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Sell Excess House Inventories to Foreigners

Background Paper for WSJ editorial of March 17, 2009
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The first nationwide major decline in U.S. house prices since the 1930s is having devastating effects on homeowners, financial institutions and the economy. From the peak in the second quarter 2006, the Case-Shiller national house price index is down 21% through the third quarter 2008 (Chart 1). The downward pressure comes mainly from excess inventories, the mortal enemy of prices.

Aftermath of the Boom

The excess inventories are the result of the 1996-2005 residential construction boom when both builders and buyers thought that soaring prices and robust demand would continue indefinitely. Also fueling the exuberance were relatively low mortgage rates, especially on Adjustable Rate Mortgages (Chart 2) that many financially-challenged homebuyers embraced with the expectation that rising house prices would allow them to sell their houses or refinance before significant upward adjustments occurred.

By about 2005, the pool of qualified homebuyers was pretty well exhausted, but the business of mortgage origination and financing was so lucrative for mortgage brokers and lenders that they slashed, essentially eliminated underwriting standards. No documentation and No Income, No Assets (NINA) loans were made with gay abandon because they could easily be securitized and sold to gullible investors who trusted unrealistic double and triple A credit rates. That left originators with little or no further responsibility.

During the 1996-2005 boom, 6.7 million more houses were built in this country than were warranted by the fundamental drivers of housing demand. Our statistical model relates housing starts over the 1960-2008 years to demographics, as measured by the numbers of people in their 20s, their 30s and their 40s—the important first-time homebuyer ages. We also include interest rates since heavy mortgage financing makes interest costs and therefore monthly payments an important determinant of demand.

A 2.4 Million Net Surplus

The 6.7 million excess of houses built during the boom was the difference between what the fundamental factors indicated, as quantified by our model, and actual housing starts. We reduced that figure by 3.9 million to account for under-building in the 1987-1991 years of the savings & loan collapse, but that still left a huge excess inventory of 2.8 million. Note (Chart 3) that housing starts are extremely volatile, but average about 1.5 million per year. So the 2.8 million excess—over and above normal working inventories—is almost two years' total activity. Our analysis indicates that weak housing starts in 2007 and 2008 reduced the excess inventory figure by 400,000, but that still leaves 2.4 million too many houses.

About 2.0 million of that remaining 2.4 million figure is accounted for by the excess of new and existing home inventories over and above their normal levels (Chart 4). Some, however, aren't reported but continue to come out of the woodwork. Speculators who bought multiple houses during the boom but are unable to rent them with positive carries are throwing them on the market. Declining home ownership rates (Chart 5) are adding inventories as many who lose their house to foreclosures move in with roommates or relatives. This reversed the boom-time trend that saw many younger, minority and low-income people become first-time homeowners as well as the multitudes that wanted to get in on the big financial gains generated by soaring house prices and low downpayments.

This exit from homeownership is intensified by falling prices, which push more and more homeowners underwater with their houses worth less than their mortgages. That encourages delinquency and abandonment of houses, resulting in delinquencies (Chart 6) and foreclosures. Mounting layoffs (Chart 7) as the recession deepens add to the problem as does the collapse in consumer confidence (Chart 8). House inventories also pile up as potential buyers wait for lower prices. This generates a self-feeding cycle as the extra inventories caused by withheld demand depress prices, confirm buyer expectations and encourage them to wait for still-lower prices.

More Price Declines

We believe that if nothing is done to eliminate surplus housing, prices will fall another 20% between now and the end of 2010 for a total peak-to-trough decline of 37% (Chart 1). The resulting further negative effects on the economy will be devastating. At that point, almost 25 million homeowners, or almost half the 51 million total with mortgages, will be underwater, as show by the next to last set of bars in Chart 9. That's also a third of the 75 million total homeowners, with the remaining 24 million owning their houses free and clear. It would take a little over $1 trillion to reduce their mortgages to the value of their houses, compared to $449 billion for the almost 14 million currently underwater.

On average, the home equity of any homeowner with a mortgage has fallen from almost 50% in the early 1980s to 25% (Chart 10) and could drop to the 10% to 15% range if house prices fall another 20%. Already, the mortgage equity withdrawal that homeowners have relied on to fund their spending growth has disappeared (Chart 11). Notice that earlier it reached the $900 billion annual rate, equaling about 10% of consumer spending. The combination of falling house prices and drooping stock prices (Chart 12), which has been driven down largely by housing-related woes, is slashing household net worth. In relation to after-tax income, household net worth, is approaching the low level precipitated by the 2000-2002 stock market collapse (Chart 13).

Furthermore, for all but the wealthiest Americans, the situation is even worse since for most their houses are vastly bigger assets than their stocks. About 50% of Americans own stocks or mutual funds, but 68% of households own their own abodes (Chart 5). Even more important, equity ownership is much more skewed to higher-income households than the value of their homes, as shown in Charts 14 and 15, using data for 2004, the latest available. Notice that the top 10% by income owned 27 times as much in stocks as the bottom 20%, but only 6.4 times as much in home value. It's no wonder that despite the 21% decline in house prices since their second quarter 2006 peak, less than half the 47% drop in the S&P 500 from its October 2007 top, a new Wall Street Journal/NBC News poll found that more Americans are worried about house prices than about the decline in stock prices.

As falling house prices destroy home equity, consumers have no choice but to retrench and slash spending (Chart 16). That, in turn, spawns cuts in production and jobs, which depresses spending and housing prices in a vicious self-feeding cycle. It also continues to wreak havoc on financial institutions and force more government bailouts with all the attendant distortions to the financial structure and economy (Chart 17).

No Easy Job

So, excess house inventories are a major problem and until they are eliminated, consumer spending, financial markets and the U.S. economy will remain under pressure. So will foreign economies, given the vulnerability of many lands to weakening U.S.-bound exports on top of plentiful home-grown problems (Chart 18).

Washington policymakers don't seem to understand that surplus inventories of homes are the root of the problem. They're bailing out financial institutions and now are turning to help homeowners in or close to foreclosure. But foreclosures are the result of excess inventories that depress prices and will persist as long as too many houses remain on the market.

During the loose-lending days of the housing bubble, many people who couldn't afford chicken coops were able to buy four-bedroom houses with virtually no downpayments. Many of their houses are really hidden inventory because they lack the incomes and financial assets to keep their abodes in the face of falling prices.

Any attempts to assist them short of forgiving their mortgages completely are probably of little help, especially when many of those homeowners are underwater or close to it. This is shown clearly by redelinquencies on mortgages that were modified by reducing mortgage rates, extending the repayment periods or other changes by lenders to cut monthly payments. In December, the Comptroller of the Currency released a survey conduced by his office and the Office of Thrift Supervision of mortgage modifications by the 14 largest banks and thrifts that account for over 60% of outstanding mortgages. Six months after modification in the first quarter 2008, 55% of loans were more than 30 days past due, and after eight months it was 60% (Chart 19).

It's doubtful that even the reduction in the interest rate on 30-year fixed rate mortgages from the current 5.0% to 4.5% (Chart 2) that is now being discussed in Washington would help much. Homeowners that are underwater can't refinance to take advantage of lower rates. And qualified buyers who can meet the reinstituted standards of 20% down, good credit scores, documented incomes and assets, etc. probably would be no more likely to buy houses at 4.5% than at somewhat higher rates.

Recent rate declines have touched off a wave of refinancing applications and pushed that index to its highest level since June 2003 (Chart 20). But only about 30% of outstanding mortgage debt is likely to be quality for refinancings, according to Fannie Mae. Around 70% of mortgagors don't have good enough credit or sufficient home equity to refinance. So the lower interest rate-induced refinancing boom is helping those who don't need it, not those who do.

Furthermore, the "cramdown" change in the bankruptcy law being considered by Congress might do more overall harm than good. It would allow bankruptcy judges to reduce mortgage principals for primary residences, but that would encourage underwater homeowners to declare bankruptcy and further destabilize the housing market. Also, mortgage rates would probably rise to adjust for the risks to lenders of cramdowns. And what good are cramdowns as house prices continue to fall under the weight of excess inventories and soon put the hapless homeowners back underwater?

Eliminating Excess Housing

So, eliminating excess housing is essential to getting the economy and financial markets to stabilize. How can it be done? One approach is to let the markets take their course. Housing starts (Chart 3) would continue to plummet after homebuilders completed current projects and as many went out of business. This is the assumption underlying our forecast of another 20% decline in house prices between now and the end of 2010.

The problem with this strategy is that by then, half of homeowners with mortgages would be underwater to the tune of $1 trillion, as discussed earlier (Chart 9). The effects on consumer sentiment, spending and on their interest and ability to buy houses would be devastating and probably drag the economy into a longer, deeper recession than we're forecasting, with enough financial distress to risk a depression. Most homebuilders, even the large, better capitalized ones, would be out of business by then.

Furthermore, shutting down new home construction and letting house prices continue to drop might not actually eliminate excess inventories any time soon. That's because of the resulting severe depressing effects on the economy and financial markets and on the willingness and ability of prospective buyers to purchase those surplus houses. Also, this approach might not be politically acceptable. The resulting extension of the recession into 2010 would no doubt cry out for government action. With half of mortgages underwater, the destruction of the American Dream of homeownership for so many people would probably force Washington to act in some substantial but inefficient and extremely costly manner.

For example, the government might buy up surplus houses and resell them at prices low enough to attract homeowners and investors. But those low prices would force other house prices down, destroying the home equity of those who still had any and driving many homeowners with mortgages further underwater.

Another approach is for the government to buy up and then destroy surplus houses. When oil prices collapsed in the late 1980s, and with that the Oil Patch housing bubble, some apartment buildings in Houston were actually bulldozed. But those were only partially finished, abandoned, vandalized and full of mold. They weren't worth rehabilitating even if the market had been healthy. Sure, today's excess housing stock will tend to deteriorate in time and eventually could be bulldozed. But that would be a poor fate for perfectly habitable houses and an inefficient use of resources.

Foreign Buyers

There is, however, a vast market for America's surplus houses—foreigners who are clambering to achieve resident status in this country and would probably buy houses to reach that goal. Some of these people are already in this country but hesitant to purchase houses because of the uncertainty of their resident status.

A feasible program could require foreigners to buy houses of minimum values, with those prices governed by median prices in the various metropolitan areas. Notice (Chart 21) that even after the collapse in house prices in erstwhile boom areas like Anaheim-Santa Ana, Calif., Los Angeles, San Diego and Miami, they are still well above the national averages. Buyers would be given temporary resident status when they purchase houses and permanent status after, say, five years if they still own their houses and had clean criminal records.

