Update on the National Housing Market

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The Great Recession and Housing
The “Great Recession” ended in June 2009 –
It has been followed by the slowest paced expansion,
yet near-record length expansion
Residential investment had been a drag on the U.S. economy between 2006 and 2011 but has been growing at a moderate pace since then.
Residential investment remains well below its long-run average share of the U.S. economy
The Housing Recovery
Housing starts have moved higher, but remains well below the level considered its trend.
Existing home sales have improved
Homeowner vacancy rates have fallen close to what might be considered “normal”
However, new home sales have only been edging higher.
The months supply of new single family homes are at levels that are considered “normal”
Real home prices are only back to where they were fifteen years ago.

Real Median sales price - existing single family home

3-month smoothed (2018 dollars)
Real home prices have been rising at a slowing pace over the past several years.

Real median sales price - existing single family home

3-month smoothed - percent change from a year earlier
Most states are seeing fairly solid home price gains.
The loss in homeowner equity was significant, but it has risen to a new record high.
Equity as a share of value never rose during the housing bubble as homeowners borrowed heavily from their “gains” - Equity as a share of real estate value has gain during the current expansion
Mortgage distress has fallen to a level that is at its long-run average.

**Delinquencies on Mortgages**

percent of loans 90 or more days past due or in foreclosure
Real mortgage rates remain very low
Composite housing affordability index

index=100 when median family income qualifies for an 80% mortgage on a median priced existing single family home

Housing affordability remains strong
Yet, consumer attitudes towards buying a home remains moderate.
Home ownership rates rebounded over the past few years
Rents have been rising

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.

New households and housing starts

- Housing starts (average) 1,429,000 per year
- New households (average) 1,190,000 per year
The amount of excess housing units compared with trend has disappeared.
Since 1990, household formation growth has averaged one percent.
Household formation has finally started to exceed its long-run average.
The relationship between net housing starts and household formation appears to have finally come into balance following the housing bubble.

New households and net housing starts

Thousands

-3,866,000 units
-3,866,000 units

+3,896,000 units
30,000 units

1960 '65 '70 '75 '80 '85 '90 '95 '00 '05 '10 '15
The population to household ratio has been declining over the past several years.
The forecast calls for a very gradual recovery in housing.
Summary

• The housing market is improving at a moderate pace

• Low household formation had been restraining absorption of excess housing inventory

• It appears that the housing market imbalances have come back into balance

• A near-record expansion and strong labor market should be positive for the housing market over the next several years