

May 2017 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

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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/>

May 2017

Housing Scorecard

	M/M		Y/Y	
Housing Starts	▽	5.5%	▽	2.4%
Single-Family Starts	▽	3.9%	△	8.5%
Building Permits	▽	4.9%	▽	0.8%
Housing Completions	△	5.6%	△	14.6%
New Single-Family House Sales	△	2.9%	△	8.9%
Existing House Sales ¹	△	1.1%	△	2.7%
Private Residential Construction Spending	▽	0.6%	△	11.2%
Single-Family Construction Spending	△	1.1%	△	2.7%

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

Housing Data

	May	April	May 2017
Total permits*	1,168,000	1,228,000	1,178,000
Single-family permits	779,000	794,000	735,000
Multi-family 2-4 unit permits	31,000	36,000	31,000
Multi-family ≥ 5 unit permits	358,000	398,000	412,000
Total starts	1,092,000	1,156,000	1,119,000
Single-family starts	794,000	826,000	732,000
Multi-family 2-4 unit starts**	14,000	15,000	5,000
Multi-family ≥ 5 unit starts	284,000	315,000	382,000
Total completions	1,164,000	1,102,000	1,016,000
Single-family completions	817,000	779,000	724,000
Multi-family 2-4 unit completions**	12,000	24,000	9,000
Multi-family ≥ 5 unit completions	335,000	299,000	283,000

* 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; 06/16/17

Housing Data

	May	April	May 2017
New single-family sales	610,000	593,000	560,000
Median price	\$345,800	\$310,200	\$296,000
Existing sales ^a	5,620,000	5,560,000	5,470,00
Median price	\$252,800	\$245,000	\$238,400
Private Residential Construction	\$509.6 billion	\$512.7 billion	\$458.3 billion
SF construction	\$259.9 billion	\$260.7 billion	\$240.9 billion
MF construction	\$62.0 billion	\$64.1 billion	\$61.0 billion
Improvement construction ^b	\$187.8 billion	\$187.9 billion	\$157.2 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; 06/21/17

U.S. Department of Commerce-Construction: www.census.gov/construction/nrs/pdf/newressales.pdf; 06/23/17

U.S. Department of Commerce-C30 Construction: www.census.gov/construction/c30/pdf/privsa.pdf; 07/03/17

Conclusions

Housing is limping along, good news is the return of the 1st time buyers. Interest rates are heading up as the labor market tightens. GDP growth looks lackluster (2% or less) and our debt is approaching \$20 trillion (104% of GDP). Investment has been lagging as has productivity. Without productivity, the economy stagnates, as do incomes, standard of living, and, of course, housing activity. Without housing activity, wood product prices remain weak.

May's housing data is mixed— total starts are down by 5.5% (m/m), single family homes starts are down by 3.9% (m/m), permits down by 4.9% (m/m), completions up by 5.6% (m/m), and existing home sales were up by 1.1% from the month before.

With meager economic growth (average growth since 2009 2.1%, slowest recovery since WWII) and with 51% of all worker's in the U.S. making less than \$30,000/year, 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's banking sector 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
- 5) slow world economy; and
- 6) global uncertainty

April 2017

EU Housing Scorecard

		M/M	Y/Y
Production in Construction ^A	EU 28	0.0% ^s	△ 2.7% ^s
	EU 19	△ 0.3% ^s	△ 3.2% ^s
	Germany	△ 0.2%	△ 6.9%
	France	△ 3.5%	△ 7.7%
	UK	▽ 1.2% ^p	▽ 2.5% ^p
	Spain	△ 0.3% ^{ps}	▽ 1.3% ^p
Building permits (m ² floor) ^A	EU 28	.-	.-
	EU 19	△ 7.6% ^(o3)	△ 15.7% ^{s(o3)}
	Germany	▽ 3.4%	▽ 12.0%
	France	▽ 10.2% ^s	▽ 5.9% ^e
	UK	.-	.-
	Spain	△ 6.1 ^{s(o3)}	△ 54.5 ^{e(o3)}

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>;
07/16/17)

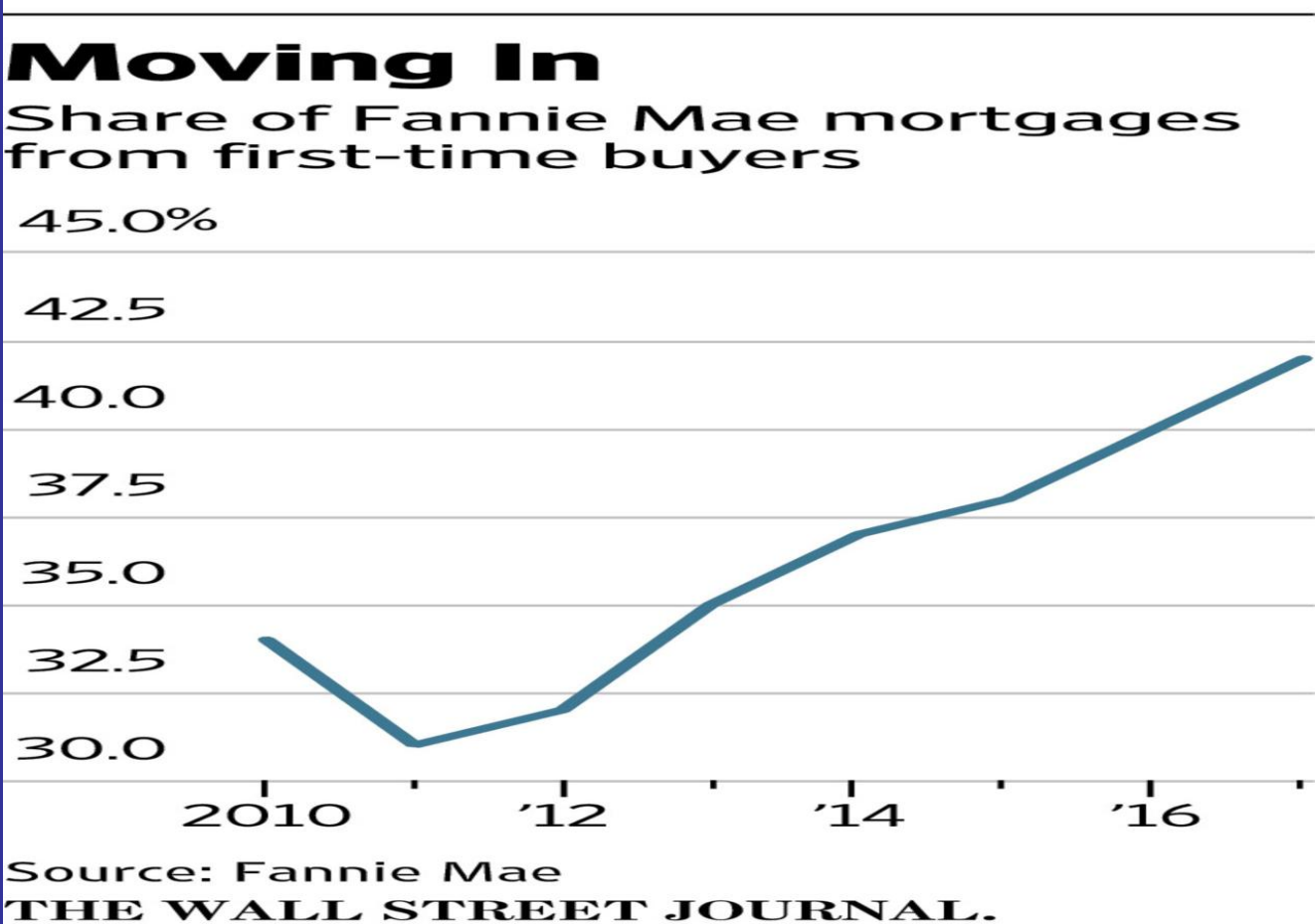
^A see <http://ec.europa.eu/eurostat/web/short-term-business-statistics/overview/sts-in-brief>

^s estimate ^s Eurostat estimate ^p provisional ^{.-} no data available ^(o3) March data

Housing comments – May 2017

- *May starts were down 5.5% to 1.092 (SAAR) - SF at 794,000 (SAAR) – down 4% - MF was down 10% – MF is typically quite volatile, and is down 25% YOY. Annual basis - total starts are down 2.4% while SF up 8.5%. **Making some progress and 1st time buyers are returning!** But still have problems - lack of supply drives prices higher and out of reach, particularly for 1st time buyers. Typical supply is 6 months – today, it is 4.2 for existing homes and 5.2 for new homes. Additional problems - tight credit, and now, rising rates.*
- *Low rates have not helped housing much – in fact, they have created more problems – i.e., prices rising faster than incomes in the USA. Elsewhere, we have housing bubbles in Canada (Toronto, Vancouver), Australia, and the East/West coasts in USA. And, we have what looks like an equity bubble forming here in USA!*
- *Resale market up 1.1% - 5,562,000 (annual rate) – low inventory (4.2 months) driving prices higher – prices up 5.8% YOY*
- *New home sales were up 2.9% to 610,000 SAAR, up 8.9% YOY*
- *Job creation slowed in May - +138,000,000 - unemployment to 4.3% - **but, wage/income growth is lacking***
- *GDP was disappointing at 1.4% for 1st Qtr 2017, and longer term prospects are not good unless we improve productivity and increase the workforce. A smarter immigration system is best solution for short term improvement! **And, we need innovation.***

Good News – 1st time buyers are returning – historically, they made up about 35% of the market – that dipped to 30% during the crash. But, in QTR1 2017, they represented 38% of all SF home sales. In addition, new owner households numbered 854,000 compared with 365,000 renters in Qtr1 2017 – reversing a decade long trend.



New study by Genworth Financial analyses 1st time homebuyer market - here are some excerpts:

Download the report using this hyperlink:

(<https://miblog.genworth.com/first-time-homebuyer-market-report-06-17>)

1. **“During Q1 2017, first-time homebuyers bought the most single-family homes since 2005. During the first quarter of 2017, 424,000 single-family homes were sold to first-time homebuyers (38 percent of all single-family home sales), the most during that period since 2005, and an 11 percent increase from the same period in 2016.**
2. **From 2014 - 2016, first-time homebuyers drove 85 percent of the housing market's expansion, the fastest rate ever.”**

1st time home buyers are critical to a healthy housing market. Without them, the market stagnates – like today! Eventually, many become “move up” buyers as family and incomes grow, and this allows existing homeowners to move to more upscale housing – they are a critical cog in a dynamic housing market!

Some slides from the Genworth study

Fig. 1

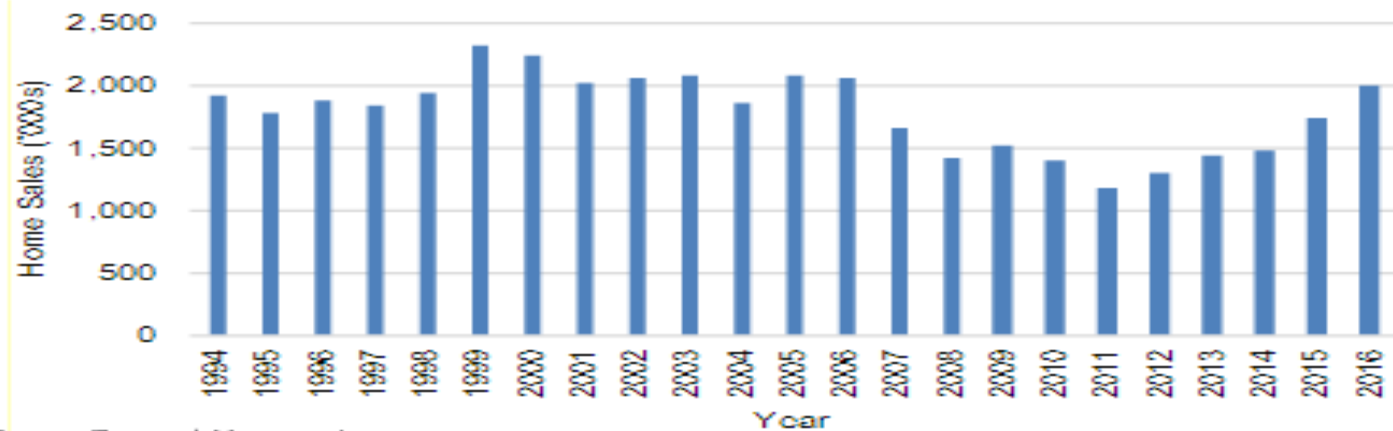
First-Time Homebuyers Mix



Source : Genworth Mortgage Insurance

Fig. 2

First-Time Homebuyers Market

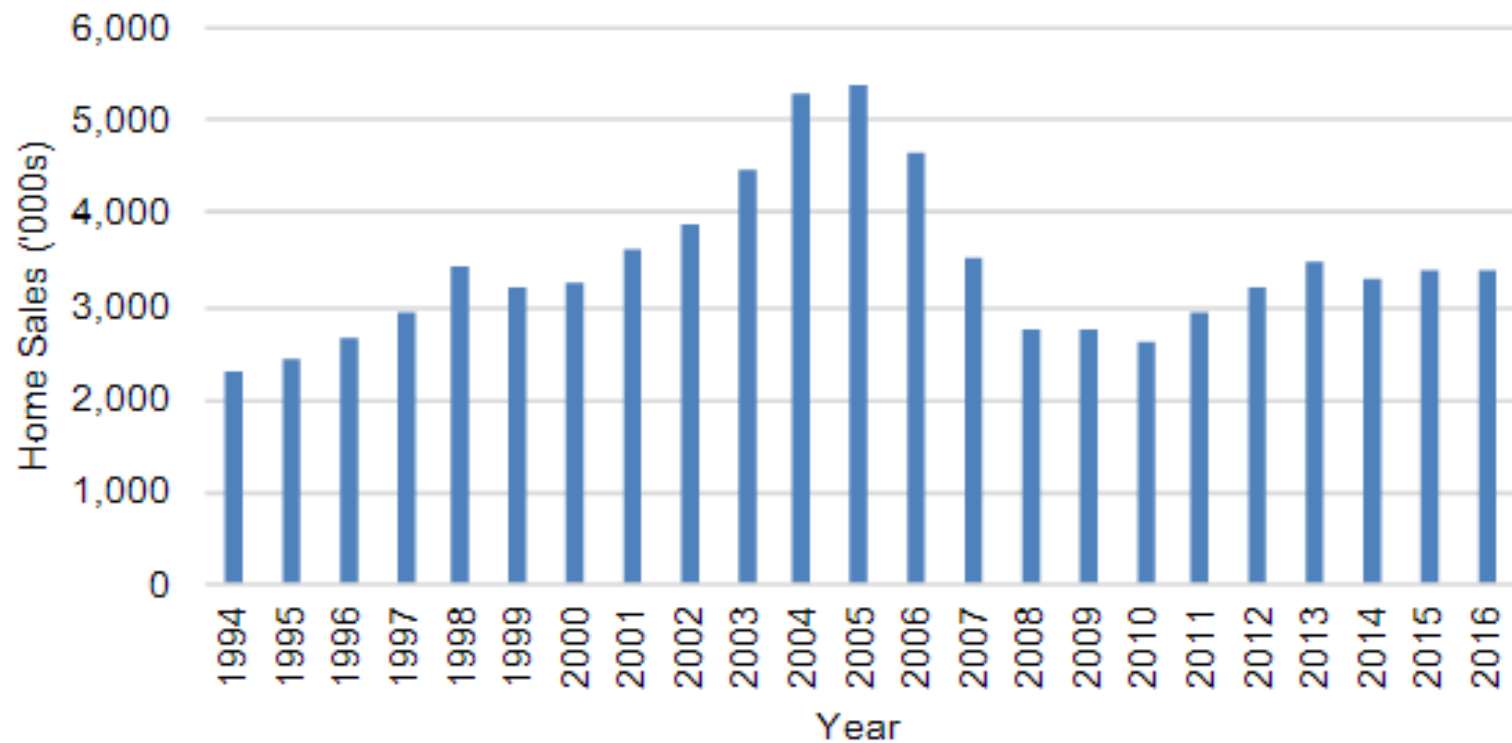


Source : Genworth Mortgage Insurance

More slides from Genworth

Fig. 5

Repeat Homebuyers Market



Source: Genworth Mortgage Insurance

Big problem for housing – too little supply!

