



Economic Insights:
Conversations with the Dallas Fed
Webcast Series

“The Long-Awaited Housing Recovery”
April 11, 2014



The Long-Awaited Housing Recovery

John V. Duca

Associate Director of Research and Vice President

Federal Reserve Bank of Dallas

Adjunct Professor

Southern Methodist University

The views expressed are those of the speaker and should not necessarily be attributed to the Federal Reserve Bank of Dallas or the Federal Reserve System.

The Long-Awaited Housing Recovery

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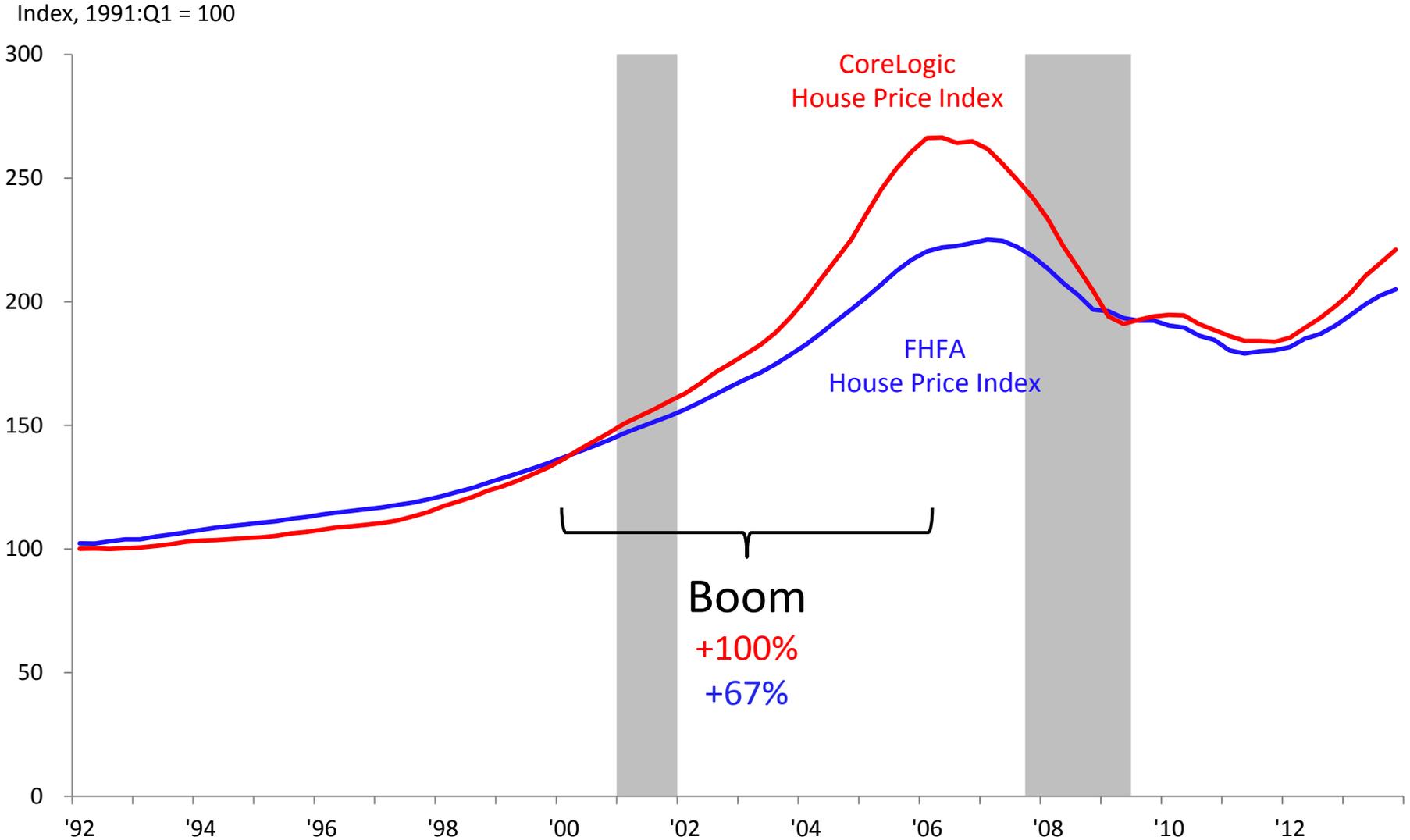
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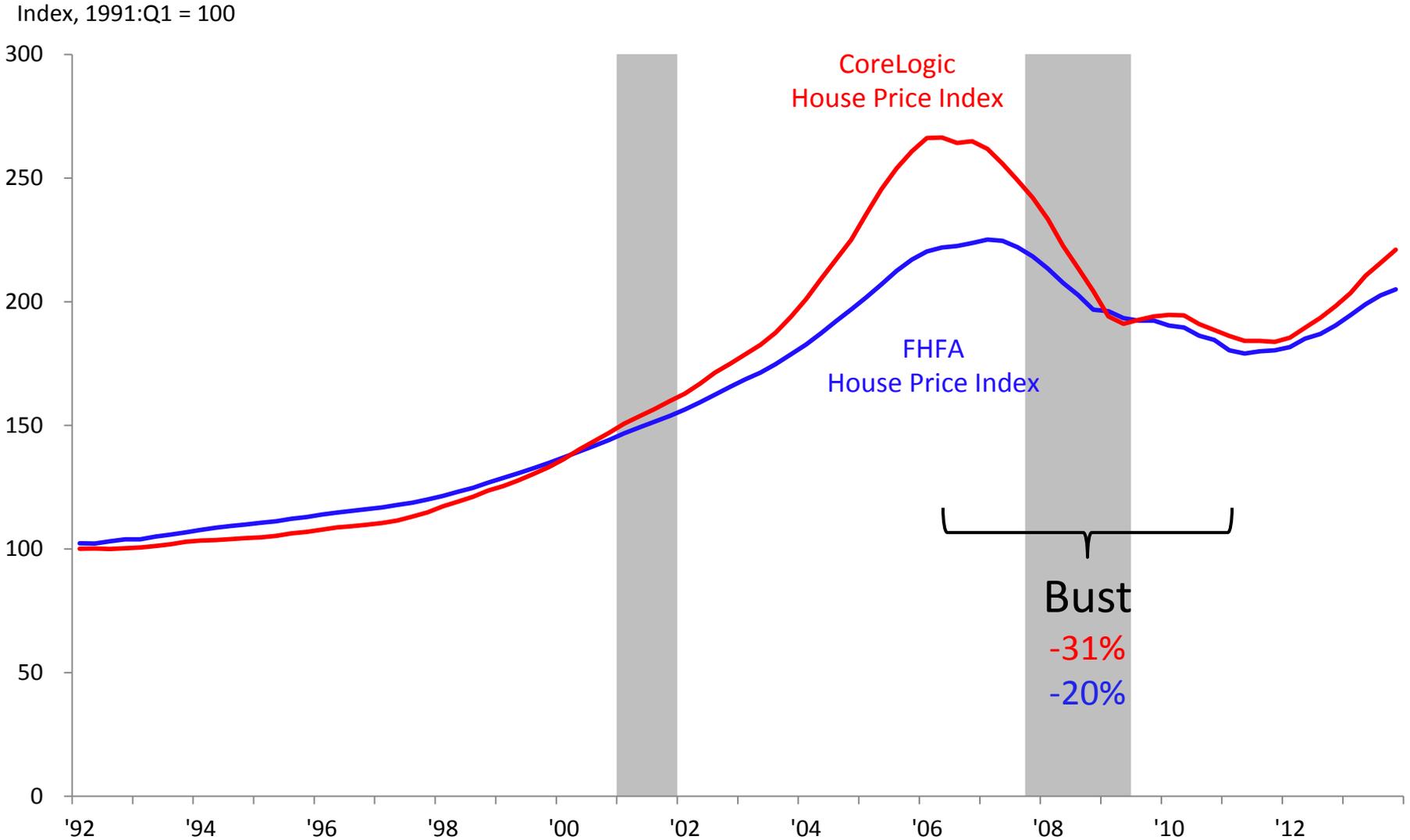


U.S. house prices boom,



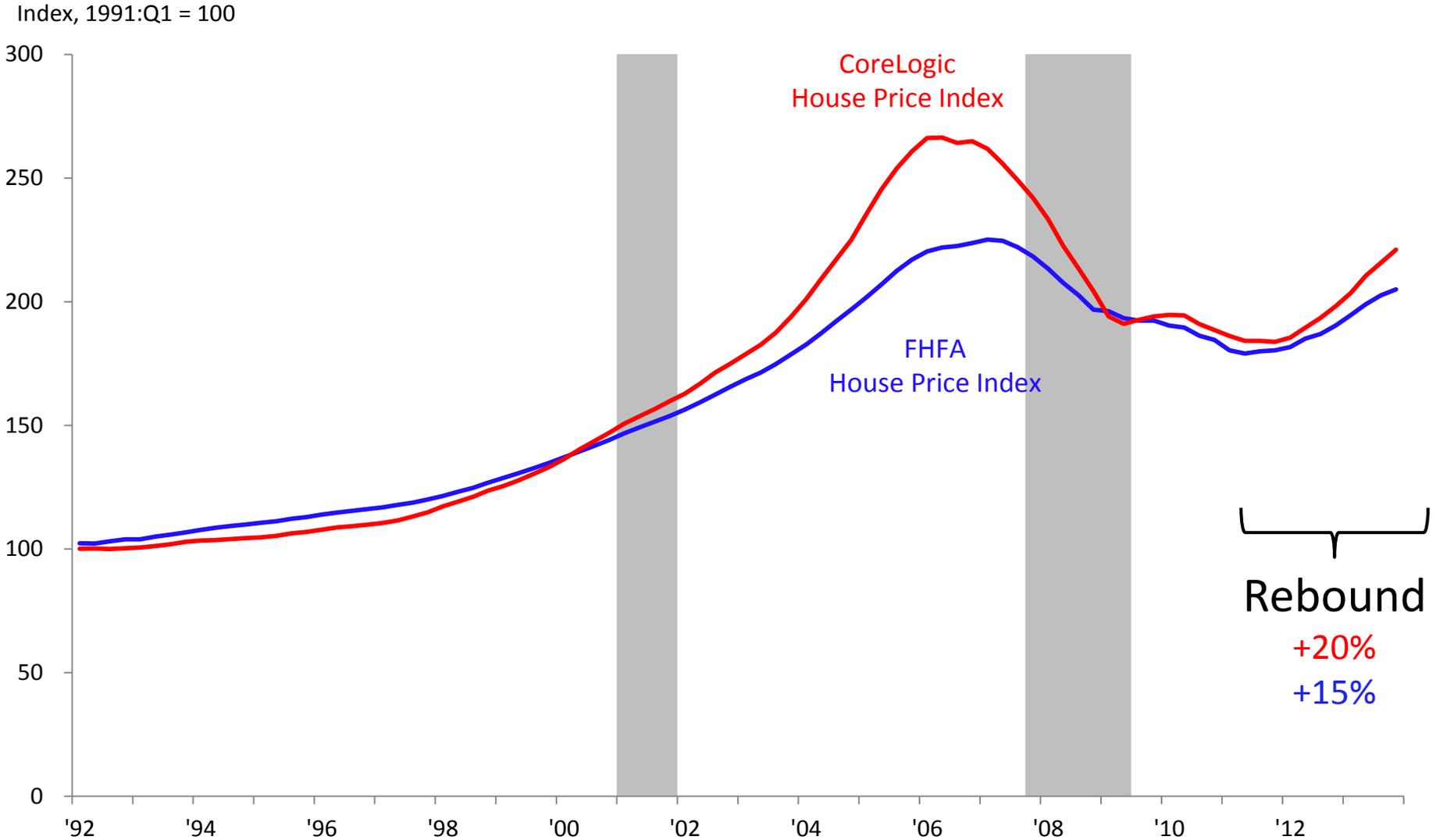
SOURCES: Author's calculations using data from Federal Housing Finance Agency and Haver seasonal adjustments of CoreLogic data.

