

The Role of Housing in the Economic Recovery



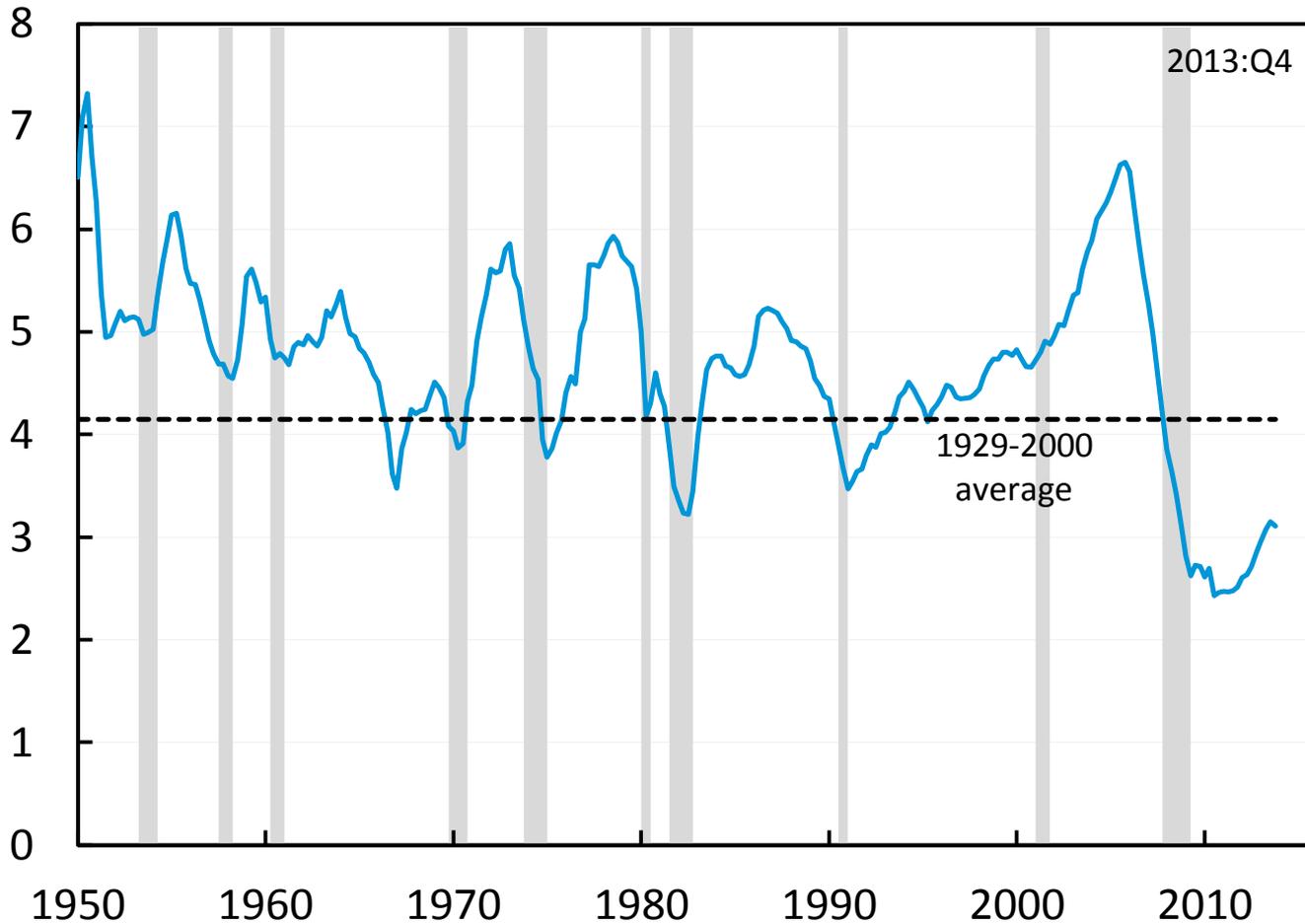
Jason Furman, Chairman, Council of Economic Advisers

