

November 2015 Housing Commentary



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Table of Contents

Slide 3:	<u>Housing Scorecard</u>
Slide 4:	<u>New Housing Permits, Starts, & Completions</u>
Slide 5:	<u>New and Existing House Sales</u>
Slide 5:	<u>New Construction Data</u>
Slide 6:	<u>Conclusions</u>
Slide 7:	<u>European Construction Markets</u>
Slide 8-49:	<u>Additional Comments&Data</u>
Slide 50:	<u>Disclaimer</u>

This report is a free monthly service of Virginia Tech. Past issues can be found at: <http://woodproducts.sbio.vt.edu/housing-report/>

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November 2015

Housing Scorecard

	M/M	Y/Y
Housing Starts	△ 10.5%	△ 16.5%
Single-Family Starts	△ 7.6%	△ 14.6%
Housing Permits	△ 11.0%	△ 19.5%
Housing Completions	▽ 3.2%	△ 9.2%
New Single-Family House Sales	△ 4.3%	△ 9.1%
Existing House Sales (NAR®)	▽ 10.5%	▽ 3.8%
Private Residential Construction Spending	△ 0.3%	△ 10.8%
Single-Family Construction Spending	△ 0.6%	△ 9.3%

M/M = month-over-month; Y/Y = year-over-year

Housing Data

	November	October	Nov. 2014
Total permits*	1,289,000	1,161,000	1,079,000
Single-family permits	723,000	715,000	663,000
Multi-family 2-4 unit permits	27,000	34,000	28,000
Multi-family ≥ 5 unit permits	539,000	412,000	388,000
Total starts	1,173,000	1,062,000	1,007,000
Single-family starts	768,000	714,000	670,000
Multi-family 2-4 unit starts**	7,000	11,000	9,000
Multi-family ≥ 5 unit starts	398,000	337,000	328,000
Total completions	947,000	978,000	867,000
Single-family completions	632,000	630,000	609,000
Multi-family 2-4 unit completions**	9,000	8,000	14,000
Multi-family ≥ 5 unit completions	306,000	340,000	244,000

* All data are presented at a seasonally adjusted annual rate (SAAR).

** US DOC does not report 2-4 multi-family starts and completions directly, this is an estimation.

Source: U.S. Department of Commerce-Construction: www.census.gov/construction/nrc/pdf/newresconst.pdf; 12/16/15

Housing Data

	November	October	Nov. 2014
New single-family sales	490,000	470,000	449,000
Median price	\$305,000	\$286,900	\$302,700
Existing sales ^a	4,760,000	5,320,000	4,579,100
Median price	\$220,300	\$207,200	\$205,300
Private Residential Construction	\$427.9 billion	\$426.8 billion	\$386.3 billion
SF construction	\$226.7 billion	\$225.3 billion	\$207.4 billion
MF construction	\$57.0 billion	\$57.4 billion	\$45.7 billion
Improvement construction ^b	\$144.2 billion	\$144.1 billion	\$133.2 billion

^a NAR®

^b The US DOC does not report improvements directly, this is an estimation. All data is SAAR and is reported in nominal US\$.

Sources:

NAR® www.realtor.org/topics/existing-home-sales; 12/22/15

U.S. Department of Commerce-Construction: www.census.gov/construction/nrs/pdf/newressales.pdf; 12/23/15

U.S. Department of Commerce-C30 Construction: www.census.gov/construction/c30/pdf/privsa.pdf; 01/04/16

Conclusions

November's housing data was positive with the exception of existing house sales (-3.8% Y/Y). The volatile multi family sector remains strong (+21.3% Y/Y; $\approx 35\%$ of all starts) with rents rising. Housing prices are increasing steadily as inventories are low (4.6 months supply for SF, 4.8 months for existing homes). Yet, fewer houses are bought by first time buyers ($\approx 32\%$ now vs. $\approx 40\%$ historically) due to a variety of reasons. Without the return of these first time buyers, it's hard to envision a return of the housing market to "normal."

With global uncertainty, Europe being stuck in slow growth while coping with the Euro and the migrant crises, and China and other countries slowing precipitously, there are numerous negative macro-factors endangering a robust housing recovery:

- 1) A constrained quantity of well-paying jobs being created;
- 2) a tepid economy;
- 3) declining real median annual household incomes;
- 4) strict home loan lending standards – though loosening with new programs; and
- 5) slowing world economy; and
- 6) global uncertainty

October 2015

EU Housing Scorecard

		M/M	Y/Y
Production in Construction ^A	EU 28	△ 0.1% ^s	△ 1.2% ^s
	EU 18	△ 0.5% ^s	△ 1.1% ^s
	Germany	△ 0.7%	△ 0.6%
	France	△ 0.5%	▽ 2.4%
	UK	▽ 1.1% ^p	▽ 0.8% ^p
	Spain	△ 1.3% ^{ps}	△ 8.0% ^p
Building permits (m ² floor) ^A	EU 28	-.-	-.-
	EU 18	▽ 2.9% ⁽⁰⁹⁾	△ 17.0 ^{s(09)}
	Germany	▽ 2.7% ^s	△ 1.5%
	France	▽ 1.3% ^s	△ 5.6% ^e
	UK	-.-	-.-
	Spain	▽ 10.6 ^{s(09)}	△ 66.1 ^{e(09)}

M/M = month-over-month; Y/Y = year-over-year

Source: Eurostat (<http://ec.europa.eu/eurostat/web/short-term-business-statistics/data/main-tables>;
01/06/16)

^A see <http://ec.europa.eu/eurostat/web/short-term-business-statistics/overview/sts-in-brief>

^e estimate ^s Eurostat estimate ^p provisional ⁻ no data available ⁽⁰⁹⁾ September data

Return TOC

Housing comments – November, 2015

- *November totals were up 10.9% (to 1.173 million, annual rate) - SF at 768,000, up 7.6% (SAAR) – MF still 35% of total*
- Multi family still the driver – rental prices still increasing – single family sales remain relatively weak and has a large impact on wood product prices. This trend will continue for some time as “1st time buyers’ remain on sidelines as weak supply drives prices up for 1st time buyers
- Economic issues - slowing world economy (China GDP slowest in past 6 years). China slowdown plus currency devaluation will drive commodity prices lower, and rekindle deflation concerns around the world.
- *Increasing geopolitical risk and continued domestic/Washington gridlock - causes uncertainty which leads to less investment which leads to slower productivity growth, and ultimately slower GDP growth and lower standard of living!*
- Job market is improving , albeit slowly, and wage gains remain weak, The real unemployment rate remains high at 10.3%. This equates to about 16 million people who are either unemployed, stopped looking, or working part time because they can’t find full time jobs. This “slack” in the job market will keep wage gains modest for some time.
- *Income growth in U.S. remains pathetic – latest Census report shows real incomes fell again in 2014. This suggests to me that housing will remain sub par for some time – many 1st time buyers just can’t enter the market.*
- World GDP growth outlook is shaky at best – main problem today is the slowdown in China which has been the major economic engine over the past 5 – 6 years. European growth is expected to be weak while back here in the USA, growth will probably remain below par (~ 2%) for some time.

The Fed raised interest rates – finally – in December. According to them, further increases will probably be gradual in 2016 and beyond. Will be interesting to see how this plays out.

Some thoughts:

The dollar will continue to strengthen, and commodity prices will fall further as most are priced in US\$. World demand is relatively weak with problems in China expected to worsen. Europe remains weak, and commodity currency countries (e.g., Canada, Australia, ..) will face more economic headwinds. As far as housing goes, modestly higher rates should not hurt housing too much. As we have discussed many times before, income and job growth is the key to any substantial housing recovery. On that score, income growth has been and is non existent (real \$) for the past 20 years. The job market still has problems. 30% of jobs created in the past 7 years have been part time with few, if any, benefits. Furthermore, credit remains tough for many potential 1st time buyers. Thus, in conclusion – the housing market is improving, but it is a slow, tough climb.

A few comments re: recent terrorism

The current administration has misjudged ISIS/ISIL/whatever, from the beginning. If this is the “JV team”, I would hate to see the “Varsity team”!!!!

The latest attacks in Paris, Africa, California demonstrate that the world’s response is not working. They are not being “contained” as the current administration suggests. Whether we like it or not, the world needs a “world policeman” and the only country capable of filling that role is the USA.

I’m tired of war as are most Americans, but now is not the time to become an isolationist. If we continue down that path, terrorism will only increase.

We need leadership today more than ever. A strong leader gives people confidence in the future – we don’t have that today in America (and other parts of the world for that matter). Confidence is a must if we are going to invest in our future – without confidence, we drift as a country and as a people.

What has this got to do with housing you ask? If we continue the current course, world economic growth will continue to weaken, U.S. growth will barely reach 2%, and U.S. housing will remain below trend. And, wood prices will continue to languish.

Main problem with U.S. economy (and world) is weak demand and low interest rates are not the answer—
see next slide for more analysis

Fed doesn't know what to do – current crop of politicians disappointing – hopefully, someone will emerge from the political debates with credible ideas and the ability to communicate a strategy for addressing serious problems facing our country. Otherwise, we're in for extended period of weak economic growth, and that means weak housing, job creation, lower standard of living, and sad sack wood prices.

Productivity and jobs miss match are a problem for the U.S. economy — there are jobs out there, but many people lack the necessary skill set. Solution - - education and infrastructure investment. Difficult to solve also due to student debt issues and government debt approaching 17 trillion \$. Many analysts expect U.S. economy to remain weak with GDP growth averaging about 2% over next several years.

“Cheap money alone can’t fix the world’s economy” – India’s Central Bank Governor – “economies need to be more innovative, productive, and competitive”.
My opinion – gutsy leadership missing here in USA, Europe, Canada, and rest of developed world! Current polls here in US and elsewhere indicate many voters are disgusted with current crop of politicians, and for good reason.

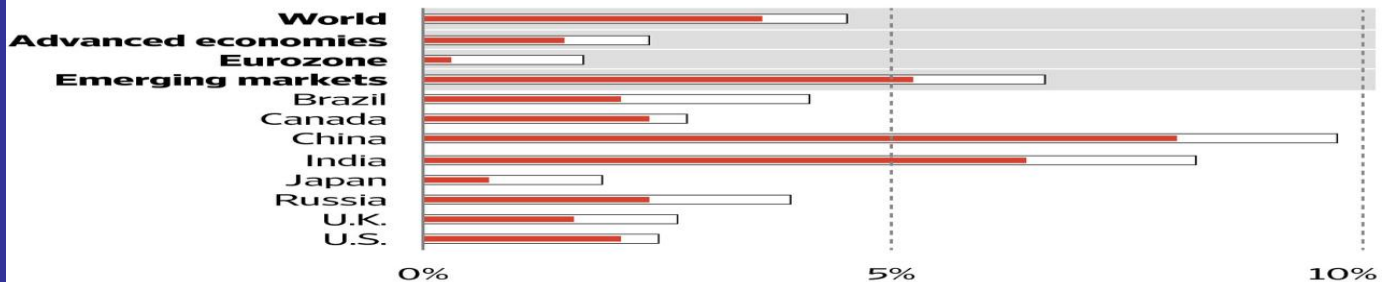
Serial Disappointments

Despite central banks injecting \$8 trillion into the global economy, world growth has persistently fallen short of expectations as governments failed to raise long-term potential growth.

Average economic growth, 2011-2014

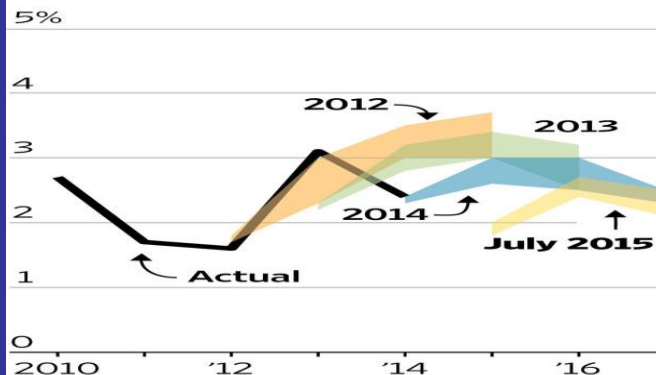
IMF projections from April, 2010 (□)

Actual values (—)

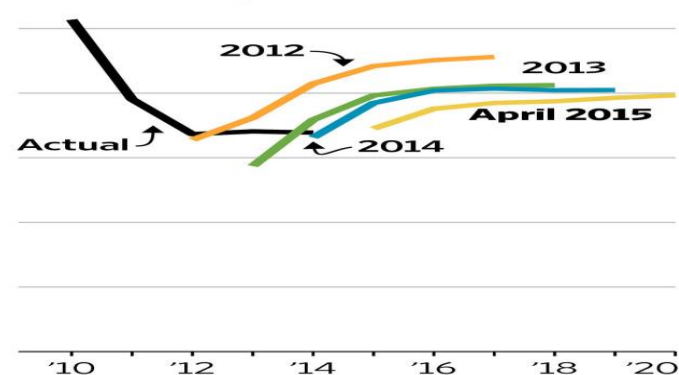


Both the Fed and the IMF have had to repeatedly revise down their forecasts for the U.S. and the global economies, respectively.

Fed U.S. growth forecasts*



IMF world growth forecasts**



*Forecasts by members of the Federal Open Market Committee center on these ranges.

**Forecasts are from October of each year, except 2015 which was made in April

Sources: WSJ calculations and IMF data (growth); Federal Reserve, IMF (forecasts)

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Future world GDP growth – studies in wsj and elsewhere suggest that demographic shifts will slow growth – main reason is slower population growth rates in many parts of the world – USA; Europe; Russia; China;

Bottom line – slower world and domestic demand growth. This can't be fixed very easily unless we get more creative with immigration reform. That will be difficult with increasing terrorism concerns.

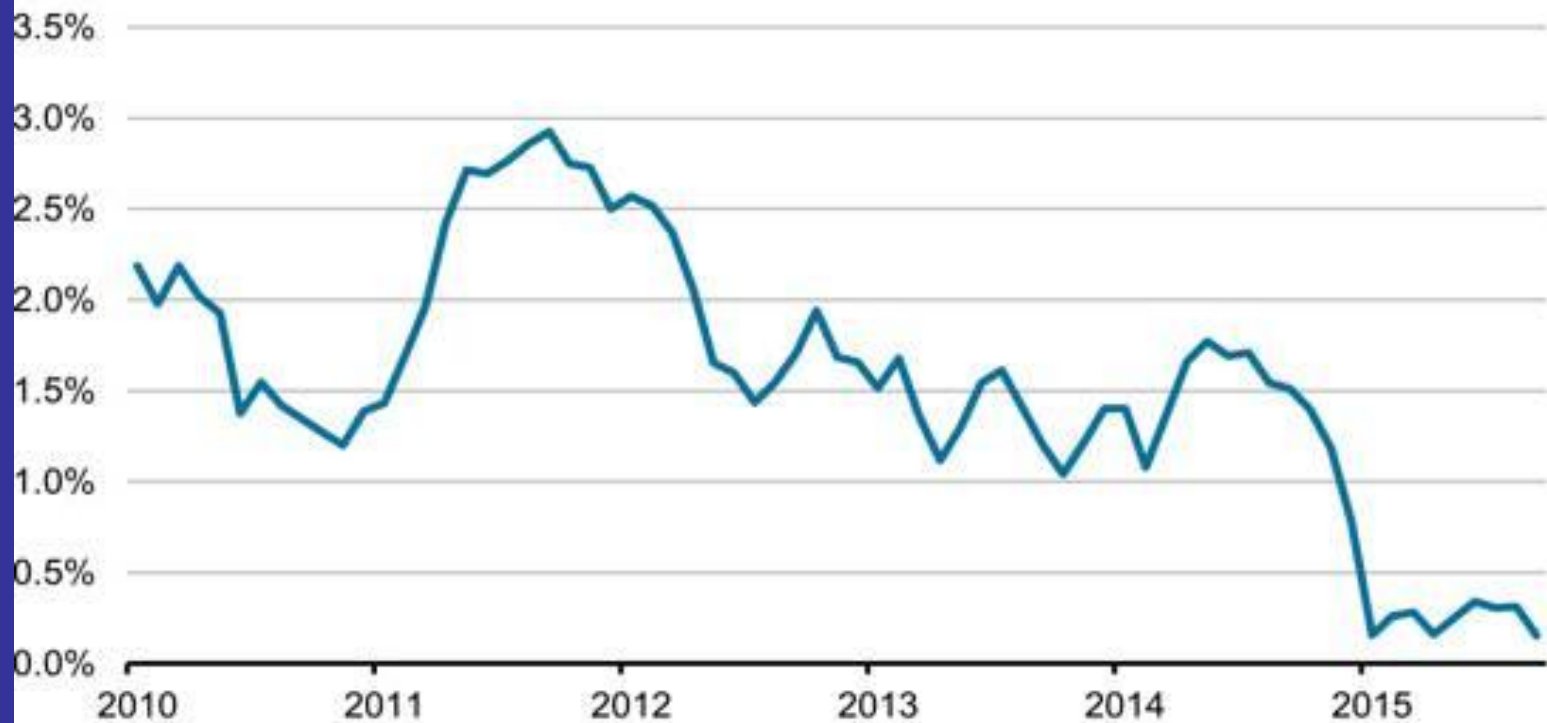
See Greg Ip, WSJ “demographic destiny” WSJ 2015

(<http://www.wsj.com/articles/how-demographics-rule-the-global-economy-1448203724?mod=ST1>)

Inflation isn't a concern at the moment.

