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How can a home-buyer's tax credit help you?

Whether it's a good idea or a bad one is a matter of perspective. It's a tax credit related to a mortgage, and it can put up to \$8,000 into the pocket of first-time home buyers.

A quick look at [housing start permits](#) reveals the sad state of the residential construction industry. In January 2006, approximately 152,600 permits were issued for new-home construction. In January 2007, just 114,100 permits were issued. In January 2008, it was a mere 77,400. That's a 50 percent drop in two years.

According to www.federalhousingtaxcredit.com, "The American Recovery and Reinvestment Act of 2009 authorizes a tax credit of up to \$8,000 for qualified first-time home buyers purchasing a principal residence on or after January 1, 2009, and before December 1, 2009."

What's the government's goal here? To encourage people to purchase real estate? Not necessarily. It wants to keep people employed. Building a new house creates jobs related to construction—work for architects, builders, plumbers, and electricians—and unleashes a buying spree for furnishings and appliances. This, in turn, supports jobs in retail sales, transportation, and manufacturing. I suppose a cynic would say that people with jobs pay taxes, and therefore the government's goal is to sustain itself, but that's a debate for another day.

Has this tax credit helped? Apparently. First, let's switch to a more sophisticated way to measure the data so we can gauge permit-issuing activity from one month to the next.

Many activities are influenced by the seasons; statisticians work over the data for the year to come up with the seasonal influence, then run the numbers out for 12 months. The result is a figure that is seasonally adjusted at an annual rate. Again, using home construction permits as an indicator, we see that the industry was doing well in January 2006 (2,212,000 permits issued); faltering in 2007 (1,626,000 permits issued in January), and foundering by 2008 (1,102,000 permits in January). By January 2009 it hit bottom when 531,000 permits were issued, seasonally adjusted at an annual rate.

So now let's get back to that question: Did the tax incentive work? Housing permits climbed unsteadily in 2009, reaching 580,000 in August. That's a 10 percent climb in seven months. Also, the end of the tax incentive program is looming (it expires Nov. 30), and the housing industry is feeling the effects. The rate of permit issuance fell to 575,000 in September.

Will Congress extend the plan? It appears as though it will. One likely scenario is to extend the entire tax benefit into 2010, then phase it out quarter by quarter. Will extending it help fabricators? Probably. Last year wasn't a very good year for appliance manufacturing (employment held steady at 72,000 employees) and 2009 was worse. In August it was down to 63,800. In the furniture industry, the situation was grim; it fell from 328,900 employees in January 2008 to 239,300 in August 2009.

Whether these trends change direction remains to be seen. I'll keep an eye on them and let you know in a future blog post.

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