

US housing market motors on

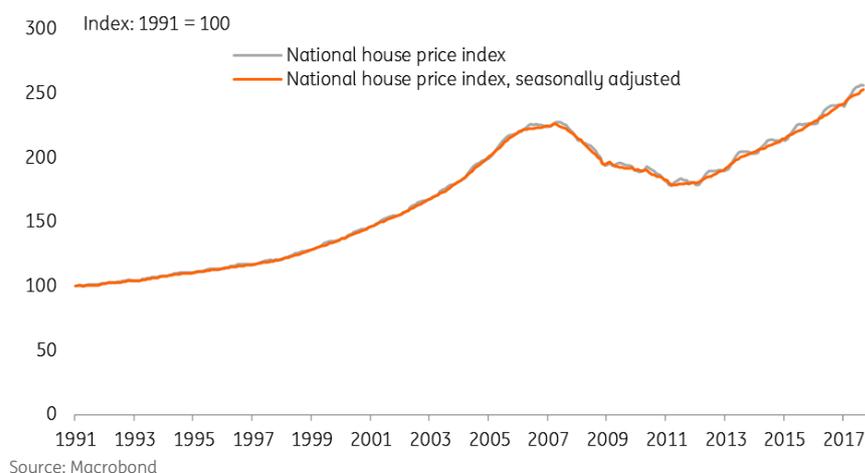
The US housing market continues to strengthen, supporting the Fed's case for gradual rate hikes



House prices increasing steadily

Yesterday's data on the US housing market shows another solid increase in national house price indices, which increased by 6.3% YoY. This continues a decent run for US housing, which has seen a steady improvement since bottoming out in late 2011.

House prices in the US



Price increases look sustainable

The headline price index is now around 12% higher than the pre-crisis peak in 2007, which has prompted some talk of a new housing bubble. But in real terms (adjusting house prices for general inflation) national house prices are still about 10% below peak and, relative to disposable income or interest costs, house prices do not appear elevated.

Compared to other advanced economies, such as Canada, Australia and Sweden, where house prices have increased by double-digit figures in recent years, the pace of US house price increases looks relatively modest. Those markets are more likely to be in bubble territory, and now look set for an adjustment as macroprudential policy dampens demand even as additional supply comes onto the market.

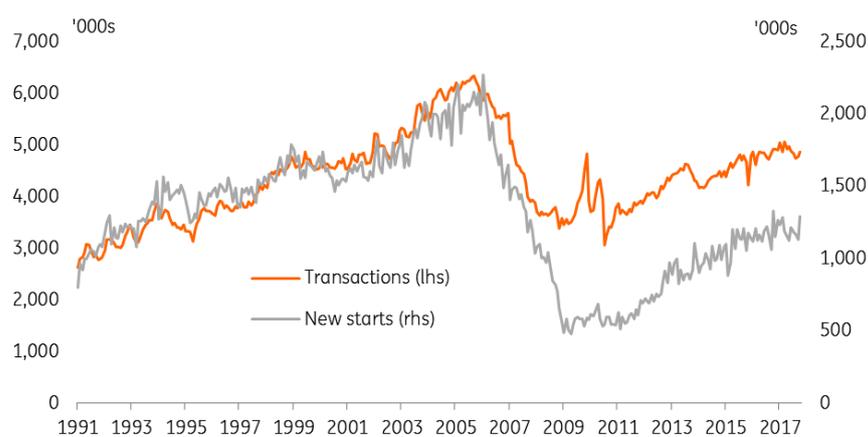
That said, the national figures hide wide divergences between regions. Prices in the cities hit hardest by the housing crash (Florida, Las Vegas, Phoenix) remain well below the 2007 peak. On the other hand, fast-growing cities like San Francisco, Seattle and Denver have seen rapid price increases in recent years. These areas are probably more at risk of a period of adjustment as there are some signs that affordability limits are beginning to bite.

Though tax changes are an unknown

Solid price growth supports robust underlying activity in the housing market, with both new starts and sales growing steadily. As the economy improves further and disposable household income increases, we expect current housing market trends to remain in place. That will support the Fed's ability to continue hiking rates in December and next year.

The tax reform bill currently under discussion in the US Congress is something of a wildcard for housing. While tax cuts could add further to household disposable income growth, proposed changes to deductions for mortgage payments and local property taxes could hit demand, in particular for high-end properties in high-tax locations that will be impacted the most by the current tax proposal.

Housing market activity



Source: Macrobond

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