December 2014 Housing Commentary

Urs Buehlmann
Department of Sustainable Biomaterials
Virginia Tech
Blacksburg, VA
540.231.9759
buehlmann@gmail.com

and

Al Schuler
Economist (retired)
Princeton, WV

Return TOC

Table of Contents

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

To sign up for the report please email buehlmann@gmail.com

December 2014
Housing Scorecard

	M/M	Y/Y
Housing Starts[A]	Δ 4.4%	Δ 5.3%
Single-Family Starts[A]	Δ 7.2%	Δ 7.9%
Housing Permits[A]	∇ 1.9%	Δ 1.0%
Housing Completions[A]	Δ 6.3%	Δ19.6%
New Single-Family House Sales[A]	Δ 11.6%	Δ 8.8%
Existing House Sales[B]	Δ 2.4%	Δ 3.5%
Private Residential Construction Spending[A]	Δ 0.3%	∇ 4.0%
Single-Family Construction Spending[A]	Δ 1.2%	Δ11.0%

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

Source: [A]U.S. Department of Commerce-Construction ; [B] National Association of Realtors® (NAR®)

Return TOC

New Housing Starts

	Total Starts*	Single-Family Starts	Multi-Family 2-4 unit Starts	Multi-Family 5 or more unit Starts
December	1,089,000	728,000	22,000	339,000
November	1,043,000	679,000	11,000	354,000
2013	1,034,000	675,000	21,000	338,000
M/M change	4.4%	7.2%	100.0%	-4.2%
Y/Y change	5.3%	7.9%	4.7%	0.3%

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

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

Return TOC

New Housing Permits and Completions

	Total Permits*	Single-Family Permits	Multi-Family 2-4 unit Permits	Multi-Family 5 or more unit Permits
December	1,032,000	667,000	27,000	338,000
November	1,052,000	638,000	28,000	386,000
2013	1,022,000	617,000	30,000	375,000
M/M change	-1.9%	4.5%	-3.6%	-12.4%
Y/Y change	1.0%	8.1%	-10.0%	-9.9%

	Total Completions*	Single-Family Completions	Multi-Family 2-4 unit Completions	Multi-Family 5 or more unit Completions
December	927,000	667,000	6,000	254,000
November	872,000	609,000	14,000	249,000
2013	775,000	568,000	10,000	194,000
M/M change	6.3%	9.5%	-57.1%	2.0%
Y/Y change	19.6%	17.4%	-53.8%	30.9%

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

* All data are SAAR

Return TOC

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	481,000	298,100	5.5	5,040,000	$209,500	4.4
November	431,000	291,600	6.0	4,920,000	$207,200	5.1
2013	442,000	275,500	5.1	4,870,000	$197,700	4.6
M/M change	11.6%	2.2%	-8.3%	2.4%	1.1%	-13.7%
Y/Y change	8.8%	8.2%	7.8%	3.5%	6.0%	-4.3%

* All sales data are SAAR

Source: U.S. Department of Commerce-Construction: www.census.gov/construction/nrs/pdf/newressales.pdf;
B NAR® www.realtor.org/topics/existing-home-sales; 1/22/15

Return TOC

Existing House Sales

National Association of Realtors (NAR®)[B]

December 2014 sales data: 5.04 million houses sold (SAAR)

Distressed house sales: 11% of sales –
(8% foreclosures and 3% short-sales);

9% in November and 14% in December 2013.

All-cash sales: increased to 26%;
25% in November and 32% in December 2013.

Investors are still purchasing a substantial portion of "all cash" sale houses – 17% in December, 15% in November 2014 and 21% in December 2013.

63% of investors paid cash in December.

First-time buyers: 29% (31% in November 2014);
and 27% in December 2013

Source: [B] NAR® www.realtor.org/topics/existing-home-sales; 1/22/15

December 2014 Construction Spending

December 2014 Private Residential Construction:
$349.67 billion (SAAR)

0.3% more than the revised November estimate of $348.41 billion (SAAR)
-4.0% less than the December 2013 estimate of $364.00 billion (SAAR)

December SF construction: $202.46 billion (SAAR)
1.2% more than November: $200.12 billion (SAAR)
11.0% greater than December 2013: $182.47 billion (SAAR)

December MF construction: $46.56 billion (SAAR)
0.3% more than November: $46.42 billion (SAAR)
26.8% greater than December 2013: $36.73 billion (SAAR)

December Improvement[C] construction: $100.53 billion (SAAR)
-1.3% less than November: $101.87 billion (SAAR)
-30.6% less than December 2013: $144.80 billion (SAAR)

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

Source: U.S. Department of Commerce-C30 Construction: www.census.gov/construction/c30/pdf/privsa.pdf

Return TOC

Conclusions

December housing data was better than projected with the vast majority of housing data being positive. Yet, most data still is below historical averages.

While the data for the U.S. housing market is mainly trending in the desired position, there are potentially several negative macro-factors at this point in time for a robust housing recovery (based on historical long-term averages). However, as the economy continues to improve, we should expect to see the housing sectors increase as well.

Items to watch include:

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 (though FHA recently lowered down-payment requirements, and
6) Euro-zone problems (Greece, etc.)
7) global uncertainty.

Return TOC

November 2014
EU Housing Scorecard

		M/M	Y/Y
Production in Construction[A]	EU 28	▽ 0.2%[s]	△ 2.2%[s]
	EU 18	▽ 0.2%[s]	△ 2.5%[s]
	Germany	0.0%	▽ 0.1%
	France	△ 1.1%	△ 0.9%
	UK	▽ 2.0%[p]	△ 2.8%[p]
	Spain	△ 1.8%[ps]	△ 14.0%[p]
Building permits (m^2 floor)[A]	EU 28	-.-	-.-
	EU 18	▽ 2.8%[(10)]	▽ 1.8[(10)]
	Germany	▽ 4.4%[s]	△ 2.0%
	France	▽ 1.8%[s]	▽ 19.4%
	UK	-.-	-.-
	Spain	▽ 6.7[s(10)]	▽ 37.2%[e(10)]

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

Source: Eurostat (http://epp.eurostat.ec.europa.eu/portal/page/portal/short_term_business_statistics/data/main_tables),
[A] see http://epp.eurostat.ec.europa.eu/portal/page/portal/short_term_business_statistics/introduction/sts_in_brief
[e] estimate, [s] Eurostat estimate, [p] provisional, -.- no data available, [(10)] October data

Return TOC

Housing comments – December 2014 data

- ***December starts increased 4.4% (to 1.089SAAR) from previous month, with single family coming in at 728,000 (SAAR), the best since March 2008.***
- **Housing getting better, but multi family continues to be the driver – rental prices are increasing – single family sales remain weak and this has big impact on wood prices**
- **Housing's issues - slowing world economy; sub par domestic job market; sluggish income growth; tight credit environment continues – Europe is in a recession, and facing growing deflation concerns.**
- ***Main problem (short term) continues to be the job market. Unemployment rate keeps coming down, but often this is due to people leaving the workforce.***
- **Another problem, longer term, is the aging population – We're going to see serious labor shortages (skilled labor particularly), and enormous problems with entitlement programs like SSI and Medicare .**
- **My best guess re: housing is that it will be 2016 or later before we get back to 1.5 million starts. Don't expect too much from the Congress or the Administration over the next two years. More gridlock and no effective efforts to solve serious problems facing the country. Lots of politicking, but little problem solving.**
- **RE: the economy and interest rates – I believe the FED will keep interest rates low for some time. Yes, the FED will start increasing rates in 2015, but I don't think rates will move up very quickly.**
- **One more note on housing – the market continues to be skewed with cash sales – 1st time buyers remain on the sidelines – foreclosures are coming down, but are still historically high.**

Return TOC

Interesting comments by Mario Draghi on ECB's new bond buying program – i.e., "money printing" aka USA, Japan, etc. "Monetary policy can create basis for growth. But for growth to pick up, you need investment; for investment you need confidence; and for confidence, you need structural reform". Ok, that's the case for Europe and Japan. In the U.S., we have problems too - we have had basically zero interest rates for 7 years, but the economy is still performing sub par. E.g., 30 year Mortgage rate near 4%, but housing remains weak. We need leadership from Washington; more investment in infrastructure; tax reform; immigration reform (or serious skill shortages will continue to develop; education overhaul (K-12 system isn't working for many people); less emphasis on consumption and more on R&D, roads, airports, ….; etc.

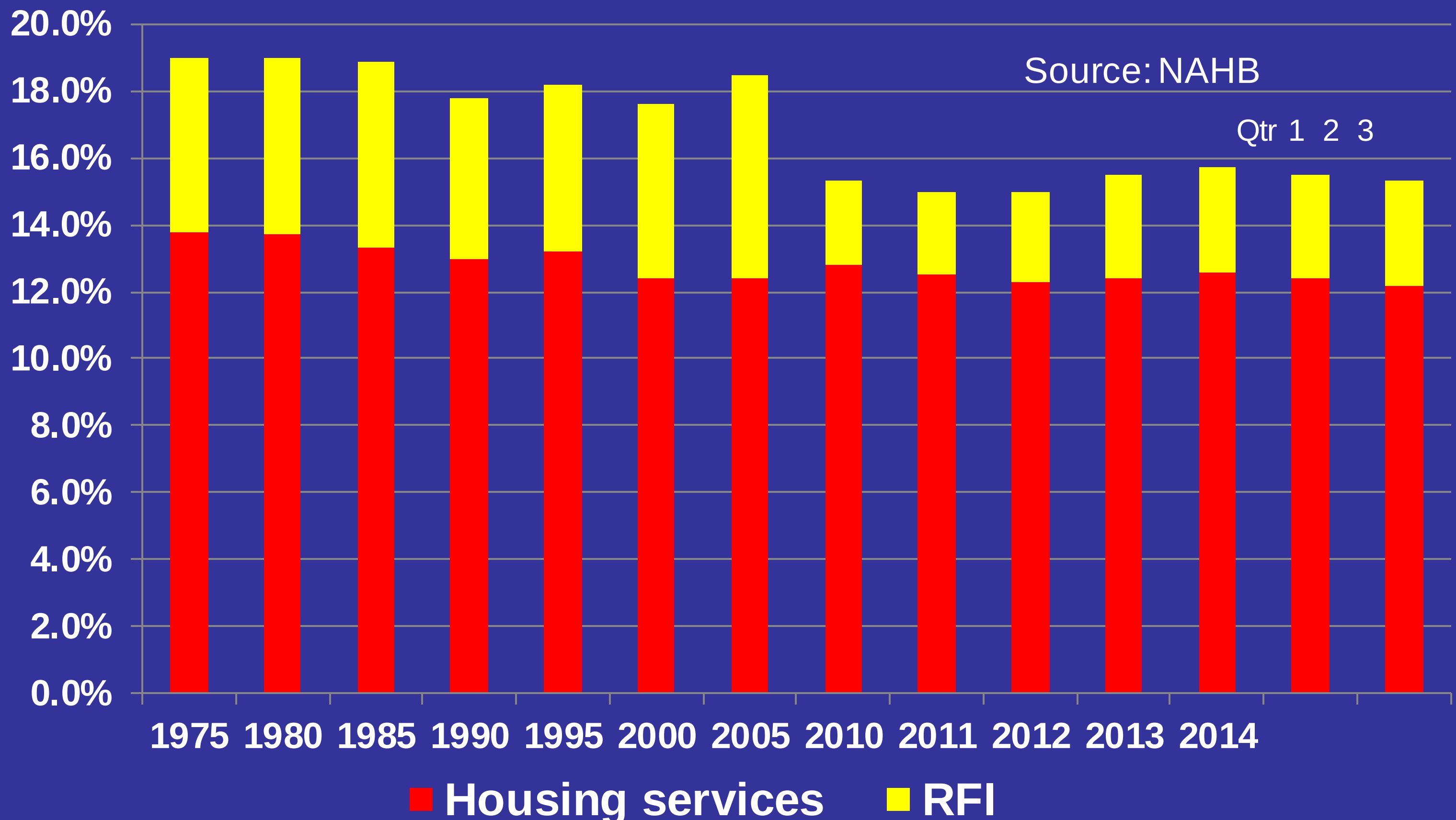
All this to say the FED can't do it all – we need better job creation in the USA, or housing won't return to trend levels. In today's environment, (political climate, terrorism, economic uncertainty), business investment will continue to lag, and good jobs won't be created. That means consumers won't spend, and that means the economy will continue to sputter.

