>: Market Wrap up for October 20, 2008

Monday, October 20, 2008 | Chris Rowe

I'm not going to be doing a market wrap up tonight because I have an important issue to write for tomorrows Tycoon Report. Be sure to check your inbox in the morning on this don't miss article!

?Profit from the Trend?

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Economic Calendar for the week of October 20 to October 24

Monday, Oct. 20

10:00 Leading Indicators

- **Importance (A-F):** This release merits a **C-**.
- **Source:** The Conference Board.
- **Release Time:** 10:00 ET around the third week of the month for the month prior.
- **Raw Data Available At:** http://www.tcb-indicators.org/.

The Leading Indicators report is, for the most part, a compendium of previously announced economic indicators: new orders, jobless claims, money supply, average workweek, building permits, and stock prices. Therefore, the report is extremely predictable and of very little interest to the market. Though this series does have some predictive qualities, it is a common criticism that it has predicted "nine of the last six" recessions.

The Commerce Department previously published the leading indicators series. The collection and publishing of these data is now done by the non-profit Conference Board, which also produces the Consumer Confidence index.

Big Picture

The leading indicators index is only valuable as a broad, general, indicator. The five straight monthly declines through February gave way to steadier trend starting in March. The index may well continue near flat in the third quarter. The trends late last year and early this year predicted a recession which never arrived. The credibility of the index as a forecasting tool is thus very much in question, as it has been for years. The index does not take into account the impact from the fiscal stimulus, and the fact that second quarter real GDP will be reasonably strong despite the flat trend in this index raises further questions about its current usefullness.

Friday, Oct. 24
10:00 Existing Home Sales

- **Importance (A-F):** This release merits a **C**.

- **Source:** The National Association of Realtors.
- **Release Time:** 10:00 ET around the 25th of the month (data for month prior).
- **Raw Data Available At:** http://www.realtor.org/research.nsf/pages/EHSdata.

The name speaks for itself - this report provides a measure of the level of sales of existing home sales. The report is considered a decent indicator of activity in the housing sector. Housing starts precede this report each month, but starts are a supply rather than demand-side indicator. Existing home sales precede the other key demand-side indicator of housing - new home sales - thus boosting the visibility of this report. Sales are highly dependent on mortgage rates, and will tend to react with a few months lag to changes in rates. Sales are also determined by the level of pent-up demand for housing - immediately after a recession, sales are typically quite strong due to the demand which accumulated through the recession.

The survey sample for existing home sales is larger than that of new home sales, making it somewhat less susceptible to large revisions. Both reports can see huge month-to-month swings in winter, when bad weather can significantly affect sales.

Aside from total sales, two other indicators are worth watching in this report -- the inventory of homes for sale and the median price. The inventory of homes for sale at the current sales pace is the inventory/sales ratio of the housing sector. For example, a 5.0 figure for inventory/sales indicates that the supply of homes for sale would be depleted within five months at the current sales pace. The lower this figure goes, the greater the need for new housing starts. The year/year change in the median price provides a good indication of inflation in home prices.

Big Picture

Demand in the housing market has bottomed. Existing home sales remain at very low levels, but they have also leveled off the past eight months. The July sales rate of 5.00 million was 1.8% above the level of last December, and the sales rate has been steady through most of 2008. Inventories remain high, and that will pressure prices, but there is finally some light at the end of the tunnel. Demand has to bottom before prices, and that has started. The housing market remains depressed and will remain so as evidenced by the jump in inventory. The silver lining is that the pace of home sales declines is slowing, which is an attribute of a bottoming process, although a significant rebound is still a long way off.