They could trade houses in the interim, but only for houses of the same or greater prices. They wouldn't be required to live full-time in their houses, but they could not rent them. As a result, their purchases would remove excess houses from the market. Foreign buyers could be required to conform to Fannie and Freddie standards for any mortgage loans, such as 20% down, good credit scores and documented and adequate income and assets.

This plan would not only remove surplus houses from the market and arrest the decline in prices. It also would pump money into the economy. If the current excess of 2.4 million houses were purchased at today's median house price of about $184,000, the inflow from foreigners would be $88 billion, assuming they put 20% down and borrowed the rest in this country. If they paid cash, the inflow would be $442 billion. Besides stimulating the domestic economy, this would vastly help the U.S. foreign accounts and support the dollar. The mere announcement of this program would probably go a long way toward stabilizing house prices.

Assets and Skills

Foreigners with the capability to buy houses in the country would tend to be people with meaningful assets and the professional and technical skills needed for middle and higher-income jobs. And the demand for these people is readily apparent from the speed with which the annual quota of H-1B visas is filled.

Immigration has been a politically charged issue in this country for years. The principal fight is over Hispanics, many of them illegal, entering the U.S., usually from Mexico. Sympathizers note that they tend to take the low-level jobs eschewed by Americans, have strong family orientations and pay taxes. Opponents say they take jobs from Americans because they're willing to work cheaply, and that they're illegal and breaking the law.

About 12 million illegal immigrants live in the U.S. Between 2000 and 2007, the foreign-born population grew around 1 million a year. Around 56% of the total are Hispanics and about 80% of them are illegal. The Pew Hispanic Center estimates that the recession slashed the foreign-born population growth in half to 500,000 last year, with Hispanics falling to 358,000 from 558,000 a year in the 2000-2007 era. Illegal arrivals from Mexico ran 150,000 last year and 75,000 from Central America, both down 50% from 2007.

Many of those people work in construction and services such as restaurants and cleaning jobs that have shed workers. Over 20% of foreign-born Hispanics work in construction while 23% are in service jobs. Some of the newly unemployed are returning home while others are dropping out of the labor force or competing with American citizens for low-level jobs. Obviously, this is stirring up resentment, which is already considerable.

Frustrations in Washington

Washington has been repeatedly frustrated in its attempts to curtail illegal immigration. In 1986, Congress granted amnesty to illegals who entered the U.S. before 1982 and had been here continuously, giving 2.7 million the ability to attain legal status. The new law also made it illegal to knowingly hire undocumented aliens under the theory that that would curb their employment prospects and therefore slash the inflow. The law also introduced I-9 forms to insure that prospective employees presented documentary proof of their legal eligibility for jobs.

Enforcement efforts proved to be of little value, however, so illegals continued to flood in. More recently, some fences have been built on the Mexican border and electronic surveillance devices deployed. Federal raids on meat-packing and other businesses that tend to employ illegals have been stepped up, and states such as Arizona, Oklahoma and Rhode Island introduced laws to punish employers of illegals.

In 2007, Washington considered another immigration overhaul. The word "amnesty" was a no-no after the 1986 law's failure, but changes considered would have given illegals already here the chance to stay, forced employers to verify employee legal status and stepped up border security. Also, those with education, proficiency in English and job skills would have preferred status over relatives of people already in the U.S., a change aimed at curbing "chain migration." In 2006, 63% of the 1.1 million immigration visas went to relatives of American citizens or legal residents, 13% went to people because of their skills and only 37,000 were issued to those the government said had "first priority" skills including "outstanding professors or researchers."

No immigration law was enacted in 2007, but the vigor of the debate highlighted an important reality of the American economy. This is a nation of immigrants, an importer of labor, unlike Europe, which has traditionally been a labor exporter. So, except in times of high unemployment, the U.S. has needed foreign labor and has been a relatively easy country to enter, legally or illegally. Think of all those who come on tourist visas, disappear into the population and live out their lives as though they were American citizens. Enforcement of immigration laws has been lax and many rules that would deter illegal immigration aren't even on the books. As noted earlier, the 2007 attempt to require employers to check the legal status of existing employees as well as new hires failed to become law.

H-1B Visa

This American soft spot for foreigner workers, especially those with skills, is shown by the H-1B visa program. Each year, 65,000 visas are offered for highly skilled foreign workers and an additional 20,000 for immigrants with master's degrees or doctorates from American colleges and universities. In the first five days of the application period that started April 1 last year, 163,000 petitions were submitted, or over twice the quota. Most of those petitions are backed by employers hungry for people with special expertise such as scientists, engineers or computer programmers. Those employees at the top of the list include Microsoft, Intel, Stanford, Columbia, the National Institutes of Health, McKinsey, Yale and Merrill Lynch. The H-1B visas are issued for three years and can be renewed for a maximum of six years.

The recipients of these visas tend to be young, highly educated and well paid. In its November 2006 special report, the U.S. Citizenship and Immigration Services said that in fiscal 2005, 266,474 petitions were submitted for the quota that year of 65,000. Two-thirds of petitions approved were for people age 25 to 34 (Chart 22). In that year, 45% had bachelor's degrees, 37% master's, 5% doctorates, 12% professional degrees and only 1% had less than a bachelor's degree (Chart 23). Some 43% were in computer-related occupations while 12% were in architecture and engineering and 11% in education (Chart 24). It's nice to know that even fashion models are skilled enough to deserve H-1B visas! Models also were well paid, making median incomes of $100,000 in 2005, double the $50,000 for all H-1B beneficiaries (Chart 25). That number in turn was well above the $42,160 of all American male jobholders and $32,285 for females in 2005.

The H-1B visa program shows that there is a huge and unfilled demand in this country for foreigners with high skills and substantial income-earning ability. Most of the people who would like to come in—and U.S. employers want to bring in—would no doubt buy houses. So allowing people to immigrate if they buy houses would also tend to attract well-qualified, productive and readily-employable people. Many of them would probably bring in other investable assets as well.

Although the ongoing severe recession and financial crisis is dampening employment as layoffs spread, the global reach of the turmoil heightens the attractiveness of America to many. Consider the strength of the dollar and of Treasury securities of late. Many foreigners may wish even more than in normal times to migrate to the U.S., the safe haven in a global sea of trouble.

Canada's Program

Canada, another historically labor-short country, has a somewhat similar Immigrant Investor Program that has attracted a number of foreigners. Applicants for this permanent residential program must have at least two years of business experience, a net worth of at least C$800,000 and enough money to support themselves and their families in Canada. They also must pass medical exams and security and criminal checks, and have a minimum point score that's based on business experience, age, education, language ability in English and/or French (this is Canada) and adaptability to Canada as shown by business exploration trips or other earlier activities in that country.

An immigration candidate is required to invest C$400,000 with the government that is used for job creation and economic development. This money, without interest, is repaid to the investor after five years. This program is still small but growing, attracting 7,443 principal applicants and their families in 2007 compared to 4,544 in 1998. The total number of economic immigrants to Canada in 2007 was 131,248, including skilled workers, entrepreneurs and their spouses and dependents.

The U.K. just introduced a points system for immigrants that favors highly-skilled people and is modeled after one in Australia. The U.K. system grades prospective immigrants on their education, age and need for their skills and is expected to cut the annual quota by 20% to 800,000. Britain is reacting in part to the recession and rising unemployment as well as to national identity issues as she moves away from a very open immigration policy and towards that of some other European countries.

In contrast, Sweden is opening her doors by allowing companies greater freedom to recruit foreigners of all skill levels. Sweden is responding to current labor shortages and to a rapidly aging population and shrinking labor force that will strain government budgets to provide pensions and health care for retirees in future years.

Global Migration Barometer

With globalization comes migration. Four decades ago, 75 million people lived outside their home country, and now it's 191 million, according to the Economist Intelligence Unit. And it wasn't just people moving from poor countries to rich ones in search of a better life. Almost half moved from developing lands to other developing countries. The Unit ranked 61 developed and emerging countries on a scale of 0 to 100 for their attractiveness, their accessibility and their need for migrants. In attractiveness to migrants (Chart 26), the U.S. ranked No. 1, based on her being a larger, multicultural economy with relatively high-quality education. Countries at the top of the list are also politically stable democracies with high living standards. Accessibility to migrants depends on ease of entry, integration smoothness, legal status of migrants and public attitudes towards newcomers. In this ranking, the U.S. drops to No. 7. Immigrant-hungry Australia, Canada and New Zealand rank above America.

The third category, the need for immigrants, measured the various countries' need for newcomers to sustain economic growth. This is an important factor for developed countries since almost all have aging populations and looming hordes of retirees. This measure (Chart 26) quantifies the need for more workers beyond the current stock of natives and immigrants and the current net inflow from abroad. Future labor needs can be met by younger, productive immigrants but also by residents retiring later, more working women and other domestic changes in the labor market.

Who Needs Immigrants?

Japan, not surprisingly, ranks at the top of the list for needing immigrants. Her population is aging the fastest of any major country and immigration hardly exists (Chart 27). In fact, there's no such thing as an immigration visa in Japan although some foreigners are allowed in on extended "training assignments." Note that Admiral Perry took his black fleet of American warships to Japan twice in the 1850s to impress on the Shogun that the U.S. was not amused by Japan's welcoming of American shipwrecked sailors by killing them on the beaches. Even today, there are limits on the number of foreigners allowed on Japanese baseball teams, even though baseball is hardly a native sport in Japan.

Other G-7 countries have more net immigration each year in relation to their populations than Japan, but except for population-hungry Canada, the U.S. has the highest (Chart 27). That's in part why America ranks 31st on the need for migrants list (Chart 26). The Economist Intelligence Unit believes that legal and illegal immigrants already absorbed by the U.S. and the ongoing influx will reduce the need for more in future years to support the retiring postwar babies. Also, the concern over illegals entering this country will limit America's zeal to attract newcomers, the Unit believes. Note that Canada ranks even lower than America, at No. 39.

Bring Them In!

America's relatively open immigration policy may make this country better off than many other developed countries in facing the onslaught of retirees, but that's not good enough (Chart 28). There still is a huge need to expand the labor force with productive, skilled people, both current residents and immigrants. The challenge spawned by the aging postwar babies is for there to be enough people still working who are productive enough to produce enough goods and services to provide for their own needs and for those in retirement. Otherwise there will be intergenerational warfare to split an inadequate pie. And newcomers with education skills and language ability that are readily assimilated will probably continue to be much more acceptable by Democrats as well as Republicans than those without.