Today, we're seeing various countries (Europe, Japan, and the latest, Canada) lowering interest rates to weaken their currencies, and spur export growth. Consequently, U.S. dollar strengthens – when we raise rates, the dollar will strengthen even more (it gained 15% against our trading partners in 2014). Will be interesting to see how this impacts the U.S. recovery/ growth, and any impact on The FED's decision re: interest rate increases. The USA isn't in a position to be the World's only economic engine anymore. Even China is slowing. Interesting times ahead!

Return TOC

Housing's contribution to GDP (%) – historically, it is almost 20% of the economy when you include housing services and fixed investment, but today it is down to 15%. In reality, it is even more important when you include purchased furniture, landscaping, general maintenance, etc. key reason why the economic recovery remains muted

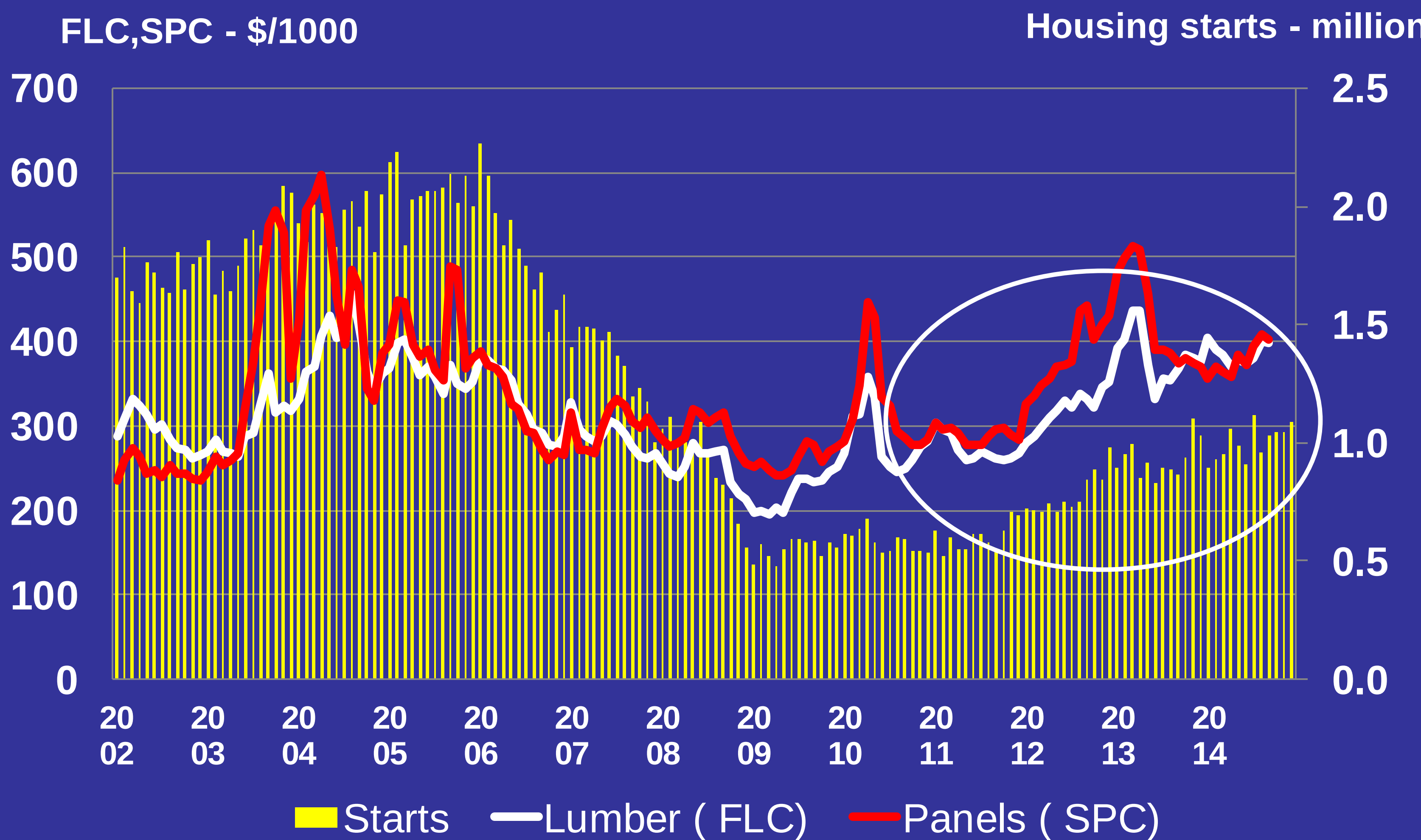
Housing services = gross rents paid by renters (include utilities) + owner's imputed rent (how much It would cost to rent owner occupied homes) + utility payments
RFI (residential investment) = construction of new SF and multifamily structures, remodeling, manufactured homes , plus broker's fees



Return TOC

Housing starts and wood product prices – Economics 101

75% of structural wood products go to housing (new construction plus remodeling)
50% or more of hardwoods go to housing related activities.

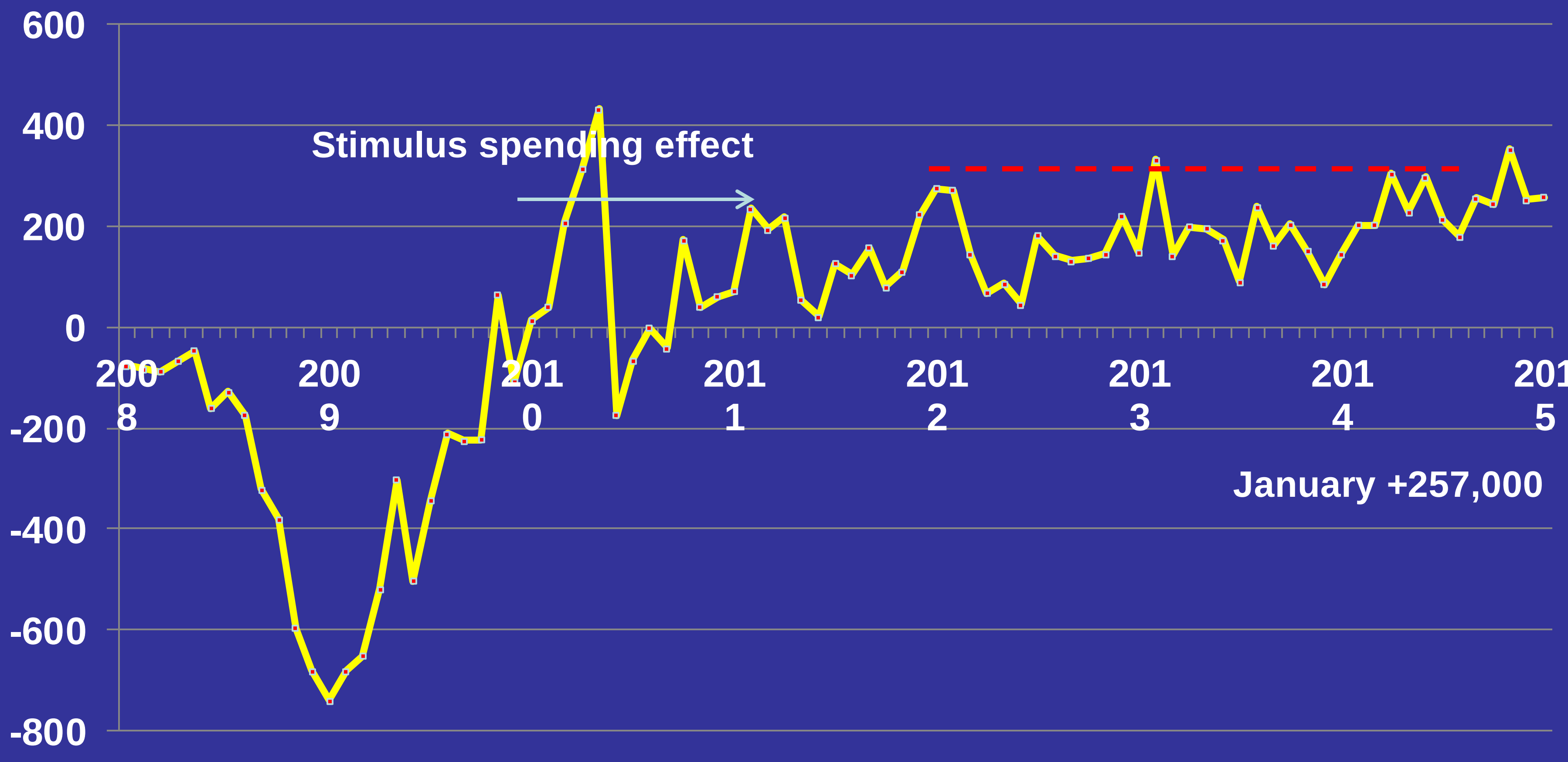


Sources: Prices – Random Lengths (http://www.randomlengths.com/); starts (Bureau of Census (http://www.census.gov/construction/nrc/)

Return TOC

Employment situation - our biggest problem - it's getting better, but quality Jobs remain scarce, and inflation adjusted wage growth has been weak for Almost two decades.

