News Analysis: U.S. lasting housing recovery spurs overall economic growth

by Wang Zongkai, Gao PanWASHINGTON, April 23 (Xinhua) -- U.S. house prices rose 7.1 percent in the year through February, said the Federal Housing Finance Agency (FHFA) on Tuesday, indicating an increasingly confirmed recovery as many other housing indicators also suggest that the rebound in homebuilding activity is on firm footing.The overall U.S. economic activity, however, signal some moderation in the first quarter of this year, partly due to the impact of government spending cuts under the sequester.The fiscal tightening will likely affect consumer spending and other economic activity in coming months. However, the housing recovery continues to broaden and may be more robust, helping to offset fiscal headwinds.So far this year the continued housing recovery presents the most likely source of growth. Residential investment added 0.4 percentage point to economic growth in the final quarter of 2012, marking seven consecutive quarters of positive or neutral contribution.U.S. mortgage financing giant Fannie Mae said in its latest research that it expected this year's contribution to growth from housing to be similar to last year and to strengthen further in 2014.HOUSING CONTINUES TO BUILD MOMENTUMRecent housing data suggest a continued upward trajectory. U.S. house prices have not declined on a monthly basis since January 2012, indicates the FHFA's house price index.The CoreLogic house price index, another often-referenced indicator by private company, was also up in February for the fourth consecutive month and posted the strongest year-over-year rise since March 2006, although winter is a typically weak selling season.Existing home sales edged up in February for a second consecutive month to a three-year high, which accounts for 90 percent of the overall sales market. Despite a little pullback in March, the figure is still 10.3 percent higher than a year ago.At the front of new home sales, although February gave back some of the surge from January, the sales pace is the second highest since April 2010, and the average growth rate during the first two months of this year is well above the fourth quarter.Housing starts in March touched the peak level since June 2008, up 47 percent from March 2012 to March 2013, passing 1 million starts for the first time since June 2008.Housing permits, a leading indicator of building activity, suggested a continued rising trend in homebuilding activity this year.The National Association of Home Builders (NAHB) Housing Market Index, which measures attitudes about market conditions and expectations for future market conditions, was at 42 in April 2013, up from 24 a year earlier.However, even with the big gains, the index indicates that on average builders are not optimistic about housing markets; they are just much less pessimistic.In addition, FHFA also noted that the U.S. house prices in February were still 13.6 percent below its April 2007 peak and roughly the same as the October 2004 index level.They both serve as a reminder for how far the housing market needs to go to get back to a healthy level.LOW RATES, TIGHT INVENTORY BOOST MARKETU.S. mortgage rates has been lying at the trough for quite a while. Since November 2011, the 30-year fixed-rate mortgage for single-family loans has been lower than 4 percent.For the week of April 11, 2013, the rate averaged 3.43 percent, only 12 basis points above the all-time low of 3.31 percent reached in November 2012. The low mortgage rates run in tandem with the 10-year Treasury yield, an important benchmark for pricing mortgage loans, which hovered around 1.8 percent in early April.Mortgage rates may still be at affordable level through the year. Fannie Mae expected the 30-year fixed-rate mortgages will not stand above 4 percent until the end of the year.The low rates work as an incentive for potential buyers, because during the years before the mortgage crisis it usually fluctuated close to 6 percent.However, the current supply of homes has remained well below its long-term average, noted Fannie Mae Chief Economist Doug Duncan.While potential homebuyers are willing to lock in the benefits, some existing homeowners are reluctant to list their properties as they are waiting for prices to firm further, and others are unable to list their homes because they are underwater, which means their mortgage balance exceeds the value of their homes.The NAHB also pointed out that a lack of buildable lots as well as increased costs for materials and labor has also contributed to supply constraints. Outside of the supply problems, builders cited issues with appraisals and credit availability as obstacles to closing the transactions.The lean inventory, coupled with rising investor demand, explained stronger than expected home price growth.In addition, the declining share of distressed sales and the increased use of short sales, a more time-saving and less-hurting alternative for underwater homeowners facing default risk than foreclosure, helped support home prices.PROLONGING HOUSING RECOVERY NEEDS REVIVING LABOR MARKETConstrained supply underscore the rising housing price, which surely help fuel the housing recovery. But in the long run, tight inventory may hamper further improvement.A recent NAHB survey indicated that growing labor shortages in all aspects of the residential construction sector are impeding the housing recovery, partly because many skilled workers had to seek employment elsewhere during the recession and are no longer available.From April 2006, when construction employment peaked, through December 2010, the economy lost 5.5 million nonfarm jobs, 2.2 million of those in construction, representing 40 percent of all job losses.From January 2011 through March 2013 the economy gained 4.8 million jobs, but only 330,000 jobs, or 7 percent, were in construction.However, in the recent months the pace of construction job growth has been accelerating. Over the past year, net construction job growth represented 8 percent of all job gains, while in the last six months it represented 15 percent.This increased construction employment should continue to help bring down the overall unemployment rate and build a lasting recovery, said Frank Nothaft, Freddie Mac vice president and chief economist.Supported by low mortgage rates Nothaft expected more homes are to be built in 2013 than in any year since 2007. "Until unemployment decreases substantially we will not experience robust growth," he wrote in the latest study.