Without an increased number of highly productive working people who generate payroll taxes, and other changes such as later retirement ages and slowing of the rises in Social Security benefits and Medicare costs, the future looks grim. The government assumes even lower levels of immigration in the decades ahead than at present, despite a growing economy (Chart 29). Not surprisingly, real GDP, real wages and employment are also assumed to expand relatively slowly by recent standards. And these sobering numbers are realistic unless something is done.

A Consumer Saving Spree

U.S. consumers have been on a borrowing-and-spending binge since the early 1980s, which has collapsed their saving rate (Chart 30) and spiked their borrowing (Chart 31). Their excessive spending has added about 0.75 percentage points to real GDP growth, which has averaged 3.0% per year in the 1982-2008 years. But with stock and house prices both depressed, consumers have no remaining sources of borrowing to support oversized spending and are embarking on a multi-year saving spree as they delever. The need and ability of the postwar babies to save also points to a one percentage point annual rise in the saving rate for years to come. That alone, including the follow-on effects of their subdued spending on the economy, would chop long-term annual GDP growth from 3.0% to 2.0%. The deleveraging of the financial sector will also curtail economic growth here and abroad as securitizations, off-balance sheet vehicles, loose lending practices and other financial excesses of the bubble years disappear due to private sector fear and more government regulation.

With the postwar babies, born in the 1946 to 1964 era, now in their peak earnings years, payments into the Social Security trust funds actually exceed outflows. But in 2017, that pattern is projected to reverse and the excess of expenditures over income will then leap (Chart 32). Notice (Chart 30) that in 2041, the Social Security assets will be exhausted. Interestingly, the government estimates that if immigration averages 1.375 million over the next 75 years vs. the base case of 1.070 million, the present value of expenditures over those years drops by 23%. This emphasizes the importance of immigrants in future years, especially those with education and skills.

As is well known, the projected income shortfall for Medicare hospital insurance is even bigger than Social Security (Chart 34). That trust fund is projected to be broke in 2019 and thereafter the spread between expenditures and income leaps (Chart 35). Similarly, the gap for Medicare supplemental insurance for physicians and drugs mushrooms (Charts 36 and 37) as expenditures leap well beyond the premiums paid by retirees. In total, the present value of unfunded costs of Social Security and Medicare for the next 75 years is $42.9 trillion. That's three times the current level of GDP of $14.4 trillion.

Allowing foreigners to buy houses in return for permanent resident status won't instantly eliminate the financial crisis and global recession, which are deteriorating toward the worst since the 1930s. But it could vastly reduce a huge downward driver and impediment to revival—excess house inventories. And in the long run, the skilled and productive foreign workers who would be attracted by this program would be important sources of taxes to fund otherwise exploding shortfalls in Social Security and Medicare benefits for the postwar babies.