Weakening Inflation

Annual percentage change in the price index for personal-consumption expenditures.



Source: Commerce Department | WSJ.com

Rental demand versus single family housing ---

Rental demand may continue to increase for some time – a recent study by the Urban Institute suggests it may continue for another decade or two

(<http://www.wsj.com/articles/new-housing-crisis-looms-as-fewer-renters-can-afford-to-own-1433698639>)

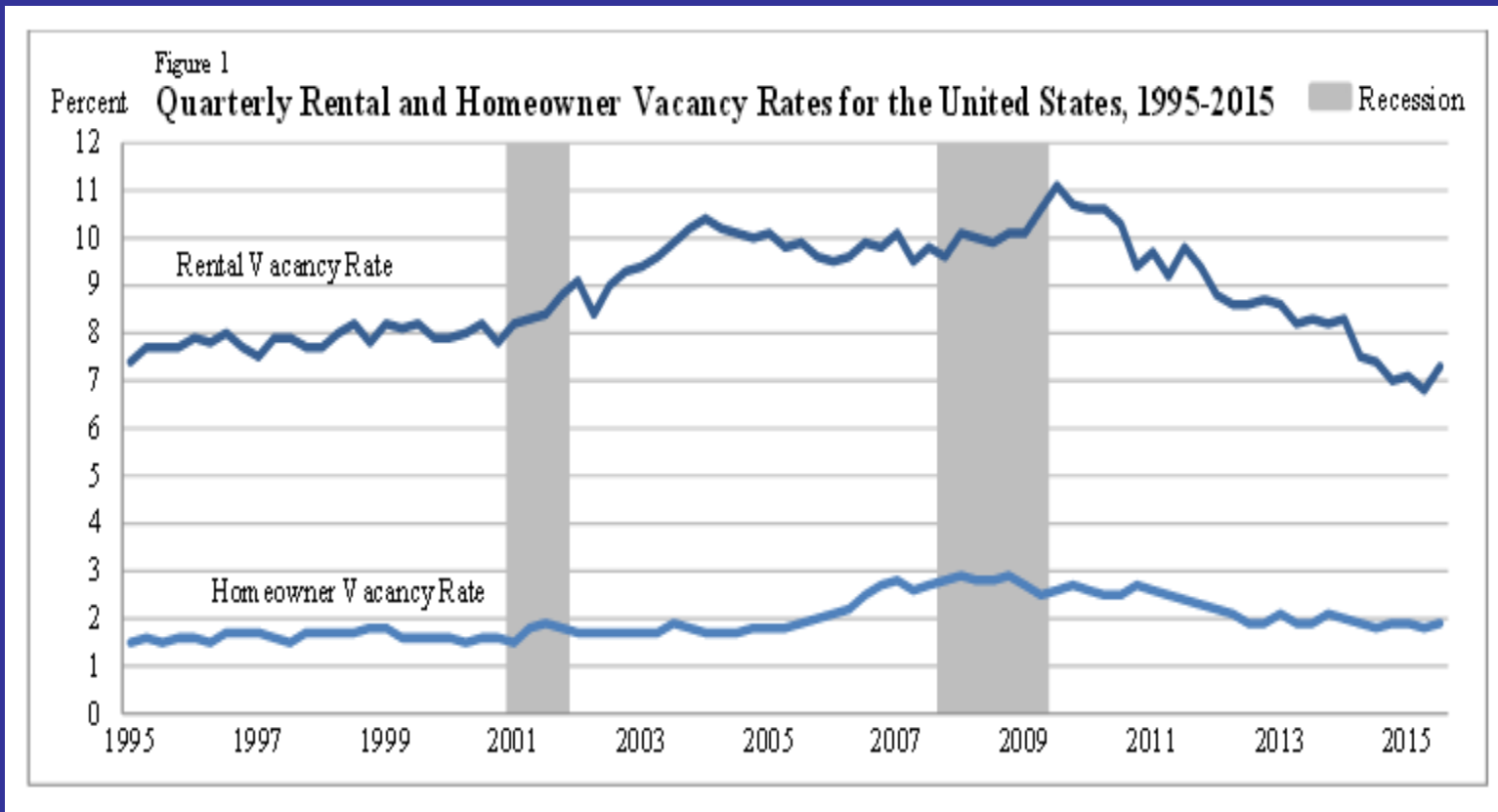
Why - - demographics; growing minority population; student debt; weak income growth; E.g., minorities (nonwhite) will make up 75% of net household growth over the next 10 years, and 85% during 2020- 2030 (**see next slide**). They are less likely to own homes (lower incomes is main reason) so home ownership continues to fall toward 60% by 2030. During this time, rental demand will increase dramatically. Although this is just one study, it provides food for thought. One potential question with the study, however, is that other studies show that although immigrants, for example, rent initially, but, over time they purchase homes at a rate equal to or higher than native born Americans. Why – people come to the U.S. to improve quality of life, and for most, this means homeownership. This suggests that the U.S. has to find solutions to immigration issues like “illegal immigrants” while encouraging legal immigration. This country was founded by immigrants seeking a better life, and they are key to our future. **And, incomes for all minorities has to improve if home ownership is to return to “good old days”**

(http://www.engineeredwood.org/Data/sites/3/documents/EngWoodJournal/EWJ_Spring2010.pdf)

Anyway, this has potential implications for home ownership; single family construction; and demand for wood products – lots of variables and scenarios.

Rental vacancy rates lowest in 20 years

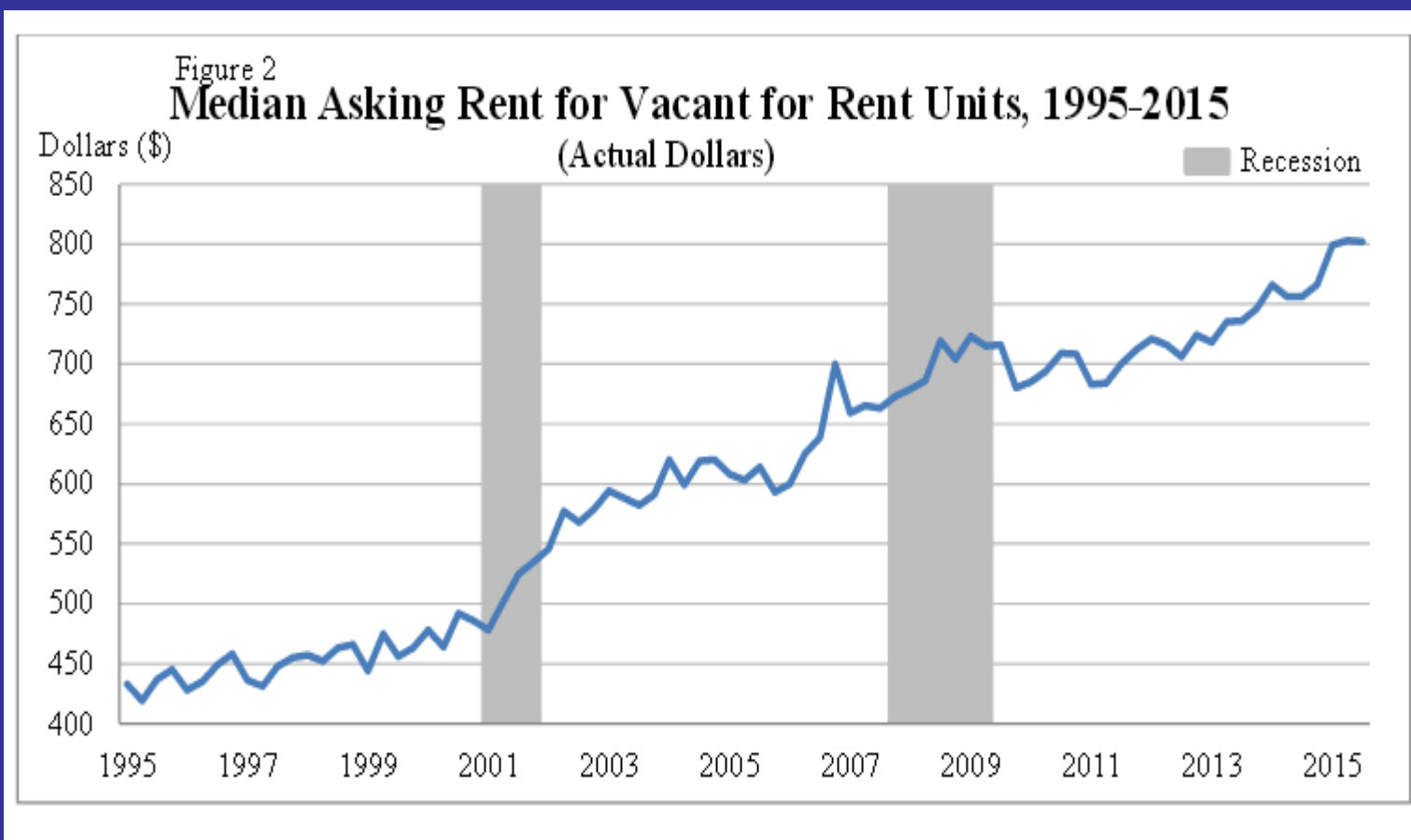
Falling rental vacancy rates will drive rental prices higher
and this will drive multi family construction – Economics 101



Source; Census (<http://www.census.gov/housing/hvs/files/qtr215/currenthvspress.pdf>)

Increasing rents will slow housing starts - -

makes it more difficult for renters to save for down payment for house purchase



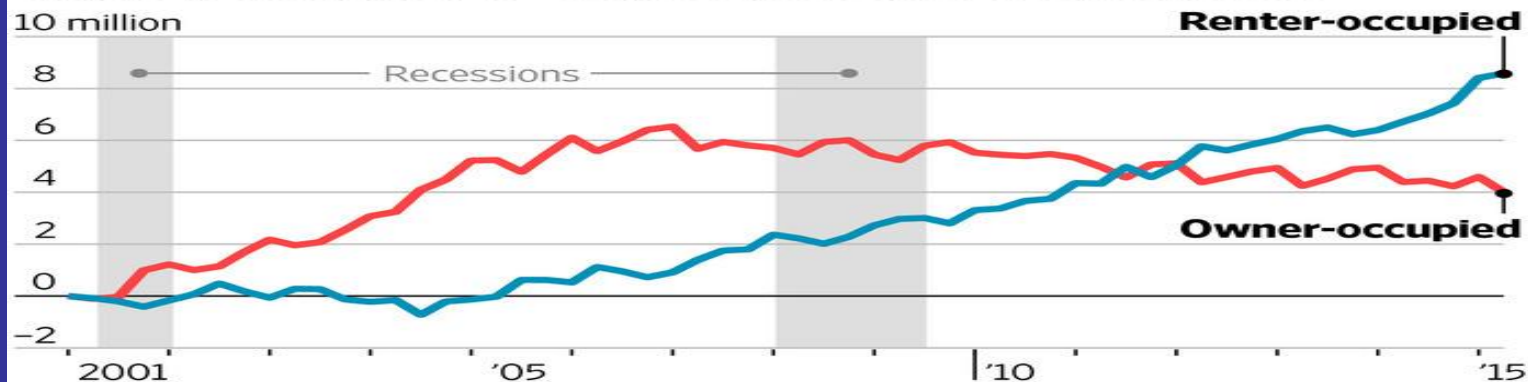
Source: Census : (<http://www.census.gov/housing/hvs/files/qtr115/currenthvspress.pdf>)

Household formations are up, but most are renting, and, in the past decade, rent payments exceeded mortgage payments – but, most can't get a mortgage due to poor credit or can't save enough for a down payment – vicious circle

Pricier Pads

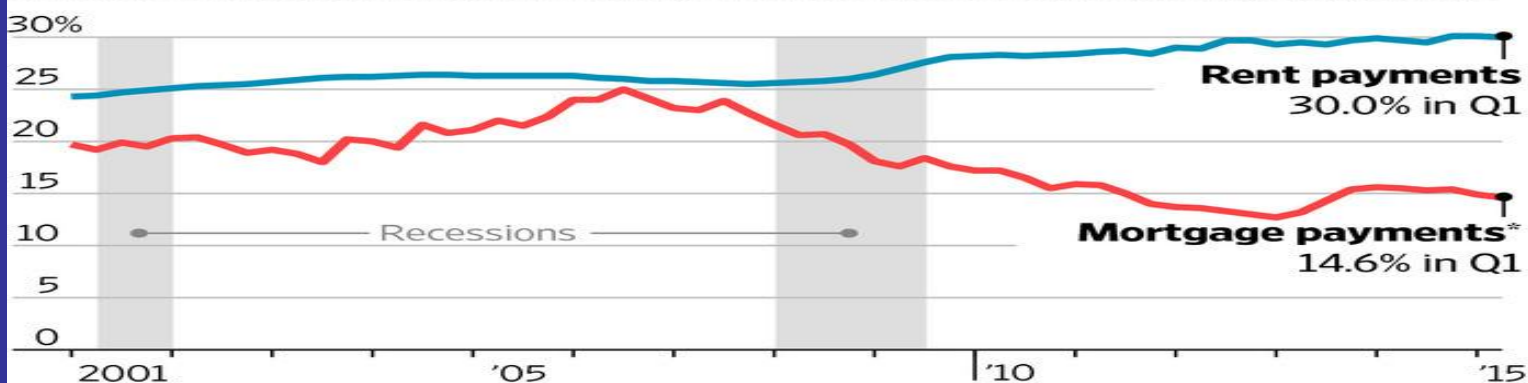
Since the housing bust, new household formation has consistently come from renters rather than owners...

Change in the number of U.S. households since the end of 2000



...and the climbing demand has made rents less affordable.

Median shelter costs as a share of median household income, nationwide



*Assuming a 30-year fixed-rate mortgage with a 20% down payment; includes only principal and interest, not property tax or other homeownership costs.

