

Update on the National Housing Market

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William Strauss

Senior Economist

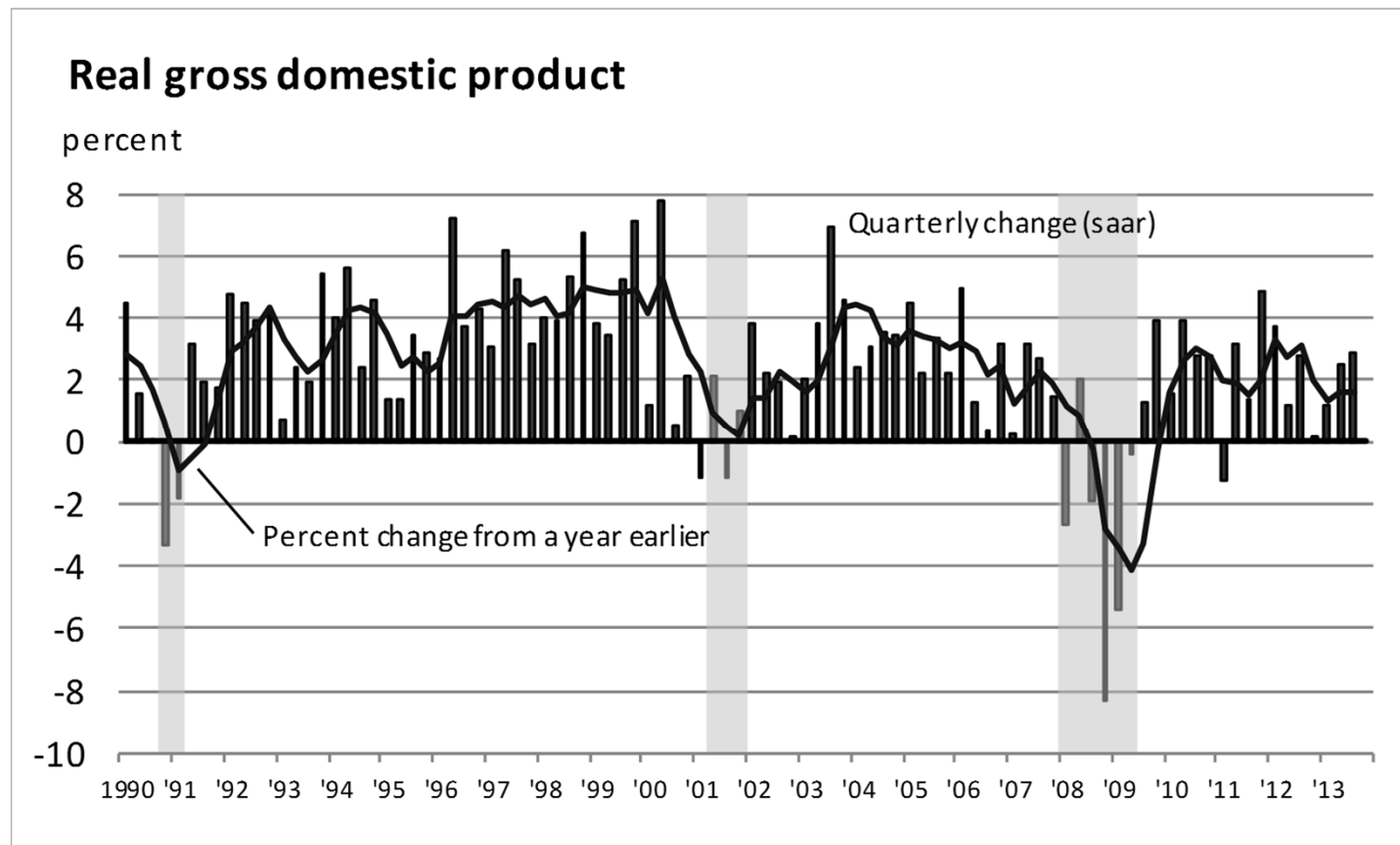
and Economic Advisor

Federal Reserve Bank of Chicago

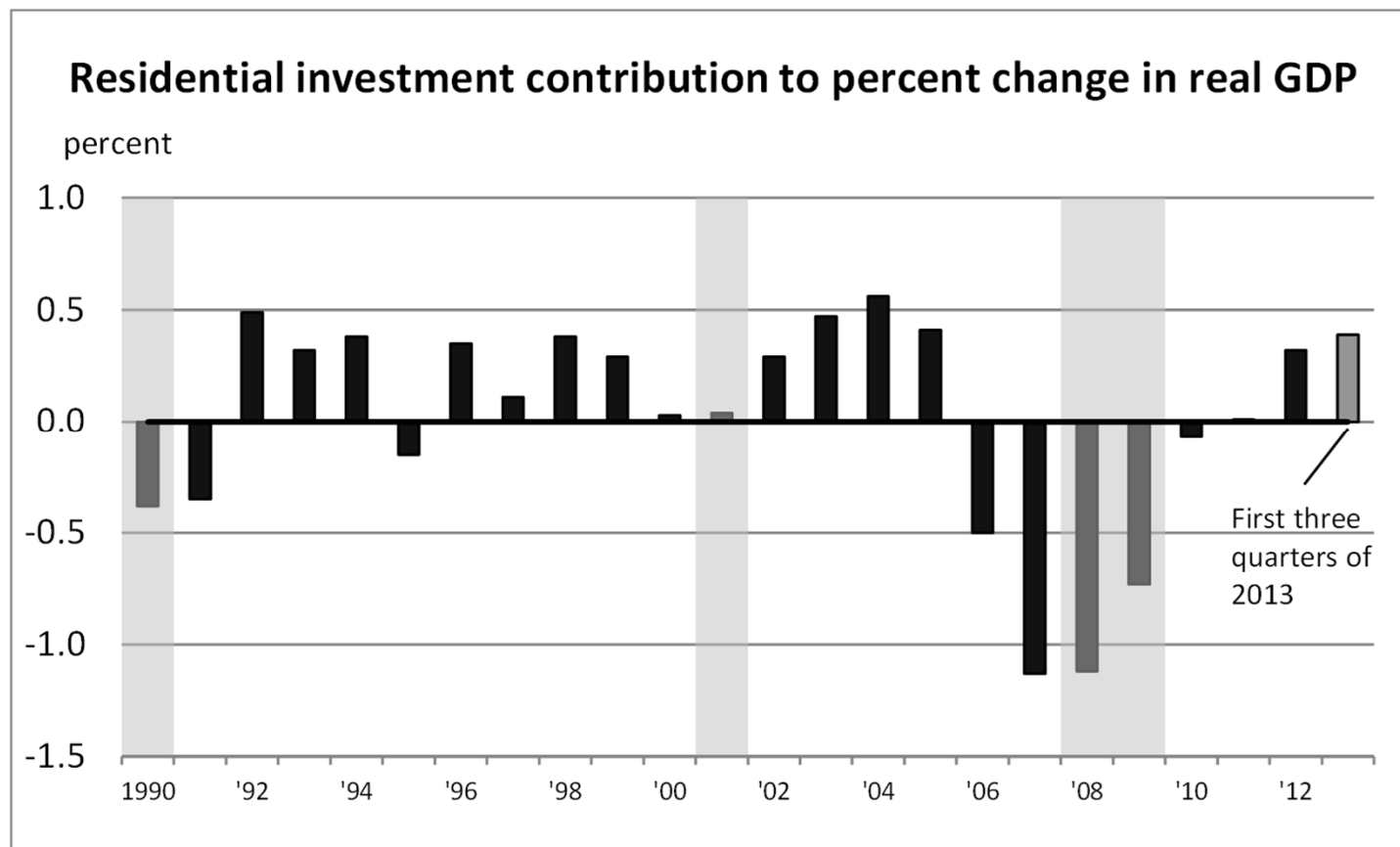


The Great Recession and Housing

**The “Great Recession” ended in June 2009,
with the deepest drop and
longest lived downturn since the 1930s**



Residential investment had been a drag on the U.S. economy between 2006 and 2011

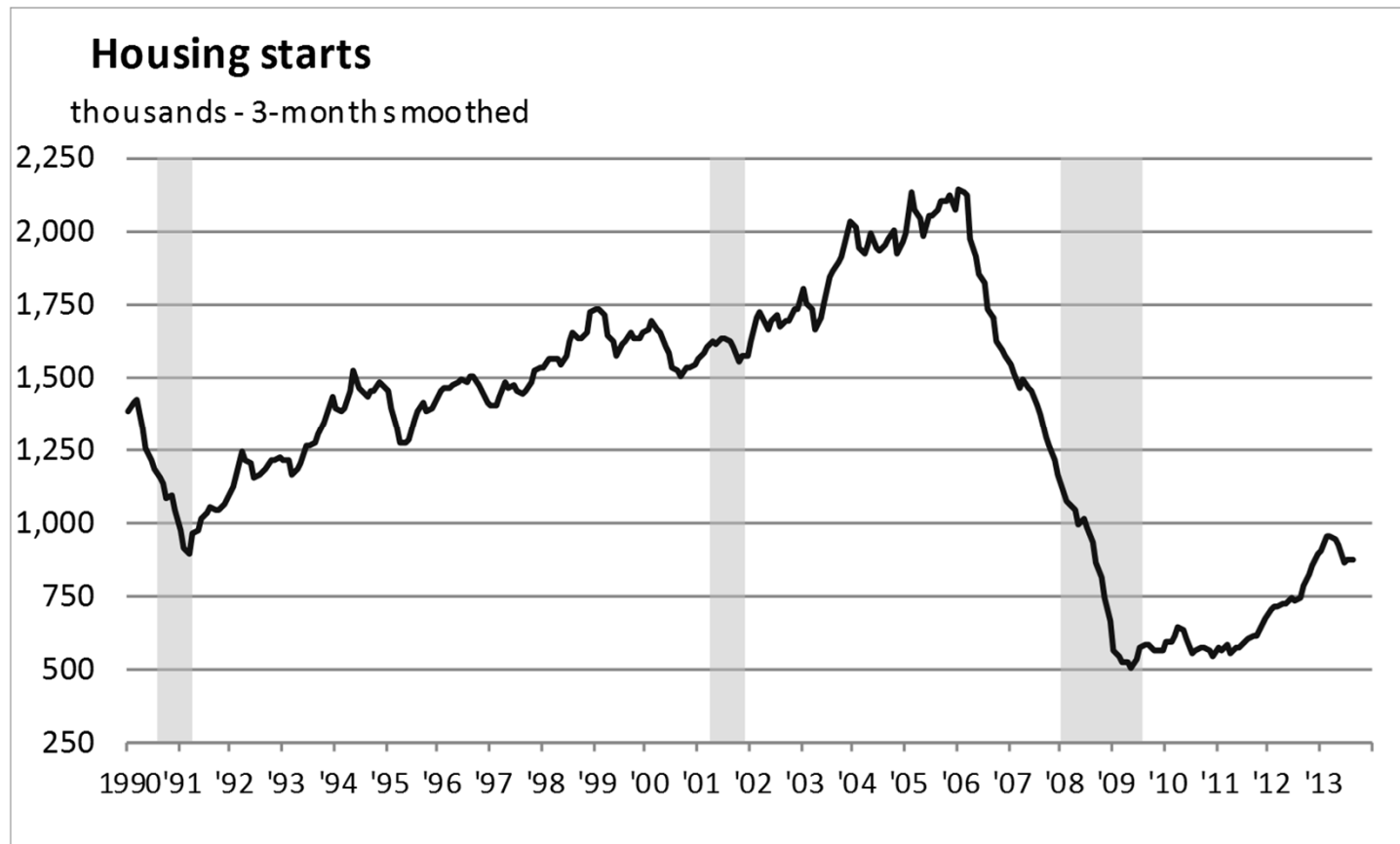


Residential investment remains well below its long-run average share of the U.S. economy

