

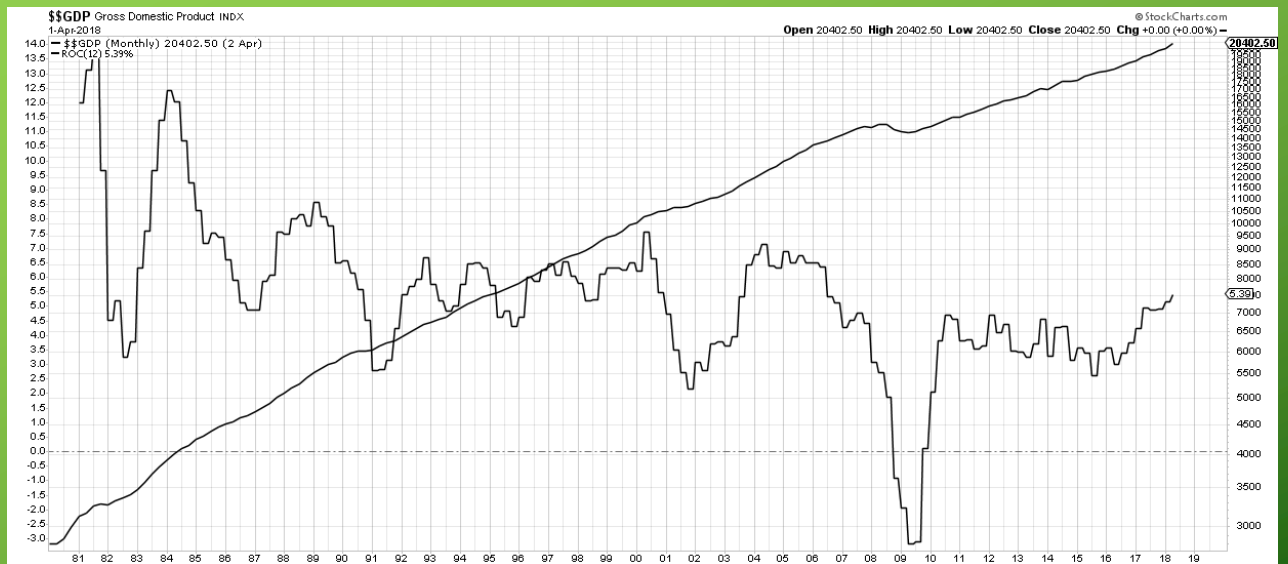


WEALTHSHIELD

Weekly Commentary
August 10th, 2018

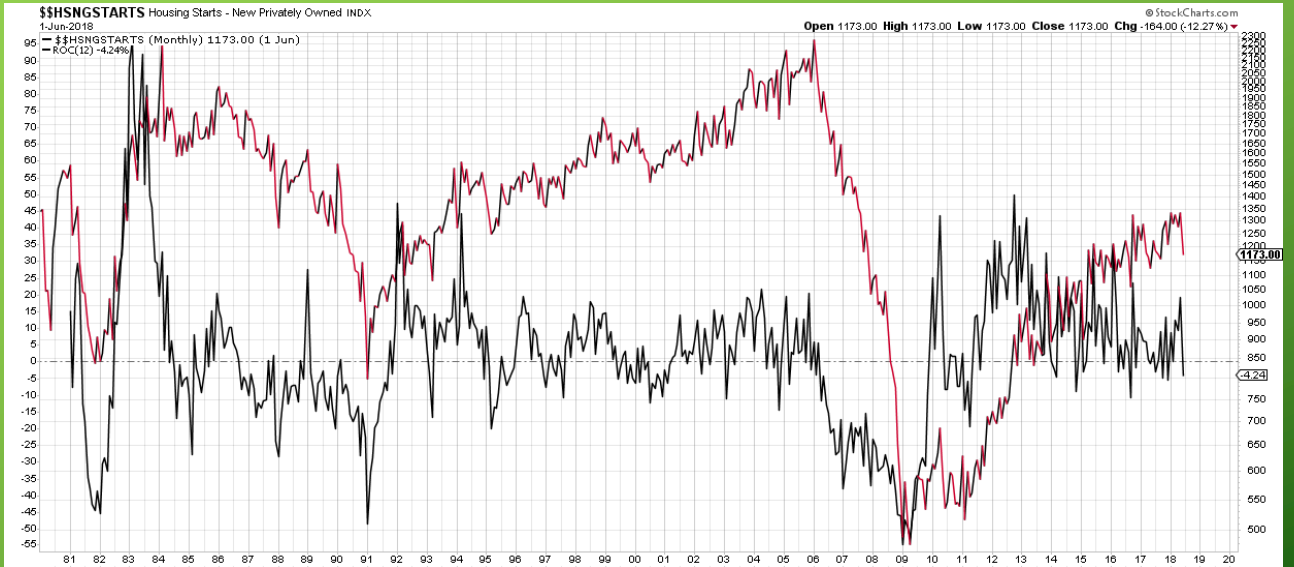
WHAT IS GOING ON WITH HOUSING?

