

Dutta's Economic Daily

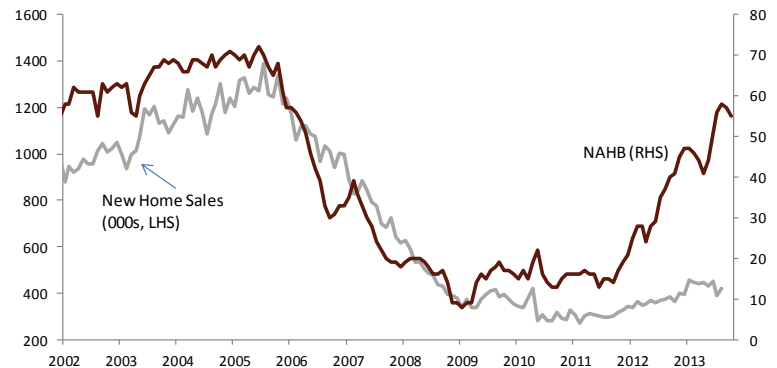
Housing data soft; Beige Book good

Thursday, October 17, 2013

Builder sentiment down but not out

- The NAHB Housing Market Index declined for the second month in a row to a four-month low of 55 in October from 57 in September. The NAHB works like an ISM for the housing market; an index level above 50 indicates more respondents indicating conditions as “good” than “poor”. So, builders remain generally upbeat about conditions in the real estate market despite the dramatic back-up in mortgage rates and recent “political uncertainty” in Washington.
- The components mirrored the headline. Present sales softened to 58 from 60; future sales dropped to 62 from 64; and, buyer traffic sagged to 44. As the nearby chart attests, the level of builder sentiment points to ongoing upside to new home sales.

Builder sentiment running well ahead of sales



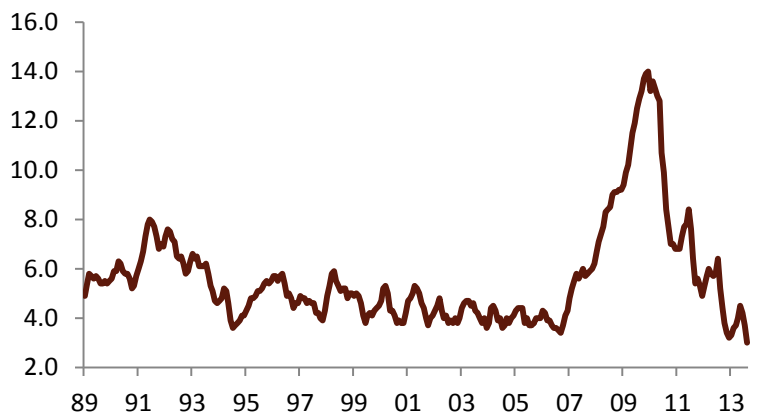
Source: Census Bureau, National Association of Home Builders

New home sales have room to gain share

- Homebuilder stocks have been underperforming since May, but we see underlying conditions improving. The main tailwind? Conditions in the existing market continue to normalize. Indeed, as of August, distressed sales accounted for just 12% of total existing home purchases. With distressed sales declining, prices for existing homes are rising relative to prices for new homes, putting builders at less of a price disadvantage.
- Meanwhile, conditions in the new housing market remain tight. Indeed, the median number of months a new home is for sale after completion is at a record low of 3 months. In our view, two things will happen: builders lower prices and/or provide incentives to prospective buyers and builders construction more homes. We suspect the increase in volume will overwhelm the price concessions, leading builders with a more sustainable revenue stream.

Completed homes not collecting much dust

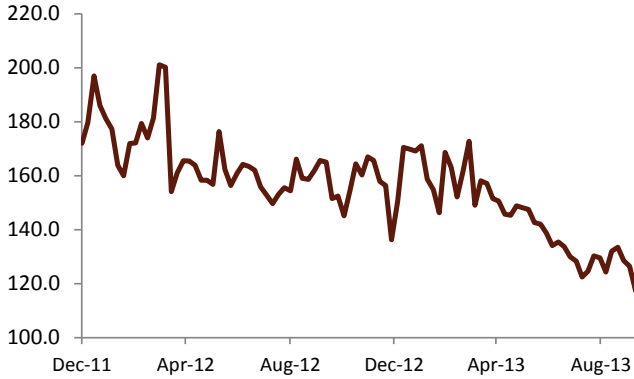
Median number of months for sales since completion



