August 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
<table>
<thead>
<tr>
<th>Slide 3:</th>
<th>Housing Scorecard</th>
</tr>
</thead>
<tbody>
<tr>
<td>Slide 4:</td>
<td>New Housing Starts</td>
</tr>
<tr>
<td>Slide 5:</td>
<td>Housing Permits and Completions</td>
</tr>
<tr>
<td>Slide 6:</td>
<td>New and Existing House Sales</td>
</tr>
<tr>
<td>Slide 8:</td>
<td>Construction Spending</td>
</tr>
<tr>
<td>Slide 9:</td>
<td>Conclusions</td>
</tr>
<tr>
<td>Slide 10:</td>
<td>European Construction Markets</td>
</tr>
<tr>
<td>Slide 11-50:</td>
<td>Additional Comments &amp; Data</td>
</tr>
<tr>
<td>Slide 51:</td>
<td>Disclaimer</td>
</tr>
</tbody>
</table>
# August 2014 Housing Scorecard

<table>
<thead>
<tr>
<th>Category</th>
<th>M/M</th>
<th>Y/Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing Starts&lt;sup&gt;A&lt;/sup&gt;</td>
<td>▼ 14.4%</td>
<td>△ 8.0%</td>
</tr>
<tr>
<td>Single-Family Starts&lt;sup&gt;A&lt;/sup&gt;</td>
<td>▼ 2.4%</td>
<td>△ 4.2%</td>
</tr>
<tr>
<td>Housing Permits&lt;sup&gt;A&lt;/sup&gt;</td>
<td>▼ 5.6%</td>
<td>△ 5.3%</td>
</tr>
<tr>
<td>Housing Completions&lt;sup&gt;A&lt;/sup&gt;</td>
<td>△ 3.2%</td>
<td>△16.9%</td>
</tr>
<tr>
<td>New Single-Family House Sales&lt;sup&gt;A&lt;/sup&gt;</td>
<td>△18.0%</td>
<td>△33.0%</td>
</tr>
<tr>
<td>Existing House Sales&lt;sup&gt;B&lt;/sup&gt;</td>
<td>▼ 1.8%</td>
<td>▼ 5.3%</td>
</tr>
<tr>
<td>Private Residential Construction Spending&lt;sup&gt;A&lt;/sup&gt;</td>
<td>▼ 0.1%</td>
<td>△ 3.7%</td>
</tr>
<tr>
<td>Single-Family Construction Spending&lt;sup&gt;A&lt;/sup&gt;</td>
<td>△ 0.7%</td>
<td>△ 8.3%</td>
</tr>
</tbody>
</table>

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

Source: <sup>A</sup>U.S. Department of Commerce-Construction; <sup>B</sup>National Association of Realtors® (NAR®)
# New Housing Starts

<table>
<thead>
<tr>
<th></th>
<th>Total Starts*</th>
<th>Single-Family Starts</th>
<th>Multi-Family 2-4 unit Starts</th>
<th>Multi-Family 5 or more unit Starts</th>
</tr>
</thead>
<tbody>
<tr>
<td>August</td>
<td>956,000</td>
<td>643,000</td>
<td>9,000</td>
<td>304,000</td>
</tr>
<tr>
<td>July</td>
<td>1,117,000</td>
<td>659,000</td>
<td>14,000</td>
<td>444,000</td>
</tr>
<tr>
<td>2013</td>
<td>885,000</td>
<td>617,000</td>
<td>13,000</td>
<td>255,000</td>
</tr>
<tr>
<td>M/M change</td>
<td>-14.4%</td>
<td>-2.4%</td>
<td>-35.7%</td>
<td>-31.5%</td>
</tr>
<tr>
<td>Y/Y change</td>
<td>8.0%</td>
<td>4.2%</td>
<td>-30.7%</td>
<td>-19.2%</td>
</tr>
</tbody>
</table>