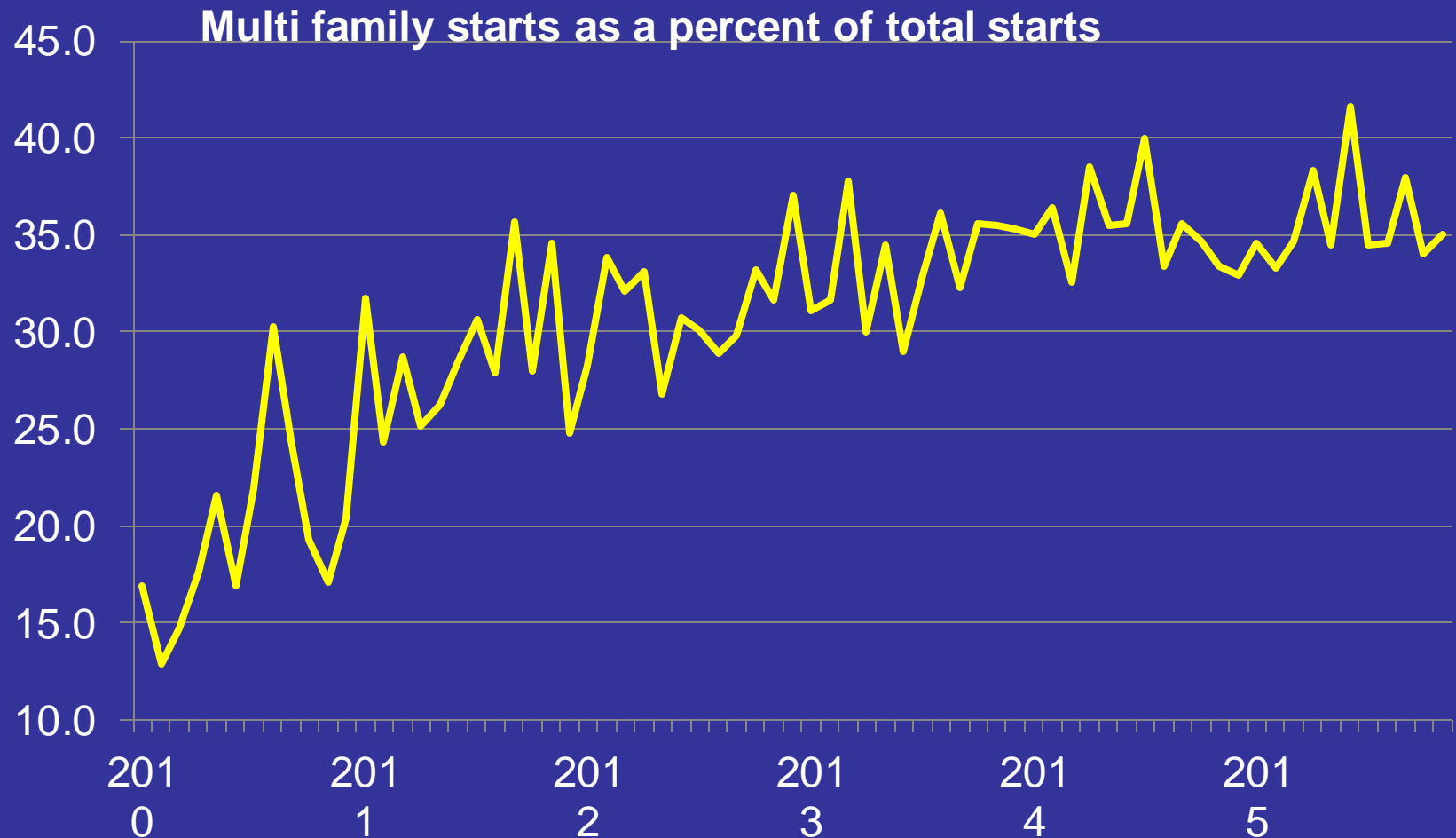
Source: Census Bureau (households); Zillow (affordability)

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Source: WSJ (<http://www.wsj.com/articles/rising-rents-outpace-wages-in-wide-swaths-of-the-u-s-1438117026?cb=logged0.40234478570971755>)

Multi family share of housing starts – upward trend expected to continue for some time. Also, since the housing crash in 2008, **single family rentals** have now reached 13% of overall housing stock, up from 9% in 2005

(<http://blogs.wsj.com/economics/2015/07/20/signs-of-overheating-in-the-single-family-rental-market/>)



Source: Census

[Return TOC](#)

Higher prices don't necessarily mean the market is good which is what economic theory would suggest.

Housing inventory – short supply is driving up prices! – In addition, builders are building bigger houses to accommodate “well healed customers” which is driving new home prices higher. Existing home sales reflect similar trends.

One more issue impacting housing – with starts remaining weak, we will see a continuing shortage of inventory, and that means higher prices. Many builders just don't see enough traffic supporting an increase in starts. Also, many smaller builders are having trouble getting financing. In the resale market, many people can't list their homes due to foreclosure issues, underwater mortgages, job problems, credit issues – i.e., they can't qualify for a new mortgage (<http://www.wsj.com/articles/bidding-wars-return-to-home-market-1437350840>). Current inventory is 4.6 months for new homes and 4.8 months for existing homes – six months supply is considered a ‘healthy market’

Another good article on current housing situation re: dilemma for 1st time buyers. Limited choices; higher prices; weak income growth; weak new home construction; --- short supply drives prices higher putting more 1st time buyers out of the market. **I've said this before – return of 1st time buyers is needed before housing returns to “normal.”**

(<http://finance.yahoo.com/news/first-time-buyers-face-hurdles-101147166.html>)

Existing home inventory at 4.7 months – short supply still driving drives prices higher

Months supply, single family

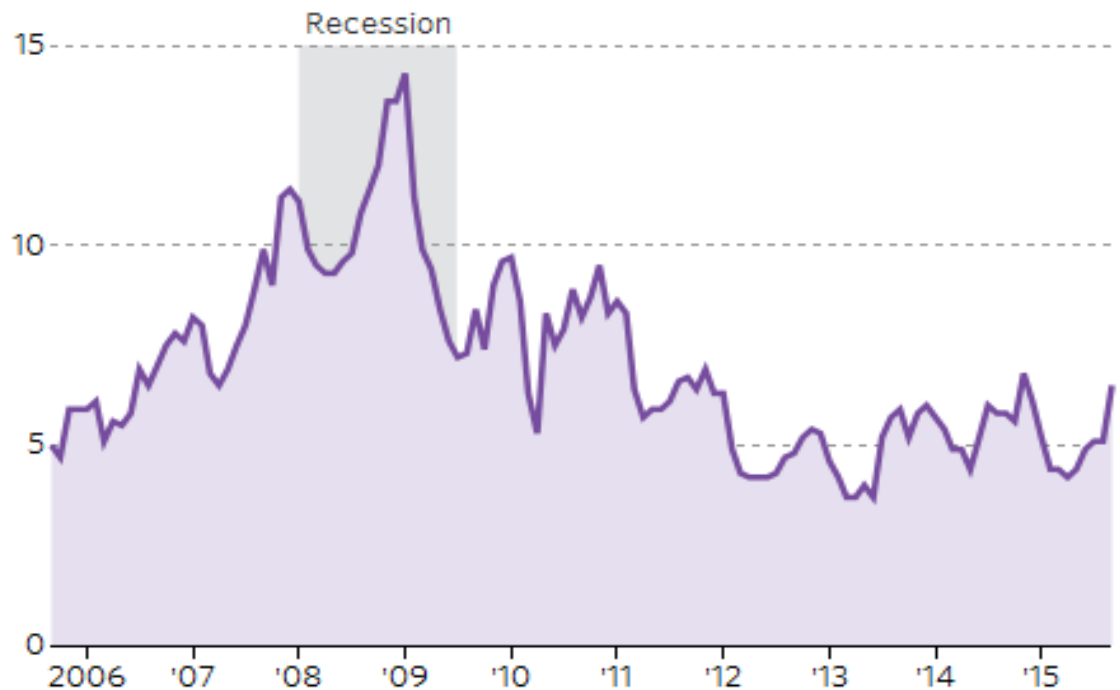


Low new home inventory drives prices higher
and out of reach to most 1st time buyers

Months' supply

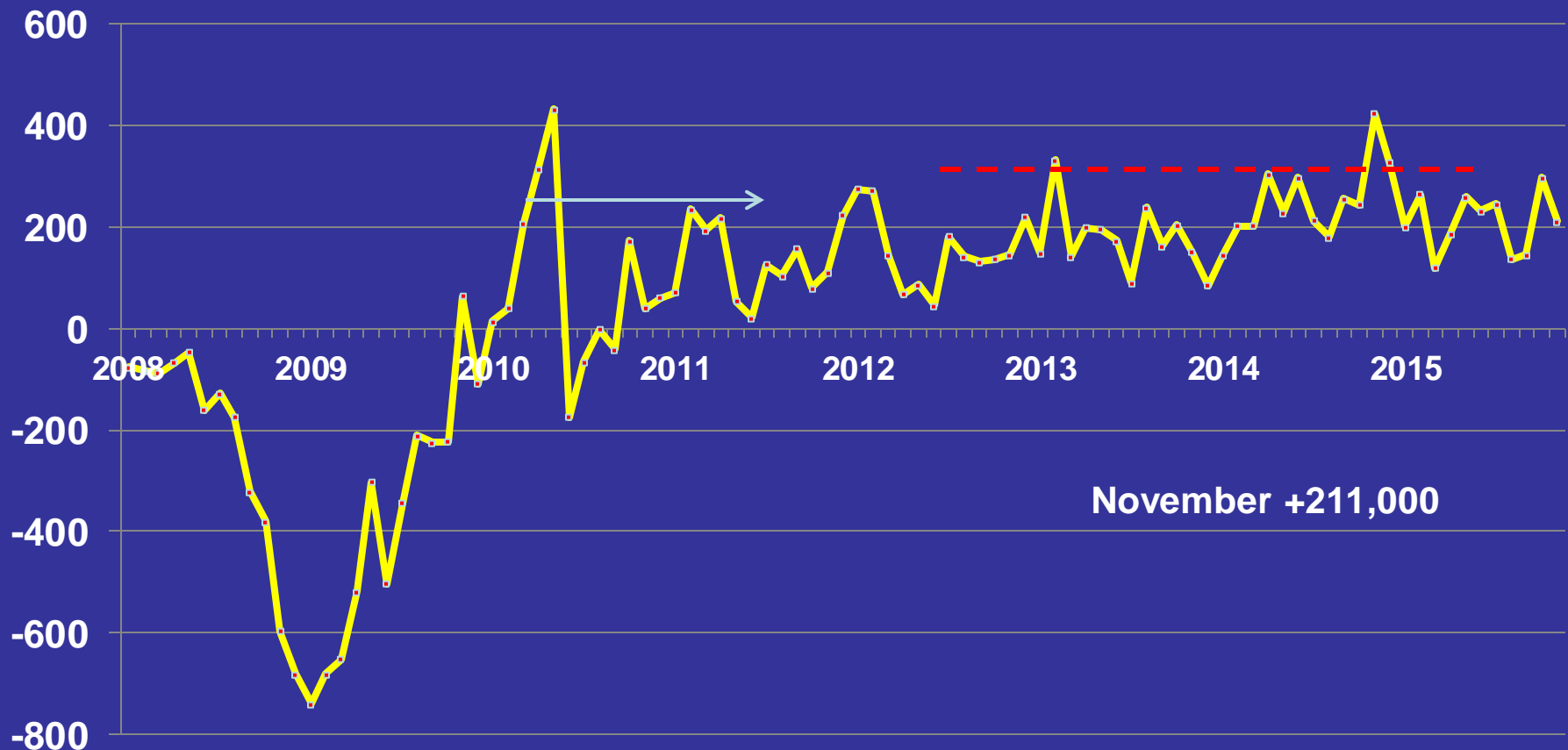
The amount of time it would take, in months, to sell the stock of newly-built homes available for sale at the current sales pace. The National Association of Realtors considers a six-month supply to be a balanced market.

Months' supply of newly-built homes for the past 10 years



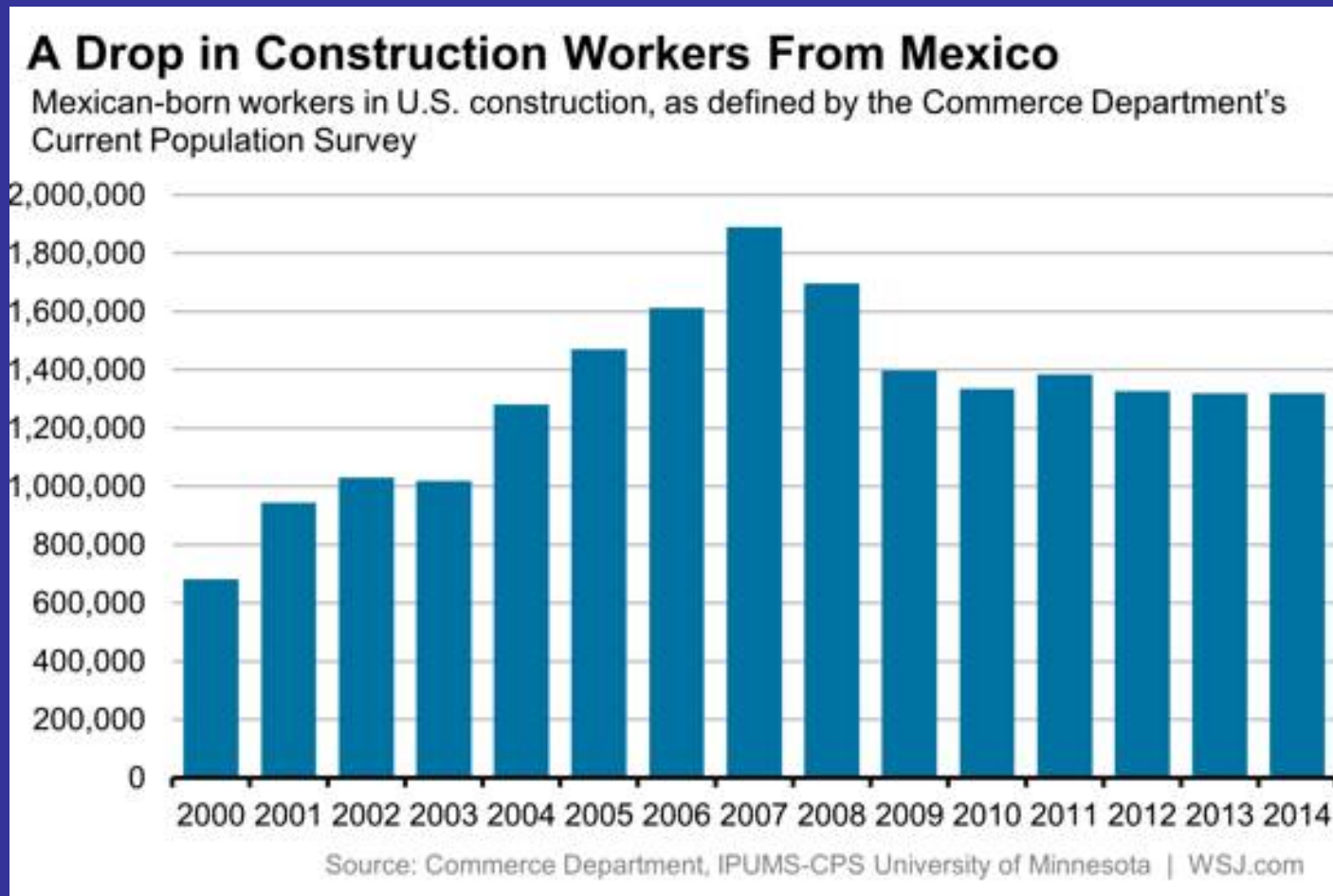
Employment situation - our biggest problem – growth in employment is stuck near 200,000, and many of these jobs are part time with little or no benefits – not conducive to driving housing demand higher