U.S. house prices boom, bust



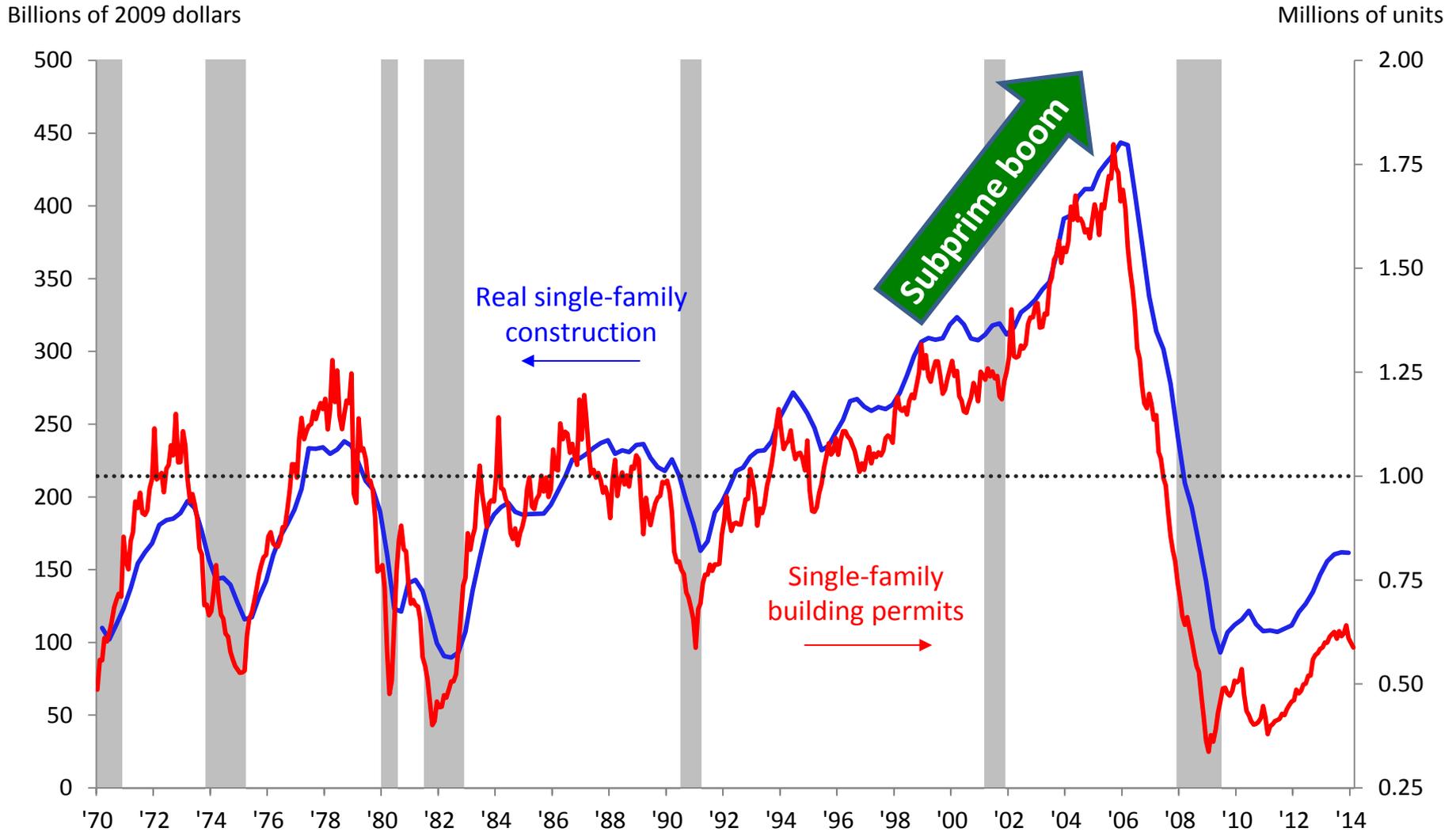
SOURCES: Author's calculations using data from Federal Housing Finance Agency and Haver seasonal adjustments of CoreLogic data.

U.S. house prices boom, bust and rebound



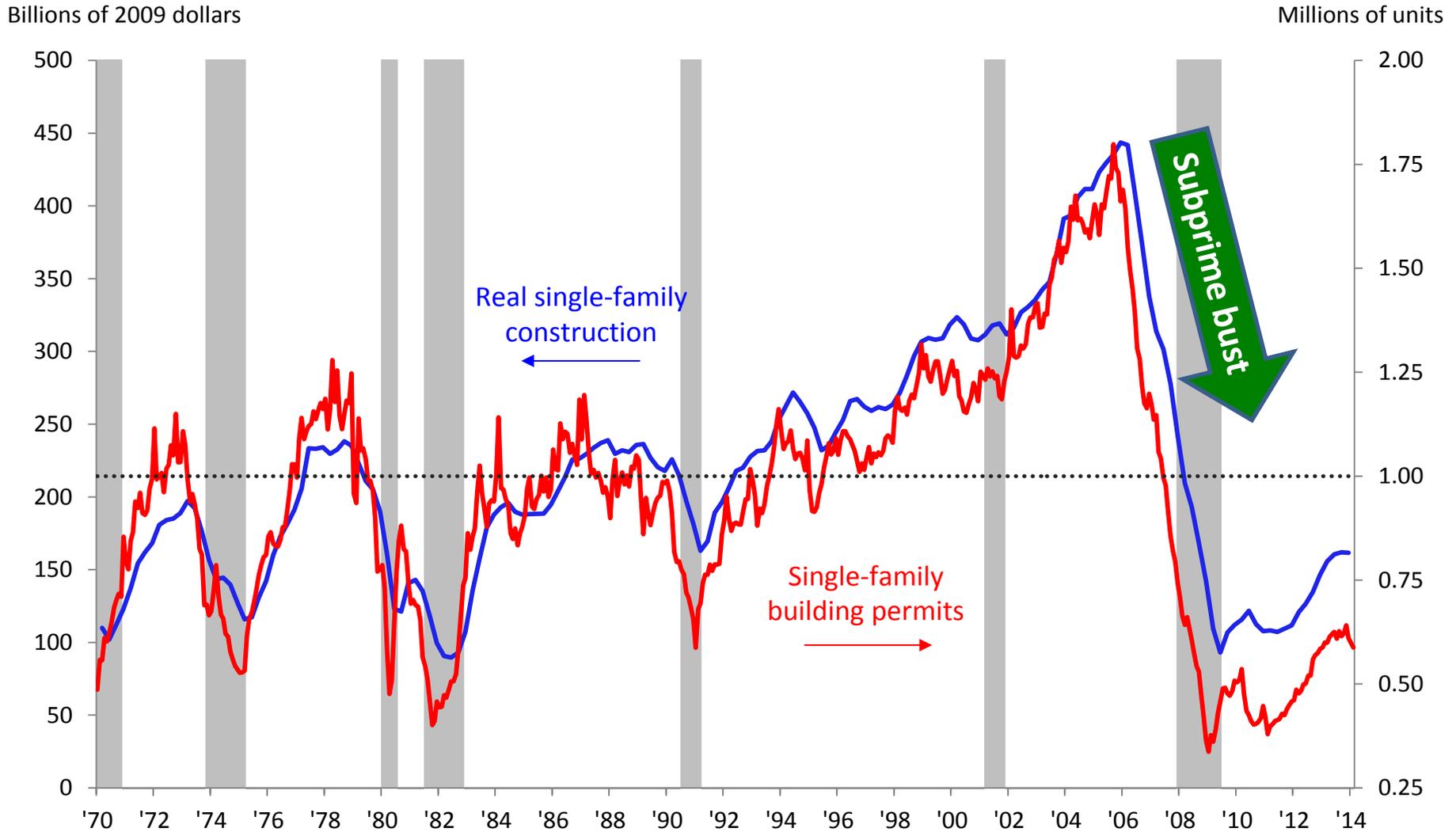
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Home construction peaks,



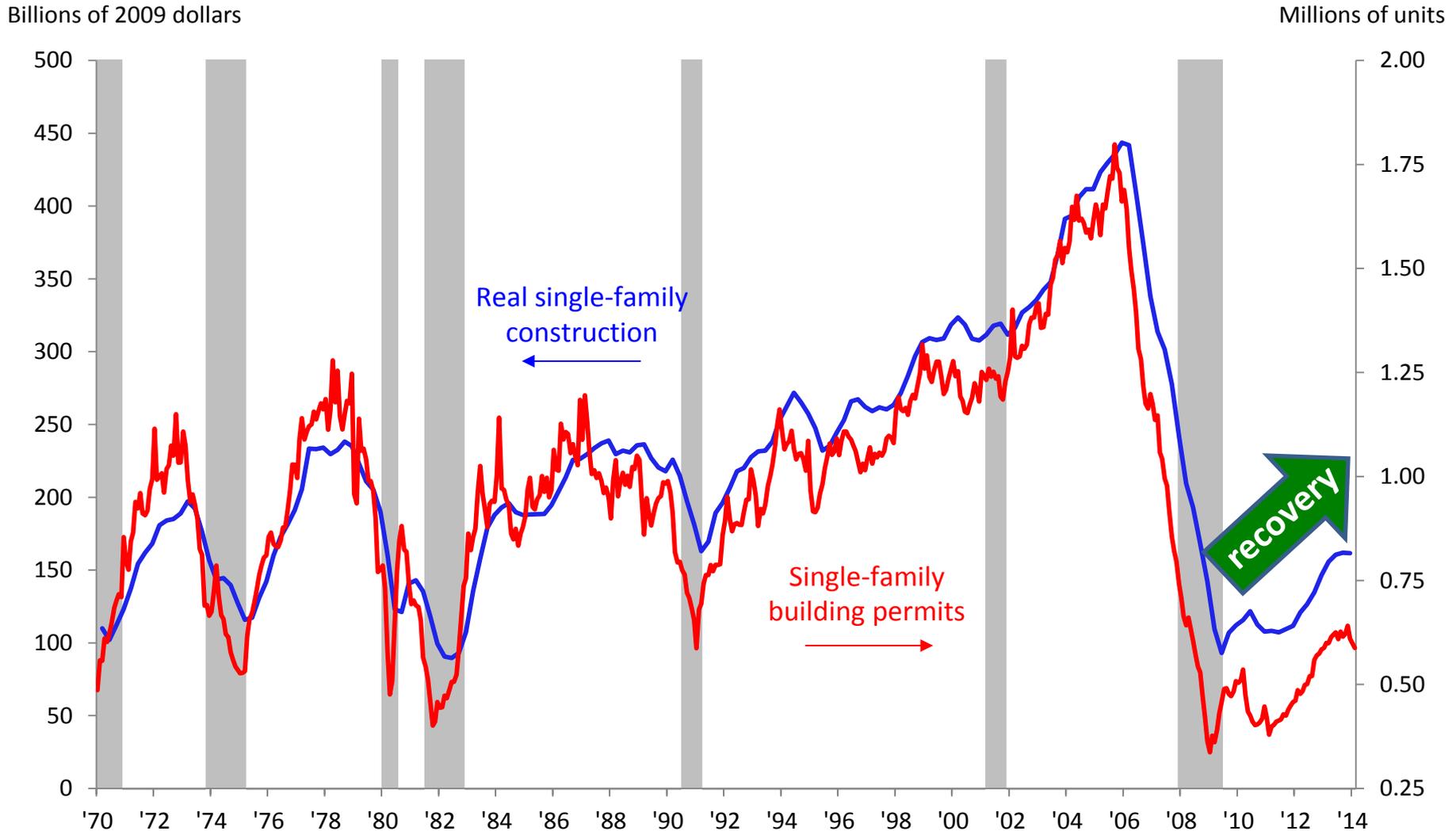
SOURCES: Bureau of Economic Analysis and U.S. Census Bureau, with Haver seasonal adjustments.