Headline GDP growth for the second quarter of 2018 was great. It was nice to finally see what appeared to be robust growth in the US economy. As we mentioned last week, US growth finally broke out (nominally) above what we deem as important resistance.

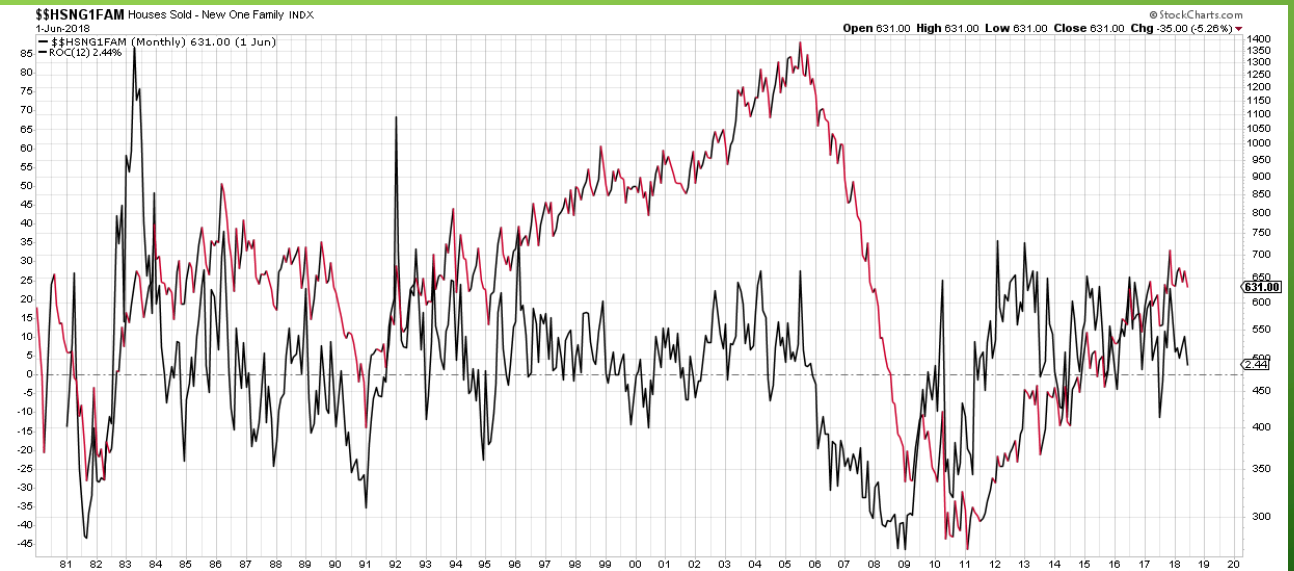


The question we have to ask ourselves now, as investors, is whether the growth we have witnessed recently is sustainable.

In order to dig a little deeper in an attempt to ascertain whether this is the case, we want to take a closer look at the housing market. Why housing? We believe housing trends are a great indicator of the overall strength of the US consumer. So if we can get the housing trend right, then we should be able to get the ultimate trend of the consumer correct. If the consumption is approximately 70 percent of US GDP, then we must pay attention to housing. So now that you all follow the logic, we want to illustrate some concerning trends we are witnessing in housing that have us questioning the sustainability of recent US economic activity...



Some concerning trends are present in the Housing Starts breakdown above. Housing starts have now been declining year over year, dropping over 4%. Now, before everyone gets too pessimistic, this time series is extremely volatile. In fact, from a historical standpoint, support tends to reside around -10% on the rate of change line (black). However, the direction of the line is not a good sign. We would like to see this indicator rebound and break to new highs, otherwise, the housing market may have peaked.

