

January 2014 Housing Commentary



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Table of Contents

Slide 3: [Housing Scorecard](#)

Slide 4: [New Housing Starts](#)

Slide 5: [Housing Permits and Completions](#)

Slide 6: [New and Existing House Sales](#)

Slide 8: [Construction Spending](#)

Slide 9: [Conclusions](#)

Slide 10 - 25: [Additional Comments&Data](#)

Slide 26: [Disclaimer](#)

January 2014 Housing Scorecard

	M/M	Y/Y
Housing Starts ^A	▽16.0%	▽ 2.0%
Single-Family Starts ^A	▽ 15.9%	▽ 6.7%
Housing Permits ^A	▽ 5.4 %	△ 2.4%
Housing Completions ^A	△ 4.6%	△13.1%
New Single-Family House Sales ^A	△ 9.6%	△ 2.2%
Existing House Sales ^B	▽ 5.1%	▽ 5.1%
Private Residential Construction Spending ^A	△ 1.1%	△14.6%
Single-Family Construction Spending ^A	△ 2.3%	△20.9%

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
January	880,000	573,000	7,000	300,000
December	1,048,000	681,000	23,000	344,000
2013	898,000	614,000	11,000	273,000
M/M change	-16.0%	-15.9%	-69.6%	-12.8%
Y/Y change	-2.0%	-6.7%	-36.4%	9.9%

* 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
January	937,000	602,000	26,000	309,000
December	991,000	610,000	26,000	355,000
2012	915,000	588,000	26,000	301,000
M/M change	-5.4%	-1.3%	0%	-13.0%
Y/Y change	2.4%	2.4%	0%	2.7%

	Total Completions*	Single-Family Completions	Multi-Family 2-4 unit Completions	Multi-Family 5 or more unit Completions
January	814,000	580,000	14,000	220,000
December	778,000	563,000	14,000	201,000
2012	720,000	554,000	10,000	156,000
M/M change	4.6%	3.0%	0%	9.5%
Y/Y change	13.1%	4.7%	40.0%	41.0%

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
January	468,000	261,100	4.7	4,620,000	\$188,900	5.2
December	427,000	265,900	5.2	4,870,000	\$197,700	4.7
2012	458,000	251,500	3.9	4,870,000	\$170,600	3.9
M/M change	9.6%	-1.8%	-9.5%	-5.1%	-4.4%	10.6%
Y/Y change	2.2%	3.8%	20.5%	-5.1%	10.7%	33.9%

* All sales data are SAAR

Existing House Sales

National Association of Realtors (NAR®)^B

January 2014 sales data:

Distressed house sales: 15% of sales –
(11% foreclosures and 4% short-sales)

Distressed house sales: 14% in December
and 24% in January 2013

All-cash sales: increased to 33%; 32% in December

Investors are still purchasing a substantial portion of
“all cash” sale houses – 20%;
21% in December 2013 and 19% in January 2013

First-time buyers*: decreased to 26% (27% in December 2013)
and were 30% in January 2013

* Historically – 40%

January 2014 Construction Spending

January 2014 Private Construction: \$359.93 billion (SAAR)

1.1% greater than the revised December estimate of \$355.98 billion (SAAR)

14.6% greater than the January 2013 estimate of \$314.03 billion (SAAR)

January SF construction: \$185.96 billion (SAAR)

2.3% more than December: \$181.85 billion (SAAR)

20.9% more than January 2013: \$153.70 billion (SAAR)

January MF construction: \$36.23 billion (SAAR)

2.3% more than December: \$35.89 billion (SAAR)

27.9% more than January 2013: \$28.33 billion (SAAR)

January Improvement^C construction: \$137.71 billion (SAAR)

-0.3% less than December: \$138.23 billion (SAAR)

4.3% more than January 2013: \$132.00 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 exhibited declines in January – this is not atypical for a winter month. A bright spot was “New” house sales – which, in future months, may be revised higher as private estimates recorded more sales than the reported United States DOC data. Construction spending data was also a positive indicator.

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

Why?

- 1) Lack-luster household formation,
- 2) a lack of well-paying jobs being created,
- 3) a sluggish economy,
- 4) declining real median annual household incomes,
- 5) strict home loan lending standards,
- 6) new banking regulations, and
- 7) global uncertainty?

Housing comments

March 2014 for January 2014 numbers

U.S. economy seems to be getting better, however, Demand , Debt and Uncertainty are still nagging issues.

