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## Residential Construction Stalls in First Half of 2019

Residential Fixed Investment (RFI)—a component of GDP that includes investment in new construction and home improvements—is the most commonly watched indicator of housing’s contribution to the economy.<sup>7</sup> One reason that RFI is widely followed is that it tends to be a leading indicator of economic activity since RFI typically peaks before the start of a recession and it tends to rebound before a downturn ends, helping to pull the country out of its slump.<sup>8</sup>

While residential investment has picked up in recent years, it remains low by historical standards. Between 1950 and 2007, RFI accounted for 4.9 percent of annual U.S. GDP on average. As the housing crash and subsequent recovery have played out, however, RFI’s share of economic activity bottomed out at 2.5 percent in 2011 and stood at 3.8 percent in 2018.

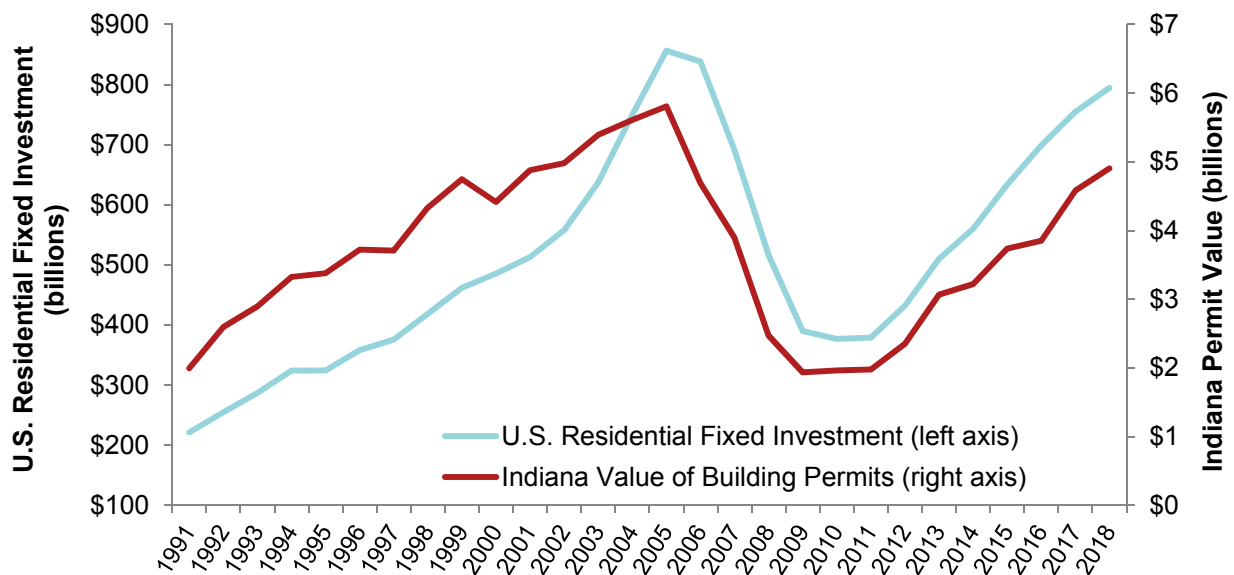
There is no measure of RFI at the state level, but other indicators, such as the value of annual building permits, tend to follow the same path. **Figure 19** compares the change in national RFI to Indiana’s annual value of building permits. Both indicators peaked in 2005 and fell dramatically through 2011. The value of residential construction in Indiana has rebounded since then with an average annual increase of roughly 14 percent per year over the last six years. Growth in this measure slowed to a 7.1 percent annual increase in 2018, however. Residential construction is off to a much slower start so far in 2019, with the value of building permits over the first half of the year down 8.6 percent compared with the same period in 2018.

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<sup>7</sup> According to the U.S. Bureau of Economic Analysis, RFI consists of the purchase of residential structures and the residential equipment that is owned by landlords and rented to tenants. Investment in residential structures includes the new construction of housing units, improvements to existing housing units, the purchase of manufactured homes and brokers’ commissions on sales.

