

November 18, 2014

Can the Atlanta Fed Construction and Real Estate Survey Predict Home Sales?

The slow recovery in housing remains an item of note in statements from the Financial Open Market Committee. That it's still something of a concern means that many people pay attention to housing-related data releases, several of which are due out this week, because they can shed some light on the direction of housing and the economy. The builder confidence index, released today, got things off to a good start by showing a four-point rise, from 54 to 58 (values greater than 50 mean that more builders view conditions as good rather than as poor). House starts and existing sales are due Wednesday and Thursday, respectively.

At the Atlanta Fed, we conduct a monthly survey of regional builders and real estate brokers to get their perspectives of the market. In August, we began to look at the results a little differently to see if they could tell us anything about subsequent housing-market data releases. In that exercise, we investigated the correlation between the expectations of our homebuilder contacts for construction activity and subsequent housing starts. We found that our builders are on point, more or less, and we reported on that discovery in an August post. We recently repeated the exercise, this time to explore the predictive power of the outlook for home sales of our homebuilders and residential brokers for subsequent new and existing home sales data releases. We report on our findings in this post.

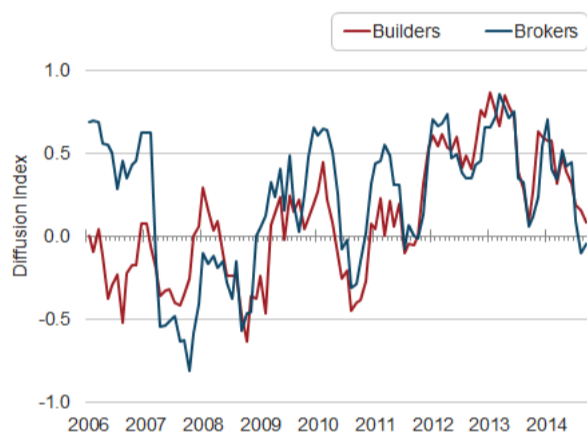
Brokers and builders expect new home sales to rise

The September home sales data showed us that existing single-family home sales increased by 1.9 percent from the year-earlier level and new home sales increased by 22.6 percent. This news is fairly consistent with the reports we received from our real estate business contacts about September sales activity; more brokers and builders noted an increase than noted a decrease in home sales activity from the year-ago level.

But what exactly did our survey respondents tell us about their outlook for home sales? Diving deeper into the data, we find that brokers' and builders' outlooks remain mildly positive and that the two groups have tracked each other fairly closely in recent years. (In the pre-2011 period, brokers and builders diverged more sharply.) Specifically:

- Of builder respondents, 40.0 percent indicated that they expect new home sales to increase over the next three months, 32.0 percent expect activity to decline, and 28.0 percent expect home sales activity to remain about the same. The home sales outlook diffusion index value for builders was 0.08.
- Of broker respondents, 22.5 percent indicated that they expect new home sales to increase over the next three months, 27.5 percent expect activity to decline, and 50.0 percent expect home sales activity to remain about the same. The home sales outlook diffusion index value for brokers was -0.05.

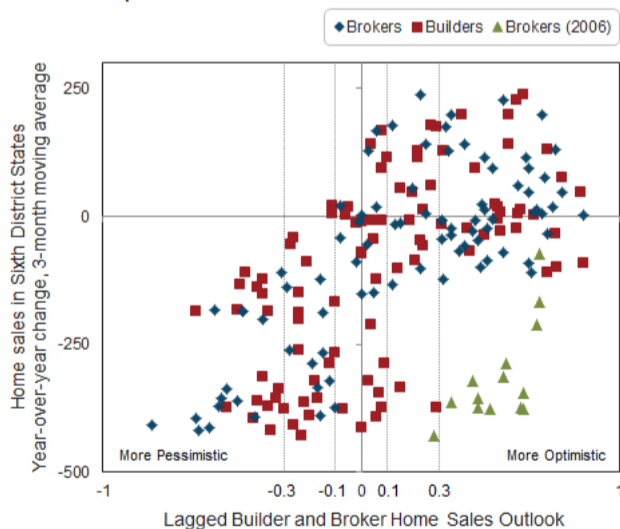
September 2014 Southeast Home Sales Outlook vs. a Year Earlier



Source: Atlanta Fed business contact poll

The chart below features two scatter plots of the diffusion index value for the broker and builder home sales outlook on the horizontal axis and the year-over-year change in the three-month moving average of single-family home sales (for Alabama, Florida, Georgia, Louisiana, Mississippi, and Tennessee) on the vertical axis. Given that we are asking contacts to be forward-looking, we lag the contact responses.

Sixth District Builder and Broker Home Sales Outlook vs. Subsequent Home Sales



Source: Atlanta Fed business contact poll, CoreLogic

Do home sales expectations correlate with subsequent sales data?

Three things stand out on this chart. First, if builders and especially brokers (who tend to be an optimistic lot) predict a decline, the subsequent home sales data release will probably be poor. Only a modest bit of net optimism is of little comfort—some of the worst declines occurred in years with net positive (albeit small net positive) outlooks.

Second, for builders, if the index is greater than 0.3, we find that sales generally grow—except for between August 2012 and April 2013, when sales did *not* match builders' optimism. When the broker index is above 0.3, sales either grow or decline by a smaller amount than when the index is negative. Like the builders, the broker panel missed the sales declines from August 2012 and April 2013. The brokers also missed the declining real estate market in 2006 to early 2007 (see the green triangles in the chart above)—despite a declining market, the broker index remained lofty until May 2007.

Third, the official statistics on housing sales could go either way when index values are between -0.1 and 0.3. This shouldn't come as a complete surprise, particularly because a diffusion index value near zero (regardless of whether that value is positive or negative) indicates that responses from contacts were mixed. And as we can see in the scatter plot above, large declines were much more likely given the time period covered.

A simple regression indicates that the outlook could explain just under 50 percent of the variation in sales measure, which indicates that our poll does a decent job of predicting subsequent sales. Given this finding, what do we now expect home sales to look like? The most recent downward trend in respondents' outlook puts the diffusion index in the center, suggesting that declines in seasonally adjusted sales over the next several months are just as likely as increases in sales.

The poll was conducted October 6–15, 2014. Sixty-five business contacts across the Southeast participated (40 residential brokers and 25 builders). To explore the latest poll results in more detail, please visit our [Construction and Real Estate Survey page](#).

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