

What is Happening with Housing?

(Part Two)

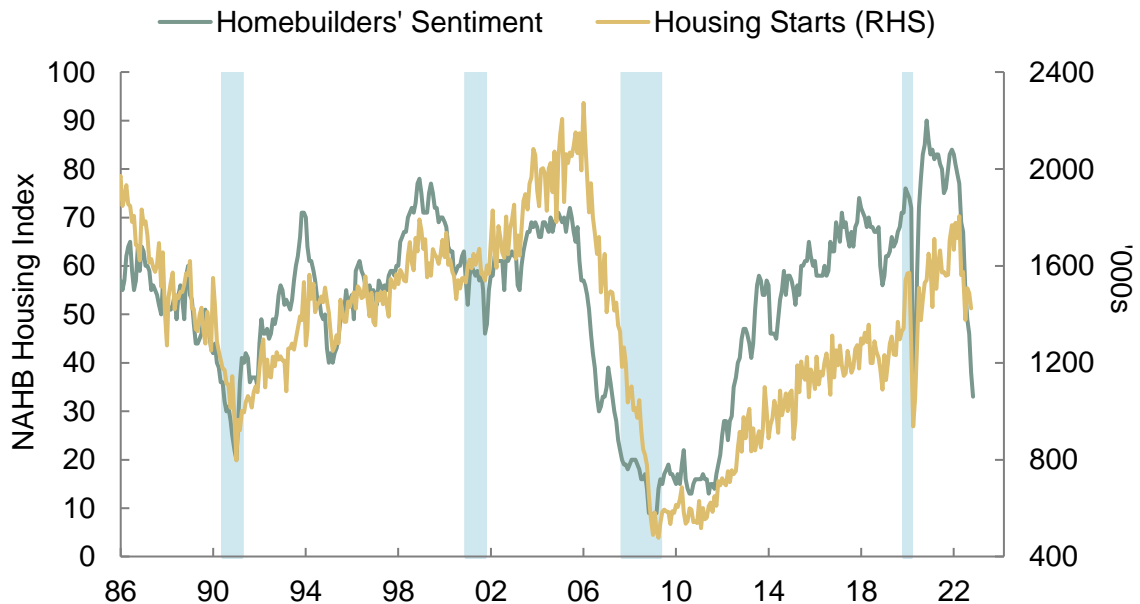
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Decline in Housing Starts Has a Ways to Go

Last week we discussed the state of the housing market. As demonstrated, the housing sector is in freefall, negatively shocked by a historic increase in mortgage rates. Why does this matter? It matters because housing is a leading indicator of the broader economy and sometimes the financial market.

The National Association of Homebuilders' (NAHB) sentiment index plunged five points in November to 33, the lowest reading since April 2020. Since this series leads housing starts by approximately nine months, the latter is set to fall further. The latest NAHB figures are consistent with starts around 1 million annualized units, down more the 40% from their current level.

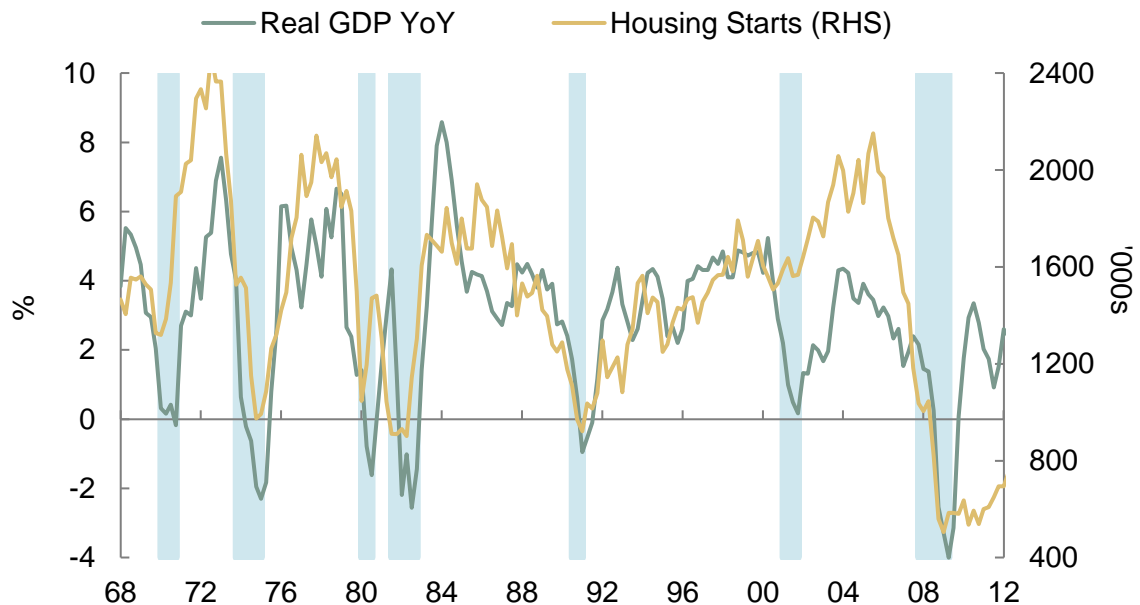


Source: Haver, NAHB, SMBC Nikko

So Goes Housing So Goes the Economy

Declining starts are an ominous sign for the broader economy. As illustrated in the chart below, underlying real GDP growth has closely tracked the trend in housing starts. If the latter fall as much as the NAHB series suggests, 2023 recession probability will remain elevated. Moreover, declining starts are also an ominous sign for stock prices.

Housing starts are sometimes a leading indicator of financial markets, but even when they are not, the two series tend to bottom around the same time. This matters because the NAHB data point to fresh lows in housing starts next year. Consequently, there is a meaningful risk that the stock market has not yet troughed for this business cycle.



Source: Haver, SMBC Nikko

Starts and Stocks Tend to Bottom Around the Same Time

In the table below, we show the peaks and troughs trough in housing starts and the S&P 500 since 1960. In some cycles, starts bottomed before stocks (1970, 1981 and 2001) while in other cycles, starts bottomed just one month (1980 and 2009) or two months (1960 and 1975) after stocks. The only time that starts missed the mark was 1991 when they bottomed three months after equities. This sets up a troubling backdrop for the stocks if housing still has significant further downside to come. Stay tuned.

What is the Time from Housing Bottom to Stock Market Bottom?

<u>Business Cycle Troughs</u>		
Housing Starts	Dec-60	2m lag
SPX 500	Oct-60	
Housing Starts	Jan-70	5m lead
SPX 500	Jun-70	
Housing Starts	Feb-75	2m lag
SPX 500	Dec-74	
Housing Starts	May-80	1m lag
SPX 500	Apr-80	
Housing Starts	Nov-81	9m lead
SPX 500	Aug-82	
Housing Starts	Jan-91	3m lag
SPX 500	Oct-90	
Housing Starts	Oct-01	12m lead
SPX 500	Oct-02	
Housing Starts	Apr-09	1m lag
SPX 500	Mar-09	

Source: Haver, SMBC Nikko

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