<sup>8</sup> Kathryn Byun, “The U.S. Housing Bubble and Bust: Impacts on Employment,” *Monthly Labor Review*, December 2010.

Figure 19: U.S. Residential Fixed Investment and Indiana Value of Building Permits, 1991 to 2018



Source: U.S. Bureau of Economic Analysis and U.S. Census Bureau

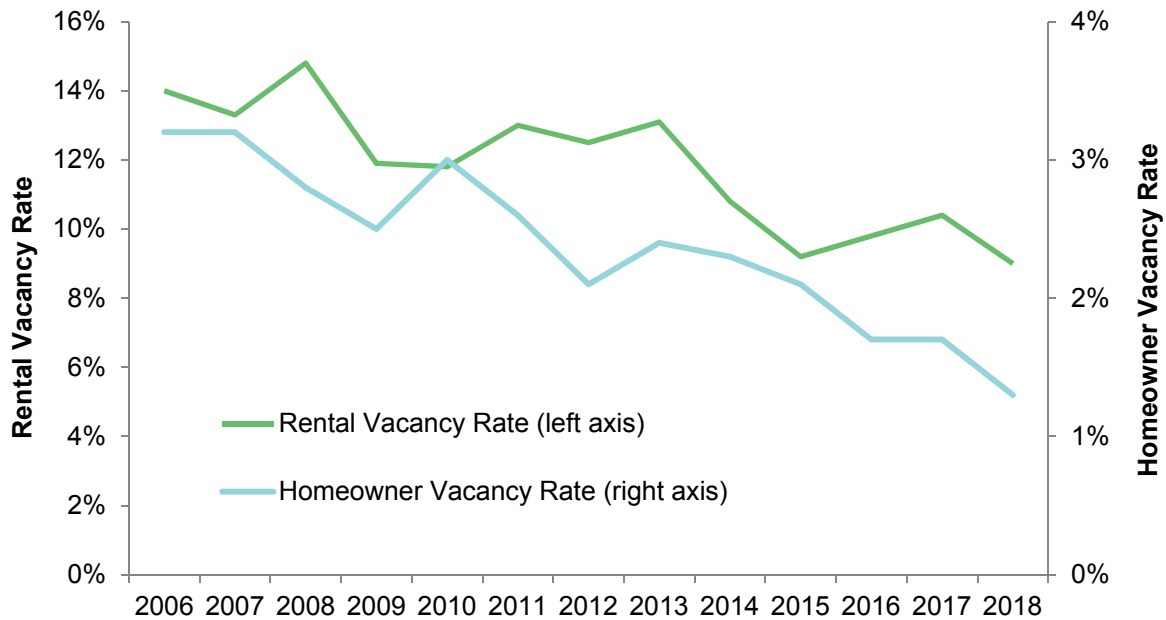
## Looking Ahead

Not only is residential construction down when measured by value, but the state has also seen fewer new units built so far this year. There were 10,522 new units added to the state’s housing stock in the first six months of 2019—a 6.5 drop year-over-year. The number of new single-family homes is down 5.6 percent over the same period. The nation as a whole has seen a similar slip in new construction, but Freddie Mac’s August 2019 outlook shows that they expect housing starts to begin to climb again in the second half of the year and through 2020. If the trend in Indiana were to follow a similar path, then housing will come closer to assuming its usual role in the state’s economy.

Certainly, with an exceptionally low inventory of existing homes on the market, rapidly rising house prices and falling vacancy rates (see **Figure 20**), there are many indicators that point to the need for an uptick in residential construction in Indiana.



