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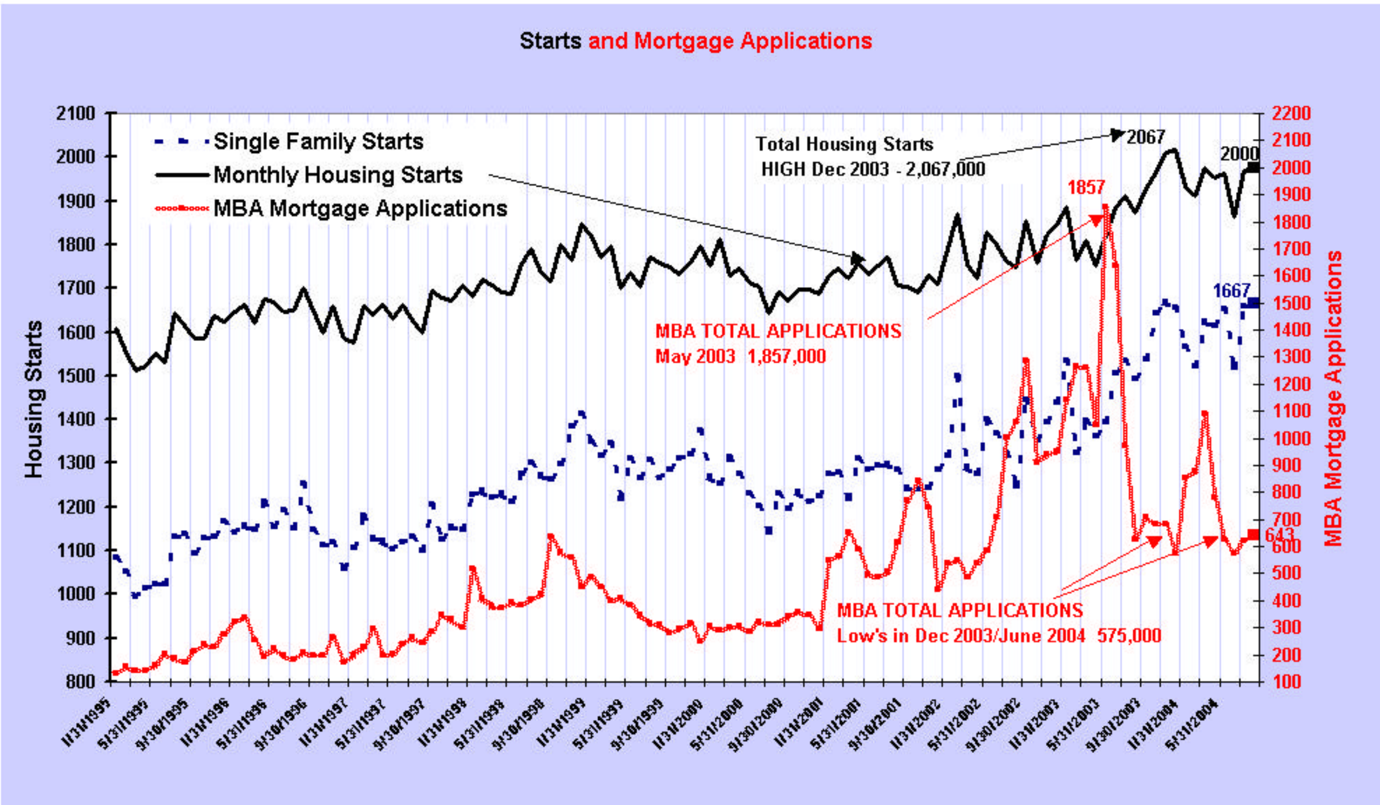
Aggregate Demand Failing? Hard to see it in the Housing Data