Home construction peaks, plunges,



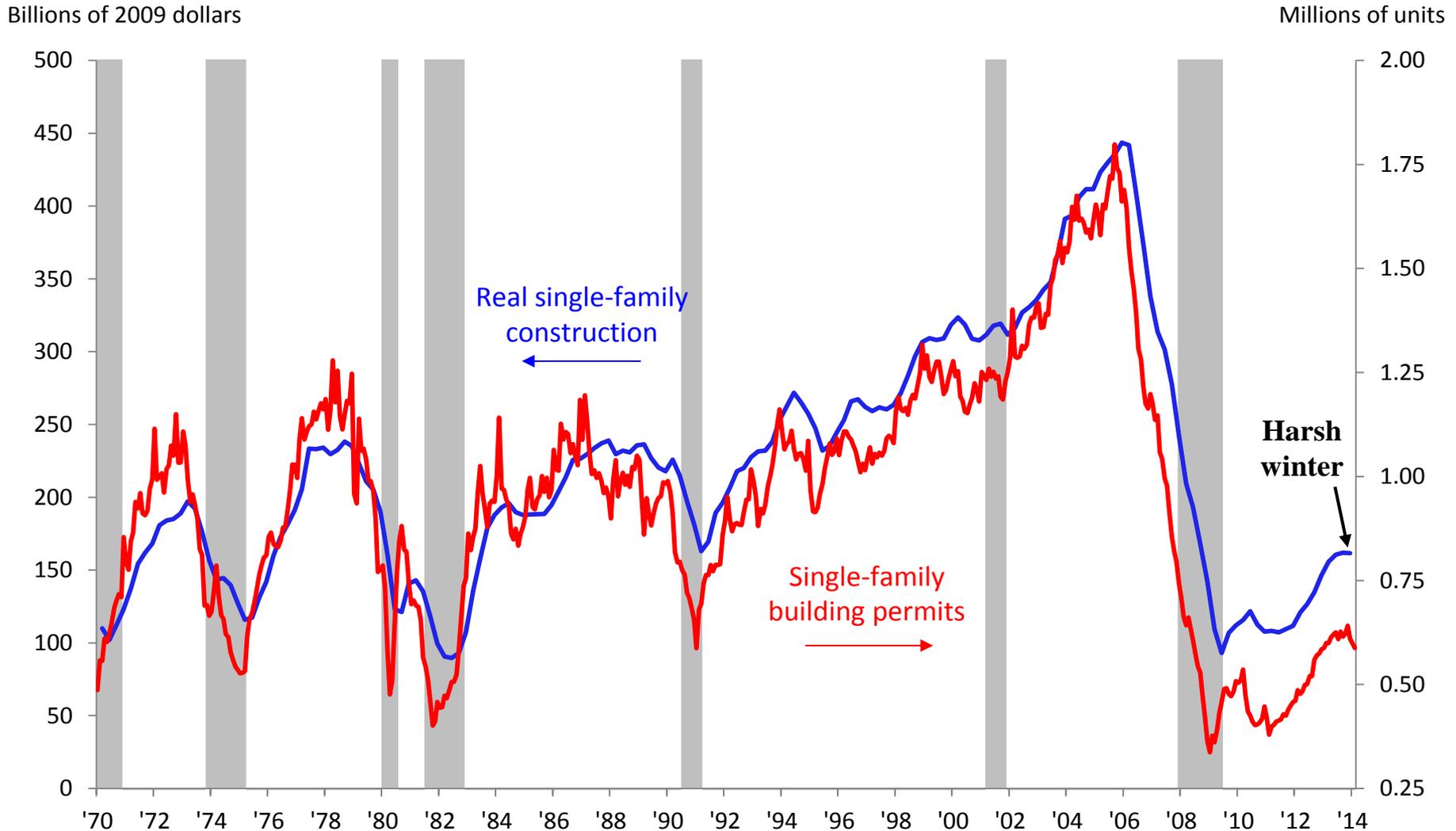
SOURCES: Bureau of Economic Analysis and U.S. Census Bureau, with Haver seasonal adjustments.

Home construction peaks, plunges, picks up,



SOURCES: Bureau of Economic Analysis and U.S. Census Bureau, with Haver seasonal adjustments.

Home construction peaks, plunges, picks up, and pauses



SOURCES: Bureau of Economic Analysis and U.S. Census Bureau, with Haver seasonal adjustments.

Outline

I. Is the national housing recovery for real?

Affordability, price, inventory patterns imply yes.

II. What accounts for regional patterns, and why is Texas' recovery strong?

Differences in housing supply and labor markets.
Texas' strength also reflects a stronger economy.

III. What's next?

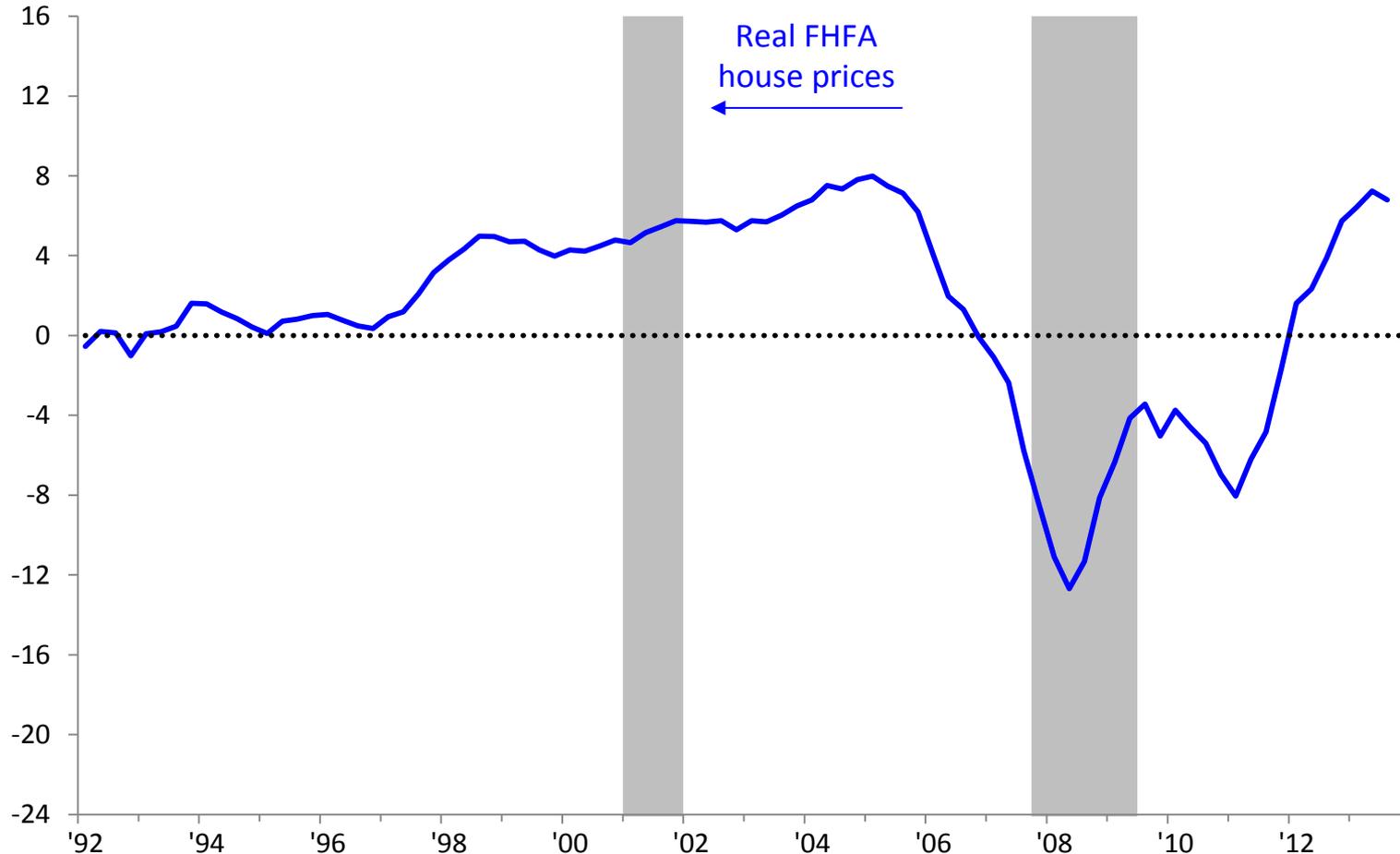
The pace of recovery will depend not only on future mortgage interest rates and labor market conditions, but also on how regulation, mortgage credit standards, and living arrangements evolve.

I. Is the national housing recovery for real?

- Prices and construction in recovery from the housing/subprime bust, winter pause 2013-2014 a hiccup
- Inventory conditions signal recovery
- House prices in line with rents, past appreciation, interest rates, and income
- Mortgage foreclosure rates returning toward normal

Inflation-adjusted house prices are now appreciating

House price change*
(percent)

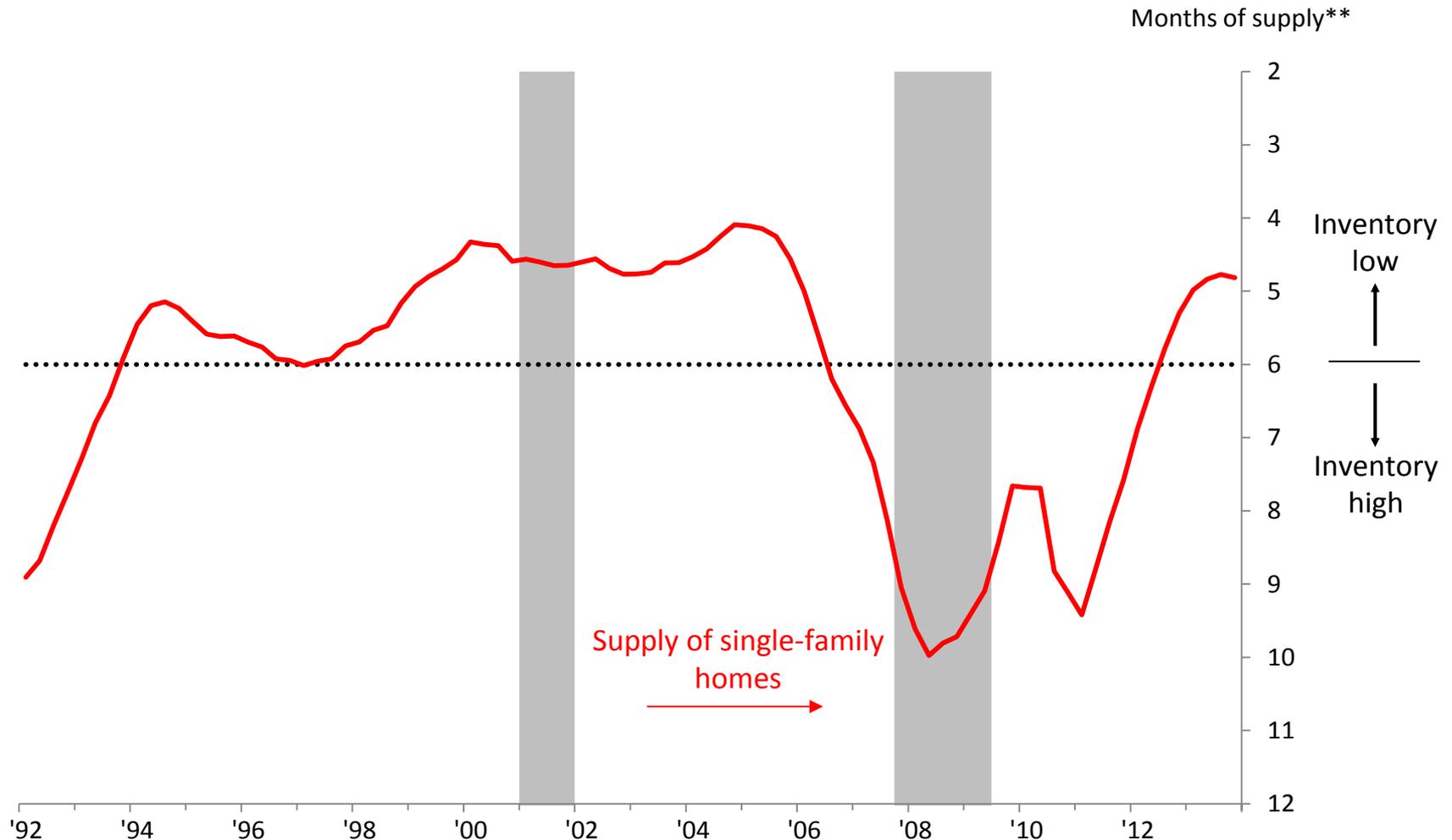


*Year-over-year rate of change, lagged one quarter **Three-quarter moving average

NOTE: The inflation-adjusted house price appreciation series is lagged by two quarters to more clearly align the two series.

