



ECONOMIC PERSPECTIVES

A REVIEW OF HOUSING STATISTICS AT THE END OF 2019

Authored by Brian Jones, FHLB NY Financial Economist

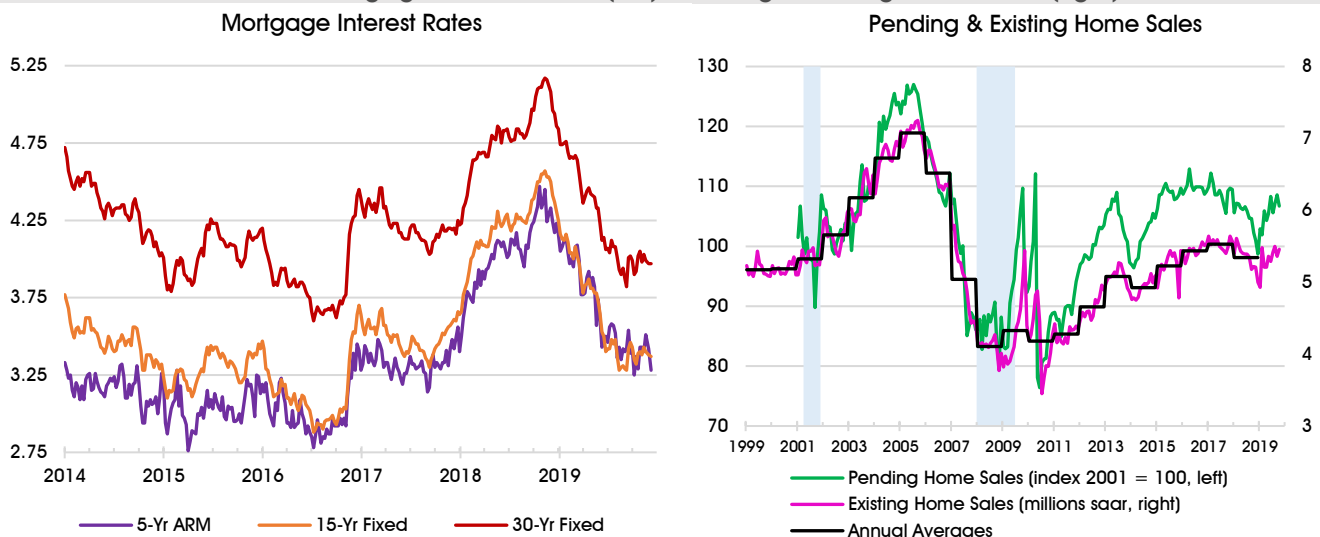
HIGHLIGHTS:

- » Lower mortgage rates boosting home-purchase contract signings, closings will soon follow
- » Pickup in pending home sales in FHLB NY district since midyear hints at acceleration in local purchases
- » Declining mortgage rates have enhanced housing affordability across the nation
- » Higher prices continue to weigh on local affordability gauges
- » Stock of available dwellings remains near expansion low; home-building expansion subpar
- » Inventory problem particularly acute in FHLB NY area, with available homes below year-ago levels
- » Home-price performance has varied widely across the FHLB NY district
- » Home prices continue to move higher, although the pace of growth has slowed
- » Home-builder sentiment near pre-crisis highs, yet single-family permits have lagged far behind
- » Mortgage performance improving nationally and across most of the FHLB NY district

LOWER MORTGAGE RATES BOOSTING HOME-PURCHASE CONTRACT SIGNINGS, CLOSINGS WILL SOON FOLLOW

Interest rates on adjustable- and fixed-rate mortgage loans have fallen by over a percentage point from the highs set last November (see chart below, left). Combined with solid labor market conditions and solid income growth, reductions in mortgage rates have pushed pending home sales steadily higher over the course of 2019, pointing to a step-up in closings in the months ahead (see chart below, right).

Exhibit 1: Mortgage Interest Rates (left); Pending & Existing Home Sales (right)

