Economic Update

JULY 16, 2021

1. JOBS REPORT

- The Labor Department's June Jobs Report showed an encouraging 850,000 added positions, well above Bloomberg's reported consensus forecast of 720,000. Payroll increases were aided by the continued easing of social distancing measures across the US, increases in the vaccination rate, and a growing number of states ending additional unemployment benefits.
- Sectors hard hit by the pandemic drove monthly gains as leisure and hospitality and retail employment accounted for a little under half (48%) of the total monthly gain.
- Construction employment has been gradually falling since April, which could signify that rising costs for construction are starting to impact activity in the sector.
- Wage data continued to show signs that rising labor demand is affecting wages though the scale of the impact is unclear given the large swings in employment over the last year. Monthly growth in average hourly earnings came in at 0.3% in June, down from 0.4% in May. However, wages for leisure and hospitality workers grew sharply at 2.3% month-over-month between May and June.
- The civilian unemployment rate rose from 5.8% in May to 5.9% in June. Though unemployment increased, the data supports increased confidence in the labor market recovery as more workers rejoined the labor force.

2. OPENINGS, HIRES, & QUITS

- Job openings increased by only 16k between April and May, though still set another record high as it broke 9.2 million. Hiring fell slightly from 6.0 million to 5.9 million over the same period.
- A June 2021 analysis from Indeed showed firms reporting that they were struggling to hire despite record amounts of openings, which shows the share of job openings offering hiring incentives has doubled from roughly a year ago to 4%. Job seekers appear to be responding to tighter labor market conditions; the share of job searches screening for hiring incentives are up 134% from one year ago. The percentage of job posts on Indeed with hiring incentives was highest in the driving sector (16%), followed by dental (13.8%) and nursing (11.3%).
- The quits rate, which is the number of quits as a share of total employment, fell from 2.8% in April to 2.5% in May. However, the quits rate for accommodation and food services workers remained at 5.7%, its high watermark dating back to January 2011 – an indication of how hot the competition is for your favorite restaurant's staff.

3. SINGLE-FAMILY HOMES

- Home prices continued to surge during April 2021, with the S&P's Case-Shiller Home Price Index showing prices increasing by 14.6% year-over-year, good enough for a new record. Joining the national index in its record-breaking yearly growth rate were Charlotte, Cleveland, Dallas, Denver, and Seattle. Low interest rates

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and inventories (in addition to a shift in where buyers are looking for homes) have acted as catalysts for home price growth.

- According to realtor.com, new listings have been rising month-over-month since April but remained down 43% between June 2020 and June 2021. However, strong housing demand is still evident in how little time spend on the market. During June 2021, homes remained on the market for a median 37 days, down 48% from one year ago.
- Realtor.com data also indicate that new listings increased for the third month in a row, but it has not been enough to stave off listing price increases. An easing of shortage-related pricing pressures will likely accompany either an increase in listing inventory, cooling buyer demand, or both.

4. MBA MORTGAGE APPLICATIONS

- According to the Mortgage Bankers Association's Weekly Mortgage Applications Survey, seasonally adjusted mortgage application volume dropped by 1.8% for the week ending July 2nd, leading to the lowest level of mortgage activity since the beginning of 2020. The weaker activity comes as the home buyers deal with limited supply and increasing home prices despite falling mortgage rates.
- Refinances fell 2% week-over-week and are 8% lower than the same week one year ago. New purchases fell by 1% from the week prior and 14% year-over-year. Refinance applications as a share of mortgage activity was 61.6% of all lending activity, a slight decrease of 0.3 percentage points from the prior week.
- The breakout of total applications by origin was relatively unchanged from the prior week as the FHA share of total applications increased from 9.5% to 9.8%, and the VA share rose from 10.5% to 10.8%.

5. ZILLOW'S CONSUMER HOUSING TRENDS REPORT ON HOMEOWNERS

- According to a report by Zillow, approximately 15% of homeowners said they had plans to move within the next three years, and 31% of those looking to move were under the age of 40 – a somewhat large increase from 22% in 2020. Additionally, those reporting plans to move tended to report higher incomes than the typical US household and describe their current living environment as urban.
- Those looking to move do not seem to be ready just yet, as only 15% have listed their home on the market. The most reported reasons for moving were to upgrade and change neighborhoods, while the least common was being responsible for yardwork (it's hard to blame them). Interestingly, 74% of homeowners reported wanting to move because their home is not suitable for their work from home needs.
- Price concerns seem to be a driving reason not to list a home on the market. 25% felt they would not be able to find and/or afford a new home, while 21% believed they would get a more favorable sale price if they waited.

