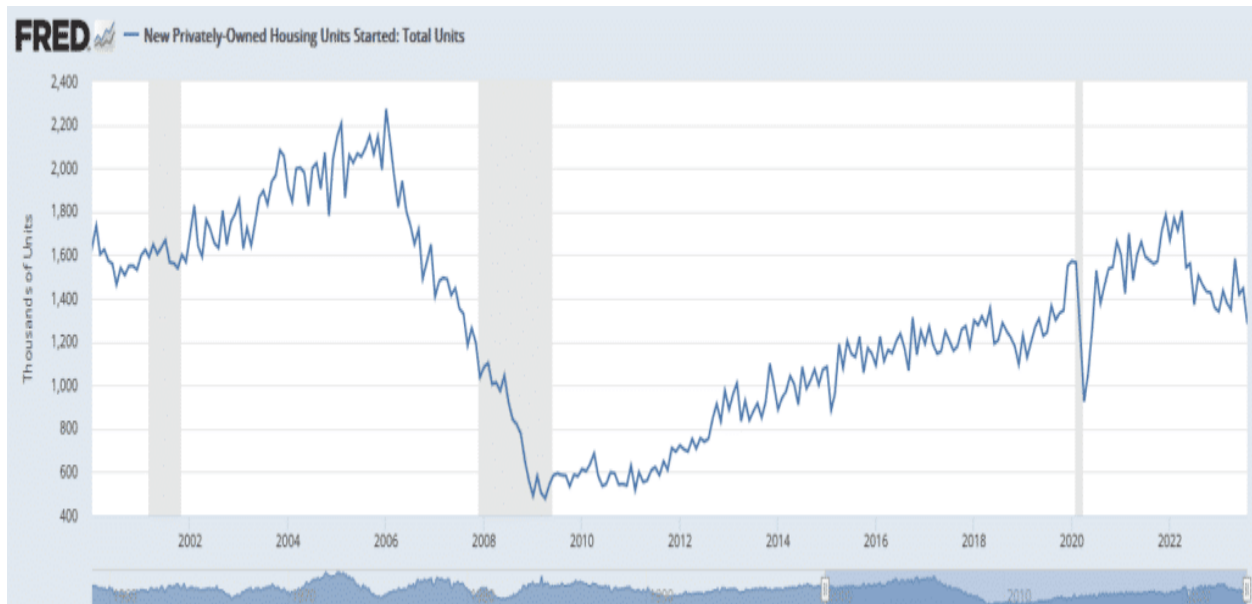
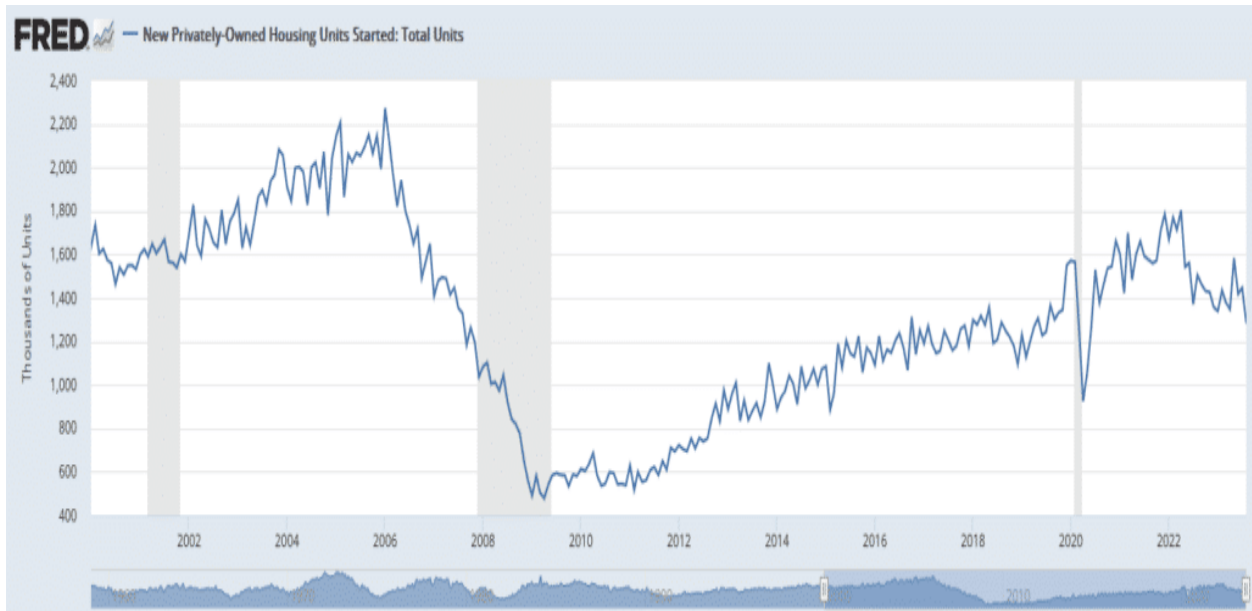


Housing Starts Plummet As Homebuilder Confidence Wanes

Higher mortgage rates are resulting in a shortage of inventory of used homes and a surge in new homebuilding. Recent data shows a third of all homes for sale are new homes. That is almost three times the average ratio. While homebuilders have been taking advantage of the low inventory situation by offering home buyers reduced mortgage rates and other discounts, it appears they are starting to have concerns. The most recent NAHB builder confidence survey fell to 45. A reading below 50 means there are more homebuilders with negative sentiment than positive sentiment. Further, housing starts fell to their lowest level since June 2020, when the pandemic wreaked havoc on the economy. August annualized housing starts were 1.283 million on a seasonally adjusted basis. That is -11.3% below the downwardly revised 1.45 million from the previous month and expectations for 1.43 million.