April 29, 2014

Residential Investment Plunged to Historic Lows Following the Great Recession

Figure 1. Residential Investment

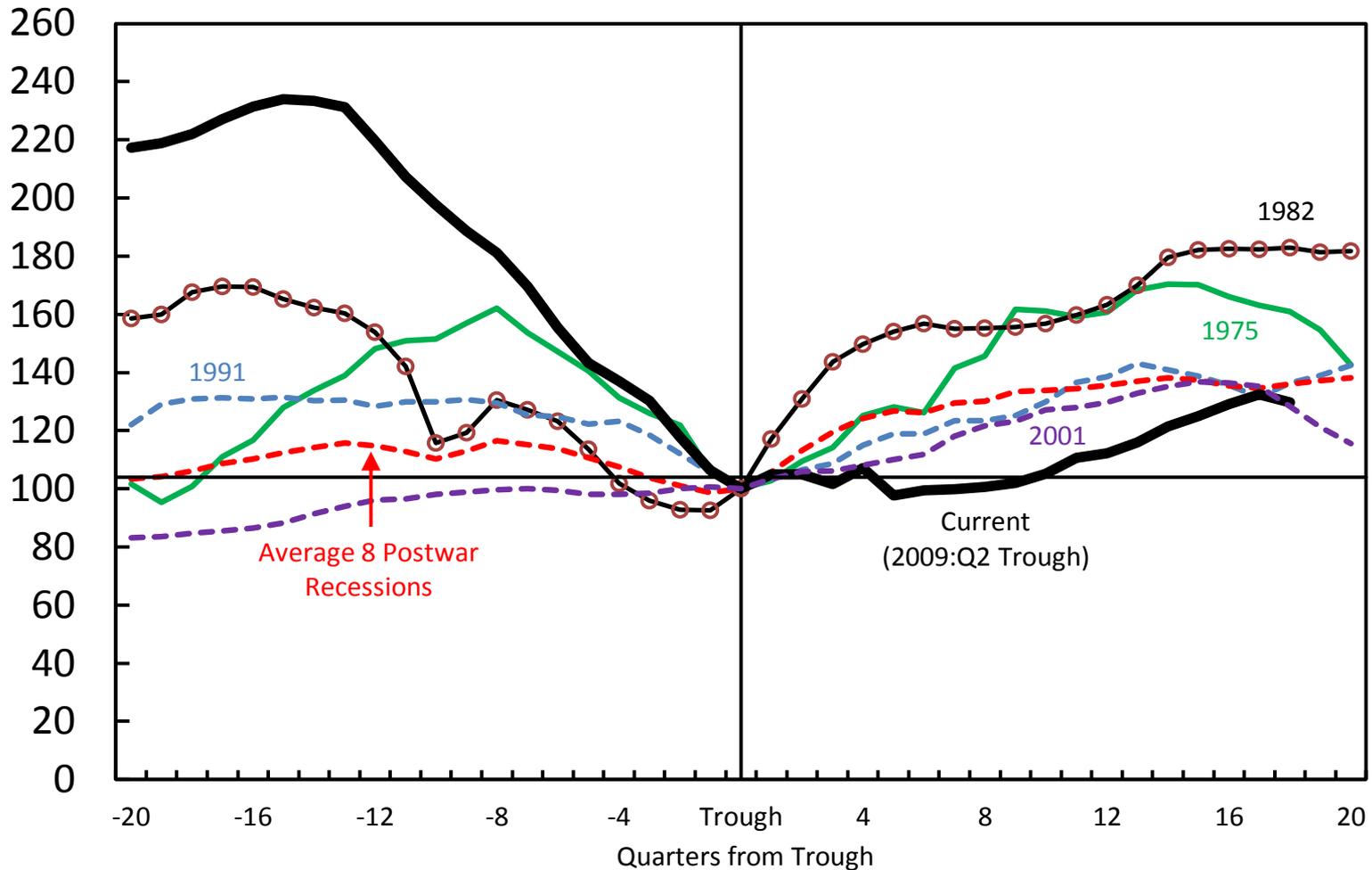
Percent of GDP



The Housing Recovery in the Great Recession Differed from Previous Recoveries Not Just in its Severity but in its Dynamics