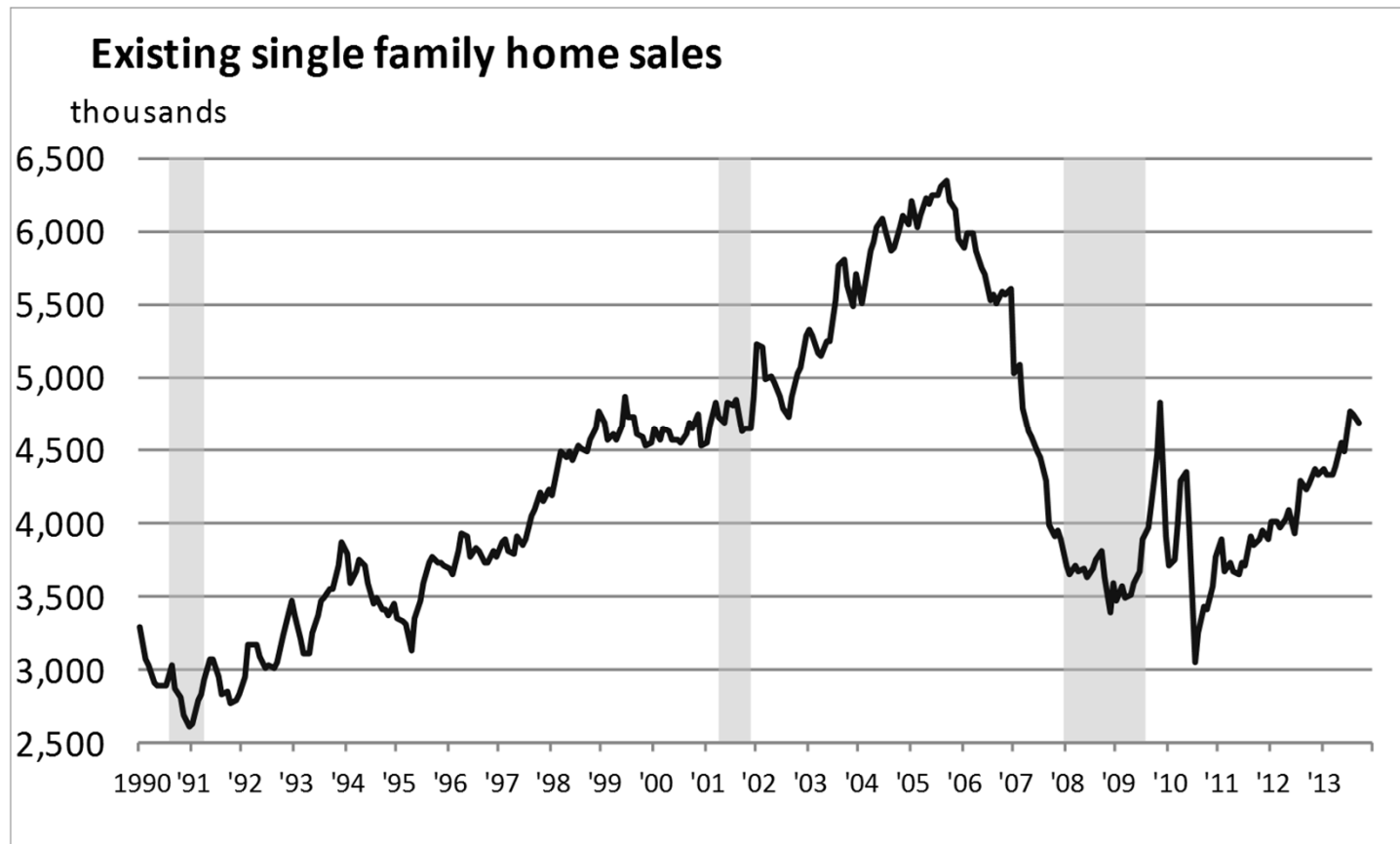


The Housing Recovery

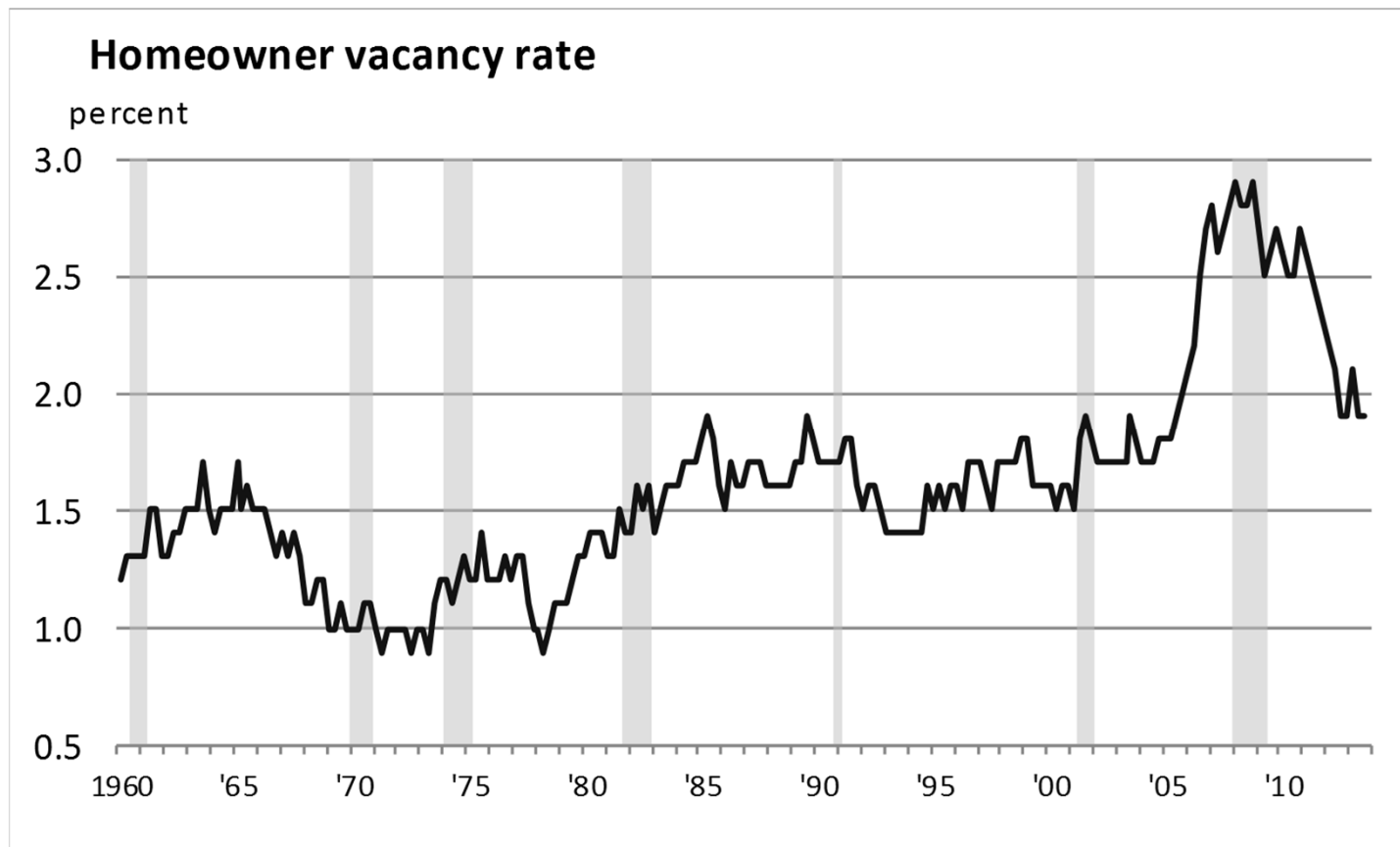
Housing starts have been improving



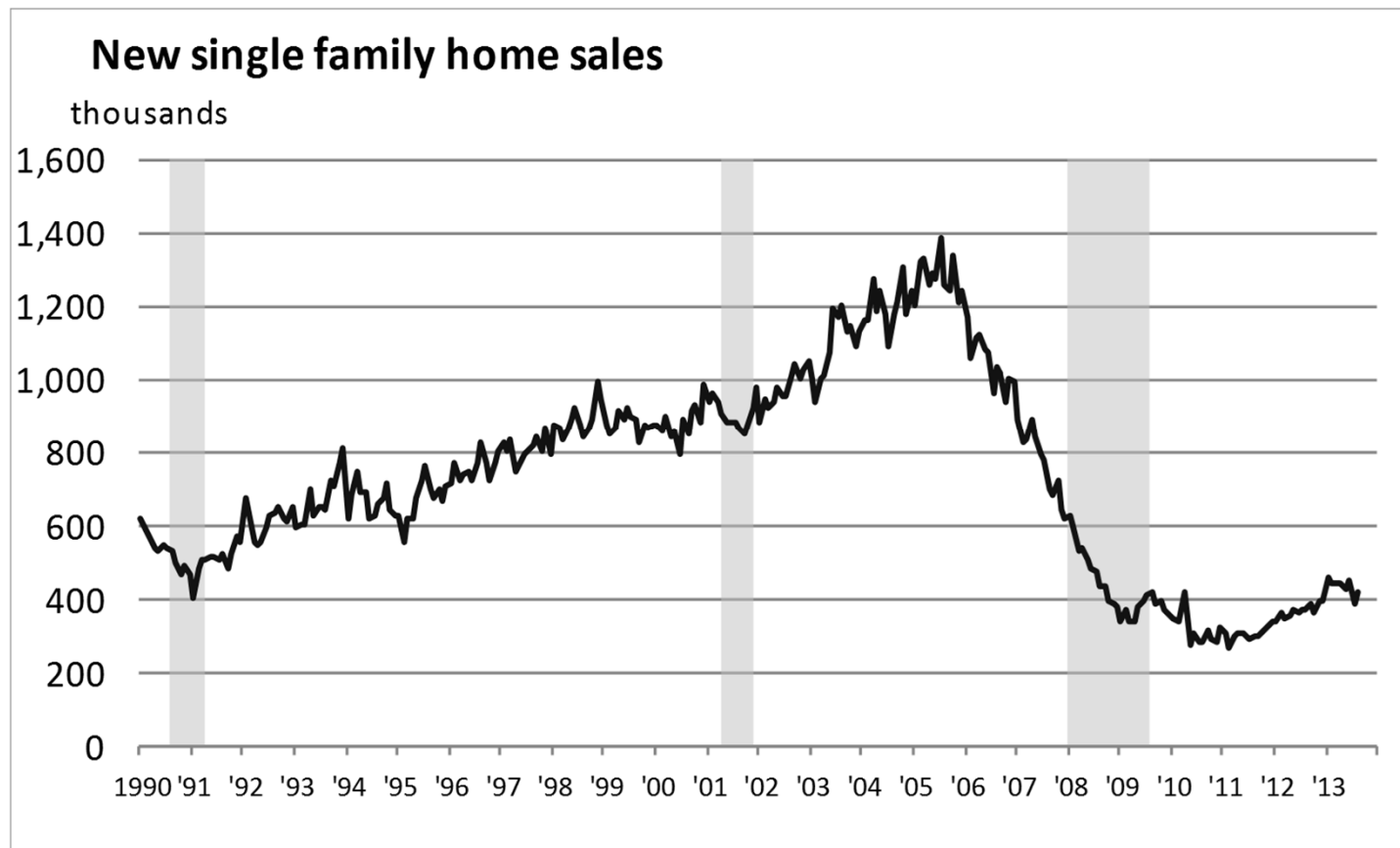
Existing home sales have been improving



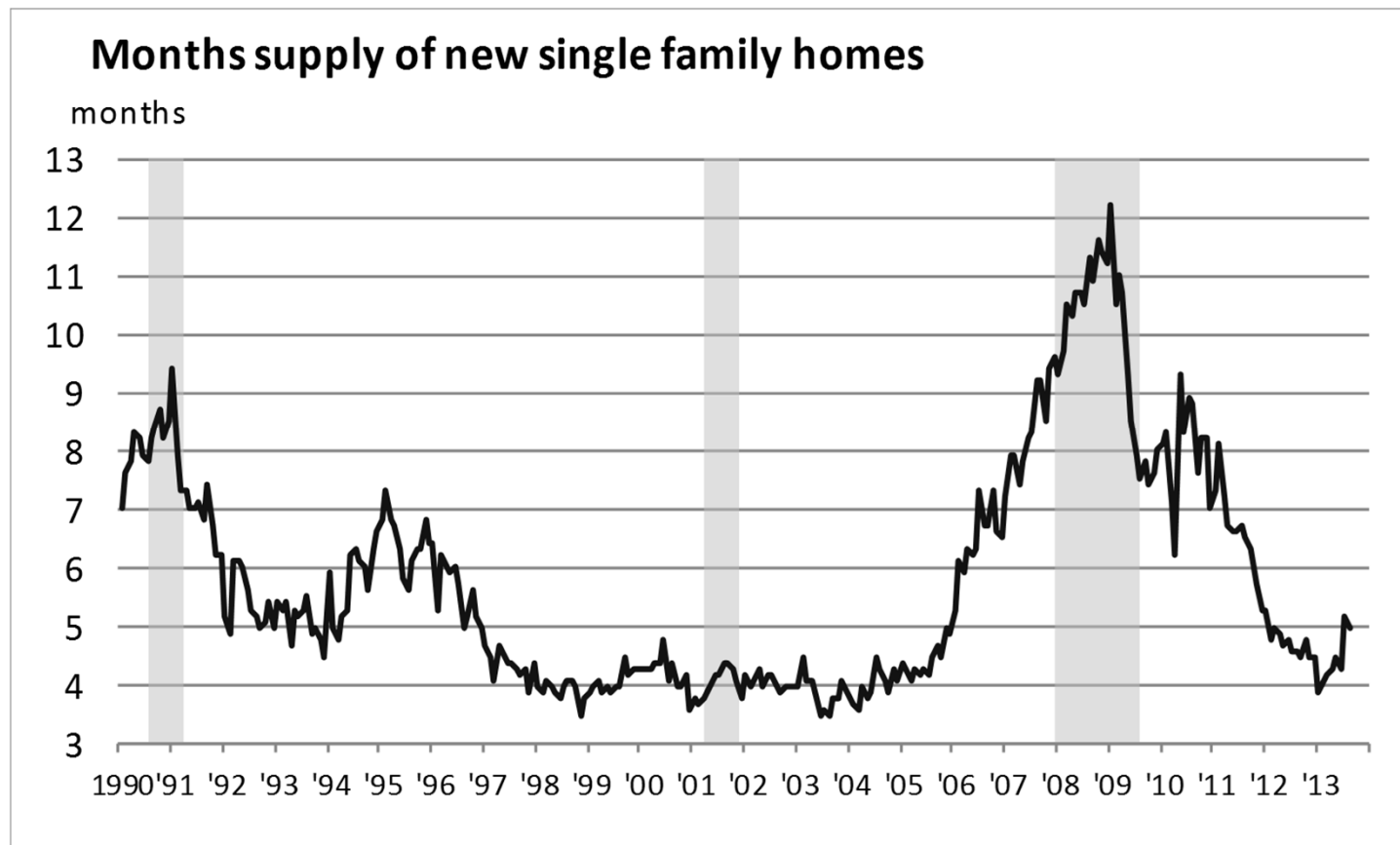
