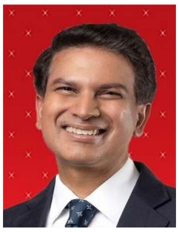
Macro Insights Weekly

Resiliency of US residential housing market

Group Research May 27, 2024



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- *The US housing market, accounting for 15%+ of GDP, has been resilient through sizeable rise in interest rates. The outlook remains constructive, despite higher-for-longer expectations.*
- *Pandemic-induced disruption to home construction has largely abated.*
- *Housing completion has picked up, offering some relief to tight supply.*
- *Fixed term mortgage rates are high, but hybrid products still offer sub-6% home loans.*
- *US households' debt ratio has declined sharply since the GFC.*
- *Their debt service ratios are also manageable.*

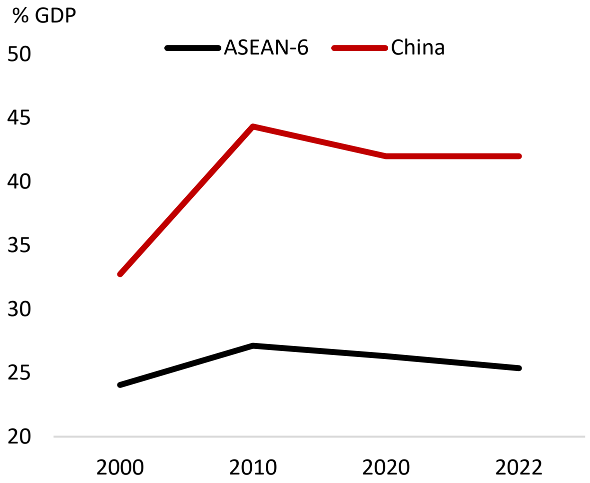
Key data release and events this week:

- *The Manufacturing PMI is expected to rise from 51.7 in April to 51.8 in May.*
- *Vietnam's inflation likely hovered at 4.5%, the highest since early-2023.*
- *India likely expanded by 7% in 4QFY24 (1Q24).*

Chart of the Week: Asean's investment needs

Between new tech wave and climate change, security and transportation infrastructure, also human capital, Asean has substantial investment imperatives. While scaling up to China's level may not be feasible, the 15+ % of GDP China-Asean investment gap is glaring, along with the fact that Asean's trend has been flat for over two decades. High time to harness substantial additional investments to embrace the challenges of these times.

Investment - Gross fixed capital formation

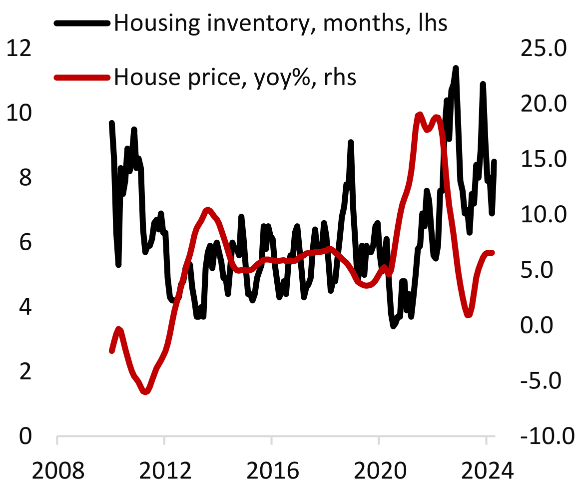


Source: CEIC, DBS

Commentary: Resiliency of US housing market

The US housing market, accounting for more than 15% of GDP, has displayed a great deal of resiliency over the past couple of years through substantial monetary policy tightening. Latest data suggest a 6%+ yoy increase in residential home prices nationwide, comfortably placing them at all-time highs. By many metrics, the housing market continues to look healthy, although the fear with monetary policy tightening was for the market to take major tumble, along with consumer balance sheets. That has not been the case in this cycle.