Figure 2. Real Residential Investment During Recoveries

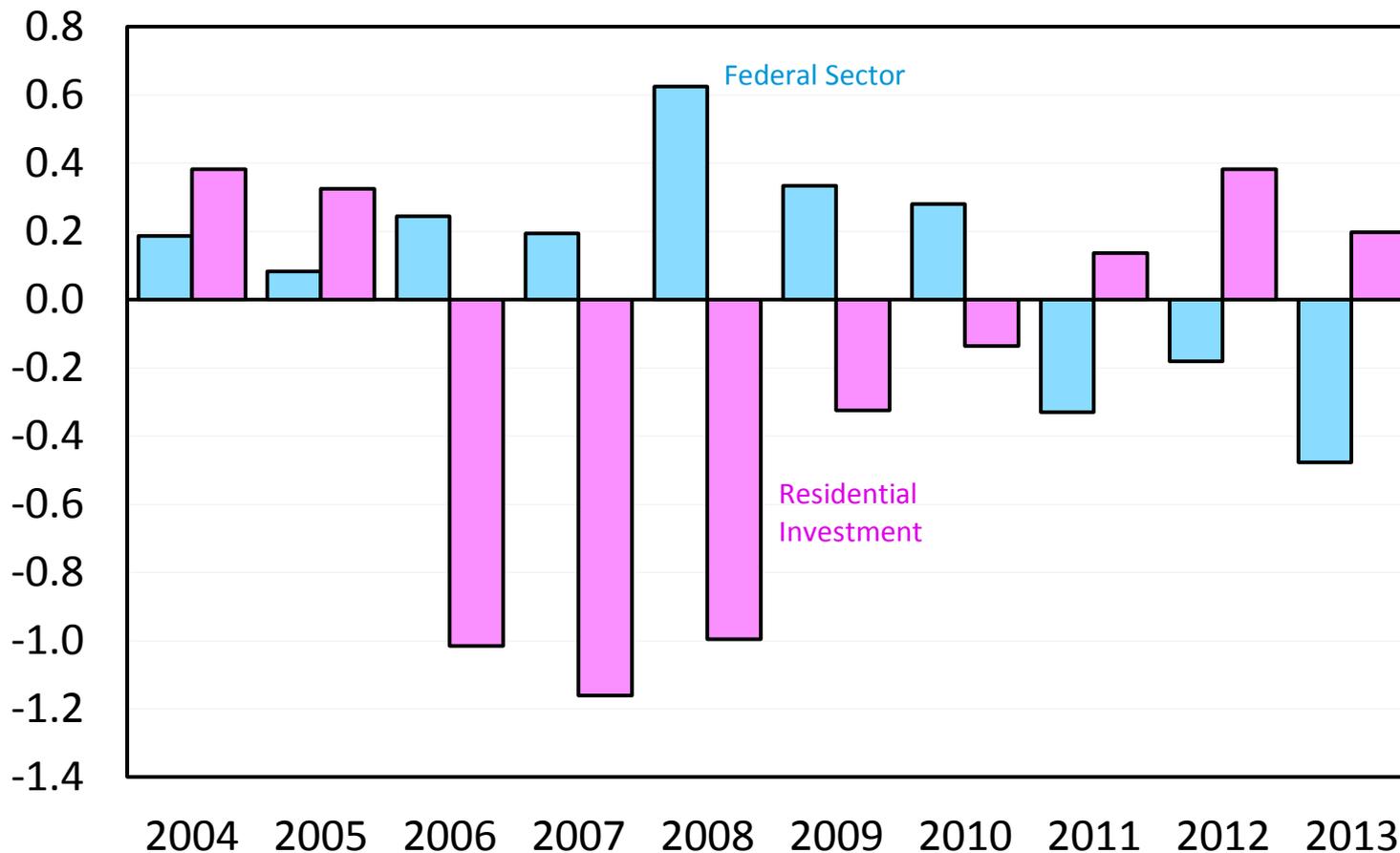
NBER-Defined Cycle Trough = 100



As Fiscal Policy Began to Act as a Headwind to Growth, Residential Investment Turned a Corner

