The Daily Dish

Eakinomics: Is Housing the Achilles Heel (Again)?

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The U.S. economy is humming along, showing increasing strength, and supported by solid policy fundamentals in the areas of regulation and taxes. Indeed, the president is confident enough of the economy's strength to continue to levy tariffs that his administration acknowledges are harming the economy in the near term; all in the pursuit of a trade policy that is at best unproven and at worst misguided. The administration should guard against overconfidence, as there are other worrying signs.

The housing market has been a central part of every postwar business cycle, was at the heart of the Great Recession, and is displaying worrying signs of late. To begin, the Fed has worked mightily to push inflation above its 2 percent annual target. But house prices are rising at a 6.4 percent annual rate, have been above 4 percent for five years, and the rate of increase is accelerating. This is a worrisome echo of the run-up to the downturn in 2008.

Underneath, the foundations of the housing market appear to be weakening. New home sales in June were the weakest in eight months, while existing-home sales fell in June for the fifth time in the first six months of 2018. In July, housing starts were only 0.9 percent higher than in June — well below expectations — with single family housing starts rising 0.9 percent and multifamily housing starts rising 3.1 percent. We will get a further read on the outlook when data on existing- and new-home sales for July are released this coming Wednesday and Thursday.

This might be not be as discomfiting (at least to me) if these data were paired with a sensible housing finance policy. But the Administration defaults housing policy to the Federal Housing Finance Administration (FHFA) that continues to allow the kind of mission drift in Fannie Mae and Freddie Mac (the GSEs) that resembles the worst of the pre-bubble activities. The *Wall Street Journal* reports, "Freddie Mac is expanding its role in financing one of Wall Street's postcrisis success stories: the booming business of investing in single-family rental houses." As credit standards decline in the owner-occupied market, the GSEs continue to push finance into the market, and are now matching this effort in rental housing.

The president will choose a new director of the FHFA in January 2019. It is the opportunity to right-size the mission of the GSEs while transitioning to a full-scale effort at legislative reform of the GSEs.