

# Housing: Economic Stimulus to Drag

## March 13, 2006

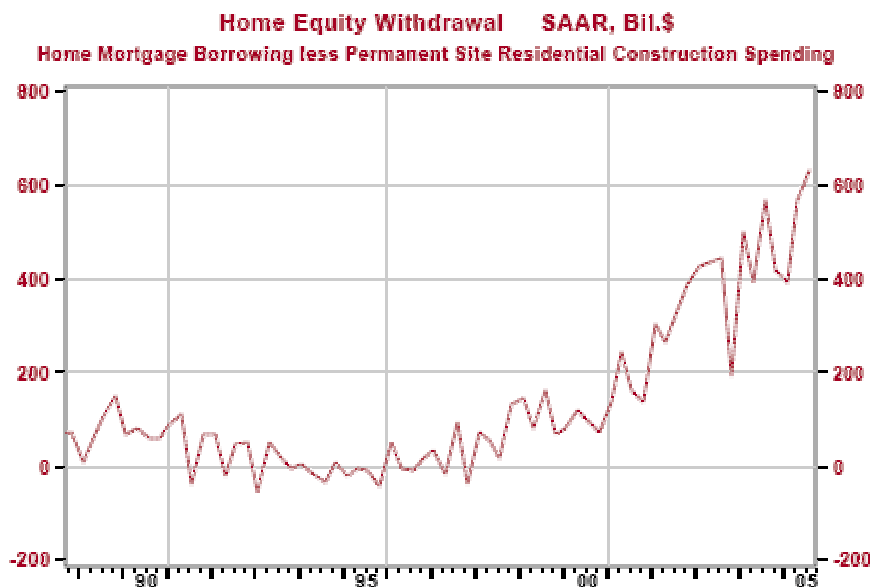
The folks at the Northern Trust Company in Chicago have probably done the best job in quantifying the housing bubble that has taken place over the last 5 years. Following our comments you will find several charts they used in their recent research efforts. Probably the least discussed aspect of the housing boom is that in reality it is consumer spending. What we mean by that is it is not an income-producing asset, just as buying a box of cereal produces nothing. It is important, it is vital, but is not an item that throws off cash, which help pays back the cost there of. Oh yes it can be a capital gains vehicle just as common stocks are, but these types of secondary markets can be fraught with risk where gains can become losses, if old man greed takes hold.

The facts are that personal homes are not an investment. An increase in value brings along with it an increase in taxes, insurance and other items. There is no cash flow to offset these costs. If one sells and buys another home other costs develop, such as broker commission, landscaping, interior work etc. Buying in the same area could mean that any "profit" you may have obtained is plowed right back into another asset that also has increased in value. Happiness and marital bliss could be of immense help, but a financial windfall? Give us a break!

Over the last 5 years the housing market, which is normally a very small contributor to GOP, has been the driving force of the US economy. In the private sector it has amounted to about 40% of employment and near the same in total activity.

Our point in all of this is; that the top of the housing market is in. Much slower growth is ahead. Caution is the name of the game.

We would not be surprised to see some major mortgage lenders develop severe financial problems. Buyers and lenders beware.



**U.S. Banks: Mortgage-Related Assets / Total Earning Assets  
(percent)**