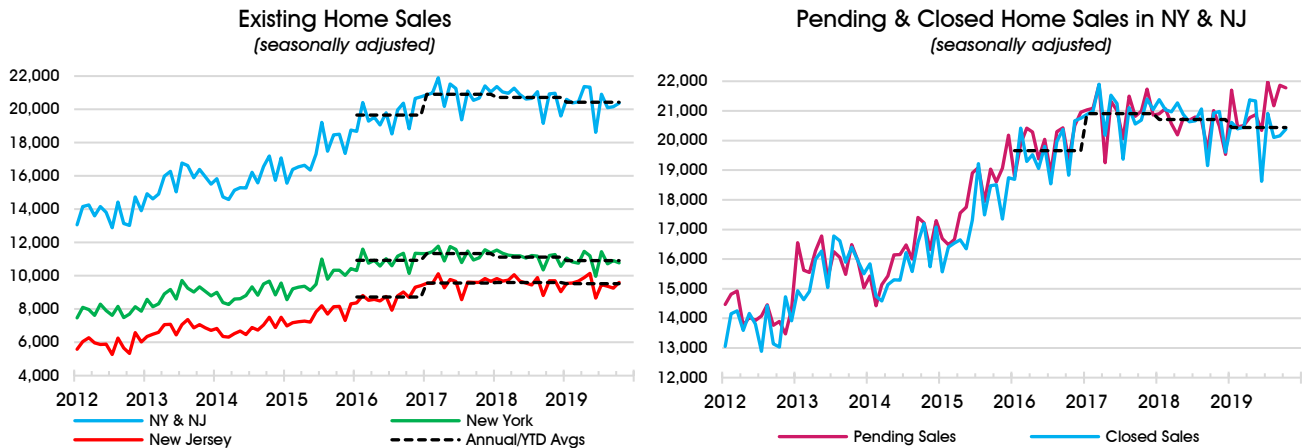


Note: Shaded areas denote recessions. Sources: Mortgage Bankers Association, National Association of Realtors.

PICKUP IN PENDING HOME SALES IN FHLB NY DISTRICT SINCE MIDYEAR HINTS AT ACCELERATION IN LOCAL PURCHASES

Existing home sales in New York and New Jersey have been going essentially sideways over the past three years (see chart below, left). Stepped-up contract signings in the summer and early fall, however, hint that a breakout may soon be in the offing (see chart below, right). Indeed, since May contract signings have eclipsed closings by 1,390 per month on average – the widest gap witnessed during the current economic expansion.

Exhibit 2: Home Sales Activity in New York and New Jersey

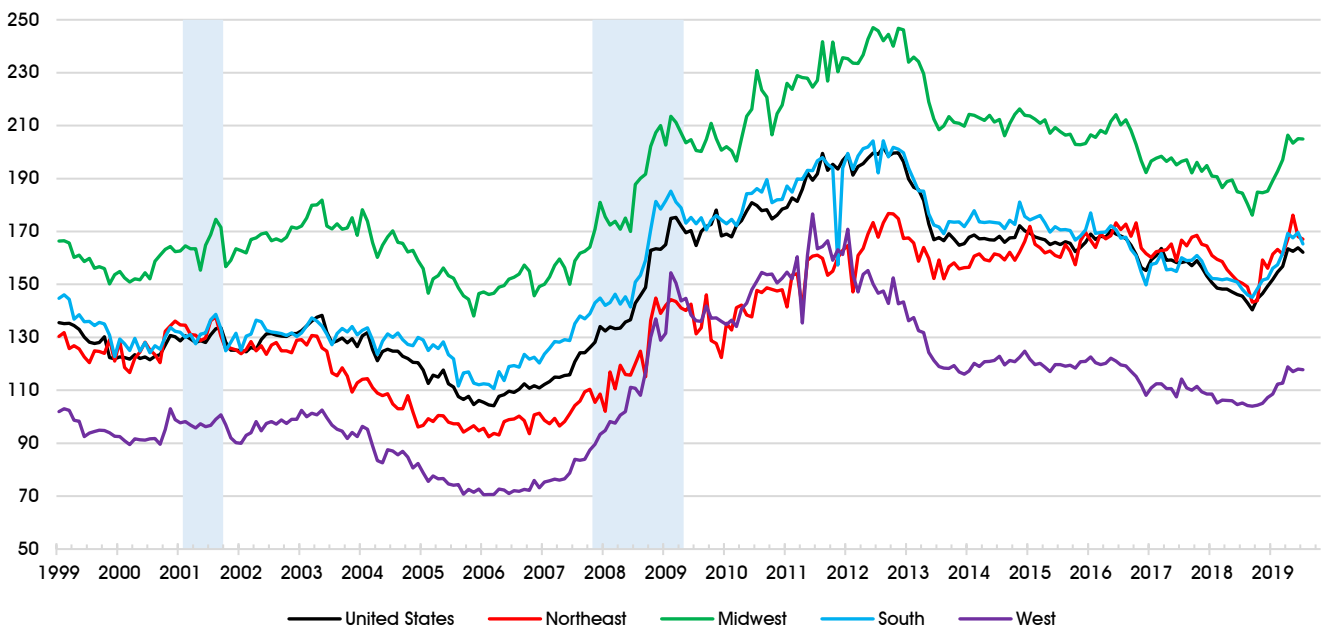


Sources: New York State Association of Realtors, NJ Realtors and FHLB NY seasonally adjusted estimates.

