

# November 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: [European Construction Markets](#)
- Slide 11-30: [Additional Comments&Data](#)
- Slide 31: [Disclaimer](#)

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# November 2014 Housing Scorecard

	M/M	Y/Y
Housing Starts <sup>A</sup>	▼ 1.6%	▼ 7.0%
Single-Family Starts <sup>A</sup>	▼ 5.4%	▼ 4.6%
Housing Permits <sup>A</sup>	▼ 5.2%	▼ 0.2%
Housing Completions <sup>A</sup>	▼ 6.4%	▲ 4.5%
New Single-Family House Sales <sup>A</sup>	▼ 1.6%	▼ 1.6%
Existing House Sales <sup>B</sup>	▼ 6.1%	▲ 2.1%
Private Residential Construction Spending <sup>A</sup>	▲ 0.9%	▼ 0.5%
Single-Family Construction Spending <sup>A</sup>	▲ 1.0%	▲ 12.5%

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

# New Housing Starts

	<b>Total Starts*</b>	<b>Single-Family Starts</b>	<b>Multi-Family 2-4 unit Starts</b>	<b>Multi-Family 5 or more unit Starts</b>
November	1,028,000	677,000	11,000	340,000
October	1,045,000	716,000	13,000	316,000
2013	1,105,000	710,000	9,000	386,000
M/M change	-1.6%	-5.4%	-15.4%	7.6%
Y/Y change	-7.0%	-4.6%	22.2%	-11.9%

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

# New Housing Permits and Completions

	<b>Total Permits*</b>	<b>Single-Family Permits</b>	<b>Multi-Family 2-4 unit Permits</b>	<b>Multi-Family 5 or more unit Permits</b>
November	1,035,000	639,000	29,000	367,000
October	1,092,000	647,000	32,000	413,000
2013	1,037,000	645,000	27,000	365,000
M/M change	-5.2%	-1.2%	-9.4%	-11.0%
Y/Y change	-0.2%	-0.9%	7.4%	0.5%

	<b>Total Completions*</b>	<b>Single-Family Completions</b>	<b>Multi-Family 2-4 unit Completions</b>	<b>Multi-Family 5 or more unit Completions</b>
November	863,000	596,000	11,000	256,000
October	922,000	614,000	7,000	301,000
2013	826,000	593,000	12,000	221,000
M/M change	-6.4%	-2.9%	57.1%	-15.0%
Y/Y change	4.5%	0.5%	-8.3%	15.8%

# New and Existing House Sales

	<b>New Single-Family Sales*</b>	<b>Median Price</b>	<b>Month's Supply</b>	<b>Existing House Sales <sup>B*</sup></b>	<b>Median Price <sup>B</sup></b>	<b>Month's Supply <sup>B</sup></b>
November	438,000	280,900	5.8	4,930,000	\$205,300	5.1
October	445,000	290,100	5.7	5,250,000	\$207,500	5.1
2013	445,000	277,100	5.0	4,830,000	\$195,500	5.0
M/M change	-1.6%	-3.2%	1.8%	-6.1%	-0.1%	--
Y/Y change	-1.6%	1.4%	16.0%	2.1%	5.0%	2.0%

\* All sales data are SAAR

# Existing House Sales

National Association of Realtors (NAR®)<sup>B</sup>

November 2014 sales data: 4.93 million houses sold (SAAR)

October 2014: 5.25 million (SAAR) and November 2013: 4.83 million (SAAR)

Distressed house sales: 9% of sales –  
(6% foreclosures and 3% short-sales);

9% in October and 14% in November 2013.

All-cash sales: decreased to 25%; 27% in October.

Investors are still purchasing a substantial portion of  
“all cash” sale houses – 15% in November,  
15% in October 2014 and 19% in November 2013.

Sixty-one percent of investors paid cash in November.

First-time buyers: 31% (29% in October 2014)  
and were 28% in November 2013

# November 2014 Construction Spending

November 2014 Private Construction: \$352.67 billion (SAAR)

0.9% more than the revised October estimate of \$349.57 billion (SAAR)

-0.5% less than the November 2013 estimate of \$354.50 billion (SAAR)

November SF construction: \$200.09 billion (SAAR)

1.0% more than October: \$198.20 billion (SAAR)

12.5% greater than November 2013: \$177.84 billion (SAAR)

November MF construction: \$47.52 billion (SAAR)

1.1% more than October: \$46.99 billion (SAAR)

27.2% greater than November 2013: \$37.35 billion (SAAR)

November Improvement<sup>C</sup> construction: \$105.05 billion (SAAR)

0.7% more than October: \$104.37 billion (SAAR)

-24.6% less than November 2013: \$139.31 billion (SAAR)

<sup>C</sup> The US DOC does not report improvements directly, this is an estimation. All data is SAAR and is reported in nominal US\$.



# Conclusions

November data could be viewed as bearish – in the regard that many sectors declined. However, historically November is the beginning of housing's winter slumber. Month-to-month volatility remains in the data; this is expected in multifamily reporting, but not so much in single family reporting.

As in written 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). However, as the economy continues to improve, we should expect to see the housing sectors increase as well.

Why?

- 1) Lack-luster household formation,
- 2) a lack of well-paying jobs being created,
- 3) declining real median annual household incomes ,
- 4) strict home loan lending standards (though FHA recently lowered down-payment requirements, and
- 5) global uncertainty

# October 2014

## EU Housing Scorecard

		M/M	Y/Y
Production in Construction <sup>A</sup>	EU 28	△ 0.4% <sup>s</sup>	△ 1.5% <sup>s</sup>
	EU 18	△ 1.3% <sup>s</sup>	△ 1.4% <sup>s</sup>
	Germany	△ 1.4%	△ 0.5%
	France	△ 0.3%	▽ 1.1%
	UK	▽ 2.2% <sup>p</sup>	△ 0.2% <sup>p</sup>
	Spain	△ 0.9% <sup>ps</sup>	△ 9.2% <sup>p</sup>
Building permits (m <sup>2</sup> floor) <sup>A</sup>	EU 28	--	--
	EU 18	▽ 1.5% <sup>(09)</sup>	△ 0.2% <sup>(09)</sup>
	Germany	△ 7.2% <sup>s</sup>	△ 4.6%
	France	▽ 8.0% <sup>s</sup>	▽ 16.9%
	UK	--	--
	Spain	△ 3.8% <sup>s(09)</sup>	▽ 66.9% <sup>e(09)</sup>

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

Source: Eurostat (<http://ec.europa.eu/eurostat/data/database>),

<sup>A</sup> see [http://ec.europa.eu/eurostat/c/portal/layout?p\\_l\\_id=1916630&p\\_v\\_l\\_s\\_g\\_id=0](http://ec.europa.eu/eurostat/c/portal/layout?p_l_id=1916630&p_v_l_s_g_id=0)