This drives prices higher and out of reach for many buyers, Especially 1st time buyers.

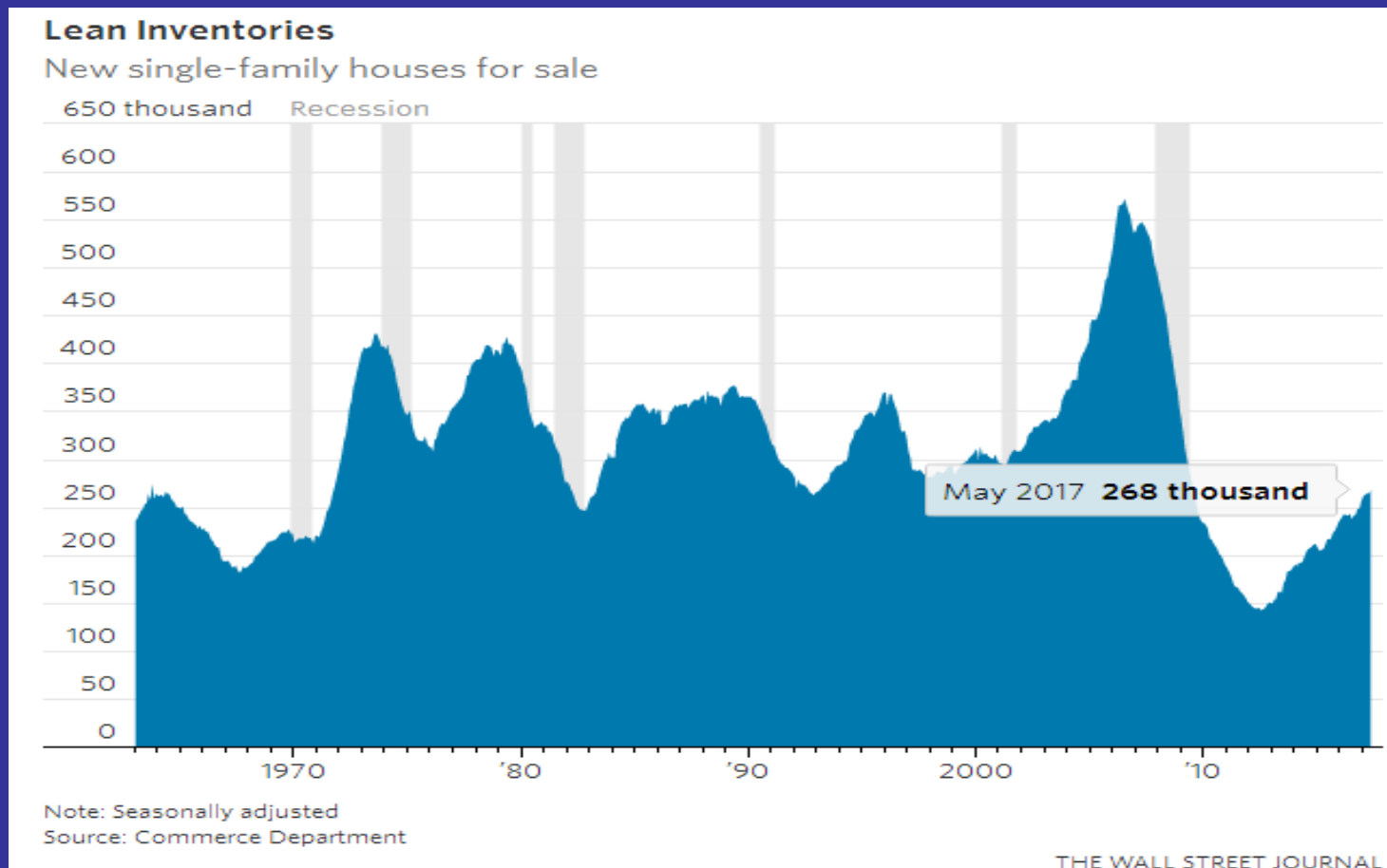
Typically, supply is about 6 months (time it takes to sell existing inventory at current sales rates). Today, existing home inventory is 3.8 months while new home inventory is 5.4 months. Many homeowners are reluctant to list their homes because buying another one is expensive while builders are reluctant to build new homes due to costs, driven partly by labor and land shortages in parts of the country.

Today, prices are increasing twice as fast as incomes, so this problem is actually getting worse. Also, mortgage rates are increasing, and credit remains tight following new rules in the aftermath of the 2008 financial crisis.

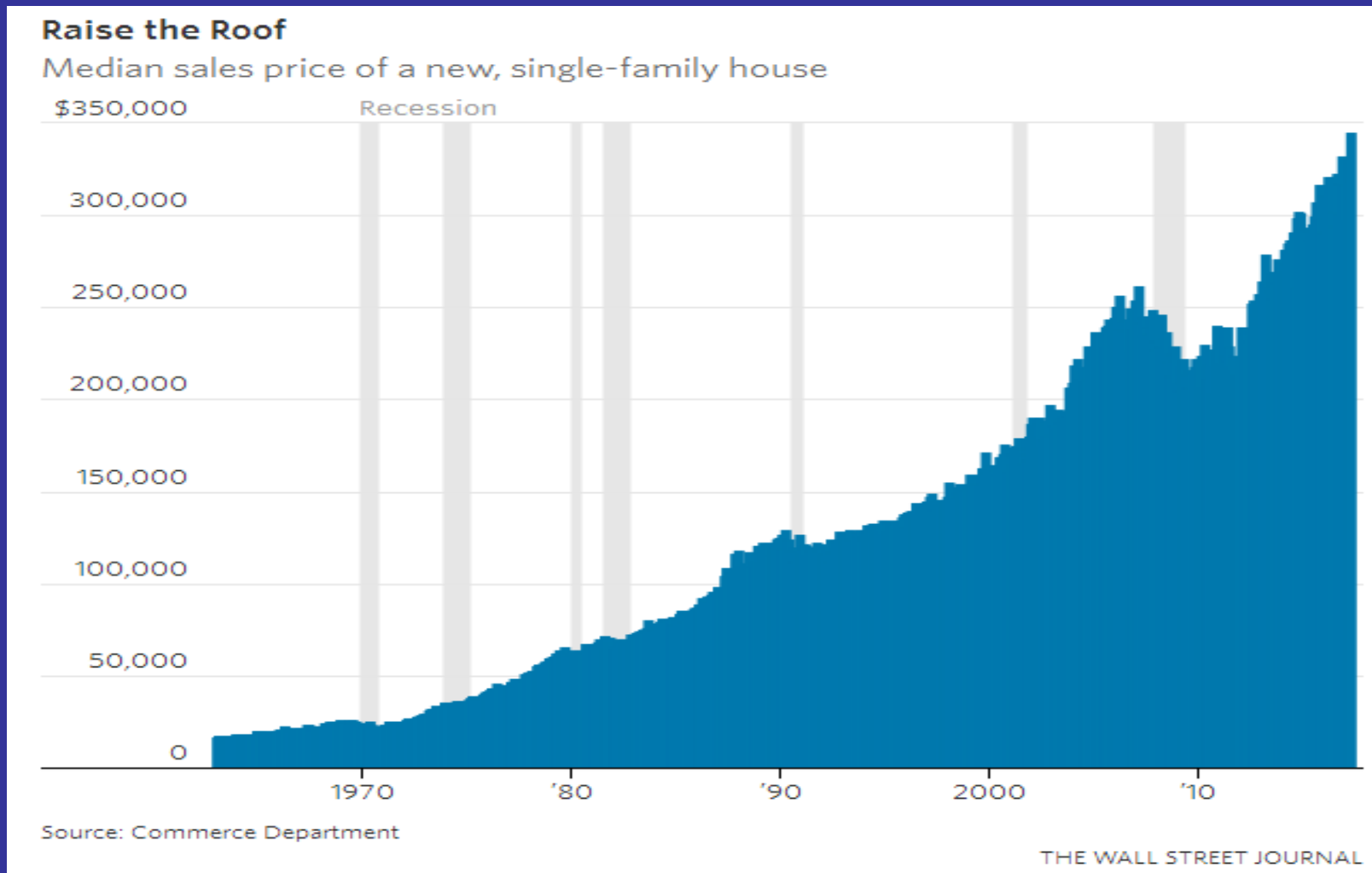
Prognosis – housing could remain below par for some time!

Low new home inventory (5.2 months) drives prices higher and out of reach to most 1st time buyers

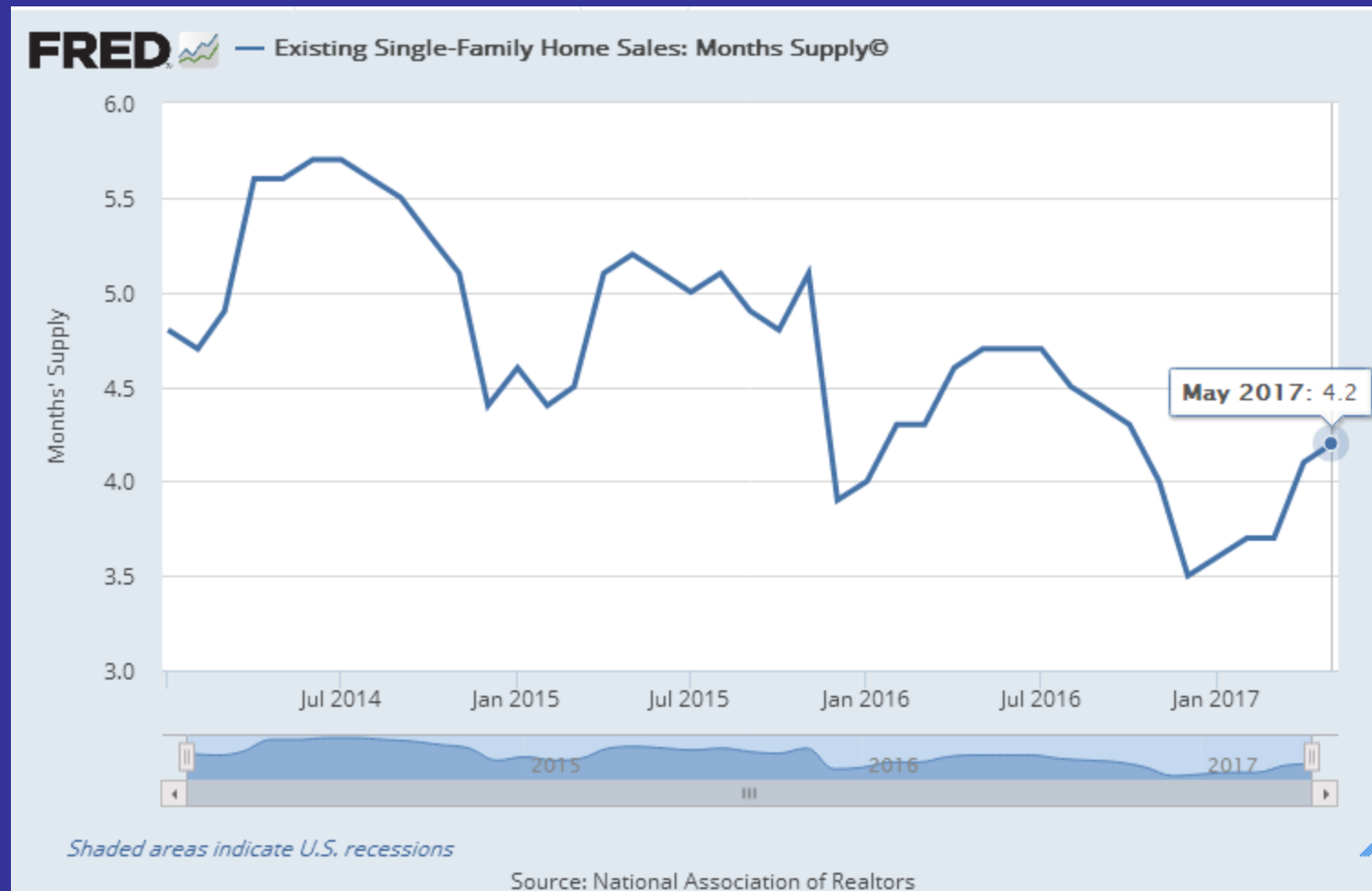
But, builders can't find enough carpenters, masons, electricians, etc. So construction costs keep escalating = this exacerbates the inventory problem – also, land shortages in parts of the country drive costs higher!



