May 2013 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

Return TOC

Table of Contents

Return TOC

April 2013 Housing Scorecard

	M/M	Y/Y
Housing Starts[A]	Δ6.8%	Δ28.6%
Single-Family Starts[A]	Δ0.3%	Δ16.3%
Housing Permits[A]	∇3.1%	Δ20.8%
Housing Completions[A]	∇0.9%	Δ12.6%
New Single-Family House Sales[A]	Δ2.1%	Δ29.0%
Existing House Sales[B]	Δ4.2%	Δ12.9%
Private Residential Construction Spending[A]	Δ1.2%	Δ23.1%
Single-Family Construction Spending[A]	Δ0.4%	Δ33.2%

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

Source: [A]U.S. Department of Commerce-Construction; [B]National Association of Realtors® (NAR®)

Return TOC

New Housing Starts

	Total Starts*	Single-Family Starts	Multi-Family 2-4 unit Starts	Multi-Family 5 or more unit Starts
May	914,000	599,000	9,000	306,000
April	856,000	597,000	14,000	245,000
2012	711,000	505,000	15,000	181,000
M/M change	6.8%	0.3%	-35.7%	24.9%
Y/Y change	28.6%	16.3%	-40.0%	69.1%

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

Source: U.S. Department of Commerce-Construction: www.census.gov/construction/nrc/pdf/newresconst.pdf

Return TOC

New Housing Permits and Completions

	Total Permits*	Single-Family Permits	Multi-Family 2-4 unit Permits	Multi-Family 5 or more unit Permits
May	974,000	622,000	27,000	374,000
April	1,005,000	614,000	25,000	266,000
2012	896,000	499,000	23,000	242,000
M/M change	-3.1%	1.3%	8.0%	40.6%
Y/Y change	20.8%	24.8%	17.4%	54.5%

	Total Completions*	Single-Family Completions	Multi-Family 2-4 unit Completions	Multi-Family 5 or more unit Completions
May	690,000	546,000	9,000	135,000
April	696,000	524,000	6,000	166,000
2012	619,000	475,000	15,000	123,000
M/M change	-0.9%	4.2%	50.0%	-18.7%
Y/Y change	12.6%	14.9%	33.3%	9.8%

Source: U.S. Department of Commerce-Construction: www.census.gov/construction/nrc/pdf/newresconst.pdf

* All data are SAAR

Return TOC

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]
May	476,000	$263,900	4.1	5,180,000	$208,000	5.1
April	466,000	$272,600	4.0	4,970,000	$191,800	5.2
2012	369,000	$239,200	4.7	4,590,000	$180,300	6.5
M/M change	2.1%	-3.2%	2.5%	4.2%	8.4%	-1.9%
Y/Y change	29.0%	10.3%	-12.8%	12.9%	15.4%	-21.5%

* All sales data are SAAR

Source: U.S. Department of Commerce-Construction: www.census.gov/construction/nrs/pdf/newressales.pdf; [B]NAR®: www.realtor.org/news-releases/2013/04/march-existing-home-sales-slip-due-to-limited-inventory-prices-maintain-uptrend

Return TOC

Existing House Sales

National Association of Realtors (NAR®)[B]
May 2013 sales data:

Distressed house sales: 18% of sales –

(11% foreclosures and 7% short-sales)

Distressed house sales: 18% in April
and 25% in April 2012

All-cash sales: increased to 33% – 32% in April

Investors are still purchasing a substantial portion of
"all cash" sale houses – 18%;
19% in April 2013 and 17% in May 2012

First-time buyers: decreased to 28% (29% in April 2013)
and were 34% in May 2012[B]

Source: [B] NAR® www.realtor.org/topics/existing-home-sales; 6/20/13

Return TOC

May 2013 Construction Spending

Private Construction: $322.32 billion (SAAR)

1.2% above the revised April estimate of $318.53 billion (SAAR)
23.1% above the May 2012 estimate of $261.78 billion (SAAR)

May SF construction: $166.31 billion (SAAR)
0.4% greater than April: $165.66 billion (SAAR)
33.2% greater than May 2012: $124.84 billion (SAAR)

May MF construction: $31.79 billion (SAAR)
2.5% greater than April: $31.01 billion (SAAR)
51.7% greater than May 2012: $20.95 billion (SAAR)

May Improvement[C] construction: $124.22 billion (SAAR)
1.9% greater than April: $121.85 billion (SAAR)
3.3% greater than May 2012: $120.19 billion (SAAR)

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

Source: U.S. Department of Commerce-C30 Construction: www.census.gov/construction/c30/pdf/privsa.pdf

Return TOC

Conclusions

The housing market continues to heal and the U.S. economy is improving. However, the upheaval in financial markets and the rise in interest rates over the last weeks from the disclosure of plans to reduce and end the quantitative easing (QE) programs of the Federal Reserve show the dependence of markets on the support from the Federal Reserve. Also, in the housing markets, in some areas, the data is less than 50 percent of their respective long-run averages. Thus, our near-term outlook on the U.S. housing market remains unchanged, with some macro factors having the potential to damage a robust housing recovery.

Why?

1) rising interest rates
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.

Return TOC

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 – – China is slowing too
- Housing's main problems - weak domestic economy made worse by slowing world economy; weak job market; poor or no income growth; high debt levels; and tight credit environment
- Demand, debt and uncertainty are serious problems that are impacting the economy.
- A major concern we 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 in the stock markets. If we are going "print money", let's spend it on investments that will make us more competitive thus creating jobs needed to support our standard of living that supports a stronger housing market.

Return TOC

Some questions going forward:

(1) Sustainable housing recovery?
(2) Economy – Inflation; deflation; or disinflation?
Hyper Inflation from running the printing presses for past 3 – 5 years
Deflation – 1930's – weak demand
Disinflation – slower rate of inflation

(3) Dollar – weaker or stronger?

Return TOC

Housing, the economy, and wood products

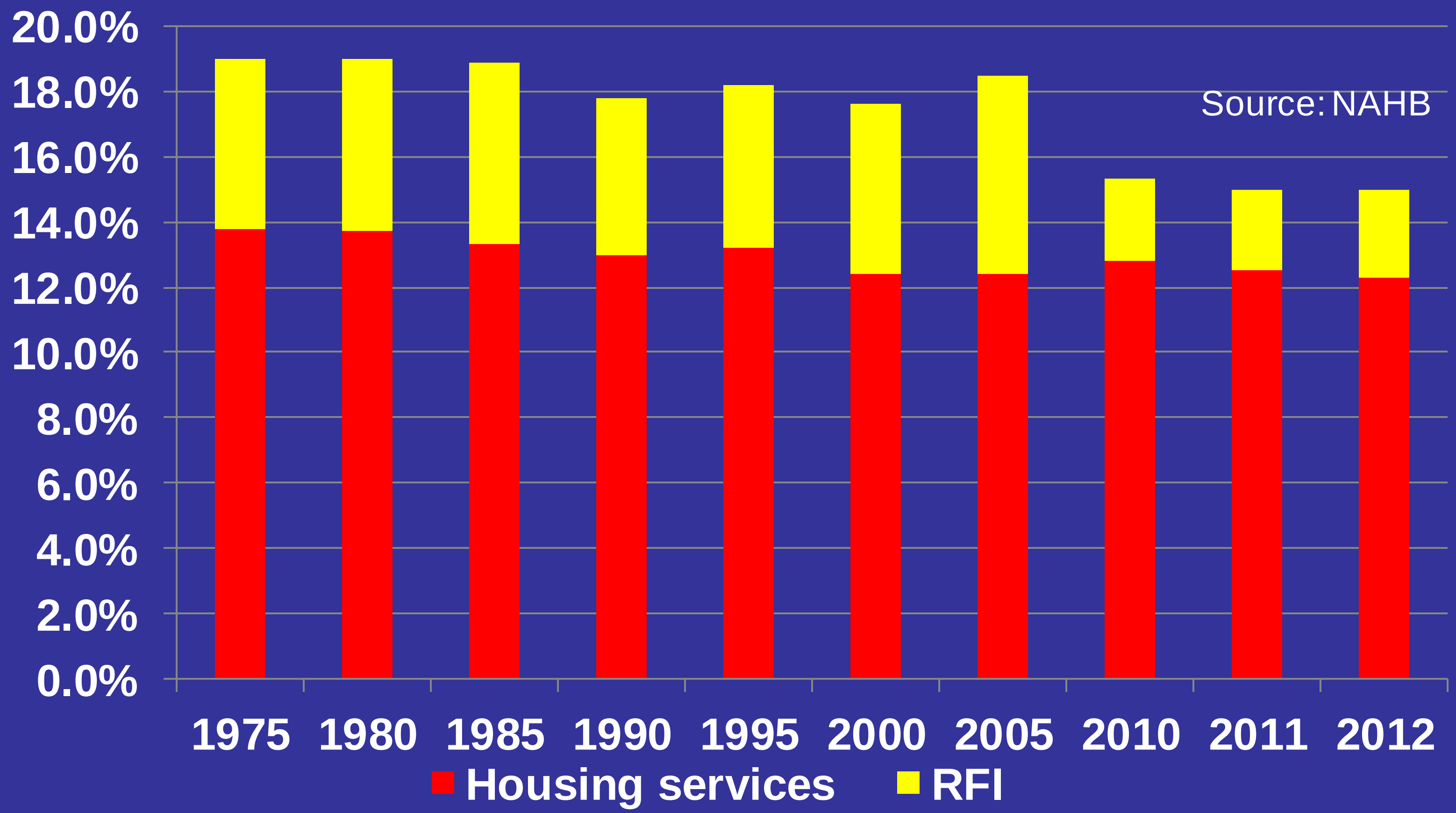
They are “joined at the hip”

Return TOC

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

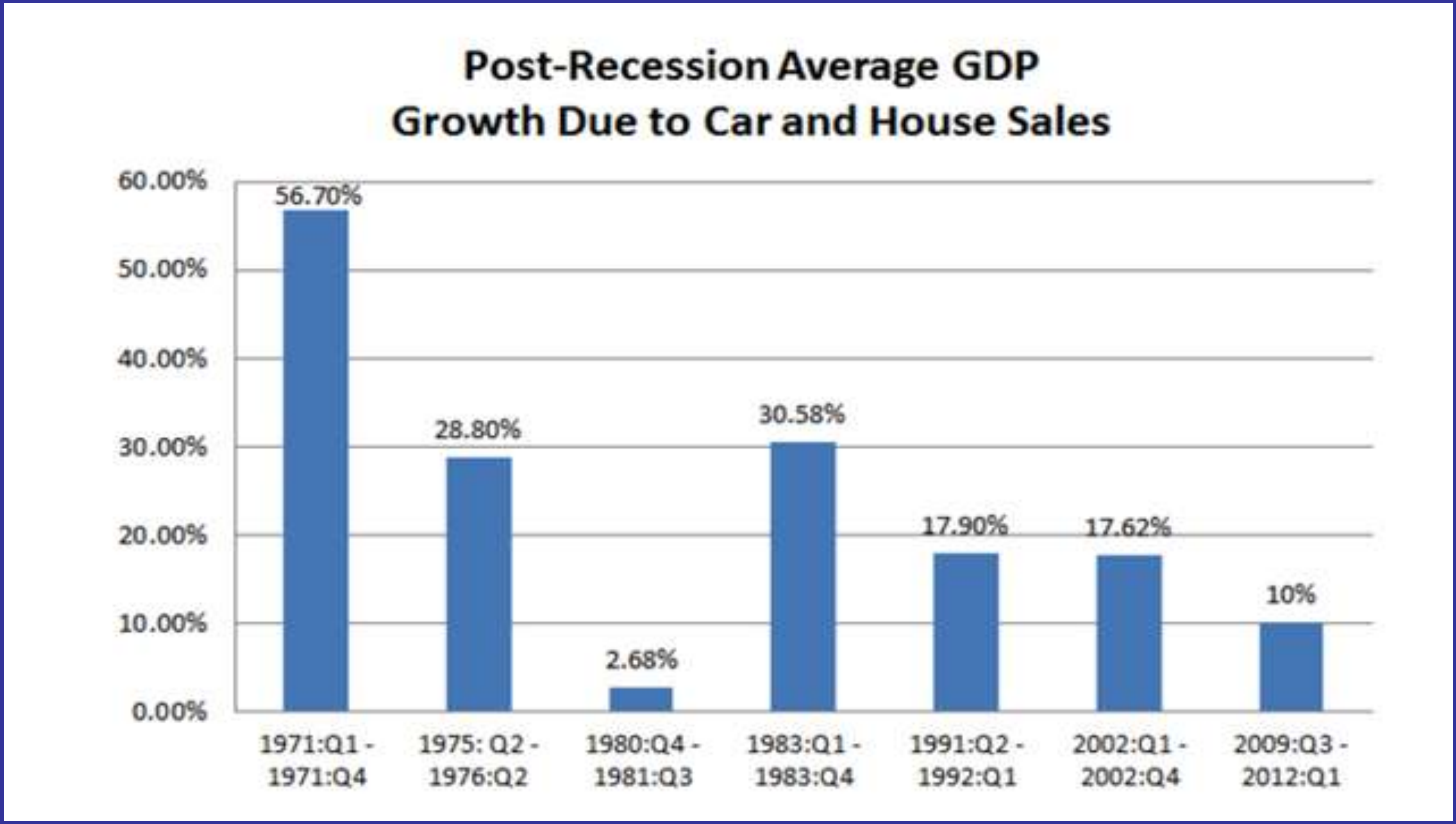
Housing services = gross rents paid by renters (incl utilities) + owner's imputed rent (how much It would cost to rent owner occupied homes) plus utility payments
RFI (residential investment) = construction of new SF and multifamily structures, remodeling, manufactured homes , plus broker's fees