Homeowner vacancy rates have been falling



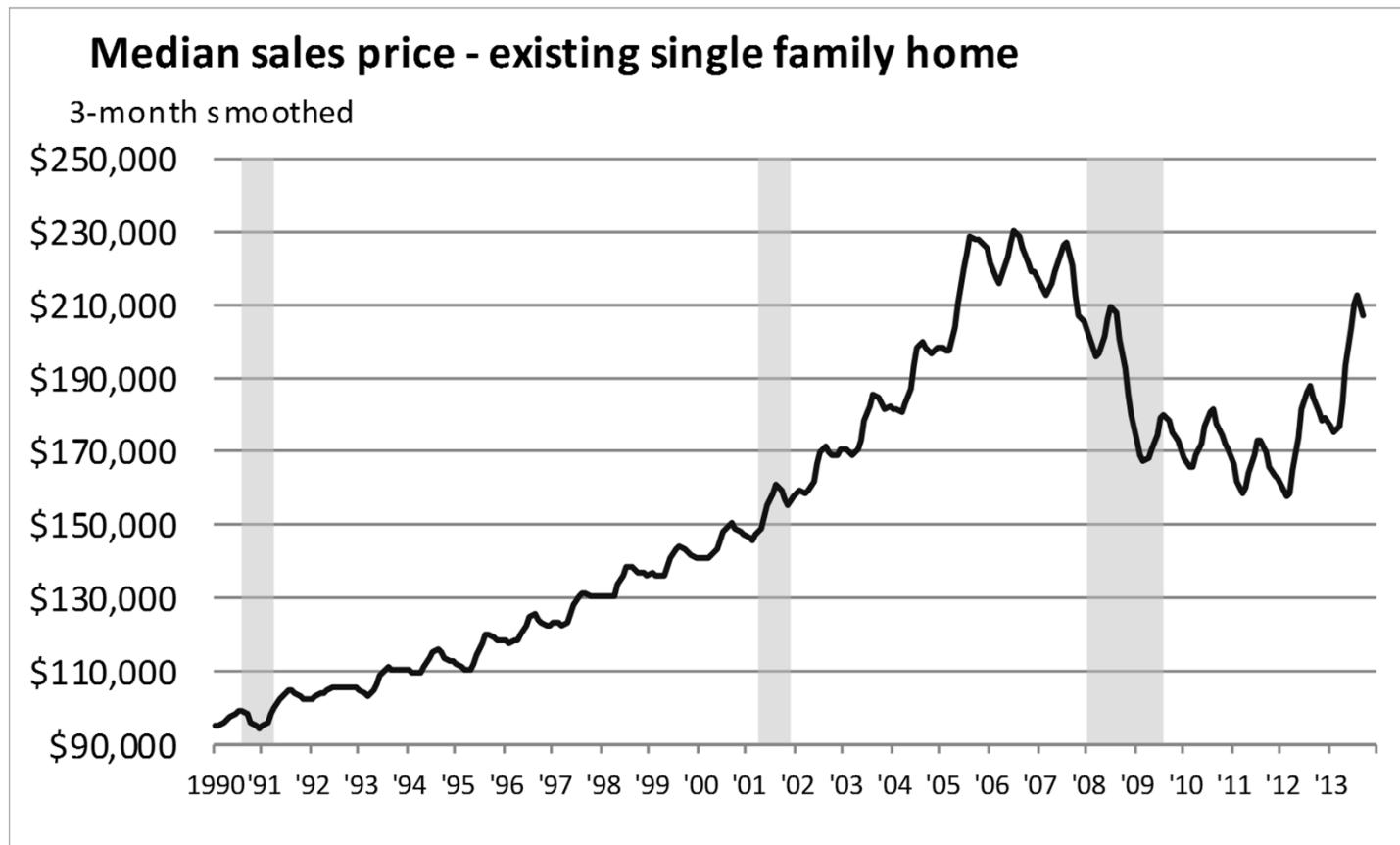
However, new home sales have only been edging higher



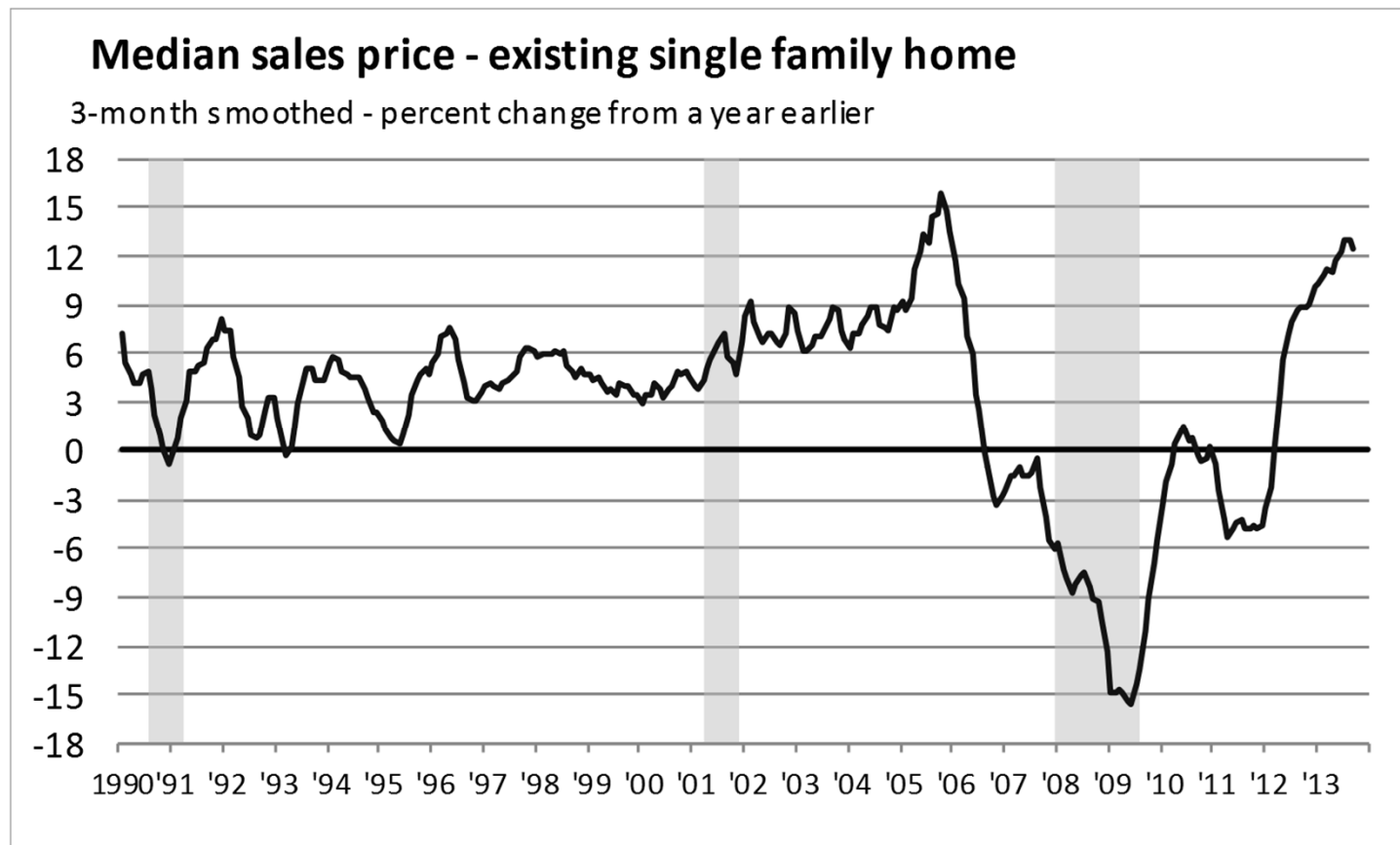
The supply of new single family homes has fallen from very high levels