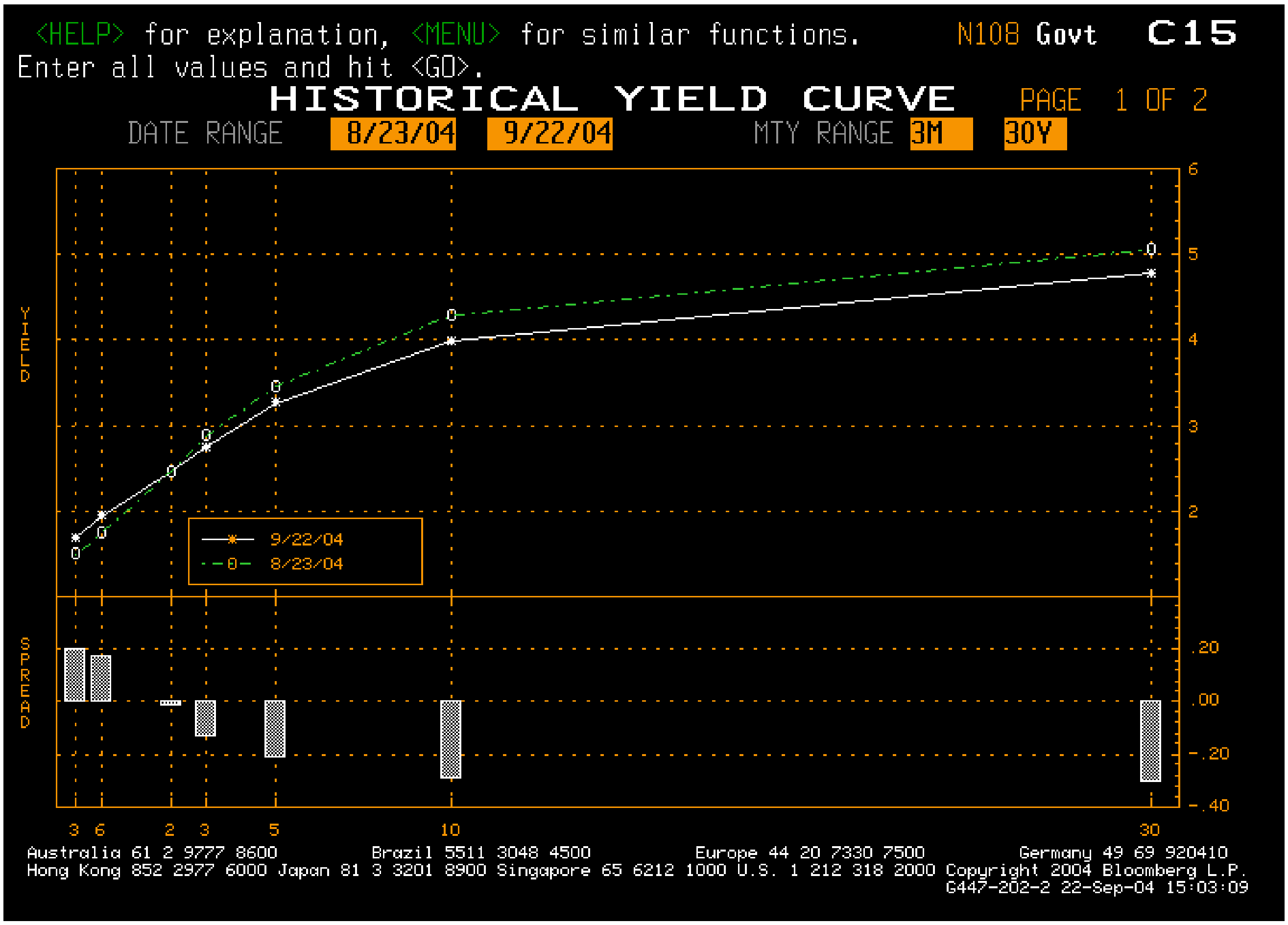


Single-family housing starts rose close to their prior record (1770k) in August to 1667k, suggesting that any existing inventory overhang is insufficient to deter builders from putting up more product. Total starts also rose to within 3.5% of their previous December 2003 high. Mortgage applications, based on MBA data have risen since their "bottom" in June. Aggregate demand for housing appears to be sustaining, despite the 75 basis point rise in the Federal Funds rate.

For those predisposed to call a topping out in the demand for housing, there is a faint case to be made, but it is not a 'collapse,' as some of the skeptics of the housing boom had been forecasting. Building permits have lost a bit of their luster, but even at this date, it has been a very moderate decline (about 6% off the December 2003 high). That is not to say that building will not slow from the elevated levels of last fall and winter, but it seems interesting to note that MBA loan applications seemed to have stopped their downward descent and actually gained 1.8%over the prior week.

