

April 2013 Housing Commentary



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April 2013 Housing Scorecard

	M/M	Y/Y
Housing Starts ^A	▽ 2.1%	△13.1%
Single-Family Starts ^A	△ 2.1%	△20.8%
Housing Permits ^A	△ 3.9%	△35.8%
Housing Completions ^A	▽14.3%	△ 3.3%
New Single-Family House Sales ^A	△2.3%	△29.0%
Existing House Sales ^B	▽0.6%	△ 9.7%
Private Residential Construction Spending ^A	▽0.1%	△18.2%

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

New Housing Starts

	Total Starts*	Single-Family Starts	Multi-Family 2-4 unit Starts	Multi-Family 5 or more unit Starts
April	853,000	610,000	9,000	234,000
March	1,021,000	623,000	22,000	376,000
2012	754,000	505,000	9,000	240,000
M/M change	-16.5%	-2.1%	-59.1%	-37.8%
Y/Y change	+13.1%	+20.8%	0.0%	-2.5%

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

New Housing Permits and Completions

	Total Permits*	Single-Family Permits	Multi-Family 2-4 unit Permits	Multi-Family 5 or more unit Permits
April	1,017,000	617,000	26,000	374,000
March	890,000	599,000	25,000	266,000
2012	749,000	484,000	23,000	242,000
M/M change	+14.3%	+3.0%	+4.0%	+40.6%
Y/Y change	+35.8%	+27.5%	+13.0%	+54.5%
	Total Completions*	Single-Family Completions	Multi-Family 2-4 unit Completions	Multi-Family 5 or more unit Completions
April	689,000	536,000	4,000	149,000
March	804,000	594,000	5,000	205,000
2012	667,000	489,000	3,000	175,000
M/M change	-14.3%	-9.8%	-20.0%	-27.3%
Y/Y change	+3.3%	+9.6%	+33.3%	-14.9%

New and Existing House Sales

	New Single-Family Sales*	Median Price	Month's Supply	Existing House Sales ^{B*}	Median Price ^B	Month's Supply ^B
April	454,000	\$271,600	4.1	4,970,000	\$192,800	5.2
March	444,000	\$250,700	4.1	4,940,000	\$183,900	4.7
2012	352,000	\$236,400	4.9	4,470,000	\$173,700	6.6
M/M change	+2.3%	+8.3%	0.0%	+0.6%	+4.8%	+10.6%
Y/Y change	+29.0%	+14.9%	-16.3%	+9.7%	+11.0%	-21.2%

* All sales data are SAAR

Existing House Sales

National Association of Realtors (NAR®)^B

April 2013 sales data:

Distressed house sales: 18% of sales –
(11% foreclosures and 7% short-sales)

Distressed house sales: 21% in March
and 28% in April 2012

All-cash sales: increased to 32% – 30% in March

Investors are still purchasing a substantial portion of
“all cash” sale houses – 19%;
19% in March 2013 and 20% in April 2012

First-time buyers: decreased to 29% (30% in March 2013)
and were 35% in April 2012^B

April 2013 Construction Spending

Private Construction: \$301.87 billion (SAAR)

-0.1% below the revised March estimate of \$302.22 billion (SAAR)

18.8% above the April 2012 estimate of \$254.14 billion (SAAR)

April SF construction: \$165.77 billion (SAAR)

1.4% greater than March: \$163.44 billion (SAAR)

38.6% greater than April 2012: \$119.58 billion (SAAR)

April MF construction: \$29.18 billion (SAAR)

3.4% greater than March: \$28.22 billion (SAAR)

48.6% greater than April 2012: \$19.63 billion (SAAR)

April Improvement^C construction: \$106.93 billion (SAAR)

3.5% greater than March: \$103.28 billion (SAAR)

-6.9% less than April 2012: \$114.94 billion (SAAR)

^C The US DOC does not report improvements directly, this is an estimation.

Conclusions

Our assessment of the U.S. housing market and the U.S. economy has not changed over the past month. The housing market continues to heal; yet, recent housing data was somewhat muddled. Thus, there remain a number of potential negative and/or lackluster macro-factors for a robust housing recovery, such as:

- 1) Consumer confidence – increasing,
- 2) a lack of well-paying jobs,
- 3) a sluggish economy,
- 4) declining real median annual household incomes,
- 5) strict home loan lending standards, and
- 6) new banking regulations.

Housing comments –May , 2013

Still lots of headwinds to deal with:

- economy is getting better, albeit very slowly
- government debt issues – all levels of government – exacerbates the job problem
- Much of Europe in recession – major banking problems – Cyprus is latest – China is slowing too
- Housing's main problems - Weak domestic economy made

worse by slowing world economy; weak job market; poor income growth; high debt levels; and tight credit environment

- Demand (not enough), Debt and uncertainty are some of serious problems that are impacting the economy.
- A major concern I have is what happens when the Fed stops “printing money”. Today's economy is being propped up by cheap money - this is creating another “bubble” – this time the stock market. I guess we don't remember 2008 when cheap money helped create the “housing bubble” that led to a near collapse of financial markets. If we're going “print money”, let's spend it on investments that will make us more competitive thus creating jobs needed to support a standard of living that supports a stronger housing market.

Background:

Housing Markets are getting better –

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!!! That probably won't happen for until 2014 or 2015?

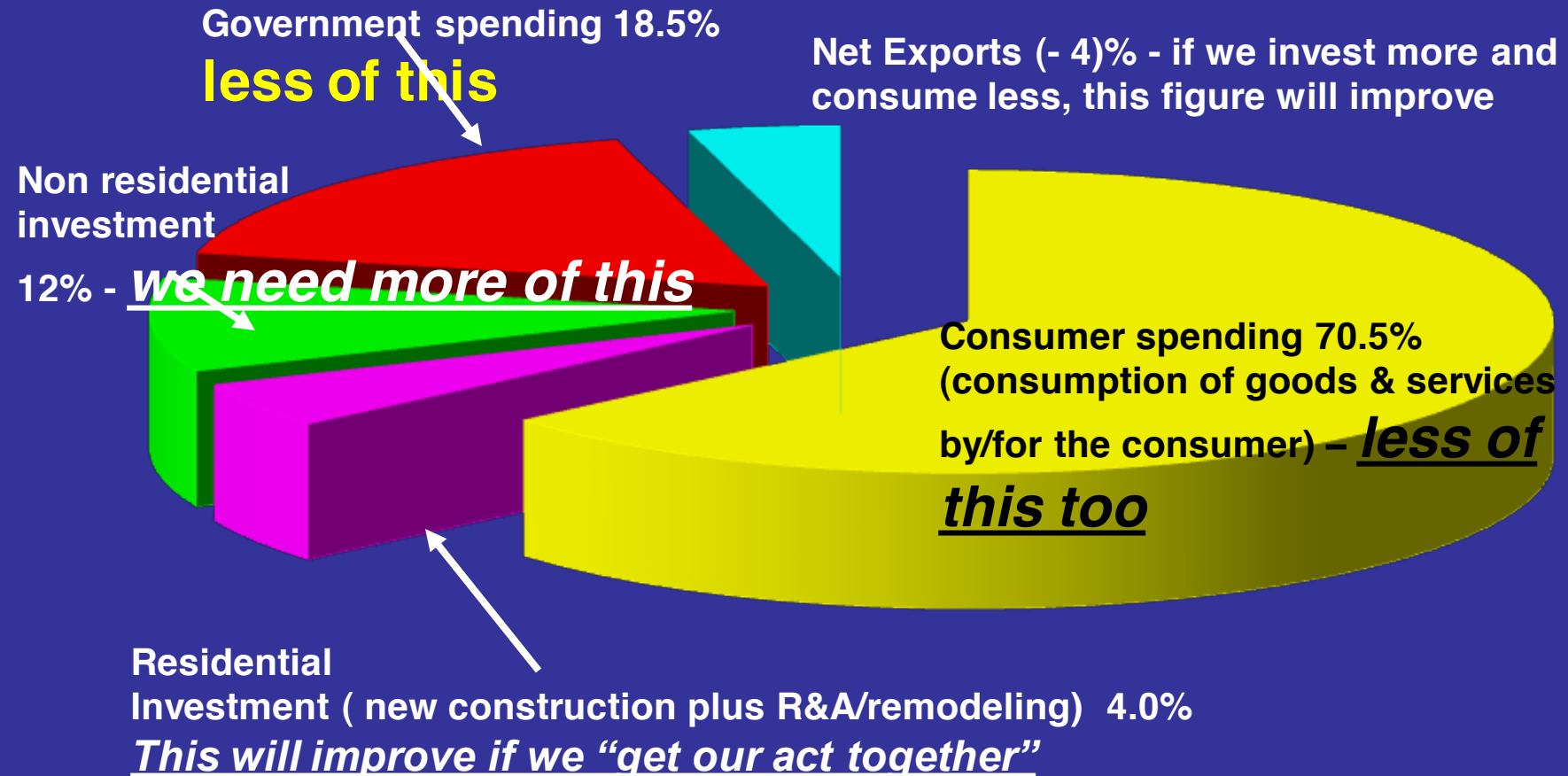
Today, there is lots of slack in the economy – i.e., there is a gap between what the economy can produce and demand for goods and services. As long as that continues, wage and income growth will remain weak, and the economy will limp along.

So, how do we get 3% GDP growth. We need demand – that means job creation – that means “Washington” has to get its’ “collective act together” and show much needed leadership. As of March 2013, I don't see nearly enough “leadership” from our elected officials – we need cooperation to deal with thorny issues like debt, entitlement reform, taxes, So far, very little progress. All the while, our debt situation keeps getting worse – sometime in the future we will need to pay those debts off and when interest rates rise (and they will), just paying the interest will take a much bigger share of our GDP.

And, we have to invest more for our future, and consume less for now (see next slide). FYI, China's GDP is entirely different – investment is 50% or more while consumption is less than 25%

U.S. Economy 2000 – 2012

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>)

Before we discuss the latest housing data, let's briefly
Look at the relationship between the economy, housing,
And wood products.

1st two slides show that the economy and housing are closely related

3rd slide shows that both panels and lumber demand is
Driven by housing, both starts and remodeling

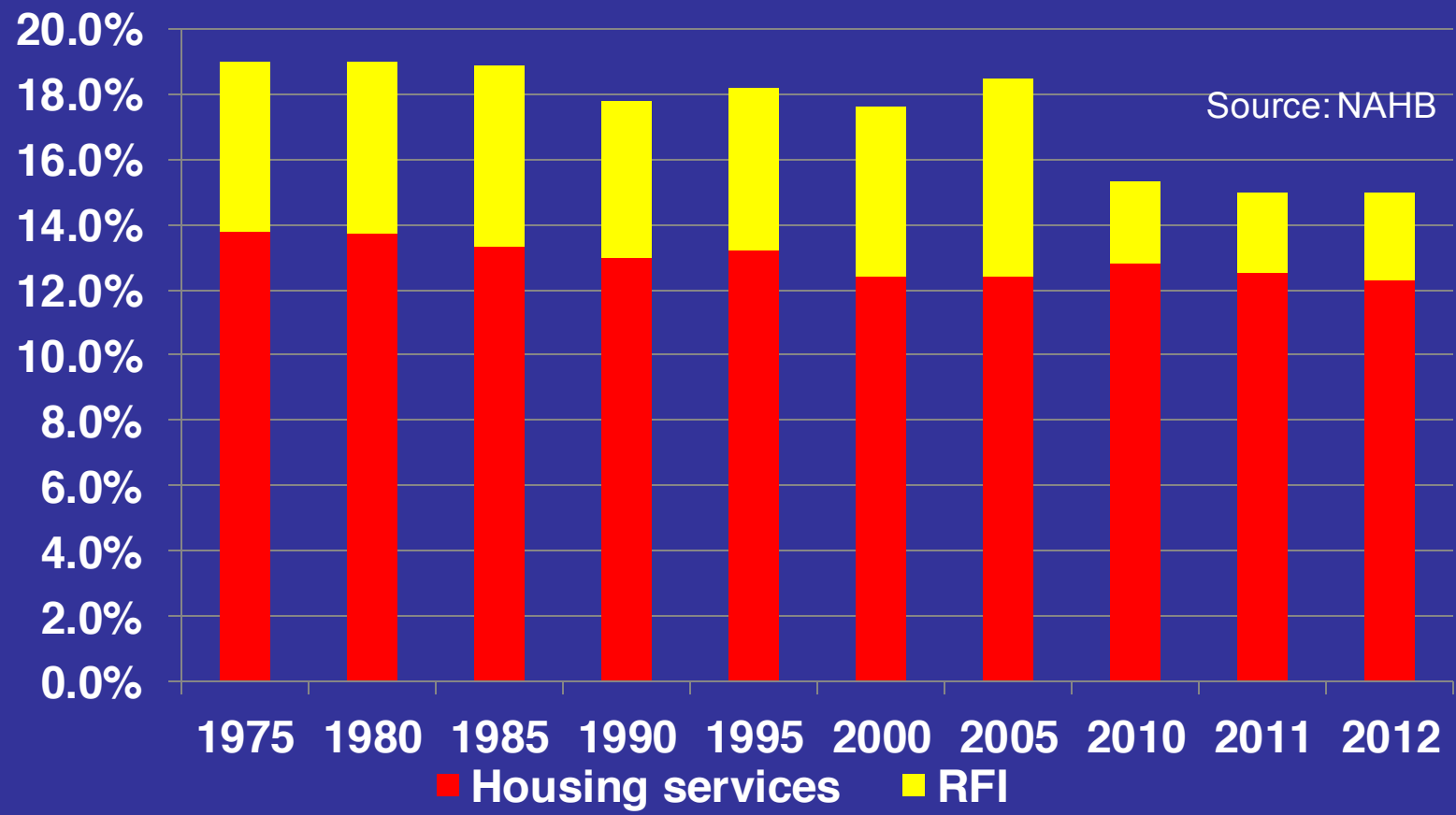
4th – 7th slides shows how wood prices respond to housing
start. This is essentially economics 101 – housing
(demand) drives wood prices – strong demand drives
prices up and vice versa

8th slide shows Conference Board's latest U.S. outlook

9th slide shows latest outlook from NAHB

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 (incl utilities) + owner's imputed rent (how much it would cost to rent owner occupied homes) plus utility payments
RFI (residential investment) = construction of new SF and multifamily structures, remodeling, manufactured homes , plus broker's fees