US housing market

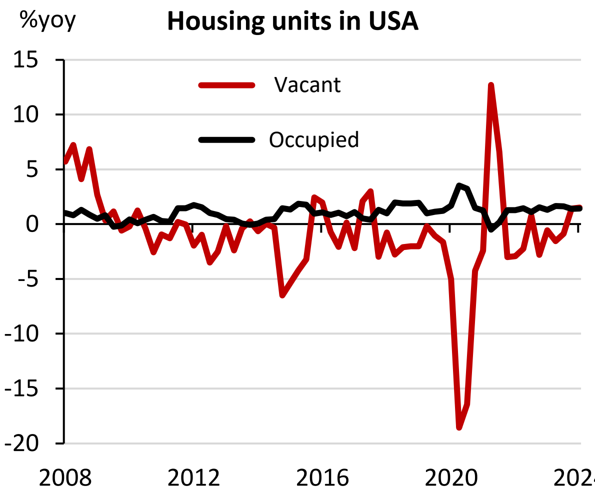


Source: CEIC, DBS. Data through April 2024

The housing market has come a long way since the volatility incurred during the onset of the 2020/21 coronavirus pandemic. Over the last three years, the market has become functional with transactions, constructions, completions, and new homes for sale settling at around their long-term trend. This reflects normalisation of construction equipment and material supplies, all of which were highly disrupted by the pandemic. Consumer attitude, which had temporarily shifted overwhelmingly toward suburban homes away from city centres, has also begun to normalise.

Home occupation and vacancies have gone back to the pre-pandemic trend. The slight rise in vacancies in recent months reflects the rise in construction and completions in the past couple of years. This is a positive development, in our view, easing some of the supply crunch seen earlier in pockets of the country.

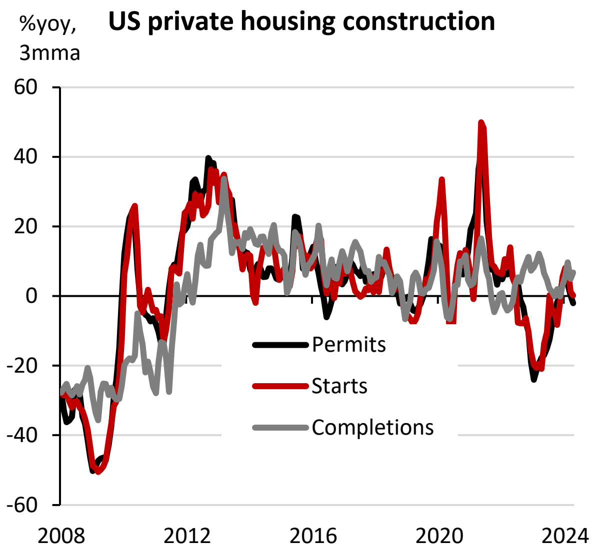
Housing units in USA



Source: CEIC, DBS

Going forward, barring any price shocks, the housing industry is likely to continue to proceed with starting (and completing) new home construction projects. As the supply crunch abates, the record prices seen lately may level off, giving some breathing space for prospective home buyers.

US private housing construction

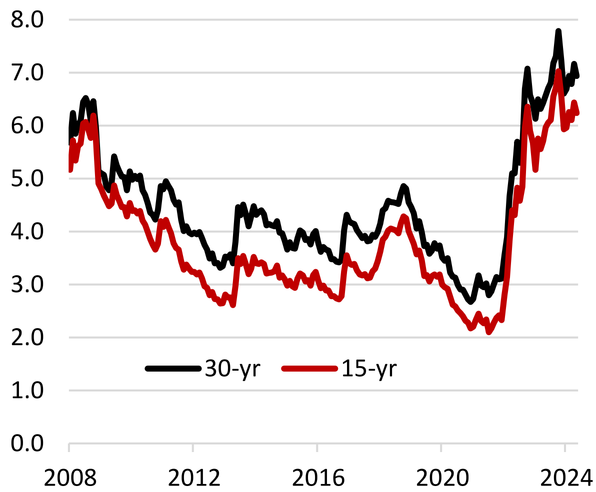


Source: CEIC, DBS

All this is taking place when the cost of financing a home mortgage has risen to levels not seen in decades. While home construction has picked up, sales of existing home is constrained by high mortgage rates, as those considering selling are stymied by the fact that they will have to swap their prevailing low-cost mortgage with a high cost one to finance their next home.