Net change in non farm payrolls – monthly, thousands



Source: U.S. BLS (www.bls.gov)

Another problem (like we need more) for housing is labor shortages - - - fewer immigrants from Mexico, plus aging demographics with native born Americans suggest that construction costs will increase driving prices higher and slowing home construction



Nearly 700,000 fewer construction workers today compared with 2007 – will mean construction delays and higher costs

Help Wanted

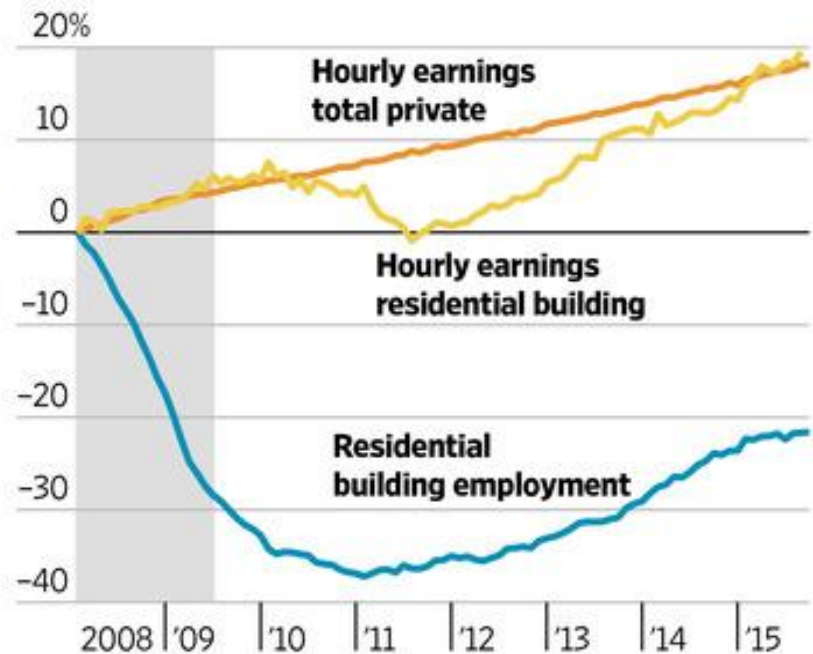
Home builders have been plagued by a skills mismatch, with openings outpacing hires in recent years, while construction workers' earnings have slowly climbed back to the overall average.

Change in openings and hires in construction



Source: Labor Department

Change in hourly earnings and employment



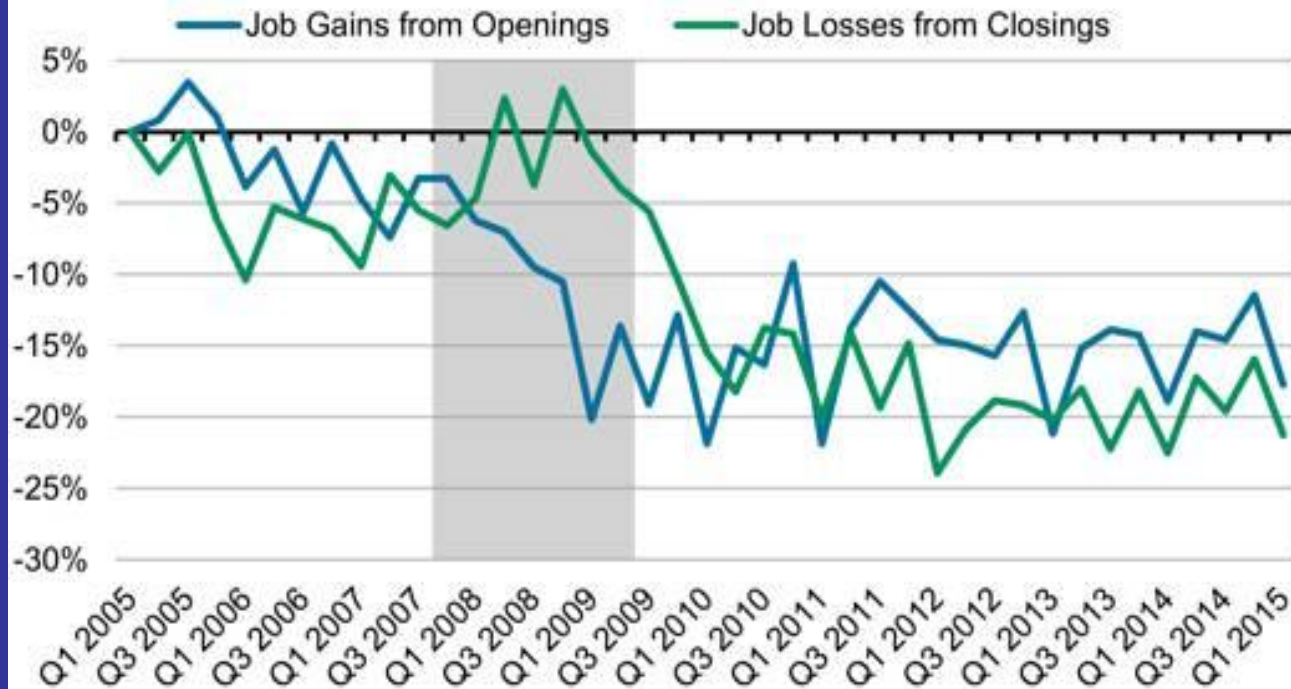
THE WALL STREET JOURNAL.

Another reason why job picture not so good – job creation by businesses is down significantly in past 7 – 8 years. Less innovation and risk taking is part of problem. My opinion – this is due to uncertainty and lack of confidence in the future direction of the country/economy.

Again – lack of leadership from White House and Congress

Less Dynamic Decade

The change in job creation due to business openings and job losses due to business closings from the level in the first quarter of 2005.



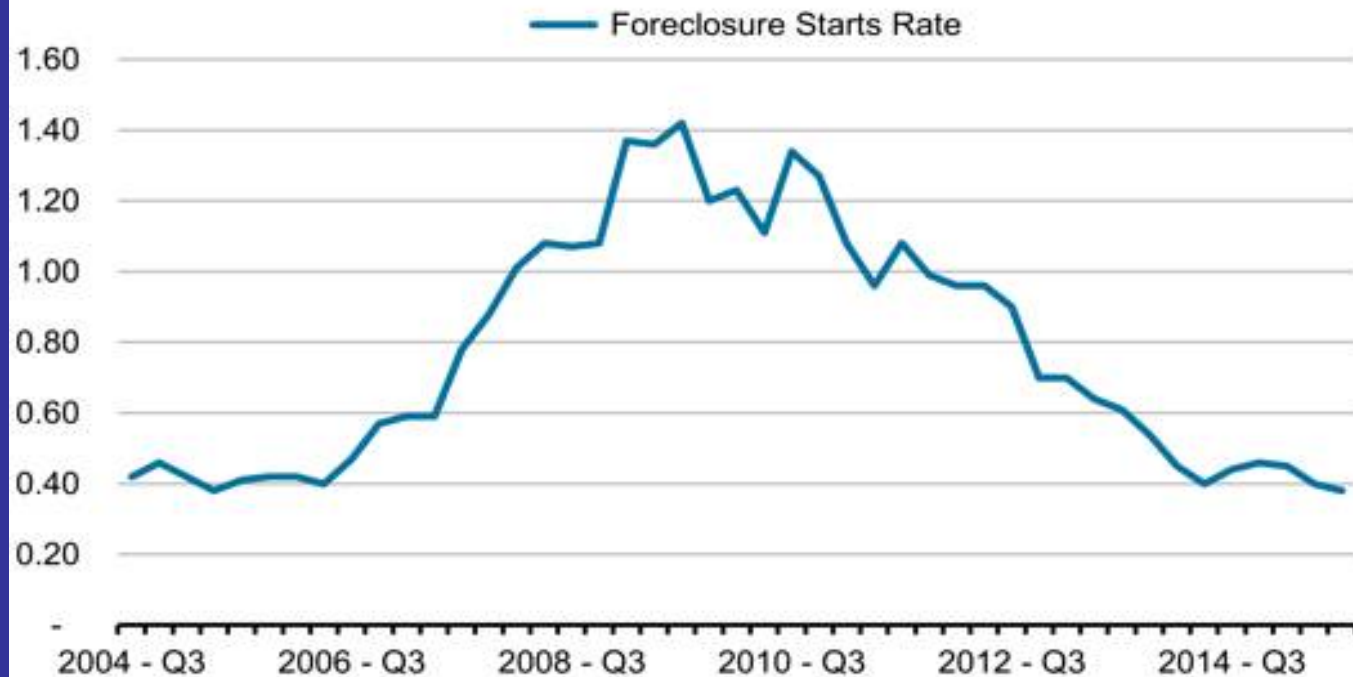
Source: Labor Department | WSJ.com

Some good news re: housing – lower foreclosures will support healthier pricing as more distressed homes are kept off the market - also helps existing mortgage holders refinance into better rates, and underwater mortgages are down (13.4% today vs 16.9% a year ago)

(http://www.wsj.com/article_email/more-homeowners-rise-from-underwater-1449196595-IMyQjAxMTI1NDA1NDQwMzQ1Ww)

Fading Foreclosure Crisis

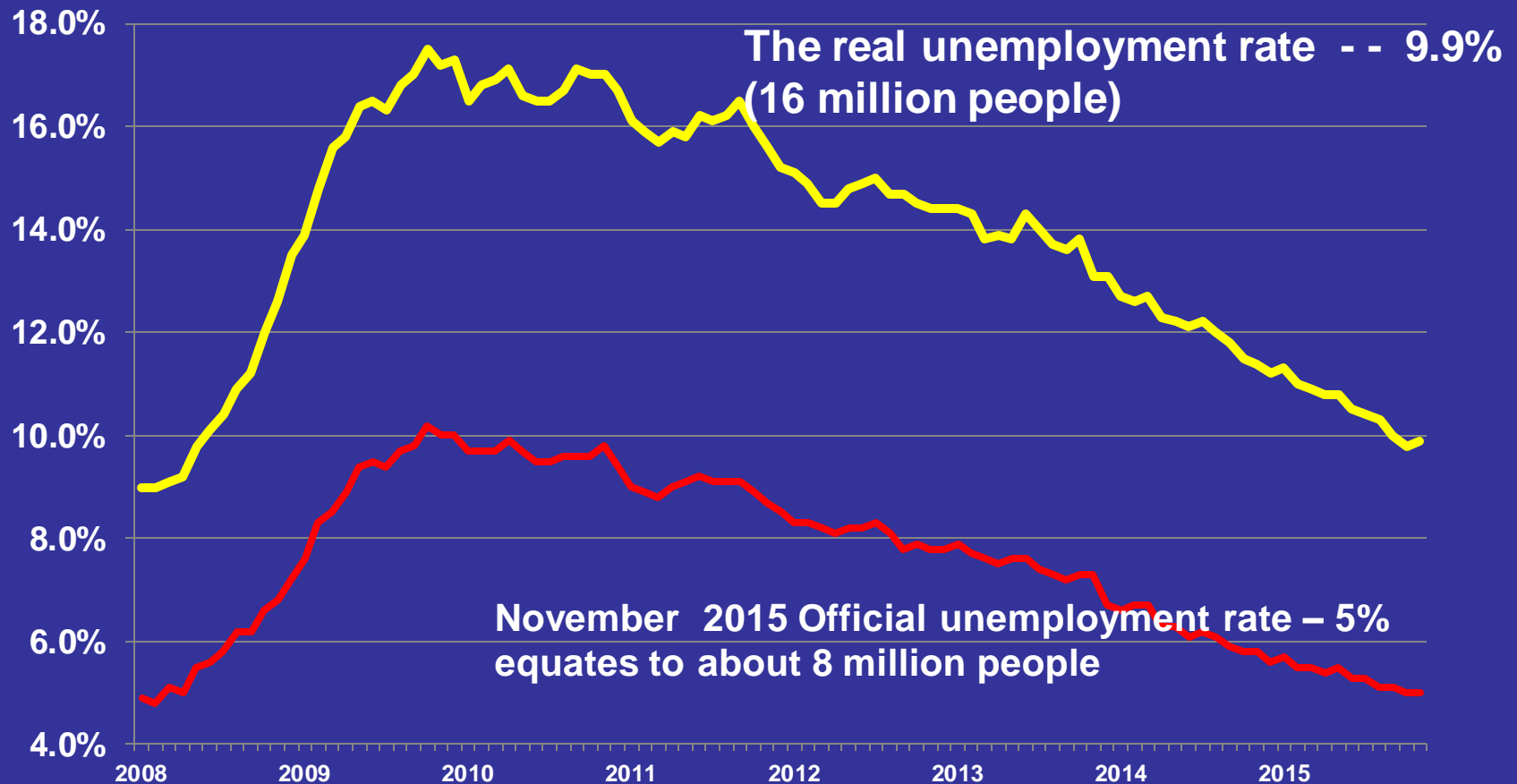
The percentage of mortgages entering foreclosure is at its lowest level since 2005.



Source: Mortgage Bankers Association | WSJ.com

Unemployment rate keeps coming down – but, nearly 7 million remain “underemployed” – working part time, but want full time jobs

There are about 16 million people either unemployed, underemployed, or stopped looking – **Key reason why wage increases are stagnant!

