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Eye on the Economy

NAHB

August 21, 2019

Housing Turns a Corner Despite Growing Macro Concerns

With investors and markets focusing on a brief inversion of the 10-year and 2-year Treasury curve and what it means for the macroeconomic outlook, recent housing data show a modest rebound after last year's housing crunch took hold.

Last fall, mortgage interest rates averaged 5%, which took some of the wind out of the sails of the housing market by raising costs and hurting affordability. As demand slackened, home price growth slowed and home construction activity declined in many markets. In fact, single-family construction data thus far in 2019 indicate a 3% decline compared to 2018.

However, the Federal Reserve — acknowledging it moved too aggressively in 2018 in raising the benchmark federal funds rate — reduced the funds rate by 25 points at the end of July. Although overdue, this was really an act of followership, in that investors had already pushed yields on bonds lower. The 10-year Treasury rate is now below 1.6% — near a three-year low due to renewed growth concerns, anchored inflation expectations and expectations for future Fed cuts.

Lower mortgage interest rates have only partially offset the housing affordability constraints that reached 10-year lows at the end of last year. While the positive response has been muted, likely due to economic uncertainty, it appears a housing rebound took hold in April and May. The NAHB/Wells Fargo Housing Market Index remains solid in terms of builder confidence, at a level of 66 in August.

The pace of single-family permits has been increasing since April, and single-family starts have been rising since May. While starts are down for the year, thus far, new home sales are running 2% higher due to lower rates and some use of price incentives, and existing home sales finally posted a year-over-year gain for the first time in 17 months. However, prospective home buyers cannot benefit from otherwise stimulative lower interest rates unless they are prepared with a down payment for a home purchase.

Looking forward, NAHB's forecast calls for slowing economic growth going into 2020. Below 2% growth rates will become the norm, holding back employment gains, raising economic caution and keeping housing production relatively flat. However, with consumer spending remaining strong and business credit availability generally healthy, macro risk factors will remain concentrated among a tight labor market, slowing global growth and the ongoing trade conflict.

–NAHB Chief Economist Robert Dietz

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