CHART 1

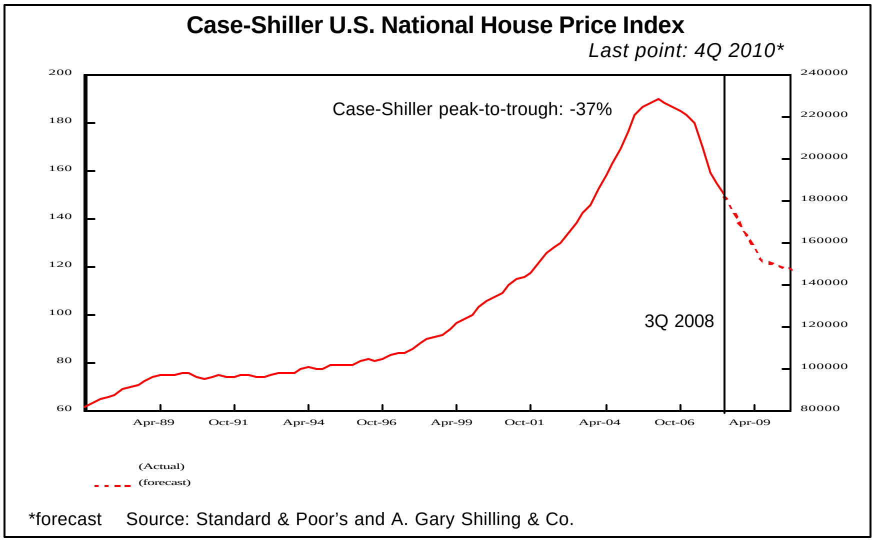


CHART 2

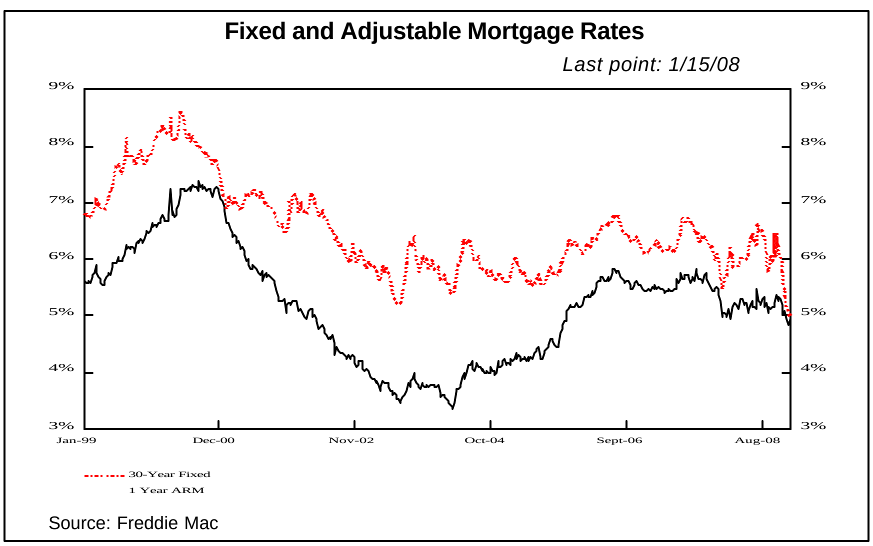


CHART 3

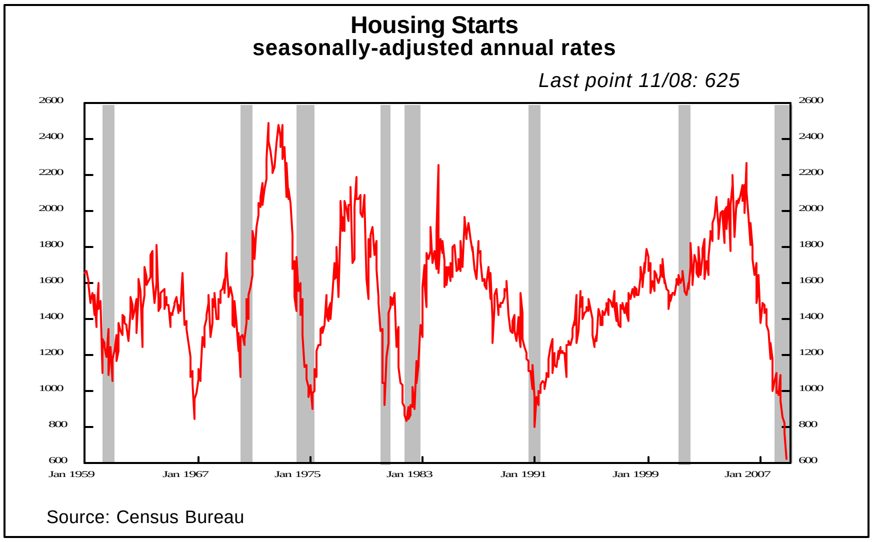


CHART 4

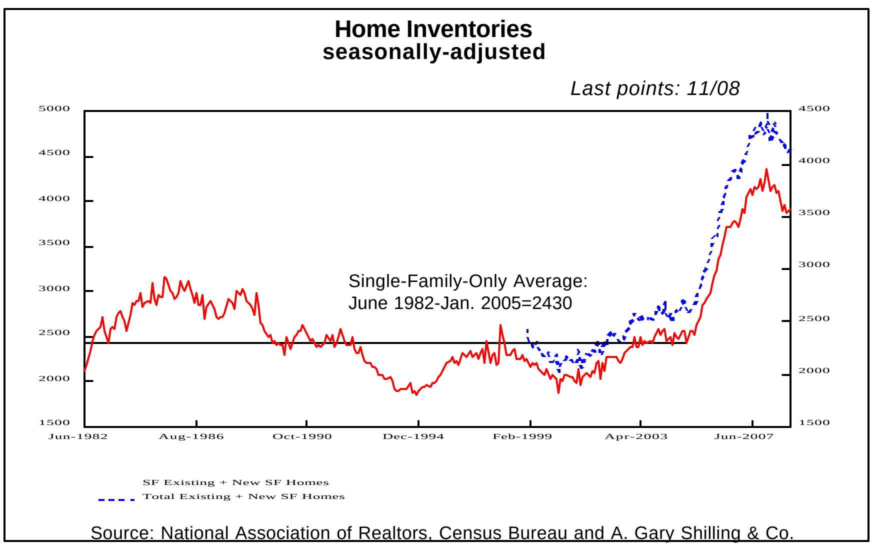


CHART 5

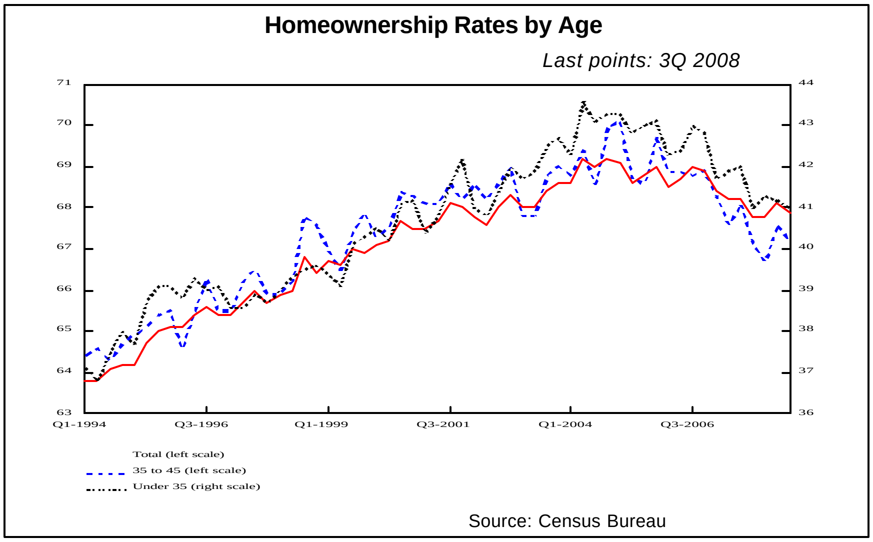


CHART 6

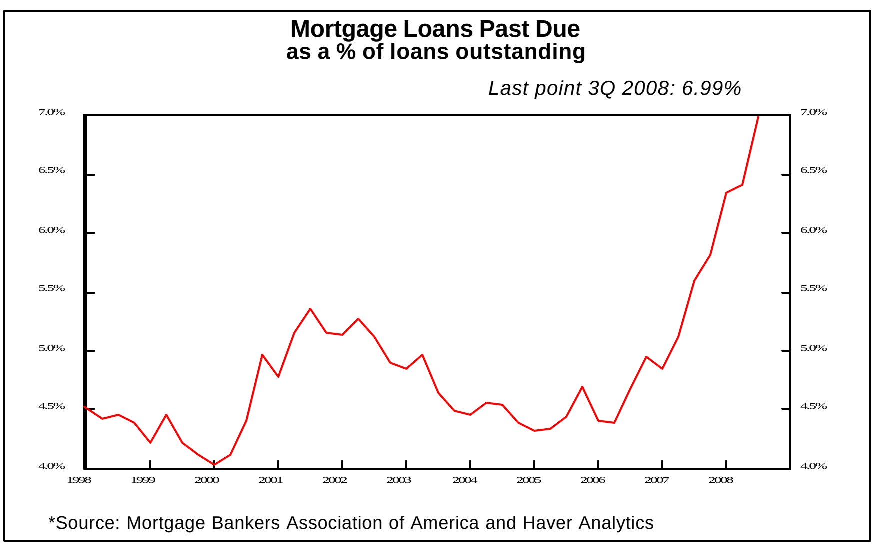
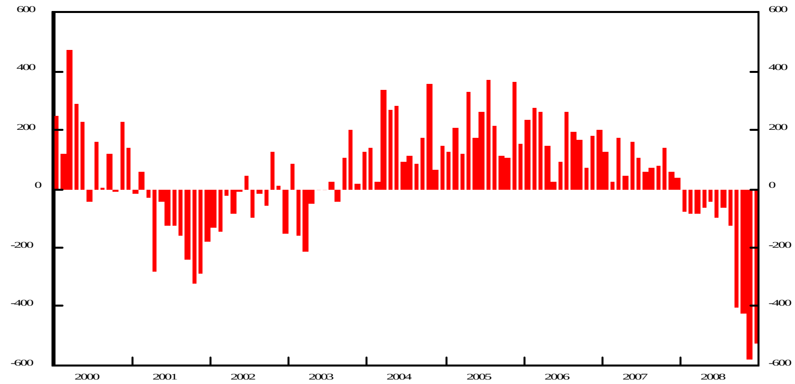


CHART 7

Payroll Employment
difference from preceding month; in thousands

Last point 12/08: -524

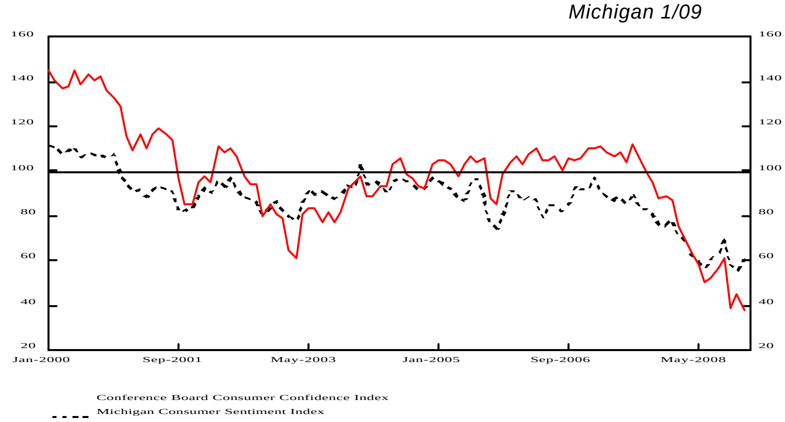


Source: Bureau of Labor Statistics

CHART 8

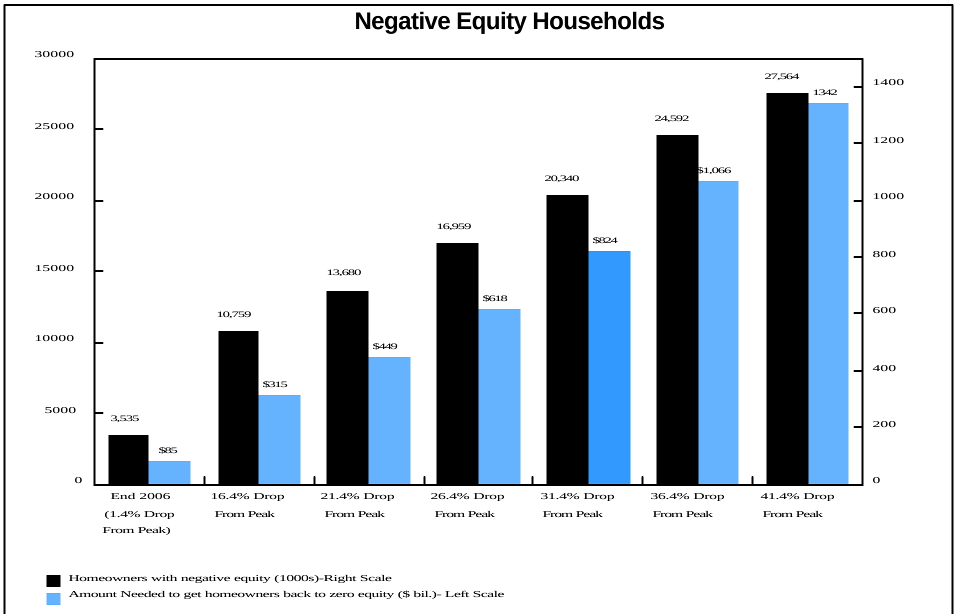
Measures of Consumer Confidence

Last points: Conference Board12/08
Michigan 1/09



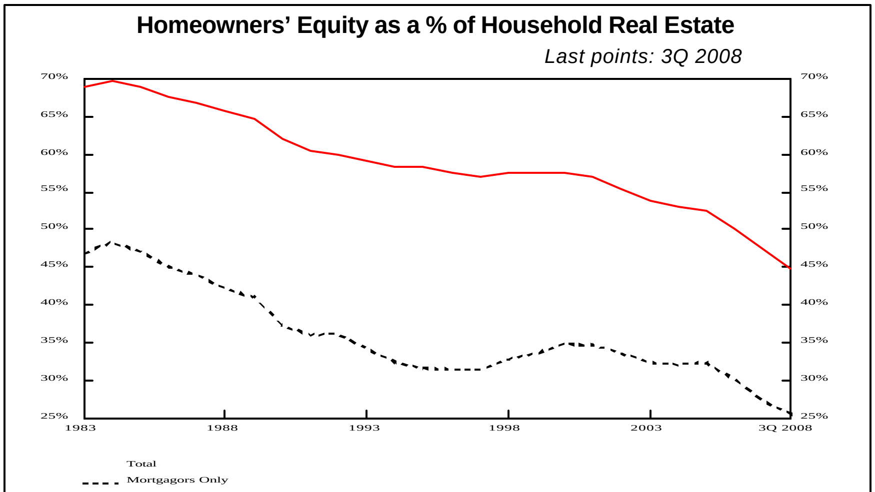
Source: The Conference Board and Haver Analytics

Chart 9



Source: First American Core Logic, Census Bureau, Standard & Poor's and A. Gary Shilling & Co.

Chart 10



Source: Federal Reserve and A. Gary Shilling & Co.

