

December 2013 Housing Commentary



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December 2013

Housing Scorecard

	M/M	Y/Y
Housing Starts ^A	▽ 9.8%	△ 1.6%
Single-Family Starts ^A	▽ 7.0%	△ 7.6%
Housing Permits ^A	▽ 3.0%	△ 4.6%
Housing Completions ^A	▽ 10.8%	△ 10.7%
New Single-Family House Sales ^A	▽ 7.0%	△ 4.5%
Existing House Sales ^B	△ 1.0%	△ 0.6%
Private Residential Construction Spending ^A	△ 2.6%	△ 18.3%
Single-Family Construction Spending ^A	△ 3.4%	△ 21.6%

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

New Housing Starts

	Total Starts*	Single-Family Starts	Multi-Family 2-4 unit Starts	Multi-Family 5 or more unit Starts
December	999,000	667,000	20,000	312,000
November	1,107,000	717,000	10,000	380,000
2012	983,000	620,000	18,000	345,000
M/M change	-9.8%	-7.0%	100.0%	-17.9%
Y/Y change	1.6%	7.6%	11.1%	-9.6%

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

New Housing Permits and Completions

	Total Permits*	Single-Family Permits	Multi-Family 2-4 unit Permits	Multi-Family 5 or more unit Permits
December	1,034,000	620,000	27,000	387,000
November	974,000	615,000	28,000	331,000
2012	908,000	570,000	26,000	312,000
M/M change	6.2%	0.8%	-3.6%	16.9%
Y/Y change	13.9%	8.8%	3.8%	24.0%
	Total Completions*	Single-Family Completions	Multi-Family 2-4 unit Completions	Multi-Family 5 or more unit Completions
December	744,000	550,000	11,000	183,000
November	834,000	599,000	8,000	227,000
2012	672,000	520,000	8,000	144,000
M/M change	-10.8	-8.2	37.5%	-19.4
Y/Y change	10.7	5.8	37.5%	27.1

New and Existing House Sales

	New Single-Family Sales*	Median Price	Month's Supply	Existing House Sales ^{B*}	Median Price ^B	Month's Supply ^B
December	414,000	270,200	2.0	4,870,000	\$198,000	4.6
November	445,000	268,500	4.7	4,820,000	\$195,500	5.1
2012	396,000	245,200	4.5	4,660,000	\$176,980	5.9
M/M change	-7.0%	1.3%	6.4%	1.0%	1.2%	-9.8%
Y/Y change	4.5%	10.9%	11.1%	-0.6%	11.9%	2.2%

* All sales data are SAAR

Existing House Sales

National Association of Realtors (NAR®)^B

December 2013 sales data:

Distressed house sales: 14% of sales –
(10% foreclosures and 4% short-sales)

Distressed house sales: 14% in November
and 25% in December 2012

All-cash sales: unchanged at 32%; 32% in November

Investors are still purchasing a substantial portion of
“all cash” sale houses – 21%;
19% in November 2013 and 21% in December 2012

First-time buyers: decreased to 27% (28% in November 2013)
and were 30% in December 2012

December 2013 Construction Spending

December 2013 Private Construction: \$352.60 billion (SAAR)

2.6% less than the revised June estimate of \$328.73 billion (SAAR)

18.3% greater than the July 2012 estimate of \$278.28 billion (SAAR)

December SF construction: \$181.74 billion (SAAR)

3.4% more than November: \$175.73 billion (SAAR)

27.3% more than December 2012: \$149.40 billion (SAAR)

December MF construction: \$35.62 billion (SAAR)

0.5% more than November: \$35.43 billion (SAAR)

27.3% more than December 2012: \$27.97 billion (SAAR)

December Improvement^C construction: \$135.24 billion (SAAR)

1.9% more than November: \$132.61 billion (SAAR)

11.9% more than December 2012: \$120.79 billion (SAAR)

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

Conclusions

Several housing market indicators declined in December, something that is typical for the winter; however, given the fragility of the United States housing market and the sluggish economy, we need to pay close attention to future data releases. Construction spending data was the sole positive indicator.

As written in previous months, the near-term outlook on the U.S. housing market remains unchanged – there are potentially several negative macro-factors in existence at this point in time for a robust housing recovery (based on historical long-term averages).

Why?

- 1) a lack of well-paying jobs,
- 2) a sluggish economy
- 3) declining real median annual household incomes,
- 4) strict home loan lending standards, and
- 5) new banking regulations.

Housing comments – February 2014

U.S. economy seems to be getting better –

Demand , Debt and Uncertainty are still nagging issues -

Two major concerns –

- (1) can the economy (and housing) stand on its own (without Fed stimulus) ??? We should get some indication this year.
- (2) Uncertainty is a key reason holding back job creating investments – also holding back consumer spending – but , uncertainty is diminishing, finally.

This is the 1st time since 2006 that I'm getting somewhat optimistic about the economy, and housing. In the past, housing led the recovery from a recession, but this time, I think the economy will recover 1st, and this will create jobs, and people will buy houses again. Why this scenario? Interest rates are already low, so the FED can't lower them anymore to jump start the economy (this is how we got out of most prior recessions). The economy will improve 1st because of so much "pent up demand". As the job market improves, this will fuel demand, and the cycle continues. And, Congress seems to be getting its act together.

Why the economy will do better in 2014 – some drivers

- Less deleveraging at state and household levels
- Less dysfunctional “Washington”
- Health care costs showing some improvement – this is important because health care is about 17% of GDP and Medicare/Medicaid are biggest debt problems facing the federal government
- Inflation not a problem (for now) – In fact, this is big unknown – inflation, disinflation(slower rate of inflation), or deflation. My bet is disinflation. What happens when Central banks unwind balance sheets is anyone’s guess.
- Stronger dollar – as U.S. economy improves and trade deficit shrinks, investment dollars flow to USA – this supports the dollar and job creation
- Job improvement will come from GDP growth – Household formation will follow – that is key to more housing starts

Some additional questions going forward:

(1) Sustainable housing recovery? Keeps looking better. But, there are still almost 10 million households that are seriously underwater as of Dec 2013.

(2) Job recovery remains the main problem – without good jobs with benefits, housing and the economy will remain relatively weak!!!

(3) **Longer term, we need to deal with three major issues:**

(a)tax reform, (b)entitlements, and (c)debt. They are related! Hopefully, “Washington” gets the message and deals with these issues.

Job situation is getting better – we're creating about 180,000 per month (net basis) and approximately 25% are part time jobs with little or no benefits (health care, retirement, etc.), And poor pay. And, it will only get more challenging as baby boomers retire. This will put more stress on government services like Social Security and Medicare. Where will we get the money to invest in the future?

As long as this scenario continues, demand for goods and services Will remain weak. There are no “quick fixes” – government Stimulus(QE, etc.) helps, but is not enough. Long term Solution is R&D, education, infrastructure investment, fix The tax system to encourage investment/discourage consumption, and fix health care.

OK – here is one more plug for focusing more on education. The U.S. Ranks poorly with other countries regarding math and science scores -Our reading comprehension is not all that great either. Making Education available to everybody should be a high priority. I don't Know how it can be done, but I do know our standard of living will Continue to worsen if we don't become more competitive. Education Is key to achieving a better competitive position.

