

# What is Happening with Housing?

## (Part One)

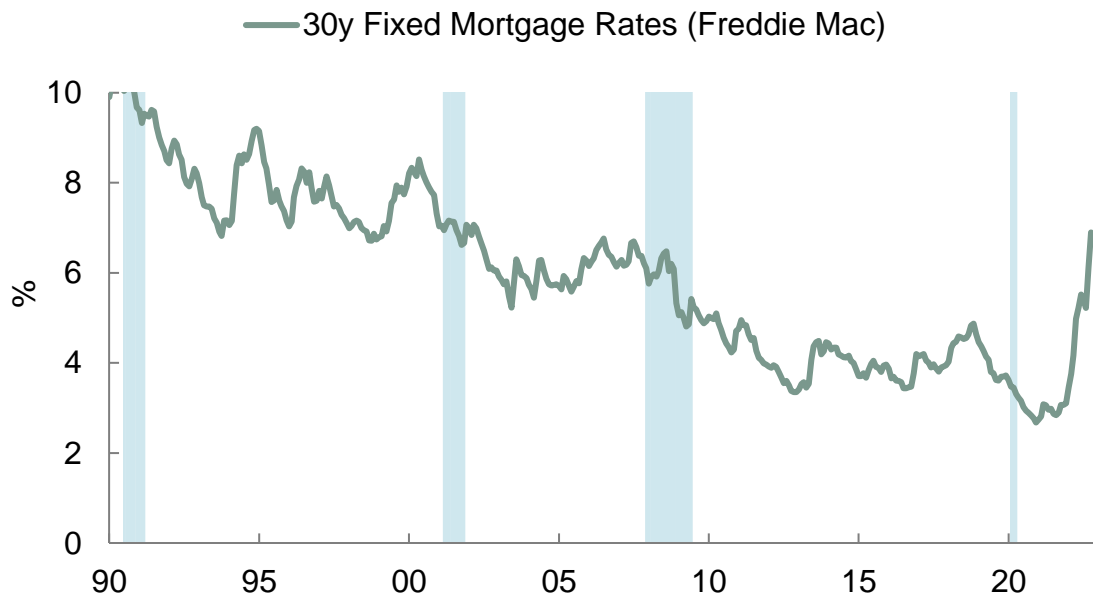
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**Joe Lavorgna**  
Chief US Economist  
SMBC Nikko, Inc.

(212) 893-1528  
joseph.lavorgna@smbcnikko-si.com  
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## Fastest Pace of Increase in Mortgage Rates in 30 Years

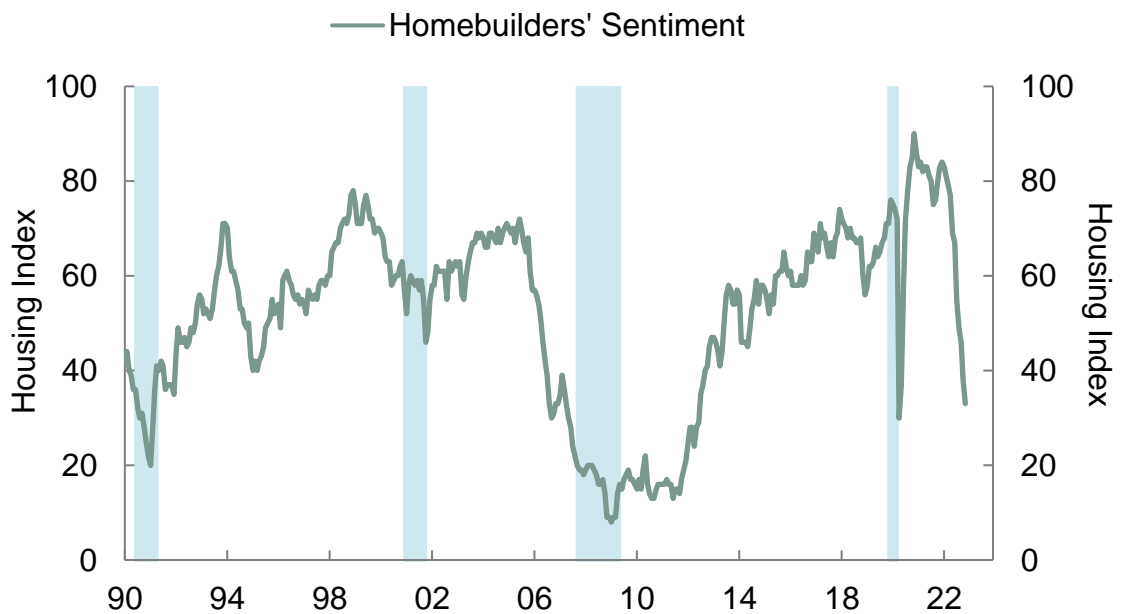
Mortgage rates have surged on the back of dramatic Fed tightening and quantitative tightening. Over the last eight months, the Fed has lifted the funds rate roughly 400 basis points and shrunk its balance sheet by nearly \$300 billion. Policymakers have also considered selling their holding of mortgage-backed securities. It is no wonder that mortgage rates have increased at their fastest pace in over four decades to the highest level in nearly 30 years!