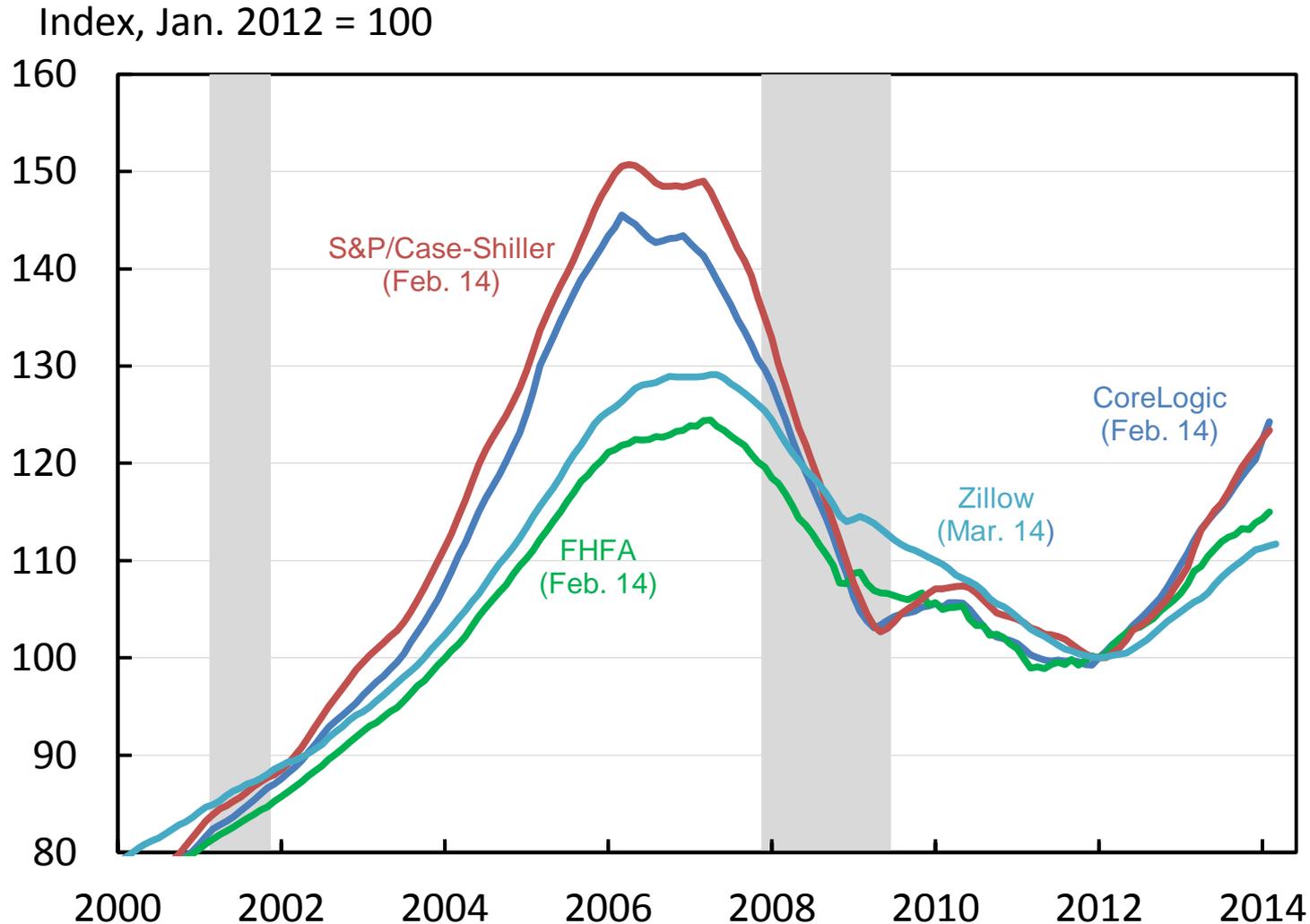
Figure 3. Contributions of Federal Government & Residential Investment to GDP Growth (Q4/Q4 basis)

Percentage points (p.p.)



House Prices Only Started to Recover in 2012 But Have Since Grown at a Robust Pace