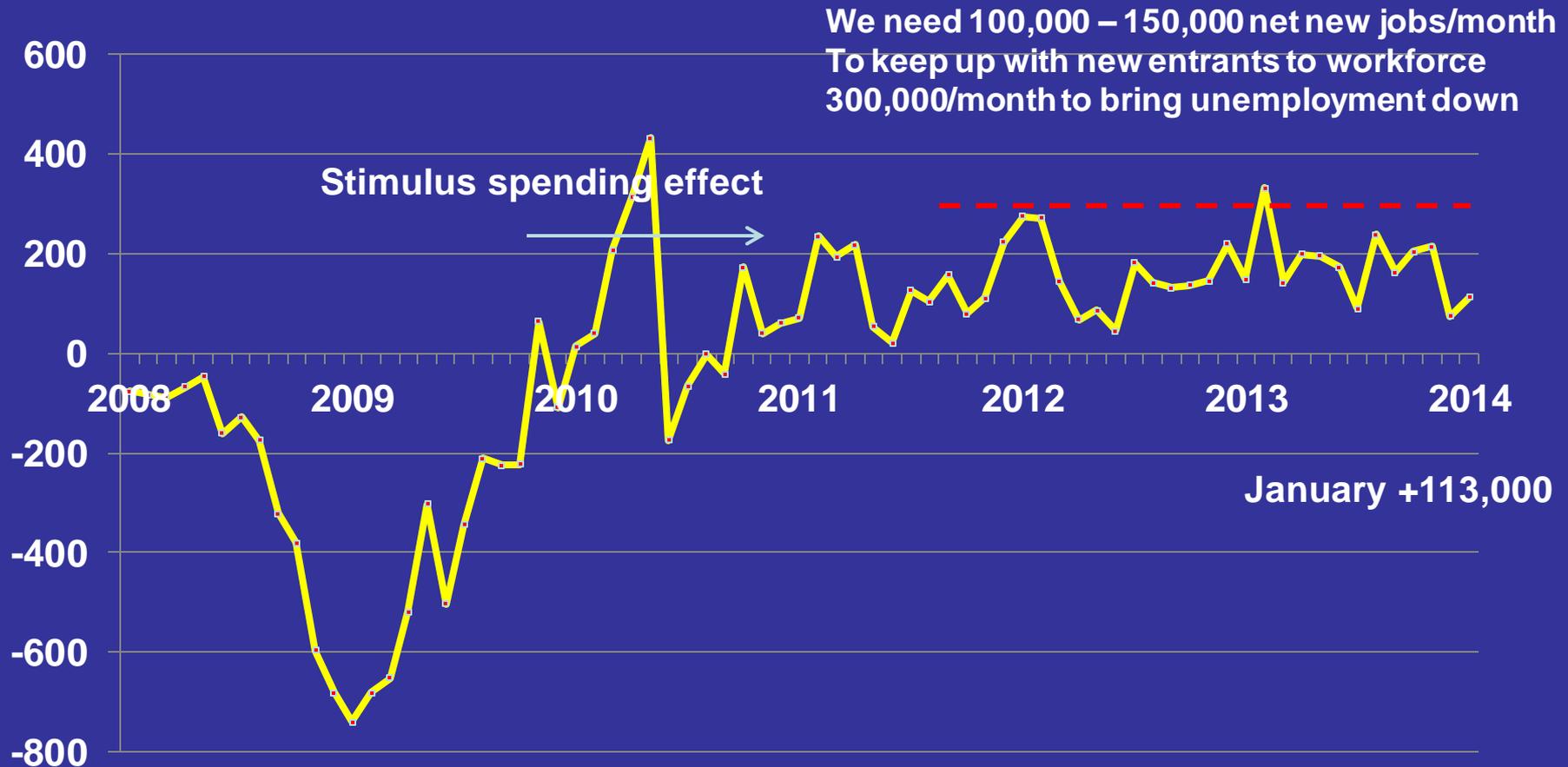
The two major issues:

- (1) can the economy (and housing) stand on its own (without Fed stimulus)?**
- (2) Uncertainty is a key reason holding back job creating and investments, and it is also holding back consumer spending. However, uncertainty is diminishing, finally.**

Housing is still having problems - recent slowing the past several months. 2013 was a good year - pricing particularly. But, the big problem is lack of 1st time buyers. Traditionally they represent about 40% of the market, but today they are much less. Without 1st time buyers, there are fewer "move up" buyers too, e.g., the ripple effect. Today, speculators are still big part of the market. 1st time buyers won't come back in strong way until jobs picture improves substantially. Interest rates are still attractive, but just the small increase has impacted demand. This shows that 1st buyers are still hurting. Also, there is a lack of supply driving up prices.

