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Weekly Commentary

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Concerns amid improvement

The housing market is hot. Data for October released last week show that existing-home sales, starts and permits leapt to 14-year highs. Builder confidence as measured by the housing market index (HMI), hit a record high of 85, Great news, until you do the math. Take 14 away from 2020 and you get 2007. Not exactly a great sign.
Are we seeing the rising of another housing bubble? Highly unlikely. This time it is not irresponsible lending but a case of both pent-up demand and increased supply. Realtors lost their most bountiful part of the year when Covid-19 restrictions shut down the spring buying/selling season. We are not seeing a repeat of the bubble but a deflated market being pumped up to normal levels.

Of course, the Federal Reserve has a lot to do with this. Its slashing of the fed funds rate to near zero has pushed mortgage interest rates much lower, making purchasing a home more affordable. But that latter part is the key. While the latest initial and continuing jobless claims figures surprised to the upside, many Americans remain out of work due to the shutdown. They are not in a position to buy a house. The boom in the market might not have legs.

Perhaps the best way to sort this out is by looking at businesses. Some of the best assessments—the Conference Board's leading indicators and Markit's gauge of manufacturing and services activity—continue to improve, and auto sales have rebounded significantly. While the recent surge in coronavirus cases will probably slow its progress, the economy should at least remain on the path to recovery.

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