Employment situation - our biggest problem - it's getting better, but the jobs recovery remains weak by past standards, and many jobs don't include health care or retirement benefits (because they are often part time jobs) – those kinds of jobs don't encourage people to buy houses

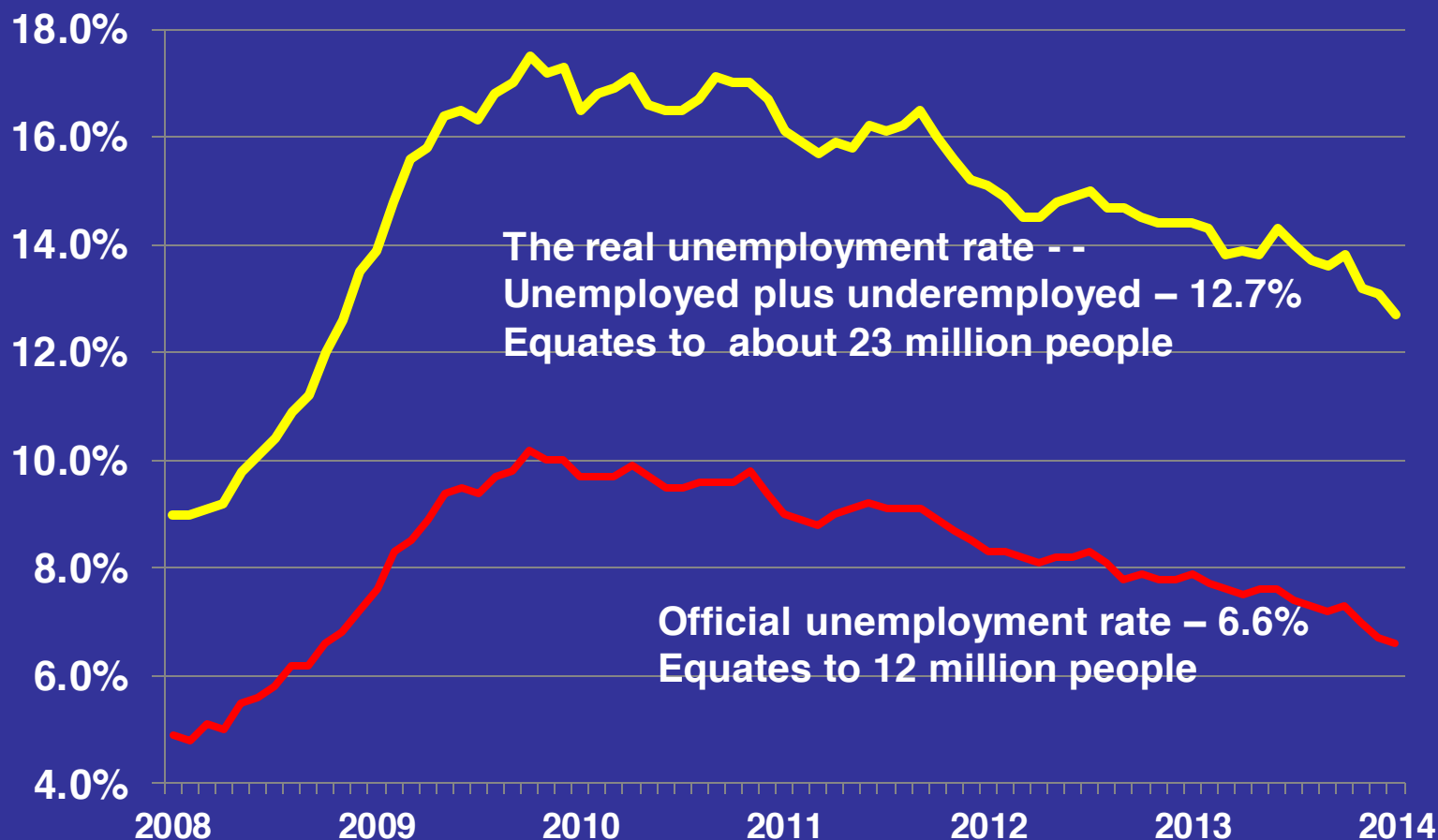
Net change in non farm payrolls – monthly, thousands



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

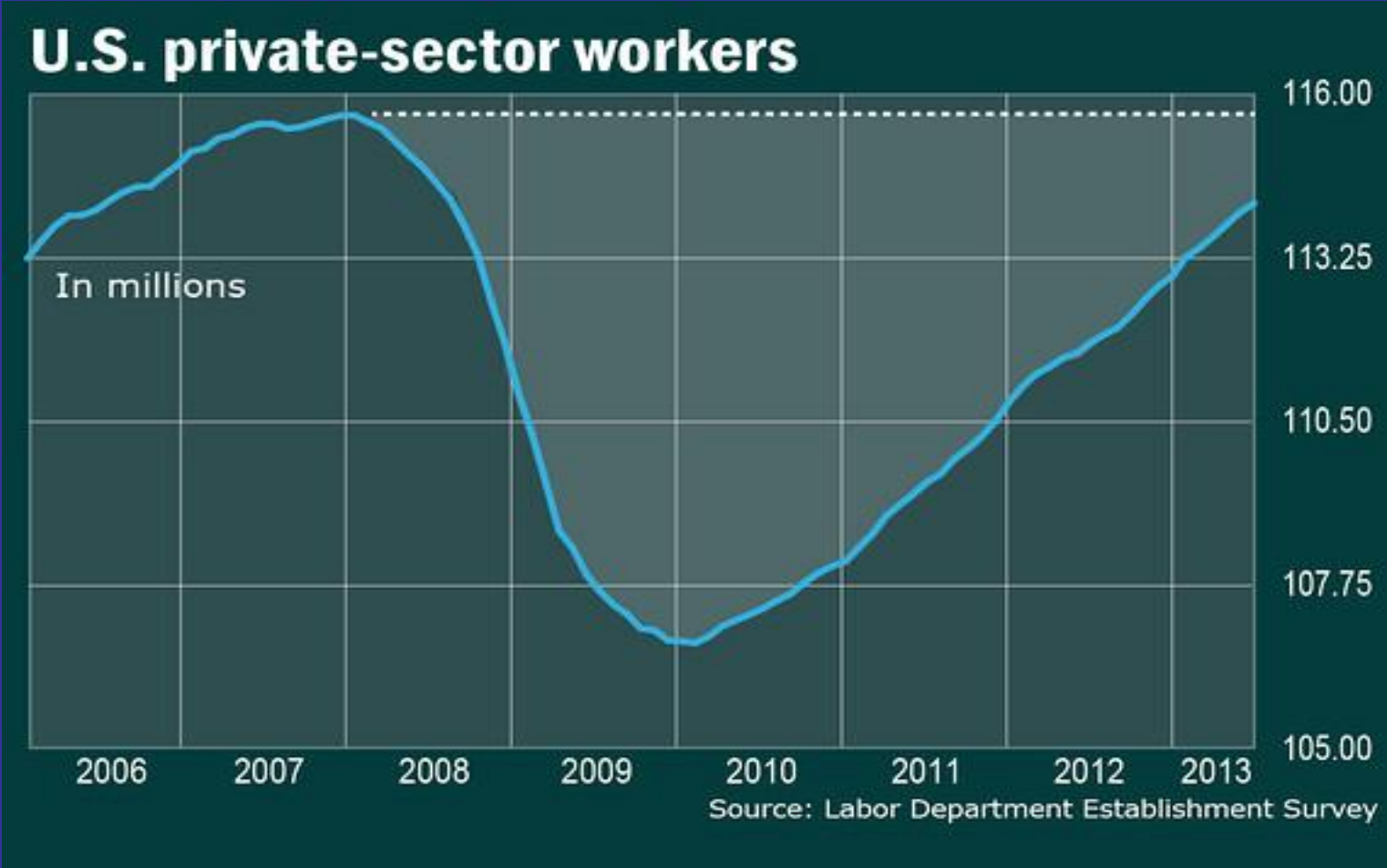
Unemployment remains high and will remain relatively high for another year or two – but, it's getting better “slowly”

