

Housing Data will Dominate the News this Week

This week the economic data will focus on what has been going on with the housing sector as well as what might be expected in the months to come. Thus far this year there has been some improvement but not as much as had been expected and there are all kinds of theories as to why this might be taking place. There are some obvious issues, the higher mortgage rates and the higher prices for homes at the top of the list. This has not been universally accepted as the major inhibition that people assumed it would be. The mortgage rates have not risen as fast as they were expected to and banks have been loosening up a bit when it comes to mortgage activity. Home prices are higher to be sure but have not risen as far as some thought they would and there is considerable regional variation. There are other factors that have been posted, everything from the role of the millennial to the fact that consumers are still worrying about jobs and their lack of wage growth.

It is likely that all of these have been factors in one sense or another and now the real question is whether any of them will alter much in the coming months. This week's data will show some activity. In addition to the housing data there will be some reports on the retail sector and thus far that has not been as positive as expected. There will also be a report from the Fed as the minutes of their last meeting will be released and we can all see where the discussion centered. Those comments will be parsed for any hint of future movement but the betting is that the Fed's plans will remain pretty mysterious. This is the last week prior to the Thanksgiving break and that means that the big date releases will be mostly over until the nation gets away from the turkey and leaves the dysfunctional family gathering to next year. This is not to say that some more data will appear but the impact on the economy will be reduced by the number of people that are not going to be at work.

Analysis: The National Association of Home Builders will release their latest monthly survey and most expect that it will still be firmly in the mid-50s. The survey is similar to the PMI and the CMI in construct and that means that a reading above 50 connotes confidence and growth while one below 50 suggests that there is contraction and less enthusiasm. For the past several months the index has been higher than the actual sales would justify. The path of the confidence measures has far exceeded the rate of new home construction as there has been an expectation of some kind of demand breakthrough that has so far been elusive. If the reading in November falls back from the 54 notched in October it will likely signal a change in attitude more than a change in the action surrounding new housing starts. The mood of the builder is affected by weather this time of year and the recent cold surge has many thinking that 2014 will be a repeat of 2013 and that would not be good news for the builders.

The second piece of data that will relate to housing is the demand for apartments. Right now the apartment sector of the new home building data is 35% and back during the housing boom the apartment share was only 20%. There are lots of reasons for the surge in demand for multi-family housing and part of the uneasiness about the next year is not really understanding what might be considered the new normal. This is where the millennial comes in. This is a generation that is sticking with apartment living far longer than did previous generations. The millennial generation is choosing apartment living for a variety of reasons as well and that makes predicting their future that much trickier. For one thing they are delaying their family decisions by as much as five to seven years and that delays the need to get a home of their own. They are generally in worse financial shape than those in the past and that delays the decision to get a house and many even preclude them from qualifying for a mortgage. They may not see a substantial increase in their wages for several more years. They are reluctant to commit to a home as long as they are unsure where they will end up living and many are rejecting the parts of the country that are growing. There may be opportunities for work in the Dakotas, west Texas and other parts of the Midwest but the millennial still wants to live in Seattle or Boulder and is willing to stay in that apartment as opposed to moving.

The third housing related number will be from the National Association of Realtors as they report on sales of existing homes. These have been holding their own thus far this year as there are more people willing to put their homes on the market than in the past. The inhibition has been that homeowners were simply not getting enough for their home and really couldn't sell without taking a loss but now the situation has improved enough that some of that backlog is hitting the market. The point that many will focus on is the rate of new home buyer. This has been very low for several years now and is now standing at just 33% of all homes sold the lowest percentage in over 27 years. This goes back to the previous point on the millennial and their desire for a home as opposed to staying in the apartment. If there is no influx of new buyers there is no growth in either new home construction or the sale of existing homes, regardless of whether people are in the mood to sell or not. Nobody is expecting that number to change much and that will be an ongoing concern into the coming year.

– *Armada Corporate Intelligence 11/17/14*