

## Economic Data Dismissed as All Ears Turn to Powell

This morning, the second-tier economic data releases generally fell short of the mark . . . but not by much and frankly, all ears are on the Fed right now anyway. So, a slight increase in weekly jobless claims and a smaller-than-expected upward revision to second quarter GDP were shrugged off. Chairman Powell will be speaking tomorrow at the virtual edition of the Fed's annual economic symposium normally held at Jackson Hole, Wyoming. Investors had concluded that Powell would remain vague on the timing of the eventual tapering of asset purchases. However, recent hawkish comments by non-voting FOMC members have instilled the possibility that Powell could take the opportunity to lay the groundwork for an announcement at the September FOMC meeting.

The Fed's timing decision has been further complicated by the recent Delta COVID wave and a corresponding slowdown in consumer spending. At the same time, inflationary pressure, which the Fed expects will prove transitory, doesn't seem to be fading. Historically, the Fed combats rising inflation by tightening policy to slow growth. A gradual tapering of asset purchases would be the first step in the tightening campaign. Rate hikes aren't likely to begin until after tapering is complete, and the tapering process is expected to take at least 12 months from start to finish, assuming the Fed doesn't pause along the way. At this point, most believe the first reduction in monthly purchases will begin in January 2022, but Powell's Jackson Hole speech could suggest a faster . . . or slower pace.

There's little question that the central bank no longer needs to add massive amounts of liquidity to a market already flooded with dollars, but a policy change is always disruptive. The Fed recognizes we're in a period of military unease and extreme political division, with a massive infrastructure package in play and the debt ceiling issue far from settled. Early tapering is likely to have a negative effect on stocks, which would subsequently ding consumer confidence, which is already shaky. And, by design, tapering would nudge long bond yields higher which should slow GDP growth . . . *which is already happening without the Fed's help*. This is why tomorrow's speech has gained importance.

In other less important news, the housing frenzy appears to be calming down as inventories gradually increase. On Tuesday, the Census Bureau reported new home sales rose +1.0% in July to a 708k annualized unit pace. It was the first month-over-month increase since March, although sales remain well below the red-hot 993k pace from January. Within the July total, just 180k were fully completed homes, 284k were under construction and 244k had not yet broken ground. There were 367k new homes listed for sale at the end of July, pushing the month's supply up from 6.0 to 6.2 months, considerably less lean than the 3.8 month supply back in January. Of these listed homes, only 10% were move-in ready, while 61% were under construction and 29% had not yet broken ground.

The median price of a new home in July was \$390,500, +18.4% above the same period a year ago. These crazy year-over-year gains have moderated a bit in recent months, and should continue to slip into year end.

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On Monday, the National Association of Realtors reported existing home sales climbed +2.0% in July to an annualized sales pace of 5.99 million, the highest since March. Existing homes historically make up about 90% of all sales. The median sales price for an existing home rose +17.8% year-over-year to \$359,900, down from a record \$362,800. Average time on the market was just 17 days, with 89% of sales occurring within a month of listing. The number of existing homes on the market climbed +7.3% to 1.32 million units, pushing the month's supply up from 2.5 to 2.6 months, the highest since last September and comfortably above the January low of 1.9.

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The shortage of construction materials and skilled labor isn't going away anytime soon, but peak housing demand may be slowing at the same time supply moves higher. And although builder outlook is still cloudy, lumber prices have fallen over 70% since their peak in early May, and are now *down* on a year-over-year basis. Builders may be more willing to lock-in new contracts when lumber prices are discounted.

## Market Indications as of 10:51 A.M. Central Time

DOW	Down 71 to 35,335 (HIGH: 35,625)
NASDAQ	Down 47 to 14,995 (HIGH: 15,042)
S&P 500	Down 17 to 4,479 (HIGH: 4,496)
1-Yr T-bill	current yield 0.07%; opening yield 0.06%
2-Yr T-note	current yield 0.24%; opening yield 0.24%
3-Yr T-note	current yield 0.45%; opening yield 0.45%
5-Yr T-note	current yield 0.84%; opening yield 0.83%
10-Yr T-note	current yield 1.35%; opening yield 1.34%
30-Yr T-bond	current yield 1.95%; opening yield 1.95%

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