



Date	Indicator	For	Estimate	Consensus*	Previous Period
20-April-2015	Chicago Fed Nat Activity Index	MAR	NA	NA	-0.11%
22-April-2015	FHFA House Price Index MoM	FEB	0.5%	0.6%	0.3%
22-April-2015	Existing Home Sales	MAR	5.04M	5.01M	4.88M
23-April-2015	Initial Jobless Claims	04/18	291K	NA	294K
23-April-2015	New Home Sales	MAR	515K	509K	539K
23-April-2015	Kansas City Fed Manufacturing Activity	APR	NA	NA	-4
24-April-2015	Durable Goods Orders	MAR	0.8%	0.6%	-1.4%
24-April-2015	Durables Ex Transportation	MAR	0.5%	0.3%	-0.6%

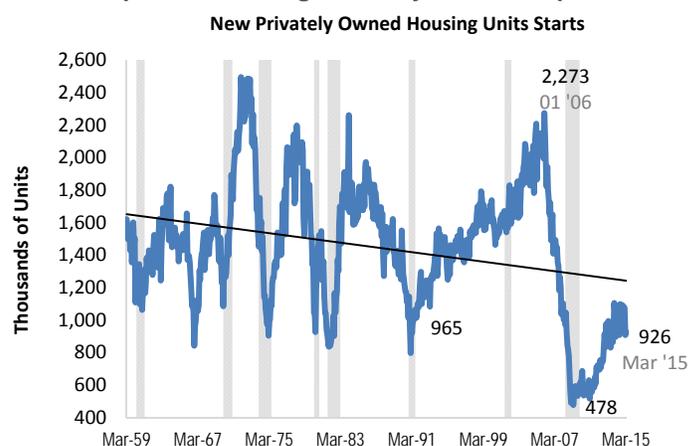
\*Consensus from Bloomberg

## Is Housing Ever Going to Recover?

This week brought another round of lackluster housing news. Housing permits went south dropping 5.7 percent on the month. Building permits often lead housing starts by 1 to 3 months, suggesting homebuilding could remain moribund through the second quarter of this year. Housing starts managed to increase a paltry 2.0 percent after a 15.0 percent plunge the month before. Both indicators of residential building activity came in lower than our expectations, prompting us to trim our housing starts forecasts for the first half of this year. We expect housing starts to average 1.061 million units in 2015, just 6.0 percent higher than last year's 1 million unit average.

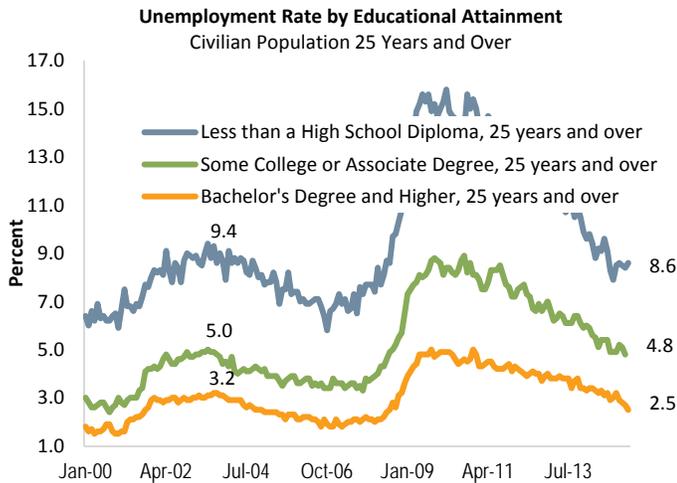
In fact, in the graph to the right, it's difficult to even spot the current homebuilding recovery. At a 926K-unit annual pace last month, U.S. housing starts have only recovered back to 1991 recession levels. Housing starts should be closer to 1.2 million units today, based on a regression trend line going back to the 1950s. So, now is a good time to review some of the reasons to remain upbeat about the housing market's prospects.

## Can You Spot The Housing Recovery in This Graph?



First, let's look at the fundamentals of housing demand. The period of chronically high unemployment and poor career prospects for recent graduates with high student loan debt appears to be largely behind us. The teenage unemployment rate for 16 to 19 year olds is back to pre-recession levels and the unemployment rate by educational attainment shows unemployment rates for all educational groups back down to 2004 levels or better.