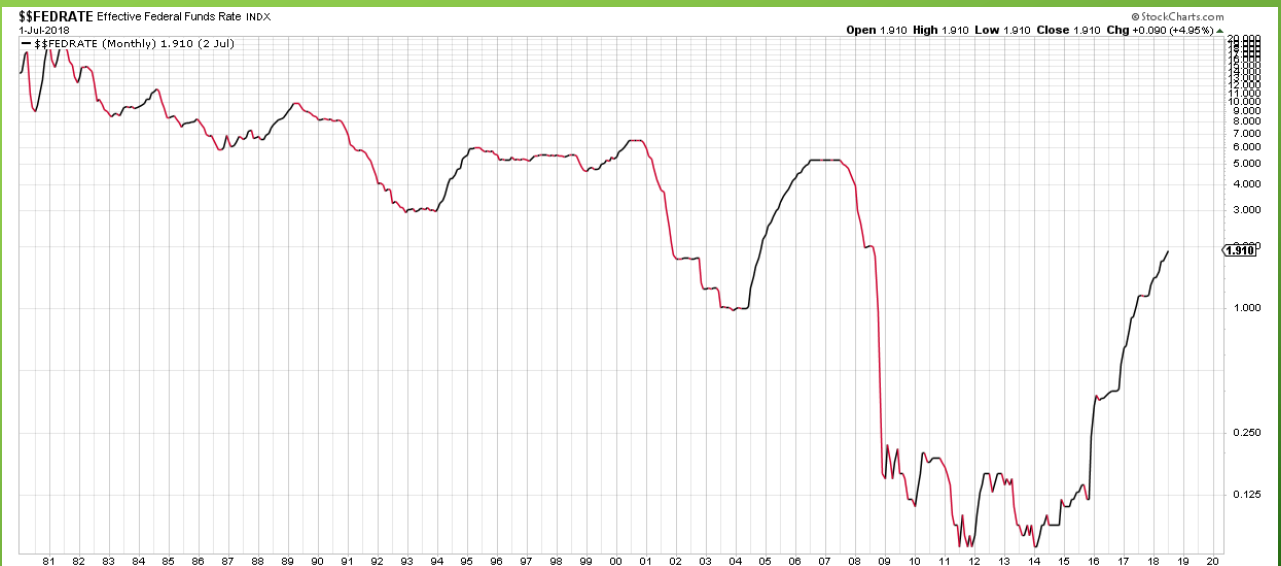


Another indicator of housing market strength and weakness is a measure of single family homes sold. We like this measure because it is a good indication, at least historically, of housing demand. Unfortunately, year over year growth in houses sold has slowed dramatically. Prior to the global financial crisis, new single family homes sold started declining in 2006. It was a good leading indicator of economic weakness to come as a nasty recession hit the US economy in 2008.

HOUSING AFFORDABILITY

Why the sudden decline in housing? We believe the main issue is affordability. As the Federal Reserve has tightened credit conditions by raising interest rates and reducing their balance sheet, housing affordability has taken a hit (see chart below). Therefore, sales are starting to show weakness, and prices are following.