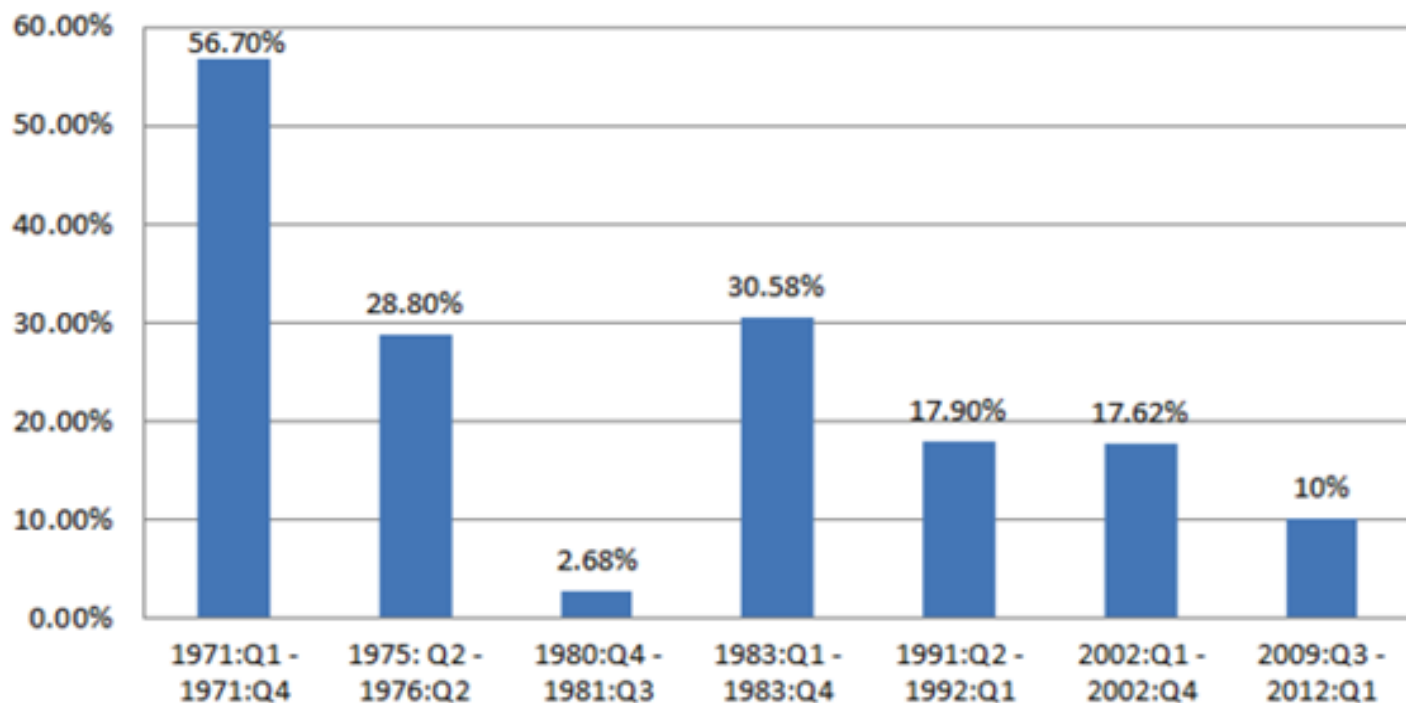
Housing (and car sales) help drive the economy -

But you can see how much less impact there has

Been with the latest recession.- i.e., 10% impact during 2009 – 2012

Versus almost 18% during 2002 and 1991/1992, and 31% during 1983

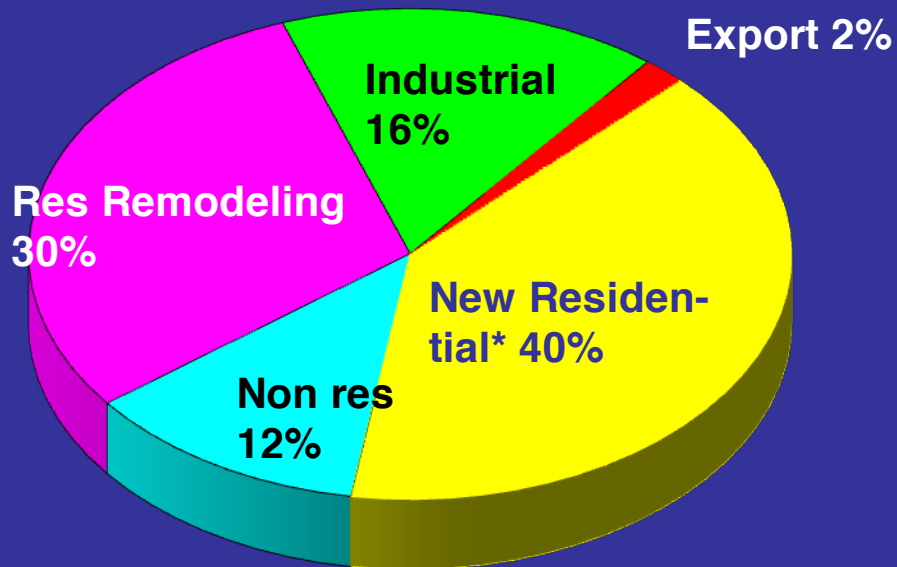
**Post-Recession Average GDP
Growth Due to Car and House Sales**



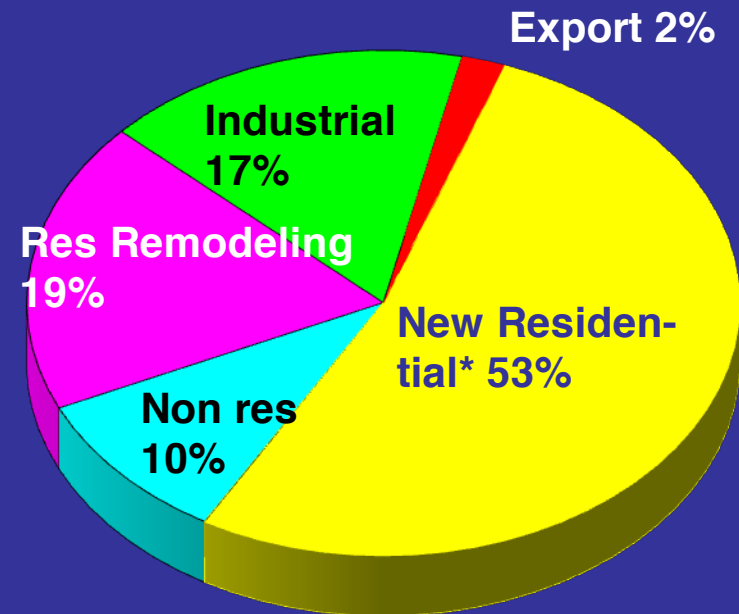
Source: (<http://www.theatlantic.com/business/archive/2012/12/the-most-overlooked-statistic-in-economics-is-poised-for-an-epic-comeback-household-formation/266573/>)

Softwood Market Shares: Average during 1998 – 2007

U.S. Softwood Lumber



U.S. Structural Panels

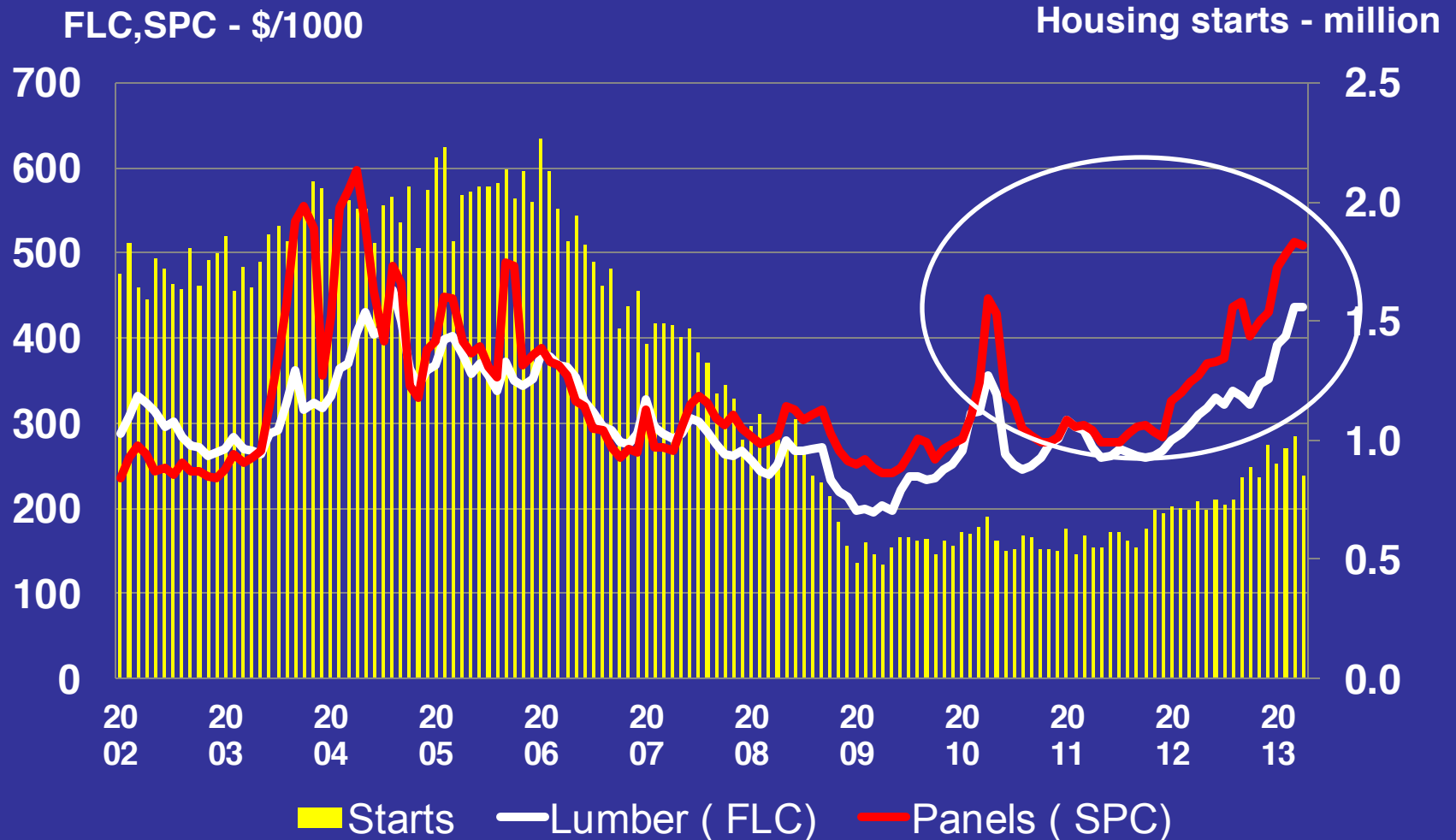


*New Residential incl. SF, MF, and Mobile Homes

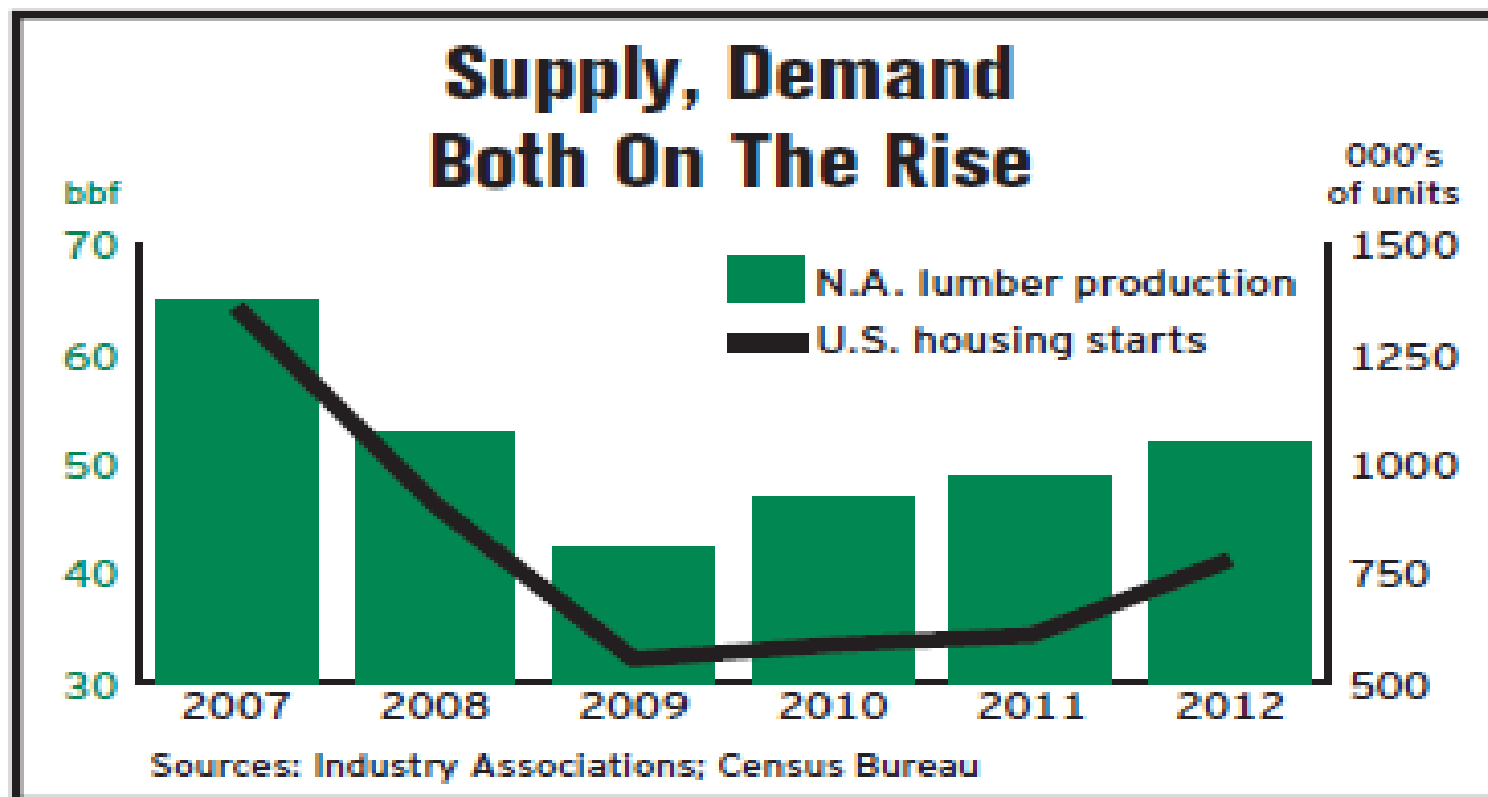
Source : Lumber – WWP; Panels - APA

Housing starts and wood product prices – Economics 101

Following housing bust in 2008, wood prices fell and production capacity was reduced. So, when housing starts increased, there was an imbalance between demand and supply of wood products. The price mechanism brings demand and supply into balance. Initially, prices fell almost 50% - this instigated production cutbacks of 50% or more – then, as housing begins to turn around, prices increase - this encourages Production increases for wood products – and the cycle starts over.