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

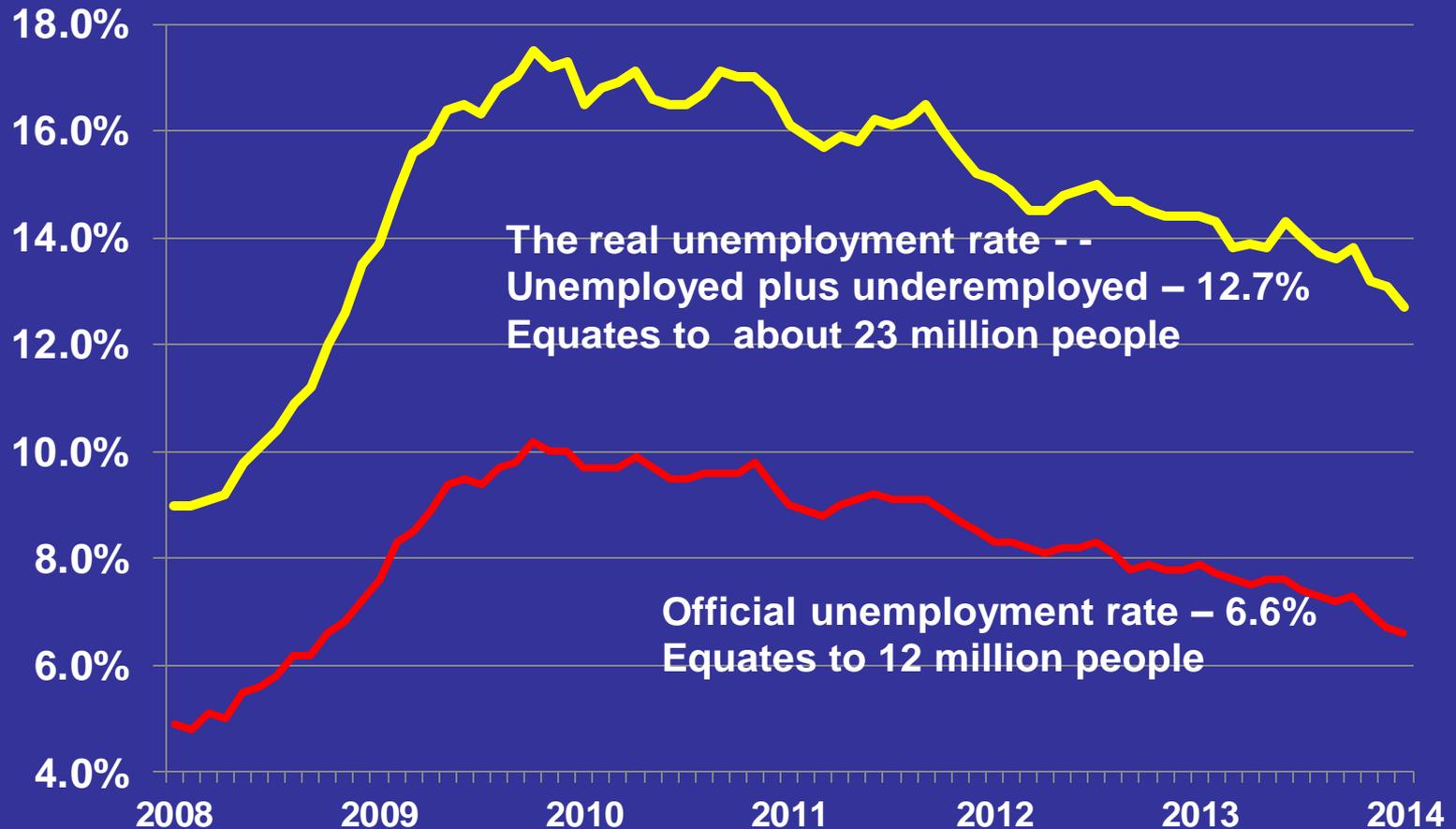
Net change in non farm payrolls – monthly, thousands



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>

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 – economy is improving, uncertainty decreasing. Unsatisfactory job creation (especially well-paying jobs with benefits) and low household formations are challenges that need to be addressed for a full-blown recovery in housing.

