June 2016 Housing Commentary

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This report is a free monthly service of Virginia Tech. Past issues can be found at: http://woodproducts.sbio.vt.edu/housing-report/

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June 2016
Housing Scorecard

	M/M	Y/Y
Housing Starts	△ 4.8%	▽ 2.0%
Single-Family Starts	△ 4.4%	△ 13.4%
Housing Permits	△ 1.5%	▽ 13.6%
Housing Completions	△ 12.3%	△ 18.7%
New Single-Family House Sales	△ 3.4%	△ 25.4%
Existing House Sales[1]	▽ 1.1%	△ 3.0%
Private Residential Construction Spending	△ 0.1%	△ 2.6%
Single-Family Construction Spending	▽ 0.4%	△ 4.8%

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

Source: U.S. Department of Commerce-Construction; [1]National Association of Realtors® (NAR®)

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Housing Data

	June	May	June 2015
Total permits*	1,153,000	1,136,000	1,334,000
Single-family permits	738,000	731,000	702,000
Multi-family 2-4 unit permits	31,000	28,000	34,000
Multi-family ≥ 5 unit permits	384,000	377,000	598,000
Total starts	1,189,000	1,135,000	1,213,000
Single-family starts	778,000	745,000	686,000
Multi-family 2-4 unit starts**	19,000	4,000	14,000
Multi-family ≥ 5 unit starts	392,000	386,000	513,000
Total completions	1,147,000	1,031,000	966,000
Single-family completions	752,000	725,000	638,000
Multi-family 2-4 unit completions**	9,000	8,000	9,000
Multi-family ≥ 5 unit completions	386,000	288,000	319,000

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

** US DOC does not report 2-4 multi-family starts and completions directly, this is an estimation.

Source: U.S. Department of Commerce-Construction: www.census.gov/construction/nrc/pdf/newresconst.pdf; 07/19/16

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Housing Data

	June	May	June 2015
New single-family sales	592,000	572,000	472,000
Median price	$306,700	$288,400	$289,200
Existing sales [a]	5,570,000	5,510,000	5,410,00
Median price	$247,700	$238,900	$236,300
Private Residential Construction	$445.9 billion	$445.5 billion	$434.4 billion
SF construction	$239.6 billion	$240.5 billion	$228.6 billion
MF construction	$59.7 billion	$60.6 billion	$51.3 billion
Improvement construction [b]	$146.5 billion	$151.2 billion	$154.5 billion

[a] NAR®

[b] The US DOC does not report improvements directly, this is an estimation. All data is SAAR and is reported in nominal US$.

Sources:

NAR® www.realtor.org/topics/existing-home-sales; 07/21/16
U.S. Department of Commerce-Construction: www.census.gov/construction/nrs/pdf/newressales.pdf; 07/26/16
U.S. Department of Commerce-C30 Construction: www.census.gov/construction/c30/pdf/privsa.pdf; 08/01/16

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Conclusions

Housing remains relatively weak (historical speaking) with soft supply for new homes (especially starter homes) and resales. It appears that "free money" cannot overcome poor income growth and tight credit for first time buyers. Global uncertainty, terrorism, and economic slowdowns (China, Brazil) are not helping either, mostly by preventing businesses to invest.

June's housing data is a mixed bag – total starts up by 4.8% (m/m), single family homes up by 4.4%, single family permits up by 1.0% and completions up by 12.3% (m/m) and existing home sales were up by 1.1% from the month before. Multi family housing permits were up and multi family still making up 34% of total.

With the real unemployment rate in the U.S. at 9.6% (15.4 million individuals unemployed, stopped locking, or work part-time) and household income growth nonexistent or negative, it's hard to envision a scenario where the U.S. housing market returns to "normal" anytime soon. Slowing economies in China, Brazil, among others, and continuing problems in Europe all add up to numerous negative macro-factors endangering a robust housing recovery, in particular:

1) A constrained quantity of well-paying jobs being created;
2) a tepid economy;
3) declining real median annual household incomes;
4) strict home loan lending standards – though loosening with new programs; and
5) slowing world economy; and
6) global uncertainty

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May 2016
EU Housing Scorecard

		M/M	Y/Y
Production in Construction[A]	EU 28	▽ 0.5%[s]	▽ 1.1%[s]
	EU 19	▽ 0.7%[s]	▽ 0.8%[s]
	Germany	▽ 0.9%	▽ 1.6%
	France	▽ 0.4%	▽ 3.9%
	UK	▽ 2.3%[p]	▽ 3.9%[p]
	Spain	△ 2.0%[ps]	△ 2.7%[p]
Building permits (m^2 floor)[A]	EU 28	-.-	-.-
	EU 19	▽ 2.9%[(02)]	△ 17.1%[s(02)]
	Germany	▽ 1.2%	△ 19.9%
	France	▽ 7.1%[s]	△ 12.1%[e]
	UK	-.-	-.-
	Spain	▽ 23.8[s(02)]	△ 5.6[e(02)]

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

Source: Eurostat (http://ec.europa.eu/eurostat/web/short-term-business-statistics/data/main-tables; 08/08/16)

[A] see http://ec.europa.eu/eurostat/web/short-term-business-statistics/overview/sts-in-brief

[e] estimate, [s] Eurostat estimate, [p] provisional, -.- no data available, [(02)] February data

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Housing comments – June 2016

- *June starts were up 4.8% to 1.189 (SAAR) - SF at 778,000 (SAAR) – up 4.4% - MF still 35% of total – year over year, total down 2% while SF up 13% - a good trend*
- Home ownership rate fell to 63.5% in QTR1 2016 – *lowest ownership rate in 50 years!* Financing problems; changing *preferences (to renting); and rising home prices - problem for 1st time buyers*
- *Resale market at highest level since 2010 - 5,570,000 (annual rate)*
- **Latest jobs report was good - although unemployment inched up to 4.9%, it was due to more people entering the work force (a good thing). Real unemployment rate still a problem - 15.4 million people, but it is improving!!**
- The Fed capitulated again – doesn't know what to do, so they do nothing. Soon, we will join Germany and Japan with negative real interest rates . Current expansion, at 8 years, is getting "long in the tooth". When the next recession arrives, the FED has few options, and, with $19 trillion debt, government fiscal policy is a non-option.
- The unemployment problem (and weak demand) can be addressed by reducing welfare and get government out of the way of innovation and business investment. Innovation creates jobs – government doesn't.
- **Half of the population gets a check from "Uncle Sam"!** We have too much government - - it is stifling innovation and risk taking - main reason why the economy is so lethargic and will remain that way!

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Comments on the economy – getting better, but problems Remain

Innovation – Productivity – Income inequality

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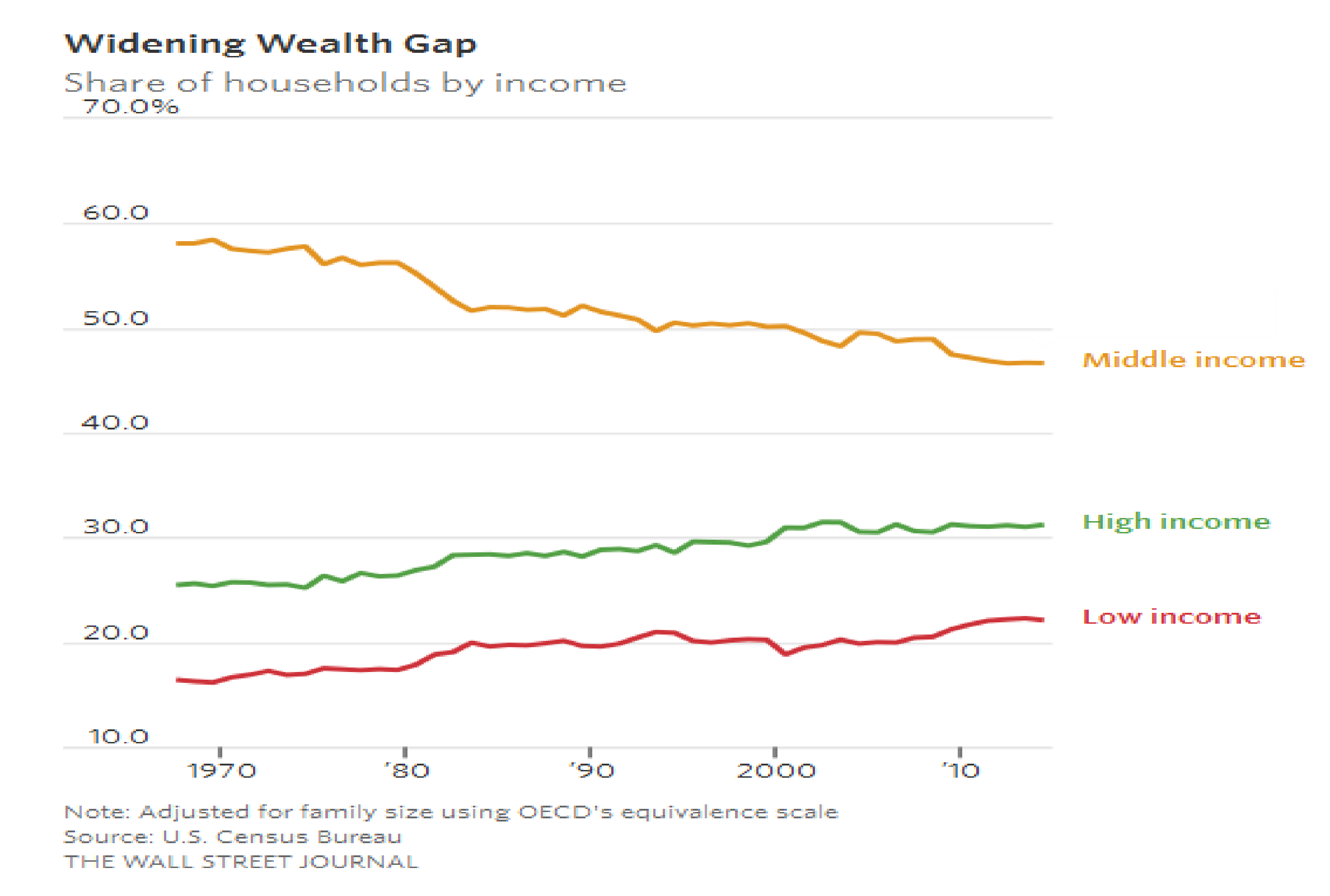
More on income inequality : (1) more high income families – (2) more low income families – (3) fewer middle income families
Conclusion - - 30% of population doing well, but 70% losing ground
Similar story for 2/3rds of western world - 500 million people!

(http://www.wsj.com/articles/in-advanced-economies-two-thirds-of-population-have-seen-incomes-stagnate-study-shows-1468450861)



(http://blogs.wsj.com/economics/2016/06/28/the-imfs-grim-long-term-u-s-outlook-in-six-charts/)

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Despite being the richest country, we do a poor job in meeting the basic human needs of our population – we're ranked 19th. *The cost of being the "world's policeman" is immense and siphons off money we could use to help our citizens. – rest of world needs to contribute more! Of the countries in the top ten, only the UK and Australia spend at least 2% of their GDP on defense. The USA spends 4%*

(http://blogs.wsj.com/economics/2016/06/30/the-u-s-now-ranks-19th-in-social-progress-with-finland-and-canada-topping-the-list/)

U.S. is ranked 19th

Countries	Ranking	Progress	Needs	Wellbeing	Opportunity
Finland	#1	90.09	96.11	87.61	86.56
Canada	#2	89.49	95.14	83.76	89.58
Denmark	#3	89.39	96.63	88.56	82.97
Australia	#4	89.13	94.81	85.72	86.84
Switzerland	#5	88.87	96.26	88.44	81.89
Sweden	#6	88.8	95.42	88.68	82.31
Norway	#7	88.7	95.19	89.37	81.55
Netherlands	#8	88.65	95.23	88.86	81.85
United Kingdom	#9	88.58	93.04	87.91	84.79
Iceland	#10	88.45	95.27	85.71	84.36

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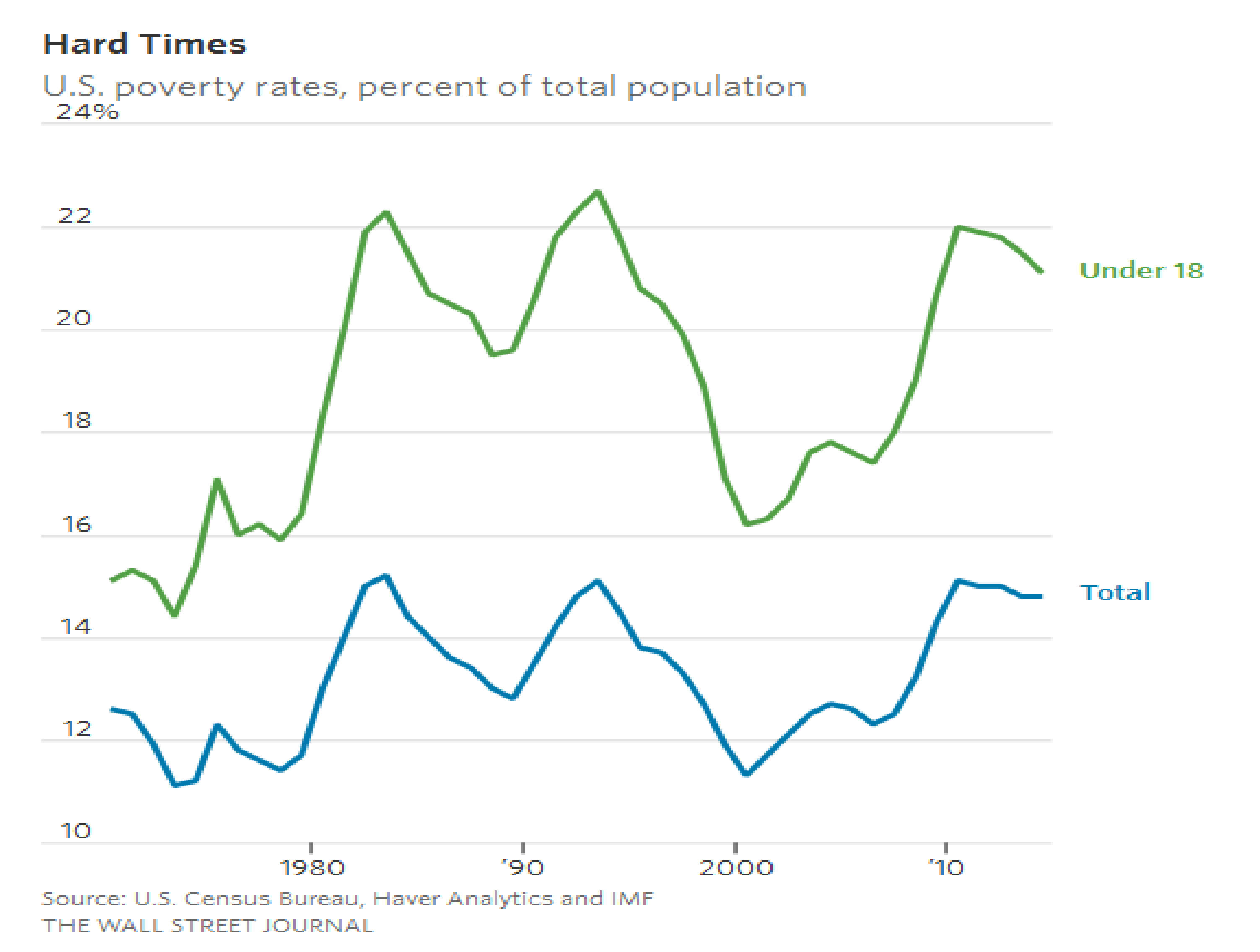
Sad commentary on past 16 years here in USA - - both parties are to blame for letting the country down



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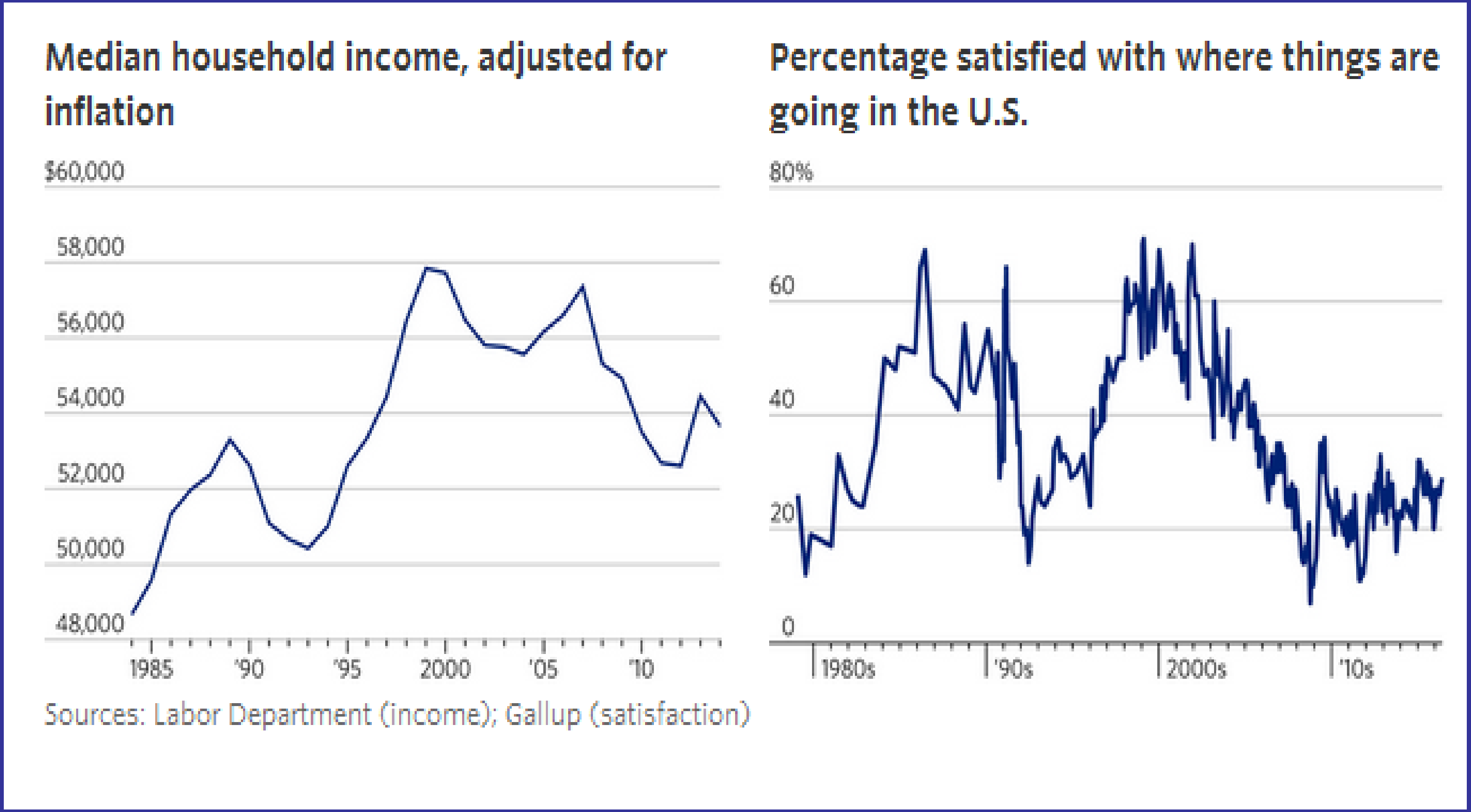
Real incomes down 7% since 2000 – 80% say America headed in wrong direction! Both parties are to be blamed for the past 16 year slide. – again, lack of leadership!