There are about 19 million people either unemployed , underemployed, or stopped Looking – **they are not buying houses



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

Employment - - We're still 2.0 million below pre recession levels



Source: marketwatch : (<http://www.marketwatch.com/Story/story/print?guid=5C9788D6-FB68-11E2-A97E-002128040CF6>)

Where the growth is - -

30% of jobs created in past 5 years are “temporary jobs” – little

Or no health care, retirement, salary – i.e., these people don’t buy

Houses, cars, eat out, etc. --- - again, underemployment is a big problem

Professionals in demand, so are temps



Source: marketwatch : (<http://www.marketwatch.com/Story/story/print?guid=5C9788D6-FB68-11E2-A97E-002128040CE6>)

Labor force participation rate is shrinking -

Major problems for social programs with our aging population – fewer people paying taxes, but more people collecting SSI, Medicare, etc. Also, demand for goods and services /GDP will Remain relatively weak.

% of civilian adult population, that are working



Recent Housing statistics

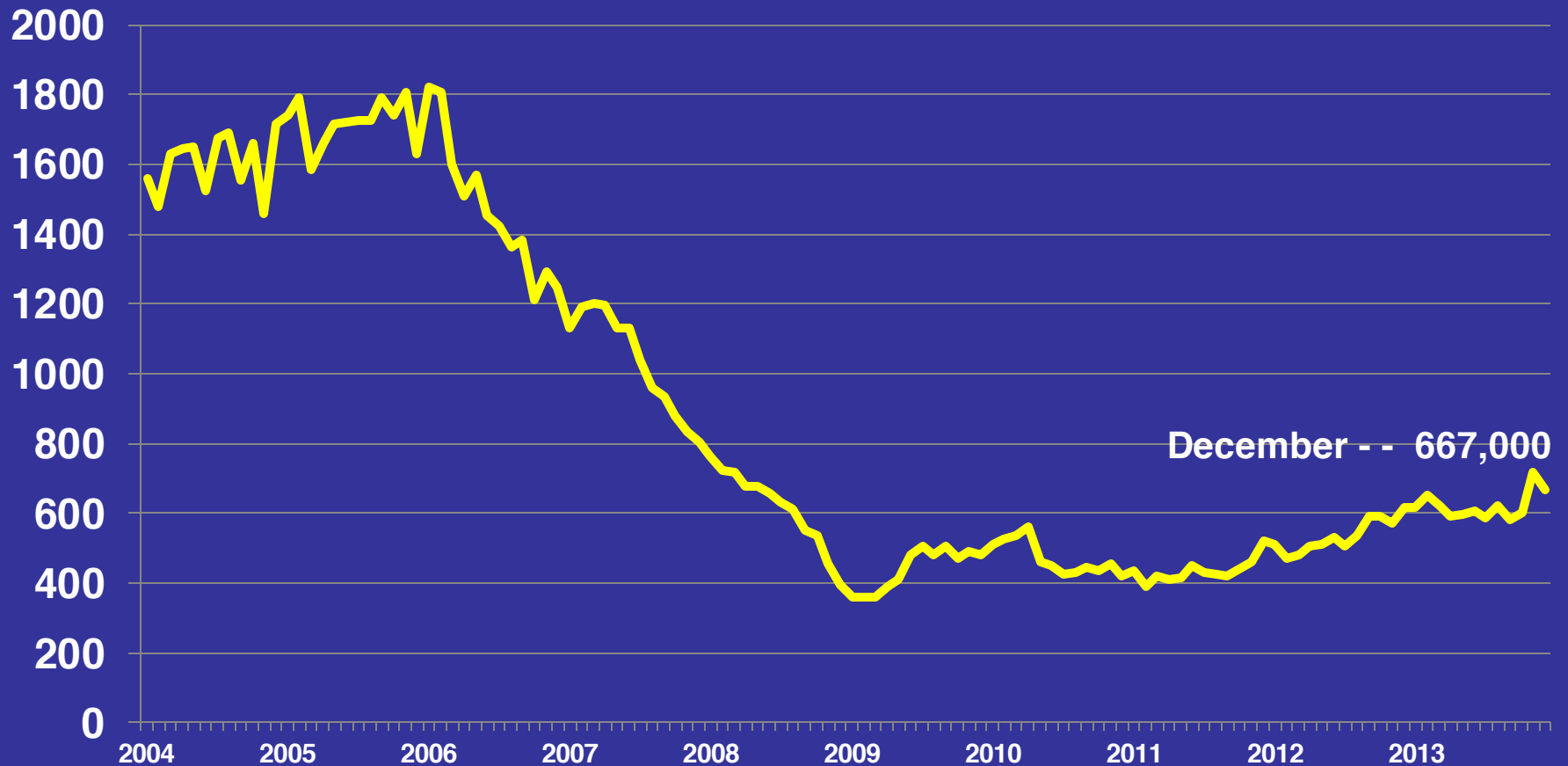
Background:

Markets are getting better –

Have we turned the corner? – I think so!

