



# The Global Macroeconomic Situation and Its Implications for Housing or Vice Versa

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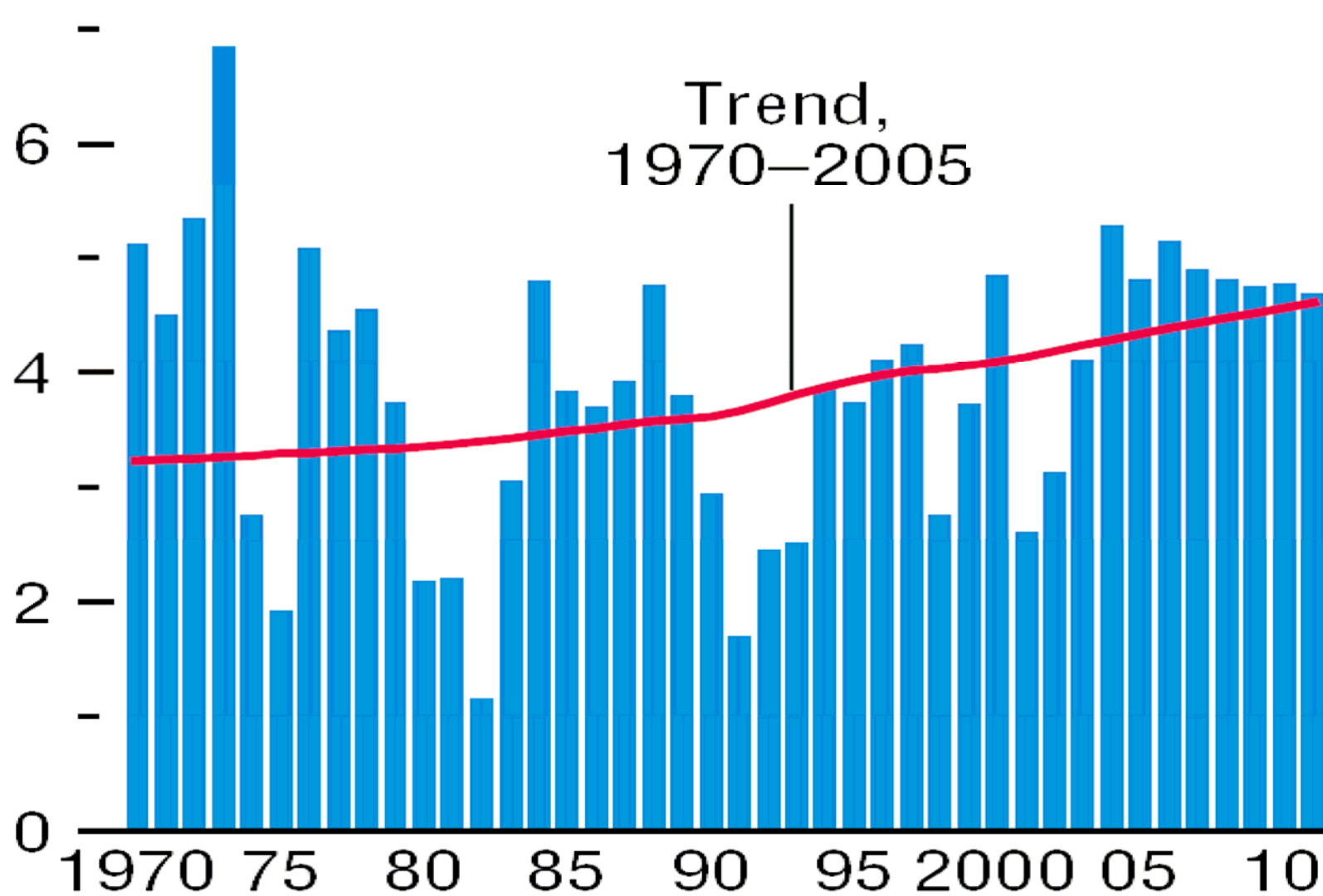


# Strong Global Growth

- Global growth (5.1%) remains strong
  - Significantly above trend for last three years
  - Robust growth of 4.9% expected for 2007
  - Since 2000, per capita growth higher than during the golden age of 1950-1973
- Growth is geographically balanced
  - Slowing in U.S.; picking up in Europe & Japan; Latin America, Africa, Asia are doing extremely well



