Federal Home Loan Bank
NEW YORK

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ECONOMIC PERSPECTIVES

LIMITED SUPPLIES OF AVAILABLE HOMES LOCALLY IMPLY SELLERS' MARKETS WILL PREVAIL FOR SOME TIME

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HIGHLIGHTS:

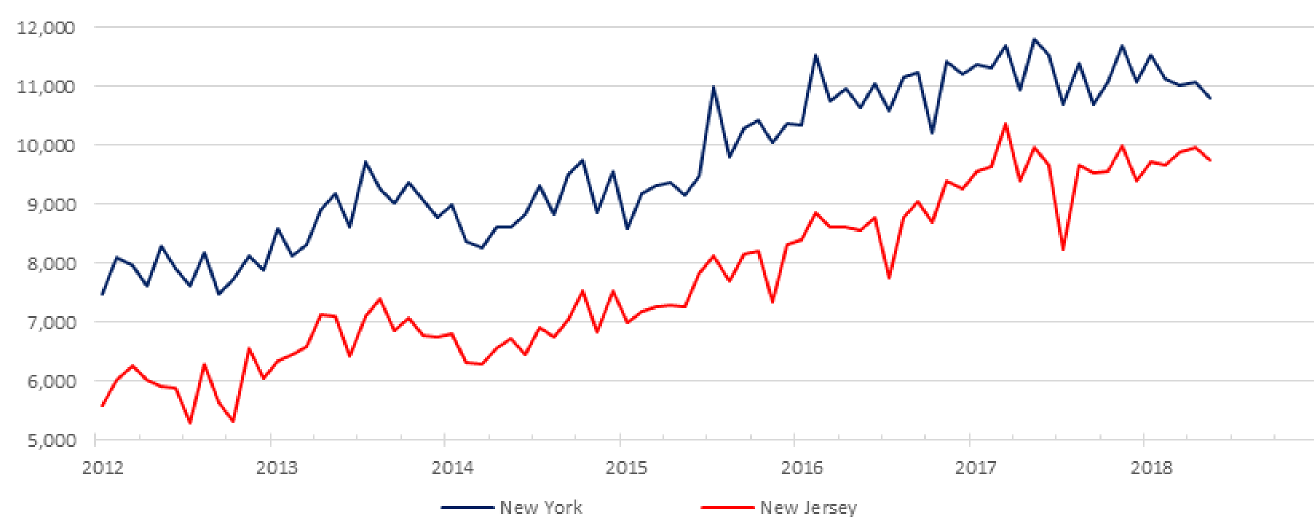
- *New York and New Jersey Failed to Contribute to Rebound in Northeastern Home Resales in May*
- *Lack of Available Dwellings is Limiting Existing Home Sales in New York and New Jersey*
- *Supply Shortage is Widespread, With Few Counties Reporting Increased Stocks*
- *Lack of Supply Has Not Prompted a Significant Pickup in Single-Family Building Activity*
- *A Variety of Factors, Including Increased Labor and Materials Costs, Are Capping New Construction*
- *Current Conditions Imply That Sellers' Markets Will Prevail for Some Time*

NEW YORK AND NEW JERSEY FAILED TO CONTRIBUTE TO REBOUND IN NORTHEASTERN HOME RESALES IN MAY

In contrast to the remainder of the Nation, closings on existing homes in the Northeast rebounded by 4.8% to a seasonally adjusted annual rate of 680,000 in May, completely erasing the pullback recorded in April. While the Federal Home Loan Bank of New York's (FHLBNY) coverage area accounts for roughly 35% of home resales in the region, neither New York nor New Jersey contributed to the reported rise (see Exhibit 1).

Exhibit 1: Existing Home Sales

Seasonally Adjusted



Sources: New Jersey Realtors, New York State Association of Realtors, FHLBNY estimates.

