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Will the Housing Recovery Shutdown?

What kind of impact will the government shutdown have on the housing market? It's a crucial question with no clear-cut answer. Much of it will depend on how long the government shutdown lasts and what kind of resolution is reached when it is all over. If it is resolved quickly, the impact should be minimal but if it lasts longer than a few weeks, it will start putting a dent on economic output and stall home closings activity. There will undoubtedly be some economic consequences as a result of the shutdown but the psychological impact it has will be just as important.

A recent Wonkblog post on the *Washington Post* did a good job of detailing the past 17 government shutdowns that have taken place since the current budgeting process took effect in 1976. Many of the earlier ones lasted for longer than a week or two but that was because government shutdowns those days did not really "shut down" the government like it does today. In the 11 shutdowns since 1980, only the most recent one in 1996 lasted more than five days; it lasted 21 days. Using the six most recent shutdowns, we take a look at the immediate and medium-term effect they have on consumer confidence and housing demand in the table below.

		Consumer Confidence		New Home Sales	
Shutdown Date	Duration	1 Month After	6 Months After	1 Month After	6 Months After
Dec. 1995 - Jan. 1996	21 days	↑	↑	↑	↑
Nov. 1995	5 days	↓	↑	↑	↑
Oct. 1990	3 days	↓	↑	↑	↑
Dec. 1987	1 day	↑	↑	↓	↑
Oct. 1986	1 day	↑	↑	↑	↑
Oct. 1984	1 day	↑	↑	↓	↓

Only two out of the past six shutdowns resulted in an immediate drop in consumer confidence but confidence rebounded six months later in all six instances. The same goes for new home sales with only two of the past six shutdowns causing sales to drop the following month and every time except for in October 1984 did sales rebound six months later; mortgage rates were also 13-14% during that time.

While the longer term effects of the shutdown on housing is yet to be determined, listed below is some of the immediate impact it will have.

- **Mortgage rates could fall because of all the uncertainty.** The government shutdown and economic uncertainty caused yields on the 10-year treasury to fall to their lowest levels since August 12 last Thursday. A drop in mortgage rates would help soften the blow of weaker economic growth due to the shutdown.

  Federal Housing Administration (FHA) loans will be impacted. There will be limited staff during the shutdown which could cause some delays in FHA-insured loans which account for

about 15% of the market. The longer the shutdown lasts, the more disruption it will cause for the processing of these loans which will start negatively impacting sales activity; the same goes for VA loans.

- **The shutdown or partial closure of other government entities will also slow down the homebuying process.** Income verification and accessing tax documents for home loan purchases or refinances may not be available because of the shutdown's impact on the IRS. Rural development and mortgages backed by the Department of Agriculture will also be stalled.

- **The shutdown could cause a dip in confidence.** Although the past six shutdowns did not hurt consumer confidence over the medium term, the dynamics of the current shutdown are a little different. Confidence is recently coming off a five-year high and the effects of the "Great Recession" are still fresh in many people's minds. Geopolitical risks in the Middle East along with the looming debt ceiling could cause a dip in confidence pretty quickly.

- **Furloughs will have a more immediate impact on areas with a high concentration of federal employment.** Many economists project the economic impact to be marginal if it is resolved quickly although it can put a bigger dent on economic growth if it lasts longer than 3-4 weeks. However, places in Hawaii, Alaska, California, Texas, and the Washington, D.C. metro area that employ a large number of federal employees will start seeing ripple effects of the shutdown on the consumer level a lot faster.

The longer the showdown on Capitol Hill lasts, the worse it will be for the economy and the housing market. The ineptness of our political leaders to come to a compromise on such important issues will not only discourage consumers and businesses from spending and investing domestically but could deter other countries around the world from investing here as well. The U.S. is expected to reach its debt ceiling on or before October 17 which will be an even bigger hurdle for the government to tackle. If the shutdown and debt ceiling are not resolved swiftly and effectively, there could be serious ramifications for both the housing and economic recovery.

About Meyers Research
Meyers Research is a premier consulting practice for the residential industry, providing a national perspective as well as local expertise to homebuilders, multifamily developers and financial institutions. The company is based in Beverly Hills, CA. To learn more about Meyers Research, please visit www.meyersresearchllc.com.

About Kennedy Wilson
Founded in 1977, Kennedy Wilson is an international real estate investment and services company headquartered in Beverly Hills, CA with 24 offices in the U.S., U.K., Ireland, Spain and Japan. The company offers a comprehensive array of real estate services including auction, conventional sales, property services, research and investment management. Through its fund management and separate account businesses, Kennedy Wilson is a strategic investor of real estate investments in the U.S., U.K., Ireland and Japan. For further information on Kennedy Wilson, please visit www.kennedywilson.com.

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