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

# New Housing Permits and Completions

<table>
<thead>
<tr>
<th></th>
<th>Total Permits*</th>
<th>Single-Family Permits</th>
<th>Multi-Family 2-4 unit Permits</th>
<th>Multi-Family 5 or more unit Permits</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>August</strong></td>
<td>998,000</td>
<td>626,000</td>
<td>29,000</td>
<td>343,000</td>
</tr>
<tr>
<td><strong>July</strong></td>
<td>1,057,000</td>
<td>631,000</td>
<td>30,000</td>
<td>396,000</td>
</tr>
<tr>
<td><strong>2013</strong></td>
<td>948,000</td>
<td>631,000</td>
<td>25,000</td>
<td>292,000</td>
</tr>
<tr>
<td><strong>M/M change</strong></td>
<td>-5.6%</td>
<td>-0.8%</td>
<td>-3.3%</td>
<td>-13.4%</td>
</tr>
<tr>
<td><strong>Y/Y change</strong></td>
<td>5.3%</td>
<td>-0.8%</td>
<td>16.0%</td>
<td>17.5%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Total Completions*</th>
<th>Single-Family Completions</th>
<th>Multi-Family 2-4 unit Completions</th>
<th>Multi-Family 5 or more unit Completions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>August</strong></td>
<td>892,000</td>
<td>591,000</td>
<td>9,000</td>
<td>292,000</td>
</tr>
<tr>
<td><strong>July</strong></td>
<td>864,000</td>
<td>644,000</td>
<td>7,000</td>
<td>213,000</td>
</tr>
<tr>
<td><strong>2013</strong></td>
<td>763,000</td>
<td>569,000</td>
<td>5,000</td>
<td>189,000</td>
</tr>
<tr>
<td><strong>M/M change</strong></td>
<td>3.2%</td>
<td>-8.2%</td>
<td>28.6%</td>
<td>37.1%</td>
</tr>
<tr>
<td><strong>Y/Y change</strong></td>
<td>16.9%</td>
<td>3.9%</td>
<td>80.0%</td>
<td>54.5%</td>
</tr>
</tbody>
</table>

* All data are SAAR

# New and Existing House Sales

<table>
<thead>
<tr>
<th></th>
<th>New Single-Family Sales*</th>
<th>Median Price</th>
<th>Month’s Supply</th>
<th>Existing House Sales B*</th>
<th>Median Price B</th>
<th>Month’s Supply B</th>
</tr>
</thead>
<tbody>
<tr>
<td>August</td>
<td>504,000</td>
<td>275,600</td>
<td>4.8</td>
<td>5,050,000</td>
<td>$219,800</td>
<td>5.5</td>
</tr>
<tr>
<td>July</td>
<td>427,000</td>
<td>280,100</td>
<td>5.6</td>
<td>5,140,000</td>
<td>$221,600</td>
<td>5.5</td>
</tr>
<tr>
<td>2013</td>
<td>379,000</td>
<td>268,900</td>
<td>5.5</td>
<td>5,330,000</td>
<td>$209,700</td>
<td>5.0</td>
</tr>
<tr>
<td>M/M change</td>
<td>18.0%</td>
<td>-1.6%</td>
<td>-14.3</td>
<td>1.8%</td>
<td>5.7%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Y/Y change</td>
<td>33.0%</td>
<td>2.5%</td>
<td>-12.7%</td>
<td>-5.3%</td>
<td>4.8%</td>
<td>10.0%</td>
</tr>
</tbody>
</table>

* All sales data are SAAR

Source: U.S. Department of Commerce-Construction: [www.census.gov/construction/nrs/pdf/newressales.pdf](http://www.census.gov/construction/nrs/pdf/newressales.pdf); NAR® [www.realtor.org/topics/existing-home-sales](http://www.realtor.org/topics/existing-home-sales); 9/22/14
Existing House Sales

National Association of Realtors (NAR®)

August 2014 sales data: 5.05 million houses sold (SAAR)

July 2014: 5.14 million (SAAR) and August 2013: 5.33 million (SAAR)

Distressed house sales: 8% of sales –
(6% foreclosures and 2% short-sales);
9% in July and 12% in August 2013.

