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Economic Update

MAY 28, 2021

CHANDAN ECONOMICS

1. HIRING SLOWDOWN THEORIES

- The April BLS Jobs Report represented one of the most disappointing releases in recent memory. Private nonfarm payrolls grew by just 266k from the month prior– a whopping 721k below Bloomberg's reported consensus forecast.
- Once the bad news hit and the dust settled, finger-pointing and debate followed next, as market watchers sought a reasonable explanation to the underwhelming results.
- The three leading theories are that extended unemployment benefits are acting as a disincentive for workers to seek employment, the skills of the remaining pool of unemployed workers are not well suited to the evolving needs of business, and firms are proceeding with caution until they are convinced of the economic rebound.
- Roughly 3.8M people are still receiving unemployment benefits, 2.1M more than the 1.7M reported before the start of the COVID lockdown, but well below the peak of 23.1M measured in May 2020. In total, 8.2M fewer people were working through April 2021 than there were in February 2020. While the disincentive argument is likely, in part, true, other factors appear to be more impactful. Even if all of the marginal 2.1M benefit receiving laid-off workers were able to find work and were choosing to remain jobless, it would only explain one-fourth of continued labor market slack.
- According to the NFIB's monthly survey, small business owners are reporting large gaps between the skills of applicants and the demands of available positions. Through April 2021, 54% of small business owners with open positions report receiving few or no qualified applicants.
- The skill-needs gap reflects a long-term trend. In 2010, roughly one-quarter of businesses reported an under-qualified pool of applicants. Over the next decade, this share would rise consistently, settling above 50% just before the pandemic. After falling as low as 37% mid-shutdown, the share has started to increase once again, resuming its decade-long trend. These data reflect a secular and growing mismatch between the skills of workers and the demands of businesses.

2. RESTAURANT BOOKINGS

- According to the restaurant booking data reported by OpenTable, reservations as of Monday, May 19th remained down 17.6% from the same day in 2019. Bookings are down by 15.7% from 2019 benchmarks, measured on a one-week moving average.
- Reservations have consistently risen after a Winter slump where bookings again fell as low as 85% below pre-COVID benchmarks in late-December 2020. On average, bookings have moved 1.8% closer back to pre-pandemic conditions on a weekly basis since the beginning of the year.
- Several US markets have seen a surge in restaurant bookings and are currently trending well above 2019

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levels. In some metros, this can be explained by reservation requirements for sit-down table-service, though most of these restrictions have, in recent months, relaxed. Domestic tourism hotspots are performing exceptionally well, seeing a step up as US tourists have had fewer foreign destinations with open borders to choose from.
- Miami Beach (+72.4%), Miami (+56.4%), Las Vegas (+53.8%), Naples (+49.1%), Fort Lauderdale (+22.4%), Scottsdale (+17.6%) and Austin (+2.3%) comprise the list of markets performing above 2019 benchmarks.

3. INFLATION EXPECTATIONS

- Reports of profanity-laced tirades after leaving the grocery store and Home Depot are on the rise, which can only mean one thing: prices are rising too.
- There are three groups that policymakers watch closely for their unique pricing outlooks: households, investors, and professional forecasters. Notably, all three are indicating that they expect more pricing pressure on the horizon.
- The 10-Year Breakeven Inflation rate, measured as the difference between nominally priced and inflation-indexed securities, is a proxy for investor inflation expectations over the next decade. The spread has risen to 2.5% through mid-May– the highest level since 2013.
- Measured by the University of Michigan, consumers are expecting more inflation. Through March 2021, consumers expect inflation to average 3.1% over the next year, a full one percentage point more than what they expected when asked a year ago. Households are updating their pricing outlooks at the fastest rate in nearly a decade.
- Meanwhile, professional forecasters appear less convinced that short-term price pressures will be anything more than temporary. According to the WSJ Economic Forecasting Survey, when economists were asked in April 2020 what they thought inflation would be at the end of 2022, the average response was 2.34%. When the same group of economists was again asked for an updated end of 2022 projection this past April, the average response was just 2.27%.

4. CONSTRUCTION LABOR

- Through April 2021, there are 7.5M US workers employed in construction jobs– down from 7.6M measured just before the pandemic. The construction industry has regained more lost jobs than the US economy on average. The construction industry is only down from peak employment by 2.6% compared to 5.4% for the broader US labor market.
- While the construction labor market has recovered more quickly than most other industries, it has failed to keep up with the demand for new housing. While construction labor remains down by a little less than 3% from pre-pandemic levels, the number of housing units currently under construction is up by close to

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8%. The inability of labor supply to keep pace with demand is starting to manifest into higher wages for construction workers, jumping 3.8% year-over-year through April 2021.

- According to a Chandan Economics analysis, there are currently 5.7 employed construction workers for every housing unit under construction– in line with the historical average of 5.6 workers per housing unit set between 1975 and 2005. In 2006, this ratio started to balloon as residential construction declined post-housing bubble. In 2011, the number of employed construction workers outnumbered residential units under construction more than 13-to-1. Between 2017 and 2019, the ratio had appeared to re-settle at an equilibrium near 6.5 construction workers per unit before starting to slide as housing demand ignited post-shutdown.

