

August 29, 2014

Real Estate Business Contacts on Target

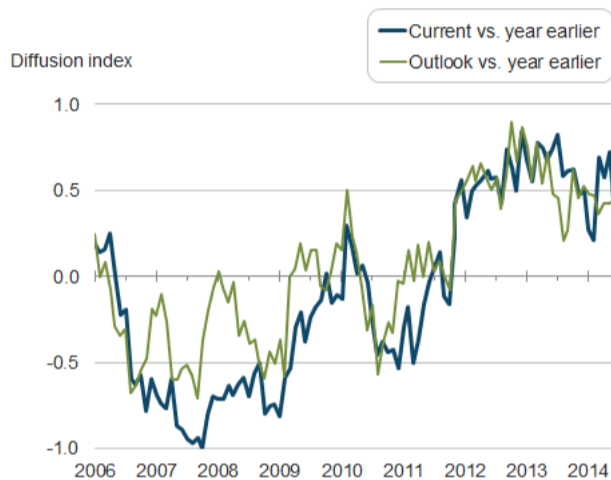
After several months of year-over-year declines in housing starts and increasing concern that momentum in the housing market was slowing, we received some positive news this past week. The U.S. Census Bureau and Department of Housing and Urban Development, or HUD, jointly released the July 2014 construction statistics: total housing starts were up 15.7 percent from the upwardly revised June estimate and were 10.7 percent higher than the year-earlier level.

This news is fairly consistent with the reports we received from our real estate business contacts. Each month since 2006, the Atlanta Fed has conducted a poll of brokers and builders from six states in the Southeast in an effort to gather anecdotal intelligence. (These states are Alabama, Florida, Georgia, Louisiana, Mississippi, and Tennessee.) This intelligence not only helps form the basis for the Atlanta Fed's construction and real estate submission to the Beige Book, but it is also considered a helpful tool for collecting insight on current market conditions before the release of the official housing statistics.

Our August poll results came in last week. Altogether, 60 business contacts participated—44 of them were residential brokers and 16, builders. The results reflect activity in July 2014. What did we find? As it relates to housing starts:

- Sixty-three percent of respondents indicated that current construction activity was ahead of the year-earlier level, 19 percent said construction activity was down, and the rest indicated that activity was about the same. In August 2014, the current construction activity diffusion index value was 0.44.
- Fifty-seven percent of respondents indicated that they expect construction activity to increase going forward (specifically, over the next three months), 13 percent said they expect activity to decline, and 31 percent said they expect the level of construction activity to remain about the same. The construction activity outlook diffusion index value also happened to be 0.44.

July 2014 Southeast Construction Activity

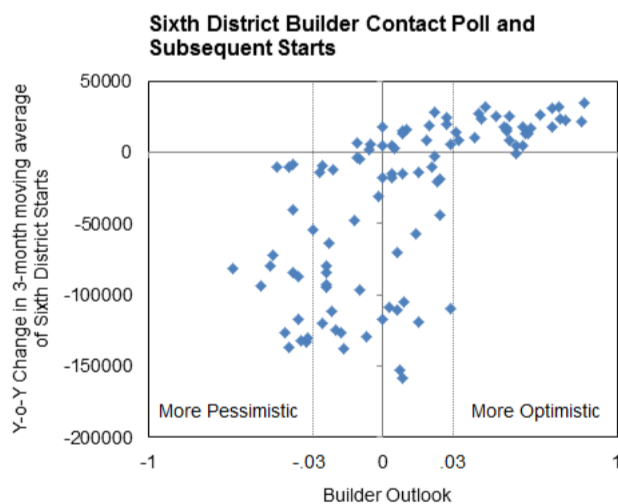


Source: Atlanta Fed business contact poll

We compute a diffusion index of responses to help us more easily track the trend over time. Basically, we subtract the share of respondents reporting decreasing activity from the share of respondents reporting increasing activity to arrive at a diffusion index value. (We do not factor those reporting no change in activity into the diffusion index equation.)

We tend to think of any diffusion index value higher than zero as an indication that construction activity is increasing, so we'd like to think that our signal from real estate business contacts was somewhat accurate. Using this same rule of thumb, though, it is hard not to notice that our construction activity diffusion indexes have been tracking above zero since 2011, and this does not necessarily jibe with recent data releases.

So how useful is the Atlanta Fed's Southeast housing market poll? Well, we've spent some time evaluating survey data against the actual outcomes to better understand what we can reasonably take away from the results. We ask contacts what their expectation is for construction activity next three months versus the year-ago period. The chart below features a scatter plot of the diffusion index on the horizontal axis and the year-over-year change in the three-month moving average of single-family housing starts on the vertical axis. (Given that we are asking them to be forward-looking, we lag the contact responses.)



Source: Atlanta Fed business contact poll, U.S. Census Bureau

We found that when the diffusion index value is greater than 0.3, starts subsequently grew. When the diffusion index values falls below -0.3, starts tended to fall. But we found that between -0.3 and 0.3, the official statistics on housing starts could go either way. This shouldn't come as a complete surprise, particularly because a diffusion index value near zero (regardless of whether it is positive or negative) indicates that responses from contacts were mixed. Real estate markets are in fact local, so it doesn't mean that our contacts were wrong. It simply means that their responses are less likely to match the larger picture when aggregated. And as we can see in the scatter plot above, large declines were much more likely given the time period covered.

Using a simple regression model, we would have expected June 2014 starts in the six states we cover to be around 114,000 rather than the roughly 103,000 that were reported. So while the poll results may not serve as a perfect early warning system, they do correlate with subsequent starts in the states we cover. To explore the poll results in more detail, please visit the Atlanta Fed's [Construction and Real Estate Survey page](#).

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