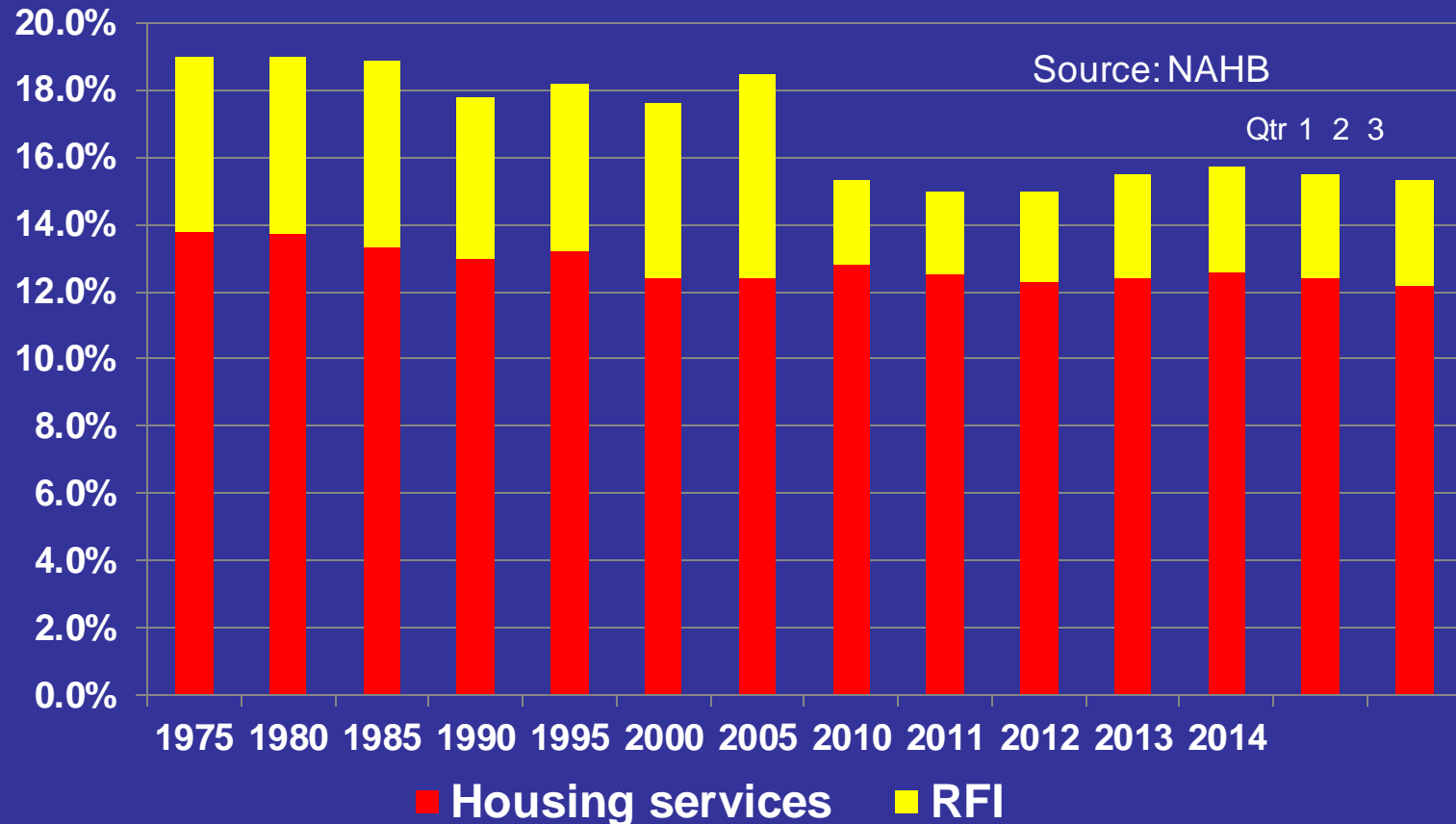
<sup>e</sup> estimate, <sup>s</sup> Eurostat estimate, <sup>p</sup> provisional, -- no data available, <sup>(08)</sup> September data

# Housing comments – November, 2014 data

- October starts fell 1.6% ( to 1.03 SAAR) from previous month, due to drops in the multi-family sector and to a lesser degree the single family sector
- Housing is slowly 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; weak domestic job market; sluggish income growth; tight credit environment continues – Europe is in a recession, and facing disinflation with 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. It is taking longer to find a job ( employers are getting pickier); labor force participation rate keeps falling ( will lead to labor shortages in the future); and many jobs ( 30%) are temporary with low pay, no benefits, etc.*
- **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 .**
- **Best guess re: housing is that it will be 2016 or later before we get back to 1.5 million starts. This won't be changed by [the president's new proposal to bolster housing](#), which should produce limited improvements. Don't expect too much from the Congress or the Administration over the next two years. More gridlock and less effective effort 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 next year, 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 – 1<sup>st</sup> time buyers remain on the sidelines – foreclosures are coming down, but are still historically high.**

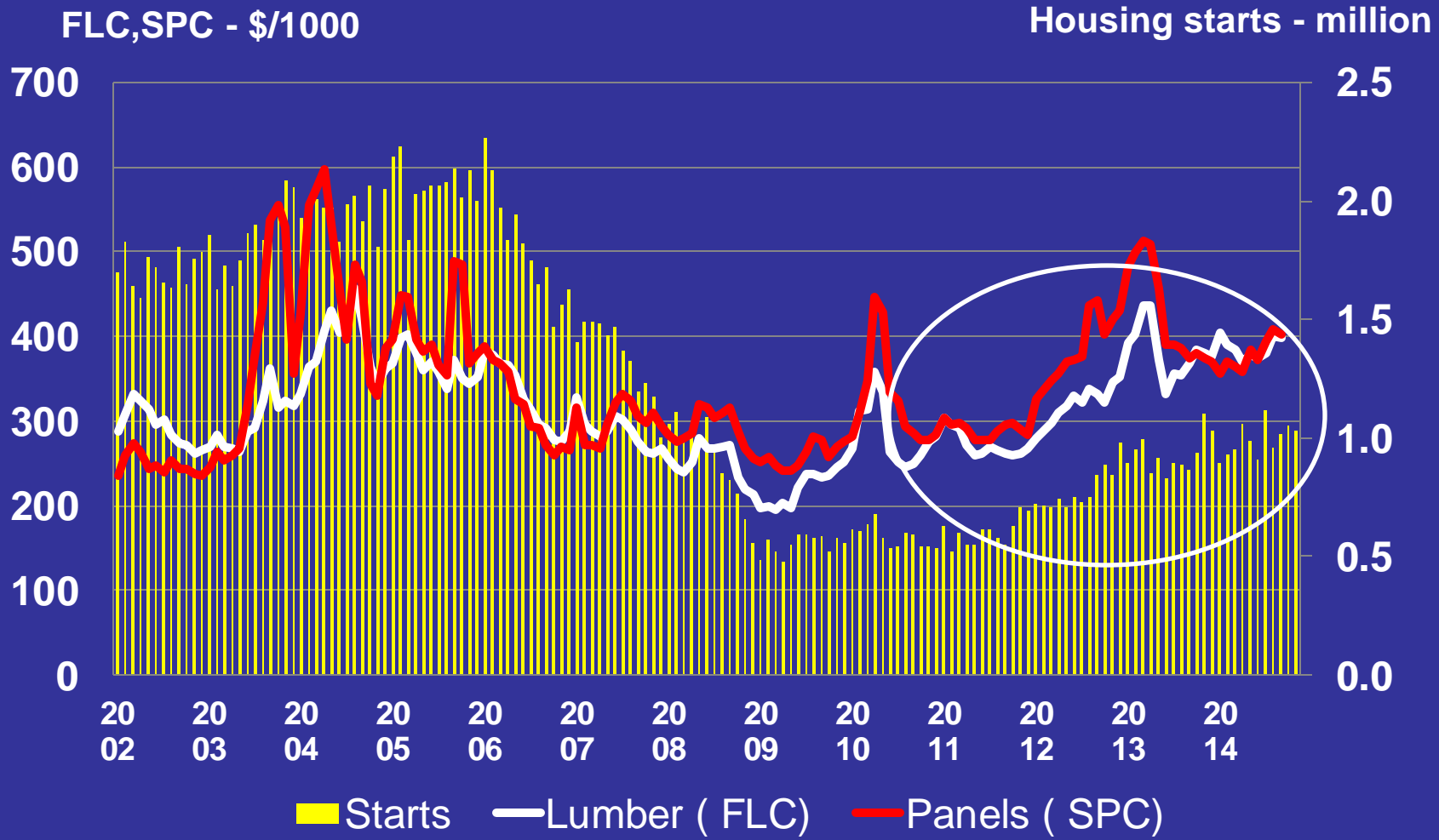
Housing's contribution to GDP (%) – historically, it is almost 20% of the economy when you include housing services and fixed investment, but today it is down to 15%. In reality, it is even more important when you include purchased furniture, landscaping, general maintenance, etc. key reason why the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



