

SENT TO LSU AGCENTER/LOUISIANA FOREST PRODUCTS DEVELOPMENT CENTER - FOREST SECTOR / FORESTY PRODUCTS INTEREST GROUP



Eye on the Economy

June 24, 2020

New Home Sales and Permits Rising

Consistent with NAHB's forecast, home building data are showing signs of leading an emerging economic rebound. While risks to the outlook remain, particularly in the form of local, rising virus spread and ongoing layoffs, the recession appears to have taken the appearance of a short and sharp downturn. In fact, high-frequency data suggest gains for most sectors of the economy, even as confirmed virus cases rise in many states.

Housing demand has surprised to the upside. For example, according to data from the Mortgage Bankers Association, applications for purchase mortgages have expanded for nine consecutive weeks. Mortgage demand is being supported by low interest rates, as well as the fact that unemployment is disproportionately concentrated among individuals in the rental housing market.

Solid levels of home buying demand are supporting new construction, helped by declines in resale listings. This demand is boosting builder confidence. In June, the NAHB/Wells Fargo Housing Market Index (HMI) jumped by 21 points, rising to a level of 58. This was the largest monthly gain in the history of the index and returns the HMI to positive territory, after just two months of recording negative market conditions. The current level of the HMI points toward an expansion of single-family construction.

And this matches the most recent home construction data from the Census Bureau. For May, single-family starts held at a flat annual rate of 675,000; however, single-family permits expanded by 12%. Multifamily permits for properties of five units or more are down more than 10% thus far in 2020, as concerns within the rental market continue due to elevated unemployment levels.

For home sales, new single-family home contracts jumped in May (676,000), posting a 13% year-over-year gain after a significant downward revision for the April estimate (revised to 580,000, marking a 25% decline from the pre-recession peak in January). Inventory fell to a sales-adjusted level of a 5.6-month supply. Levels below a 6-month supply generally support growth for new home building.

The increase in builder confidence, permits and sales all suggest construction gains are on the horizon. However, a medium-term concern for the housing market is whether the current strength in demand is an unlocking of deferred demand from early spring, or reflects the emerging trend for home buying as a growing number of prospective buyers are looking in small metro and exurban locations.

–NAHB Chief Economist Robert Dietz



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