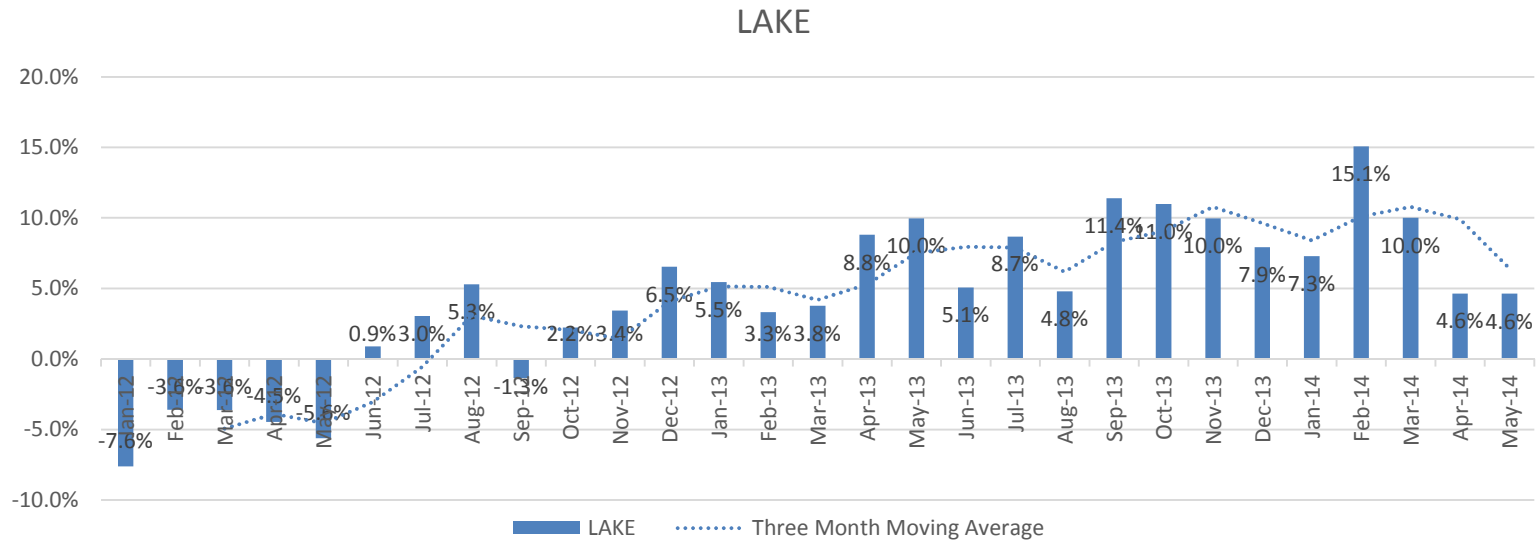
## Average Annualized Return of Property Sold by Holding Period in Cook County