Source: WSJ (http://www.wsj.com/articles/election-2016-is-propelled-by-the-american-economys-failed-promises-1467909580)

What's the answer? We need new direction and we have a chance to begin that process in November.

Americans need to "do their research" – "due diligence", and decide who and which party can lead this country forward. I used to be a Republican, but now I'm an Independent. Problem(for me) - America is a two party system, and that's probably best. Look to Europe and Canada to see some of problems (gridlock) with multiple parties. Of course, two party system in USA has given us political gridlock for past 8 years. Difficult times but we will persevere because this is still the greatest country in the World. That said – we have lots of problems, many of which we created ourselves.

We need to do better job in investing in our future – consume less (for now) , and invest more on infrastructure, research, education, ...   The tax system is broken – education (K-12) is a mess and higher education is too expensive for most people!

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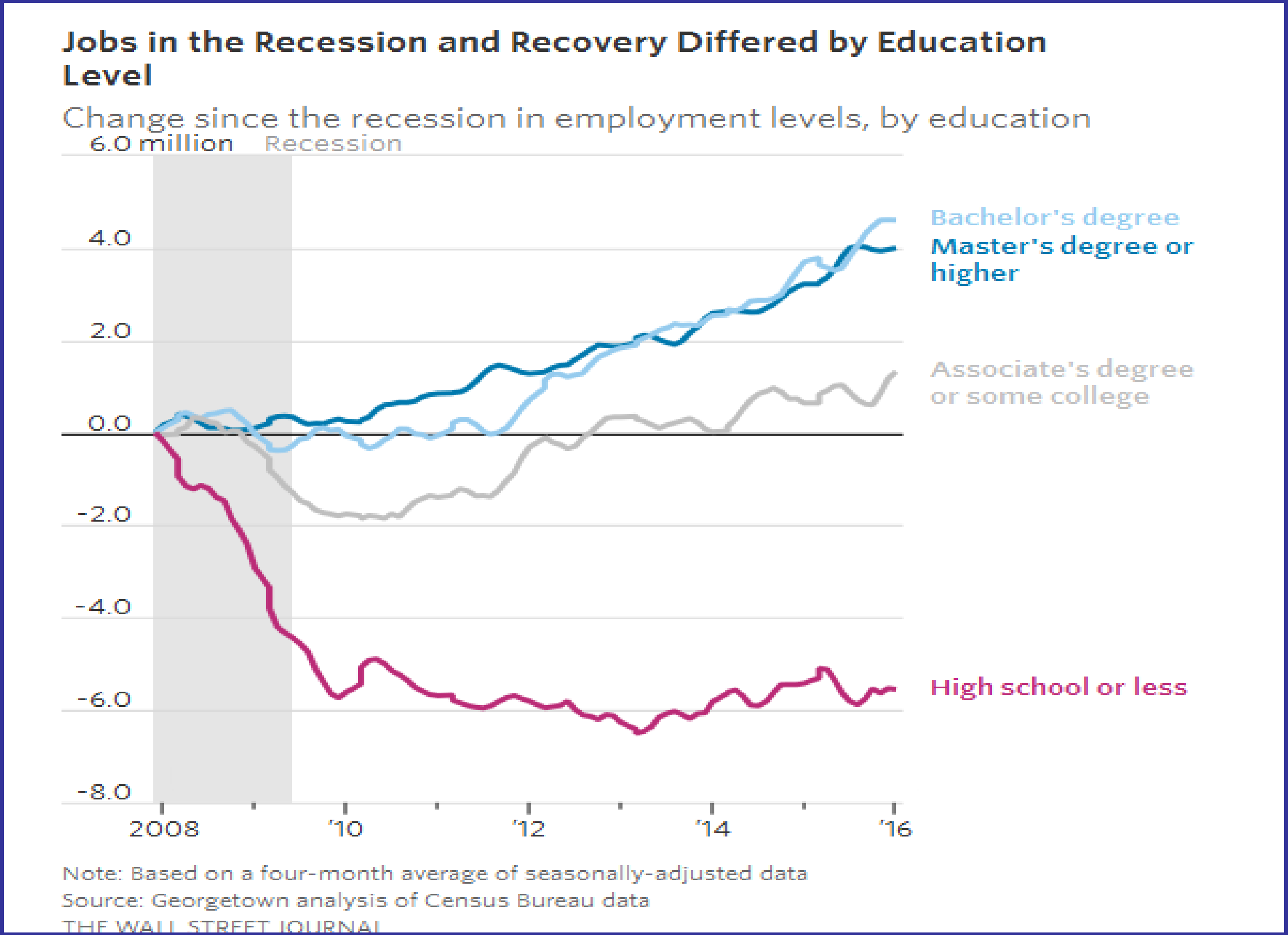
Yet, we know more education is better



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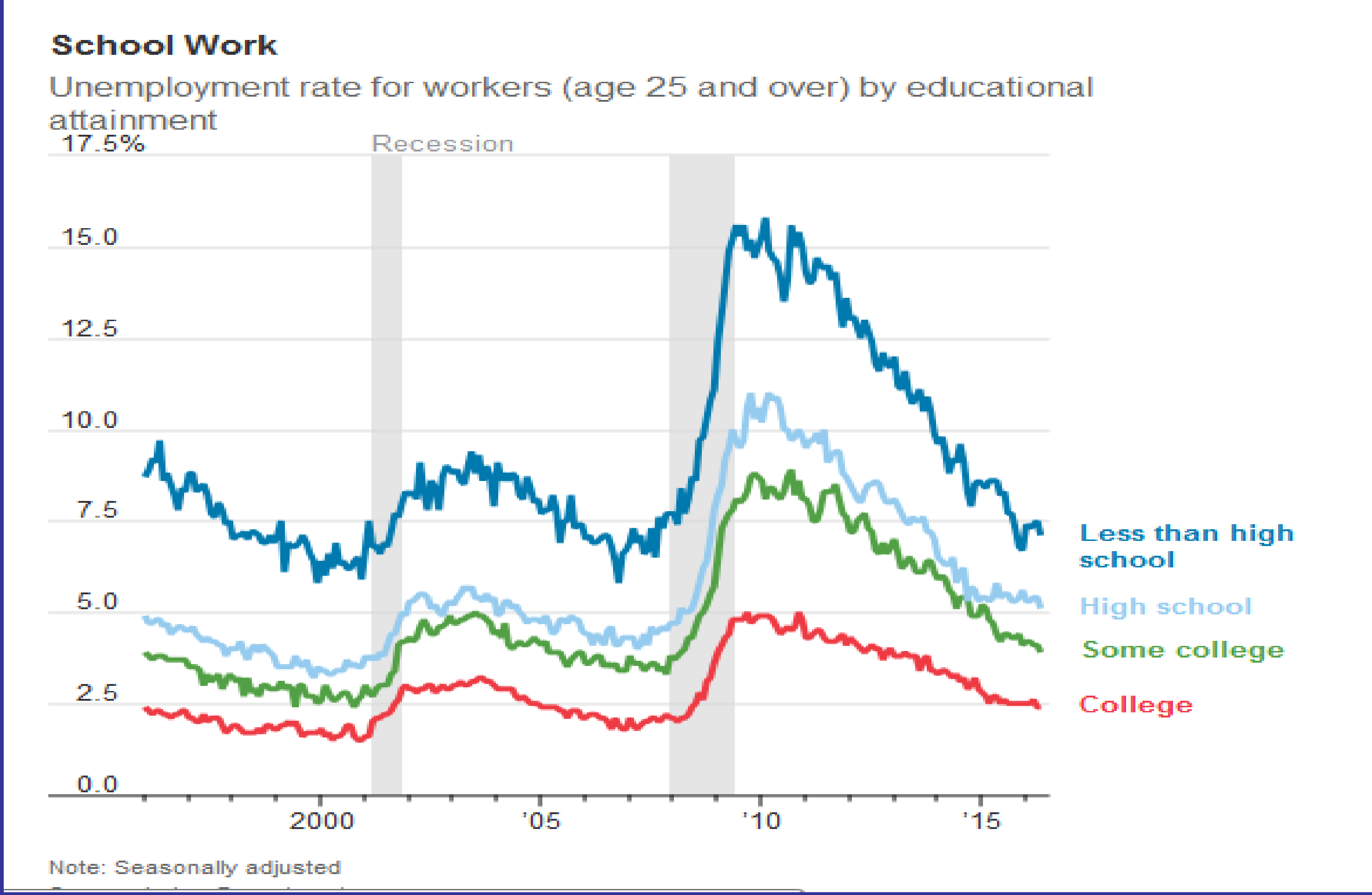
Education: Best way to improve productivity and incomes --- education improves your chances of staying out of the unemployment line (and buying a house)



Source: WSJ (http://blogs.wsj.com/economics/2015/07/02/the-june-jobs-report-in-10-charts//)

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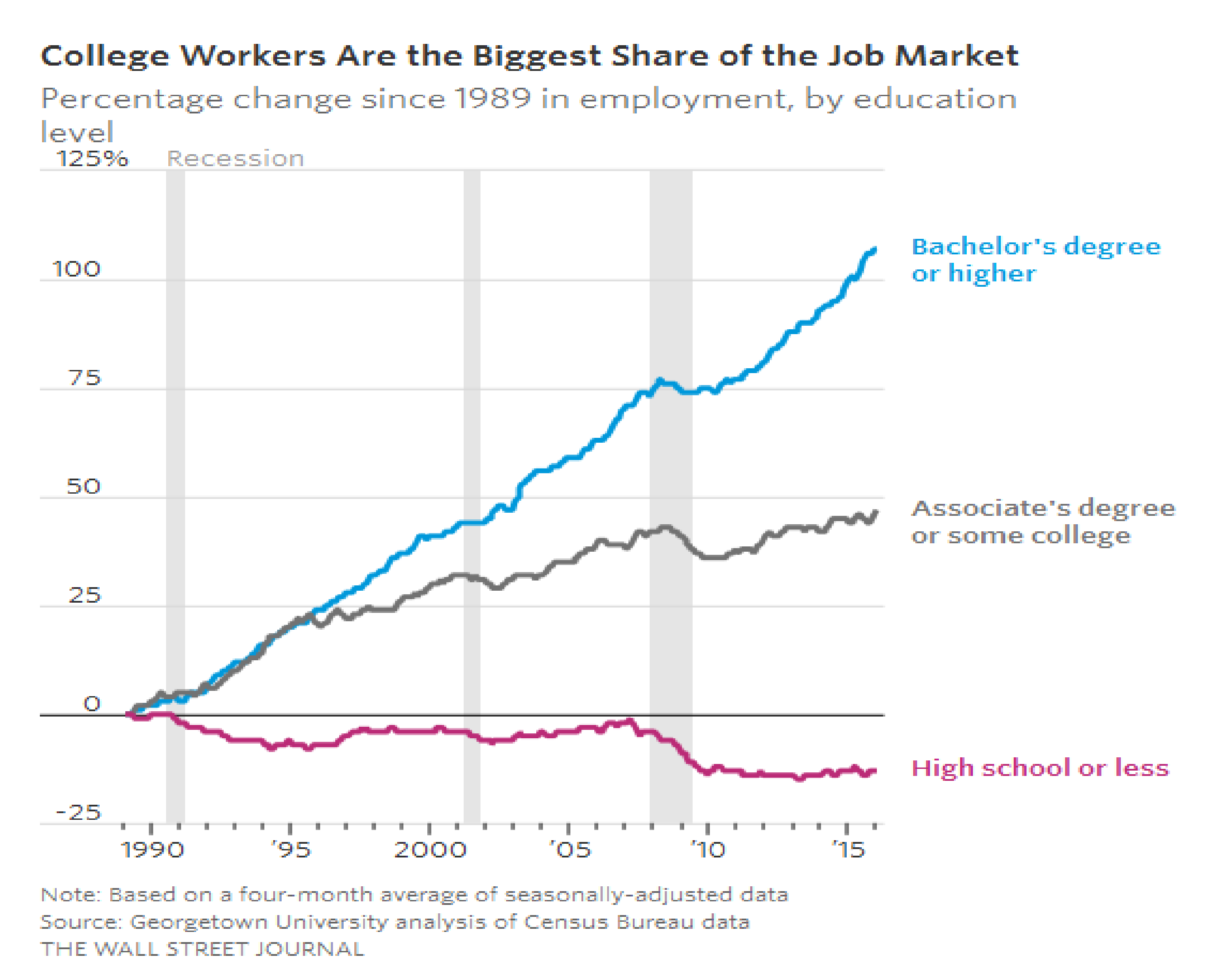
Education is best route to employment and quality of life



(http://blogs.wsj.com/economics/2016/06/30/college-educated-workers-now-dominate-the-labor-market/)

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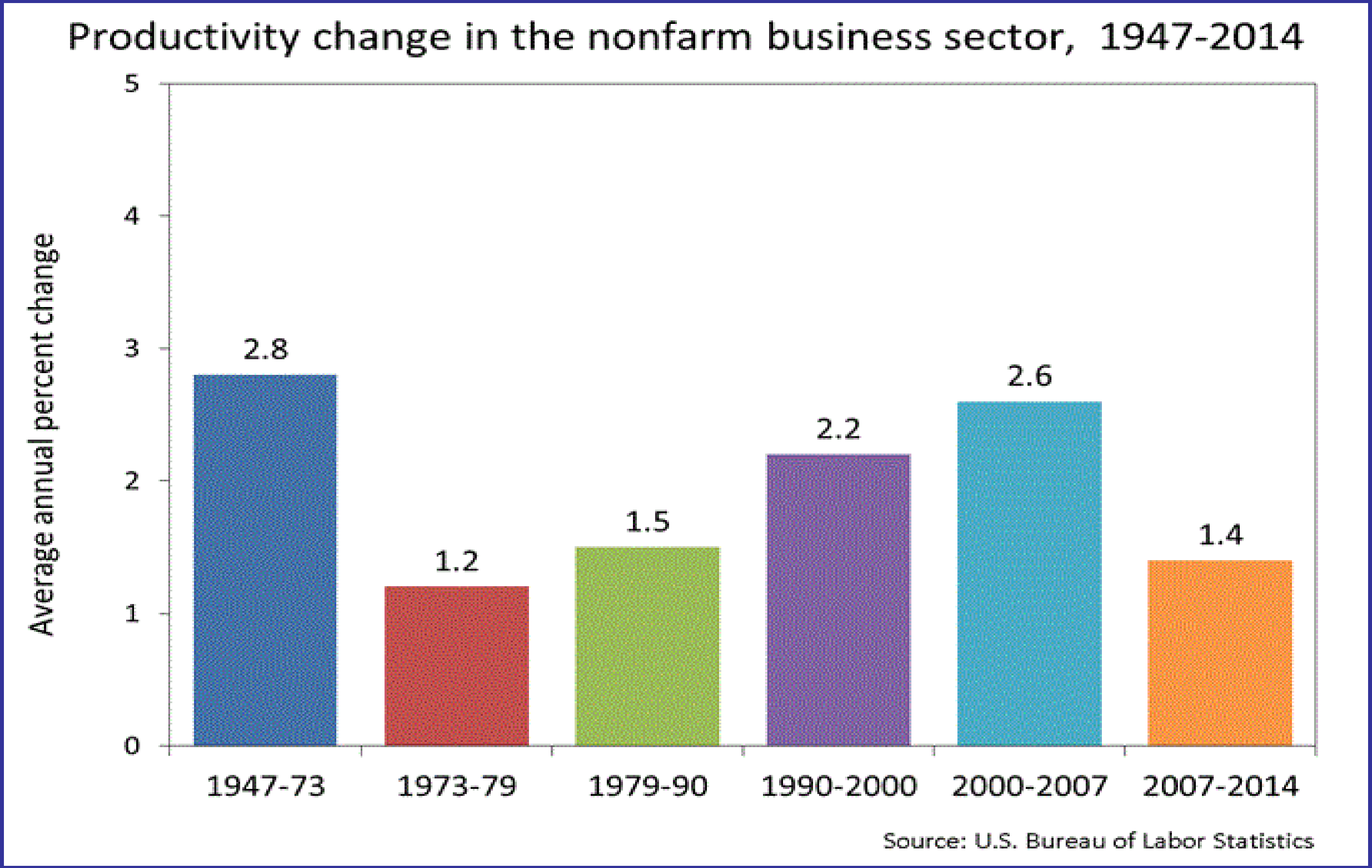
Also, we need to invest more (and consume less) **to become more competitive, create better paying jobs -**

