

Economist sees housing market stabilizing

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by Saleha N. Ghani, Business First

A decrease in the national unemployment rate and a boost in average household income point to improvement in the housing industry, a LaSalle Bank Corp. chief economist said, but Midwest states will need to improve their tax climates before economic conditions can strengthen in the region.

At an event sponsored by the Columbus Council on World Affairs Thursday, Carl Tannenbaum acknowledged the slumping housing industry poses a risk to the nation's economy next year, but he expects the housing market will correct, rather than crash, in the coming months.

A decrease in the unemployment rate and an increase in the average household income should help the industry recover from its decline, which is a result of the high volumes of houses sold in 2002 and 2003, he said.

"A lot of houses were sold before the slump began, and with the average household income up 6 percent (from last year), the remodeling of those homes will keep the demand for durables up," he said.

Homeowners spending money to update their residences will contribute to stabilizing the economy, Tannenbaum said.

The nation's unemployment rate was 4.6 percent in September, down from 5.1 percent last year and 5.5 percent in 2004. With more than 5 million jobs created since 2004, Tannenbaum expects an increase in job relocations, which would spur housing sales.

Though some economists have estimated that rising gasoline prices have deepened the housing industry's downturn, Tannenbaum said consumers shouldn't worry about fuel costs because those expenses account for just 3 percent of the average household budget.

In the Midwest, which Tannenbaum said is lagging the rest of the nation, troubles in the automotive industry and a poor tax environment are making the region unattractive for businesses. The area, he said, must focus on other industries, such as equipment manufacturing and financial services, to pick up the slack.

General Motors Corp.'s (NYSE:GM) and Ford Motor Co.'s (NYSE:F) pension expenses are eating up the automakers' balance sheets, affecting workers in many Midwestern communities, but suppliers such as New Albany-based Commercial Vehicle Group Inc. (NASDAQ:CVGI), are also reacting to the softness.

Tannenbaum said economic conditions in Ohio, Indiana and Kentucky will benefit from Honda Motor Company Ltd. (NYSE:HMC) and Toyota Motor Corp.'s (NYSE:TM)

assembly plants, improving the overall economy in the Midwest. But states in the region still must focus on improving their business environments to attract companies, he added.

Indeed, in the Tax Foundation's annual review of state tax climates, Ohio was ranked the second-worst state in which to do business, behind New Jersey. Other Midwestern states with poor business climates included Kentucky, West Virginia, Wisconsin and Minnesota.