

US housing at mid-year: hitting some turbulence

With the US housing market a bit weak in the second quarter, there could be a pick-up in the second half of the year



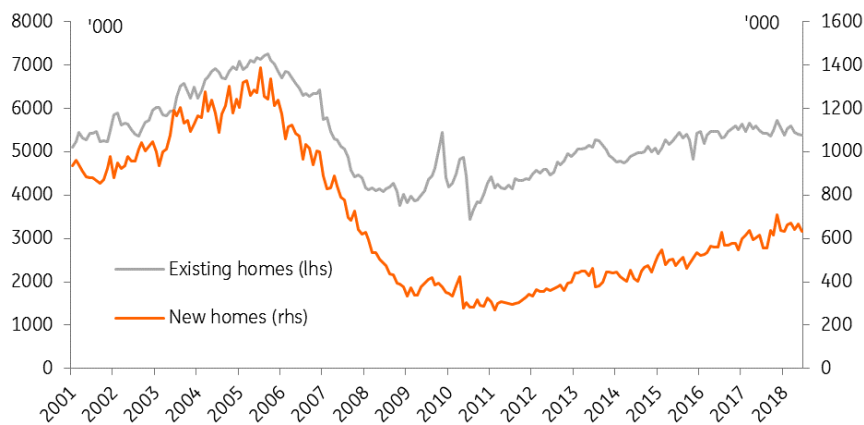
Source: Shutterstock

Sales have fallen...

After a strong start to the year, the US housing market has gone through a bit of a rough patch in the second quarter. Figures for June show that sales of existing homes fell by 0.6% from May, the third month in a row of falling sales. New home sales also fell by 5.3%. This takes existing home sales in June back to the level last seen in mid-2016, while new home sales are broadly flat on the year.

But at least pending home sales, a leading indicator for sales over the next couple of months, rose by 0.9% in June. This snaps a three-month declining trend and suggests sales are likely to pick up into 3Q. But while we expect sales to increase a bit in the second half of the year, a major shift upwards in home sales looks unlikely.

New and existing home sales



Source: Macrobond

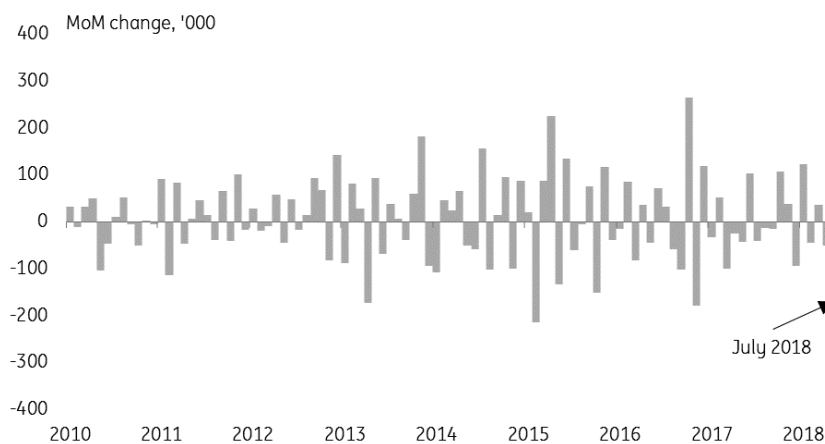
Buyers face difficulties...

The underlying reasons for stagnating sales remain the same: the dearth of supply on the market and worsening affordability. The supply of homes available for sale rose slightly in June, but supply remains near the lowest level on record. Mortgage rates have stabilised over the past couple of months, with the 30-year effective rate remaining just below 5%. But since house prices are rising at around 6.5%, more than twice the rate that wages are, affordability is steadily worsening for the average home-buyer.

And construction is down too

At the same time, new construction fell sharply in June, with new housing starts down 12.3% to 1173k and new permits down 0.9% to 1292k. While this is a very large fall in new starts, large swings in housing starts from month to month are not all that unusual. Typically, a bad month is followed by a recovery in the following months and that's what we'd expect to see in 3Q, though there is, of course, no guarantee that this pattern holds up. Still, with inventory scarce, prices high, and demand still solid, it would be surprising if developers didn't increase construction in the second half of the year.

Monthly change in US housing starts



Source: Macrobond and ING calculations

The economy is booming, why isn't the housing market?

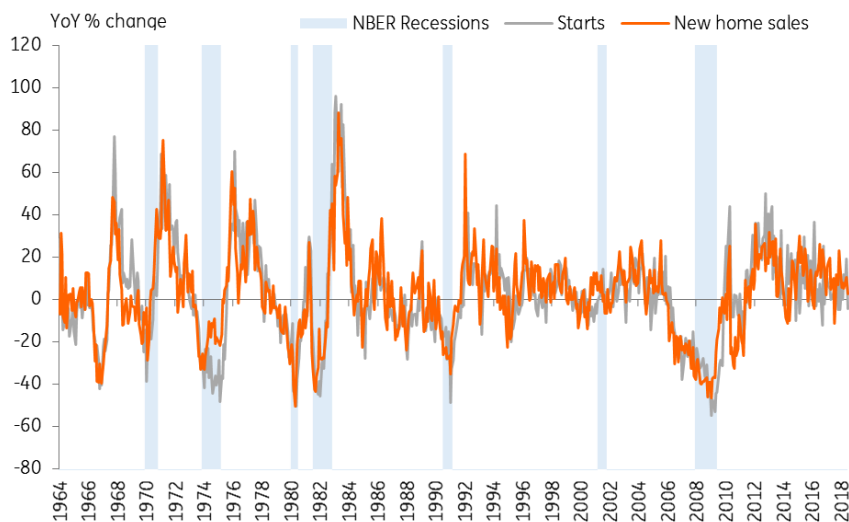
It's a bit surprising, and slightly worrying, to see the housing market struggle at a time when the US economy is booming. With wages increasing, unemployment near record lows, and consumer confidence at all-time highs, the market for homes really should be doing better.

There are a few reasons why housing isn't doing as well as might be expected. The lack of supply and the challenging affordability situation mentioned above are two reasons. Also, the tax cuts Congress passed at the end of last year have boosted disposable income and consumer spending, which is a big part of why the economy is currently growing so strongly. But reductions to the tax benefits of home ownership probably lessened the positive impact on the housing market.

Still, an obvious question to ask at this point is whether housing market softness presages a downturn in the economy. Historically, a slowing housing market tends to precede a slowdown in the economy.

Looking at the rate of new construction and new home sales, which along with house prices are particularly sensitive to economic sentiment and tend to be the most important indicators, doesn't make us too worried. Housing starts and new home sales are still up on a year ago, and while the annual growth rate is falling it is doing so very gradually. We are still some way away from a situation where the housing market is signaling problems ahead for the economy. That said, if we don't see a pickup in new starts and overall housing market activity in the second half of the year, the outlook for the economy in 2019 will start to look worse.

New construction starts/home sales and US recessions



Source: Macrobond and ING calculations

Author

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific
Deepali.Bhargava@ing.com

Ruben Dewitte

Economist
+32495364780
ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee
kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands
marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic
420 770 321 486
david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing
sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China
lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist
michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland
michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania
tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials
marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research
coco.zhang@ing.com

Jan Frederik Slijkerman
Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind
Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Senior Editor and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Oleksiy Soroka, CFA
Senior High Yield Credit Strategist
oleksiy.soroka@ing.com

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Rico Luman
Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen
Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer
Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante
Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klok
Senior Economist, Netherlands
marcel.klok@ing.com

Piotr Poplawski
Senior Economist, Poland
piotr.poplawski@ing.pl

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com