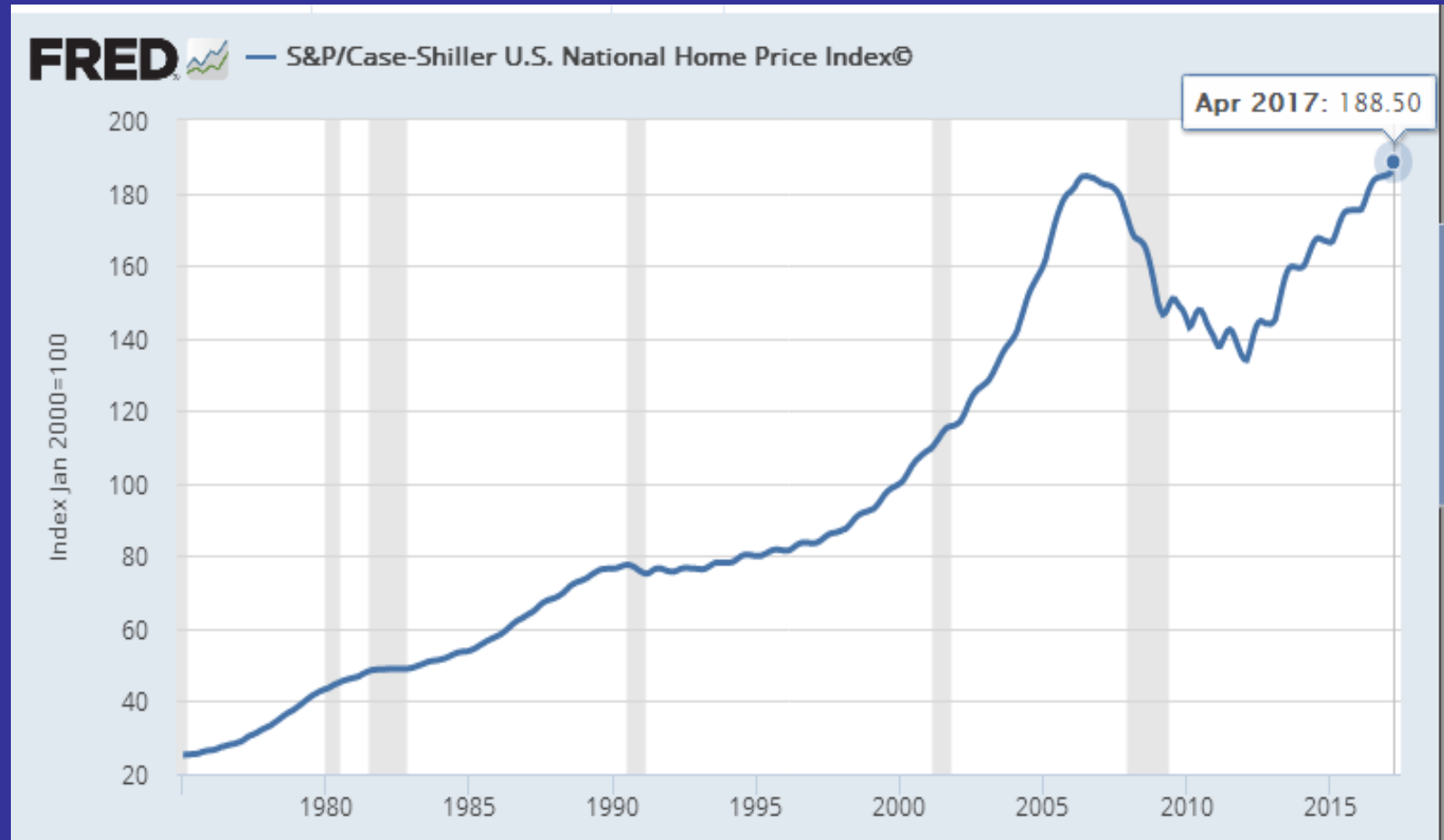
New home sales prices: Imbalance between demand and supply driving prices to record levels – same story with existing home sales. Price increases also due to weakness in entry level/lower end housing coupled with strength in upper end housing.



Low existing home inventory (4.2 months) drives prices higher - out of reach to most 1st time buyers.



Case Shiller National existing home prices – up 41% in past 5 years – driven primarily by short supply and demand for upscale homes



(<https://fred.stlouisfed.org/series/CSUSHPINSA>)

Weak housing starts contribute to the supply shortage and drive prices higher

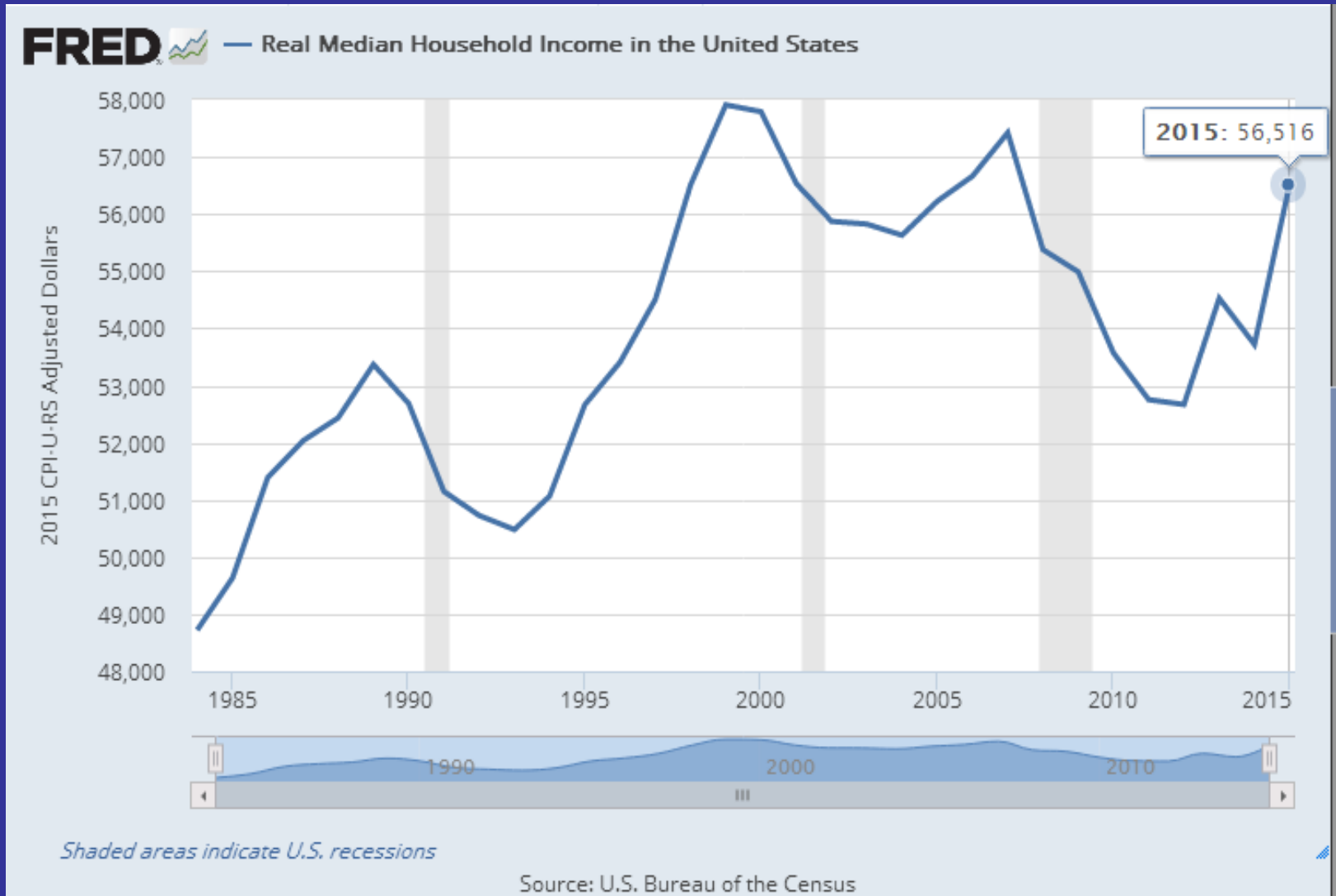
Single family starts, Thousand units, SAAR



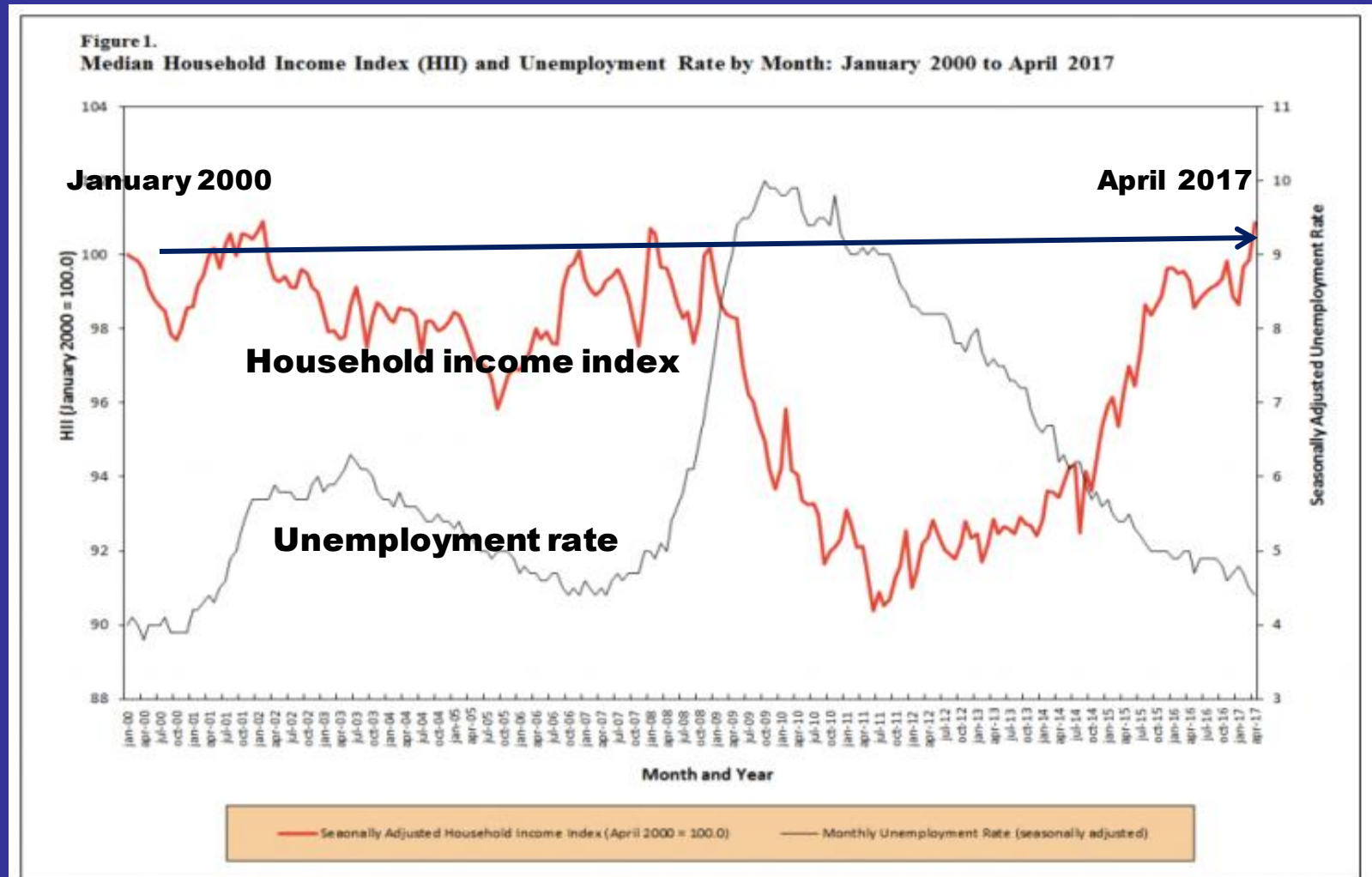
May 2017 - - 826,000, up 8.5% versus year ago

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

Real incomes today same as 1998 – i.e., little progress in two decades – unemployment at record low levels, yet wage growth has lagged.



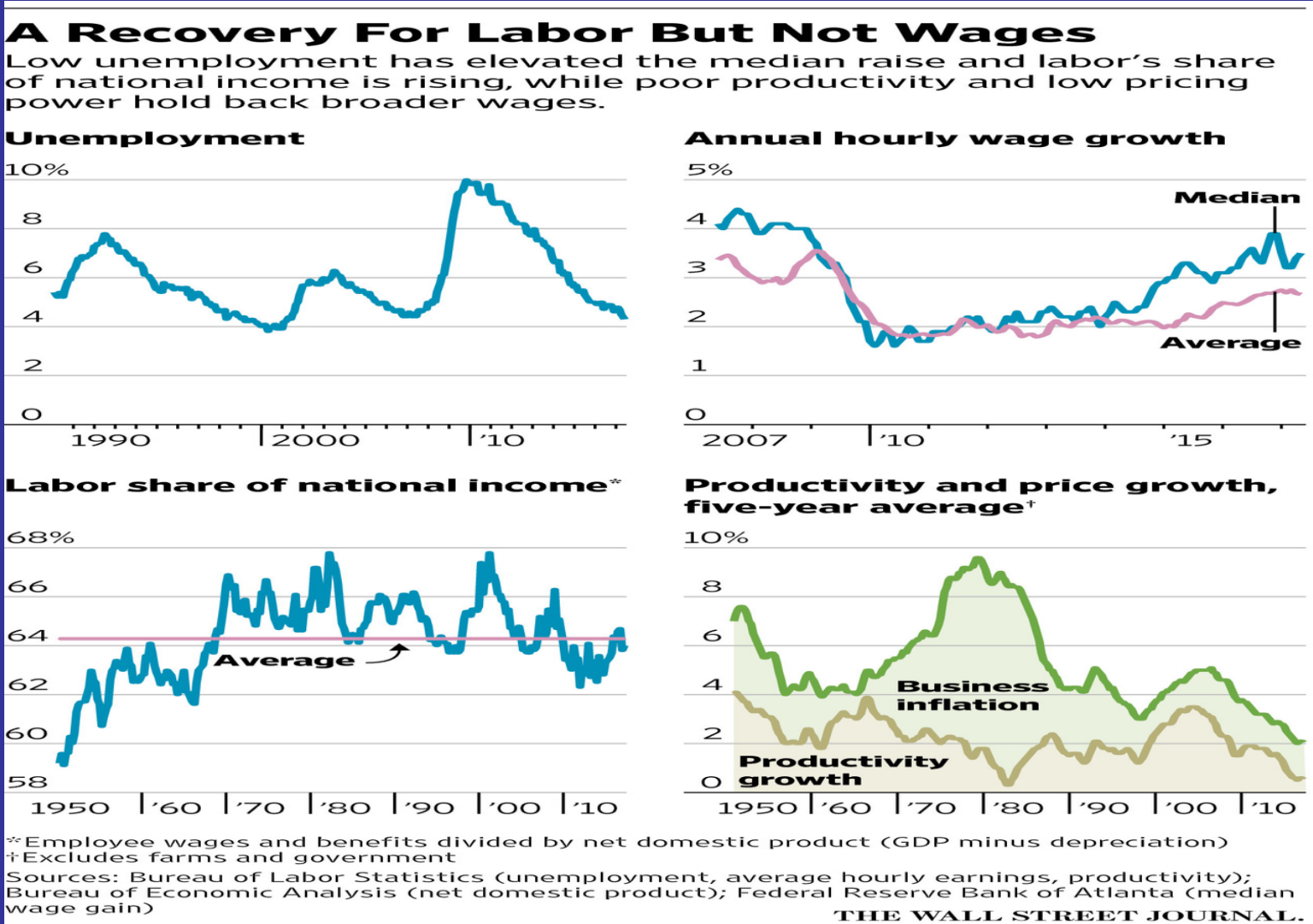
Long term trend - a disconnect between unemployment rates and incomes. Problem – many new jobs created are low paying with little or no benefits. This is a structural problem with many high paying jobs that go unfilled because applicants don't have the required skill set!