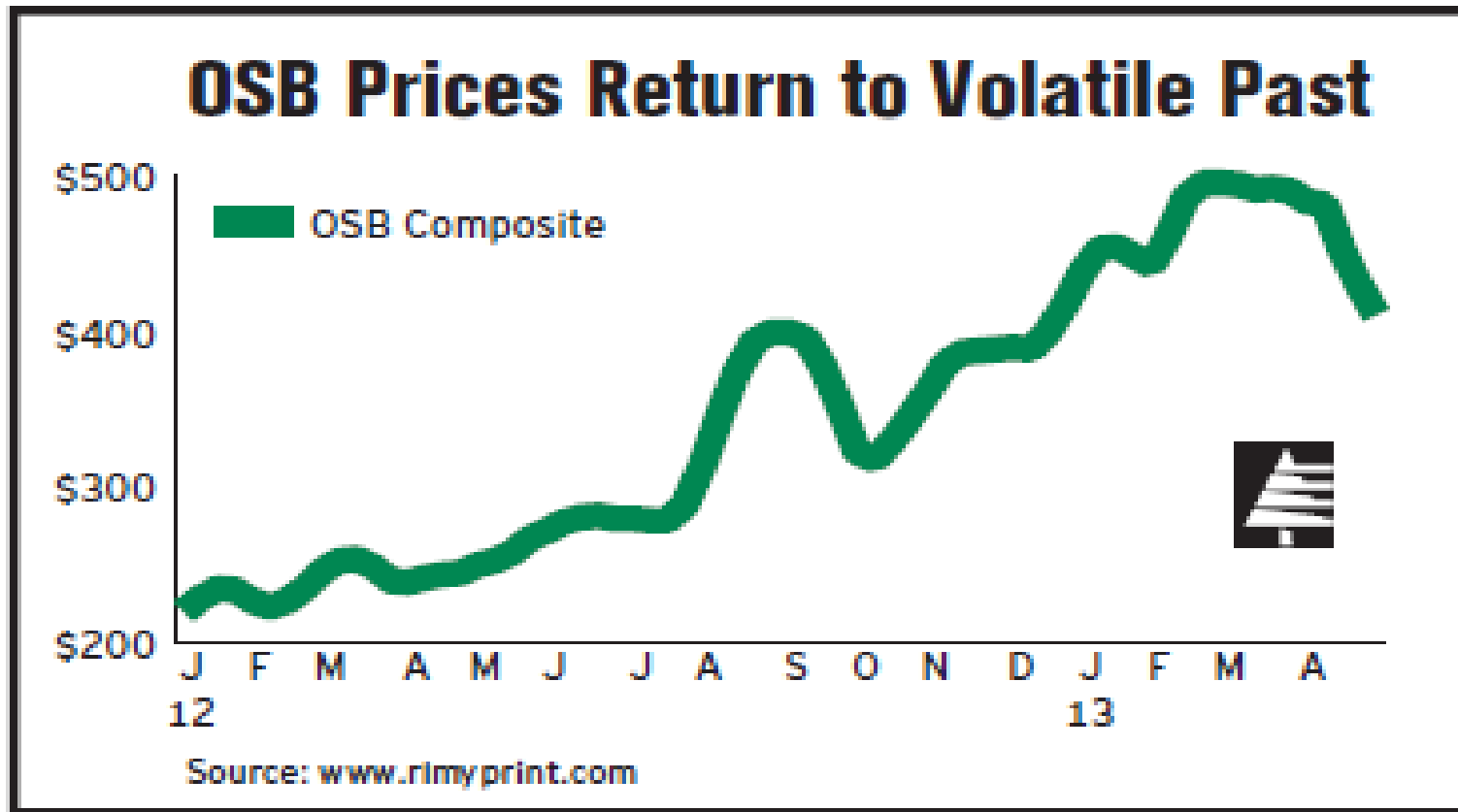


More Economics 101 - Following the housing collapse, production fell from 65bbf to 42bbf, or about 57%. Prices fell about the same. As housing rebounds, production rebounded To 52bbf or about 25%



www.randomlengths.com

Another aspect of wood prices – volatility -
a challenging (and interesting) business



www.randomlengths.com

Wood product pricing should be solid for the next two years or so due to - -

- (1) improving housing market
- (2) demand for wood products outstrips supply as previous production cutbacks catch up with demand
- (3) structural products (framing lumber, osb, plywood), and hardwood based products like furniture, kitchen cabinets, flooring, all benefit from residential construction including new construction plus remodeling.

Latest Economic outlook from the Conference Board

The U.S. Economic Forecast

Updated: May 15, 2013

Percentage change, seasonally adjusted annual rates (except where noted)

	2013				2014	2012	2013
	I Q	II Q	III Q	IV Q	I Q	Annual	Annual
Real GDP	2.5	0.8	1.6	2.1	2.6	2.2	1.6
Real Consumer Spending	3.2	1.9	2.1	2.0	2.5	1.9	2.2
Housing Starts mil. Units	0.97	1.07	1.09	1.10	1.17	0.78	1.06
Real Capital Spending	2.1	5.0	6.2	8.1	7.6	8.0	5.1
Net Exports Bill	-400.8	-405.6	-410.0	-422.1	-427.9	-400.7	-409.6

* Actual Value

Source: Conference Board (<http://www.conference-board.org/data/usforecast.cfm>)

NAHB's Latest Forecast

Housing and Interest Rate Forecast, 5/03/2013

	2008	2009	2010	2011	2012	2013	2014
<i>Housing Activity (000)</i>							
Total Housing Starts	900	554	585	612	781	1,006	1,207
Single Family	616	442	471	434	534	672	858
Multifamily	284	112	114	178	247	334	349
New Single Family Sales	482	374	321	307	366	460	622
Existing Single-Family Home Sales	3,655	3,868	3,705	3,793	4,130	4,417	4,564
<i>Interest Rates</i>							
Federal Funds Rate	0.13%	0.13%	0.13%	0.13%	0.13%	0.13%	0.13%
90 day T Bill Rate	1.39%	0.15%	0.14%	0.05%	0.09%	0.07%	0.12%
Treasury Yields:							
One Year Maturity	1.82%	0.47%	0.32%	0.18%	0.18%	0.14%	0.22%
Ten Year Maturity	3.67%	3.26%	3.21%	2.79%	1.80%	1.89%	2.46%
Freddie Mac Commitment Rates:							
Fixed Rate Mortgages	6.04%	5.04%	4.69%	4.46%	3.66%	3.44%	4.01%
ARMs	5.17%	4.71%	3.79%	3.04%	2.69%	2.55%	2.62%
Prime Rate	5.09%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%

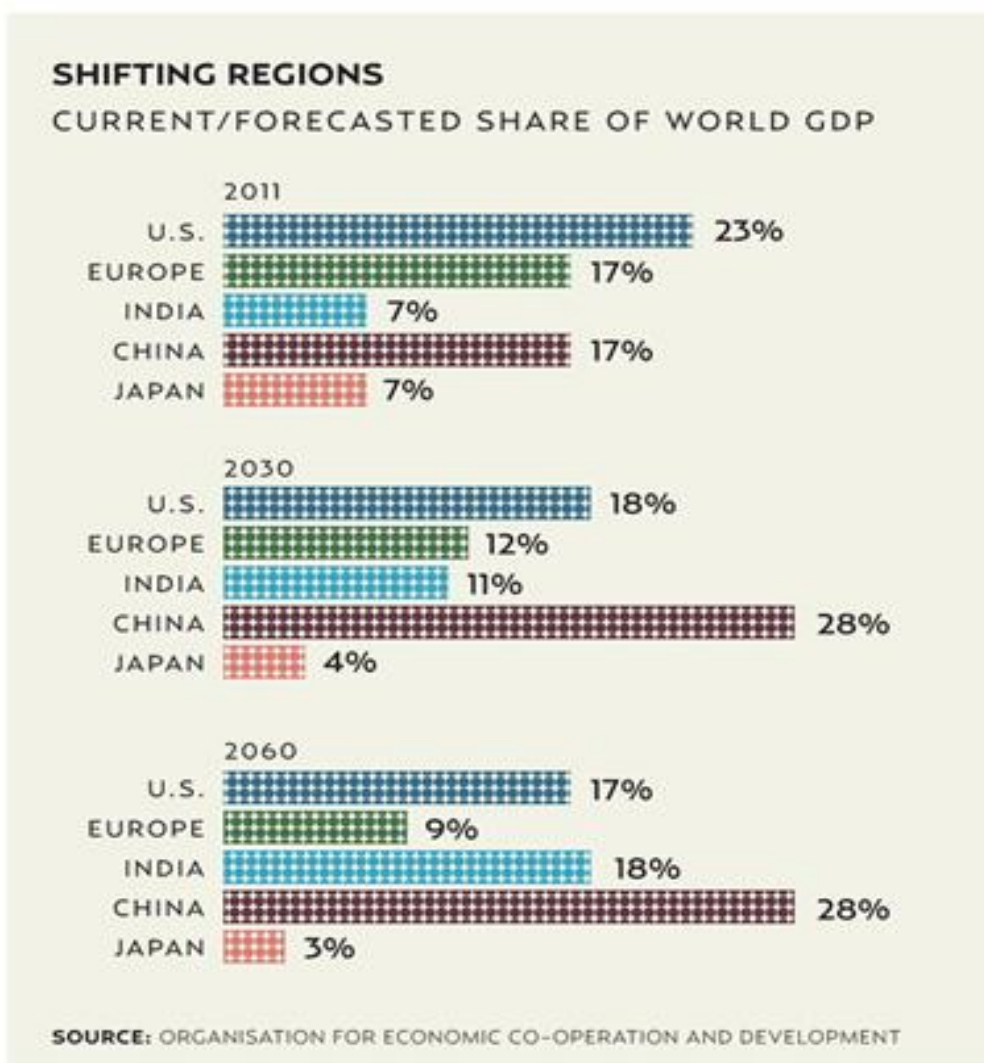
Data are averages of seasonally adjusted quarterly data and may not match annual data published elsewhere.

Global Outlook from Conference Board

Global Outlook for Growth of Gross Domestic Product, 2013-2025 (January 2013)



Changing World Economies – Asia becomes more important As Europe and U.S. become less important

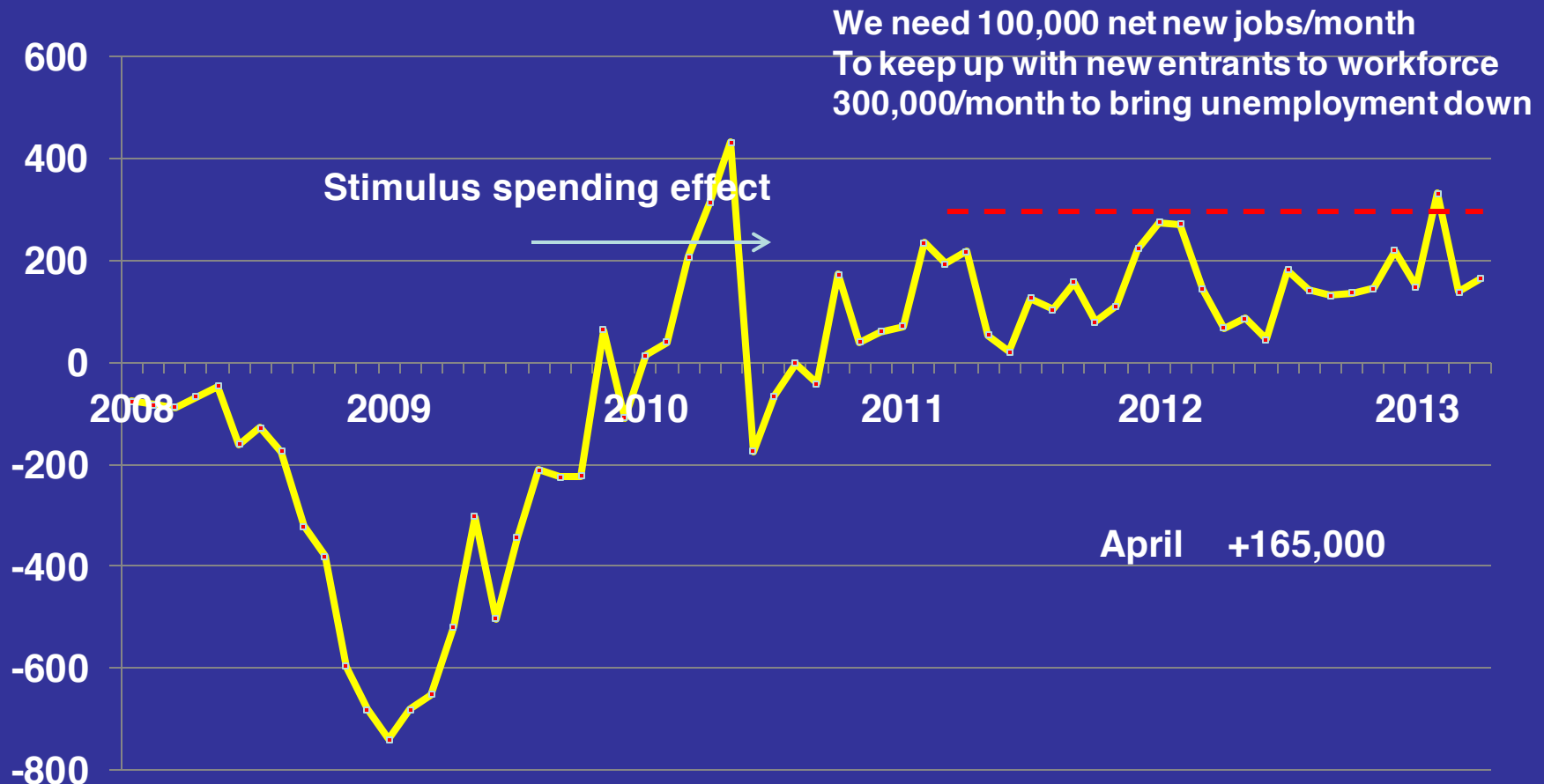


Economic growth is challenging without the help of a healthy housing market

I keep repeating this slide, but there is no way housing can return to “normal” (~ 1.5million starts) without a robust economy and the economy can’t get “revved up” without a healthy housing market

Employment situation - our biggest problem - it's getting better, but the jobs recovery remains weak by past standards, and many jobs
Don't include health care or retirement benefits (because they are
Often part time jobs) – those kinds of jobs don't encourage people to buy houses

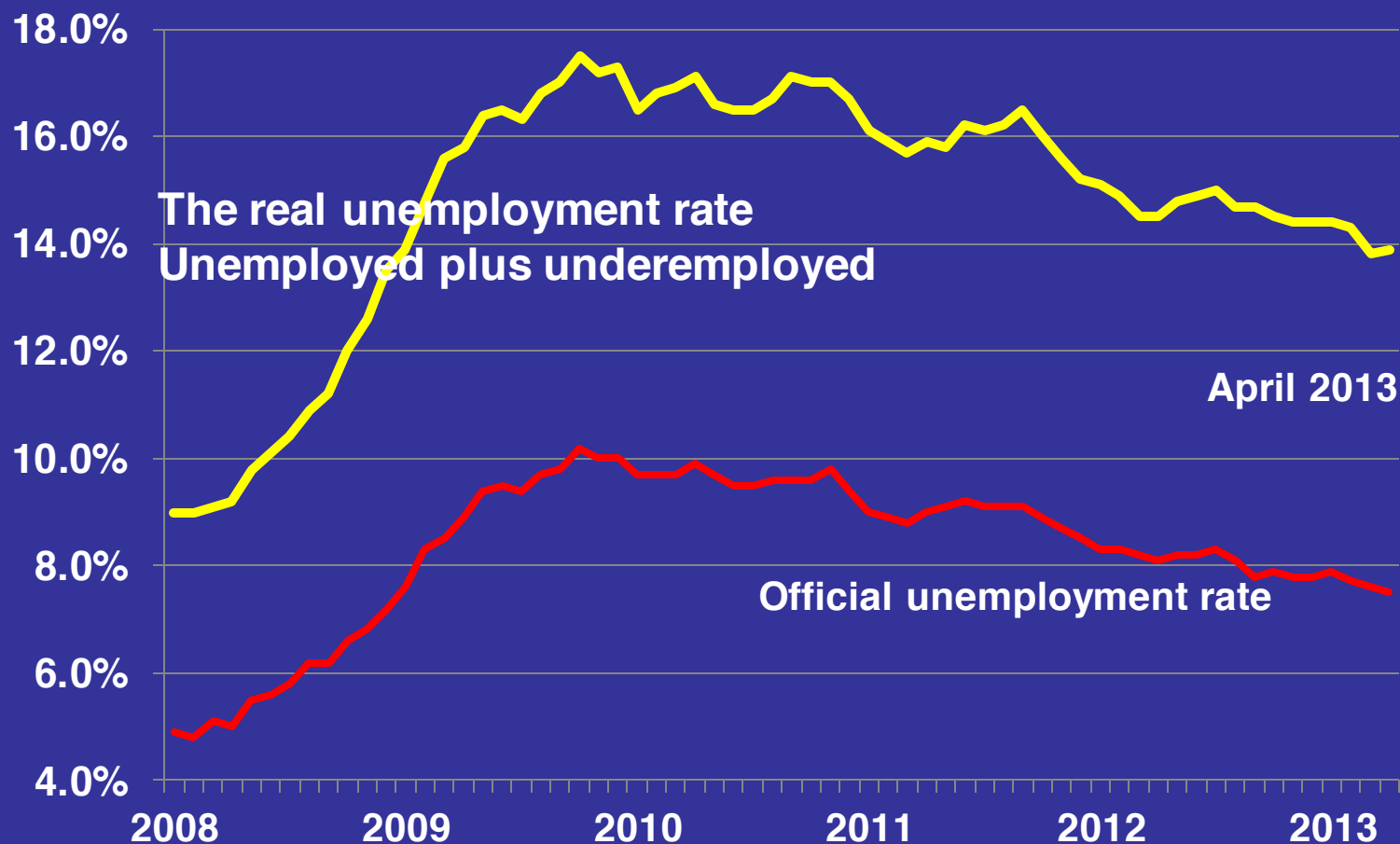
Net change in non farm payrolls – monthly, thousands



Source: U.S. BLS (www.bls.gov)

Unemployment remains high and will remain relatively high for several years – but, it's getting better “slowly”

There are about 21 million people either unemployed , underemployed, or stopped Looking – **they are not buying houses



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

Other employment issues –

- The workforce is shrinking and
Labor force participation rate is lowest since WWII
Some implications – more problems funding social programs
- 42% of U.S. households with the head of HH <65 (excl. SSI),
are receiving government aid – food stamps, Medicaid;
disability; housing allowance; UI; etc. This is unprecedented
and suggests that our employment problems are more serious
than the monthly UI numbers suggest. Also indicates serious
personal problems related to unemployment. Why job
creation should be number one priority!!!