Home prices fell by over 30 percent



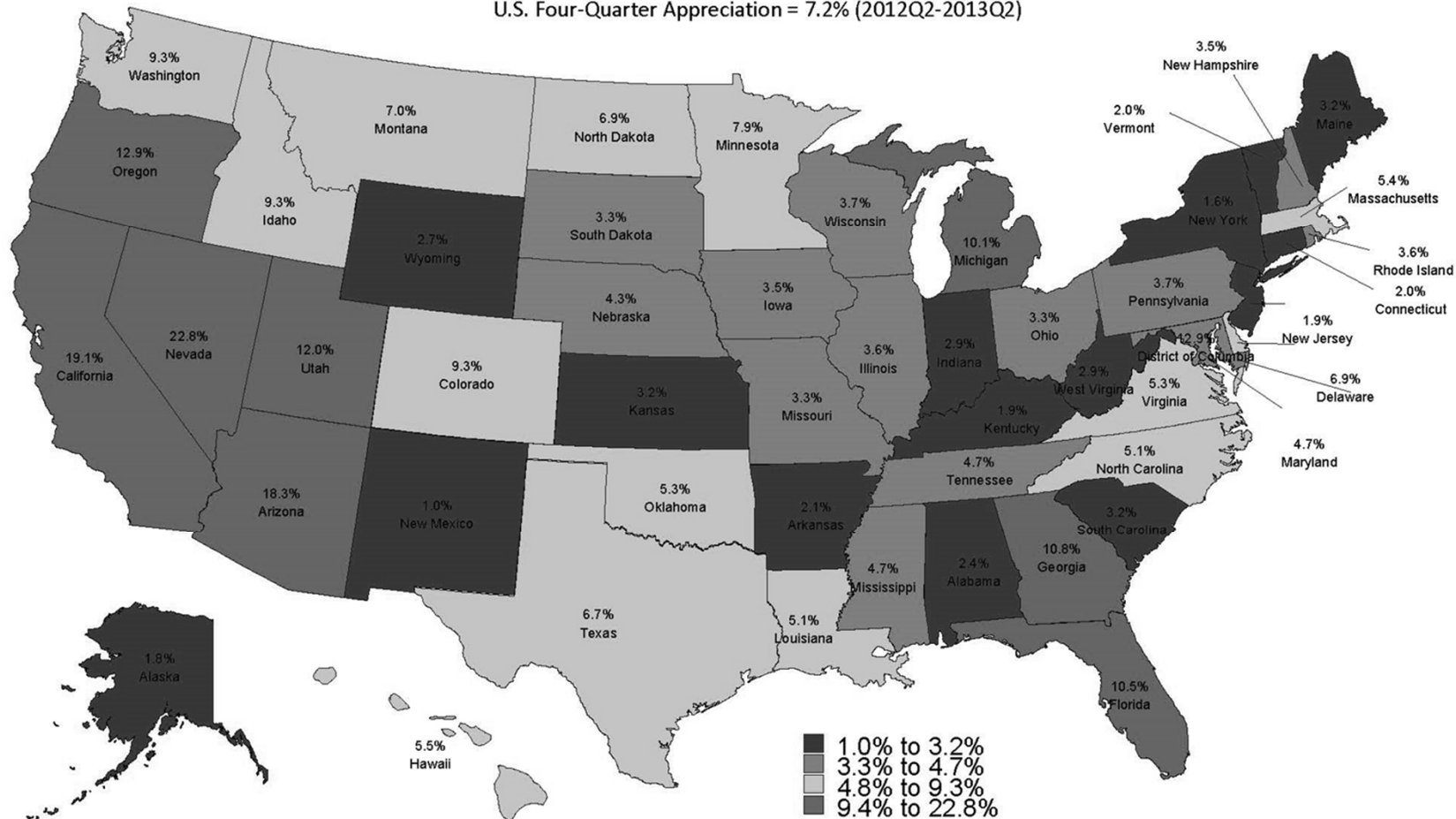
Home prices have been rising



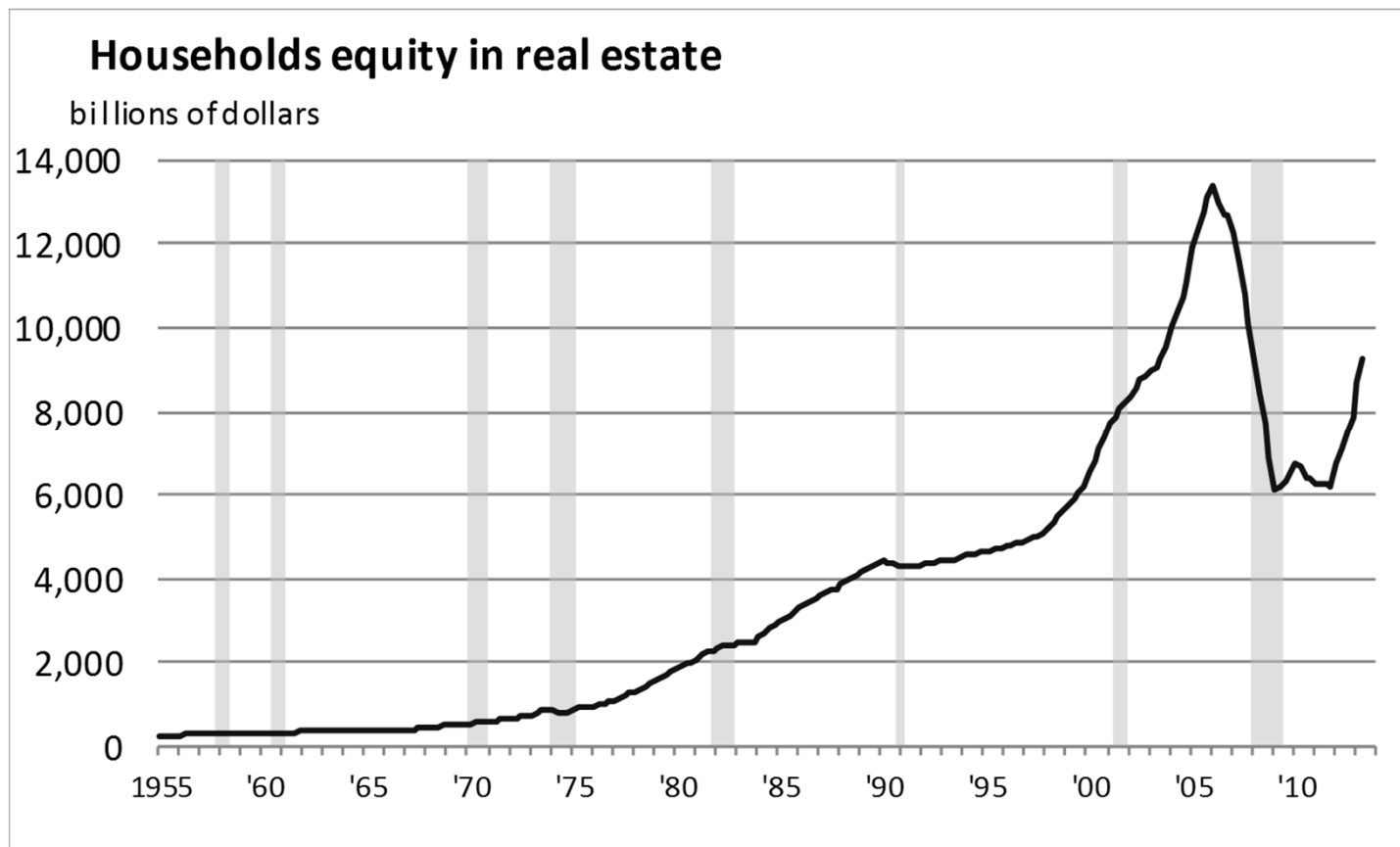
In the second quarter, home prices rose by 7.2 percent from a year earlier

Four-Quarter Price Change by State: Purchase-Only Index (Seasonally Adjusted)

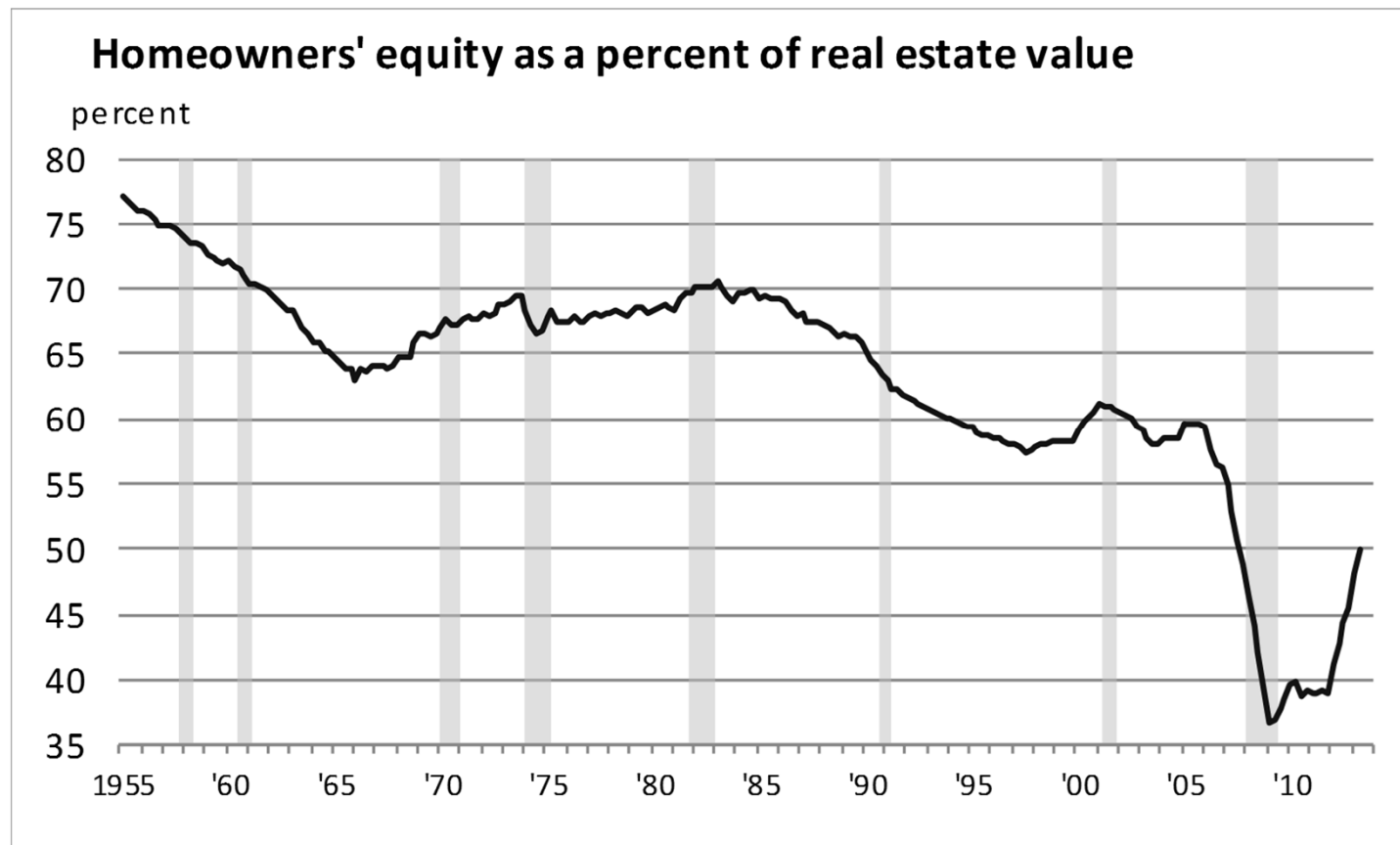
U.S. Four-Quarter Appreciation = 7.2% (2012Q2-2013Q2)



