

This morning I was playing around with local area data from two counties that I know well and that are good housing proxies for the rest of the state of CA. I noticed something very interesting that I had not paid too much attention to for a few months...

a "V" SHAPED RECOVERY. But in inventory levels.

To highlight this phenom, I pulled data from two counties with large populations but completely different housing markets...

First, Contra Costa County is in the San Francisco MSA. The population is roughly one million with Super-Subprime to Super-Jumbo Prime cities within.

Second, Santa Clara County is the heart of Silicon Valley, has a population of 1.75 million and is higher end on average than Contra Costa, or most counties in CA.

Both show the same phenomenon happening right now.

Bottom Line: Surging inventory levels post tax-credit is just about the last thing you want to have happen going into a period of long-term lower sales.

For the past year and a half, CA statewide median and average house prices have benefited from the artificial drop in foreclosures to 50% of peak levels and the ratio of distress-to-total sales dropping from 65% in Jan 2009 to 37% last month. The dual federal and CA-specific tax credits helped with pricing power and goosed demand in the price bands above the low-end. This is what is largely responsible for the incorrect stories of such a strong house price rebound in NorCal.

But as sales volume significantly slows post-July -- and as a large percentage of first-timers leave the market to investors once again -- and with foreclosure and short sale inventory continuing to rise along with one of my five forms of shadow inventory (**pent-up supply** from retail headline readers that think this is the season to sell), **the negative mix-shift will kick-in fast and heavily.**

The charts below highlight **For Sale** inventory (blue) **vs. Sales** (pink). As you can see, sales in both counties have gone through their seasonal ups and downs over the past two years but have never surged. And the past year and a half was about as good as it gets for buyers.

If the laws of supply and demand even remotely hold up going forward in this Bazarro real estate market then based upon the data below, **CA is on the precipice of a lot of near-term pain.** The builders may as well just pack it in now. I am aware this is only one metric, but probably the most important metric to housing historically.

