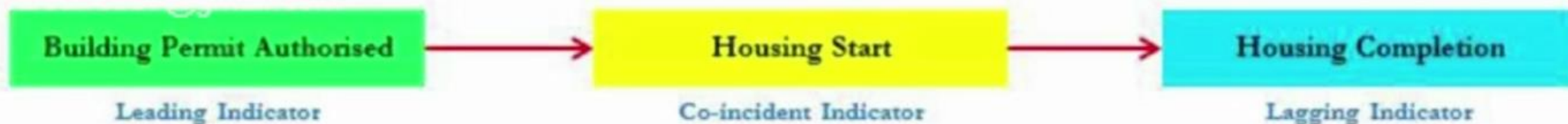


Video 13 – Leading Indicators United States

The Census Bureau's Monthly Report on Building Permits

Why is it important? ...

- The Building Permits number comes from the U.S. Housing Starts report. This also includes a number for Housing Completions.
- Each have a different definition and we should first define the order in which they occur when a new residential housing development / project is being built.



- **Building Permit Definition:** The building (residential home) has received planning permission by the local state planning department.
- **Housing Start Definition:** The foundations of the building (residential home) have been laid. The project has “started”
- **Housing Completions Definition:** The structure and major interior work has been completed (minor not essential) and the home is currently being marketed For Sale.

■ By definition, the Building Permits number tells us several things.

1. Whether or not developers are bullish / bearish on the prospects of future home sales. More applications for Building Permits means an expectation of future sales. It costs anything between \$500 - \$1,000 per home to make an application. They don't do it for fun!
2. The demand for Housing from the U.S. consumer. This may eventually lead to changes in Consumer Sentiment and Consumer Spending.
3. The supply of loans. Developers in the U.S. do not finance projects with 100% Equity / Cash. They use a mix of Equity / Cash / Debt. Also consumers in the U.S. do not buy houses for cash. They buy them with debt (mortgages). Therefore the Building Permits number gives us an insight into the liquidity and health of the U.S. lending environment i.e. the health of the banking sector.

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The Census Bureau's Monthly Report on Building Permits

- The U.S. Housing sector provides us with multiple Economic indicators that can help us make decisions on whether we believe the U.S. Economy will likely grow or not.
- The Census Bureau's Monthly Report on Building Permits from the U.S. Housing Starts Report, is another Leading indicator that we can use to predict GDP growth and S&P500 Returns.
- The Building Permits number is one of the most misunderstood Economic numbers in the United States. Even Professional Traders and seasoned Economists miss very important signals that the Building Permits data gives us.
- The Building Permits data can be found here each month in the History section. You can download the data in Excel and view it in the sheet "PermitsSA" or in the PDF;-

<http://www.census.gov/construction/bps/uspermits.html>

- Release time = 2nd or 3rd week of the month for the previous month.

Recap and Conclusion...

- The Seasonally Adjusted Annualised Rate (SAAR) of Building Permits in the United States, is vitally important to our outlook for U.S. GDP growth and therefore the annual returns in the S&P500.
- Building Permits are a Leading Indicator – Completions follow Housing Starts and Housing Starts follow Completions.
- However the Building permits number not only tells us future GDP growth. The number also tells us whether Developers are Bullish or Bearish on the prospects of the housing sector i.e. a combination of developer financing and whether they forecast demand for housing, and whether consumers demand housing i.e. the ability to get a mortgage.
- Taken together this means the Building Permits number tells us the liquidity and health of the U.S. Banking Sector and the potential for a change in consumer spending habits.
- The Building Permits number forecasts GDP growth and can give us default trade ideas in Homebuilders, Banks, Furniture, Timber, Steel, Chemicals and Paints, and anything related to the U.S. Housing Sector.

Laggards...

- Economic Indicators that lag Completions, Starts and Permits include the following;-
 - Pending Home Sales
 - New Home Sales
 - Existing Home Sales
 - The Case Schiller Index
 - The Housing Market Index

The Building Permits number is therefore very useful in 4 ways;-

1. For predicting U.S. GDP – “World View”
2. For predicting Stock Market Returns – “World View”
3. As a Head Check in tandem with the Business and Consumer Surveys
4. Default Trade ideas in sectors related to Homebuilding