SOURCES: Federal Housing Finance Agency; Freddie Mac; Bureau of Economic Analysis; National Association of Realtors; and author's calculations.

Lower inventories consistent with house price appreciation

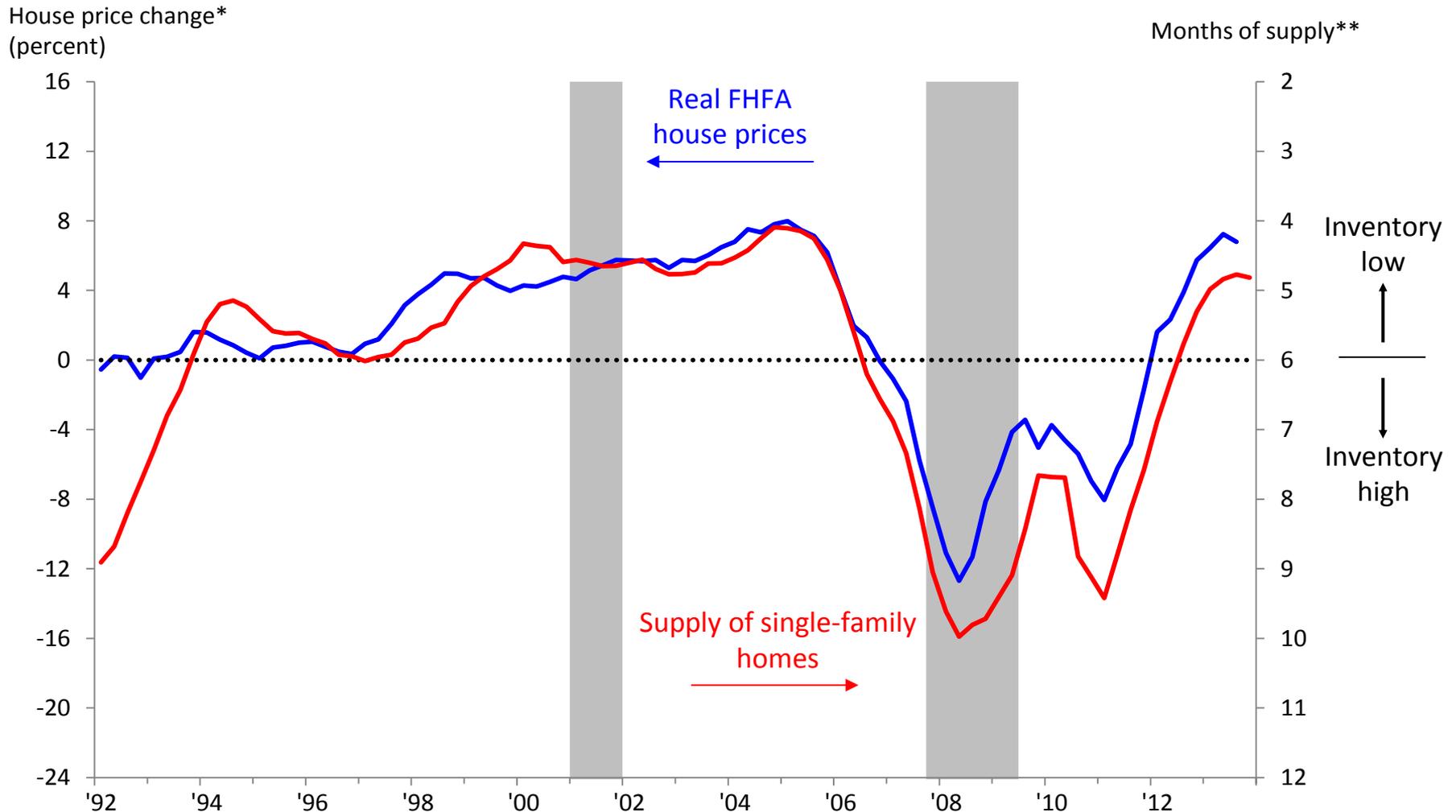


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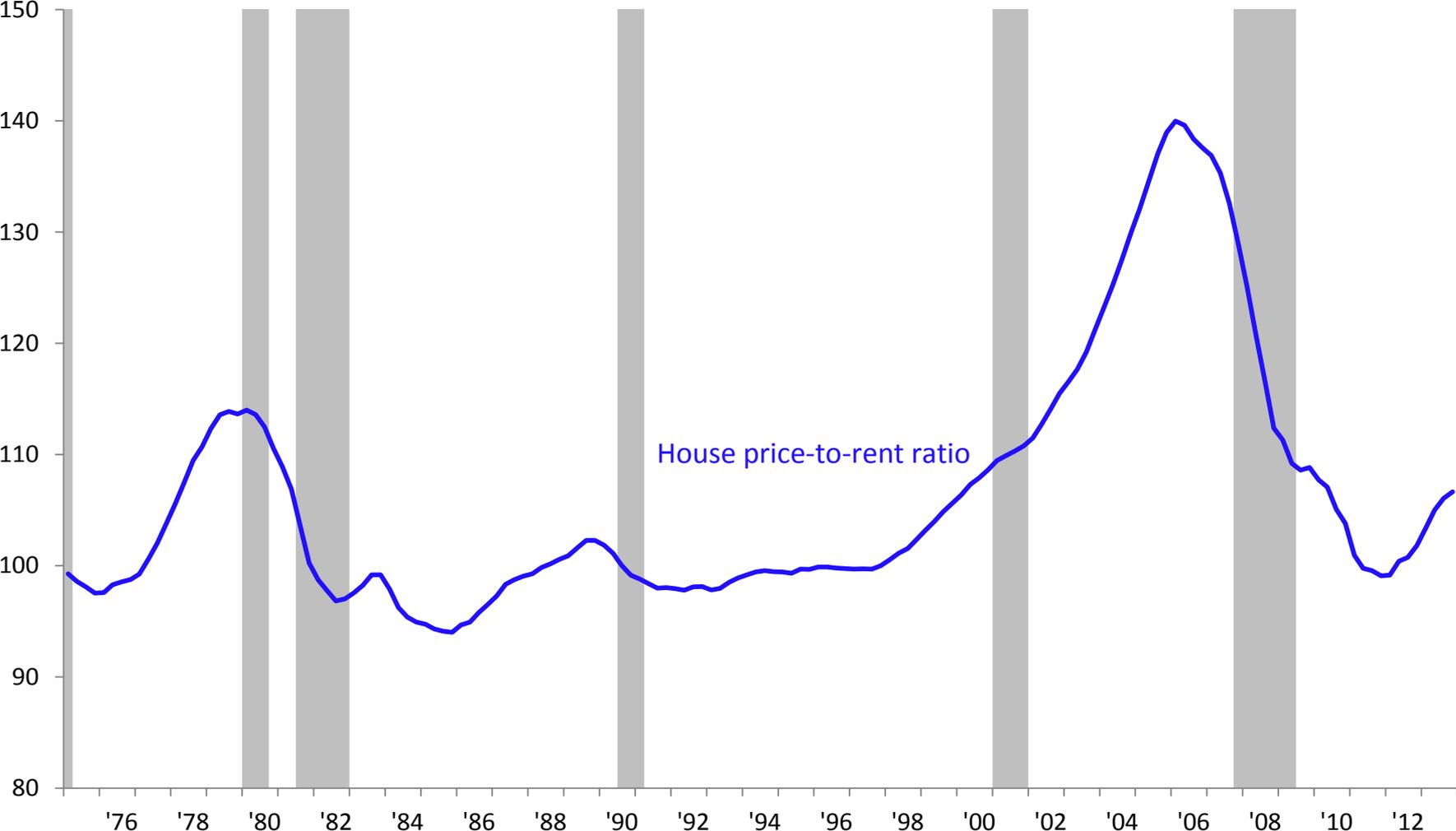
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House price-to-rent ratio in line with mortgage interest rates

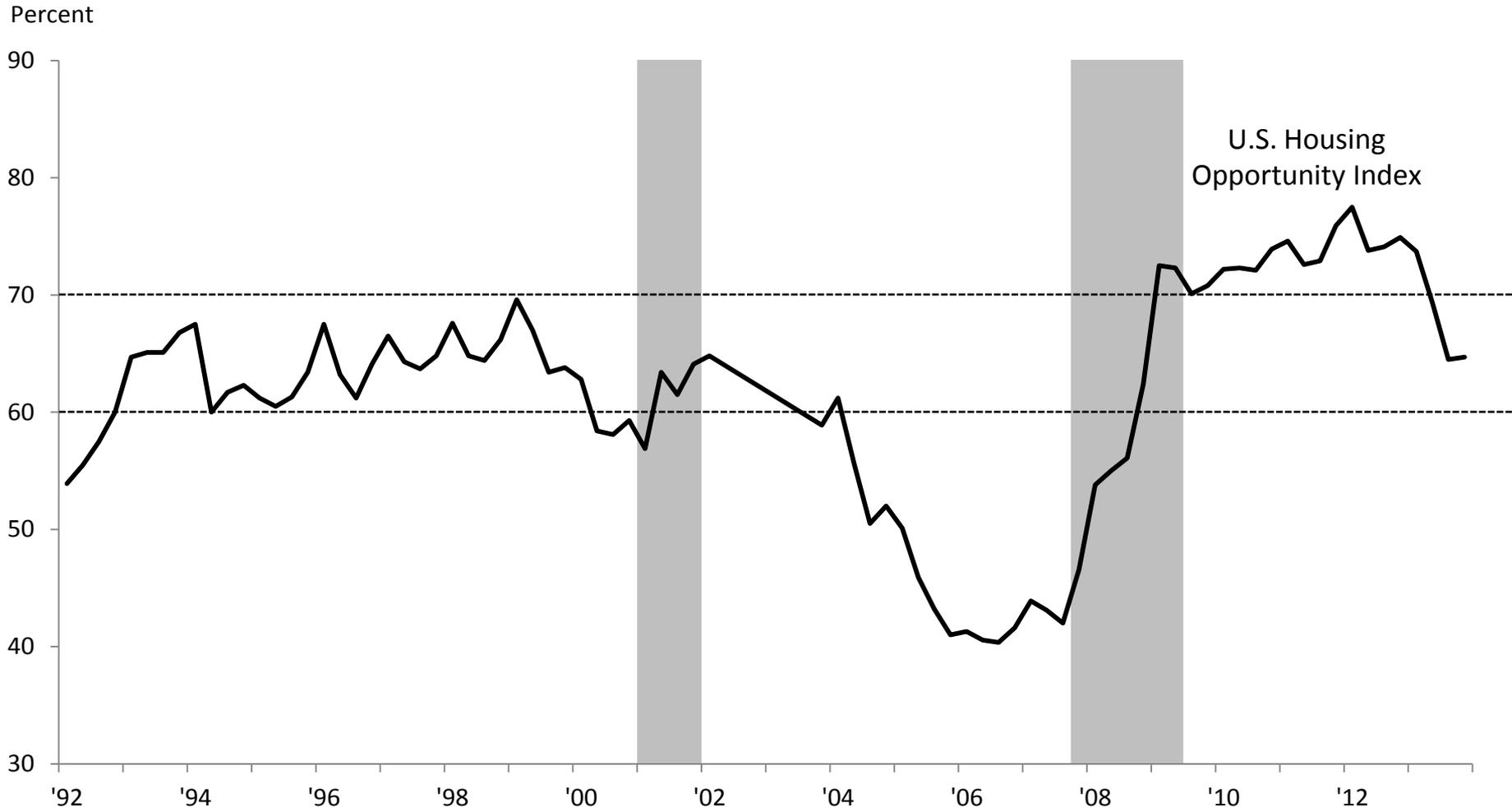
Index, 1997:Q4 = 100



SOURCES: Federal Housing Finance Agency; Federal Reserve Board; Bureau of Labor Statistics; and author's calculations.

