

# Housing Market: Look Out Below

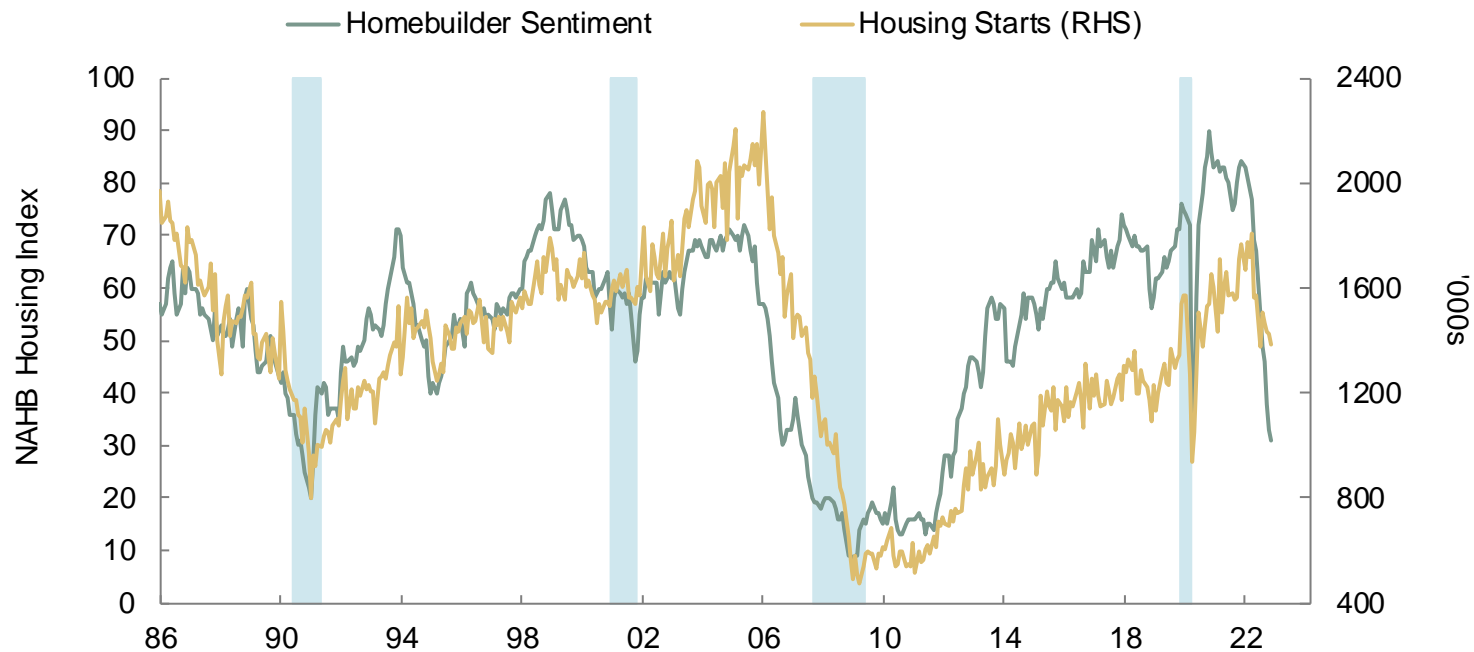
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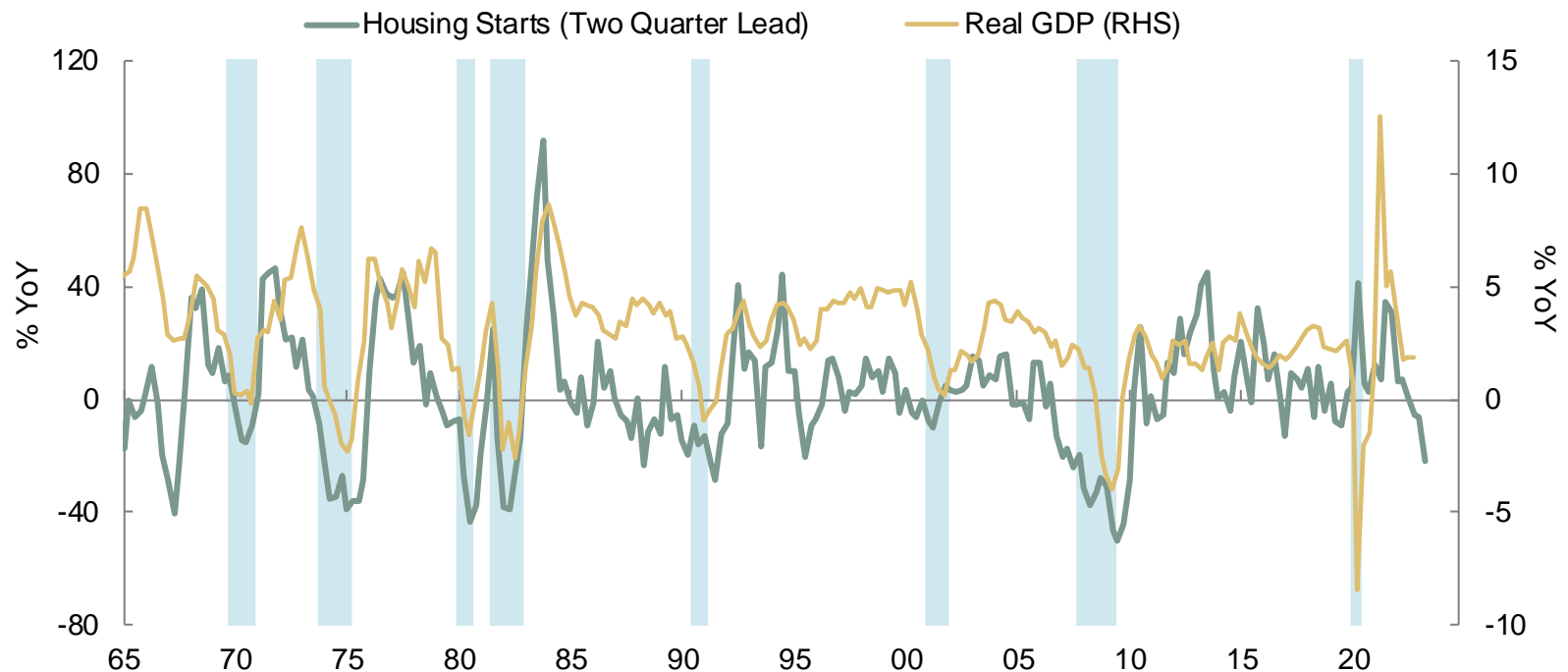
# Housing Sentiment and Homebuilding in Freefall

