

Economics Group

Special Commentary

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Housing Demographics Turn More Positive

Household growth is strengthening, boosting home sales and rental demand

Lower mortgage rates have not yet proved to be a panacea for the housing market, but should boost sales later this year. The rate for a conventional fixed mortgage has dipped back down to around 4%, and rates for 15-year and jumbo mortgages are now back near their post-crisis lows. While mortgage applications have risen, demand for new and existing homes has been mixed at best. Sales of existing homes fell 1.7% in June and have totaled just 2.521 million units through the first six months of 2019, 4.1% below last year's pace. Sales of new homes rose 7% in June but sales for the prior three months were revised much lower. New home sales through the first half of 2019 are still running slightly ahead of their year-ago pace, with the non-seasonally adjusted data showing 353,000 homes sold across the country, which is 1.7% ahead of the first six months of last year.

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The lack of improvement is not all that surprising. Home sales have been up against fairly solid year-ago comparisons. The second half of 2018 saw sales progressively weaken, however, as interest rates rose more than expected, which means home sales began 2019 well below where they were this time last year. With interest rates now falling, both new and existing home sales should rise modestly in 2019, even if they merely remain at their current pace. We expect sales will do a little better than that. Mortgage purchase applications have risen 6.2% over the past year. There has also been modest improvement in prospective buyer traffic, and pending home sales have increased solidly the past two months and are up year-over-year for the first time in 17 months.

The economics and demographics for home buying are also improving. Job and income growth have remained remarkably strong and wage and salary gains have accelerated. Nonfarm payrolls are up 1.5% year-over-year and rose an average 172,000 per month in the first half of 2019. Total wages and salaries are up 5.4%, which is stronger than previously thought. Home price appreciation has also moderated, with the median price of an existing home rising just 4.3% over the past year. New home prices are up even less, with the median price edging up just 1.0% to \$317,000, as homebuilders focus more intently on modestly priced homes.

Figure 1

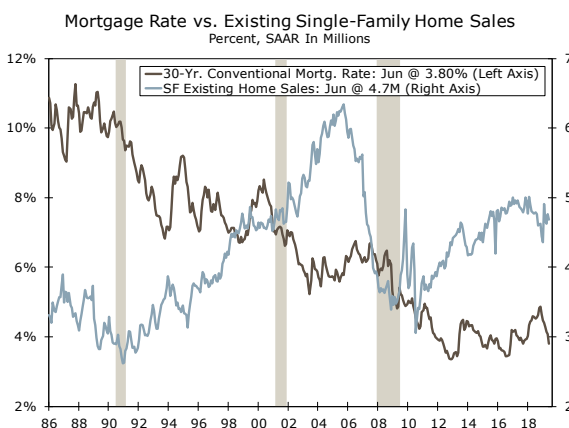
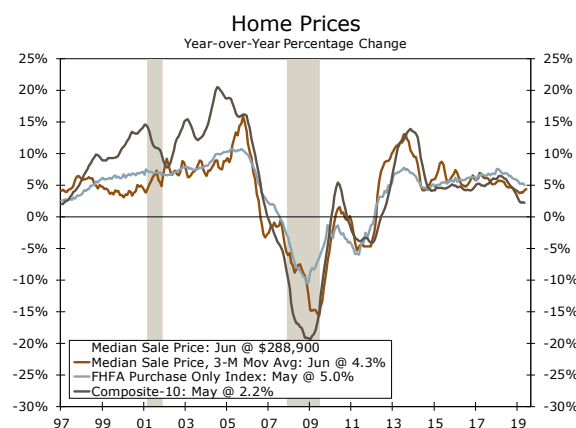


Figure 2



Source: Freddie Mac, National Association of Realtors, FHFA, S&P/Case-Shiller and Wells Fargo Securities

Together we'll go far



One of the greatest hurdles to a stronger housing recovery has been lackluster household formation.