Sources: For income data: Sentier Research, LLC estimates of annual household income derived from the monthly Current Population Survey (CPS) conducted by the U.S. Census Bureau; for the unemployment rate and the CPI-U: the U.S. Bureau of Labor Statistics.

Low productivity, aging work force, and weak corporate pricing power suggest that wage growth could remain weak for some time. Despite low unemployment, wage growth has been lackluster – ***bad news for housing***

G. Ip, WSJ (<https://www.wsj.com/articles/why-the-tight-labor-market-isnt-generating-better-pay-1497441272>)



Solution to fixing the economy – get housing back to trend levels – yes, this is a “chicken and egg type issue”, but as the chart on the next page shows, Spending on housing is an important contributor to GDP. E.g., total expenditures on housing related activities (appliances purchases, real estate agent jobs, ...) has averaged 19% of GDP over past 60 years, but today it is 15.6%!

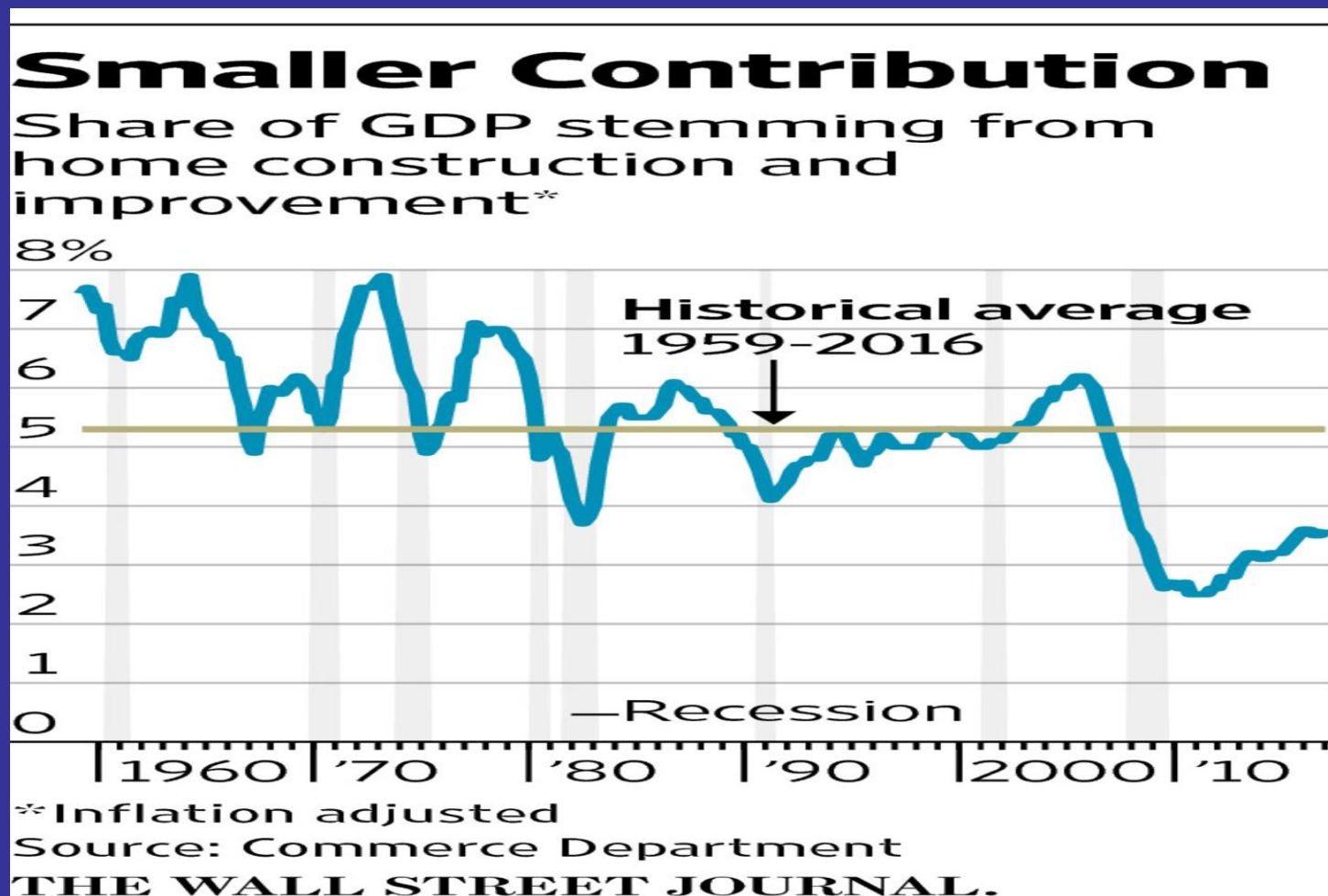
Tight credit also big problem, especially for 1st time buyers.

Now, we have the “lumber tax” on Canadian lumber to deal with. That will only increase construction costs and make housing less affordable.

A more interesting comment on the U.S. economy by Greg Ip WSJ (<https://www.wsj.com/articles/the-economy-needs-amazons-but-it-mostly-has-ges-1498037403>)

“Housing serves as an economic engine through home construction as well as ancillary activities such as appliance purchases, spending on home renovations and jobs for real-estate agents.” **“Total spending on housing fell to 15.6% of GDP in 2016, compared with 19% over past 60 years.** A more specific measure - spending on new construction and remodeling fell to 3.6% of GDP” – see chart below.

Source: WSJ (<https://www.wsj.com/articles/sluggish-housing-recovery-took-300-billion-toll-on-u-s-economy-data-show-1490526643>)



Here is another suggestion on how to fix the economy – a “no brainer” .

GDP = (labor force) (productivity). “Economics 101”

We have an aging work Force and our fertility rate has been falling for decades. That means slow growing labor force. Productivity has been weak for decades too. Yes, we need to invest for the future – R&D; Infrastructure spending; less regulation; fix K-12 system;.... But, we also need immigrants

Solution – develop a smart immigration system that brings in educated, hard working people with technical skills that will support better productivity growth and address our shrinking labor force too.

Yes, we still need to bring in refugees too – that is the mark of a compassionate country. But, the focus today needs to be highly educated, English speaking (doesn't have to be perfect, but workable) people with technical skills and a strong work ethic.

**A more interesting comment on the U.S. economy by Greg Ip
WSJ** (<https://www.wsj.com/articles/the-economy-needs-amazons-but-it-mostly-has-ges-1498037403>)

Innovation is the solution – “we need more companies like Amazon and fewer like GE” notes Mr. Ip

Growth comes from workforce and productivity – can't increase very fast over the long term unless we deal with declining workforce and weak productivity

Growth of the prime working age population has slowed as baby boomers age...

People aged 25 to 54; Annual change, 10-year moving average



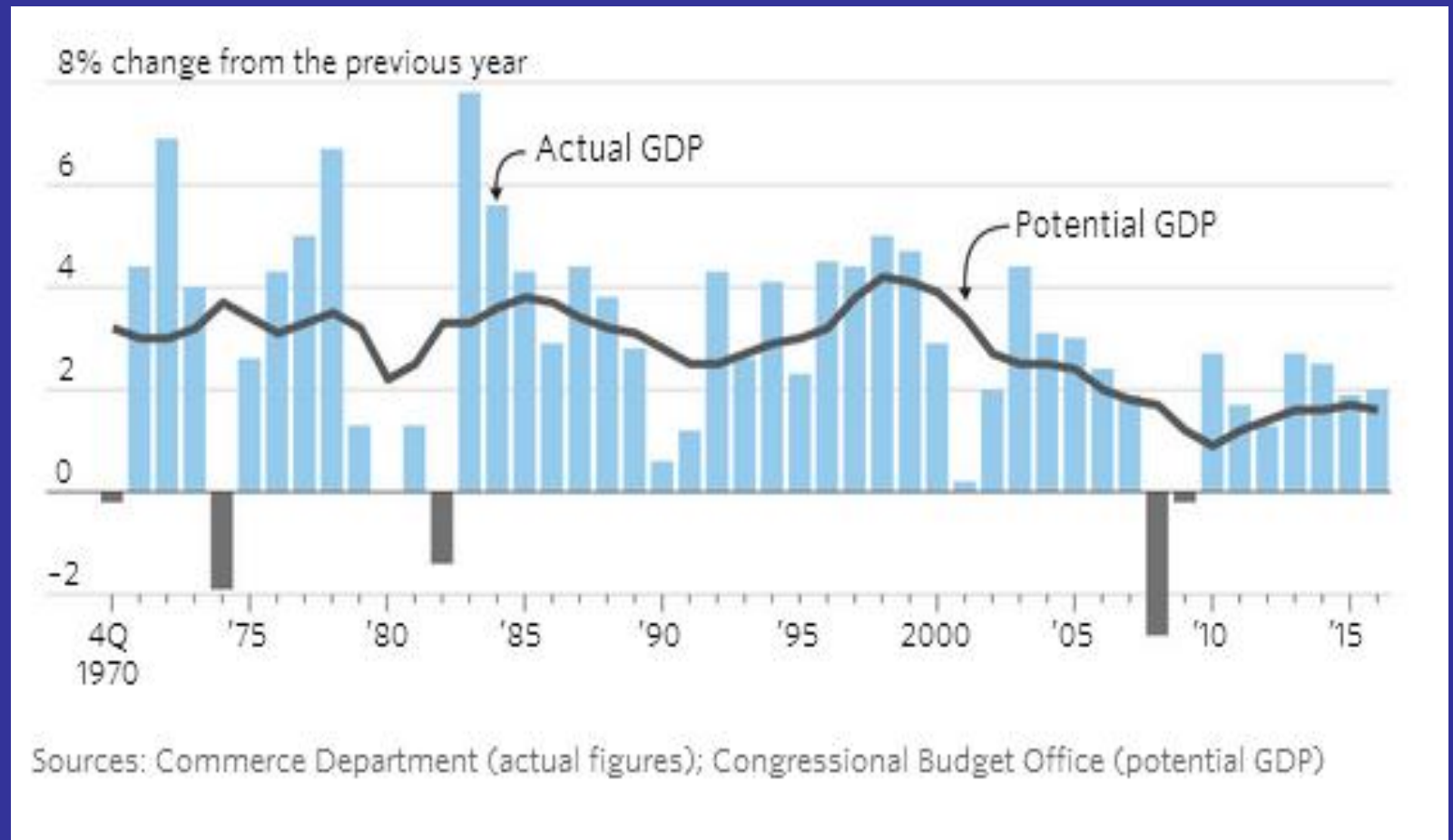
Source: Labor Department

...and productivity growth has fallen off in recent years, reflecting weaker investment and innovation.

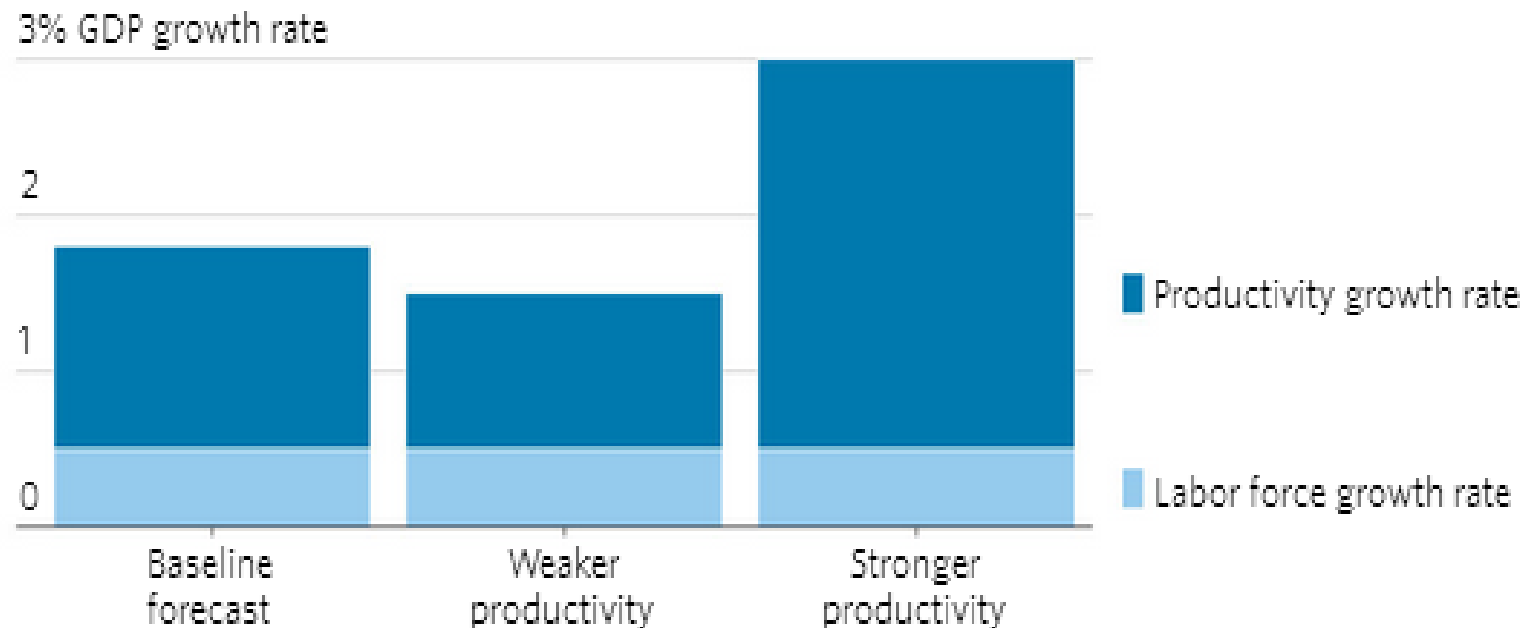
Output per hour in the nonfarm business sector; adjusted for inflation; Annual change, 10-year moving average



The economy's “speed limit” :
GDP Growth = (growth in labor force)(growth in productivity)
Chart below shows projections from CBO



