Harry’s Take

June 11, 2024

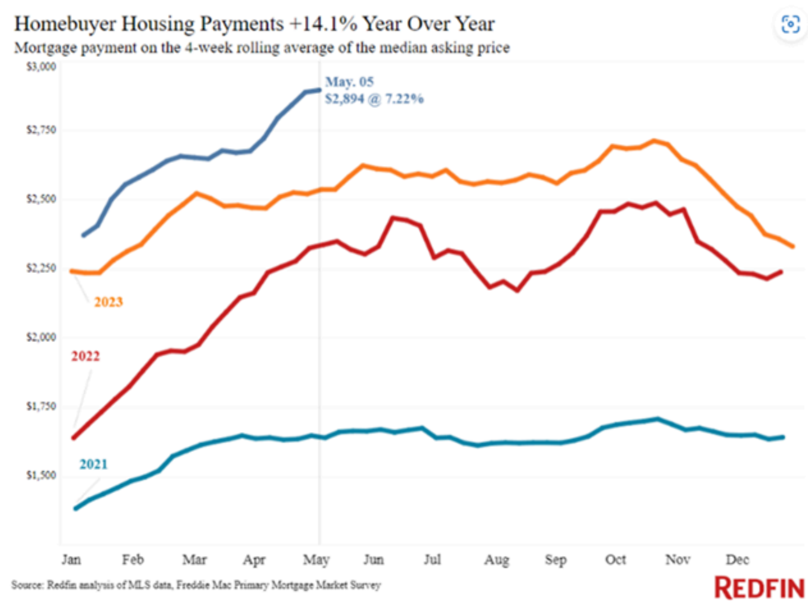
If Spiking Mortgage Payments Don’t Kill the Housing Bubble, What Will?

I learned early on that some of the richest kids end up the most useless. Their parents bust a** and sacrifice to make it, give their kids the best educations and everything else on a platter, and then are shocked when the kids become useless socialites and party animals. Why? Adversity and challenge are what create greatness, not being spoiled rotten.

Governments and central banks have spoiled the markets since 2008, bringing the greatest assault on free market capitalism ever! The markets are given immediate stimulus and support every time they fall or the economy weakens. Businesses haven’t been challenged by a recession since 2009, the longest period in modern history. The economy and the markets have become spoiled brats. As I mentioned recently, the markets would rather have a mildly weak economy than keeps requiring more “crack” (stimulus) than a strong economy that doesn’t need more crack. That’s just perverted. So are spoiled kids!

Here’s the chart that may finally break the camel’s back in this never-ending story of escalating stimulus—to the tune of $27T and still rising, even though the monetary stimulus finally has been reversed to serious tightening, the most since 1980-1981. The government deficits have represented 70% of that unprecedented $27T since 2008, and they’re still going full blast.

Mortgage Payments Have Gone From $1,600 to $2,900 in Just Three Years!



Source: https://www.redfin.com/news/housing-market-update-record-high-monthly-payments-mortgage-rates-decline/

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Mortgage payments on a new house of median value have gone up 81% in just the last three years. What? The obvious reason is that mortgage rates have gone up from around 3.5% to 7.0%–7.5% as a result of the Fed tightening in reaction to the 9.1% inflation created by its overstimulus ($11T) from 2020–2022. A mortgage payment on the everyday house as of May this year is now very expensive—$2,894—compared to the typical mortgage payment in May 2021, just three years ago, at around $1,600. After a lot of purchases already in progress play out, home sales and prices should drop substantially. That should make more households very cautious… and then we'll finally get the crash of our lifetimes.

Housing is our biggest consumer expenditure by far, and we have witnessed a second, much longer and larger real estate bubble than the first one into early 2006, which crashed 34%. This one likely is peaking right about now and will crash 60% to 65%, and that would be falling just back to 2012 prices. That's more of a crash by far than real estate has ever had in all of U.S. history. As I have pointed out before, there was only a 26% crash in the Great Depression, as mortgages were much more restrictive in the Roaring '20s, at 50% down and with five-year terms.

If this doesn't get the spoiled market screaming and throwing a tantrum, I don't know what will. It's going to be the second and largest real estate bubble in history that finally brings down the second and largest global "everything" bubble. This is your last warning! If this doesn't occur, I will have to go back to the drawing board.

Harry

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