DECLINING MORTGAGE RATES HAVE BOOSTED ENHANCED HOUSING AFFORDABILITY ACROSS THE NATION

Buoyed by dramatic declines in mortgage interest rates since last November, housing affordability measures have improved from 13.4% in the West to 16.6% in the Northeast with an average nationwide increase of 15.5% through September (see chart below).

Exhibit 3: Percentage of Median Family Income to Qualifying Income, Seasonally Adjusted

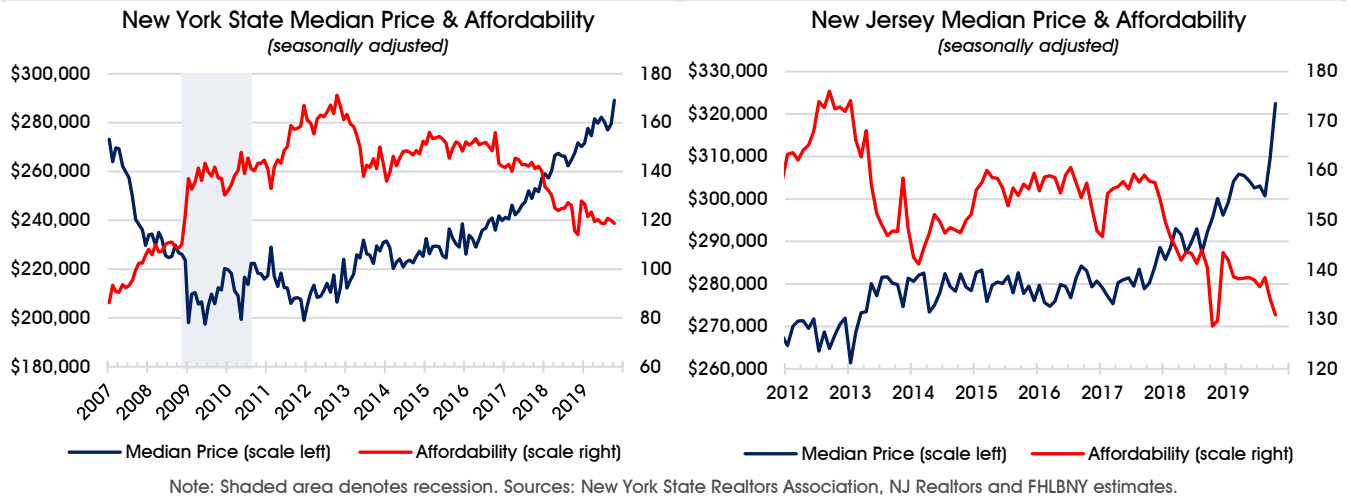


Note: Shaded areas denote recessions. Sources: National Association of Realtors, FHLB NY estimates.

HIGHER PRICES CONTINUE TO WEIGH ON LOCAL AFFORDABILITY GAUGES

Data compiled by realtor associations in New York and New Jersey suggest that the improvement in housing affordability in the Northeast over the past year has been concentrated in New England and perhaps Pennsylvania, however. Unfortunately, steadily rising median home prices have continued to weigh on housing affordability in both the Empire and Garden States (see charts below). Of particular note, housing has remained more affordable in New Jersey for almost five years running.