The recent decline in homebuilder confidence and reduction in housing starts bodes poorly for the industry. From a macroeconomic perspective, housing is an excellent leading indicator of economic activity. As we outlined in [Janet Yellen Should Focus On HOPE](#), *HOPE is an acronym describing the lags and the sequence in which economic activity typically weakens before a recession.* The *H* or leading indicator is housing. If existing home sales, housing starts, and homebuilder confidence continue to weaken while mortgage rates preclude buyers and sellers from transacting, the housing sector may suffer. Until mortgage rates decline, the problems are likely to continue.





What To Watch Today

Economics

Time	Event	Impact	Actual	Dev	Consensus	Previous	
WEDNESDAY, SEPTEMBER 20							
11:00	USD MBA Mortgage Applications(Sep 15)		-	-	-	-0.8%	
14:30	USD EIA Crude Oil Stocks Change(Sep 15)		-	-	-2.667M	3.954M	
18:00	USD Fed Interest Rate Decision		-	-	5.5%	5.5%	
18:00	USD Fed's Monetary Policy Statement				REPORT		
18:00	USD FOMC Economic Projections				REPORT		
18:00	USD Interest Rate Projections - 1st year		-	-	-	4.6%	
18:00	USD Interest Rate Projections - 2nd year		-	-	-	3.4%	
18:00	USD Interest Rate Projections - 3rd year		-	-	-	3.1%	
18:00	USD Interest Rate Projections - Current		-	-	-	5.6%	
18:00	USD Interest Rate Projections - Longer		-	-	-	2.5%	
18:30	USD FOMC Press Conference				SPEECH		
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18:00	USD Interest Rate Projections - 3rd year		-	-	-	3.1%	
18:00	USD Interest Rate Projections - Current		-	-	-	5.6%	
18:00	USD Interest Rate Projections - Longer		-	-	-	2.5%	
18:30	USD FOMC Press Conference				SPEECH		

Earnings

Time	Symbol	Company Name	Market Cap ▼	Fiscal Quarter Ending	Consensus EPS* Forecast	# Of Ests	Last Year's Report Date	Last Year's EPS*
🕒	FDX	FedEx Corporation	\$62,620,979,430	Aug/2023	\$3.70	10	9/22/2022	\$3.44
☀️	GIS	General Mills, Inc.	\$38,973,268,393	Aug/2023	\$1.08	9	9/21/2022	\$1.11
☹️	FRHC	Freedom Holding Corp.	\$5,059,099,396	Jun/2023		10	N/A	\$0.99
🕒	KBH	KB Home	\$3,892,652,602	Aug/2023	\$1.37	7	9/21/2022	\$2.86

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🕒	KBH	KB Home	\$3,892,652,602	Aug/2023	\$1.37	7	9/21/2022	\$2.86

Market Trading Update

Yesterday's market action was diametrically opposed to Monday's as the market sold off early in the day only to stage a comeback rally by the end. Traders remain unwilling to take on any big bets ahead of the Federal Reserve's interest rate decision this afternoon. The sloppy action continues for now, and while the market did trigger a short-term sell-signal, that signal is occurring from lower levels, suggesting downside risk is likely limited. Such continues to look like a market trading water until the Q3 earnings season begins in October. For now, continue to monitor risk and use current market weakness as an opportunity to rebalance portfolios as needed.





