Home Price Growth Outlook Fades

With incomes under increasing pressure, the worsening home price growth outlook is set to undermine any potential wealth effect for consumers.

Petering Out Following the housing bust, home price growth finally turned up a couple of years after the end of the Great Recession, and has since surged to a seven-year high. This revival was in line with ECRI's April 2012 home price growth upturn call *(↗U.S. Cyclical Outlook, Vol. XVII, No. 4)*, which has been clearly vindicated.

Unfortunately, that rally is about to run out of steam. With U.S. Leading Home Price Index (USLHPI) growth falling to a 15-month low, real home price growth is likely to enter a cyclical downswing. Indeed, three P's analyses of the year-over-year (yoy) growth rates of the USLHPI and real home prices *(↗pages 22-24)* show that the former is already in a decidedly pronounced, and reasonably pervasive and persistent, cyclical downswing, though the latter is yet to enter such a downturn.

Many expect a resurgence in U.S. economic activity to be driven in part by the wealth effect from rising home prices. In fact, we have previously documented the leading cyclical relationship between home price growth and consumer spending growth *(↗U.S. Cyclical Outlook, Vol. XVII, No. 2, February 2012)*.

Yet, quite uncharacteristically, following its downswing that began in late 2010, consumer spending growth has registered scarcely any improvement in the wake of the latest upturn in home price growth *(↗pages 6 to 10)*. In that context, the prospect of a fresh downswing in home price growth is unwelcome news for the broader economy.

Meanwhile, the growth rates of most of ECRI's U.S. leading indexes remain in cyclical downswings. The improvements in the others have been driven largely by their market-price-related components, and are therefore not pervasive enough to amount to genuine three P's upturns. In other words, contrary to popular perceptions, there is no light yet at the end of the tunnel.

Slow-Churned Jobs While the 2001 recession was associated with a massive structural loss of manufacturing jobs, the 2007-09 recession resulted in a bloodbath for non-manufacturing ones. Notably, this was the first recession to see fewer jobs lost in manufacturing than in non-manufacturing industries.

As we explained in this publication last fall *(↗Vol. XVII, No. 11, November 2012)*, "during and just after the Great Recession, panicked employers in survival mode slashed their payrolls ruthlessly, and were then slow to

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