Daily Dose of Macro & Markets 23rd September 2025: "US Housing -> A Key Risk Factor"

The 'Daily Dose of Macro & Markets' is our new publication designed to speak to the key global macro debates that matter for markets (with 1 - 3 charts and two paragraphs). This product will be published every Tuesday, Wednesday and Thursday morning (early London time).

Key Quote

"The Fed's current high level of uncertainty about the outlook for the US economy is consistent with the contradictory messages of our 'recession indicators' and given the two tier nature of the US economy. Significant parts are under considerable stress (including housing and the industrial sector), while other parts are booming (most obviously AI related capex).

Overall, a soft landing still seems the most likely outcome. Our concerns over the housing market, though, are rising. These bear watching closely over coming weeks (months). Mortgage apps is a key piece of the puzzle….."

Source: Longview Economics, Quarterly Global Asset Allocation - US Macro (Section 7), published 19th September 2025

US Housing -> A Key Risk Factor

The debate about the outlook for the US economy remains highly charged. The Atlanta Fed 'GDPNow' model is currently generating a healthy 3.3% GDP growth estimate for Q3 2025 (next update is this Friday, when the PCE spending data is published); US 10 year bond yields backed up when the Fed cut rates last week (implicitly pricing in more growth/inflation); while, in contrast, the Citibank US economic surprise index has been slowing again in September (even as the US stock market has been surging to new all time highs – up 3.6% in September month to date).

So which is it? Are the sceptics correct? Is the US economy in the midst of a mid-cycle slowdown and potentially about to roll over into recession? Or is growth now re-accelerating, with the weakness earlier this year now in the rearview mirror?

Last week, we updated our views on the US macro outlook – see the US Macro Section of the Global Quarterly Asset Allocation (& quote above). That heightened uncertainty mentioned above is reflected in the bifurcated nature of the data. Of our four recession models, two are signalling 'all clear'; while two are signalling danger (a highly unusual contradiction). At the heart of that contradiction is the fact that monetary policy remains too tight for significant parts of the US economy. One of those parts is the US housing market where activity (sales etc.) has been moribund since the rate hiking cycle in 2022. That is now starting to feed through to house prices in key parts of the US. As we laid out in last week's publication, annual growth in 'existing home sales' prices is about to turn negative. In July, the annual price growth of all 'existing homes' was +0.2%. For condos, prices contracted (down 1.2% Y-o-Y in July).

A cursory glance at other house prices indices in the US reveals a similar story. The official FHFA house price index, for example, has rolled over and contracted for the past three months (FIG 1). Historically, every time that's happened, a US recession has ensued (albeit not necessarily when it contracts for two months, and the sample size is small); the Case Shiller house price index has slowed to a trivially low annual growth rate of 2.1% (June 2025) and also contracted on a monthly basis last month; while, as we showed in last week's piece, the percentage of US counties with negative annual house price growth is running at 45%. Indeed some US states are clearly working out the excesses of pandemic booms. Florida is a case in point. Average house prices in the State, according to Zillow, peaked in April last year (@ $401.2k). On latest data (August), they are currently $378.0k (down approx. 6%). Similar trends have been emerging in other surrounding Southern States including Texas, Louisiana and Georgia, as well as the likes of Nevada and Arizona (FIG 2).

All of which points to the importance of lower rates and yields across the curve.

For now, mortgage applications (for purchases) have bounced and are up 22% Y-o-Y. A continued back-up in bond yields, though, would quickly snuff out that strength. In contrast, further falls in bond yields would underpin that recent acceleration. In that sense, it's all eyes on the Fed's intentions (with multiple speeches this week likely to provide further insight into their thinking).