GDP = number of workers multiplied by productivity (real GDP/worker)

Innovation and entrepreneurship is key to increasing productivity



Source: BLS (http://www.bls.gov/lpc/prodybar.htm)

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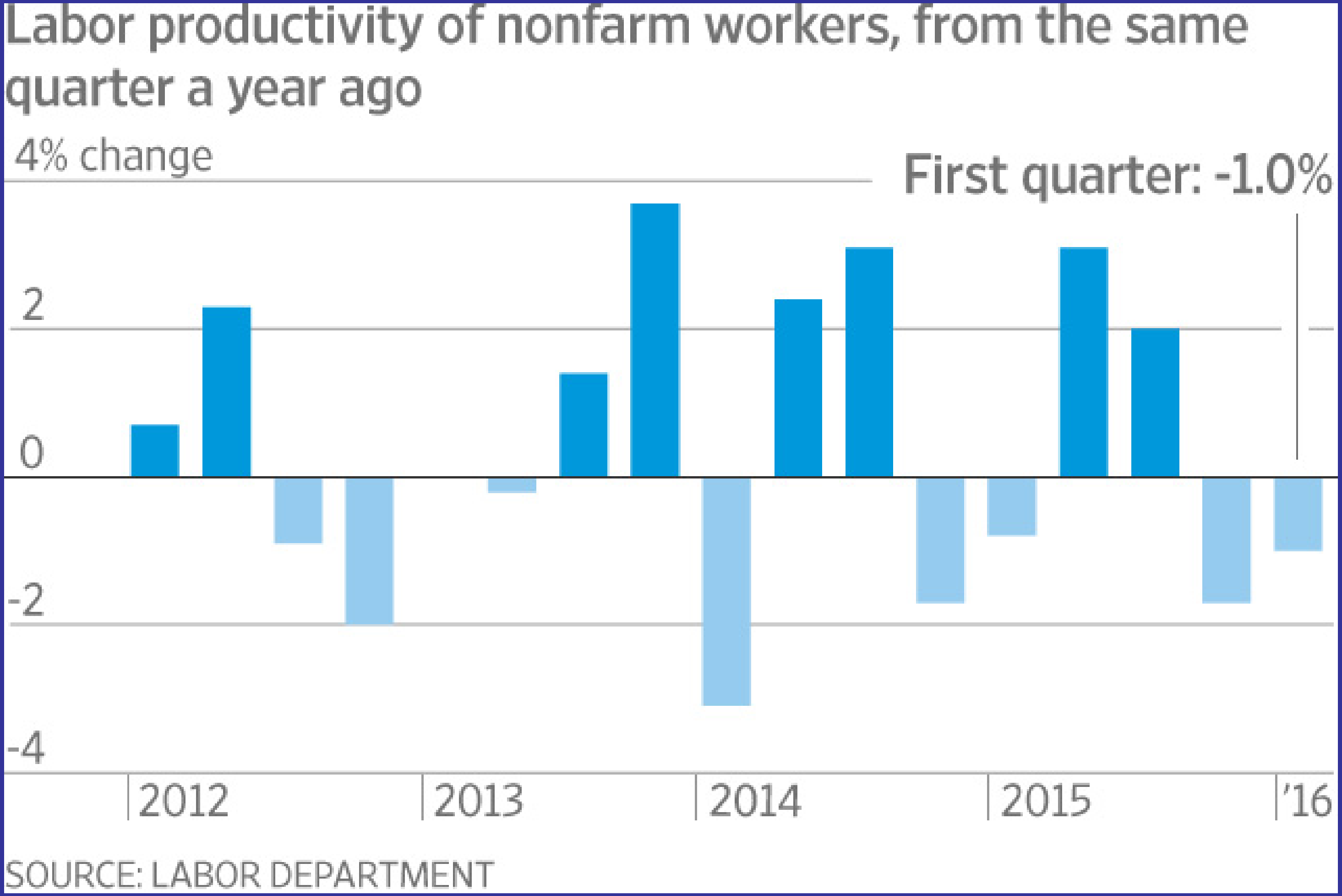
What happens when innovation is missing!
Dismal productivity growth - - 1.3% annually since 2009 – worst performance for US economy since the 1980's when we experienced back to back recessions. ***(PS – I understand that productivity measurement is a problem as new products/services quality is difficult To measure so maybe we are underestimating real productivity?)***



Source: WSJ (http://www.wsj.com/articles/u-s-productivity-fell-1-in-first-quarter-1462365346)

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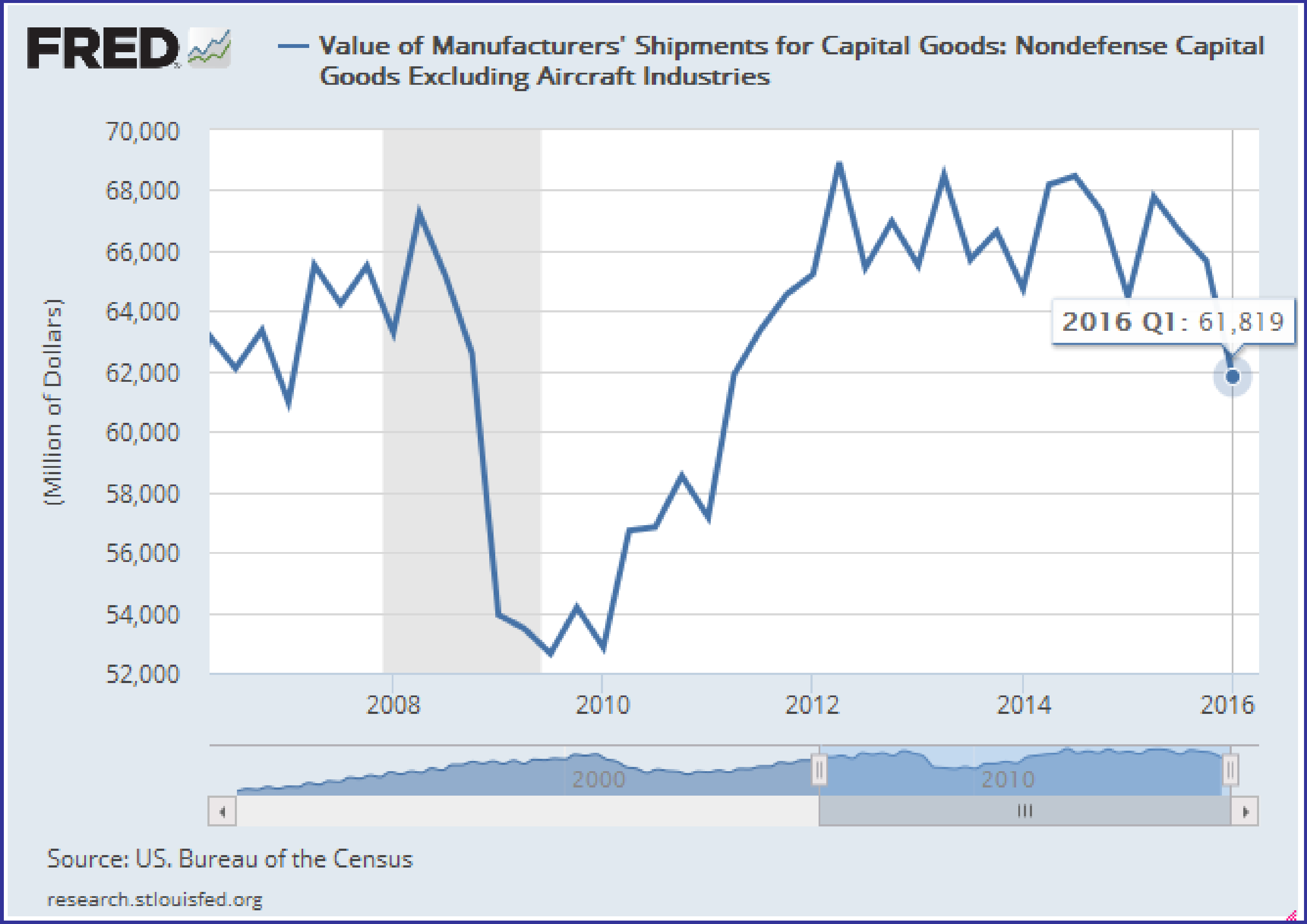
Capital spending has been trending lower for past 4 years
Why? Companies not so confident of future – uncertainty!



(http://www.wsj.com/articles/u-s-durable-goods-orders-fell-2-2-in-may-1466771610)

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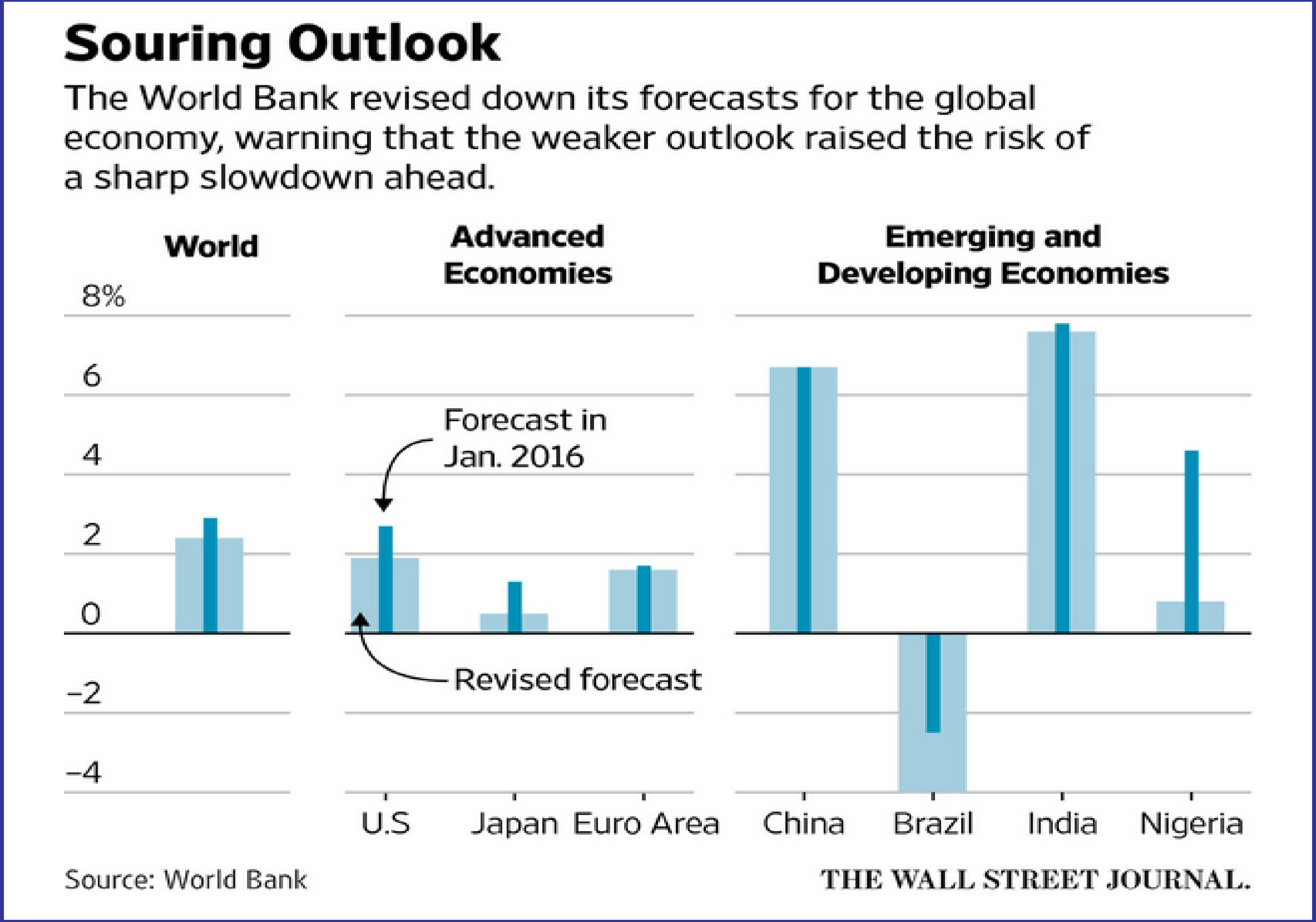
World Bank downgrades growth (again) in 2016 to 2.4% as problems in developed and developing world mount

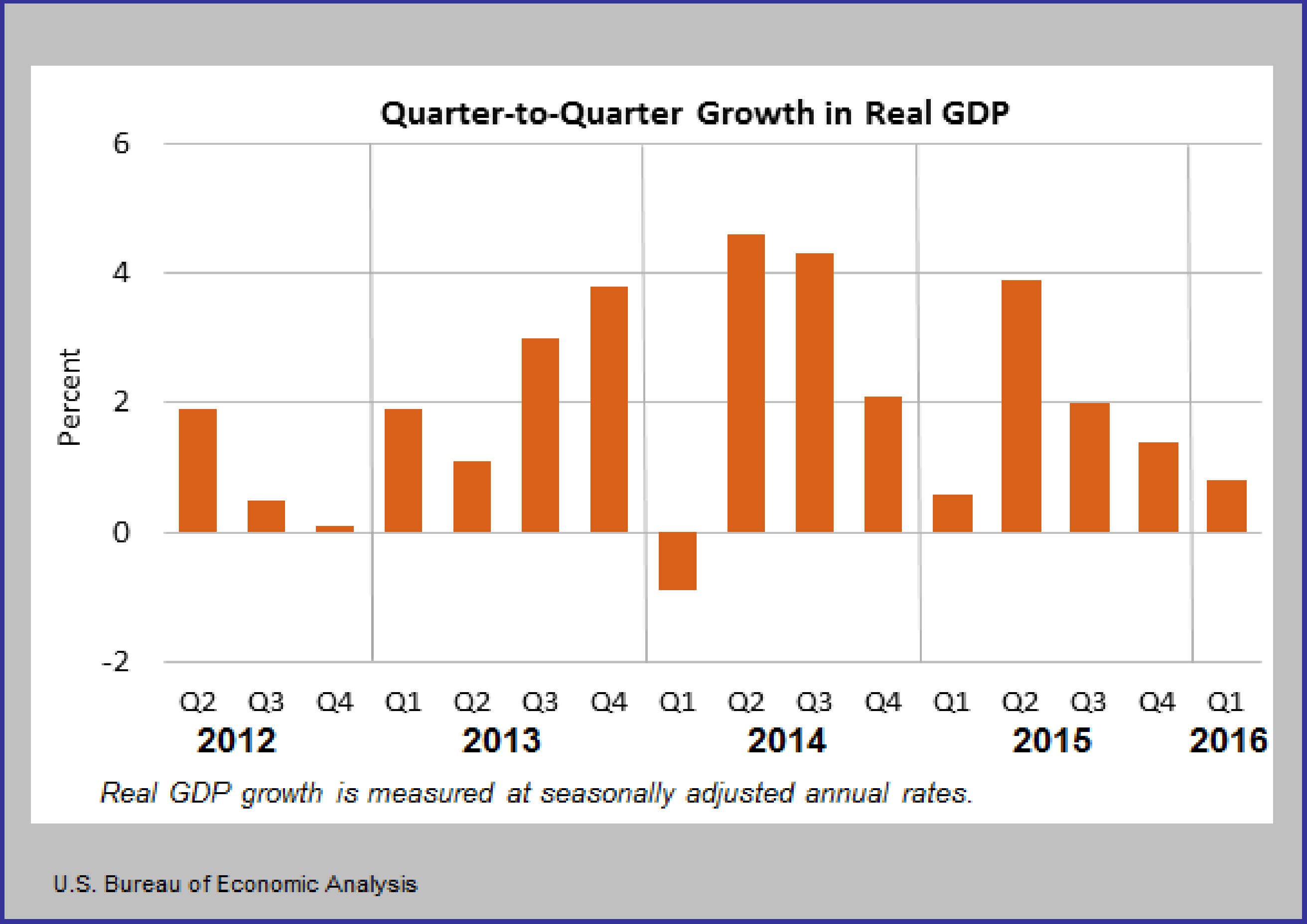


Source: WSJ (http://www.wsj.com/articles/world-bank-cuts-global-growth-outlook-1465329662)

