Harry's Take

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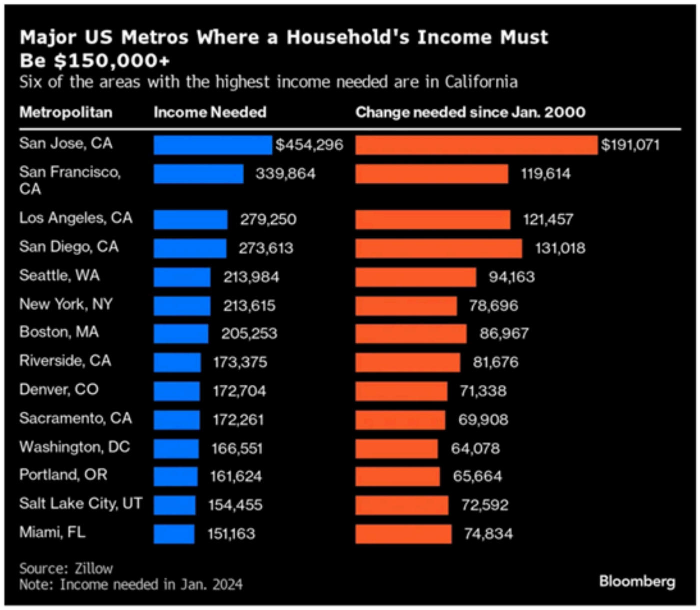
The Home Price Wall Is Working Against the Economy and Stocks

It's not just sky-high stock valuations rivaling the first 2000 tech bubble peak. It's not just a much longer bubble pattern from early 2009 into late 2021 vs. late 1994 through early 2000. Inflation remains stubbornly high, near 4%, after hitting 9.1%—the highest levels since the early 1980s, despite the highest rate hikes to tighten since 1980-1981, hikes that caused the deepest recession, at 10.8% unemployment, since the Great Depression. But the biggest barrier is home prices, now in a second, greater, and longer bubble than from 2000 to 2006. Look at this chart of the large cities that now require a buyer to make greater than $150,000 in income just to qualify for an everyday house.

Mortgage Incomes Skyrocket: In 24 Years, SF up From $120K to $340K



Source: https://finance.yahoo.com/news/home-buying-dreams-dashed-typical-170850225.html

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The Consumer Price Index (CPI) has increased 82.8% over the last 24 years, from the end of 1999 into the end of 2023. Average incomes have gone up only 83.2%, just barely keeping up with the CPI, but home prices have gone up 140.4% on average. In this chart, note that in San Francisco home prices have gone up 184.2%, New York 171.4%, and Denver 142.2% (more like the average) over the same time period. To my surprise, prices in Miami have gone up the least, at 102.0% on average... but not in the area where I used to live. I sold my house in the upscale North Beach area for $2.3M in late 2005, and now it is going for $7.8M, 3.4X or +240% more in just over 18 years.

This is what is most killing the consumer in this endlessly stimulated economy: the cost of housing, our largest expense. Why? It's not as much the inflation bubble, it's the financial asset bubble.

You know what would instantly change that? A 50%—more like 70% in Miami—crash in home prices, as I am predicting, and for a larger, longer bubble than 2000-2006. And a 50% (on average) crash isn't that much more than the 34% crash from 2006 into 2012.

That level of crash in Miami would take my old house back to the more-affordable level I sold it for in 2005. If that happened, I would be happy to move from Puerto Rico back to Miami, my wife's home town.

That's not a stretch, and it would end up being the single best thing that could happen for the up-and-coming Millennial generation driving the next, rising demographic spending boom from 2024 to 2037, which will be followed by a long plateau into around 2055. The Fed preventing this second, larger, and totally artificial bubble they created from bursting is the biggest block to the American dream for the new generation that will dominate the economy for the rest of most of our lives!

Harry

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