An Overview of the U.S. Economy with an Eye Toward the Housing Markets

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Outline

1. Overview of Macroeconomic Conditions

2. Assessment of Demand for Housing in U.S. Housing Markets

3. Future Outlook
1. What is the Current State of the U.S. Economy (and Why does it Still feel like a Recession)?

• Note: National Bureau of Economic Research (NBER) declared the Great Recession from: December 2007 – June 2009

• This means the recession ended over 4 years ago!
FIVE YEARS LATER...

CRIMEY, GINGER! CAN IT BE...

THE RECOVERY?!!
Real Output of U.S. Economy

Real GDP in Billions of Chained $2009
1Q 2007 - 2Q 2013

Source: BEA Tables: Table 1.1.6 Real Gross Domestic Product, Chained Dollars
Growth Rate of U.S. Economy

Percent Change in Real GDP 1Q 2007 - 2Q 2013

Source: BEA Tables: Table 1.1.1
Inflation

GDP Price Index (Base Year 2009)


Source: BEA Tables 1.1.4

Great Recession
Gasoline Prices

Weekly U.S. Regular Conventional Retail Gasoline Prices (Dollars per Gallon), January 2007 - Present

Great Recession

Source: http://www.eia.gov/petroleum/gasdiesel/
San Diego Leading Economic Indicators

USD Leading Economic Indicators, San Diego, Jan. 2007 - Aug. 2013

Source: USD Leading Economic Indicators, Alan Gin, http://home.sandiego.edu/~agin/usdlei/
National Leading Economic Indicators


Great Recession

Source: USD Leading Indicators--Conference Board
San Diego vs. National Index

San Diego Index of Consumer Confidence vs. National Index of Leading Economic Indicators

Source: USD Leading Economic Indicators, Alan Gin, http://home.sandiego.edu/~agin/usdlei/
Federal Budget Surplus/Deficit

Real On-Budget Surplus or Deficits
1929 - 2013 (Billions of $2009)

Source: Federal Budget, FY 2013, Historical Tables 1.1; http://www.whitehouse.gov/omb/budget/historicals; 2013 Value is an Estimate
Macroeconomic Conditions Summary

• Growth: Positive but slow
• Inflation: Low
• Gasoline Prices: Moderate
• Economic Indicators: Positive but low
• Federal Government Spending: Large deficits but appear to be declining
Other Factors

• Creating uncertainty:
  – European sovereign debt crisis and recession
  – U.S. fiscal uncertainty
    • Budget
    • Debt Ceiling
    • Congress
2. Assessment of Demand for Housing in U.S. Housing Markets

• Demand includes willingness and ability to buy
• Let’s begin with “ability to buy.”
Ability to Pay Includes . . .

• Employment
• Income
• Wealth
• Price of Housing
• Lending Practices
Total Nonfarm Employment (Jobs),

Source: BLS, Series I.D. CES0000000001; 2 M Jobs Lost Since Great Recession. Nonfarm. Seasonally Adjusted

Great Recession

Source: Based on Calculations from BLS, Series I.D. CES0000000001. Total Nonfarm Employees. Seasonally adjusted.
Mean Unemployment Rate for U.S. from 1950 – 2011: 6.0%; Full Employment considered 5.5%
Unemployment Rates by Race/Ethnicity

Unemployment Rate for Persons 16+ by Race/Ethnicity, Jan '07 - Sept. '12

Source: BLS
Unemployment Rates for Youth vs. Total U.S. Pop. 16+

Youth and Total Unemployment Rate (Unadjusted),

Great Recession

Percent

Month-Year

Source: BLS

U.R. for 16 - 19

U.R. for all 16+
Unemployment Rates by Gender

Unemployment Rates by Gender,

Great Recession

Source: BLS
Unemployment Rates by Educational Attainment

Unemployment Rate for 25 Years and Over, by Educational Attainment

Values are Seasonally Adj. for January of Each Year

Source: BLS, from CPS, accessed 2/24/12 and 10/9/12; Aug, 2013: LT HS: 11.3%
Educational Attainment by Race/Ethnicity—Bachelor’s

Percent of Population with Bachelor's Degree

Source: *Educational Attainment in the United States: 2009*, Table 1, U.S. Census Bureau
Note: Categories are for Asian alone, N-H White alone, Black alone, Hispanic of any race.
Educational Attainment by Race/Ethnicity—Master’s

Percent of Population with Master's Degree

Source: *Educational Attainment in the United States: 2009*, Table 1, U.S. Census Bureau

Note: Categories are for Asian alone, N-H White alone, Black alone, Hispanic of any race.
Educational Attainment by Race/Ethnicity—Professional Degree

Percent of Population with Professional Degree

Source: Educational Attainment in the United States: 2009, Table 1, U.S. Census Bureau
Note: Categories are for Asian alone, N-H White alone, Black alone, Hispanic of any race.
Percent of U.C. Undergraduates by Race/Ethnicity, 2011

- Non-Hispanic White: 38% of Total CA Pop. 2010
- Hispanic: 19% of Total CA Pop. 2010
- Black: 4% of Total CA Pop. 2010
- Asian: 37.6% of Total CA Pop. 2010

Source: The University of California Statistical Summary of Students and Staff Fall 2011, Table 7k; U.S. Census Bureau Redistricting 2010 (CA), Table 2. Note: values are approximate. Enrollment values based on one-race only, and population totals are for all ages, not 18 – 22.
Median Household Income

Median Real Household Income U.S.
1990 - 2012

Source: CPI-U-R-S Constant 2012 Adjusted Dollars
Rising stock prices and a recovery in the real estate market have helped US household net worth reach new records in the second quarter. We believe these improvements should support a modest acceleration in consumer spending this year, especially on big-ticket durable goods.