Return TOC

Housing (and car sales) help drive the economy -

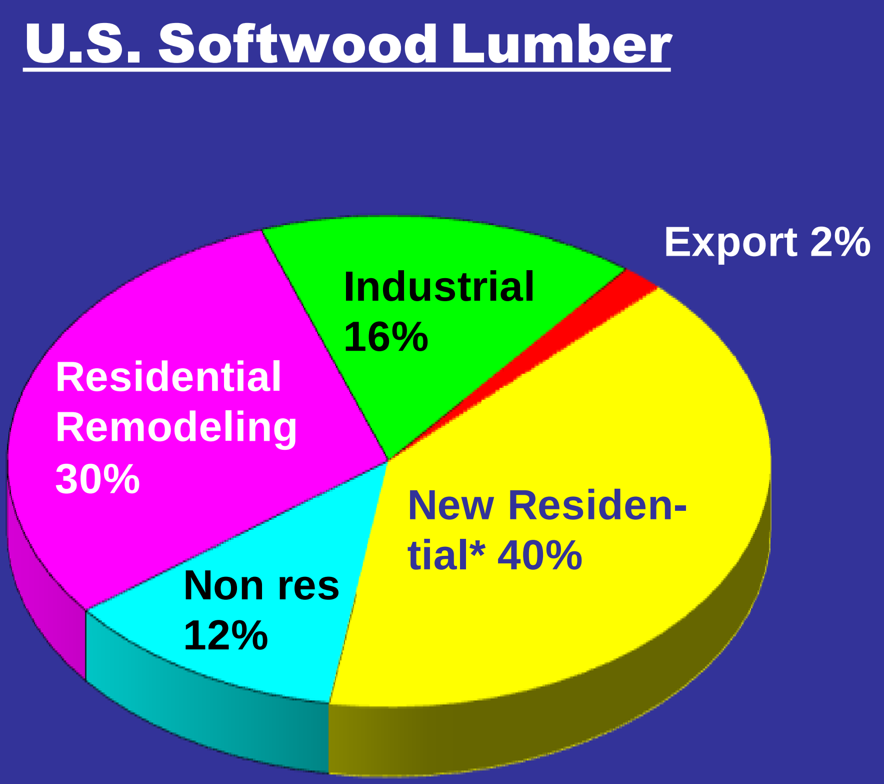
But you can see how much less impact there has been with the latest recession.- i.e., 10% impact during 2009 – 2012 versus almost 18% during 2002 and 1991/1992, and 31% during 1983



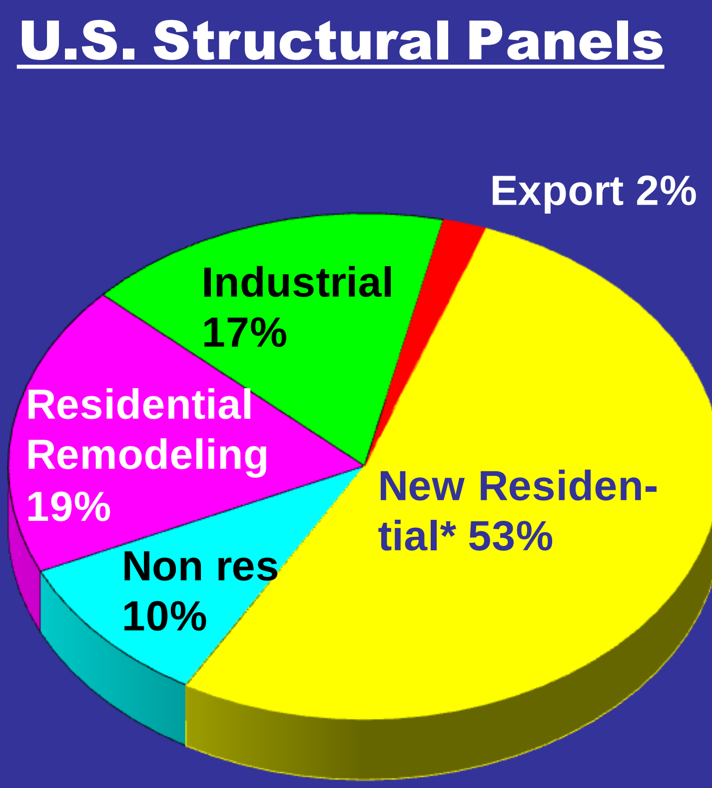
Source: (http://www.theatlantic.com/business/archive/2012/12/the-most-overlooked-statistic-in-economics-is-poised-for-an-epic-comeback-household-formation/266573/)

Return TOC

Softwood Market Shares: Average during 1998 – 2007



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

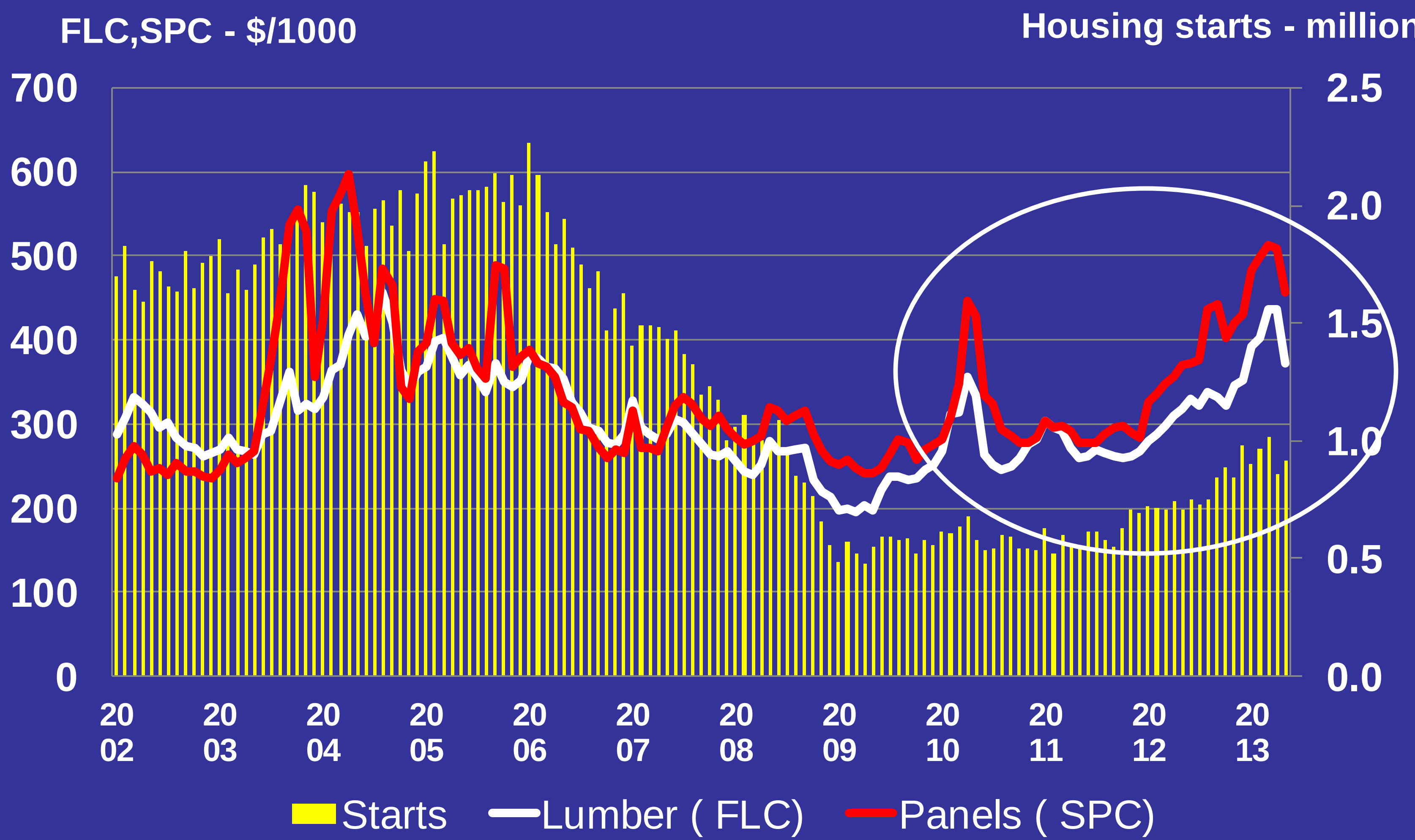


Source : Lumber – WWPA; Panels - APA

Return TOC

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 again, 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 again - this encourages production increases for wood products – and the cycle starts over.



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

Return TOC

More Economics 101 - Following the housing collapse, production fell from 65bbf to 42bbf, or about 35%. Prices fell about the same. As housing rebounds, production rebounded to 52bbf or about 24%

Return TOC

Information on British Columbia's Lumber Supply

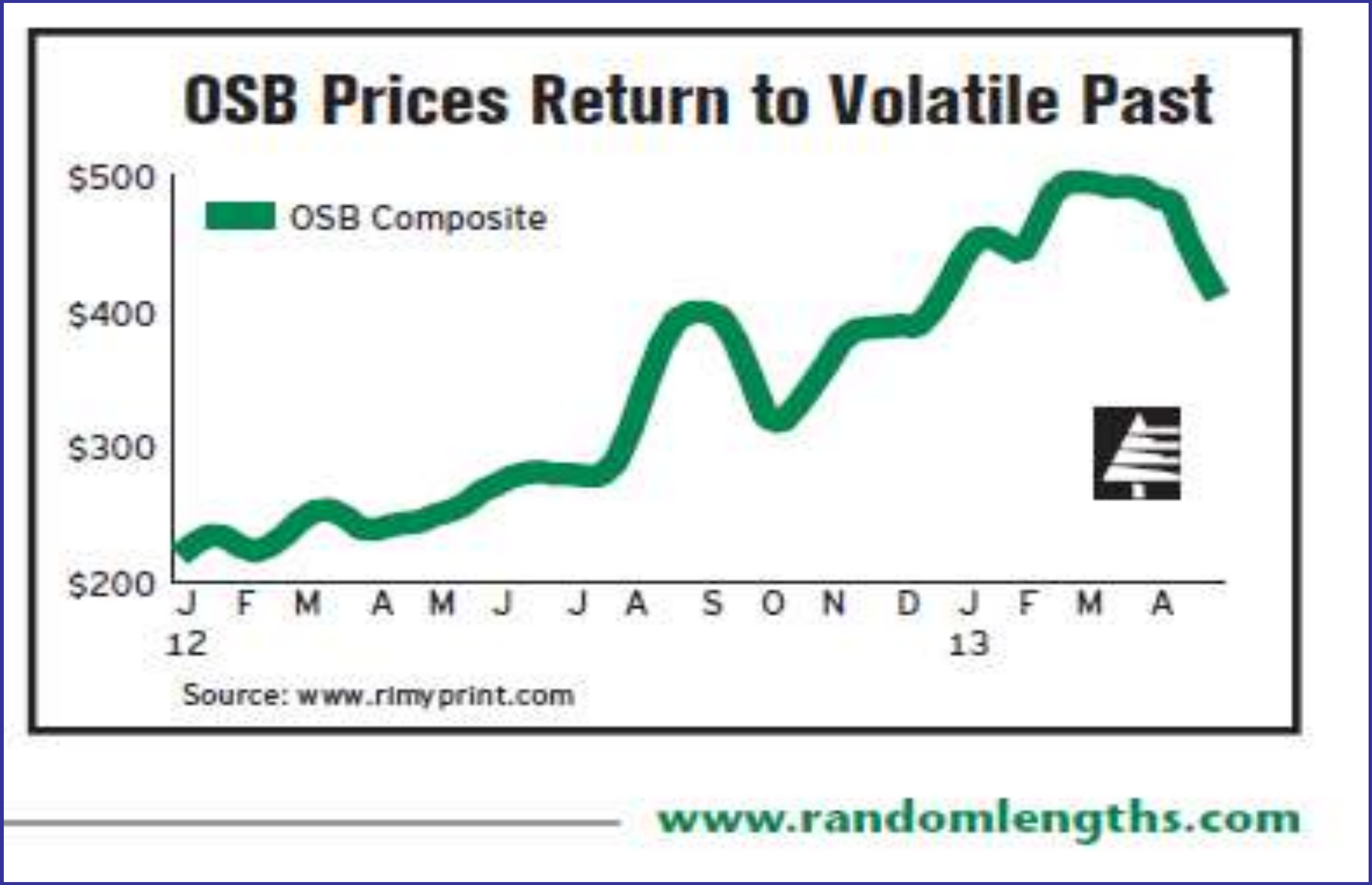
	AAC	Lumber production
2005	68 MMCM	15 BBF
2013	59 MMCM	
2018	40 MMCM	9 BBF

By the time the U.S. housing market gets back to normal, BC's lumber production will be down by 40% and this will drive lumber prices.