U.S. 1st Qtr 2016 economic growth a dismal 1.1%

Downward trend for last 4 Qtrs

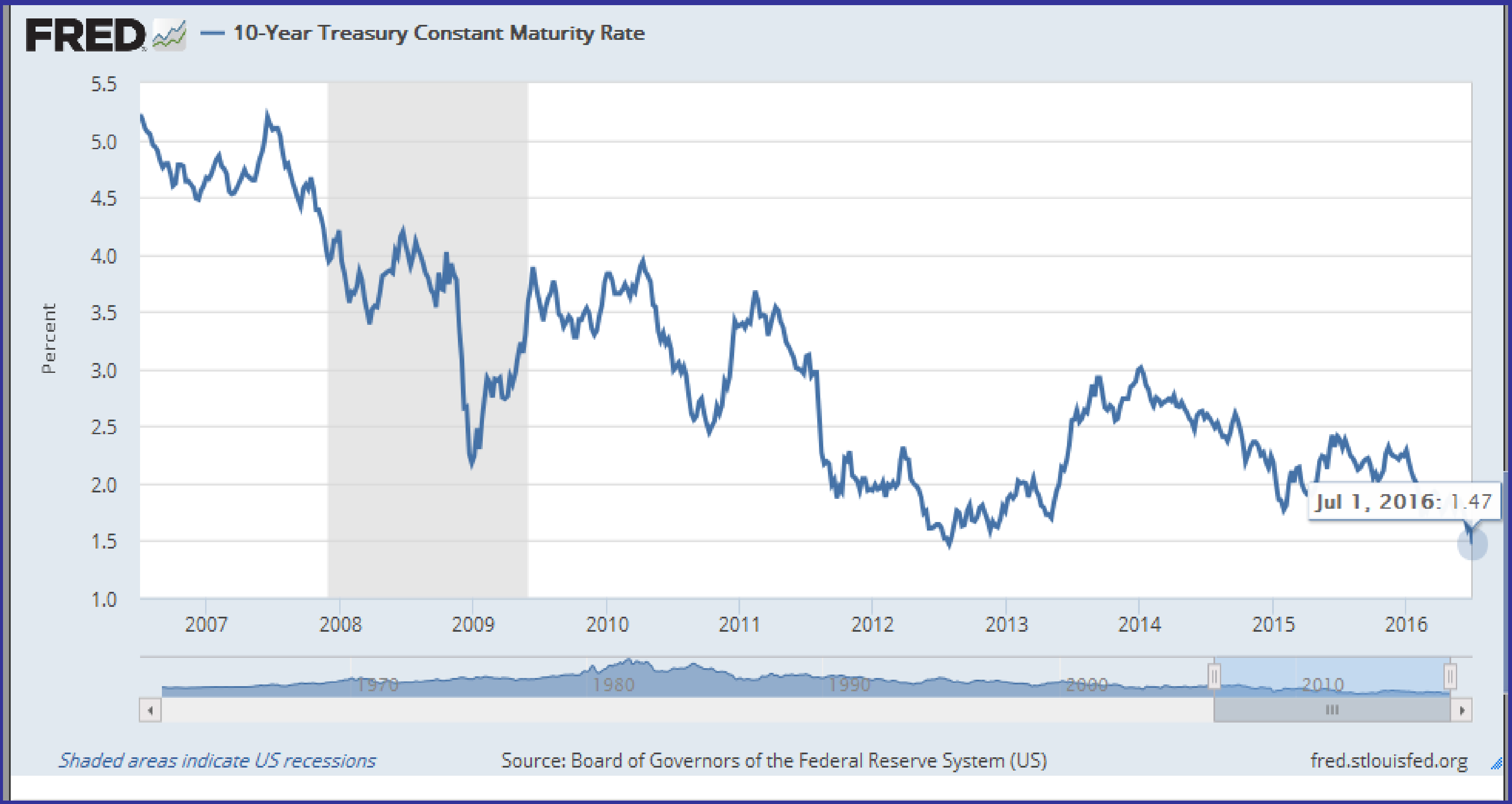
(1) Slowing world economy (weaker China , European, and South American growth)
(2) Stronger dollar will reduce exports and increase imports – negative impact on manufacturing jobs which is key to income growth in USA
(3) Political stalemate/weak leadership, terrorism, currency wars, growing national debt, ...
(4) Weak income growth and continuing high "real unemployment"



Source: BEA (http://www.bea.gov/newsreleases/national/gdp/gdp_glance.htm)

10 year U.S. Treasuries - - lower interest rates are not the answer!

Problems – lowest interest rates in decades. Some due to "flight to safety" (drives bond yields lower) , but, weak demand is the main problem. Monetary policy can't do it all – we need responsible Leadership from Washington, and that is non existent. Furthermore, the yield curve (difference between short And long term rates), Is flattening. That suggests a recession could be coming soon. (http://fortune.com/2016/07/06/deutsche-bank-recession/?xid=yahoo_fortune&yptr=yahoo)



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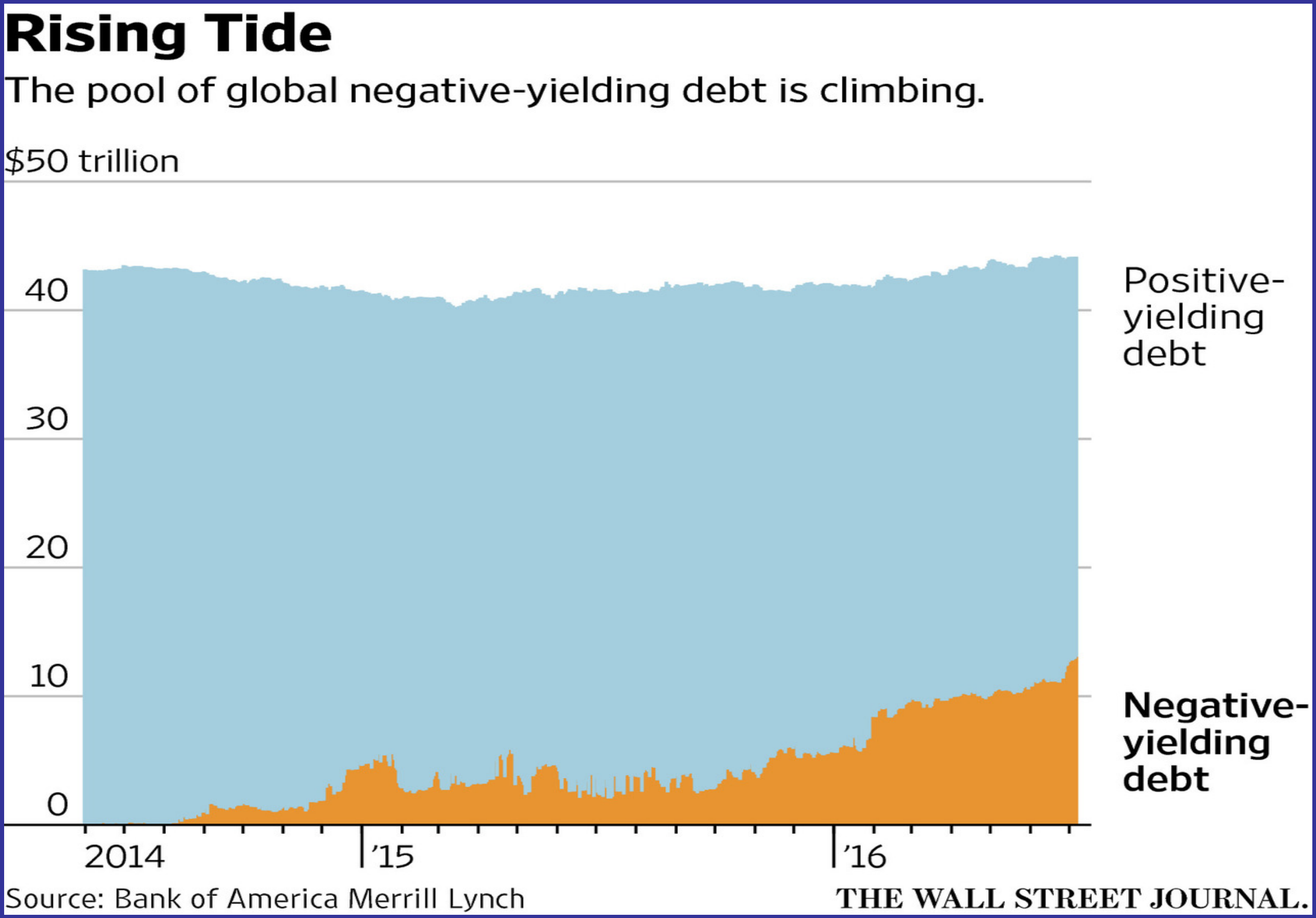
13% of global government debt is 'negative yielding" - Central banks are trying to jump start economies with "helicopter money" and low interest rates - it's not working – central banks are trying to do the job abdicated by gutless legislative and executive branches



(http://www.wsj.com/articles/black-hole-of-negative-rates-is-dragging-down-yields-everywhere-1468174982)

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Today, we're having a race to the bottom as central bankers around the world print money and devalue their currencies in an attempt to "juice up" their economies. We have negative interest rates in Germany and Japan (nominal rates) while real rates (inflation adjusted) are also negative here in the U.S. It is common sense that quantitative easing/printing money, etc. works only if you are only one doing it. If everybody does it, there is just a race to the bottom and we all lose as the world economy collapses from massive debt. There are only two outcomes, both bad - - hyper inflation or collapse of demand and depression.

We need to smarten up and tackle the problems with better solutions. Globalization and a more interconnected world is going to make that extremely difficult. It won't happen without strong world leadership, cooperation, and shared understanding that "we're all in this together". OK, world leadership won't happen so that leaves the USA to retake the leadership role – the next administration will need to restore our world leadership position.

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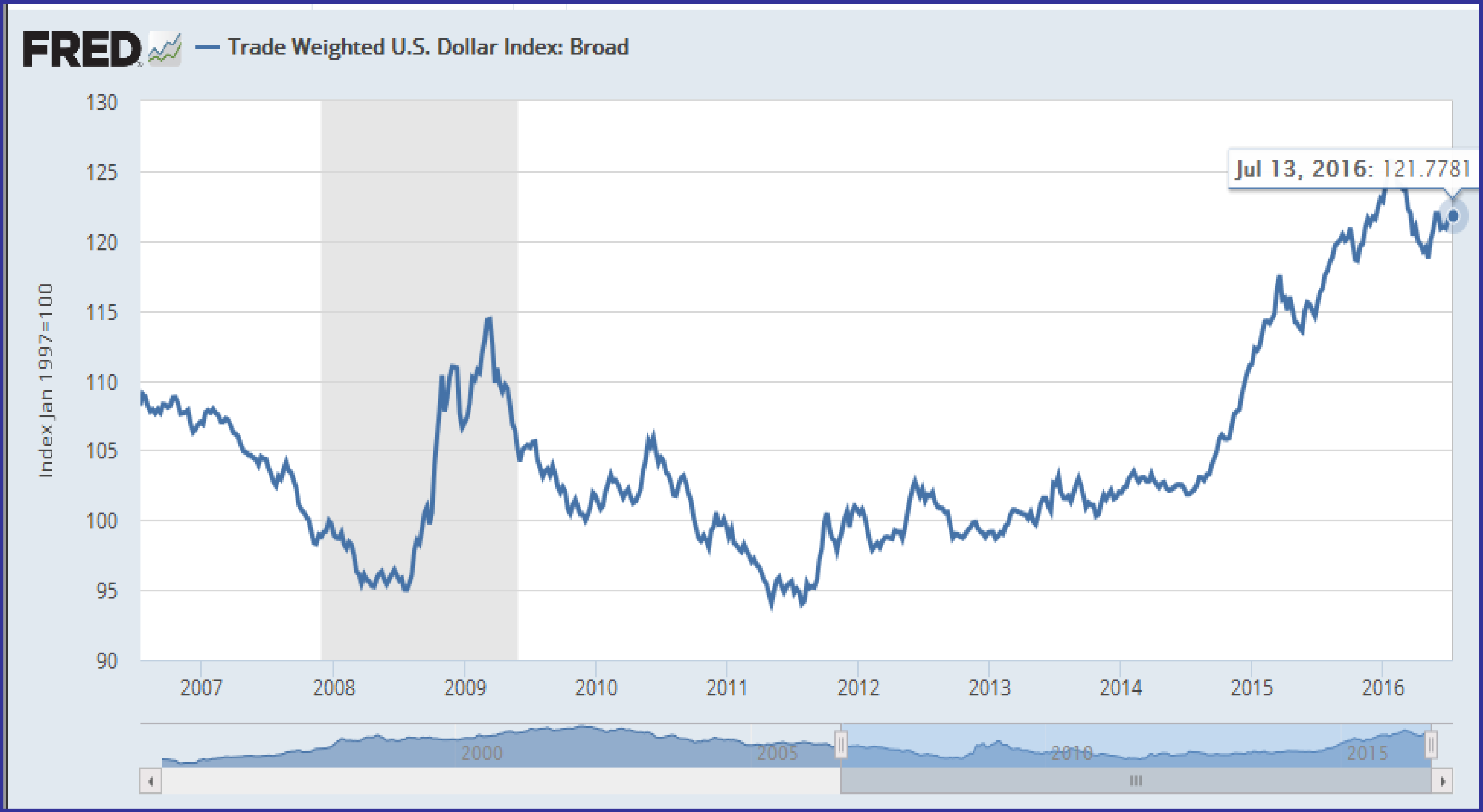
Strengthening dollar another headwind for U.S. economy

keeps inflation down, but hurts exports from key manufacturing sector - most countries are deflating their currencies to prop up weak economies



(https://fred.stlouisfed.org/series/TWEXB)

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Housing trends – getting better, finally

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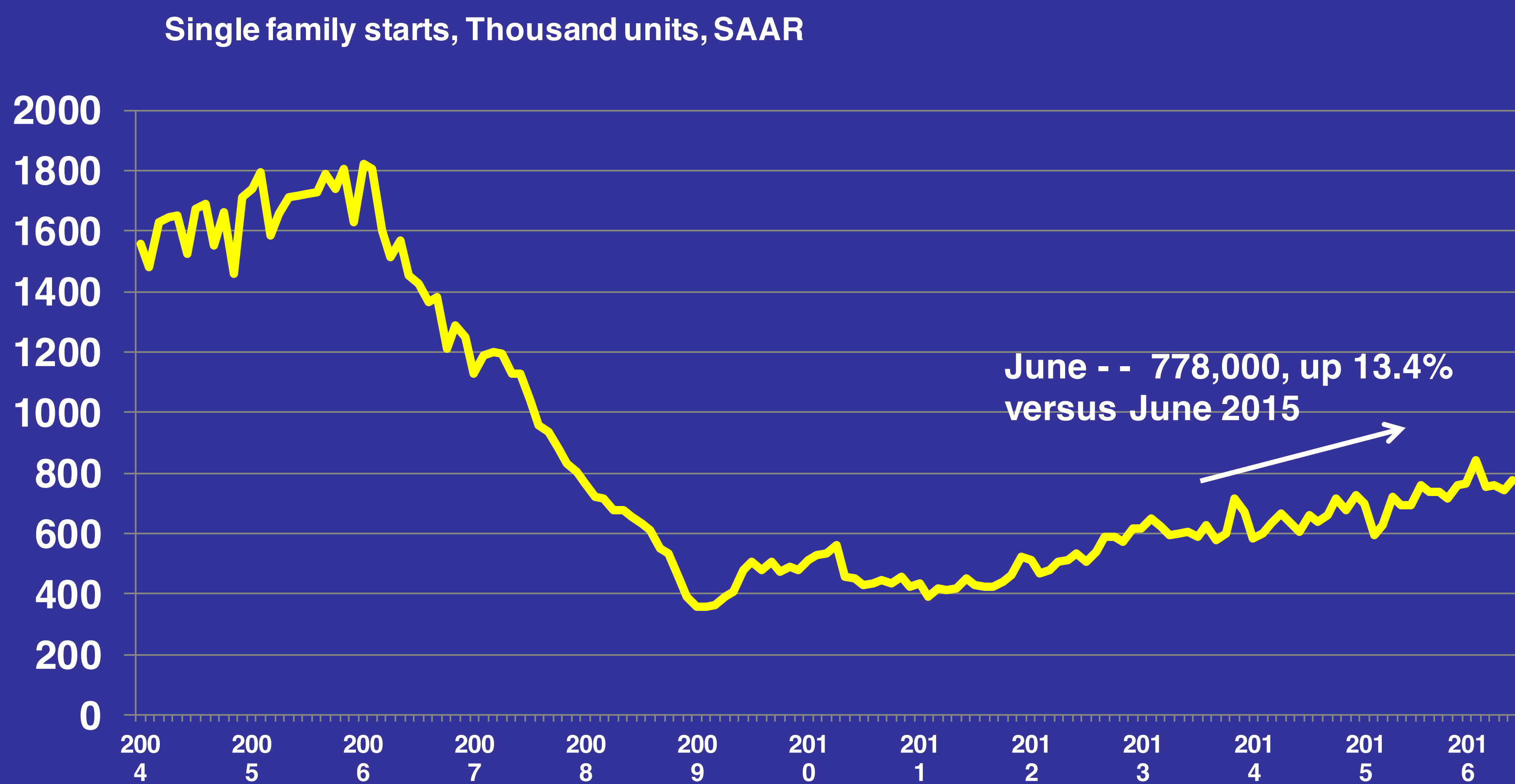
Starts are inching forward – But, *low interest rates can't fix housing!*
this is basically a two tiered market – healthy upper end versus weak entry level housing - - not sustainable



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

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

up 8% versus May 2015
OK. We're making progress, but still 56% below the 2006 peak