Continued strong gains in asset prices have sweetened household portfolios. At the end of the second quarter, US household net worth reached $74.8 trillion (Display 1), up $1.4 trillion from the previous quarter, according to a report issued this week by the Federal Reserve. This increase brings the cumulative improvement, since the current economic recovery started, US households have been generally risk averse, allocating huge sums to fixed income and extracting monies from equities. According to the Fed report, US individuals have withdrawn nearly $1 trillion from the stock market over the past four years.

Source: Joseph G. Carson, Alliance Bernstein, 9/27/13

**Equity Flows Have Risen**
Equity Flows Have Risen

In recent weeks, there has been a change in sentiment and individuals have been reallocating new money to the equity market. New equity flows have totaled about $32 billion over the past 12 weeks, according to weekly reports from the Investment Company Institute. However, it is still too early to say that this is a permanent shift in behavior, as individuals still seem to be ready to quickly move funds away from risky investments on any flow of bad news, in our view.

Moreover, households appear skeptical that the recent windfall in financial assets is likely to be permanent, as market volatility has risen whenever the Fed has signaled that it might begin to scale back

Display 2
Improved Financial Cover for Household Debts

As of June 30, 2013
Liquid assets are financial assets minus insurance and pension fund reserves.
Source: Federal Reserve Board, Haver Analytics and Alliance Bernstein

Source: Joseph G. Carson, Alliance Bernstein, 9/27/13
Price-Earnings Ratios (CAPE)

Shiller PE Ratio ("CAPE" Ratio)
Monthly Data from Jan 1 1881 - Sept 19 2013


Price earnings ratio is based on average inflation-adjusted earnings from the previous 10 years, known as the Cyclically Adjusted PE Ratio (CAPE)
Home Prices
Case-Shiller Monthly Housing Index
Jan 2000 - Jul 2013

New Housing Costs

Price Index of New Single-Family Houses Under Construction
(Laspeyres (Fixed))

Source: U.S. Census Bureau. 2005 = 100.
New Single-Family Housing Price Index

Price Indexes of New Single-Family Houses Sold Including Lot Value

Federal Reserve Interest Rate Targets – Whither the Taper?

• Recent Fed OMC Announcement (9/18/13) that the “taper” will be delayed has brought interest rates down.


Federal Reserve FOMC Language:

“However, the Committee decided to await more evidence that progress will be sustained before adjusting the pace of its purchases. Accordingly, the Committee decided to continue purchasing additional agency mortgage-backed securities at a pace of $40 billion per month and longer-term Treasury securities at a pace of $45 billion per month. The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. Taken together, these actions should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative, which in turn should promote a stronger economic recovery and help to ensure that inflation, over time, is at the rate most consistent with the Committee's dual mandate.”

Primary Mortgage Market Survey (U.S. Weekly Averages)

As of September 26, 2013

Source: Freddie Mac
Interest Rates

10-Year Bond and 30-Year Conv. Mortgage Rates

Source: H15 Interest Rate Series from Federal Reserve; Accessed 9/27/13; Sept. 2013 data from daily reported rate as of 9/26/13
Lending Practices/Standards

- Recent evidence that FICO scores
- “Last month, 30% of all successful applicants for home mortgages had FICO credit scores less than 700, compared with 15% a year earlier.” (LATimes, Sept. 20)
- “Average FICO scores are down across the board. Conventional Fannie Mae-Freddie Mac scores for approved applicants dropped a point from July to August to 758. That's still high in historical terms but down from 764 in November.” (LATimes, Sept. 20)
- Wells Fargo reduced minimum downpayment for jumbo loans from 20% to 15%. (LATimes, Sept. 20)
Willingness to Purchase Housing Depends on . . .

• New household formation (children)
• Opportunity cost (rental costs)
Total Fertility Rates

Total Fertility Rate per 1000 Women
1970 - 2011

Source: National Vital Statistics Report, Table 4. (Vol. 61, No. 1 and Vol. 62, No. 1) Fertility rate all lower in < 25 Yrs. Old Categories; all higher in > 25 Yrs. Old Categories since 1990; The TFR > 2100 in '71, '72, '06, '07
Births in U.S.—Buyers and “Motivators”

Number of Live Births in U.S.
1940 - 2012

Housing Rentals from CPI

2003 - 2013

Housing Prices--From CPI
2003 - 2013 (Biennial)

Year (Biennial) Source: BLS, CUUR0000SAH
Summarizing Willingness and Ability to Purchase Housing

• Ability to Pay
  – Employment: Weak but improving
  – Income: Flat in real terms
  – Wealth: Improving (stock market and real estate) though some weakness in bond markets
  – Price of Housing: Rising—likely due to land values
  – Lending Practices: Mortgage lenders seem to be easing requirements
  – The demographics of buyers: small Gen-X cohort will be aging out of the 25 – 45 year-old demographic, replaced by larger Millennial cohort.
Summarizing Willingness and Ability to Purchase Housing

• Willingness to Pay
  – New household formation (children): Birth rates spiked in 2006-07, but have been falling since 2007 spike.
  – Opportunity cost (rental costs): Apartment rental costs rising gradually
Audience Input

• Your thoughts about U.S. economy?
• Your thoughts about willingness and ability to pay?
• Issues that may have been missed/omitted?
• Other related issues?
• Thank you!