CHART 11

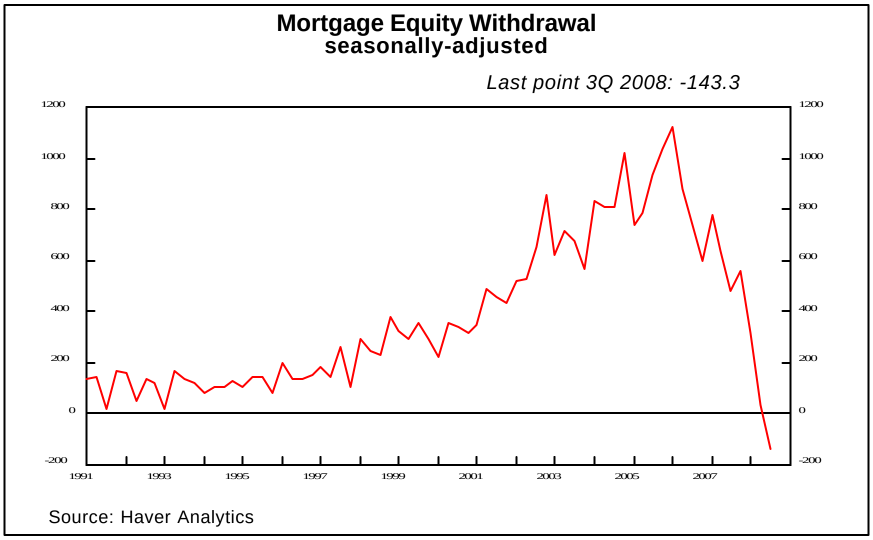


CHART 12

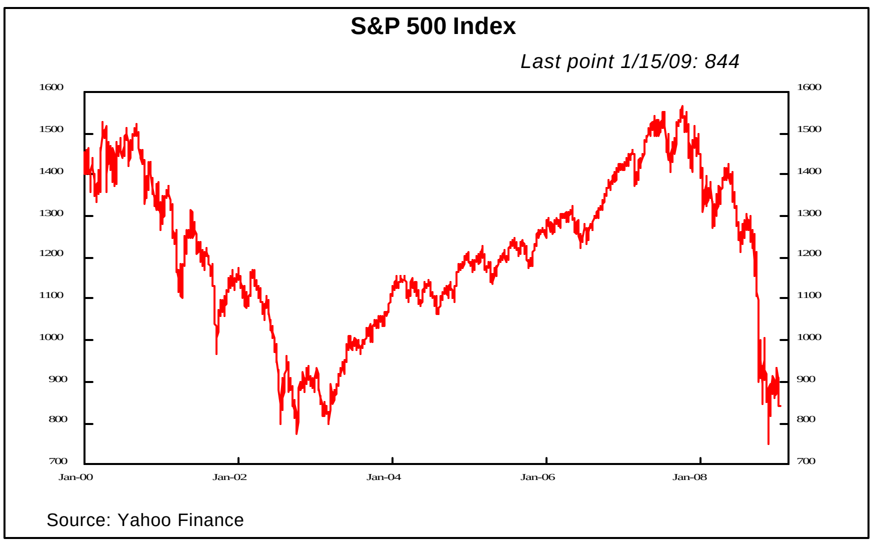
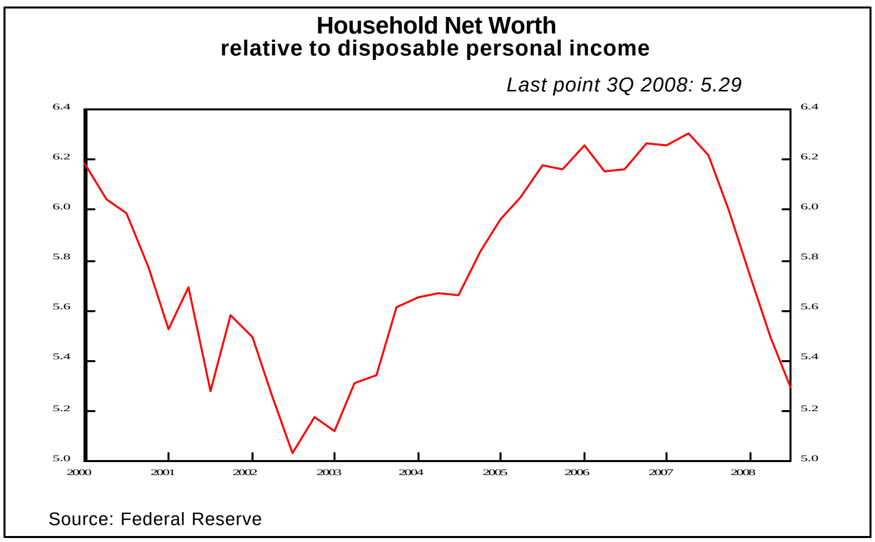


Chart 13



Household Net Worth
relative to disposable personal income
Last point 3Q 2008: 5.29
6.4
6.2
6.0
5.8
5.6
5.4
5.2
5.0
2000
2001
2002
2003
2004
2005
2006
2007
2008
Source: Federal Reserve

CHART 14

Direct and Indirect* Stock Ownership
median values; in thousands of dollars, 2004

	1989	1992	1995	1998	2001	2004
All families	12.5	13.8	18.0	29.0	36.7	32.5
percent of income						
Less than 20	29.3	10.5	4.6	5.8	8.0	7.5
20-39.9	8.8	5.3	7.8	11.6	8.3	10.0
40-59.9	6.8	6.6	7.7	13.9	16.0	15.0
60-79.9	8.5	10.7	15.6	22.0	30.5	26.1
80-89.9	13.9	18.5	30.8	52.2	68.8	55.5
90-100	57.9	62.6	73.9	156.5	263.8	205.0

* Indirect holdings are mutual funds, retirement accounts and other managed assets
Source: Federal Reserve, Survey of Consumer Finance

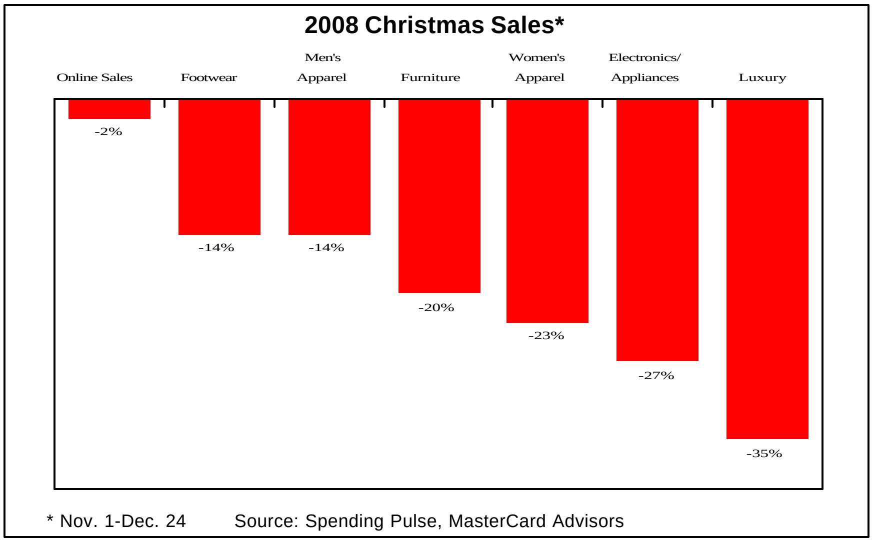
CHART 15

Ownership of Primary Residence
median values; in thousands of dollars, 2004

	1989	1992	1995	1998	2001	2004
All families	102.6	105.4	110.8	115.9	131.0	160.0
percent of income						
Less than 20	44.0	52.7	55.4	63.8	69.2	70.0
20-39.9	73.3	65.9	80.0	86.9	85.2	100.0
40-59.9	86.5	87.0	92.3	98.5	101.2	135.0
60-79.9	110.0	112.0	117.0	127.5	138.5	175.0
80-89.9	146.6	131.8	147.7	158.8	186.4	225.0
90-100	293.2	237.2	215.4	260.8	319.5	450.0

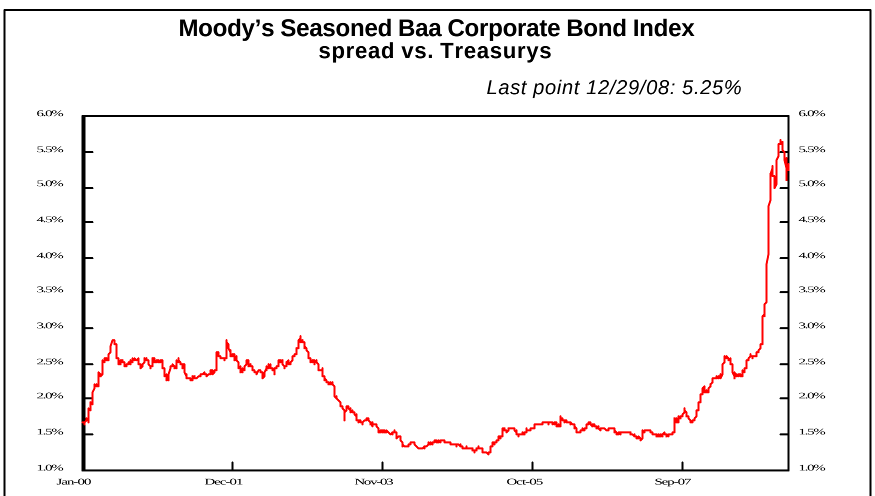
Source: Federal Reserve, Survey of Consumer Finance

CHART 16



* Nov. 1-Dec. 24 Source: Spending Pulse, MasterCard Advisors

CHART 17



Source: Federal Reserve

Chart 18

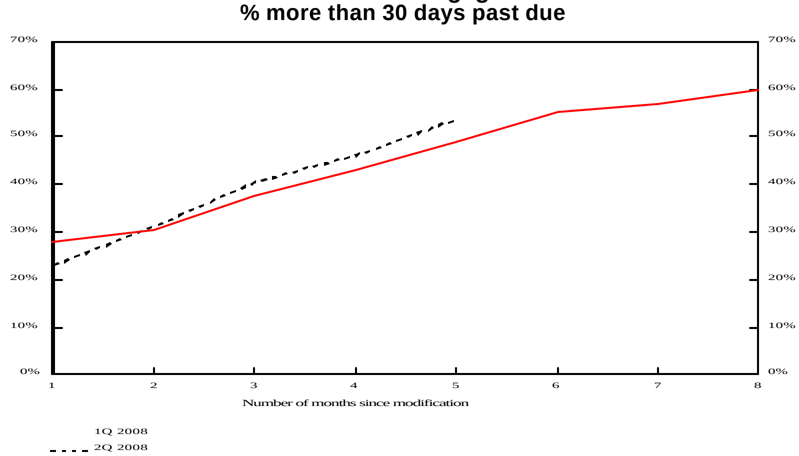
MerchandiseTrade Balances
in US$ billions

	Trade Balance Latest 12 Mos.		Trade Balance Latest 12 Mos.		Trade Balance Latest 12 Mos.
United States	-853.1	Czech Repub.	4.8	Australia	-5.0
Japan	56.4	Denmark	6.4	Hong Kong	-28.0
China	278.8	Hungary	nil	India	-112.3
Britain	-182.6	Norway	82.5	Indonesia	12.1
Canada	52.2	Poland	-22.8	Malaysia	42.2
		Russia	194.6	Singapore	19.7
Euro Area	-38.7	Sweden	17.7	South Korea	-14.2
Austria	0.1	Switzerland	18.2	Taiwan	3.9
Belgium	7.9	Turkey	-72.7	Thailand	-1.3
France	-82.7				
Germany	267.2	Egypt	-23.4	Argentina	14.1
Greece	-68.9	Israel	-14.4	Brazil	24.7
Italy	-17.8	Saudi Arabia	150.8	Chile	10.2
Netherlands	58.7	South Africa	-10.6	Colombia	2.7
Spain	-153.9			Mexico	-14.5
				Venezuela	50.2

Source: *The Economist*, 1/10/09

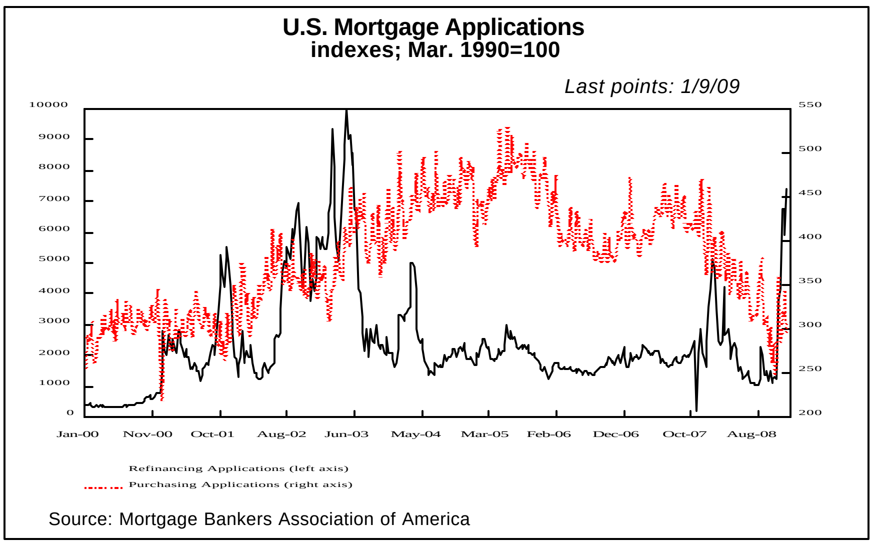
Chart 19

Modified Mortgages
% more than 30 days past due



Source: Office of the Comptroller of the Currency and Office of Thrift Supervision

