Housing recovery worries economists

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USA TODAY

Leading economists are voicing growing concern about the flagging U.S. housing recovery, raising doubts about a key pillar of economic growth.

Federal Reserve Chair Janet Yellen told Congress on Wednesday that the recent housing slowdown "could prove more protracted" than expected.

More than half of 40 top economists surveyed by USA TODAY Friday-Tuesday are more pessimistic about the housing recovery than they were in December.

Neither Yellen nor the surveyed economists expect a housing rebound that began in 2011 to reverse course.

Rather, economists say the turnaround will likely be more gradual, crimping economic gains in 2014.

Both home sales and starts have weakened in recent months, and economists only partly blame adverse weather.

Yellen cited "very slow household formation" as young adults saddled with student debt continue to live with their parents.

"My expectation is that as the job market strengthens ... we'll see household formation pick up, but it's hard to know here what exactly the new normal is," she told the Joint Economic Committee.

Only 423,000 new households sprouted in the 12 months that ended in March, the Census Bureau said last week, vs. an average 1.3 million a year from 2002 to 2006.

The economists surveyed also cited higher home prices and mortgage rates the past year and still-tight lending standards for home buyers.

Mortgages "are about as hard to get as" after the 2008 financial crisis, says economist Michael Englund of Action Economics.

He says the housing crash and financial reform have prodded banks to largely limit lending to borrowers with strong credit histories.

Englund doesn't foresee banks easing standards soon.

"It really raises questions about how far the housing market can go."

But economist Stuart Hoffman of PNC Financial Services Group expects a pickup this year, saying job growth should allow more buyers to qualify for loans.

Yellen's outlook, inside

Existing home sales

Economists foresee a dip this year:

2013	5.09 million
2014 median forecast	4.90 million

SOURCE: USA TODAY SURVEY OF TOP ECONOMISTS, MAY 2-6