Housing recovery won’t get anywhere without Millennials

By [Joanna Campione]

The slow housing recovery has stalled and millennials may be key to turning it around. That’s according to Joe Brusuelas, Chief Economist at consulting firm McGladrey.

Home prices in major U.S. cities rose at the slowest rate in two years, according to the S&P/Case Shiller composite index of 20 metropolitan areas released Tuesday. The index gained 6.7% in the year ending in July. That was just shy of expectations. While new home purchases surged 18% in August to the highest level in more than six years, sales of existing homes unexpectedly fell last month from a year earlier. Construction and housing starts are down as well.

Brusuelas blames the slowdown on three main factors. First, all-cash buyers have disappeared. “The Blackstones of the world who were absorbing a lot of the shadow inventory,” he says, “have largely wrapped up their operations.”

Also, the unusually long stretch of cold and wet weather earlier this year is still having residual effects on home building. “If there was one sector that was absolutely just clobbered by the winter, it was residential construction,” according to Brusuelas.

Brusuelas also blames the steady rise in the 10-year Treasury yield between September of last year and May of this year. The Federal Reserve "tapering" its bond buying stimulus program is the culprit there, says Brusuelas. It’s driven up mortgage rates and “just knocked the air out of the housing market.”

Mortgage rates have backed off from a steady climb, however. A 30-year fixed mortgage averaged 4.20% according to Freddie Mac figures for the week ending September 25.

But credit is tight and wage gains are limited, and that’s where the millennials come in. Millennials, Brusuelas believes, can jump start the housing market but not until they are in the financial position to do so. Millennials are not buying homes at a fast enough pace, he says. That’s because they are “not being employed at appropriate levels, and if they are employed they are not seeing the wage gains that one would expect to see.”

Brusuelas is closely watching the employment-to-population ratio of 25-34 year olds. He says that figure is key to improving both housing and residential investment. New figures will come out Friday when the Labor Department releases its September employment report.