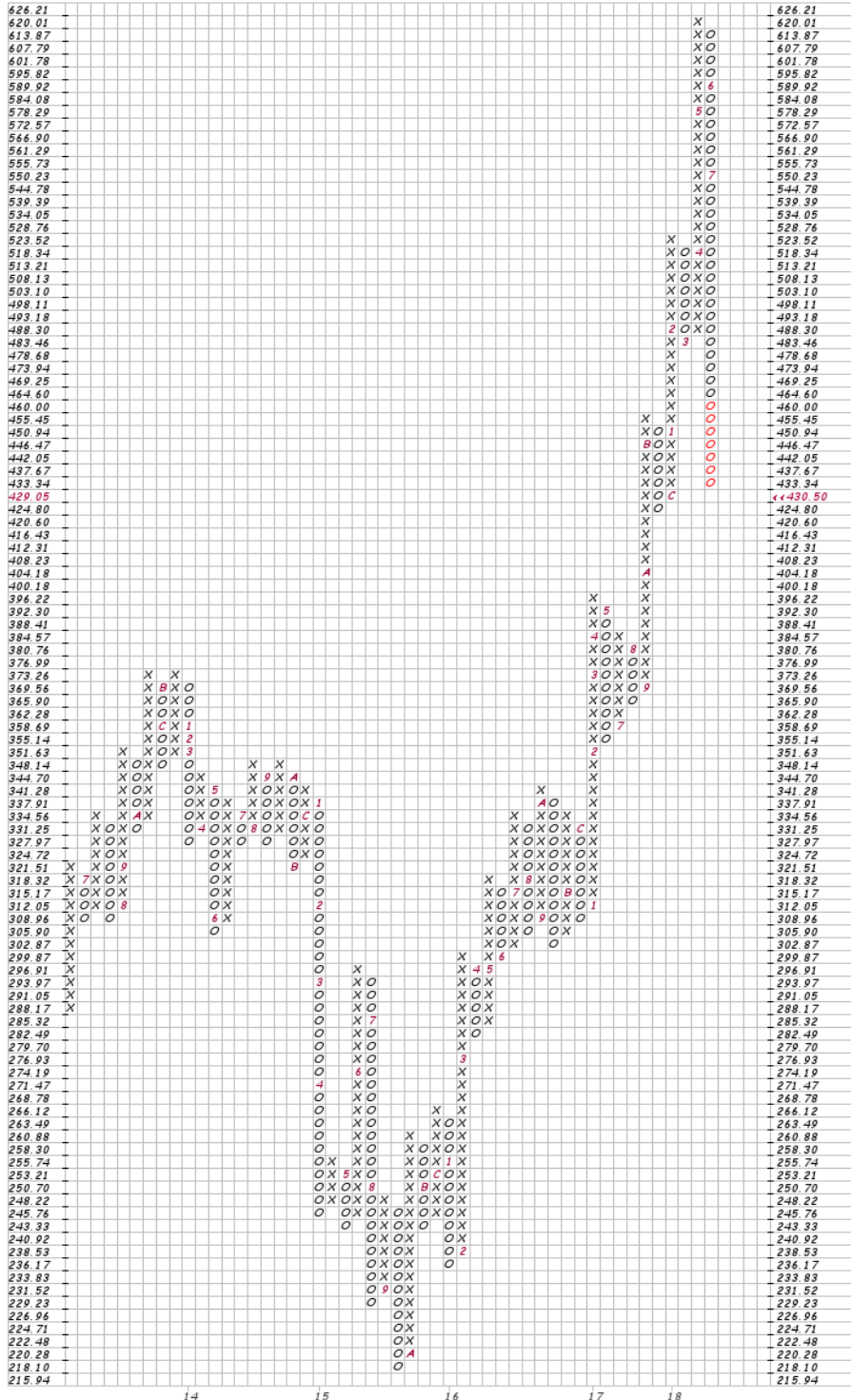
Even lumber prices are dropping, indicating a lack of demand (page 6). The home builders sector gave a sell signal earlier in the year and has been under increased pressure. The sector has failed to rally substantially, diverging from the broader market indices (page 7). This divergence is negative for housing, and potentially negative for broader consumption and the economy overall. If these conditions continue, the recent strength in the US economy could evaporate.



LUMBER:

\$LUMBER Lumber (Random Length) - Continuous Contract (EOD) CME
 03-Aug-2018, 16:00 ET, weekly, O: 453.30, H: 459.30, L: 413.30, C: 430.50, V: 3060, Chg: -32.80 (-7.08%)
P&F Pattern Bullish Signal Reversed on 23-Jul-2018
 Scaling: Percentage [Reversal: 3, Box Size:1.0%]