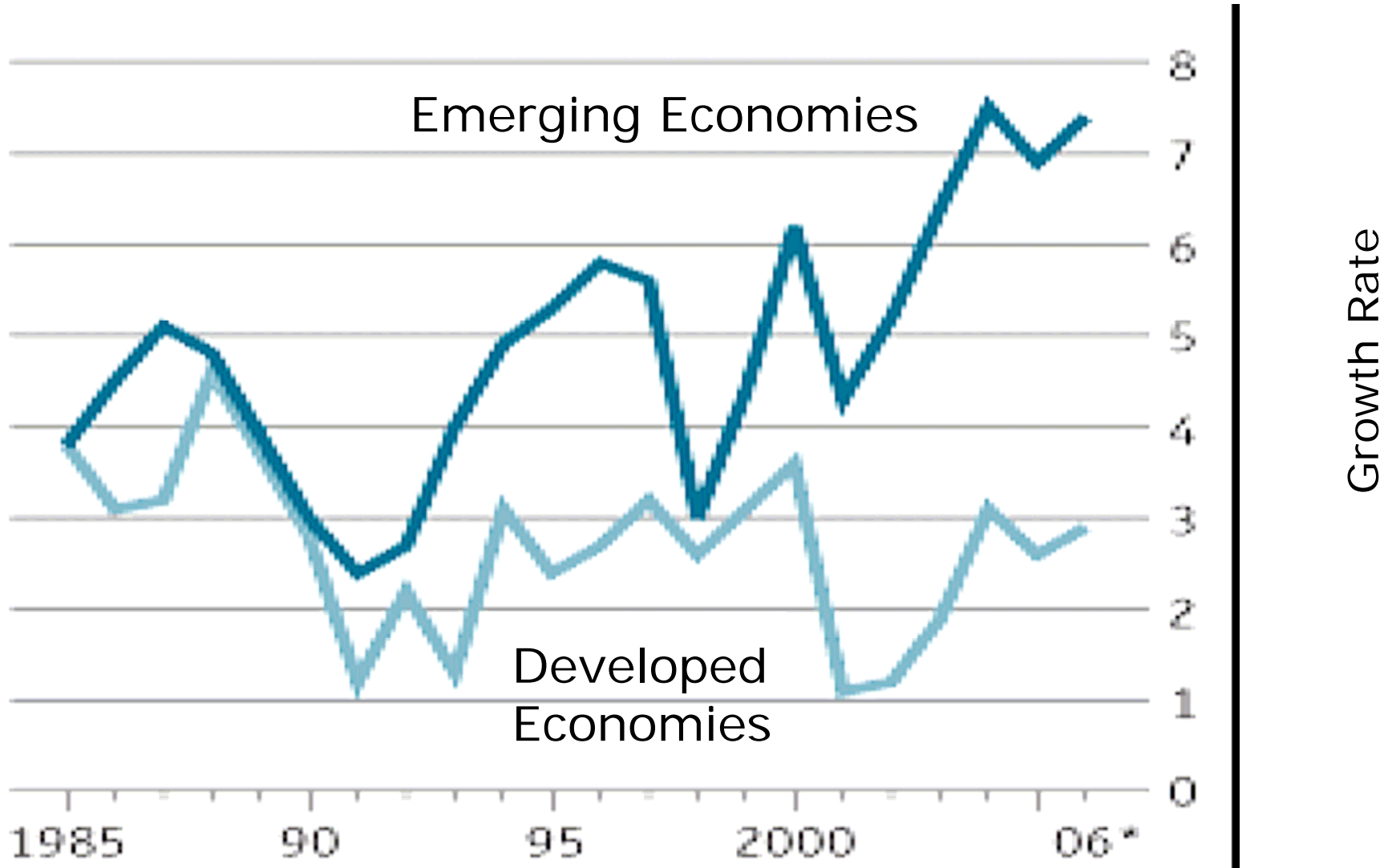
# An Improving Global Performance of Real GDP Growth