CHART 20



U.S. Mortgage Applications
indexes; Mar. 1990=100
Last points: 1/9/09
10000
9000
8000
7000
6000
5000
4000
3000
2000
1000
0
550
500
450
400
350
300
250
200
Jan-00
Nov-00
Oct-01
Aug-02
Jun-03
May-04
Mar-05
Feb-06
Dec-06
Oct-07
Aug-08
Refinancing Applications (left axis)
Purchasing Applications (right axis)
Source: Mortgage Bankers Association of America

Chart 21

Metropolitan Area House Prices

Metropolitan Area	2007	3Q 2008
U.S.	217.9	200.5
Northeast	288.1	267.7
Midwest	161.4	159.9
South	178.8	174.2
West	342.5	266.3
Akron, OH	119.3	108.1
Albany-Schenectady-Troy, NY	198.9	205.5
Albuquerque, NM	198.5	193.4
Allentown-Bethlehem-Easton, PA-NJ	260.8	245.4
Amarillo, TX	118.4	128.3
Anaheim-Santa Ana, CA (Orange Co.)	699.6	517.3
Appleton, WI	130.0	127.5
Atlanta-Sandy Springs-Marietta, GA	172.0	151.3
Atlantic City, NJ	269.7	248.9
Austin-Round Rock, TX	183.7 1	190.9
Baltimore-Towson, MD	286.1	279.2
Barnstable Town, MA	384.7	337.5
Baton Rouge, LA	174.4	170.9
Beaumont-Port Arthur, TX	123.0	129.6
Binghamton, NY	111.2	115.5
Birmingham-Hoover, AL	161.3	156.1
Bismarck, ND	152.9	146.3
Bloomington-Normal, IL	154.0	168.4
Boise City-Nampa, ID	206.0	187.3
Boston-Cambridge-Quincy, MA-NH	395.6	373.4
Boulder, CO	376.2	360.9
Bridgeport-Stamford-Norwalk, CT	486.6	470.8
Buffalo-Niagara Falls, NY	104.0	114.2
Canton-Massillon, OH	110.3	98.5
Cape Coral-Fort Myers, FL	252.1	163.3
Cedar Rapids, IA	136.2	135.4
Champaign-Urbana, IL	144.1	146.4
Charleston, WV	122.5	127.7
Charleston-North Charleston, SC	215.4	210.9
Charlotte-Gastonia-Concord, NC-SC	204.3	210.9
Chattanooga, TN-GA	130.9	132.7
Chicago-Naperville-Joliet, IL	276.6	250.8
Cincinnati-Middletown, OH-KY-IN	140.8	136.0
Cleveland-Elyria-Mentor, OH	130.0	116.4
Colorado Springs, CO	217.5	207.9
Columbia, MO	147.1	151.3
Columbia, SC	146.6	147.5
Columbus, OH	147.4	144.0
Corpus Christi, TX	136.5	139.5
Cumberland, MD-WV	109.4	102.5
Dallas-Fort Worth-Arlington, TX	150.9	150.2
Danville, IL	N/A	N/A
Davenport-Moline-Rock Island, IA-IL	108.7	101.8
Dayton, OH	115.6	114.1
Decatur, IL	83.1	93.4
Deltona-Daytona Beach-Ormond Beach, FL	192.3	162.3
Denver-Aurora, CO	245.4	225.1
Des Moines, IA	149.2	155.4

Metropolitan Area	**2007**	**3Q 2008**
Detroit-Warren-Livonia, MI	140.3	N / A
Dover, DE	207.5	208.9
Durham, NC	178.4	177.9
Elmira, NY	81.6	105.0
El Paso, TX	131.9	136.4
Erie, PA	98.1	103.3
Eugene-Springfield, OR	239.6	224.7
Fargo, ND-MN	140.9	138.8
Farmington, NM	191.1	193.6
Gary-Hammond, IN	134.2	129.4
Glens Falls, NY	167.6	170.9
Grand Rapids, MI	129.4	108.1
Green Bay, WI	150.7	147.0
Greensboro-High Point, NC	152.0	145.6
Greenville, SC	153.6	156.7
Gulfport-Biloxi, MS	154.5	145.8
Hagerstown-Martinsburg, MD-WV	208.5	181.5
Hartford-W. Hartford-E. Hartford, CT	263.2	249.3
Honolulu, HI	643.5	615.0
Houston-Baytown-Sugar Land, TX	152.5	160.2
Indianapolis, IN	120.5	117.9
Jackson, MS	139.0	135.0
Jacksonville, FL	189.2	175.6
Kalamazoo-Portage, MI	N / A	N / A
Kankakee-Bradley, IL	134.5	140.8
Kansas City, MO-KS	153.3	147.3
Kennewick-Richland-Pasco, WA	169.2	171.0
Kingston, NY	258.4	253.3
Knoxville, TN	156.4	152.0
Lansing-E.Lansing, MI	126.8	102.6
Las Vegas-Paradise, NV	297.7	211.6
Lexington-Fayette,KY	147.5	150.6
Lincoln, NE	137.5	140.1
Little Rock-N. Little Rock, AR	129.1	129.9
Los Angeles-Long Beach-Santa Ana, CA	589.2	391.4
Louisville, KY-IN	137.4	135.4
Madison, WI	226.5	230.8
Manchester-Nashua, NH	N / A	231.5
Memphis, TN-MS-AR	137.2	126.5
Miami-Fort Lauderdale-Miami Beach, FL	365.5	287.8
Milwaukee-Waukesha-West Allis, WI	223.4	216.8
Minneapolis-St. Paul-Bloomington, MN-WI	225.2	205.1
Mobile, AL	136.4	138.7
Montgomery, AL	143.8	135.5
Nashville-Davidson—Murfreesboro, TN	N / A	N / A
New Haven-Milford, CT	286.5	277.7
New Orleans-Metairie-Kenner, LA	160.3	166.8
N.Y.-Northern N.J.-Long Island, NY-NJ-PA	469.7	452.5
New York-Wayne-White Plains, NY-NJ	540.3	525.9
NY: Edison, NJ	380.3	376.5
NY: Nassau-Suffolk, NY	477.2	423.6
NY: Newark-Union, NJ-PA	443.7	451.9
Norwich-New London, CT	267.7	235.4
Ocala, FL	164.6	135.1
Oklahoma City, OK	134.9	132.1

Metropolitan Area	2007	3Q 2008
Omaha, NE-IA	138.0	137.5
Orlando, FL	261.3	213.4
Palm Bay-Melbourne-Titusville, FL	183.6	145.3
Pensacola-Ferry Pass-Brent, FL	165.6	152.4
Peoria, IL	118.6	125.3
Phila.-Camden-Wilmington, PA-NJ-DE-MD	234.9	241.1
Phoenix-Mesa-Scottsdale, AZ	257.4	185.1
Pittsburgh, PA	120.7	122.7
Pittsfield, MA	217.4	205.7
Portland-South Portland-Biddeford, ME	242.7	233.5
Portland-Vancouver-Beaverton, OR-WA	295.2	278.6
Providence-New Bedford-Fall River, RI-MA	286.5	247.5
Raleigh-Cary, NC	224.2	221.9
Reading, PA	154.7	163.5
Reno-Sparks, NV	321.4	253.4
Richmond, VA	233.7	217.9
Riverside-San Bernardino-Ontario, CA	381.4	227.2
Rochester, NY	117.9	123.6
Rockford, IL	119.3	118.2
Sacramento—Arden-Arcade—Roseville, CA	342.7	212.0
Saginaw-Saginaw Township North, MI	82.1	65.8
Saint Louis, MO-IL	145.4	142.7
Salem, OR	228.3	200.0
Salt Lake City, UT	232.0	230.2
San Antonio, TX	153.2	154.4
San Diego-Carlsbad-San Marcos, CA	588.7	377.3
San Francisco-Oakland-Fremont, CA	805.4	615.7
San Jose-Sunnyvale-Santa Clara, CA	836.8	650.0
Sarasota-Bradenton-Venice, FL	310.9	237.4
Seattle-Tacoma-Bellevue, WA	386.9	350.0
Shreveport-Bossier City, LA	135.6	140.2
Sioux Falls, SD	144.5	144.5
South Bend-Mishawaka, IN	90.7	88.0
Spartanburg, SC	128.6	127.7
Spokane, WA	193.8	191.2
Springfield, IL	109.0	110.9
Springfield, MA	211.9	206.5
Springfield, MO	122.6	N/A
Syracuse, NY	121.8	127.3
Tallahassee, FL	179.5	158.6
Tampa-St.Petersburg-Clearwater, FL	214.9	173.4
Toledo, OH	106.6	100.4
Topeka, KS	111.9	111.8
Trenton-Ewing, NJ	307.1	342.5
Tucson, AZ	244.8	199.3
Tulsa, OK	N/A	139.8
Va.Beach-Norfolk-Newport News, VA-NC	245.4	242.2
Wash. DC-Arlington-Alexandria, A-MD-WV	430.8	332.7
Waterloo/Cedar Falls, IA	112.8	115.4
Wichita, KS	115.6	125.3
Worcester, MA	274.6	235.8
Yakima, WA	156.5	154.3
Youngstown-Warren-Boardman, OH-PA	78.9	74.3

Source: National Association of Realtors

Chart 22

H-1B Petitions Approved by Age of Beneficiary: Fiscal Year 2005

Age		
Total	**267,131**	
Age known	**266,946**	**100%**
Under 20	136	0.1%
20-24	19,018	7.1%
25-29	90,390	33.9%
30-34	84,664	31.7%
35-39	39,801	14.9%
40-44	18,821	7.1%
45-49	8,047	3.0%
50-54	3,548	1.3%
55-59	1,649	0.6%
60-64	610	0.2%
65 and over	262	0.1%
Age unknown	**185**	**--**

Source: U.S. Citizenship and Immigration Services

Chart 23

H-1B Petitions Approved by Level of Education

Level of Education	**FY 2005**
Education known	100%
Less than a Bachelor's degree	1%
Bachelor's degree	45%
Master's degree	37%
Doctorate degree	5%
Professional degree	12%