Unlike consumers elsewhere, US homebuyers have an extensive range of mortgage products to choose. In addition of fixed rate long-term mortgages, a rarity elsewhere in the world, US consumers can obtain hybrid products that offer a rate that is fixed for three to five years and variable thereafter. Often these rates are less than 6%, representing a truer reflection of borrowing rates than what the headline long-term fixed mortgages suggest.

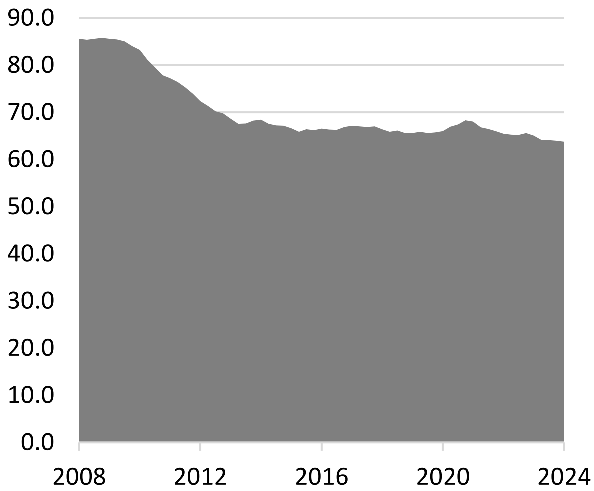
US housing mortage rates



Source: Bloomberg, DBS

Beyond the issue of new home purchases, what about the cost of servicing existing debt? That's typically a key channel of monetary policy transmission, with higher rates affecting demand as leverage becomes more costly.
This is where the post-GFC deleveraging comes to the rescue. Over the past decade and a half, despite all the talk about crushing student loans and other borrowings, total household debt of Americans as a share of the GDP has declined from 85% to 63%. With much of this debt in fixed-rate home mortgages, the US households' ability to absorb a high interest rate cycle has seldom been this strong.

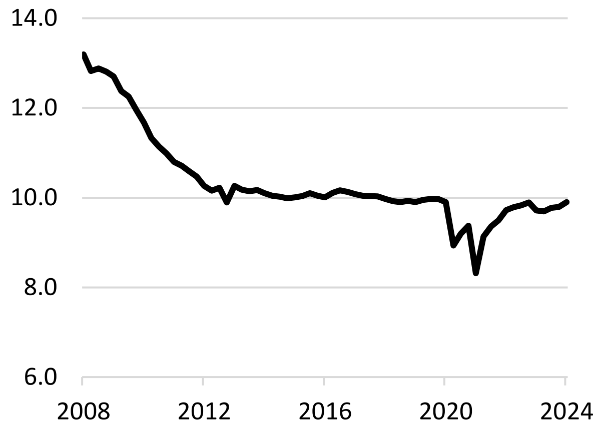
% of GDP US household debt



Source: CEIC, DBS

This shows up in the manageable debt service metric of US households. High rates come with pain and act as a break to consumption, no doubt. But the US residential housing market appears well positioned to remain stable, given the fundamentals with respect to construction trend and debt service ability.

US household debt service ratio



Source: US Federal Reserve, DBS. Ratio of total required household debt payments to total disposable income

Taimur Baig

Key forecasts for the week

Event	DBS	Previous
May 27 (Mon)		
Hong Kong: exports (Apr)	5.6% y/y	4.7% y/y
- imports	5.8% y/y	5.3% y/y
- trade balance	-HKD39.4bn	-HKD45.0bn
May 29 (Wed)		
Vietnam: exports (May)	13.0% y/y	10.6% y/y
- imports	22.0% y/y	19.9% y/y
- trade balance	USD0.4bn	USD0.7bn
- Retail sales YoY YTD (May)	8.8% y/y	8.6% y/y
- CPI (May)	4.5% y/y	4.4% y/y
May 30 (Thu)		
Taiwan: GDP (1Q F)	6.5% y/y	6.5% y/y
May 31 (Fri)		
Eurozone: CPI (May)	2.5% y/y	2.4% y/y
China: manufacturing PMI (May)	51.9	51.7
Hong Kong: retail sales (Apr)	1.2% y/y	-7.0% y/y
South Korea: industrial production (Apr)	3.8% y/y	0.7% y/y
Japan: industrial production (Apr)	-0.4% y/y	-6.2% y/y
India: GDP (1Q)	7.0% y/y	8.4% y/y

