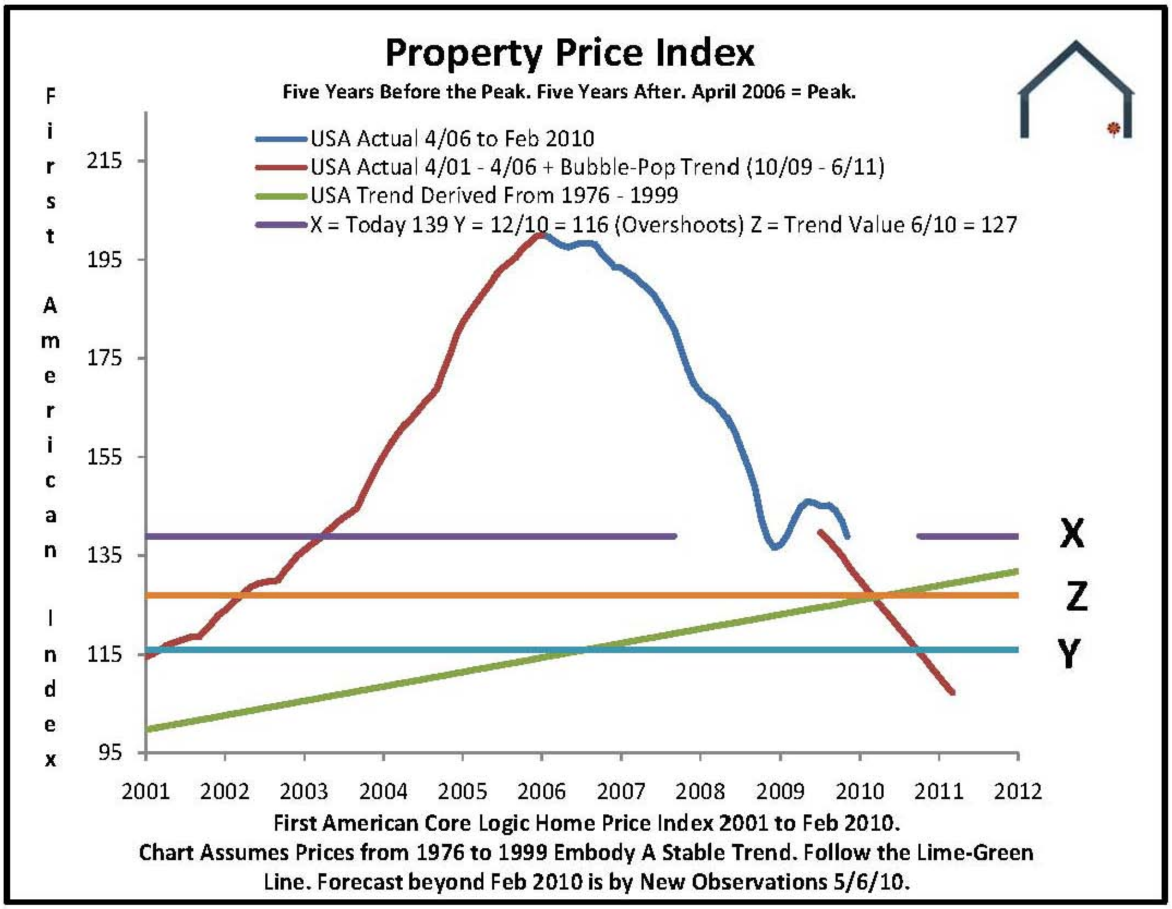
Isolate recent values on the First American index of property values and a national fall is not difficult to anticipate.

Since I began in August to forecast a continuation of falling values, frequently I met with anger, disbelief, myopia. This week I wanted to take a closer look. So I pulled out one of the best number sets, and applied my crude math in exactly the same way I always do, but I did a close up on five years of data before and after the peak. The result is the chart you see below.



FALL RESUMES: The lime-green line represents a projection of values based on the trend prior to 1999. The value at Z, where current prices fall 9% from today's level, represents a return to the pre-1999 trend.

Rorschach has his own interpretation, but I see a fall of either nine percent (Z) or 19 percent (Y) if you go by crude trends (see Z & Y above). Either one is plausible. Values could also take off the other way and shoot up to the moon, but the chart is more a downer than an upper. Recently the trend is again down, although it would be almost impossible to learn this from media coverage. Values have fallen in five of the last six months by this index.

If values fall, it hurts the finances of current owners, but it makes housing cheaper. This is not an afterthought. Very few would deny that a competitive economy may need cheap houses to create affordable workers who can live well on lower wages. I tell you without question: We need cheap housing to improve our competitive advantage.