# Housing starts and wood product prices – Economics 101

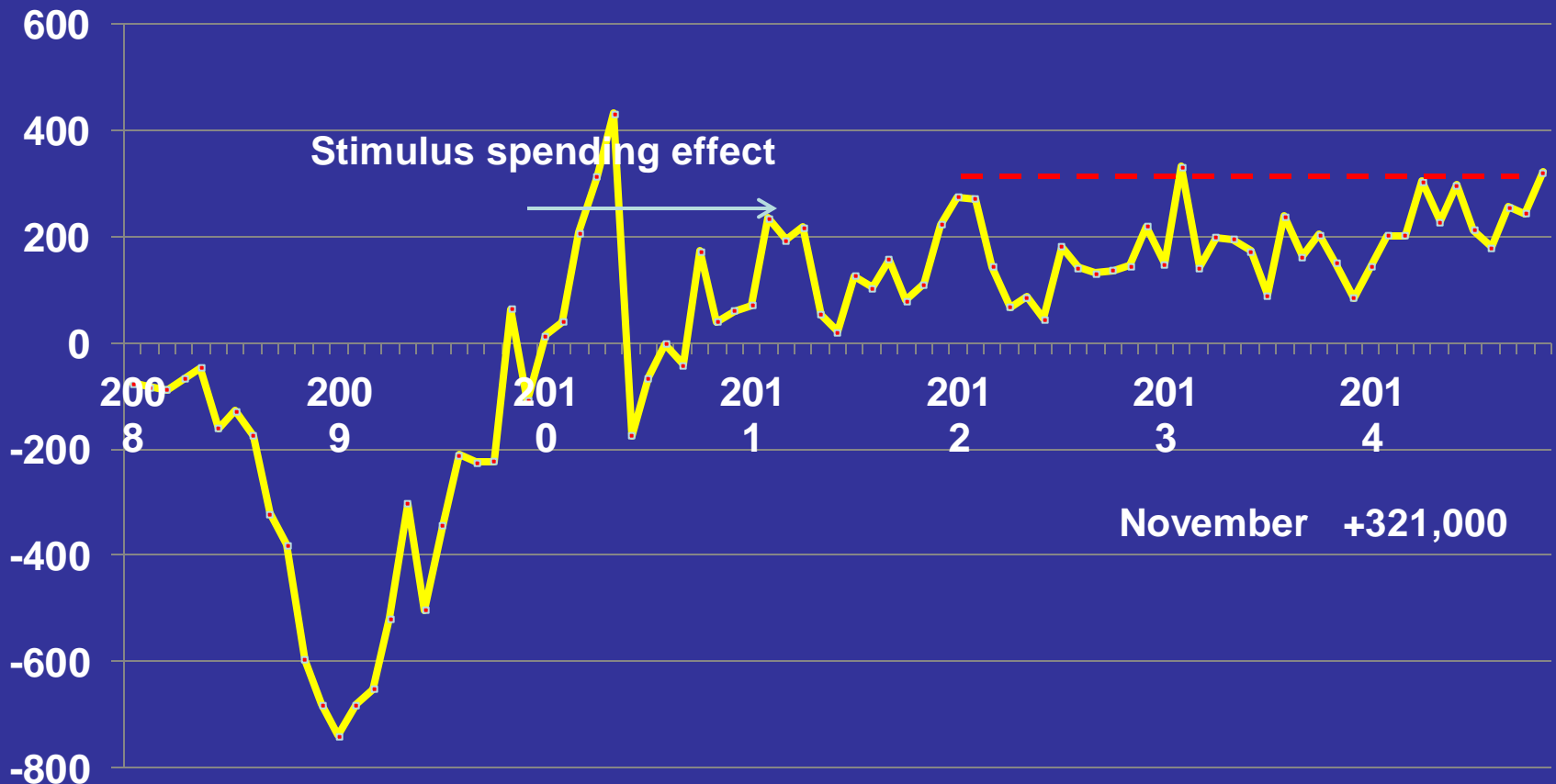
75% of structural wood products go to housing ( new construction plus remodeling)  
50% or more of hardwoods go to housing related activities. By the way, main reason wood  
Prices have gone up is better demand/supply balance – reduced production !!!!! Key  
To being profitable is lowering your costs. Being a price taker in commodity markets,  
lower costs is best Strategy!!!!!!



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

Employment situation - our biggest problem - it's getting better, and the latest number was the best we've seen since January 2012. Wage growth is also increasing, albeit slowly, but increasing.