Affordability returns to normal

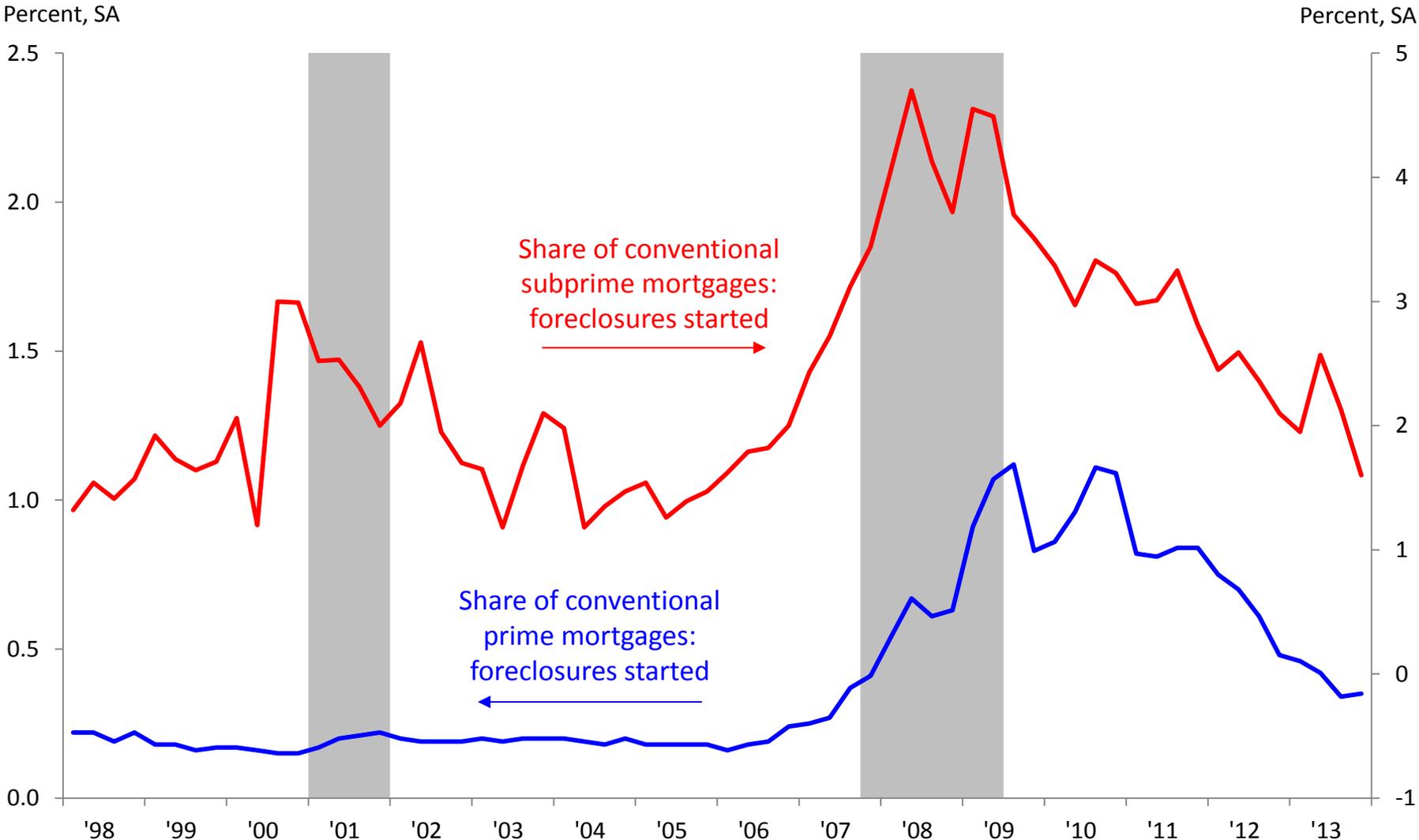
(Share of homes sold that are affordable to median-income family)



NOTE: The Housing Opportunity Index assumes that the family spends 28 percent of its gross income on a 30-year, fixed-rate mortgage with a 10 percent down payment.

SOURCES: National Association of Home Builders and Wells Fargo.

Rate of newly initiated mortgage foreclosures heading toward more normal levels

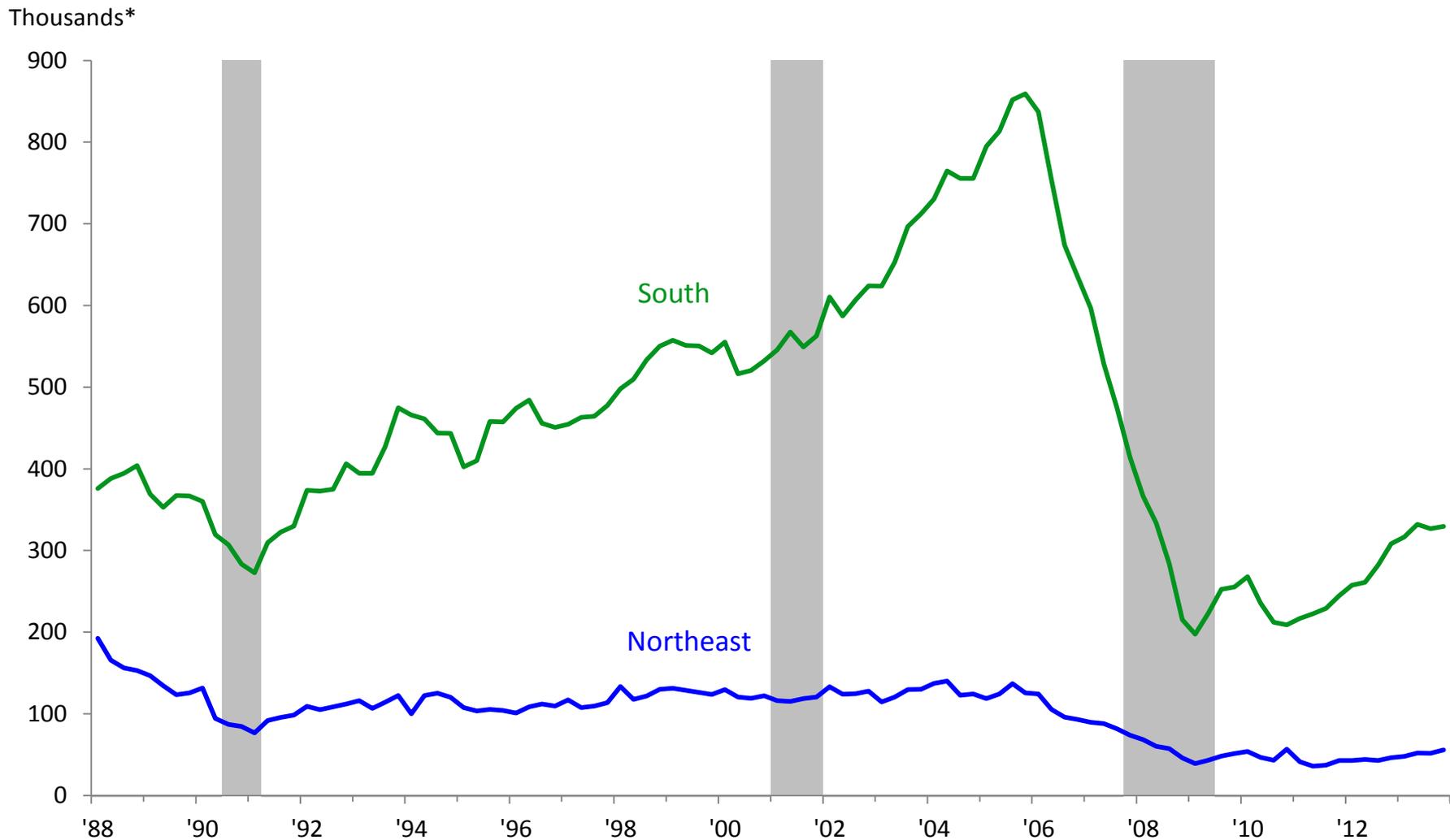


SOURCE: Mortgage Bankers Association.

II. What accounts for regional patterns and why is Texas' recovery strong?

- Where housing supply is more sensitive to house prices bigger swings in construction than in prices:
 - Northeast vs. South
 - Large metro areas

Single-family permits swing more in land-plentiful South than in Northeast

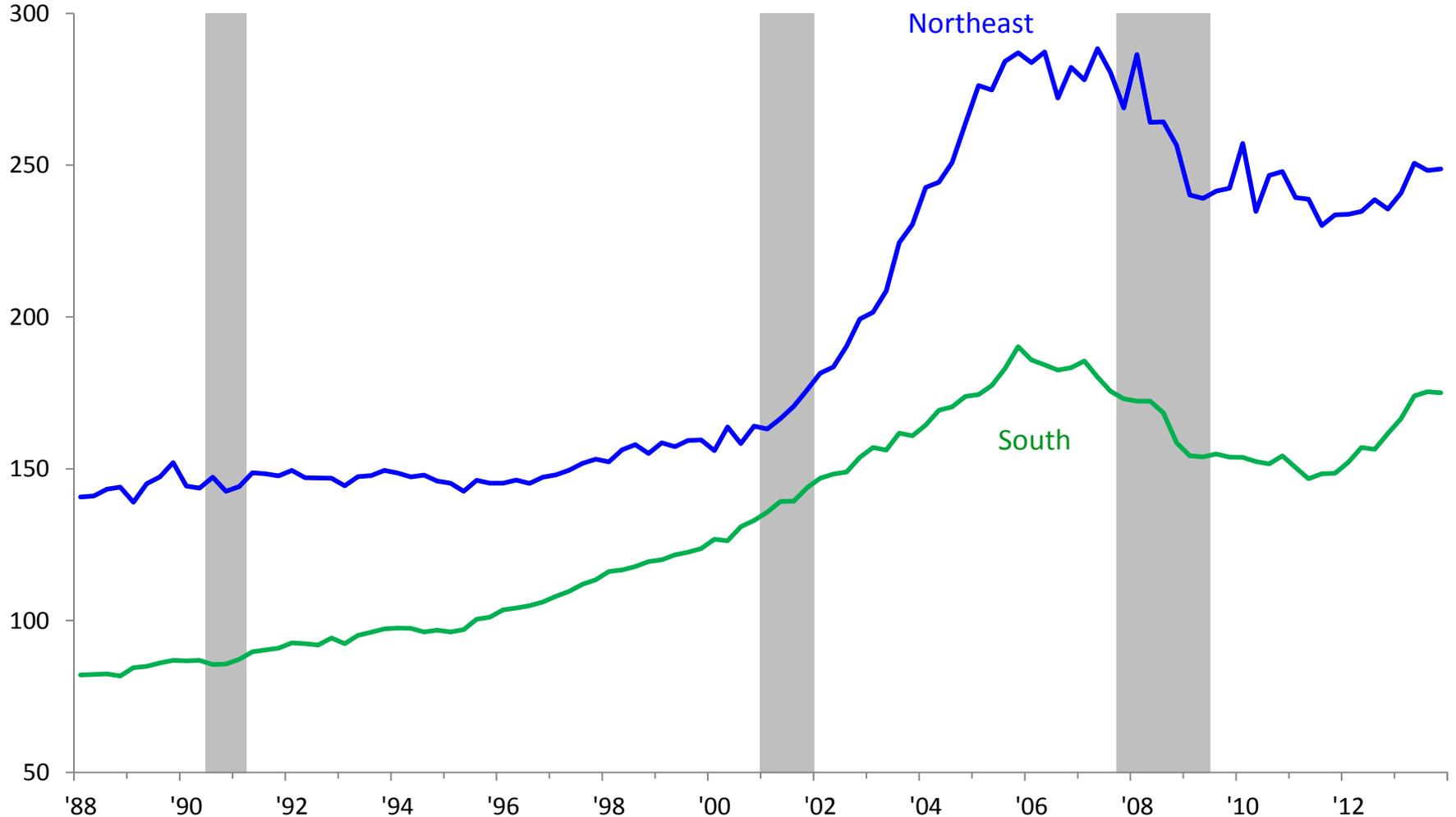


*Seasonally adjusted, annualized rate

SOURCE: Census Bureau, with Haver seasonal adjustments.