The Demographics for Housing are Improving

One of the greatest hurdles to a stronger housing recovery has been lackluster household formation. Measuring households is imprecise, however. The most accurate estimates come from the decennial census. The Current Population Survey and the American Community Survey are published annually, however, and bi-annual data are available from the Census of Housing. The most frequent data come from the Quarterly Housing Vacancy Survey, but this series is extremely volatile. We find the year-over-year change of a three-year moving average is roughly consistent with other measures. The most recent data show household growth accelerating to 1.4 million per year. By contrast, household growth slowed to less than 600,000 per year from mid-2009 to mid-2011. We believe actual household growth is now somewhat slower at around 1.2 million per year.

The acceleration in household formation likely stems from the continued improvement in the labor market, which now appears to be spreading well beyond the handful of major markets that led the nation’s recovery from the Great Recession. Broadening economic growth has encouraged more young people to move out on their own. After trailing population growth for several years, household growth among young persons has ramped back up in line with population. The pickup should provide a second wind to apartment demand just as huge new supplies hit the market.

Homeownership should also get a boost as more Millennials are approaching major life milestones, such as marriage, having children and buying a home. The leading edge of Millennials—those born between 1981 and 1996—turn 38 this year, and the largest cohort of Millennials by birth year turns 30, which means a rising number will soon be reaching life milestones in coming years. According to Census data, the median age of a first marriage is currently 29.8 for men and 27.8 for women. This might help explain why one of the fastest growing expenses for Millennials is coming up with the money needed to attend friends’ destination bachelor and bachelorette parties.

Typically, starting a family provides the catalyst for home buying. Millennials, however, are waiting longer to have children. The average age a women has her first child is 26.8 years, up 1.6 years since 2009. A growing proportion of women, particularly college graduates, are waiting even later, often until their 30s. Even after having a child, many are content to remain in apartments, which are near their network of friends, workplaces and favorite entertainment venues. Eventually celebrating their children’s birthdays at breweries will grow old and more Millennials will migrate to the suburbs, boosting demand for starter homes. The shift may be more gradual than many expect.

The improved economic and demographic environment, coupled with the prospect of lower interest rates, should produce a more favorable environment for home sales, new home construction and apartment demand. Both owner and renter households grew solidly over the past year, resulting in fewer vacant homes for-sale and for-rent. While affordability challenges will likely continue to keep many renters in apartments for another year or two, a rising number are now looking to buy. We are looking for new home sales to rise 4.4% this year and expect existing sales to rise 1.7%.

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Figure 3

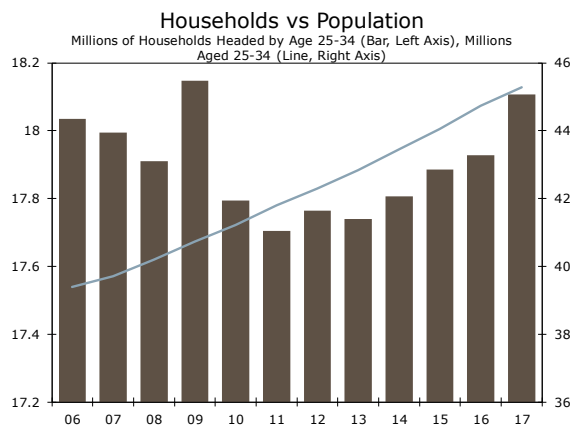
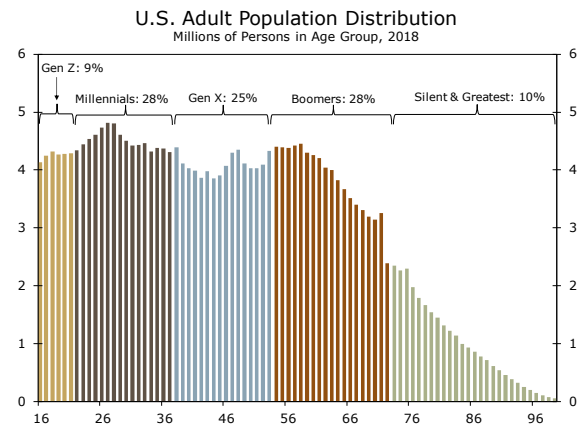