(c) StockCharts.com



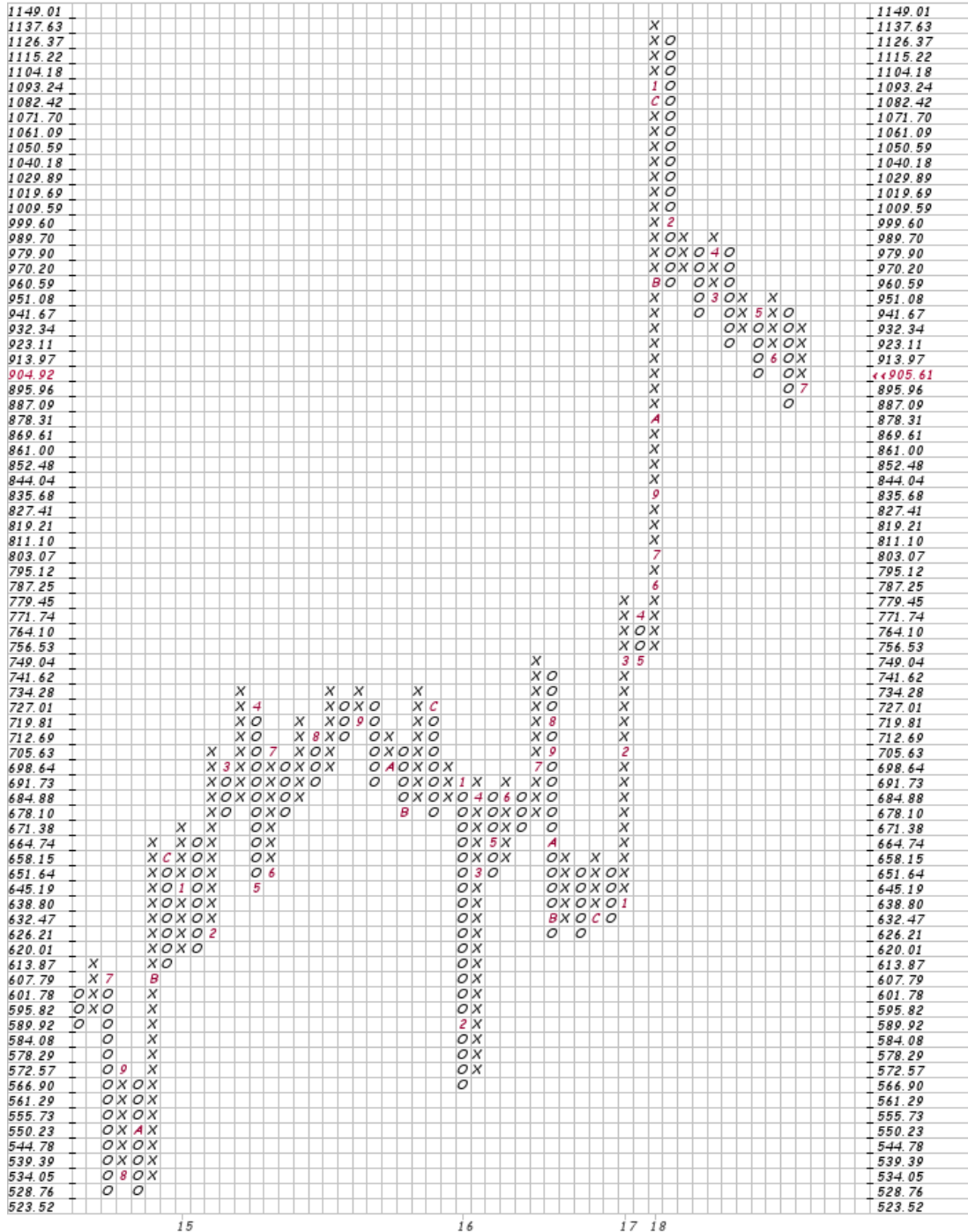
SPHB:

\$SPHB S&P 500 Homebuilding SubIndustry Index INDX

03-Aug-2018, 16:00 ET, weekly, O: 910.11, H: 917.64, L: 891.95, C: 905.61, Chg: -1.97 (-0.22%)
 No recent chart pattern found

Scaling: Percentage [Reversal: 3, Box Size:1.0%]

(c) StockCharts.com



TROUBLE AHEAD?

Here are a few of the tweets on the subject that we found interesting over the past several weeks. As we cheer on the US economy, we need to see the ever important housing industry rebound in a speedy fashion. Otherwise, the economic recovery from the 2015-2016 economic decline (recession in our opinion) could be in jeopardy.



Jesse Felder
@jessefelder

US lumber futures are rapidly reversing the recent rally amid tepid residential construction growth.
blogs.wsj.com/dailyshot/2018... via @SoberLook

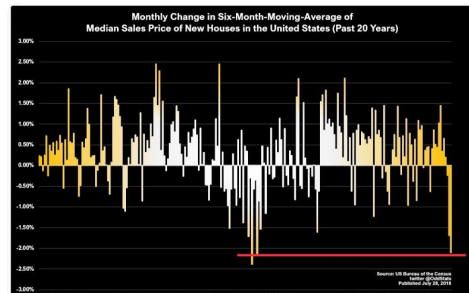


OW
@OccupyWisdom

Median sales price of new houses over the last (20) years.

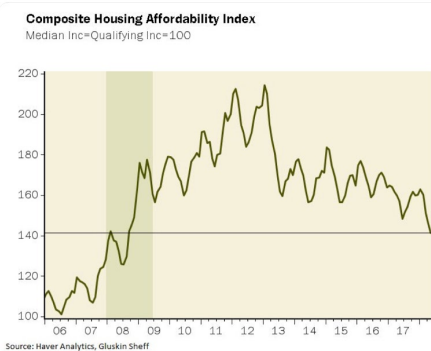
Median sales prices are dropping very dramatically, the only time worse than the current drop was October 2008. Yes that 2008.

Chart via @OddStats



David Rosenberg
@EconguyRosie

The housing sector is being undercut by the worst affordability conditions since Aug/08; a mix of home price inflation doubling wage growth and rising mortgage rates.



Ben Hunt
@EpsilonTheory

Home sales down 3 mos in a row, -2.2% yoy. Classic attempt at painting rosy narrative (home sales down only because of "limited inventory") even though inventory is actually up yoy. Same thing happened in 2007.



Home Sales Extend Slump Despite Economic Strength
wsj.com

7/23/18, 12:57 PM

47 Retweets 134 Likes



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