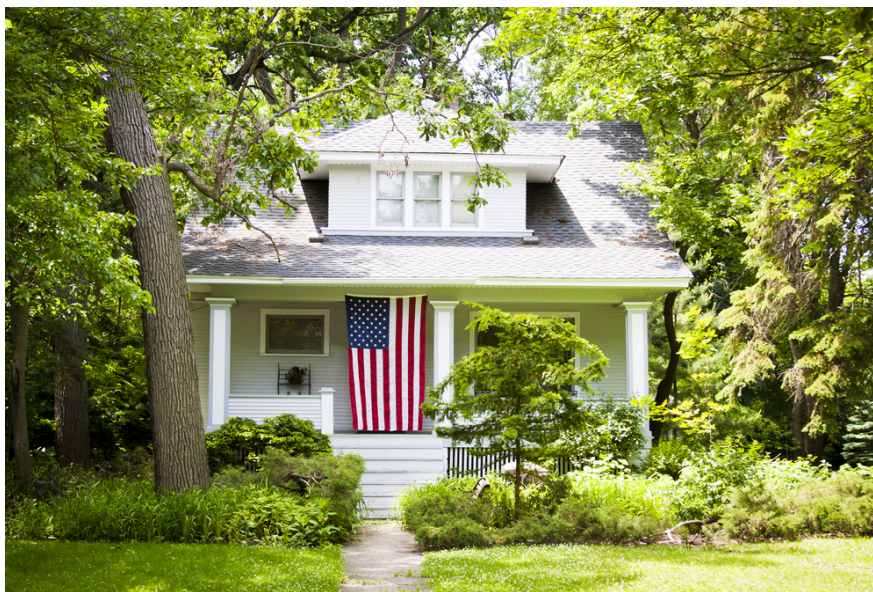


What's going on in the US housing market?

The US housing market is giving mixed signals. We think the trend remains upwards, but headwinds are increasing



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This month's US housing data presents a bit of a mixed bag. On the one hand, new housing starts and permits both increased noticeably to 1.326m and 1.396m respectively. These beat expectations by around 100k and suggests home builders are in a bullish mood.

Robust momentum in the US economy, including a pick-up in wage growth, and low inventory levels suggest new construction is set to increase further in 2018. This will support US growth, which we expect will reach 3%.

The tension between a strong underlying economy and higher costs for homebuyers is increasing and we expect this theme to remain key to the US housing market this year

At the same time, sales data disappointed. Both existing and new home sales fell in January, by 3.2%MoM and 7.8%MoM respectively. Pending home sales, a leading indicator for sales the months ahead fell by 4.7%MoM. These figures are all well below forecasts, which expected an increase in sales.

In itself, lower sales in January is not all that surprising as the start of the year tends to be sluggish for real estate agents. The National Association of Realtors, which compiles sales data, blamed a shortage of houses for the weak sales figures, as inventories are at record lows. Cold weather in the first half of January would have hampered sales as well, though that doesn't seem to have affected housing starts.

But the weak January figures comes after a fall in sales in December. It also coincides with the Trump administration's tax reform – which reduced the tax benefits of homeownership – and a relatively sharp increase in mortgage rates (30-year mortgage rates have increased by around 50bp since the start of the year). That means prospective homebuyers are facing increased costs and may be struggling to afford the prices on offer.

Affordability was already looking stretched in many markets, especially booming cities such as Seattle and Denver. The S&P/Case-Shiller, home price index, continued to increase at a rate of about 6% in December (price data comes out with a two-month delay), and show little sign of slowing down. That makes it more difficult for first-time buyers to break into the housing market.

So the tension between a strong underlying economy and increased costs for homebuyers is increasing. We expect this theme to remain key to the US housing market this year. It is too early to say whether the weakness in sales we've seen early this year is temporary or the start of something more worrying.