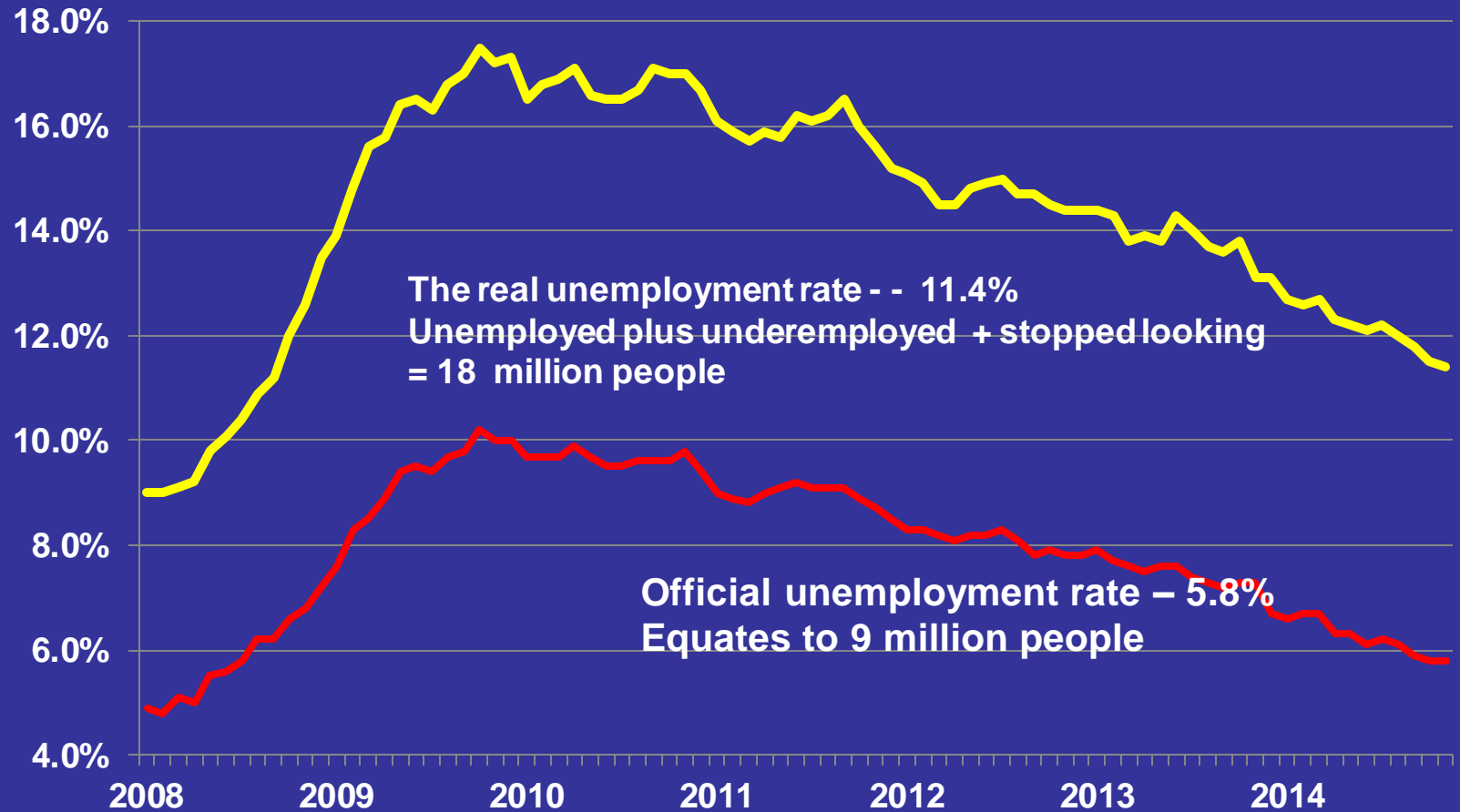
### Net change in non farm payrolls – monthly, thousands



Source: U.S. BLS ( [www.bls.gov](http://www.bls.gov) )

## 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 – they are not buying houses – this continues to be a major problem



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

Latest employment situation showed unemployment dropping to 5.9%,  
 But, this is misleading. Slide below compares December 2007  
 (the last “normal year”) with today’s numbers. E.g. look at the 1<sup>st</sup> line ---  
**Total net jobs created in past 7 years Was a meager 300,000, not nearly enough to absorb  
 the 8 million or so adults that entered the labor force over that time period. Key reason  
 The rate has come down is because many have left the labor force, not due to job creation!!!!**

	Dec. 2007	Now	Change
Total number of jobs	146.3 million	146.6 million	300,000
Total number of unemployed	7.6 million	9.3 million	1.7 million
Unemployment rate	5.0%	5.9%	0.9 percentage points
U-6 unemployment rate (unemployed + underemployed)	8.8%	11.8%	3 points
Average hourly earnings, adjusted for inflation, 2014 dollars	\$24.33	\$24.53	20 cents
Employed part-time for economic reasons	4.6 million	7.1 million	2.5 million
Employed part-time for economic reasons, pctg. of the labor force	3.0%	4.6%	1.6 points
Labor force participation rate	66.0%	62.7%	-3.3 points

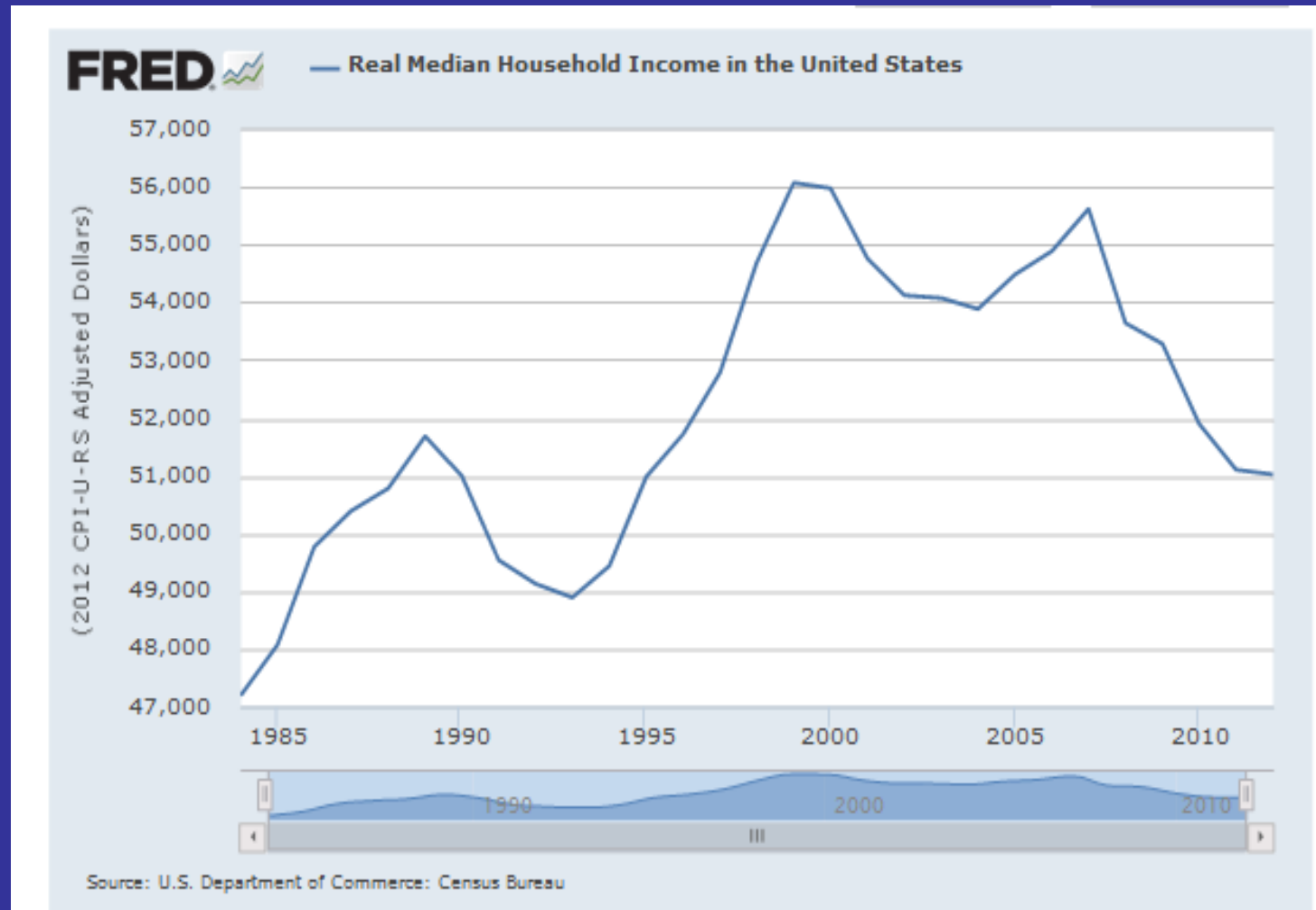


**Another problem with today's economy – yes, unemployment rate is now below 6%, but income growth is missing ( yes, it is starting to pick up, but very slowly). E.g., inflation Adjusted income today is the same as it was twenty years ago. I.e., There has been no improvement in median family income over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