Single-family home prices more volatile in the Northeast than in the South

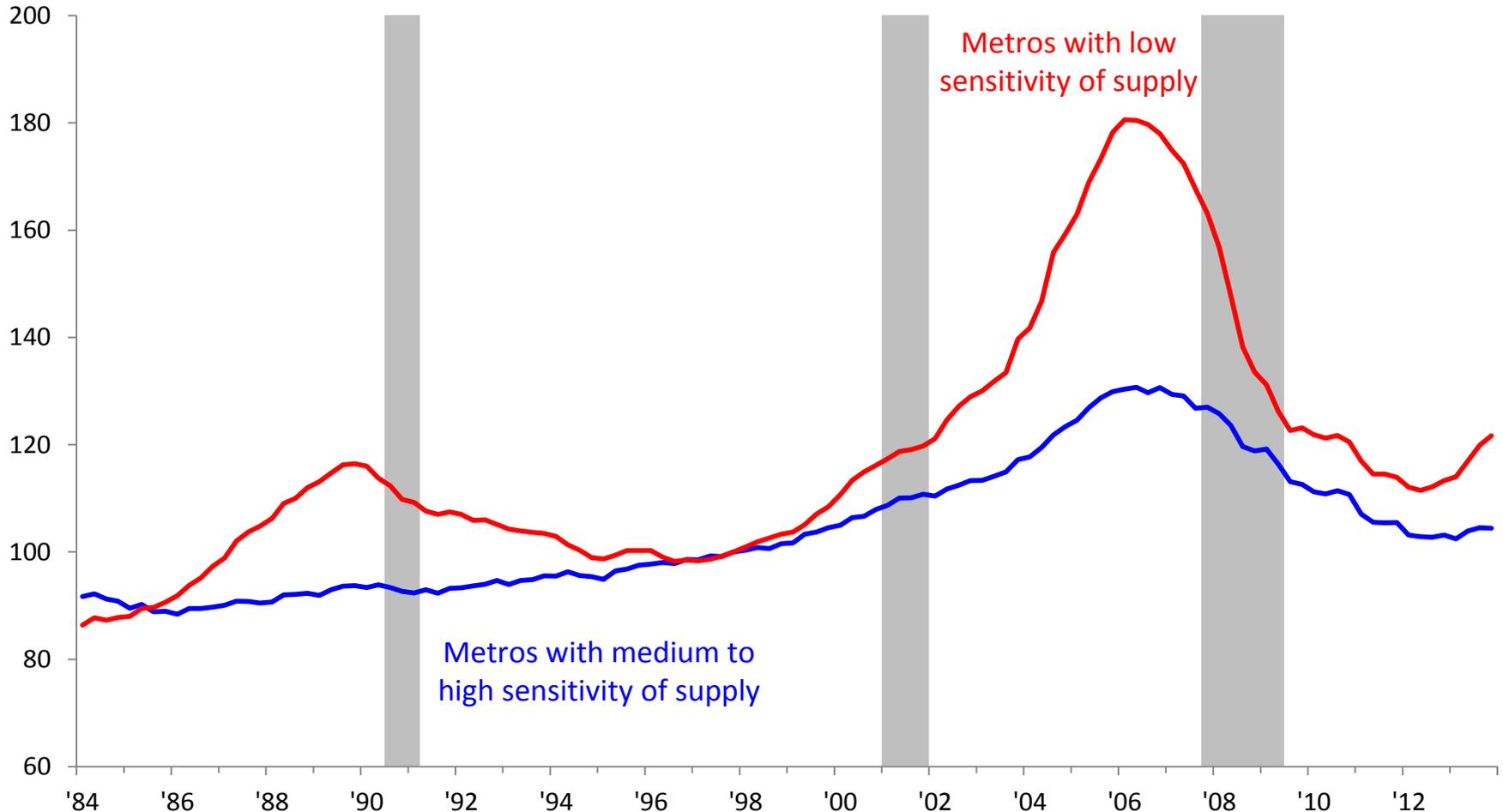
Median sales price
(thousands of dollars)



SOURCE: National Association of Realtors, with Haver seasonal adjustments.

Price-to-rent ratios swing more in major metros with low sensitivity of supply

Nominal price-to-rent ratio
(1997:Q4 = 100)



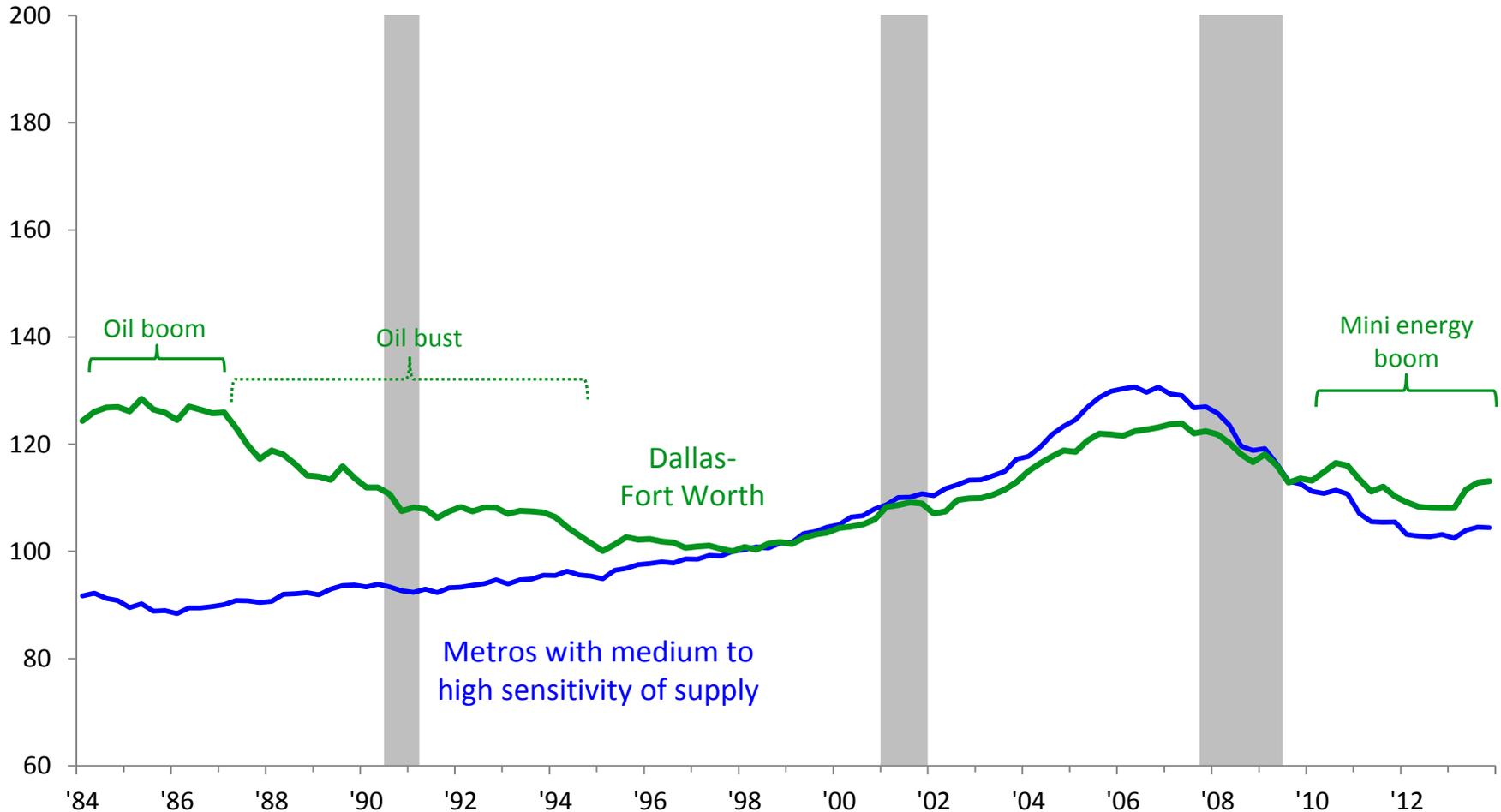
SOURCES: Federal Housing Finance Agency; Bureau of Labor Statistics; "The Geographic Determinants of Housing Supply," by Albert Saiz, *Quarterly Journal of Economics*, vol. 125, no. 3, 2010, pp. 1253-96; author's calculations.

II. What accounts for regional patterns and why is Texas' recovery strong?

- Where housing supply is more sensitive to house prices bigger swings in construction than in prices:
 - Northeast vs. South
 - Large metro areas
- Why is the housing recovery stronger in Texas?
 - Partly reflects an energy boom
 - Inventories tight
 - High affordability and stronger job market
 - Consistent with video interviews in the Annual Report

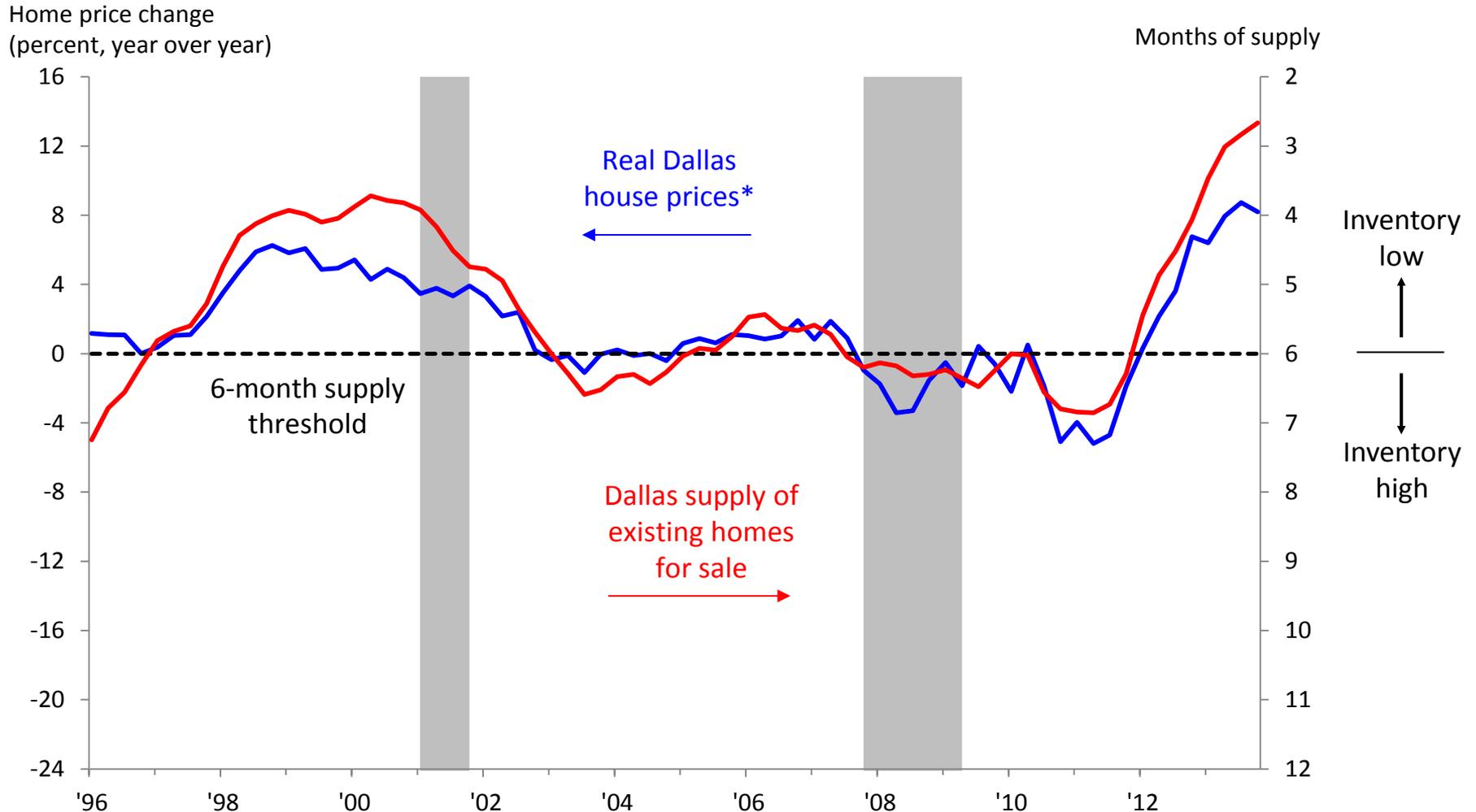
Dallas price-to-rent ratios near those of metros with medium to high sensitivity of supply

Nominal price-to-rent ratio
(1997:Q4 = 100)



SOURCES: Federal Housing Finance Agency; Bureau of Labor Statistics; "The Geographic Determinants of Housing Supply," by Albert Saiz, *Quarterly Journal of Economics*, vol. 125, no. 3, 2010, pp. 1253-96; author's calculations.

