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GLOBAL IDEAS

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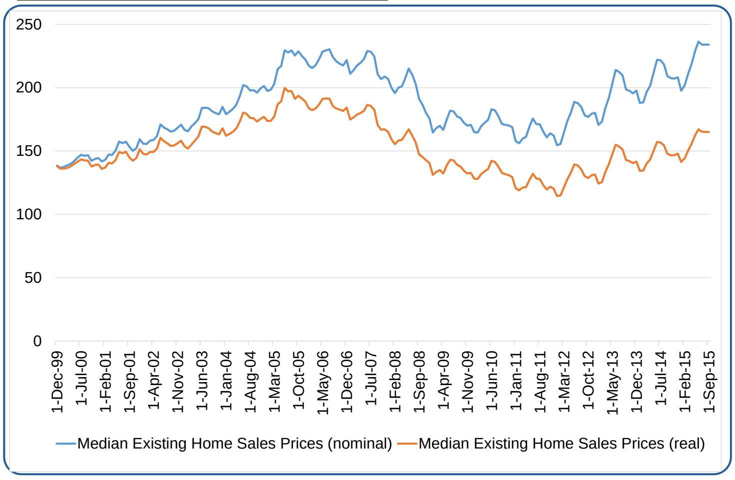
Global market insights

The US last week released some mixed jobs data. The headline number (jobs added in the US in August) came in at 173,000, well below expectations of 217,000, which would usually be a negative indicator of economic activity. In the current environment, where fear seems to be overwhelming greed, bad data are generally taken as good news in so much as it means the “punch bowl” of cheap money won’t be taken away by the US Federal Reserve (Fed) in September. Unfortunately, in this context, there was some bad news for markets in the rest of the unemployment release – July data was revised up by 30,000 additional jobs, and the overall US unemployment rate fell from 5.3% to 5.1% - well within the Fed’s range of what they would consider full employment. Also in the numbers were slightly better-than-expected average hourly earnings data which came in at an annualised rate of 2.2% (better than expectations of 2.1%).

We believe that once the market digests this employment data it will be slightly negative, on balance.

Looking past some of this noise to the slightly longer-term health of the US markets, we spent a bit of time analysing the **US housing market** last week. **Median house prices (in nominal terms) are creeping above where they were pre the global financial crisis (GFC) levels but, in real (i.e. inflation adjusted) terms, they are still c. 18% below 2005 highs.**

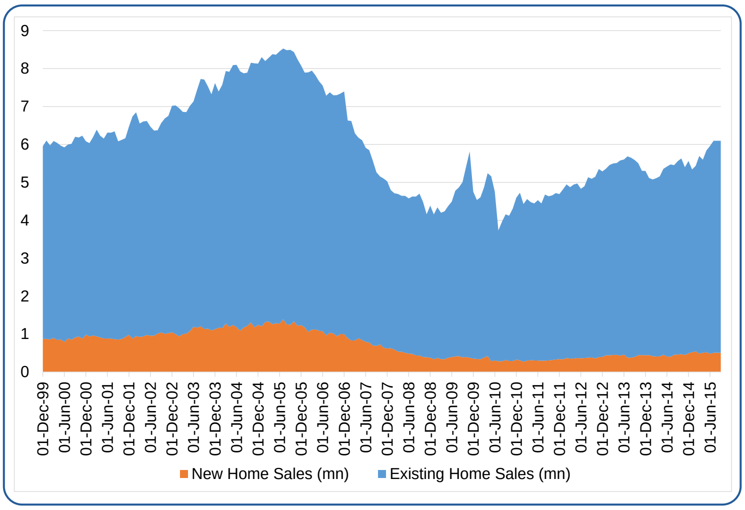
US median home sale prices:



Source: Bloomberg, Anchor Capital

Encouragingly, activity in the US housing market is picking up and has been on a solidly upward trend for the past 5 years - albeit **still 28% below the pre-GFC peak**:

Home sales:



Source: Bloomberg, Anchor Capital

New housing starts, and permits to build new houses are also on a strong trend, but again **still 48% below pre-GFC levels.**

Global Ideas is a newsletter published three times a week (Monday, Wednesday and Friday) and available only to clients of Investor Campus and Anchor Capital. The key objective of this newsletter is to provide ideas for investment in the global investment universe.

We scan the globe looking for good opportunities. We provide our model portfolios, as well as news and views on our watchlist, which is continually reviewed and updated.