All-cash sales: decreased to 23%; 29% in July.

Investors are still purchasing a substantial portion of “all cash” sale houses – 12%, and
16% in July 2014 and 17% in August 2013;

Sixty-four percent of investors paid cash in August.

First-time buyers: increased to 29% (29% in July 2014)
and were 28% in August 2013

Source: © NAR® www.realtor.org/topics/existing-home-sales; 9/22/14
August 2014 Construction Spending

August 2014 Private Construction: $351.69 billion (SAAR)
- 0.1% less than the revised July estimate of $352.14 billion (SAAR)
  3.7% greater than the August 2013 estimate of $339.20 billion (SAAR)

  August SF construction: $188.74 billion (SAAR)
    0.7% less than July: $187.37 billion (SAAR)
    8.3% greater than August 2013: $174.33 billion (SAAR)

  August MF construction: $44.23 billion (SAAR)
    1.4% more than July: $43.62 billion (SAAR)
    35.9% greater than August 2013: $32.54 billion (SAAR)

August Improvement construction: $118.74 billion (SAAR)
- 0.2% more than July: $121.14 billion (SAAR)
- 2.0% less than August 2013: $132.33 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$. 

August data can be viewed as representative of the 2014 housing market to date. Certain subsectors performed okay, and many sectors were disappointing. There has been a lot of volatility in the data, this is expected in multifamily reporting – but not for other sectors. For instance, housing starts and new house sales data has been volatile – and this is not typical.

What does this volatility represent – we have to be patient and pay keen attention to the next few months of 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). Once the economy improves, we should expect to see housing increase as well.

Why?

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,
6) new banking regulations, and
7) global uncertainty?
## July 2014

### EU Housing Scorecard

<table>
<thead>
<tr>
<th></th>
<th>EU 28</th>
<th>M/M</th>
<th>Y/Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production in Construction</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EU 28</td>
<td>0.0%&lt;sup&gt;s&lt;/sup&gt;</td>
<td>Δ 0.6%&lt;sup&gt;s&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td>EU 18</td>
<td>0.0%&lt;sup&gt;s&lt;/sup&gt;</td>
<td>Δ 0.4%&lt;sup&gt;s&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>Δ 1.7%</td>
<td>▼ 1.2%</td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>▼ 1.5%</td>
<td>▼ 2.4%</td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td>Δ 0.1%&lt;sup&gt;p&lt;/sup&gt;</td>
<td>△ 3.1%&lt;sup&gt;p&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td>Spain</td>
<td>Δ 1.0%&lt;sup&gt;ps&lt;/sup&gt;</td>
<td>△ 11.6%&lt;sup&gt;p&lt;/sup&gt;</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Building permits (m&lt;sup&gt;2&lt;/sup&gt; floor)</th>
<th>EU 28</th>
<th>M/M</th>
<th>Y/Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU 28</td>
<td>-.-</td>
<td>-.-</td>
<td>-.-</td>
</tr>
<tr>
<td>EU 18</td>
<td>Δ 3.8%&lt;sup&gt;(06)&lt;/sup&gt;</td>
<td>▼ 1.9%&lt;sup&gt;(06)&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>Δ 4.8%&lt;sup&gt;s&lt;/sup&gt;</td>
<td>▼ 9.1%</td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>▼ 4.0%&lt;sup&gt;s&lt;/sup&gt;</td>
<td>▼ 5.2%</td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td>-.-</td>
<td>-.-</td>
<td>-.-</td>
</tr>
<tr>
<td>Spain</td>
<td>Δ 5.4%&lt;sup&gt;(06)&lt;/sup&gt;</td>
<td>△ 19.2%&lt;sup&gt;e(06)&lt;/sup&gt;</td>
<td></td>
</tr>
</tbody>
</table>

<sup>A</sup> estimate, <sup>s</sup> Eurostat estimate, <sup>p</sup> provisional, <sup>~</sup> no data available, <sup>(06)</sup> June data

M/M = month-over-month; Y/Y = year-over-year
August was another weak month for housing. Housing getting better, but multi family is the driver so far – rental demand is strong!! Single family sales of new homes remains weak!

