

Median sales price of new houses sold economics essay

[Economics](#)



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According to consensus estimates, 2013 economy would grow at a bit slower rate, which is an estimated 1.8% down from 2.2% in 2012. However, some of optimistic economists predict a slightly improved growth in economy this year, which could be 3% or more in 2014. If their forecasts are correct, the economy would go back to its long-term average growth rate, but it would not see rebound that normally follows a recession. In the past three years, the unemployment rate has been decreasing at slow and stable rate. The most recent unemployment report indicated that about 155,000 jobs were added to the U.S. economy in December of 2012 and that the unemployment rate of 7.8% remained unchanged from the altered figure for November. About 300,000 or more new jobs a month would be necessarily needed to bring unemployment rate down to desired speed. Policy makers are free now since the annual inflation is at normal percent, which is between zero and 2%. Bernanke, the chief of Federal Reserve, has tripled the size of the money supply so that consumer prices have risen only 1.8% in 2012. But it could lead to inflation if the economy ever starts growing strongly. Due to consumers are still cautious, credit-card debt is down 16.5% since it reached its plateau before the recession. When the economy improves, consumers might increase their spending. In addition to consumer prices, the real estate market continues to improve, and further amelioration is possible as unemployment rate drops. Nevertheless, home prices are still far below their previous high. Furthermore, there are still a lot of distressed and previously foreclosed properties for sale, which will impede a general housing market recovery. As for the gas prices, even though they declined late last year, they have begun back up again. In general, they remain very

high as compared with historical standards. Gas prices depend on the cost of oil, which has more than doubled since the recession ended. As the global economy become better, demand for oil could increase, which would increase gas prices. Overall, the U. S. economy is slowly improving, although it could be derailed by unexpected shocks. For example, domestic problems, such as natural disasters, political issues and gun violence, could deteriorate economy and offset the benefits created by good policies. Besides domestic threats, international risks, which have existed for many years, could also destructively damage local economy. For example, the conflict with Iran could boost oil prices; economic disorder in China could be detrimental to the global economy; the euro currency crisis, which continues to worsen despite sporadic upbeat declarations, could hurt other countries' economy.

Optimistically, for people who have good credit, stable job and good housing situation, the prospect is generally hopeful. Inflation, gas prices and taxes may move up, but higher stock prices and house values are significant. The discouraging outlook is that this recovery would most likely remain weak. Consequently, weak economy will not be in favor for those who are unemployed and underemployed and who have lost their homes. In order to solve those problems, it would require more ambitious economic policies, most importantly, a stable and peaceful global environment. Without external interference, such as recent bombings in Boston and the conflict with North Korea, American economy will go out the haze.

Executive Summary

Gross Domestic Product

Based on some economists' forecast, the real GDP growth rate would be moving towards a 3 percent in 2013, partly because of housing and a nominal growth rate of 5 percent. Furthermore, according to labor department figures, employment rose about 230, 000 in January of 2013. A number of 200, 000 are consistent with real GDP growth of 3 percent this year. Also, according to the median of 77 responses in a Bloomberg survey, economists predict 1. 8 percent growth for the U. S. GDP in 2013 for the entire year, Congressional Budget Office also forecast that economic growth will remain slow because gradual improvement in many of the forces that drive the economy is against by the effects of budgetary changes that will occur under current law.

Motor Vehicle Sales

The American car market is still quit robust, which is good for U. S economic recovery. President Barack Obama emphasized strength in the car industry in his State of the Union address, and said that car manufacturers play a key role in the economic equation. In 2012, 14. 5 million vehicles were sold in the U. S., and for 2013, 15. 5 million vehicles are estimated to be sold. New vehicle registrations, a key indicator of auto sales, are expected to rise this year to 15. 3 million since consumers have more access to loans. Due to registrations lag sales, the number of new vehicles sold could actually reach 15. 4 million. Meanwhile, U. S. auto makers anticipate a sell of 1. 45 million cars and light trucks (Sousaints 2013). Toyota Motor Corp also said, it is expected to have sales of 15. 3 million, which will boost economy. The <https://assignbuster.com/median-sales-price-of-new-houses-sold-economics-essay/>

predicting sales will remain strong in March. Bob Carter, Toyota Motor Sales USA senior vice president for automotive operations, said at a forum ahead of the New York International Auto Show that consumers are returning to dealerships in big numbers (Shepardson 2013). It is a reflection that consumer confidence is really coming back.