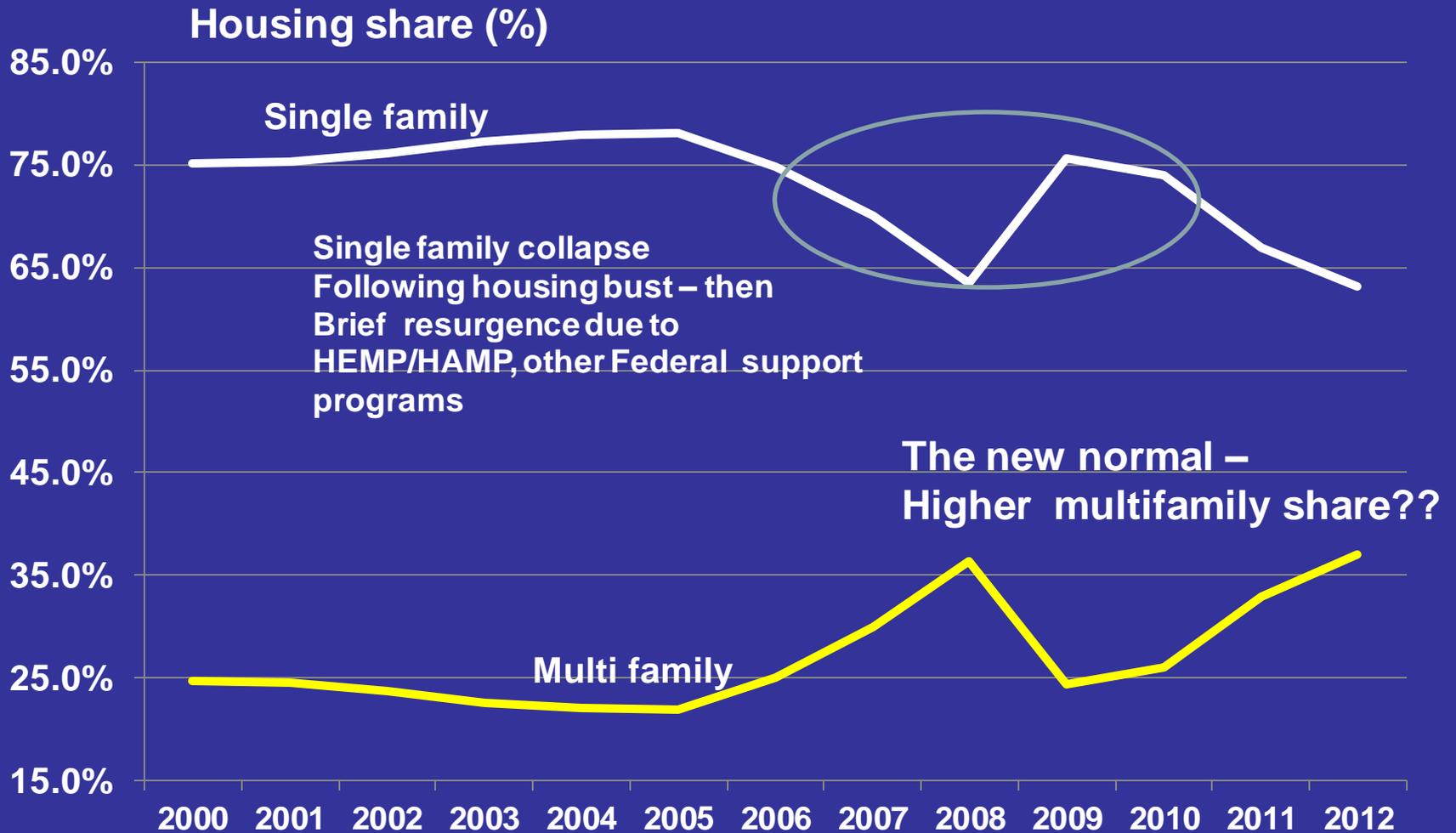
Starts are disappointing

Single family starts, Thousand units, SAAR



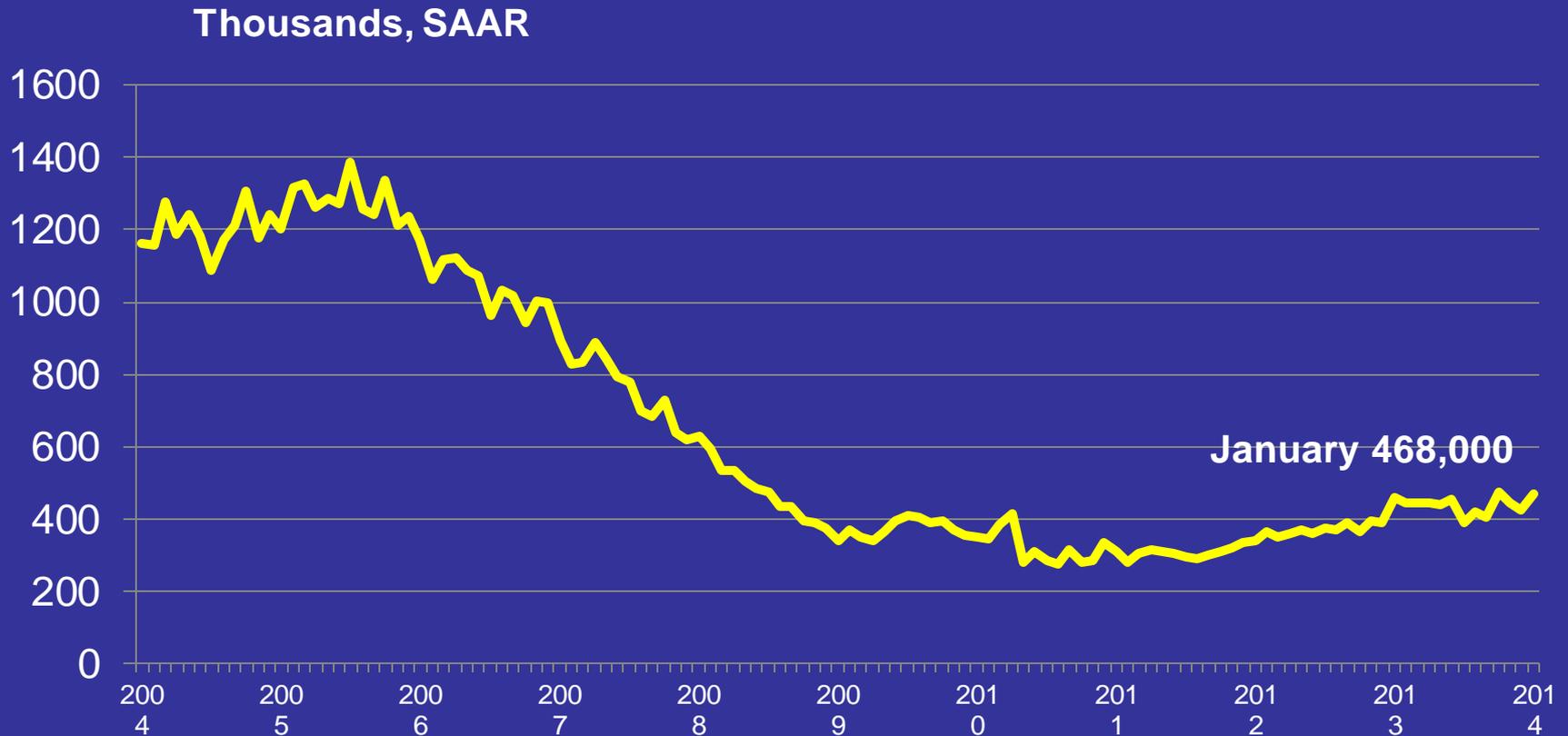
Source: Census (<http://www.census.gov/const/www/newresconstindex.html>)