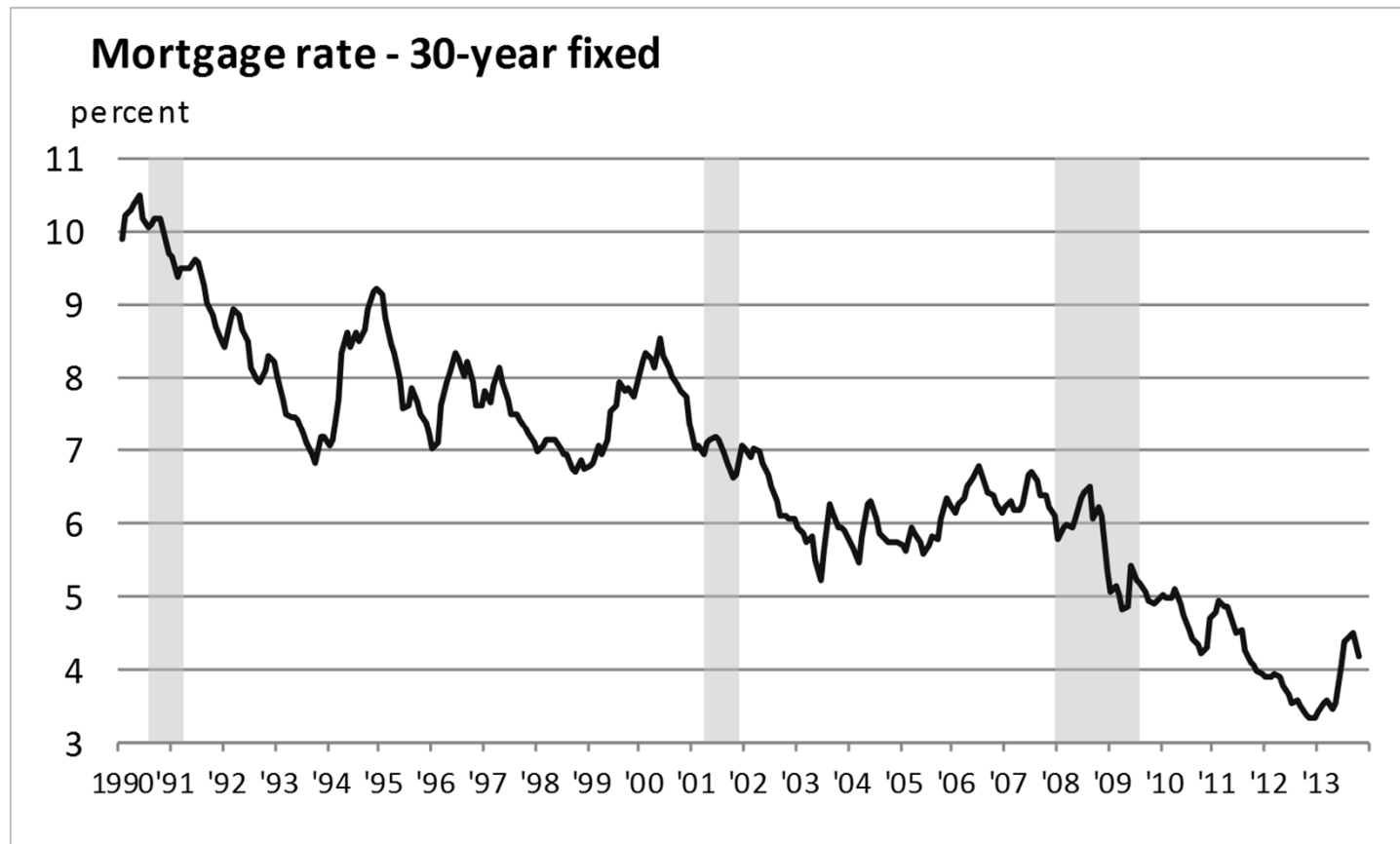
The loss in homeowner equity was significant



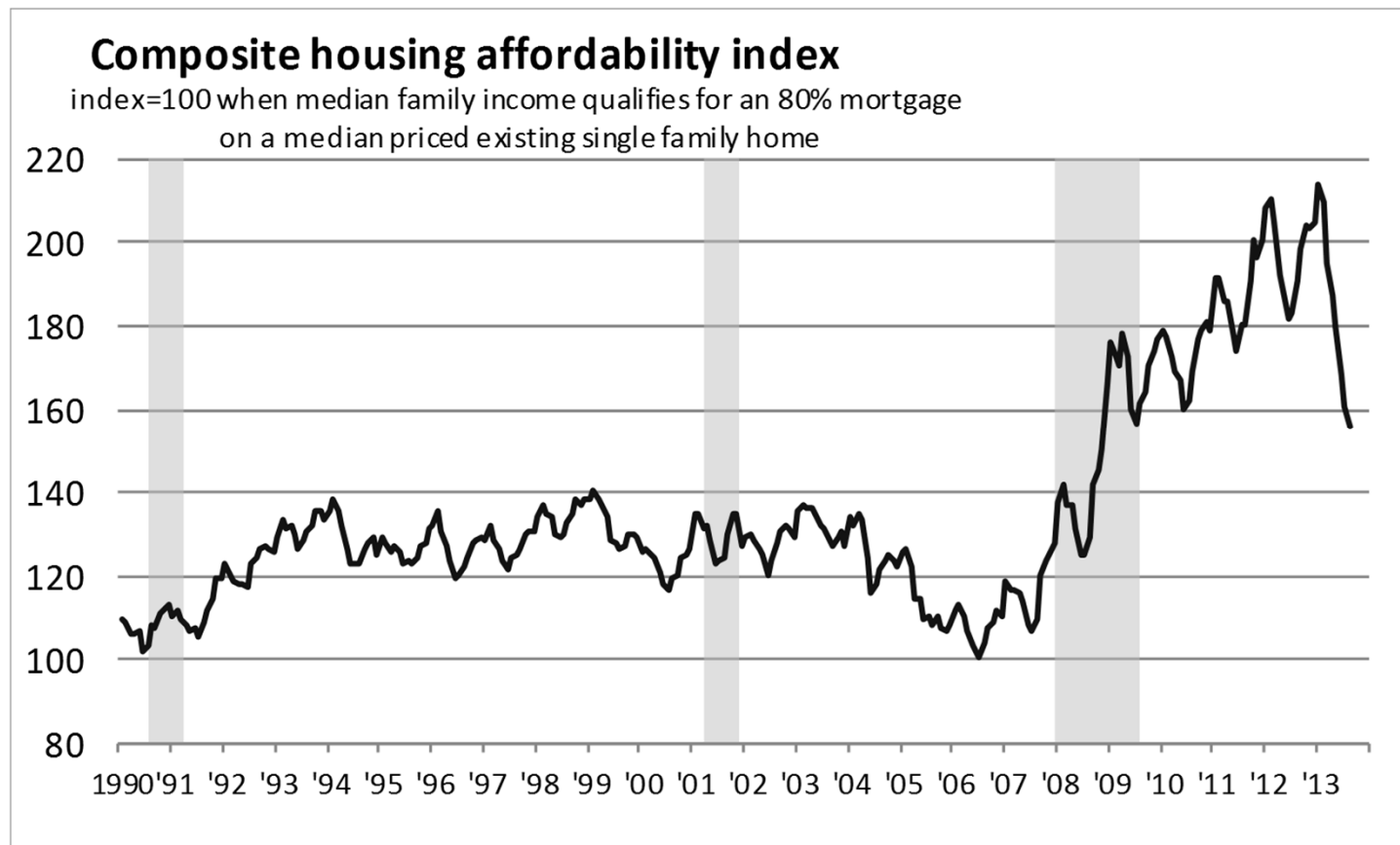
Equity as a share of value never rose during the housing bubble as homeowners borrowed heavily from their “gains”