Forthcoming data releases

China: The Manufacturing PMI is expected to rise from 51.7 in April to 51.8 in May. High-frequency production data shows month-on-month improvement. The operating rate of steel rebar mills increased from 49.1% in April to 54.9% in May, while the capacity utilization rate of electric furnaces rose to 54.6% from 52.8% in the previous month. Additionally, the cement shipping rate climbed from 39.0% in April to 41.3% in mid-May, indicating growing demand for infrastructure and construction.

Hong Kong SAR: Retail sales growth in April is expected to return to a positive 1.2%, rebounding from a 7.0% decline in March. This improvement is mainly due to the fading high base effect from the previous month. However, the strong HKD continues to limit tourists' spending power and encourages local residents to travel overseas. The daily average of mainland tourist arrivals remained at 37.1% in April, lower than the 2018-19 full-year average, while the number of local residents departing exceeded this average. In trade, export growth is anticipated to accelerate from 4.7% in March to 5.6% in April, driven by stronger-than-expected performance in China. Excluding the base effect, China's exports to Hong Kong improved from -1.5% in March to 8.5% in April. China's electronic exports grew by 19.1% from January to April 2024, making it one of the top-performing product categories this year. With its strong presence in electronic exports, Hong Kong will continue to benefit from the regional recovery in electronic demand. On the import side, growth is expected to rise from 5.3% in March to 5.8% in April, supported by a robust currency exchange rate and a low base effect.

South Korea: May trade data is the focus this week (Saturday). Preliminary data showed a significant slowdown in exports to 1.5% YoY in the first 20 days of May. Excluding the distortion from the early arrival of a public holiday, we expect full-month exports growth to slow moderately to 4.1% YoY, compared to 13.8% in April and 8.7% in Jan-Mar. This suggests that the momentum of trade and manufacturing recovery in South Korea may be slowing, as also evidenced by the recent slip in manufacturing PMI to 49.4 in April. However, the recovery in the semiconductor sector remains intact, as indicated by the steady uptrend in global memory chip prices. We remain confident about our full-year 2024 GDP growth forecast of 3.0%.

Vietnam: We expect Vietnam's double-digit goods export expansion to extend into May 2024, registering at 13.0% YoY. Vietnamese electronics exports continued to benefit from the ongoing turnaround in the global tech cycle, buoyed by smartphone replacements. Retail sales growth was higher in April 2024 vs the start of 2024, and we expect continued resilience, amid a stable labour market and increased foreign tourist arrivals. Foreign visitor numbers have already recovered above pre-pandemic levels, and will provide support to services consumption.

Headline inflation rose to a 15-month high of 4.4% YoY in April 2024, and likely hovered at 4.5% YoY in May 2024. Nonetheless, core inflation has stayed contained at 2.8% YoY as of April 2024, with the pick-up in recent months driven by cost-push factors. Price pressures from housing and health have risen, while transport inflation has also trended higher. The depreciatory pressures faced by the Vietnamese dong vs the US dollar, if sustained further, pose upside imported inflation risks, and threaten the goal of meeting the State Bank of Vietnam (SBV)'s 4.5% headline inflation target. The VND continues to trade at the weak side of its trading band with the USD. *We see rising risks of SBV hiking its policy interest rates to prevent unchecked currency weakness, even as it tries to thread a fine balance of supporting a credit recovery.*

India: Rural demand continued to catch up in the final quarter of 4QFY24 (1Q24), as signaled by the pickup in FMCG volume sales, two-wheeler sales and lower unemployment rate, whilst demand for MNREGA tapered off due to the start of the rabi harvesting period towards the end of the quarter. Business sentiments held up, captured by optimism on production and capacity utilisation. Weakness in revenue expenditure growth might however translate into lower public administration growth. Corporate India registered a notable increase in revenue growth in 4Q, largely led by BFSIs and automakers, outside of which net profit slowed. We look for 4QFY24 (1Q24) GDP growth at 7% yoy, taking full year growth closer to 8% (read our India's elections and evolving data).