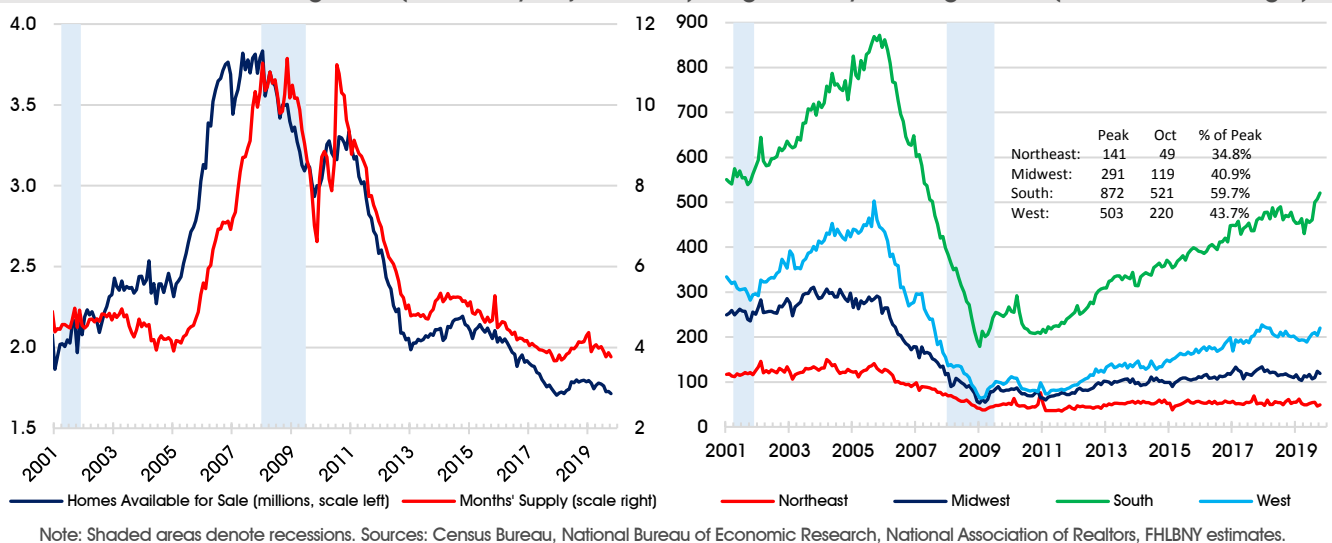
Exhibit 4: Median Home Prices and Affordability in the FHLBNY District



STOCK OF AVAILABLE DWELLINGS REMAINS NEAR EXPANSION LOW; HOME-BUILDING EXPANSION SUBPAR

Realtors across the country continue to cite a severe lack of available dwellings as a major factor holding back home purchases nationwide. Indeed, at an estimated 1.714 million after seasonal adjustment, the stock of homes in October was 4.4% below the year-ago level and just 10,000 above the expansion low set in December 2017 (see chart below, left). While solid labor market conditions, higher incomes and attractive financing terms continue to underpin demand, builders have been slow to respond. With the exception of the South, current levels of single-family residential building permits across the country remain well below half of their prior expansion peaks (see chart below, right).

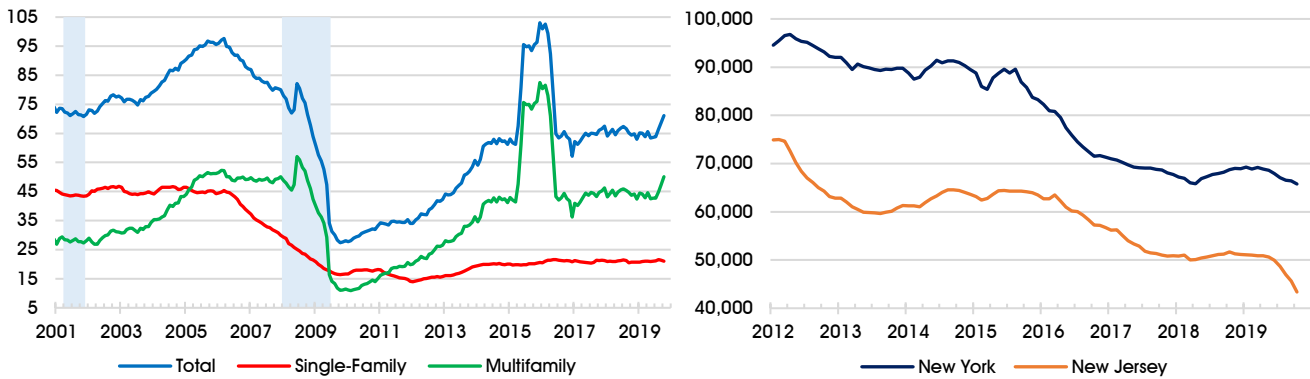
Exhibit 5: National Housing Stock (seasonally adjusted, left); Single-Family Building Permits (thousands saar, right)



INVENTORY PROBLEM PARTICULARLY ACUTE IN FHLB NY AREA, WITH AVAILABLE HOMES BELOW YEAR-AGO LEVELS

Abstracting from month-to-month volatility, new residential building permits in New York and New Jersey have been trending higher since the spring. At a seasonally adjusted annual rate of 71,000 in October, the trailing 12-month average across the two states stood at the highest level since May 2016. While clearly encouraging, the reported pickup has been entirely attributable to increased applications for multifamily construction. By contrast, core single-family permits have been little changed over the past six years (see chart below, left). Absent a meaningful pickup in new single-family construction, the number of homes available for sale in the Empire and Garden States continue to plumb new lows (see chart below, right).