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

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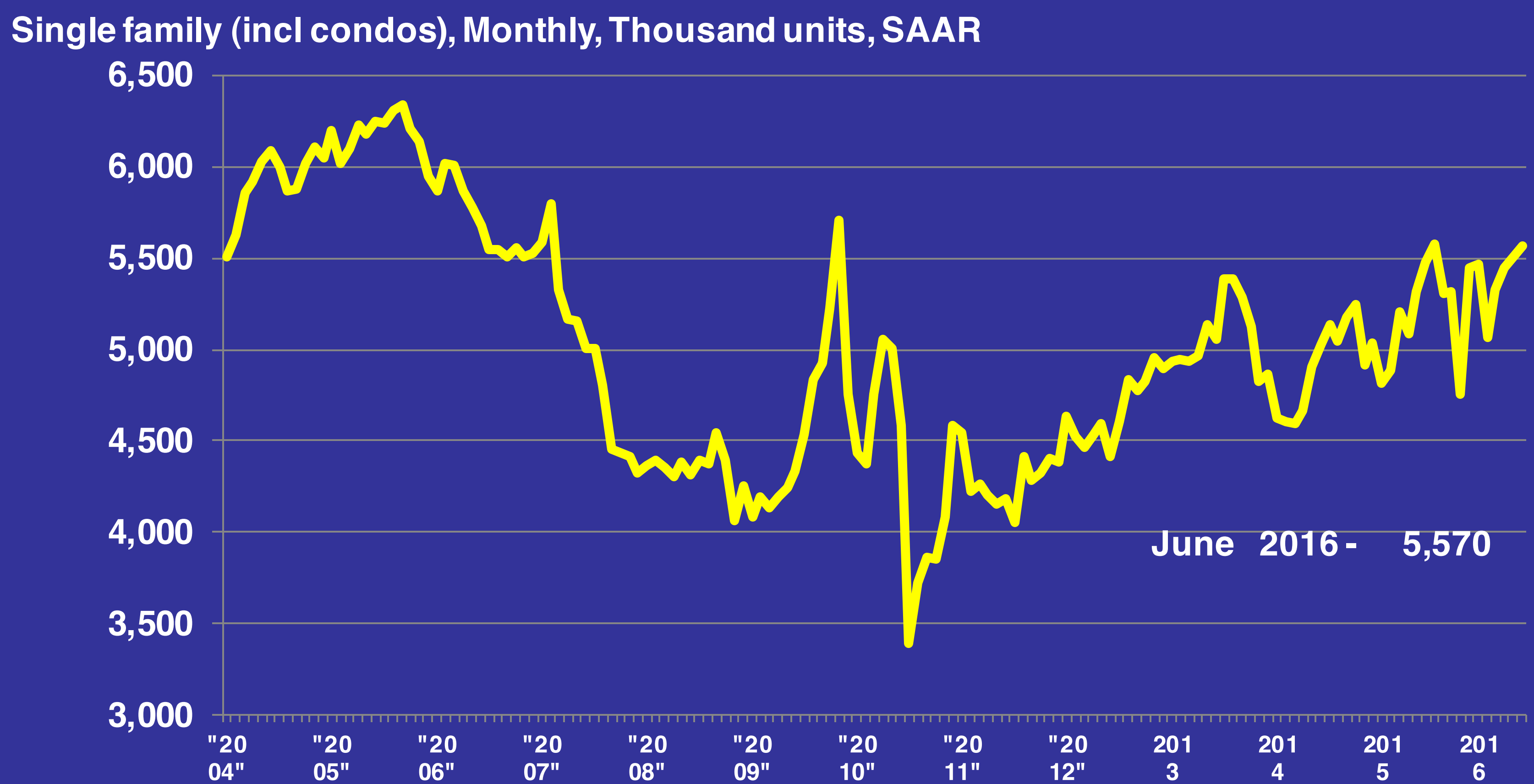
Resale market continues to improve - however, tight Supply (which drives prices), currently at 4.4 months, remains a problem. Healthy market is about 6 months supply. ***Median prices are up 4.8%, annual basis***



Source: NAR (http://www.realtor.org/news-releases/2015/06/existing-home-sales-bounce-back-strongly-in-may-as-first-time-buyers-return)

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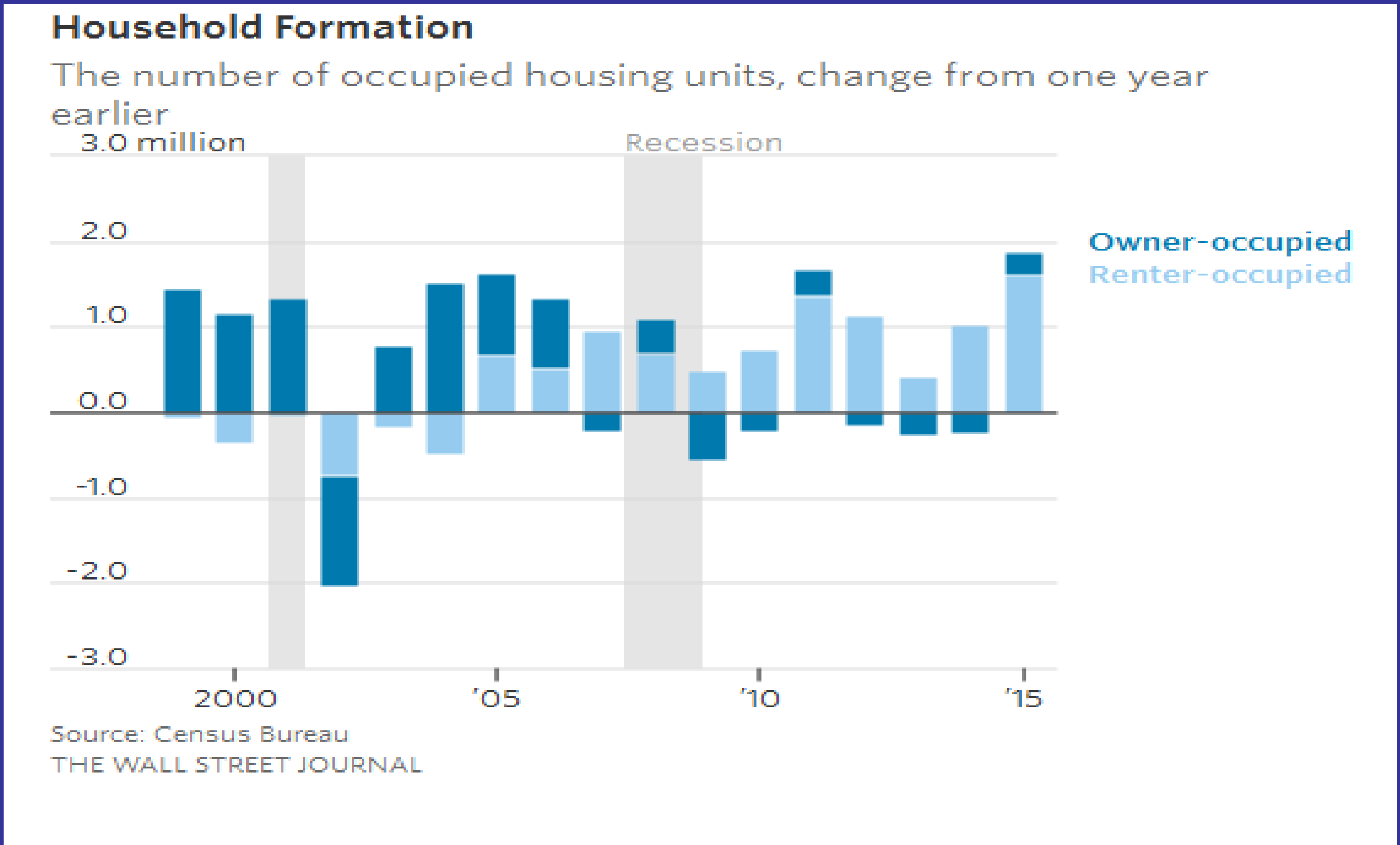
Household formations (HH) are starting to pick up, but since 2007 the bulk of new HH are renting!!



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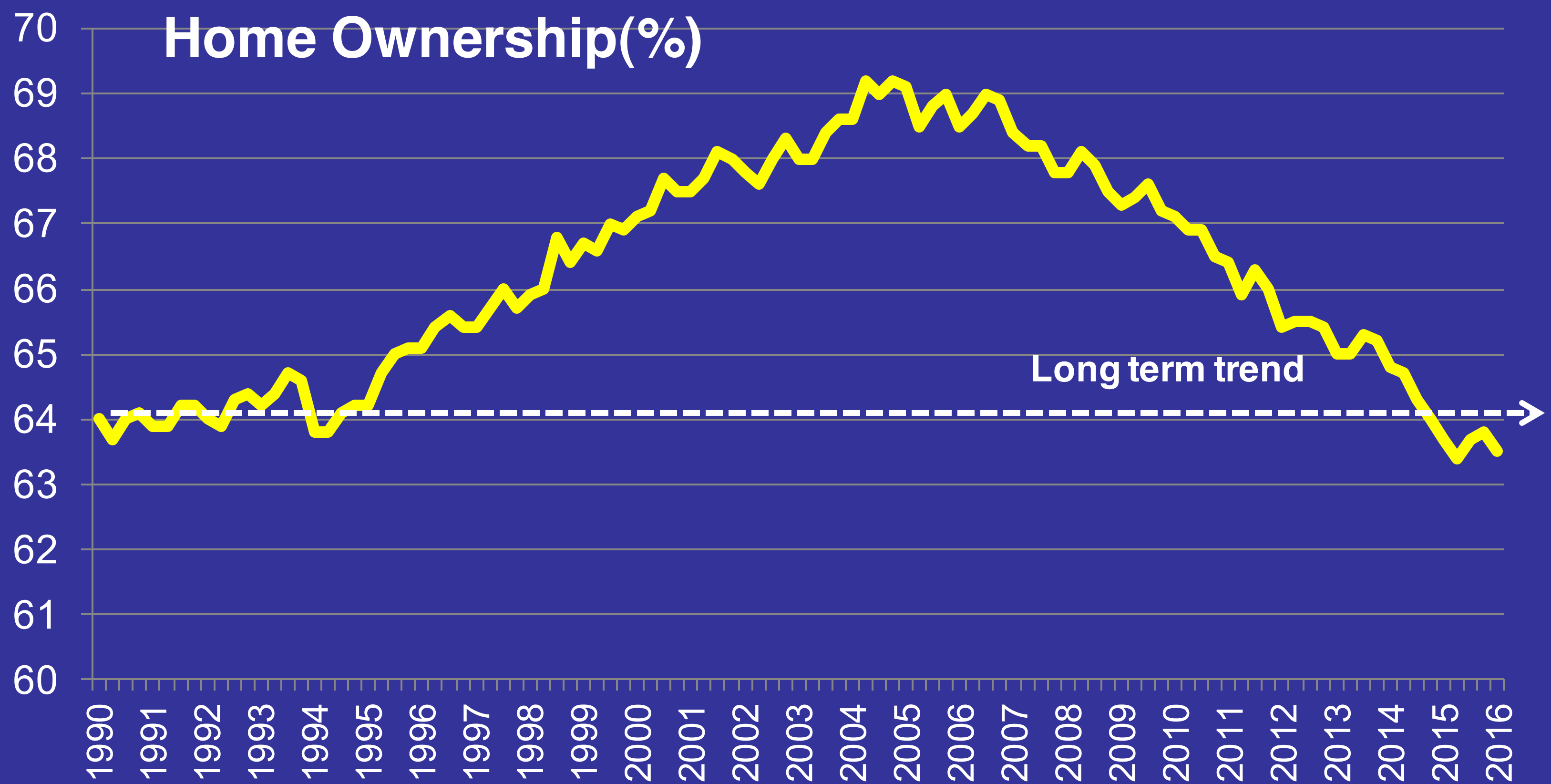
Household formations and shift to renting - - Falling homeownership rate for millennial's - used to be 43% - now it is 33% - young people are renting

Recent study shows that people with college degree takes 5 years to save enough for down payment for starter home (with student debt – 10 years), no college – 16 years (http://www.wsj.com/articles/homeownership-elusive-for-young-adults-without-college-degrees-1463909402)

Homeownership lowest in 50 years



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

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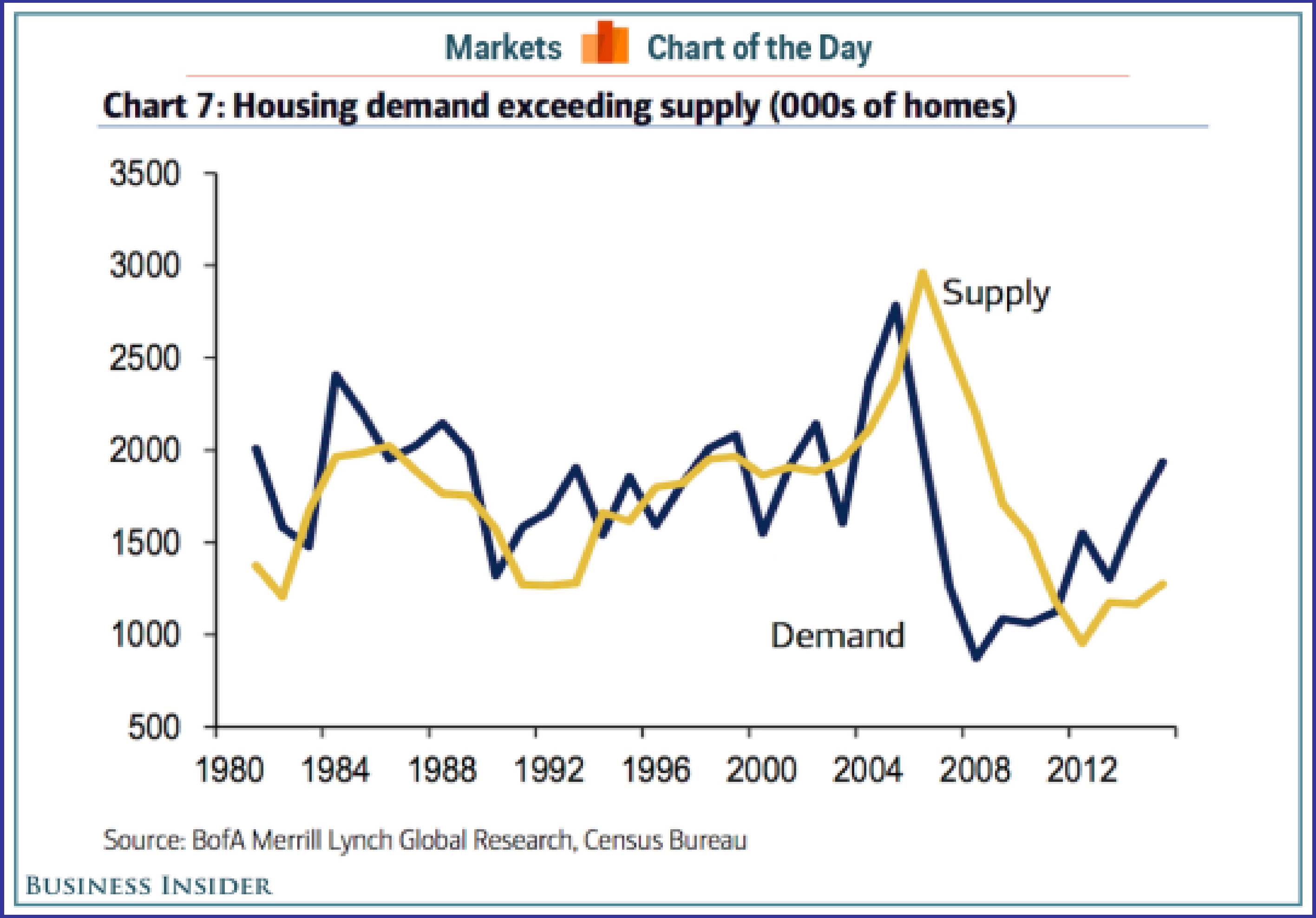
Tight supply drives up prices – existing homes at 4.7 months supply – normal supply is 6 months



Rental demand versus single family housing ---

**Rental demand will continue to
increase for years – a recent study by the Urban Institute suggests
it may continue for another decade or two**
(http://www.wsj.com/articles/new-housing-crisis-looms-as-fewer-renters-can-afford-to-own-1433698639)

**Why - - demographics; growing minority population; student debt; weak
Income growth; …. E.g., Minorities (nonwhite) will make up 75% of net household growth over the next 10 years, and 85% during 2020- 2030. They are
less likely to own homes (lower incomes is main reason) so home ownership continues to fall toward 60% by 2030. During this time, rental demand will increase dramatically. Although this is just one study, it provides food for thought. One potential question with the study, however, is that other studies show that although immigrants, for example, rent initially, but, over time they purchase homes at a rate equal to or higher than native born Americans. Why – people come to the U.S. to improve quality of life, and for most, this means homeownership. This suggests that the U.S. has to find solutions to immigration issues like "illegal immigrants" while encouraging legal immigration. This country was founded by immigrants seeking a better life, and they are key to our future. And, incomes for all minorities has to improve if home ownership is to return to "good old days"**
(http://www.engineeredwood.org/Data/sites/3/documents/EngWoodJournal/EWJ_Spring2010.pdf)

Anyway, this has potential implications for home ownership; single family construction; and demand for wood products – lots of variables and scenarios.