(http://online.wsj.com/article/SB10001424127887323511804578298151374531578.html?mod=WSJ_US_News_3)

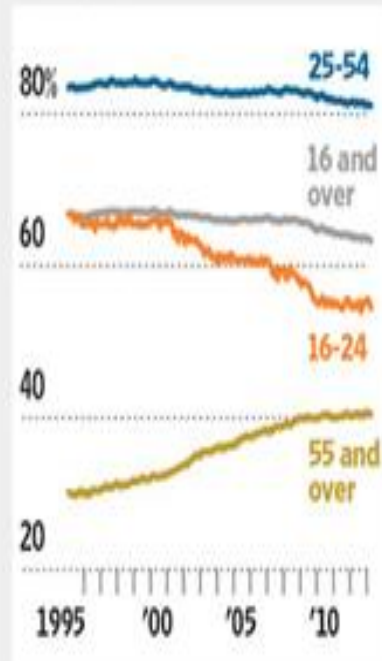
- Capacity utilization remains below 80% - that means firms
won't invest and that means weak job growth
(and weak income growth)
- Going forward, this will be a huge drag on the federal
(and other government levels) budgets – implications for
taxes, spending, domestic programs, and job creation

Shrinking workforce driven by many factors - aging baby boomers; young people stay in school; weak job market

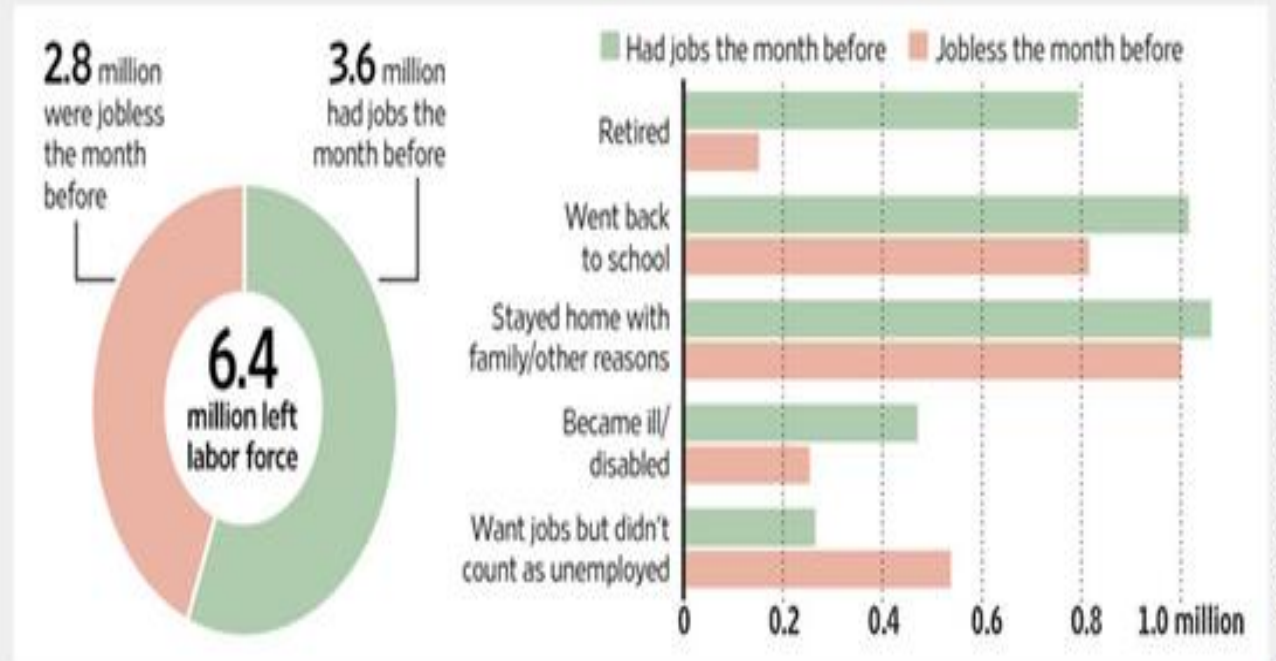
Dropping Out

The share of the U.S. population that is working or looking for work is shrinking, as older workers retire and younger ones stay in school. The weak labor market is also driving some job seekers to abandon their search.

Labor force participation rate, by age*



Number of people who left the labor force in March and the reasons why they left

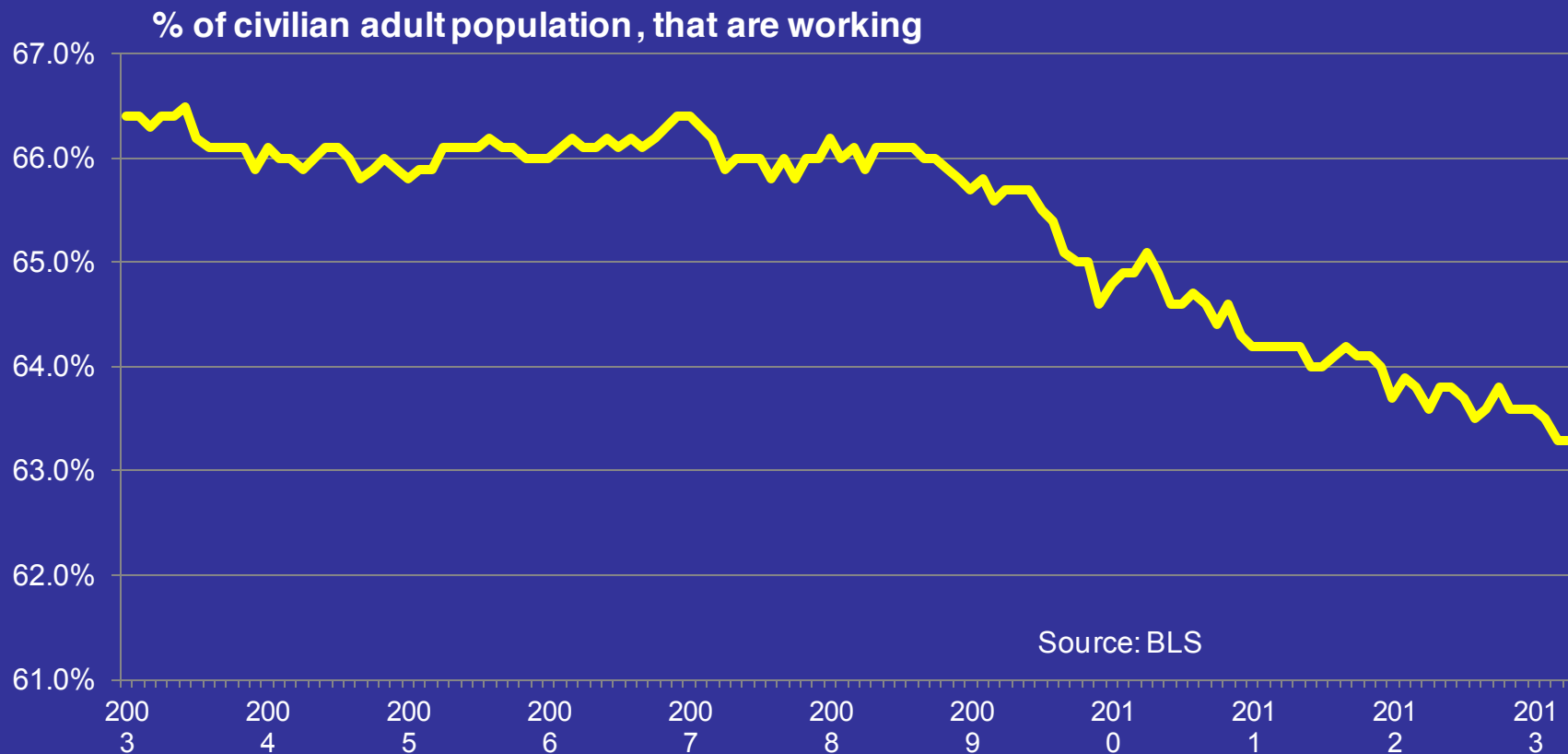


*Seasonally adjusted Sources: Labor Department; WSJ analysis of Current Population Survey data

The Wall Street Journal

Labor force participation rate is shrinking -

Major problems for social programs with our aging population – fewer people paying taxes, but more people collecting SSI, Medicare, etc.

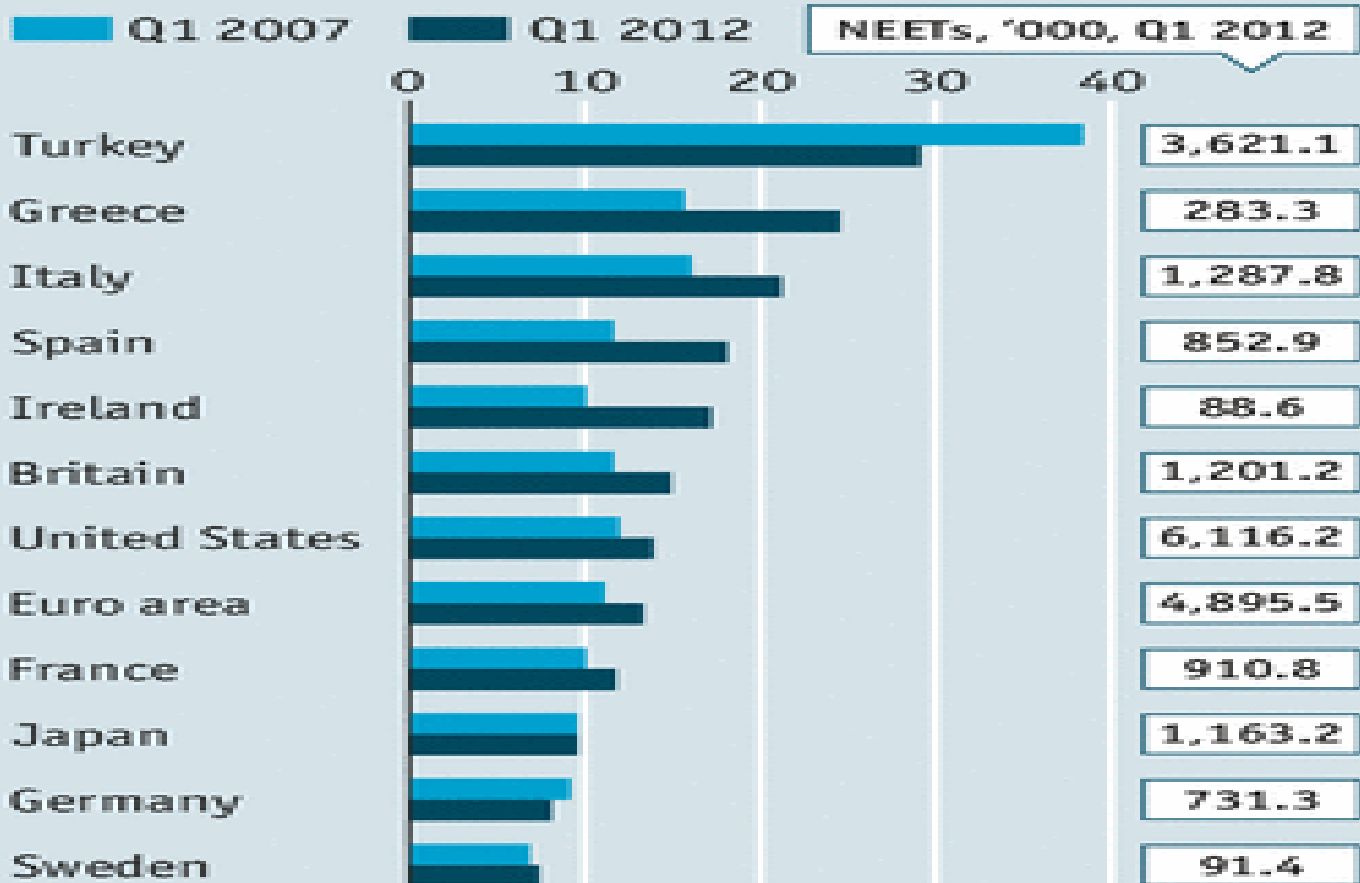


Youth unemployment is a serious problem worldwide

3

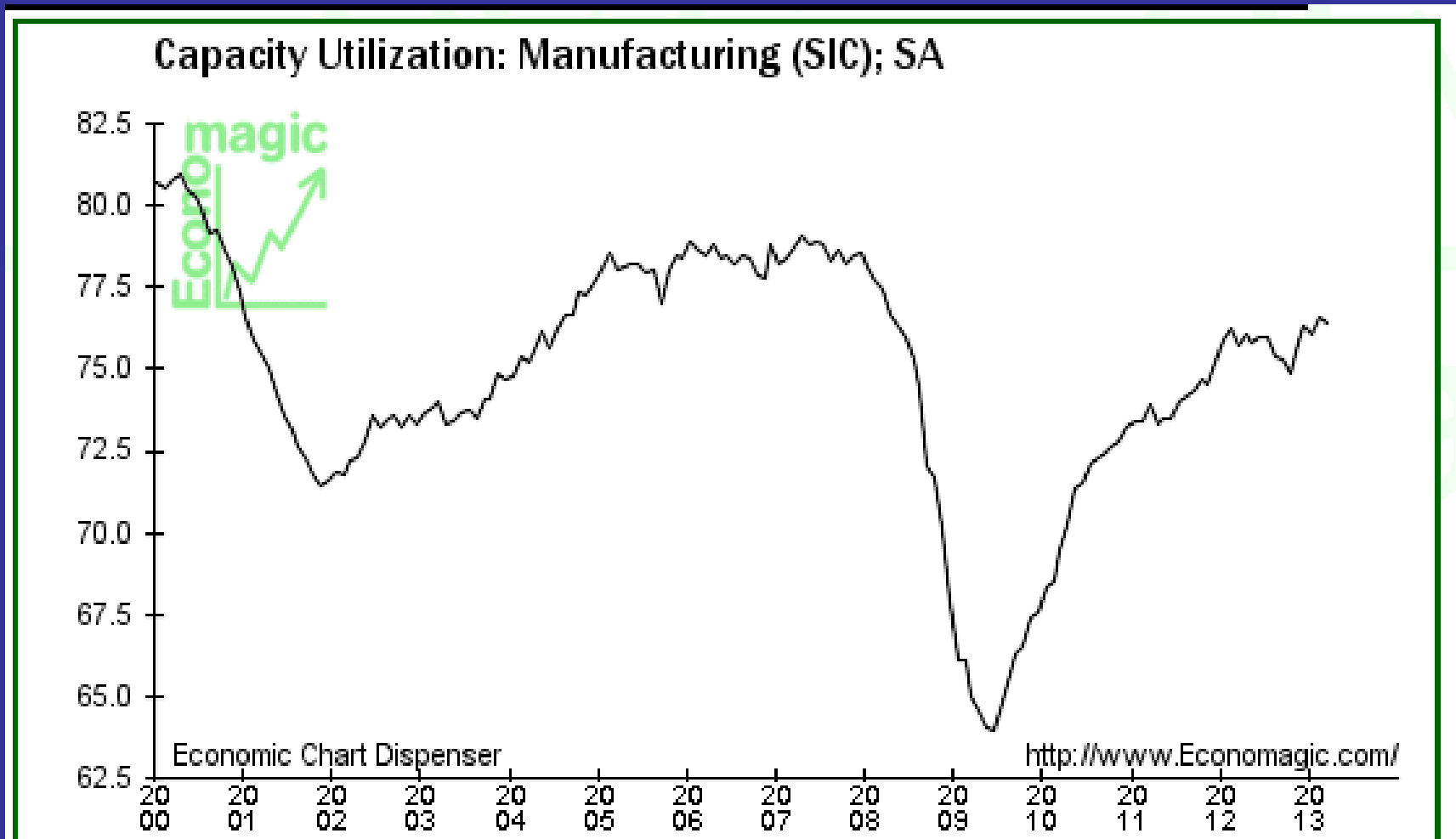
A blighted generation

Youths not in employment, education or training (NEETs), % of population aged 15-24 years