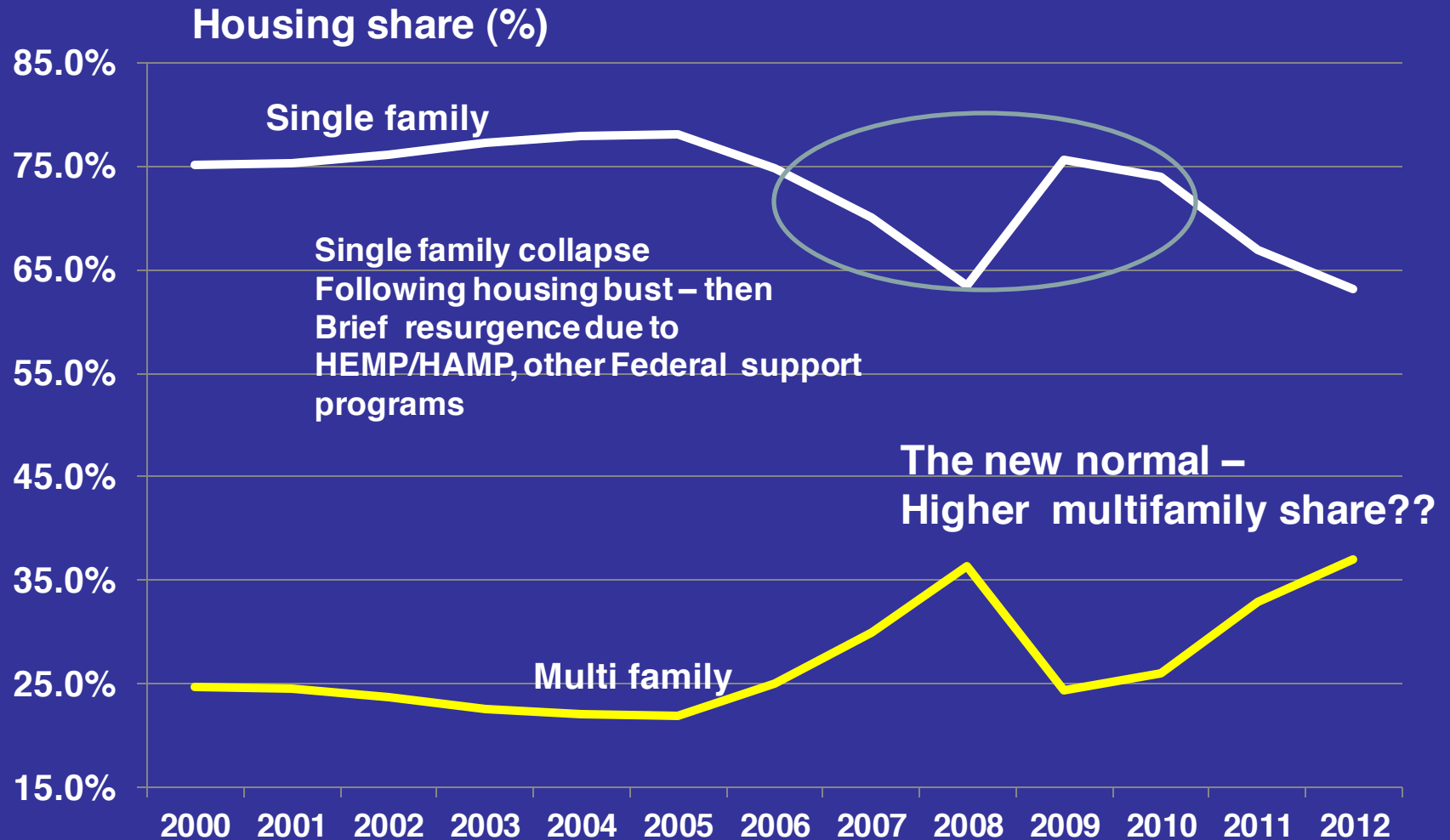
Starts are slowly moving upwards

Single family starts, Thousand units, SAAR



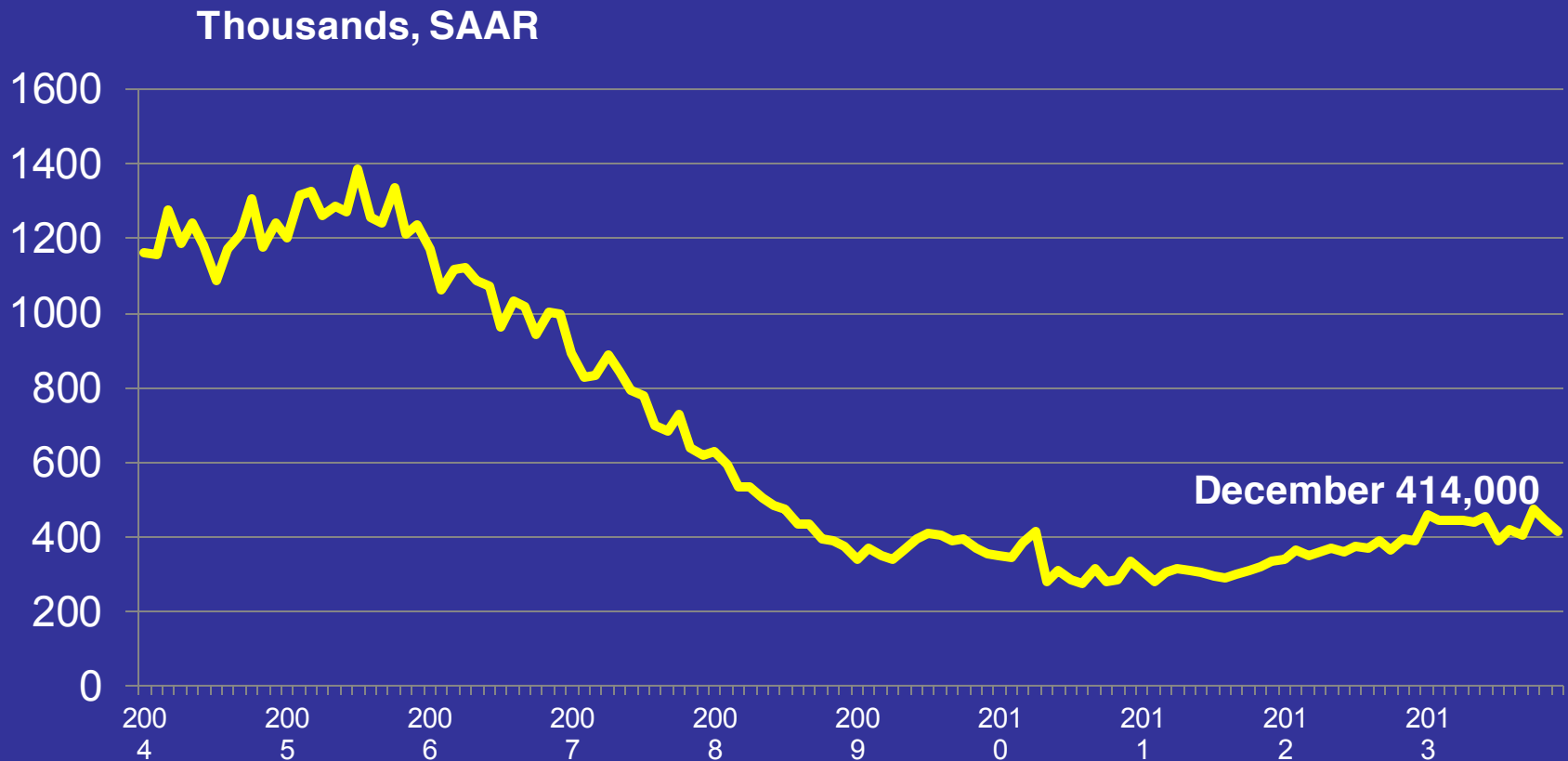
Source: Census (<http://www.census.gov/const/www/newresconstindex.html>)

Multi family share is increasing – will it continue?
I believe it will!!



Source: Census (<http://www.census.gov/construction/nrc/>)

New Single Family Home sales is the key statistic to watch – Sales drive housing starts – this drives demand for wood products! Growth is tapering off...