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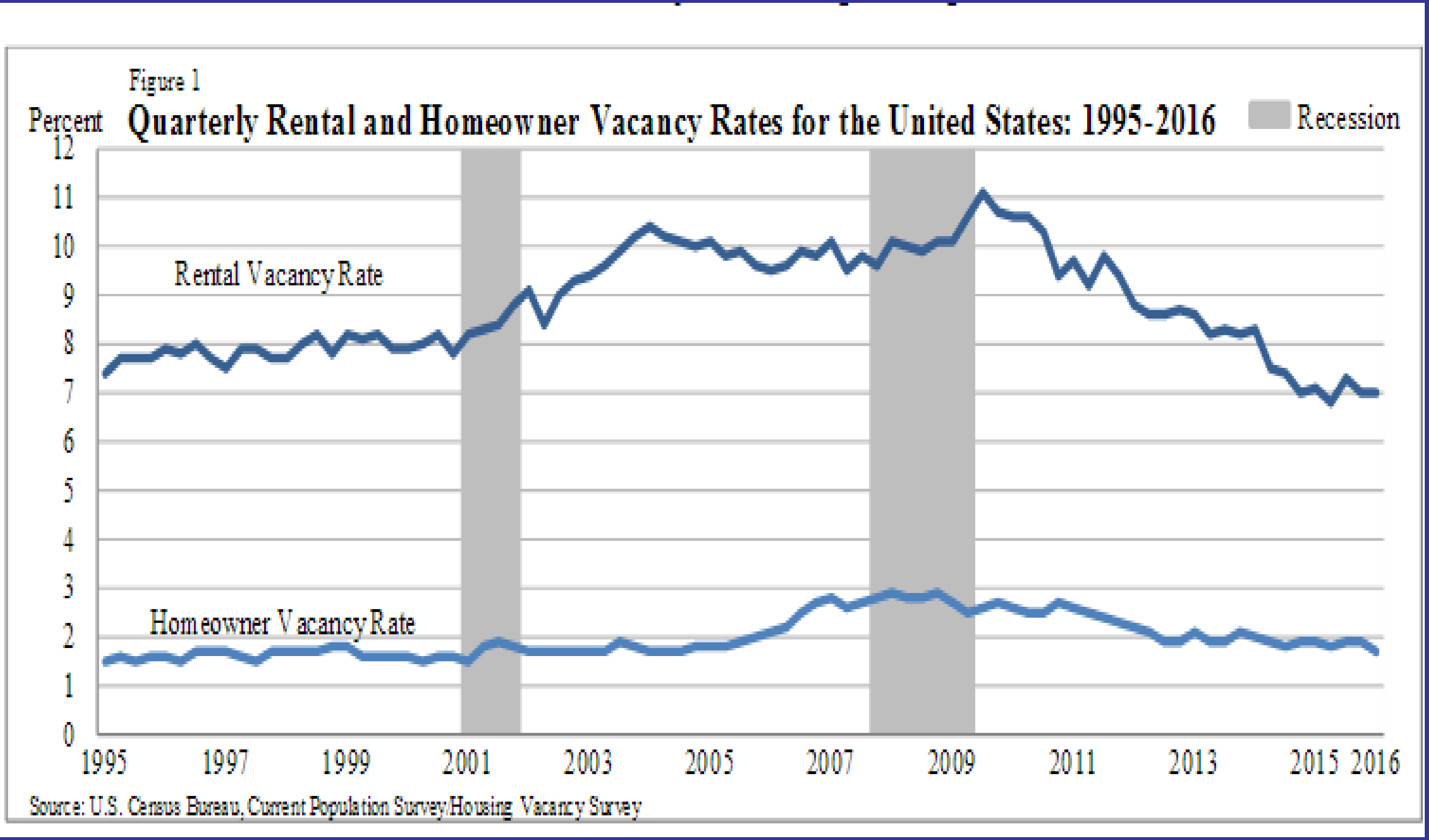
Rental vacancy rates lowest in 20 years

Falling rental vacancy rates will drive rental prices higher and this will drive multi family construction – Economics 101 – *if I were a builder, I would focus on rental construction*



Source; Census (http://www.census.gov/housing/hvs/files/currenthvspress.pdf)

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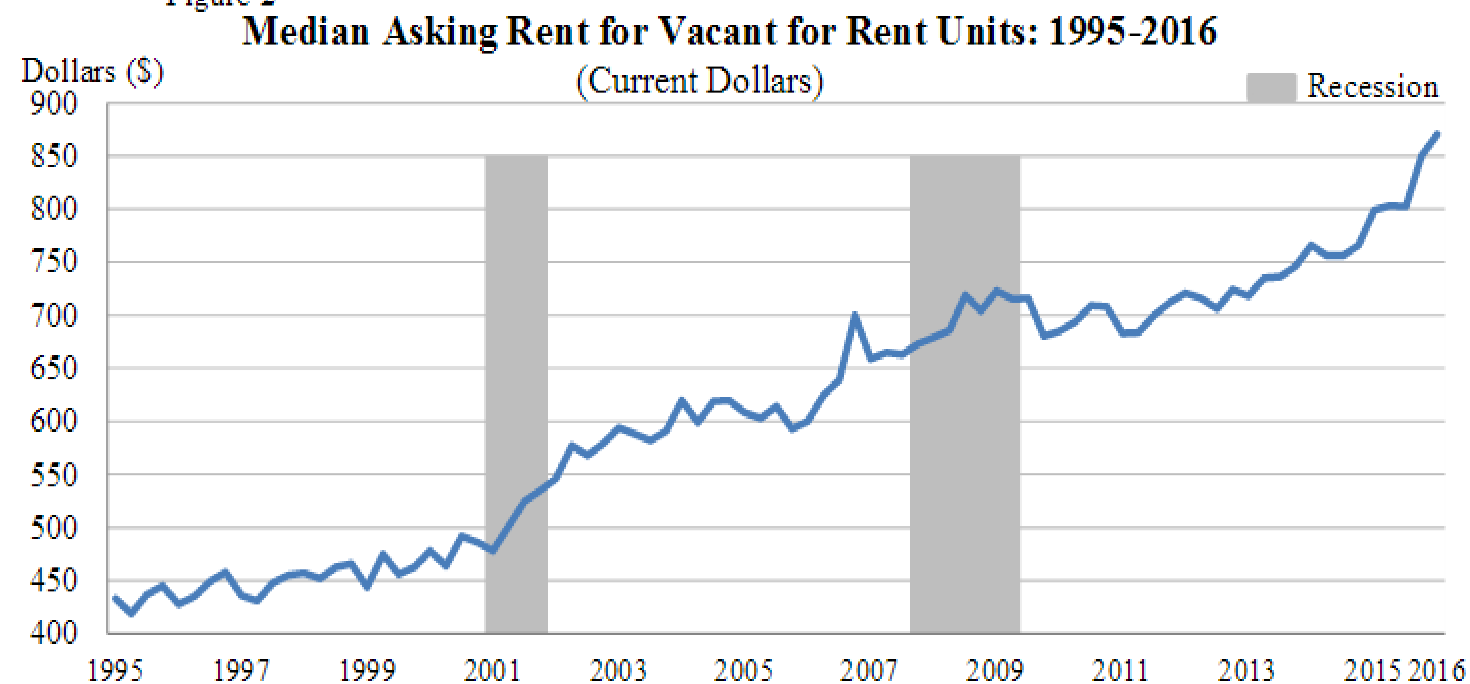
Increasing rents are slowing housing starts - -

more difficult for renters to save for down payment for house purchase

In the first quarter 2016, the median asking rent for vacant for rent units was $870.

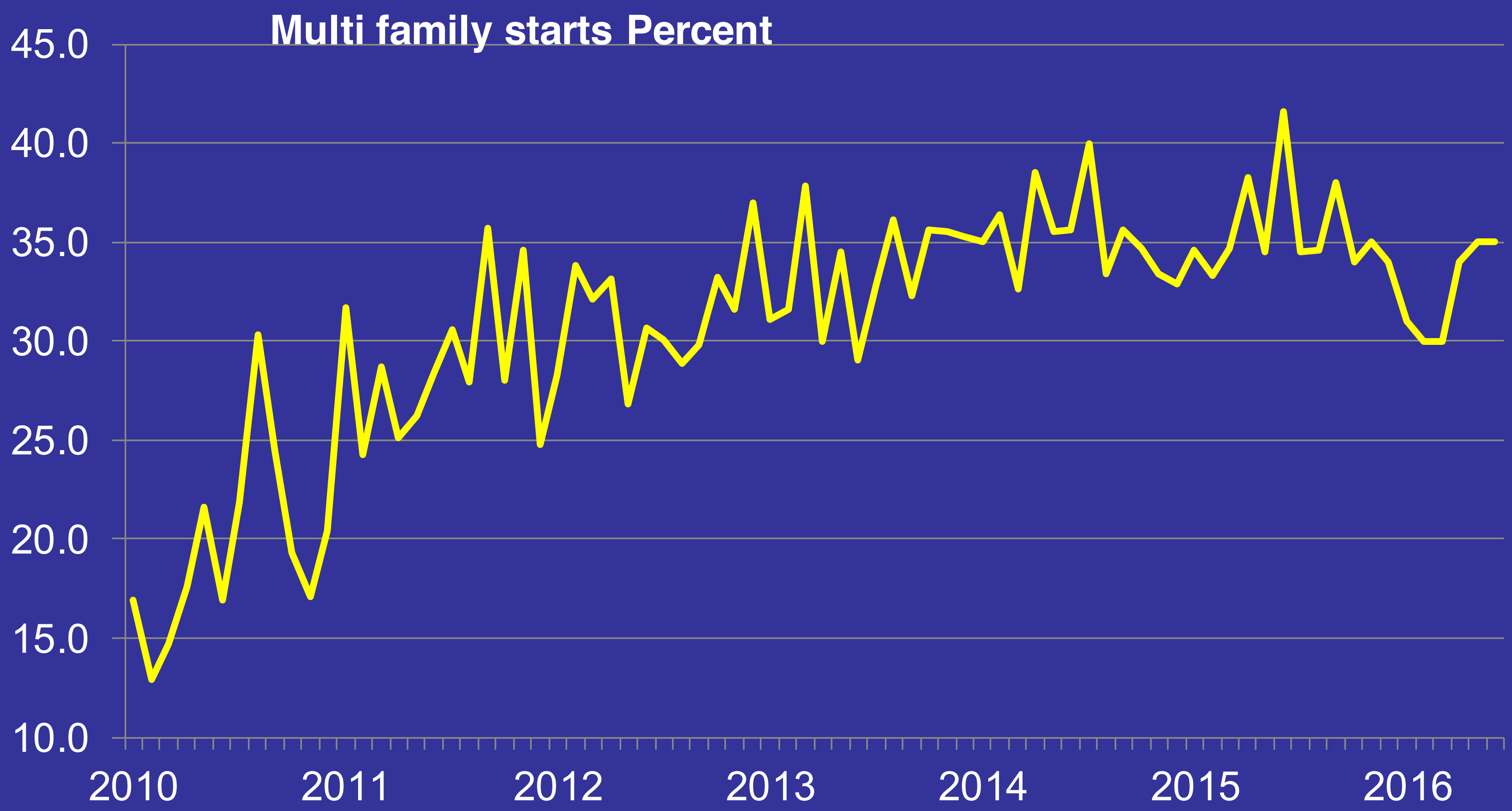
Figure 2



Source: U.S. Census Bureau, Current Population Survey/Housing Vacancy Survey

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

Multi family share of housing starts – upward trend expected to continue for some time. Also, since the housing crash in 2008, single family rentals have now reached 13% of overall housing stock, up from 9% in 2005 (http://blogs.wsj.com/economics/2015/07/20/signs-of-overheating-in-the-single-family-rental-market/)



Source: Census

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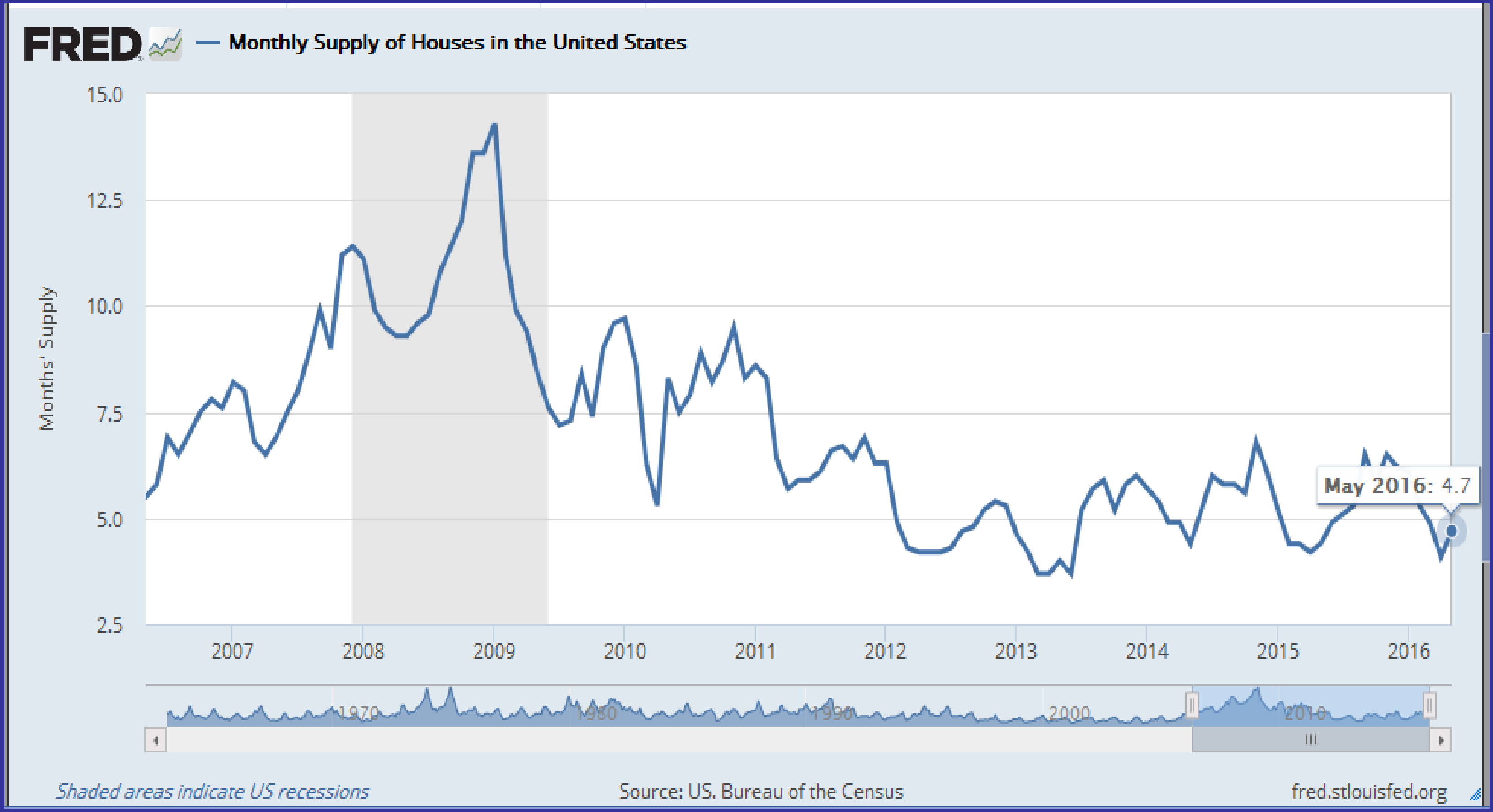
Low new home inventory drives prices higher and out of reach to most 1st time buyers

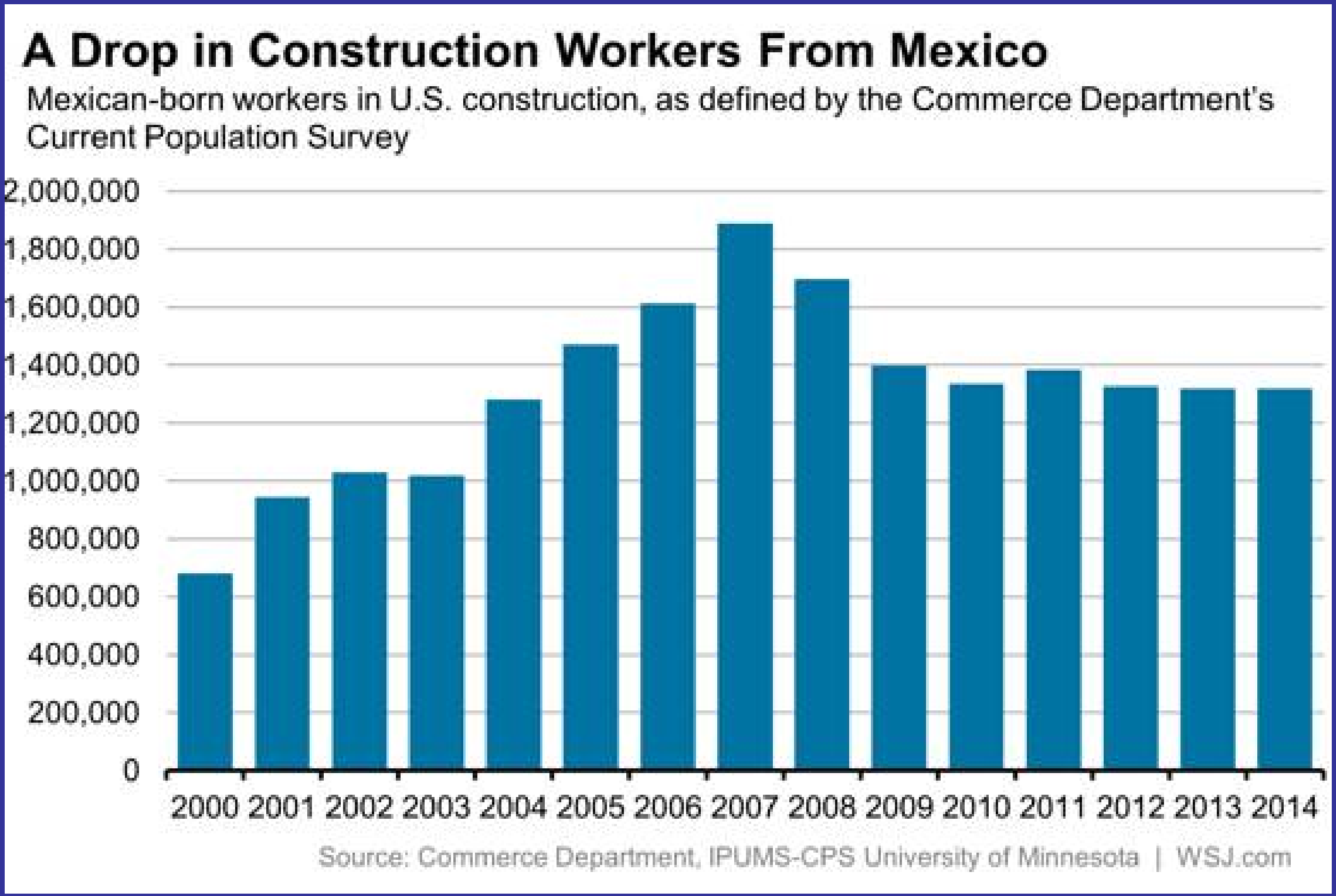
but, builders can't find enough carpenters, masons, electricians, etc., so construction costs keep escalating = this exacerbates the inventory problem – also, land shortages in parts of the country drive costs higher!