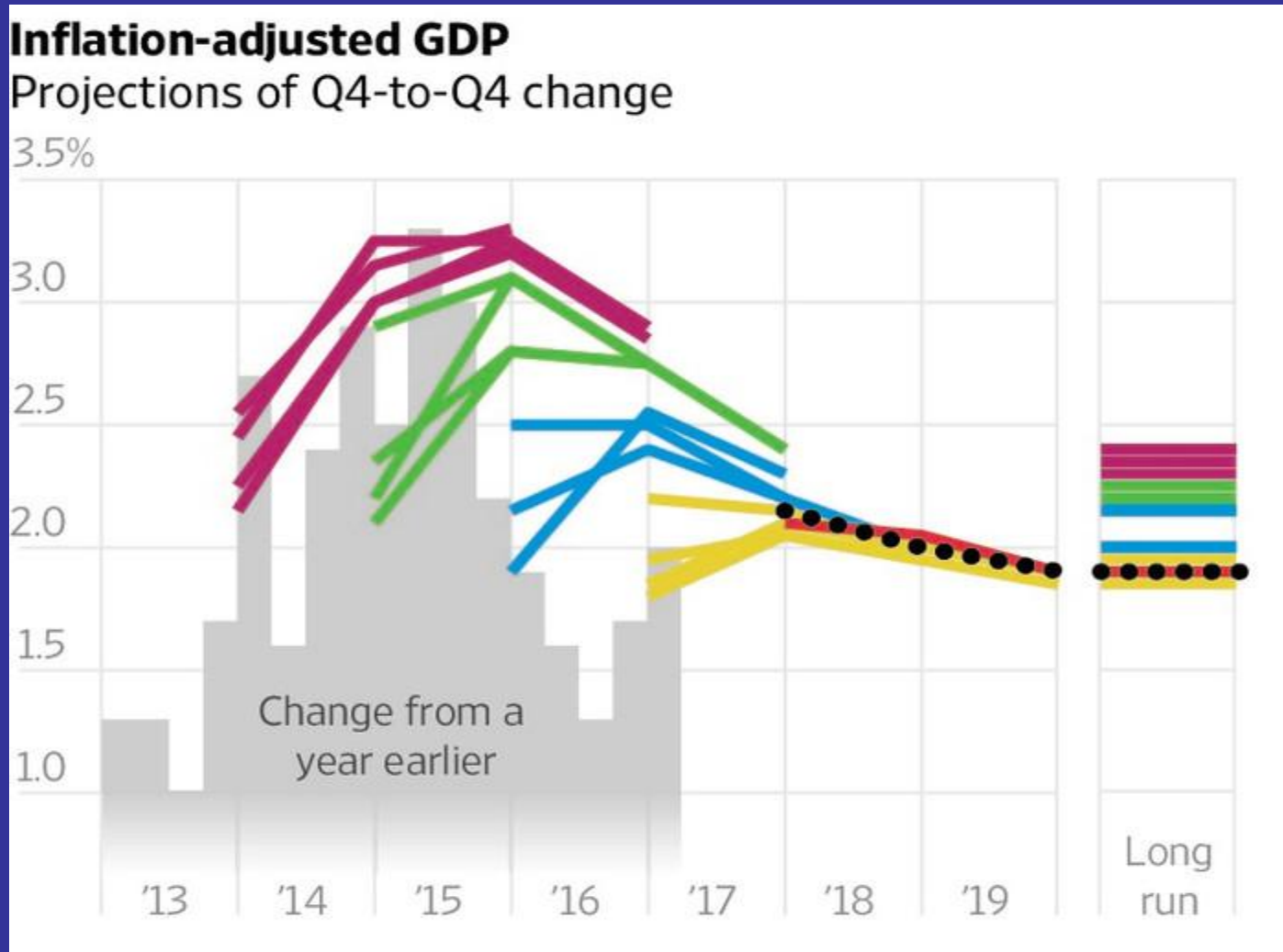
Some (CBO) projections of GDP growth with weaker productivity versus stronger productivity – but, for better productivity we need to invest, and we are not doing so!



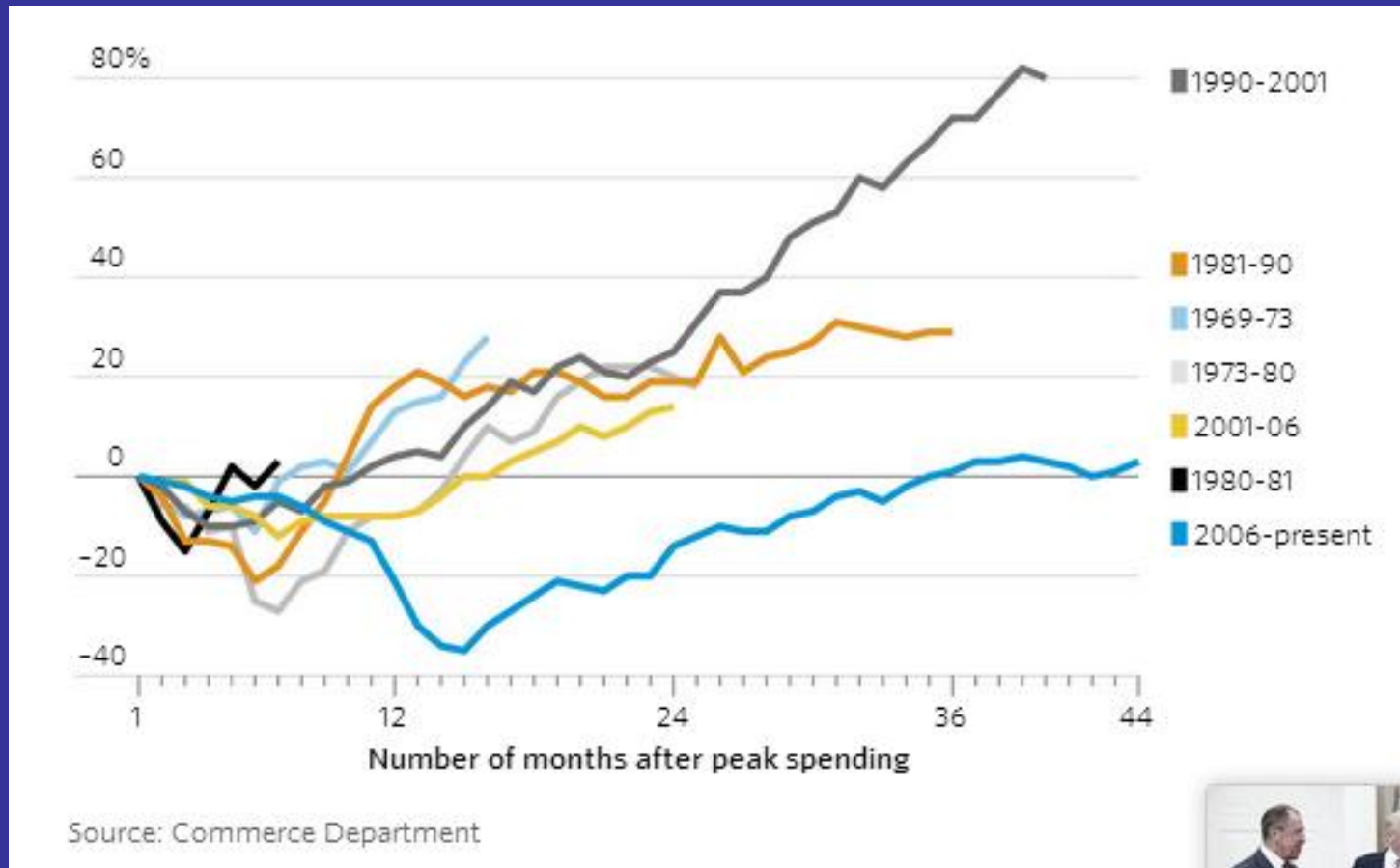
*Forecast from the Congressional Budget Office †Since 1958

Sources: Congressional Budget Office (baseline forecast, workforce projections); Jason Furman of the Peterson Institute for International Economics (productivity projections)

Latest FED long range forecasts – similar to CBO. About 1.8% - 2%. Problem is low productivity and slow labor force growth which are the basic “building blocks” for the economy

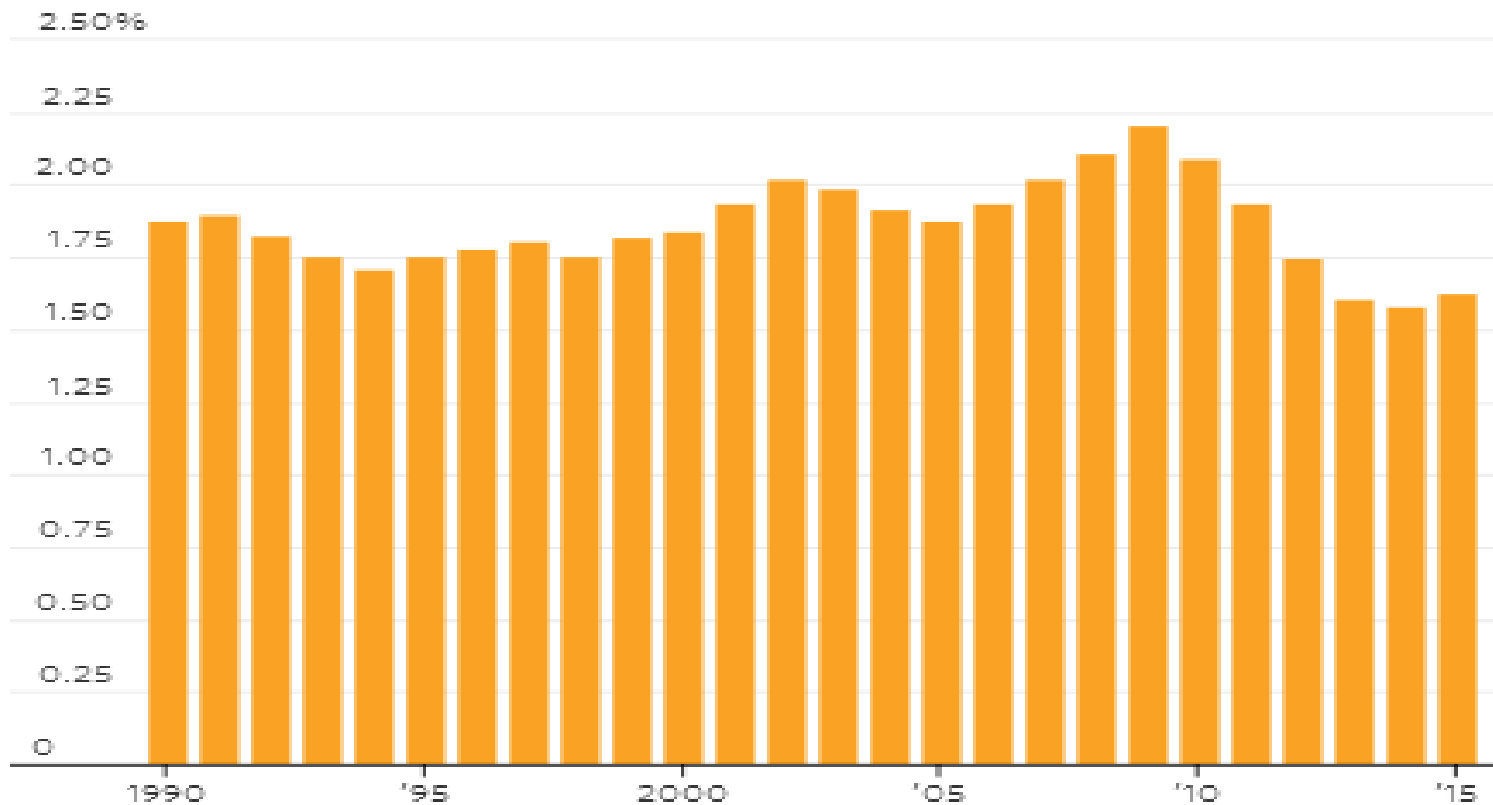


Gross private investment spending over the last three decades - chart compares recovery in investment following recessions. Latest recovery is pathetic! Why? Many are not excited about the future...



Public infrastructure investments have been falling for a decade - hinders improvements in productivity

Gross government fixed investment in structures, including buildings and infrastructure, as a percent of GDP



Source:

THE WALL STREET JOURNAL

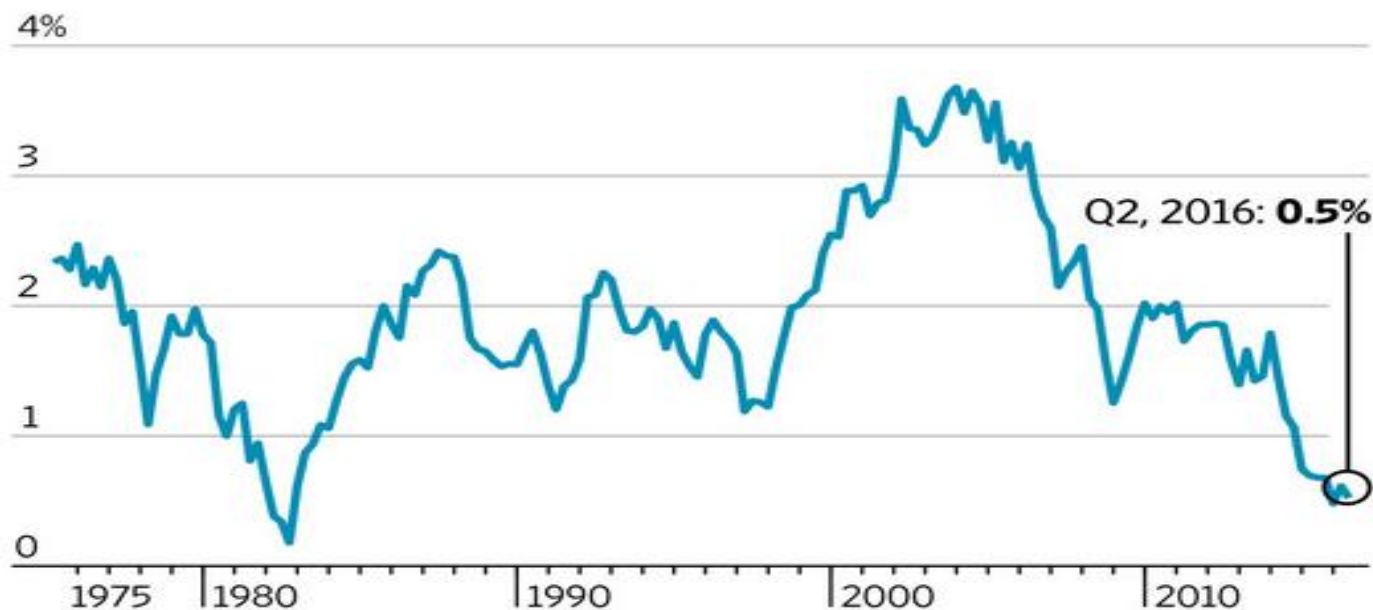
What happens when innovation/investment are missing!
Dismal productivity growth - - worst performance for US economy
since the 1980's when we experienced back to back recessions.
(PS - I understand that productivity measurement is a problem as new products/services quality is difficult To measure so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

Plunging Productivity

Gains in U.S. worker productivity have slowed dramatically since the early 2000s, a trend that could restrain the economy's future growth.