Homebuilders' sentiment is a leading indicator of housing starts, which are down 22% over the past year. The ongoing decline in sentiment tells us that starts have significantly further room to fall. Housing starts are a leading indicator of the broader economy.



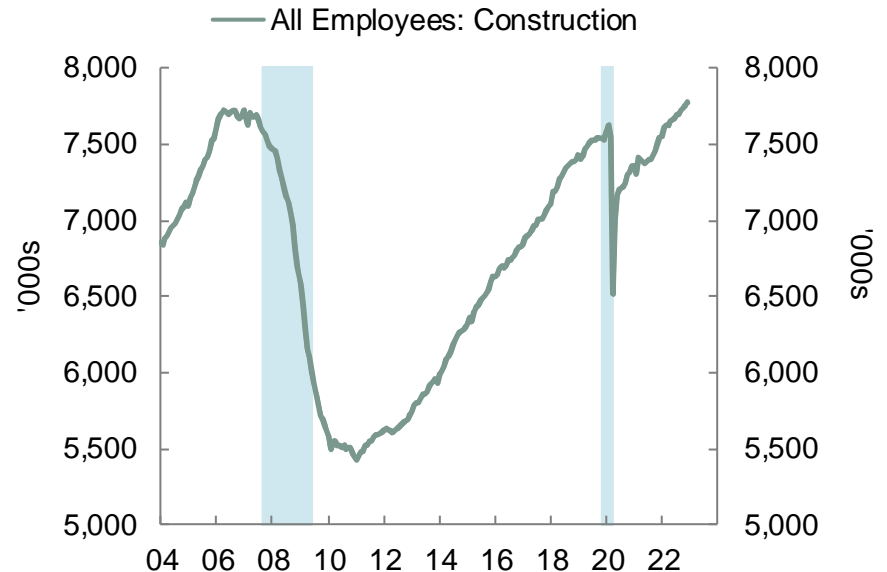
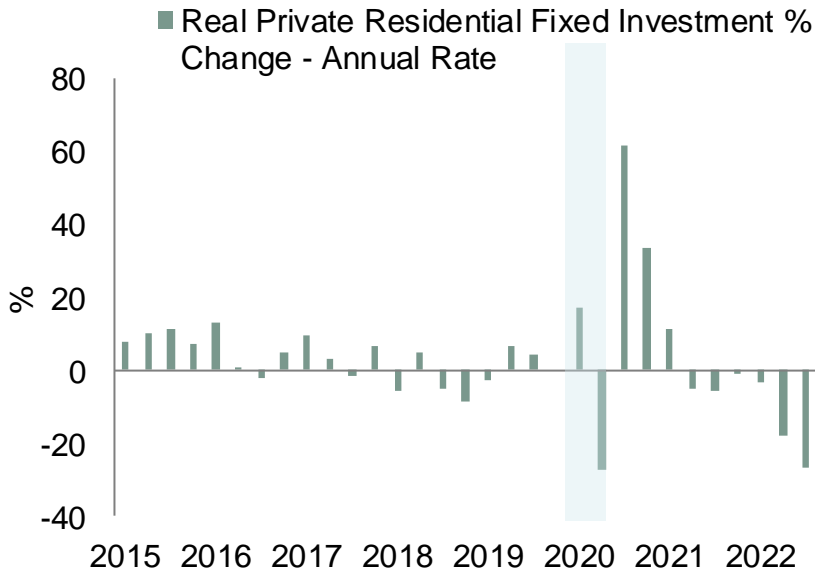
# Housing Leading Real GDP