Source: Random Lengths (May 31, 2013)

Return TOC

Another aspect of wood products industry – volatility - a challenging business



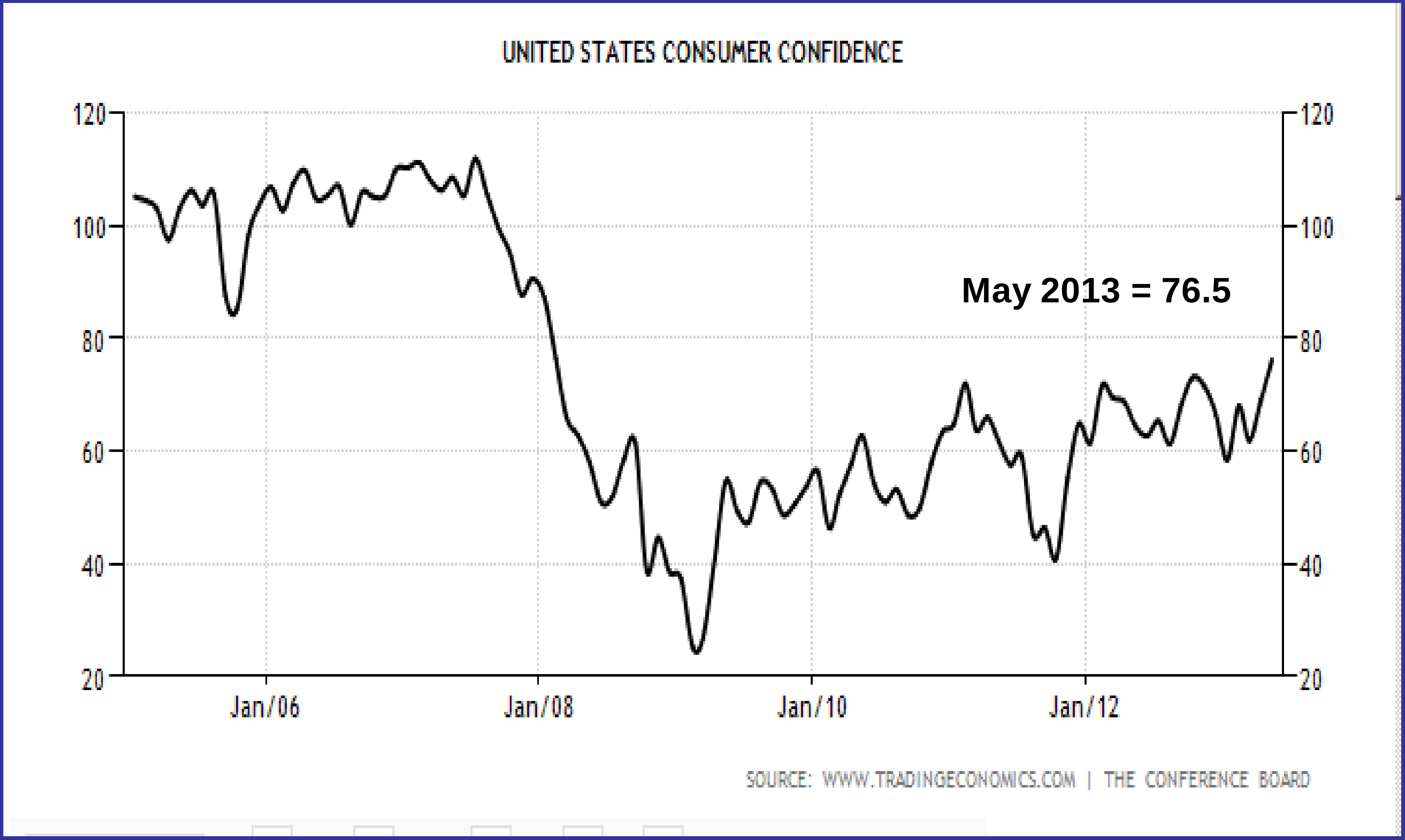
Return TOC

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

(1) improving domestic housing market and export
(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.

Return TOC

Consumer Confidence at 5 year high – good news as consumer spending is 70% of the economy



Source: (http://www.tradingeconomics.com/united-states/consumer-confidence)

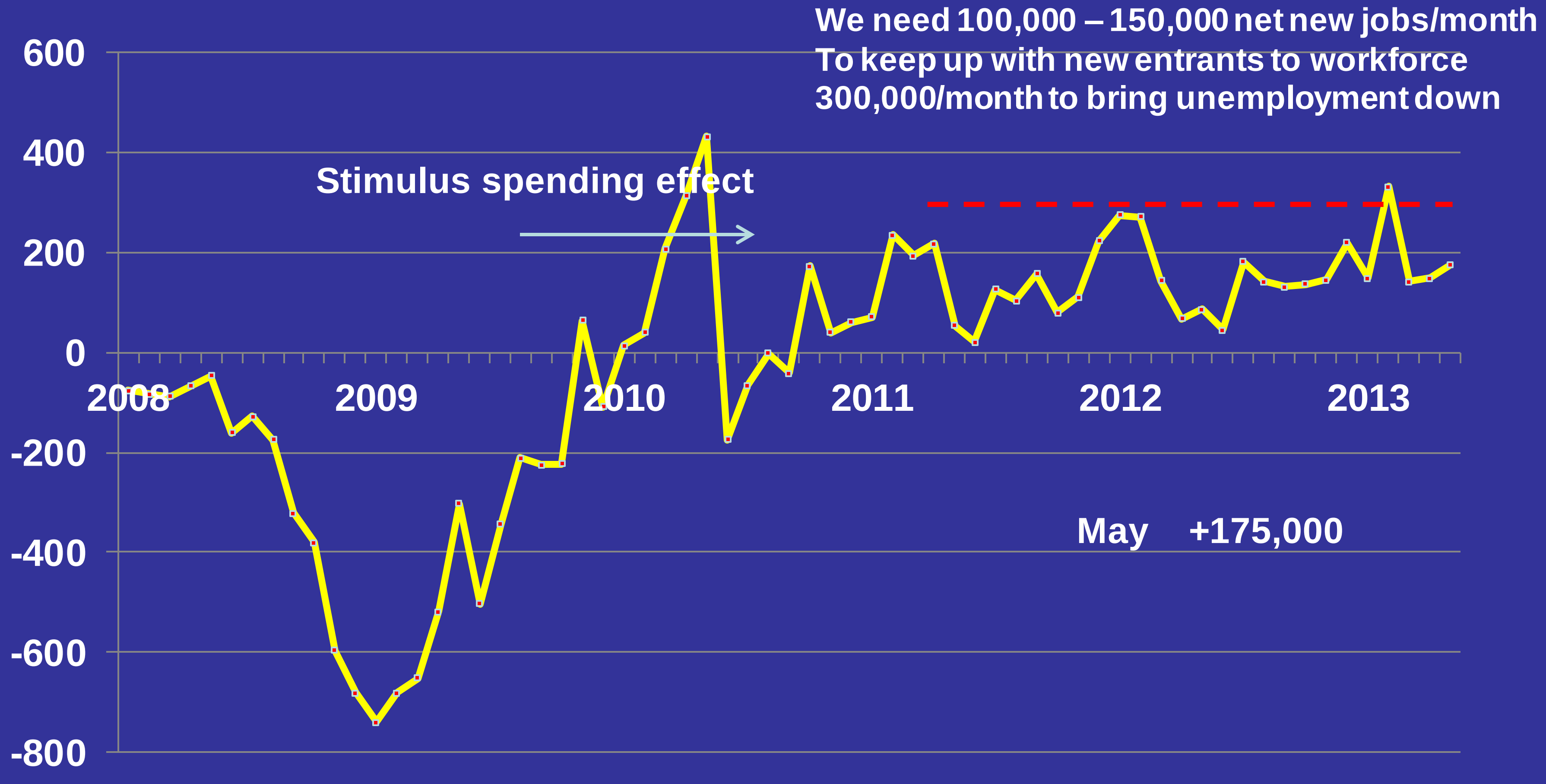
Although confidence is up, wages continue a disturbing downward trend

Source: S. Goldstein, Market Watch May 27 (http://blogs.marketwatch.com/thetell/2013/05/28/confidence-may-be-on-the-move-but-wages-are-not/)

Return TOC

Employment situation - our biggest problem - it's getting better, but the job 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 spend or to buy houses

Net change in non farm payrolls – monthly, thousands

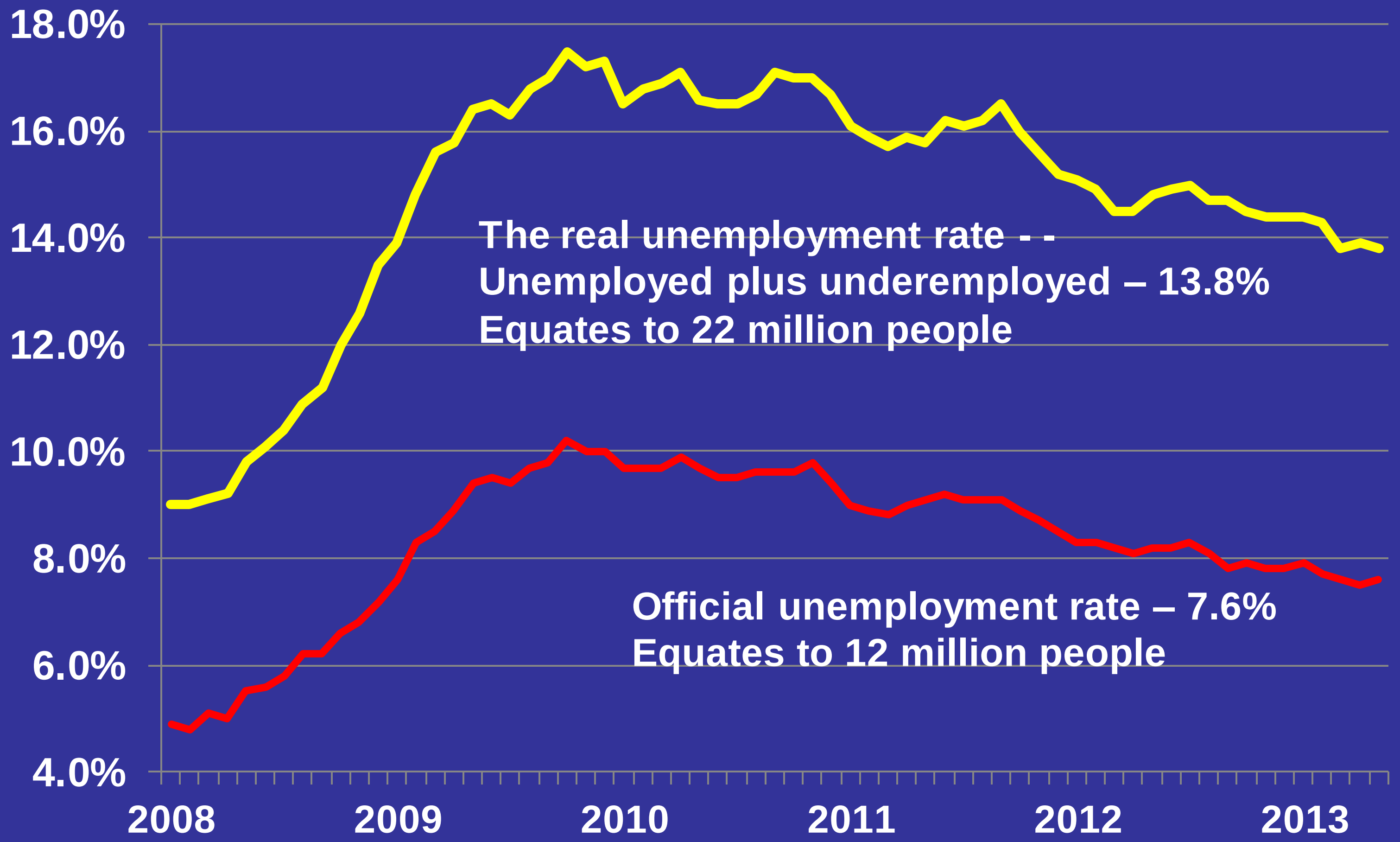


Source: U.S. BLS (www.bls.gov)

Return TOC

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

There are about 22 million people either unemployed, underemployed, or they stopped looking for employment – **they are not buying houses



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

Return TOC

Other economic issues –

- The workforce is shrinking and
  labor force participation rate is lowest since WWII
  Some implications – more problems funding social programs

- Capacity utilization remains below 80% - that means firms won't invest and that means weak job growth
  (and weak income growth)