# Revisit Current Economic Condition by Monetary Policy after 2008 great financial crisis

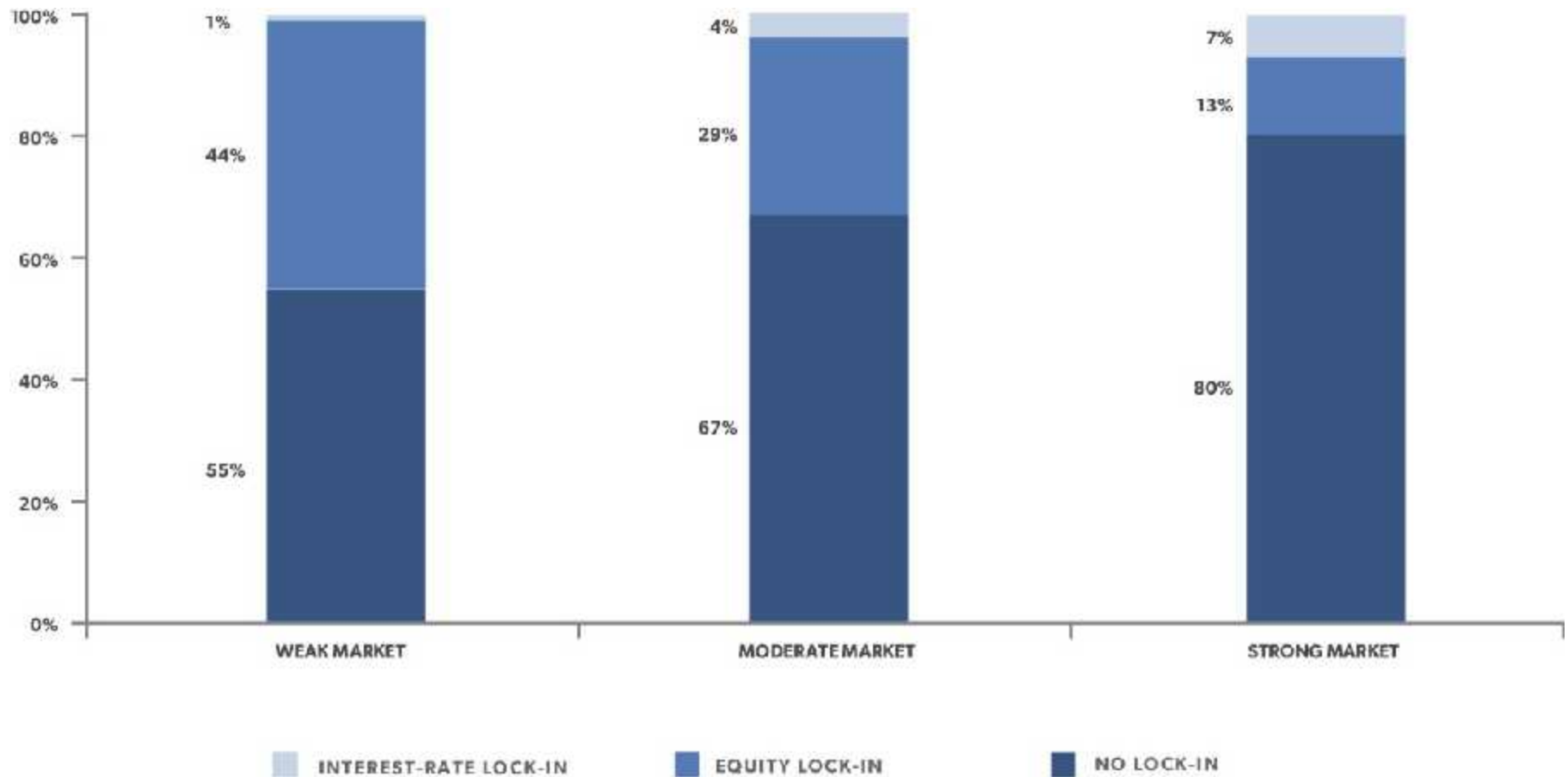
- Signs of slow economic growth at the end of 2013
- Prolong lower interest rate policy
  - a. High inflation pressure in the long run
  - b. Asset bubbles in real assets (Stocks, Real Estate)
  - c. Lock-in effect in housing market as interest rate rises
  - d. Debt problem for Gov't and Consumer (too cheap to borrow)

# Slow Recovery in Housing Market in 2014 (Year over Year House Price Changes)



# Lock-in Effect in Mortgage Market

## (Equity Lock-in and Interest Rate Lock-in)





# Simulated Lock-in Effects by increasing 1% per year for three years

	Weak Market			Moderate Market			Strong Market		
	Baseline	Year 4	Change	Baseline	Year 4	Change	Baseline	Year 4	Change
Interest-rate Lock-In	1%	17%	16%	4%	33%	29%	7%	42%	35%
Equity Lock-In	44%	41%	-3%	29%	24%	-5%	13%	7%	-6%
No Lock-In	55%	42%	-17%	67%	43%	-28%	80%	51%	-32%

# Head Winds for U.S. Economy

(by Robert J. Gordon)

- Demographic dividend: baby boomer retiring and lower hours per capita
- Lower Educational Attainment with higher cost of college tuition
- Income Inequality with lower growth of middle class
- Spillover Effects and Outsourcing with unfair competition in information technology and communications (ICT)
- Energy and Environment Cost
- Twin household and government deficits