prevedere

UPDATED U.S. ECONOMIC OUTLOOK:

COVID-19 Effect on U.S. Housing Market

UPDATED U.S. ECONOMIC OUTLOOK:
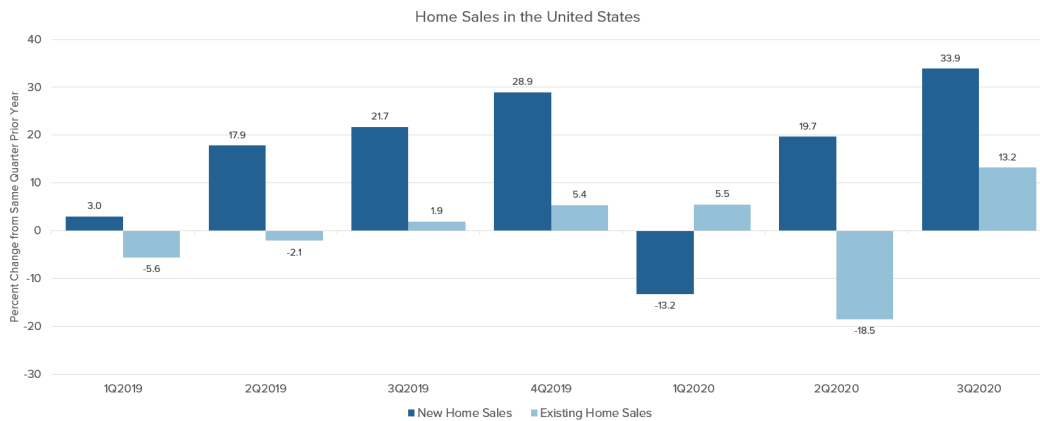## COVID-19 Effect on U.S. Housing Market

By Danielle Marceau, Senior Economist

Data updated 10/28/2020

In this report, Danielle Marceau, Prevedere Senior Economist, details the U.S. housing market's unique dynamics during the COVID-19 recession.

New COVID cases continue to add significant headwinds heading into 2021. Business closures remain high, consumers are uncertain about the future, and overall economic growth is slowing and vastly uneven by industry. Mobility has stalled out, and there is starting to be a pullback in some areas of consumer spending. However, the U.S. housing market is on fire.

It's one of the times when there is a considerable divergence in different sectors, in different parts of the economy, and how they perform during this particular business cycle. There is no doubt that the housing market is doing very well. But in the following chart, there were many tailwinds heading into 2020 within the housing market.

Home Sales in the United States

Source: National Association of Realtors, US Department of Housing & Urban Development
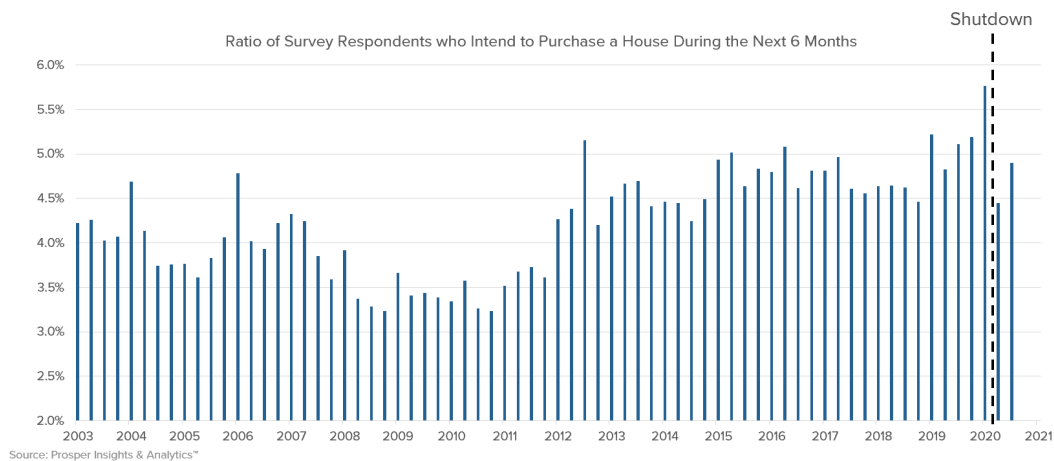
This chart represents quarterly year-over-year growth, so it is the percent change from the same quarter of the prior year. There was considerable growth happening in the industry last year, heading into 2020. New and existing home sales took a one-quarter dip because of the pandemic but have since bounced back. New home sales were up 33.9% from the third quarter of 2019, and existing home sales were up 13.2%.

prevedere

Housing starts this past winter hit the highest level it had seen since 2006. There was much activity in the market, and there are early indications that it's likely to continue through the current month. Realtor.com says pending sales right now were up about 40.3% from last year.