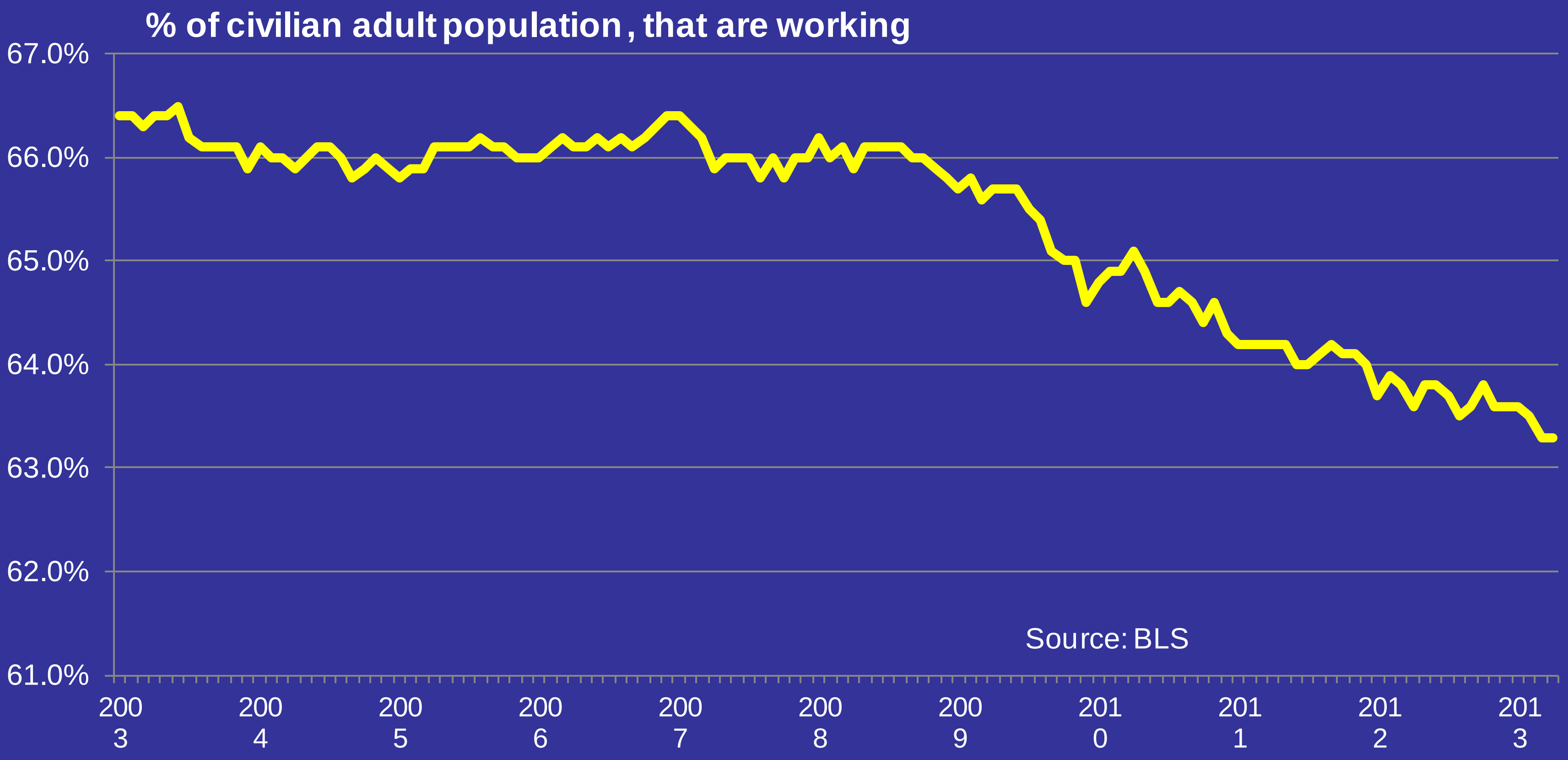
- Inflation is not a problem (yet?)

- Going forward, unemployment will be a huge drag on the federal (and other government levels') budgets – implications for taxes, spending, domestic programs, and job creation

- Major questions going forward are inflation, disinflation, deflation, or continued weak growth (disinflation is weakening inflation (i.e., today) whereas deflation is general fall in prices (i.e., 1930's). My guess is continuing weak growth (less than 3% GDP) with moderate pick up in inflation. There are too many headwinds for stronger growth, and deflation is just too ugly to contemplate.

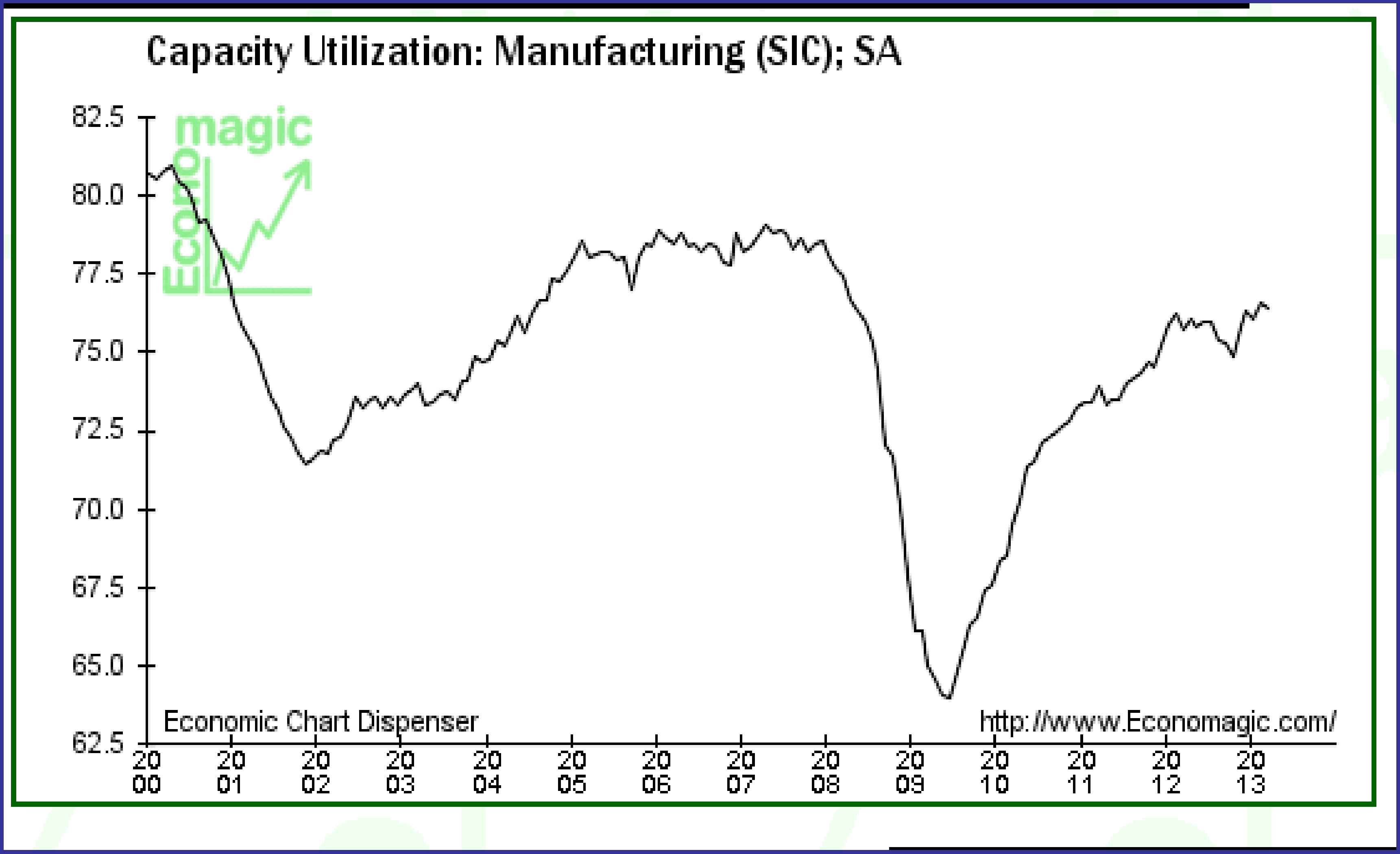
Return TOC

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.



Return TOC

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: Economagic (http://www.economagic.com/em-cgi/data.exe/frbg17/B00004_utlsa)

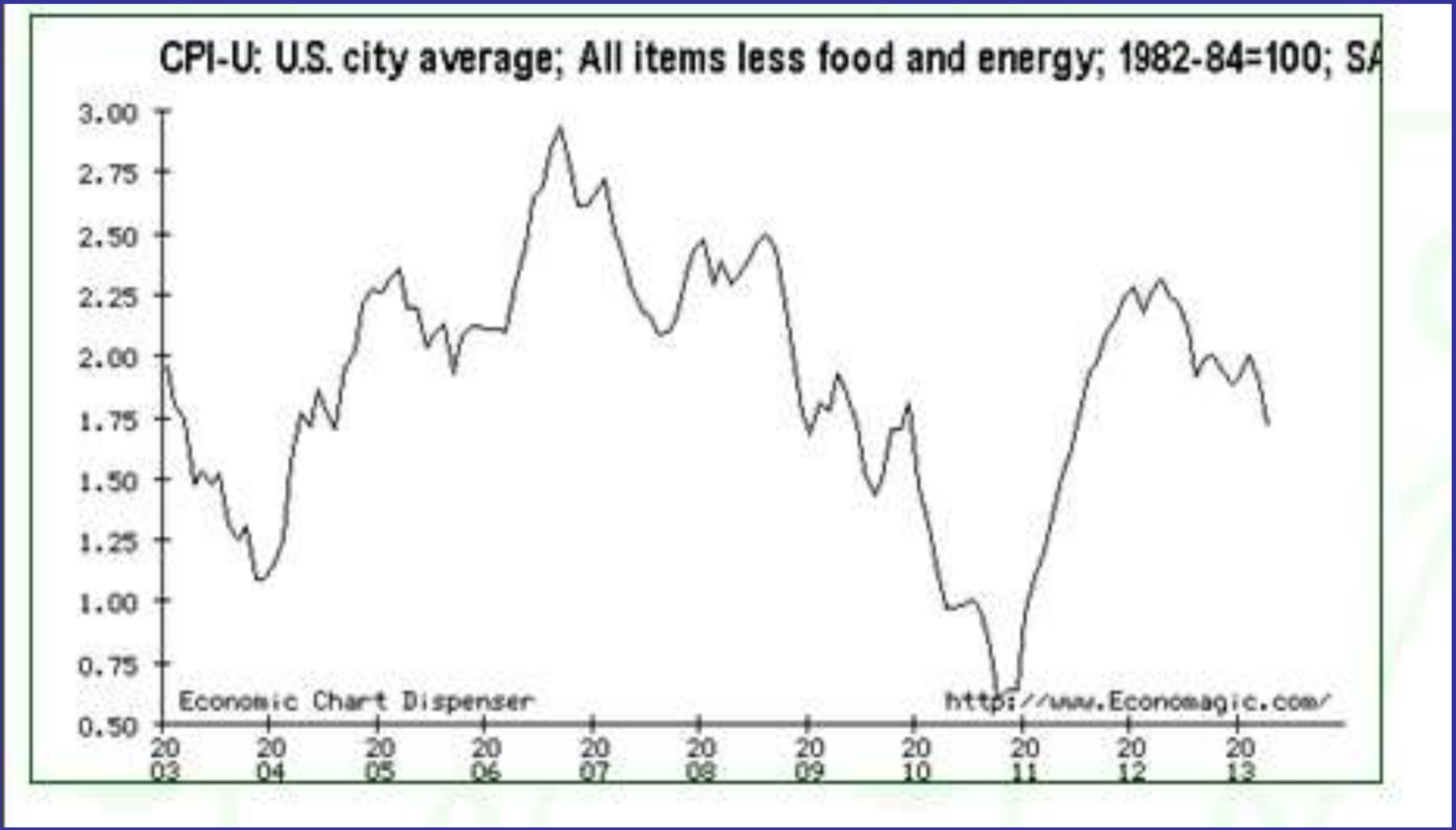
Return TOC

Inflation not a problem yet

Source: Economagic (http://www.economagic.com/em-cgi/daychart.exe/form)

Return TOC

Core Inflation (year over year) not a problem either



Source: Economagic (http://www.economagic.com/em-cgi/daychart.exe/form)