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

Resale market getting better



Source: NAR (<http://www.realtor.org/research>)

Some comments on recent house price increases - -

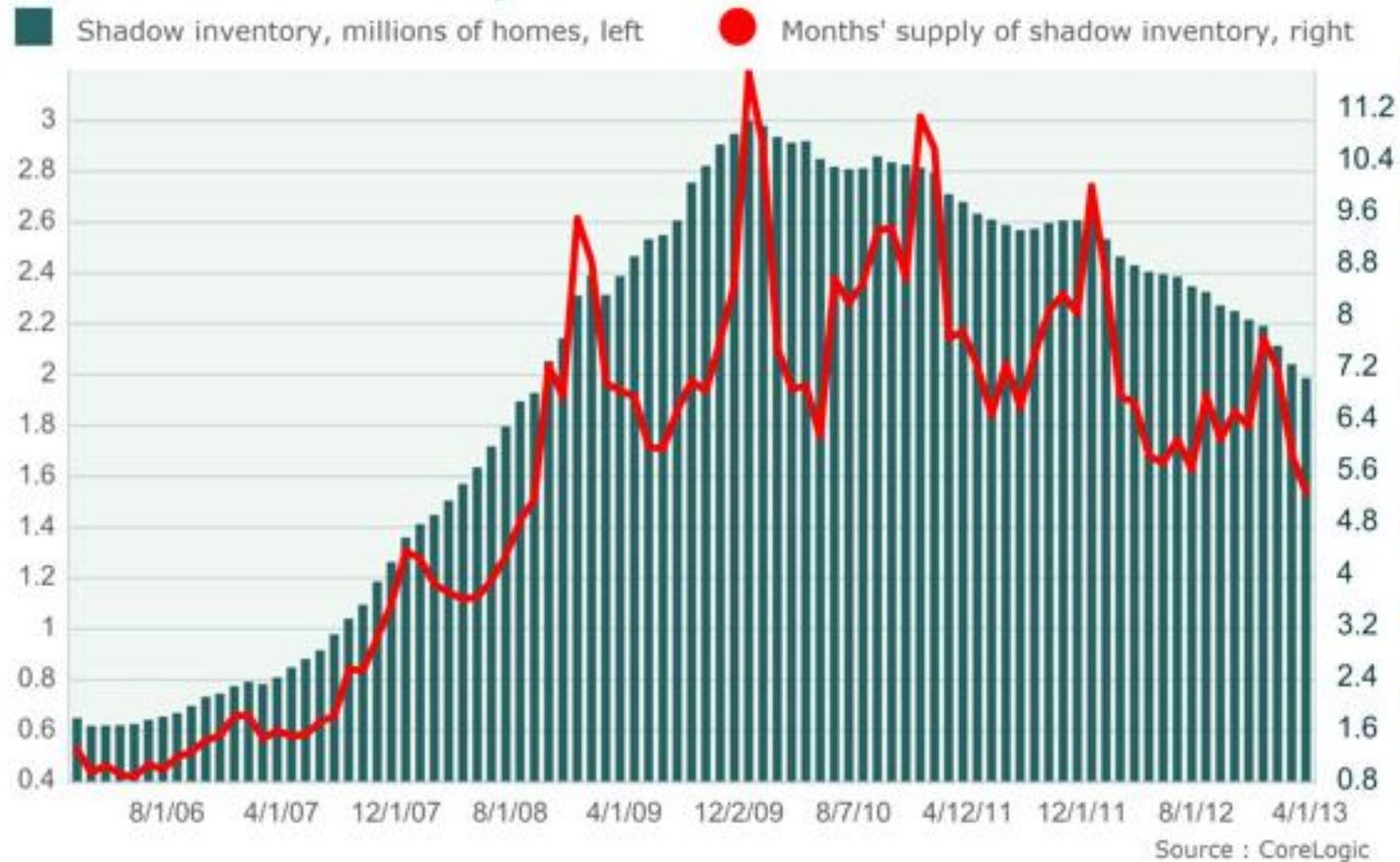
Let's hope they keep increasing because higher prices
Will encourage builders to build more homes –

- - in addition - -

- (1) higher prices are needed to slow foreclosures;
- (2) enable people with negative equity to sell homes
and move to better jobs;
- (3) apply for refinancing - -
- (4) this will turn housing market around along with
improving economy

Shadow inventory coming down – a good sign

Shadow inventory of troubled homes



(<http://www.marketwatch.com/Story/story/print?guid=9E9C304A-FF17-11E2-922F-002128040CF6>)

Good News - -

- (1) Household formations are key to the housing recovery
 - - - there is a growing “pent up demand”
- (2) Formations are improving – but, further improvement depends on a stronger economy – 2014 will see stronger economy!!!
- (3) Remodeling is expected to improve through 2014 according the Harvard JCHS (<http://www.jchs.harvard.edu/remodeling-gains-expected-continue-2014j>)

Good news is that household formations exceed starts - -
Plus, when you include demolitions, there is considerable
“pent up demand” for shelter – again, demand exceeds supply –
A good thing



Household (HH) formations Shortfall*

Facts:

- (1) 1995 - 2007: 1.5 million HH formed per year
2008 – 2010: 500,000 HH formed per year (1/3 of normal)
- (2) During 1995 – 2007, population increased 2.9 million annually
2008 – 2010, the increase was 2.7 million annually

HH formation Shortfall(cumulative) *

2008 – 600,000
2009 – 1.7 million
2010 – 2.5 million
2011 – 2.6 million - this is the shortfall

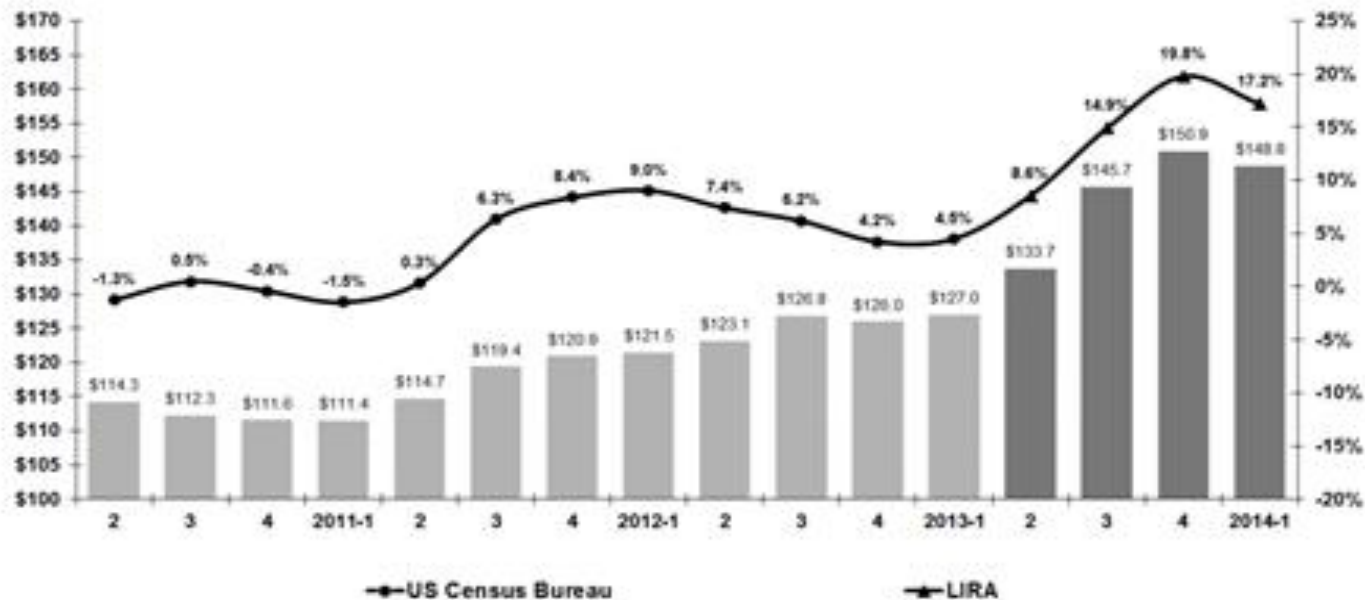
* Shortfall based on model developed by Tim Dunne of the Cleveland Fed
Based on historical relationship between economy, headship rates, population increase,
Social norms, etc. (<http://www.clevelandfed.org/research/commentary/2012/2012-12.cfm>)