Personal Saving Rate

Personal saving is equal to deposable personal income minus personal outlays, which was \$310.9 billion in February as compared with \$262.5 billion in January. The personal saving rate was 2.6 percent in February as compared with 2.2 percent in January. However, the saving rate is unlikely to rise substantially anytime. Lower- and middle class households have shown few signs of saving much more. Economists anticipate the saving rate to stay at around 3% this year. New data show that consumer spending and personal income are increasing; but this confidence comes at a price. The majority of Americans do not have sufficient money for both emergencies and retirement, and only one in four Americans has an adequate savings account to cover six months of expenses

Consumer Price Index

In February of 2013, the American consumer prices are at the fastest monthly rate since July of 2008, which was a monthly increase of 0.7 percent. Over the past three years, the monthly increases in the CPI have ranged from -0.2 percent to 0.7 percent. Within the 3 years, the most important variable has been energy prices especially gasoline. The increase in the price of gasoline accounted for almost three-fourths of the overall CPI

change in February. The volatility of energy prices can impact the overall upward or downward change in the price level. Transportation is the other category with high volatility. Transportation encompasses a wide range of subcategories. Its volatility is largely caused by the motor fuel subcategory. Medical Care is also a determinant. Since the motor sales might jump in the next following month, high demand for gas would lead to higher gas prices. Eventually, the consumer prices would continue to increase slowly.

Median Sales Price of New Houses Sold

According to the Census Bureau report, the number of new homes sold in January of 2013 increased more than 15 percent from December and nearly 30 percent from 2012. There is only a 4.1-month supply of new homes available for sale in the market, the tightest supply by that measure since the bubble days of 2005. If inventory keeps falling sharply, the stronger house price might gain in 2013 than originally expected. Ivy Zelman, the CEO of research firm Zelman & Associate, and analysts at Morgan Stanley, Bank of America, Capital Economics and J. P. Morgan, are all expecting prices to grow by around 8 percent this year (McBride 2013). The improvement in the market might be driven by some factors, such as record-low mortgage rates, an improvement in the overall economy and a drop in the number of home foreclosures. These factors would bring back the confidence into the market.

Interest Rate on 10-year U. S. Notes

Federal policy is not likely to increase short-term interest rates until 2015. Consequently, the shorter-term treasuries yield will be depressed. Investors,

who seek shelter from broader, global concerns by moving cash into safer investments, can benefit treasuries in 2013. Stronger economic growth will make the federal more likely to raise rates, but U. S. economic is still stagnant, and with higher taxes on tap for 2013. There is no sign of accelerating from its current rate in the 1-2% range. Right now, investors should be cautious that yields are as low as they are due to the Federal's intervention in the market. Once the Federal Reserve inevitably stops supporting by changing ultra-low rates and policy initiatives such as quantitative easing and Operation Twist, investors are more likely to turn their attention to the large debt problems of the U. S. government. If the policymakers are unwilling to match revenues and expenses, it could drive up U. S. interest rates especially when investors seek compensation for the added risks in the form of higher yields. Then the bear market for U. S. treasury will occur.

Unemployment Rate

The U. S. Labor Department reported that economy managed one of the best months for job gains in the past year in February, adding 236, 000 jobs in February. The unemployment rate dropped to 7. 7 percent from 7. 9 percent in January, which was the lowest level since December 2008. However, many experts said if it were not for political gridlock in Washington, which caused the automatic spending reductions on March 1, the job market and the economy would be even more robust in the months ahead. The report suggests a bit more cushion heading into the spring, when we will see the bulk of the impact from the sequester and fiscal pullback," said Michelle Meyer, senior United States economist at Bank of America Merrill Lynch. "

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This was a good report. It's hard to poke holes in it. But we think we'll see some slowdown in April and May because of the sequester." (Appelbaum 2013). Also, the federal government said the unemployment rate would be 7.4% to 7.7% at the end of 2013.

Capacity Utilization Rate.

