

Unemployment and Low Consumer Confidence Postpone the Recovery



While the economy and housing industry are taking time for the nation to see dramatic results, they are nonetheless improving.

By PATRICK S. DUFFY

In 2011, a not-so-funny thing happened on the way to the rebound: It was delayed. Whether due to poor consumer confidence, tighter credit standards, high unemployment, delayed foreclosures or some combination of the above, it's become clear that millions of potential households have delayed the move to their own, private abodes until the economy -- and their aspirations -- improve. But both things are actually getting better -- albeit very slowly.

A year ago for this column, I wrote about how this doubling up with friends or relatives had actually meant that the country was technically under-housed to the tune of well over 3 million households. Given continued population growth, that is even more true now, but with the unusually slow rebound from the Great Recession, builders and developers have had to exercise yet more patience while shepherding future projects along.

However, aside from continued troubling signs from Europe, the economic news is gradually beginning to improve. For example, U.S. GDP, which squeaked along at 0.4 percent and 1.3 percent in the first and second quarters of 2011, respectively, accelerated to 2.5 percent by the third quarter. Retail sales are up, led mostly by gains in cars and electronics. Both business sales and industrial production are rising, and the consumer price index recently declined, suggesting that inflation is being kept in check.

From the point of view of the building community, sentiment is beginning to improve after multiple months of treading water, with

the NAHB/Wells Fargo Housing Market Index rising to 20 in November, or the highest level noted since May of 2010. In addition, the National Housing Opportunity Index (which measures housing affordability) has been consistently rating above the 70 percent mark since the beginning of 2009. According to the Improving Market Index, 30 metro areas made

the list for November as the homeownership rate reversed months of decline to rebound slightly to 66.1 percent, and housing prices seem to have stabilized in most places.

Even building permits, which had struggled throughout most of 2011 to match 2010 levels, are finally rising, although that's mostly due to the year-

to-date performance of the multi-family sector (+32 percent) versus declines for single-family permits (-8.4 percent). Still, October's permits were the highest since December 2010 for single-family homes and October 2008 for multi-family units.

Nonetheless, there remain considerable headwinds weighing on the nation's housing market. The economy is simply not where it should be at this stage of the business cycle, which has meant continued weakness in the job market. Both pending home sales and the remodeling market continue to struggle, and annualized new home sales remain stuck at about 300,000 units with an inventory timeline of just over six months. Annualized sales of existing homes continue to hover close to the five-million-unit level with an inventory timeline of about 8.5 months

Moreover, looking towards the long term,

there is a concern that the weakness in the housing market over the past few years will have a larger impact on household formations, due mostly to both marriages and new births being delayed by those in their 20s and 30s. Indeed, up to two million such households which would otherwise be looking for their own homes have had to postpone those plans due to economic or social duress. And of course a lower birth rate could certainly put additional pressure on long-term safety nets such as Social Security and Medicare, which require a robust tax base to meet promised obligations. But hopefully that's a problem which will be more than reversed as the nation's builders eventually gear up to address the pent-up demand silently but steadily building up nationwide.



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Fast Facts

- A rebound delayed does not mean a rebound denied: The U.S. is still technically under-housed.
- The six-month new home inventory timeline could be quickly reduced with even a moderate increase in activity.
- Permits for multi-family units are up by nearly 30 percent over 2010 levels.