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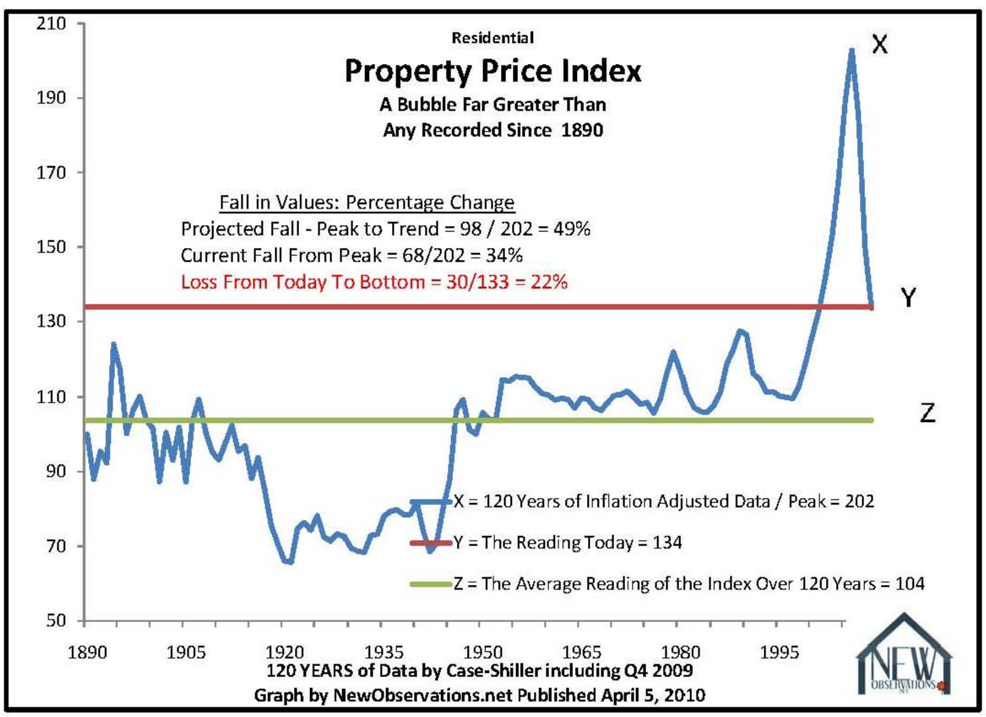
Everybody thinks rising home prices are good, but rising property prices may make many of us unnecessarily poorer by making it harder for future buyers and renters to pay the bills.

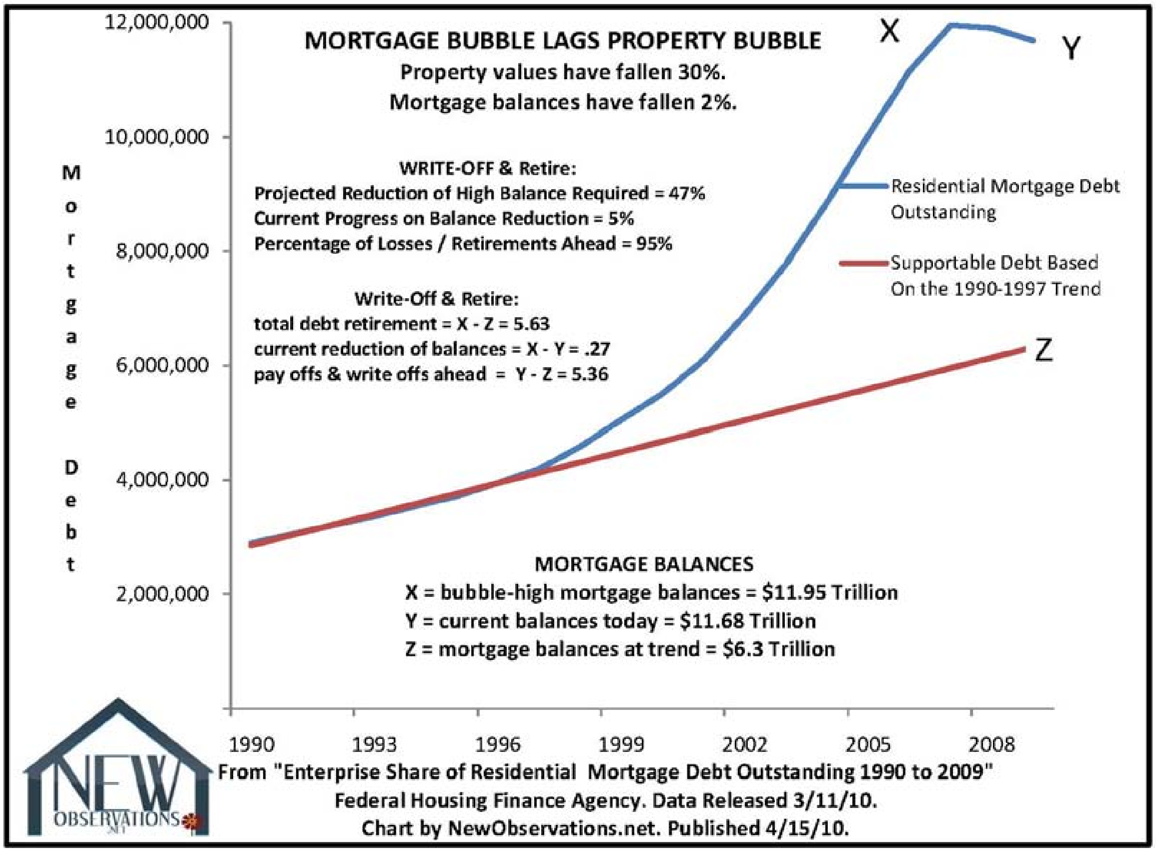
I wonder if the poor are hurt most by a policy which artificially supports housing prices? If true, then the Fed and the Treasury are taking dramatic action against the most vulnerable. The affordable housing people arguing in favor of foreclosure prevention are arguing against their own goals.