Return TOC

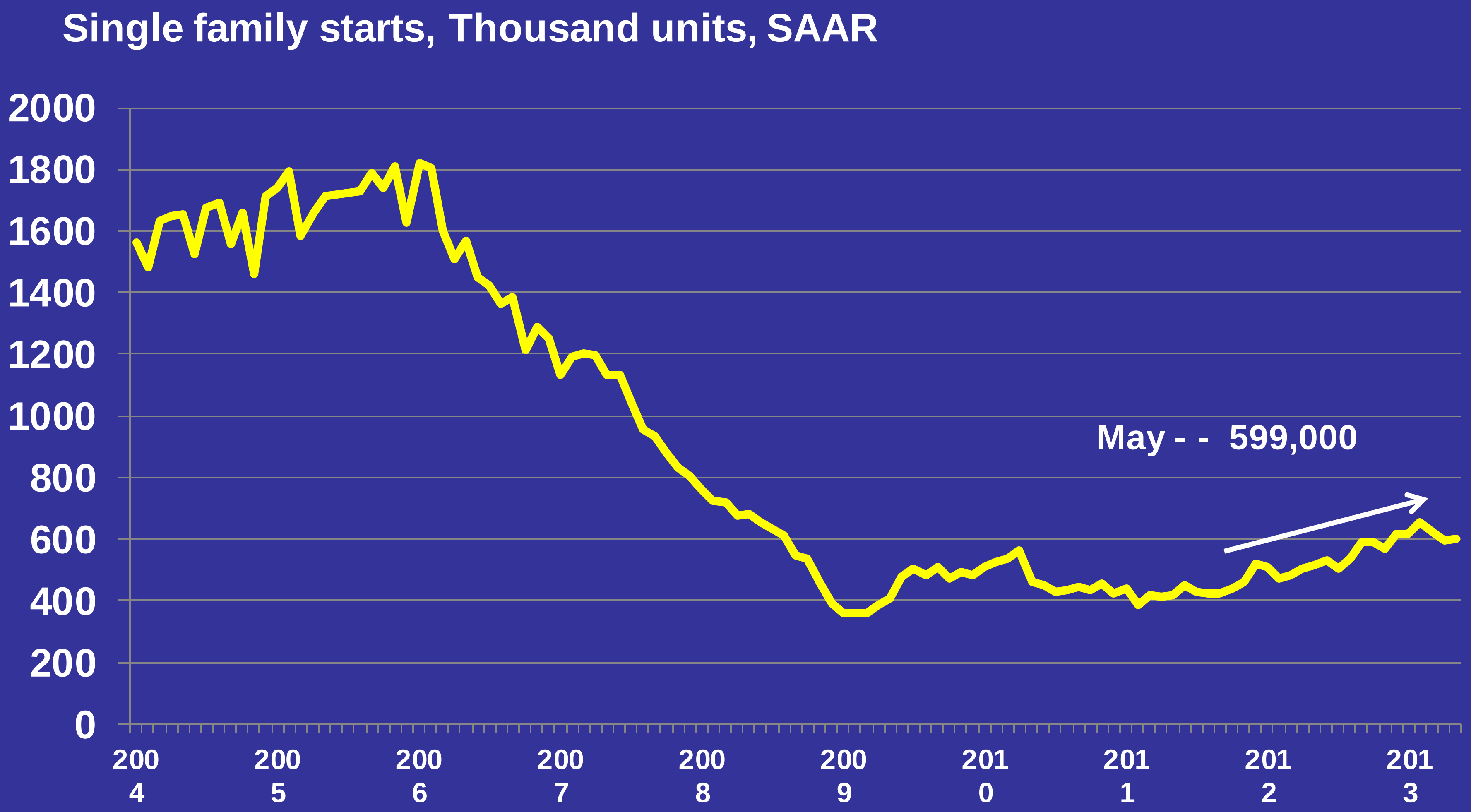
Recent Housing statistics

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!

Return TOC

Starts are finally turning the corner?

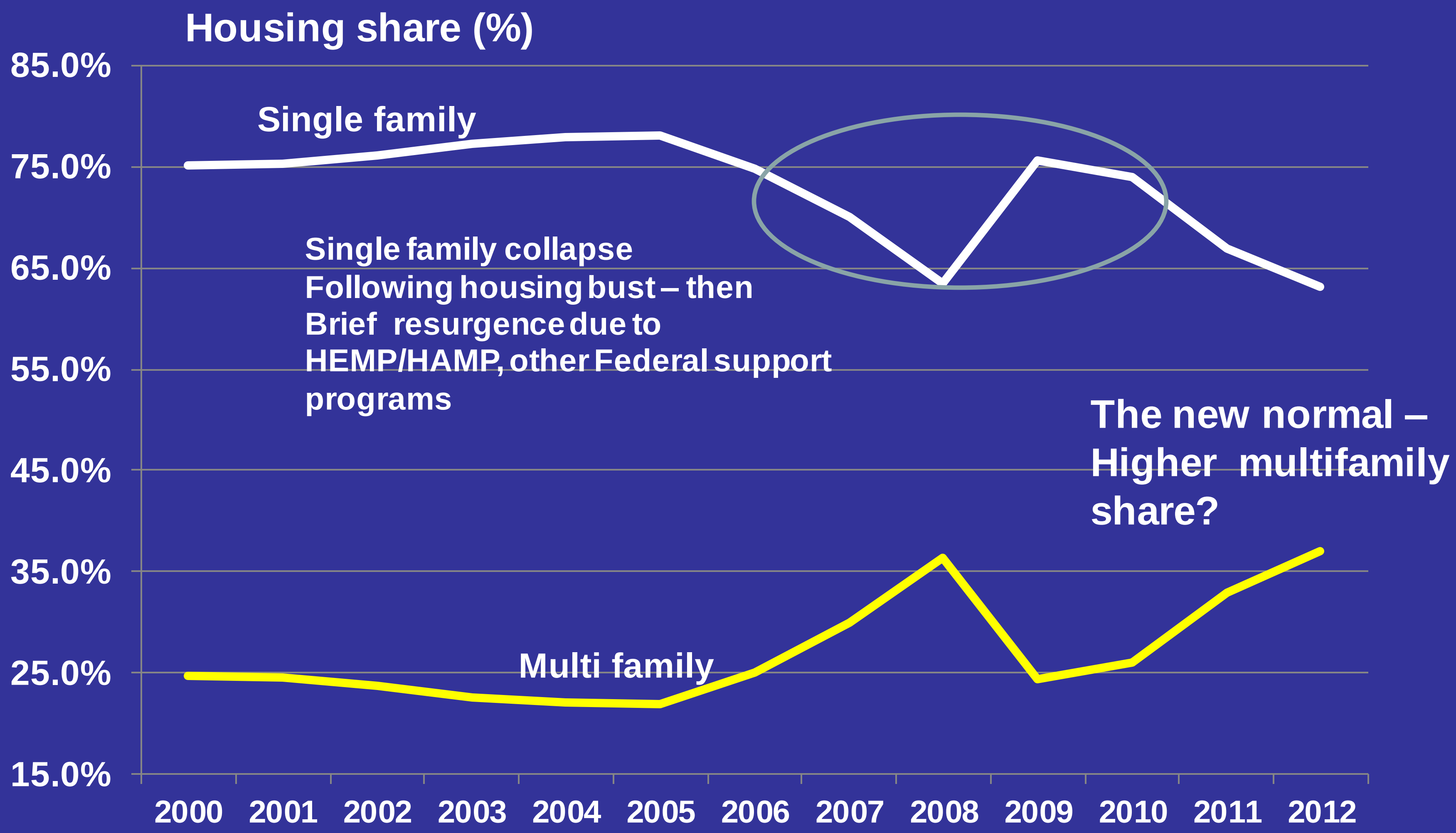
Problems going forward: distressed resales (i.e., foreclosures) and jobs. Rising prices will moderate the foreclosure problem while good paying jobs will create demand –however, this will take more time!



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

Return TOC

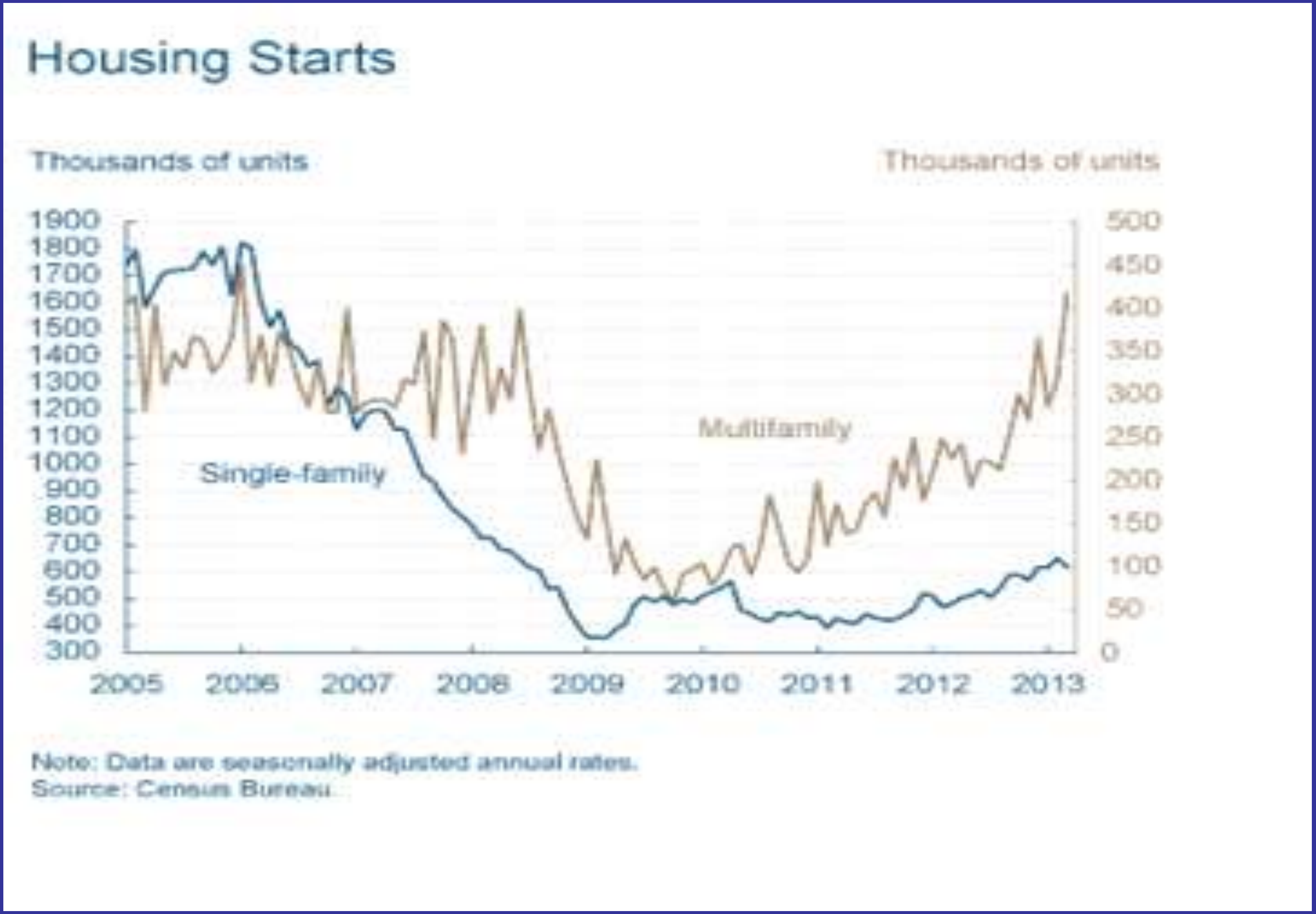
Multi family share is increasing – will it continue?



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

Return TOC

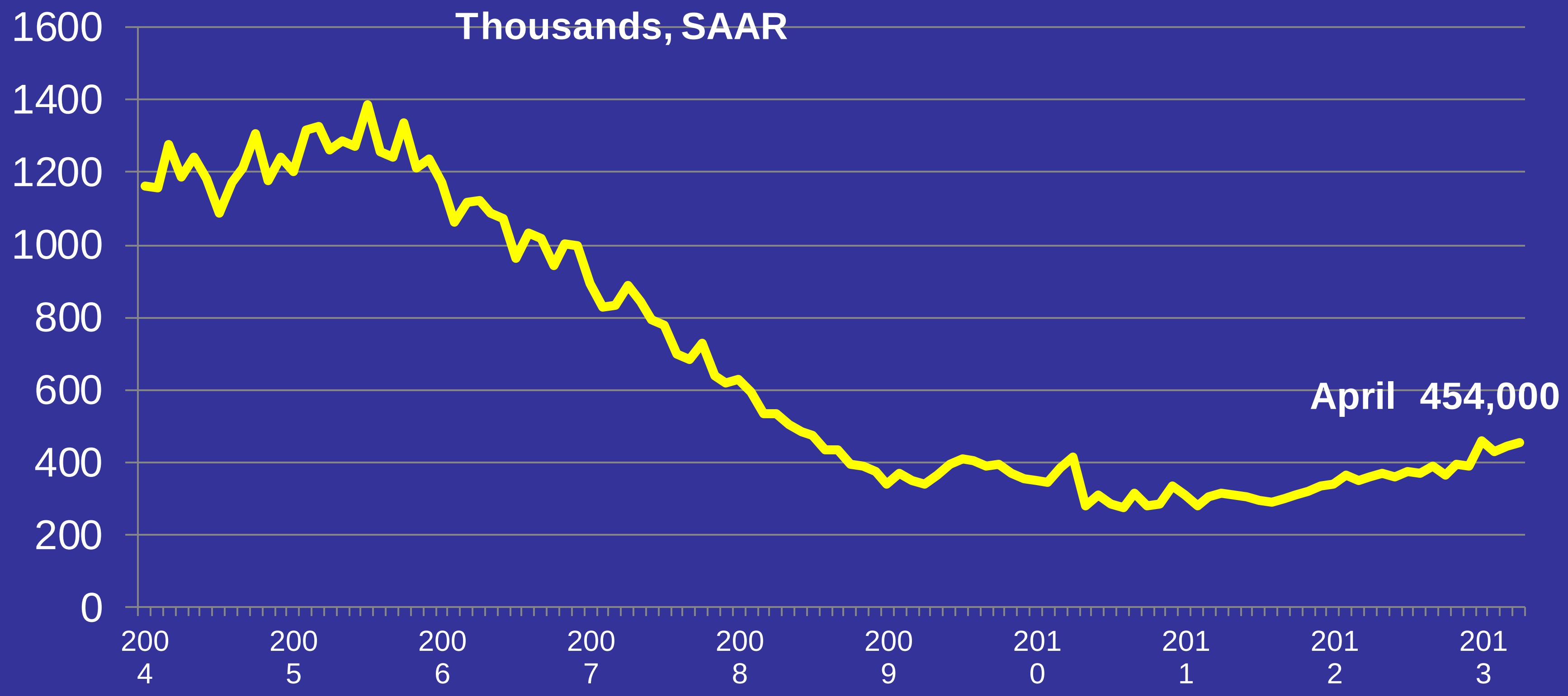
Multi family back to normal – will it keep going up?



