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Record-Low Mortgage Rates Drive V-Shaped Recovery in Housing

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In yesterday's commentary on initial jobless claims we noted that the uptick in claims fit the narrative that the economic recovery was stalling. Recent reports on housing offer a dramatic counterpoint to that narrative. Existing home sales followed up June's +14.6% advance by rising a record +24.7% in July, easily topping forecasts as the annual sales pace climbed to 5.86 million units, the highest since late 2006. No doubt some of the gain can be attributed to catching up from a spring selling season that was derailed by shutdowns. Record-low mortgage rates and a renewed interest in suburban markets are also fueling demand. The supply of homes available for sale fell to 1.5 million units last month, the lowest for any July on record and represented a mere 3.1 months' supply. Properties for sale were on the market for an average of just 22 days, the shortest on record. The supply/demand imbalance is driving prices higher with the median home price jumping +8.5% from a year earlier to an all-time high of $304,100. Inflation is alive and well in home values.

New home sales data for July will be released next week and there is every reason to expect strong gains there, too. Housing starts rose +22.6% in July after gains of +17.5% and +11.1% in the prior two months. That took starts up to 1.496 million annual units which, aside from a mild-weather related spike last winter, was the highest since 2006. And, building permits shot up +18.8% in July as it appears builders are responding to the soaring demand with plans to build more houses.

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On the one hand, the dramatic gains in housing are somewhat surprising. Double-digit unemployment and the elevated mortgage delinquency rates we wrote about yesterday are not normally a recipe for a strong housing market. Clearly, these are not normal times. For one, the housing market was not in an over-built or over-supplied condition leading into this COVID-19 recession. Second, the pandemic-related shutdowns have disproportionately affected those at the lower end of the wage scale, while the middle- and upper-income cohort, who are more likely to be home buyers, have fared much better. The jump in housing is also a reflection of easier monetary policy as lower interest rates are doing exactly what they're supposed to do, boosting the interest rate sensitive sectors of the economy.

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One other thought…At some point the forbearance programs and foreclosure moratoriums that are keeping delinquent buyers in their homes will expire and those houses will be put up for sale. While tragic for those losing their homes, the additional supply should be easily absorbed by the market, preventing the downward spiral in home values so common in a typical recession.

Please see disclosure on page 2.

Market Indications as of 11:36 A.M. Central Time

DOW	Up 90 to 27,829 (HIGH: 29,551)
NASDAQ	Up 37 to 11,302 (NEW HIGH)
S&P 500	Up 5 to 3,390 (NEW HIGH)
1-Yr T-bill	current yield 0.12%; opening yield 0.11%
2-Yr T-note	current yield 0.14%; opening yield 0.14%
5-Yr T-note	current yield 0.27%; opening yield 0.27%
10-Yr T-note	current yield 0.63%; opening yield 0.65%
30-Yr T-bond	current yield 1.35%; opening yield 1.38%