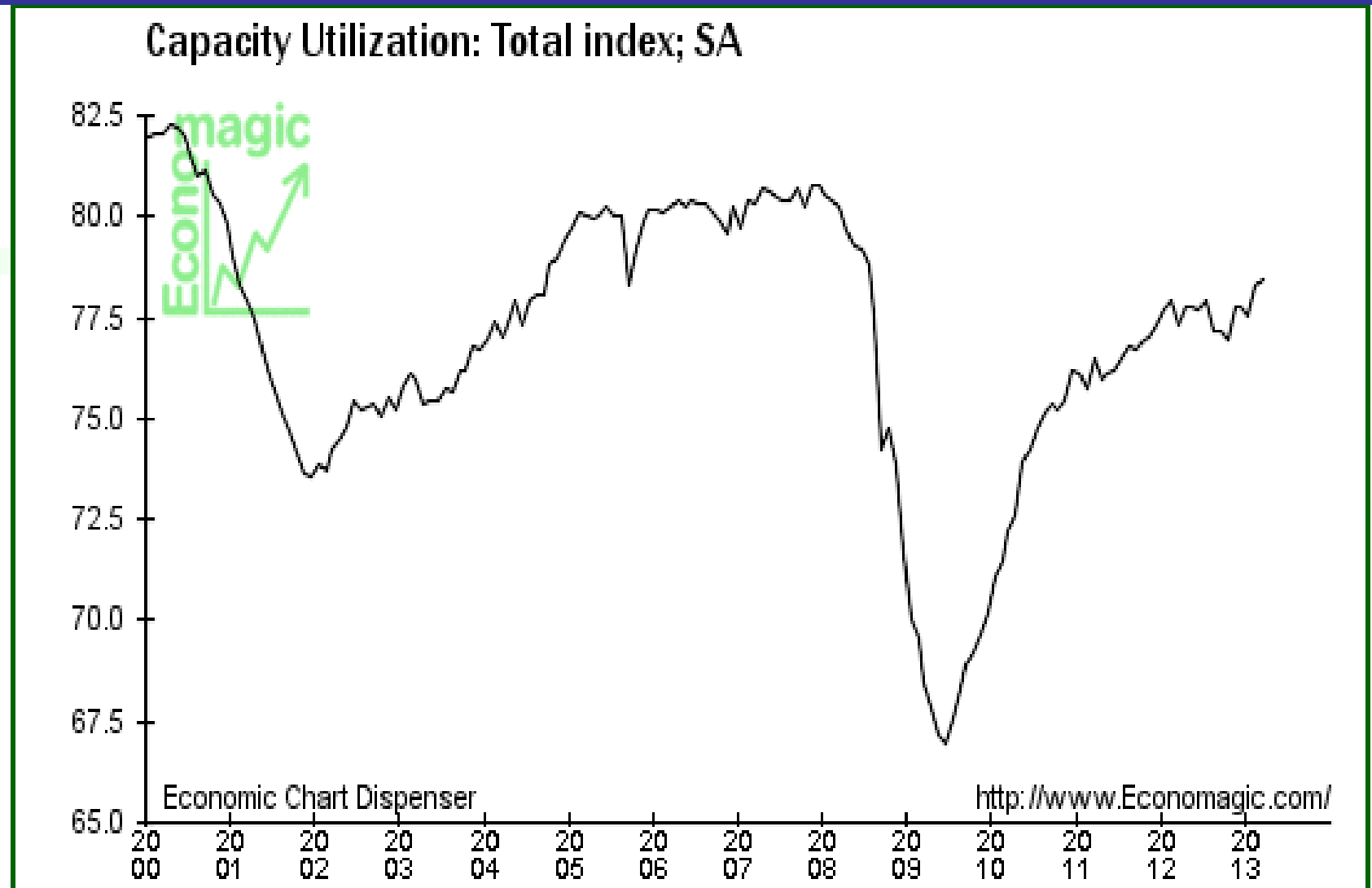
Sources: OECD; *The Economist*

Manufacturing Excess Capacity: Until we get back to 80%,
Firms won't invest in new capacity – that means weak income
growth and continuing employment problems



Source: Econmagic (http://www.econmagic.com/em-cgi/data.exe/frbg17/B00004_utlsa)

More on capacity utilization – total



Source: Econmagic (http://www.econmagic.com/em-cgi/data.exe/frbg17/B00004_utlsa)

Recent Housing statistics

Background:

Markets are getting better –

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??

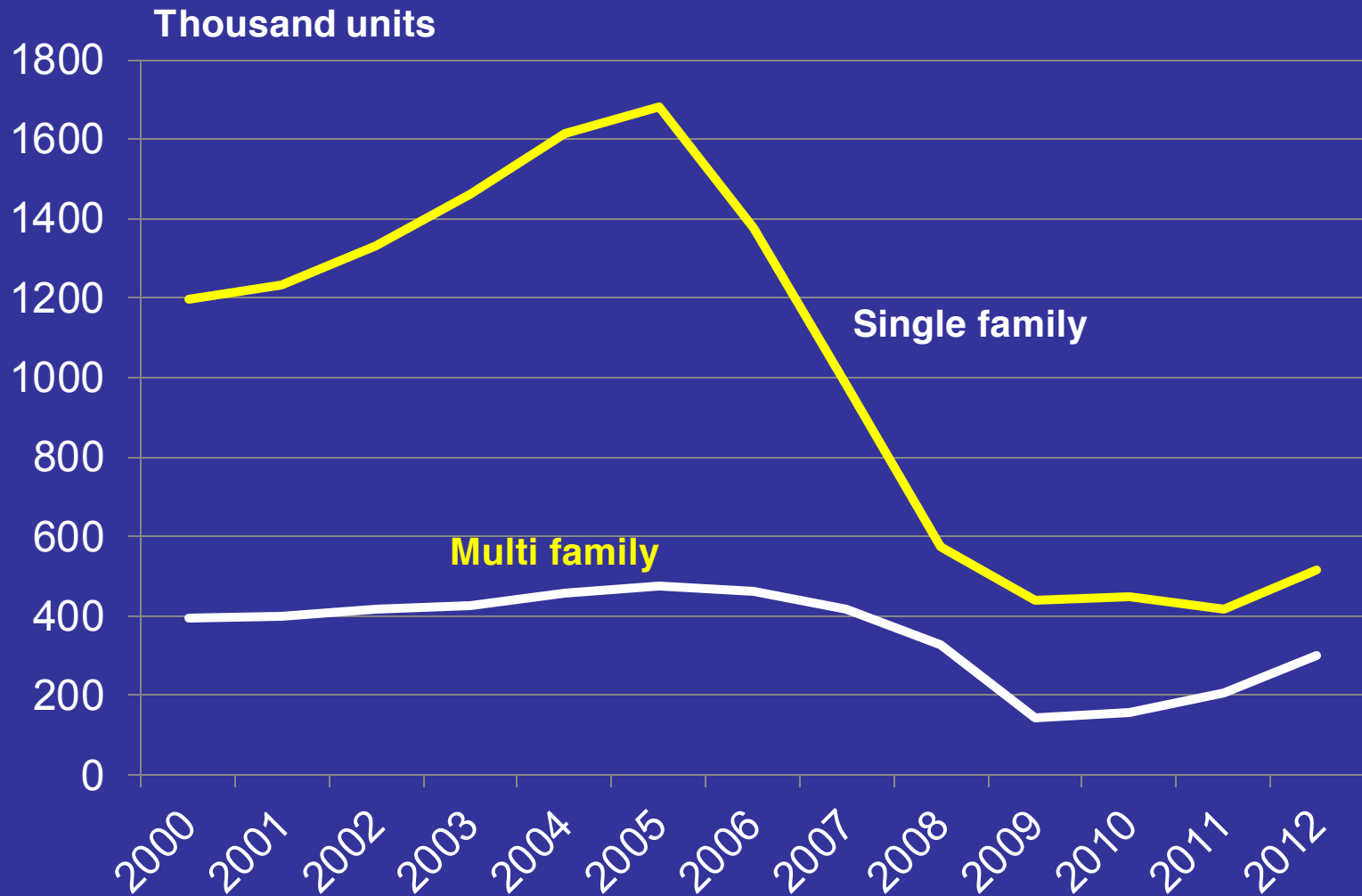
Problems going forward: distressed resales (i.e., foreclosures) and jobs. Rising prices will moderate the foreclosure problem while good paying jobs will create demand – this will take more time!!

Single family starts, Thousand units, SAAR



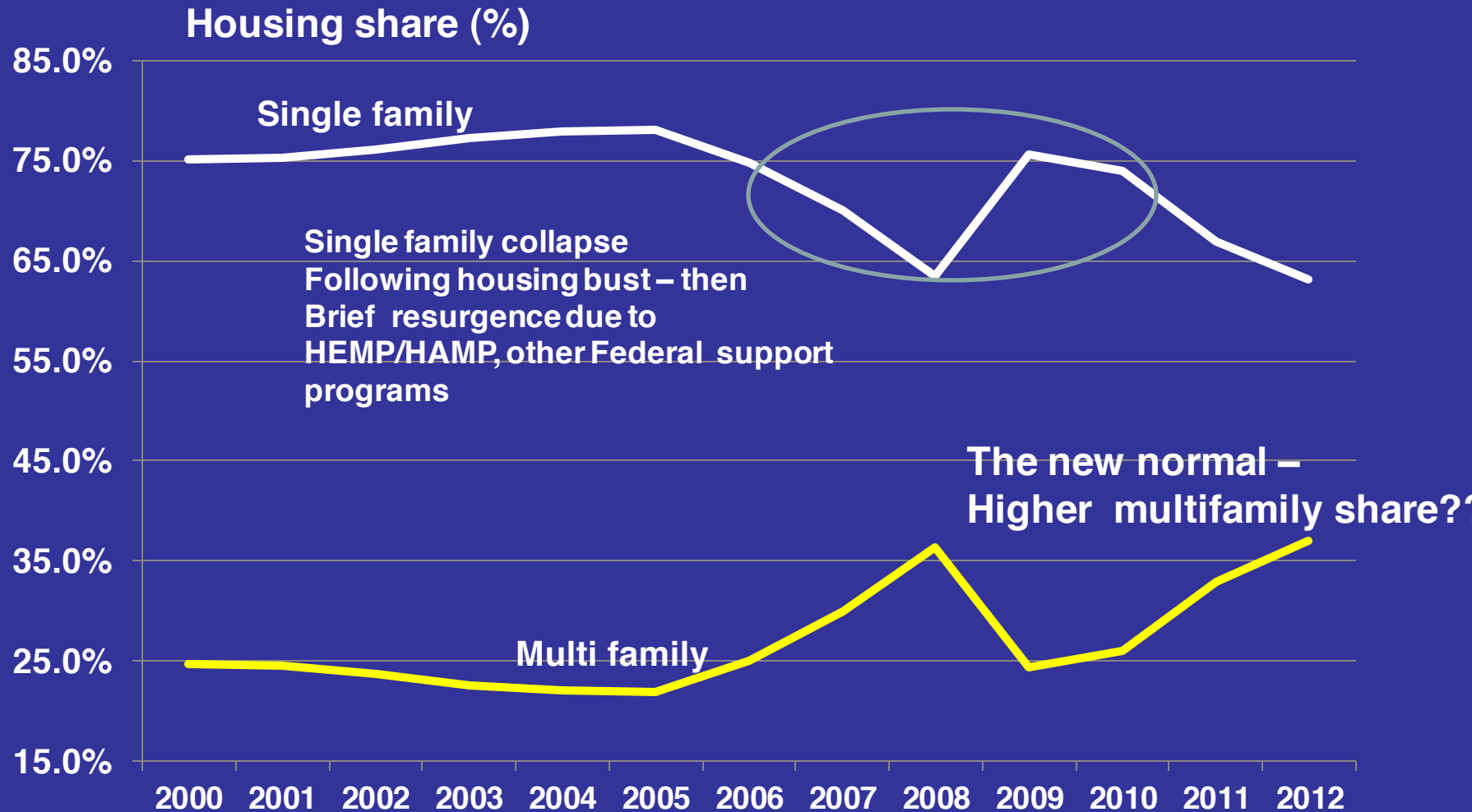
Source: Census (<http://www.census.gov/const/www/newresconstindex.html>)

Multi family making a comeback??