Return TOC

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



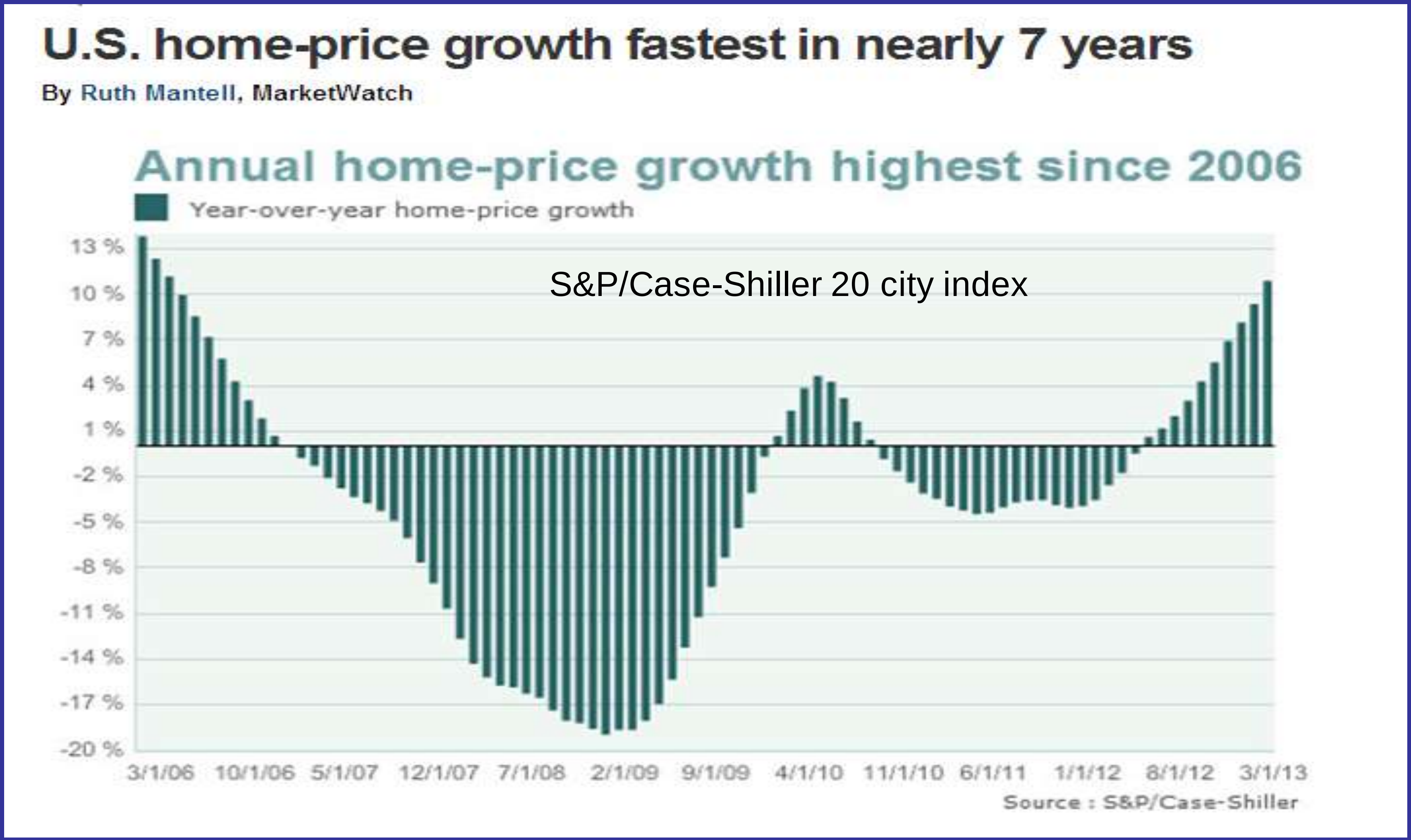
Source: Census (http://www.census.gov/const/www/newressalesindex.html)

Return TOC

Some information on recent house price increases

Return TOC

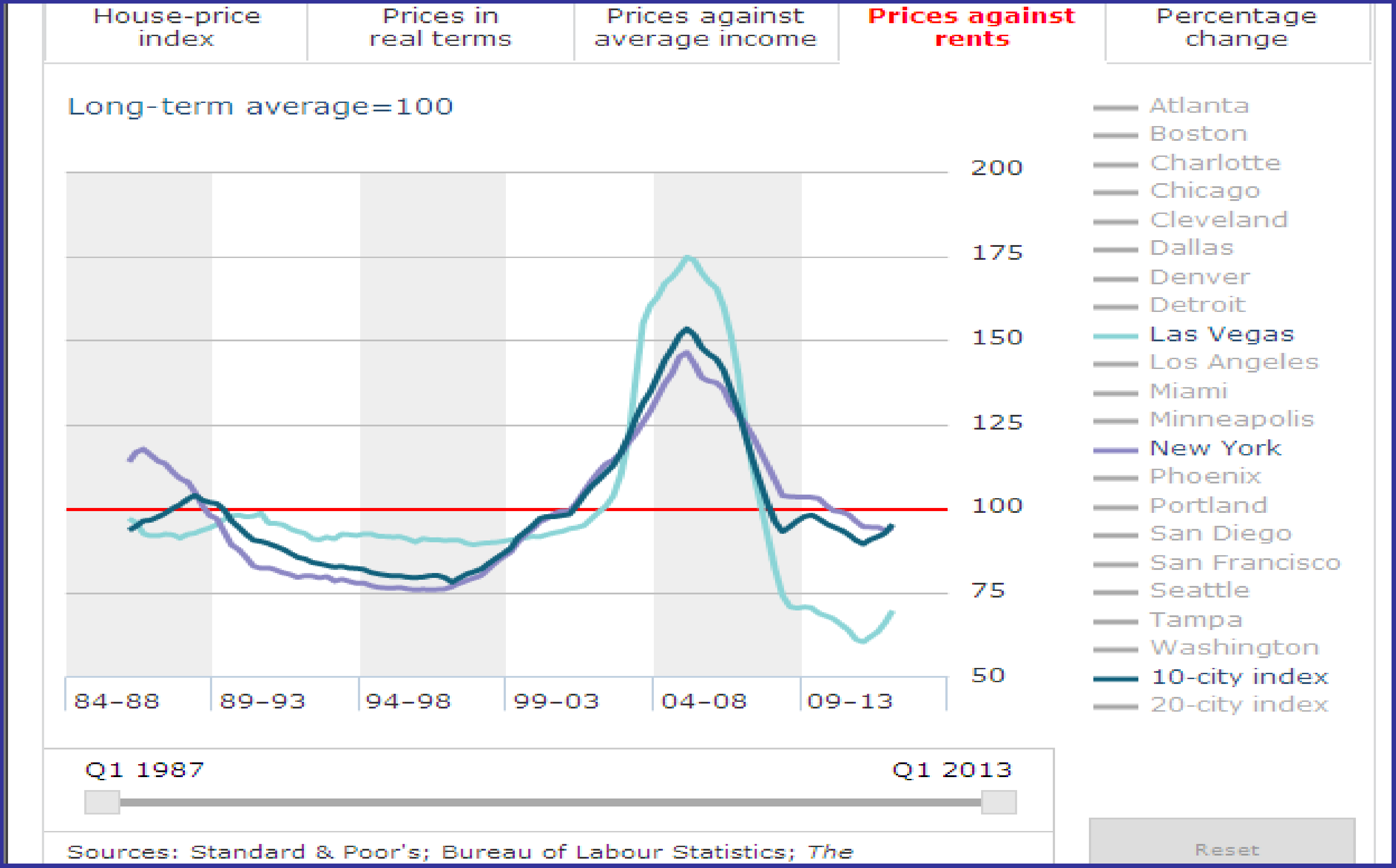
Price increase due in large part to weak supply, but still good news – needed to slow foreclosures; enable people to sell homes and move to better jobs; apply for refinancing - - this will turn housing Market around along with improving economy



Source: Case Shilller: (https://www.spice-indices.com/idpfiles/spice-assets/resources/public/documents/11644_cshomeprice-release-0430.pdf?force_download=true)

Return TOC

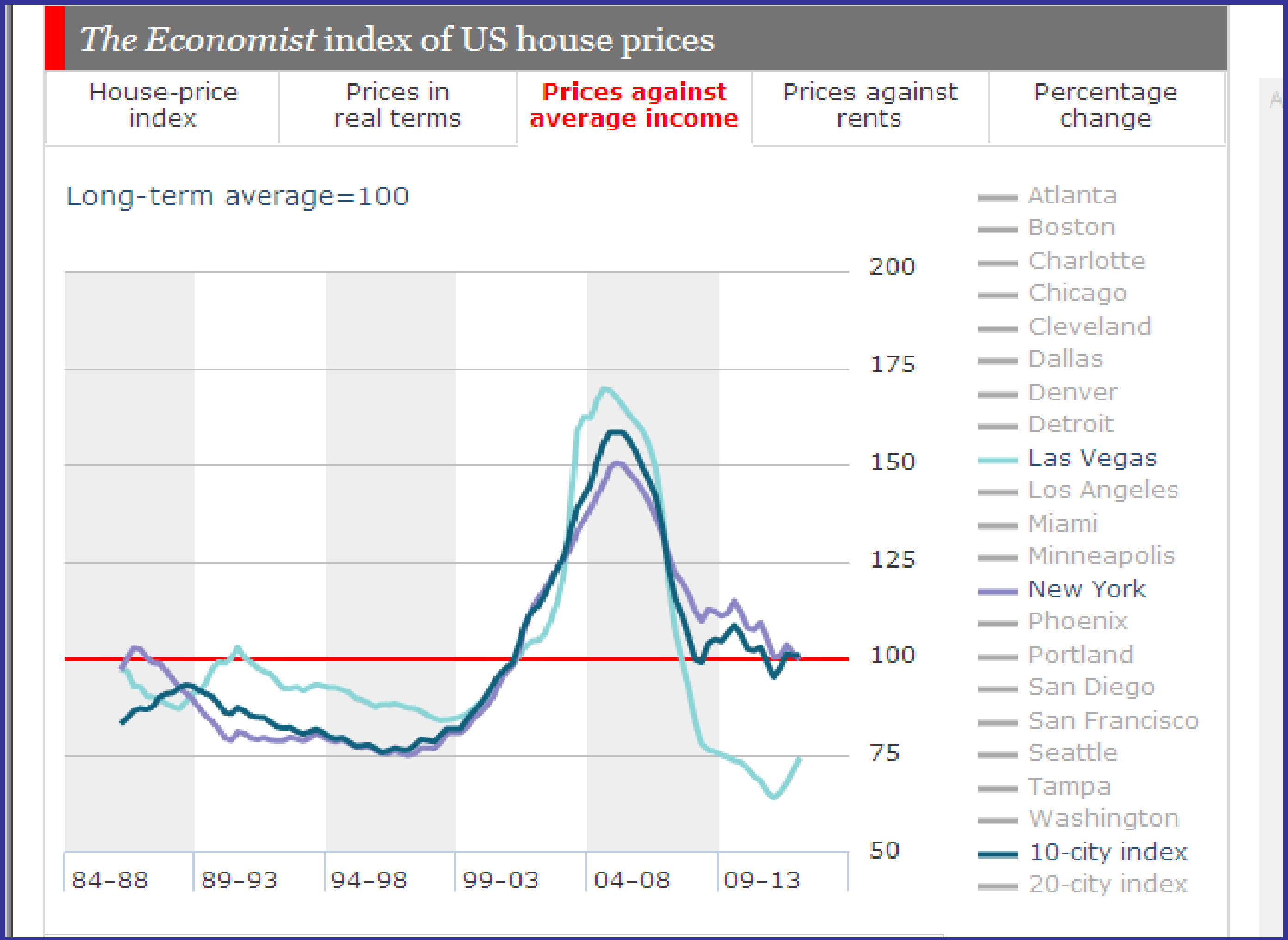
House Prices verses Rents - Back to normal



Source: The Economist (http://www.economist.com/blogs/graphicdetail/2013/06/us-house-prices)