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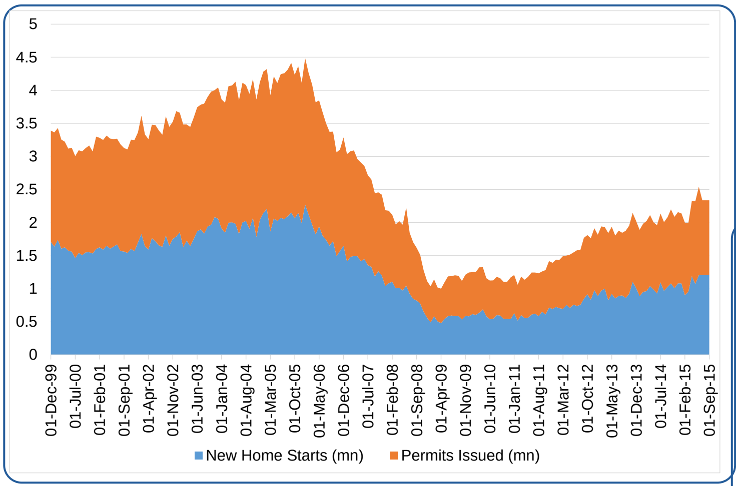
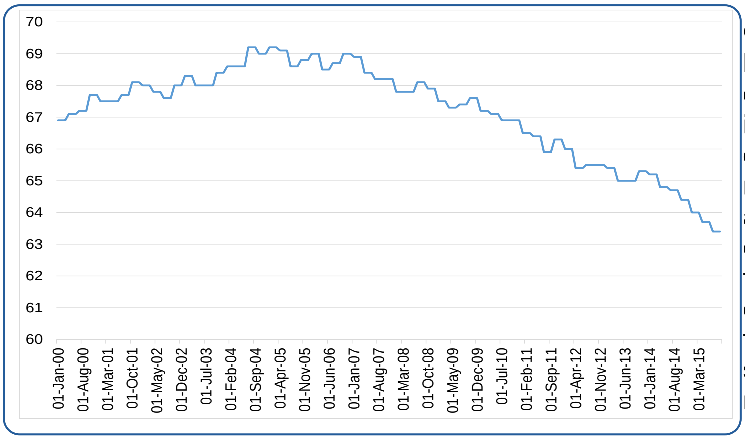


Source: Bloomberg, Anchor Capital

The **proportion of Americans owning their own home peaked pre-GFC at c. 69%** thanks, in no small part, to Alan Greenspan. However, that number has been on a downward trend ever since, and is showing no real signs of stabilising having **dropped to 63.4% in the most recent quarter**.

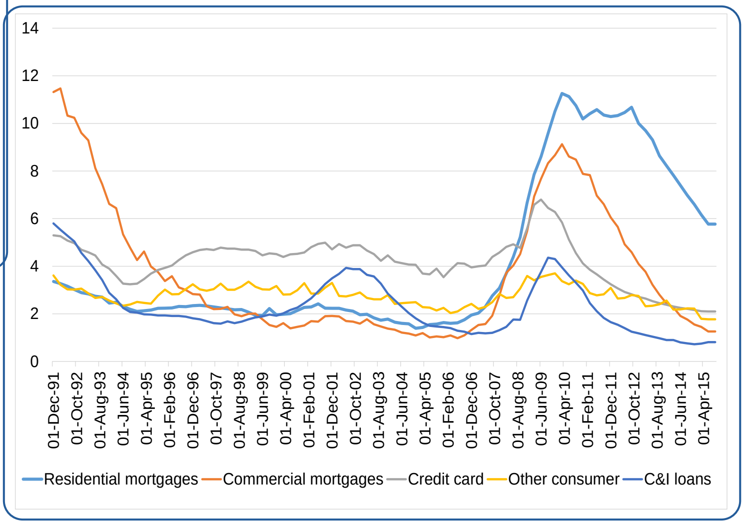
Home ownership, %:



Source: Bloomberg, Anchor Capital

Of all the categories of US bank debt, the **US residential mortgages segment is the only one that has delinquency rates still well above pre-GFC levels – 6% vs 2% pre-GFC.** Although it is showing some very tentative signs of stabilising, there is clearly still some GFC backlog to be cleared.

US banks delinquency rates, %:



Source: Bloomberg, Anchor Capital

On balance, we view the trends in the US housing market as being largely encouraging, with things heading in the right direction and lots more room to go. Unfortunately, anaemic inflation and wage growth are not helping to lift many homeowners out of delinquency quick enough to normalise those mortgage delinquency rates and mortgage credit conditions are still too tight to encourage a larger proportion of Americans to start purchasing homes. We are of the view that while trends are encouraging, conditions are still such that Americans are probably not confident enough about the 'equity' they have in their homes (generally their largest financial asset) to start spending those gains – at least not at the same rate as which they were pre-GFC.

Peter Little

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