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

**That said, lower energy costs will help consumer spending – the energy  
Picture is certainly changing!!**

Real incomes have been shrinking for the past 20 years – this is a structural problem ( long term) And not cyclical --- no quick fixes to this problem – Also, 15% Of population live at or below the poverty level (\$24000 family of 4) – i.e., 45 million Americans- Canada’s entire population plus 12 million

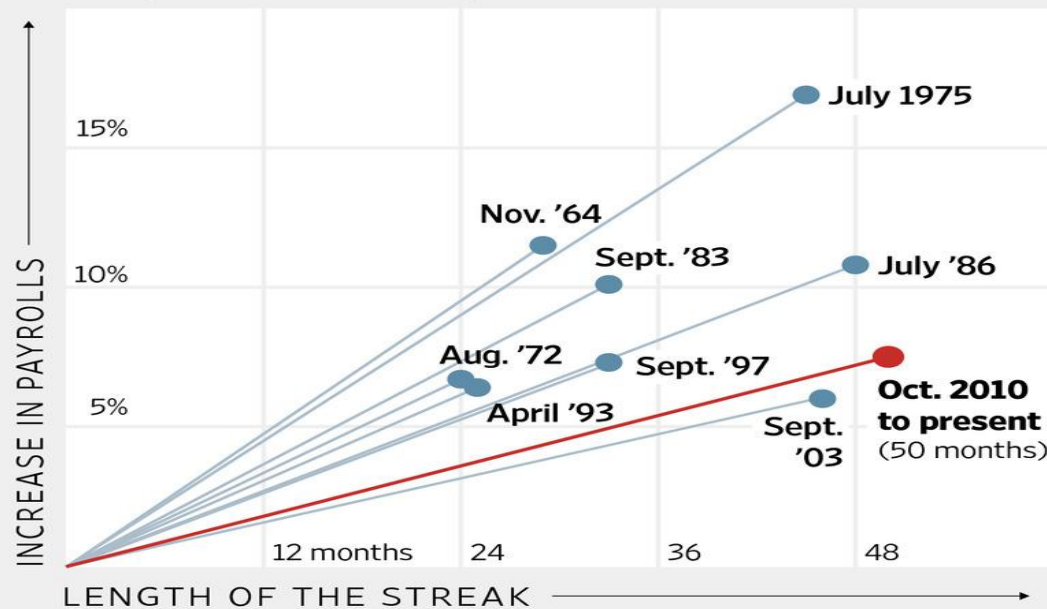


But, Labor market continues to improve – wages are up 2.1% annual basis  
 Maybe we're finally crawling out of a big hole??

## Long Run

The current run of positive payroll gains is the longest since World War II, but the pace of growth has been slow relative to other such streaks, which may help explain why wage growth remains muted.

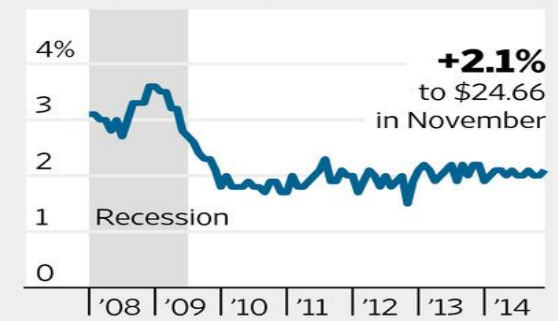
**Longest streaks of U.S. payroll growth in the post-WWII era**  
 Streaks consisting of two years of consecutive growth or longer, labeled by the month each began