The sharp fall in housing starts, which are still far from a bottom, point to declining real GDP growth over the next couple of quarters. Construction spending is already in a deep recession, which makes a decline in construction employment inevitable.



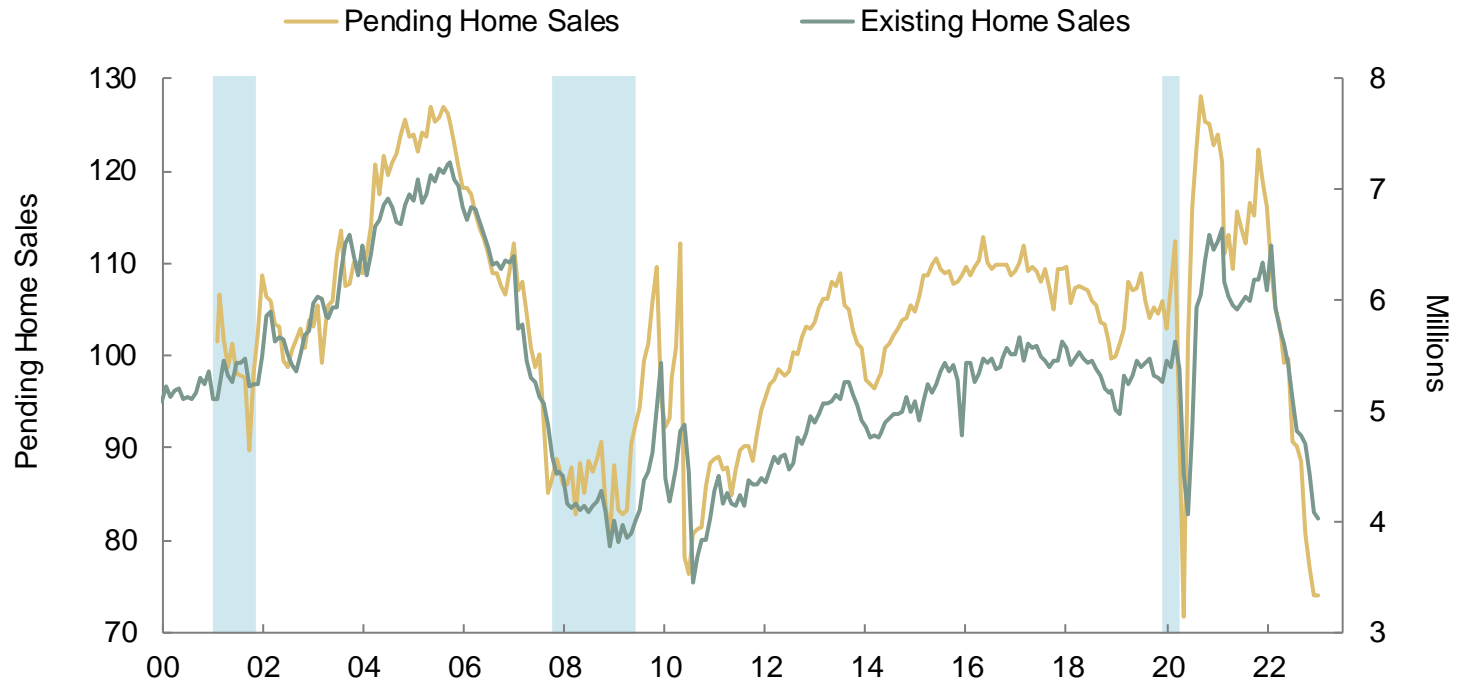
# Construction Employment Poised to Turn Sharply Lower

Residential Construction has declined for six consecutive quarters and another drop is expected when Q4 GDP are released next week. Meanwhile, construction payrolls are at a record high. As the 2008-09 downturn shows, construction employment can remain elevated just up to the point of recession.



