



5 Minutes for Business

Home Sweet Home: Is U.S. Housing Set for Growth?

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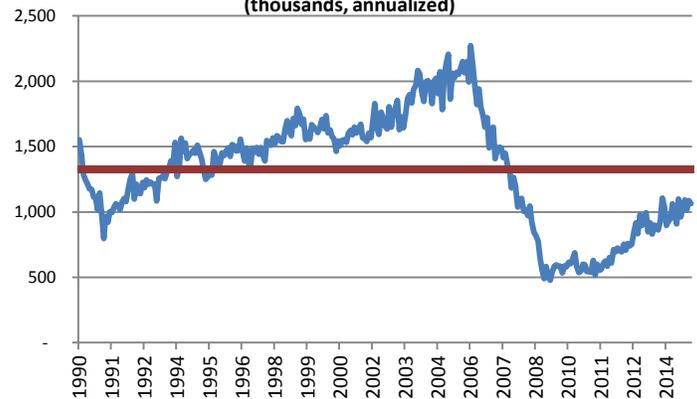
The fourth quarter was disappointing for economic growth in the U.S., but buried in the details is a lot of great news. In fact, the sector that could benefit the most in the coming growth cycle is U.S. housing because it has reached a turning point due to pent-up demand. This could provide a major boost to U.S. consumer spending and, of course, to Canadian business.

After two booming quarters of almost 5% growth, America's economy seemed to fizzle out at just 2.2% in Q4. However, the underlying components tell a different story. Firstly, the most important part of GDP is consumption because it represents 70% of the U.S. economy. It accelerated to a solid 4.2%, up from 3.2% last quarter. Even better, consumer durables, the appliances, electronics and furnishings that people buy when they are feeling wealthier, rose 6%. So if consumers are confident their incomes are rising and they are spending, why the weak overall numbers? Firstly, there was a steep cut in federal government spending, which fell 7.5% because of a 16% decline in defence spending. There was also a staggering 10.1% rise in imports, which subtracts from U.S. GDP.

To summarize: U.S. GDP growth was lower because, although consumers were happily spending, they were also importing like crazy and because the U.S. government was spending less on defence.

This is generally good news and it sets the stage for further growth in U.S. housing, which has been through an unprecedented downturn. Historically, the U.S. has to build 1.4 million homes per year to keep up with household formation, the creation and arrival of new families. For over a decade, the industry massively overproduced homes and then came the housing collapse. By the end of 2009, home prices were 28% lower than in 2006, existing home sales were 34% lower and new housing construction starts had

U.S. Housing Starts
(thousands, annualized)



plummeted by 74%. Not only was there an oversupply of homes, which peaked at over 6 million, the economic stress of the downturn greatly altered behaviour as people delayed getting married and moving in together. Household formation dropped from over 1.8 million in 2006 to 500,000 in 2010, as the proportion of 18-34 year olds who lived with their parents rose from 24% to 32%. But now the tables have turned with incomes rising and the job market in great shape. Household formation rose to two million in January, its highest level in five years. The inventory of U.S. homes has fallen to under 1.9 million.

The Canadian Chamber of Commerce is forecasting that housing starts in the U.S. will rise almost 20% to 1.2 million in 2015. This is great news for the lumber industry, which has been Canada's fastest growing export sector for the period from 2012 to 2014. This is also good news for producers of a wide variety of consumer goods. Every homeowner knows that a home purchase is only the beginning of a spending spree. The home has to be decorated and filled with costly furniture. This means a positive outlook for the lumber industry, for exporters of consumer goods and for U.S. parents who want their kids to move out.

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