Figure 4. National House Price Indices

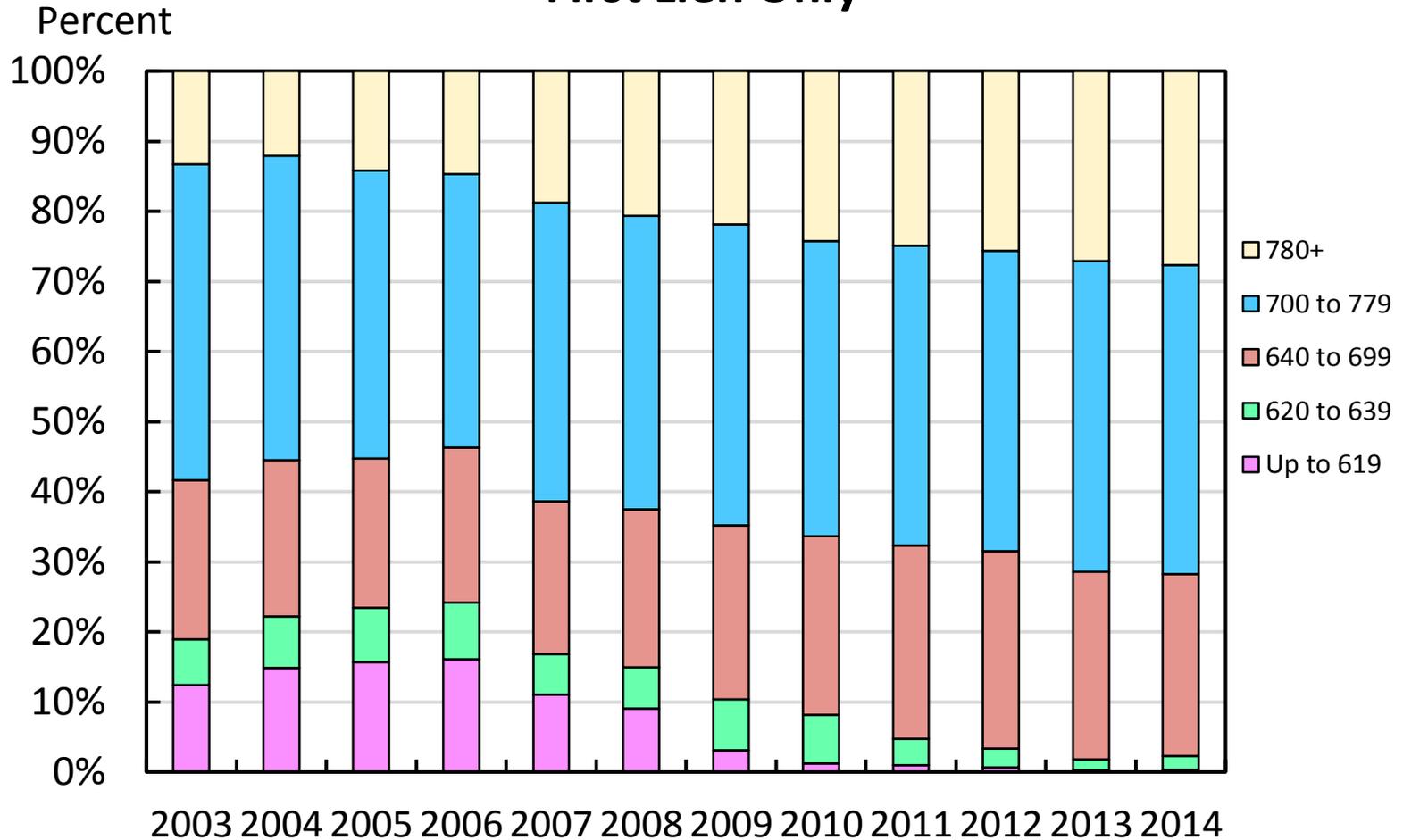


Note: Shading denotes recession.

Source: Zillow; CoreLogic; FHFA; S&P/Case-Shiller.

Credit Availability for Borrowers With Lower FICO Scores Remains Tight

Figure 5. Mortgage Originations by FICO Score, First Lien Only



Note: Figure for 2014 only includes data for January and February.

Mortgage Rates Rose in the Second Half of 2013 But Remain Low by Historical Standards

Figure 6a. Contract Rates on 30-Year Fixed Mortgages

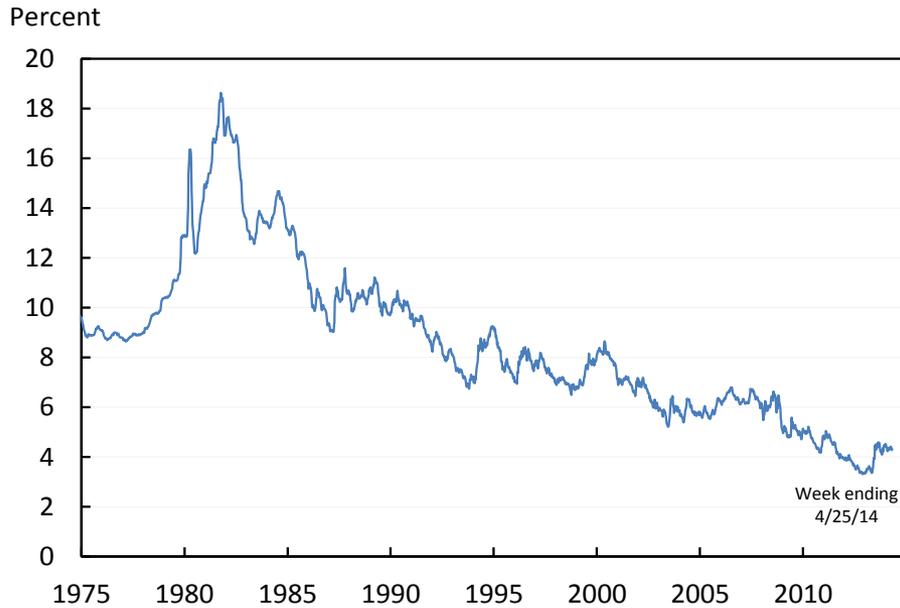
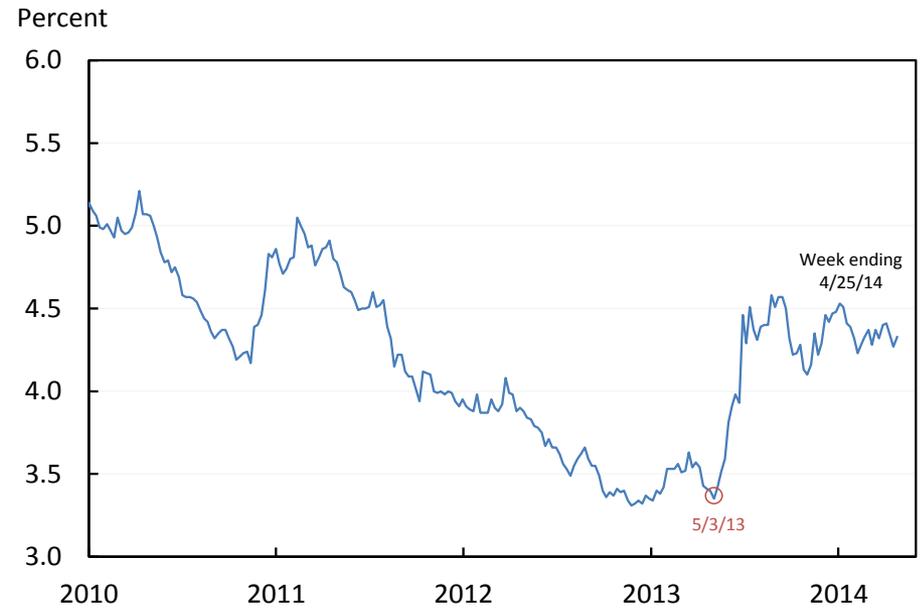