Source: (<http://www.census.gov/construction/nrc/>)

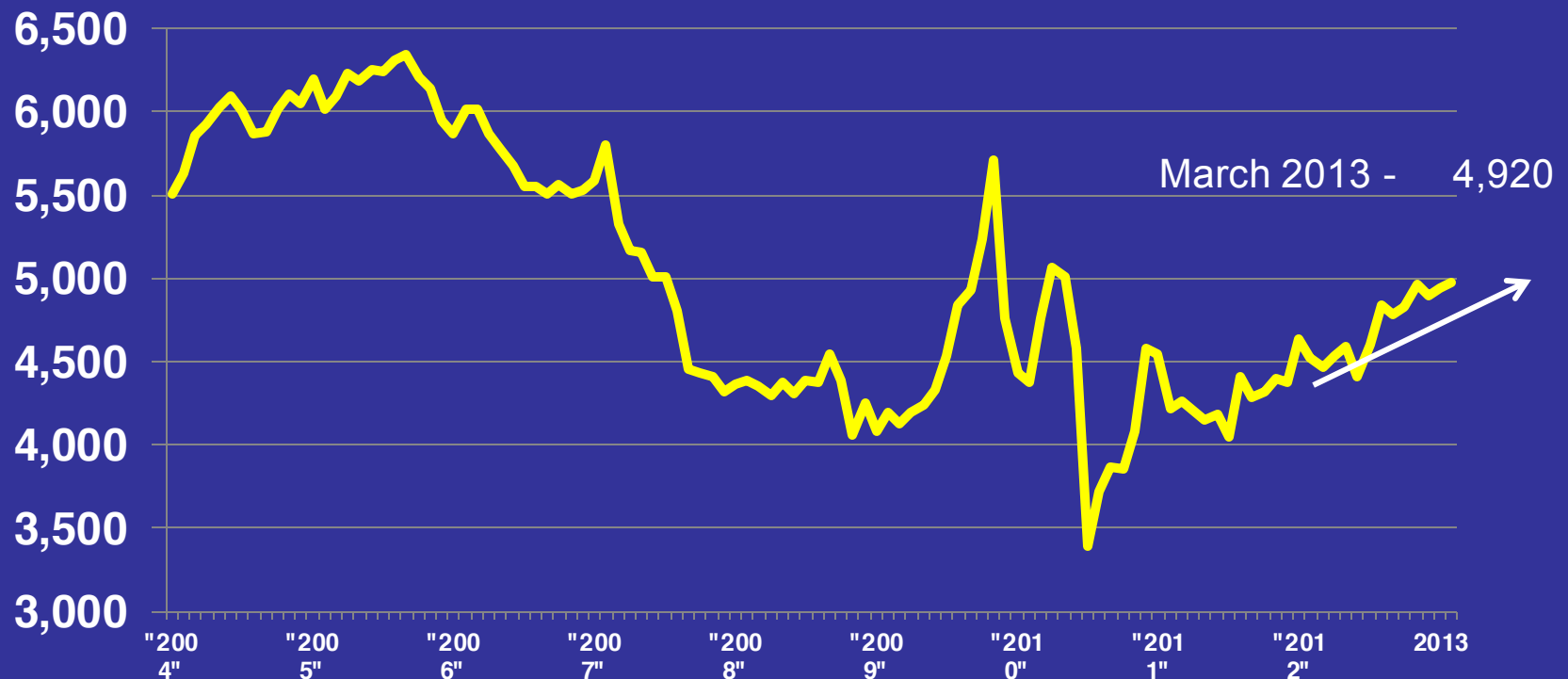
Multi family share is increasing – will it continue?



Source: Census (<http://www.census.gov/construction/nrc/>)

Resale market getting better – however, in 2012, about 25% of sales were cash only, mostly by investors – these homes were then rented -
i.e., this is not your typical housing recovery

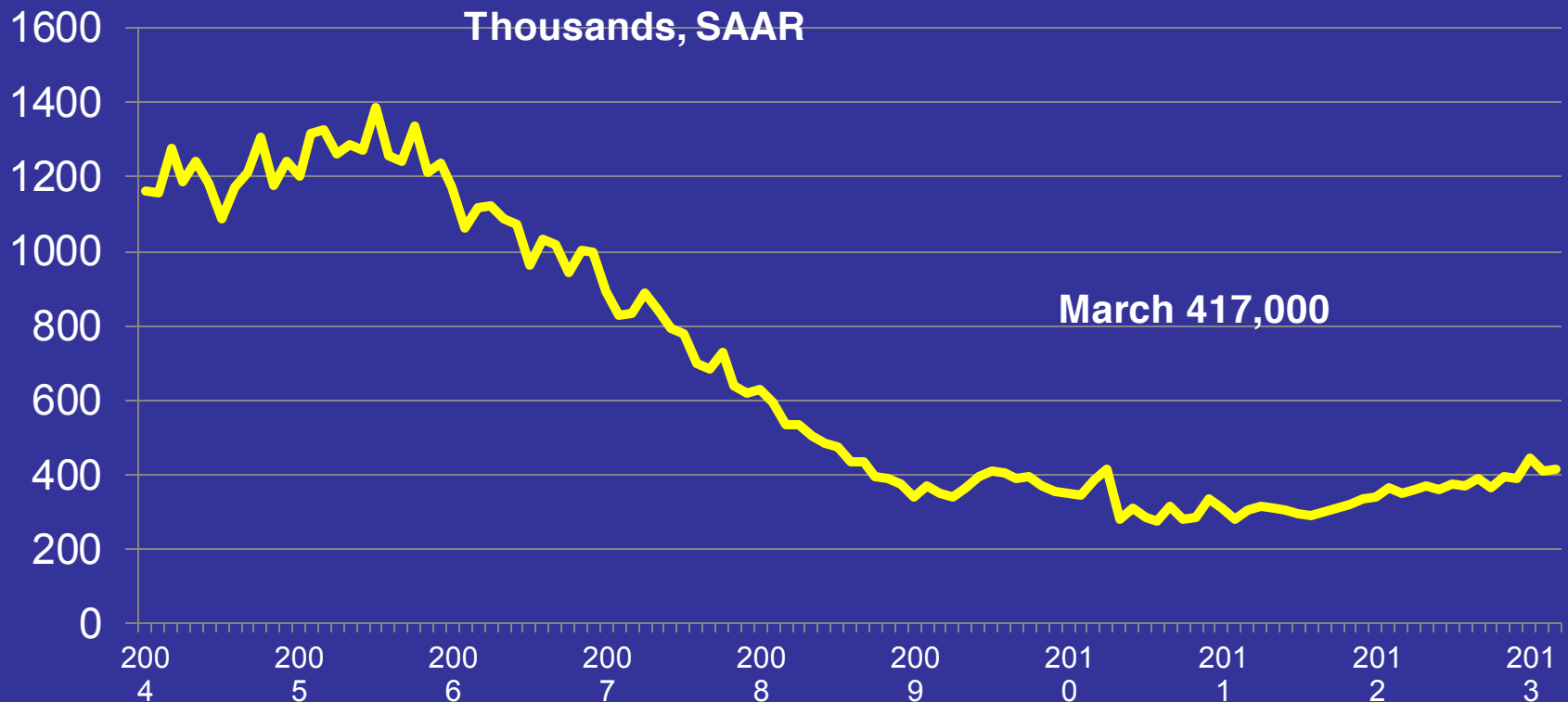
Single family (incl condos), Monthly, Thousand units, SAAR



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

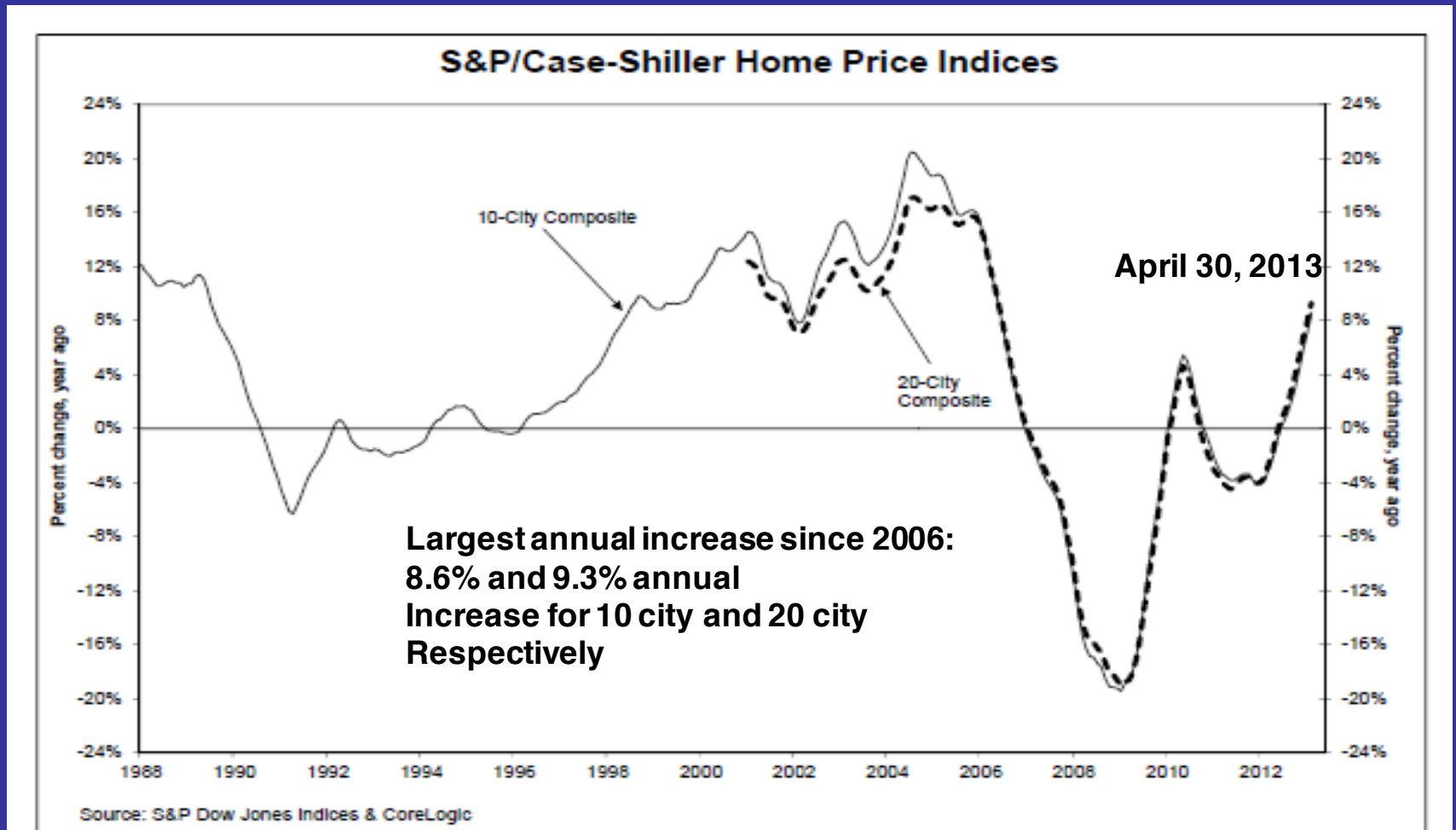
New Single Family Home sales is the key statistic to watch – Sales drive housing starts – this drives demand for wood products!!!

Problem is price competition with resale homes, particularly distressed sales



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

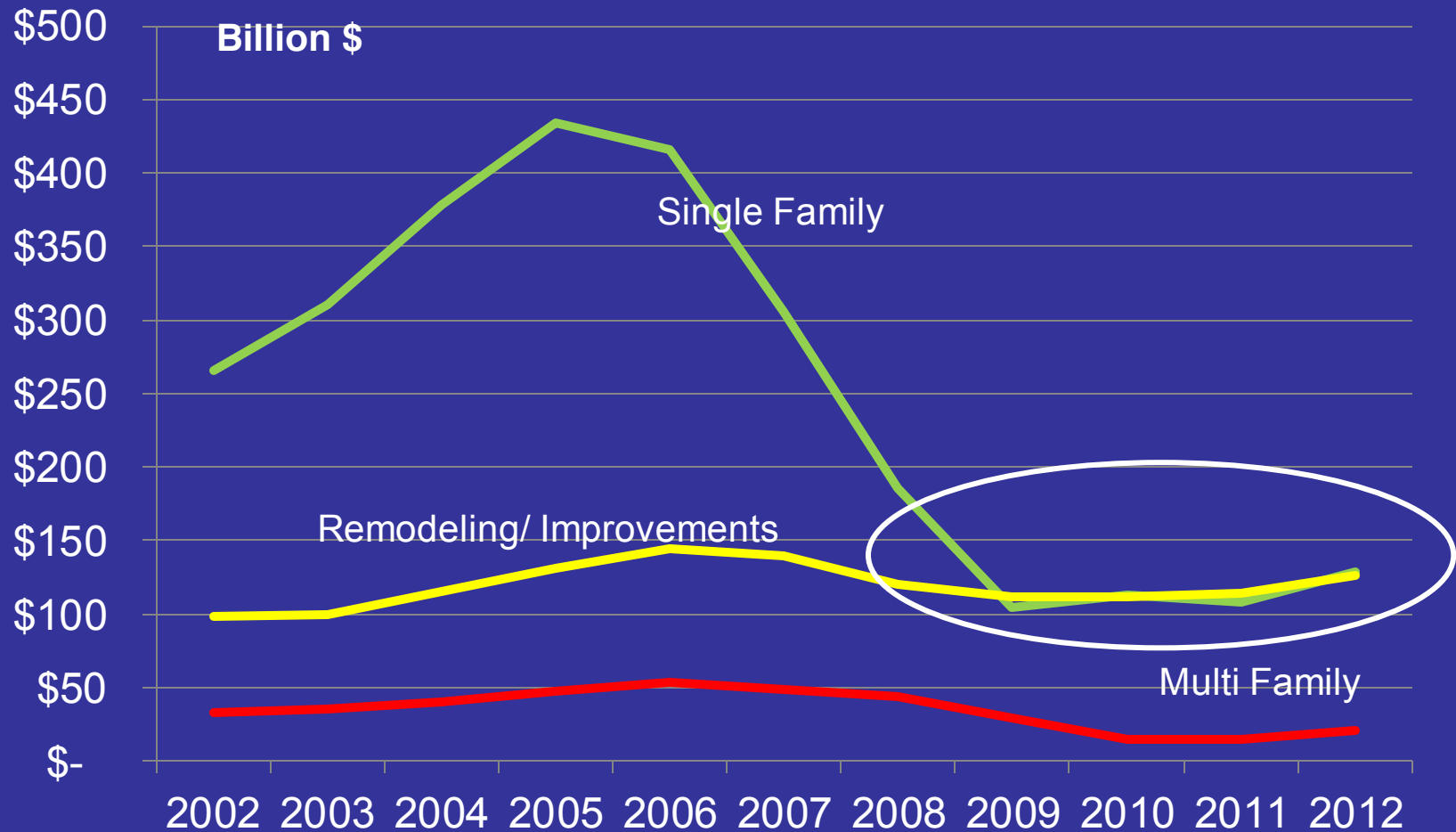
Key metric: Resale Home Prices are increasing – needed to stop foreclosures; enable people to sell homes and move to better jobs; apply for refinancing - - this will turn housing Market around along with improving economy



Good News stories - -

- (1) Remodeling share of private residential construction to increase
- (1) Household formations are improving – but, depends on stronger economy

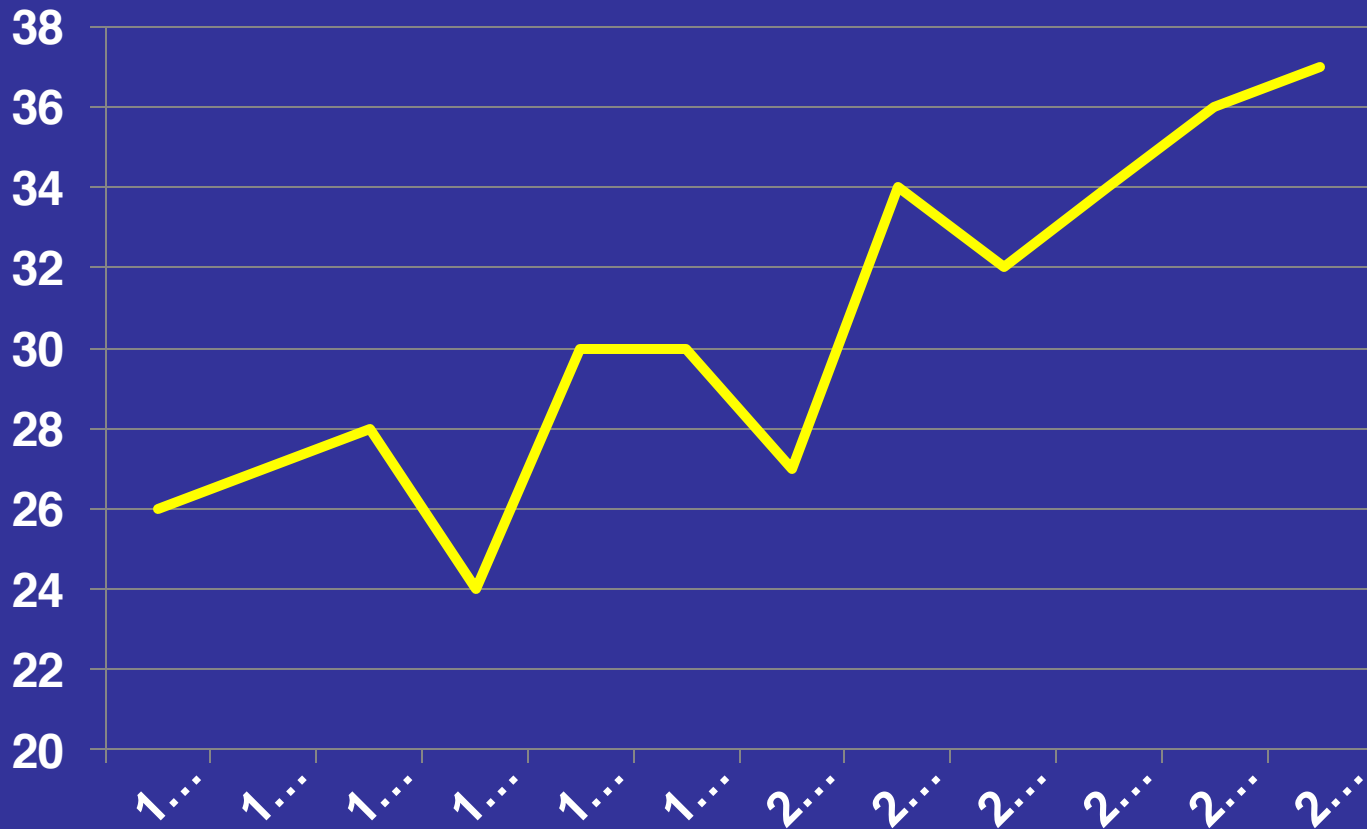
Construction Value Put In Place – remodeling Equals new SF construction for past four years