Low inventories consistent with rising inflation-adjusted house prices in Dallas



*Seasonally adjusted

SOURCES: Federal Housing Finance Agency; Bureau of Economic Analysis; Texas A&M Real Estate Center; author's calculations.

Metro house price changes since 2006 reflect affordability and unemployment

	2000:q1	2006:q4	2013:q4	Home Price Change 06:q4-13:q4	Dec. 2013 Unemployment Rate (SA)
U.S.	63%	42%	65%	-8%	6.7%
Pacific and Atlantic Coastal metros	LA	40%	21%	-21%	9.2%
	New York	42%	5%	-14%	7.8%
	San Fran.	10%	8%	+17%	5.0%
Non-Atlantic Southern Metros	Atlanta	75%	77%	-8%	7.1%
	Dallas	65%	60%	+18%	5.9%
	Houston	66%	60%	+33%	5.9%

NOTE: The HOI is the percent of homes sold that are affordable to families earning the median income of that area, using a 30-year prime mortgage with 10 percent down, and the resulting mortgage payments are no higher than 28% of median income.

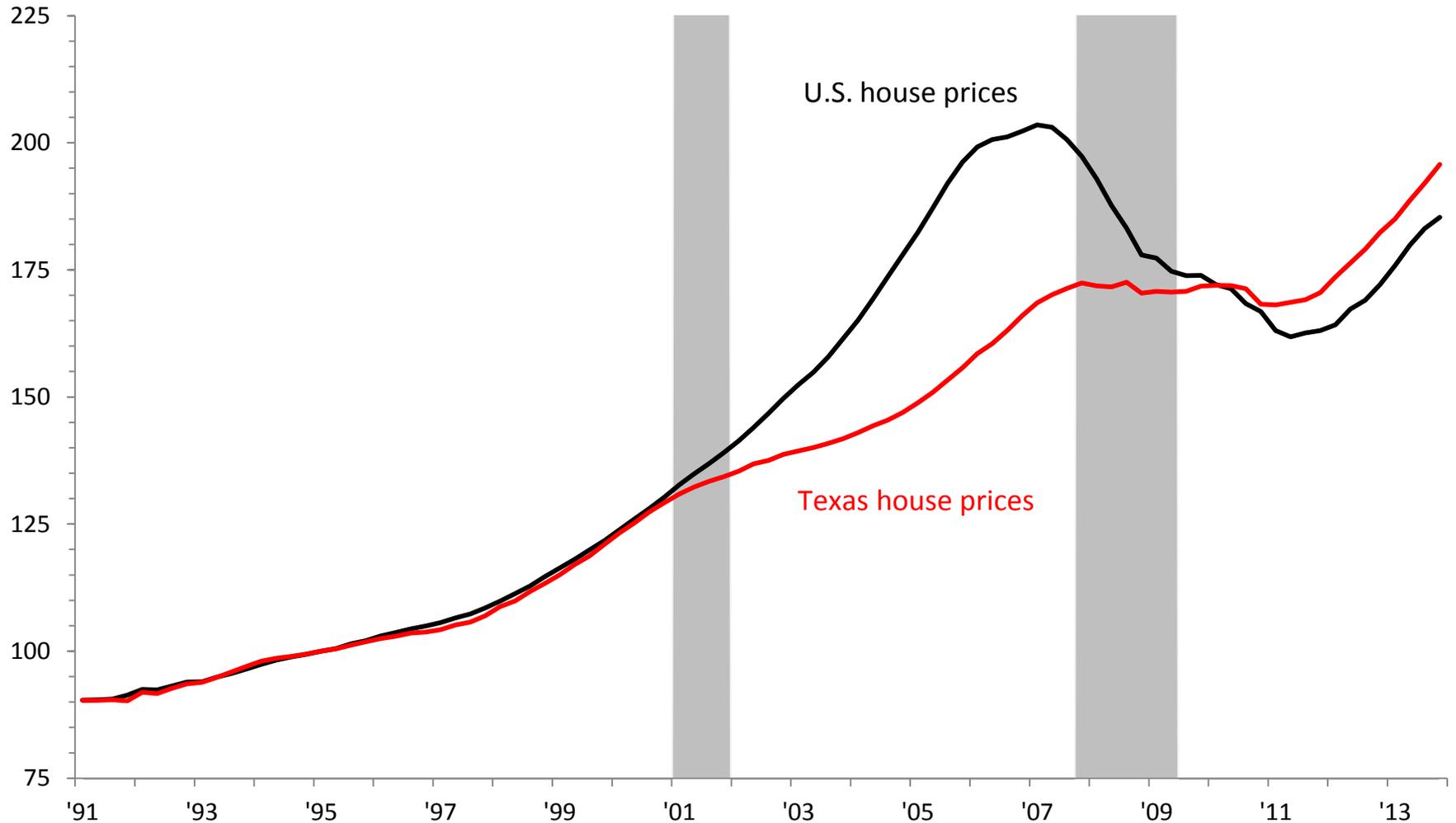
SOURCES: National Association of Home Builders and Wells Fargo Housing Opportunity Index (HOI); and FHFA.

Stronger Texas housing recovery

- House prices above peak of mid-2000's, unlike U.S.
- Months' supply existing homes tighter than in U.S.
- U.S. metros with the most building permits in 2013:
 - Houston (#1), Dallas (#2), Austin (#4)
- Stronger recovery of home construction in Texas

U.S. vs. Texas house prices

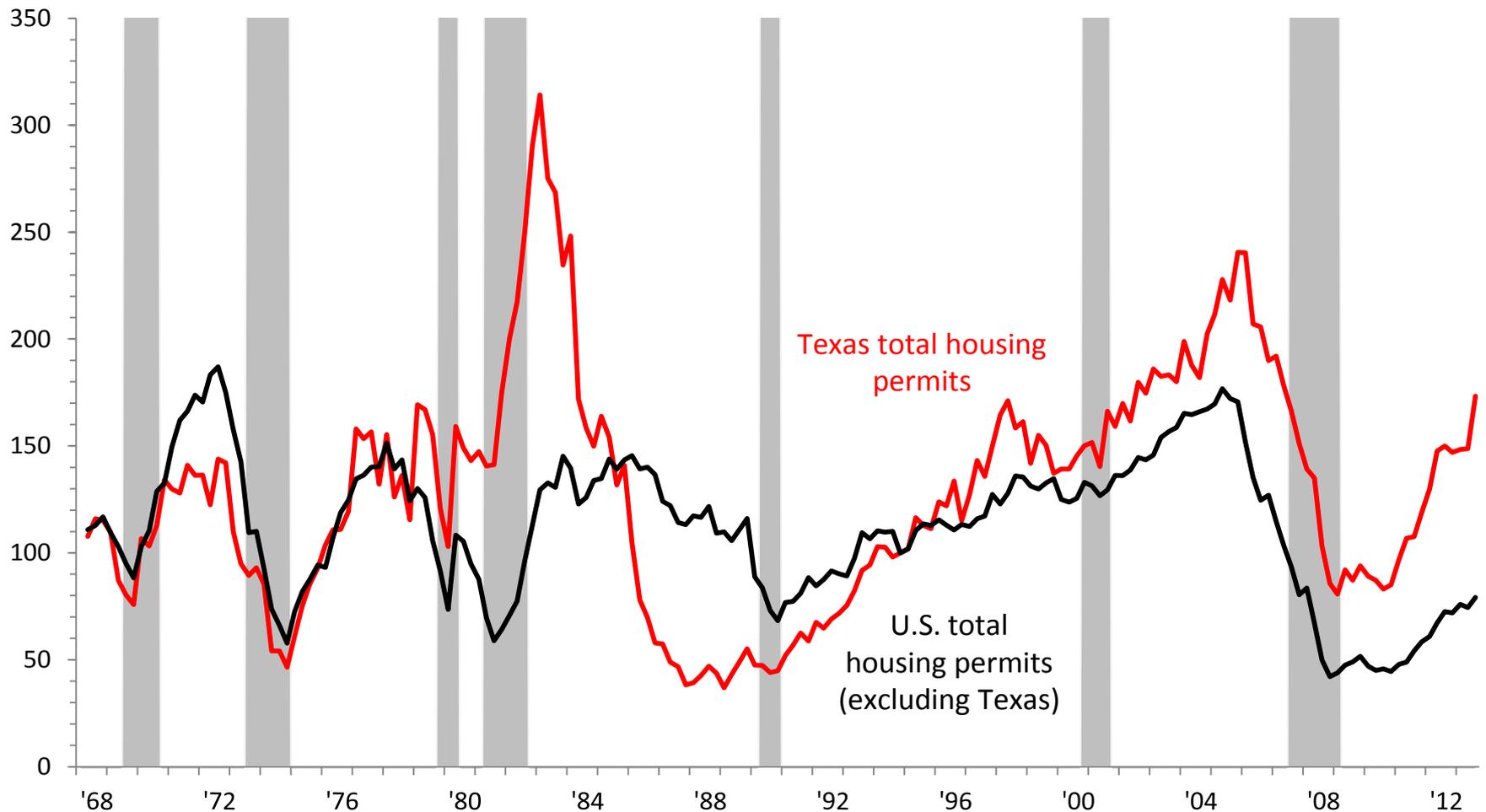
Index, 1995:Q1 = 100*



*Federal Housing and Finance Association purchase-only house price index, seasonally adjusted.

Housing permits in Texas outperform the rest of the U.S.