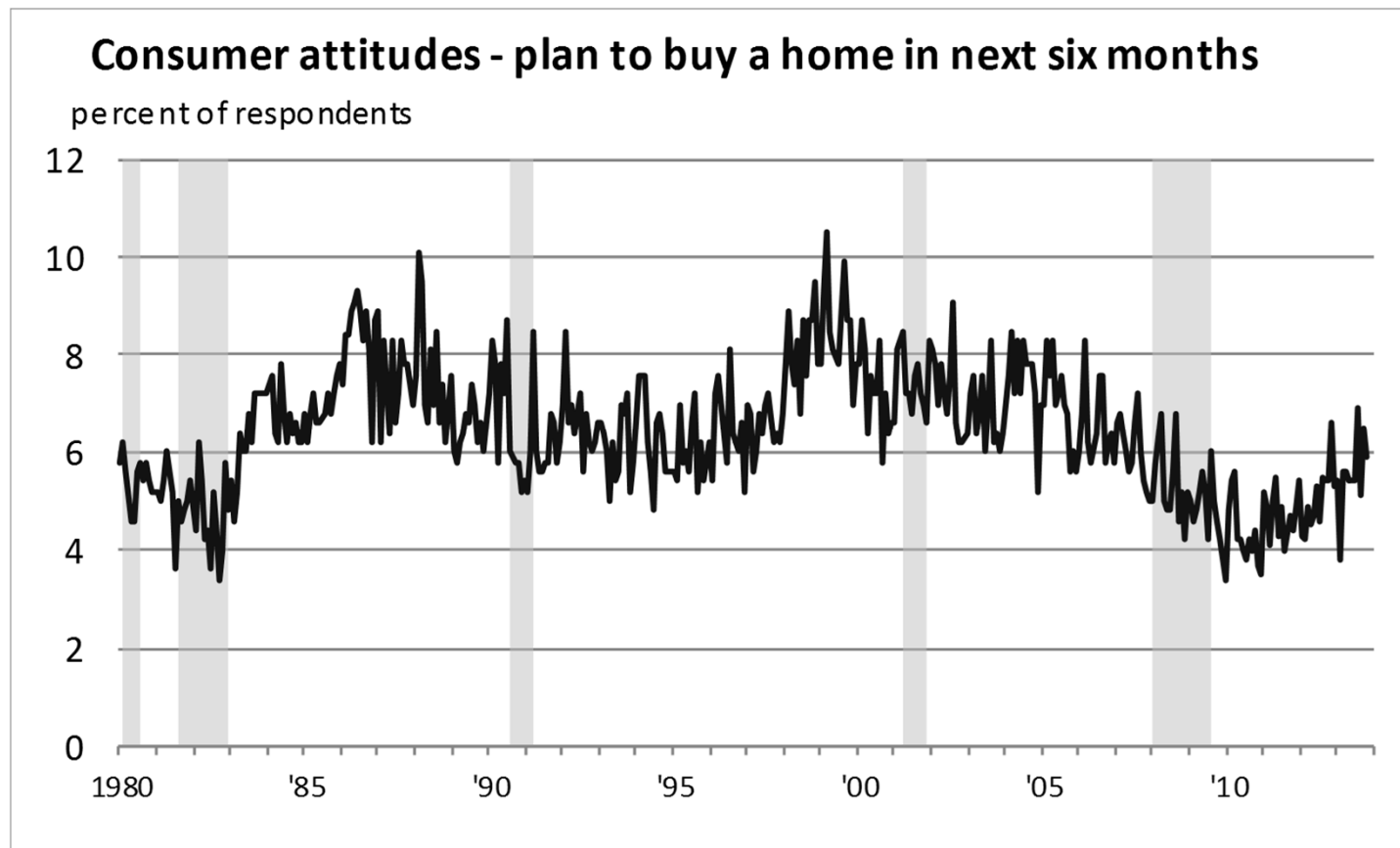
Mortgage rates remain very low



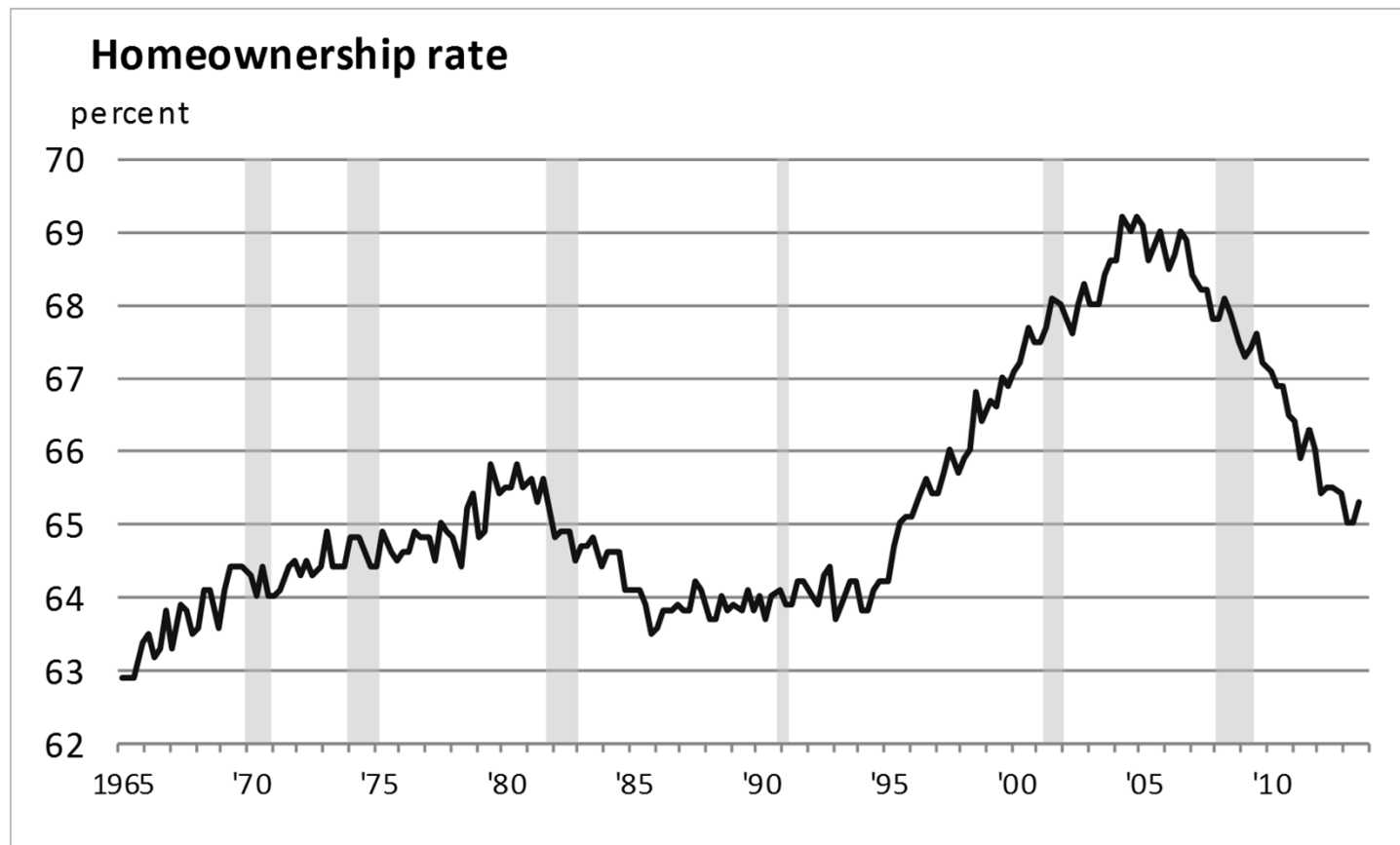
Housing affordability improved dramatically



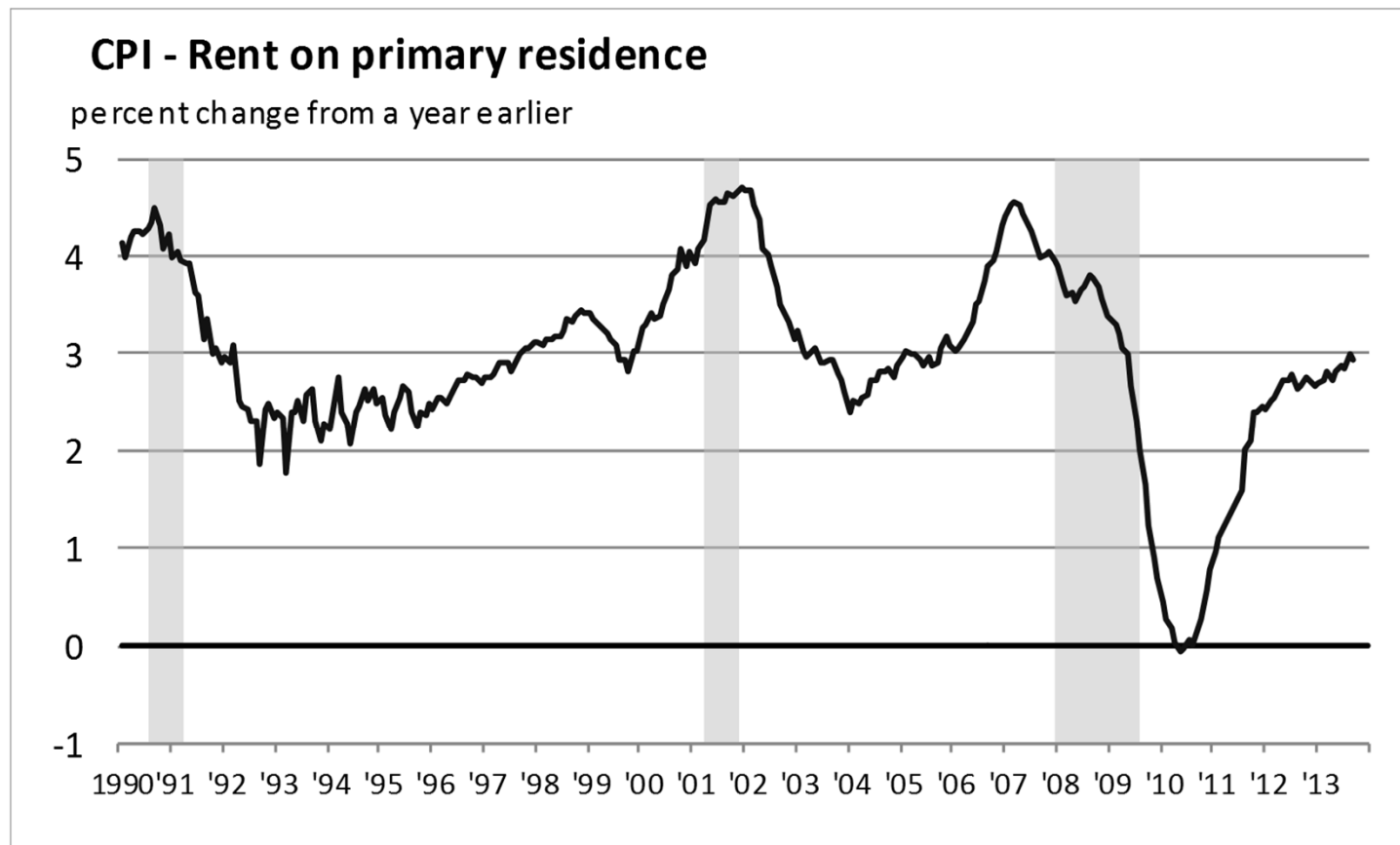
Consumer attitudes towards buying a home have been moving higher