Source: Haver, Freddie Mac, SMBC Nikko

## Collapse in Homebuilders' Sentiment

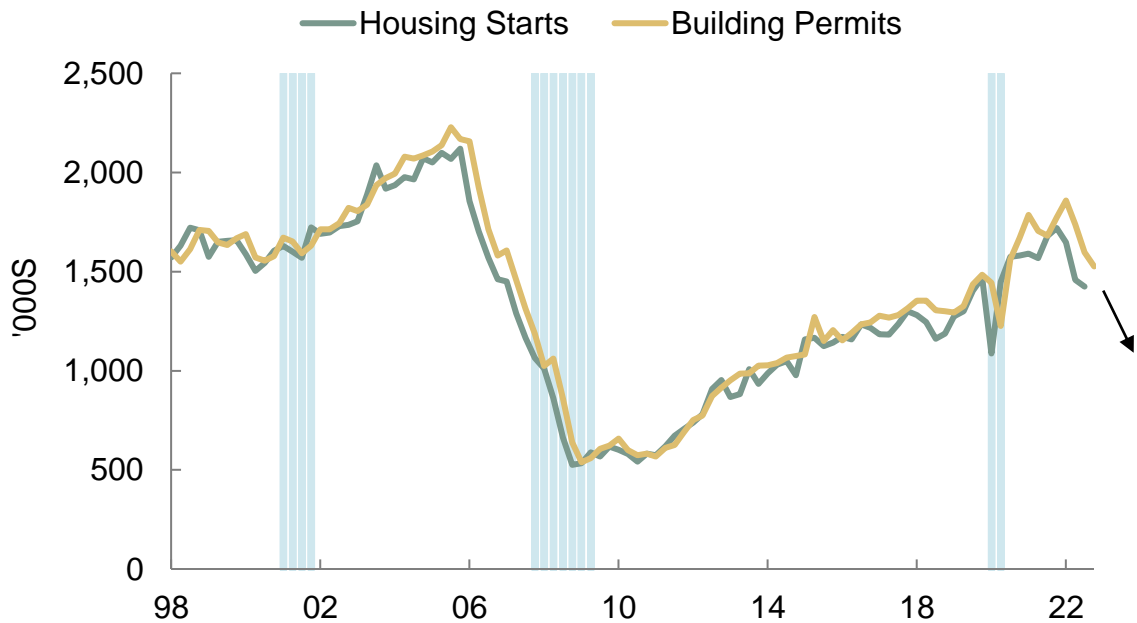
The epic surge in mortgage rates has led to a collapse in NAHB homebuilders' sentiment, which is a leading indicator of housing activity. The series is down to a 33 reading, the lowest since the pandemic-related national lockdown. Since the Fed began raising rates in March-2022, NAHB is down a stunning 46 points. This is the largest eight-month decline in the history of the data.



Source: Haver, Freddie Mac, SMBC Nikko

## Large Housing Multiplier Means Less Spending Elsewhere

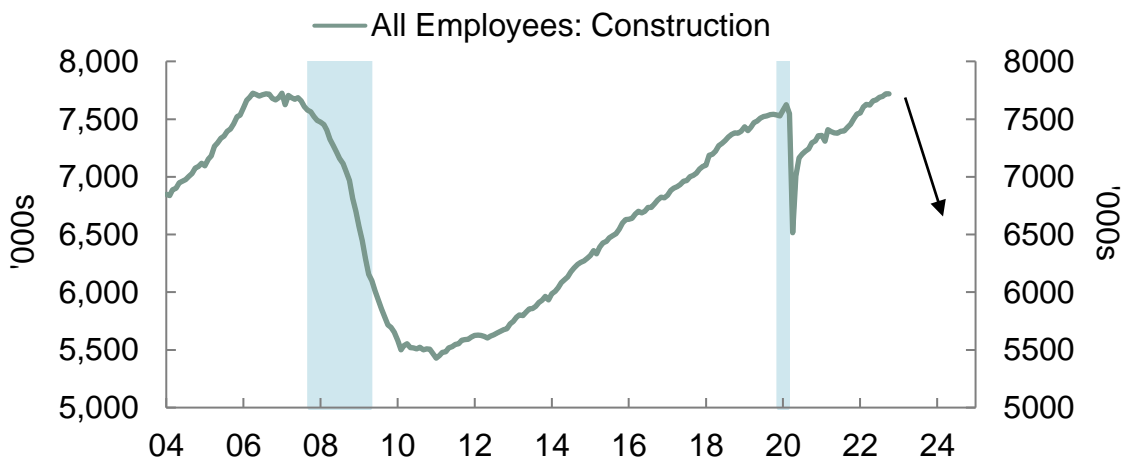
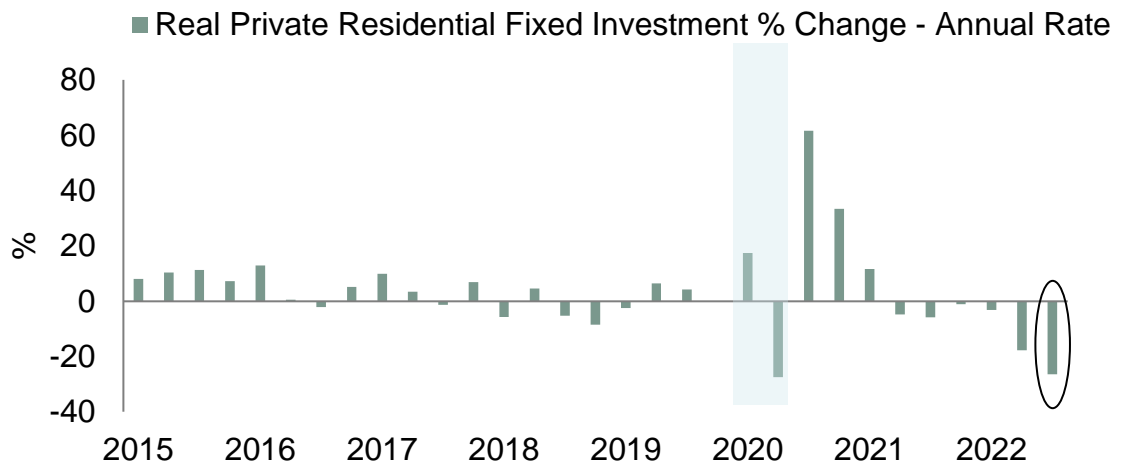
Housing starts and permits have each topped and are trending lower. Of course, the NAHB series points to substantially less construction activity in the months ahead. Remember that housing has a large multiplier which means weaker construction will impact spending elsewhere in the economy such as appliances, building material and furniture.