Labor productivity (output per hour)

Percentage change from previous quarter at annual rate,
5-year moving average

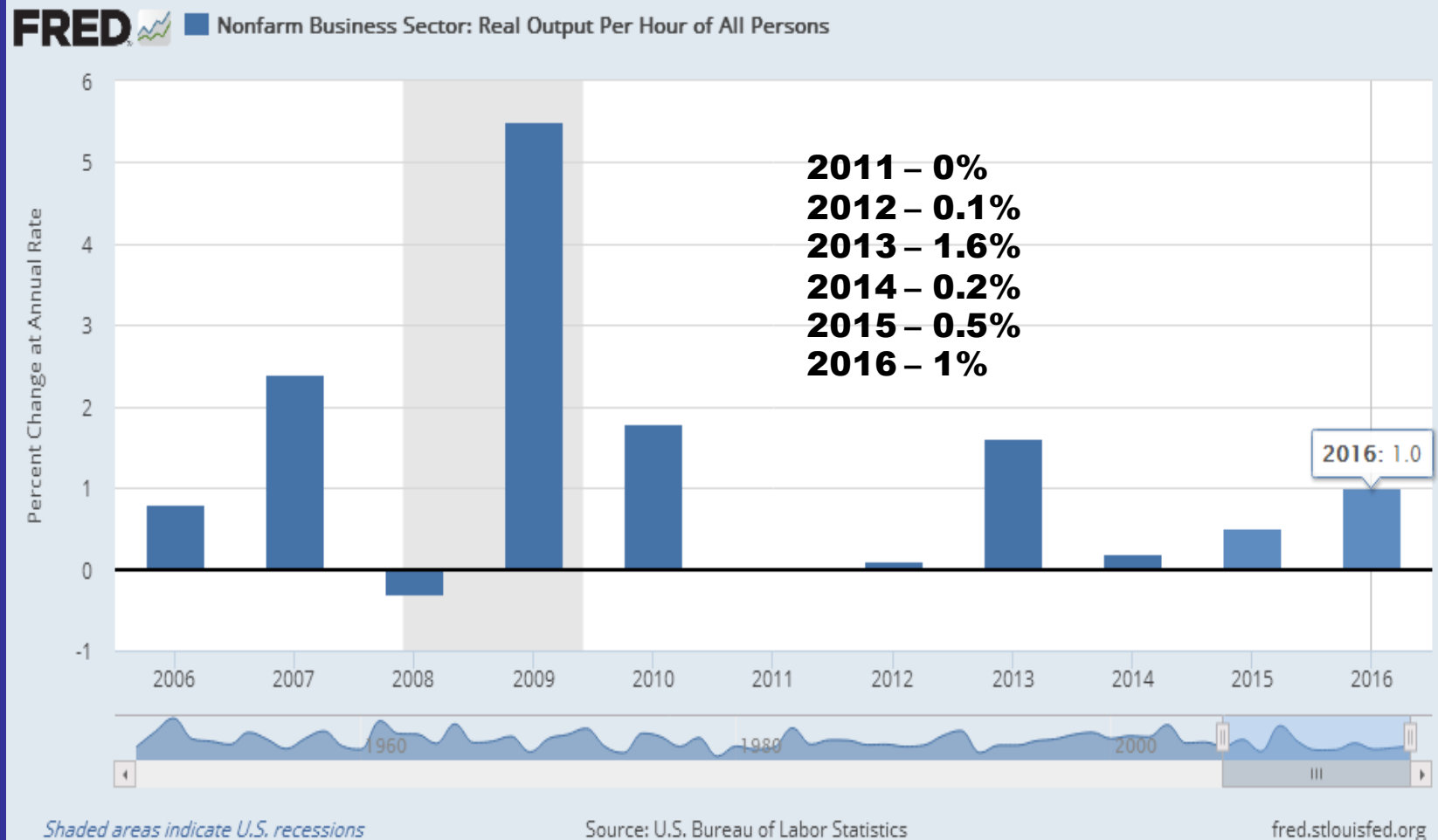


Note: Figures are seasonally adjusted
Source: Labor Department

THE WALL STREET JOURNAL.

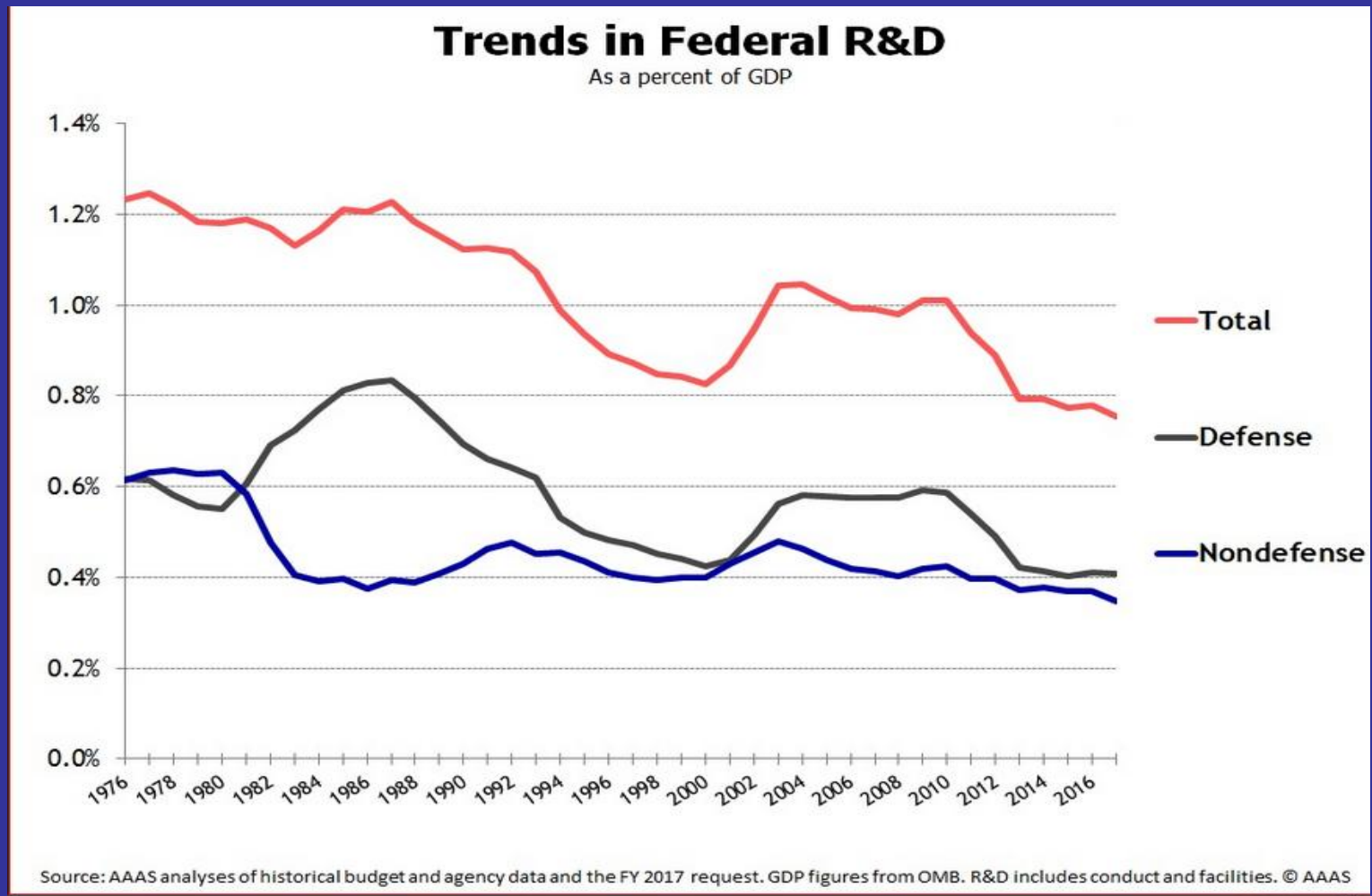
Source: WSJ (<http://www.wsj.com/articles/u-s-productivity-dropped-at-0-5-pace-in-the-second-quarter-1470746092>)

Declining productivity is a major problem – has averaged 0.6% annually since 2011 – this plus declining work force means weak GDP and declining standard of living



Falling Basic R&D - - funding basic science is declining – big problem that needs fixing

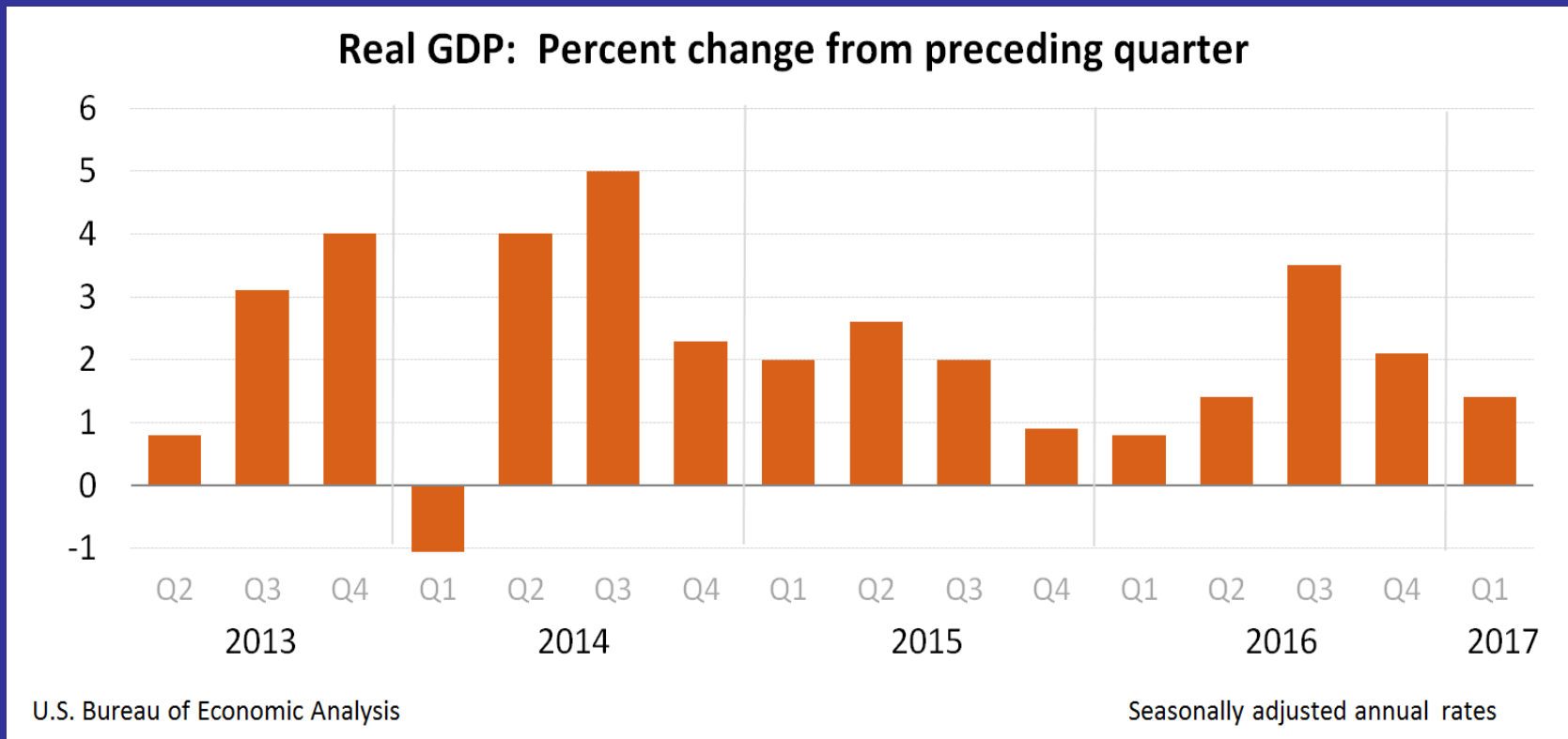
Federal government Funds basic research while industries fund applied research – basic research is critical to development of new technology and innovation in science and engineering - critical to economic and job growth, and productivity (http://www.wsj.com/articles/the-dividends-of-funding-basic-science-1480982516?mod=rss_opinion_main)



U.S. 1st Qtr 2017 Economic growth 1.4% - - - 1.6% for 2016.

The slowest expansion since WW II.

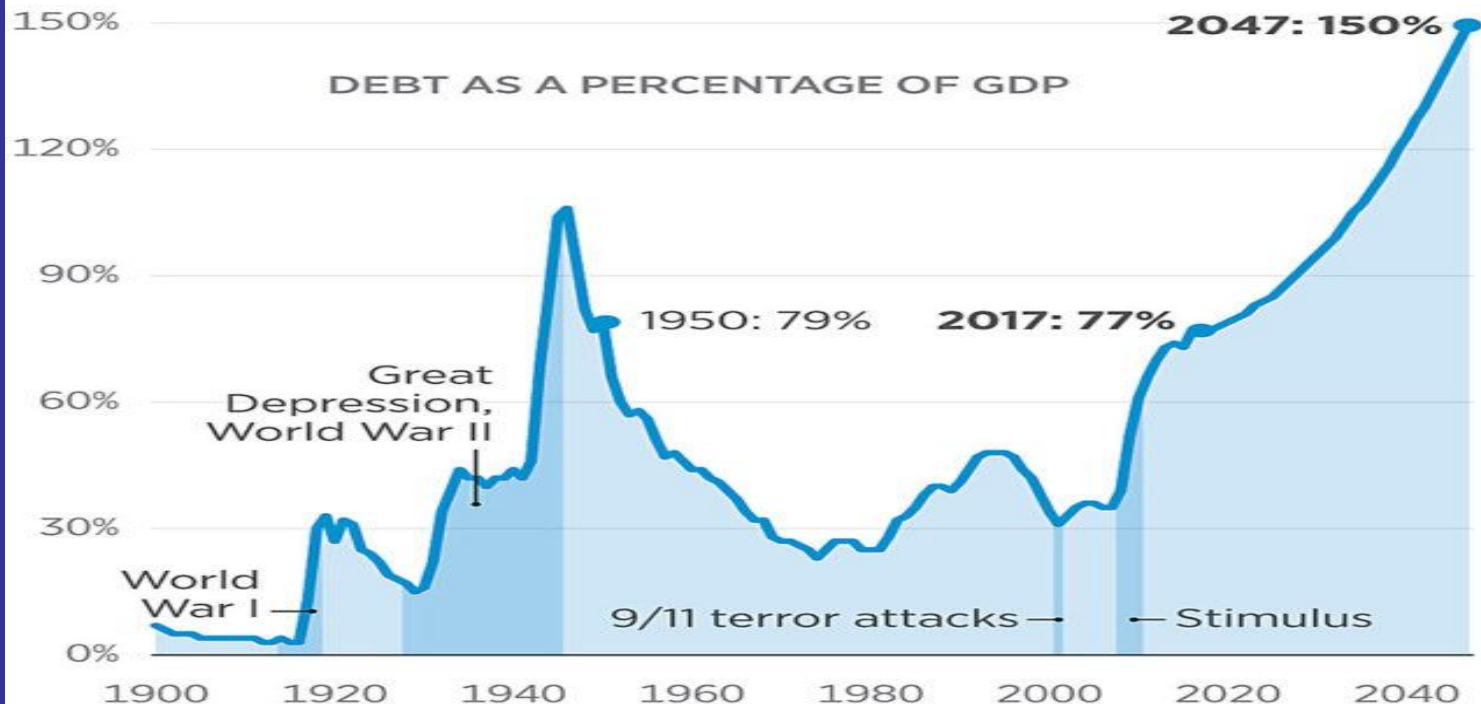
- (1) Slowing world economy (weaker China , European, and South American growth)**
- (2) Stronger dollar will reduce exports and increase imports – negative impact on manufacturing jobs which is key to income growth in USA**
- (3) Political stalemate/weak leadership, terrorism, currency wars, growing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



Long term problem that needs fixing – public debt (gross debt minus what the government owes itself (Medicare and social security trust funds, etc.) has reached 77% of GDP or about \$15 trillion. Total debt is 104% of GDP, or \$20 trillion

Public Debt on a Steep Rise

Out-of-control spending on federal health care and other entitlement programs is driving the national debt to heights not seen since World War II.