Net change in non farm payrolls – monthly, thousands

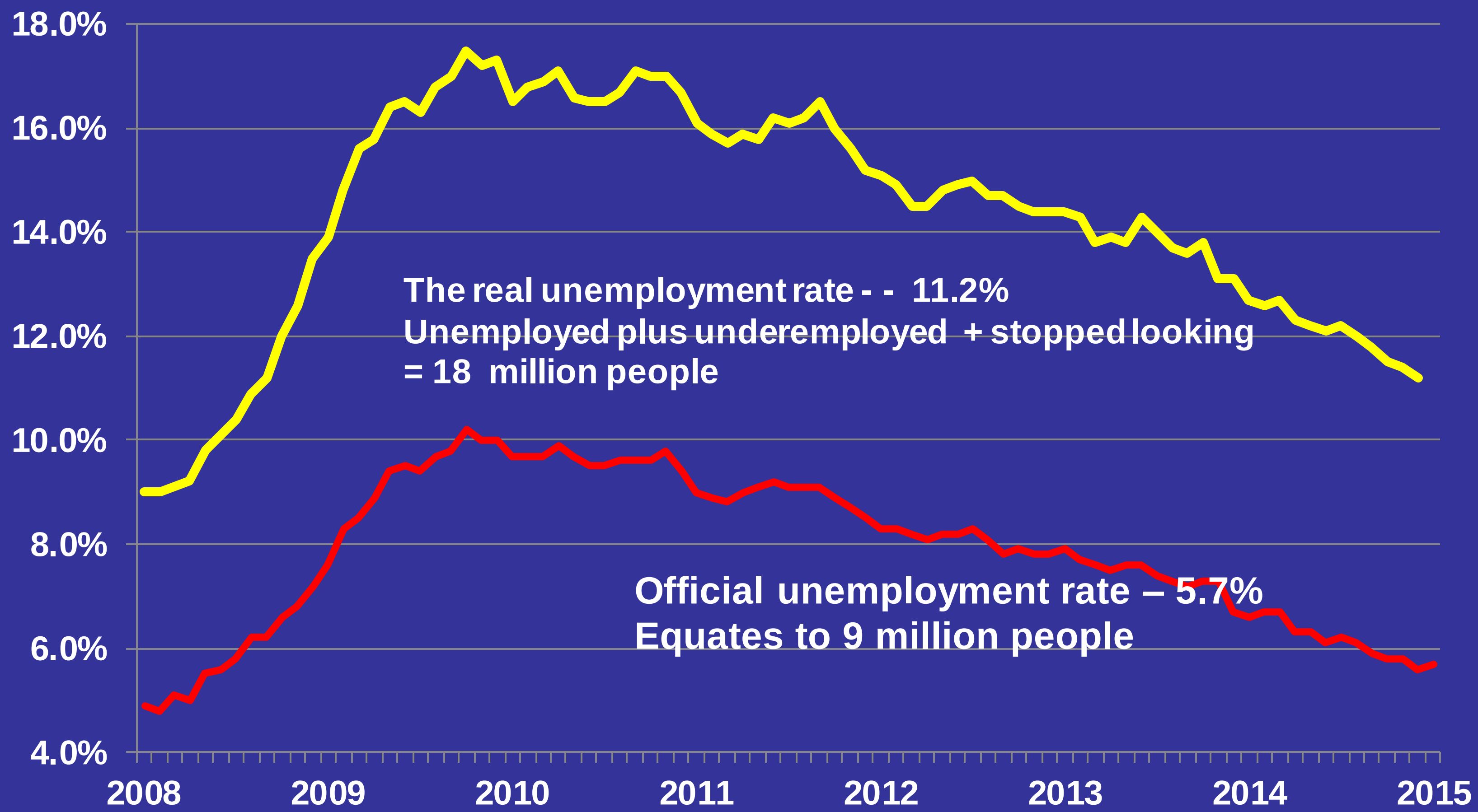


Source: U.S. BLS (www.bls.gov)

Return TOC

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

**There are about 18 million people either unemployed , underemployed, or stopped Looking –



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

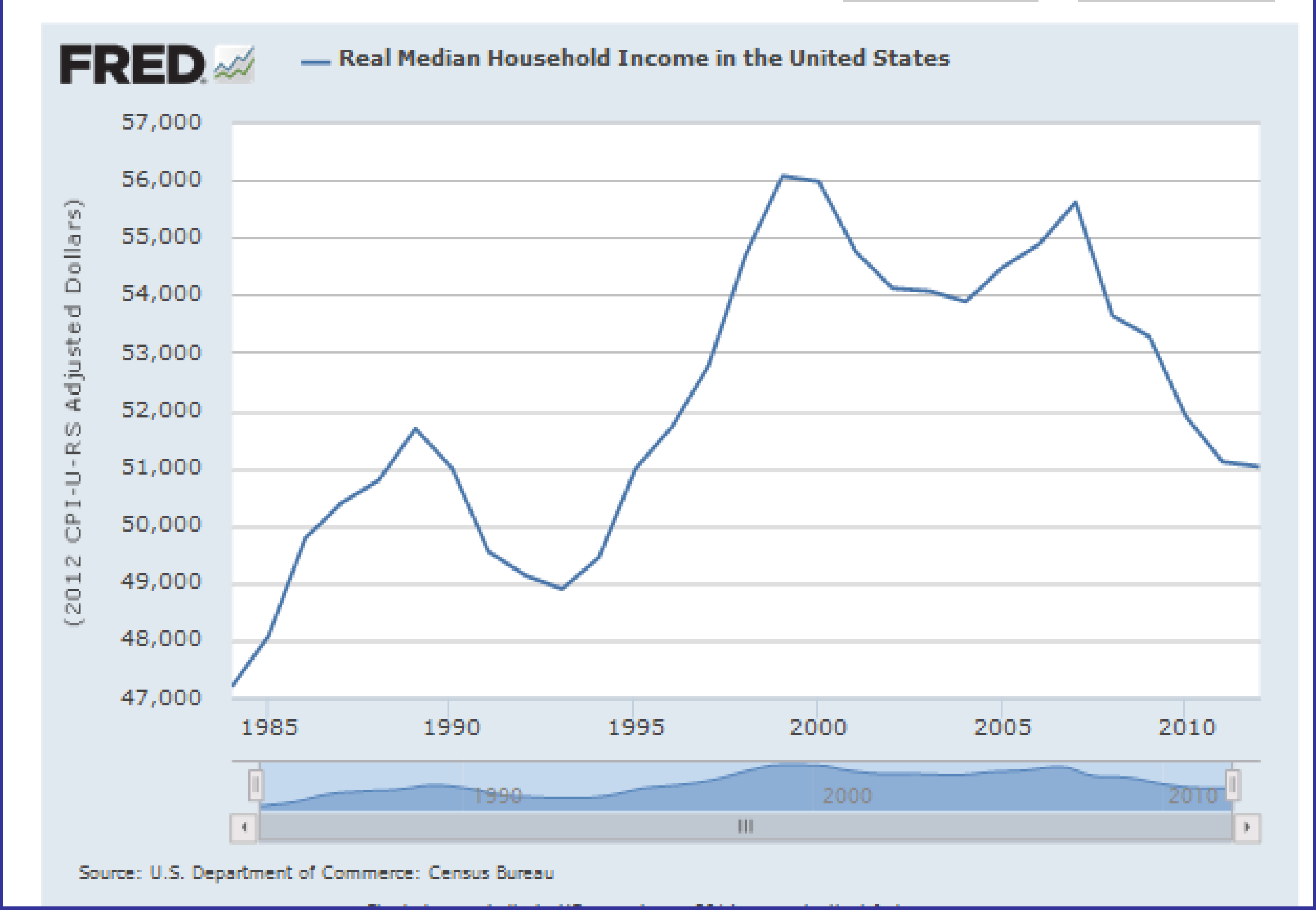
Return TOC

Yes, unemployment
rate is now below 6%, but income growth is missing (yes, it
Is starting to pick up, but very slowly). E.g., inflation
adjusted income today is the same as it was twenty years ago. I.e.,
There has been no improvement in median family income over the
past two decades. That's why many people believe we are still in a
recession, and consumer confidence remains relatively weak.

Just a reminder,
consumer spending is 70% of the economy, and without real
Income growth, spending can't grow very fast!!

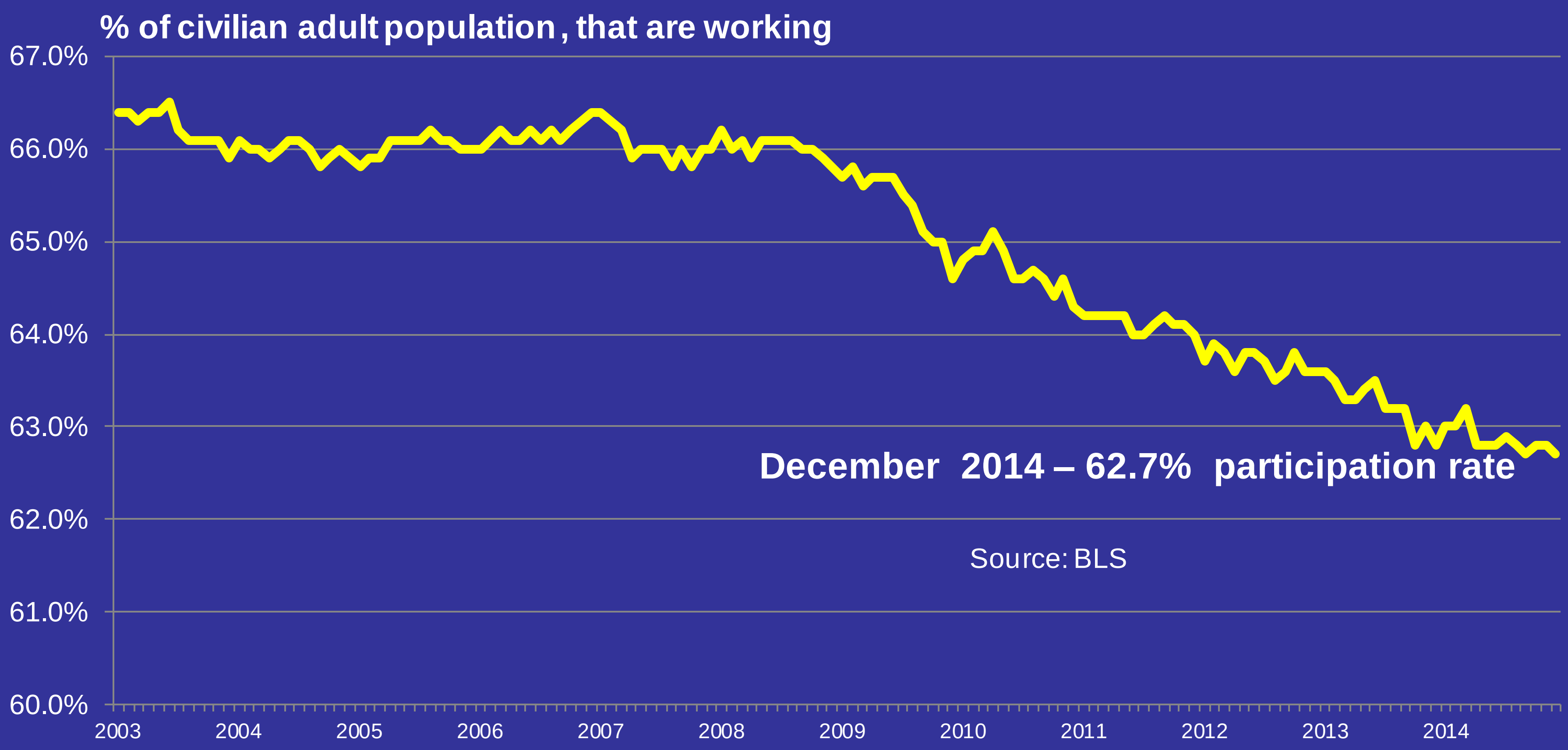
Return TOC

Real incomes have been shrinking for the past 20 years – this is a structural problem (long term) And not cyclical --- no quick fixes – Also, 15% Of population live at or below the poverty level ($24000 family of 4) – i.e., 45 million Americans - Reversing this trend would provide a major boost to Shelter/housing demand!