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 slowing

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



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

Some comments on recent house price increases - -

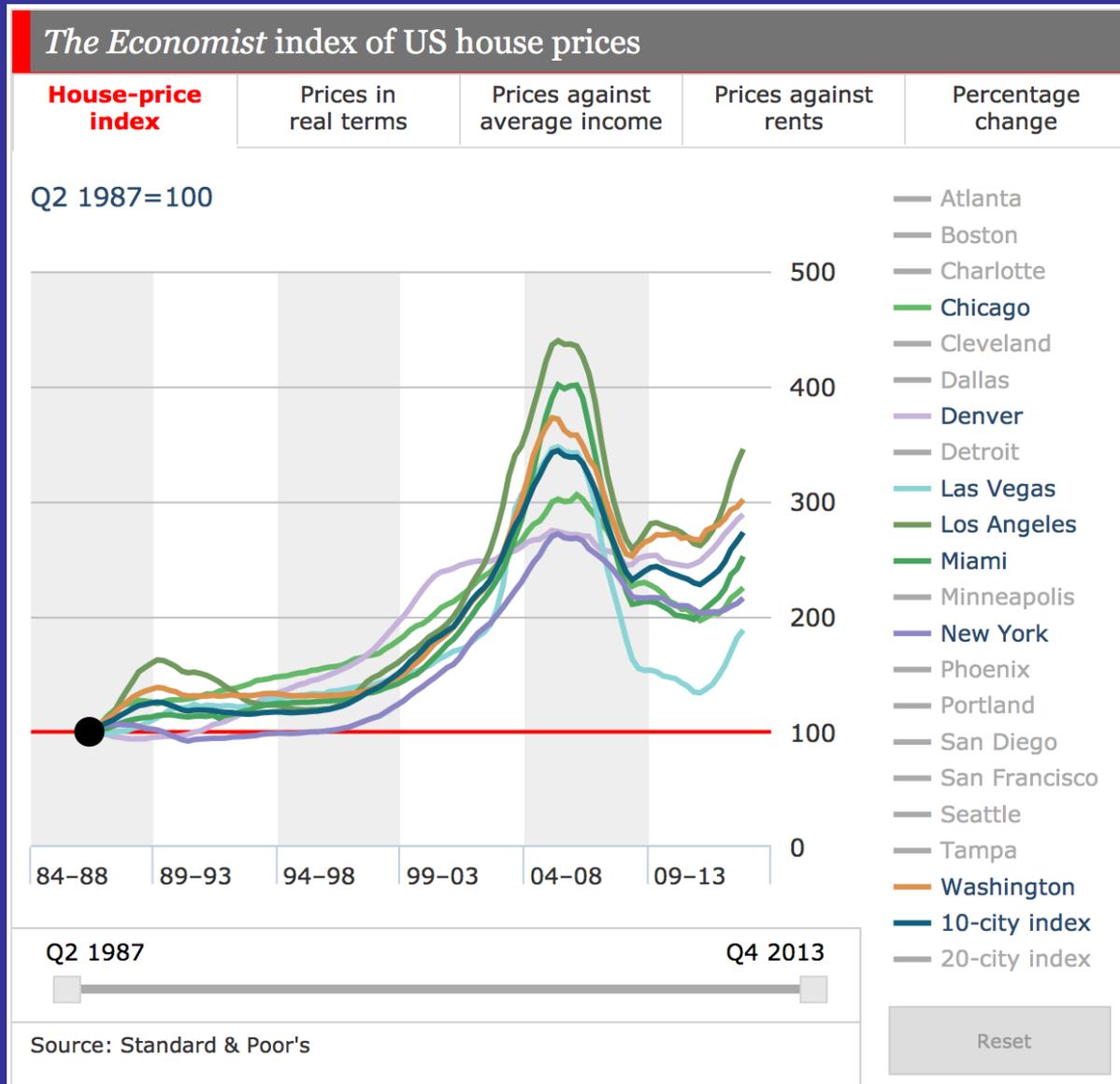
Let's hope they keep increasing because higher prices will encourage builders to build more homes.