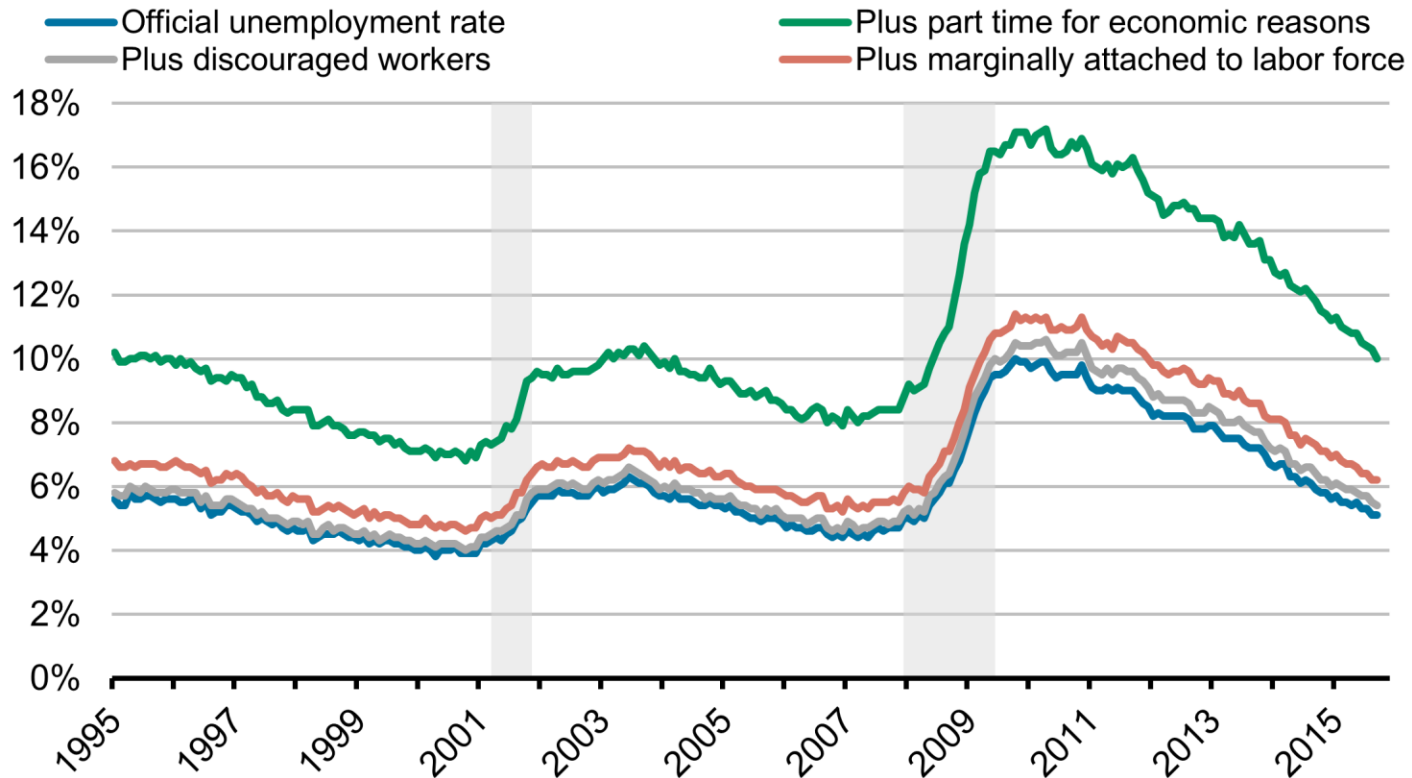


Source - - BLS: <http://www.bls.gov/news.release/pdf/empsit.pdf>; <http://data.bls.gov/cgi-bin/surveymost?ln>

Closer look at “real unemployment rate” – things are improving, but we really need stronger hiring

Out of Work

Unemployment rate, seasonally adjusted, through September



Source: Labor Department | WSJ.com

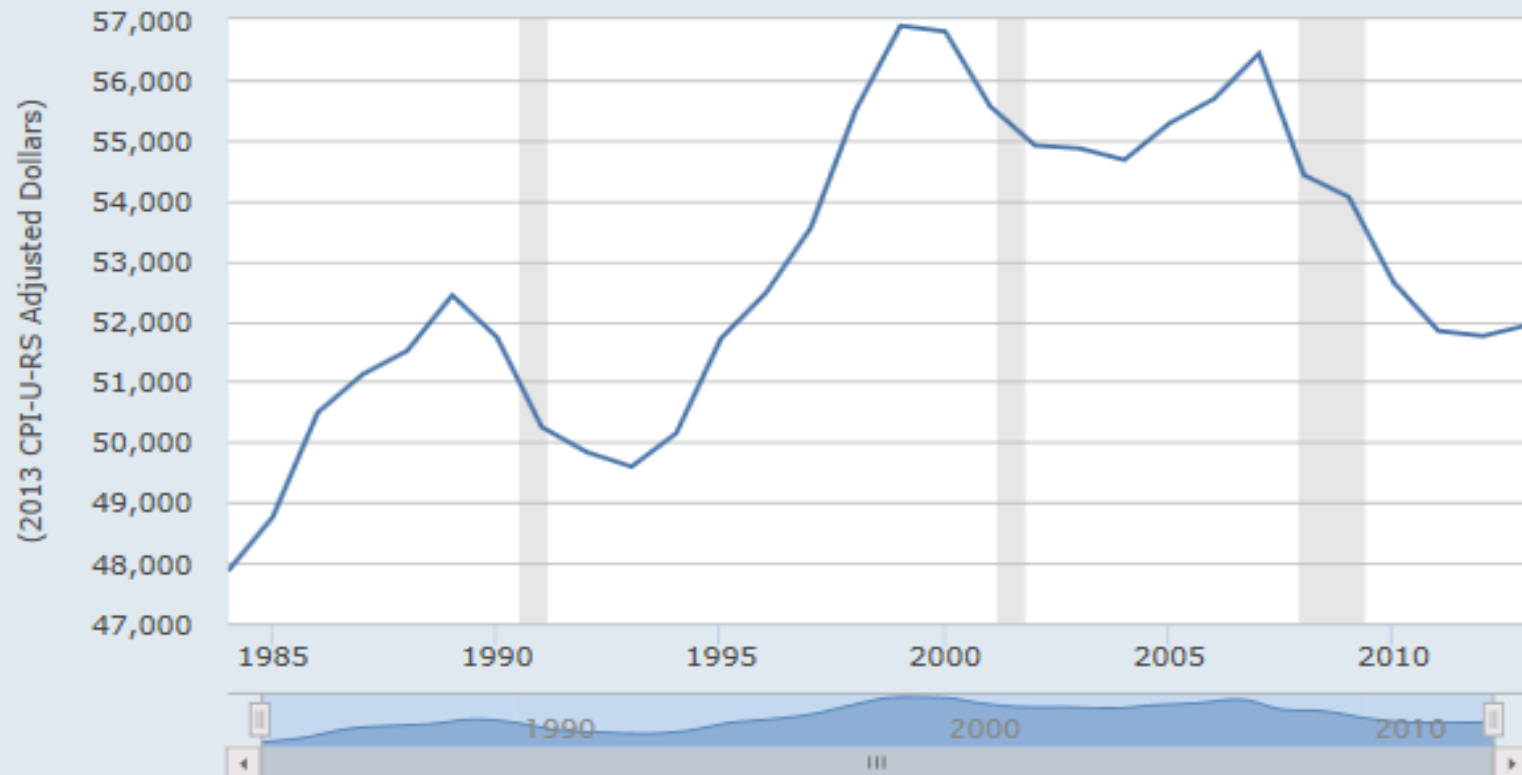
A look at real incomes over the past twenty years ---

real incomes have been shrinking for the past 20 years
and the reason is probably tied to productivity – here is good article
on the subject:

(<http://www.wsj.com/articles/politicians-pay-heed-to-productivity-problem-1437582206?cb=logged0.19101819254186214>)

FRED

— Real Median Household Income in the United States



Source: US. Bureau of the Census

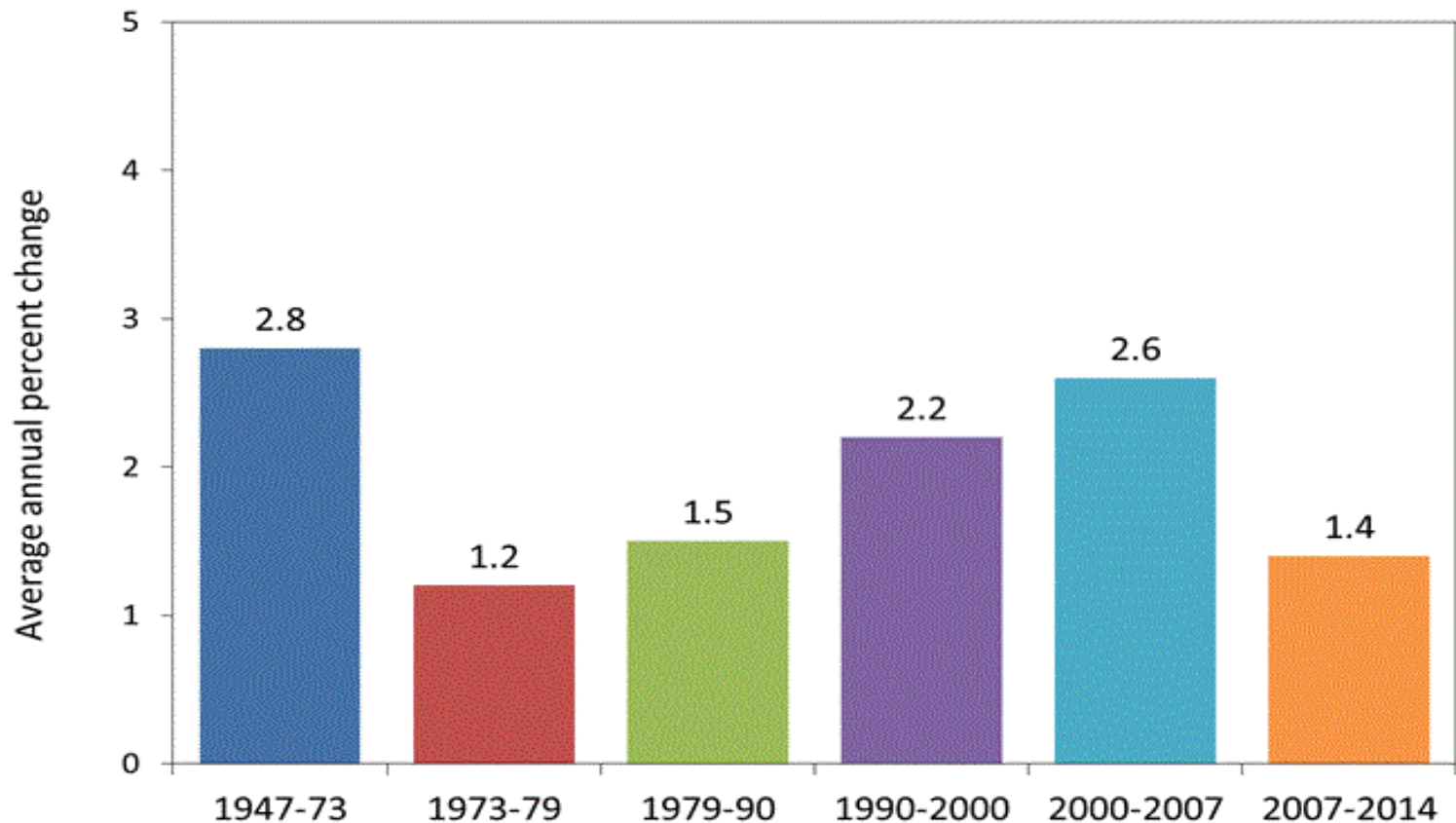
We need to invest more to become more competitive, create better paying jobs to grow GDP

GDP derives from number of workers plus productivity (real GDP/worker) –

(<http://marketrealist.com/2015/01/2-factors-drive-real-gdp-growth/>) -- with lower productivity, higher employment won't generate as much growth in GDP – this is why improving employment doesn't give us strong GDP growth.

Innovation and entrepreneurship is key to increasing productivity

Productivity change in the nonfarm business sector, 1947-2014

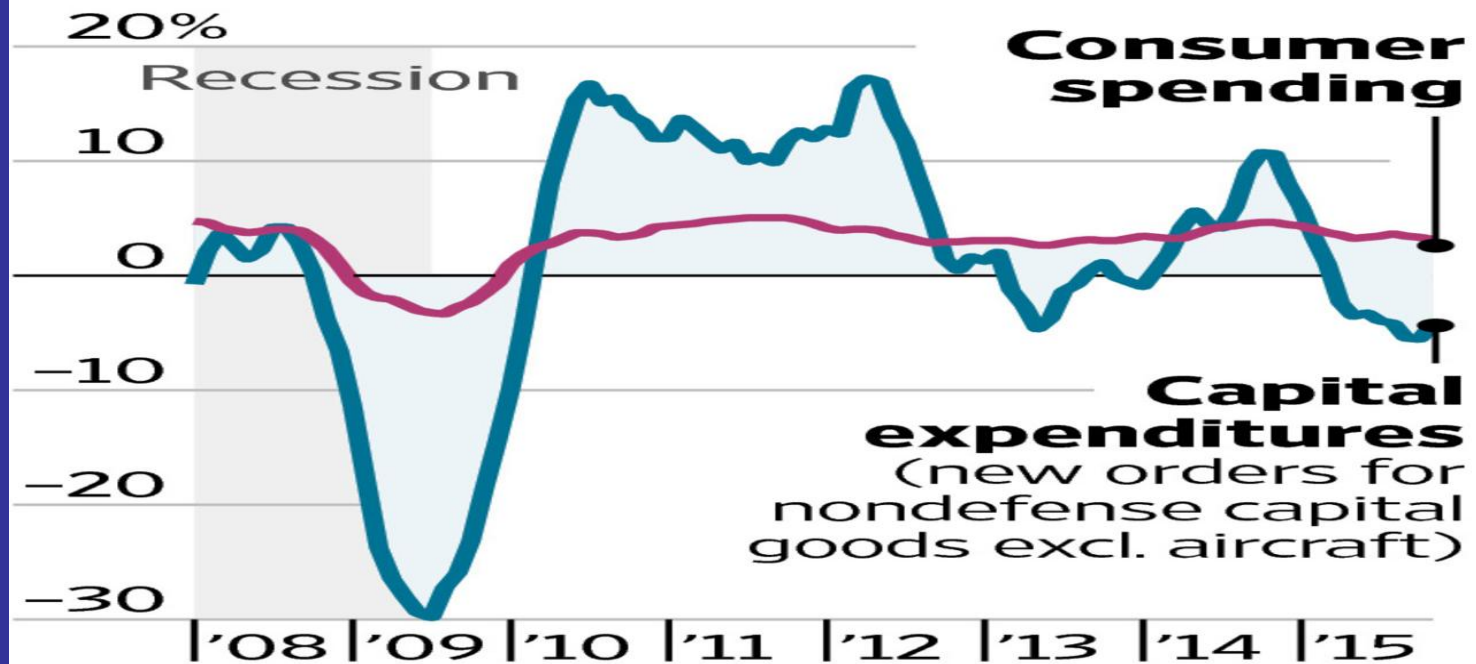


Source: U.S. Bureau of Labor Statistics

GDP growth comes from more workers and increasing productivity. Workforce participation (and population growth rate) is falling in the USA. Now, capital expenditures are falling, too. Less investment leads to less productivity. **Bottom line – slower growth over next 5 – 10 years?**
And less demand for housing!

Diverging Paths

Change from a year earlier,
three-month moving average



Note: All figures adjusted for seasonality

Source: Commerce Department

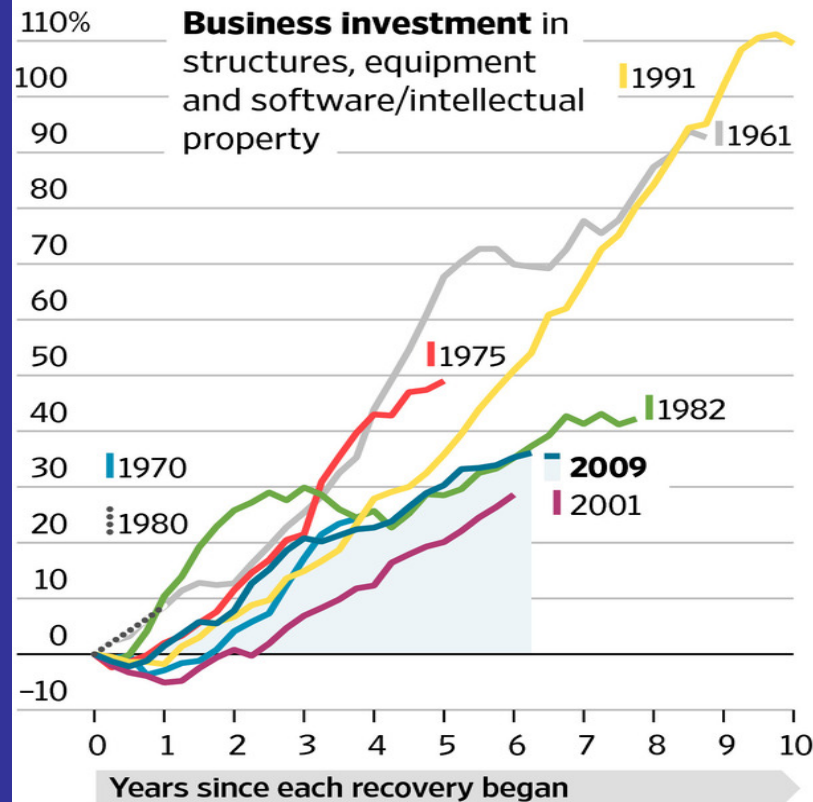
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Investment is down because demand just isn't there

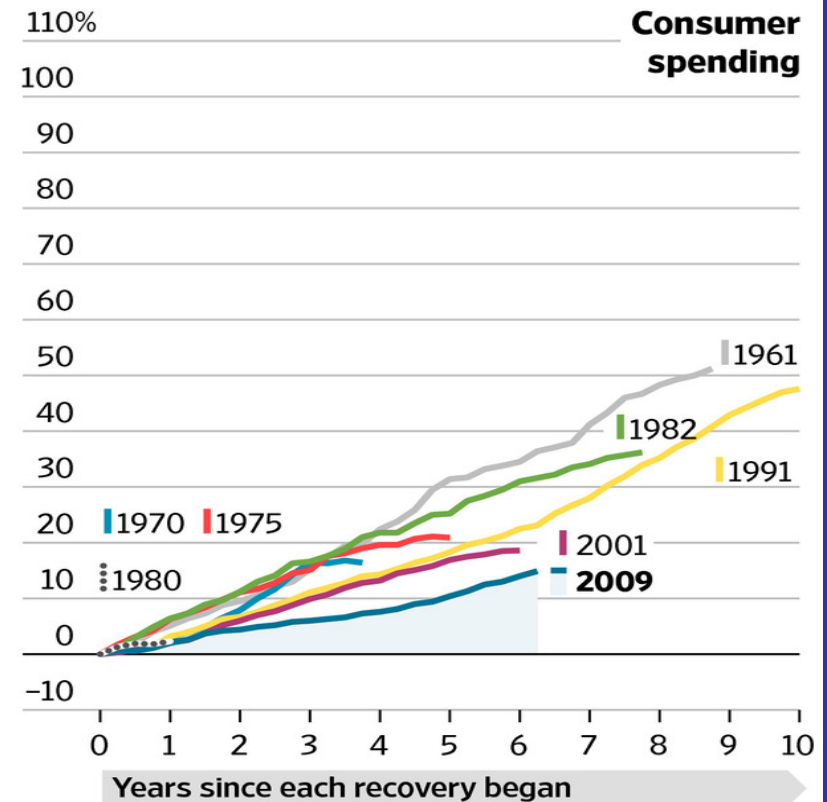
Business Investment Cools

Pent-up demand fueled businesses' capital expenditures early in the expansion, but that spending has leveled off, creating an obstacle to present and future growth.