Return TOC

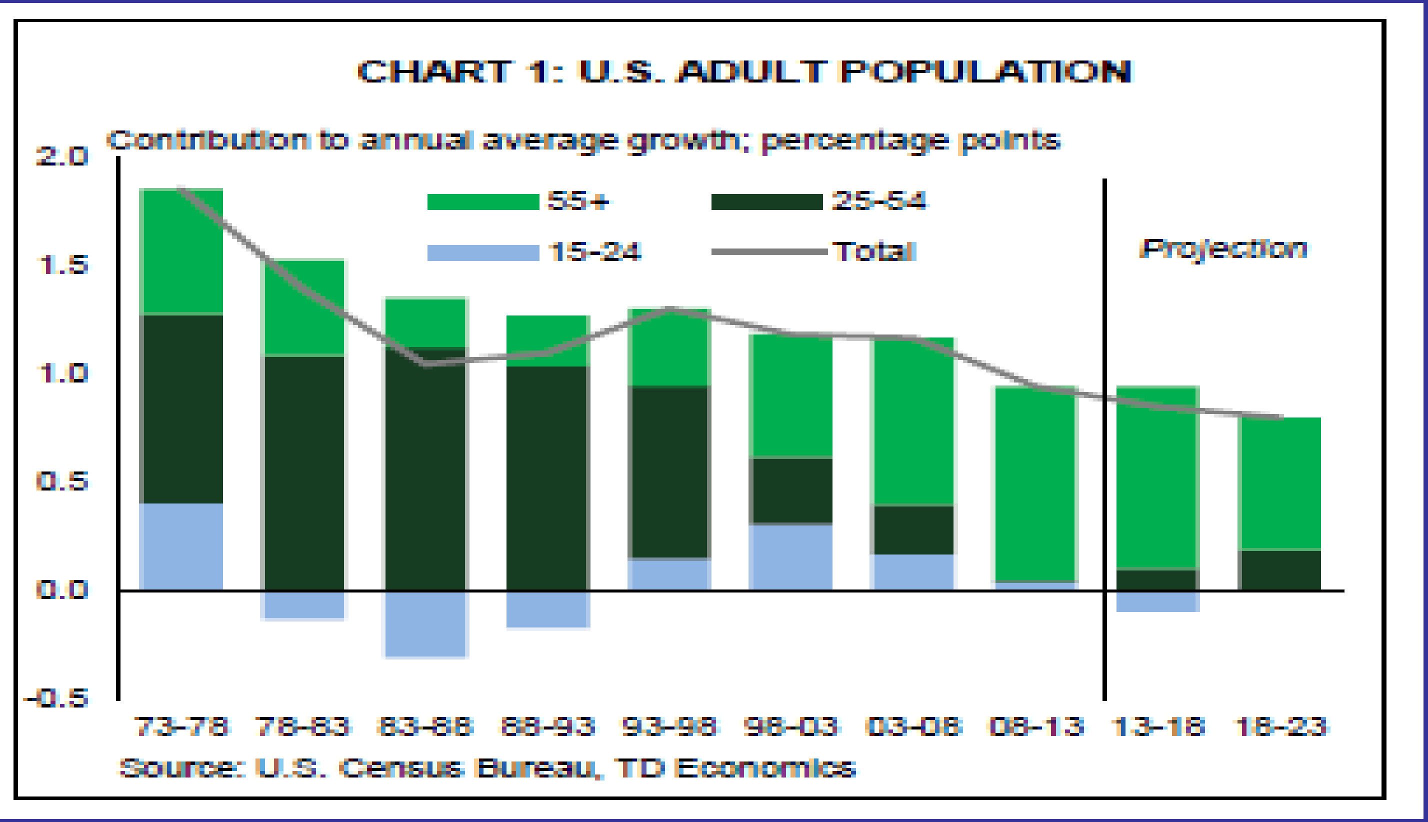
Labor force participation rate is shrinking – demographics is probably the main reason – we'll see skilled labor shortages increase over the next decade - we're already seeing construction related shortages with brick layers, masons, electricians, plumbers, etc. Solution – Revamp our education system (a 4 year degree isn't for everyone – 2 year community colleges, vocational schools, are better fit for many) and we could do a better job with immigration policies too.



Return TOC

Demographics will be the big "game changer"

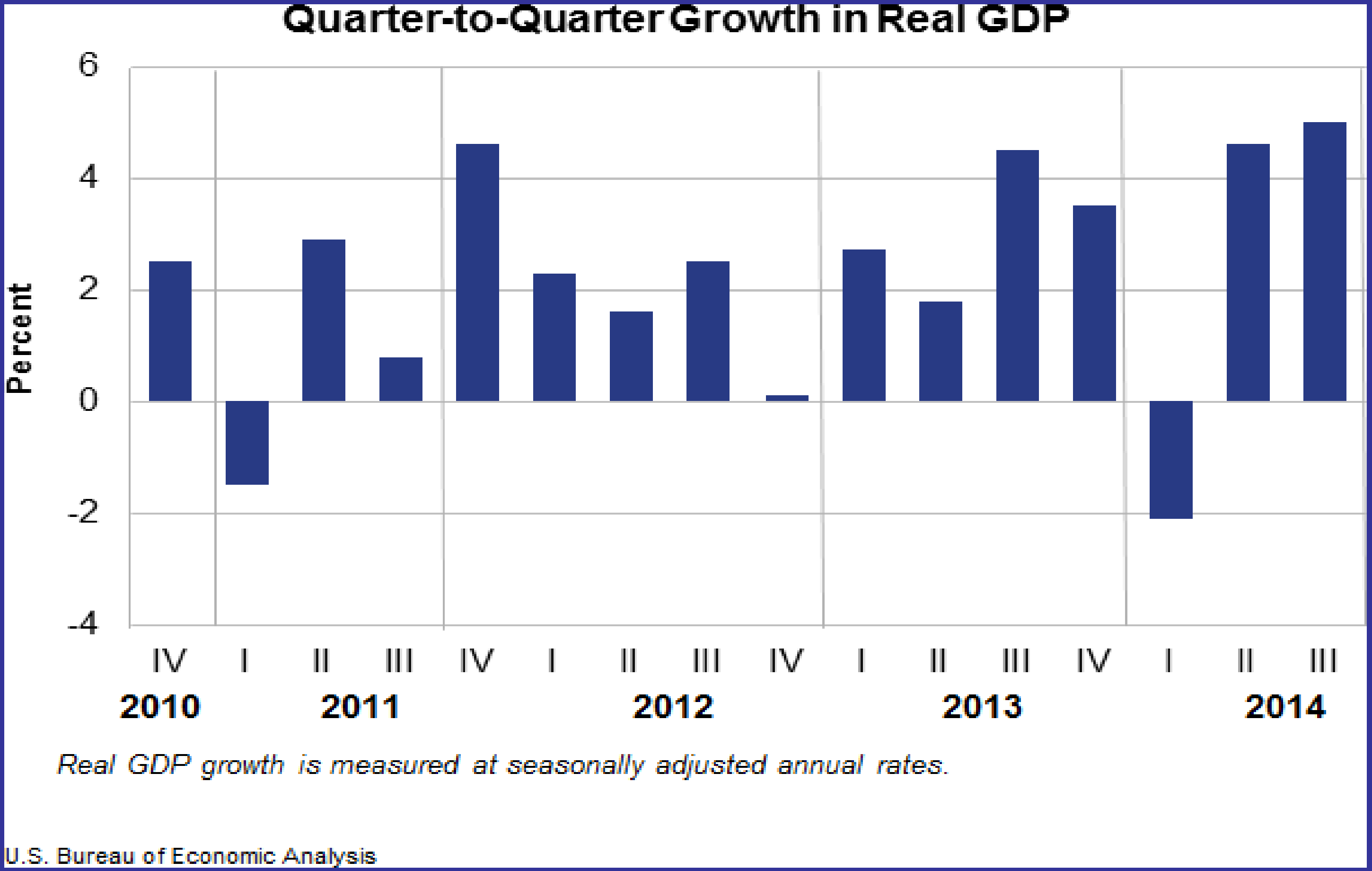
Projections show an aging population with the bulk of population Growth in the 55+ age group – this suggests that labor shortages are going to be a very serious problem in the future!!!!! (and, by the way, a serious challenge for SSI and Medicare) – immigration reform is needed!



Source: TD Economics (http://www.td.com/document/PDF/economics/special/Recharging_the_US_Labor_Market.pdf)

Return TOC

Economic growth of 5.0% – 3rd qtr 2014 – will it continue into 2015???
Impact of less FED stimulus still unknown – also, with the rest of the World slowing, this will impact the U.S. recovery too.



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

Return TOC

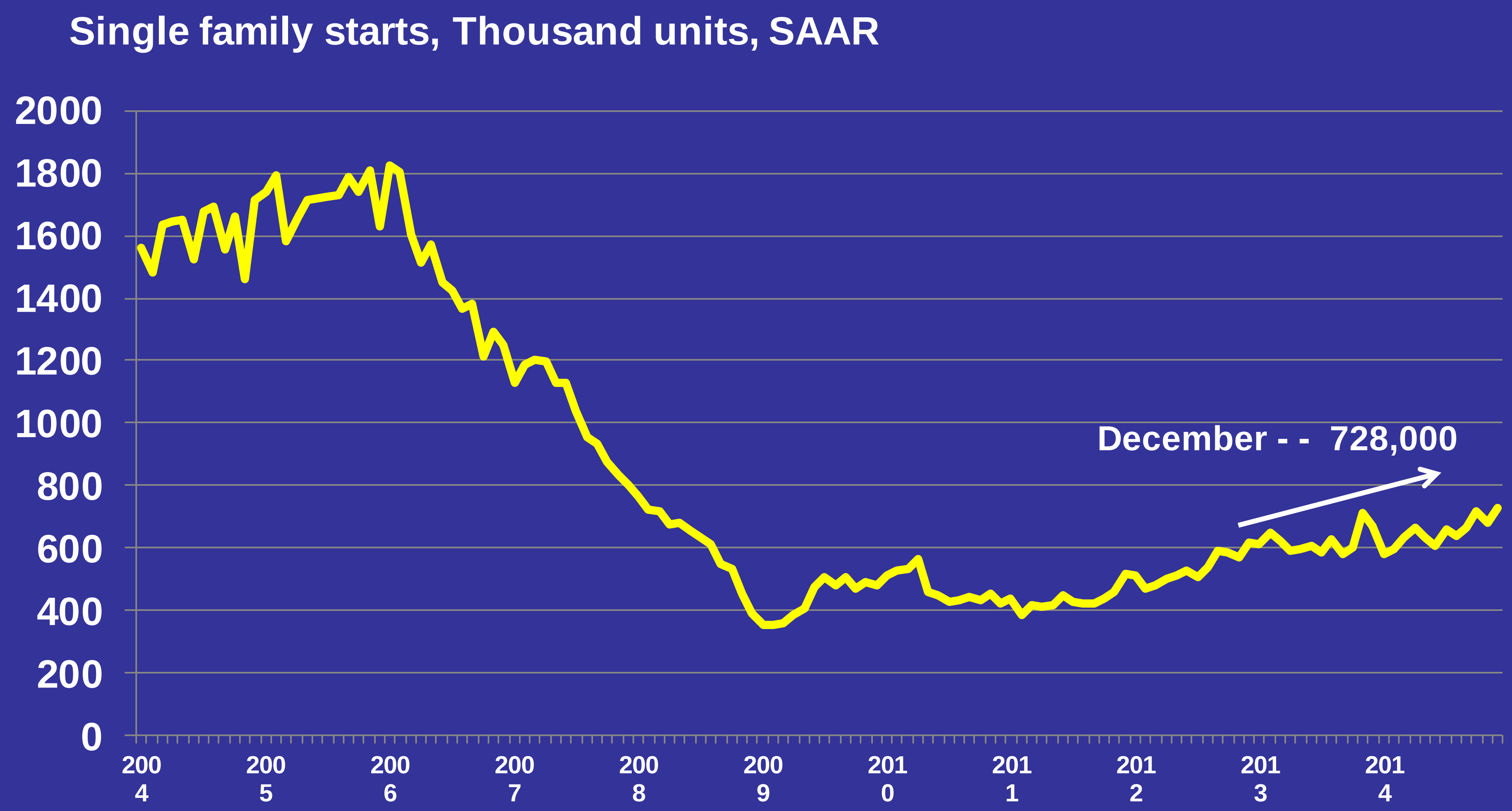
Recent Housing statistics

Background:

Markets are getting better – yes, but ever so slowly!
The climb back will remain muted (my opinion)
Until we see economic growth of 3% or
More (without FED stimulus) for an extended period of time!!!