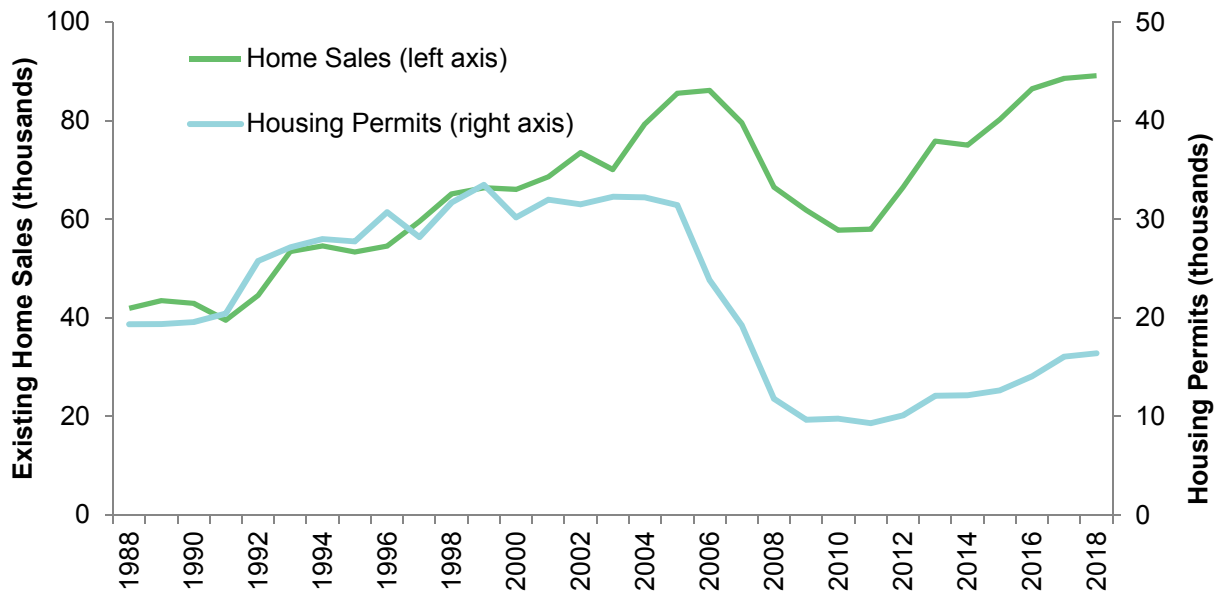
Figure 20: Indiana Homeowner and Rental Vacancy Rates, 2006 to 2018



Source: U.S. Census Bureau

Another sign that new construction will likely rebound is the wide gap between the number of existing home sales in the state and the number of new single-family permits. From 1988 to 2005, there was a fairly consistent ratio of approximately two existing home sales for each single-family building permit in Indiana (see **Figure 21**). In 2018, however, that ratio was more than five-to-one. Given the current market conditions, new home construction will almost certainly need to improve over the next few years.

Figure 21: Indiana Existing Home Sales and Single-Family Housing Permits, 1989 to 2018



Source: U.S. Census Bureau, Moody's Economy.com, Indiana Association of Realtors

# Conclusion

The Indiana housing market seems to be in a holding pattern so far in 2019. With strong existing home sales numbers and declining vacancy rates, housing demand remains strong. Yet supply is still remarkably tight, and with residential construction activity weakening in 2019, it does not appear that there will be any boost to inventory in the near term.

Residential construction and housing inventory will be the indicators to watch over the next year. Factors such as surging prices for existing homes, exceptionally low mortgage rates, the emergence of the comparatively large millennial generation and somewhat stronger net in-migration to the state all point to the need for sustained improvement in these measures. As always, though, much rests on the strength of the economy. If Indiana sees continued—and hopefully improved— growth in employment and wages, then we may begin to see some balance return to the state's housing market.

