

Housing market woes spread, dampening Florida's consumer confidence

August 28 2007

The latest round of bad news in the housing market dealt a blow to consumer confidence in August, causing a three-point drop to 78, its lowest level in a year, a new University of Florida study finds.

“A lot happened in August to shake consumer confidence,” said Chris McCarty, director of the Survey Research Center at UF’s Bureau of Economic and Business Research. “Everybody knows by now that the problems in the housing market have spread well beyond that sector alone. What we are seeing now is a pullback in lending, which is making problems worse for both buyers and sellers. This caused a very large drop in the stock market in the second half of the month.”

Although the stock market has since regained much of its loss, there is still a lot of uncertainty about how far the problems will go, he said.

All five of the components that make up the state index declined. The biggest drop was in perceptions about whether it is a good time to buy big-ticket consumer items, which fell six points to 85. Two components fell three points; perceptions of U.S. economic conditions over the next year to 70 and perceptions of U.S. economic conditions over the next five years to 77. The two remaining components each declined by one point; perceptions of personal finances now compared with a year ago to 72 and perceptions of personal finances a year from now to 88.

The last time consumer confidence was as low was August 2006 when it registered 77.

Despite the bleak outlook for housing, some parts of the economy actually improved for consumers in August, McCarty said. Gas prices, which had been a primary driver of consumer confidence, fell more than 18 cents per gallon in Florida, he said.

“This has helped lower-income households that spend a larger percentage of their income on energy costs,” he said.

In other good news, inflation remained in check, raising the possibility that the Federal Reserve Board may consider lowering the federal funds rate, which should help those hurt by the housing decline, McCarty said. The federal funds rate – the rate that banks charge each other for overnight loans — tends to drive interest rates on all other loans, including mortgages and credit cards. As a result, at a time when the housing market is stagnant, lowering the federal funds rate will make houses cheaper and hopefully stimulate sales, he said.

Another positive economic sign was strong employment levels, although they have shown signs of weakening, he said.

Even so, McCarty said he expects consumer confidence to remain at low levels.

One problem for Floridians that has not received enough attention is the rise in the interest rate that lenders charge on jumbo loans, McCarty said. These loans exceed the \$417,000 limit for purchase by Fannie and Freddie Mae, which provide a secondary market for home loans. These companies buy existing loans and by backing these loans make them more attractive for investors, which is important at a time when many primary lenders are going under and Wall Street investors are refusing to invest their money in more bad home loans, he said.

“The bottom line here is that many Florida housing markets have a very

high proportion of houses with a price tag above \$417,000,” McCarty said. “This means it will be hard for anyone to get a full loan on those houses, so they will be hard to sell. This will put pressure on homeowners who must sell to lower their prices.”

The research center conducts the Florida Consumer Attitude Survey monthly. Respondents are 18 or older and live in households telephoned randomly. The preliminary index for August was conducted from 508 responses.

Consumer confidence is designed to help predict buying patterns by measuring the mood of consumers toward purchasing. Although other economic indicators also predict buying patterns, consumer confidence tends to be available sooner. The index is benchmarked to 1966, so a value of 100 represents the same level of confidence for the year. The value of the index is in comparing changes over time rather than looking at an isolated month.

Source: UF

Citation: Housing market woes spread, dampening Florida's consumer confidence (2007, August 28) retrieved 2 May 2024 from <https://phys.org/news/2007-08-housing-woes-dampening-florida-consumer.html>

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