Remodeling to pick up as confidence improves, prices
Increase, and the economy picks up

Leading Indicator of Remodeling Activity – Second Quarter 2013

Homeowner Improvements
Four-Quarter Moving Totals
Billions of \$

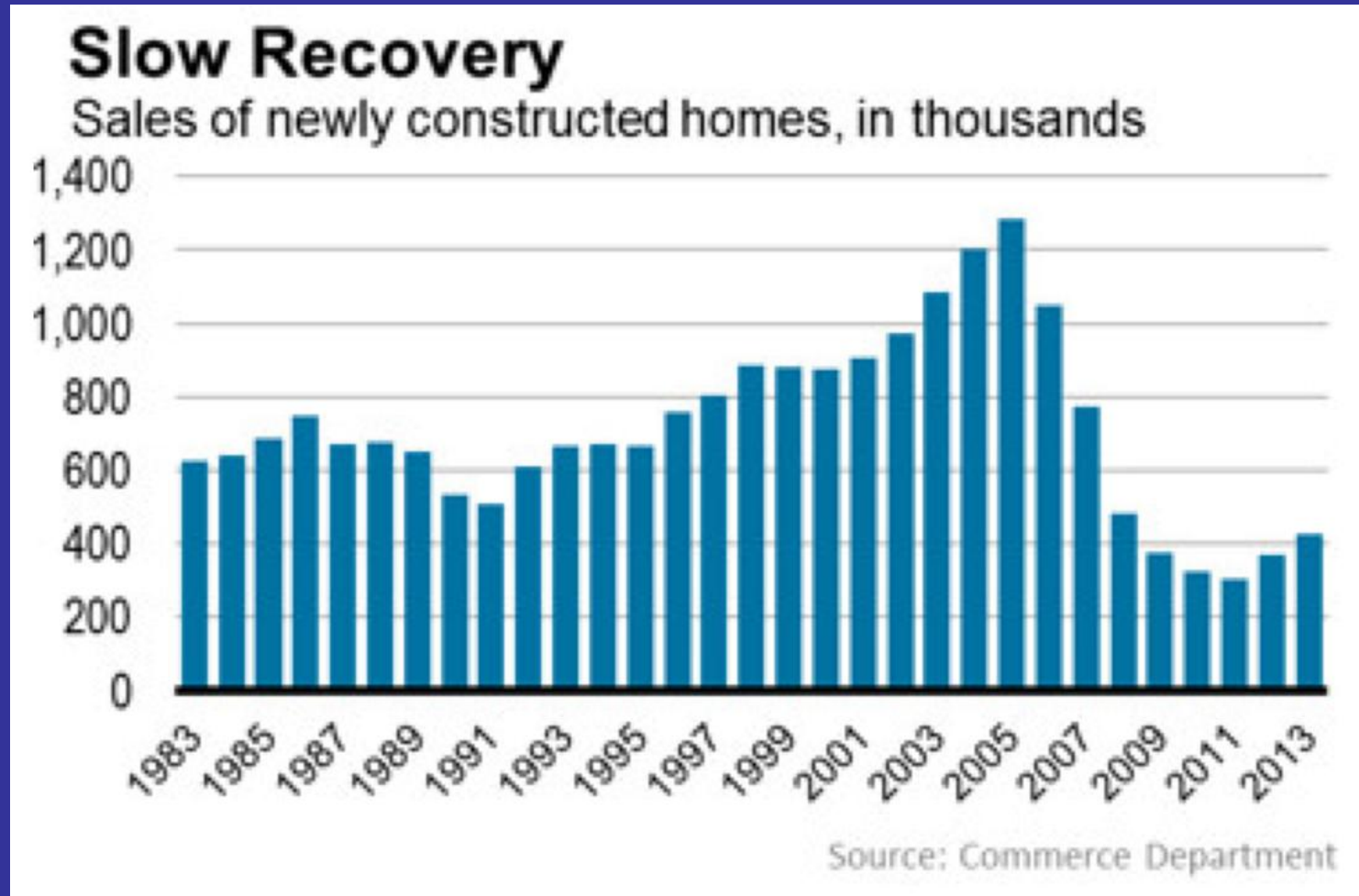
Four-Quarter Moving
Rate of Change



Note: The second quarter 2013 estimate is calculated using preliminary Census Bureau data and LIRA projections.
Source: Joint Center for Housing Studies of Harvard University.

Visualizing the depth of the housing downturn

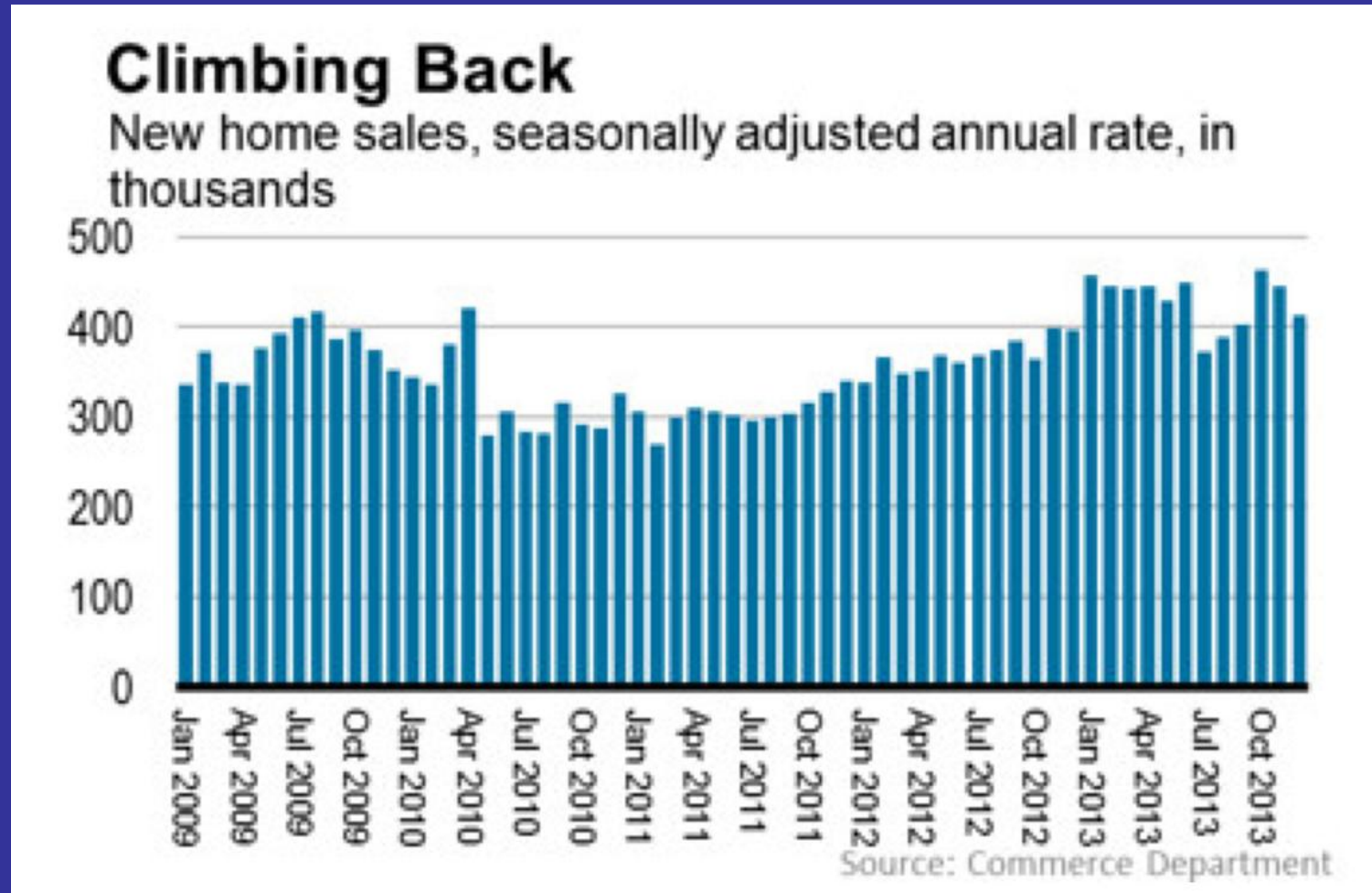
SALES OF NEW HOMES (WSJ, Real Time Economics)



