Harry's Take

July 13, 2021

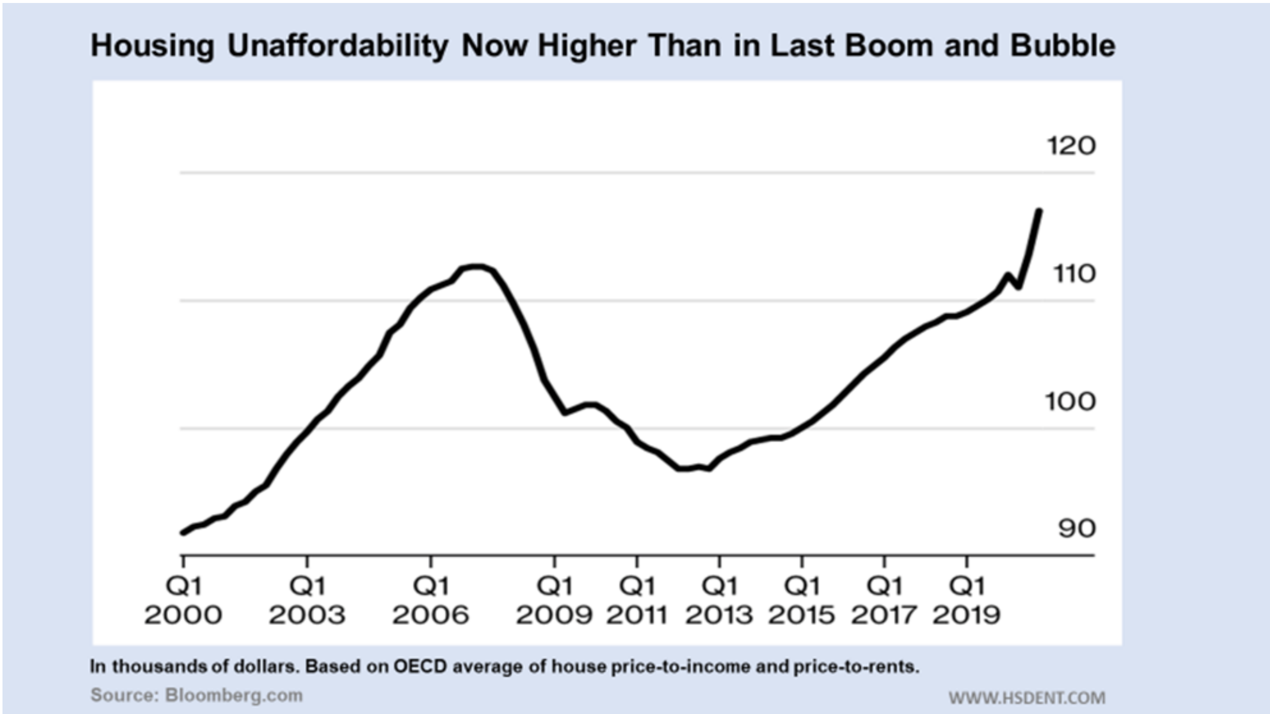
What Ends a Housing Boom: High Prices… and Slowing Demographics

When interest rates keep falling and governments are intent on stimulating their economies, then demographic peaks in demand are not sufficient to stop a housing bubble. The first U.S. bubble peaked in prices in early 2006 and then fell into 2011–2012. The peak in spending of Baby Boomers on housing, at age 41 back then, actually hit in 2002. Hence, it wasn't falling demographics that quelled that first bubble, nor was it a recession. It was high prices.

Housing is the highest value and largest purchase people make, and it is also the asset most sensitive to economic strength and even more so to interest rates, as the largest cost and determinant of the monthly payment is the interest over a typical 30-year mortgage.

This second housing boom is a totally different animal. Not only did housing long ago peak for the largest generation in history, but central banks pulled out all the stops to push interest rates to negative, adjusted for inflation, making housing much more affordable and keeping alive still today an economy that should have died, on a 46-year lag for peak total spending, back in late 2007. This bubble would have never occurred naturally like the first one.

But as I showed in the July issue of *The HS Dent Forecast*, home sales have fallen 23% since January, because the median, everyday home price is now a whopping $394,000. It was $199,000 at the top of the last bubble, and even adjusted for inflation and higher incomes, house prices are now 5% higher today.



Given that the economy is now stretched further from economic reality than ever—as per the most fundamental Spending Wave indicator—and that housing is stretched further than ever from its fundamental demand (peak buyers minus die-ers), this housing collapse obviously will be greater than the last one, which took average prices down 34%. That was higher than in the Great Depression, at 26%, only because lending was not liberal enough back then to allow such an extreme bubble.

I am predicting that this downturn will end up being a short depression into 2023 or so: housing prices will fall more like 50% this time, will never recover to the present heights, and will take a long time even to turn up again….

So, imagine the defaults, foreclosures, and banking problems this time around.

Sell now or be stuck with that home forever… and hunker down for the crash and financial crisis of our lifetime.

The only good news is that this should not lead to a decade-plus depression like in the 1930s. We should be booming again by 2024 forward, just not as strong or as long as the unprecedented 1983 to 2007 Baby Boom demographic explosion. That next boom should peak around 2036–2037.

Harry

Got a question or comment? You can reach us at info@hsdent.com.