**Career Prospects Brighten for All Educational Levels**

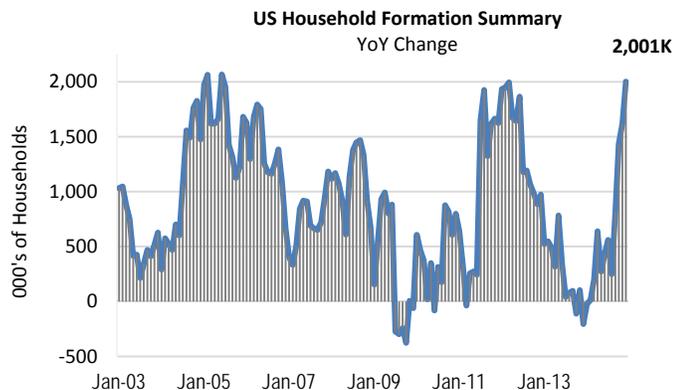


Source: Bureau of Labor Statistics

A recent study by the Federal Reserve Bank of New York based on Equifax credit report data noted a decline in new student loan originations. According to the study, student loan originations peaked way back in 2010, while the default rate on student loans peaked two years later in 2012. The student loan default rate has in fact declined gradually over the past two years. If student loan debt and poor career prospects have been getting in the way of potential first-time homebuyers, it seems that this housing demand impediment is fading.

As a result, household formation is making a huge comeback. The latest monthly household estimates from the Census bureau show 116.8 million households in the United States in December – a healthy 2.0-million household increase from a year ago. Last year at this time household formation had dropped below zero in the aftermath of the taper tantrum that left mortgage rates about 1.0 percent point higher than they were before.

**Household Formation Makes a Huge Come Back**

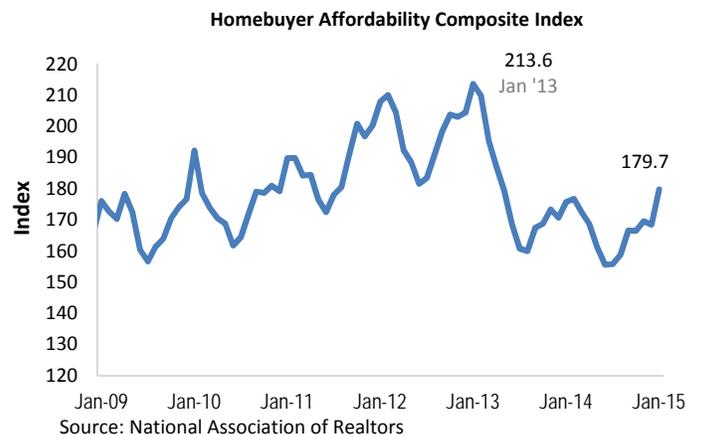


Source: U.S. Census Bureau

This is an extremely strong household formation rate, better than we have seen in years and comparable to the rates seen during the peak housing bubble years in 2004. Most economists consider a household formation rate of 1.0 to 1.2 million households as a normal long-term trend for the United States. As you can see in the chart above, we are now well ahead of that pace. This will be the feed-corn for a stronger housing market recovery in the quarters ahead.

With mortgage rates hanging near historically low levels and the labor market showing tentative signs of improvement, potential homeowners are also finding housing relatively more affordable today. The National Association of Realtors' homebuyer affordability index in January hit its highest level since April 2013.

**Housing Affordability Best Since Early 2013**



Source: National Association of Realtors

Pending home sales, a leading indicator of existing home sales, hit a post taper tantrum bottom in January 2014 and remained weak over last summer, but since August, pending sales have been on the rise and are now a healthy 12.0 percent above year ago levels. And existing home prices are following suit. The S&P 20-City Case-Shiller Home Price Index has returned to double-digit annualized growth in recent months after a brief period of contraction last fall.

So while it's easy to get down on the lackluster housing market recovery and painfully slow increases in new home construction, there are real fundamental reasons to remain optimistic about housing's future. As if on cue, April's NAHB homebuilder survey improved four points to 56, a solid reading for this survey, while the buyer-traffic sub-component improved an equal amount. In short, the U.S. housing recovery remains very much alive and its outlook still appears bright.

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## Major Economic Indicators