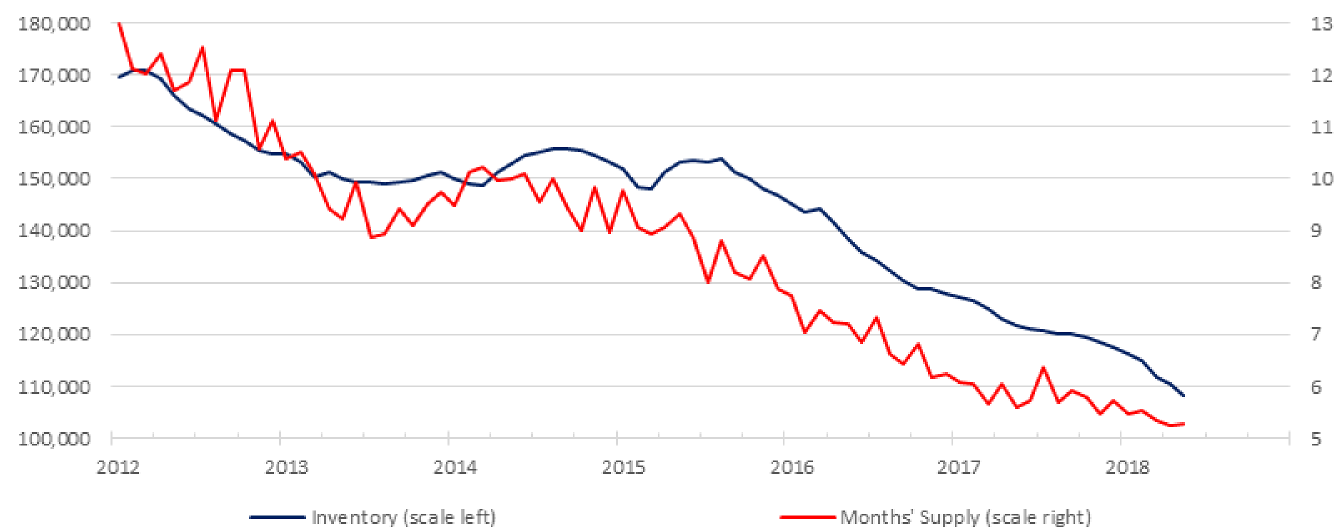
Indeed, our analysis revealed that closings in the Empire State contracted by 2.5% to an eight-month low of 10,800 after seasonal adjustment, while those in the Garden State retreated by a slightly smaller 2.1% to 9,760 – the lowest activity since February. Steadily rising mortgage interest rates and demand-induced increases in selling prices are clearly impacting prospective buyers across the two states, yet local realtors continue to point to one factor preventing sales from reaching new record levels: a severe lack of available homes on the market.

LACK OF AVAILABLE DWELLINGS IS LIMITING EXISTING HOME SALES IN NEW YORK AND NEW JERSEY

A dearth of salable inventory is constraining existing home sales across the country. Although steadily increasing since the end of last year, the 1.85 million dwellings on the market nationwide in May remained 6.1% below the 1.97 million recorded 12 months earlier. Nine years into the economic expansion, the supply situation is even tighter across the majority of the FHLBNY district (see Exhibit 2). Indeed, at 108,350 after seasonal adjustment, the number of homes available for sale in New York and New Jersey combined stood 11.1% below the level recorded in May 2017, while the months' supply at the latest sales pace was just one tick above the cyclical low of 5.2 months. The Garden State has watched the number of unsold dwellings decline by a whopping 16.7% to just 44,570 over the latest 12 months, while the Empire State's stock has fallen by 6.7% to 63,780.