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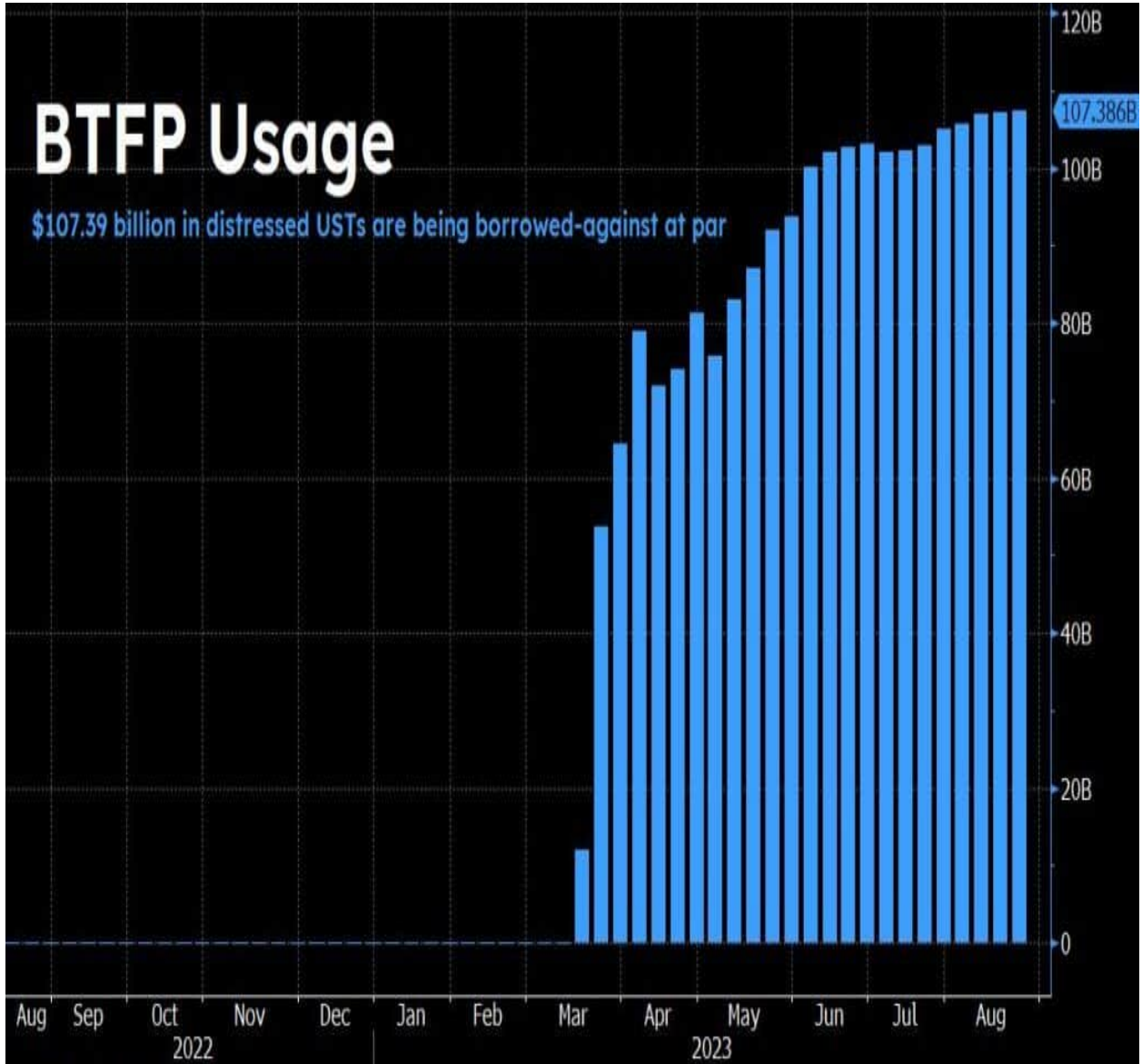
Bank Bailout- Six Months In and Six Months To Go

In March, the Fed was dealing with a banking crisis of its own making. The surge in interest rates caught many banks off guard. With deposits fleeing the banks for higher yields, banks were forced to sell assets. Most banking assets, be they loans or securities, were trading at discounts to their purchase prices. As a result, banks like Silvergate and Silicon Valley had to take bankruptcy-inducing losses to offset lost deposits.

Seeing the potential trouble of underwater bank assets, the Fed created the Bank Term Funding Program (BTFFP). The facility allows banks to pledge Treasury bonds trading at discounts to par as collateral for loans based on the par value of the collateral. Three months into the program, the balances continue to grow, albeit slowly. The program ends in March. As such, we suspect the Fed will start to discuss their options. They can extend the program and roll over existing loans or terminate it. The program is a form of QE, so the Fed may perceive rolling over existing loans as inflation-inducing. However, terminating the program could lead to more bankruptcies.

BTFP Usage

\$107.39 billion in distressed USTs are being borrowed-against at par



Source: @JoeConsorti

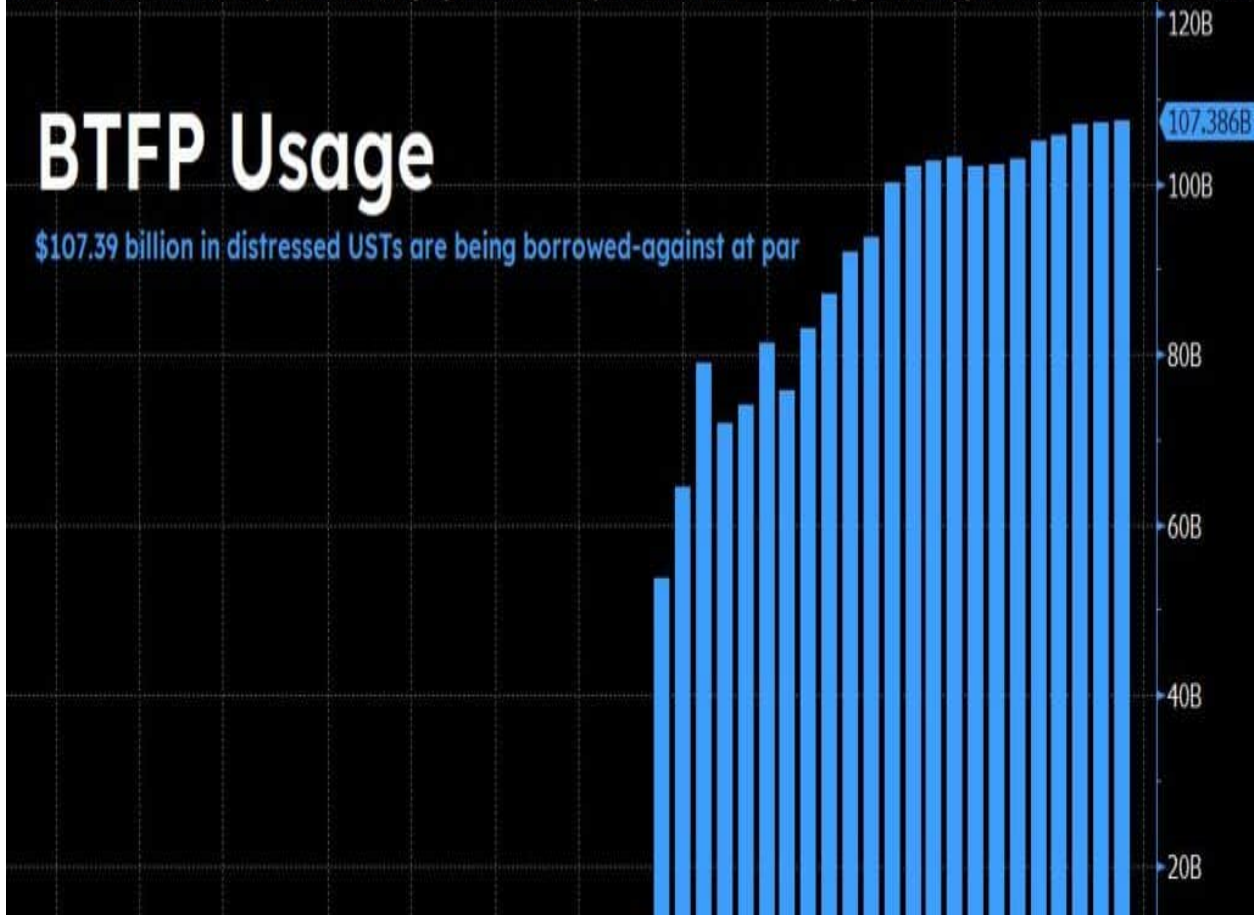
FARWBTFP Index (Reserve Balance Wednesday Close Bank Term Funding Program (BTFP)) BTFP Weekly 17AUG2022-25AUG2023

