# Housing Market Update: The Recovery Hits a Speed Bump

The pace of improvement in housing prices has slowed significantly in recent months despite many positive indicators that the economy is continuing to strengthen.

Despite the current softness in the market, economists remain optimistic about the future, with some seeing demand picking up after a weak winter season.

Current data through April 2014 from the S&P/Case-Shiller[1] Home Price Indices -- the leading measure of U.S. home prices -- show that the 10-City and 20-City Composites both posted annual gains of 10.8%.[2] This is down from a 12.4% yearly price gain posted in March -- and less than the 11.4% predicted by economists. Home prices hit a year-over-year cyclical growth peak of 13.7% in November 2013.[3]

In all, 19 of the 20 cities in the 20-City Composite saw lower annual gains in April than in March, with Los Angeles, San Diego, and San Francisco posting returns that had declined by about three percentage points. Only Boston saw its annual rate improve.[2]

"While annual numbers worsened," said David M. Blitzer, Chairman of the Index Committee at S&P Dow Jones Indices, "overall, prices are rising month-to-month but at a slower rate. Last year some Sunbelt cities were seeing year-over-year numbers close to 30%, now all are below 20%."[2]

## Economic Factors Favor Improvement

Despite the current softness in the market, economists remain optimistic about the future, with some seeing demand picking up after a weak winter season. "Mortgage rates are lower than a year ago, the Fed is expected to keep interest rates steady until mid-2015, and the labor market is improving," said Blitzer. "The question is whether housing will bounce back before the Fed begins to tighten sometime next year."[2]

## Other Housing Market Indicators

Other key indicators mirror the measured improvement in the housing market recovery.

**Housing starts** were at a seasonally adjusted annual rate of 1,001,000 in May. This is 6.5% below the revised April estimate of 1,071,000, but is 9.4% above the May 2013 rate of 915,000.[4] These numbers take on more meaning when viewed in the context of the relationship between home construction and job creation. Historically, the average annual ratio of new employment to single-family construction starts has been 1.5, or roughly 1.5 jobs created for every single family home built. Over the last three years, that ratio has averaged 3 jobs per home built, implying a large construction shortage. Analysts suggest that this data may indicate a continuation of price growth over the next twelve months, and that part of builders' reticence may be linked to affordability constraints.[5]

**Pending home sales** increased 6.1% to 103.9 in May from 97.9 in April, but still remains 5.2% below May 2013 (109.6). May's 6.1% increase was the largest month-over-month gain since April 2010 (9.6%), when first-time home buyers rushed to sign purchase contracts before a popular tax credit program ended.[6]

Despite the positive gains in signed contracts in May, Lawrence Yun, chief economist for the National Association of Realtors cautioned that "affordability and access to credit is still an area of concern for first-time home buyers, who accounted for only 27% of existing home sales in May and typically carry student loan debt and lower credit scores."[6]

**Existing home sales** also rose strongly in May, up 4.9% month-over-month -- the highest monthly rise since August 2011 (5.5%). According to the NAR's Yun, "sales were helped by the improving job market and the temporary but slight decline in mortgage rates."[7]

**Fannie Mae's National Housing Survey --** In May, this monthly poll of Americans about their household finances and home ownership revealed consumer attitudes that could be contributing to the drag on housing market growth. For instance, more than half (57%) of respondents still believe that the economy is headed in the wrong direction, and those who said their household income was significantly higher compared with a year ago fell four percentage points.[8]

Commenting on the latest results, Doug Duncan, senior vice president and chief economist at Fannie Mae stated, "While recent housing activity suggests that the worst of the housing slump may be behind us, this caution among consumers supports our expectation that the rebound in home sales will likely be too modest to pull sales for all of 2014 ahead of last year."[8]

[1]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.

[2]S&P Dow Jones Indices press release, "Rate of Home Price Gains Drop Sharply According to the S&P/Case-Shiller Home Price Indices," June 24, 2014.

[3]*The Wall Street Journal*, "Home Prices' Growth Slower Than Expected, Case-Shiller Index Says," June 24, 2014.

[4]U.S. Census Bureau News Joint Release U.S. Department of Housing and Urban Development, "New Residential Construction in May 2014," June 17, 2014.

[5]National Association of Realtors, "Three-Year Change in Employment vs. Housing

Starts," June 10, 2014.

[6]National Association of Realtors, "Pending Home Sales Surge in May," June 30, 2014.

[7]National Association of Realtors, "Existing-Home Sales Heat Up in May, Inventory Levels Continue to Improve," June 23, 2014.

[8]Fannie Mae news release, "Consumer Concerns Regarding Economy Slow Housing Activity," June 9, 2014.