Housing Data Dominates a Light Data Week

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Market focus remains squarely on negotiations surrounding the Democrat's evolving spending proposal and persistent inflationary pressure. Bond investors have clearly decided the monetary policy path laid out by Fed officials isn't aggressive enough to address elevated consumer prices, and recognize this latest round of fiscal spending will only add fuel to the fire. Yields have risen sharply across the curve over the past three weeks as the bond market factors-in an earlier initial rate hike and a stepped-up pace of tightening.

While price pressures hover near 30-year highs, economic growth continues to slow. Earlier this week, the Atlanta Fed's *GDPNow* measure indicated third quarter growth was tracking at just +0.5%. Two months ago, this Q3 estimate was above +6.0%. With growth slowing and inflation too hot for comfort, stagflation whispers have emerged, although most economists seem to think growth will reassert itself in the fourth quarter while price pressures gradually ease. Still, Fed officials will be walking a mighty fine line as they reel-in accommodation in the midst of such a sharp apparent slowdown.

The housing story hasn't changed much, and probably won't look much different this quarter or next. Demand is still strong, inventories are still low and builders continue to be challenged by materials and labor shortages. Existing home sales climbed +7.0% in September to a 6.29 million unit annual rate, the biggest monthly gain and the fastest sales pace of 2021. On a year-over-year basis (because sales were surging a year ago) existing home sales are actually down -2.3% on a year-over-year basis, although 2021 remains on track for the highest sales volume since the still frothy 2006 bubble year.

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The number of existing homes listed for sale at the end of last month was just 1.27 million, the lowest September count in the 22 year history of the series. The lack of inventory may have temporarily eased buyer competition as prices seem to be moderating a bit. The median price for an existing home slipped for the third straight month, decreasing from $357,700 to $352,800 in September. However, industry analysts believe the upward price trend will reassert itself if, and when significant inventory builds. *That process may take a while.*

Housing starts were expected to be flat in September, but instead fell -1.6% to an annualized unit pace of 1.56 million. For comparison, the December 2020 pace was 1.66 million, so despite the pressing need for additional housing supply, new construction is down on the year. Order backlogs remain near a 15-year high, while homes under construction but not yet completed, climbed to the highest level in 47 years.

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Building permits, which have a tendency to lead starts by a few months, fell -7.7% from a revised 1.72 million pace to 1.59 million in September. In December 2020, the annual pace of new permits was 1.76 million. On a year-over-year basis, permits are actually down -1.0%.

The housing market is still red hot, but oddly enough was just another brake on economic growth during the quarter.

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Market Indications as of 11:08 A.M. Central Time

DOW	Up 7 to 35,610 (HIGH: 35,625)
NASDAQ	Down 155 to 15,060 (HIGH: 15,374)
S&P 500	Down 22 to 4,528 (HIGH: 4,550)
1-Yr T-bill	current yield 0.12%; opening yield 0.10%
2-Yr T-note	current yield 0.47; opening yield 0.45%
3-Yr T-note	current yield 0.79%; opening yield 0.78%
5-Yr T-note	current yield 1.21%; opening yield 1.23%
10-Yr T-note	current yield 1.64%; opening yield 1.69%
30-Yr T-bond	current yield 2.07%; opening yield 2.14%