Exhibit 6: New York and New Jersey Building Permits (12-month avg thousands saar, left) and Housing Stock (right)

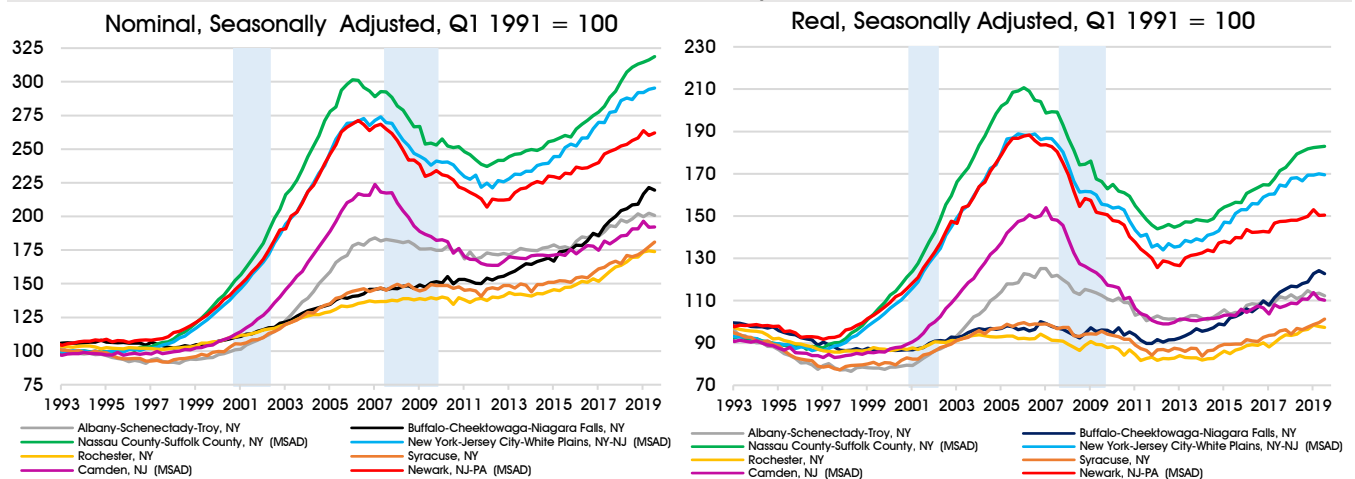


Note: Shaded areas denote recessions. Sources: Census Bureau, New York Association of Realtors, NJ Realtors and FHLB NY estimates.

HOME-PRICE PERFORMANCE HAS VARIED WIDELY ACROSS THE FHLB NY DISTRICT

Akin to politics, all real estate markets are local, especially when considering home prices across the majority of the FHLB NY district (see chart below, left). Areas that suffered the steepest erosions in the wake of the financial crisis, have seen nominal prices recover and in many cases reach new all-time highs, while those that dodged the housing-bubble bullet have seen quotes steadily rise over the course of the current economic expansion. The Buffalo-Cheektowaga-Niagara Falls area, in particular, stands out. Home prices in that portion of New York State were little changed during the Great Recession and now stand a hefty 48.7% above their cyclical trough. After adjusting for changes in consumer costs excluding shelter, the majority of metropolitan areas canvassed across New York and New Jersey have a considerable way to go before reaching prior-expansion peaks (see chart below, right).