Source: IMF



# Improved Performance of Emerging Economies Explains Improved Global Performance



Source: Economist



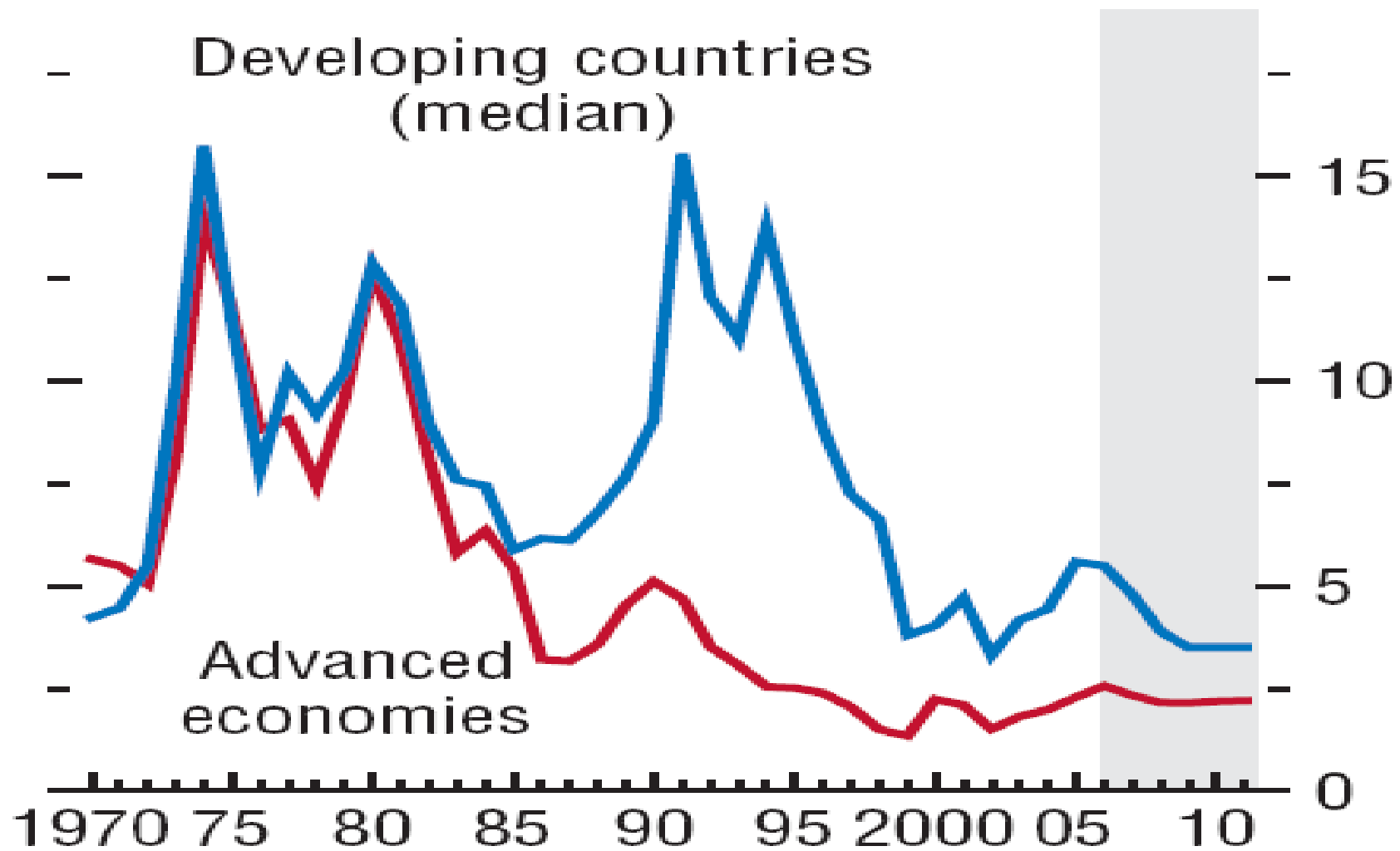
# Real GDP Growth by Region

Country or Region	1998-2007	2004	2005	2006	2007
<b>World</b>	4.1	5.3	4.9	5.1	4.9
<b>Advanced Economies</b>	2.6	3.2	2.6	3.1	2.7
U.S.	3.1	3.9	3.2	3.4	2.9
EU-15 (Euro Area)	2.4	2.4	1.8	2.8	2.4
Japan	1.3	2.3	2.6	2.7	2.1
<b>Emerging &amp; Developing</b>	5.9	7.7	7.4	7.3	7.2
Africa	4.3	5.5	5.4	5.4	5.9
Central & Eastern Europe	4.0	6.5	5.4	5.3	5.0
China	9.1	10.1	10.2	10.0	10.0
CIS	5.8	8.4	6.5	6.8	6.5
India	6.6	8.0	8.5	8.3	7.3
Latin America	2.8	5.7	4.3	4.8	4.2