(https://research.stlouisfed.org/fred2/series/MSACSR)

News on the labor front

Another problem (like we need more) for housing is labor shortages - - - fewer immigrants from Mexico, plus aging demographics with native born Americans suggest that construction costs will increase driving prices higher and slowing home construction (http://finance.yahoo.com/news/surprising-problem-holding-back-housing-170900724.html)



Source: WSJ (http://blogs.wsj.com/economics/2015/09/21/how-immigration-has-contributed-to-the-construction-worker-shortage/)

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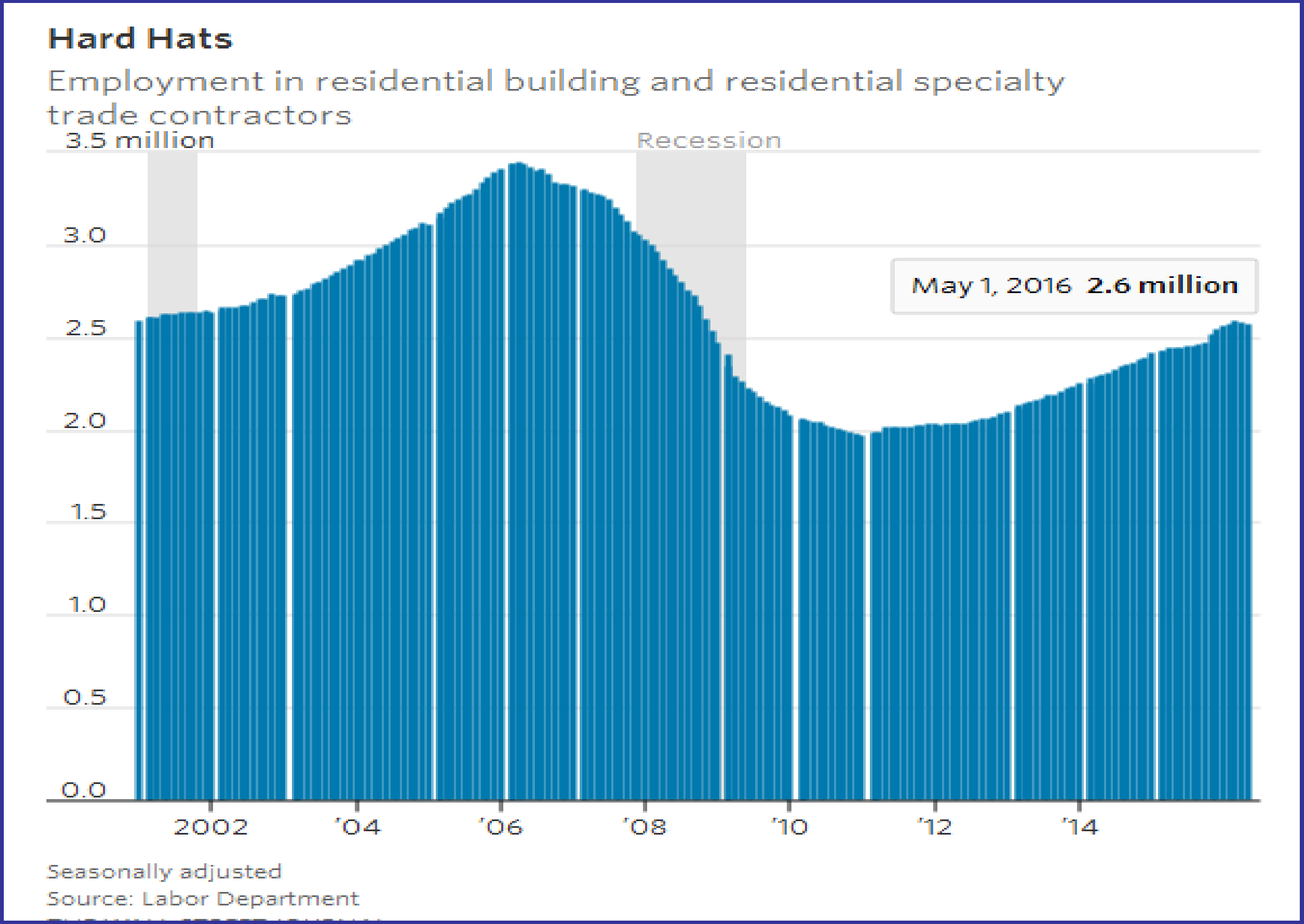
Hard Hats
Employment in residential building and residential specialty trade contractors
3.5 million
3.0
2.5
2.0
1.5
1.0
0.5
0.0
Recession
May 1, 2016 2.6 million
2002
'04
'06
'08
'10
'12
'14
Seasonally adjusted
Source: Labor Department

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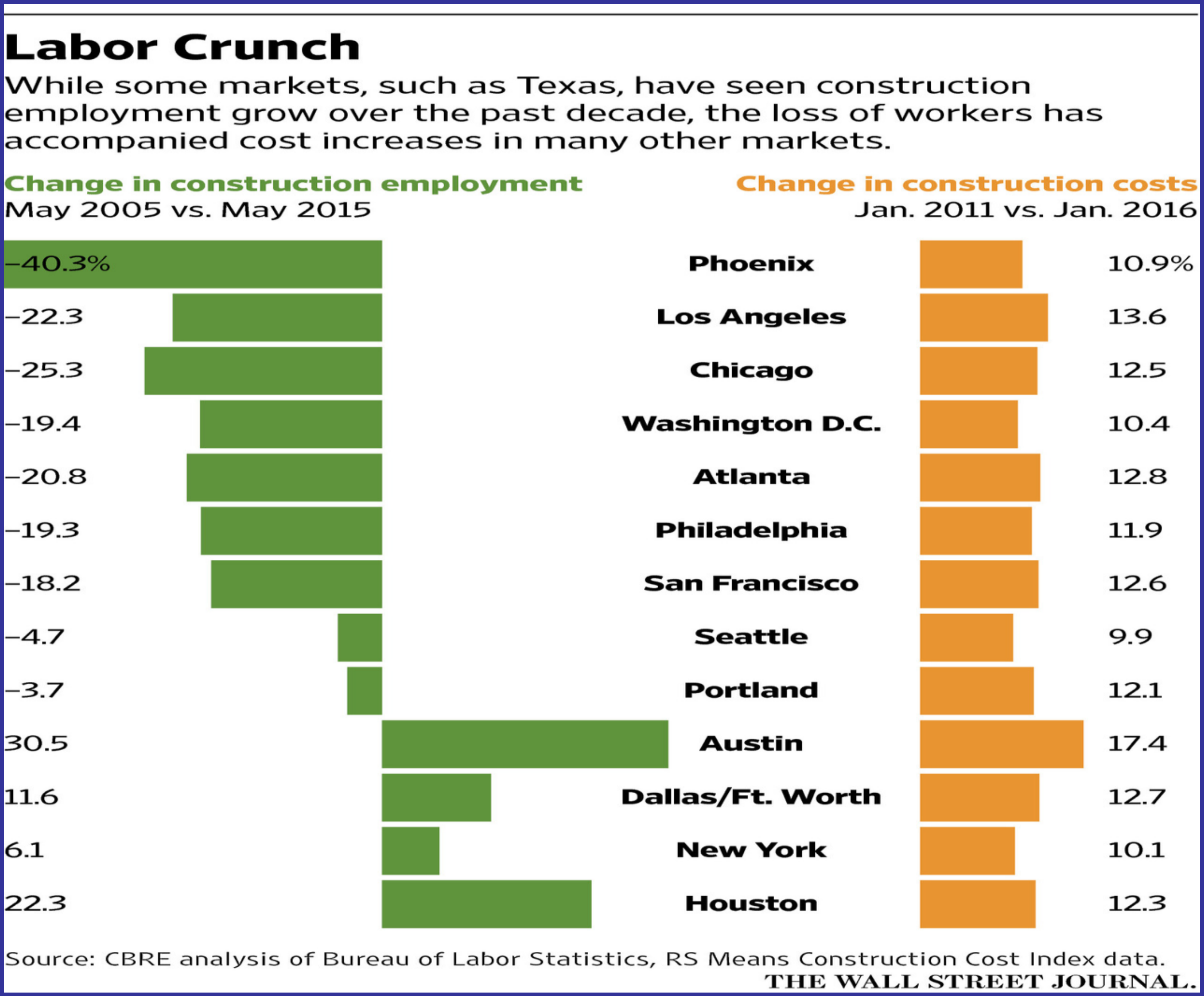
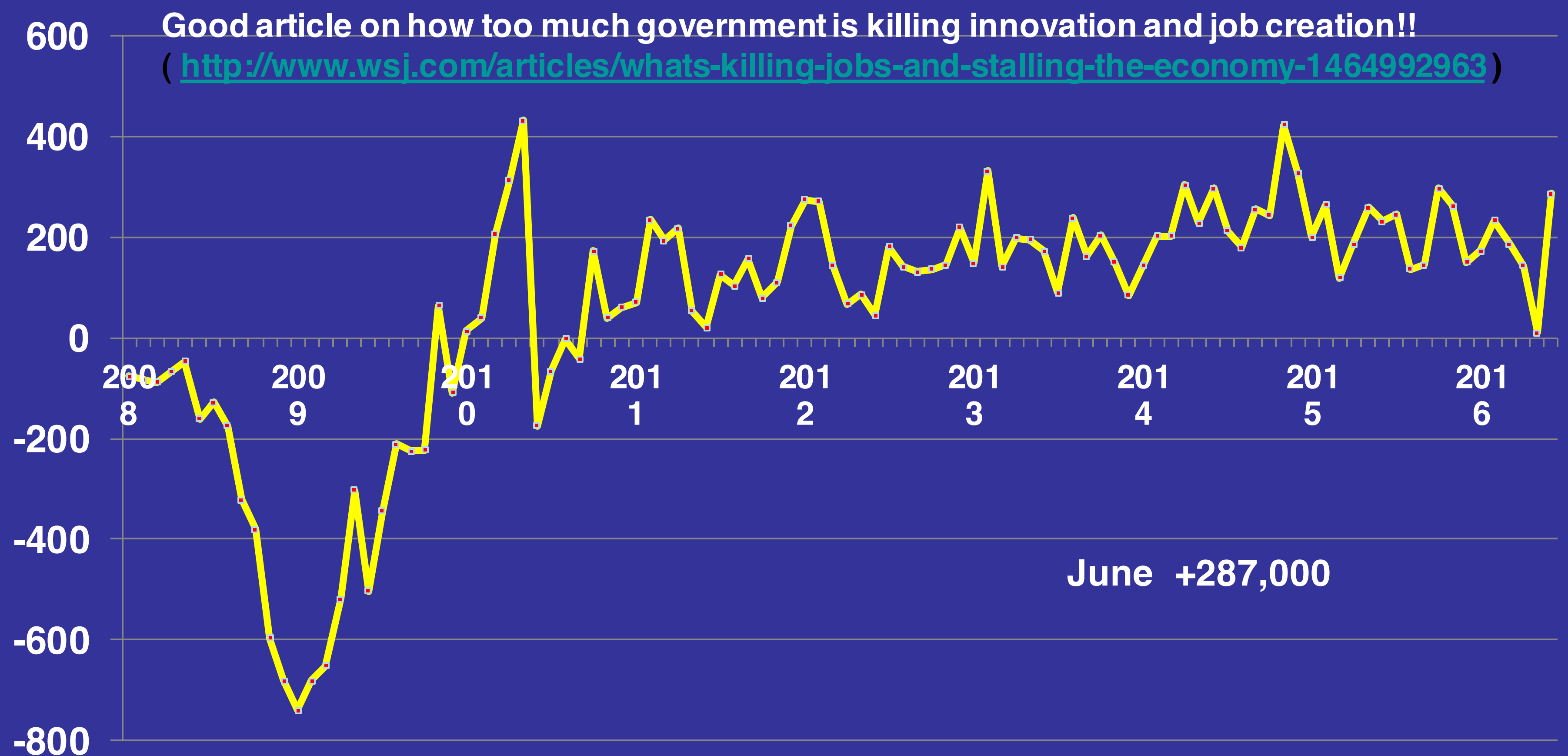
Construction cost increases due to labor crunch



(http://www.wsj.com/articles/builders-fail-to-profit-from-slump-in-raw-materials-prices-1465637402)

Employment situation - our biggest problem – stuck near 200,000, and many of these jobs are part time with little or no benefits – not conducive to driving housing demand higher - *<u>need to encourage innovation and investment in future - that means less government</u>*

Net change in non farm payrolls – monthly, thousands



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

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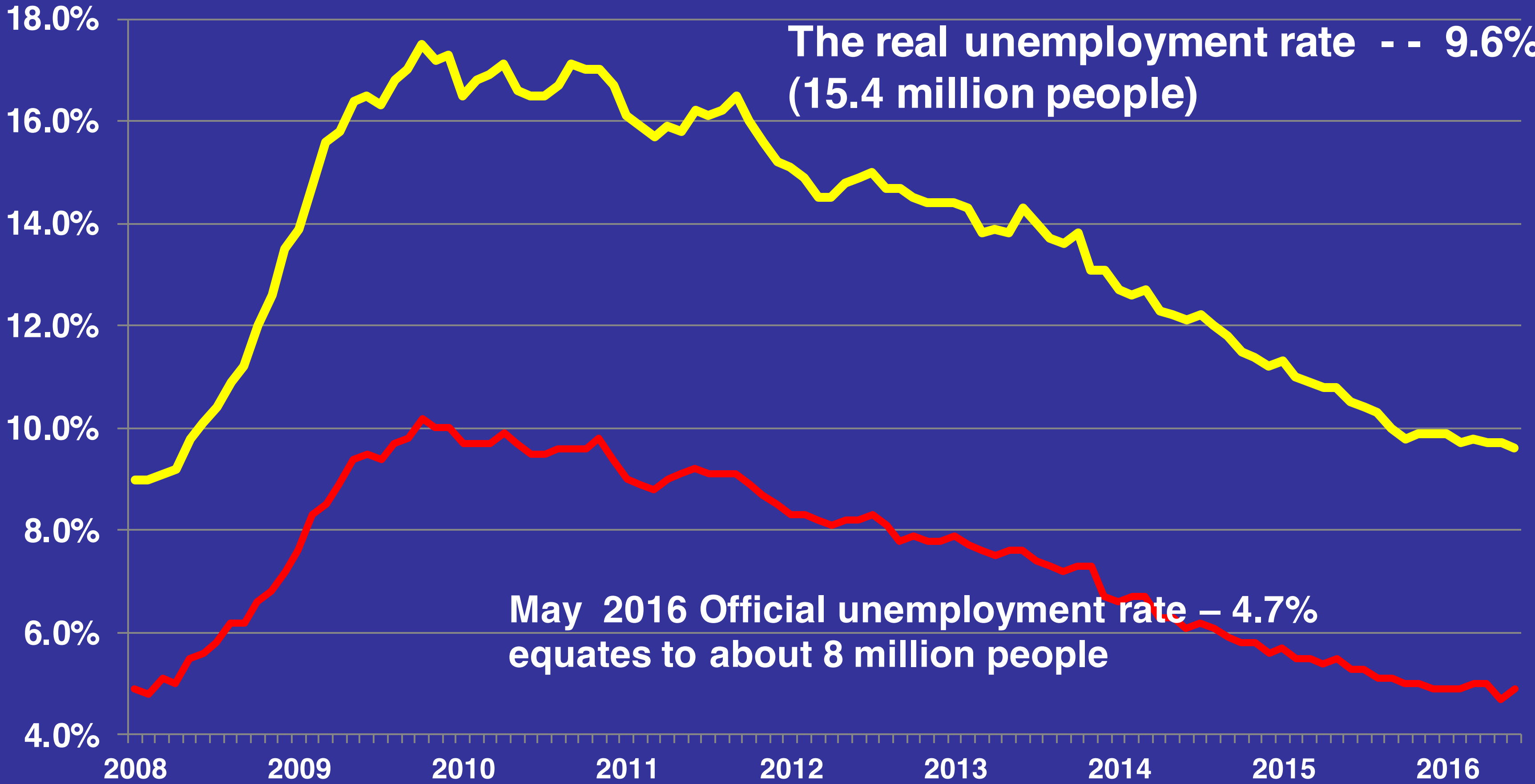
Unemployment rate keeps coming down – but, nearly 7 million remain "underemployed" – working part time, but want full time jobs

There are about 16 million people either unemployed , underemployed, or stopped Looking – **Key reason why wage increases are stagnant!