There hasn't been double-digit growth year over year since mid-2019, so there is a lot of optimism. But again, the growth was not necessarily a factor of the pandemic. It had many tailwinds heading into the pandemic.

Home Purchase Intent at Record High Pre-Pandemic

Ratio of Survey Respondents who Intend to Purchase a House During the Next 6 Months

Source: Prosper Insights & Analytics™

This chart illustrates the ratio of survey respondents who intend to purchase a house during the next six months. It is a good gauge of future home purchase activity. In the first quarter, there was a record high of American consumers intending to purchase a house during the first six months of 2020. The other thing to look at is that those numbers sank a bit during the most recent two quarters, so there is a pullback in people's future intent to purchase homes.

Urban Exodus: Fact or Fiction?

Recent news stories speak to an urban exodus--people abandoning large cities and are moving to more rural or suburban areas. There is anecdotal evidence suggesting that this may be happening. However, there is not a lot of hard data to support this theory.

prevedere

Realtors report increased interest in Suburban and Rural locations in response to COVID-19 Outbreak

Suburban Shift?
Realtors asked to describe locations where homebuyers are looking, among those who had shifted searches as a result of COVID-19

Source: National Association of Realtors, Zillow

However, there has been virtually no change in online search activity for urban and non-urban areas

**Share of For-Sale Listing Page Views**
■ 2019 ■ 2020
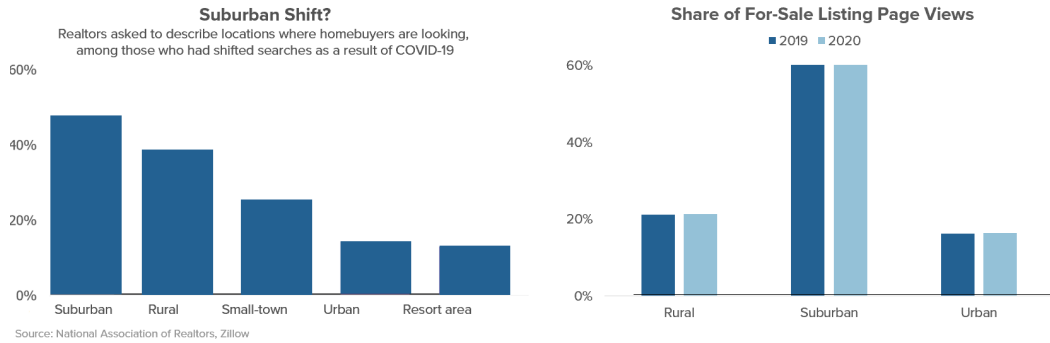
The above charts illustrate some differences in hard and soft data. The left chart represents realtors describing locations where their homebuyers are looking among those who had shifted searches as a result of COVID-19 (soft data). Of those people who did change their preferences, most wanted to look at suburban and rural areas.

However, when you look at hard data (chart on the right), such as online search activity, it tells a different story. It's virtually unchanged year over year when it comes to share of for-sale listing page views for rural, suburban, and urban.

Urban Exodus: A Closer Look at the Data

According to Zillow data, despite early pandemic divergence, pending sales are increasing faster in urban areas than suburban in all regions except the Northeast.

Change in YoY Pending Sales from February 2020, by **urban** and **suburban** ZIP codes
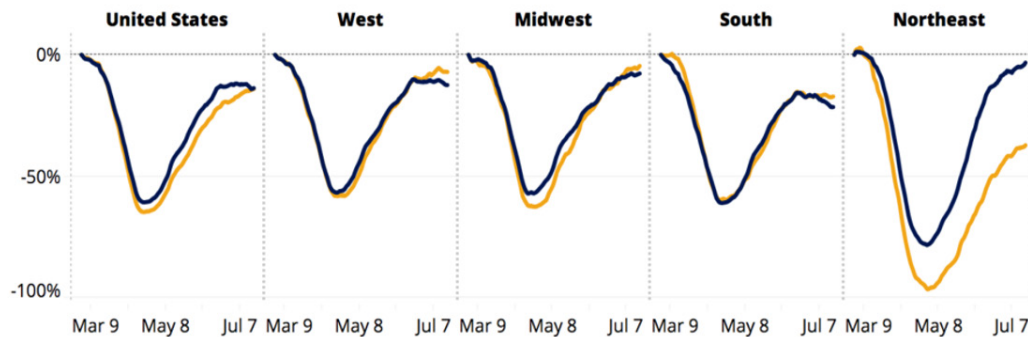
Source: Zillow

There was a slight divergence between pending sales in urban versus suburban markets during the pandemic's peak. However, by mid-summer, growth converged again for all regions except the Northeast, with urban sales increasing faster than suburban in the West, Midwest, and South. New York City is the key driver of the prolonged difference in urban versus pending suburban sales in the Northeast.