Source: IMF



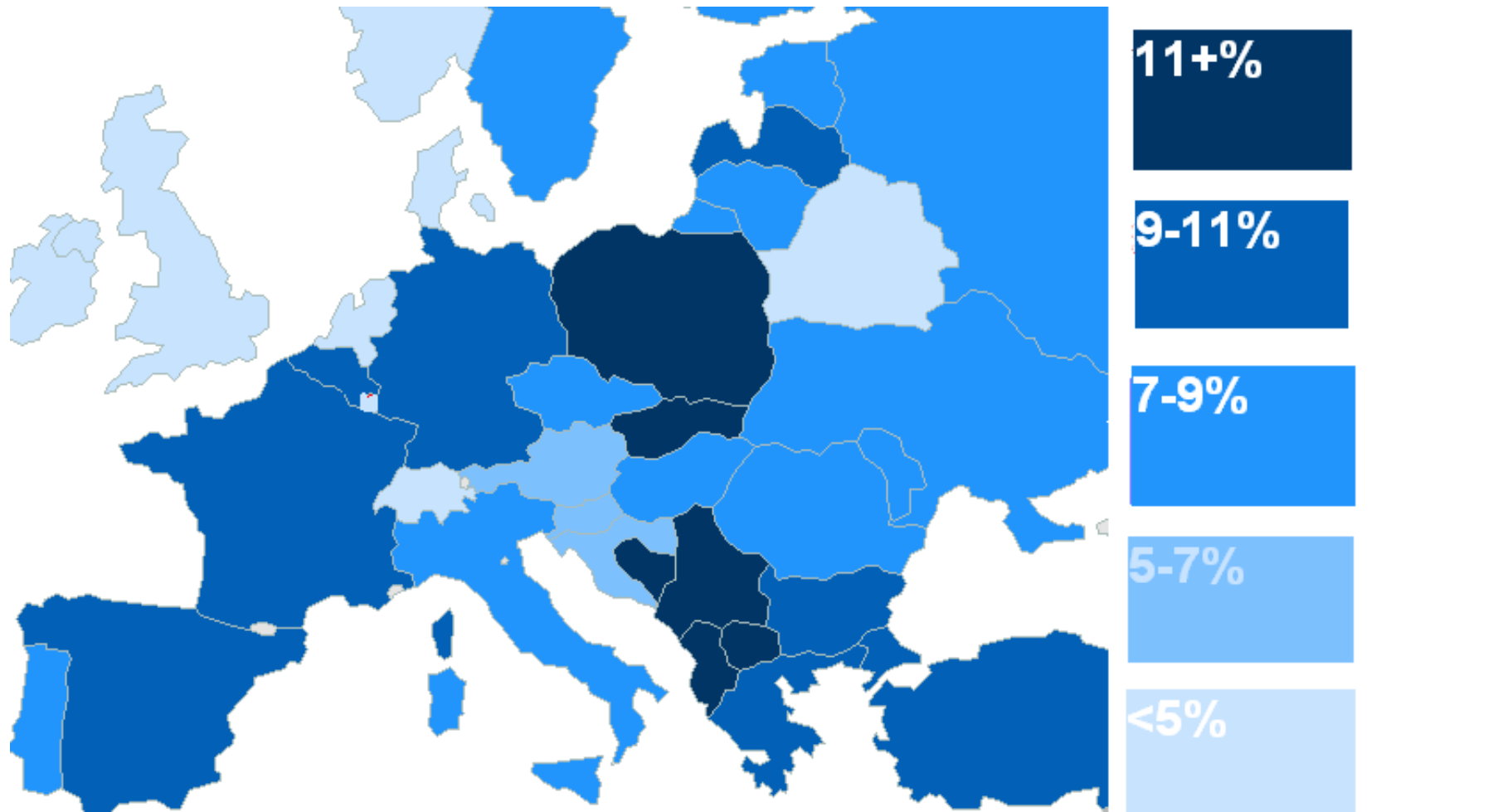
# Inflation Remains Low



Source: IMF



# Unemployment in Europe Remains High

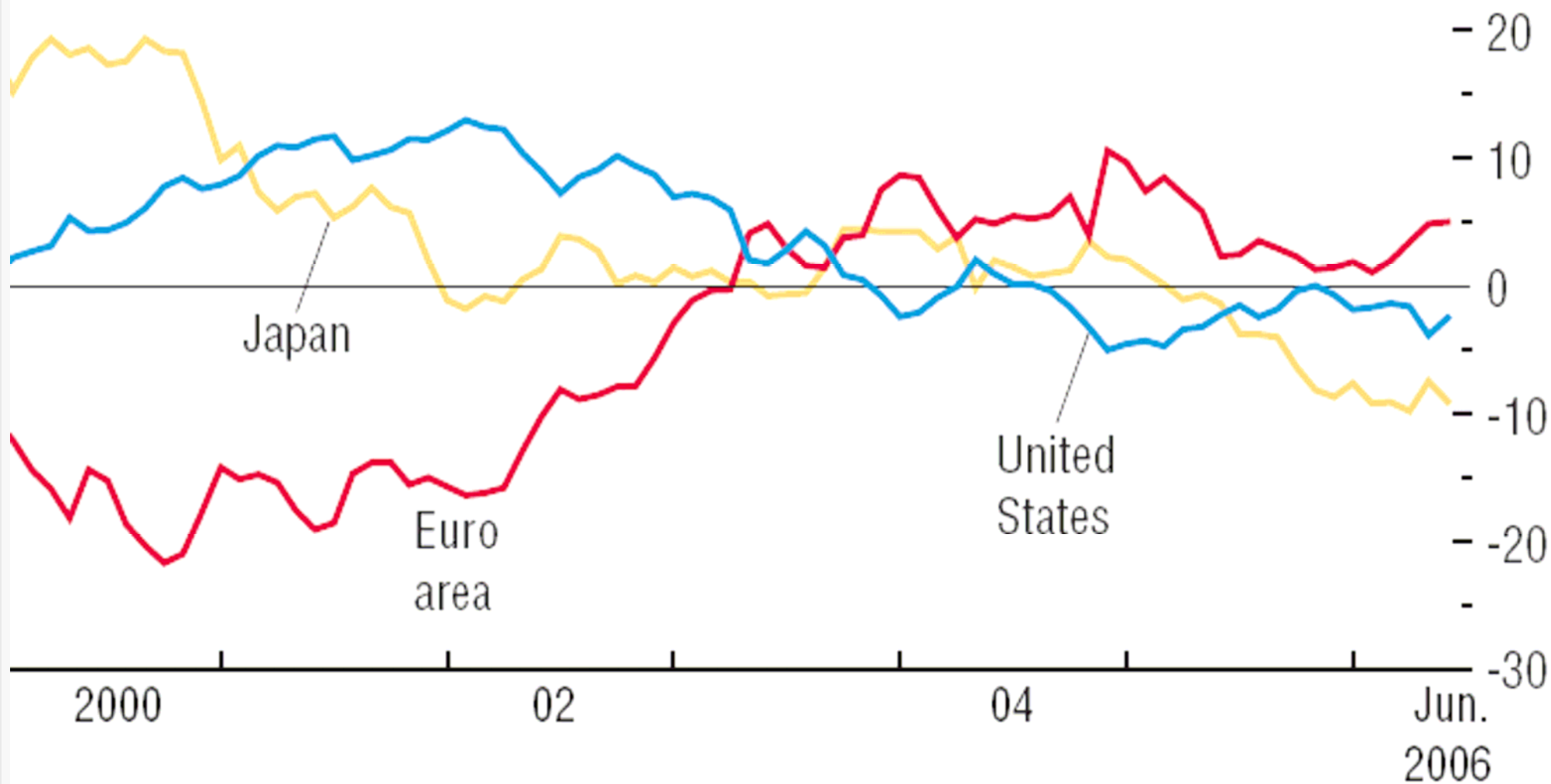


Source: UNECE Database