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24-Aug-2023 20:42:48

BTFP Usage

\$107.39 billion in distressed USTs are being borrowed-against at par



Housing Update

Redfin puts out great commentary and statistics on the housing markets to help us navigate how high mortgage rates affect the sale and rental markets. As we have noted, 40% of CPI is tied to rents and rental prices imputed from home prices. As such, we thought it would be helpful to share a handful of charts and commentary from [Redfin's website](#).

Home prices are slightly higher year over year despite a substantial 14.5% drop in the number of homes sold. Home sales are seasonal. Therefore, comparing the recent peak in June to the prior June peaks is essential.

Median Sale Price

\$420,846

+3.0% year-over-year

of Homes Sold

475,576

-14.5% year-over-year

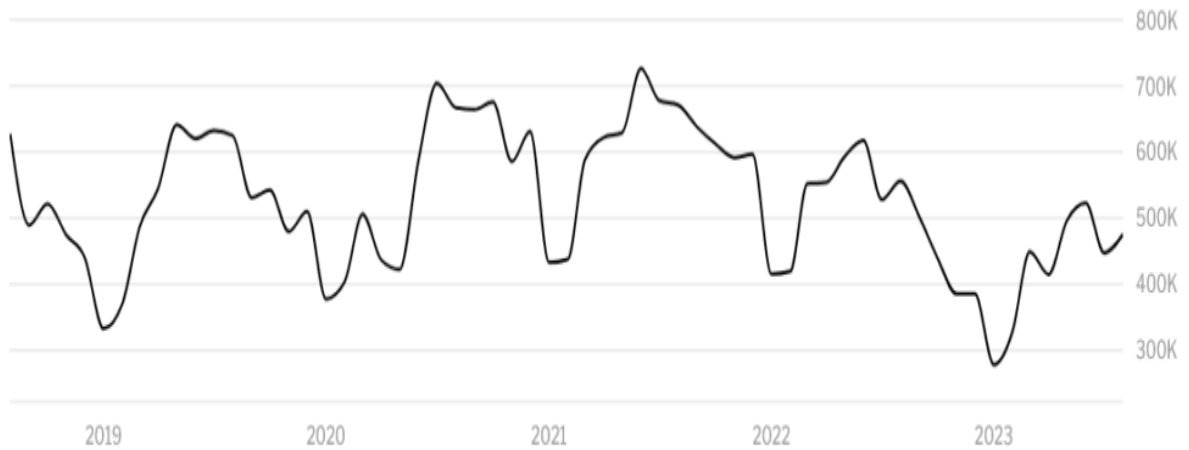
National Avg. 30-Year Fixed Mortgage Rate

7.1%

+1.8 pt year-over-year

All Home Types ▾

1 year 3 years 5 years



Based on Redfin calculations of home data from MLS and/or public records.

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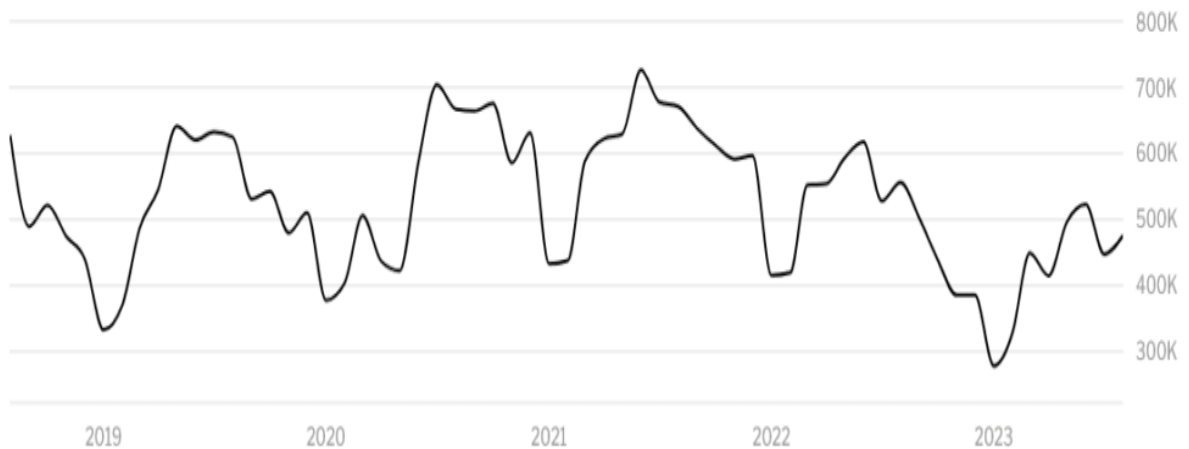
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In regards to the supply of houses, Redfin says the following:

