

US Housing Update: Robust performance

Sales improved in February and prices keep rising; the US housing market remains on track for a solid 2018



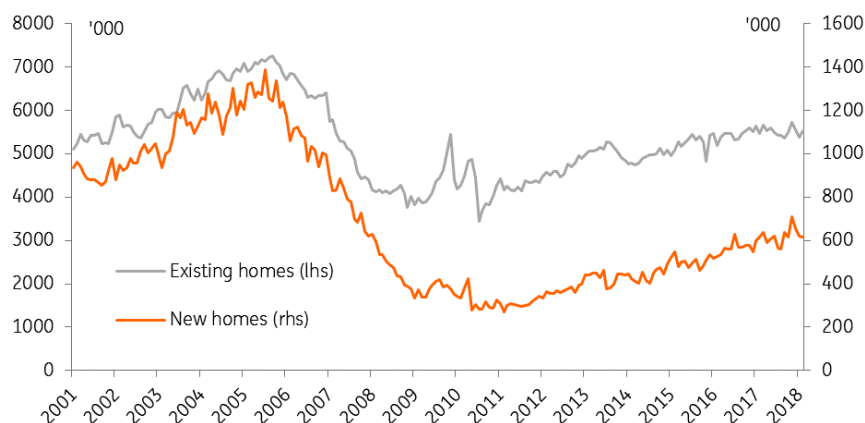
Sales recovered in February

After falling for a couple of months, sales of existing homes rebounded in February, rising by 3% MoM. New home sales also did a bit better in February, falling by 0.6% on the month (and January sales were revised up to -4.7% from -7.8%). Pending homes sales, an indicator for sales in the next two months also increased by 3% on the month, indicating the improvement in sales is likely to continue into spring, though some markets may have been adversely affected by winter storms in March.

The February figures suggest some divergence between existing and new homes. Supply of existing homes remains extremely tight and the National Association of Realtors reports that on average properties are selling in 37 days, down from 45 days this time last year. In contrast, the supply of new homes is at the highest level since the crisis period, partly as a result of a jump in newly completed homes.

Another explanation for this difference could be that new homes tend to be more expensive, especially as developers have targeted the more profitable higher end of the market in recent years. With affordability increasingly stretched by higher prices and rising mortgage rates, buyers appear to prefer the cheaper option of a second-hand house.

Sales of new and existing homes in the US



Source: Macrobond

Prices keep rising

While we expect household income to grow robustly as the US economy expands and a tight labour market pushes wage growth higher, affordability will remain challenging. The December tax reform package also made high-end property more expensive by reducing the tax benefits of homeownership. The S&P CoreLogic 20-city price index increasing by 6.4% YoY in January and mortgage rates set to increase further as the Fed raises rates. We think prices may struggle to rise much faster, and developers selling new homes may have to accept somewhat lower prices in order to move their inventory.

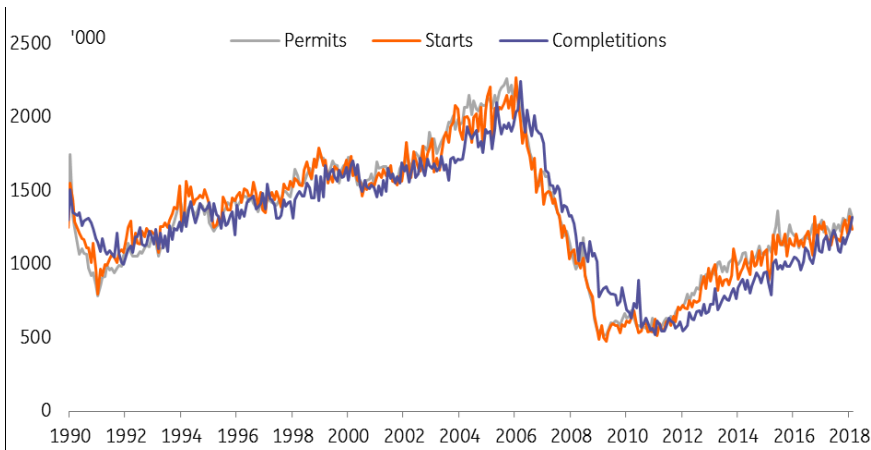
Though new construction fell

Completions of new homes jumped by 95k to 1319k in February. In contrast, new construction softened a bit in February, with new starts falling by 93k to 1236k and new permits by 79k to 1298k. While these are substantial falls, they are well within the norm for month-to-month volatility. Both starts and permits remain above the level seen this time in 2017, and we think spring will see continued gradual increases in construction as the upward trend from 2011 remains in place.

A key question for coming months is whether the outstanding supply of new homes will start to clear. That would encourage developers to increase building further, though given the affordability picture we would expect to see more focus on moderately priced homes.

With solid momentum in the economy, the housing market looks in good health and increasing construction should help the US reach 3% GDP growth in 2018.

New construction of US homes still recovering from the crisis



Source: Macrobond