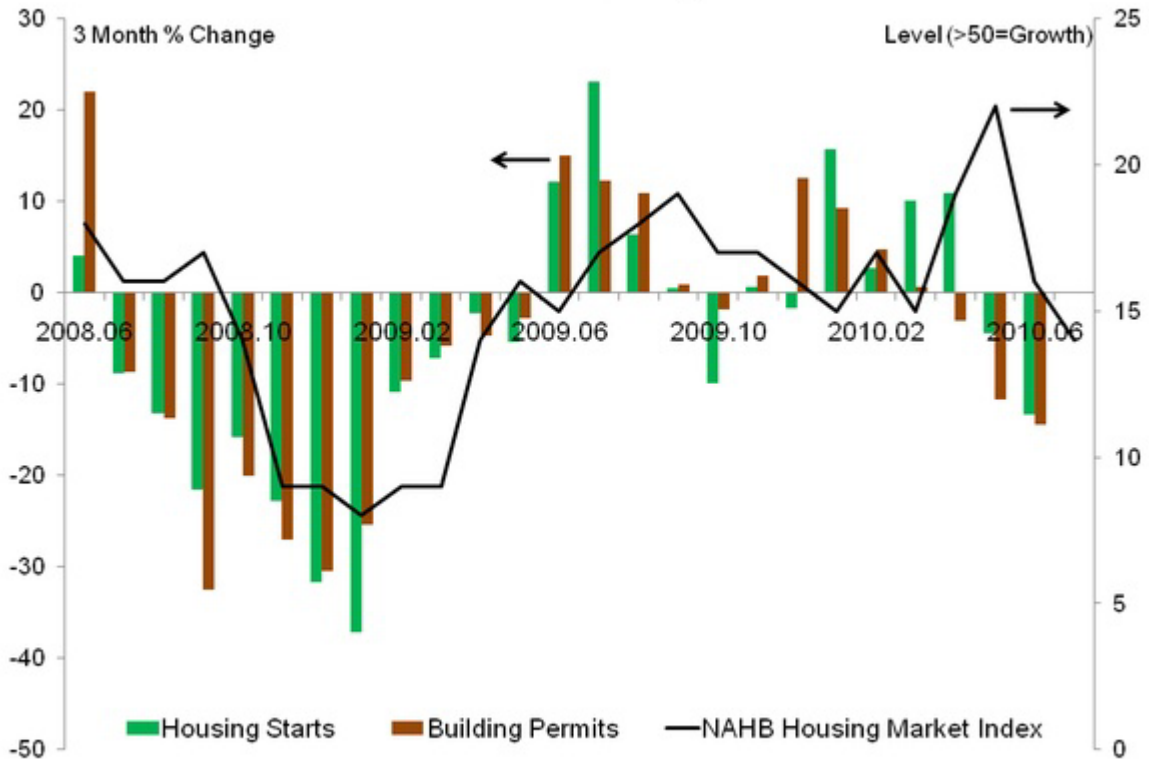




The State of the Housing Market



Source: U.S. Department of Commerce, National Association of Homebuilders

July 26, 2010

All four of last week's economic indicators declined. Most of the news involved the housing sector. As expected, a negative backlash is taking place in the wake of the end of the homebuyer tax credit in April. (To read all of last week's indicators, see the Latest Economic Reports section below.)

The expectation that the end of the homebuyer tax credit would create a pendulum effect in the housing market is coming to fruition. After an initial swing into positive growth, housing activity is now swinging back in the other direction. As depicted in the chart above both housing starts (see green bars) and building permits (see brown bars) posted relatively strong gains during the first quarter of the year. However, in the three months ending in June, both of these measures of housing activity fell at the fastest rates since January 2009.

Similarly, the National Association of Home Builders (NAHB) housing market index declined to a level of 14 in July -- the lowest level since April 2009 -- after rising significantly in the April-May period (see **black line** in the chart above.) A level of 50 indicates growth.

As with the initial 2009 homebuyer tax credit, which temporarily boosted housing activity in the second half of last year, the extension of the credit to April 2010 had a similar temporarily positive effect on the housing market and related manufacturing industries earlier this year.

This week, a number of important indicators will be released. On Friday, the Commerce Department's initial estimate of second quarter GDP growth will likely show that the economy grew at an annual rate of about 2 percent in the second quarter, after 2.7 percent growth in the first quarter. July regional manufacturing reports and June durable goods orders will provide more evidence about how the economy is faring in the first month of the third quarter.

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Latest Economic Reports

Last Week's Economic Indicators:

Color Code

Positive (improving)

Positive (slowing)

Unchanged

Negative (improving)

Negative (declining)

Residential Construction (June)

Housing starts fell in June to an annualized level of 549,000, the lowest level in eight months. Both single family and multi-family housing starts fell in June, though 90 percent of the June decline was in multi-family units (condos, row homes, etc..) that are extremely volatile from month-to-month.

Following an even larger decline in May (106,000 units), the recent declines were payback from the surge in activity in March and April that took place as the homebuyer tax credit was coming to an end.

This Week's Indicators:

Monday

New Home Sales (June)

Dallas Fed Manufacturing Survey (July)

Tuesday

Home Prices (May)

Consumer Confidence (July)

Richmond Fed Manufacturing Report (July)

Wednesday

Durable Goods Orders (June)

Thursday

Weekly Jobless Claims

Kansas City Fed Manufacturing Report (July)

Friday

Q2 GDP (Advanced)

Employment Cost Index (Q2)

Consumer Sentiment (July)

Housing permits, which are a more forward-looking measure of housing activity, edged up slightly last month to an annualized level of 586,000 units. This increase was due to a rise in multi-family units. Single-family building permits fell, but at a much slower pace than the prior two months. This is hopeful evidence that the backlash from the end of the homebuyer tax credit could be temporary.

Existing Home Sales (June)

Sales of existing homes fell 5.1 percent in June to an annualized level of 5.37 million units. Though sales are at their lowest level since March, they are still up nearly 10 percent compared to a year ago.

NAHB Housing Market Index (July)

Following a large decline in June, the National Association of Home Builders (NAHB) housing market index fell again in July to a level of 14, the lowest level since April 2009 and the 51st consecutive month below the growth threshold level of 50.

As mentioned above, the housing market is suffering the lingering effects of stimulus-induced activity in recent months.

Weekly Jobless Claims

Following a decline of 31,000 the prior week, initial claims for unemployment insurance increased by 37,000 to 464,000 for the week ending July 17, the largest rise in nearly six months.

New claims have been extremely volatile over the past few weeks due in part to retooling shutdowns that typically take place in the manufacturing sector this time of year.

Therefore, news about the state of the labor market will likely remain murky for several more weeks.

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Questions or Comments?
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