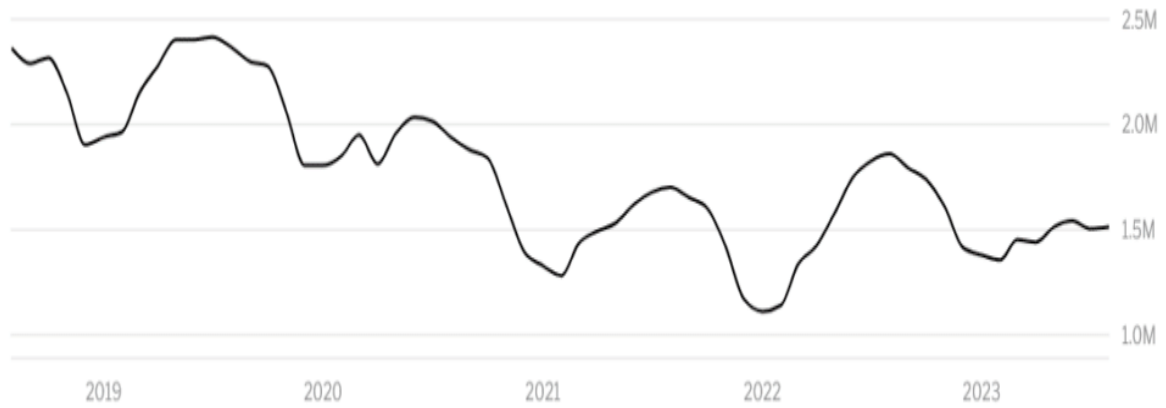
In August 2023, there were 1,514,235 homes for sale in the United States, down 18.6% year over year. The number of newly listed homes was 536,703 and down 13.3% year over year. The median days on the market was 30 days, up 4 year over year. The average months of supply is 2 months, down year over year.

Essentially, the housing market is at a standstill. Existing homeowners are finding it tough to sell houses despite high prices because they do not want to give up their very low mortgage rates. On the flip side, home buyers are finding homeownership expensive due to high prices, limited supply, and high mortgage rates.

# of Homes for Sale 1,514,235 -18.6% year-over-year	# of Newly Listed Homes 536,703 -13.3% year-over-year	Median Days on Market 30 +4 year-over-year	Months of Supply 2 0 year-over-year
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All Home Types ▾