Figure 6b. Contract Rates on 30-Year Fixed Mortgages



Household Formation Has Been Relatively Weak on Average Since 2000

Table 1. Contribution of Selected Determinants for Supply and Demand of Homes

		Millions (annual avg.)				Projections Based on JCHS		
		1970s	1980s	1990s	2000-2013	Low Case 2015-2020	Middle Case 2015-2020	High Case 2015-2020
<i>Demand</i>	Household Formation	1.56	1.34	1.11	0.91	1.23	1.29	1.34
	Change in Vacancies	0.10	0.34	0.19	0.32	0.15	0.15	0.15
	Net Removals (Residual)	0.46	0.06	0.35	0.23	0.33	0.33	0.33
	Total Demand	2.13	1.75	1.65	1.46	1.71	1.77	1.82
<i>Supply</i>	Single-Family	1.14	0.99	1.10	1.04			
	Multi-Family	0.62	0.51	0.27	0.29			
	Mobile Homes	0.37	0.25	0.28	0.13			
	Total Supply	2.13	1.75	1.65	1.46			

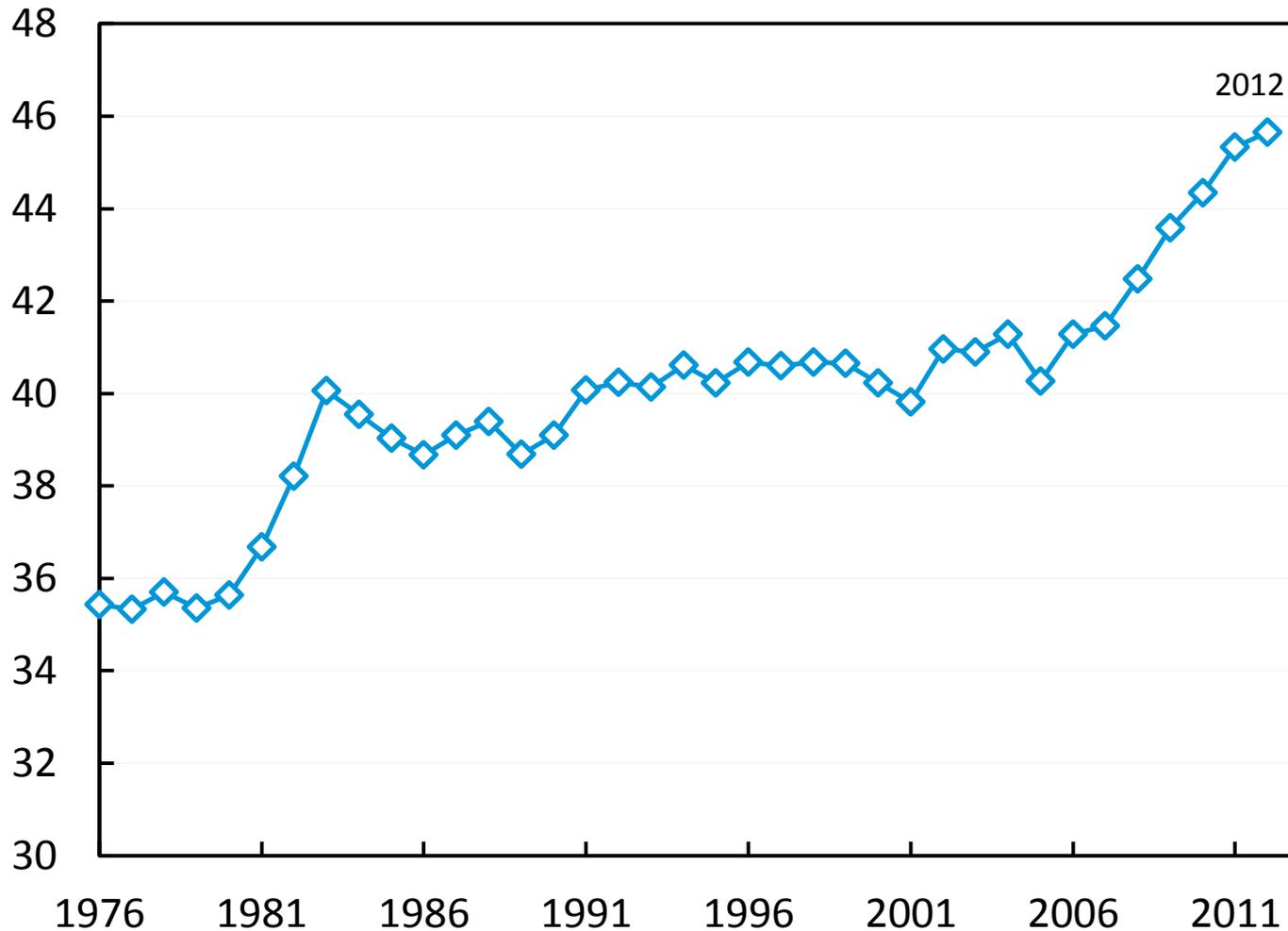
Note: 2010 JCHS projections used for Change in Vacancies and Net Removals.