Return TOC

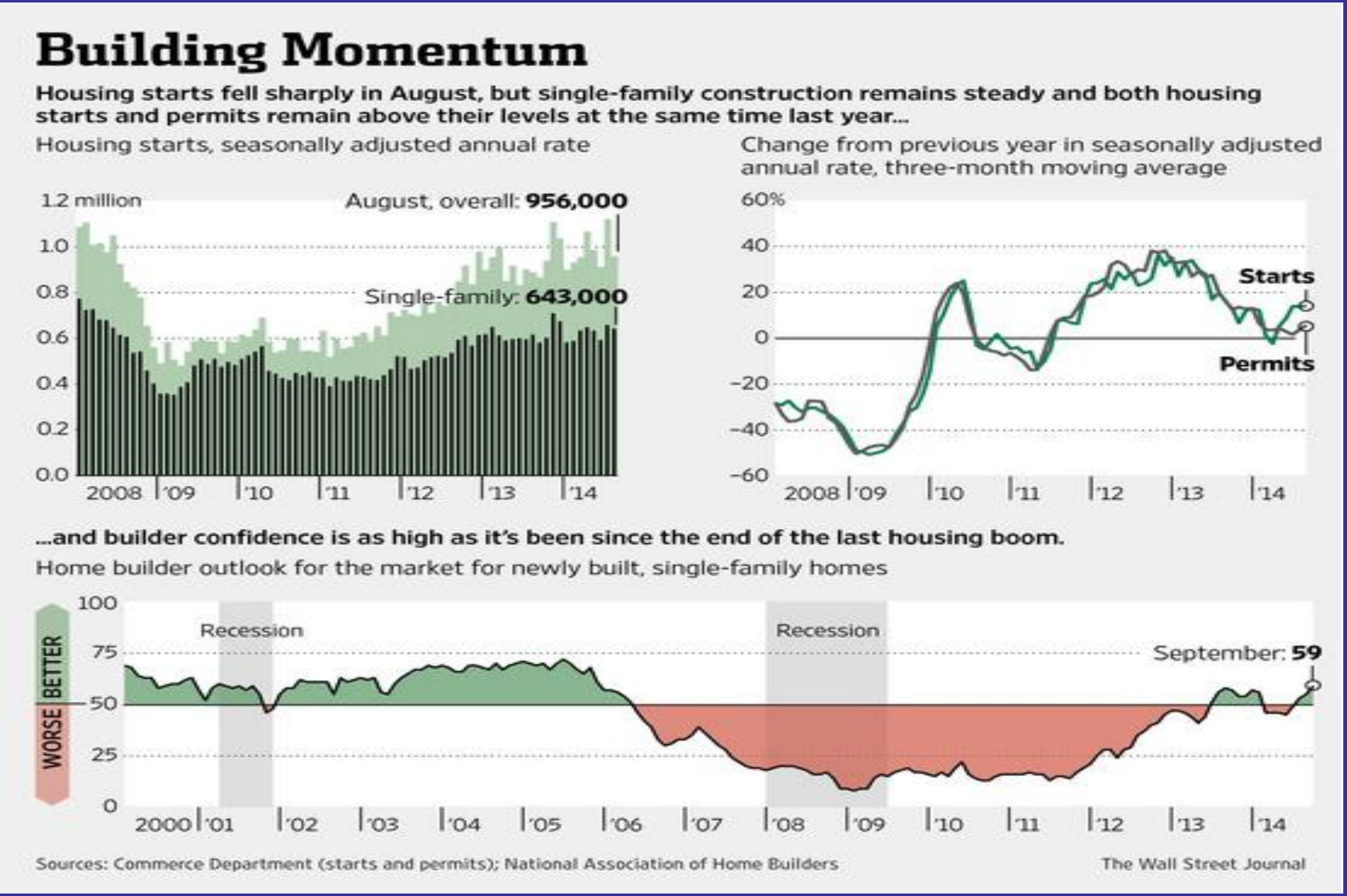
Starts are finally turning the corner, but growth is painfully slow – *Multi family remains strong!!*



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

Return TOC

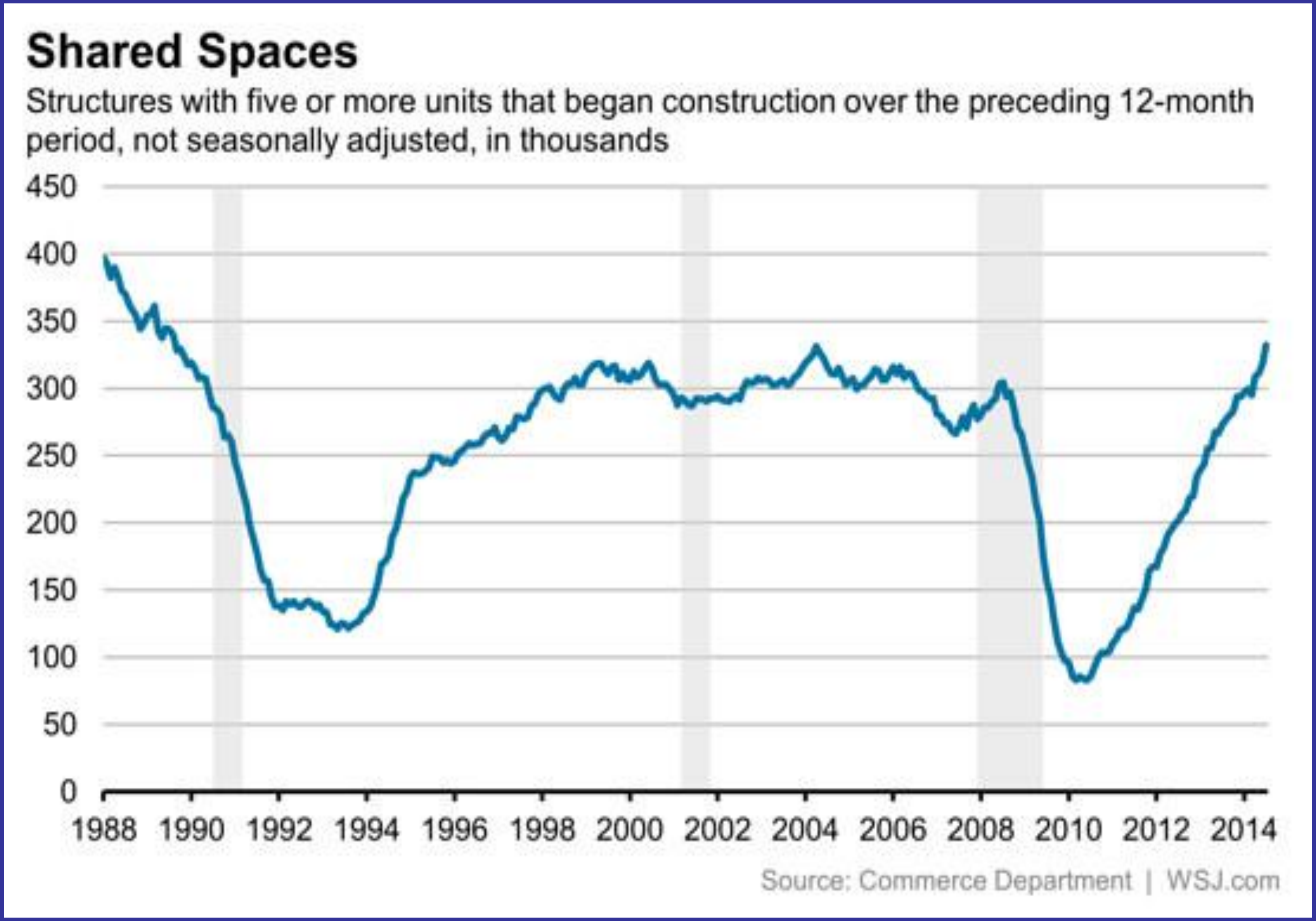
Things are improving, but to be honest, we're only back to where we were in 2008. And, the driver has been multi family – I'm not too impressed with this "recovery", But, at least we're "building some momentum"



Source: WSJ (http://online.wsj.com/articles/u-s-housing-starts-fall-in-august-after-robust-july-1411043746)

Return TOC

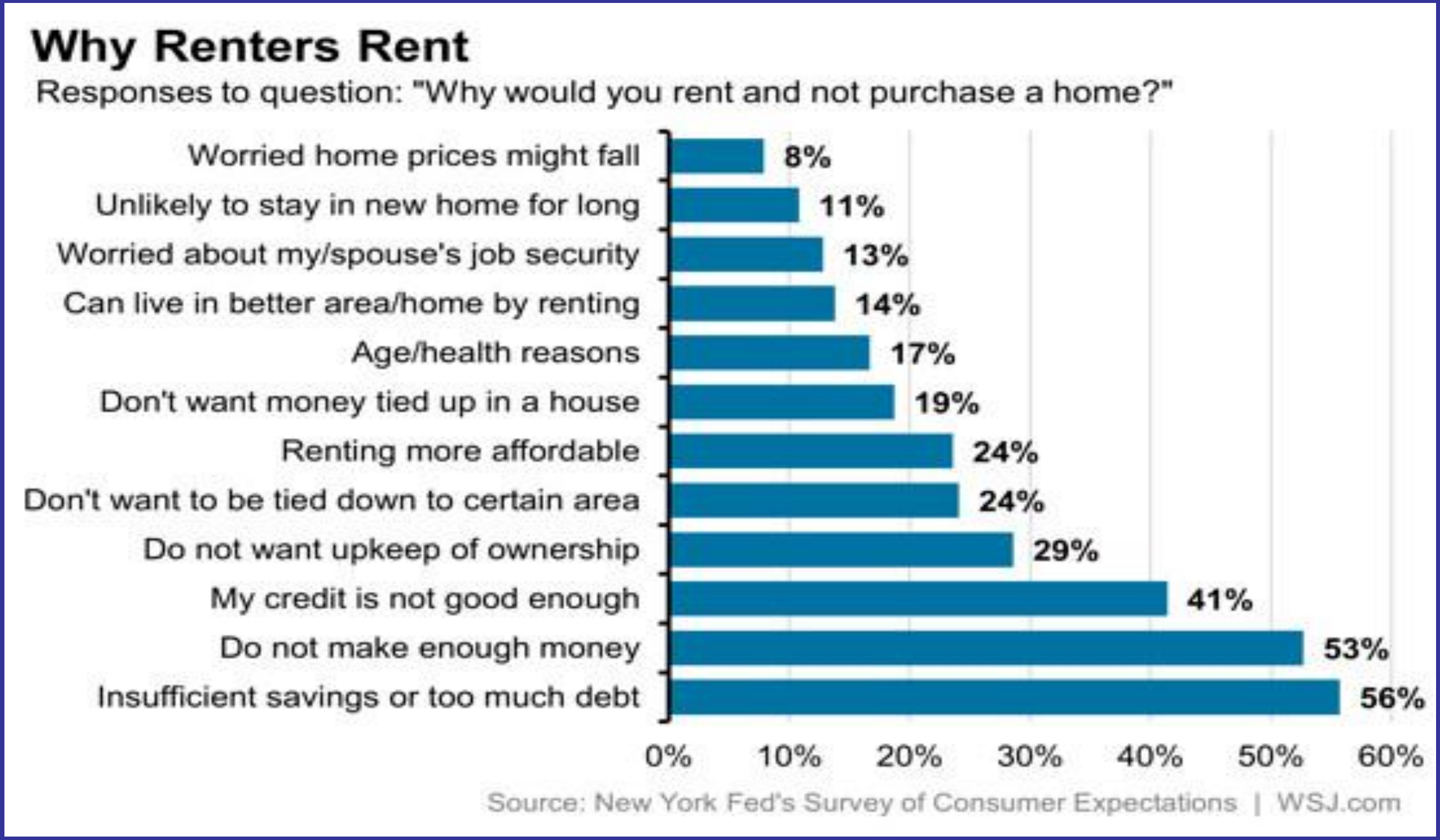
Multi family continues to strengthen – this trend should continue until the jobs picture improves and real incomes advance. Housing purchase depends on affordability (price, mortgage rates), and credit worthiness - price and mortgage rates are favorable, but too many Americans have poor credit (too much debt, low income, etc.) and, the lenders have tightened the rules.



