

# The Housing Market: A Recovery in the Making

Despite the \$85 billion in automatic federal spending cuts that were set in motion on March 1, economists are optimistic about the U.S. economy in 2013 due in large part to growing consumer confidence and what they see as a sustainable recovery in the housing market.

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chairman of the Index  
Committee at S&P Dow  
Jones Indices.

## Recovery by the Numbers

Adding momentum to a recent string of positive reports on the U.S. housing sector, home prices closed out 2012 on a strong note, with all three of the major S&P/Case-Shiller<sup>1</sup> Home Price Indices ending the year with robust gains. The National Composite Index posted an increase of 7.3% for 2012, the 10-City Composite reported annual returns of 5.9%, while the 20-City Composite rose 6.8% from a year earlier -- the biggest year-over-year increase for the index in more than six years.<sup>2,3</sup>

## Home Price Gains, 2012

Metropolitan Area, 1-Year Change (%)<sup>2</sup>

### Top Growth Cities

1. Phoenix -- 23.0%
2. San Francisco -- 14.4%
3. Detroit -- 13.6%
4. Las Vegas -- 12.9%
5. Minneapolis -- 12.2%

### Lowest Growth Cities

1. New York -- -0.5%
2. Chicago -- 2.2%
3. Cleveland -- 2.9%
4. Boston -- 3.6%
5. Charlotte -- 5.3%

## New Residential Construction

In addition to home price gains, new home construction has also been on the rise. According to the U.S. Commerce Department, new homebuilding permits reached 925,000 units in January 2013, which is more than 35% higher than a year earlier. Similarly, January housing starts and housing completions were 23.6% and 33.6% above their prior-year levels.<sup>4</sup>

Longer term, the National Association of Realtors sees housing starts reaching 1.1 million units in 2013 and then rising again to 1.4 million in 2014. That translates into a gain of 50% in 2013 followed by another 25% gain in 2014.<sup>5</sup>

## Home Sales

Pending home sales rose in January and have been above prior-year levels for the past 21 months. The Pending Home Sales Index, a forward-looking indicator based on contract signings (but not closings), rose 4.5% in January over the prior month and was 9.5% above its January 2012 level. This has been the highest reading reported since April 2010, just before the expiration of the homebuyer tax credit.<sup>6</sup>

## Housing: A Driver of Economic Growth

Commenting on the mounting evidence that a strong and sustainable recovery in housing is underway, David M. Blitzer, chairman of the Index Committee at S&P Dow Jones Indices stated, "Housing and residential construction led the economy in the fourth quarter of 2012."<sup>2</sup> Indeed, residential fixed investments, which include spending on home improvements, advanced 17.5% in the fourth quarter. Gains in homebuilders and other consumer stocks have followed suit in recent weeks, led by Home Depot, the world's largest home improvement retailer, which reported adjusted fourth quarter 2012 earnings and sales that beat expectations.<sup>7</sup>

## Key Takeaways

Along with the good news on the housing front has come a rebound in consumer confidence, which rose in February after three months of steady decline, according to The Conference Board. Some economists suggest that the recent uptick in confidence may be attributable to the fact that consumers are adjusting to the higher payroll taxes that took effect in January.

Whatever the reason, given current conditions, now may be a good time to consider some of the following actions:

- Homeowners: With mortgages holding at historically low rates now may be the perfect time to refinance to improve cash flow, pay down debt, put away more money for college and/or retirement, or to redirect home equity into improvements that enhance the value of a home.
- Sellers: The continuing rebound in the housing market could mean the timing

is right to put a home on the market. Research is required to determine the economic health of a region. Look for indicators such as employment growth rates, home price appreciation rates, and single-family housing starts.

- Buyers: Historically low mortgage rates aside, buying a home in today's market presents many challenges. Lending standards may be tight, but understanding the rules and preparing in advance improve the chance of securing an attractive loan. Know your credit score, determine borrowing limits, assemble required documents (e.g., pay stubs, tax returns), and seek the help of reputable and qualified professionals.

<sup>1</sup>The S&P/Case-Shiller® Home Price Indices are the leading measure of U.S. home prices. Case-Shiller® and Case-Shiller Indexes® are registered trademarks of Fiserv, Inc.

<sup>2</sup>Source: S&P Dow Jones Indices, "Home Prices Closed Out a Strong 2012 According to the S&P/Case-Shiller Home Price Indices," news release, February 26, 2013.

<sup>3</sup>Source: *The New York Times*, "Report Shows Consumer Confidence Is Growing," February 26, 2013.

<sup>4</sup>Source: U.S. Census Bureau and U.S. Department of Housing and Urban Development, news release, February 20, 2013.

<sup>5</sup>Source: National Association of Realtors, "Housing Starts Soar," November 20, 2012.

<sup>6</sup>Source: National Association of Realtors, "January Pending Home Sales Up in All Regions," February 27, 2013.

<sup>7</sup>Source: *The New York Times*, "Home Sales and Bernanke Calm Market," February 26, 2013.