Exhibit 7: Local FHFA Purchase-Only Home Price Indexes

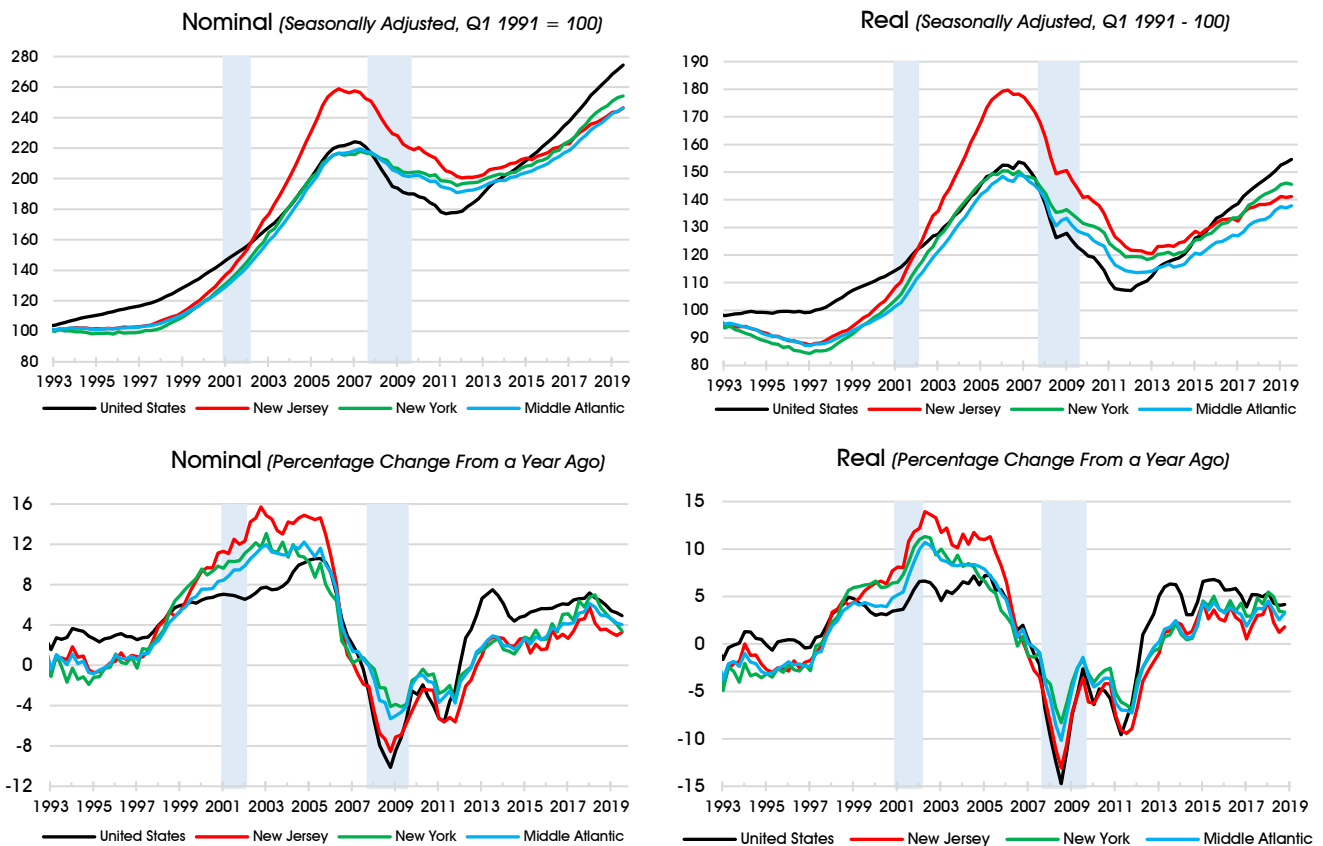


Notes: Shaded areas denote recessions. Sources: Federal Housing Finance Agency, Bureau of Labor Statistics, FHLB NY estimates.

HOME PRICES CONTINUE TO MOVE HIGHER, ALTHOUGH THE PACE OF GROWTH HAS SLOWED

Nominal home prices remain on uptrends nationally, regionally and across the states of New York and New Jersey, but the paces of appreciation have continued to slow (see charts below, left). Since the first quarter of 2018, the year-to-year growth of home prices across the nation has slowed from 7.2% to 4.9% this past summer. While a similar deceleration was experienced across the Northeast, the slowdowns in New York and New Jersey were more dramatic, with the year-to-year paces of price appreciation in the two areas of the FHLB NY district now standing at 3.4% and 3.3%, respectively. With home prices in many areas now well above their pre-Great Recession levels in many areas, fears of yet another bubble in residential real estate have grown. Those concerns appear overblown in our region when inflation is taken into account (see charts below, right). Real home prices nationally recently moved a touch above their fall 2006 high, but those in the Northeast, New York and New Jersey remain below their prior-expansion peaks. Indeed, inflation-adjusted home prices in the Garden State are still a whopping 21.3% below the level recorded in the summer of 2008.

Exhibit 8: FHFA Purchase-Only Home Price Indexes



Note: Shaded areas denote recessions. Sources: Federal Housing Finance Agency, Bureau of Labor Statistics and FHLB NY estimates.