Home ownership rates have been moving lower



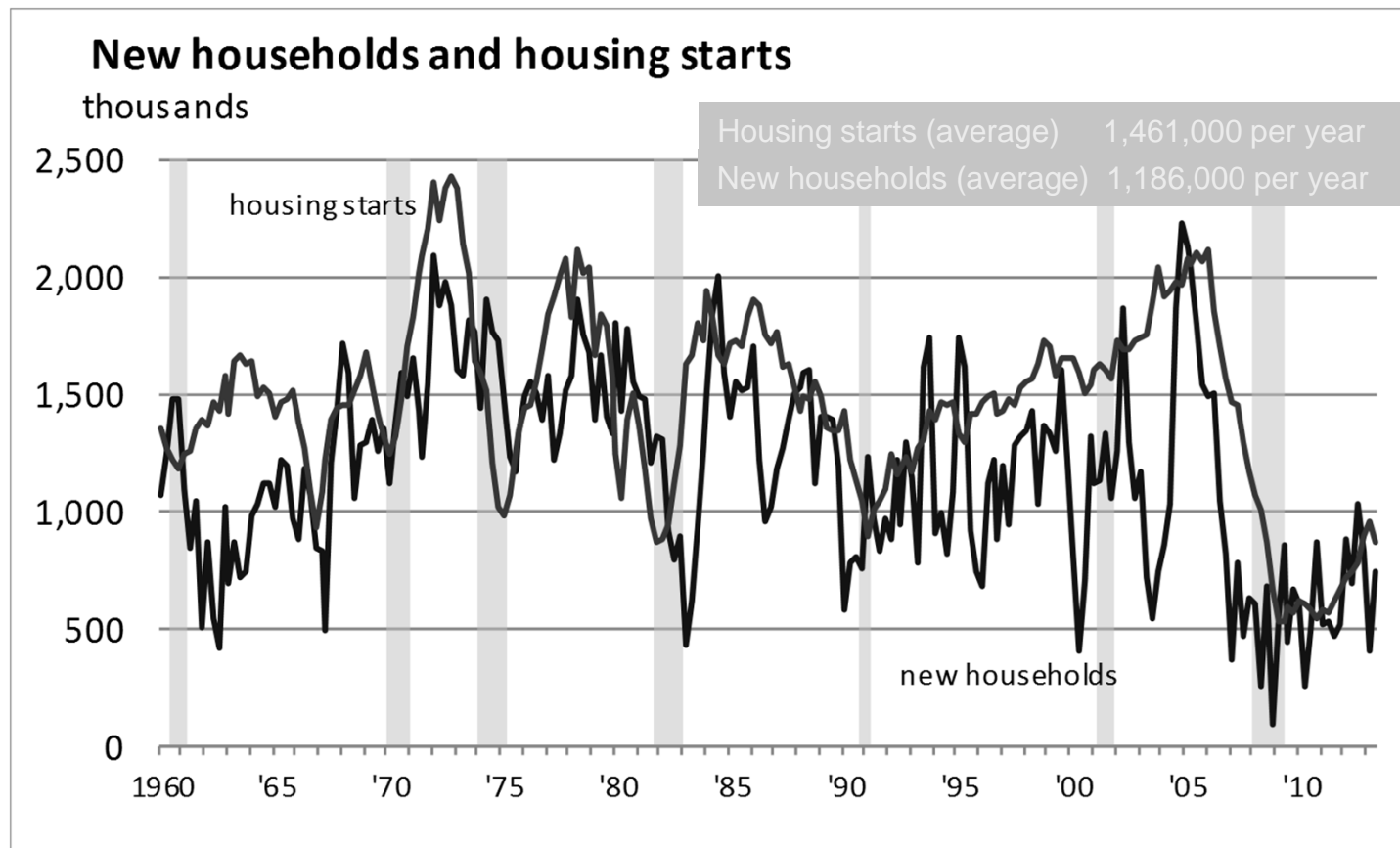
Rent has risen



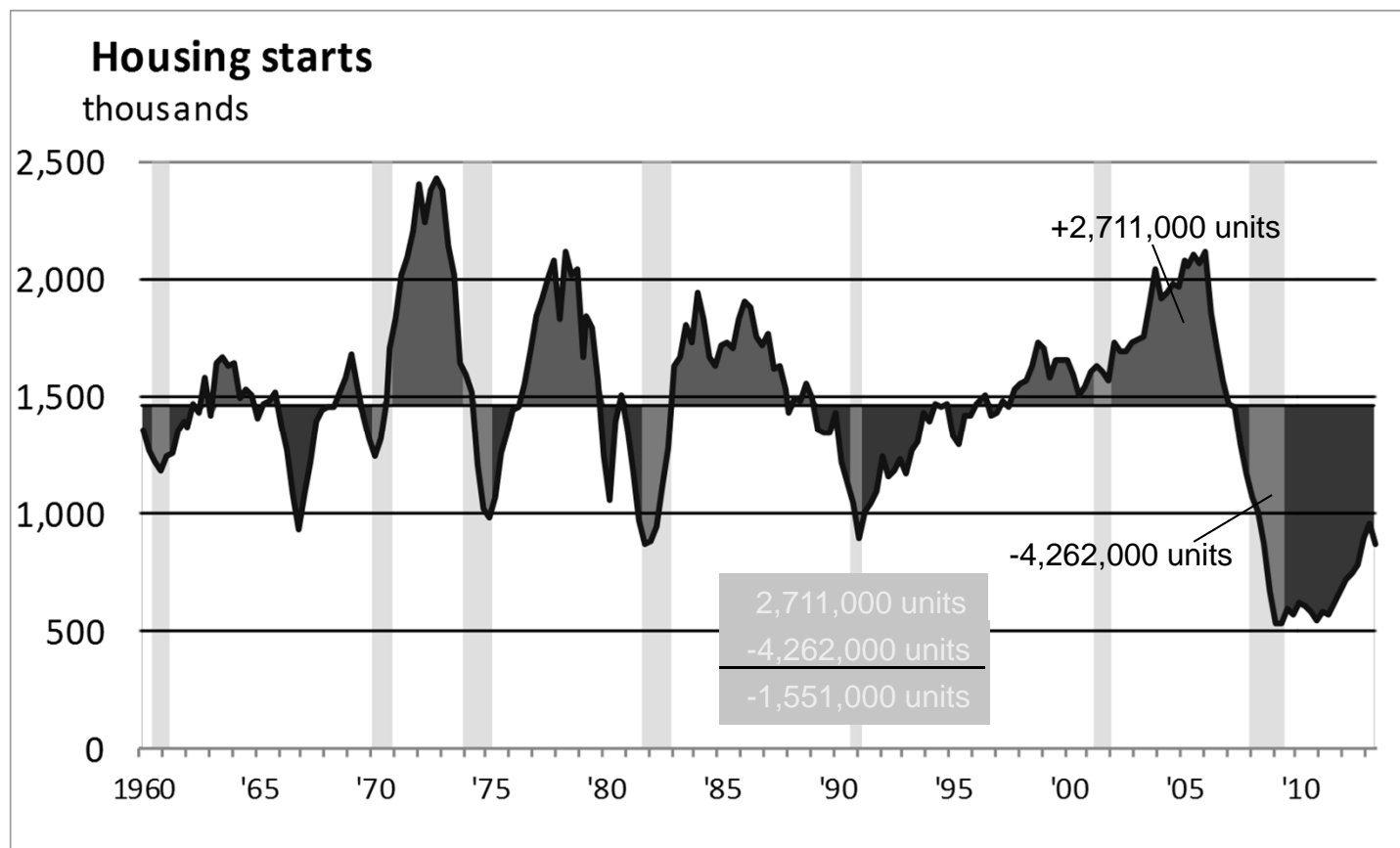
Why do you build homes?

You build homes for people

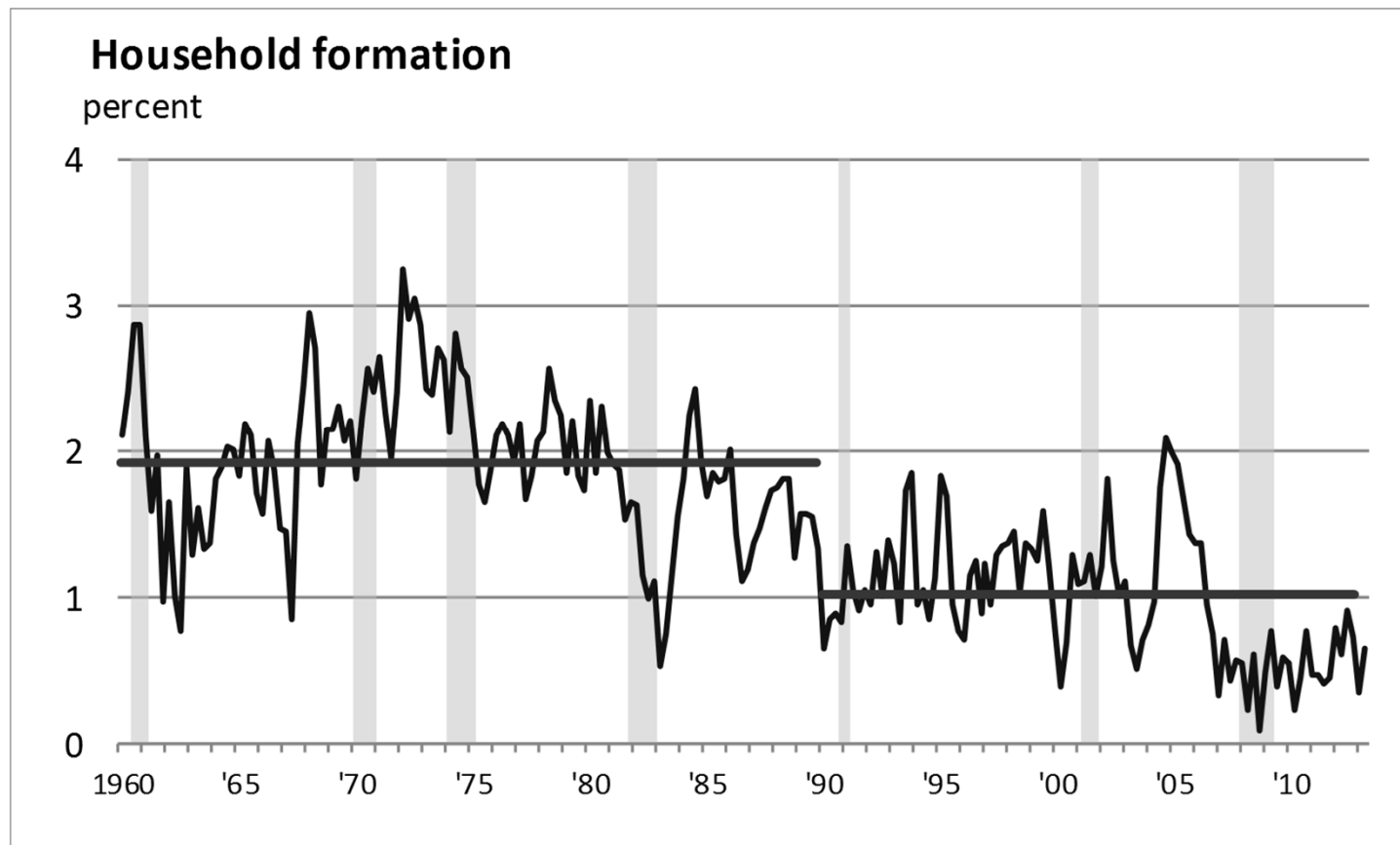
There is a very close relationship between household formation and housing starts, but housing starts tend to be above household formation



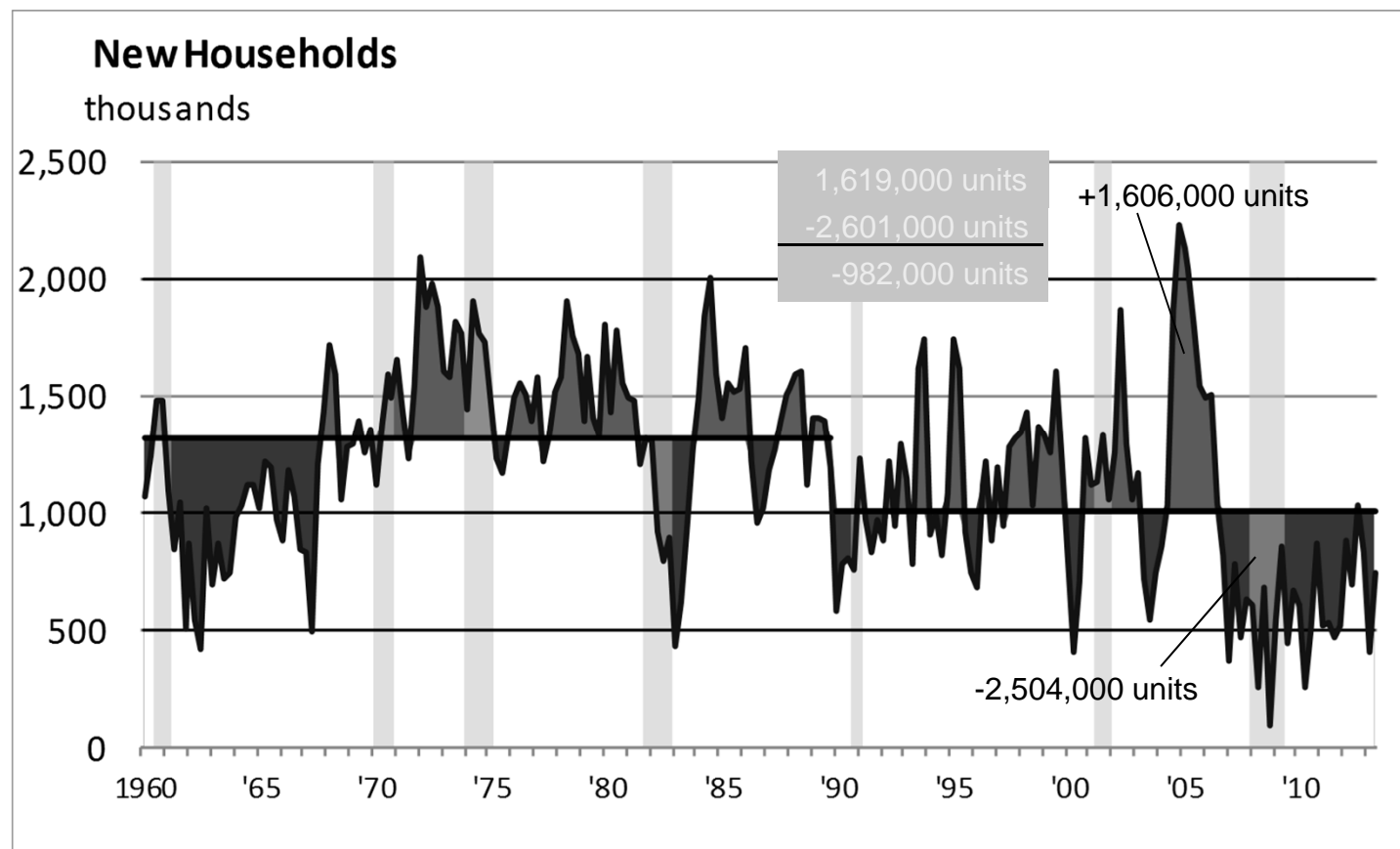
The amount of excess housing units compared with trend has disappeared