Housing’s issues - slowing world economy; weak job market; sluggish income growth; tight credit environment continues

Main problem 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. There is no short term fix to this problem. It will take a coordinated effort to address education issues; taxes; smarter health care solutions; and whether or not we (USA) are willing to invest in the future. To do so, we have to postpone some consumption (spending) for now, and invest more in R&D; infrastructure; education; ..... This is going to be made more difficult due to the huge debt our country has accumulated from years of deficit spending (22 years out of past 24 were deficits) – and the growing needs of 75 million retiring baby boomers – severe strain on social programs like SSI and Medicare/Medicaid. Already, Medicare/Medicaid, plus SSI take 60% of today’s federal tax receipts.

A continuation of this scenario will negatively impact housing demand and wood product markets for some time – but, it’s fixable – we just need to get our collective acts together.
Here are some good references from NAHB on Impact Of Housing on the Economy

Gives you some appreciation why housing is so important to the Economy, and why one can’t move forward without the other!!!!

(1) Impact of Homebuilding and Remodeling on the U.S. Economy (May 2014, Paul Emrath)
(2) Housing’s contribution to GDP (NAHB staff)

Housing, Economy, and wood products

Here is another good article on housing’s impact on the economy – why the economy is having problems moving forward.


Here is the dilemma – housing contributes about 4% directly to GDP and another 12 – 15% indirectly, for a total of 16 – 19%. The key to housing’s recovery is good paying jobs with benefits. That means we need a stronger economy. But, with housing and related activities contributing only 15% to GDP, that won’t happen. The old “chicken and egg” dilemma. What is the solution? I’ve read that U.S. businesses have about 2 trillion Dollars stashed on their balance sheets (much of it offshore). If they were to invest that in plant, equipment, job training, technology, R&D, etc., that would create jobs and some momentum for the economy. What is holding them back? Uncertainty is the key reason (and the corporate tax code). We need ‘Washington’ to provide leadership in where the country is headed and how to get there – we need to remove some of the uncertainty. And, they need to convince businesses (and the public) that their vision (to fix the economy) is realistic and they have a viable strategy for achievement. A tall order and I know I have oversimplified things. But, the current mix of politicians in Washington can’t agree on a unified strategy to move the country forward. Consequently, housing, the economy, and hence, the wood products industry, will continue to “underachieve”.

Also, many corporate chieftains don’t see the demand for their products/services. Lack of demand doesn’t encourage investment in additional plant/equipment, or new hiring for that matter. We still have excess plant capacity. Thorny problems!
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

Source: NAHB
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))
Employment situation - our biggest problem - it’s getting better, but the jobs recovery remains weak by past standards, and many jobs (e.g., temporary ones) don’t include health care or retirement benefits – those kinds of jobs don’t encourage people to buy houses.

Net change in non farm payrolls – monthly, thousands

We need 100,000 – 150,000 net new jobs/month To keep up with new entrants to workforce 300,000/month to bring unemployment down

Source: U.S. BLS (www.bls.gov)
Unemployment keeps coming down – but, the quality of many jobs being created is not so good

**There are about 20 million people either unemployed, underemployed, or stopped looking – they are not buying houses**

The real unemployment rate - - 12.0%
Unemployed plus underemployed + stopped looking
= 19.5 million people

Official unemployment rate – 6.1%
Equates to 12 million people


August rate came down because more people stopped looking – if not looking, not counted as unemployed!!
Jobs - Still the main problem with 12% of work force either unemployed (10M), underemployed (7.3M), or marginally attached (2.3M) === about 20 million
But, the labor market is improving, and we should be thankful for that.