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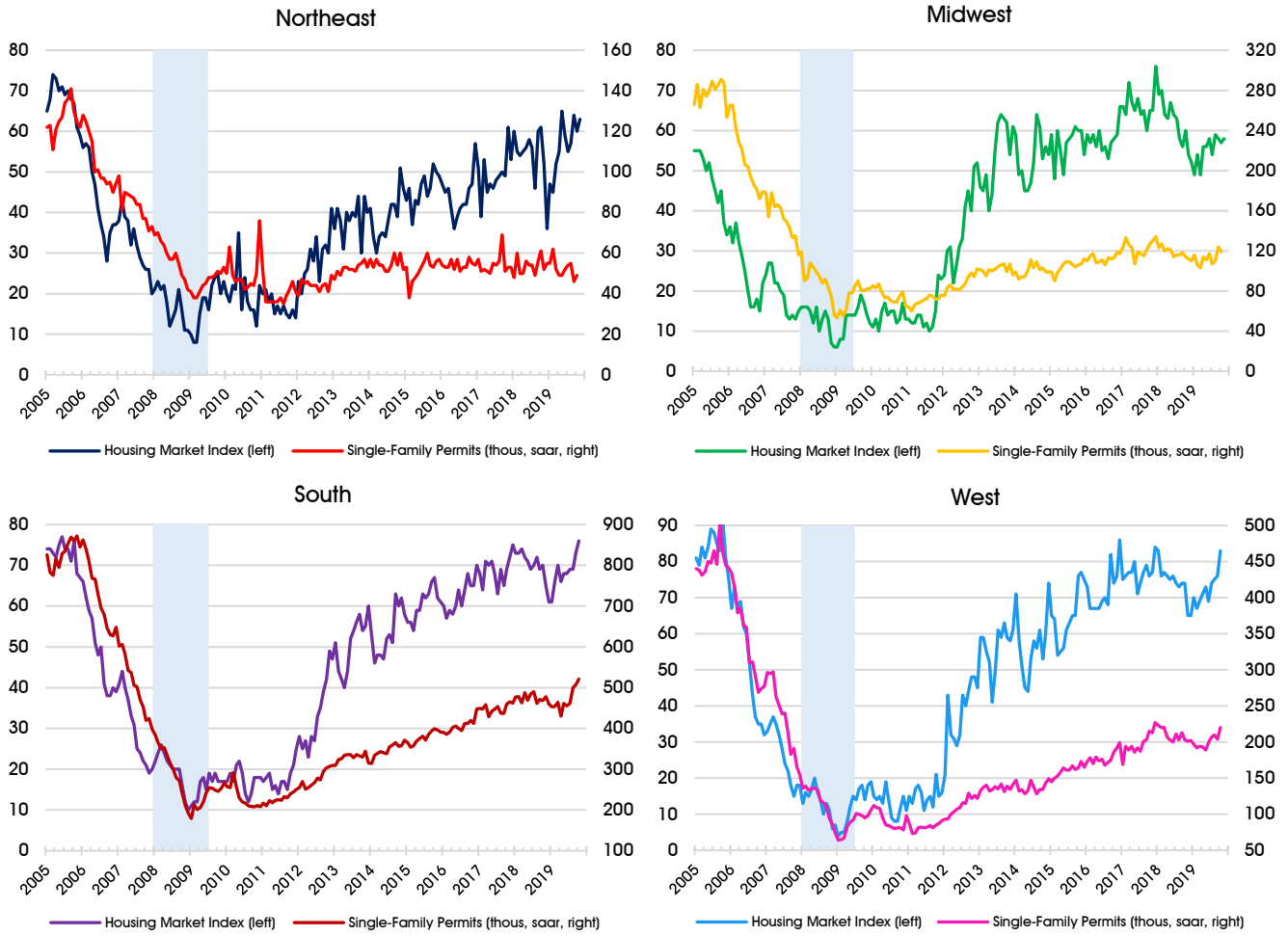
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HOME-BUILDER SENTIMENT NEAR PRE-CRISIS HIGHS, YET SINGLE-FAMILY PERMITS HAVE LAGGED FAR BEHIND

Before the 2007-08 financial crisis, there were fairly tight relationships between regional home-builder sentiment gauges and single-family building permits, with movements in the former series leading changes in the latter (see charts below). Yet, while builder confidence measures have reached or surpassed previous expansion highs, increases in permit applications have been comparatively muted, particularly in the Northeast and the Midwest. Builders cite a variety of factors as constraints on new construction including building materials costs, lack of skilled labor, a dearth of available lots and tight regulations.

Exhibit 9: Regional Home-Builder Sentiment (Housing Market Index) & Single-Family Building Permits



Note: Shaded areas denote recession. Sources: Census Bureau, National Association of Home Builders.