# Appendix

Table 2: Home Sales and Median Sales Price by County

| County      | Existing Home Sales, July '17 to June '18 | Existing Home Sales, July '18 to June '19 | Percent Change | Median Sales Price, July '17 to June '18 | Median Sales Price, July '18 to June '19 | Percent Change |
|-------------|---|---|----------------|--|--|----------------|
| Indiana     | 88,588                                    | 87,826                                    | -0.9%          | \$152,500                                | \$163,000                                | 6.9%           |
| Adams       | 268                                       | 279                                       | 4.1%           | \$105,500                                | \$106,000                                | 0.5%           |
| Allen       | 5,528                                     | 5,532                                     | 0.1%           | \$142,000                                | \$155,000                                | 9.2%           |
| Bartholomew | 1,238                                     | 1,109                                     | -10.4%         | \$175,000                                | \$179,500                                | 2.6%           |
| Benton      | 92  | 87  | -5.4%          | \$78,500                                 | \$85,000                                 | 8.3%           |
| Blackford   | 111                                       | 93  | -16.2%         | \$60,000                                 | \$68,425                                 | 14.0%          |
| Boone       | 1,245                                     | 1,253                                     | 0.6%           | \$252,900                                | \$285,000                                | 12.7%          |
| Brown       | 310                                       | 283                                       | -8.7%          | \$199,500                                | \$234,900                                | 17.7%          |
| Carroll     | 160                                       | 201                                       | 25.6%          | \$137,500                                | \$123,500                                | -10.2%         |
| Cass        | 330                                       | 380                                       | 15.2%          | \$76,950                                 | \$84,500                                 | 9.8%           |
| Clark       | 2,164                                     | 2,106                                     | -2.7%          | \$160,000                                | \$169,900                                | 6.2%           |
| Clay        | 221                                       | 218                                       | -1.4%          | \$94,950                                 | \$105,320                                | 10.9%          |
| Clinton     | 223                                       | 218                                       | -2.2%          | \$102,950                                | \$138,900                                | 34.9%          |
| Crawford    | 75  | 75  | 0.0%           | \$110,950                                | \$100,000                                | -9.9%          |
| Daviess     | 226                                       | 218                                       | -3.5%          | \$100,750                                | \$118,500                                | 17.6%          |
| Dearborn    | 591                                       | 538                                       | -9.0%          | \$163,500                                | \$183,500                                | 12.2%          |
| Decatur     | 282                                       | 320                                       | 13.5%          | \$126,550                                | \$136,000                                | 7.5%           |
| DeKalb      | 587                                       | 533                                       | -9.2%          | \$126,000                                | \$135,000                                | 7.1%           |
| Delaware    | 1,176                                     | 1,141                                     | -3.0%          | \$90,000                                 | \$96,500                                 | 7.2%           |
| Dubois      | 382                                       | 373                                       | -2.4%          | \$147,000                                | \$155,802                                | 6.0%           |
| Elkhart     | 2,249                                     | 2,223                                     | -1.2%          | \$146,500                                | \$158,000                                | 7.8%           |
| Fayette     | 126                                       | 161                                       | 27.8%          | \$69,000                                 | \$73,450                                 | 6.4%           |
| Floyd       | 1,287                                     | 1,216                                     | -5.5%          | \$165,000                                | \$174,900                                | 6.0%           |
| Fountain    | 66  | 83  | 25.8%          | \$89,000                                 | \$90,000                                 | 1.1%           |
| Franklin    | 175                                       | 180                                       | 2.9%           | \$165,000                                | \$160,000                                | -3.0%          |
| Fulton      | 175                                       | 166                                       | -5.1%          | \$104,000                                | \$89,450                                 | -14.0%         |
| Gibson      | 282                                       | 301                                       | 6.7%           | \$109,450                                | \$116,100                                | 6.1%           |
| Grant       | 639                                       | 689                                       | 7.8%           | \$85,000                                 | \$89,000                                 | 4.7%           |
| Greene      | 184                                       | 175                                       | -4.9%          | \$100,500                                | \$109,700                                | 9.2%           |
| Hamilton    | 7,135                                     | 7,061                                     | -1.0%          | \$269,000                                | \$282,000                                | 4.8%           |
| Hancock     | 1,376                                     | 1,373                                     | -0.2%          | \$182,500                                | \$194,000                                | 6.3%           |