Based on the federal report, the rate of capacity utilization for total industry grew to 78.5 percent in March, which is 1.2 percentage points above its level a year earlier. The capacity utilization rate measures how much of the country's industrial production capabilities are in use. This came as a surprise and the strong first quarter results were due to the higher utilities output from an unexpectedly cold winter. Although the demand for heat caused utilities output to grow 10.5% alone in the first quarter, this rise was offset by declines in manufacturing and mining production. This appears to be the pattern in which a strong first quarter gets corrected later when excessive inventories get adjusted. Consumers are constrained by the lack of growth in income and businesses remain cautious, and exports are weak. Experts predict that only a modest growth may be possible in 2013."

Trade Deficit

The U. S. trade deficits have been consistent since 1980 because of high imports of oil and consumer products. But the trade deficit plummeted in last December because oil imports dropped and total exports increased.

Recently, a forecasting team for the National Association for Business Economics anticipated that the American trade deficit for 2013 would be total \$533 billion, slightly down from \$540 billion deficit of 2012. The view is

based on export growth will be faster than imports in 2013. Specifically, the deficit with China dropped to \$23.4 billion, the lowest point in 11 months. A narrower trade gap will improve the local economy in the sense that the U.S. companies will make more profits from overseas sales while domestic consumers and businesses will consume less on foreign products. The stronger growth in some major export markets will raise exports of other products. This forecast is based on an assumption of stabilized European debt crisis and robust economy in Asia, which help improve exports to that region.

Federal Budget Deficit

The U.S. federal budget deficit is plummeting considerably in the 12 months through March 2013. If the current laws for federal taxes and spending do not change, the budget deficit will decrease to \$845 billion before increasing again, which is the smallest size since 2008. In the short term, the growth of federal spending will be held back both by the improved economy, which help cuts spending for programs such as unemployment compensation, and by provisions of the Budget Control Act of 2011. Congressional Budget Office suggests that the reduced budget deficit, which comes after Congress in January approved higher tax rates on households with annual incomes above \$450,000, will offer at best a short-term slowing of deficit. Moreover, its report also argues that the fiscal cliff deal, which terminated a two-year payroll tax cut, will lower budget deficits but damage economic growth in the short run.

Price of Crude Oil and Natural Gas

The U. S. Energy Information Administration estimates the regular gas retail prices to average \$3. 63 per gallon during this summer. It also anticipates regular gas retail prices to average \$3. 56 per gallon in 2013 as compared with \$3. 63 per gallon in 2012. Based on the market value of futures and options contracts, however, there is a small chance that its price at expiration will exceed \$3. 35 per gallon, consistent with a monthly average regular-grade gas retail price exceeding \$4. 00 per gallon in July 2013.

Meanwhile, EIA said, that the Brent crude oil spot price, which averaged \$112 per barrel in 2012, is estimated to average \$108 per barrel in 2013, and that U. S. natural gas prices might move well above the historic lows recorded last April. U. S. natural gas prices recently broke above \$4 per million Btu thresholds due to inventories, weather and other factors. EIA expects that the Henry Hub natural gas spot price, which averaged \$2. 75 per million British thermal units (MMBtu) in 2012, will average \$3. 52 per MMBtu in 2013 (EIA. 2013).

Purchase Manufacturing Index

Manufacturing, which represents about 12 percent of the U. S. economy, was at the forefront in the early stages of the recovery that began in June 2009.

Manufacturing in the U. S. expanded more than forecast in this January, reaching a nine-month high, which shows the industry is beginning to improve. This March report reflects the fourth consecutive month of growth in the manufacturing sector. On March, PMI™ registered 51. 3 percent and the index of prices paid increased to 56. 5 from 55. 5. The housing recovery and stabilization in overseas markets indicate that U. S. factories may keep

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adding to growth in its economy this year. " Manufacturing is on the mend," said Brian Jones, senior U. S. economist at Societe Generale in New York, who projected a reading of 52 percent of PMI index. (Chandra 2013).

Construction Spending

Construction spending in the U. S grew 1. 2 percent to an \$885. 1 billion annual rate. The low borrowing costs, improved unemployment and increased population raise demand for residential real estate and private non-residential projects, which give a boost to homebuilders such as KB Home. Spending on public construction also grew 0. 9 percent from the prior month, the biggest advance since 2008. The faster hiring by KB home would ensure the improvement in its industry, in which huge amount of construction spending will occur. KB Home is one of many big companies buying land to coordinate with increased demand. The Los Angeles-based builder also doubled its spending to about \$350 million on land acquisition and development in the first quarter, and has been increasing prices, Chief Executive Officer Jeffrey Mezger said (Woellert 2013).