Figure 4



Source: U.S. Department of Commerce and Wells Fargo Securities

National Housing Outlook

											Forecast	
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2019	2020
Real GDP, Percent Change	1.6	2.2	1.8	2.5	2.9	1.6	2.2	2.9	2.6	2.1	2.6	2.1
Residential Investment, Percent Change	-0.1	13.0	12.4	3.9	10.1	6.5	3.3	-0.3	-1.8	1.7	-1.8	1.7
Nonfarm Payroll Change (Avg. Monthly)	173	181	192	251	227	193	179	223	162	131	162	131
Unemployment Rate	8.9	8.1	7.4	6.2	5.3	4.9	4.4	3.9	3.7	3.5	3.9	3.7
Home Construction												
Total Housing Starts, in Thousands	608.8	780.6	924.9	1,003.3	1,111.9	1,173.7	1,202.9	1,250.0	1,275.0	1,295.0	1,275.0	1,295.0
Single-Family Starts, in Thousands	430.5	535.3	617.7	647.8	714.6	781.5	848.9	875.7	895.0	920.0	895.0	920.0
Multifamily Starts, in Thousands	178.3	245.3	307.2	355.5	397.3	392.2	354.0	374.3	380.0	375.0	380.0	375.0
Home Sales												
New Home Sales, Single-Family, in Thousands	305.0	369.0	429.0	439.0	501.0	561.0	613.0	617.0	644.0	663.0	644.0	663.0
Total Existing Home Sales, in Thousands	4,260.0	4,660.0	5,090.0	4,940.0	5,250.0	5,450.0	5,510.0	5,340.0	5,430.0	5,500.0	5,430.0	5,500.0
Existing Single-Family Home Sales, in Thousands	3,787.0	4,128.0	4,484.0	4,344.0	4,646.0	4,838.0	4,892.0	4,742.0	4,825.0	4,890.0	4,825.0	4,890.0
Existing Condominium & Co-op, in Thousands	477.0	528.0	603.0	591.0	608.0	614.0	619.0	601.0	605.0	610.0	601.0	610.0
Manufactured Homes												
Total Shipments, in Thousands	51.6	54.9	60.2	64.3	70.5	81.1	92.9	96.6	95.1	98.0	96.6	98.0
Percent Change	3.1	6.3	9.7	6.8	9.7	15.0	14.5	3.9	-1.5	3.0	3.9	-1.5
Home Prices												
Median New Home, \$ Thousands	227.2	245.2	268.9	288.5	294.2	307.8	323.1	326.8	328.5	332.5	326.8	328.5
Percent Change	4.8	7.9	9.7	7.3	2.0	4.6	5.0	1.1	0.5	1.2	1.1	0.5
Median Existing Home, \$ Thousands	166.1	176.8	197.1	208.3	222.4	233.8	247.2	259.3	270.0	280.7	259.3	270.0
Percent Change	-3.7	6.4	11.5	5.7	6.8	5.1	5.7	4.9	4.1	4.0	4.9	4.1
FHFA Purchase Only Index, Percent Change	-4.2	2.9	7.1	5.1	5.3	6.0	6.6	6.6	5.0	4.4	6.6	5.0
S&P Case-Shiller C-10 Home Price Index, Percent Change	-3.5	0.3	11.7	7.9	4.6	4.5	5.3	5.4	3.4	3.2	5.4	3.4
Interest Rates - Annual Averages												
Federal Funds Target Rate	0.25	0.25	0.25	0.25	0.27	0.52	1.13	1.96	2.31	2.00	1.96	2.31
Prime Rate	3.25	3.25	3.25	3.25	3.27	3.52	4.13	4.96	5.31	5.00	4.96	5.31
10-Year Treasury Note	2.78	1.80	2.35	2.54	2.14	1.84	2.33	2.91	2.23	2.40	2.91	2.23
Conventional 30-Year Fixed Rate, Commitment Rate	4.46	3.66	3.98	4.17	3.85	3.65	3.99	4.54	3.95	4.00	4.54	3.95

Forecast as of: July 30, 2019

Source: U.S. Dept. of Commerce, U.S. Dept. of Labor, FRB, FHFA, FHLMC, National Association of Realtors, S&P, Wells Fargo Securities

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