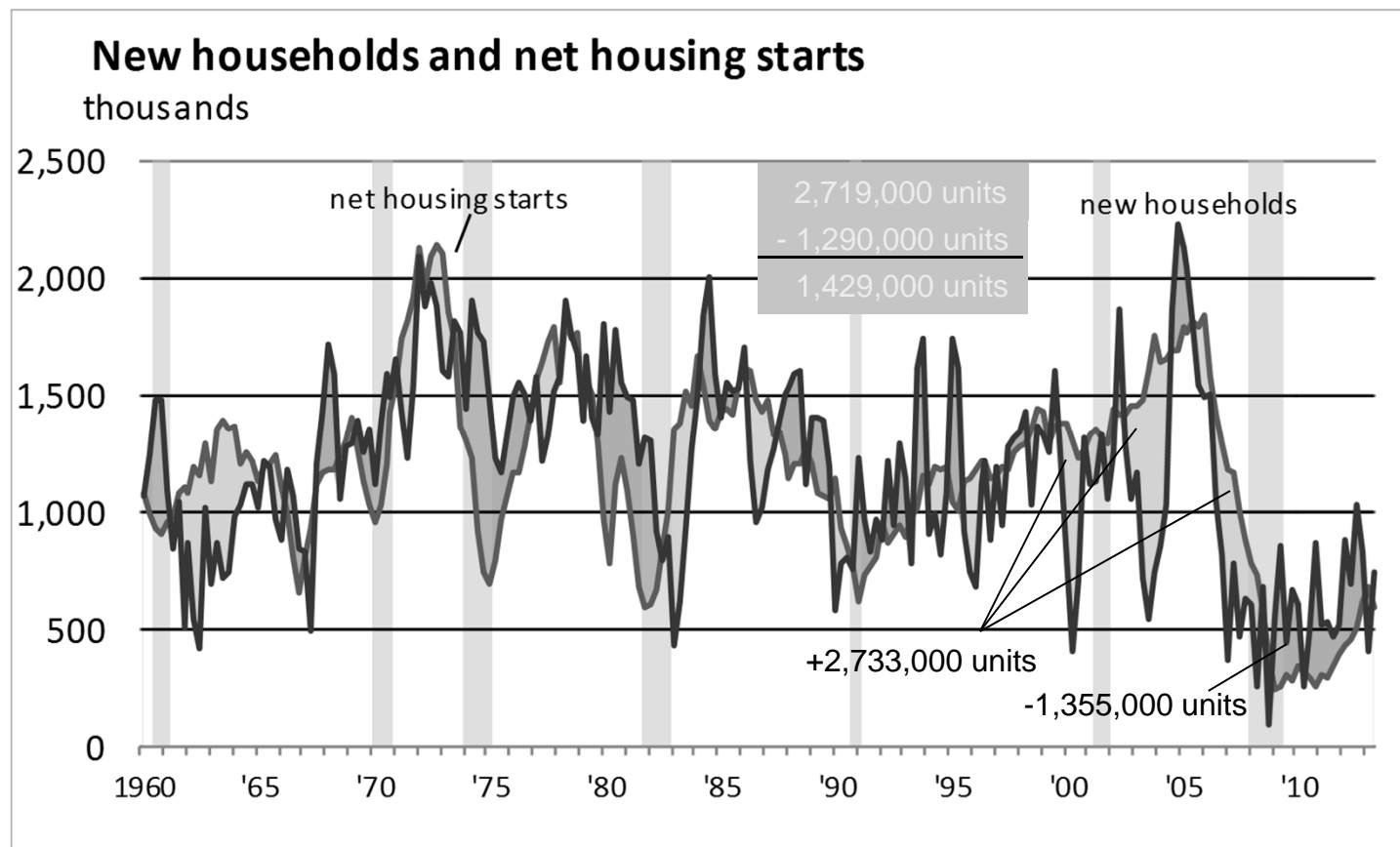
**Since 1990, household formation growth
has averaged one percent**



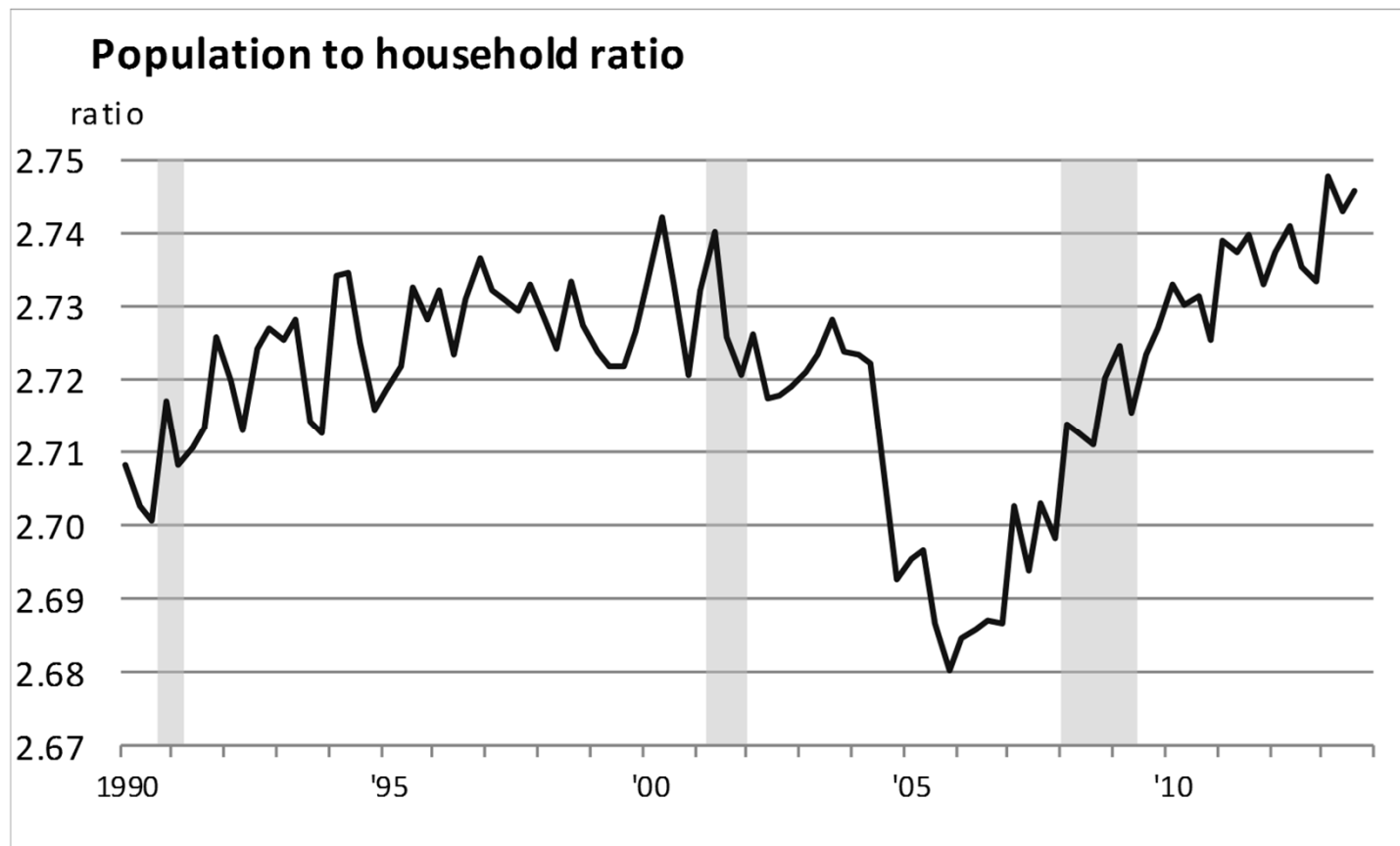
Household formation remains below its long-run average



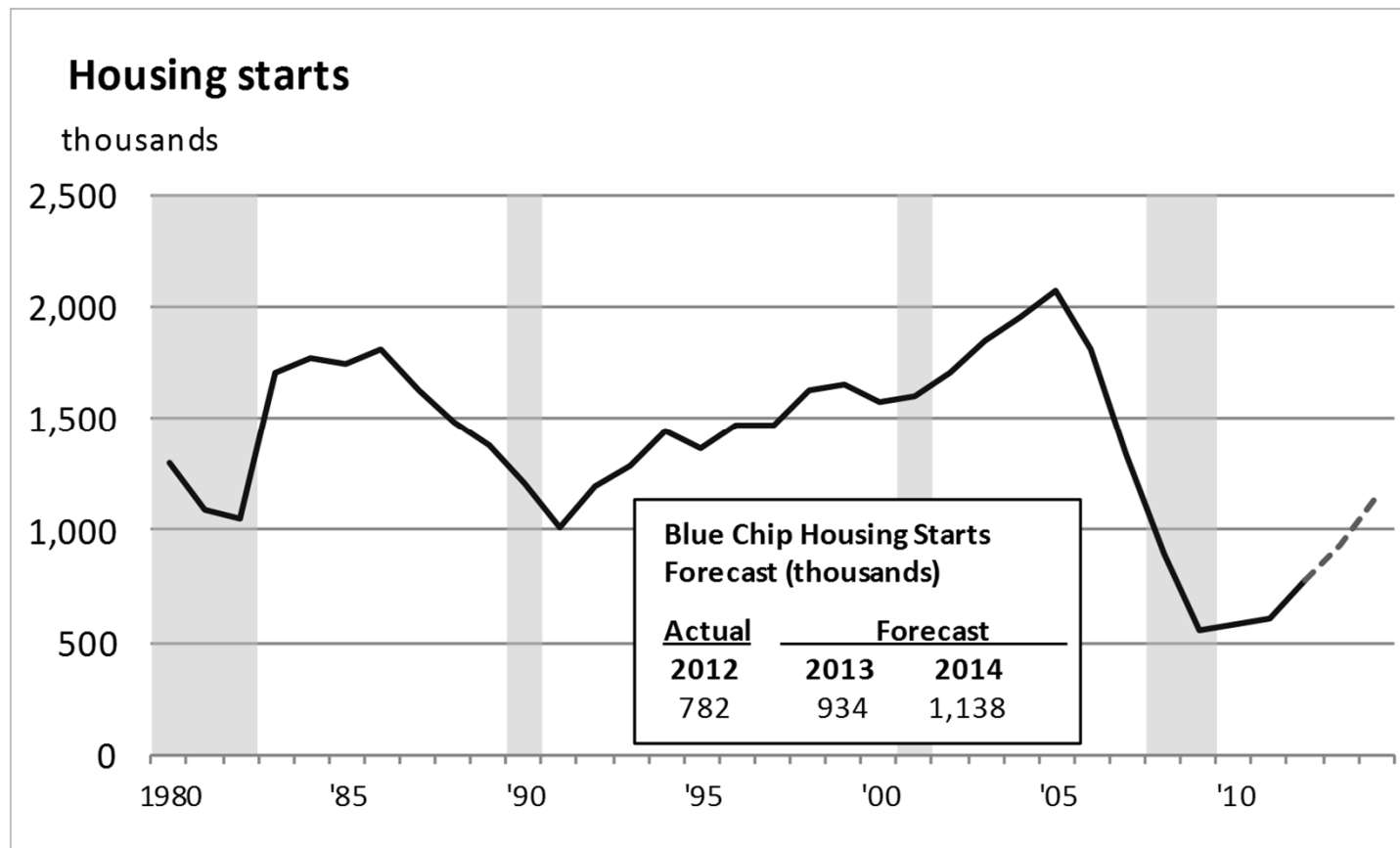
Looking at the relationship between housing starts and household formation shows a large excess amount of inventory on the market, although it has begun to fall



The population to household ratio continues to move higher



The forecast calls for a very gradual recovery in housing



Summary

- The housing market is improving at a moderate pace
- Low household formation has been restraining absorption of excess housing inventory
- Homeownership may be impacted by a changing view on the benefits of homeownership
- An improving labor market and economy will be a positive for housing over the next several years