- - in addition - -

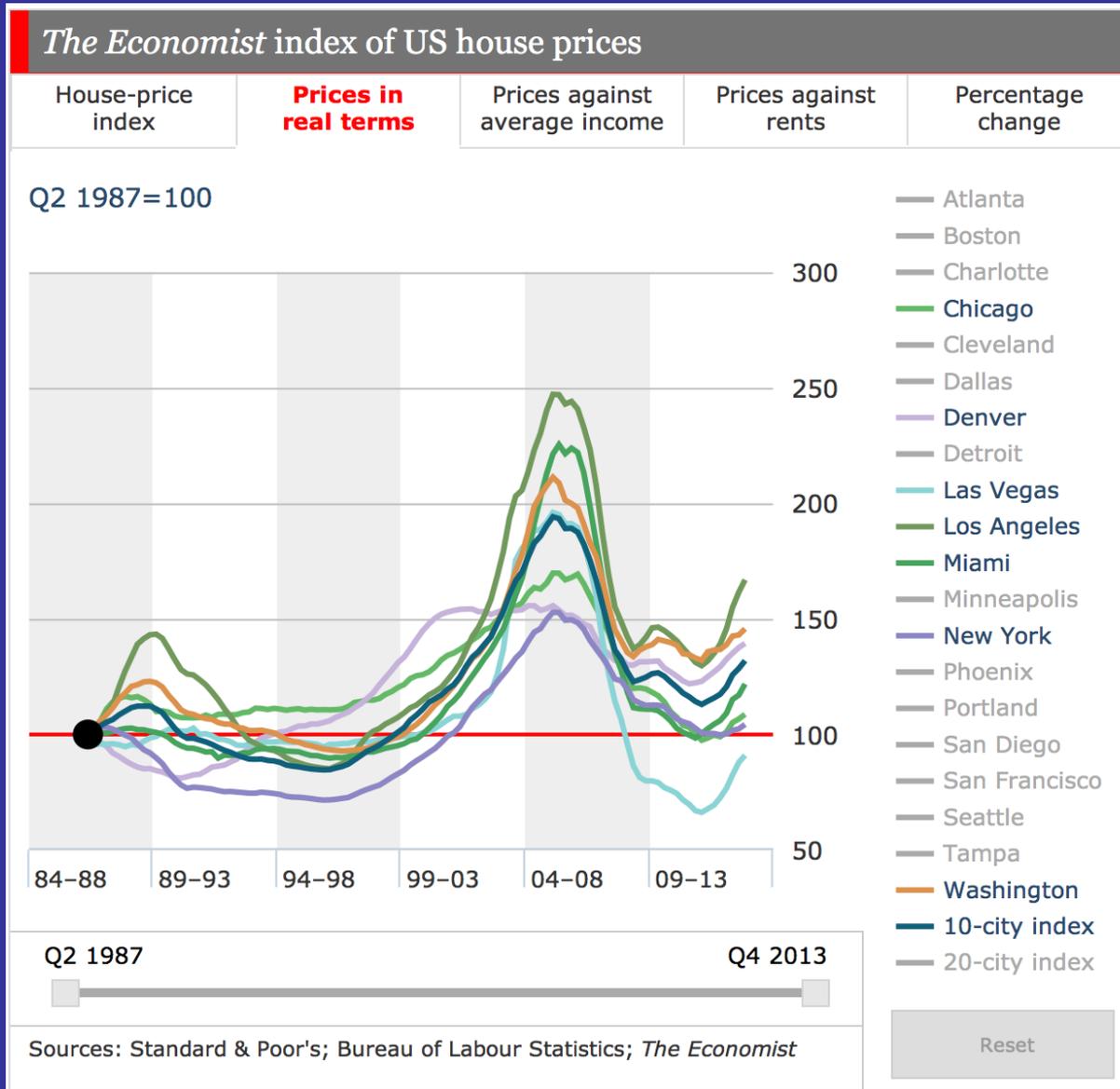
- (1) higher prices are needed to slow foreclosures;
- (2) enable people with negative equity to sell homes and move to better jobs;
- (3) apply for refinancing - -
- (4) will turn housing market around along with improving economy

Following data is from The Economist (www.economist.com)

