The Role of Housing in the Economic Recovery

Jason Furman, Chairman, Council of Economic Advisers
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Residential Investment Plunged to Historic Lows Following the Great Recession

Figure 1. Residential Investment

Percent of GDP

Note: Shading denotes recession. Source: Bureau of Economic Analysis.
The Housing Recovery in the Great Recession Differed from Previous Recoveries Not Just in its Severity but in its Dynamics

Figure 2. Real Residential Investment During Recoveries

NBER-Defined Cycle Trough = 100

Source: Bureau of Economic Analysis.
As Fiscal Policy Began to Act as a Headwind to Growth, Residential Investment Turned a Corner

Figure 3. Contributions of Federal Government & Residential Investment to GDP Growth (Q4/Q4 basis)

Source: Bureau of Economic Analysis.
House Prices Only Started to Recover in 2012 But Have Since Grown at a Robust Pace

Figure 4. National House Price Indices

Index, Jan. 2012 = 100

Note: Shading denotes recession.
Source: Zillow; CoreLogic; FHFA; S&P/Case-Shiller.
Credit Availability for Borrowers With Lower FICO Scores Remains Tight

Figure 5. Mortgage Originations by FICO Score, First Lien Only

Note: Figure for 2014 only includes data for January and February.
Mortgage Rates Rose in the Second Half of 2013 But Remain Low by Historical Standards

Figure 6a. Contract Rates on 30-Year Fixed Mortgages

Figure 6b. Contract Rates on 30-Year Fixed Mortgages

Source: Federal Reserve Board, H.15.
Household Formation Has Been Relatively Weak on Average Since 2000

Table 1. Contribution of Selected Determinants for Supply and Demand of Homes

<table>
<thead>
<tr>
<th>Projections Based on JCHS</th>
<th>Low Case</th>
<th>Middle Case</th>
<th>High Case</th>
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<tbody>
<tr>
<td>Household Formation</td>
<td>1.23</td>
<td>1.29</td>
<td>1.34</td>
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<tr>
<td>Change in Vacancies</td>
<td>0.15</td>
<td>0.15</td>
<td>0.15</td>
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<tr>
<td>Net Removals (Residual)</td>
<td>0.33</td>
<td>0.33</td>
<td>0.33</td>
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<tr>
<td>Total Demand</td>
<td>1.71</td>
<td>1.77</td>
<td>1.82</td>
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<table>
<thead>
<tr>
<th></th>
<th>1970s</th>
<th>1980s</th>
<th>1990s</th>
<th>2000-2013</th>
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<tbody>
<tr>
<td>Single-Family</td>
<td>1.14</td>
<td>0.99</td>
<td>1.10</td>
<td>1.04</td>
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<td>Multi-Family</td>
<td>0.62</td>
<td>0.51</td>
<td>0.27</td>
<td>0.29</td>
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<tr>
<td>Mobile Homes</td>
<td>0.37</td>
<td>0.25</td>
<td>0.28</td>
<td>0.13</td>
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<tr>
<td>Total Supply</td>
<td>2.13</td>
<td>1.75</td>
<td>1.65</td>
<td>1.46</td>
</tr>
</tbody>
</table>

Note: 2010 JCHS projections used for Change in Vacancies and Net Removals.

Sources: Joint Center for Housing Studies (JCHS). Baseline Household Projections for the Next Decade and Beyond (2014); Updated 2010-2020 Household and New Home Demand Projections (2010).
The Percentage of Young Adults Living With Older Family Members Climbed to Historic Highs in 2012

Figure 7. Young Adults Living With Older Family Members

Source: Bureau of Labor Statistics; CEA calculations.
Demographic Trends Suggest that the Construction Glut Preceding the Great Recession Has Been Largely Worked Off

Figure 8a. Cumulative Over- and Under-Building of Residential and Manufactured Homes, 1996–2014

![Graph illustrates the cumulative over- and under-building of residential and manufactured homes from 1996 to 2014, with a focus on the "boom years" from 1996 to 2006 and the "correction years" from 2007 to 2014.](image)

Figure 8b. Cumulative Over- and Under-Building of Residential and Manufactured Homes, 1996–2014

![Graph illustrates the cumulative over- and under-building of residential and manufactured homes from 1996 to 2014, with a focus on the "boom years" from 1996 to 2006 and the "correction years" from 2007 to 2014.](image)

Source: Census Bureau; CEA calculations.
Going Forward, Residential Construction Should Return to Higher Levels Implied by Demographics

Figure 9. Building Permits for New Residential Units
Thousands, seasonally adjusted annual rate

Source: Census Bureau; CEA calculations.
The Housing Sector Is One of the Most Cyclically Volatile in the Economy

Figure 10. Total Private and Residential Construction Employment

12-month percent change

-30 -25 -20 -15 -10 -5 0 5 10 15


Total Private
Residential Construction

Mar. 2014