| County     | Existing Home Sales, July '17 to June '18 | Existing Home Sales, July '18 to June '19 | Percent Change | Median Sales Price, July '17 to June '18 | Median Sales Price, July '18 to June '19 | Percent Change |
|------------|---|---|----------------|--|--|----------------|
| Harrison   | 482                                       | 484                                       | 0.4%           | \$164,900                                | \$160,000                                | -3.0%          |
| Hendricks  | 3,229                                     | 3,117                                     | -3.5%          | \$192,000                                | \$208,000                                | 8.3%           |
| Henry      | 376                                       | 418                                       | 11.2%          | \$86,000                                 | \$93,250                                 | 8.4%           |
| Howard     | 1,300                                     | 1,302                                     | 0.2%           | \$109,500                                | \$111,225                                | 1.6%           |
| Huntington | 448                                       | 474                                       | 5.8%           | \$107,500                                | \$119,900                                | 11.5%          |
| Jackson    | 469                                       | 485                                       | 3.4%           | \$122,450                                | \$132,875                                | 8.5%           |
| Jasper     | 348                                       | 352                                       | 1.1%           | \$158,500                                | \$180,000                                | 13.6%          |
| Jay        | 128                                       | 98  | -23.4%         | \$75,000                                 | \$76,250                                 | 1.7%           |
| Jefferson  | 329                                       | 345                                       | 4.9%           | \$124,750                                | \$139,925                                | 12.2%          |
| Jennings   | 201                                       | 206                                       | 2.5%           | \$98,250                                 | \$120,000                                | 22.1%          |
| Johnson    | 2,875                                     | 2,815                                     | -2.1%          | \$175,000                                | \$187,500                                | 7.1%           |
| Knox       | 301                                       | 289                                       | -4.0%          | \$83,000                                 | \$95,000                                 | 14.5%          |
| Kosciusko  | 1,016                                     | 999                                       | -1.7%          | \$163,000                                | \$167,000                                | 2.5%           |
| LaGrange   | 206                                       | 210                                       | 1.9%           | \$157,500                                | \$153,500                                | -2.5%          |
| Lake       | 6,195                                     | 6,035                                     | -2.6%          | \$157,000                                | \$167,000                                | 6.4%           |
| LaPorte    | 1,307                                     | 1,253                                     | -4.1%          | \$130,000                                | \$139,900                                | 7.6%           |
| Lawrence   | 499                                       | 498                                       | -0.2%          | \$102,500                                | \$115,950                                | 13.1%          |
| Madison    | 1,639                                     | 1,662                                     | 1.4%           | \$105,000                                | \$116,900                                | 11.3%          |
| Marion     | 14,745                                    | 14,839                                    | 0.6%           | \$142,000                                | \$153,000                                | 7.7%           |
| Marshall   | 383                                       | 363                                       | -5.2%          | \$135,619                                | \$142,500                                | 5.1%           |
| Martin     | 49  | 54  | 10.2%          | \$106,500                                | \$117,000                                | 9.9%           |
| Miami      | 304                                       | 319                                       | 4.9%           | \$79,000                                 | \$82,900                                 | 4.9%           |
| Monroe     | 1,876                                     | 1,842                                     | -1.8%          | \$190,000                                | \$210,000                                | 10.5%          |
| Montgomery | 518                                       | 564                                       | 8.9%           | \$118,500                                | \$125,000                                | 5.5%           |
| Morgan     | 1,094                                     | 1,070                                     | -2.2%          | \$159,900                                | \$169,999                                | 6.3%           |
| Newton     | 160                                       | 166                                       | 3.8%           | \$120,000                                | \$119,900                                | -0.1%          |
| Noble      | 513                                       | 467                                       | -9.0%          | \$120,000                                | \$135,000                                | 12.5%          |
| Ohio       | 62  | 53  | -14.5%         | \$135,000                                | \$129,000                                | -4.4%          |
| Orange     | 45  | 55  | 22.2%          | \$99,000                                 | \$89,500                                 | -9.6%          |
| Owen       | 222                                       | 170                                       | -23.4%         | \$124,950                                | \$136,500                                | 9.2%           |
| Parke      | 42  | 51  | 21.4%          | \$89,500                                 | \$80,000                                 | -10.6%         |
| Perry      | 156                                       | 142                                       | -9.0%          | \$95,250                                 | \$115,500                                | 21.3%          |
| Pike       | 85  | 90  | 5.9%           | \$92,500                                 | \$81,750                                 | -11.6%         |
| Porter     | 2,448                                     | 2,408                                     | -1.6%          | \$190,000                                | \$210,000                                | 10.5%          |
| Posey      | 195                                       | 206                                       | 5.6%           | \$136,500                                | \$133,000                                | -2.6%          |
| Pulaski    | 90  | 85  | -5.6%          | \$84,250                                 | \$95,000                                 | 12.8%          |
| Putnam     | 532                                       | 528                                       | -0.8%          | \$135,500                                | \$156,250                                | 15.3%          |