Source: Bureau of Census (<http://www.census.gov/construction/c30/privpage.html>)

Median Age of U.S. Housing Stock

In 2011, half of U.S. homes were 37 years old or older. Good news for remodeling business – in fact, over time, we will emulate Europe where remodeling expenditures routinely exceed expenditures on new construction



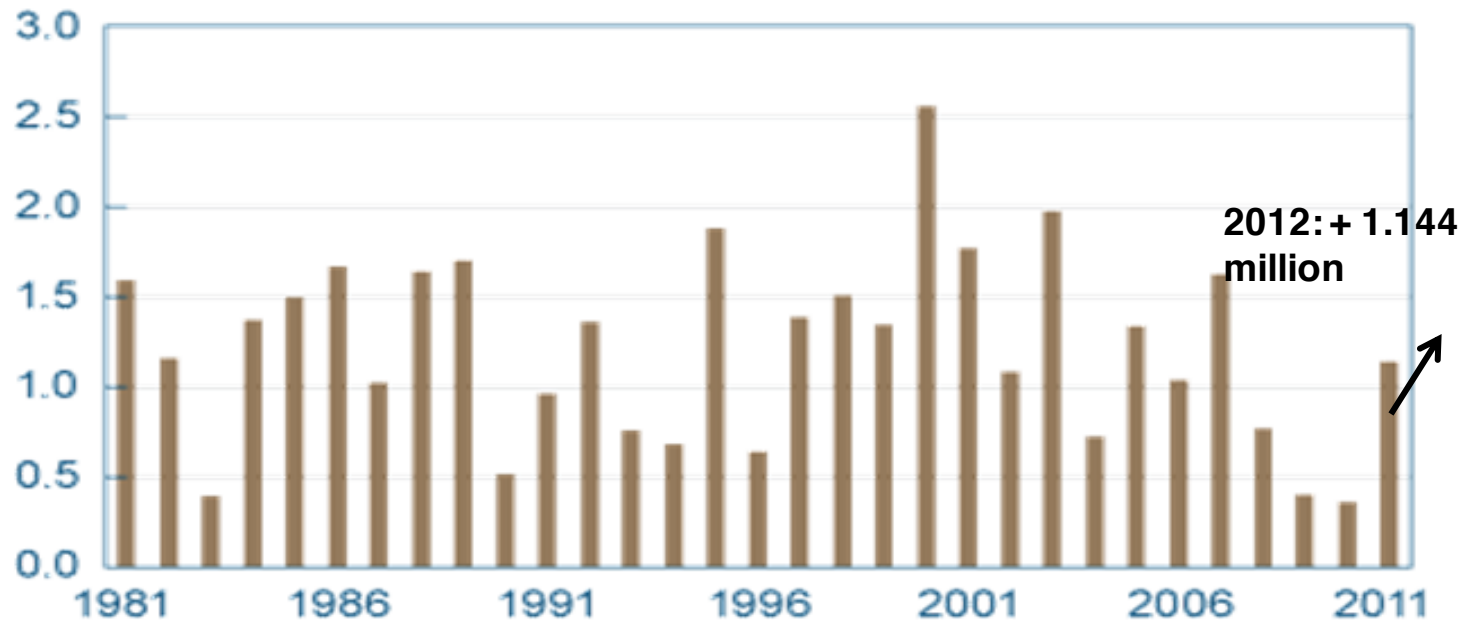
Source: AHS (<http://www.census.gov/hhes/www/housing/ahs/nationaldata.html>)

Household formation - Key to Housing Demand – Stronger economy will drive HH formations

Historically, household formations account for 65% of housing demand –
Since 2007, they are half the historical rate – when the economy picks up,
HH formations will go back to normal – again the key is the economy (jobs)

Figure 1. Number of Households Formed

Millions of households

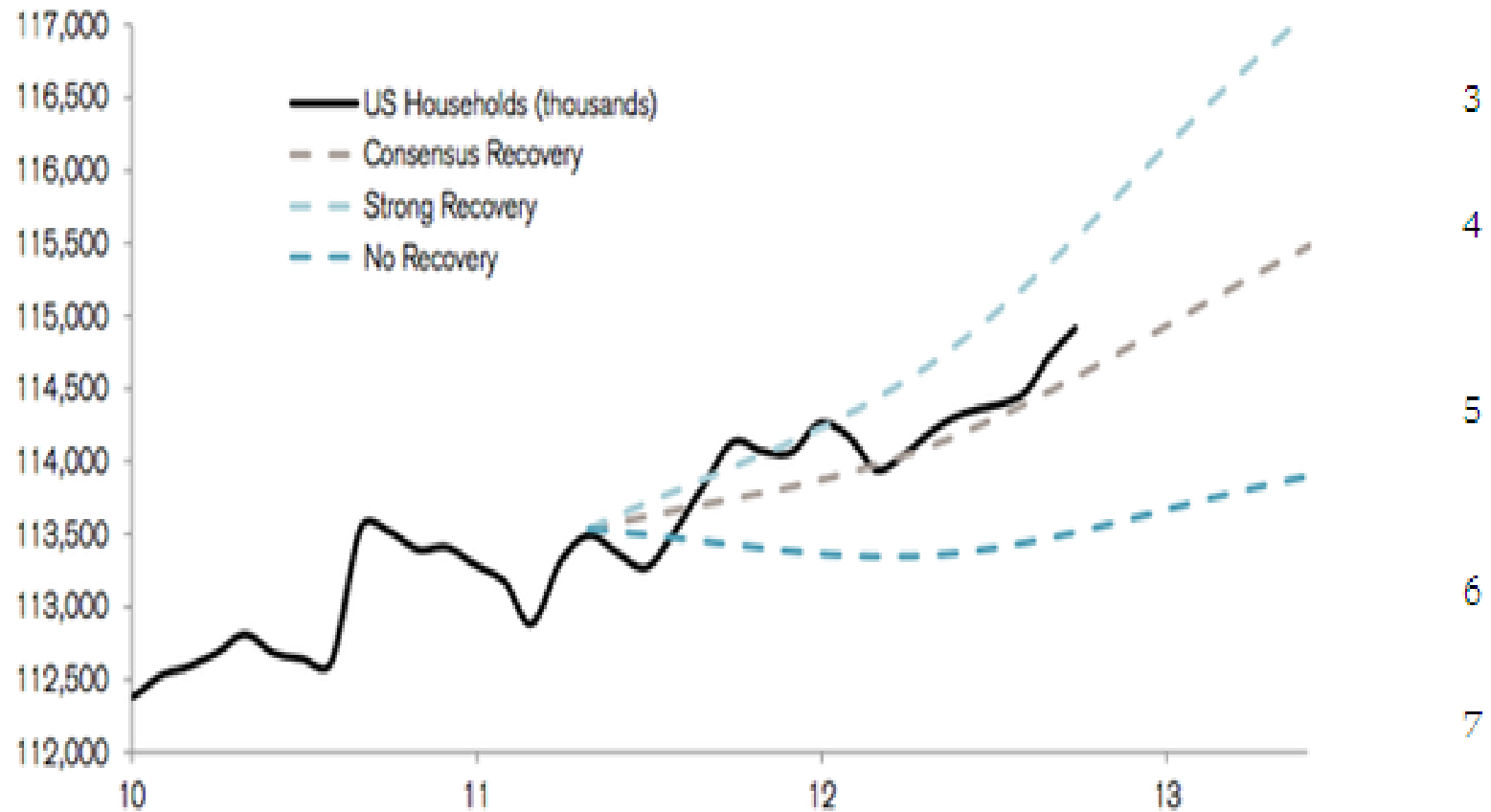


Source: Census Bureau: HH-1 ASEC; Haver Analytics.

Source: (http://www.clevelandfed.org/research/Commentary/2012/2012-12_cfm)

Household formation forecasts – various scenarios

Exhibit 85: US household formation with forecasts

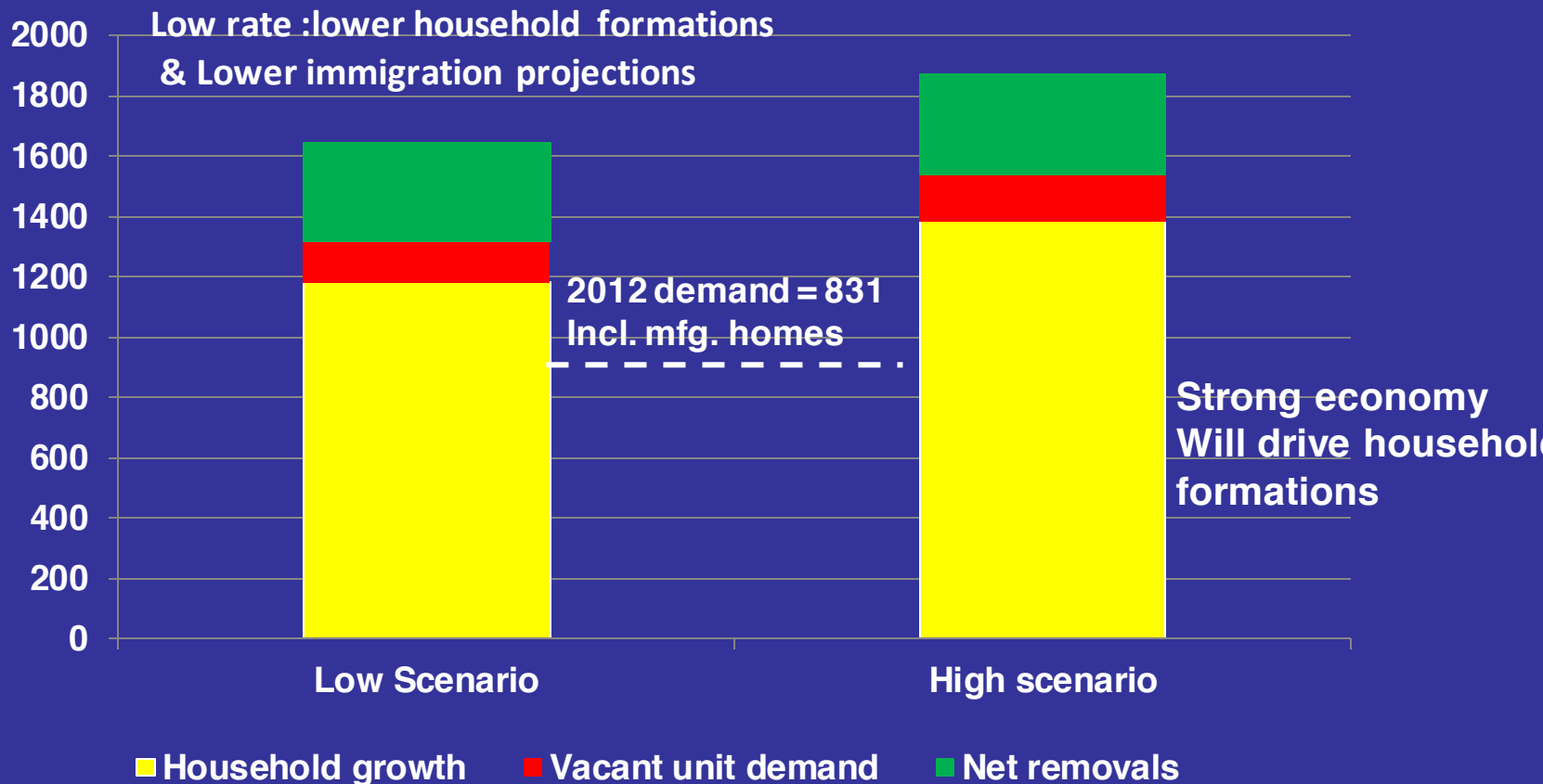


Source: Credit Suisse, Thomson Reuters DataStream

Harvard* Housing Demand Forecasts 2010 – 2020 (latest - September 2010)

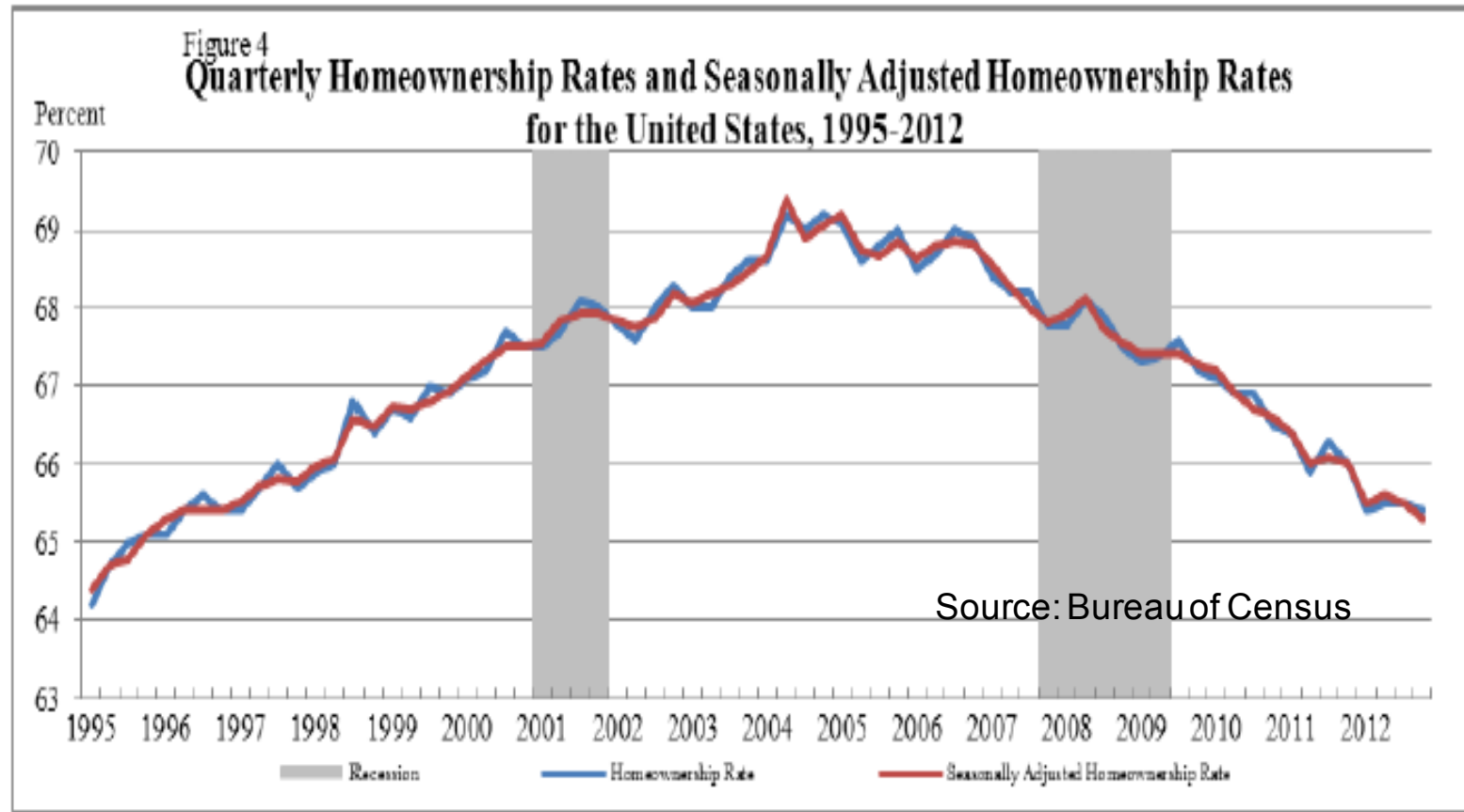
Vacancy demand – 2nd homes, speculation building
Removals – net loss from existing inventory
of housing stock

Annual rate (000)



Source: HJCHS, W10-9 , amended (http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/w10-9_masnick_mccue_belsky.pdf)

Homeownership rates have been falling for the past seven Years – lower homeownership means less demand for single family housing and increased numbers for multi family/rental housing - that means less demand for wood



Source: Census (<http://www.census.gov/housing/hvs/files/qtr412/q412press.pdf>)

But, Continuing Problems with Housing

(1) Tight Credit remains big problem and the Private sector has to return to the mortgage Market

Essentially, the housing finance market is broken and it needs To be fixed (i.e., private sector returns) before housing gets Back to normal!!! Today, “Washington” has too much Influence over housing markets.