Source: Haver, SMBC Nikko

# Large Drop in Real Residential Investment and Employment

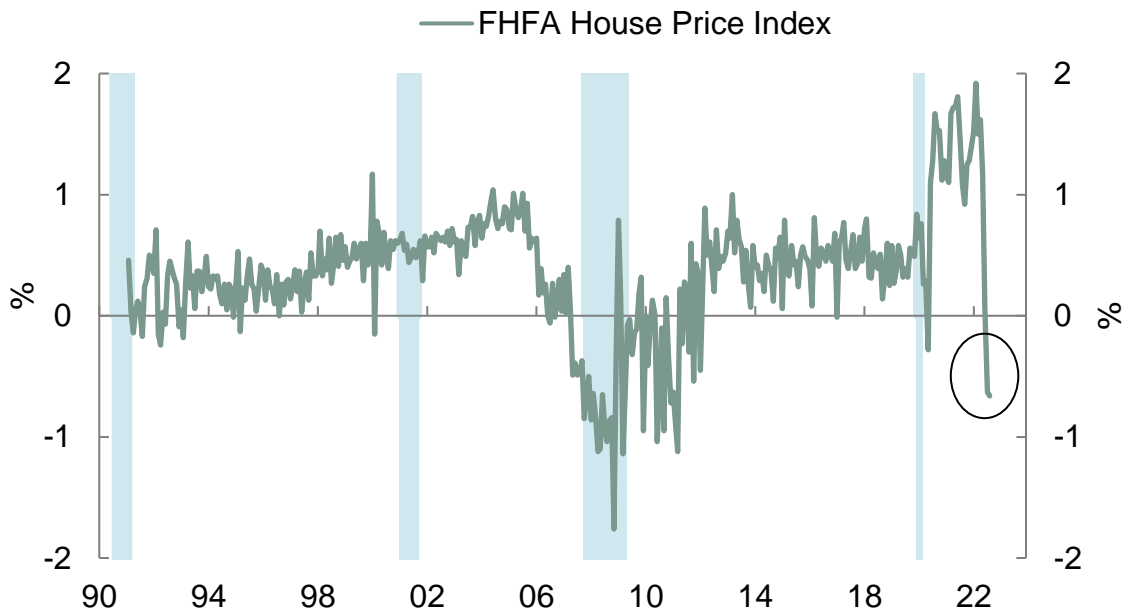
Real residential investment in the GDP accounts fell a whopping 26% at an annualized rate last quarter, its fourth consecutive drop. Housing is already in a deep recession. However, construction employment has not yet declined but should the coming months. This should foreshadow a broader labor market decline by the middle of next year.



Source: Haver, SMBC Nikko,

## Negative Wealth Effects From Housing

Homes are the largest asset on the consumer balance at 25%, eclipsing the value of equities at 22%. The ongoing recession in housing is likely to deepen given the lagged effects of tighter monetary policy and the downtrend in NAHB sentiment. This recent downturn in home prices may accelerate, which poses an additional downside risk to the economy through negative wealth-effects. Notably, housing is the single largest asset on the consumer balance sheet at 25%, more than stocks, which are the second biggest at 22%.



Source: Haver, Federal Housing Finance Agency, SMBC Nikko

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