Economic Data	History				Forecast								Yr/Yr % chg or Annual Avg.			
	2014.1	2014.2	2014.3	2014.4	2015.1	2015.2	2015.3	2015.4	2016.1	2016.2	2016.3	2016.4	2013	2014	2015	2016
Real GDP*	-2.1	4.6	5.0	2.2	1.3	2.9	2.9	3.0	2.7	2.8	2.7	2.7	2.2	2.4	2.7	2.8
Personal Consumption Expenditures*	1.2	2.5	3.2	4.4	2.0	3.8	3.5	3.4	3.1	3.1	2.9	2.8	2.4	2.5	3.3	3.2
Non-residential Fixed Investment*	1.6	9.7	8.9	4.7	2.2	2.8	5.0	5.0	4.7	4.6	4.6	4.2	3.0	6.3	4.6	4.7
Private Housing Starts (000s units)	925	985	1,030	1,063	969	1,050	1,101	1,133	1,145	1,170	1,230	1,250	930	1,004	1,063	1,199
Vehicle Sales (mill. Units, annualized)	15.7	16.5	16.7	16.8	16.6	17.1	17.2	17.2	17.2	17.2	17.3	17.3	15.5	16.4	17.0	17.2
Industrial Production*	3.9	5.7	4.1	4.6	-1.0	2.0	3.3	3.2	3.4	3.4	3.4	3.4	2.9	4.2	2.4	3.3
Nonfarm Payroll Employment (mil.)	137.8	138.6	139.4	140.2	141.0	141.8	142.7	143.5	144.3	145.1	145.9	146.6	136.4	139.0	142.3	145.5
Unemployment rate	6.6	6.2	6.1	5.7	5.6	5.4	5.2	5.1	5.0	4.9	4.9	4.9	7.4	6.2	5.3	4.9
Consumer Price Index* (percent)	2.1	2.4	1.2	-0.9	-3.0	1.7	1.9	1.9	1.9	1.9	2.0	2.1	1.5	1.6	0.1	1.9
"Core" CPI* (percent)	1.8	2.2	1.4	1.5	1.9	1.8	1.8	1.9	1.9	1.9	2.0	2.0	1.8	1.7	1.8	1.9
PPI (finished goods)* (percent)	4.1	3.5	0.4	-5.1	-11.5	0.3	1.0	1.1	1.3	1.3	1.4	1.4	1.2	1.3	0.3	1.8
Trade Weighted Dollar (Fed BOG, major)	76.9	76.4	77.5	82.2	89.3	90.0	90.4	90.7	91.0	91.8	92.5	92.4	76.1	78.3	90.1	91.9
Crude Oil Prices -WTI (\$ per barrel)	99	103	98	76	50	52	54	55	62	63	64	65	98	94	53	64

\*Quarterly Data Percent Change At Annual Rate; Annual Data Year-on-Year % Chg, or Annual Average.

Financial Data	History				Forecast								Annual Average			
	2014.1	2014.2	2014.3	2014.4	2015.1	2015.2	2015.3	2015.4	2016.1	2016.2	2016.3	2016.4	2013	2014	2015	2016
S & P 500	1,835	1,900	1,976	2,009	2,064								1,644			
Dow Jones Industrial Average	16,177	16,604	16,954	17,345	17,808								15,010			
Federal Funds Rate (effective)	0.07	0.09	0.09	0.10	0.11	0.13	0.21	0.46	0.88	1.13	1.38	1.71	0.11	0.08	0.23	1.27
Treasury-3 Month Bills (yield)	0.05	0.03	0.03	0.02	0.02	0.05	0.11	0.36	0.78	1.03	1.28	1.61	0.06	0.03	0.14	1.18
Treasury-2 Year Notes (yield)	0.37	0.42	0.52	0.54	0.60	0.65	0.88	1.08	1.55	1.85	2.10	2.43	0.31	0.45	0.80	1.98
Treasury-5 Year Notes (yield)	1.60	1.66	1.70	1.60	1.46	1.53	1.72	2.00	2.44	2.64	2.89	3.02	1.17	1.63	1.68	2.75
Treasury-10 Year Notes (yield)	2.77	2.62	2.50	2.28	1.97	2.17	2.35	2.51	2.71	2.84	2.95	3.18	2.35	2.54	2.25	2.92
Treasury-30 Year Notes (yield)	3.68	3.44	3.27	2.97	2.55	2.75	2.90	3.05	3.16	3.27	3.40	3.53	3.44	3.34	2.81	3.34
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.25	3.33	3.58	4.00	4.25	4.50	4.83	3.25	3.25	3.35	4.40
Libor 3-Mo. U.S. Dollar	0.26	0.25	0.24	0.25	0.30	0.27	0.33	0.58	1.00	1.25	1.50	1.83	0.28	0.25	0.36	1.40
Mortgage-30 Year (yield)	4.36	4.23	4.14	3.96	3.72	3.92	4.16	4.30	4.52	4.65	4.76	4.99	3.98	4.19	4.02	4.73
BAA Corporate (yield)	5.12	4.82	4.74	4.73	4.50	4.62	4.70	4.87	5.05	5.20	5.32	5.55	5.10	4.86	4.68	5.28

Source: Bank of the West Economics, Bloomberg, Federal Reserve