The key to housing may turn out to be how aggressive the Fed will become as we move toward year-end. The bond market seems to be thinking that 'flattening' is the order of the day and that the "soft patch" will cause the Fed to be quite measured in 2005. The bond market is evidencing some expectation that 10-year bond yields will continue to drop. If so, there could be another round of mortgage refinancing and a stimulus to housing once again.

With the long end of the curve flattening out, it is certainly possible that the long housing boom that has been so much of the story of this recovery will continue.



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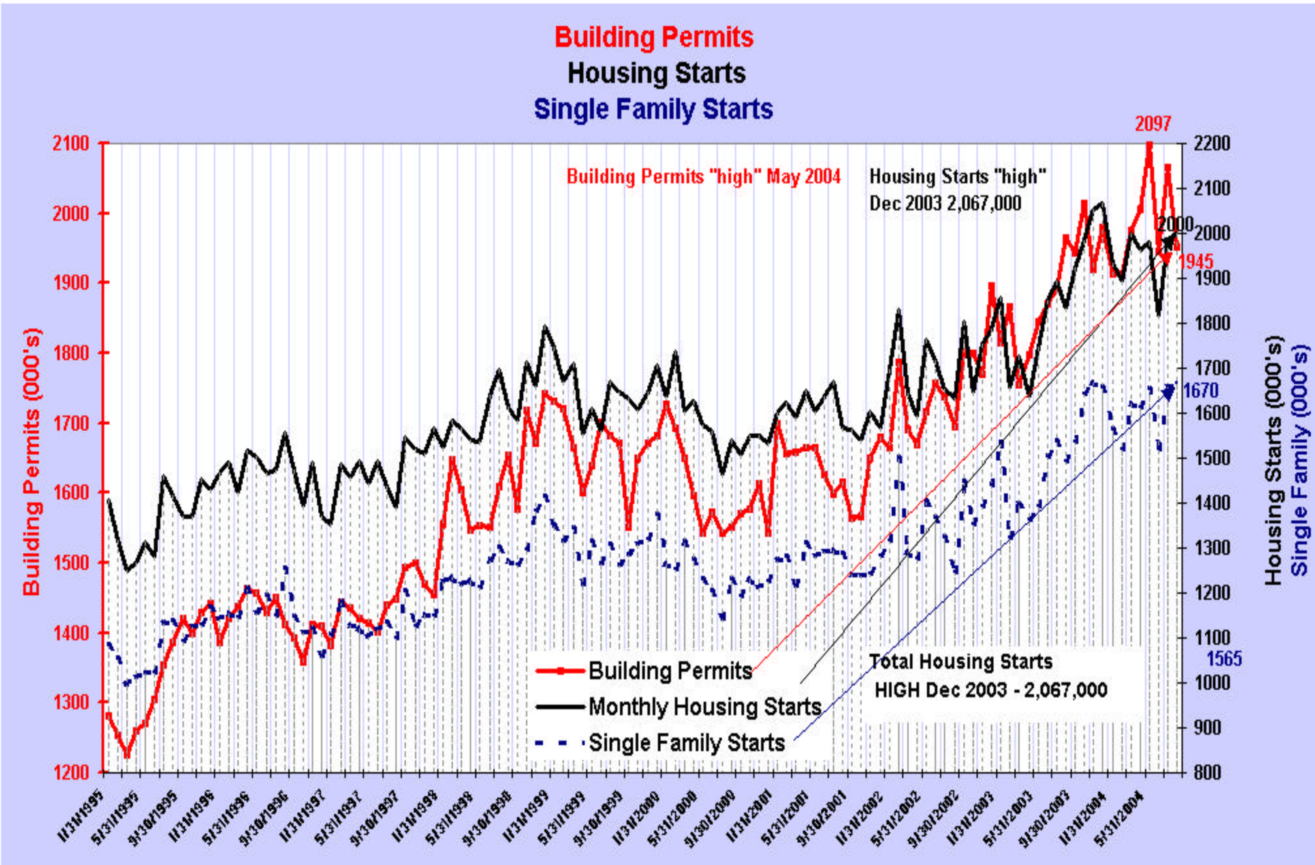

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