Source: U.S. Citizenship and Immigration Services

Chart 24

Percentage of H-1B Petitions Approved by Major Occupation: FY 2005

Occupation	All Beneficiaries FY 2005 %
Total	--
Occupation known	100
Computer-related occupations	43.0
Occupations in architecture, engineering and surveying	12.1
Occupations in education	11.0
Occpaations in administrative specializations	9.8
Occupations in medicine and health	6.6
Managers and officials in n.e.c. (not elsewhere classified)	4.0
Occupations in life sciences	3.3
Occupations in mathematics and physical sciences	2.5
Occupations social sciences	2.3
Miscellaneous professional, technical and managerial	2.1
Occupations in art	1.4
Occupations in law and jurisprudence	0.7
Occupations in writing	0.6
Occupations in entertainment and recreation	0.3
Fashion models	0.2
Occupations in museum, library and archival sciences	0.1
Occupations in religion and theology	0.1
Occupation unknown	--

Source: U.S. Citizenship and Immigration Services

Chart 25

Annual Compensation of All H-1B Beneficiaries: FY 2005 $

Occupation	Total Reported	25th Percentile	Median	75th Percentile
Total	**262,130**			
Occupations with annual compensation known	**259,990**	**43,000**	**55,000**	**73,000**
Computer-related occupations	112,817	48,000	60,000	73,000
Occupations in architecture, engineering and surveying	31,574	48,000	60,000	78,000
Occupations in education	28,475	35,000	40,000	52,000
Occpaations in administrative specializations	25,270	37,000	48,000	66,000
Occupations in medicine and health	16,284	41,000	52,000	104,000
Managers and officials in n.e.c. (not elsewhere classified)	10,455	42,000	65,000	100,000
Occupations in life sciences	8,749	36,000	42,000	55,000
Occupations in mathematics and physical sciences	6,545	44,000	59,000	77,000
Occupations social sciences	5,903	38,000	53,000	77,000
Miscellaneous professional, technical and managerial	5,450	40,000	60,000	90,000
Occupations in art	3,699	33,000	43,000	60,000
Occupations in law and jurisprudence	1,727	45,000	90,000	135,000
Occupations in writing	1,436	30,000	38,000	50,000
Occupations in entertainment and recreation	648	27,000	35,000	47,000
Fashion models	423	100,000	100,000	130,000
Occupations in museum, library and archival sciences	368	35,000	42,000	60,000
Occupations in religion and theology	167	25,000	32,000	45,000
Occupation unknown	**2,140**	**40,000**	**48,000**	**60,000**

Source: U.S. Citizenship and Immigration Services

Chart 26

Global Migration Barometer

Attractiveness to Migrants

Rank	Country	Score
1	United States	87.4
2	United Kingdom	85.8
3	Australia	83.8
4	Norway	82.8
5	France	82.3
6	Canada	82.3
7	Switzerland	80.9
7	Sweden	80.7
9	Ireland	80.2
10	Hong Kong	80.0
11	Netherlands	79.4
12	Denmark	78.4
12	Belgium	76.5
14	Germany	76.1
15	Austria	76.0
16	Spain	74.9
17	Italy	74.8
18	Singapore	73.7
19	New Zealand	73.6
20	Finland	73.0
20	Greece	72.4
22	Portugal	71.2
22	Japan	70.7
24	Estonia	65.7
25	Israel	65.5
26	Chile	65.3
27	Korea, Rep. Of	64.9
28	Qatar	64.3
29	Latvia	62.7
29	Czech Republic	62.6
31	Mexico	62.1
32	Lithuania	61.6
33	Slovakia	59.9
34	Kuwait	59.4
34	Hungary	59.0
36	Poland	58.4
37	Malaysia	58.3
38	Costa Rica	58.2
39	United Arab Emirates	58.2
40	Argentina	57.3
41	Kazakhstan	56.6
42	Russian Federation	54.4
43	South Africa	54.4
44	Romania	53.8
45	Turkey	53.7
46	Bulgaria	53.2
47	Brazil	52.7
48	Jordan	52.7
49	Botswana	52.4
50	Peru	49.9
51	Saudi Arabia	49.7
52	China	49.4
53	Ukraine	48.2
54	India	46.8
55	Thailand	46.1
56	Ecuador	44.1
57	Iran	38.6
58	Ghana	38.2
59	Cote D'Ivoire	37.9
60	Nigeria	36.9
61	Venezuela	36.8

Accessibility for Migrants

Rank	Country	Score
1	Australia	85.0
2	Canada	83.1
3	Singapore	81.9
4	New Zealand	79.4
5	Israel	76.3
6	Portugal	75.0
7	United States	73.1
7	Costa Rica	73.1
9	Sweden	71.9
9	Hong Kong	71.9
11	Belgium	71.3
12	United Kingdom	70.6
12	Spain	70.6
12	Chile	70.6
15	Thailand	68.1
16	Ireland	67.5
16	Finland	67.5
18	Czech Republic	66.9
18	Brazil	66.9
20	Peru	65.6
20	Norway	65.6
22	Switzerland	65.0
22	Slovakia	65.0
24	Poland	64.4
24	Germany	64.4
24	Ecuador	64.4
27	Venezuela	63.8
27	Nigeria	63.8
29	Malaysia	62.5
29	Italy	62.5
29	Hungary	62.5
32	Ukraine	61.9
33	Lithuania	61.3
33	Argentina	61.3
35	Kazakhstan	60.6
36	Mexico	60.0
37	Netherlands	58.8
37	Cote D'Ivoire	58.8
39	Russian Federation	58.1
39	India	58.1
39	China	58.1
39	Austria	58.1
43	Turkey	56.9
43	France	56.9
45	Romania	56.3
45	Botswana	56.3
47	Korea, Rep. Of	55.6
47	Greece	55.6
47	Denmark	55.6
50	Qatar	54.4
51	Jordan	53.8
52	Bulgaria	53.1
53	South Africa	52.5
53	Japan	52.5
55	United Arab Emirates	51.3
55	Latvia	51.3
57	Kuwait	49.4
58	Ghana	47.5
59	Estonia	45.6
60	Saudi Arabia	44.4
61	Iran	43.1

Need for Migrants

Rank	Country	Score
1	Japan	68.5
2	Italy	67.6
3	Portugal	66.7
4	Finland	66.7
5	Czech Republic	65.5
6	Greece	64.4
7	France	63.5
8	Latvia	62.6
9	Belgium	62.4
9	Austria	62.2
11	Hungary	62.2
11	Ukraine	62.1
13	Lithuania	62.0
14	Bulgaria	61.6
15	Germany	61.4
16	Sweden	61.2
17	Netherlands	60.5
18	United Kingdom	60.5
18	Russian Federation	60.4
20	Switzerland	60.3
20	Norway	59.9
22	Spain	59.8
22	Romania	59.4
24	Estonia	58.7
25	Poland	58.7
26	Argentina	57.8
27	Slovakia	56.9
28	United Arab Emirates	56.6
29	Brazil	56.3
30	Qatar	54.9
31	United States	54.8
32	Korea, Rep. Of	54.6
33	Denmark	54.4
34	Hong Kong	54.0
35	Australia	53.3
36	New Zealand	52.9
37	Costa Rica	52.4
38	Venezuela	51.5
39	Canada	51.4
40	China	51.0
41	Thailand	50.4
42	Ecuador	49.8
43	Ireland	48.7
44	Kuwait	48.4
45	Singapore	47.4
46	Mexico	47.3
47	Chile	47.1
48	South Africa	47.0
49	Kazakhstan	46.8
50	Ghana	46.4
51	Iran	45.8
52	Saudi Arabia	45.5
53	Israel	44.2
54	Jordan	44.1
55	Peru	43.0
56	Turkey	42.1
57	Nigeria	42.1
58	Malaysia	41.7
59	Cote D'Ivoire	38.9
60	India	36.1
61	Botswana	35.6

Source: Economist Intelligence Unit

Chart 27

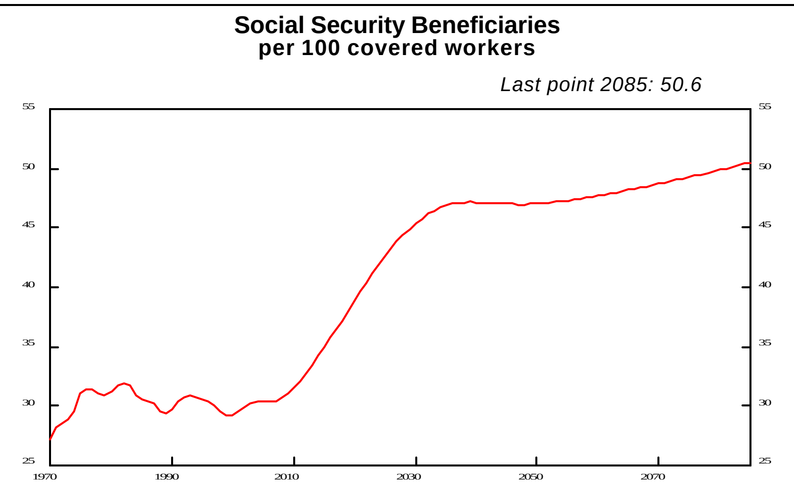
Population and Immigration as of 2008

	Japan	U.K.	Italy	France	Germany	Canada	U.S.
Population (millions)	127	61	58	64	82	33	304
Net migration (thousands)	54*	132	120	95	180	187	1305
Net migration / population ratio	0.04%	0.22%	0.21%	0.15%	0.22%	0.56%	0.43%

* Based in 2005 United Nations Data

Source: U.S. Census Bureau

Chart 28



Source: 2008 OASDI Trustees Report

Chart 29

Government Assumptions for Social Security and Medicare Projections

Year	Net Immigration (millions of persons)	Real GDP (% change)	Real Wage Growth (%)	Total Employment (% change)
2008	1.250	2.3	1.3	0.4
2010	1.195	2.7	1.3	0.9
2020	1.130	2.2	1.1	0.5
2030	1.085	2.1	1.1	0.4
2040	1.050	2.2	1.1	0.5
2050	1.035	2.1	1.1	0.4
2060	1.030	2.1	1.1	0.4
2070	1.025	2.1	1.1	0.4
2080	1.025	2.1	1.1	0.4