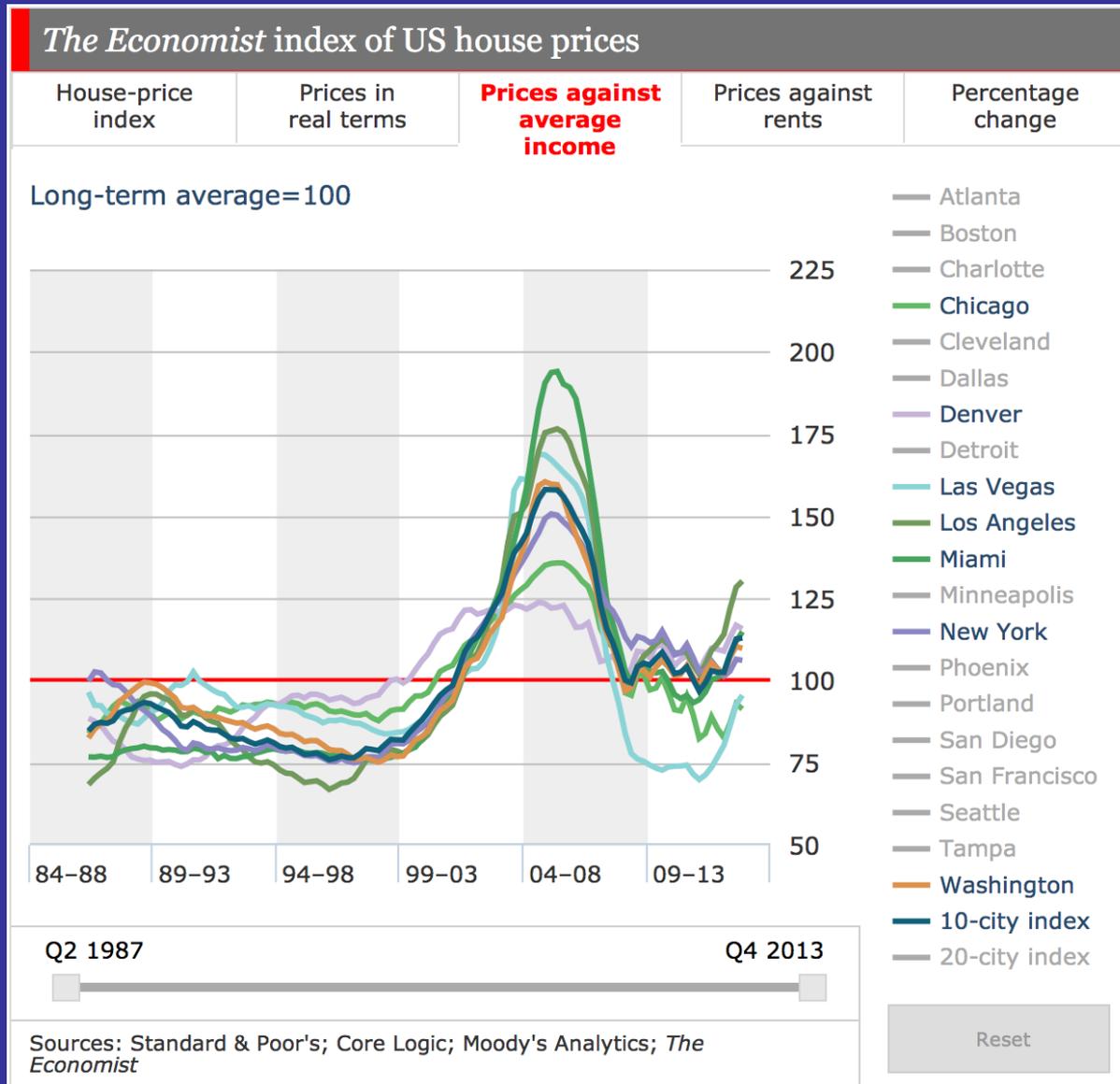
U.S. House price index 1987 - 2013



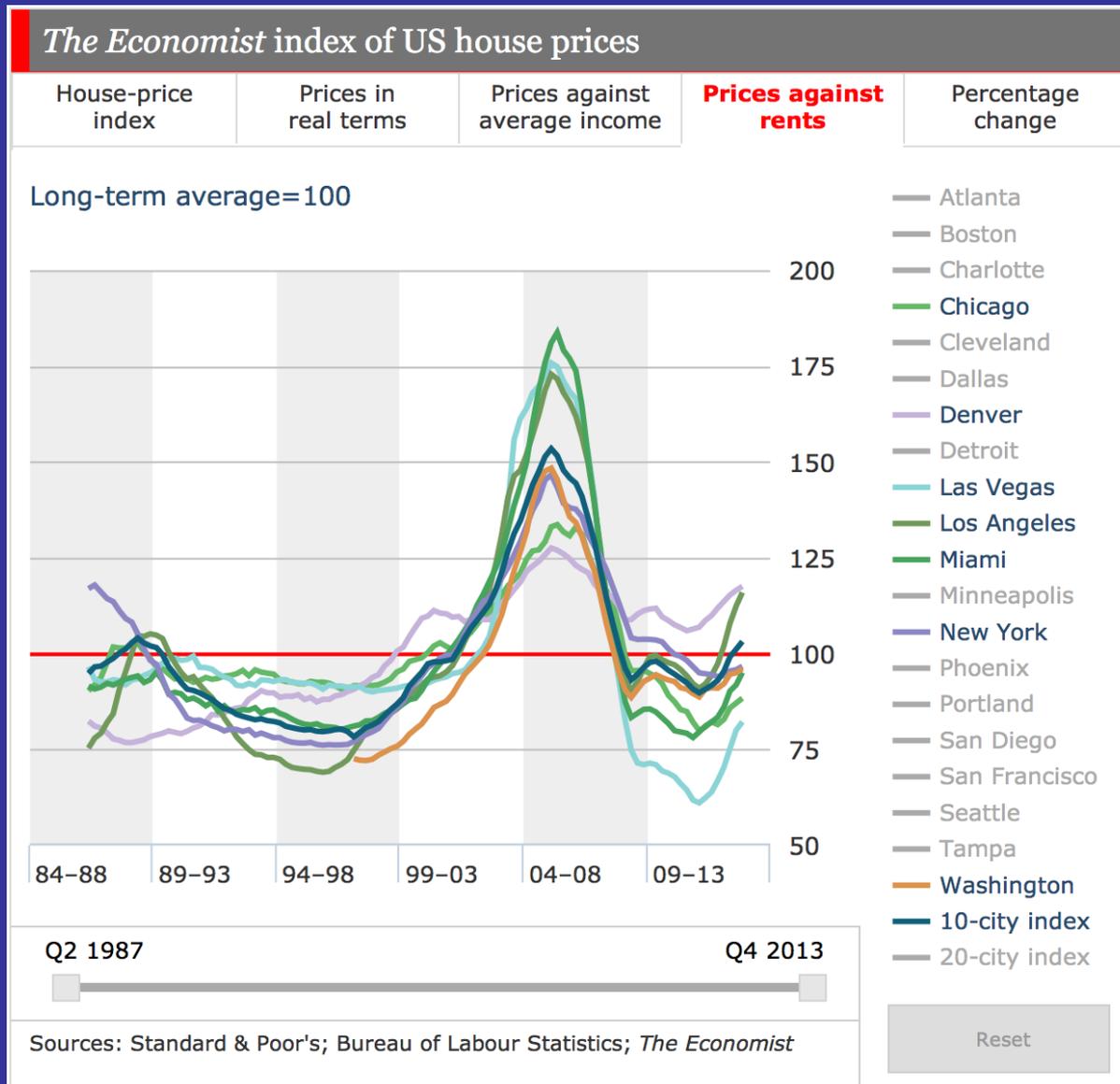
U.S. House prices in real terms 1987 - 2013