SOURCE: Congressional Budget Office, "Budget and Economic Data," Long-Term Budget Projections, March 2017, <https://www.cbo.gov/about/products/budget-economic-data#1> (accessed May 22, 2017).

Little inflation despite “free money” for as decade. Why – weak demand and weak income growth – this is an indication of an economy in trouble

Inflation Gauge

Price index for personal-consumption expenditures, change from year ago



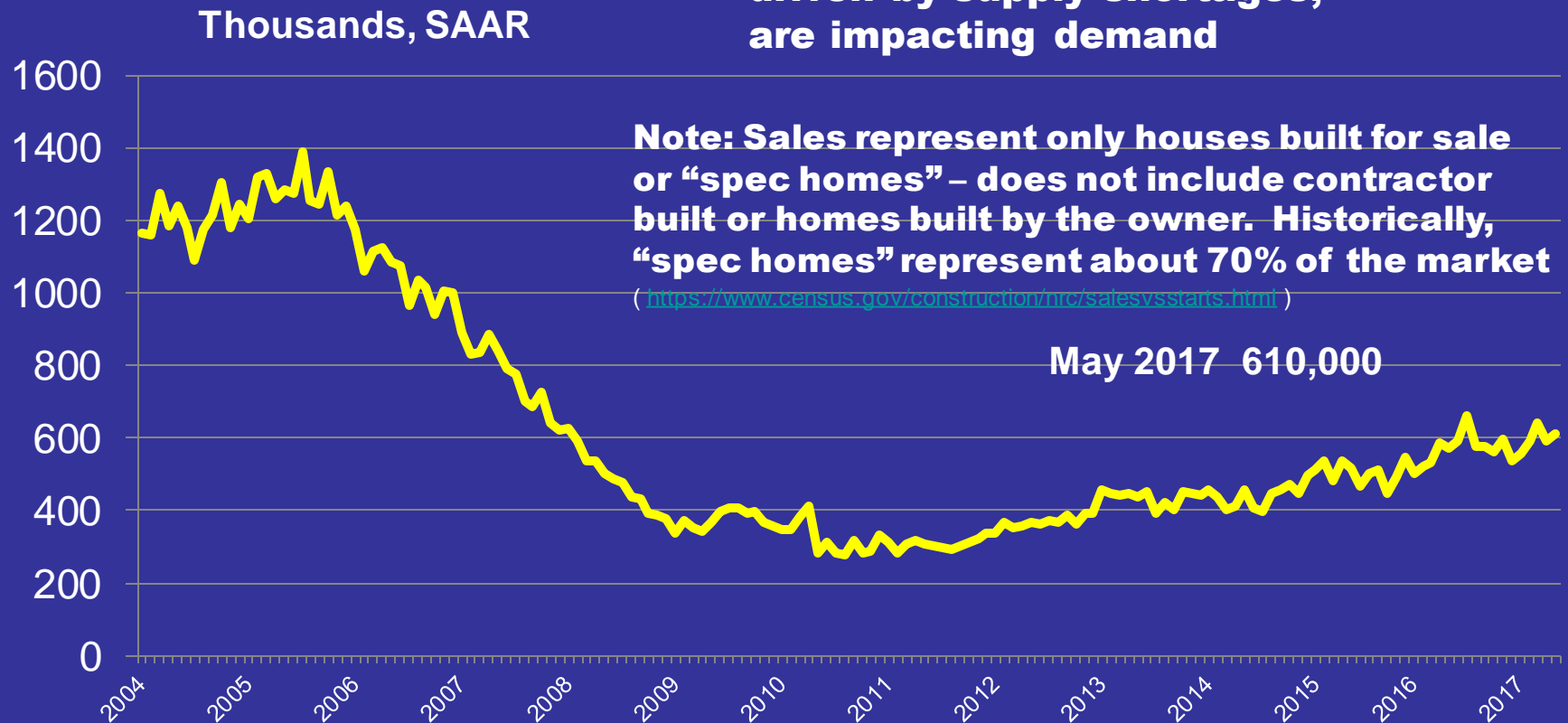
Source: Commerce Department

THE WALL STREET JOURNAL

Additional housing comments

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

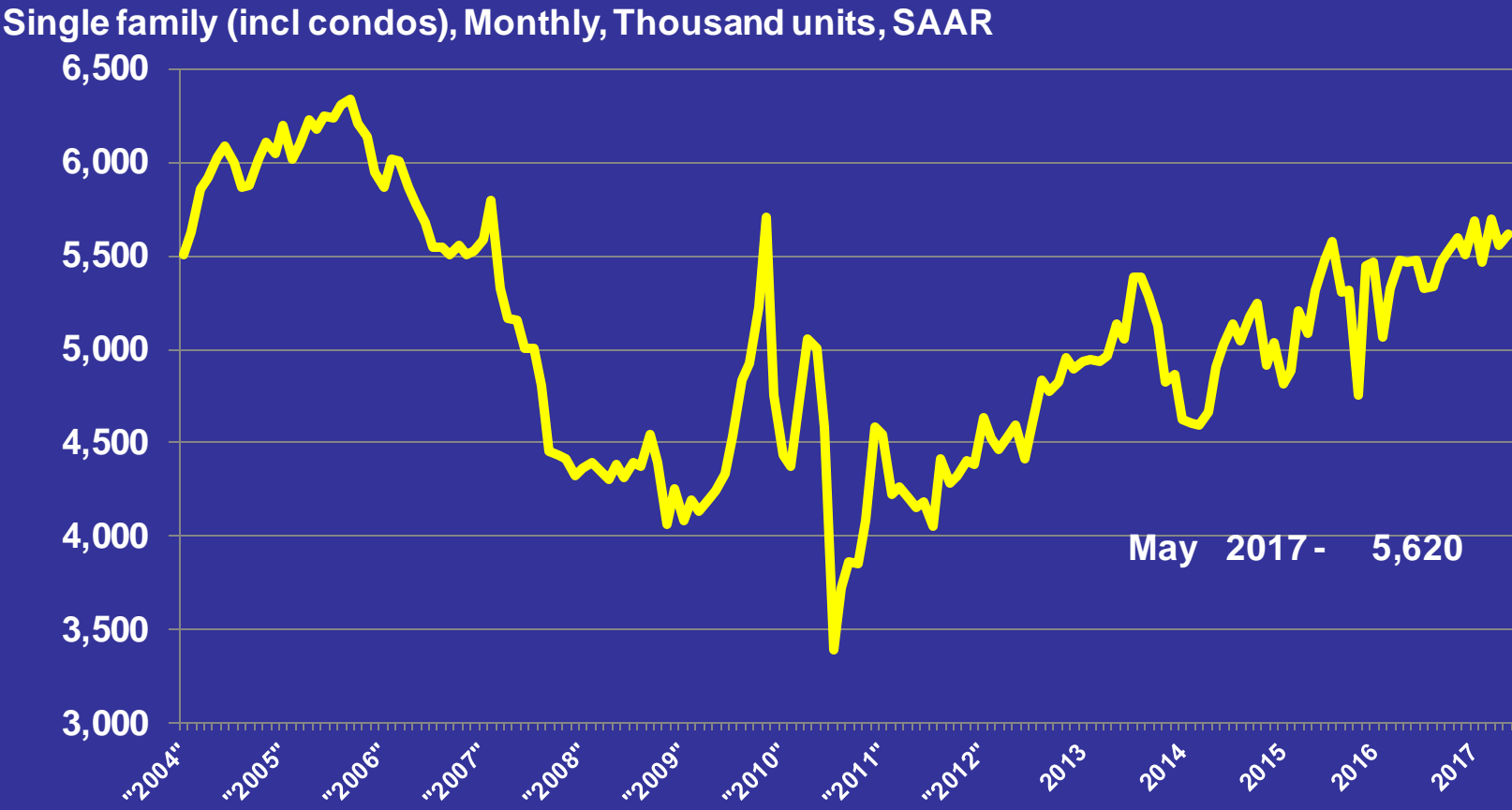
**Up 9% from last year!
Higher price (up 17% YOY),
driven by supply shortages,
are impacting demand**



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

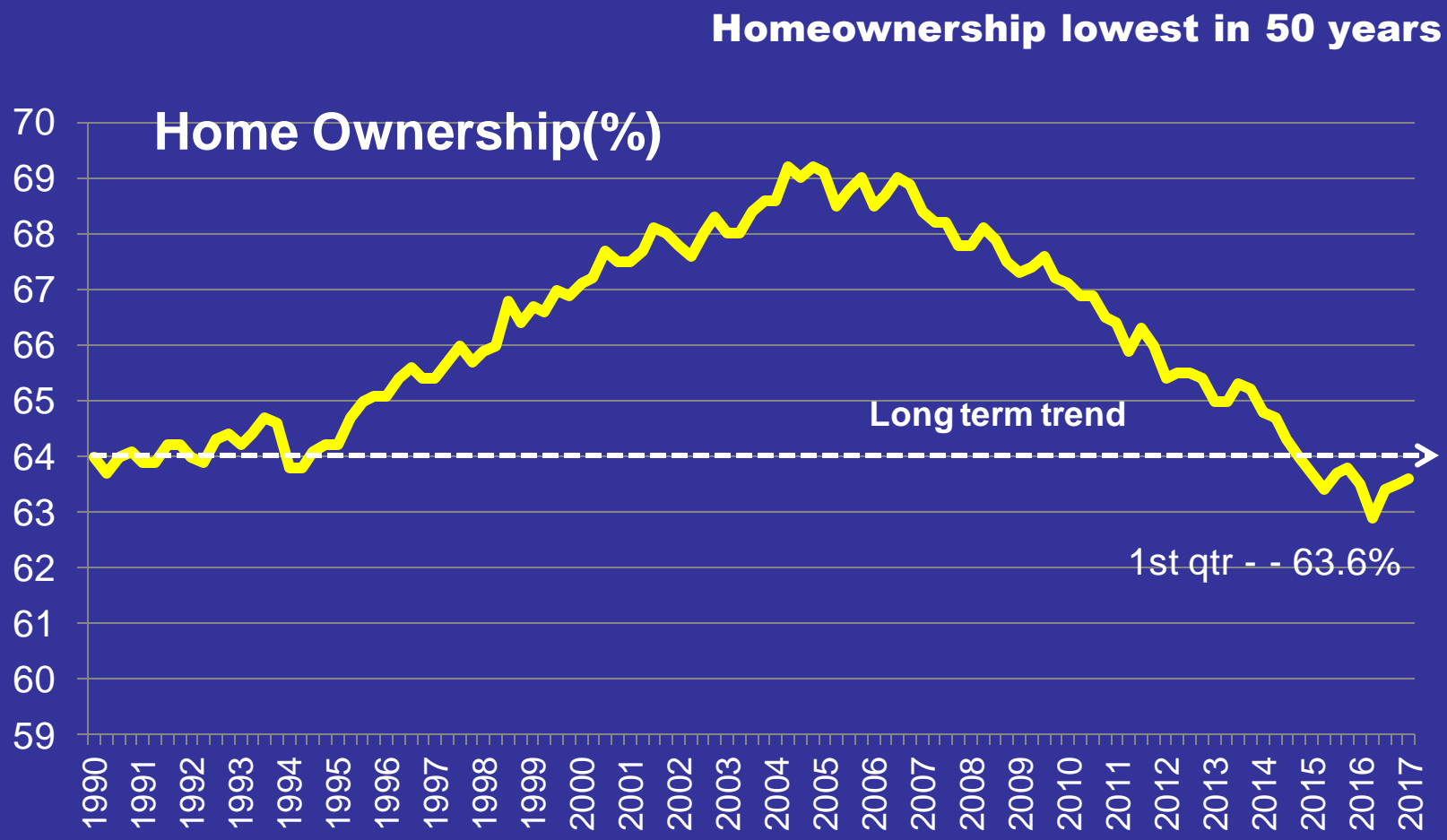
Resale market continues to improve - however, tight supply (which drives prices) currently at 4.2 months remains a problem. Healthy market is about 6 months supply. **Median prices are up 6%, annual basis - 61st consecutive monthly increase.** **Here is good report from NAR on 2016 totals:**

(<https://www.nar.realtor/news-releases/2017/01/existing-home-sales-slide-in-december-2016-sales-best-since-2006>)