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

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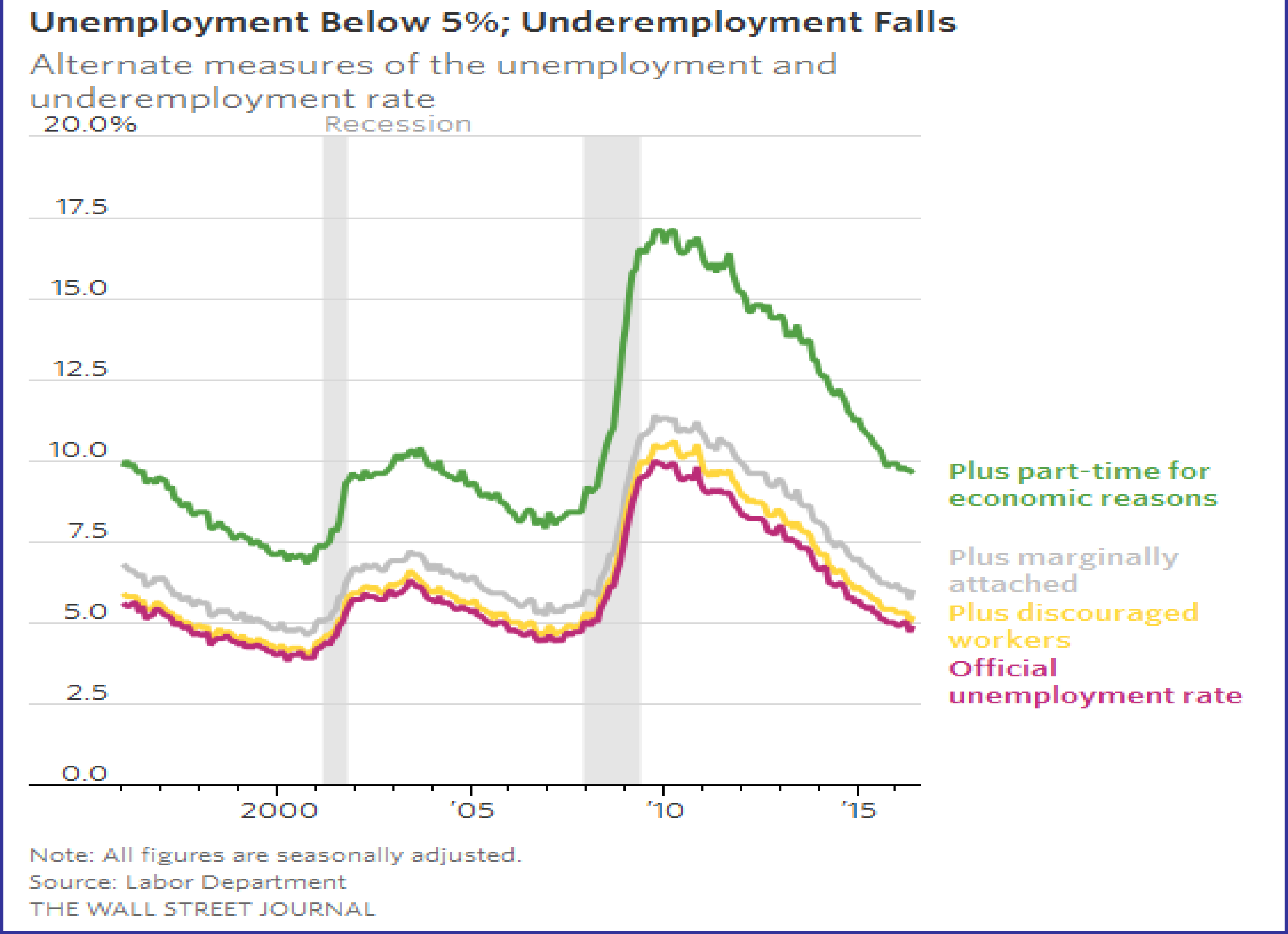
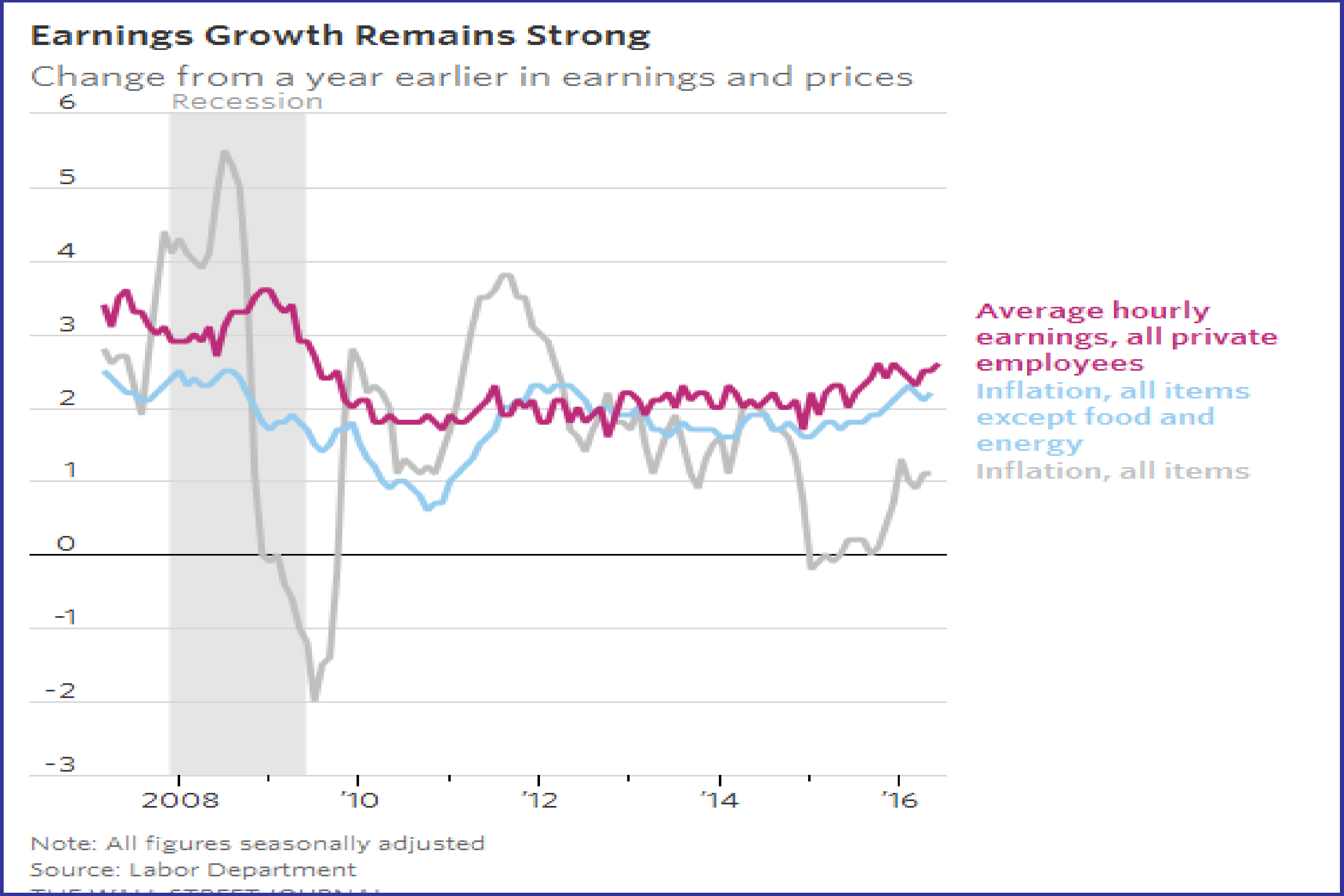
But, things are improving!



And, recent earnings growth shows signs of improving slowly, but nonetheless, improving



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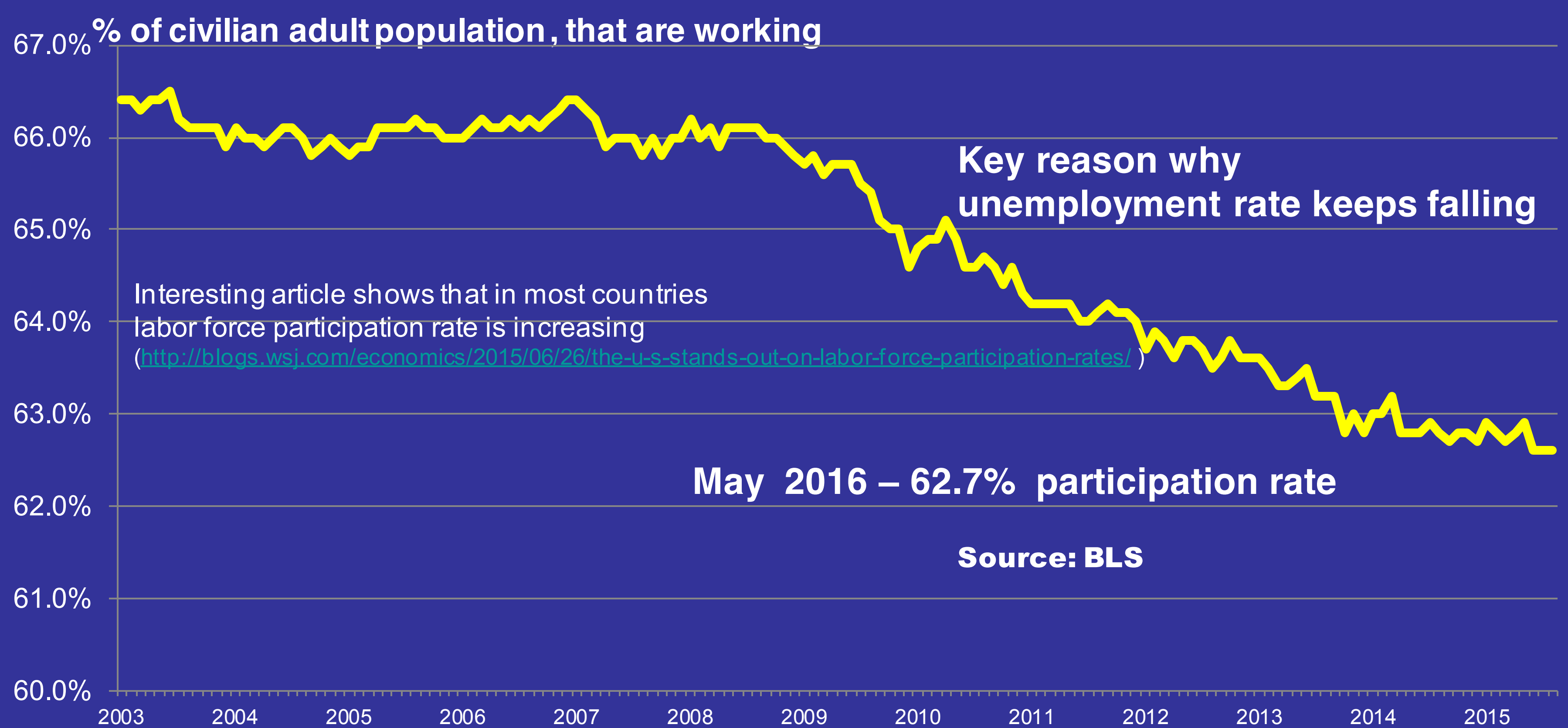
Labor force participation rate is shrinking – demographics is one reason – another reason – bloated welfare system – 130 million people on some form of welfare (food stamps, long term disability, housing allowances, Medicaid, …) - - we'll see skilled labor shortages increase over the next decade - we're already seeing construction related shortages with brick layers, masons, electricians, plumbers, etc.

Excellent article (http://finance.yahoo.com/news/should-i-go-to-a-trade-school-162413337.html#)



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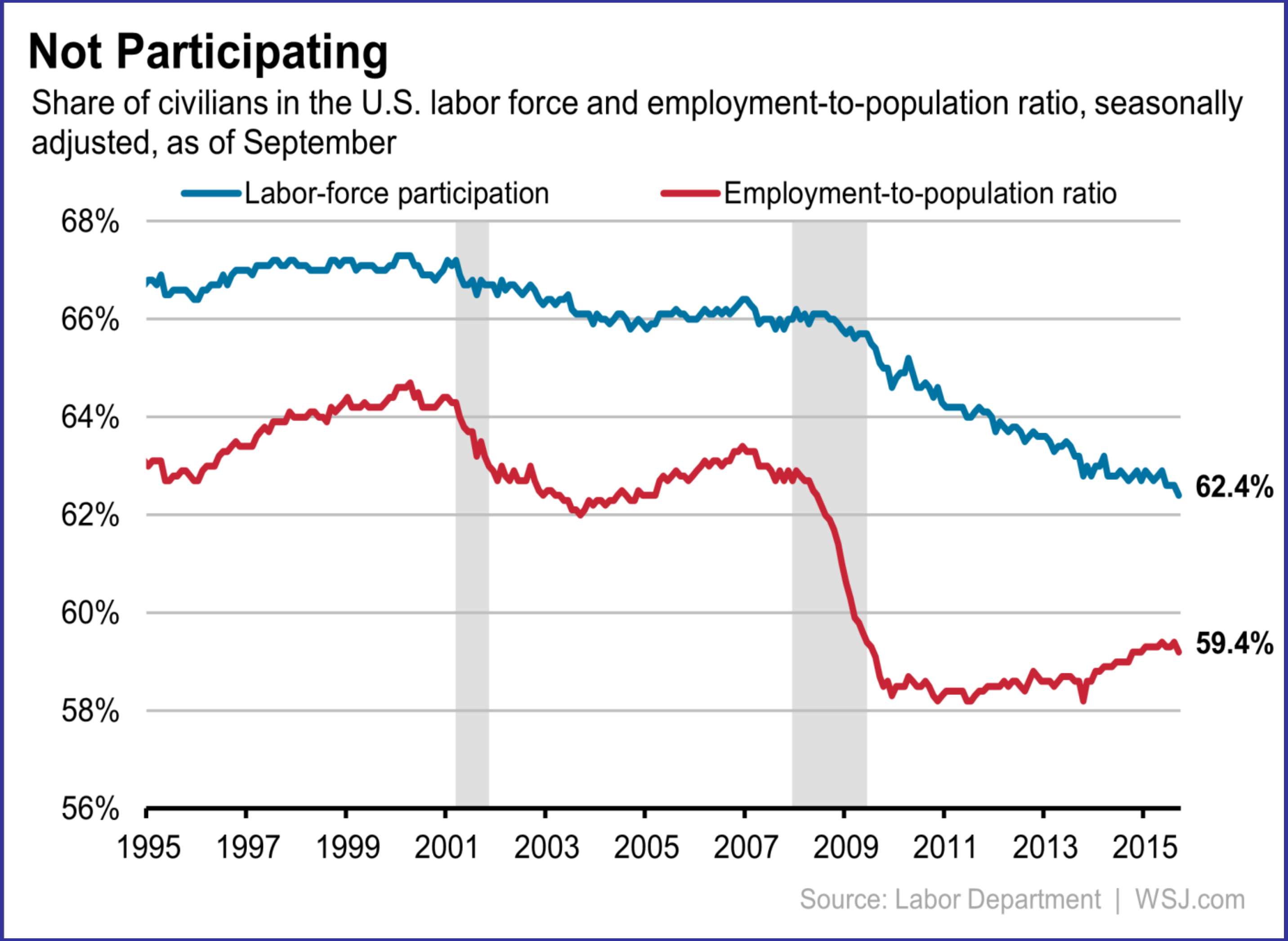
Aging population is part of the problem, but weak economy and mismatch between skills of job seekers and available jobs isn't helping - *and, bloated welfare system encourages too many people to vegetate*



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Some conclusions – housing continues to improve albeit very slowly and this will not change soon for the reasons listed below:

(1) Economy will continue to sputter -- 2016 growth expected to be about 2.0%
(2) Housing market not healthy - 1st time buyers (31% today) are below trend (45%) - household formations are improving, but more people will continue to rent
(3) Productivity a major problem for U.S. economy – real GDP driven by population (number of workers) and real GDP/worker or productivity. During past 7 years, productivity has grown 1.7% annually whereas the average over previous 17 years was 2.4%.
(4) "QE" not working – bulk of "printed money" hoarded by the banks to shore up capital positions – not being loaned out to the economy - GDP languishes - We need a new and more effective approach to our demand problems!
(5) *Weak/no leadership from current administration and Congress, - our biggest problem – neither Hillary nor "the Donald' will fix our problems*
(6) The fed can't make decisions – doesn't know what to do – confused – soon, the U.S. will Join Europe and Japan with negative real interest rates. Negative rates are a clear sign of weak demand. Innovation, investment, tax reform, is the solution, but that will be challenging with $19 trillion (and counting) federal debt and 41% of the population on some form of welfare. Many business leaders have lost confidence in where the country is headed so they are not investing.

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