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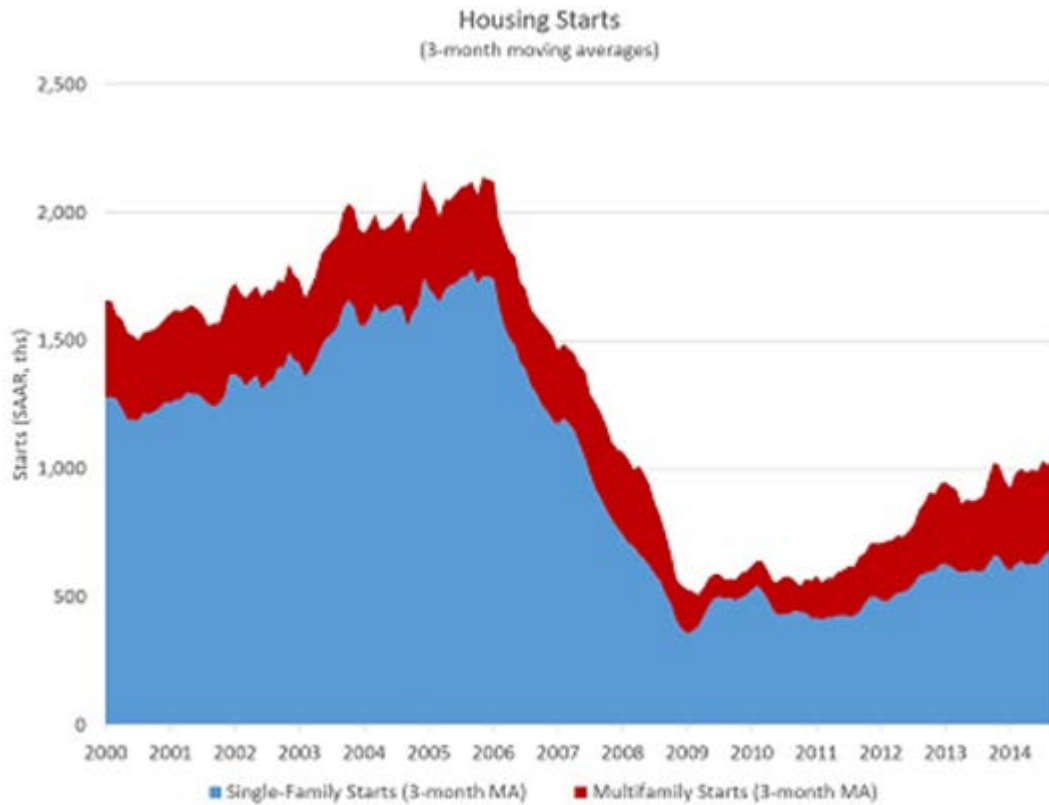
National Association of Home Builders

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Eye on the Economy

Housing Recovery Continues



Data for housing construction activity in November indicate the recovery continues as builder

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confidence remains positive.

According to NAHB analysis of data from the Census Bureau and HUD, the pace of total November housing starts was down slightly (1.6%) from an upwardly revised October number. The October housing starts estimate was revised up from the initial reading of 1.009 million units (on a seasonally adjusted annual pace) to 1.045 million, with increases for both single-family and multifamily construction.

On a three-month moving average basis, total housing starts recorded a post-recession high and have now been above a one million annual rate for three consecutive months.

The rate of single-family construction starts came in at 677,000 in November, down 5.4% from the elevated October reading (716,000). On a three-month moving average basis, the single-family starts rate stands at 685,000, which is also a post-recession high. Multifamily starts of properties with five or more units increased 7.6% to a 340,000 rate in November. The starts rate for 5+ unit construction has been in an approximate stable range of 300,000 to 350,000 since August.

The November starts data was consistent with the most recent reading of builder confidence. Following a four-point uptick last month, builder confidence fell one point in December to a level of 57, according to the NAHB/Wells Fargo Housing Market Index.

After a sluggish start to 2014, the HMI has stabilized in the mid-to-high 50s for the past six months, which is consistent with our assessment that we are in a slow march back to normal. Heading into 2015, the housing market should continue to recover at a steady, gradual pace. Home builders in many markets across the country have seen their businesses improve over the course of the year, and we expect builders to remain confident in 2015.

After months of uncertainty, Congress adopted legislation that would extend a number of housing policies that expired at the end of 2013, although only for 2014. While this offers help for the coming tax filing season, Congress will once again need to deal with a set of expiring tax rules during the 2015 session.

These provisions include extensions of the 45L \$2,000 energy-efficient home credit, the 25C energy-efficient remodeling credit, the deduction mortgage insurance (including PMI and FHA premiums), the 9% fixed rate for the Low-Income Housing Tax Credit, and the mortgage forgiveness tax exclusion. Builders, remodelers and their clients are well advised to research whether these extended provisions can provide a tax benefit for qualified activities in 2014.

With respect to monetary policy, the Federal Reserve's Federal Open Market Committee concluded its December meeting. The Fed is confident that the economy is improving and

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cumulative gains in economic conditions most likely warrant increasing the funds rate sometime in 2015. A mid-year increase seems to be a consensus forecast at this point.

Consumer and producer price data for November show positive impacts due to declining energy prices. The consumer price index was pushed down in November by falling gas prices. However, inflation-adjusted residential rents have increased 1.7% over the last 12 months.

For producers, overall prices declined by 0.2% in November. Softwood lumber prices declined 2.1% for the month but have mostly moved sideways in 2014. OSB prices ticked up 0.7% in November but are down 9.9% from year ago levels. Gypsum prices inched up 0.3% in November and have increased 11.1% over the last 12 months, with 2015 increases expected.

In analysis news, recent data from the Federal Reserve's Flow of Funds indicates that price gains for housing have boosted household net worth. During the third quarter, the market value of real estate held by U.S. households increased by \$180 billion. Household equity in real estate increased 1.6% for the quarter. Lastly, NAHB economists used American Housing Survey data to examine homeowners' disaster preparedness.



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