The crisis in Greece points to the problems which arise when there is too much debt. The back story on Greece is that national bankruptcy may be unavoidable. If they have too much national debt, they will not pay it back, even with a heroic bailout and radical cuts.



Lost Livelihood: It is incontrovertible that any man is made poorer if his housing is made expensive. Case Shiller says there is a real long-term price trend in property values that is stable and unchanging (except inflation). Our recent credit bubble broke the price trend. Why aren't we aggressively pursuing the inexpensive housing prices implied by a return to this trend (THE Z LEVEL)?

We have the same crisis here, but in housing and mortgage debt, and we have been lying about our own bankruptcy. Values bubbled irrationally in a pattern far worse than any of the last 120 years (see above). Massive unaffordable mortgage debt financed a flim-flam scheme.



Mortgages Won't Go Away: Property has fallen 31% by First American's count, but mortgage balances have fallen only 2%. Are bankers carrying around their mortgage assets today in a wheelbarrow?

A national fall in prices of 31% proves that the housing market was a lie. Yet mortgage balances are only two percent less than their peak. What makes sense: A fall in home prices of 31% or a fall in mortgage balances of 2%? (see above)? There is probably no greater lie in our economy today than the divergence in values of homes and mortgage balances. Our economy is not fixed until this is fixed, and yet nobody talks about fixing it because nobody sees it or considers it.

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The key is uniting the value of real estate and the income of property owners and renters. What we need is a rational capitalist market. We need a market price driven by private actors. The Fed, the Treasury, and

Fannie & Freddie have destroyed the free market in housing and by doing so they are orchestrating poverty and misery for any person who needs a place to sleep at night.

Real estate has an established price over time. That has been proven by Case Shiller. Their study of 120 years of data offers obvious evidence. They are on record saying housing is a stable asset with no change in value from 1890 to 1990. And all the other screamers who say pricing is different now simply argue based upon imagination and prejudice.

I say go with the hard data. I say Case Shiller is right. I say return to the trend lost in 1990. Values must fall. I estimate by an additional 22 percent.

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We should all be cognizant of the positive value of falling prices. If unemployment is high, and demand for labor requires a reduction in pay, then make housing cheap and we kill three birds with one stone: We reduce the cost of labor, put labor to work, and maintain the material standing of the wage earner. Who argues against this? By their actions, all of the powers that be in Washington D.C.

As you think about this you may come to embrace a fall in prices as the right thing to do on so many levels. For 20 years the most difficult bill we pay every month has been made much more difficult. And in case you hadn't noticed, we're having a problem competing against cheap labor all over the world.

There's no end in sight to the stupidity of government actions meant to stop prices from falling. Such is the folly and consequence of men and women with power playing games they do not understand. Go ahead and hang the bankers, but make sure to burn the economists at the stake. They are safe because they can calculate in their head if the heat of the fire is deadly.

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Please forward questions, corrections, and reactions to comments below or send me an email. Please send an email if you would like to take out a new mortgage.

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