

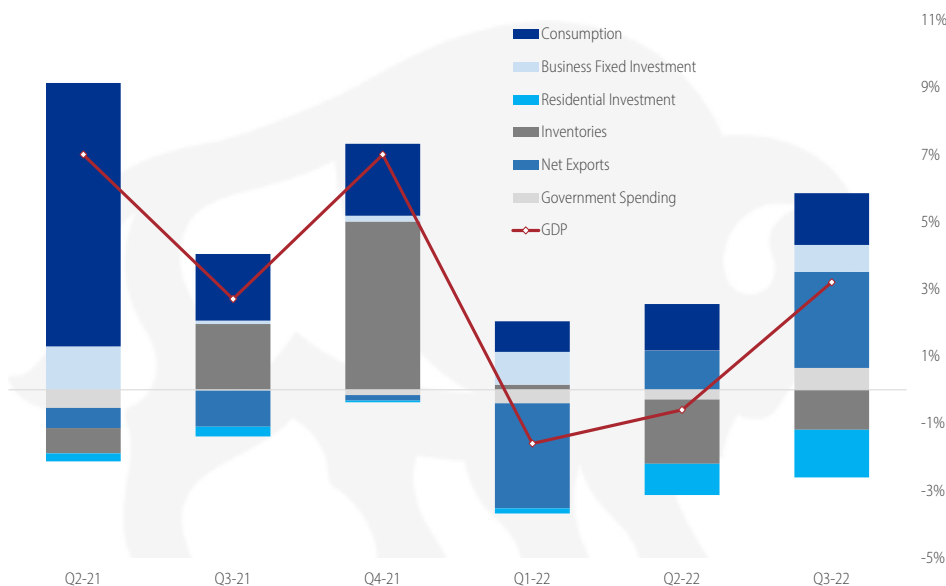
Final Revision to Q3 GDP and Housing Data Highlight the Week

This week's economic data has done little to alter the landscape and, if anything, has merely reinforced what we already knew. Namely, consumption of goods has retreated while consumption of services has accelerated, and that housing has been the area hit hardest by the Fed's monetary tightening. Let's start with today's final revision to Q3 gross domestic product (GDP) which was revised higher from +2.9% to +3.2%. The bulk of that upward revision came from consumption, which is now reported at +2.3% rather than +1.7%. As we have seen in many other indicators, it is the services side of the economy that has been leading the charge as services consumption was revised up by a full percentage point to a +3.7% annual pace. Meanwhile spending on goods was trimmed from -0.2% to -0.4%. There are a lot of moving parts in the GDP data but, in the interest of brevity, we'll spare you the details with one exception... residential investment (housing) was revised down from a -26.8% decline to a larger -27.1% decline.

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Gross Domestic Product (Quarter-over-Quarter Annualized Percent Change)



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Source: Bureau of Economic Analysis

The third quarter's weakness in housing has certainly extended into the fourth quarter. Yesterday, the National Association of Realtors reported that existing home sales declined -7.7% in November to a 4.09 million unit annual rate. The pace is a stunning 35.4% below November 2021's rate; marked the 10th straight month of decline, the longest streak since 1999; and, outside of the 2020 pandemic, the slowest pace since November 2010. The declines are not all that surprising given the sharp run up in prices over the last two years. Combined with this year's dramatic increase in interest rates, affordability has been pummeled. Remember, 30-year fixed rate mortgages topped 7% during October. Median prices did slip for a fifth consecutive month, falling to \$370,000, but are still up 3.5% versus a year ago as the supply of existing homes for sale remains light at only 3.3 months.

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US Existing Home Sales (Seasonally adjusted annual rate, millions)



Source: National Association of Realtors

Builders have grown more cautious as well with housing starts down 0.5% in November and building permits falling 11.2%, the biggest drop since the onset of the pandemic in April 2020. Digging into the data reveals an interesting twist. Over the past year, single-family starts have plunged -32.1% while multi-family starts have risen +23.3%. The shifts make sense if you think about it. Rising prices, high mortgage rates and lack of supply have made homes unaffordable for many people, which keeps them renting apartments, driving rental demand and thus multi-family housing construction.

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US Housing Starts and Building Permits (Seasonally adjusted annual rate, thousands)



Source: U.S. Census Bureau

Friday brings a heavy slate of data with November readings on personal income and spending, the personal consumption expenditures (PCE) index, durable goods, and new home sales. We'll also get another update to the Atlanta Fed's GDPNow forecast for the fourth quarter. This week's housing data shaved a tenth from the estimate, which currently sits at +2.7%. With trading volumes very light and a pre-holiday early close we don't expect too many fireworks to end the week.

Market Indications as of 10:59 A.M. Central Time

DOW	Down -503 to 32,874 (HIGH: 36,800)
NASDAQ	Down -306 to 10,404 (HIGH: 16,057)
S&P 500	Down -76 to 3,802 (HIGH: 4,797)
1-Yr T-bill	current yield 4.63%; opening yield 4.55%
2-Yr T-note	current yield 4.24%; opening yield 4.21%
3-Yr T-note	current yield 4.00%; opening yield 3.99%
5-Yr T-note	current yield 3.77%; opening yield 3.77%
10-Yr T-note	current yield 3.67%; opening yield 3.66%
30-Yr T-bond	current yield 3.73%; opening yield 3.72%

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