Exhibit 2: Homes Available for Sale in New York and New Jersey

Seasonally Adjusted

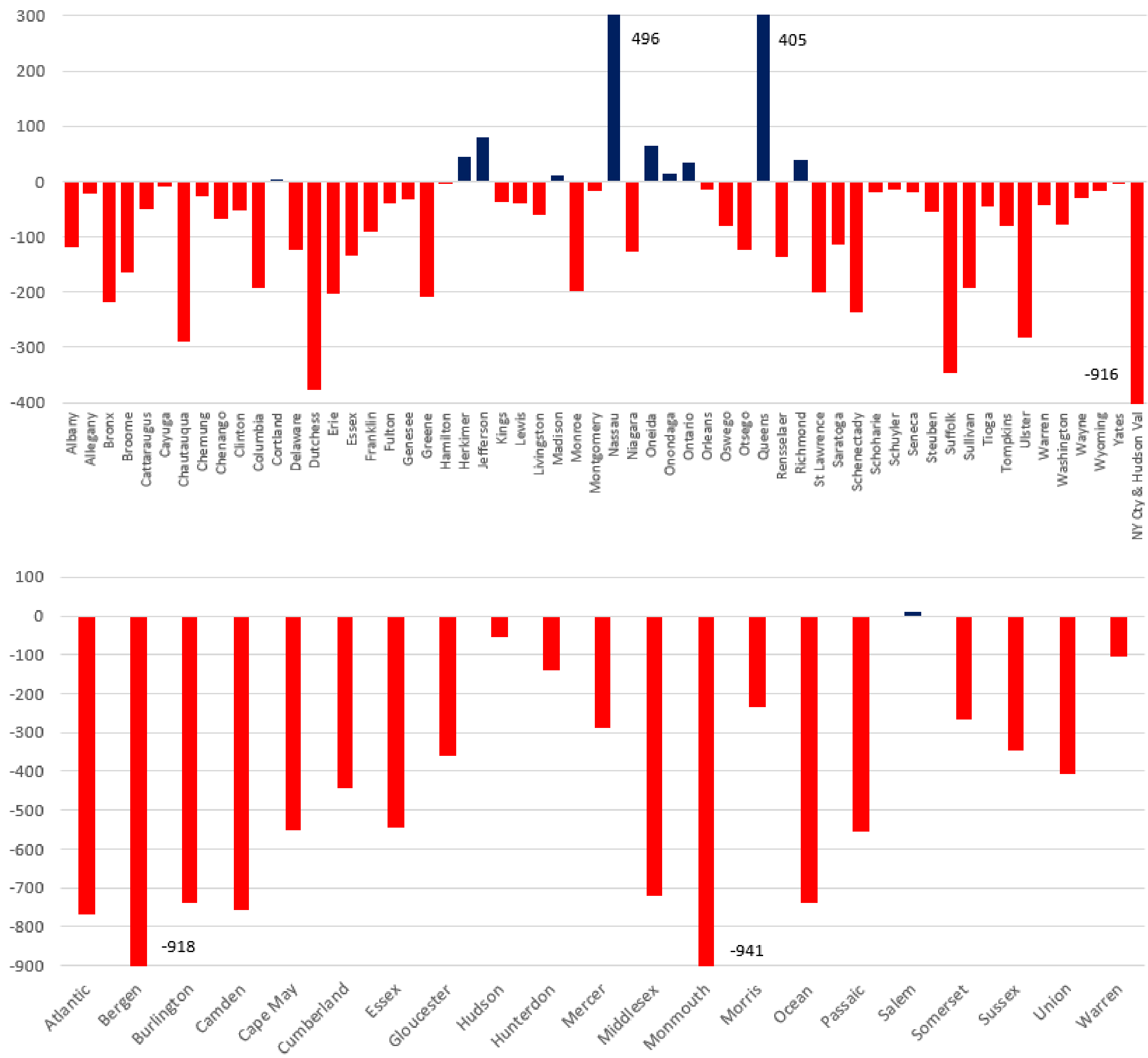


Sources: New Jersey Realtors, New York State Association of Realtors, FHLBNY estimates.