5. NAHB/WELLS FARGO HOUSING MARKET INDEX

- The NAHB/Wells Fargo Housing Market Index (HMI) was unchanged in May, at an index reading of 83. An observation above 50 indicates market growth, while a reading below 50 indicates contraction.
- The HMI fell to an index reading of 30 in April 2020 before climbing again during the late Spring last year. The HMI returned to its pre-pandemic peak by July and reached as high as 90 in November. In the months since, it has receded from its peak but has not moved lower than 82.
- Unlike many other housing metrics that are analyzed under the lens of annual change, the HMI allows us to analyze housing market activity without base effects, which have made recent year-over-year data appear inflated. The recent sustained highs of the HMI indicate robust housing market growth irrespective of base effects.

6. PERMITS, STARTS, AND COMPLETIONS

- Newly authorized housing permits ticked up to a seasonally adjusted annualized rate of 1.76M units in April, jumping by just 5K units from the previous month. Base effects from the economic trough in April of 2020 led this month's year-over-year increase to appear ballooned, growing at a 60.9% annual rate. Instead, compared to February 2020 levels, the last month of pre-covid data, annualized permits are up by a still encouraging 19.1%. The last time that residential permits sat as high as they do now was pre-GFC in 2006.
- Privately-owned housing starts were at a seasonally adjusted annual rate of 1.57M in April, 9.5% above the revised March reading. Comparing April's reading to February 2020 to avoid last year's base effects, annualized starts remain down by 1.3% from where they were pre-COVID. Moreover, starts fell by 9.5% from the month prior, though they remain up by 8.4% from where they were two months ago.
- Taking the permitting and housing starts data together reflects the time lag involved in the construction process and signals that it will be some time before a wave of new supply catches up to higher demand.
- Housing completions experienced a slight downtick in April, coming in at an annualized rate of 1.45M units, a 4.4% decrease from the previous month. As construction sites were generally deemed essential businesses

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last year, they didn't see the same drop-off in totals. Completions are up 21.7% from a year earlier and 12.0% compared to February 2020.

7. NEW & EXISTING HOME SALES

- New home sales fell by 6.0% in April from the previous month, charting a seasonally adjusted annual rate of 863K units.
- Existing home sales fell by 2.7% month-over-month to a seasonally adjusted annual rate of 5.85M units in April, according to the National Association of Realtors. April marks the third consecutive month of decline for existing-home sales– a sign that existing supply is not meeting demand.
- Sales of new and existing homes remain up by 48.3% and 33.9% from April 2020, respectively, indicating that homebuying demand remains high. However, tight supply is limiting transaction volume.
- The median sales price of a new home stood at $372,400, a 20% increase from April 2020. Meanwhile, existing-home sales prices increased by 19.1% year-over-year to a record high of $341,600.

8. MORTGAGE DELINQUENCIES (MBA)

- Mortgage delinquencies declined by 35 basis points to a seasonally adjusted 6.38% during the first quarter of 2021, according to the Mortgage Bankers Association's latest report. The rate, which survey's loans on one-to-four-unit residential properties, remains up by 2.02% from Q1 2020. Improving economic fundamentals during Q1, including a rebounding job market and additional fiscal stimulus, helped borrowers stay afloat.
- Delinquencies peaked in Q2 2020, reaching a high of 8.22% but have fallen steadily in the three quarters since. Early-stage delinquencies, which combine mortgages that are past due by 30-days and 60-days, fell to their lowest level since the survey began in 1979, signaling that there is very little new distress in the housing market.

9. MORTGAGE APPLICATIONS

- According to the Mortgage Bankers Association (MBA), mortgage applications during the week ending May 14th increased by a seasonally adjusted 1.2% from the week prior. While applications have risen in recent weeks, they remain below levels reported during late March and early April 2021.
- The Refinance sub-index increased by 4% from the previous week, while the Purchase sub-index dropped by 4% over this period.
- Refinances accounted for 63.3% of total mortgage applications during the week, a 2% rise from the previous week. FHA loans accounted for 9.2% of all applications, dropping seven basis points from the previous week,

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while adjustable-rate mortgages increased to 3.9% of applications, dropping seven basis points from the previous week, while adjustable-rate mortgages increased to 3.9% of applications.

10. REDBOOK INDEX

- According to the Redbook index, a sales-weighted indicator of same-store retail activity conducted by Redbook Research Inc., retail sales climbed 12.6% year-over-year as of May 18th, decreasing 90 basis points from the comparative week in March.
- Despite the decrease, the index, which is calculated weekly, has risen steadily since the depths of the economic recession last-Spring. Retail sales were in contraction from mid-April 2020 through the end of August before returning to growth. The base effects from the 2020 contraction will likely continue to elevate year-over-year growth in the coming months. However, absent those effects, retail sales appear to be on track with pre-pandemic growth rates.

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