(<http://blogs.wsj.com/economics/2014/01/27/charting-new-home-sales-good-and-bad-in-december-report/>)

SALES OF NEW HOMES – monthly figures

(WSJ, Real Time Economics)



(<http://blogs.wsj.com/economics/2014/01/27/charting-new-home-sales-good-and-bad-in-december-report/>)

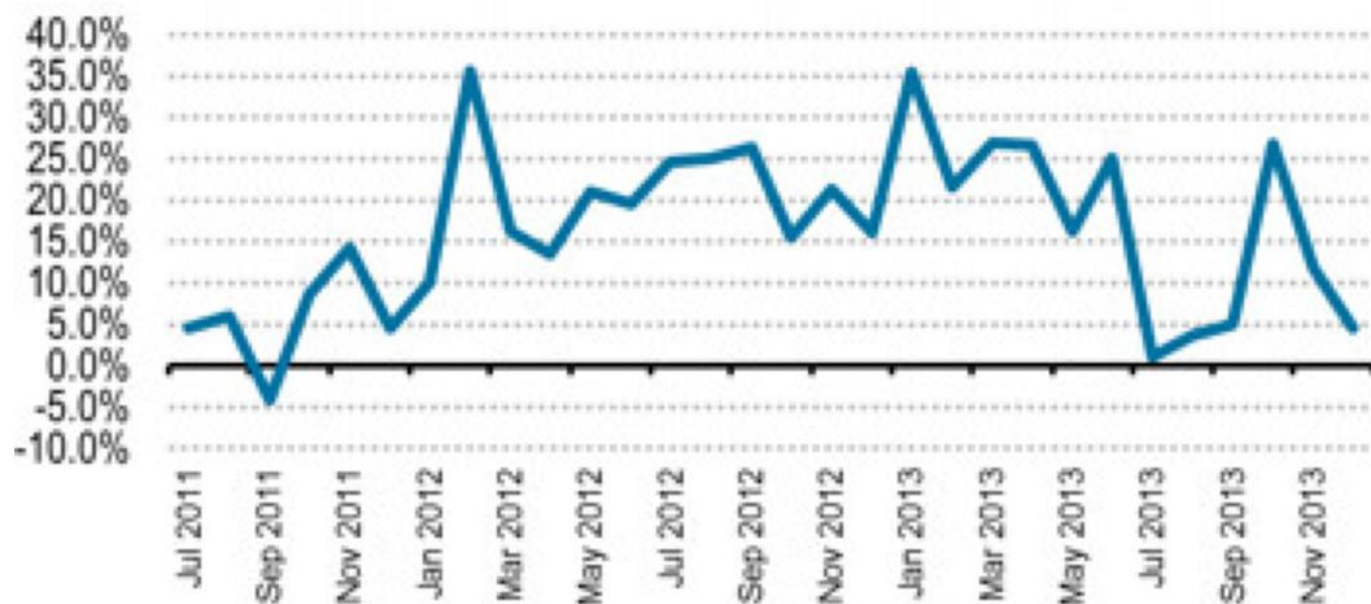
Visualizing the depth of the housing downturn

SALES OF NEW HOMES – percentage change

(WSJ, Real Time Economics)

Uneven Rebound

New home sales seasonally adjusted annual rate, percentage change from a year earlier



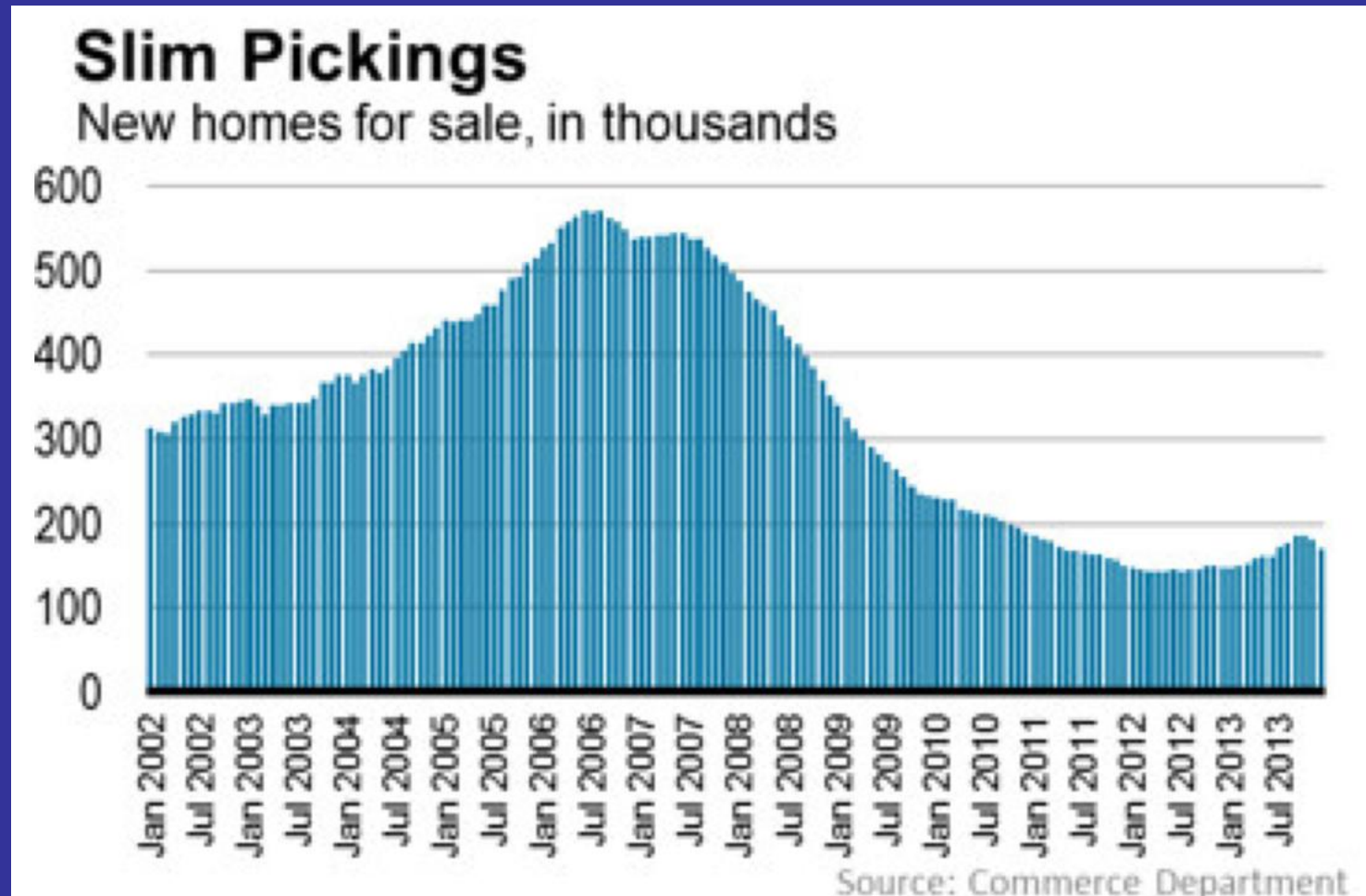
Source: Commerce Department | WSJ.com

(<http://blogs.wsj.com/economics/2014/01/27/charting-new-home-sales-good-and-bad-in-december-report/>)