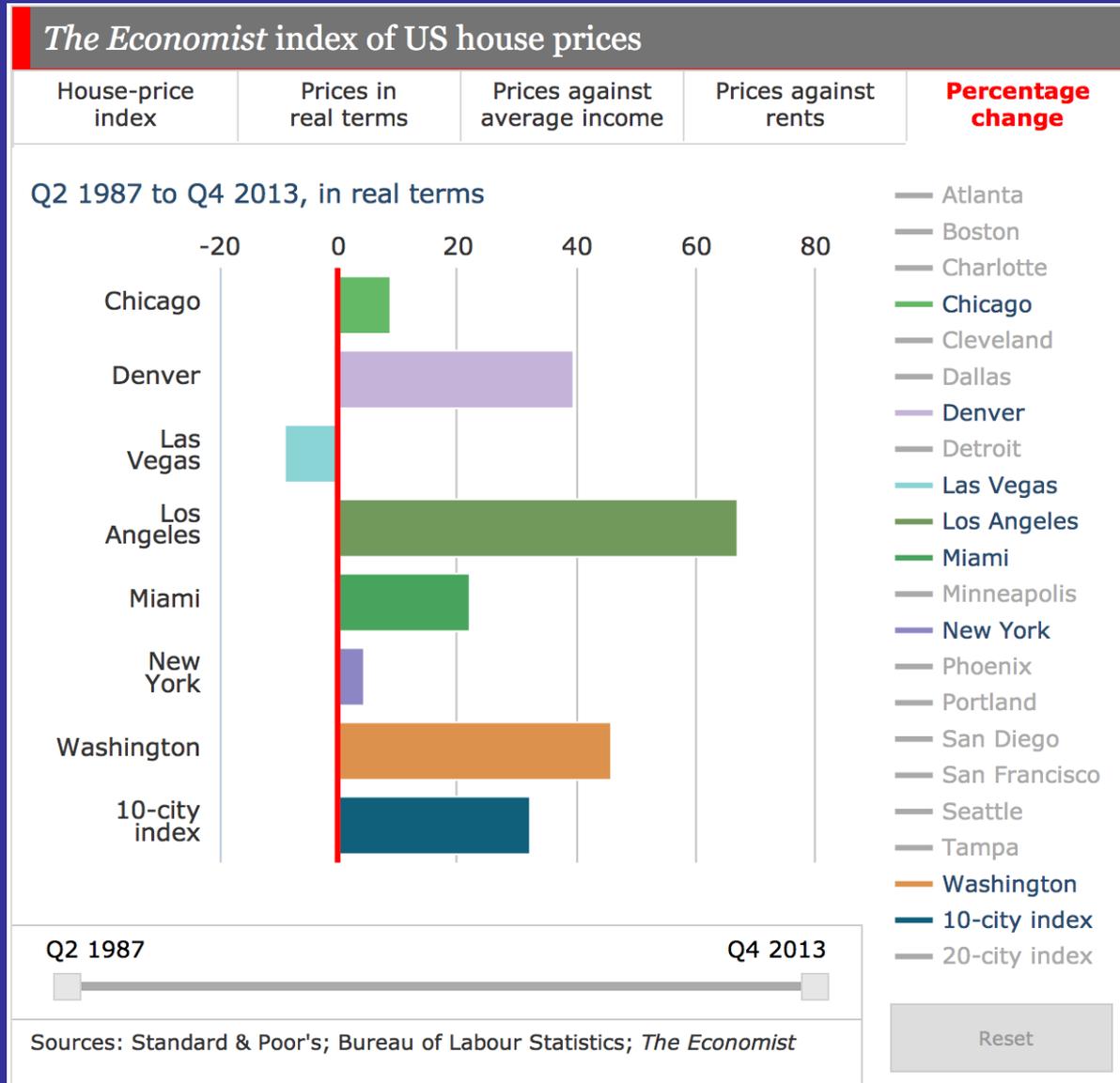
U.S. House prices against average income 1987 - 2013



U.S. House prices against rents 1987 - 2013



U.S. House price percentage change 1987 - 2013



Some conclusions – housing declined somewhat in January due to weather and season. However, housing should continue to improve, albeit there are several macro-economic factors that pose a challenge:

- (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 formations (first time buyers) are lackluster – what will it take to bring them back to the market?**
- (5) 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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