FIG 1: US FHFA house price index shown with US recessions

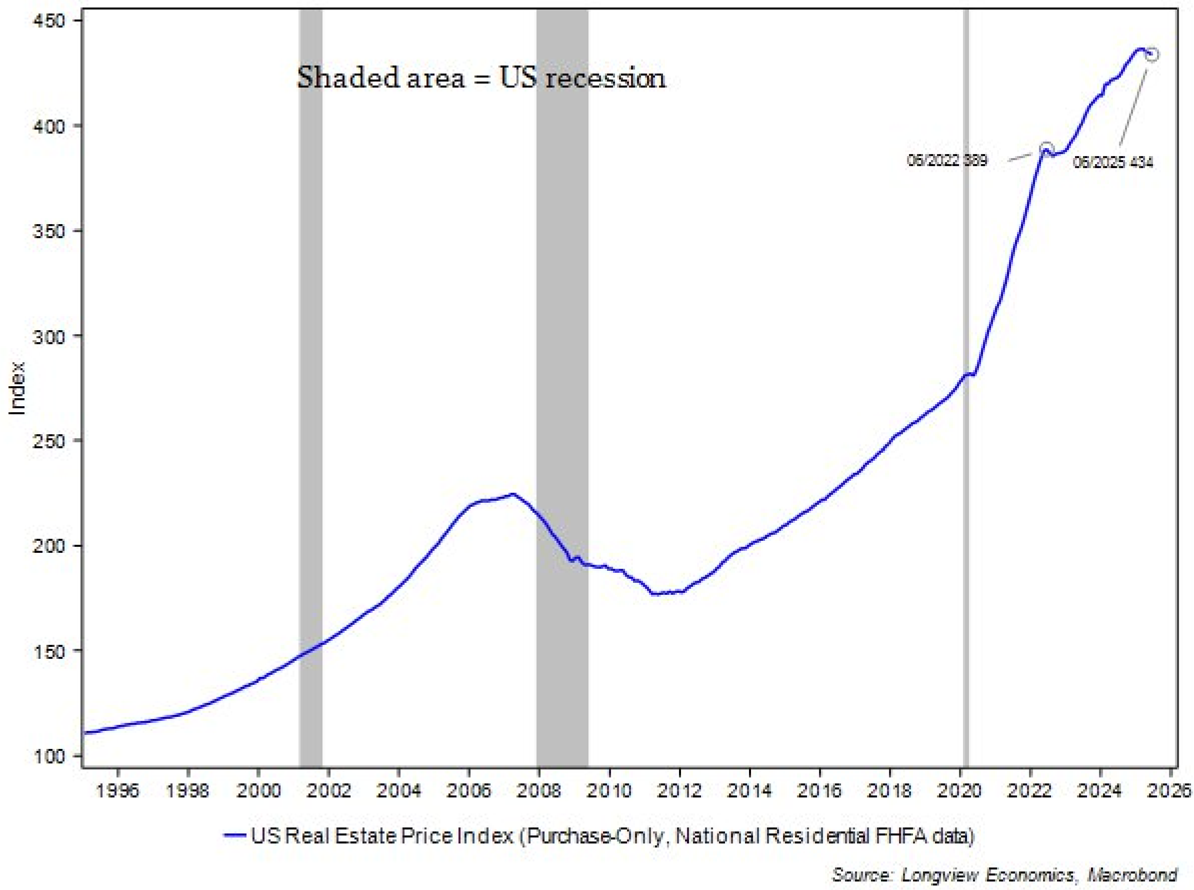
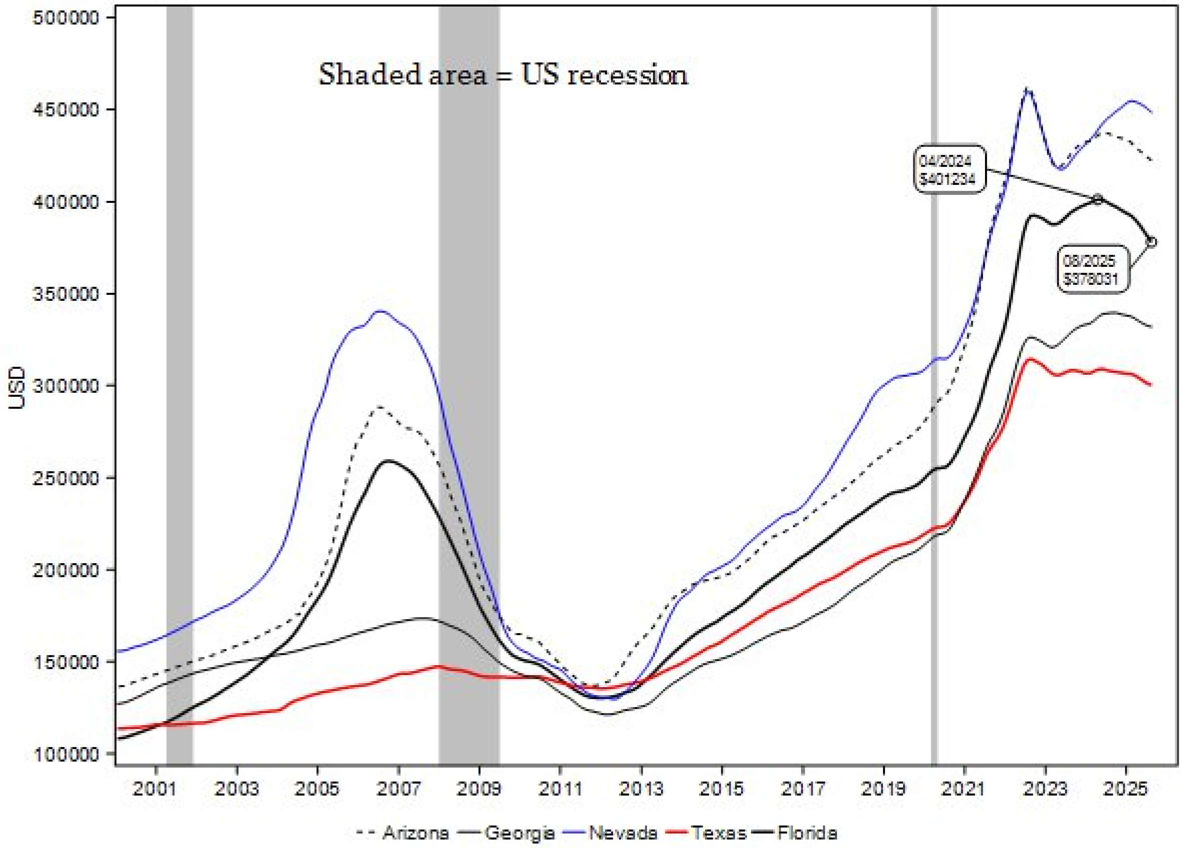


FIG 2: Zillow house price indices – various US States



Source: Longview Economics, Macrobond, Zillow