Another sign things are getting better
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/SB1000142405270230444130457964764116312288?mod=WSJ]
Economic growth of 4.0% – 2nd qtr 2014 – good bounce from -2.9%
In 1st Qtr – will it continue through rest of 2014?
GDP for 2013 was 1.9% - nothing to write home about

Source: BEA (http://www.bea.gov/newsreleases/national/gdp/gdp_glance.htm)
**Economic and Housing Outlook – downward revisions from July outlook – looks like 2016 is best bet for turnaround?**

<table>
<thead>
<tr>
<th></th>
<th>NAR</th>
<th></th>
<th>NAHB</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>1.6%</td>
<td>2.8%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housing starts(000)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Single (SF)</td>
<td>656</td>
<td>863</td>
<td>643</td>
<td>875</td>
<td>1173</td>
<td></td>
</tr>
<tr>
<td>Multi (MF)</td>
<td>385</td>
<td>428</td>
<td>343</td>
<td>369</td>
<td>368</td>
<td></td>
</tr>
<tr>
<td>Resales (000)</td>
<td>4982</td>
<td>5344</td>
<td>4251</td>
<td>4524</td>
<td>4663</td>
<td></td>
</tr>
<tr>
<td>SF Sales</td>
<td>440</td>
<td>603</td>
<td>441</td>
<td>597</td>
<td>839</td>
<td></td>
</tr>
</tbody>
</table>

Source: NAR [link](http://www.realtor.org/research-and-statistics)
Many markets are slowing down – Phoenix is a good example of a city hurt by housing collapse, then quick rebound until recently. Problem in many cities is lack of traditional buyers with “bargain hunters” disappearing as prices increase.

Source: WSJ (http://online.wsj.com/article/SB14084019601408401960.html?mod=WSJ_hp_LEFTWhatsNewsCollection)
Recent Housing statistics

Background:
Markets are getting better – maybe?
Have we turned the corner? – Probably, but
the climb back will remain muted
until we see economic growth of 3% or
more 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](http://www.census.gov/const/www/newresconstindex.html)

Source: Census (http://www.census.gov/const/www/newresconstindex.html)
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”
Another indication that 1st time buyers are absent from this market - - “dominated by better heeled, move – up buyers with capital and credit to buy larger homes” – Kris Hudson, WSJ

(http://online.wsj.com/news/article_email/1508476927)
Multi family continues to strengthen

Renting is popular because many can’t afford to buy — it’s that simple? Again, JOBS, JOBS…
Rental prices keep increasing as demand outstrips supply. Rental construction strength will continue?
Long term shelter demand is estimated to be about 1.5 million annually based on demographics (65%), replacement demand (25%), and speculative demand including 2nd homes (10%). (to date, the main drivers have been speculators/investors and people paying cash, e.g., in 1st qtr investors were 17% of existing home sales while cash sales were 43% of total purchases)
Some good news – fewer underwater homes means more homes on the market, and this drives prices down – A GOOD THING – also facilitates moving to better paying jobs (i.e., difficult to move when you’re underwater)

![Chart showing percentage of homes underwater in the U.S. from 2011 to 2014 with a decrease from 20% to 17% in 2Q 2014.](image)

Note: Includes only homes that have a mortgage. Based on estimated home values.

Source: Zillow, The Wall Street Journal
Indeed, price increases are slowing as recent Case-Shiller data indicates.
Impact of weak household formations - - homeownership rates have been falling for the past seven 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(%)**

- 2nd qtr 2014 = 64.7% - - - lowest in 18 years
- Rates are heading back to long term trend of 64%
  (which existed between 1968 – 1990)

Source: Census ([https://www.census.gov/housing/hvs/data/q413ind.html](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 30 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!
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)

Real incomes are shrinking – why?

OK – we have discussed this before, but maybe it is time to revisit the issue of education – how it impacts standard of living, the economy, and demand for housing (and wood products)

PS. – a good friend pointed out that this isn’t the only problem facing the economy – agreed – I’m hoping to point out a few other structural Issues in future housing notes.