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

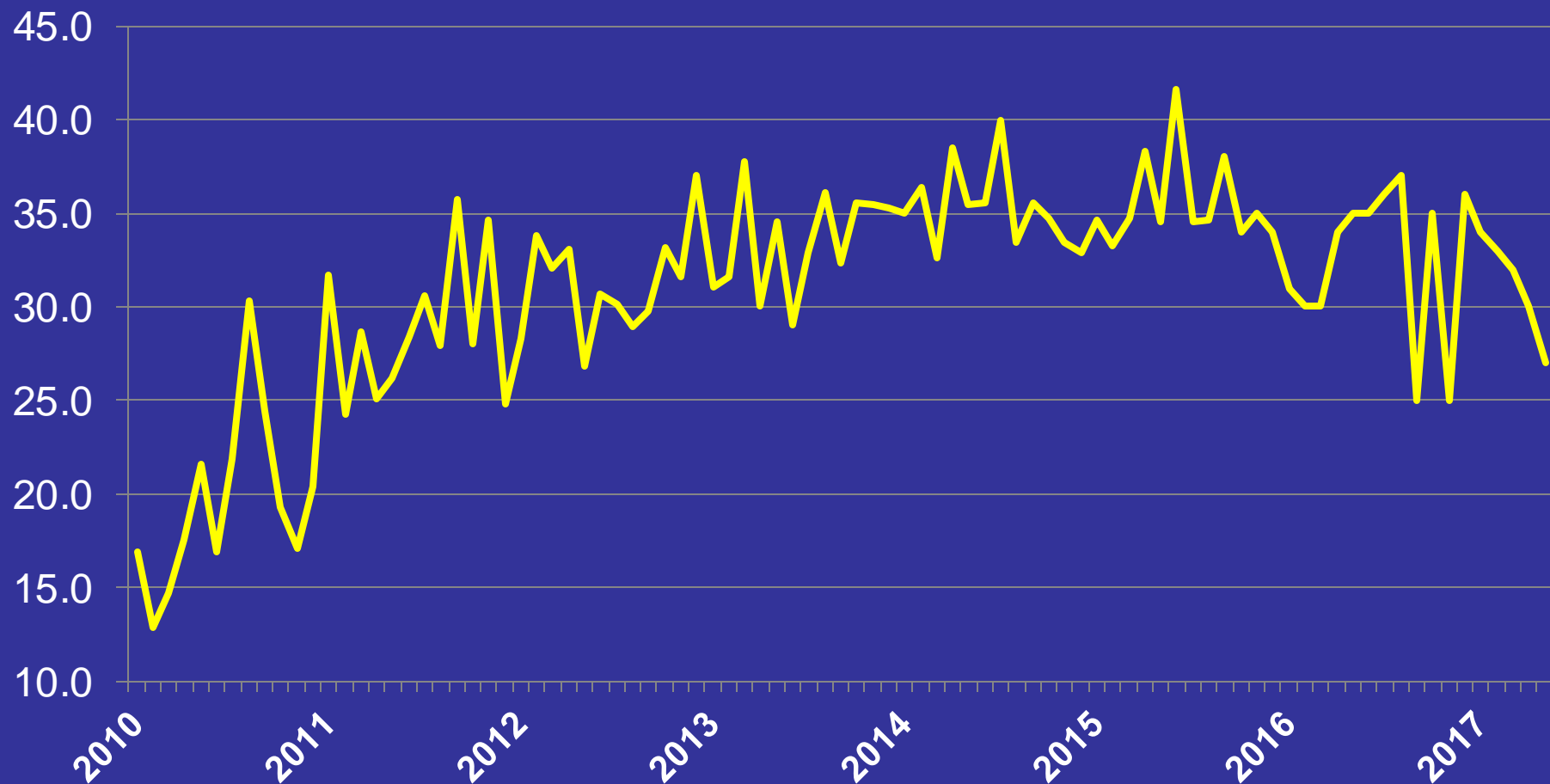
**Falling Homeownership rate has bottomed (?) – 1st qtr , new owner HH
Were 854,000 compared with 365,000 renters – reversing a decade long trend.**



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

Multi family share of housing starts – upward trend has leveled off.

Multi family starts percent



Source: Census

More News on the labor front

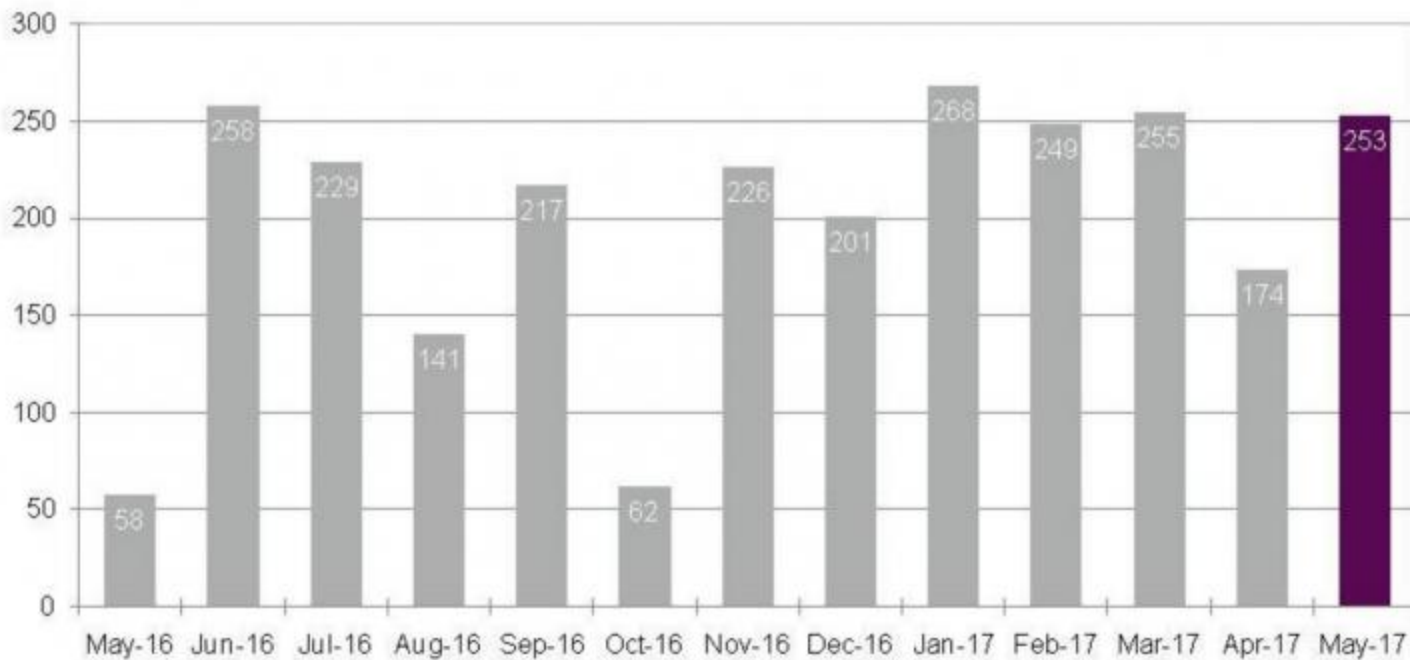
**Unemployment coming down,
but wages are not coming up.
That causes problems with housing
affordability with house prices
increasing faster than incomes!**

ADP **Private** Jobs report - +253,000 in May

This report is for private sector jobs only – **gives better picture of “real employment” growth.** - Even more positive than the “official government report” which includes government and private job growth

Chart 1. Change in Total Nonfarm Private Employment

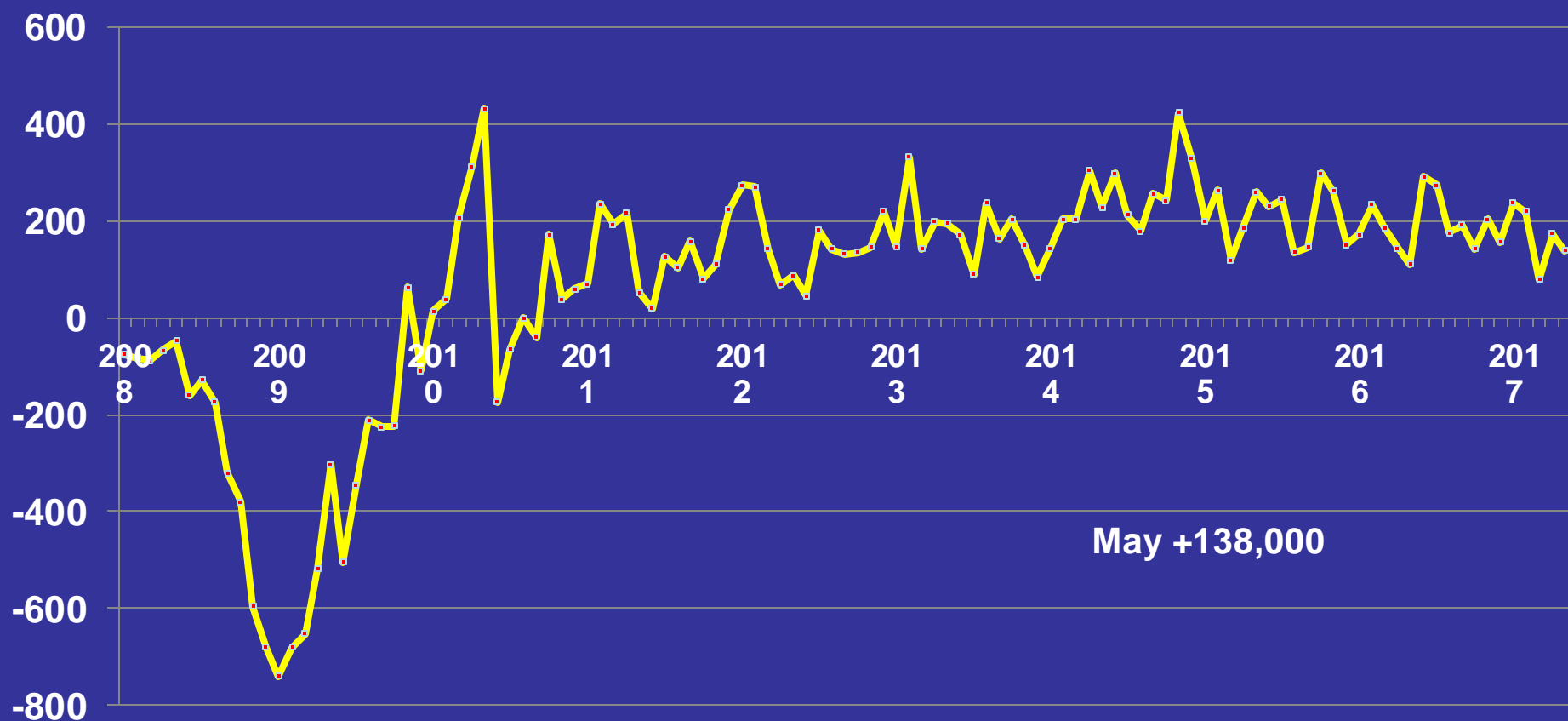
Thousands



Sources: ADP, LLC; Moody's Analytics

Employment situation – stuck around 200,000, and many of these jobs are part time with little or no benefits – not conducive to driving housing demand higher - need to encourage innovation and investment in future - that means less government and more research

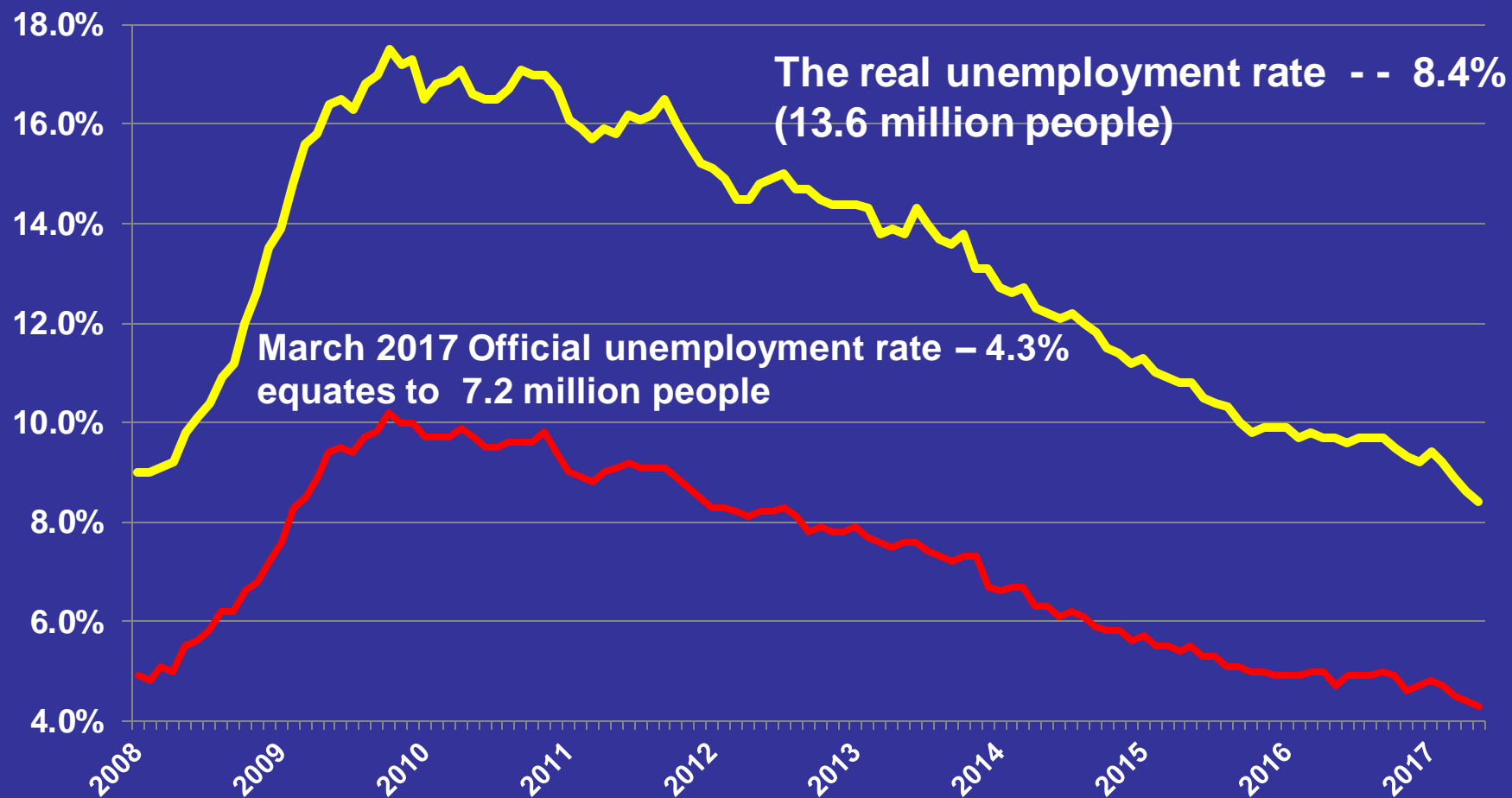
Net change in non farm payrolls – monthly, thousands



May +138,000

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

Unemployment rate keeps coming down – but, 5.2 million remain “underemployed” – working part time, but want full time jobs – another 1.5 million are “marginally attached” including 385,000 discouraged – total = 13.6 million including official 6.9 million unemployed



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

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#>)



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

- (1) Economy is improving (slowly) -- **2016 growth was 1.9% while 2017 expected to be about the same.**
- (2) Housing market is improving? - 1st time buyers are returning – 1st Qtr 2017 percentage back to 42%, up from 30% in 2008! Will it continue?
- (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.
- (5) Low rates **have created housing bubbles in Canada, Australia, and equity bubbles here in USA - I hope the central banks have a solution?**
- (5) ***Leadership is a serious problem for our country – 2016 elections changed nothing – we’re more divided than ever – little progress on key issues and this probably won’t change until we realize that “we’re all in this together”***
- (7) The fed finally increased rates in December, with two more in 2017.
Low rates are not the solution to the weak economy!
Innovation, investment, tax reform, is the solution, but that will be challenging with \$20 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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