



Sales Chat With Your Morning Coffee

Thursday, May 23, 2019

Lower Interest Rates Not Enough to Solve Affordability Woes

The overall economy recorded a notable 3.2% annualized GDP growth rate during the first quarter of 2019. However, it was the fifth consecutive quarter of negative contributions to economic growth from residential fixed investment (a measure of single-family building, apartment development and remodeling). Even with lower mortgage interest rates, housing affordability is relatively the same as it was a year ago. The NAHB/Wells Fargo Housing Opportunity Index found only 61% of new and existing homes were affordable to a typical household. Rising construction costs remain a key issue affecting housing affordability; year to date, material costs have increased 3.2%, outpacing inflation.

Despite these concerns, builder confidence remains solid. The NAHB/Wells Fargo Housing Market Index increased three points in May to a level of 66 — the highest reading since October 2018. However, the uptick in builder confidence has not produced substantial gains in residential construction activity — yet. While single-family starts increased 6.2% in April, they remain 4.5% lower than they were at the start of 2018. Single-family permit activity in April was at its lowest pace since October 2016. And while multifamily permit activity is 8.9% higher on a year-to-date basis compared to 2018, multifamily starts have declined thus far in 2019.

Individual submarkets reflect this weakness in the housing data. The accelerating townhouse construction market, for example, stalled at the start of 2019, declining by 13% on a year-over-year basis. Single-family built-for-rent activity also declined, with its market share falling to less than 5% of single-family starts. Custom home building, challenged by growing inventory of existing homes, was relatively flat at the start of 2019 with a stable 19% market share.

Prices of Building Materials Edge Higher in April

BY DAVID LOGAN on MAY 9, 2019 • (0)

Prices paid for goods used in residential construction increased 0.8% in April (not seasonally adjusted) according to the latest Producer Price Index (PPI) released by the Bureau of Labor Statistics. Prices have risen more quickly thus far in 2019 (+3.2%) than they did during the same period in 2018 (+2.8%) and are at their highest level since last October (see below).

Consistent with weekly data published by Random Lengths, the PPI report shows that softwood lumber prices declined in April. After climbing 0.5% in March, prices paid for softwood lumber decreased 1.4% over the prior month. While the PPI for softwood lumber has fallen 12.6% over the last 12 months, 95% of that decline occurred in 2018. OSB prices fell 3.9% in April, the fourth decrease over the past seven months.^[1] During that period, prices have fallen roughly 30%.

The recent downward trend in prices paid for gypsum products reversed course in

April, as prices increased 2.2% (seasonally adjusted). Even after the increase, prices paid for gypsum products have fallen 6.8% and 8.1% since the start of 2019 and August 2018, respectively.

Diesel fuel prices also reversed course, albeit modestly, in April. After increasing 8.4% and 12.7% in February and March, respectively, prices paid for diesel fuel decreased 1.5% last month.

The price of ready-mix concrete rose 1.7% in April, marking only the second time in the last four years that prices have increased by 1% or more.

Flat Conditions for Custom Home Building

BY ROBERT DIETZ on MAY 20, 2019 • (0)

NAHB's analysis of Census Data from the Quarterly Starts and Completions by Purpose and Design survey indicates custom home building was effectively flat over recent quarters.

There were 29,000 total custom starts for the first quarter of 2019. This was down slightly compared to the first quarter of 2018 (31,000). Over the last four quarters, custom housing starts totaled 170,000. This was a 1.2% decline compared to the prior four quarters (172,000). Note that this definition of custom home building does not include homes intended for sale, so the analysis uses a narrow definition of the sector. As measured on a one-year moving average, the market share of custom home building in terms of total single-family starts is now 19%, down from a cycle high of 31.5% set during the second quarter of 2009.

The onset of the housing crisis and the Great Recession interrupted a 15-year long trend away from homes built on the eventual owner's land. As housing production slowed in 2006 and 2007, the market share of this not-for-sale new housing increased as the number of single-family starts declined. The share increased because the credit crunch made it more difficult for builders to obtain AD&C credit, thus producing relatively greater production declines of for-sale single-family housing.

Recent declines in market share are due to an acceleration in overall single-family construction, especially in spec home building. As this part of the market cools due to declining affordability, the market share for custom homes will continue to level off.

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