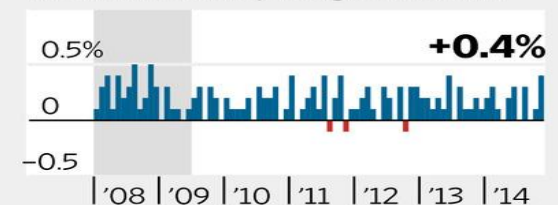
Source: Labor Department

## Average hourly wages of all private employees:

Change from a year earlier



Change from a month earlier in the same hourly wage measure

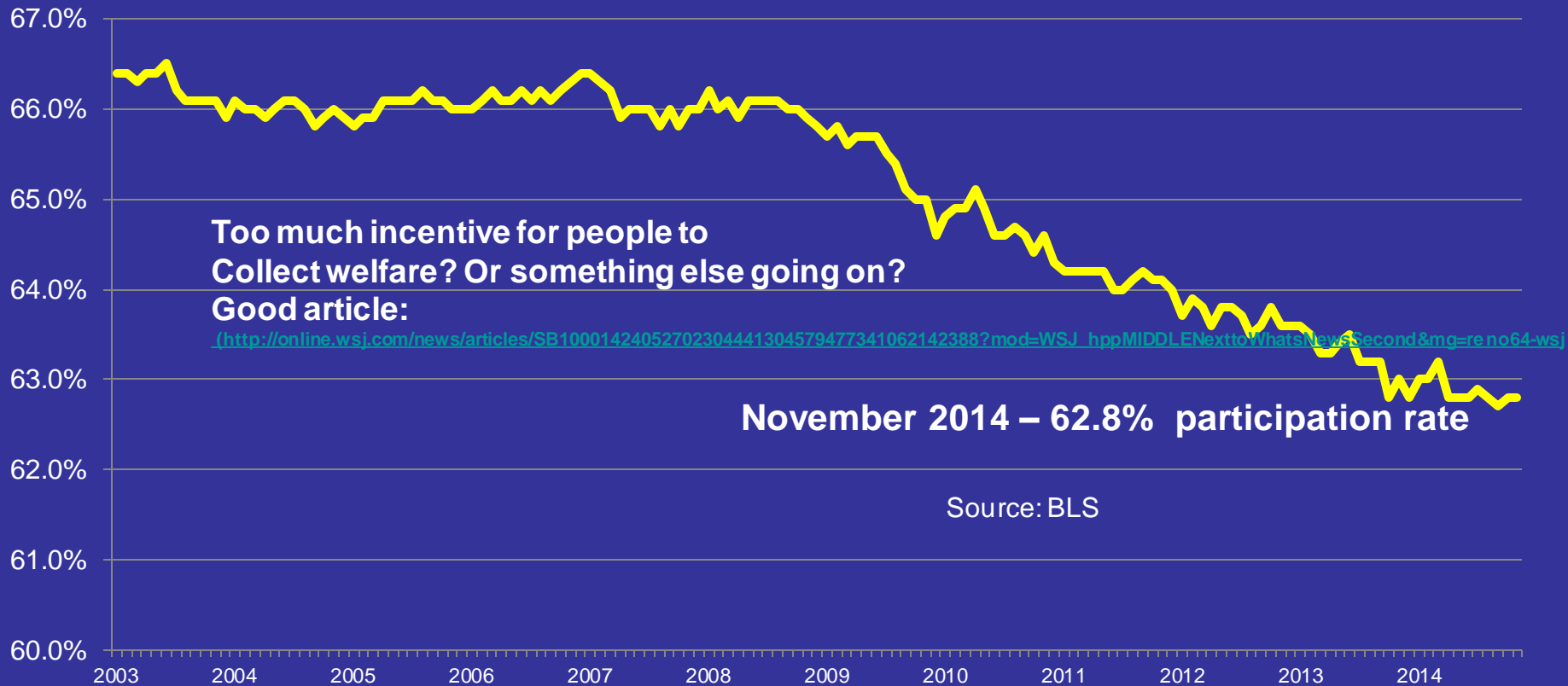


Note: All figures are seasonally adjusted.  
 The Wall Street Journal

But, Labor force participation rate is shrinking –  
this is not good!!

we will see more labor shortages in the future?

**% of civilian adult population, that are working**



**Too much incentive for people to  
Collect welfare? Or something else going on?  
Good article:**

[http://online.wsj.com/news/articles/SB10001424052702304441304579477341062142388?mod=WSJ\\_hppMIDDLENexttoWhatsNewsSecond&mg=reno64-wsj](http://online.wsj.com/news/articles/SB10001424052702304441304579477341062142388?mod=WSJ_hppMIDDLENexttoWhatsNewsSecond&mg=reno64-wsj)

**November 2014 – 62.8% participation rate**

Source: BLS

## Economic and Housing Outlook – downward revisions from August outlook – looks like 2016 is best bet for turnaround?

	NAR		NAHB		2016
	2014	2015	2014	2015	
GDP	2.1%	2.9%			
Housing starts(000)	1015	1283	1001	1239	1544
Single (SF)	649	860	643	875	1173
Multi (MF)	366	423	352	364	370
Resales* (000)	4938	5316	4340	4645	4695
SF Sales	459	613	446	597	839

\*NAR resales include condos whereas NAHB excluded condos

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

# Recent Housing statistics

## Background:

Markets are getting better – yes, but ever so slowly!

Have we turned the corner? – Yes, but  
the climb back will remain muted

until we see economic growth of 3% or  
more (without FED stimulus) for an extended period of time!

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

Single family starts, Thousand units, SAAR



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

## Impact of weak household formations - -

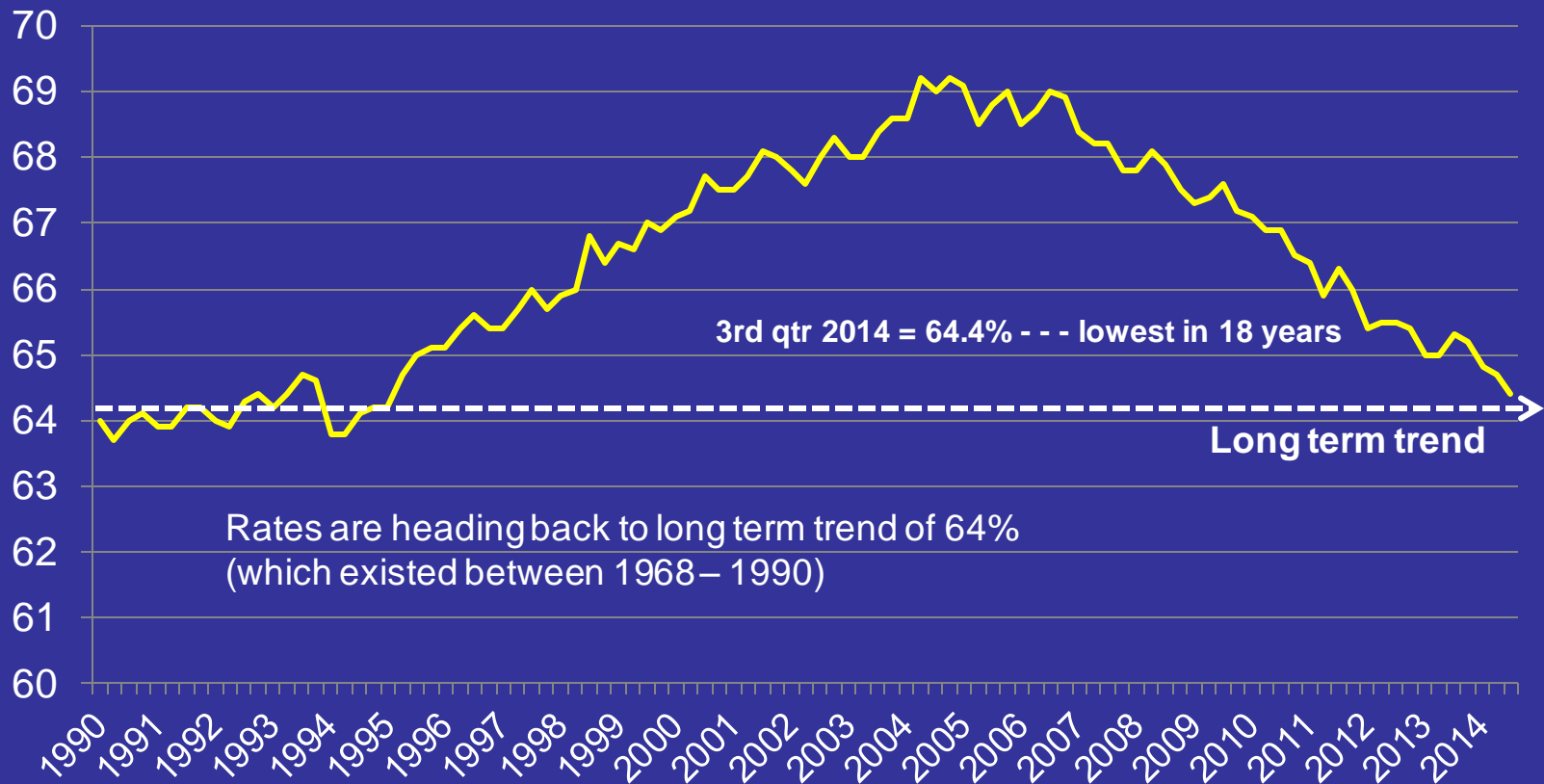
homeownership rates have been falling for the past nine

Years – when the economy gets back to normal,

Will people go back to single family or will we see more renting?