SUPPLY SHORTAGE IS WIDESPREAD, WITH FEW COUNTIES REPORTING INCREASED STOCKS

Perhaps even more important, the supply shortage is broadly based across the two states, with less than one dozen counties reporting an increase in the number of homes available for sale over the 12 months ended May (see Exhibit 3). The major exceptions in New York were Queens and Nassau counties, where the number of dwellings on the market climbed by 405 and 496, or by 5.4% and 7.8%, respectively. The largest reductions in existing home stocks were recorded in Manhattan and the Hudson Valley counties of Orange, Putnam, Rockland and Westchester (-916 or -7.8%), Dutchess County (-376 or -20.0%) and Suffolk County (-347 or -8.0%). Three quarters of the counties in the Empire State reported a lower months' supply than a year ago with half posting a tighter reading than the statewide average of 5.9.

Exhibit 3: Homes Available for Sale by County in New York and New Jersey (Change from May 2017)



Note: New York County and Hudson Valley data derived by subtracting available county figures from the statewide total.
Sources: New Jersey Realtors, New York State Association of Realtors, FHLBNY estimates.

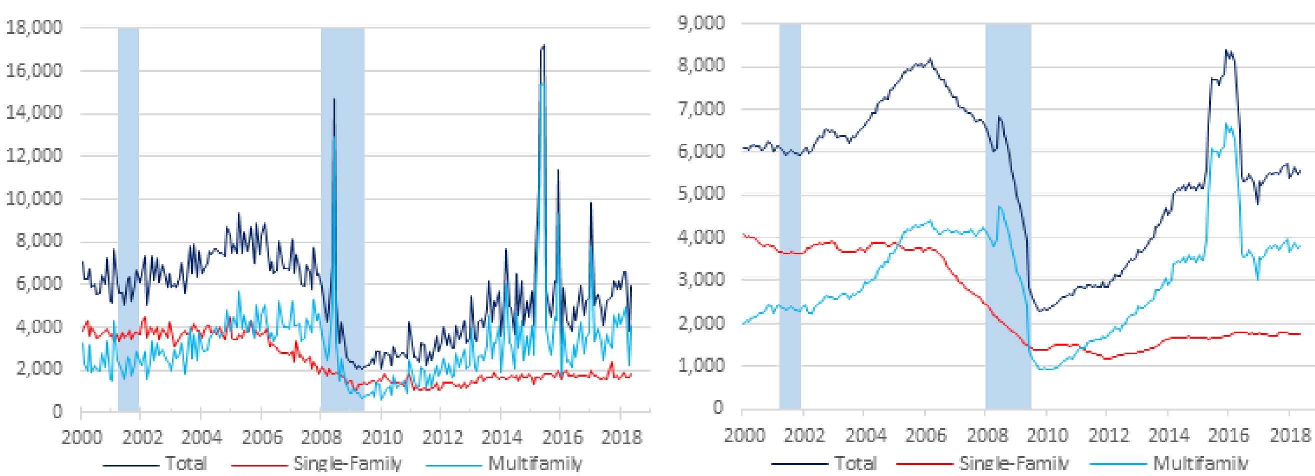
The decline in available supply in New Jersey over the past year has been truly stunning. With the exception of Salem County, which recorded a mere ten-home increase in the number of dwellings on the market, all areas of the Garden State reported lower inventories than a year ago. The largest declines were posted in Monmouth (-941 or -22.0%) and Bergen (-918 or -18.1%) counties. Atlantic, Burlington, Camden, Middlesex and Ocean counties reported average declines of roughly 745 homes over that span, or 17.2% below May 2017's stock. The months' supply of available dwellings in all but six counties was below the statewide average of 5.1 posted two months ago. Burlington, Camden, Essex, Mercer, Middlesex, Monmouth, Passaic and Ocean counties each had less than four months' supply on the market.