Change since each recovery began, adjusted for inflation



Note: All figures adjusted for seasonality
Source: Commerce Department

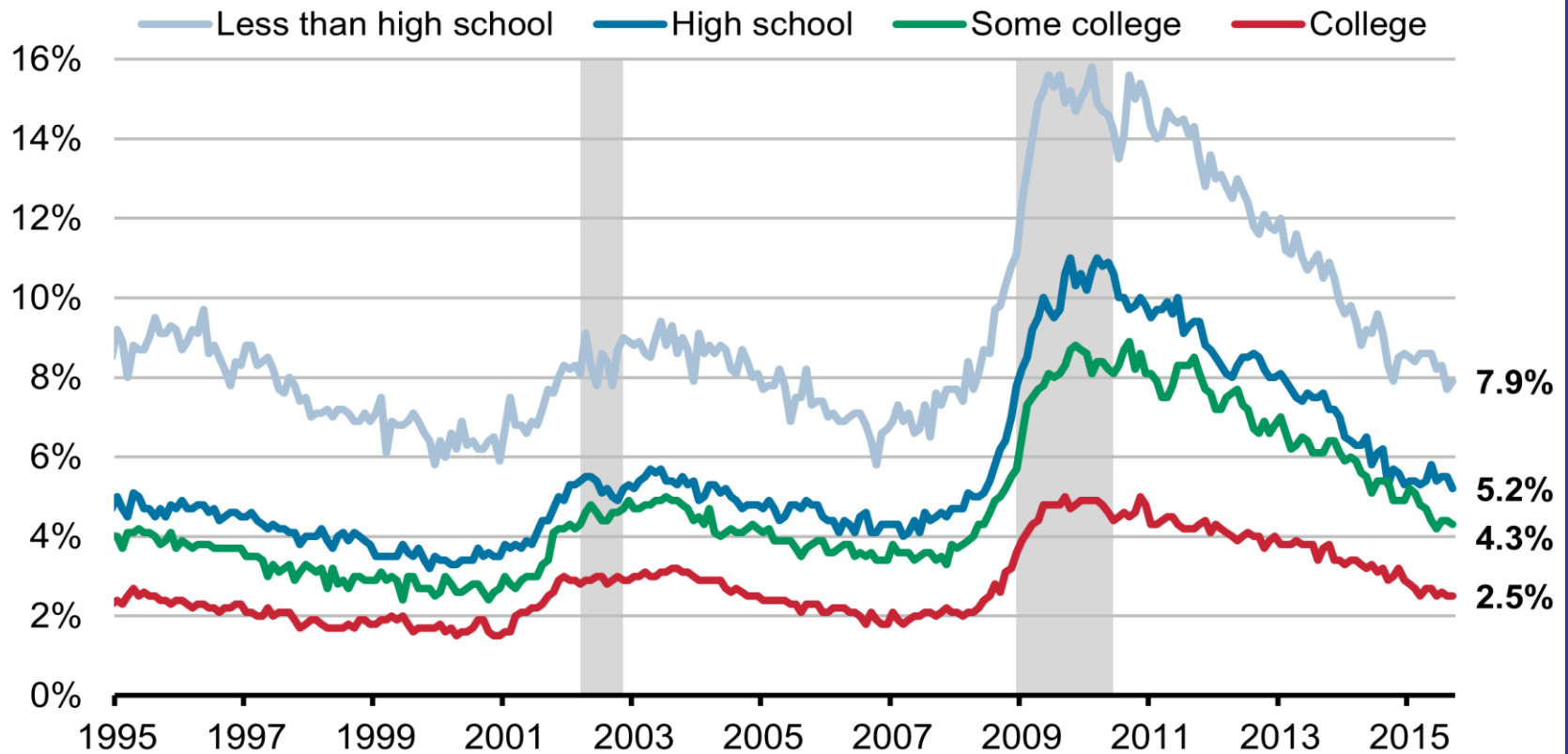


Andrew Van Dam and Eric Morath/THE WALL STREET JOURNAL.

One way to improve productivity and incomes --- education improves your chances of staying out of the unemployment line

School Work

Unemployment rate for civilians 25 years and over by educational attainment, seasonally adjusted, as of September



Source: Labor Department | WSJ.com

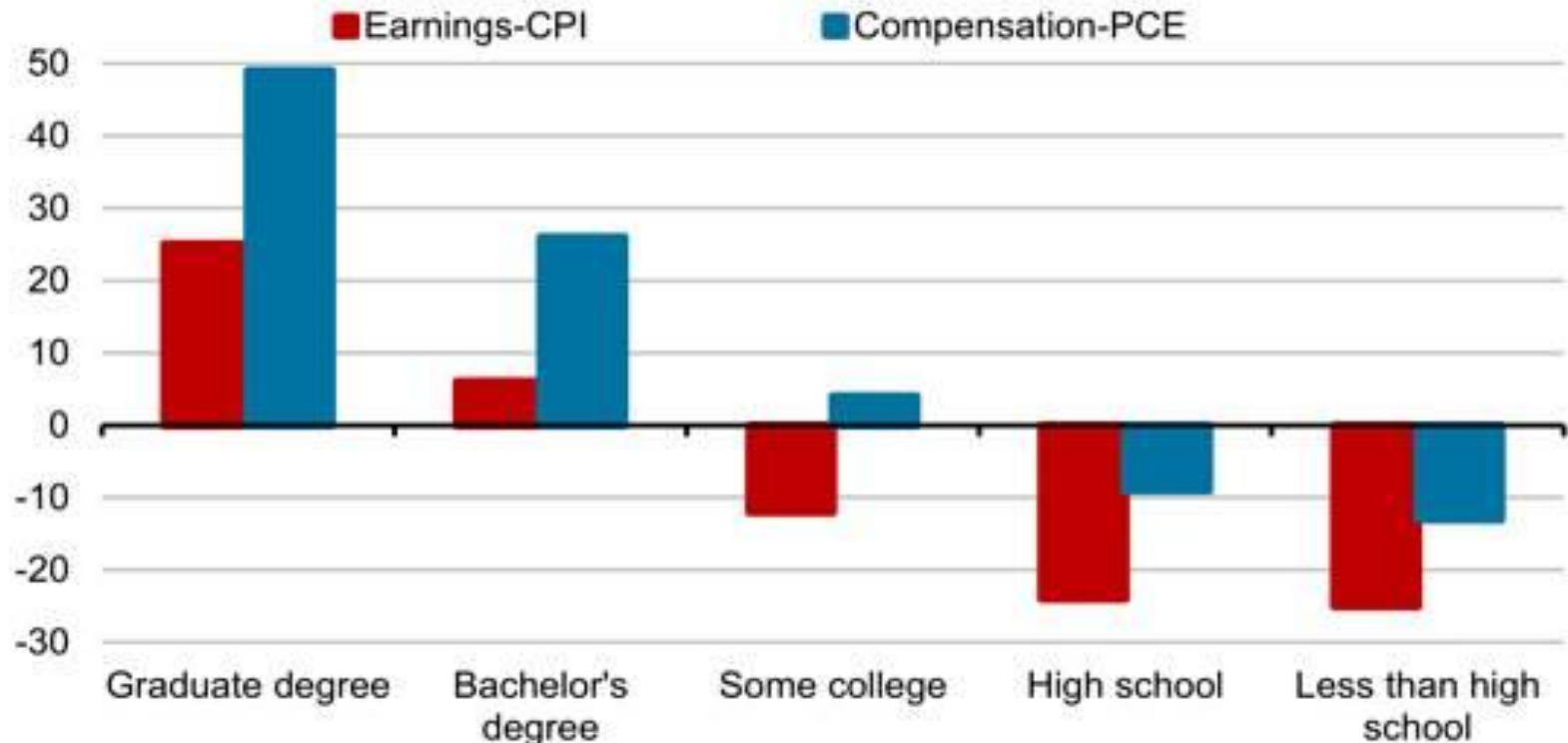
Source: WSJ (<http://blogs.wsj.com/economics/2015/07/02/the-june-jobs-report-in-10-charts/>)

More evidence that education pays

Earnings vs Compensation - - compensation includes benefits like employer paid health care, pensions, etc. while earnings are wages only. CPI and PCE are two indexes used to adjust for inflation

Wages for Male College Graduates: Stagnant or Not?

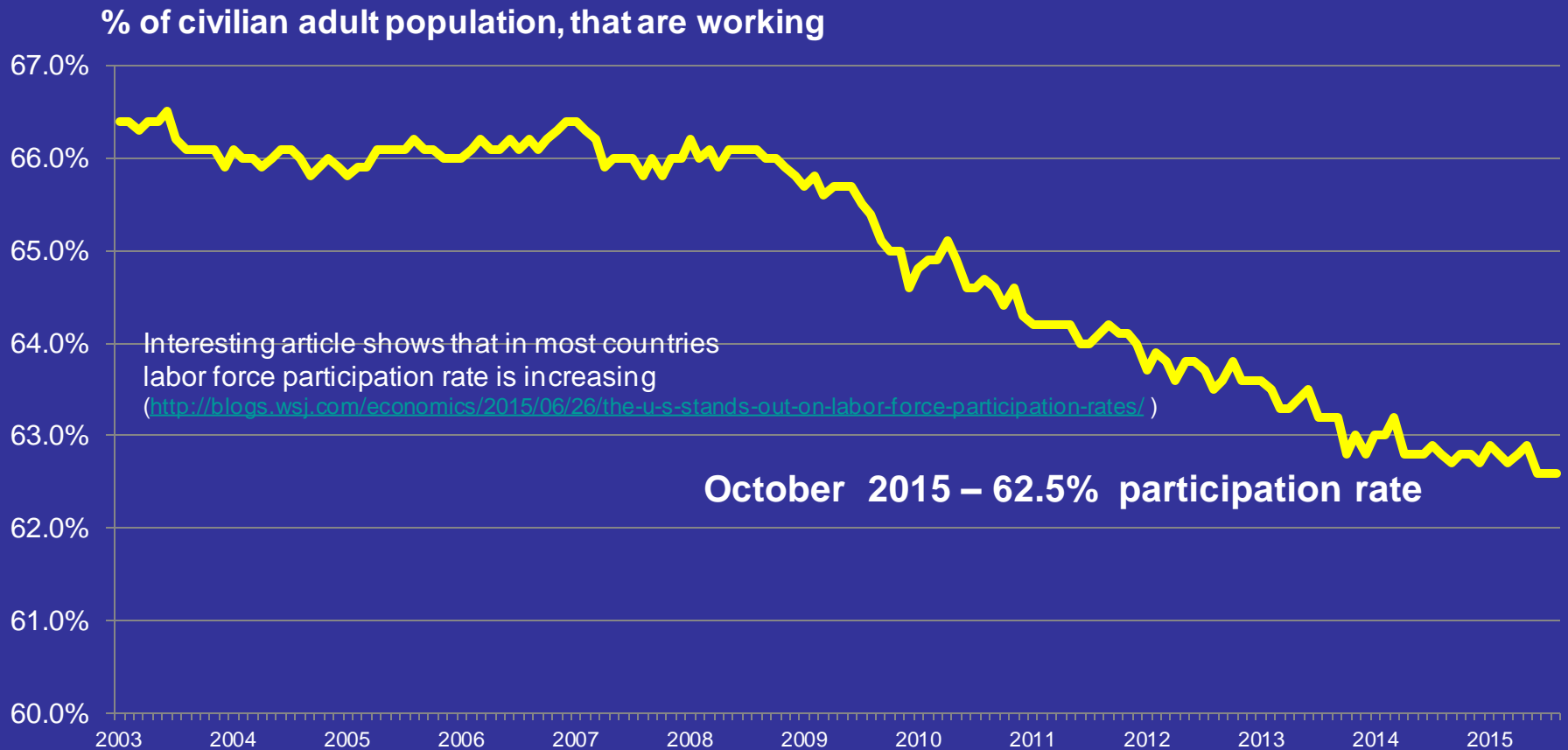
Real growth in labor income for men from 1979 to 2013 by educational attainment, comparing earnings adjusted for inflation with the consumer-price index vs. total compensation adjusted by the personal consumption expenditures price index.



