More Aggressive Virus Approach Could Weigh on Q1 GDP

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A flurry of better-than-expected economic releases hints the first quarter could be a bit stronger than most are anticipating, while the new administration's more aggressive campaign to combat the virus could apply a brake. This morning, housing starts for December rose +5.8%, well above the +0.8% median forecast, while building permits, expected to fall by -1.7%, actually climbed +4.5%. The volume of both starts and permits were the highest they'd been since 2006. The inventory of available homes was at a *record low* in the fourth quarter, so builders have been incentivized and the weather has been favorable.

This morning's strong housing data from December is in contrast to yesterday's release of the January National Association of Home builders (NAHB) Index which slipped from 86 to 83, the second month straight month of decline. The index is still in lofty territory as the November reading had been the highest on record, but with the present sales, buyer traffic and future expectations all lower in January, it appears as though the peak may be behind us. However, the elevated starts and permits will increase the inventory of available homes in Q1 and give realtors and prospective buyers more opportunity. Residential investment was a significant contributor to the economic rebound in the second half of last year. How much of that momentum carries forward into 2021 is an open question.

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Also this morning, initial jobless claims declined from a revised 926k to 900k for the week ending January 16. This is still a surprisingly large number of Americans filing for first-time unemployment benefits, but with increased government support promised and a light at the end of the tunnel in the form of vaccines, it isn't as tragic a number as it would be otherwise.

Estimates for fourth quarter GDP growth in the U.S. are still all over the board, with a realistic range of +2.5% to +7.5%. First quarter growth is expected to be much more sluggish, but still positive in the U.S. The outlook for Europe is considerably less upbeat. European Central Bank President Christine Lagarde indicated this week that the Eurozone is facing a double-dip recession despite massive monetary and fiscal support. The primary difference is that Europe is in the midst of widescale lockdowns as it battles the covid spread. Here in the United States, the Biden administration is expected to be much tougher on combating the virus. A more aggressive approach could stifle growth in the near term, but if the pandemic can be effectively squashed, the second half of the year could be quite strong. All three major stock indexes reached new highs this morning, although the DOW has since retreated. Equity investors are betting heavily on that second half strength.

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Market Indications as of 11:30 A.M. Central Time

DOW	Down 55 to 31,132 (HIGH: 31,188)
NASDAQ	Up 30 to 13,487 (NEW HIGH)
S&P 500	Up 1 to 3,853 (NEW HIGH)
1-Yr T-bill	current yield 0.09%; opening yield 0.09%
2-Yr T-note	current yield 0.12%; opening yield 0.13%
5-Yr T-note	current yield 0.44%; opening yield 0.44%
10-Yr T-note	current yield 1.10%; opening yield 1.08%
30-Yr T-bond	current yield 1.86%; opening yield 1.83%