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6. TREPP DELINQUENCY DATA

- According to figures reported by Trepp, the CMBS delinquency rate declined from 6.16% to 6.15% between May and June 2021. The slight decrease is enough to say delinquency rates have declined 12 months in a row and fell 417 bps since June 2020.
- Industrial (0.65%), Multifamily (2.02%), and Office (2.09%) delinquency rates are much lower than the overall market. However, the outlook for office is uncertain given questions around work from home, usage of occupied office space, and movement of workers out of cities.
- Delinquency rates for Hotel and Retail CMBS loans remain elevated despite some reopening measures and some pick up in travel. Retail CMBS delinquency rates stayed relatively flat between April and June 2021, ranging between 10.66% and 10.89%, while delinquency rates on Hotel CMBS loans fell 168 bps to 14.27% over the same period.

7. CONSTRUCTION SPENDING

- Annualized total construction spending remained near its record highs of $1.55 trillion during May 2021, according to the Census Bureau. Total spending has remained relatively flat since January 2021 but is still up 3% from the pre-shutdown high set in March 2020.
- Flat construction spending since the winter comes from a slowdown in monthly growth rates for residential and continued declines for nonresidential. Prior to January, residential spending had been growing fast enough to offset the decline in other sectors.
- Annualized nonresidential construction spending was $785 billion in May 2021, an 11.4% decrease from its January 2020 peak. Spending has declined in 15 of the last 16 months and remains down 7.1% year-over-year. 29% of the year-over-year decline in spending is related to education, with the next largest categories being public safety (13%), office (12%), and lodging (11%). Most of the education spending comes from the government, and all public safety is considered governmental.
- Meanwhile, residential construction spending surpassed its pre-pandemic peak by 11.1%, as annualized residential spending totaled $761 billion in May 2021, up 28.7% from one year ago. New single-family construction increased an impressive 46.1% since May 2020.

8. FOMC MEETING

- In its June meeting, the Federal Open Market Committee (FOMC) agreed to hold the Fed Funds Rate and its purchases of Treasury and MBS securities steady until "substantial further progress" is made. The FOMC emphasized the recovery's dependence on the course of the virus and believed that increasing vaccination rates would likely dampen the effects that COVID is having on economic conditions.

- The committee also noted that while conditions were improving better than initially expected, as noted by increased GDP forecasts, the outlook on inflation was uncertain given its sharp rise and seemed to question how "transitory" is transitory. While increased inflation projections from the Fed signaled a stronger hawkish tone as a possibility, the Fed's meeting minutes seemed more to convey a more wait-and-see approach.
- Additionally, the Fed's June "dot plot," which presents the projected path of interest rates, shows interest rate hikes in 2023 as being more likely. 13 out of 18 FOMC members expect to increase interest rates in 2023, while that number was just seven in March.

9. INFLATION

- Inflation metrics continue to sizzle in the summer months as data show prices are much hotter than the Fed's 2% year-over-year target. The latest CPI reading for June 2021 showed a 5.4% year-over-year increase in prices as vehicles and associated services led the way. According to the Bureau of Economic Analysis (BEA), personal Consumption Expenditure (PCE) inflation, the Fed's preferred measure, pushed from 3.6% year-over-year growth in April to 3.9% in May.
- Other metrics, such as trimmed-mean inflation figures which exclude some degree of the largest negative and positive price changes, point to inflation at lower levels than the official government CPI and PCE inflation readings would suggest. The Dallas Fed's trimmed-mean PCE reports year-over-year inflation at 1.9% in May 2021 and the Cleveland Fed's trimmed-mean CPI registered 2.9% year-over-year growth in June.
- Consumer expectations of inflation are watched closely as inflation expectations tend to impact actual inflation outcomes, and consumers sharply increased their higher expectations for inflation from 4.0% to 4.8% in the New York Fed's June 2021 Survey of Consumer Expectations.

10. FORBEARANCE AND FORECLOSURE MORATORIUM (COMING TO AN END)

- Forbearance for loans that are federally guaranteed or backed by a GSE will end on July 31st. However, the end of the moratorium is not expected to cause the same level of foreclosures – at least not at the scale seen during the Great Recession when almost 12 million Americans could no longer afford their loans. Estimates from the Mortgage Bankers Association and Black Knight both put the estimated number of homeowners in forbearance around 2 million.
- According to a June report from Black Knight, 2.3% of Fannie and Freddie loans are in forbearance, while the same could be said about 6.9% of FHA and VA loans.
- A June analysis from NAR noted that the end to forbearance would not likely affect the housing market's currently supply constraints, as it is unlikely that enough distressed supply will reach the market from foreclosures.

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CHANDAN ECONOMICS

SUMMARY OF SOURCES

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