

Housing Recovery Still on Track

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Just a couple of months ago the pessimists were saying the housing recovery was on the ropes. Home sales were down and housing starts had dropped.

But barely more than a month later this looks like just another head-fake. Existing home sales grew 1.3% in April and, given data on pending home sales, look like they rose another 2% in May. (Existing home sales are counted at closing; pending sales are contracts on existing homes.) Meanwhile, new home sales bounced back in April as well.

What the pessimists keep missing is that based on population growth and “scrappage” (voluntary knock-down, fires, floods, hurricanes, tornadoes,...etc.) the US needs about 1.5 million new homes per year, about 60% higher than the 943,000 started in the last twelve months. These include both single- and multi-family homes as well as owner-occupied homes and rentals. The US has not hit that level in over seven years. Building is still poised to grow much further.

Yes, existing home sales remain relatively slow. But, like used car sales, these homes sales barely contribute anything to GDP. Also, inventories have been low, which has held back sales. That's changing.

Yes, new home sales have been stuck in the same range for the last eighteen months. But official data on new home

sales don't include condos and coops. And, given the shift in construction toward multi-family units, it stands to reason that condos and coops make up a larger share of sales as well.

We'd be worried if new homes were piling up in inventories, but the months' supply of new homes – how many months it would take to sell all inventory at the current pace of sales – is below long-term averages. In other words, if anything there's a shortage of new homes, not a surplus.

And a lack of inventory is probably behind much of the strong price gains we've seen. The Case-Shiller index, which tracks home prices in 20 key markets, is up 12.4% from a year ago; the FHFA index, which tracks nationwide prices for homes financed by conforming mortgages, is up 6.5%.

As a result of these gains, we estimate that after the huge boom and bust, national average home prices are finally at fair value. This doesn't mean home prices are suddenly going to stop going up. They'll just go up more slowly in the next couple of years than they have in the past couple of years, more in-line with increases in rents and construction costs.

Regardless, housing is volatile from month to month, so don't be surprised when, later this year, the pessimists latch onto some other reports and claim the housing recovery is done. And don't be surprised when the data prove them wrong again.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
6-2 / 9:00 am	ISM Index – May	55.5	55.9	53.2	54.9
9:00 am	Construction Spending – Apr	+0.6%	+0.9%	+0.2%	+0.2%
6-3 / 9:00 am	Factory Orders – Apr	+0.5%	+0.9%		+1.3%
afternoon	Total Car/Truck Sales – May	16.1 Mil	16.1 Mil		16.0 Mil
afternoon	Domestic Car/Truck Sales – May	12.6 Mil	12.6 Mil		12.8 Mil
6-4 / 7:30 am	Int'l Trade Balance – Apr	-\$40.6 Bil	-\$41.8 Bil		-\$40.4 Bil
7:30 am	Q1 Non-Farm Productivity	-2.9%	-3.4%		-1.7%
7:30 am	Q1 Unit Labor Costs	+5.1%	+5.2%		+4.2%
9:00 am	ISM Non Mfg Index – May	55.5	55.3		55.2
6-5 / 7:30 am	Initial Claims – May 31	310K	311K		300K
6-6 / 7:30 am	Non-Farm Payrolls – May	215K	200K		288K
7:30 am	Private Payrolls – May	210K	200K		273K
7:30 am	Manufacturing Payrolls – May	10K	15K		12K
7:30 am	Unemployment Rate – May	6.4%	6.3%		6.3%
7:30 am	Average Hourly Earnings – May	+0.2%	+0.2%		0.0%
7:30 am	Average Weekly Hours – May	34.5	34.5		34.5
2:00 pm	Consumer Credit – Mar	\$15.0 Bil	\$13.3 Bil		\$17.5 Bil