Harry's Take

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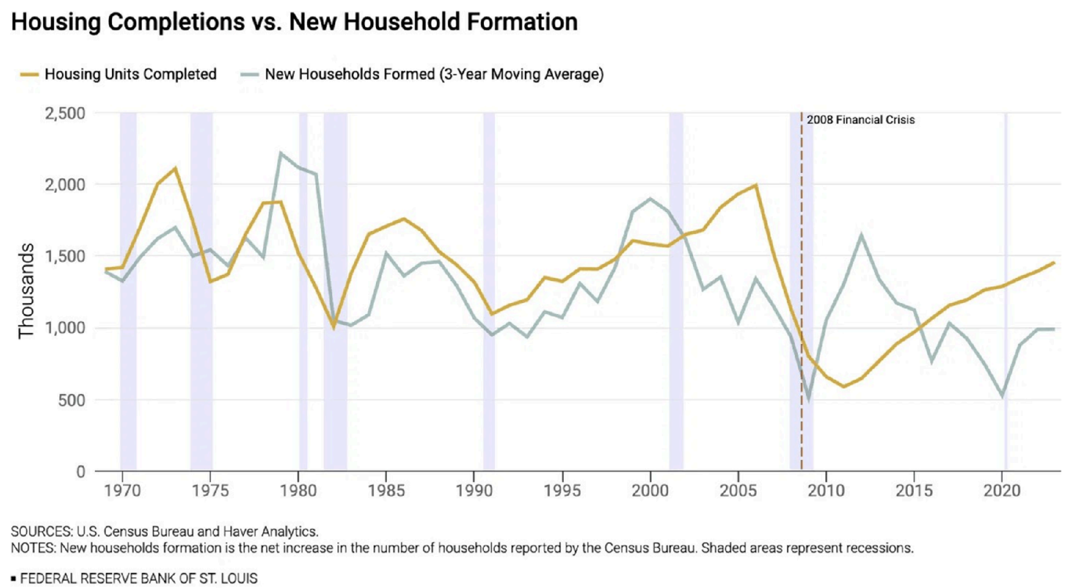
A Potential Prick for the Greatest Housing Bubble

The first housing bubble showed signs of slowing from early 2006 forward, almost two years before the economy started to slow visibly around the beginning of 2008, and before stocks peaked in October 2007. Housing also naturally peaks around age 42, 4 years before the average peak in spending at age 46. Back in the Roaring 20s bubble housing peaked in late 1925 and stocks in late 1929, exactly 4 years later as demographics would suggest. But this is a very different economy than in the late 1920s or even during the early 2000s coming into the more natural 2007 peak. First, interest rates have fallen faster from higher levels since the 1980 inflation peak stoked by the larger than normal Baby Boom generation's entry into the workforce. And now, artificial stimulus has been the overwhelming theme since the 2008 financial crisis. In fact, the Roaring 20s were naturally "Roaring." No substantial artificial stimulus came in the 1920s boom, but only from the major infrastructure projects after the crash, from 1934 forward. That was a natural bubble!

The clear goal since the beginning of 2008 when the last major recession began from the natural peak in Baby Boom spending on my 46-year Spending Wave lag, has been to flood the financial markets with money to create added liquidity for all financial assets, and to push interest rates down artificially. This favors stocks due to lower rates and liquidity, but it has an even greater impact on housing as lower mortgage rates and plenty of money available to lend makes home payments go down very substantially. People can afford larger houses on the same income and banks are more flush with money to lend. Hence, unprecedented monetary and fiscal stimulus since 2008 has created a very favorable environment for home sales and appreciation starting back in mid-2012. That created the greatest and longest surge in housing ever, well more than 2002-2006. And, for the first time, a second major bubble to follow that first one. Never have we seen two housing bubbles in a row! Now, all we need are things that prick this obvious bubble.

Housing Completions Outstripping Household Formations Since 2016



Source: U.S. Census Bureau and Haver Analytics, Federal Reserve Bank of St. Louis www.hsdent.com

Now, on top of record high home valuations vs. incomes, we are seeing home completions outstripping household formations… the most obvious driver of home sales. And this chart shows that the same thing happened before the first housing bubble burst from 2006 into 2012. Completions outstripped formations back then as well.

This is another "brick in the wall" for housing. I expect home sales to continue to fall more than completions and that should result in home prices starting to weaken again. And this bubble will certainly crash harder than the last one as net housing demand adjusted for diers (forced sellers) are headed to the lowest levels ever, and all the way into 2040 or so. One of my favorite sayings in the last two decades: Housing will never be the same!

Harry

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