Market Spotlight | Housing Report

Home Prices and New Construction Extend Upswing

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Housing

The S&P/Case-Shiller Home Price Index of 20 major U.S. markets is one of the most respected and closely watched barometers of the housing market. Recent data showed average home prices rising 4.9% year-over-year in April, the 32nd consecutive month of year-over-year growth since June 2012. The April rate was slightly lower compared to March, but solidly ahead of rates posted in late 2014.

Looking ahead, no one has a crystal ball on the direction of home prices. However, we expect a continuation of price gains; a moderate range of 4.0-5.0%. Supporting our theory, many market observers are pointing to low inventories – a 5.1-month supply, according to the National Association of Realtors -- as a driver of price trends, and this metric implies mid-single-digit price gains. Coincidentally, these numbers are in line with the average since the end of the great recession.

The housing trend appears intact and moving forward. Price gains, while positive, may draw more "shadow inventory" into the market. These homes, owned by banks, create excess supply and may prevent prices from soaring at double-digit rates anytime soon. This, in our opinion is a positive; rapid growth is not always best for long-term growth. For the record, the average price change since 2008 has been negative 1.2%. Against that benchmark, the current reading should contribute to positive consumer sentiment trends. In contrast, prices bottomed around 2012 followed by rapid expansion. Today, that rapid expansion is starting to fade.

Construction

Construction spending rose a solid 0.8% in May, safely above economist consensus for a 0.5% gain. April is revised fractionally lower to a 2.1% jump but the March gain, in a special positive, was revised sharply higher, to 1.3% from 0.5%. Areas of special strength include manufacturing facilities, up 6.2% in the month for a fourth straight outsized gain that belies declines in other measures of business investment.

Turning to the key residential construction component, growth was not as strong, at a moderate 0.3% for a second straight month. But year-on-year rates are still very solid with total spending on residential construction up 7.8%. Spending on single-family homes is up 11.2% year-on-year. Housing prices are on a consistent rise and recent spikes in housing permits point to new acceleration in residential construction. Construction is quickly shaping up as one of the lead sectors of the 2015 economy and a tailwind for the improving economy.

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