Updates on Housing and Trade

Recall that the August housing numbers were surprisingly strong across the board, leading a number of economists to proclaim that lower lending rates might finally be having the desired impact on home sales. Both housing starts and building permits had reached 12-year highs in August, while the pace of new home sales had jumped +7.1%, and the annualized rate of existing homes sales climbed to an 18-month high. However, a month later, the September data has disappointed. New home sales were down -0.7%, while the previous month’s gain was revised lower from +7.1% to +6.2%. It was a similar story in existing home sales with a -2.2% decline in September.

Housing starts retreated -9.4% last month, while building permits dipped -2.7%. The level of forward-looking permits are still elevated, and seasonal adjustments can be tricky, but the giddiness over a housing revival may have been premature. The fact is, recent tax reform wasn’t favorable for many homeowners in states with high property tax rates, and younger generations haven’t embraced homeownership in the way their parents did. And for many families, securing the required down payment is a challenge. Housing is still expected to make a positive contribution to third quarter GDP for the first time in nearly two years, but this suddenly looks more like an aberration than the beginning of a mini-boom.

Stocks are trading up with the S&P500 reaching a record high this morning before backing off. Some of the rally can be attributed to better-than-expected Q3 corporate earnings, supported by a dose of recent trade optimism. Trade officials from China and the U.S. spoke early this morning, working out the details of the “phase one” limited agreement announced earlier this month. The objective is for President Trump and Chinese President Xi Jinping to sign the first phase of the agreement at an economic summit in Chile three weeks from now. Both sides have plenty of incentive to strike a deal, although much of the proposed agreement involves simply removing the higher tariffs imposed earlier this year.

In other news, durable goods orders (orders for goods expected to last three years or more) fell by a larger-than-expected -1.1% in September. This is a very volatile data series, and September headline orders were negatively impacted by the GM strike and struggles at Boeing. However, non-defense ex aircraft orders fell -0.5% in September following a -0.6% drop in August and an unchanged reading in July. It isn’t a stretch to blame this decline in core orders on trade uncertainty. Businesses are reluctant to invest until they have a better idea of what future markets will look like. The big question is how much of a bounce-back, if any, can be expected if a valid trade agreement can be reached.
Market Indications as of 1:40 P.M. Central Time

DOW Up 128 to 26,934 (HIGH: 27,399)
NASDAQ Up 41 to 8,227 (HIGH 8,330)
S&P 500 Up 11 to 3,022 (HIGH 3,026)
1-Yr T-bill current yield 1.60%; opening yield 1.60%
2-Yr T-note current yield 1.63%; opening yield 1.58%
5-Yr T-note current yield 1.63%; opening yield 1.59%
10-Yr T-note current yield 1.80%; opening yield 1.77%
30-Yr T-bond current yield 2.29%; opening yield 2.26%

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