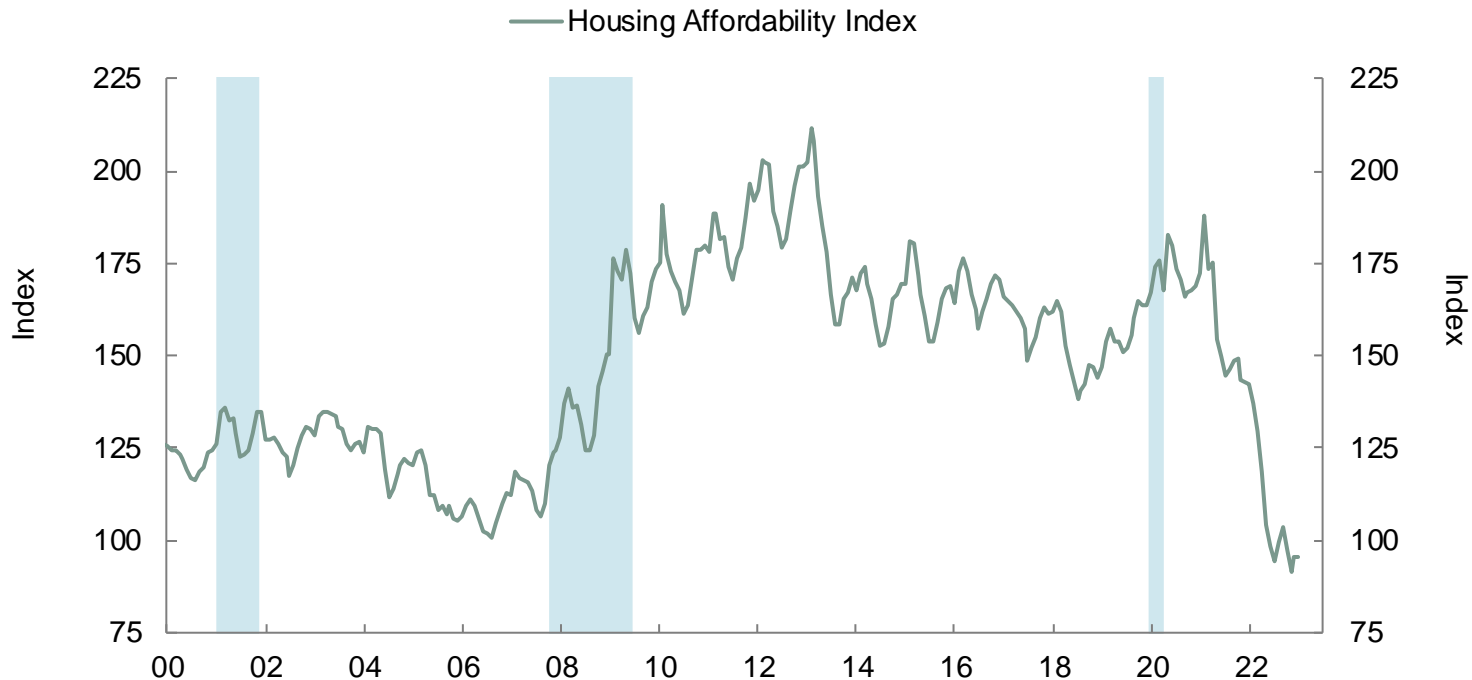
# Plunging Home Sales

Pending home sales, which are based on contract signings, lead existing home sales by a couple of months. The former series is down near all-time lows, suggesting even further home sales weakness in the months ahead. Home prices and/or mortgage rates will need to drop in order to improve home affordability and end the skid in sales.



## Record low Affordability

Low housing affordability means homes are expensive. The main factor driving housing affordability lower is mortgage rates, which more than doubled to over 7% last year. While rates have fallen since then, they remain elevated. Moreover, if the labor market soon turns lower, affordability will remain weak because of deteriorating income prospects. The bottom line is the Fed must reverse what is currently very restrictive monetary policy to turn housing around.



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