Source: WSJ (http://blogs.wsj.com/economics/2014/08/19/with-rentals-in-fashion-apartment-construction-hits-25-year-high/?mod=WSJBlog&mod=marketbeat)

Return TOC

Renting is popular because many can't afford to buy - -
It's that simple? Again, JOBS, JOBS

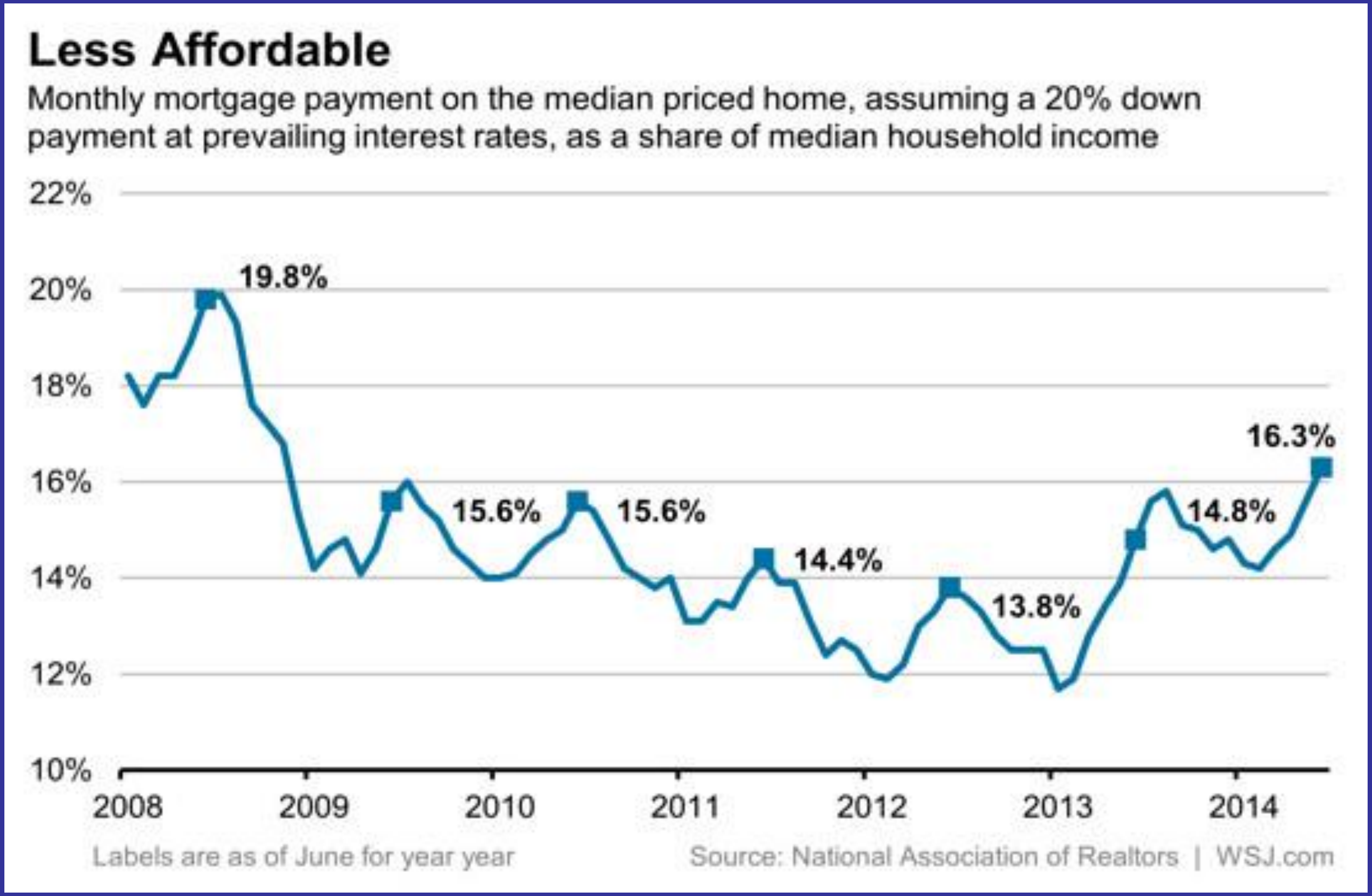


Source: WSJ (http://blogs.wsj.com/economics/2014/09/08/why-more-renters-arent-buying-hint-weak-incomes-savings/?mod=marketbeat&mod=marketbeat)

Return TOC

Another drag on the housing recovery – decreasing affordability

(it's actually worse – many people can't afford the 20% down payment, can't qualify for a loan with tighter credit restrictions, …. - - we need lots of better paying jobs to get housing back on its feet)



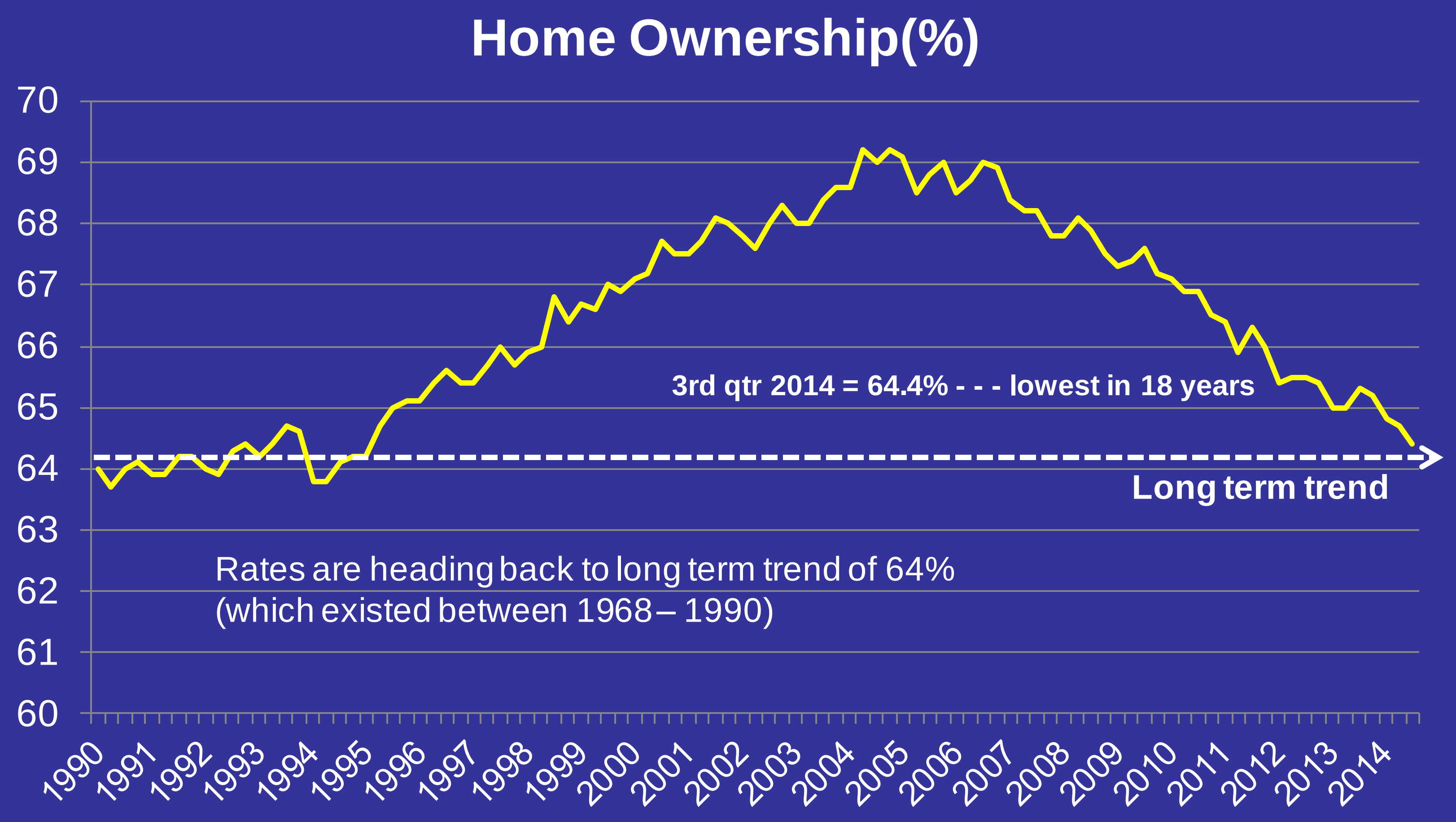
Source: WSJ (http://blogs.wsj.com/economics/2014/08/16/number-of-the-week-housing-affordability-hits-six-year-low/?mod=WSJBlog&mod=marketbeat)

Return TOC

Impact of weak household formations - -

homeownership rates have been falling for the past nine years – when the economy gets back to normal, will people return to to single family or will we see more renting?