Index, 1995:Q1 = 100*



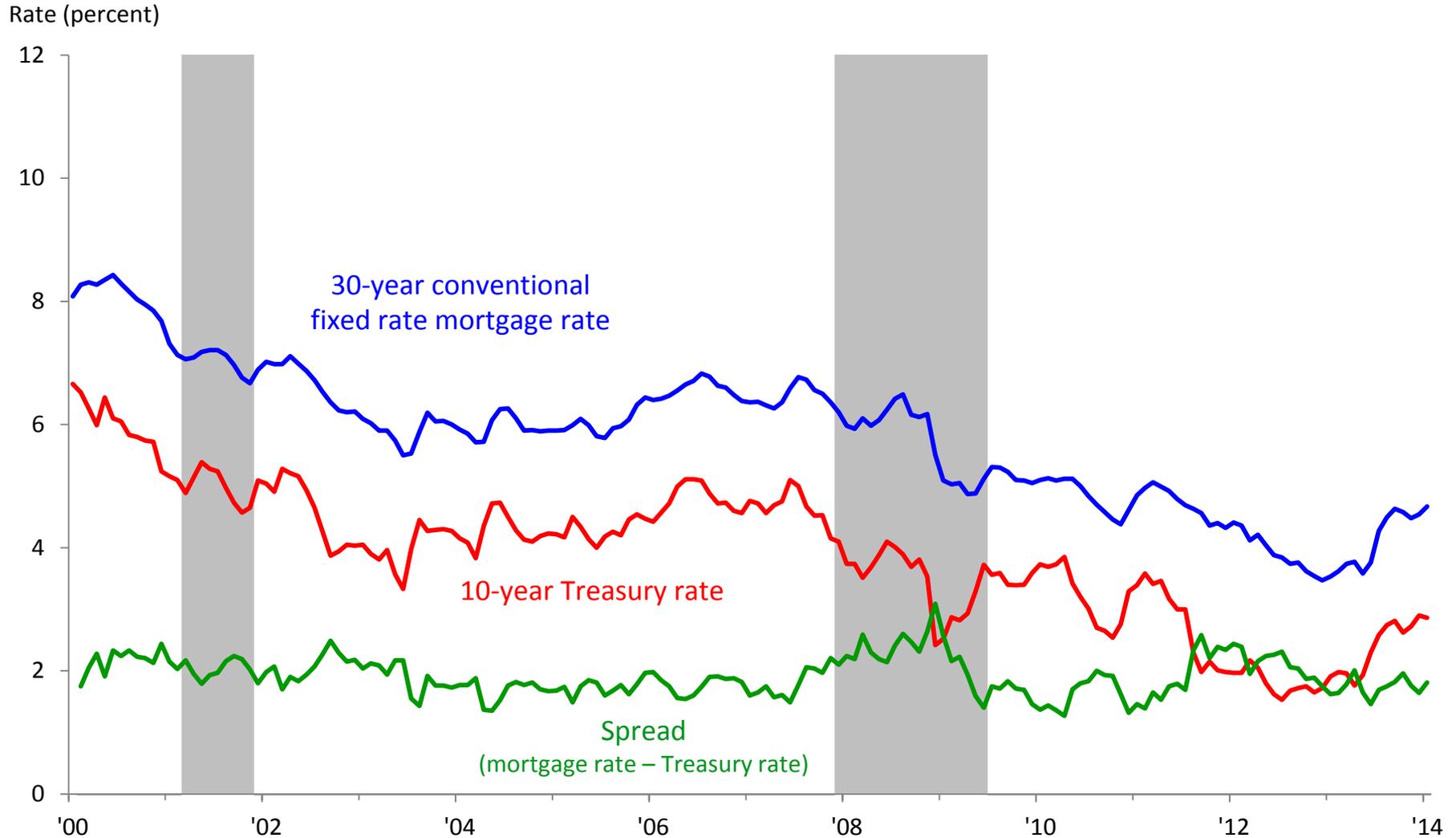
*Index of quarterly averages at a seasonally adjusted (X-12 ARIMA), annualized rate.

III. What's next?

Unusual financial factors

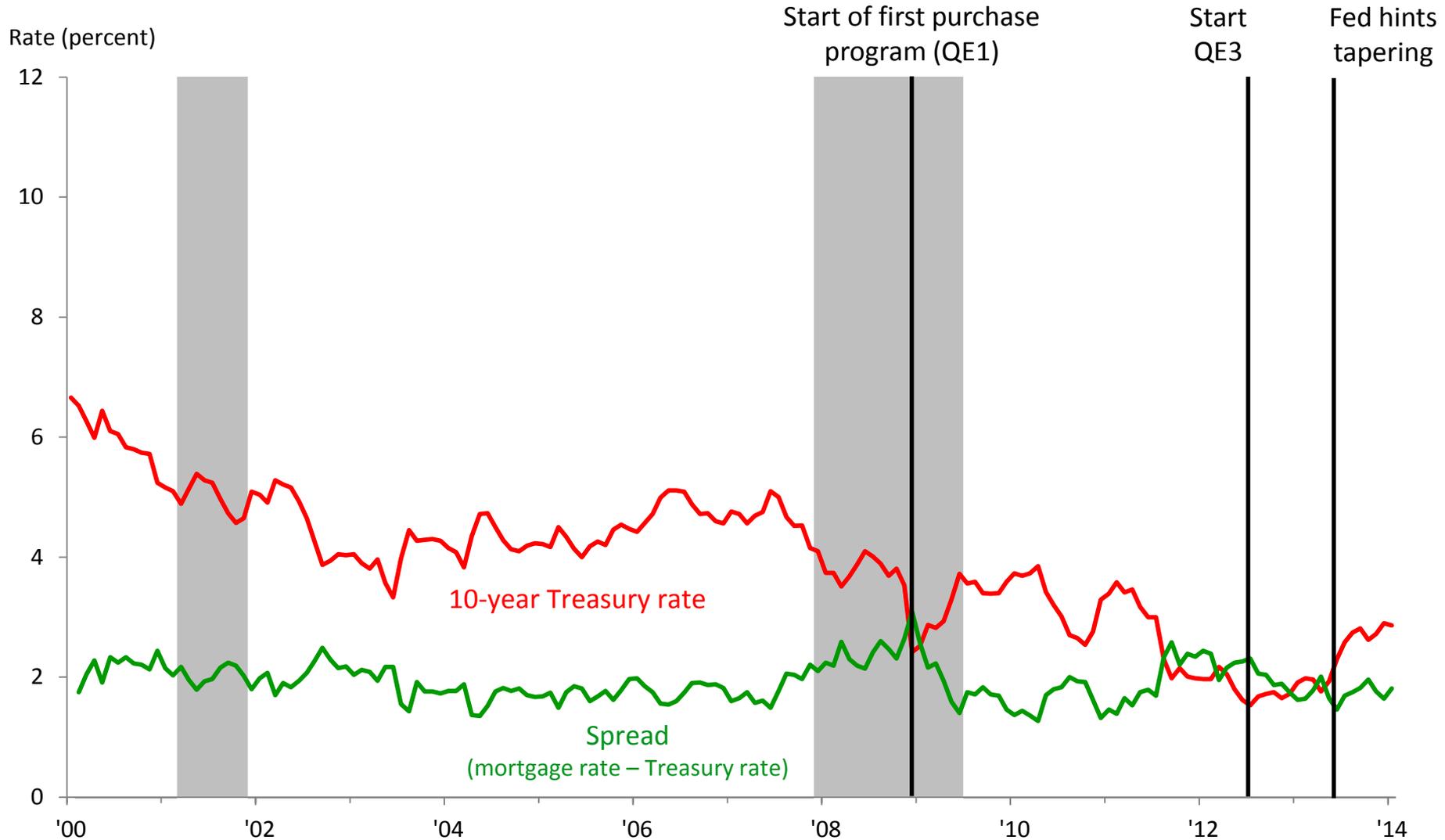
- Mortgage interest rates and Fed policy

Mortgage rates respond to Treasury rates and Fed MBS purchase programs



SOURCES: Federal Housing Finance Agency; Federal Reserve Board.

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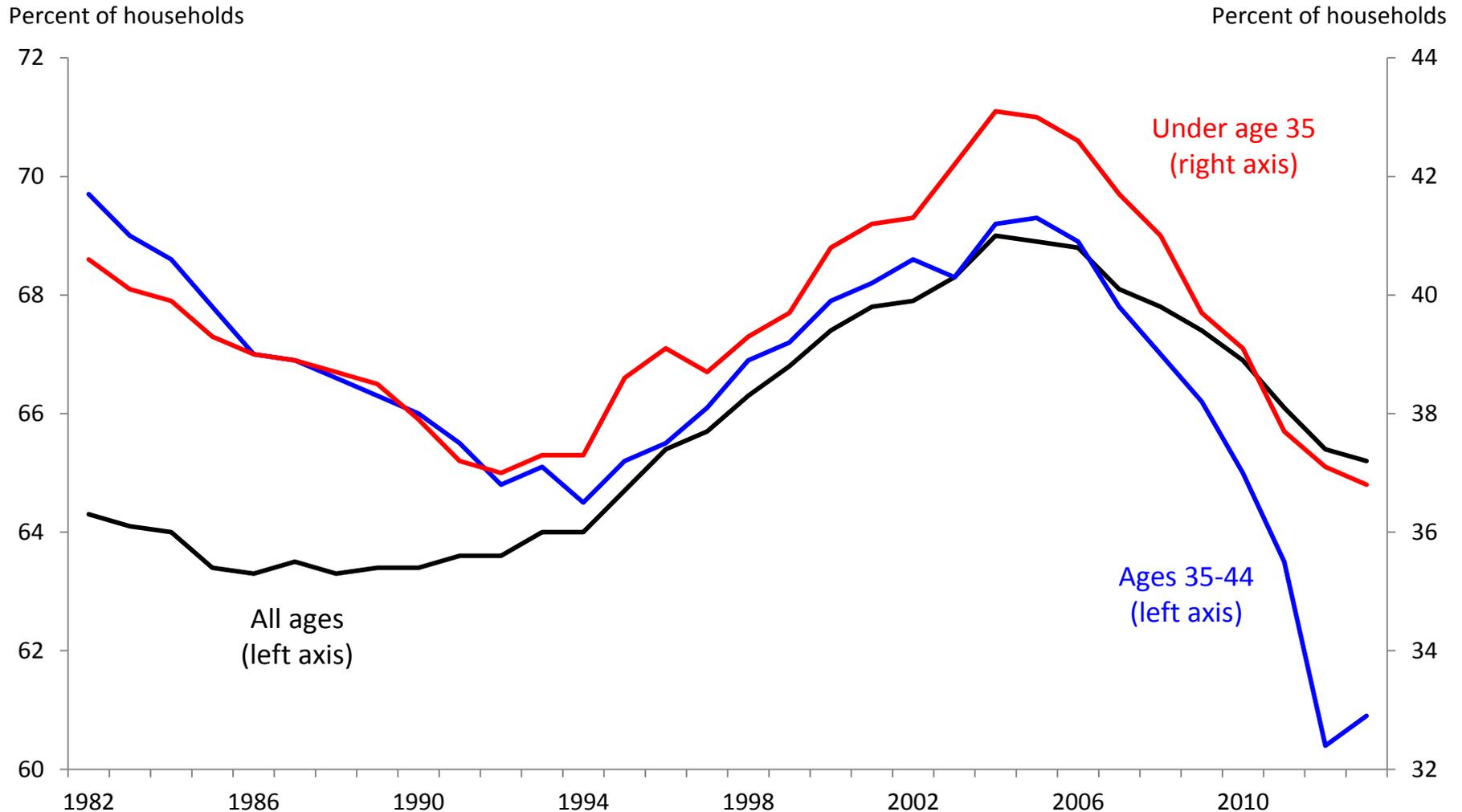
- Mortgage interest rates and Fed policy
- Banks and regulation limits loans for land development amid reports of lot shortages:
 - Limited new construction, amid rising prices
- Homebuyers face tougher credit standards:
 - Some justifiable, help ensure credit worthiness
 - Some unnecessary from cumbersome regulation
 - DFA rule-writing has allayed *some* uncertainty
 - Some uncertainty from possible reform of Fannie and Freddie

III. What's next?

Unusual living and labor market patterns

- Weak labor market recovery
 - delays household formation among young—more boomerang kids, later marriage, and lower birth rate
 - limits numbers of new renters and homeowners
- Weak job and income growth, high student debt, and tighter credit standards lower homeownership rates—especially for young

Rise and fall of homeownership rates very pronounced among younger families



SOURCES: Census Bureau and author's calculations of adjustments for changes in decennial census-related survey procedures to make data more consistent over time.

III. What's next?

Unusual living and labor patterns

- Weak labor recovery
 - Delays young forming new households—more boomerang kids, delayed marriage, and lowers birth rate
 - Limits numbers of new renters and homeowners
- Weak jobs and incomes, high student debt, and tighter credit standards lower homeownership rates—especially for young
- Possible national pick-up in hiring and economic growth could help household formation recover and many qualify for mortgages

Conclusion

- National housing recovery underway, delayed by a harsh winter. Housing recoveries are rarely smooth.
- The recovery in Texas is strong, with house prices exceeding pre-housing bust levels.
- Uncertainty more about the *pace* than the sustainability of the recovery, centering on:
 - the impact of evolving credit standards and regulations
 - the path of mortgage rates, possible Fannie/Freddie reform
 - evolving living patterns of young adults
 - how labor markets recover in terms of jobs and income
- As winter effects unwind, positive feedbacks between the national housing and economic recovery may emerge.



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Q&A**