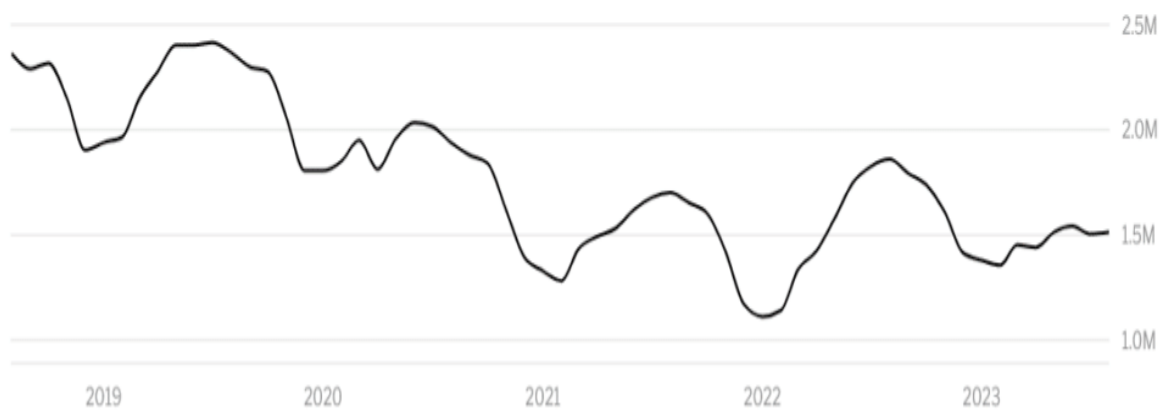
1 year 3 years 5 years



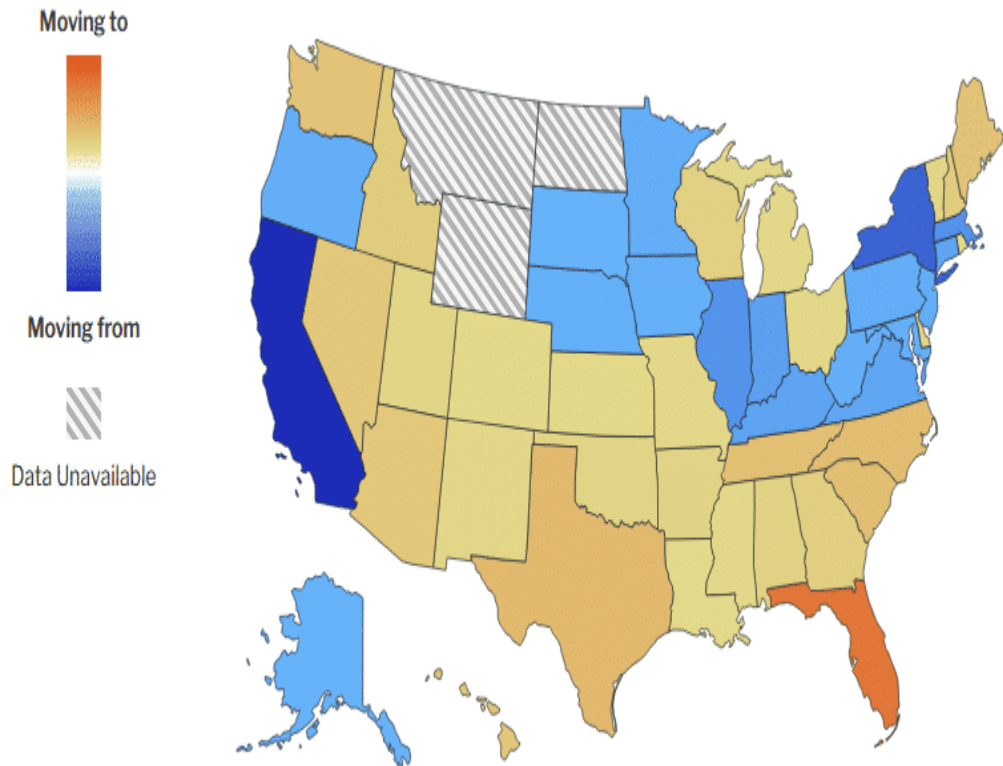
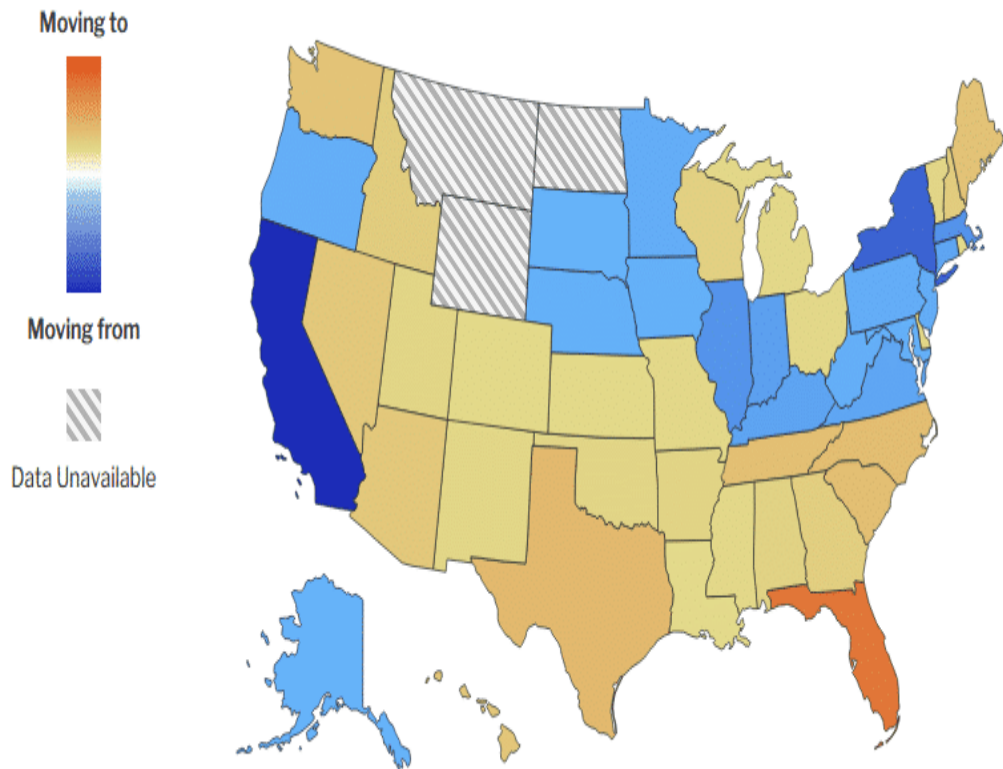
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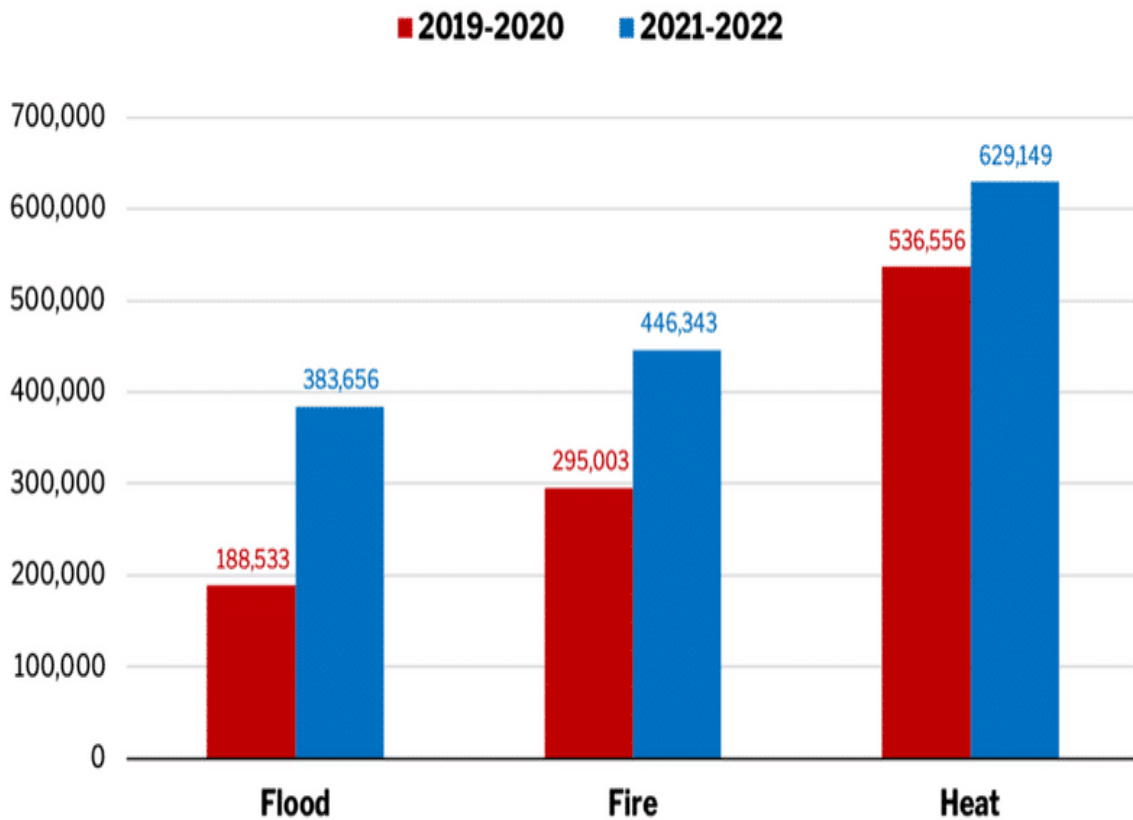
In regards to the recent migration trends, we continue to see movement from the northeast, California, and upper midwest to the south. The data is from the last three months but replicates recent longer-term trends.



