Housing: Critical to Growth in 2014

At the beginning of 2014, the consensus among economists is that the current economic expansion will pick up speed this year. In particular, the consumer sector has been resilient and is expected to further drive economic growth in the near term. However, there are several emerging risks that may provide constraints and barriers for the macroeconomy. One of these concerns is a possible slowdown in the housing sector.

Home prices have been recovering significantly since the collapse of the market before and during the financial crisis. This has erased much of the negative equity and has created an improved wealth position for consumers hit hard by the recession. But analysts suggest that the price appreciation is largely due to a lack of inventory and strong demand, in particular by investor purchases of homes. As can be seen in the graph below, several indicators of housing activity have passed their respective troughs and started to move upwards. Existing home sales stand at roughly 80 percent of their pre-crisis levels (though it may be unrealistic to assume that the market will go back to pre-crisis conditions) but new home construction has been much slower to recover. Housing starts are still hovering at roughly 40 percent of their 2006 levels. As a result, the inventory of newly constructed homes is essentially at a 50-year low, according to the National Association of Realtors.

Home sales are expected to grow in 2014; NAHB is forecasting nearly 25 % gain in total housing starts, with a 32% pickup in single-family construction. However, demand for housing is expected to outpace these additions to the housing stock resulting in continuing tight inventory levels even despite relative tight lending standards at most financial institutions. The New York City Building Congress has identified a related issue: the cost effectiveness of home construction. Tight inventory levels even despite relative tight lending standards at planning and regional development departments. The Federal Reserve holds the key to continue mortgage affordability but if rates start creeping up, as they did in the spring and summer of last year, more and more borrowers will be pushed out of the market. This may slow down price appreciation in many regional markets and provide additional pressures for households that are already reeling under slow or non-existing income growth over the last few years.
PORT AUTHORITY PULSE (Seasonally Adjusted, 2010=100) Oct '13 Sep '13 Change
PA Pulse (Transportation Activity Index) n/a 93.8 n/a
PA Freight Pulse n/a 90.0 n/a
PA Passenger Pulse n/a 97.7 n/a
TSI - Combined Index 116.9 115.9 0.9%
TSI - Freight 116.5 115.1 1.2%
TSI - Passenger 117.7 117.7 0.0%

Regional Crossings and an Aging Labor Force

As members of the civilian labor force exit their peak working years, typically considered ages 25-54, their propensity to drive also falls as they have less need to commute and likely less money to spend on recreational activities. The aging of the national labor force, reflected in the shrinking of the 25-54 cohort, exhibits a strong relationship with the number of crossings at Port Authority facilities. Though the aging of the labor force is only one of a multitude of factors that affect travel trends, its relationship to regional crossings is worth following as the Baby Boom generation heads toward retirement.