# Relatively Stable Exchange Rates

## Deviation from 1980-2006 Average



Source: IMF



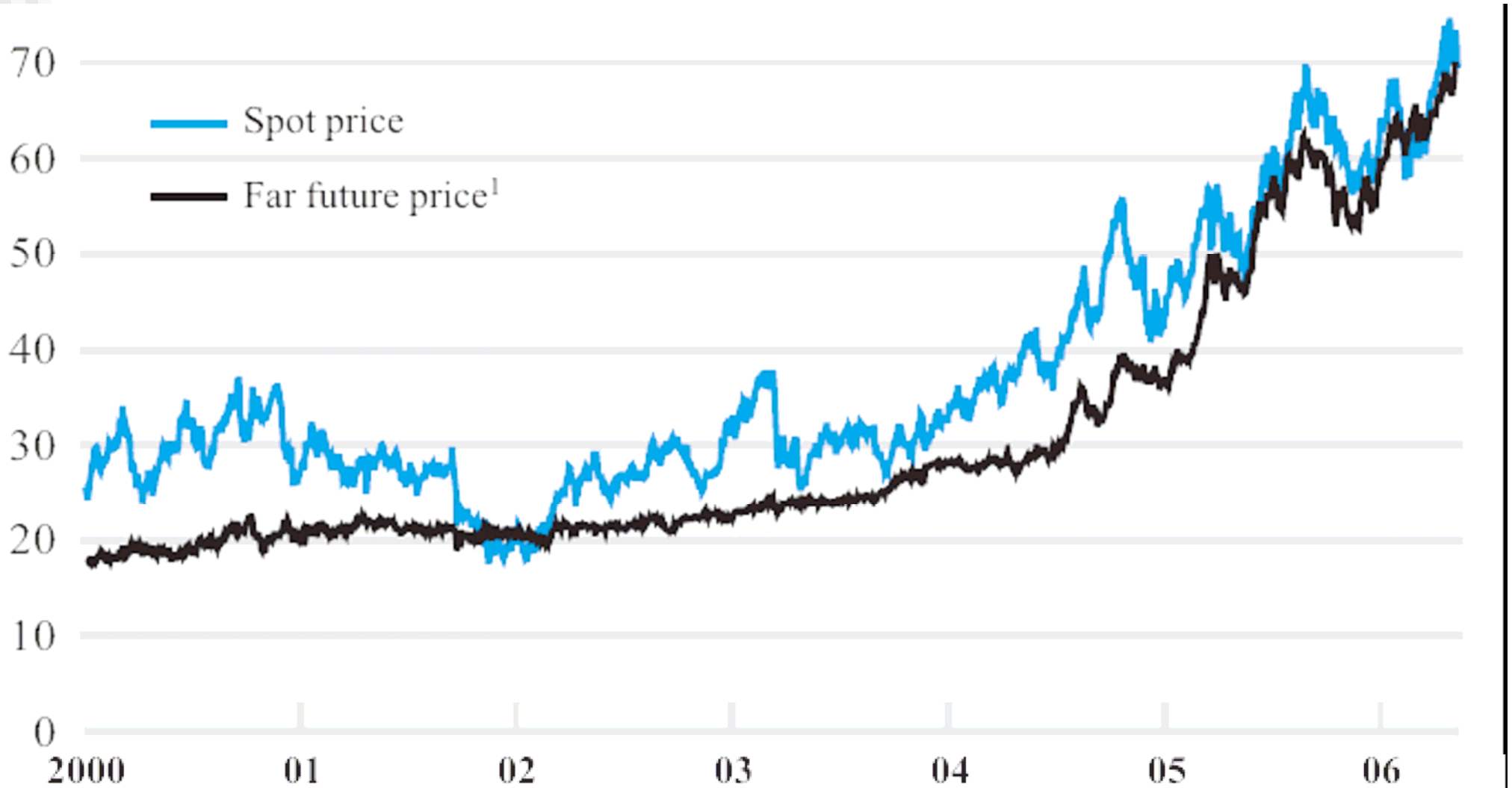
# Major Risks to Global Economy

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- Three Problems of Misaligned Prices
  - The Largest Traded Commodity – Oil