The next few slides are from a recent study by Standard and Poor’s, a reputable organization in my opinion. The title of the report “How Increasing Income Inequality is dampening U.S. economic growth, And Possible ways to change the tide.”

[link]
Education pays - a no brainer!!
(study by Standard and Poor’s – a reputable organization)
If education pays, why is U.S. slipping behind?

Chart shows percentage of college degrees by age group - note the difference between young and old. E.g., in most countries, young people are better educated, but in U.S., there is little difference. I don't know about you, but I would feel a lot better if the next generation was better educated than their parents.
Education can improve our economy – again, why are we Falling behind?

PS. A colleague suggested that better education alone won’t fix the economy – I agree – we have additional structural problems
What’s the problem and how do we solve it?
(you have seen this movie before, but let’s take another look)

We consume too much and don’t invest enough in our future - - - most of our competitors consume 60% or less of the output of their economy – yet, we consume 70% or more. We need to consume less and invest more in education, infrastructure, R&D, ....

This is a legitimate strategy for improving our economy, and promoting more demand for housing, and wood products through increasing standards of living.

I know this is an oversimplification – but, one strategy is we need to change the tax laws to favor investment and discourage consumption (at least until we regain our global competitiveness). And, the government needs to be involved. By the way, this is what we did following WWII – after the war was over, the GI Bill encouraged soldiers to get an education, and other laws were enacted to encourage America to invest in its future (e.g., Eisenhower knew the importance of investing in a world class interstate highway system).

Bottom line – if we don’t invest in our future, we won’t have one!
this type of economy not sustainable – insufficient investment in infrastructure, R&D, education makes us less competitive and this leads to reduced standard of *living* and less *housing demand*

Source: BEA (http://bea.gov/national/nipaweb)

*Consumer spending 70% (consumption of goods & services by/for the consumer) – less of this too*

*Government spending 19% – less of this*

*Non residential Investment*  
11% - *we need more of this*

*Residential Investment (new construction plus R&A/remodeling)* 5.3%

*This will improve if we “get our act together”*

Source: BEA (http://bea.gov/national/nipaweb)
U.S. Economy 2013 - - GDP as % of Economy = 68.5%

China consumes <40%; Russia < 50%; Europe <60%

Consumer spending 68.5% (consumption of goods & services by/for the consumer)

- less of this too

Government spending 19%

Net Exports (- 3.0)% - if we invest more and consume less, this figure will improve

Non residential investment 12.2% - we need more of this

Residential Investment ( new construction plus R&A/remodeling) 3.0%

This will improve if we “get our act together”

Source: BEA (http://bea.gov/national/nipaweb)
New home sales - - This is key statistic to watch – new single family sales drive wood product demand more than any other housing number – this market remains very weak and will probably continue that way until the job market strengthens (good jobs that is!)

![Graph showing New One Family Houses Sold: United States](image)

July 412
Resale market – In July, more than 29% were cash sales, including foreign buyers and investors – not sustainable scenario – that said, inventories are growing and the market continues to improve with distressed sales continuing to fall.

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 muddle along until 2016 - i.e., 2015 still below trend
(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 jobs.
(4) Political discourse will continue to slow a truly strong economic and housing recovery.
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”

(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 – non presidential turnout is less than 40%. If you don’t vote, don’t complain about the outcome or resulting poor or lack of legislation.
Smaller shortfall, but still lots of red ink – if this were a company, it would be bankrupt – Current tax receipts are $2.976 trillion, spending is $3.53 trillion. 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.

---

**Smaller Projected Shortfall**

Federal budget surplus/deficit, in billions

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>surplus</td>
<td>▲</td>
<td>▲</td>
<td>▲</td>
<td>▲</td>
<td>▲</td>
</tr>
<tr>
<td>deficit</td>
<td>▼</td>
<td>▼</td>
<td>▼</td>
<td>▼</td>
<td>▼</td>
</tr>
</tbody>
</table>

Projections as of: April, August

Note: Fiscal year ends Sept. 30.
Source: Congressional Budget Office

The Wall Street Journal
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.