Sources: Joint Center for Housing Studies (JCHS). Baseline Household Projections for the Next Decade and Beyond (2014); Updated 2010-2020 Household and New Home Demand Projections (2010).

The Percentage of Young Adults Living With Older Family Members Climbed to Historic Highs in 2012

Figure 7. Young Adults Living With Older Family Members

Percent



Demographic Trends Suggest that the Construction Glut Preceding the Great Recession Has Been Largely Worked Off

Figure 8a. Cumulative Over- and Under-Building of Residential and Manufactured Homes, 1996–2014

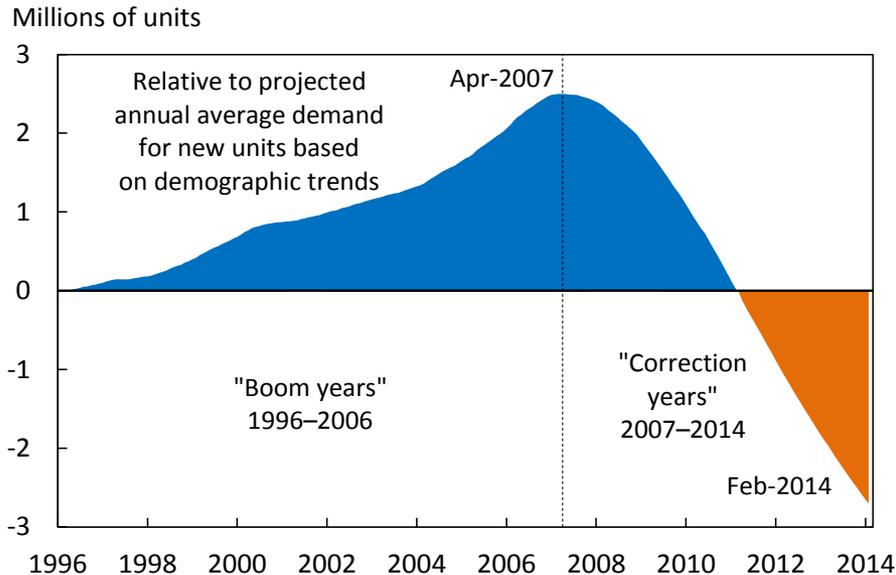
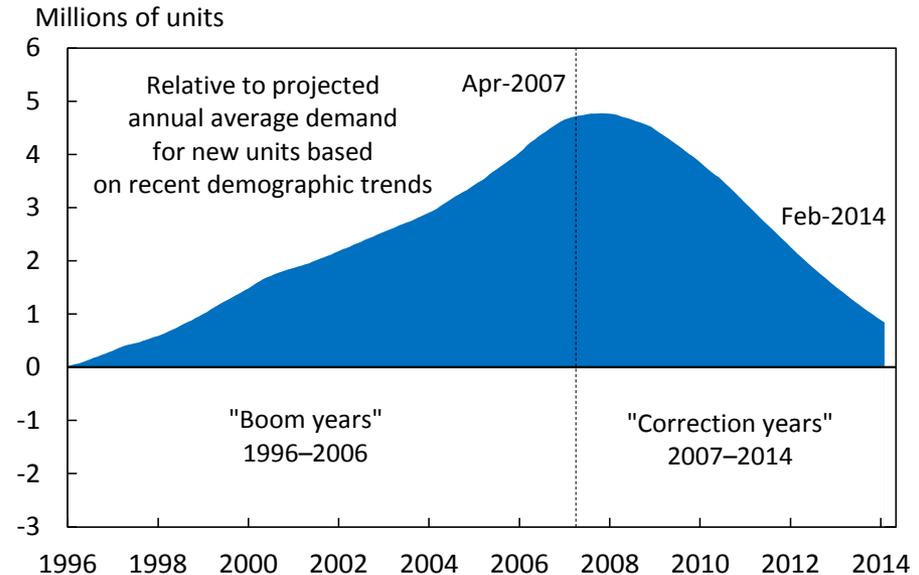