(2) Debt and income growth remains a problem too
Difficult to buy a house if you can't make mortgage payments

Debt , Wealth , and Income Issues

If housing (and standard of living) is to improve on sustainable basis,

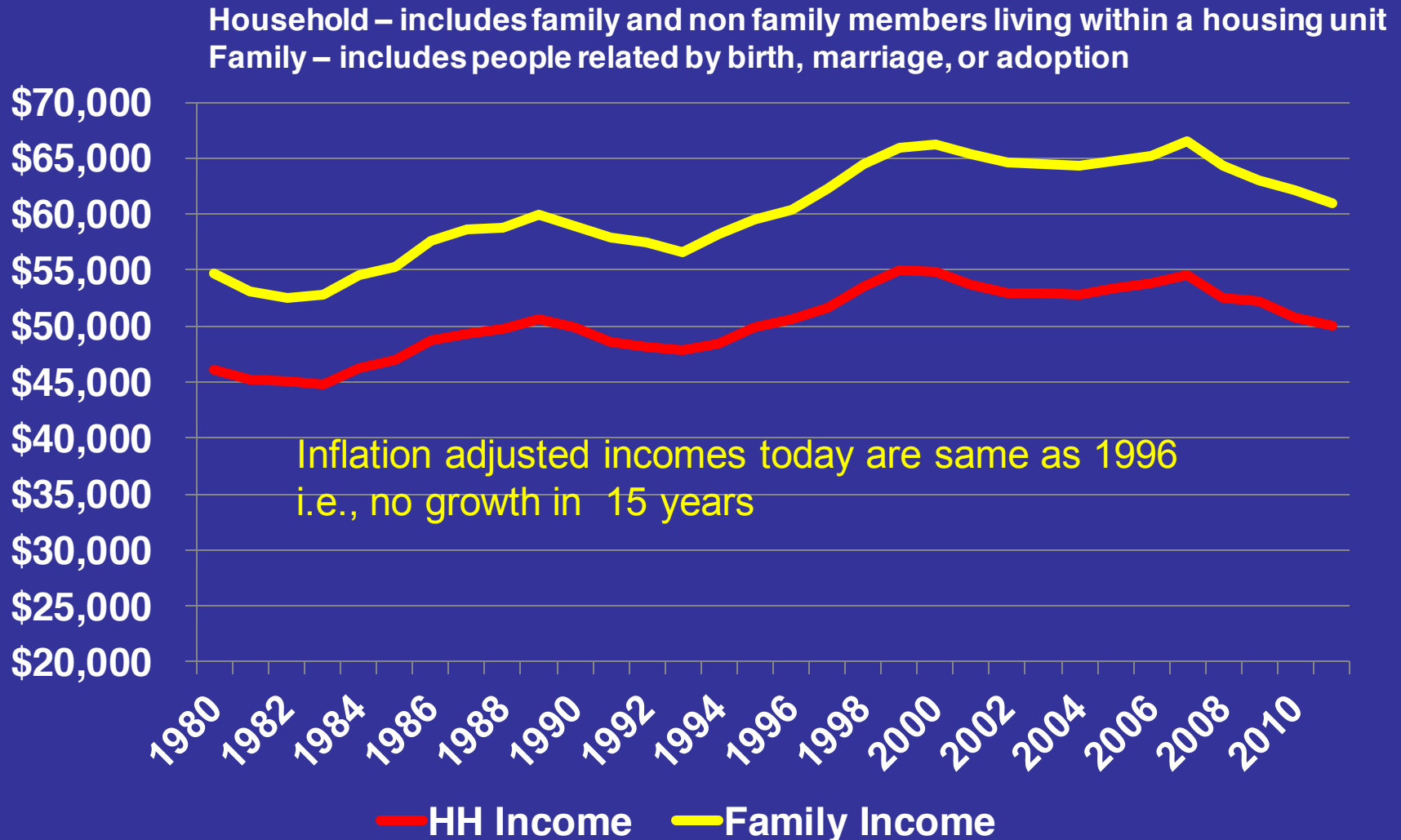
Incomes will have to increase in real dollars

We're making progress with debt repayment – that's a good thing

Hopefully, “Washington” sees the benefits
Of sound budgetary management

Median Annual Incomes in Inflation Adjusted \$

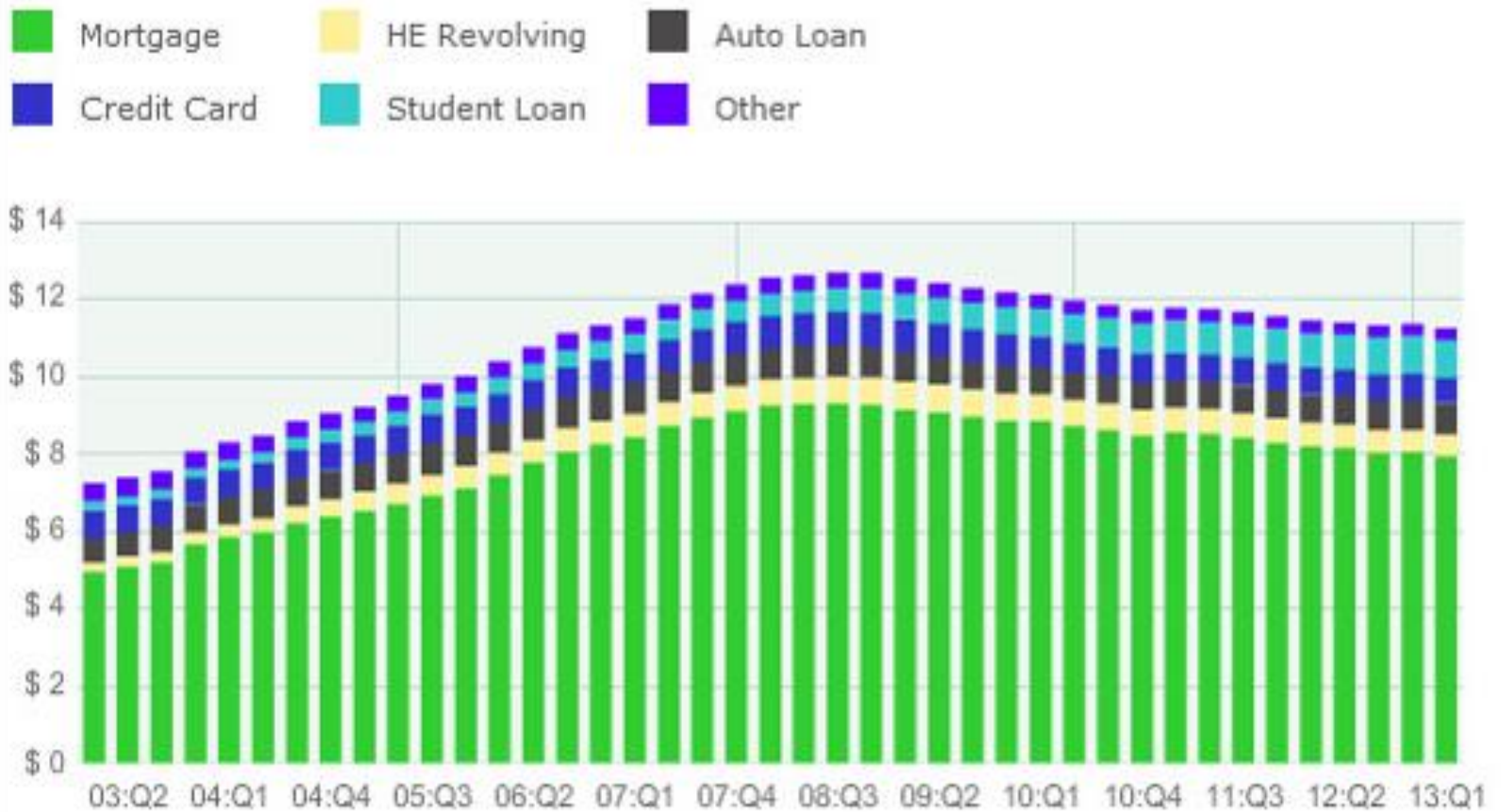
We're keeping up with inflation, but that's it!!



Source: Current Population Survey (<http://www.census.gov/hhes/www/income/data/historical/index.html>)

Debt is coming down – that's a good thing

Household debt (in trillions)

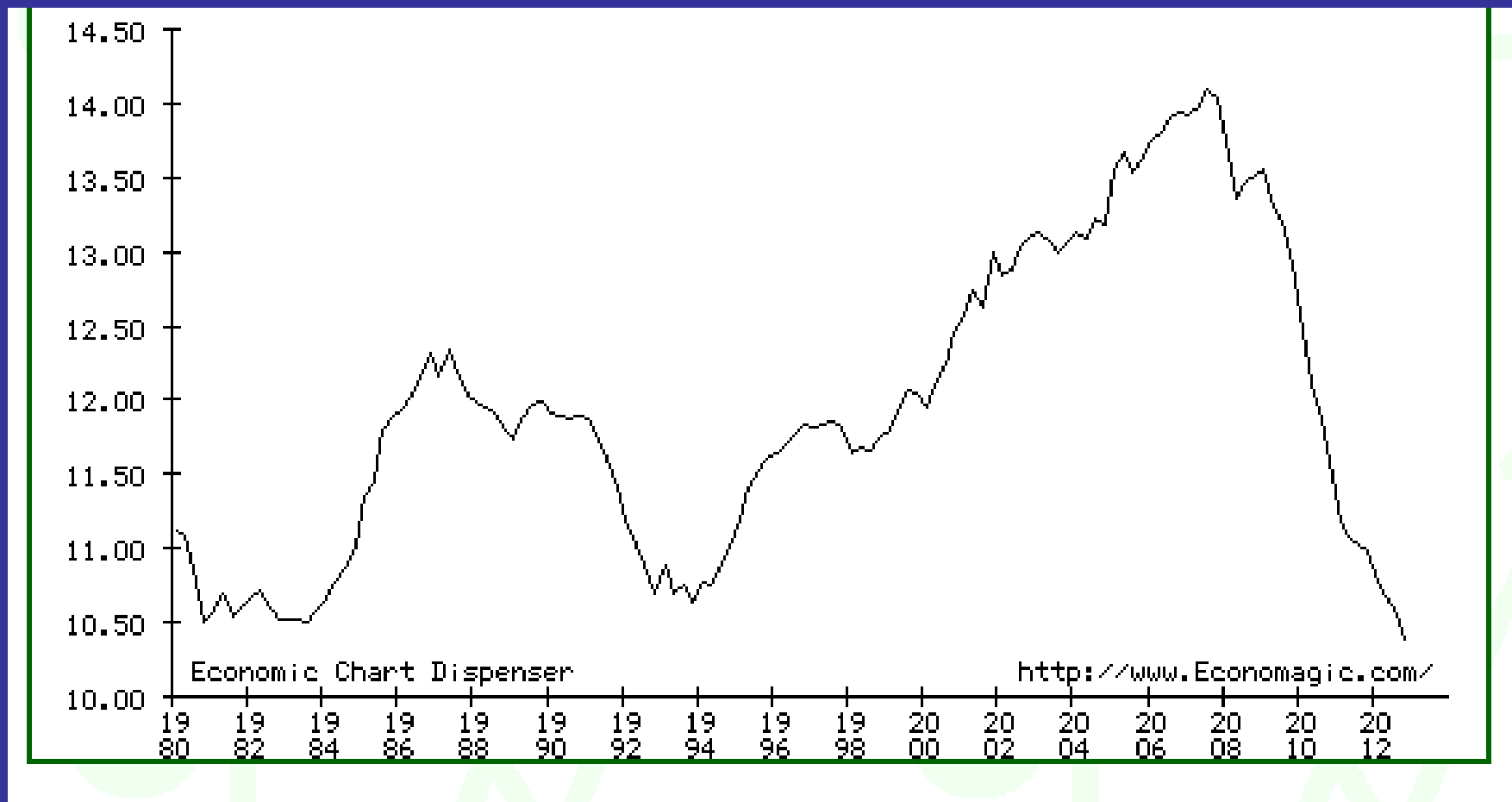


Source : New York Fed

Source: Federal Reserve (

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Household debt (mortgage and consumer debt) service as percentage of disposable personal income – best it has been
Since the 1980's



Source: Economagic, Federal Reserve (<http://www.federalreserve.gov/releases/housedebt/>)

Some conclusions – housing remains weak till economy fixed

- (1) “Washington” has to deal with the thorny issues - until they do, private sector will remain on the sidelines with their \$1- \$2 trillion “stash”. That will delay investments needed for job creation.**

Here is my guess at what will happen over the next 6 - 18 months:

 - no decisive action (i.e., tax reform – broadening the tax base; hard look at entitlements*; spending cuts ; develop a realistic budget) – instead, they will “kick the can down the road” because many don’t have the guts to make tough decisions (that they were elected to do) -**

“Washington” will do nothing major until one of two things happen:

 - (a) the bond markets force them to (raise interest rates, etc.); (b) angry taxpayers vote in enough new members of Congress in 2014.**
- (2) World economy continues to slow, particularly China and Europe**
- (3) End result – U.S. economy avoids a recession, but only “limps along” in 2013 (i.e., 1 - 2% GDP) and the housing recovery remains muted. 2014 will bring continuing improvement (hopefully 3% GDP) . This means housing will see only gradual improvement, hopefully reaching 1.5 million starts by 2015 or 2016.**

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