Source: Stephen Rose, Urban Institute | WSJ.com

Source: WSJ (<http://blogs.wsj.com/economics/2015/07/06/just-how-stagnant-are-wages-anyway/>)

Labor force participation rate is shrinking – demographics is probably the main reason – we'll see skilled labor shortages increase over the next decade - we're already seeing construction related shortages with brick layers, masons, electricians, plumbers, etc. One solution – revamp our education system (a 4 year degree isn't for everyone – 2 year Community colleges, vocational schools, are better fit for many, and they are much cheaper). Excellent article:
(<http://finance.yahoo.com/news/should-i-go-to-a-trade-school-162413337.html#>)

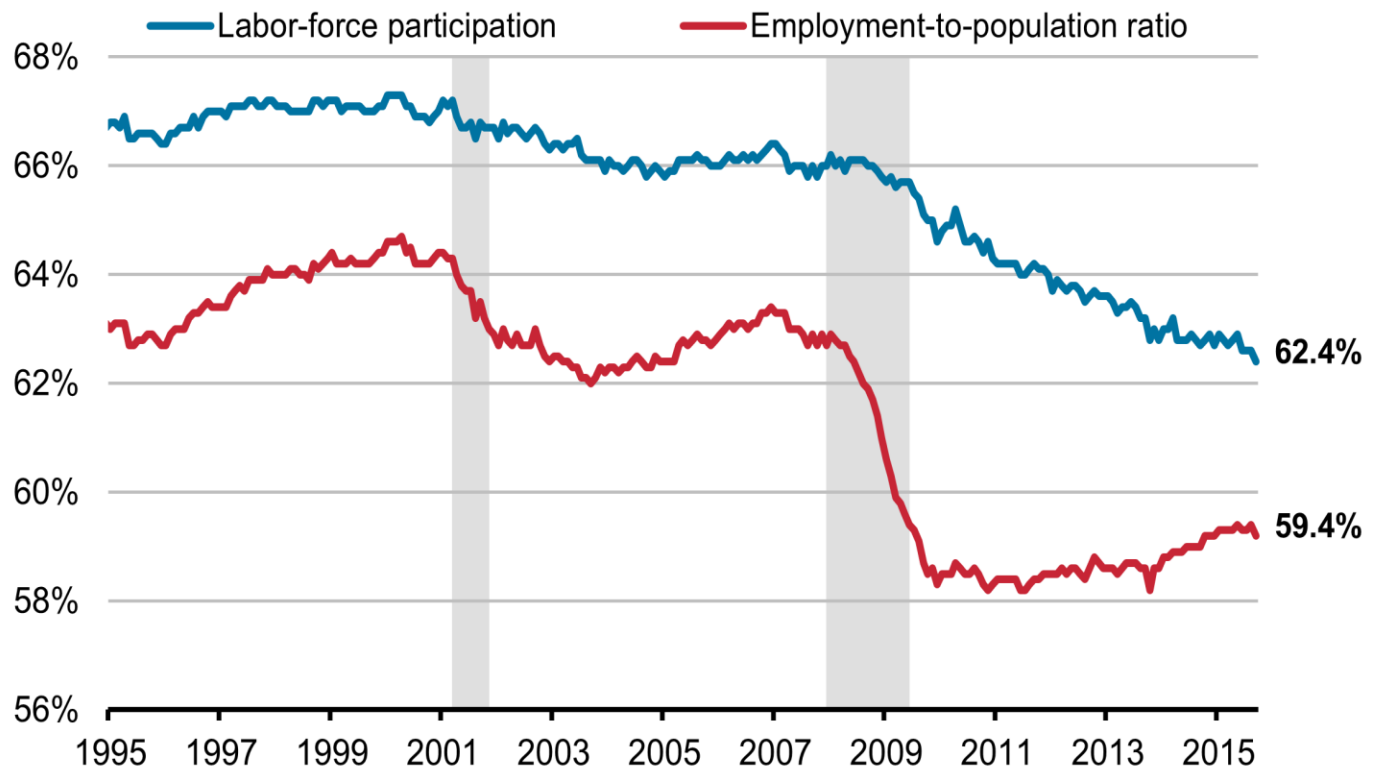


Source: BLS

Aging population is part of the problem, but weak economy and mismatch between skills of job seekers and available jobs isn't helping

Not Participating

Share of civilians in the U.S. labor force and employment-to-population ratio, seasonally adjusted, as of September



Source: Labor Department | WSJ.com

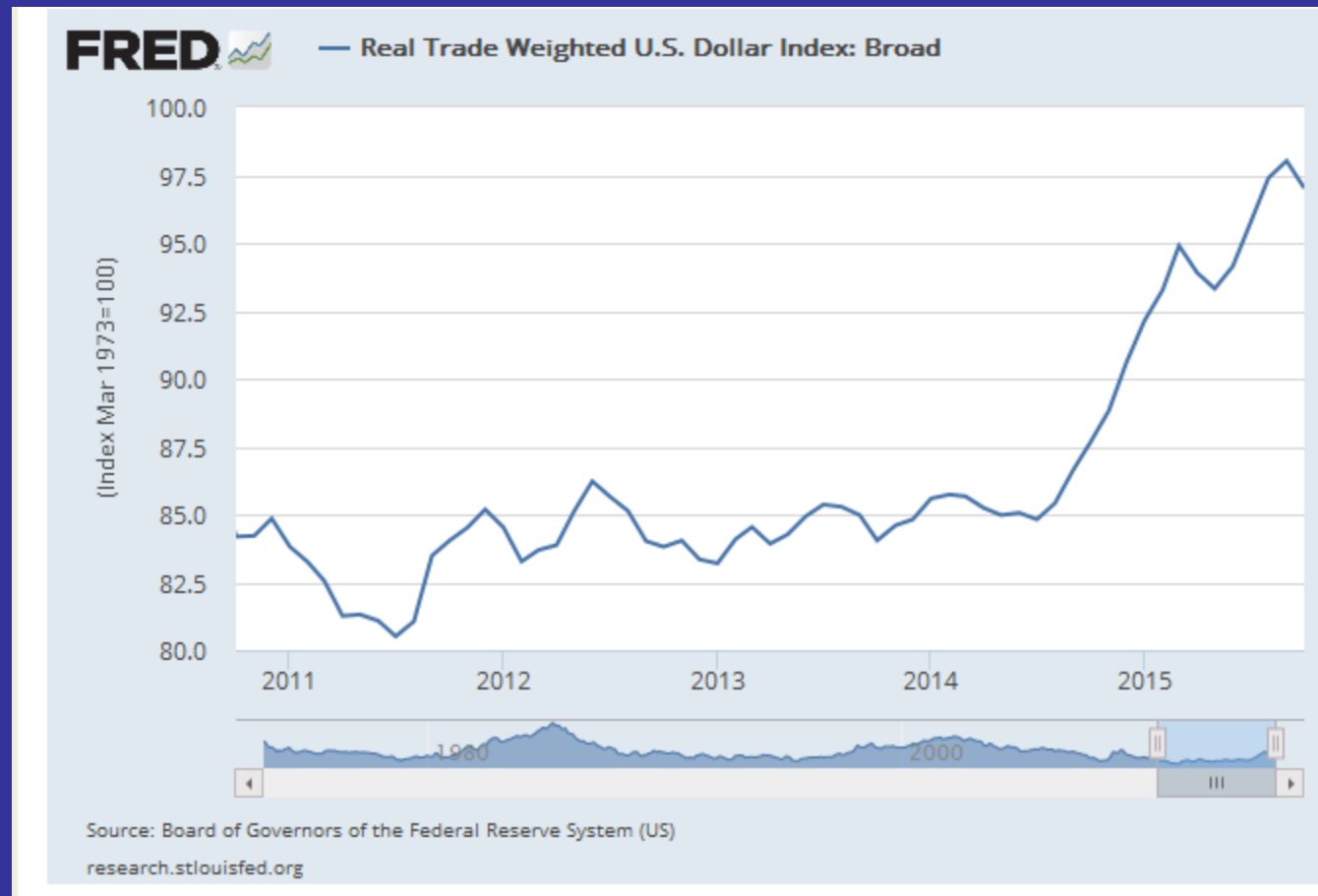
3rd Qtr Economic growth of 2.1% , down from revised 3.9% in Qtr 2 - -
2015/2016 GDP expected to remain at about 2% - not enough to drive housing

- (1) Slowing world economy (weaker China and European growth)
- (2) Stronger dollar will reduce exports and increase imports – negative impact on manufacturing jobs which is key to income growth in USA
- (3) Political stalemate/weak leadership, terrorism, currency wars, growing national debt, ...
- (4) Weak income growth and continuing high “real unemployment”

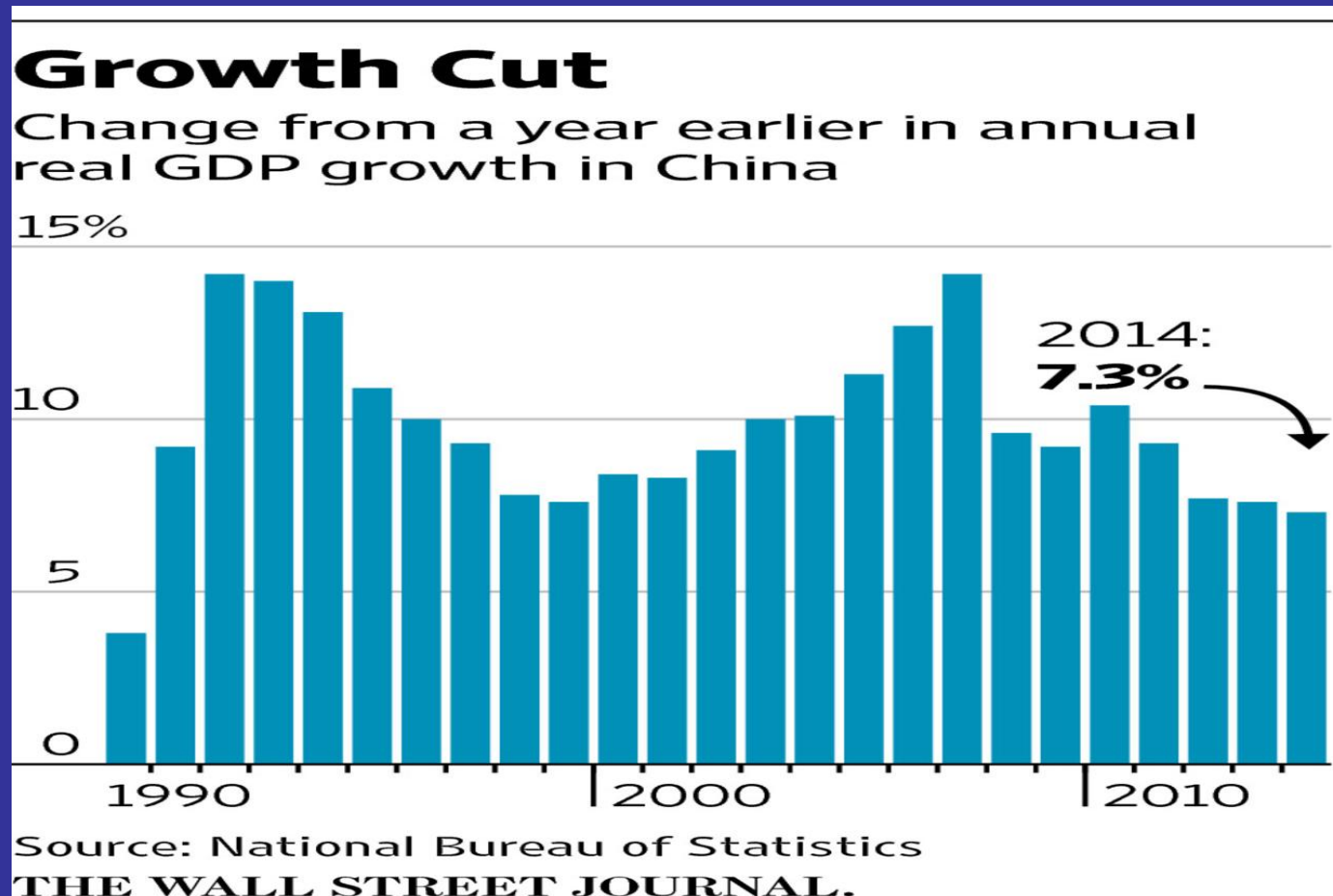


Source: BEA (http://www.bea.gov/newsreleases/national/gdp/gdp_glance.htm)

Strengthening dollar another headwind for U.S. economy
keeps inflation down, but hurts exports from key manufacturing sector.
Most countries are deflating their currencies to prop up weak economies
thereby further strengthening the US dollar.



China's growth is slowing, – this is key to world economy (China is 2nd largest economy) and even more important for commodity prices – the recent Yuan devaluation is an indication that the Chinese government is concerned. *For past 5 – 6 years, China accounted for the bulk of world GDP growth so any slowdown will have major ripple effects*



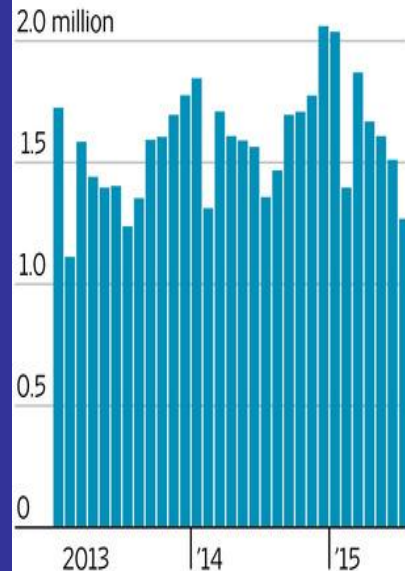
Source: WSJ (<http://www.wsj.com/articles/china-cuts-2014-economic-growth-to-7-3-from-7-4-1441593730>)

China's economy shifting from infrastructure investments and exports (smokestack industries) to domestic demand driven economy (services and consumers) – this will take time – in the transition, GDP growth will probably slow significantly thus impacting world GDP growth

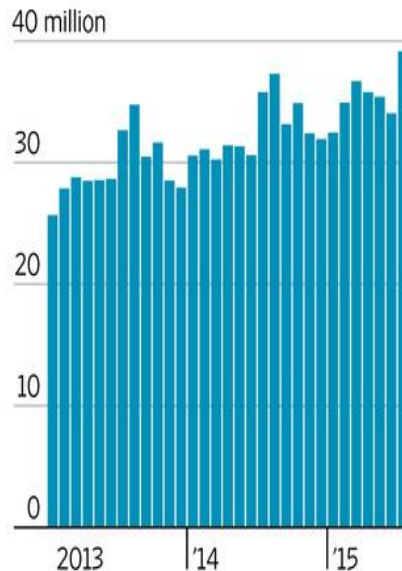
Looking to the Consumer

China's government sees big hopes in unlocking the buying power of its population, and some indicators of consumerism have bucked economic weakness.