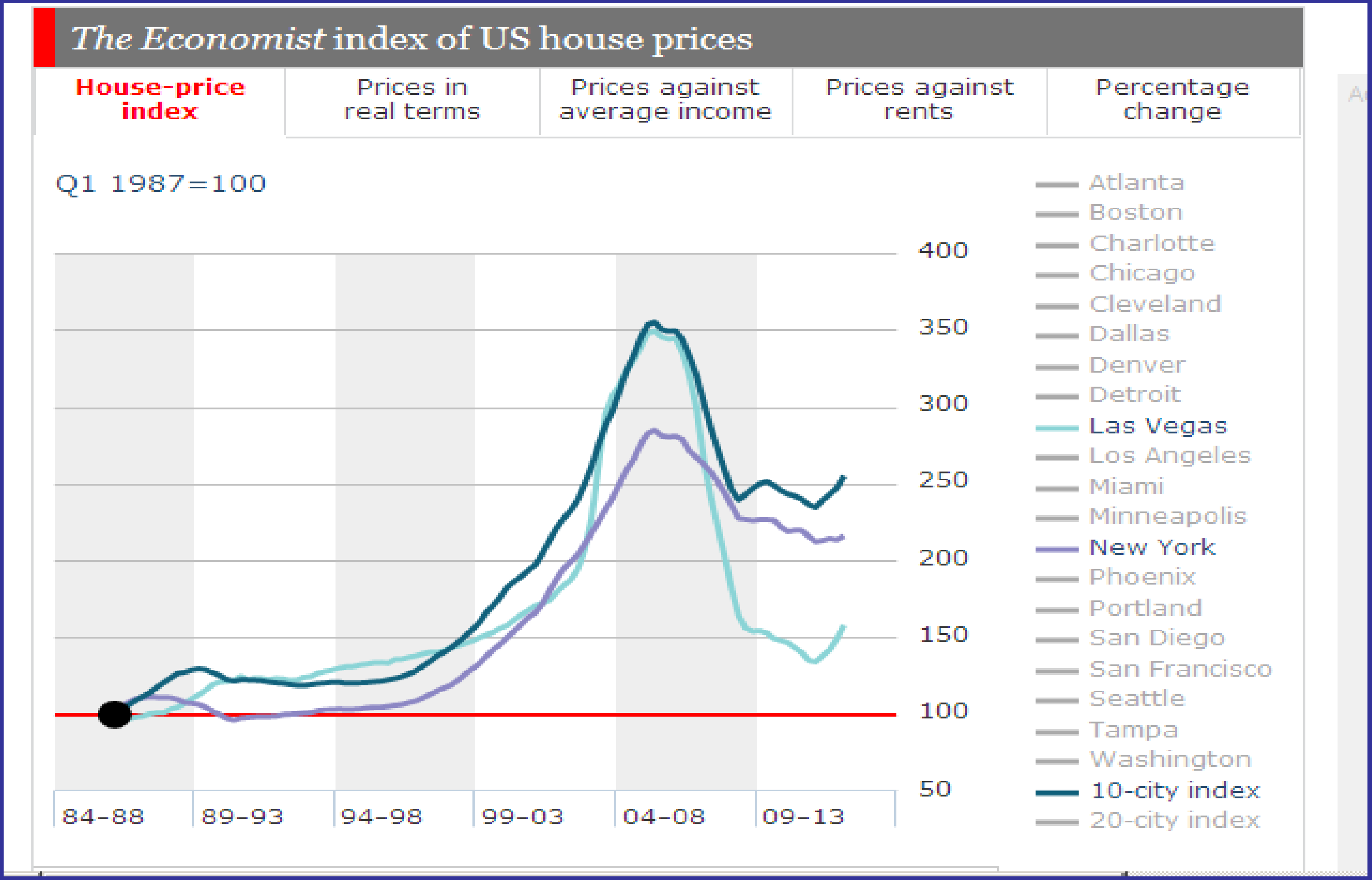
Return TOC

Price versus Incomes – back to normal



Source: The Economist (http://www.economist.com/blogs/graphicdetail/2013/06/us-house-prices)

House Price Index – still high



Return TOC

Some concerns re: recent house price increases

(1) Is it real and sustainable?

Due in large part to demand/supply mismatch
(Mike Santoli/Daily Ticker, May 28)

(a) Low inventories plus weak new home starts
(b) 25% of homeowners are still “underwater”
(c) 18% have little equity
i.e., 40% are “virtually trapped in their houses”

(2) Are we setting ourselves up for another “bubble”

(see next slide on flipping in California)

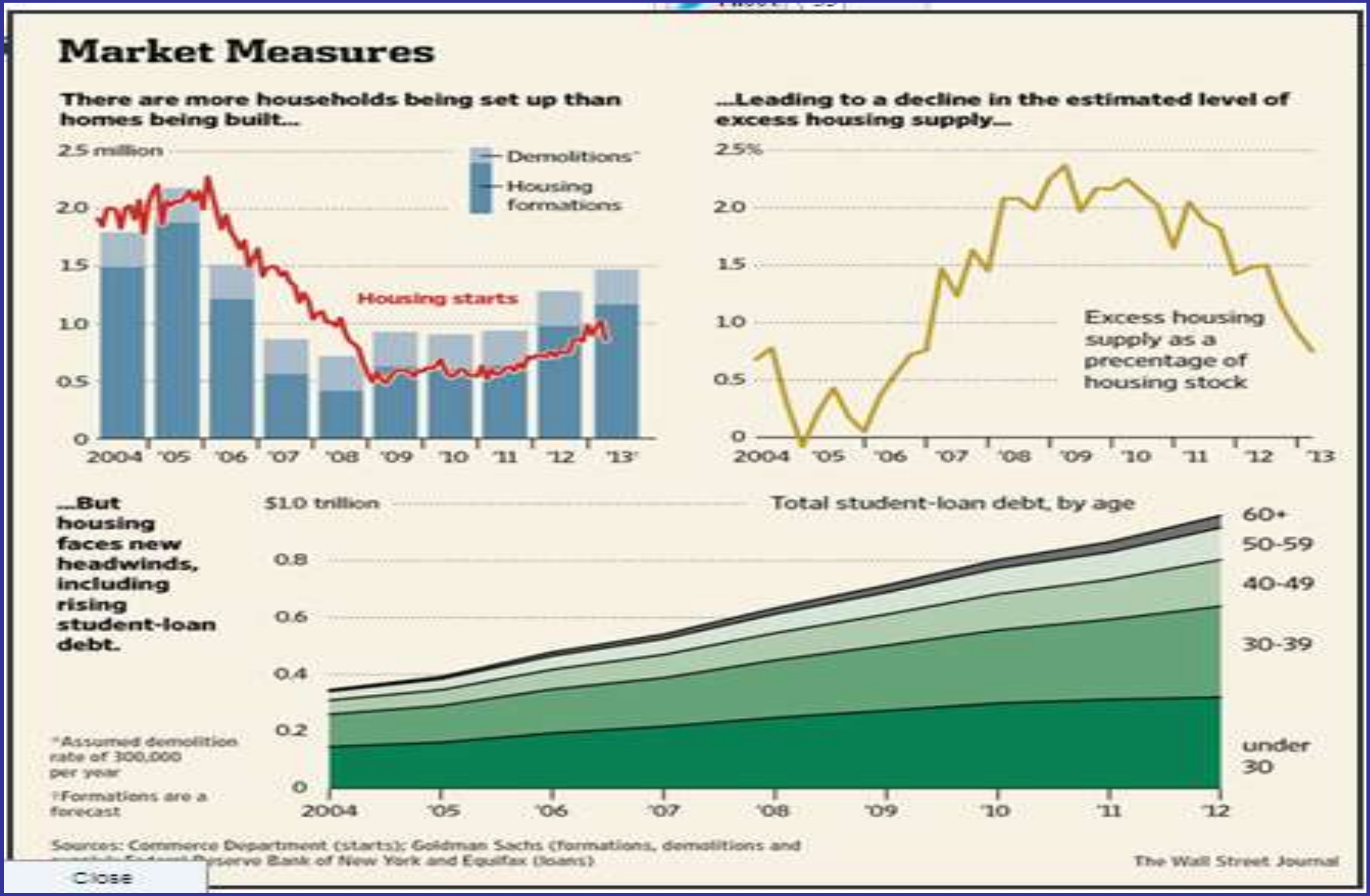
Return TOC

Reminiscent of last bubble? – not really, just a function of who is buying today – i.e., cash sales to speculators in some markets like California

Source: WSJ May 27, (http://online.wsj.com/article_email/SB10001424127887323463704578497143338013974-lMyQjAxMTAzMDIwODEyNDgyWj.html?mod=wsj_valetbottom_email)

Return TOC

Sound Housing Rebound? – Problems include tight credit, excessive debt with 1st time buyers (echo boomers' student loans) – rising interest rate environment



Source: WSJ (http://online.wsj.com/article/SB10001424127887324069104578531040339867974.html)

Return TOC

Single family Housing is still only 1/3rd what it was in 2005
So, no bubble in housing today (my opinion)

Source: WSJ (http://online.wsj.com/article/SB10001424127887324049504578545823072943566.html?KEYWORDS=fears+of+new+housing+bubble+full+of+air)

Good News - -

(1) Household formations are key to the housing recovery
- - - there is a growing "pent up demand"

(2) Formations are improving – but, further improvement depends on a stronger economy

Return TOC

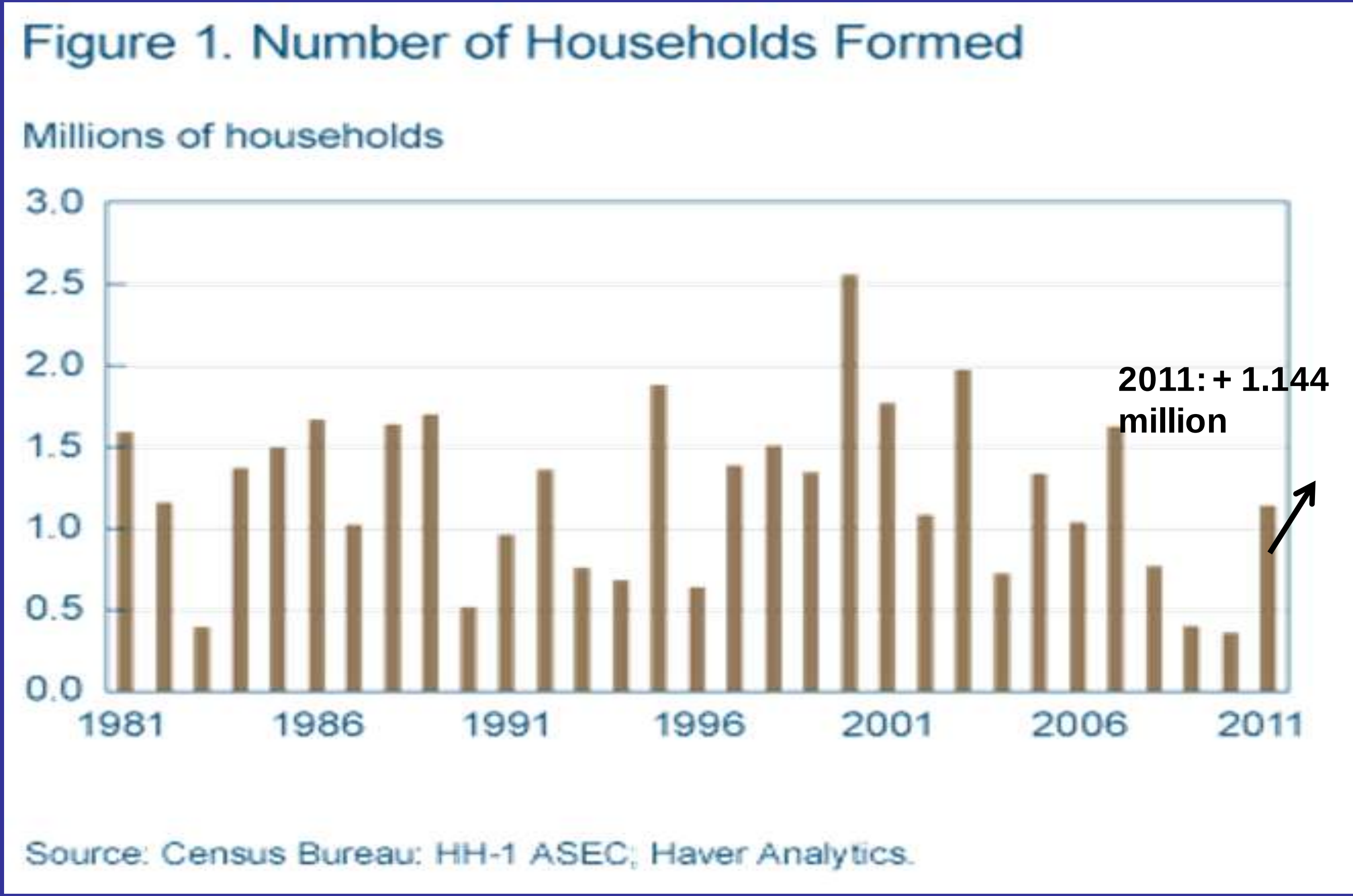
Good news is that household formations exceed starts - - plus, when demolitions are included, there is considerable "pent up demand" for shelter

Source: WSJ (http://online.wsj.com/article/SB10001424127887324069104578531040339867974.html)

Return TOC

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 1/3rd the historical rate – when the economy picks up, HH formations will go back to normal – again the key is the economy (jobs)



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

Return TOC

Household (HH) formations Shortfall*

Facts:
(1) 1995 - 2007: 1.5 million HH formed per year
2008 – 2010: 500,000 HH formed per year

(2) During 1995 – 2007, population increased 2.9 million annually
2008 – 2010, the increase was 2.7 million annually

*HH formation Shortfall(cumulative)**

2008 – 600,000
2009 – 1.7 million
2010 – 2.5 million
2011 – 2.6 million

* Shortfall based on model developed by Tim Dunne of the Cleveland Fed
Based on historical relationship between economy, headship rates, population increase, Social norms, etc. (http://www.clevelandfed.org/research/commentary/2012/2012-12.cfm)

Return TOC

Bottom line – when economy returns to normal,
Demand for shelter will return to normal.