There will be impacts on wood products demand

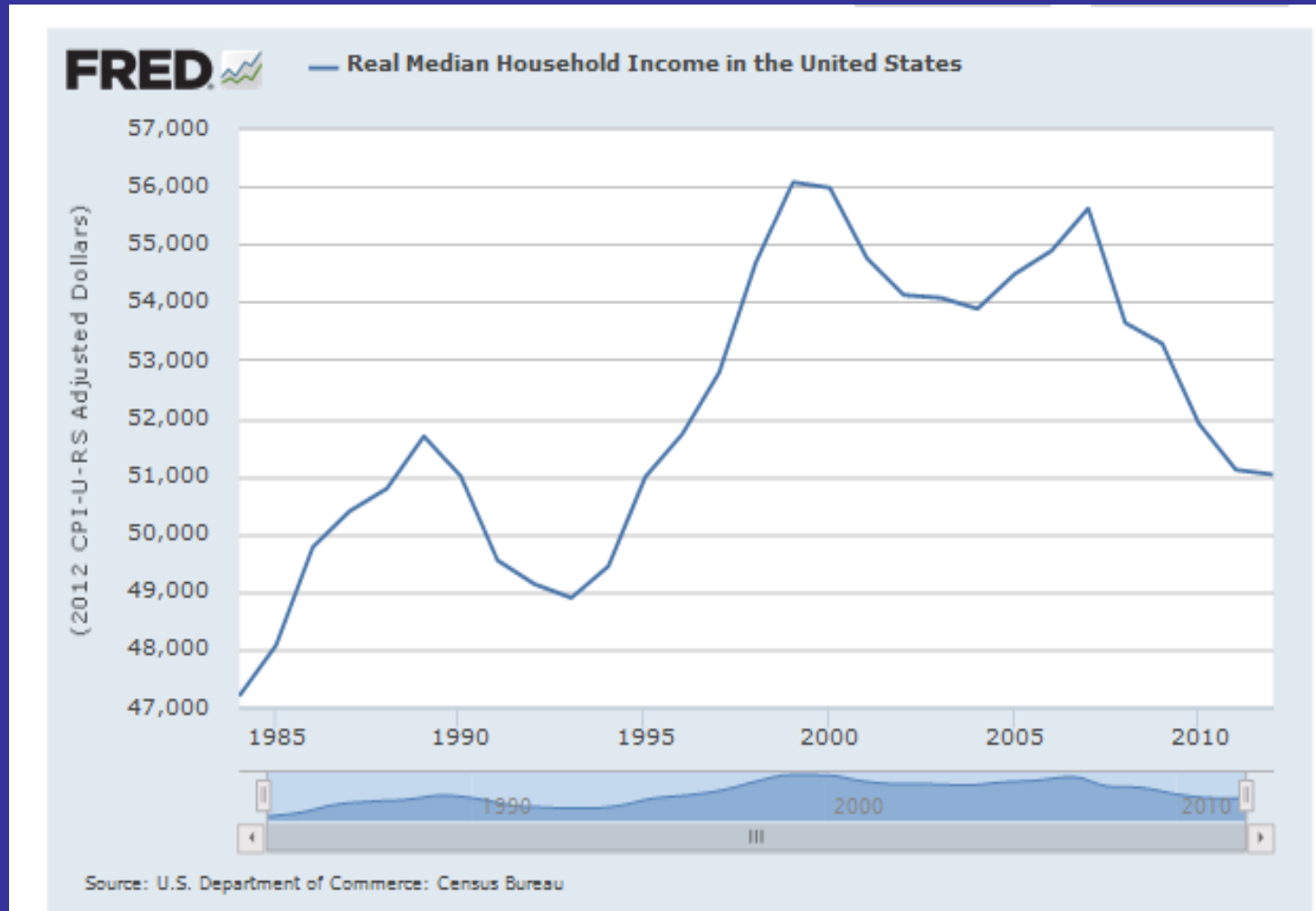
### Home Ownership(%)



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



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 --- no quick fixes to this problem – Also, 15%  
Of population live at or below the poverty level (\$24000 family of 4) –  
i.e., 45 million Americans - Canada's entire population plus 12 million - SAD



# Real household incomes changed little in past 20 years

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

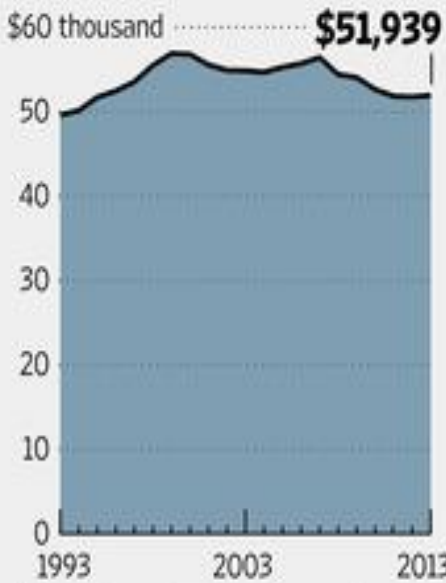
Source: WSJ (<http://online.wsj.com/articles/income-data-show-a-lost-generation-finding-its-bearings-heard-on-the-street-1410892047>)

## Income Statement

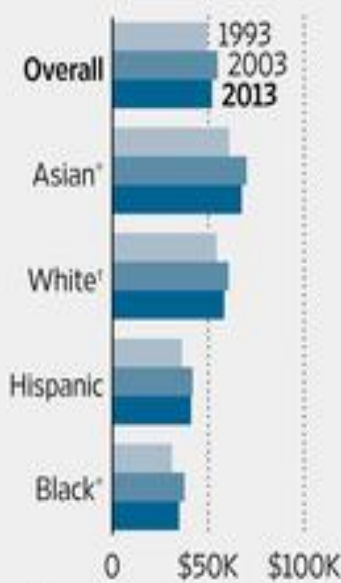
Income ticked up for the first time since the recession, but it remains far from its peak.