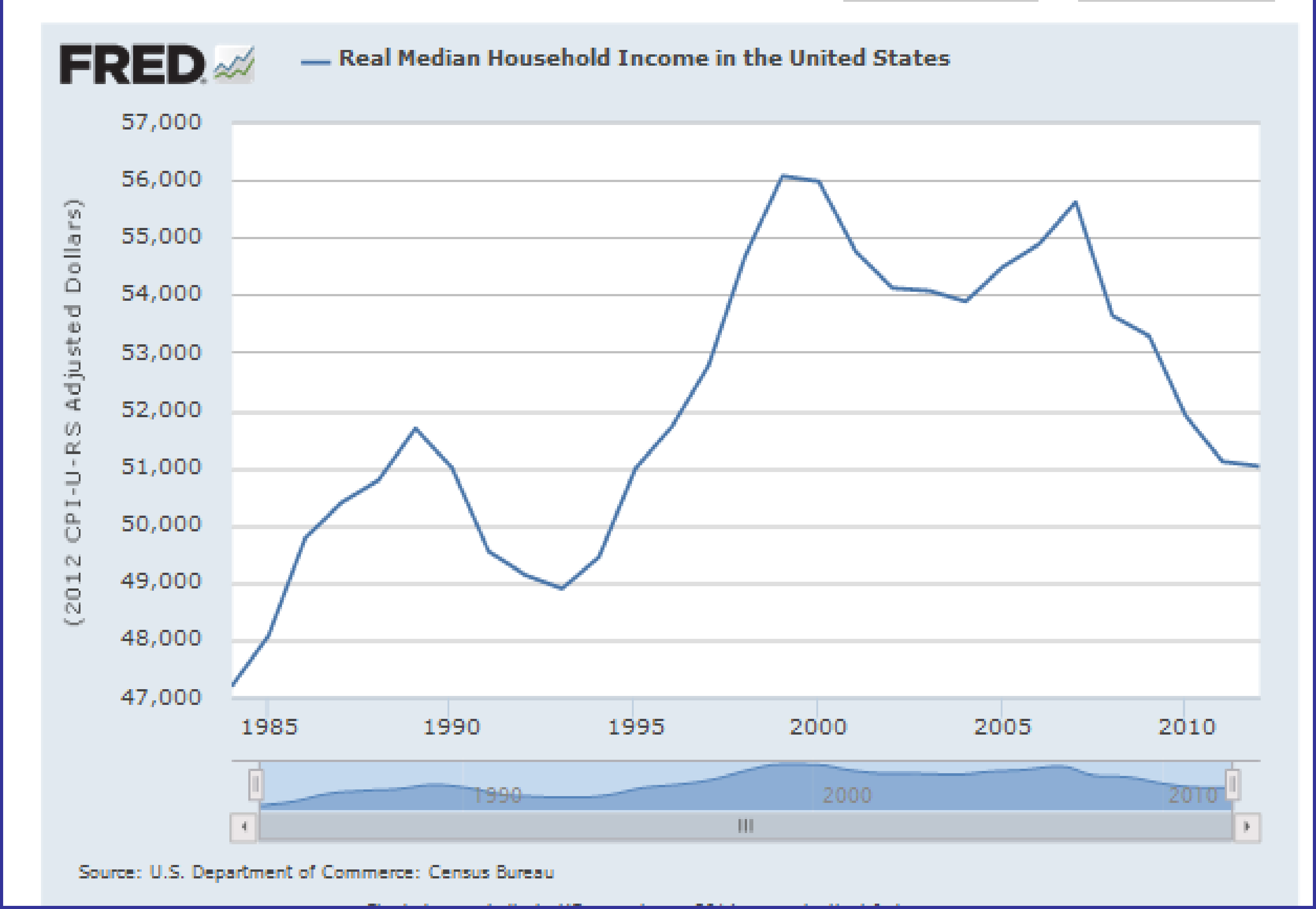
There will be impacts on wood products demand



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

Return TOC

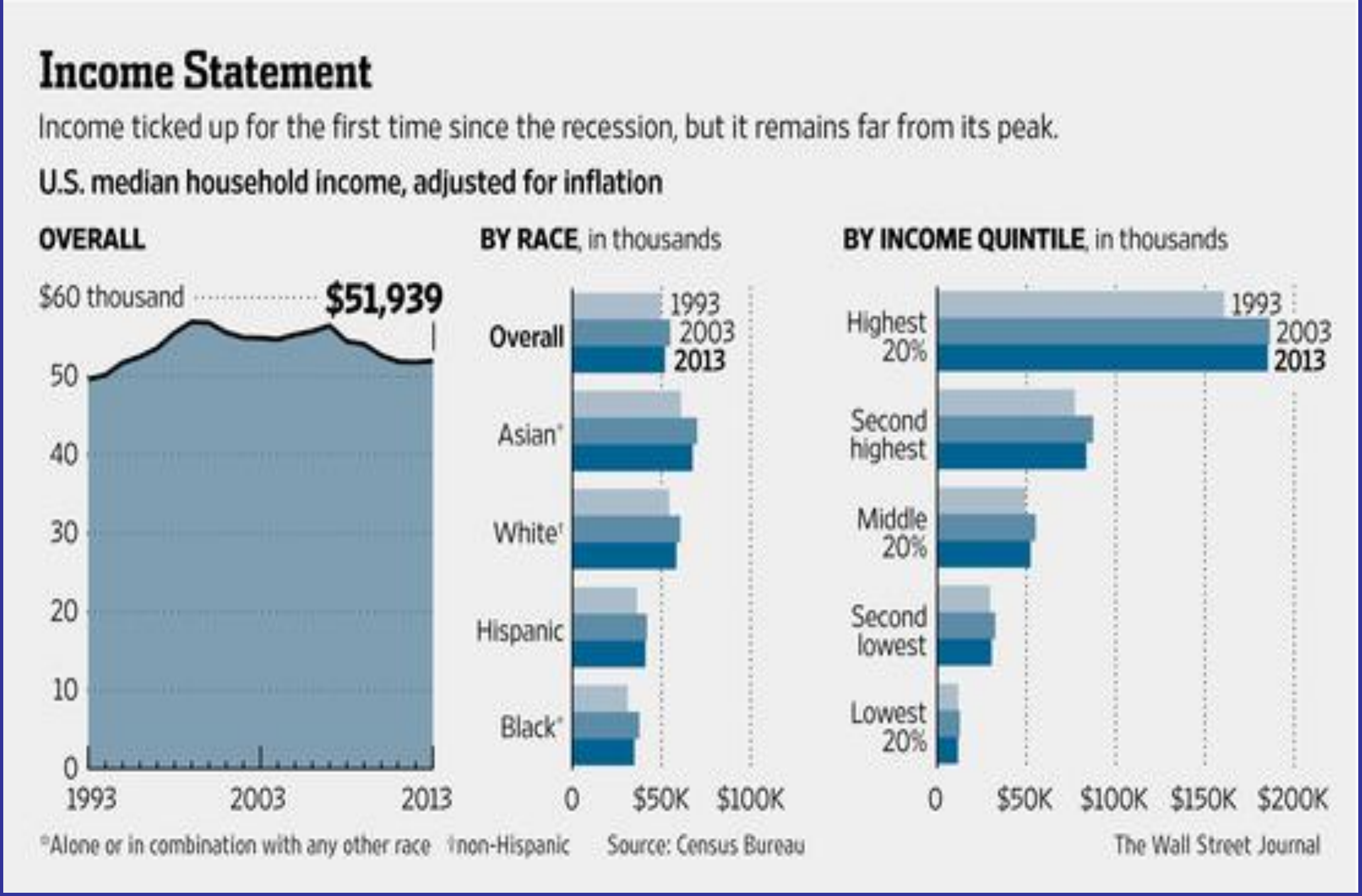
Despite low mortgage rates, people are having problems
Buying a house because their real incomes have been shrinking
For the past 20 years – this is a structural problem (long term)
And not cyclical



Real household incomes changed little in past 20 years

However, the same Census report show that incomes for 15-24 years olds increased 10.5% in the Past year – this is good news for housing because these are 1st time buyers who have been absent in recent years!!!!!!

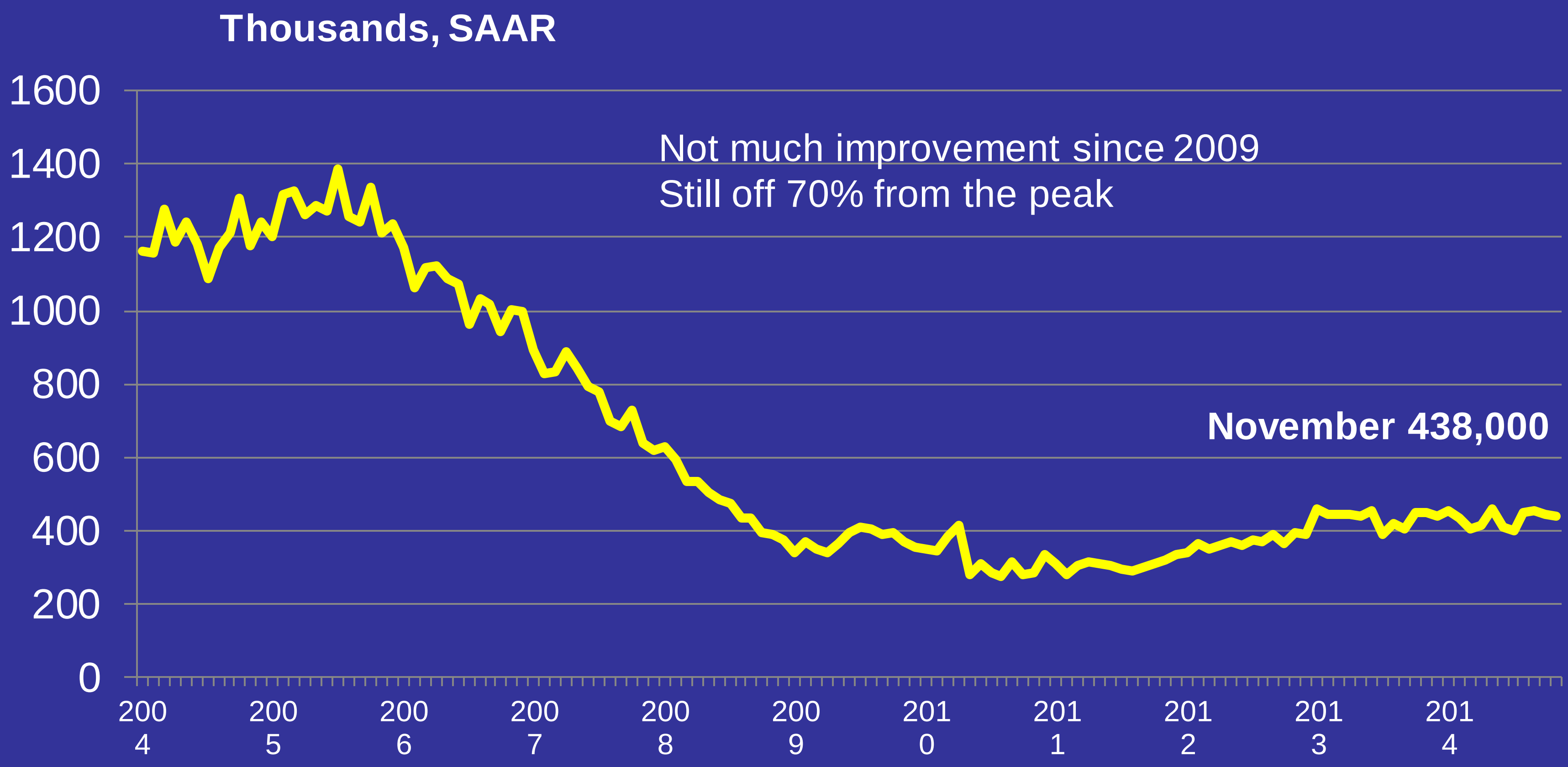
Source: WSJ (http://online.wsj.com/articles/income-data-show-a-lost-generation-finding-its-bearings-heard-on-the-street-1410892047)



Source: WSJ (http://online.wsj.com/articles/u-s-incomes-edge-higher-as-sluggish-recovery-persists-1410878730)