In looking at more micro-level data, this trend is happening in a few key cities such as San Francisco, New York, and L.A. However, survey data suggests that they are not necessarily leaving the city for rural and suburban areas, but rather for smaller urban areas like Tampa, Florida or Columbus, Ohio.

However, it's not a national trend occurring in the data yet. It's not that it is not happening, but the hard data does not yet support a mass exodus out of urban areas into more rural areas except for a few major metropolitan areas.

Some Early Signs of Slowing Down?

The housing market is performing very well. However, there are some early signs that, overall, the market may be slowing down in the coming months, not a significant contraction, but a slow down of robust growth. One leading indicator of that is mortgage loan applications.

Mortgage Loan Applications for Purchase Index
Three-Week-Moving-Average

Mortgage Bankers Association
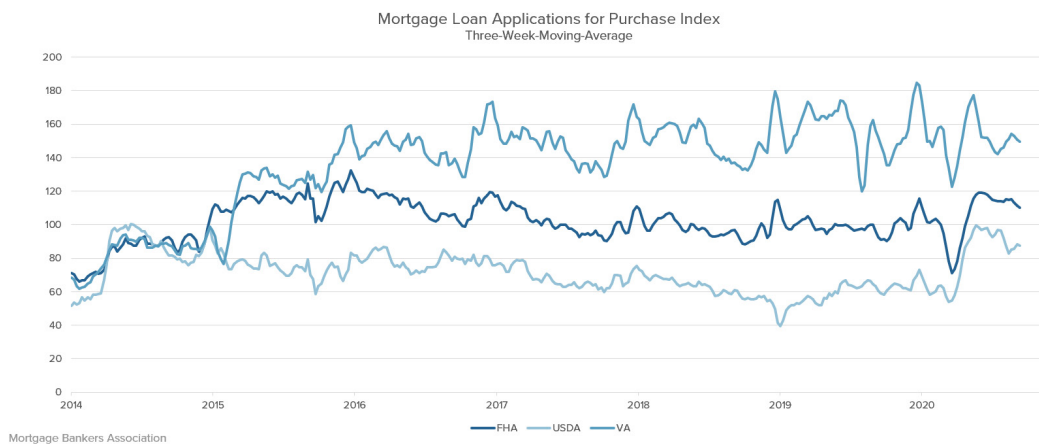
This chart shows the weekly index for three types of loans, including FHA, USDA, and V.A. mortgage applications. There was a significant spike this summer. Record low mortgage rates spur mortgage applications. But they have since started to decline again when you're looking at this three-week moving average. There is a slowdown happening from the mid-summer peak in loan applications.

Conclusion

There is no doubt that the housing market is a clear winner when looking at the vast differences in performances across industries during the COVID-19 pandemic.

New and existing home sales are performing exceptionally well across the country, fueled by low mortgage rates and the tailwind of potential homebuyers entering this year. However, there is not yet solid data supporting the hypothesis that Americans are leaving urban cities behind for more rural and suburban areas--except for a few key cities such as New York, San Francisco.

There are early indications that the market may cool during the coming months as lending standards tighten, unemployment remains elevated, and mortgage applications move lower.

prevedere

Navigate What's Next with Economic Scenario Planning

The COVID-19 crisis has given rise to a world of economic uncertainty, with uneven effects across regions and industries. As we head into the 2021 planning cycle, every business wants to know how the pandemic will impact next year's numbers.

Prevedere's Economic Scenario Planning solution helps companies navigate these tumultuous times. The solution projects future business outcomes for three plausible macroeconomic scenarios under COVID-19. Companies can use these insights to sharpen 2021 forecasts and plans, improve shareholder guidance, and stay on top of the pandemic's evolving impact.

Click here to learn more about Economic Scenario Planning. >>

About Danielle Marceau

Ms. Marceau is a Senior Economist for Prevedere, a predictive analytics company that helps provides business leaders a real-time insight into their company's future performance. Prior to her role at Prevedere, Danielle was a Senior Economist at ITR Economics. Danielle's commentary and expertise have been featured in NPR, MarketWatch, and other publications. Danielle has a Masters' of Science in Applied Economics.

prevedere

SEE

how economic activity
impacts performance

SOLVE

for upcoming risks
and opportunity

SUCCEED

with stronger, more
predictable results

Prevedere is a predictive analytics software company that delivers insights into future business outcomes based on current economic trends. Our predictive economic intelligence offerings help executives see what lies ahead for their business and solve for upcoming risks and opportunities. Prevedere's SaaS solutions apply the power of machine learning and predictive modeling to millions of indicators of global economic and consumer activity. Our customers include Fortune 500 industry leaders in retail, manufacturing, and consumer packaged goods. To learn more, visit www.prevedere.com or follow @Prevedere on Twitter.

prevedere

TO LEARN MORE, VISIT:
PREVEDERE.COM