  - The Largest Currency – U.S. Dollar
  - The Largest Asset - Housing
- Two Problems of Unknowns
  - Hedge Fund or Derivative Collapse
  - Bird Flu Pandemic



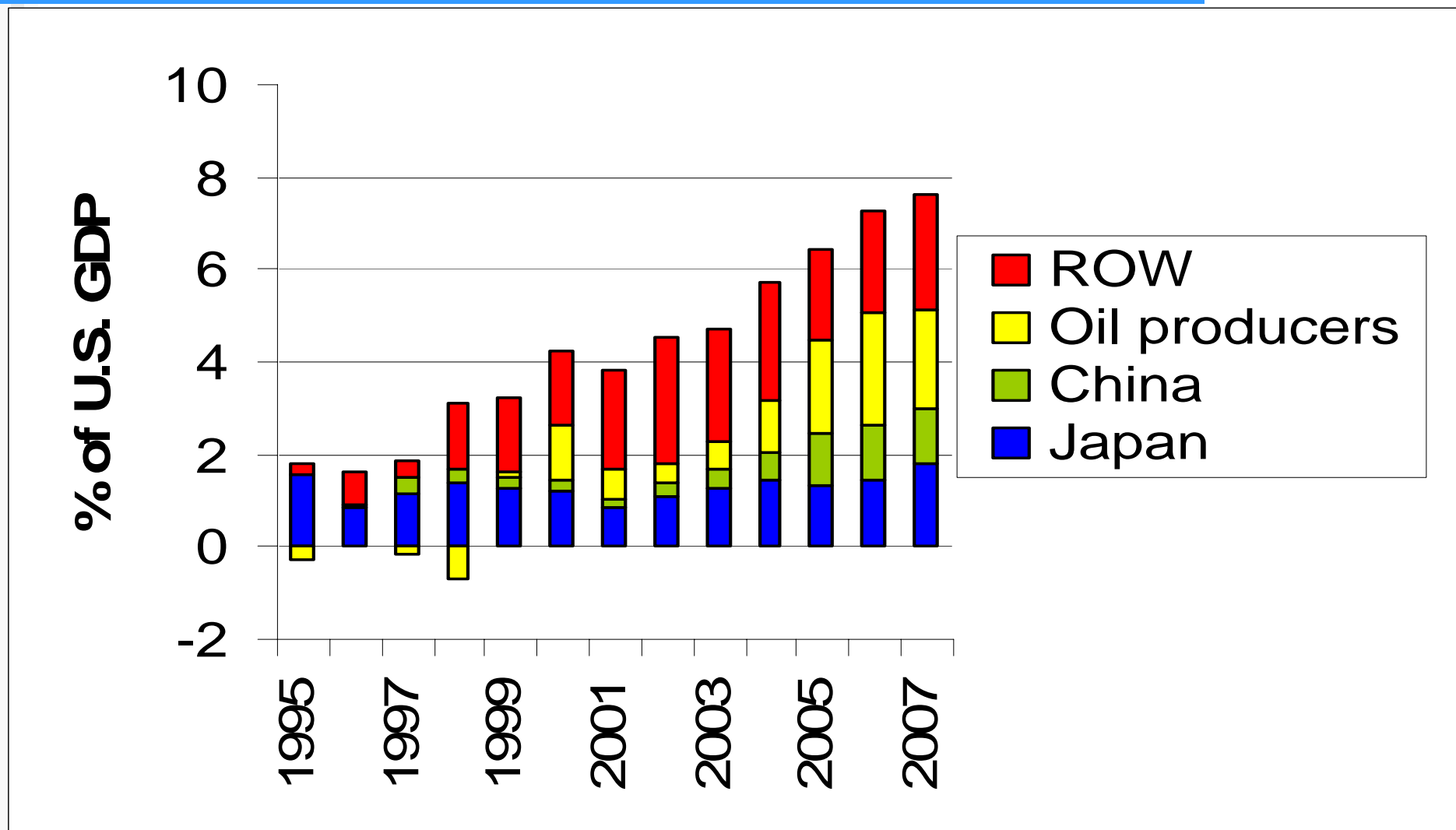
# Will Oil Stabilize?