LACK OF SUPPLY HAS NOT PROMPTED A SIGNIFICANT PICKUP IN SINGLE-FAMILY BUILDING

Given the length and the magnitude of the contraction in available supply and the steady uptrend in median home selling prices in New York and New Jersey, one would expect to have seen a significant pickup in home-building activity. Despite expansion-high soundings on builder sentiment in the Northeast, the number of residential permits issued in the two states remains well below its pre-financial-crisis level. The inherent volatility of the monthly building permits series in the two states requires that some smoothing technique is employed before any meaningful assertions can be made (see Exhibit 4). Using 12-month moving averages, residential building applications nearly tripled from a trough of 2,063 units in January 2010 to 5,914 in May. However, all but a fraction of the reported rise has been attributable to a rental-demand-induced increase in multifamily building activity. Indeed, over that time span, the 12-month rolling average of single-family permits processed climbed by a comparatively paltry 25.6%, or by 372 dwellings, to 1,829, accounting for just 9.7% of the total rise in issuance.

Exhibit 4: Residential Building Permits in New York and New Jersey

Seasonally Adjusted (left) & 12-Month Moving Averages (right)

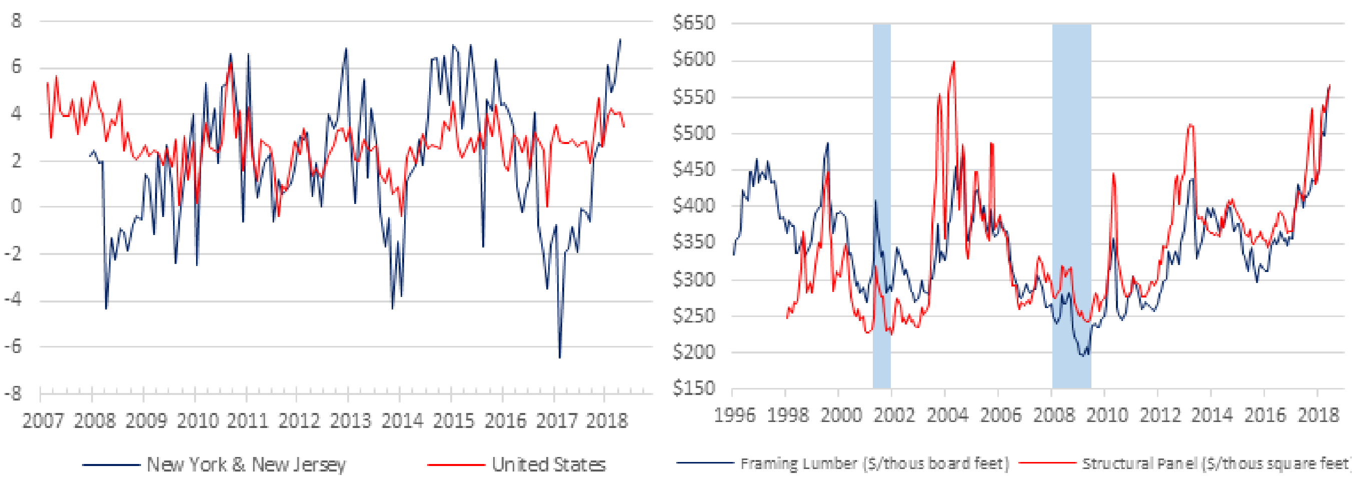


Notes: Shaded areas denote recessions. Mid-year spikes in multifamily permits in 2008 and 2015 caused by fears of the expiration of New York State Real Property Tax Law §421. Sources: Census Bureau, FHLBNY estimates.