U.S. median household income, adjusted for inflation

### OVERALL



### BY RACE, in thousands



### BY INCOME QUINTILE, in thousands



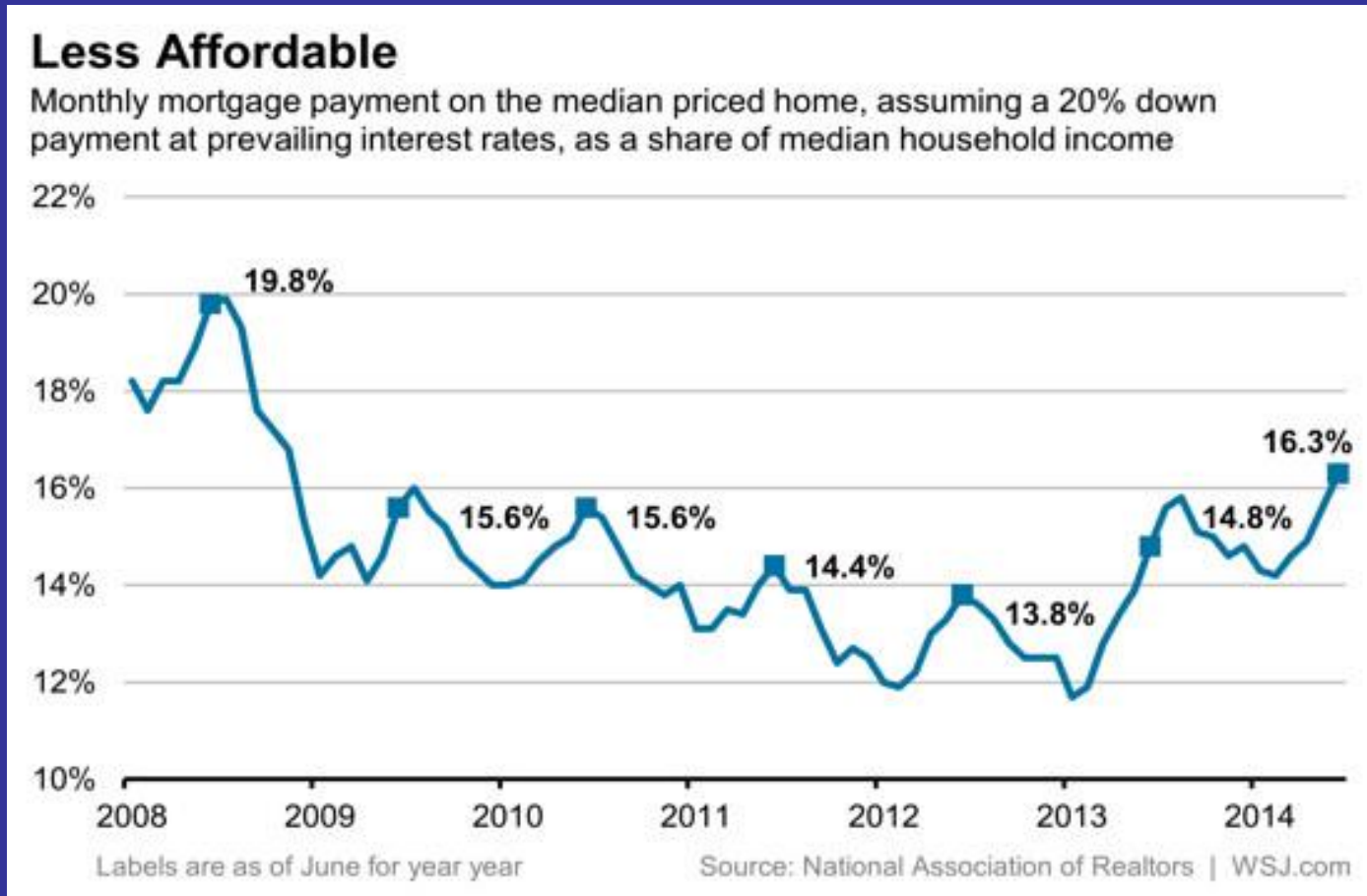
\*Alone or in combination with any other race †non-Hispanic Source: Census Bureau

The Wall Street Journal

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

## Another drag on the housing recovery – decreasing affordability

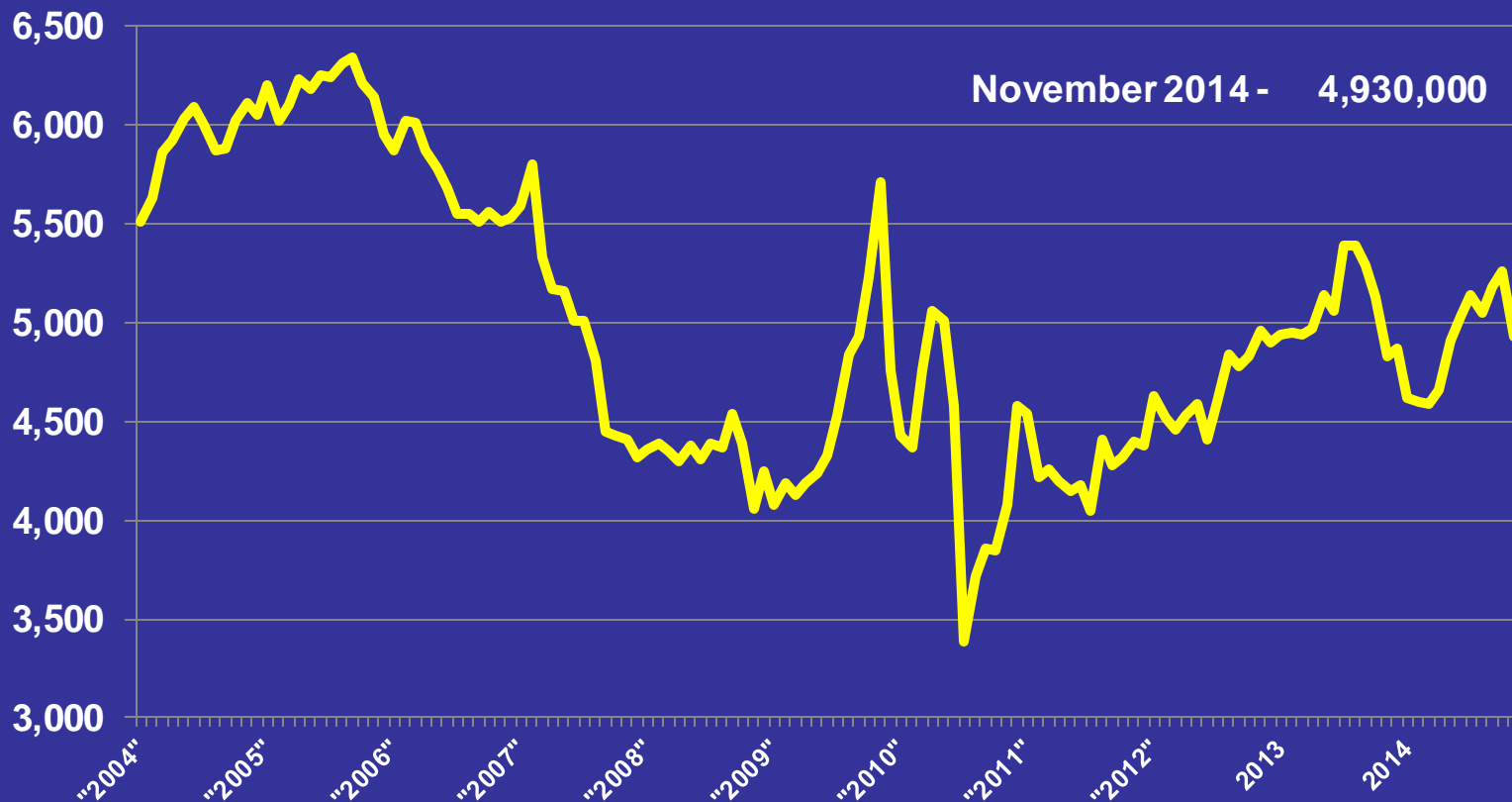
(it's actually worse – many people can't afford the 20% down payment, can't Qualify for a loan with tighter credit restrictions, .... - - we need lots of better Paying jobs to get housing back on its feet )



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

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

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



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

## **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 still below trend, but still improving**
- (2) This is still not a healthy housing market - 1<sup>st</sup> 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 1<sup>st</sup> time buyers, traditionally about 40- 45% of the market. Current market skewed to cash buyers and investors. 1<sup>st</sup> time buyers are mostly young people, but they can't find 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);**
- (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.).**

## 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 fewer people 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) LEADERSHIP IS important – politicians need to work on long term solutions– And, more Americans need to get involved in the voting process – mid term turnout was less than 40%. More people are becoming apathetic

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