



Unravelling the New World Order

*An Exposé of How Government, Religious, and Financial Insiders
Are Deciding Your Future*

August 2011

Housing: The Heart of Any Recovery

by Dr. Larry Bates

The recent downgrade of U.S. debt by credit rating agency Standard and Poor's created an interesting economic and political debacle for U.S. political and monetary policymakers. The impact on the Obama re-election effort is certainly negative, with Obama being the first U.S. President to preside over a credit downgrade.

Team Obama will spin the downgrade as a need to increase revenue (taxes). Any economist worth his salt will tell you that you don't raise taxes during a recession; and only the insane or those deliberately trying to destroy the country would increase taxes on the job creators—or on anyone, for that matter. It's simple: when an individual or company has the money, it can spend the money as they see fit. When you raise taxes, you send that money to politicians and bureaucrats to spend as they see fit. The fundamental question then becomes: Who can best determine how to spend the money—the government or the private sector? History shows that's a no-brainer.

The S&P downgrade has many questioning the credibility of Standard and Poor's, as it was this same credit rating agency that was rating mortgage giants Fannie Mae and Freddie Mac with top ratings the week prior to their asking for and receiving Federal bailouts.

Capital is always looking for a home worldwide, and it looks for two things: 1) political stability and 2) economic stability. Compared to the rest of the world, the USA is still the best place for "parking" capital. A turnover in leadership in the White House and U.S. Senate will be even more positive for the USA. Even with a change in leadership at the White House and in the Senate, however, many economists are forecasting 8 to 10 years for the USA to recover from the failed political and economic policies of the last few years.

The Heart of Any Recovery

In the previous issue of *Monetary & Economic Review* (MER), we outlined the sorry condition of the U.S. housing market, listing by state the unemployment rate and percentage of homes with negative equity. Housing contributes to the GDP (Gross Domestic Product) in two basic ways: 1) private residential investment and 2) consumer spending on housing services. Private residential investment includes new construction and remodeling. Housing services includes rents and utilities. Combined, housing accounts for almost 20 percent of GDP.

Based on the data in the previous issue of MER and the following data, we are forecasting another 10-20 percent decline in average residential real estate prices.

When you look at the census data on the largest metropolitan areas (population centers) and pull the cities with the highest overall residential real estate vacancy rates and compare that with the unemployment rates for these same cities, you will see that many have home vacancy rates over 5% and rental vacancy rates of over 10%. These levels of unused inventory will continue to depress home and rental prices in those areas for months to come.

Using similar methodology, 24/7WallSt.com came up with a list of the 10 sickest housing markets in the USA. To read what they say about those 10 cities, see chart on page 4. Tucson was a city that had a booming housing market before the real estate crash. Median house prices have dropped 18% over the past 12 months and 33% since 2008. The city has among the highest foreclosure rates in the U.S.

The average home price in Indianapolis dropped by \$20,000, or 15.3 %, during mid-2010 and early 2011. The home vacancy rate is 5.2% and the rental vacancy rate is 13.5%. The city also has a huge abandoned property problem.

Population centers have been the primary recipients of government largess and these same people are clamoring for more government aid. It hasn't worked, and won't work. Until we drastically reduce the size and scope of government, we will be in the financial doldrums for years to come.

1) Tucson, AZ

Homeowner vacancy rate 6.8%
Rental vacancy rate 15.9%
Total housing units 440,909
Unemployment rate 7.8%

2) Indianapolis, IN

Homeowners vacancy rate 5.2%
Renter vacancy rate 13.5%
Total housing units 757,441
Unemployment rate 7.8%

3) Memphis, TN

Homeowner vacancy rate 4%
Rental vacancy rate 13.5%
Total housing units 550,896
Unemployment 10.1%

4) Atlanta, GA

Homeowner vacancy rate 5.4%
Rental vacancy rate 11.8%
Total housing units 2,165,495
Unemployment 9.7%

5) Baton Rouge, LA

Homeowner vacancy rate 4.7%
Rental vacancy rate 13%
Total housing units 329,729
Unemployment 8.4%

6) Dayton, OH

Homeowner vacancy rate 4.7%
Rental vacancy rate 10.7%
Total housing units 385,160
Unemployment rate 9.3%

7) Detroit, MI

Homeowner vacancy rate 2.4%
Rental vacancy rate 17.2%
Total housing units 1,886,537
Unemployment 11.6%

8) Kansas City, MO

Homeowner vacancy rate 3.7%
Rental vacancy rate 11%
Total housing units 883,099
Unemployment 8.4%

9) St. Louis, MO

Homeowner vacancy rate 3.3%
Rental vacancy rate 11.4%
Total housing units 1,236,222
Unemployment 8.6%

10) Oklahoma City, OK

Homeowner vacancy rate 5.2%
Rental vacancy rate 9.6%
Total housing units 539,077
Unemployment 4.9%