A VARIETY OF FACTORS, INCLUDING INCREASED LABOR AND MATERIALS COSTS, ARE CAPPING NEW CONSTRUCTION

A variety of factors are evidently constraining construction of single-family dwellings both nationally and locally. The most often cited are rising worker compensation and materials costs (see Exhibit 5). Average weekly earnings of construction workers nationally rose by 3.5% over the year ended June, outpacing the 3.0% average increase received by all private employees. Although considerably more volatile than the country-wide average, nominal weekly compensation growth for construction workers has been on a tear in New York and New Jersey over the past six months, climbing by a hefty 7.2% over the 12 months ended May 2018. Available price data for wood products used in home construction further support builders' claims. Since the middle of last year, framing lumber costs have leaped by 41.7% to a record $564 per thousand board feet, while quotes for structural panels have jumped by 38.7% to $566 per square feet – the highest since April 2004. Softwood lumber prices, which began to move higher in the wake of last year's Atlantic hurricane season, have been further boosted by a variety of factors impacting supplies from Canada, including tree disease, forest fires and shortages of rail cars and trucks. The ongoing trade dispute between the U.S. and Canada and resultant tariffs have also played a role. Imported lumber from Canada represents almost 40% of domestic production. Other factors constraining new single-family construction are dwindling supplies of suitable lots and stringent local building regulations.

Exhibit 5: Average Weekly Earnings of Construction Workers (left) & Home-Building Wood Product Sales (right)

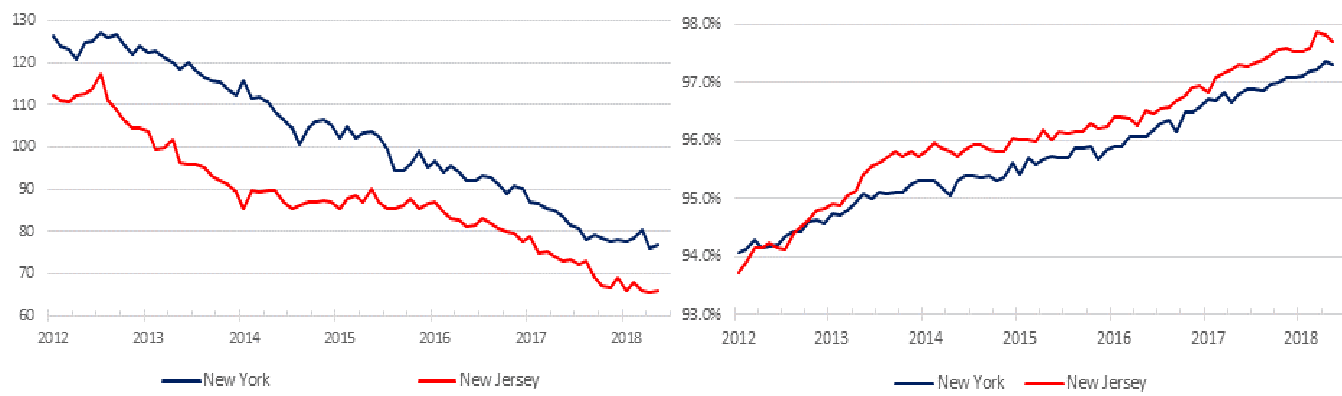


Notes: Average Weekly Earnings of Construction Workers shown as year-to-year percentage change. Shaded areas denote recessions.
Sources: Bureau of Labor Statistics, Random Lengths.

CURRENT CONDITIONS IMPLY THAT SELLERS' MARKETS WILL PREVAIL FOR SOME TIME

The most obvious conclusions to be drawn from the above are that it is probably still too early to call a top in home prices locally and that sellers' markets are apt to prevail in the two states for some time to come (see Exhibit 6). Since May of last year, the median selling price in the Empire State jumped by 11.5% to $273,230 after seasonal adjustment, while that in the Garden State climbed by 3.25% to 290,255. The number of days listed homes spent on the market in New York and New Jersey rose slightly two months ago to 77 and 66 days, respectively, during the reference period, while the percentage of listing prices received by sellers moved marginally lower to 97.3% and 97.7%.

Exhibit 6: Days on Market Before Closing (left) & Percent of Asking Price Received (right)



Sources: New York State Realtors Association, NJ Realtors and FHLBNY estimates.

QUESTIONS / COMMENTS?

The *Economic Perspectives* newsletter is authored by the FHLBNY's Financial Economist, Brian Jones. Contact your Relationship Manager at **(212) 441-6700** to discuss the information shared in this newsletter and any potential business opportunities with the FHLBNY as your partner.