\$ per barrel, West Texas Intermediate, Source: OECD



# U.S. Current Account Deficit and Other Region's Surpluses



Source: OECD



# Global Housing Price Increases

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- Global Rise in Real House Prices
  - EU up 5% a year since 2000
  - US up 7% a year since 2000
    - Average was 1% 1970-1990
  - Emerging Markets-China, Korea, South Africa, Middle-east, East Europe
  - Only exceptions: Austria, Germany, Israel, Japan, Switzerland
- *Economist Magazine*
  - *"Biggest financial bubble in history"*



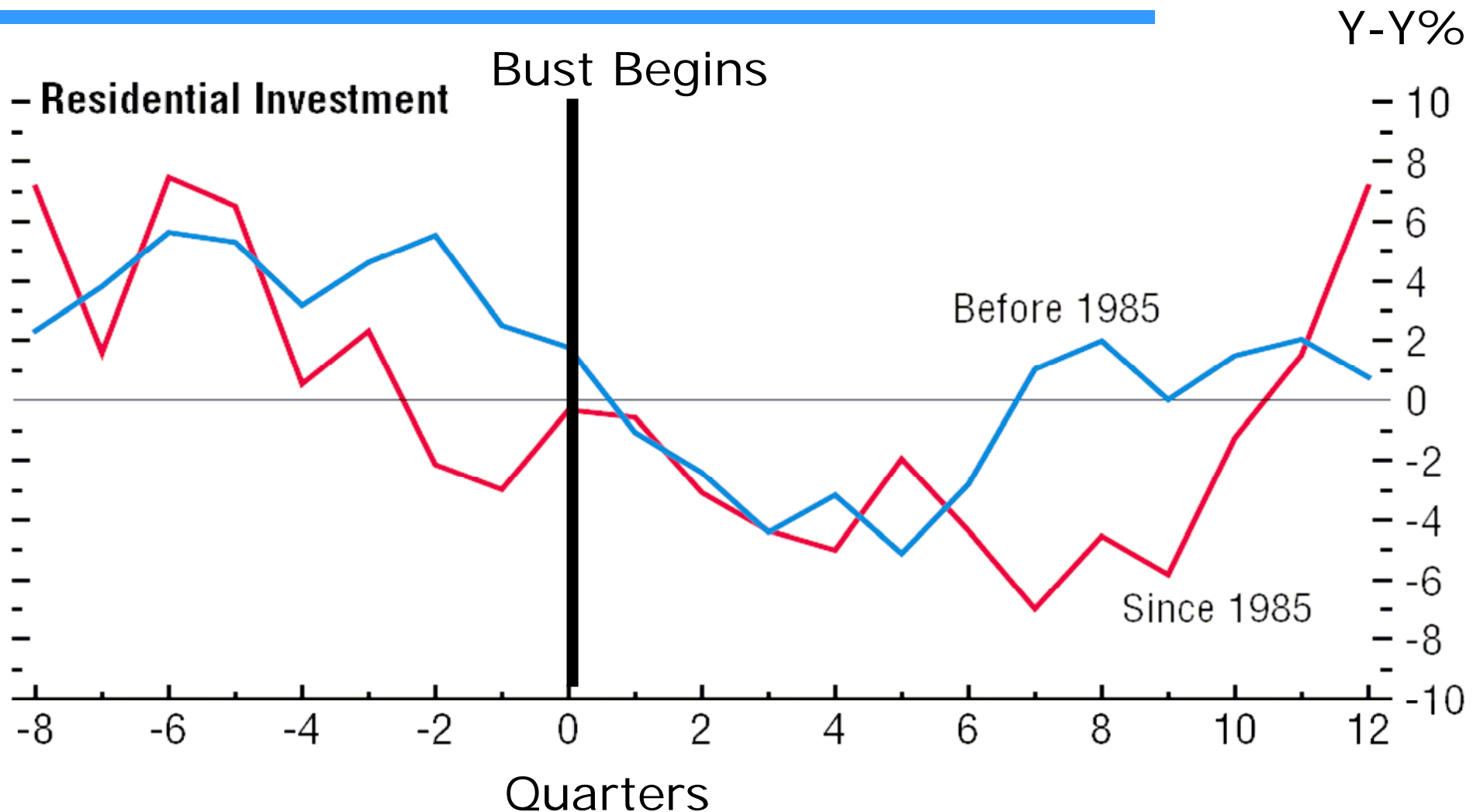
# Housing: This Time Is Different

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- Current Housing Price Cycle Is Different
  - Price Gains Have Been Much Larger
  - The Duration Is Longer
  - More Globally Synchronized
  - Less Connected to the Business Cycle
- Is a Bust Coming?
  - 2/3rds of Booms Followed by a Bust where 33% of Previous Gains Are Wiped Out
  - If a Bust, Residential Investment Will Fall for About 3 Years.
  - A Bust is Likely to Have Significant Implications for Global Economy



