

# This New House: National Housing Market Staging a Comeback

Signs abound that the country's economy is finally on the mend.



The national housing market, which was not only a cause of the Great Recession, but also a victim, has finally started to show some improvement. The U.S. Census Bureau reports that new residential sales were up 27 percent in September 2012 as compared to one year ago, and new residential construction housing starts were up 42 percent in October. These positive signs are providing evidence that the country's economy is finally on the mend.

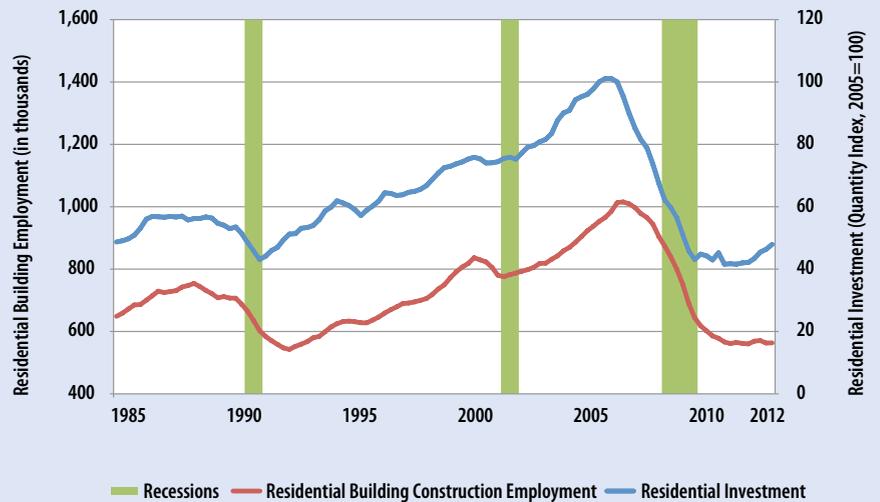
A healthy national housing market is of critical importance to the overall health of the national economy. When high demand for housing stimulates residential investment, jobs are created throughout a large number of industries. Residential investment directly creates jobs within the financial, manufacturing, retail trade and construction sectors, to name just the more important ones. When businesses in these industries expand, they create additional demand for the products of their suppliers, thereby indirectly creating more jobs in an even larger number of industries. As new workers spend their paychecks, the economy receives yet another boost.

The relationships between residential investment, residential construction and recessions are illustrated in Figure 1. When residential investment

begins to decline, a recession typically follows soon afterward. Furthermore, the growth of residential investment after a recession is an important mechanism by which the vitality of the economy is restored. While residential investment creates jobs across a wide array of industries, it is the creation of construction jobs that is of particular importance. Included in Figure 1 is residential building construction employment (NAICS 2361), which accounts for roughly one third of all residential construction employment. As the figure makes clear, residential investment essentially determines the level of residential construction jobs.

FannieMae is projecting that new single-family homes will sell at an annual rate of 492,000 by the end of 2013, which represents a 65 percent increase in sales as compared to the fourth quarter of 2011 (see Figure 2). Even though this signifies a substantial improvement, the rate is still far below the peak of nearly 1.3 million new home sales reached in 2005. Nevertheless, the projected growth in new home sales is good news for residential construction employment. As the housing market continues to gain traction, the consequent expansion of construction employment should go a long way toward lifting the national economy out of its doldrums. 

Figure 1: Residential Investment, Residential Building Employment and Recessions in the U.S.



Sources: Bureau of Economic Analysis; Bureau of Labor Statistics; National Bureau of Economic Research.

Figure 2: Annual Rate of New Single-Family Home Sales in the U.S.



Sources: U.S. Census Bureau; FannieMae Economic and Housing Outlook.