

An update on household formation

This report compares four recently released measures of household formation in the United States.

The Census Bureau publishes several estimates of the number of households in the United States. Three just came out.

According to tables from American Housing Survey (AHS) posted September 6, the number of households increased from 118.29 million (+/- 0.407 million) in 2015 to 121.20 million (+/- 0.393 million) in 2017, a 2.91 million increase over two years. The Income and Poverty report, which came out September 12, and is based on the Current Population Survey Annual Social and Economic Supplement (CPS ASEC), showed households rising from 126.224 million (+/- 0.733 million) at the end of March 2017 to 127.586 million (+/- 0.574 million) at the end of March 2018, a 1.362 million increase (+/- 0.638 million). Finally, data from the American Community Survey (ACS) released September 13 had the number of households rising from 118.860 million (+/- 0.155 million) in 2016 to 120.062 (+/- 0.161 million) in 2017, a 1.202 million increase.

The Census Bureau reported a fourth set on July 26. According to the Quarterly Residential Vacancies and Homeownership report (CPS/HVS), the number of occupied homes (i.e. households) increased by 1.671 million (+/- 0.398 million) to 121.24 million between the second quarter of 2017 and that of 2018.

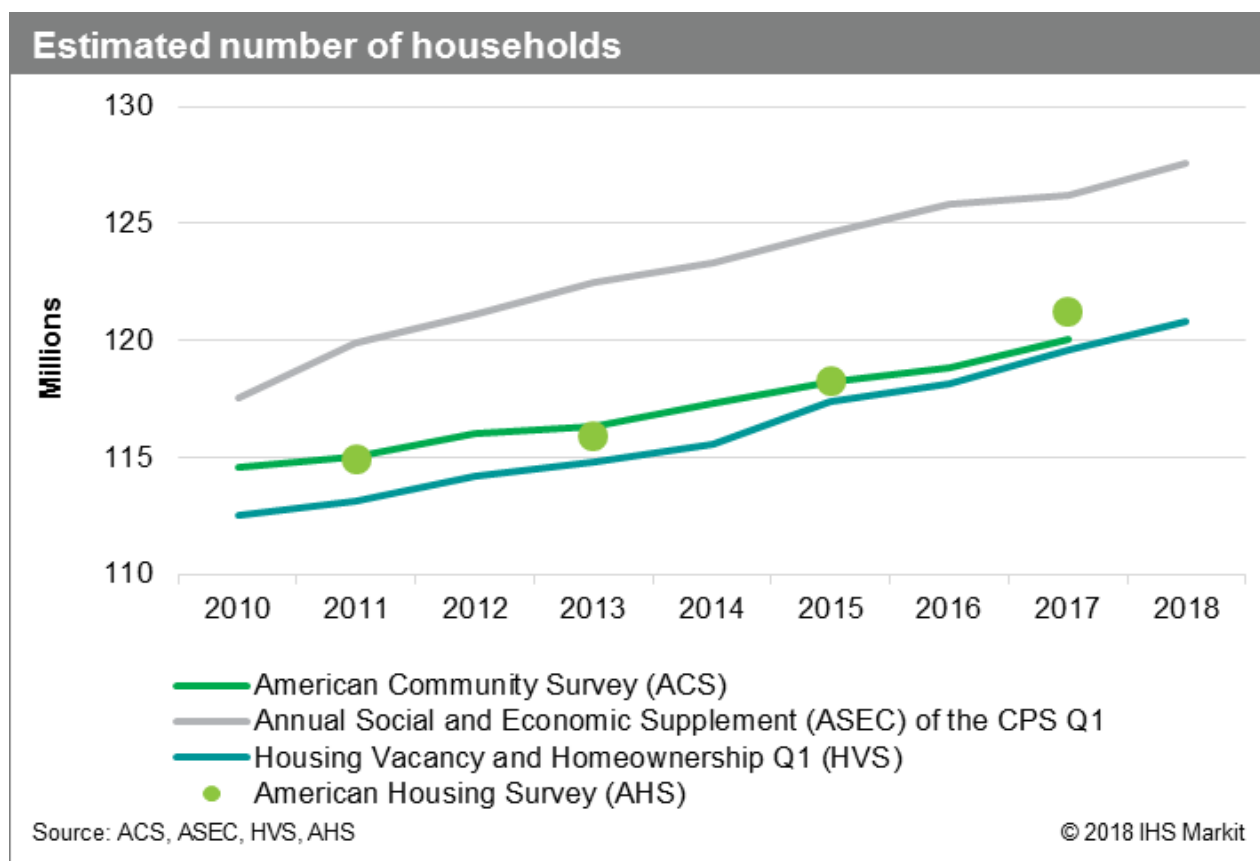
Different departments at the Census Bureau publish estimates of households, and it's not clear even to the experienced user which one is more accurate. The levels vary widely—from a high 127.6 million for March 2018 for CPS ASEC to a low of 120.2 million for 2017 for the ACS.

Despite the differences in levels, the changes in the number of households in all four surveys are consistent with housing starts and mobile homes numbers above the second quarter's 1.35 million rate. The math is straightforward: if inventory is very low—as it is now—new homes need to be built to supply the growing number of households, the demand for second homes and the homes that need to be replaced because of wear and tear, fires, natural disasters and so on.

The surveys in tandem suggest that other factors are holding housing starts down. These would include higher construction costs, higher borrowing costs, a shortage of skilled workers, a shortage of lots, and tight credit for developers.

One striking difference is the one between the CPS ASEC and CPS/HVS, which in March 2018 differed by 6.8 million, even though both were constructed off the same survey, the March Current Population Survey.

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Why this gap? The CPS/HVS is controlled to independent housing unit estimates; the CPS ASEC is controlled to population estimates. These different methodologies result in a widely different household estimates.

Which estimate should one use in gauging housing demand? The decennial census estimate of households is considered the most accurate. The CPS ASEC comes in second because it has proven more accurate than the other surveys in hitting the last five Decennial estimates. Still, the CPS ASEC yearly estimate is imprecise because it is based on a small sample. A 3-year moving average irons out some of the volatility but diminishes the estimate's value as a gauge of recent trends.

Bottom line: It is a good idea to look at both the CPS ASEC and CPS/HVS (which is sampled quarterly) in assessing recent trends. The ACS's and AHS's value as a gauge of housing demand are limited because of the delay in publishing them. In making annual comparisons, note that the CPS/HVS is a quarterly survey, that CPS/HVS and ACS are rolling surveys that collect data throughout the year, that CPS ASEC is a March survey that includes the 12th of the month and that the AHS is conducted in May-September in odd-numbered years.

A good source on this topic:

Assessing Households and Household Growth Estimates with Census Bureau Surveys. July 13, 2015.

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