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| Randolph    | 195                                       | 236                                       | 21.0%          | \$75,000                                 | \$79,400                                 | 5.9%           |
| Ripley      | 242                                       | 224                                       | -7.4%          | \$139,000                                | \$135,000                                | -2.9%          |
| Rush        | 7   | 8   | 14.3%          | \$33,750                                 | \$86,500                                 | 156.3%         |
| Scott       | 161                                       | 223                                       | 38.5%          | \$113,750                                | \$119,950                                | 5.5%           |
| Shelby      | 549                                       | 571                                       | 4.0%           | \$124,000                                | \$135,000                                | 8.9%           |
| Spencer     | 218                                       | 225                                       | 3.2%           | \$120,750                                | \$139,950                                | 15.9%          |
| St. Joseph  | 3,537                                     | 3,651                                     | 3.2%           | \$132,000                                | \$140,000                                | 6.1%           |
| Starke      | 218                                       | 241                                       | 10.6%          | \$109,900                                | \$102,500                                | -6.7%          |
| Steuben     | 478                                       | 470                                       | -1.7%          | \$150,000                                | \$155,500                                | 3.7%           |
| Sullivan    | 121                                       | 138                                       | 14.0%          | \$75,000                                 | \$72,500                                 | -3.3%          |
| Switzerland | 52  | 78  | 50.0%          | \$132,500                                | \$130,000                                | -1.9%          |
| Tippecanoe  | 2,425                                     | 2,232                                     | -8.0%          | \$160,000                                | \$170,000                                | 6.3%           |
| Tipton      | 158                                       | 138                                       | -12.7%         | \$128,700                                | \$115,450                                | -10.3%         |
| Union       | 6   | 2   | -66.7%         | \$36,000                                 | \$59,140                                 | 64.3%          |
| Vanderburgh | 2,556                                     | 2,538                                     | -0.7%          | \$129,000                                | \$133,700                                | 3.6%           |
| Vermillion  | 96  | 92  | -4.2%          | \$67,500                                 | \$69,900                                 | 3.6%           |
| Vigo        | 1,167                                     | 1,042                                     | -10.7%         | \$102,000                                | \$102,275                                | 0.3%           |
| Wabash      | 297                                       | 314                                       | 5.7%           | \$86,750                                 | \$90,000                                 | 3.7%           |
| Warren      | 46  | 51  | 10.9%          | \$115,000                                | \$140,000                                | 21.7%          |
| Warrick     | 906                                       | 953                                       | 5.2%           | \$179,000                                | \$198,000                                | 10.6%          |
| Washington  | 279                                       | 261                                       | -6.5%          | \$105,000                                | \$117,750                                | 12.1%          |
| Wells       | 353                                       | 351                                       | -0.6%          | \$120,000                                | \$132,500                                | 10.4%          |
| White       | 275                                       | 282                                       | 2.5%           | \$125,000                                | \$138,000                                | 10.4%          |
| Whitley     | 476                                       | 406                                       | -14.7%         | \$140,450                                | \$155,300                                | 10.6%          |

Note: Home sales data are not available for Wayne County.  
Source: Indiana Association of Realtors