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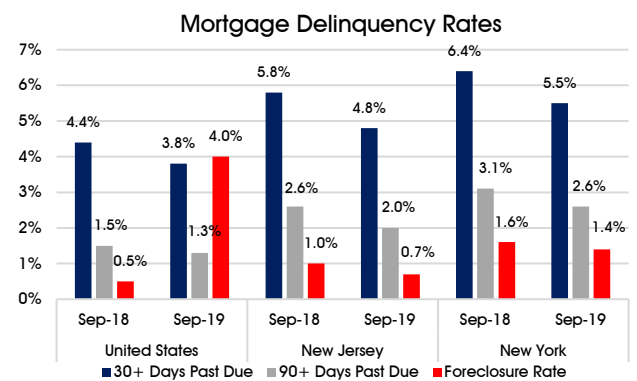
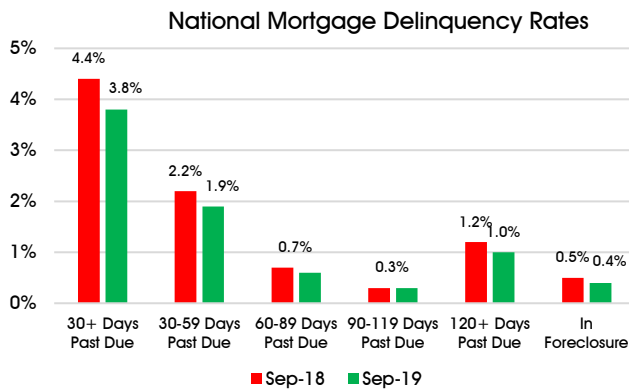
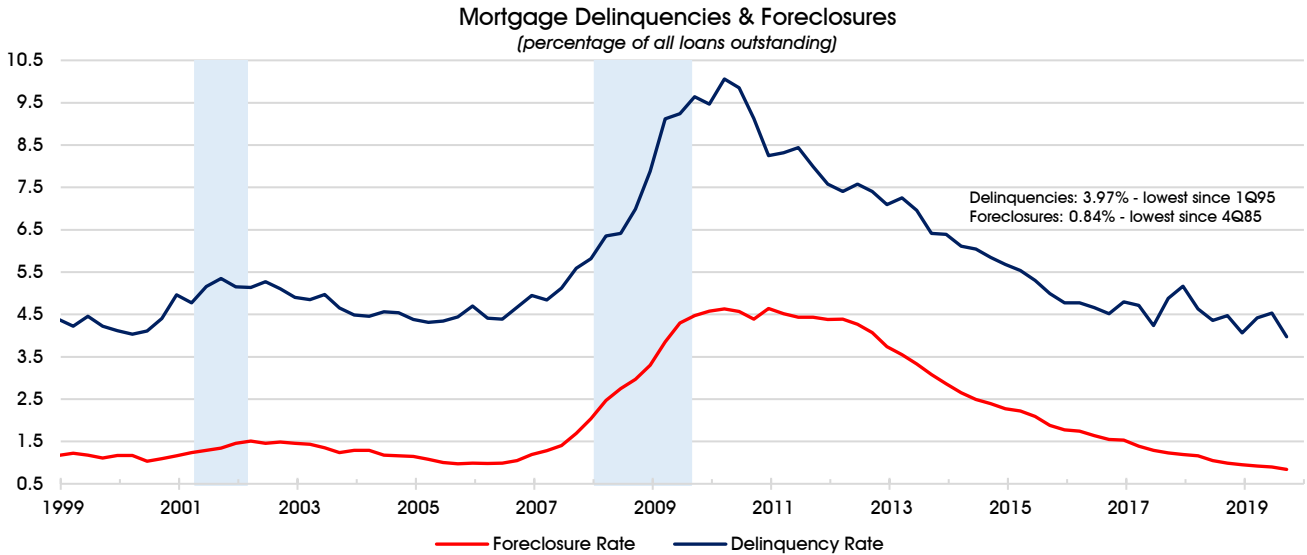
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MORTGAGE PERFORMANCE IMPROVING NATIONALLY AND ACROSS MOST OF THE FHLB NY DISTRICT

Mortgage delinquency and foreclosure rates moved lower during the summer quarter (see charts below). According to national data compiled by the Mortgage Bankers Association, the countrywide delinquency rate fell by 56 basis points (bps) to 3.97% – the lowest reading since the winter of 1995. Meanwhile, the percentage of loans in foreclosure dipped by 6 bps to just 0.84% – a level not witnessed since the fall of 1985. Soundings for New York and New Jersey taken in September show further reductions in delinquencies and foreclosures from those tallied a year ago.

Exhibit 10: National and Local Mortgage Delinquency Rates



Note: Shaded areas denote recessions. Sources: CoreLogic, Mortgage Bankers Association.

QUESTIONS / COMMENTS?

The *Economic Perspectives* newsletter is authored by the FHLB NY's Financial Economist, Brian Jones. Contact your Relationship Manager at (212) 441-6700 to discuss the information shared in this newsletter and any potential business opportunities with the FHLB NY as your partner.

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