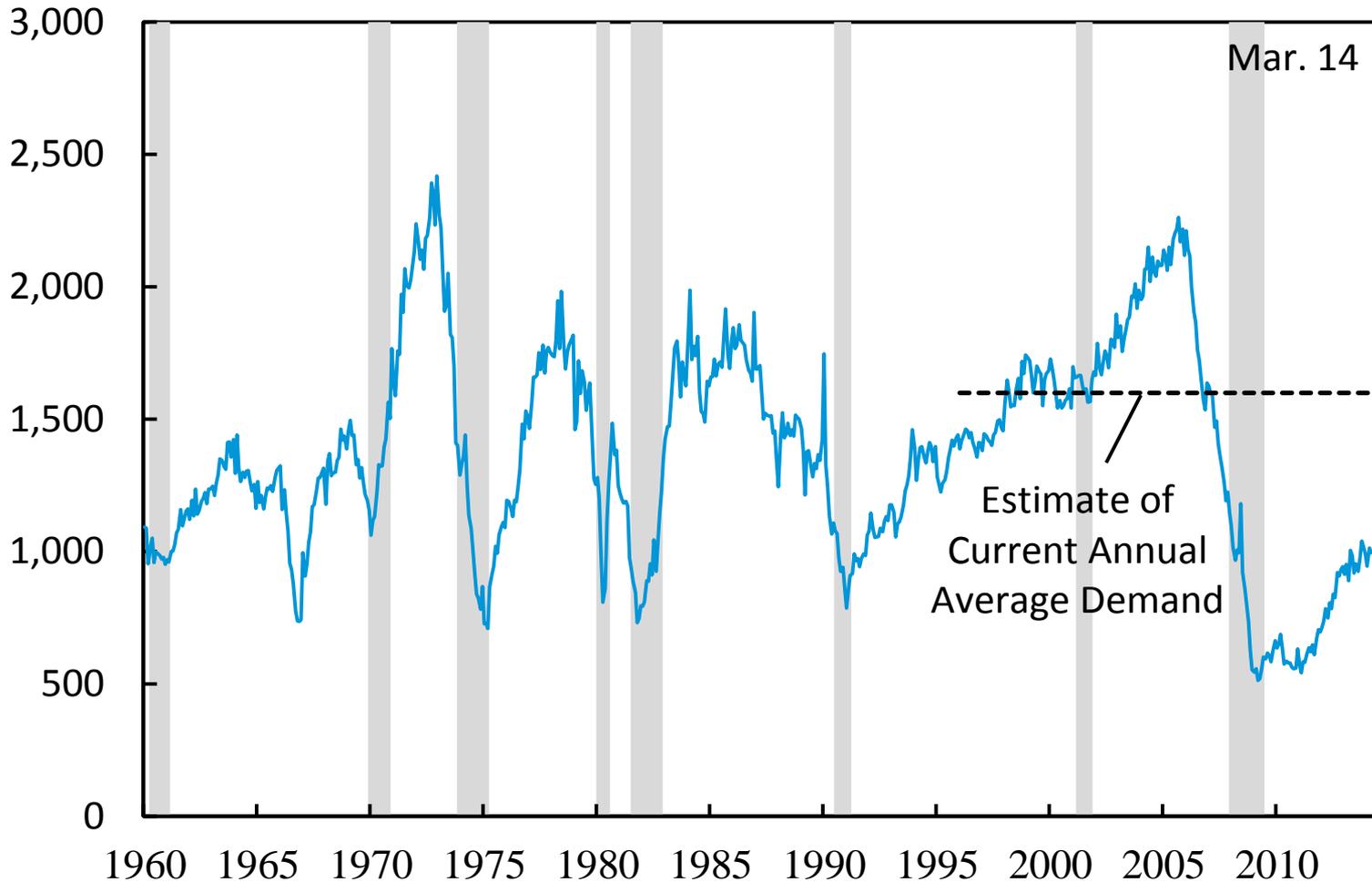
Figure 8b. Cumulative Over- and Under-Building of Residential and Manufactured Homes, 1996–2014



Going Forward, Residential Construction Should Return to Higher Levels Implied by Demographics

Figure 9. Building Permits for New Residential Units

Thousands, seasonally adjusted annual rate



The Housing Sector Is One of the Most Cyclically Volatile in the Economy

Figure 10. Total Private and Residential Construction Employment