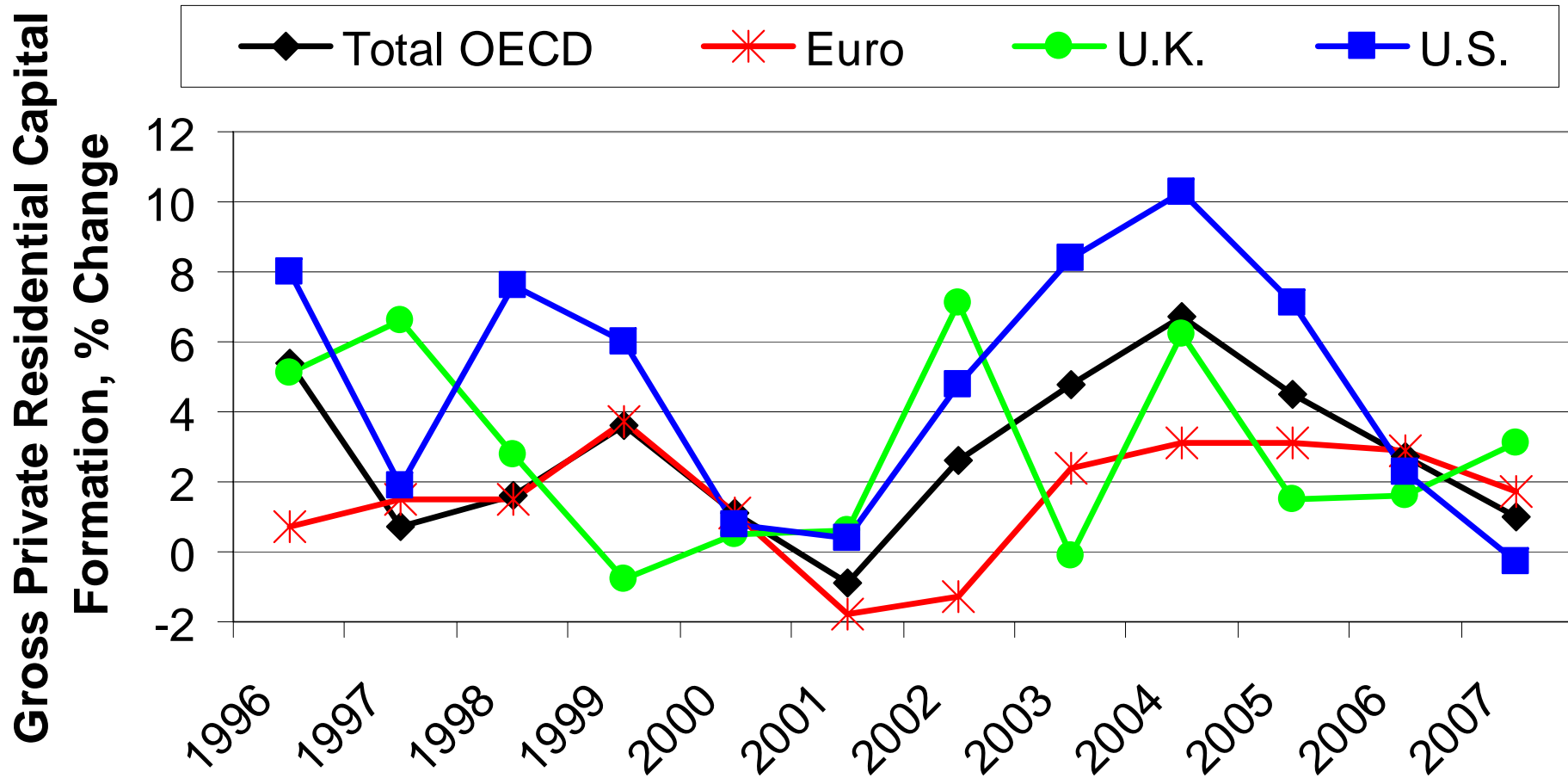
# Housing Busts Lead to Declines in Residential Investment



Source: IMF. Includes U.S, U.K., Canada, Australia, Italy, Denmark, Sweden, Norway, Netherlands.



# Investment in Housing Cools



Source: OECD



# U.S. Housing

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- U.S. Prices Have Levelled Off
- Inventories Are Growing (13 Year High)
- US Construction Industry Peaked in 2005
  - Construction highest share of employment in 50 years; so far in 2006 employment unchanged
  - Residential investment highest % of GDP since 1951 in 2005 but now falling.
- In July 2006, housing starts (1.8 million) down 13.3% from July 2005.
  - Lowest in only 20 months
  - Building permits down 20.8% from July 2005