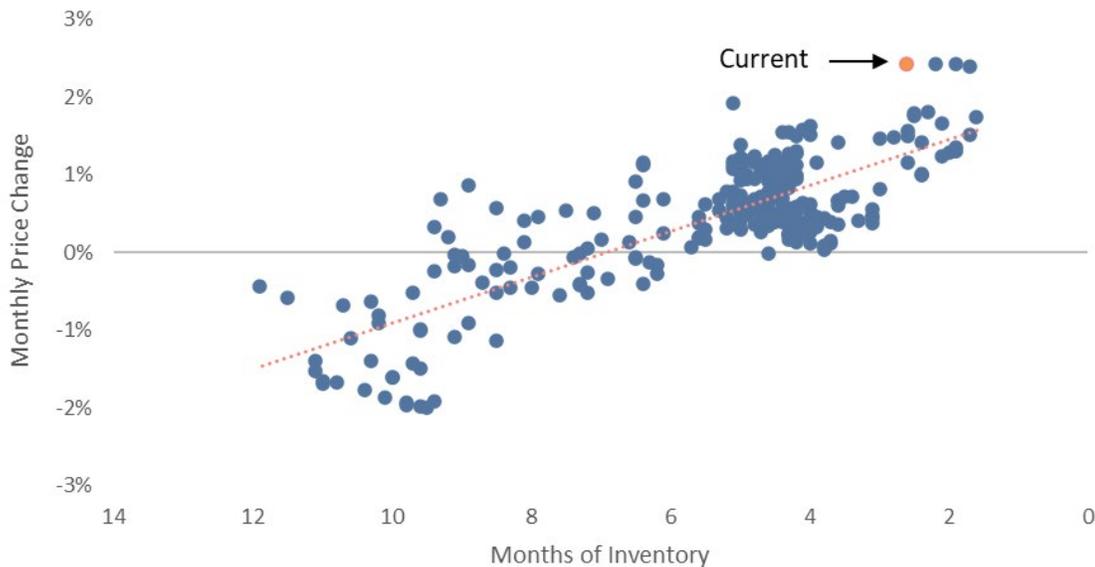


MARKET COMMENTARY

Fig. 1: Housing Supply and Price Change



Source: Bloomberg, Mill Creek.

Fed Chair Jerome Powell made an unexpected comment during the Q&A portion of the Federal Open Market Committee (FOMC) press conference on June 15th. [Mark Hamrick of Bankrate asked about Powell's outlook for housing, and he responded](#) (the housing discussion starts at 1:51:00 in the video):

"So we saw prices moving up very very strongly for the last couple of years.

So that changes now. And rates have moved up. We are well aware that mortgage rates have moved up a lot. And you are seeing a changing housing market. We are watching it to see what will happen.

How much will it really affect residential investment? Not really sure.

How much will it affect housing prices? Not really sure. Obviously, we are watching that quite carefully. You'd think over time ... There is a tremendous amount of supply in the housing market of unfinished homes ... and as those come online ...

Whereas the supply of finished homes, inventory of finished homes for sale is incredibly low. Historically low. So it's a very tight market. So prices might keep going up for a while, even in a world where rates are up. So it's a complicated situation and we watch it very carefully.

I'd say if you are homebuyer, somebody or a young person looking to buy a home, **you need a bit of a reset.**"

Fed policy operates, first and foremost, through the housing market. If the Fed is going to slow the economy and inflation, they'll have to slow the housing market as well. We've started to see signs of that already happening. New home inventory is up sharply, houses are taking longer to sell, and price reductions are becoming much more common. Should we be concerned about another housing bust like in the mid-2000s?

Fortunately, there are some significant differences between the mid-2000s and today. For example:

1. Lending standards have been much tighter throughout the last couple of years than during the bubble.
2. Demographics are also much more favorable today than in the mid-2000s. The 30-39 year age group, which represents a significant driver of single-family home demand, will be increasing over this decade (they drove demand for multi-family apartments over the last decade as they entered their 20s).
3. Existing home inventory remains low overall. In regards to residential prices, it would be unusual to see price declines until total inventory increases significantly.

In sum: A combination of better lending standards and strong underlying demand should support inventories. As a result, prices are likely to level out, and possibly even decline slightly, but a replay of the last housing bust seems unlikely as there isn't much speculative inventory to get dumped on the market this time around.

QUICK LINKS

- [Private Equity: When Will We Feel the Pain?](#)
- [A Powell Surprise](#)
- [What's Ahead for Credit Spreads](#)
- [June Update: Cracks in the Foundation](#)

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