Politics, taxes, cost of living, and weather are leading factors in the migrations. However, some that have moved may be trading those issues for new ones, as we share below.

More People Are Moving Into Than Out of Disaster-Prone Places

Net inflow to U.S. counties with largest share of homes facing high fire, flood and heat risk

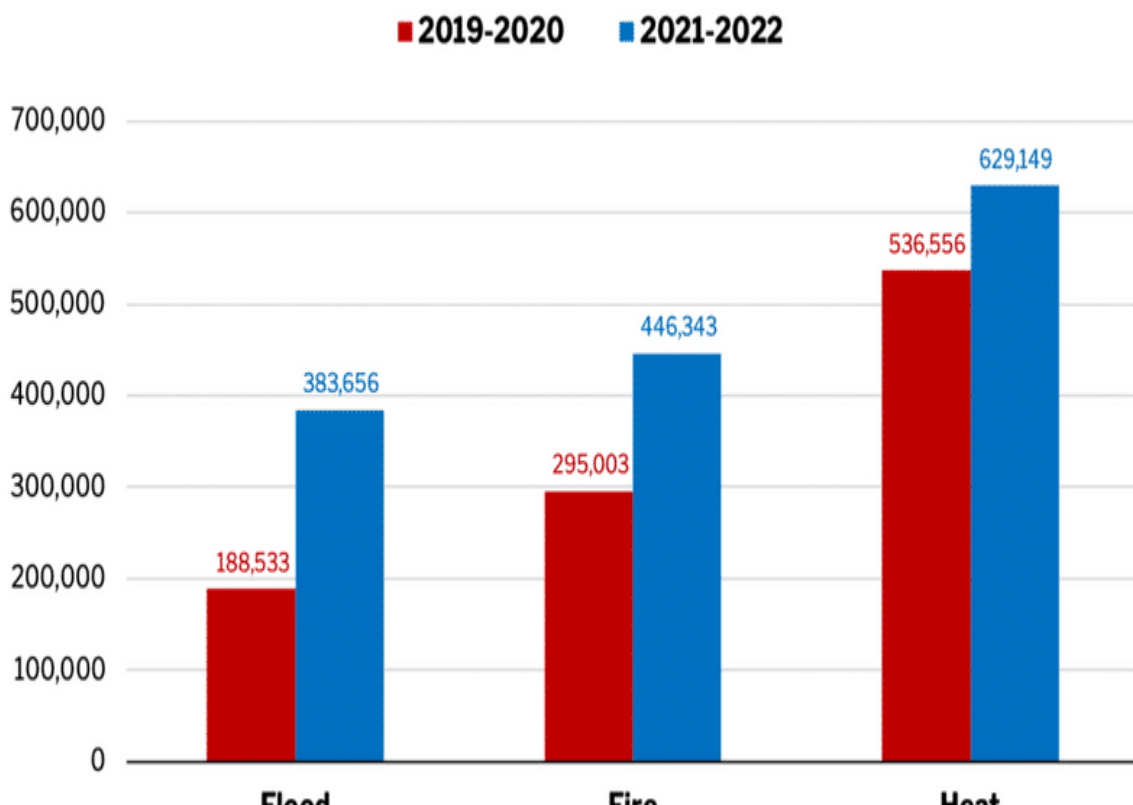


Source: U.S. Census Bureau, First Street Foundation

REDFIN

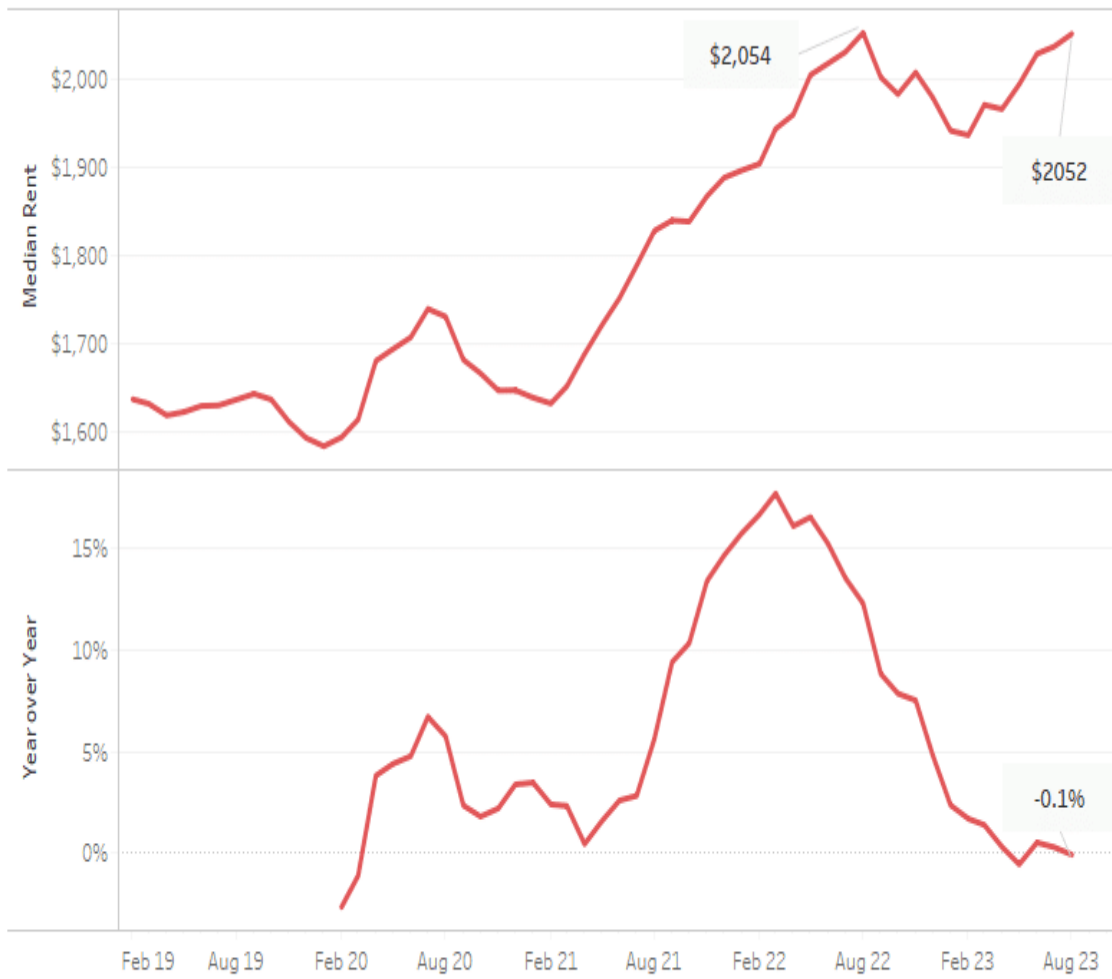
More People Are Moving Into Than Out of Disaster-Prone Places

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The final graph shows rental prices. The good news is that rents are flat year over year. As such, the contribution to annual CPI inflation is zero. However, recently, rents have been increasing and remain significantly elevated from pre-pandemic levels. The CPI data on rents lags significantly from the graph. Therefore, the next four to six CPI reports will show rental prices declining despite the evidence below that they are rising again.

August Median Asking Rent On Par With Record High



REDFIN

August Median Asking Rent On Par With Record High



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...

5 housing markets at the greatest risk of “multifamily oversupply”, according to [@GoldmanSachs](#)

- Austin
- Charlotte
- Raleigh
- Nashville
- Denver

Exhibit 12: The Southeast U.S. is at greatest risk for multifamily oversupply

Ratio of apartment units under construction to existing inventory by metropolitan statistical area



Source: CoStar, Goldman Sachs Global Investment Research



Lance Lambert [@NewsLambert](#) · 8h

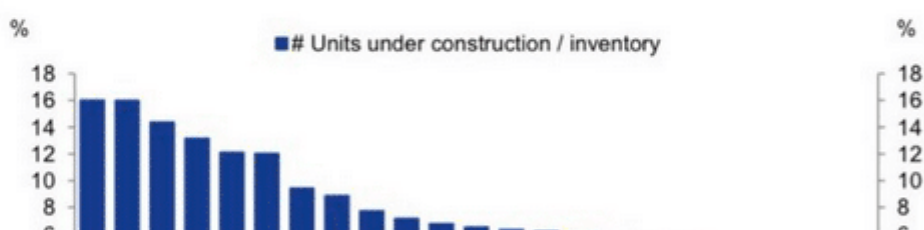
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