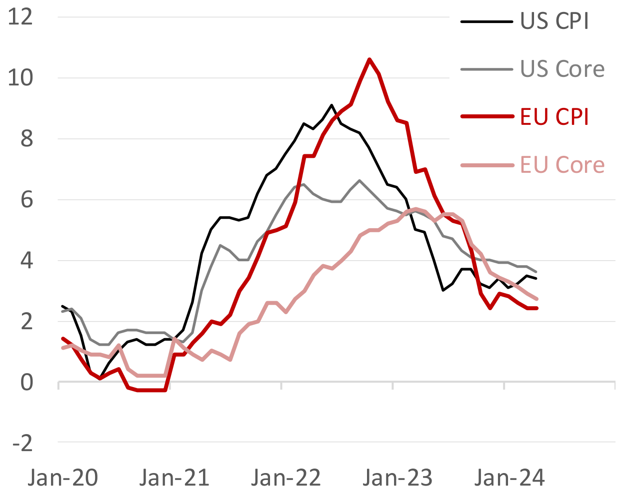
Economics Team

FX: Inflation data matter to AUD, USD, and EUR this week

AUD/USD corrected lower by 1% to 0.6628 last week after rising in the previous four weeks. AUD hit the year's low of 0.6363 on April 19 and rose with a narrowing in Australia's bond yield differential against the US. The Fed was less dovish at its FOMC meeting on May 1, flagging that US sticky inflation would delay rate cuts and not lead to a rate hike. The Reserve Bank of Australia was more hawkish at its meeting on May 7, signalling no intentions to lower rates this year from its projection for inflation to return into the 2-3% target band only by the end of 2025 and the 2.5% mid-point in 2026. **AUD/USD peaked at 0.6714 on May 16** after interest rate futures reduced this year's rate cut bets to a single Fed cut in September and removed all RBA cuts. Australia's jobless rate rose to 4.1% in April vs. the 3.9% consensus, with March revised to 3.9% from 3.8%. **This week, US and Australian inflation data will decide if AUD/USD returns higher towards 0.67 or corrects lower below 0.66.** On May 29, AUD will be vulnerable if Wednesday's CPI inflation falls below the 3.4% YoY consensus in April from 3.5% in March, given the RBA's projection for inflation to rise to 3.8% in June. However, softer US PCE deflators could soften the USD and support the AUD this Friday.

The USD Index (DXY) will be wary of softer US data after last week's 0.3% recovery to 104.72. US financial markets will be closed for the US Memorial Day holiday today. Tomorrow, delayed Fed cut expectations could see the US Conference Board's consumer confidence index declining farther below 100 in May after its drop to 97 in April. On May 30, the US Bureau of Economic Analysis will likely lower the annualized GDP growth for 1Q24 from its advance estimate of 1.6% QoQ saar. **All eyes will be on Friday's PCE deflators.** Given that CPI and core inflation fell to 0.3% MoM in April from 0.4% in March, the PCE and core deflators should also slow to 0.2% from 0.3%. If so, DXY should eye lower levels around 104-104.3.

EU CPI inflation below its US counterparts



Sources: DBS Research, Bloomberg data

EUR/USD depreciated by 0.2% to 1.0847 last week, its first decline in six weeks. On May 27, European Central Bank Chief Economist Philip Lane should be confident about the ECB lowering rates before the Fed on June 6. In April, EU and CPI and core inflation were 2.4% YoY and 2.7%, closer to the official 2% target, compared to their US counterparts at 3.4% and 3.6%, respectively. On May 31, the **EU CPI estimate should decrease to 0.2% MoM in May** from 0.6% MoM in April **but increase to 2.5% YoY** from 2.4% YoY. Hence, Lane will unlikely pre-commit to more rate cuts after June, opting for a data-dependent and meeting-by-meeting approach. Thus, **EUR/USD could find support around 1.08**, near its 100-day moving average.

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Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations)

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