Hammering Through the Numbers

Contributed by Paul Perry
Wed, Jan 25, 2012, 10:52 AM

Existing home sales were recently reported as being up 1.7 percent for 2011. That is cause for some economic optimism, but the underlying numbers should perhaps give reason for further examination. Inventories of existing homes dropped to a 6.2 month supply of homes. In other words, we have more than a six month’s supply of homes overhanging the market nationwide before demand for new homes would substantially increase.

New home construction drives a lot of things. In order to build a new home, materials are purchased -- everything from wood and brick to plumbing supplies and copper wire.

These purchases and construction cause beneficial effects on demand throughout the economy. Maybe most importantly, new jobs are created.

Currently, however, almost a third of homes are being bought for cash, many of them by investors. In other words, we are still working through the existing home inventory. And although new construction is starting to occur, strong demand for new homes is awaiting the inventory for new homes to be absorbed.

Analysts regard the large number of new cash purchases as being caused by the fact that it is currently far more difficult to qualify for financing, leaving many homes to be purchased by cash or with very large down payments -- by the few who can afford it. A few years back, it was far too easy to qualify for a home loan, but – like we do so often – it appears that now we have swung to the other extreme. It is now too hard to borrow.

In the meanwhile, according to the numbers, we have some sluggish improvement in home purchases, and no doubt many older homes are being remodeled. This helps employ a few people, but the national economy, the people and our local governments await a more reasonable increase in the pace of construction that would follow more rational loan guidelines from our masters in Washington.