2009.04.27 - Robert Shiller @SPU

Eaton Introduction: Pumping the breakfast... 1,400 people
- afternoon session "intended to be interactive."
- Shiller anticipated current downturn

Robert Shiller

- Reminiscing about breakfast
- The economic situation has cultural bases.
- Current crisis "biggest since the Great Depression"
- Enormous bubbles in stocks + real estate.
  - stocks → people thought they would get rich.
  - enthusiasm falters, market falls
- Expecting the worst becomes a self-fulfilling prophecy → psychological
- "Animal Spirits" - sometimes the economy has too much animal spirits
- Slides on the data showing the stock + real estate bubbles
  1) Stock market prices adjusted for inflation
     - comparison of 1920's to 1990's
     - "everyone individually feels rational, but somehow it's collective madness."
  2) P/E ratios 1881-2009 → could get to 5 or 6 "That's not a forecast."
  3) Home Prices, building costs, population, treasury yield → comparable only to baby boom, (sort of)
     → during the run-up, "we got very speculative" not comparable to baby boom
     → the idea that housing is an "amazing investment" is not supported by the data.
     → houses are <u>depreciating</u> <u>assets</u>
  4) Seattle Case-Shiller home price index → "Seattle looks awfully similar"
     → worldwide RE collapse
  5) Seattle price tiers
- Economic situation is a social phenomenon.

Q+A

Q: Where does HPI data come from? A: Deeds, not MLS

Q: Recovery of Housing market... what impact does the return of tighter standards have?

A: Fed predicts return to long-term average. in "adverse scenario" an overshoot
- can't keep falling at this rate indefinitely
- L.A. housing boom in 1885 → people thought "Los Angeles is <u>special</u>!"
- Amusing quote from 1886 LA Times: "never again"

Q: Has gov. intervention been beneficial? "I give them credit for trying."

A: Trying to save a "sinking ship" "We don't know where it will go." "We just have to try something."

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Q: To what degree do bubbles beget other bubbles?

A: The story behind a bubble leads to a new bubble.

- 90's stock boom affected culture → envy
- after the bust people thought: "I just have to find another investment"
- homebuyers said stock decline encouraged "investment" in homes - couldn't accept that they were foolish.

Q: Why are banks so slow to sell short sales, & why isn't gov. compelling quicker action.

A: Gov. sees "systemic risk." Would like to see mortgage work outs. (reduction of principal)

Q: What are the signs of a lasting bottom?

A: Consumer confidence index, stock market... principle would be return to historical average.

- hard to forecast bubble, due to unprecidented nature of bubble.

Q: Interest in contracts? (RE futures)

A: Not big → 20 million (poor by Wall Street standards)

Q: Bear Stearns → how does a well-run firm decline so fast?

A: Human limits. Complacency infected highest levels of thinking.

Closing comments

Robert J. Shiller