Source: Social Security Administration

CHART 30

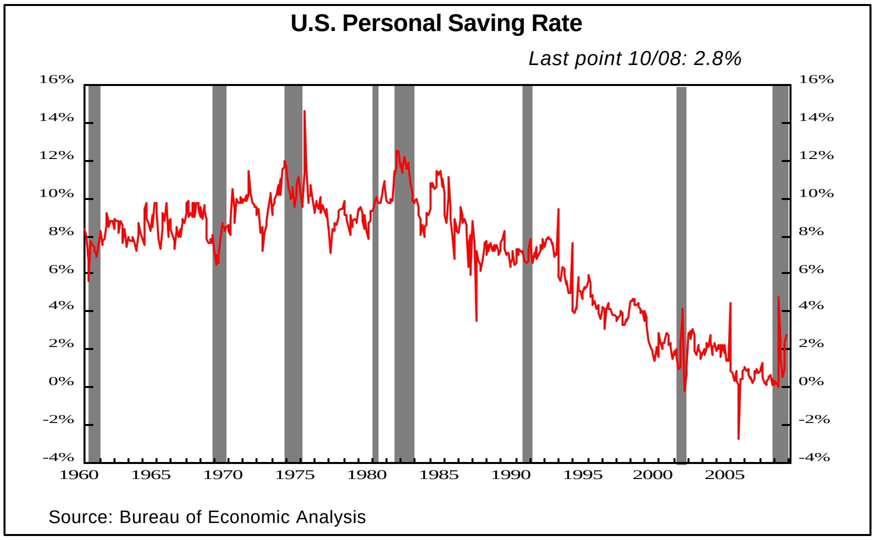


CHART 31

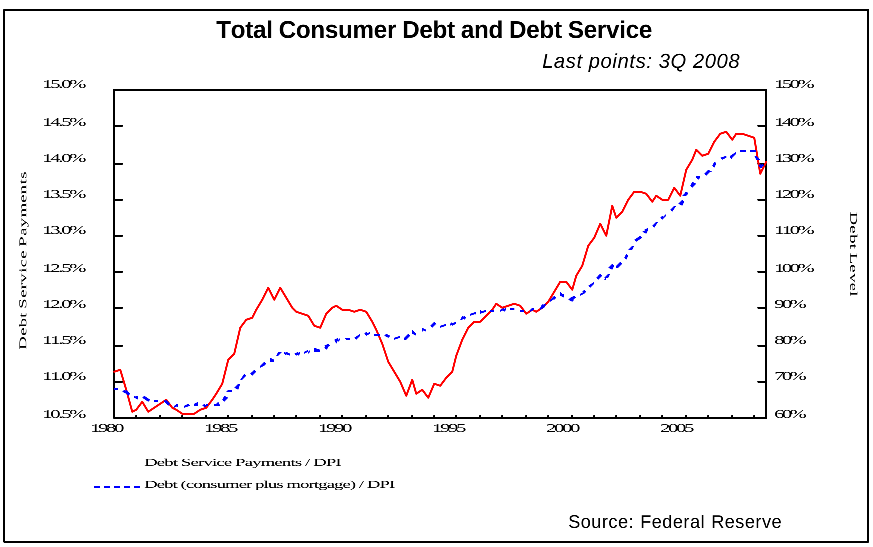


Chart 32

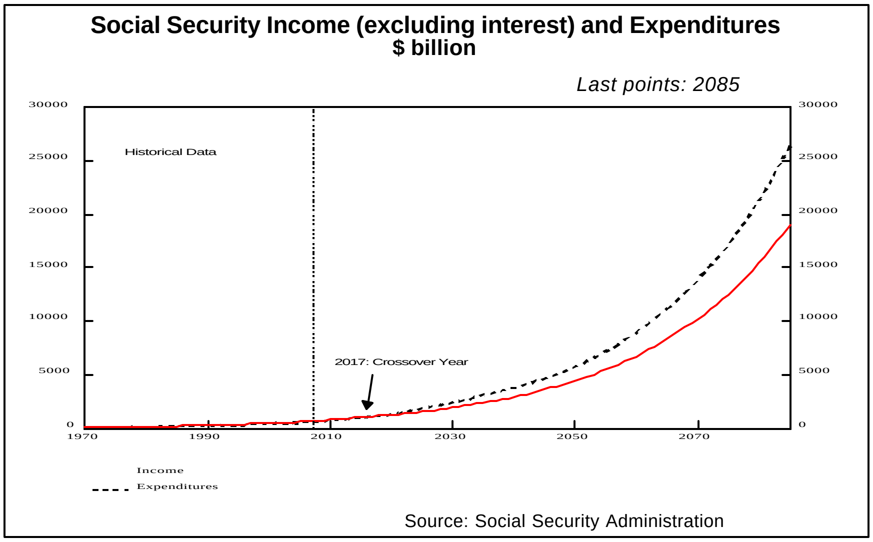


Chart 33

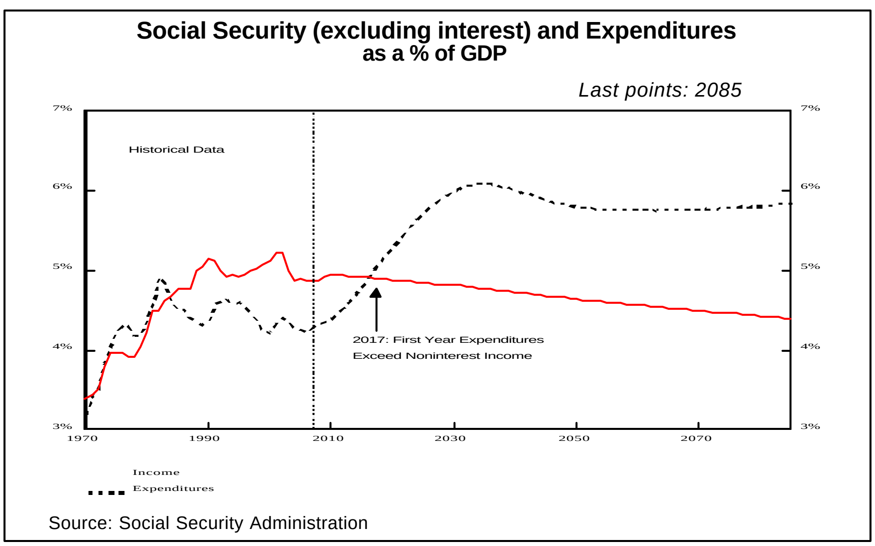
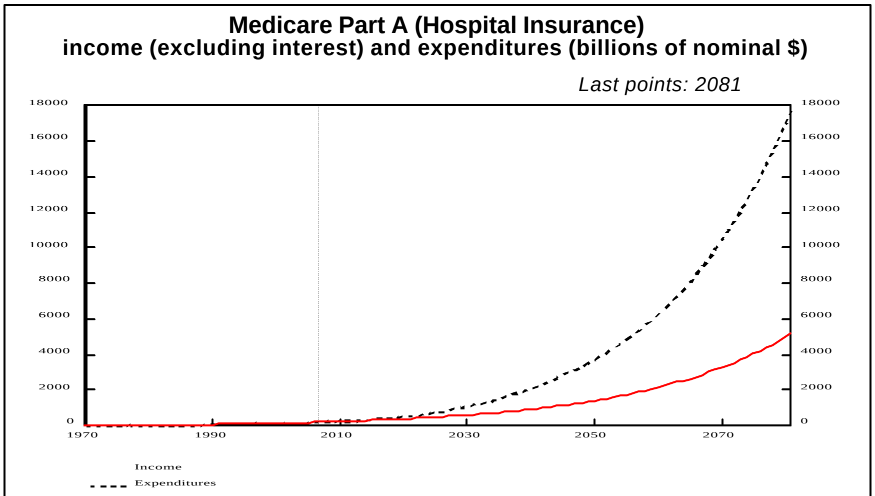
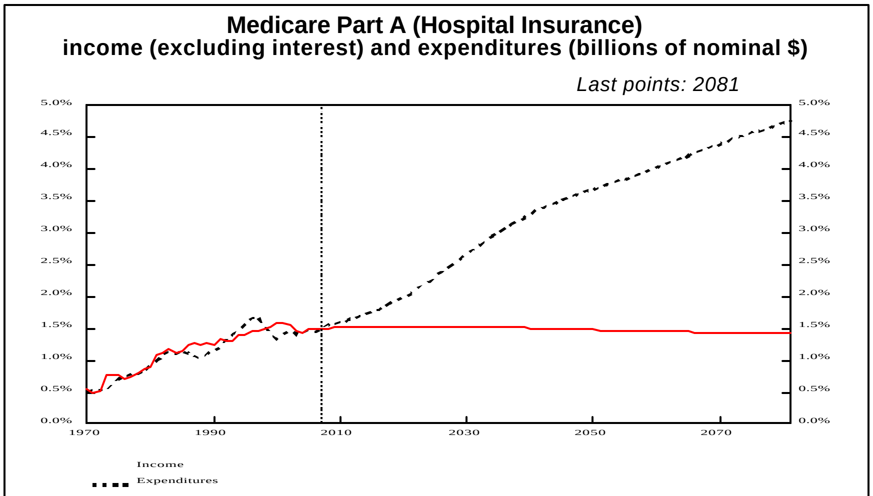


CHART 34



Source: Social Security Administration

CHART 35



Source: Social Security Administration

CHART 36

Medicare Part B and Part D (Physicians and Drugs)
premium and state transfer income and expenditures; $ billions

Last points: 2082

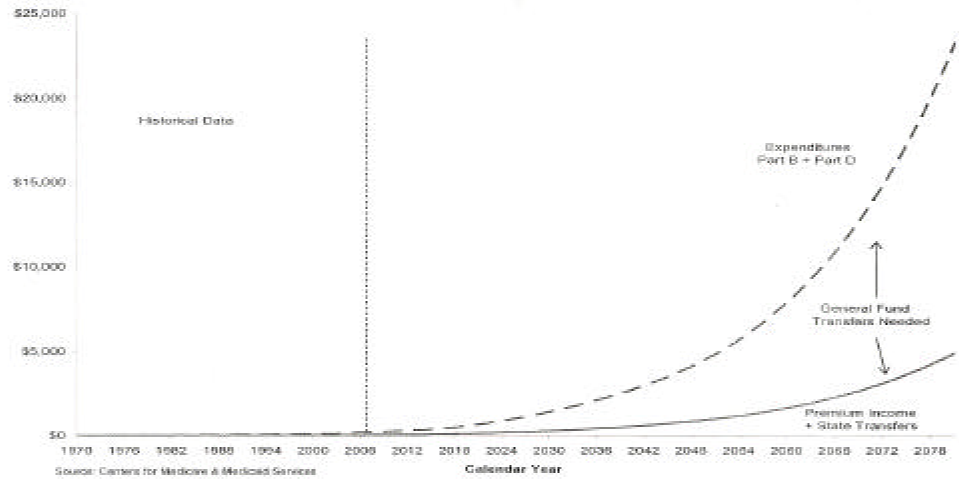


CHART 37

Medicare Part B and Part D (Physicians and Drugs)
premium and state transfer income and expenditutres as a % of GDP

Last points: 2082