Update on the National Housing Market

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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.
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

Composite housing affordability index
index=100 when median family income qualifies for an 80% mortgage
on a median priced existing single family home
Consumer attitudes towards buying a home have been moving higher.
Home ownership rates have been moving lower
Rent has risen

CPI - Rent on primary residence
percent change from a year earlier
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.

- Housing starts (average): 1,461,000 per year
- New households (average): 1,186,000 per year
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

New Households
thousands

1,619,000 units
-2,601,000 units
-982,000 units
+1,606,000 units
-2,504,000 units
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