The Daily Dish

Whither the Housing Market?

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Eakinomics: Whither the Housing Market?

The National Association of Realtors reported yesterday that pending home sales (transactions for previously owned homes where a contract was signed but the sale had not yet closed) had soared 44.3 percent in May, the largest one-month rise in the history of the series. This seemingly serves as a bookend to the other eye-catching housing statistic recently – the fact that residential housing construction rose 18.2 percent (annual rate) in the first quarter even as the overall economy fell at a 5.0 percent annual rate.

What is with housing and the pandemic? (For a full statistical picture, consult the AAF chartbook.)

Existing home sales, the bulk of home sales, started the year at an annual rate of roughly 5.5 million, but with the arrival of the coronavirus fell off a cliff to roughly 4.0 million in May. The pending sales data suggest that these sales are headed north in the months to come. Mirroring this, housing starts declined from an annual rate of 1.5 million in January to 1.1 million in April before rebounding 14.4 percent in May. In short, after a 2 to 3 month hiatus, new construction and sales of new and existing homes appear to be back on track.

This makes sense. Certainly when the pandemic emerged in full-blown form, households pulled back from buying and selling a lot of things – including houses. But the recession was not initiated by a sharp decline in income; indeed, incomes have been maintained by $3 trillion (annual rate) in government transfers in April, and another $2 trillion in May. In addition, interest rates have fallen. So the foundation that seemed to be in place for a housing rebound in January and February appears to largely be in place, and the housing market is firming up.

The signs of life in the housing market bode well for the recovery and are a tribute to the strength of the policy response.