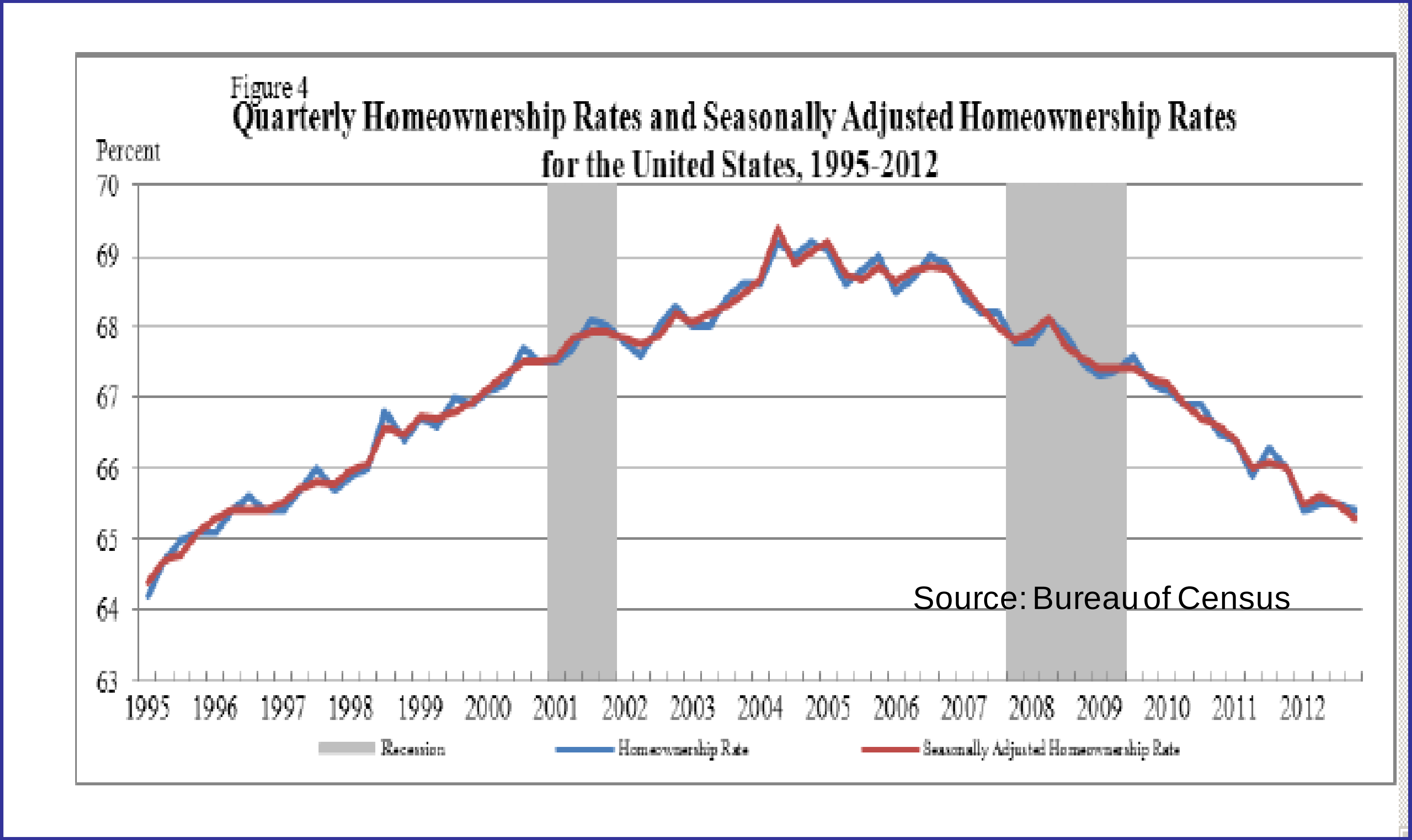
Question – what will the mix be between detached single family and multi family housing and what are the implications for the wood products industry?

Most of you have seen this article by Craig Adair and myself and it is three years old, but it addresses the question posed above as it relates to the wood products industry
(http://www.nxtbook.com/nxtbooks/naylor/EWAB0110/index.php?startid=16#/16)

In addition, there are many other excellent references to the future of homeownership – here is one by Eric Belsky From the Harvard Joint Center for Housing studies.
(http://www.jchs.harvard.edu/research/publications/dream-lives-future-homeownership-america)
Another one by Fannie Mae
(http://www.fanniemae.com/resources/file/research/ownrent/pdf/own-rent-data-analysis-presentation-2012.pdf)

Return TOC

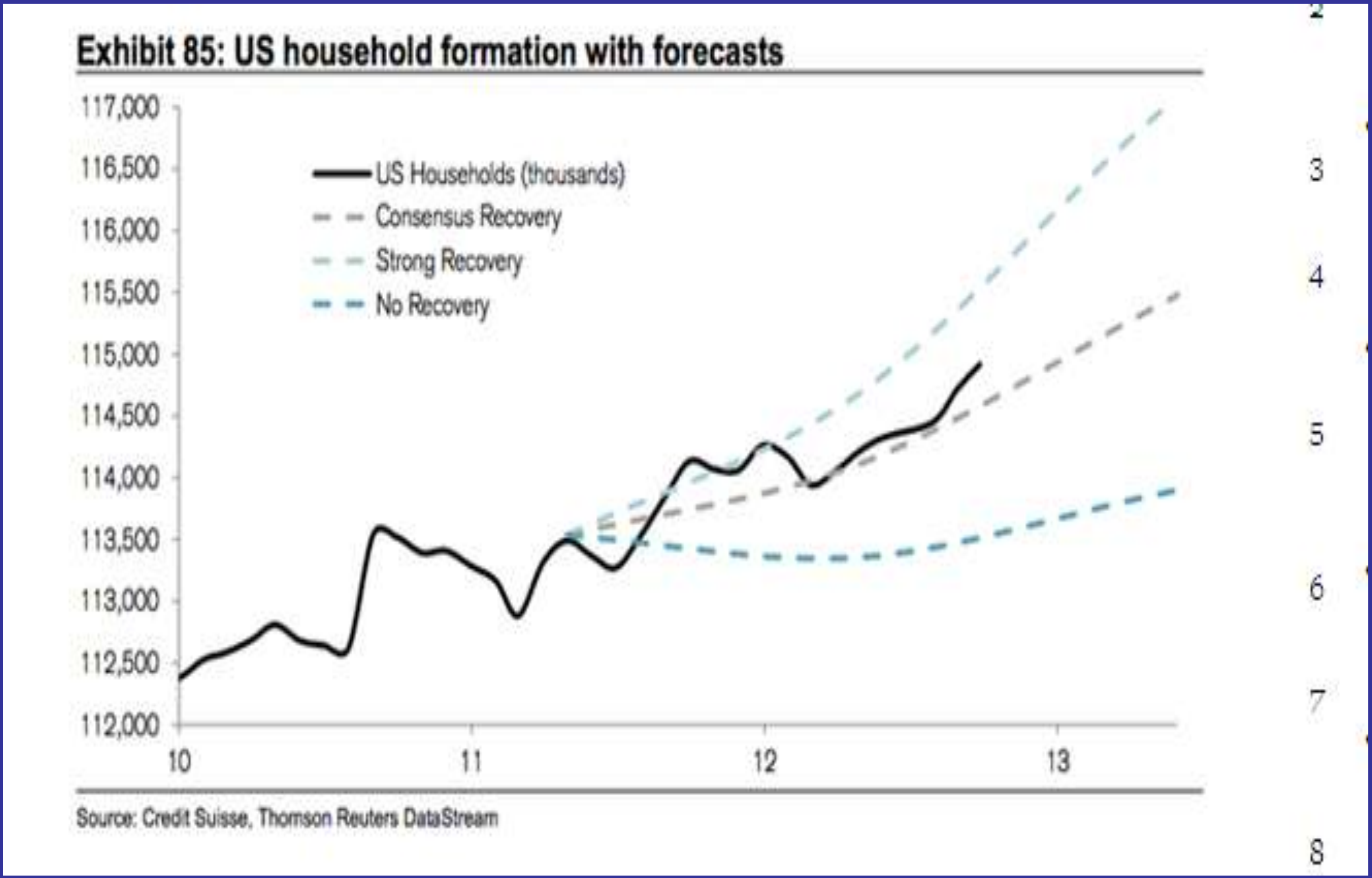
Homeownership rates have been falling for the past seven years – big question – when the economy gets back to normal, will people go back to single family or will we see more multi family?? To date, the "recovery" has been mainly multifamily



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

Return TOC

Household formation forecasts – various scenarios

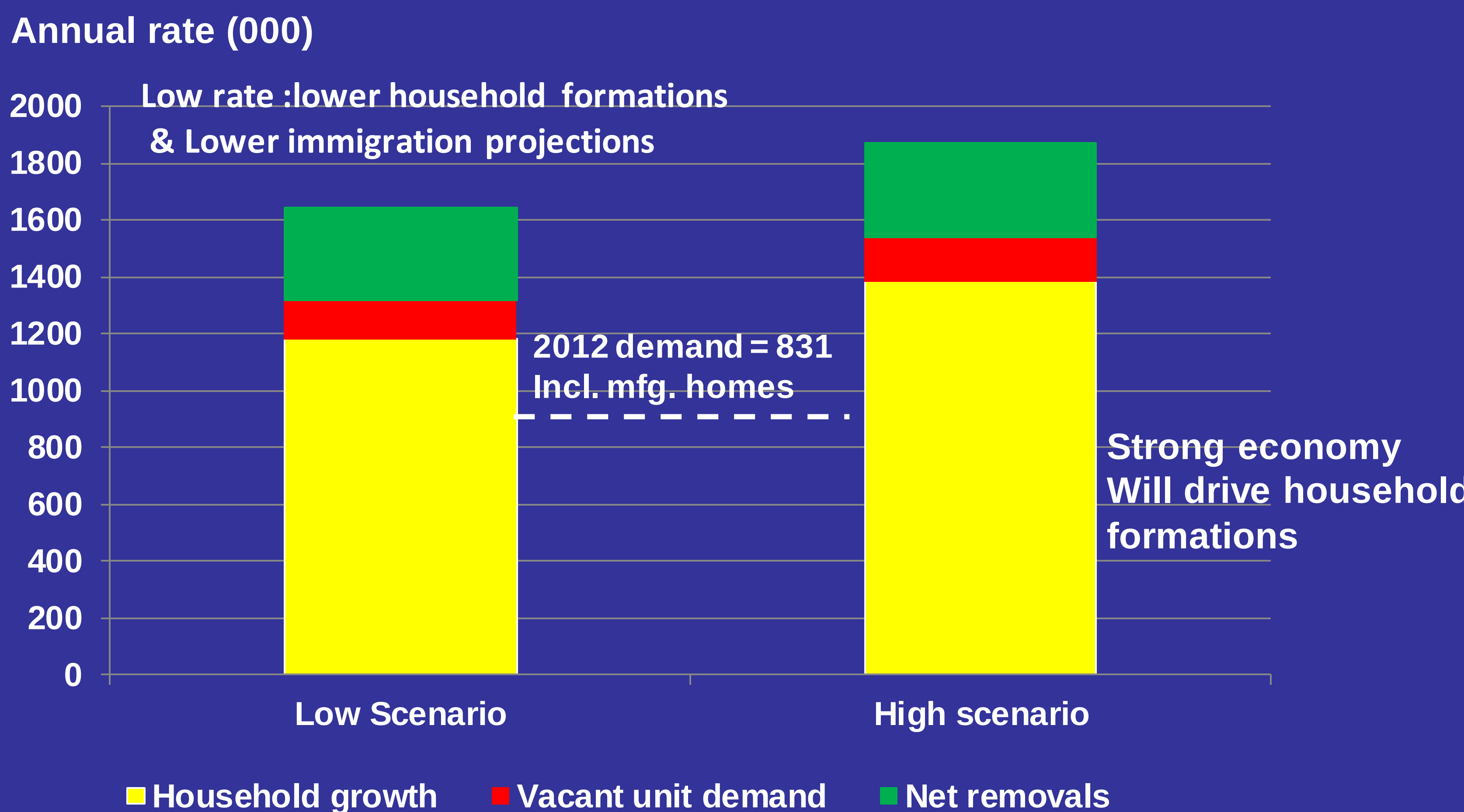


Source: (http://www.theatlantic.com/business/archive/2012/12/the-most-overlooked-statistic-in-economics-is-poised-for-an-epic-comeback-household-formation/266573/)

Return TOC

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

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



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

Return TOC

Conclusions – housing remains weak till economy fixed

(1) Economy will muddle along until 2015 and beyond? Depends on world economy, China, Europe, …..

(2) Inflation or deflation?

probably disinflation (rate of inflation continues to slow) – weak demand is big problem here;

hyperinflation not a high probability unless the dollar falls significantly – this would could come from concerns about the ability of U.S. to repay debts and ability to unwind its balance sheet – i.e., interest rates would rise to compensate for added risk.

deflation (1930's) – let's hope this doesn't happen because it is extremely difficult to exit

(3) We're in "uncharted waters" territory (i.e., massive money printing)

to date, it has helped prevent worsening of economy, but, certainly hasn't had the impact the FED had hoped for (i.e., jump start the economy)

(4) Housing will "limp along" for another 1 - 2 years?

Return TOC

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.

Return TOC