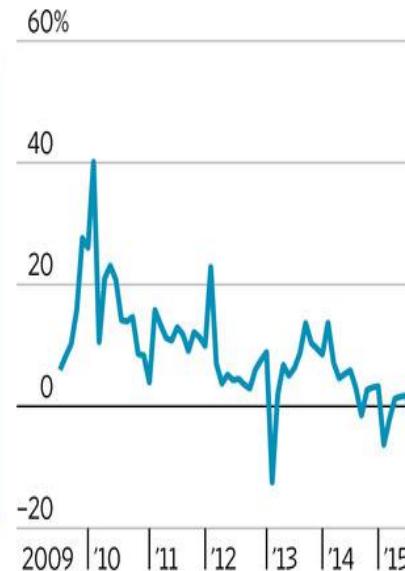
Passenger-car sales,
in vehicles



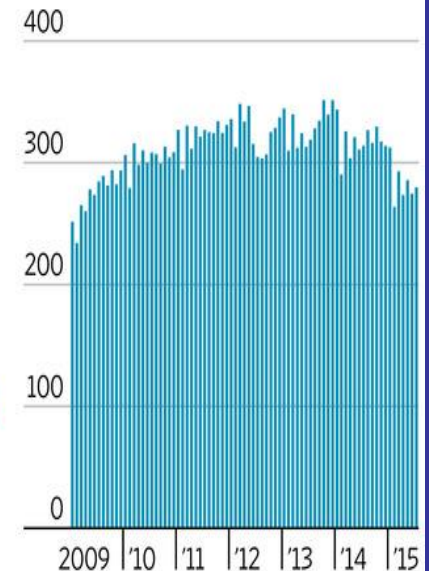
Airline traffic,
in passengers



Electricity consumption,
Change from a year earlier



Railway freight traffic,
in millions of metric tons



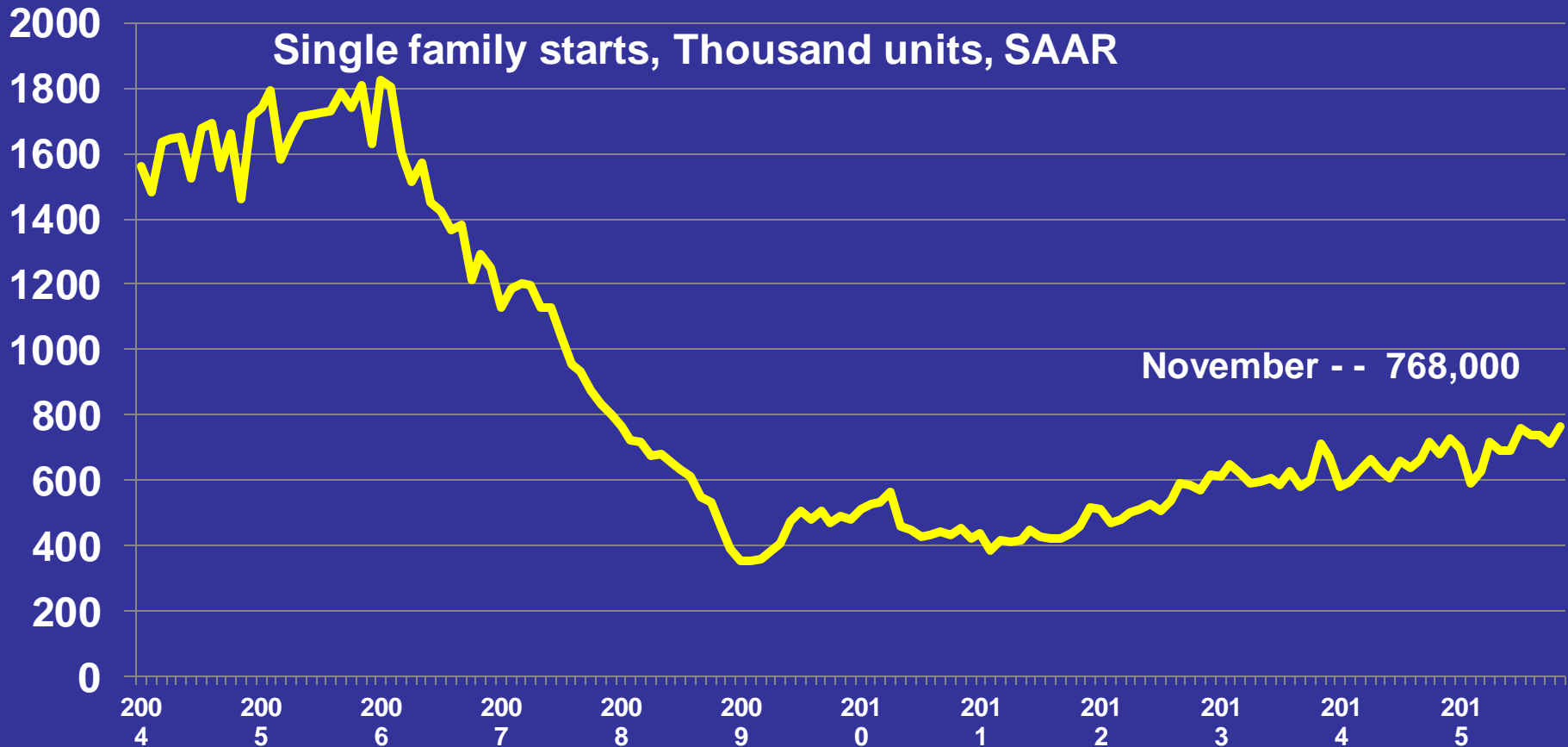
Sources: China Association of Automobile Manufacturers (car sales); Civil Aviation Administration of China (airline traffic); China Electricity Council; China Railway Corporation

THE WALL STREET JOURNAL.

(<http://www.wsj.com/articles/the-world-struggles-to-adjust-to-chinas-new-normal-1440552939?cb=logged0.14596216171606102>)

Recent Housing statistics

Starts are inching forward – I'm concerned that the Feds will 'grease the wheels' again – e.g., Fannie and Freddie, FHA --- lowering down payment requirements and premiums on mortgage insurance, I guess they forgot what happened in 2008? The FED has kept interest rates near zero for 8 years, but housing remains lethargic. Low Interest rates won't fix housing!



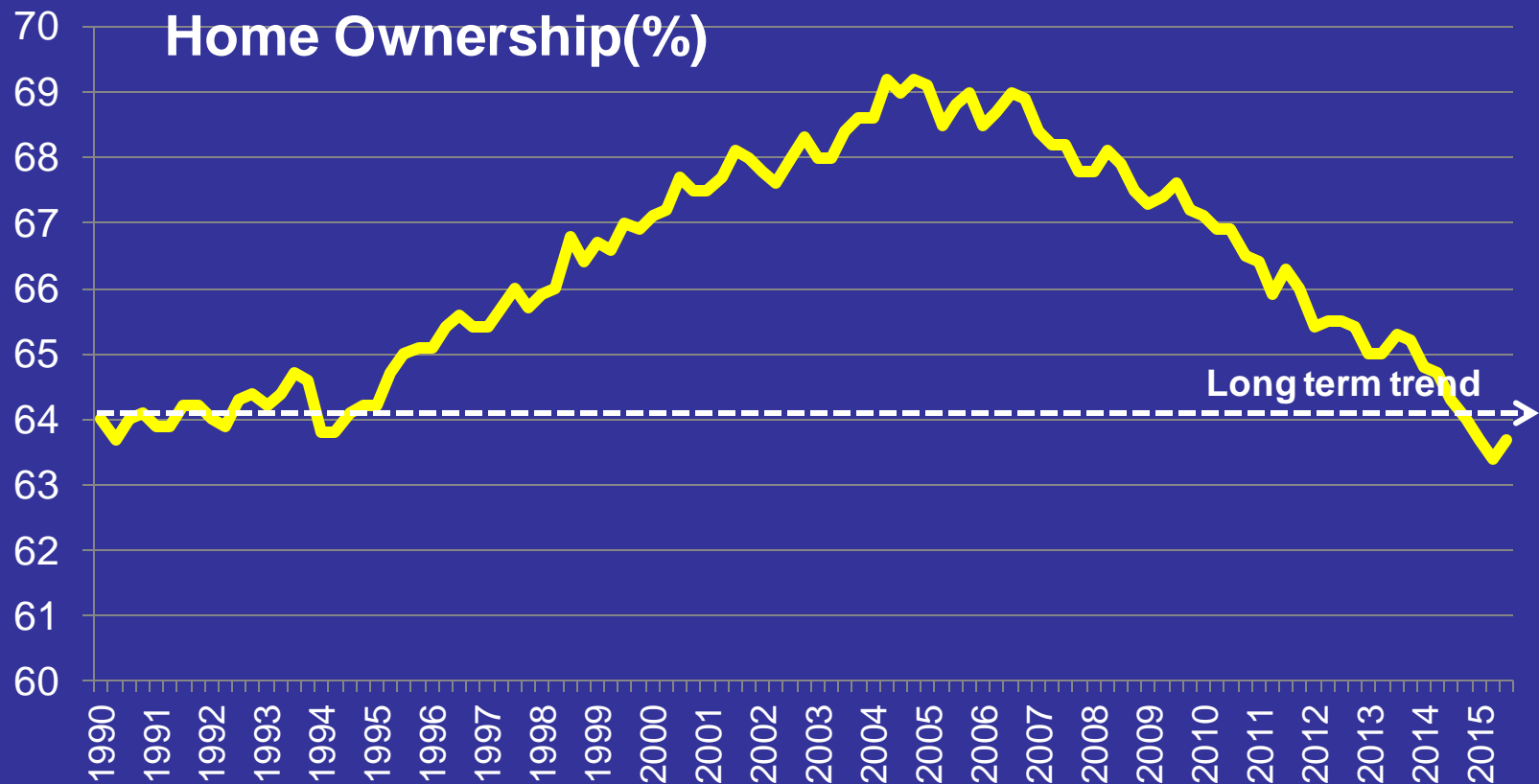
Source: Census (<http://www.census.gov/const/www/newresconstindex.html>)

Impact of weak household formations and shift to renting - -

homeownership rates have been falling for the past ten years – when the economy gets back to normal, will people return to single family or will renting remain in favor with many? There will be impacts on wood products demand

Good article with some reasons why ownership is falling and why it will continue to fall for some time

(<http://finance.yahoo.com/news/why-americans-waiting-longer-ever-070132848.html>)



Source: Census (<https://www.census.gov/housing/hvs/data/q413ind.html>)

New Single Family Home sales are the key statistic to watch – sales drive housing starts – this drives demand for wood products!

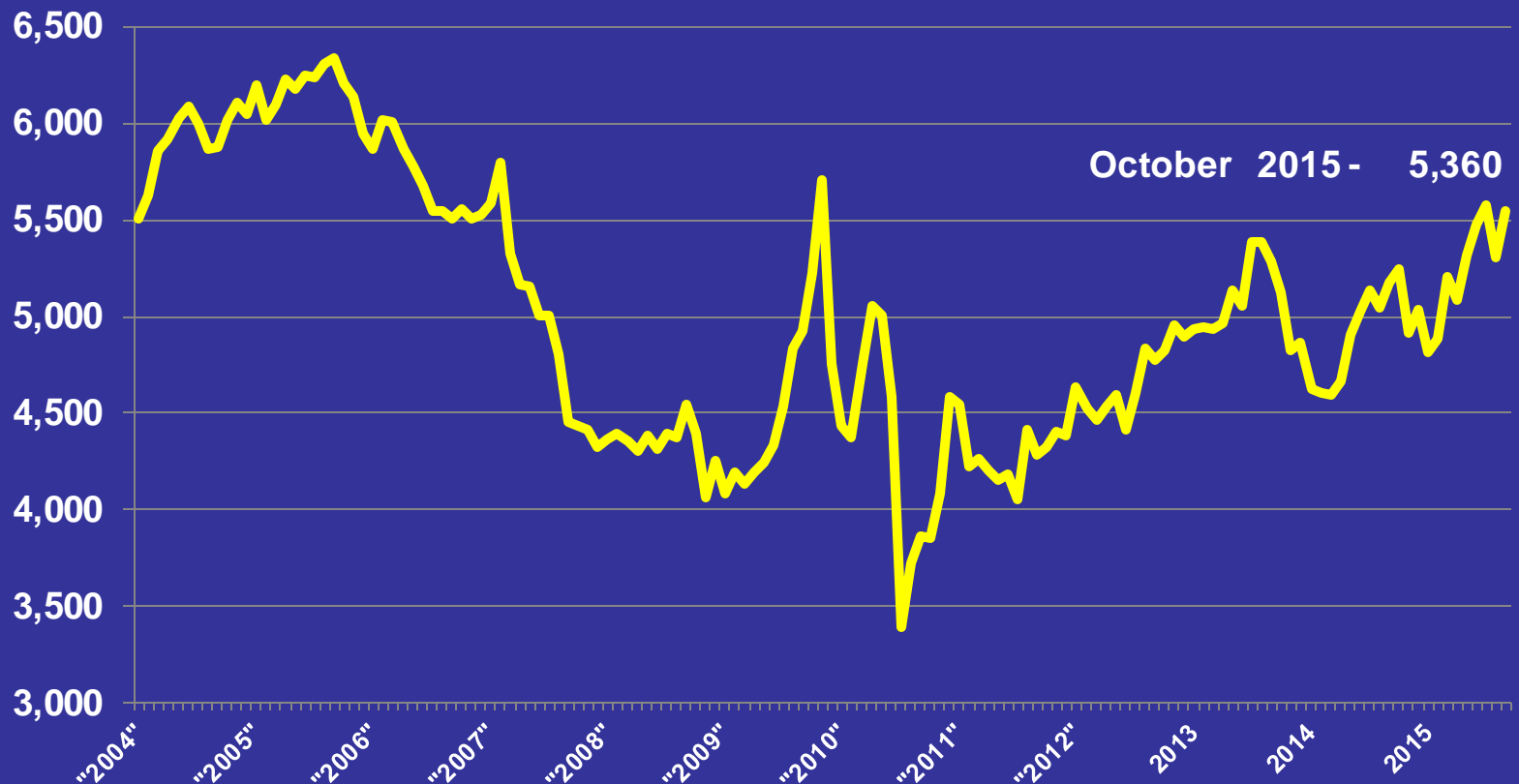
Getting better – up 4.7% versus October 2014 but, still disappointing considering we're 8 years "recovering" from the 2008 collapse



Source: Census (<http://www.census.gov/const/www/newressalesindex.html>)

Resale market continues to improve, but still heavy to cash sales (24%) with 1st time buyers still below trend, but improving (traditionally they represent about 40 – 45% of market, but today they are at 32%). Another problem today is tight supply (which drives prices), currently at 4.8 months. Healthy market is about 6 months supply.

Single family (incl condos), Monthly, Thousand units, SAAR



Source: NAR (<http://www.realtor.org/news-releases/2015/06/existing-home-sales-bounce-back-strongly-in-may-as-first-time-buyers-return>)

Home prices, adjusted for inflation, still down 20% from 2006 peak.

Long Road Home

More than a decade after peaking in 2006, U.S. home prices look like they've nearly returned to prerecession levels, but not when taking inflation into account.



Some conclusions – housing continues to improve albeit slowly

- (1) Economy will continue to improve slowly -- **2016 growth expected to be about 2.0% - however, slowdown in China will have serious ripple effects on world economy**
- (2) Still not a healthy housing market - 1st time buyers (32% today) are below trend (45%) and household formations are off 50% from trend.
- (4) Political discourse will continue to slow a truly strong economic and housing recovery – too much uncertainty re: Affordable Care Act/Obama care; immigration reform; direction of economy.
- (5) Productivity is a problem for U.S. economy – real GDP driven by population (number of workers) and real GDP/worker or productivity. During past 7 years, productivity has grown 1.7% annually whereas the average over previous 17 years was 2.4%. The recent drop is probably due to in large part to lack of investment by private sector. That won't change much until they get more confident about the future of the country. Political discord is a real drag on the economy whether you want to believe it or not – it creates uncertainty, and clouds decision making. Plus, these are difficult times geopolitically. Uncertainty means less investment and slower GDP growth
- (6) World economy is slowing – China, particularly, but Europe also experiencing problems as well as the commodity focused economies like Australia and Canada. Demographics are a major reason as world fertility rates continue to fall in most of the developed world. Immigration reform needed, but this will be difficult with terrorism concerns.
- (7) The fed raised interest rates this month – but most analysts expect any increases to be gradual. Minor impact on housing for now, but, then, housing doesn't need more headwinds.

Longer term:

- (1) *Makeup of U.S. economy is changing and this is impacting spending patterns and housing choices. The job market is undergoing long term – structural – changes. Automation is reducing job prospects for the middle class while creating jobs for the highly skilled and less skilled sectors. End result is stagnating family incomes that could translate to lower total housing demand with more emphasis on multi family/rental demand. Doesn't bode well for wood product demand and prices.*
- (2) **Education is more important today than ever before – don't forget two year programs; community colleges; apprenticeships;... 4 year/University degree not always best option for everybody**
- (4) Currency devaluations are the preferred solution to “low inflation” concerns. Central banks in Europe and Japan are following the U.S. with quantitative easing/printing money, in order to spur demand by weakening their currencies. Good article in WSJ suggesting that the “low inflation world” is really a symptom of too much capacity relative to demand, and the solution isn't currency devaluation. Better solution may be developing technology to produce products that fulfill market place demands not being met by existing products
(http://www.wsj.com/articles/global-glut-challenges-policy-makers-1429867807?mod=rss_markets_main)
- (5) Eventually, central banks will have to raise rates and nobody knows how the various economies will respond. We've never had so much liquidity in the system – it causes various types of bubbles (assets like houses, stocks, etc.), and a misallocation of resources. Interesting times ahead.
- (6) **Rental housing demand is expected to remain relatively strong for some time into the future – demographics; economy; debt/credit issues; ... will constrain single family demand**

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