Return TOC

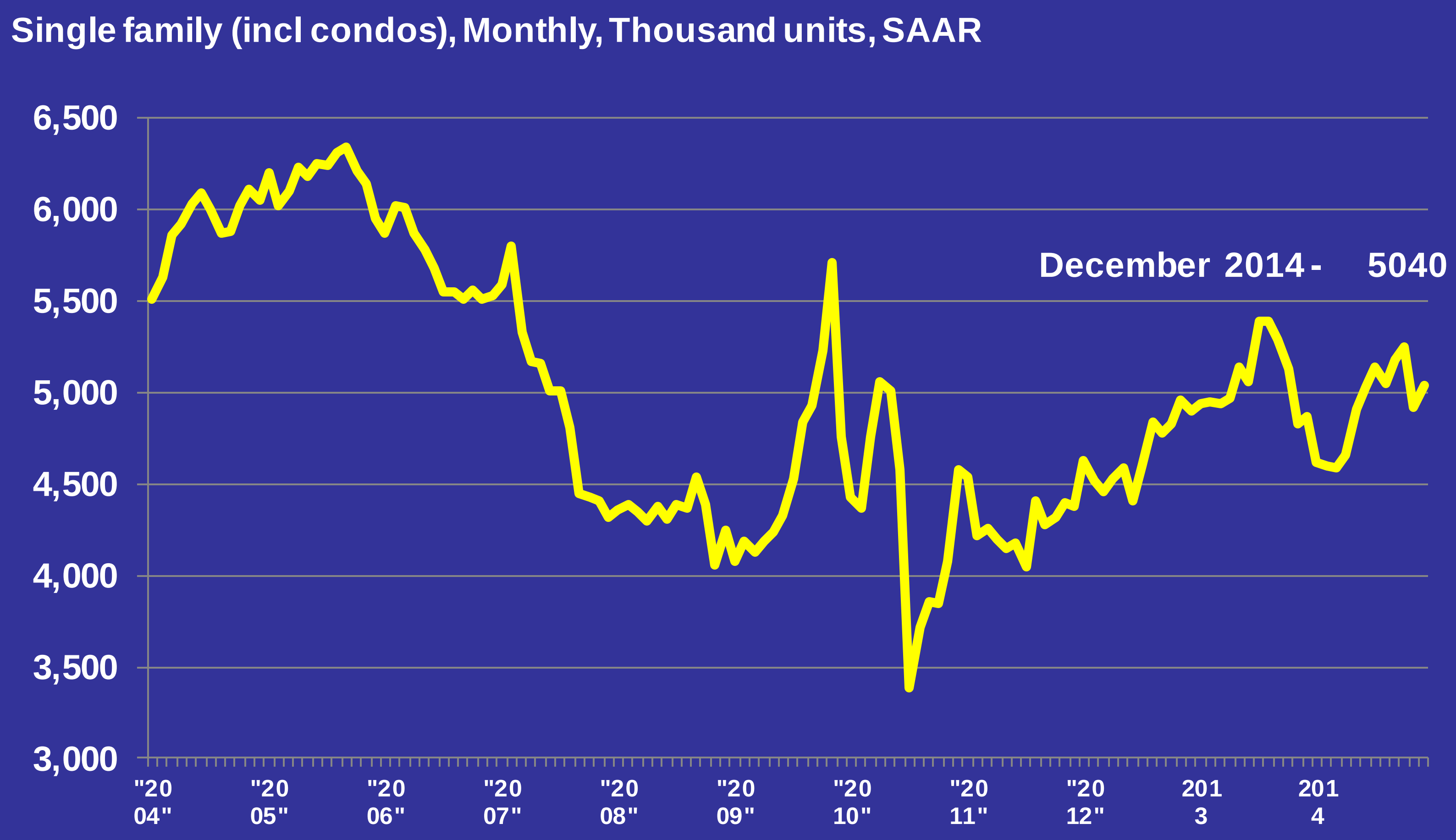
New Single Family Home sales are the key statistic to watch – Sales drive housing starts – this drives demand for wood products!!!



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

Return TOC

Resale market continues to improve, but still heavy to cash sales with 1st time buyers still below trend (traditionally they represent about 40 – 45% of market, but today they are at 30%)



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

Return TOC

Some conclusions – housing continues to improve albeit slowly
Most forecasters now suggesting that 2016 will be "breakout year"??

Short term:

(1) Economy will continue to improve -- **2015 will see 3% or more growth, but housing may not follow – looks like the "disconnect between the economy and housing will continue through 2015.**

(2) This is still not a healthy housing market - 1st time buyers are absent and household formations are off 50% from trend – furthermore, many of sales are cash, many foreign buyers, etc. I.e., NOT SUSTAINABLE

(3) The key to a recovery in housing is the return of 1st time buyers, traditionally about 40- 45% of the market. Current market skewed to cash buyers and investors. 1st time buyers are mostly young people, **but they can't find good jobs**.

(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; interest rates; …….. Uncertainty will slow job creation, private sector investment, ….

(5) Growing problem in world economy is that USA is only major economy doing relatively well. Europe in recession; China slowing from previous highs (but still good); And we now have more countries devaluing their currencies to promote exports /economy. This will impact the U.S. recovery as a higher U.S. dollar dampens our exports.

(6) One more comment on housing – usually, housing leads an economic recovery (after recessions) – but, this time it is not happening. A stronger economy will be needed to get the housing market back on track. That's hard to accomplish because housing is almost 20% of the economy (direct investment plus services, etc.).

Return TOC

Longer term:

(1) Housing demand will hinge partly on the footprint of the Federal government – will they continue to promote housing to the degree they have in the past? Yes, the economy is important, but the politicians know how to "grease the wheels" Already, Fannie and Freddie are talking about less stringent lending rules.

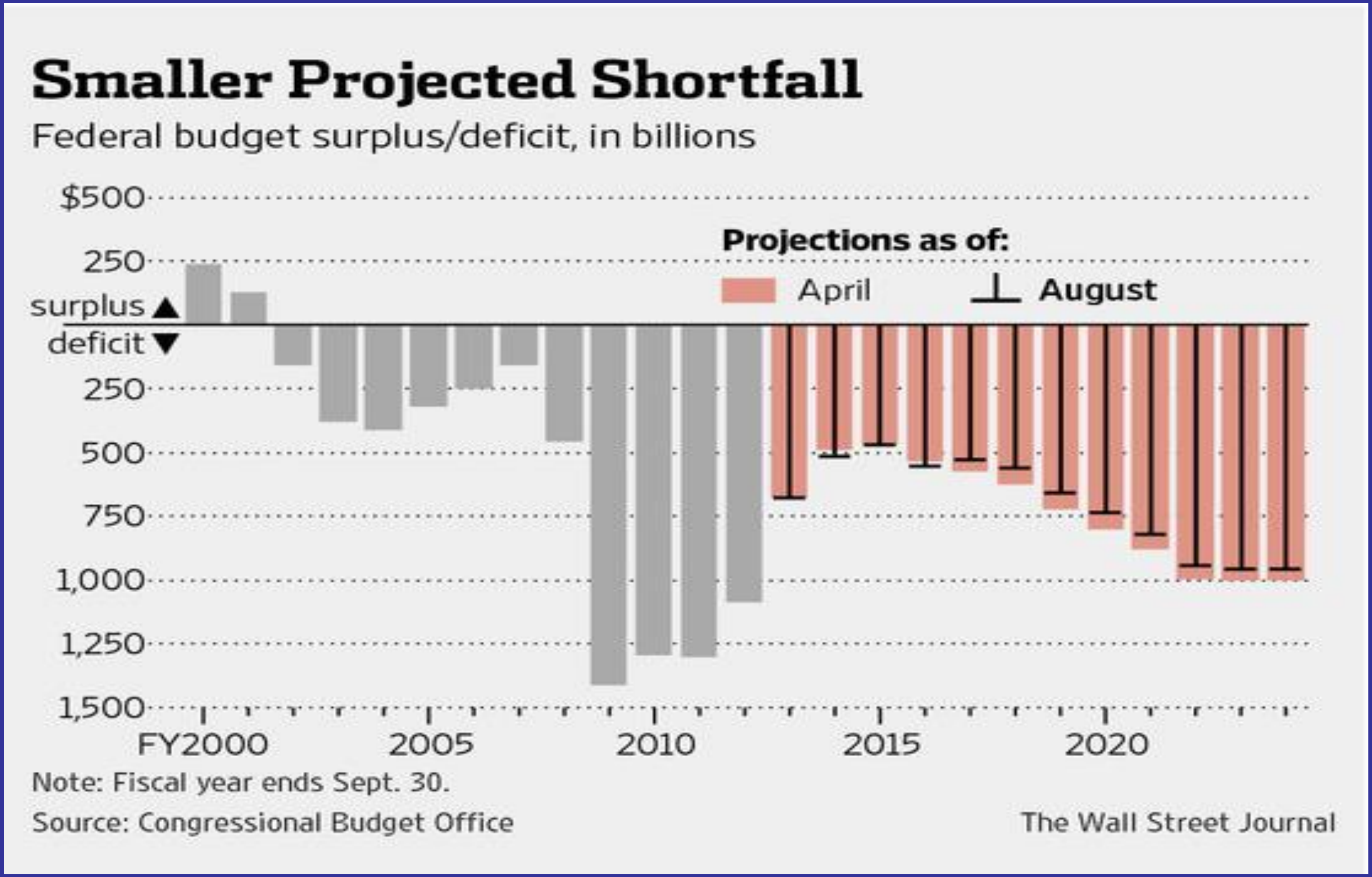
(2) Labor participation rate keeps falling – this suggests that there will be future labor shortages. Furthermore, tax revenue will be impacted as more people collect from growing number of government programs while lower percentages pay taxes. Look for changes in tax code; consumption tax??; social security; Medicare/Medicaid; ….

(3) How will USA deal with aging demographics; crumbling infrastructure; out of control public debt; and, generally, decreasing global competitiveness!!!!! My thought – revamp the tax system to Discourage consumption (bring it in line with other countries); and invest more in our future!!! Otherwise, we will continue to "underperform", and housing and wood products will suffer. This will take a long term commitment from the country, politicians, voters, …… The U.S. consumption rate (% of GDP) is about 70% while our competitors , it is 60% or lower. Invest for the future – sounds simple, but requires some thinking that prevailed in this country following WWII. And, we have to get Medicare/Medicaid, and SSI on a sustainable basis (see next slide for information on federal debt because this makes debt reduction critical

(4) LEADERSIP IS important – politicians need to work on long term solutions

Return TOC

Smaller shortfall, but still lots of red ink – if this were a company, It would be bankrupt – Current federal tax receipts are $2.976 trillion, spending is $3.53 trillion (we borrow the difference). Medicare, Medicaid, plus SSI spending = $1.75 trillion, or 60% Of the tax revenues. (50% of spending). This needs to change or SSI plus Medicare/Medicaid will gobble up 80% of the federal budget within 20 years. Of course, this won't happen – government will cut spending on R&D, education, health care, Medicare, SSI, Medicaid, to balance the budget. Yes, this is being cynical, but unfortunately realistic.



Return TOC

Disclaimer of Non-endorsement

Reference herein to any specific commercial products, process, or service by trade name, trademark, manufacturer, or otherwise, does not constitute or imply its endorsement, recommendation, or favoring by Virginia Tech. The views and opinions of authors expressed herein do not necessarily state or reflect those of Virginia Tech, and shall not be used for advertising or product endorsement purposes.

Disclaimer of Liability

With respect to documents sent out or made available from this server, neither Virginia Tech nor any of its employees, makes any warranty, expressed or implied, including the warranties of merchantability and fitness for a particular purpose, or assumes any legal liability or responsibility for the accuracy, completeness, or usefulness of any information, apparatus, product, or process disclosed, or represents that its use would not infringe privately owned rights.

Disclaimer for External Links

The appearance of external hyperlinks does not constitute endorsement by Virginia Tech of the linked web sites, or the information, products or services contained therein. Unless otherwise specified, Virginia Tech does not exercise any editorial control over the information you may find at these locations. All links are provided with the intent of meeting the mission of Virginia Tech's web site. Please let us know about existing external links you believe are inappropriate and about specific additional external links you believe ought to be included.

Nondiscrimination Notice

Virginia Tech prohibits discrimination in all its programs and activities on the basis of race, color, national origin, age, disability, and where applicable, sex, marital status, familial status, parental status, religion, sexual orientation, genetic information, political beliefs, reprisal, or because all or a part of an individual's income is derived from any public assistance program. Persons with disabilities who require alternative means for communication of program information (Braille, large print, audiotape, etc.) should contact the author. Virginia Tech is an equal opportunity provider and employer.