Visualizing the depth of the housing downturn

SALES OF NEW HOMES – 2002 to 2013

(WSJ, Real Time Economics)

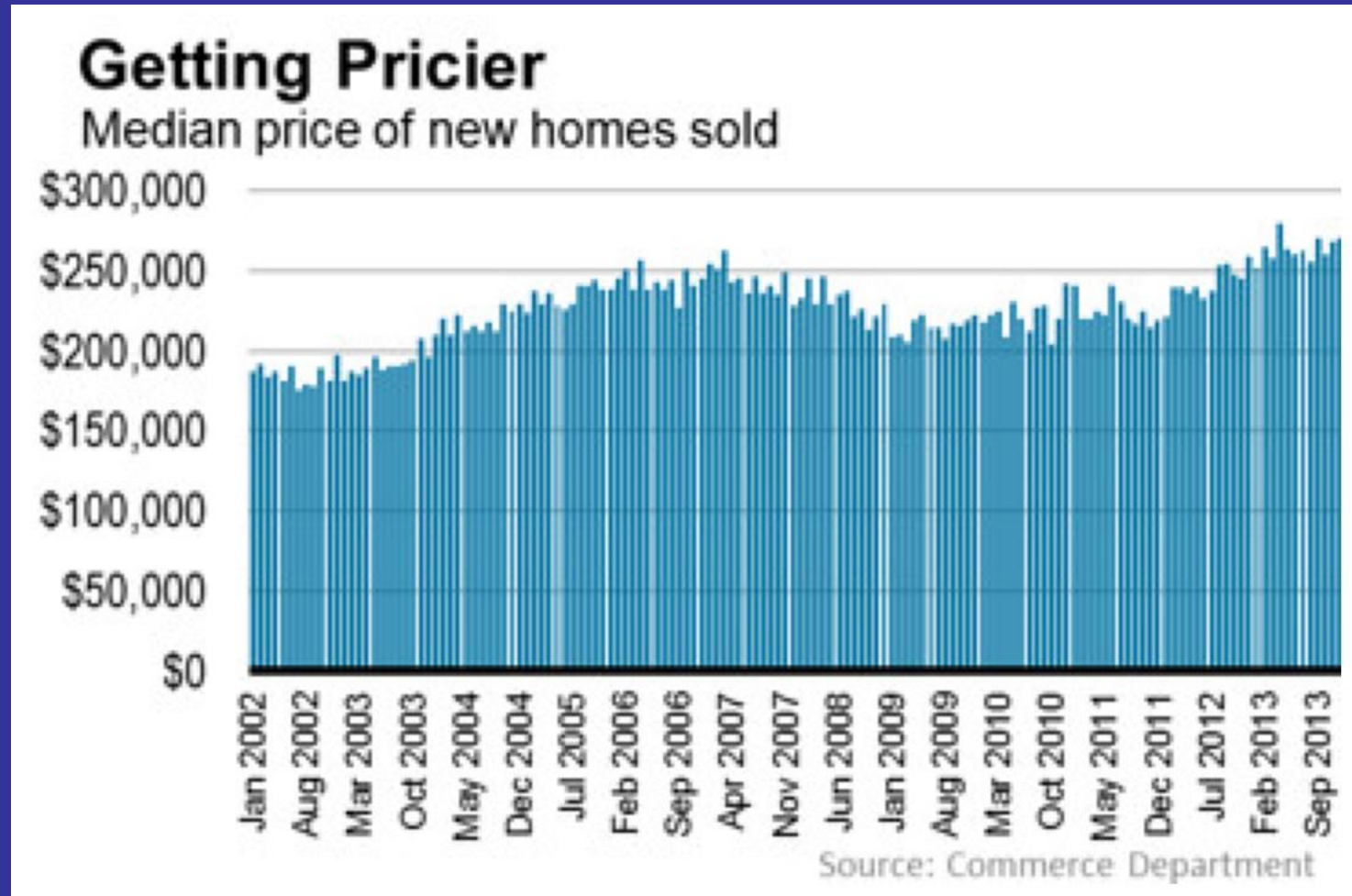


(<http://blogs.wsj.com/economics/2014/01/27/charting-new-home-sales-good-and-bad-in-december-report/>)

Visualizing the depth of the housing downturn

MEDIAN PRICE OF NEW HOMES SOLD

(WSJ, Real Time Economics)



(<http://blogs.wsj.com/economics/2014/01/27/charting-new-home-sales-good-and-bad-in-december-report/>)

Bottom line – when economy returns to normal, demand for shelter will strengthen. That should happen in 2014

Question – what will the mix be between detached single family and multi family housing and what are the implication for the wood products industry? Also, implications if house size gets smaller??

Most of you have seen this article by Craig Adair and myself and it is three years old, but there is some material there that addresses the question posed above as it relates to the wood products industry

(<http://www.nxtbook.com/nxtbooks/naylor/EWAB0110/index.php?startid=16#/16>)

Another issue to ponder – the role of the federal government in housing. There is a huge federal presence – more than in any other country. Federal agencies (Fannie, Freddie, FHA, VA, etc.), control over 90% of the residential mortgage market. That means there is too much temptation to drive housing according to political whims. Fannie, and Freddie are still in “conservatorship” – i.e., wards of the state., and therefore depending on taxpayer support.

The real key to a housing recovery is the return of mortgage purchase Business – i.e., owner occupant buyers in lieu of “REFI” business and speculators paying cash for distressed sales which are then rented.

Again, that requires well paying, stable JOBS!

Some conclusions – housing continues to improve –

- (1) Economy should see 3% GDP in 2014. Question – can the economy “stand on its own” without Fed stimulus?**
- (2) What will housing look like in the future? My guess – smaller homes; higher percentage of renters; and more people moving back to the city**
- (3) We’re in “uncharted waters” territory right now (i.e., massive money printing) to date, it has helped prevent worsening of economy, but, certainly hasn’t had the impact the FED had hoped for (i.e., jump start the economy)**
- (4) Housing will continue to improve. Prices are increasing (this is a good sign). Housing affordability is a function of: price, interest rates and jobs/income factor. As long as people have decent income, they will be able to afford a house despite higher mortgage rates and higher house prices. Jobs are the single most important factor to better housing demand. E.G., despite recent record low interest rates and low prices, housing demand was only 1/3 of pre-recession highs. Why – without a job (or part time/low paying jobs), people can’t make the payments. Furthermore, they are not forming households, getting married,
JOBS, JOBS – JOBS**

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