Source: Census Bureau

Shutdown weighing on purchase applications

Government mortgage loans for purchase (1990 = 100)

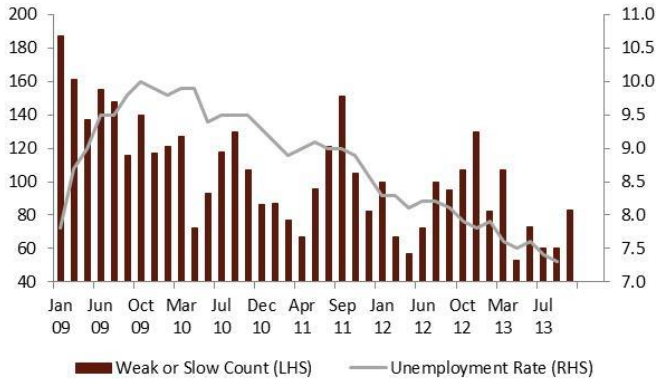


Source: Mortgage Bankers Association, Renaissance Macro Research

Shutdown slows purchase applications

- Mortgage applications rose for the second week in a row, up 0.3% for the week ending October 11 after a 1.3% gain the week prior. The improvement was exclusively in refinancing applications, which continue to bounce off their recent lows. Purchase applications continue to sag, falling 4.8%, down three weeks in a row, and off 1.2% against last year. There is not much more juice to be squeeze from refis – at some point, purchase applications will have to do the heaving lifting for banks.
- The government shutdown had some impact. Purchase applications for government programs, though declining for some time, dropped by more than 7% over the week to their lowest level since December 2007. The government share of purchase applications dropped to its lowest level in almost three years. Conventional purchase applications declined as well but not to the same degree.

Beige Book not too shabby all things considered



Source: Federal Reserve, Bureau of Labor Statistics

Bottomline from the Beige Book

- *“Reports from the twelve Federal Reserve Districts suggest that national economic activity continued to expand at a modest to moderate pace during the reporting period of September through early October. Eight Districts reported similar growth rates in economic activity as during the previous reporting period, while growth slowed some in the Philadelphia, Richmond, Chicago, and Kansas City Districts. Contacts across Districts generally remained cautiously optimistic in their outlook for future economic activity, although many also noted an increase in uncertainty due largely to the federal government shutdown and debt ceiling debate.”*
- Consumer spending continued to grow “modestly”. Reports indicated improvement in the travel and tourism sector, in particular. **Contacts in Richmond noted that while the government shutdown led to the closing of some tourist attractions, the closures did not result in guest cancellations. Go figure**

- While we haven't sifted through much data this month, our sense is that conditions did not really change last month. The word 'shutdown' showed up 18 times in the Beige Book. We suspect this number will fall to zero, when the next Beige Book is released on December 4th.

Shutdown is over ... data is back!

With the government shutdown likely over, the steady stream of economic data may return very soon, and like federal workers, we can start earning our pay once again. If we look back at the Government shutdown in 1995 we can use the December 1995 employment report as a benchmark for what to expect.

- The shutdown ended on Jan 6, 1996 and the report was originally scheduled to be released the prior day. Given time necessary to prepare the report it was released on Jan 19.
- The shutdown began Dec 16, 1995 shortening the collection period for the household survey (unemployment rate) by two days. As a result, the sample size was smaller than usual.
- Delay of the release actually meant that the establishment survey (NFP) had more data than usual. Survey responses for December continued to be received past the usual cut-off date for tabulation of the report.
- Revisions to the prior months were not released in the December report in order to expedite the release.

Despite the delay in the release of the Sep 2013 employment report, most of the data was collected for both the household and establishment surveys prior to the government closure. In fact, the establishment survey should have more data than usual, painting a more accurate picture of employment. For the Oct 2013 report, the household survey could be problematic, as telephone interviews should have started this week. We do not know when the interviews will take place after the government reopens or if the survey period will be shortened in order to release the report by November 1st, the scheduled release date. The data for the Oct establishment survey should

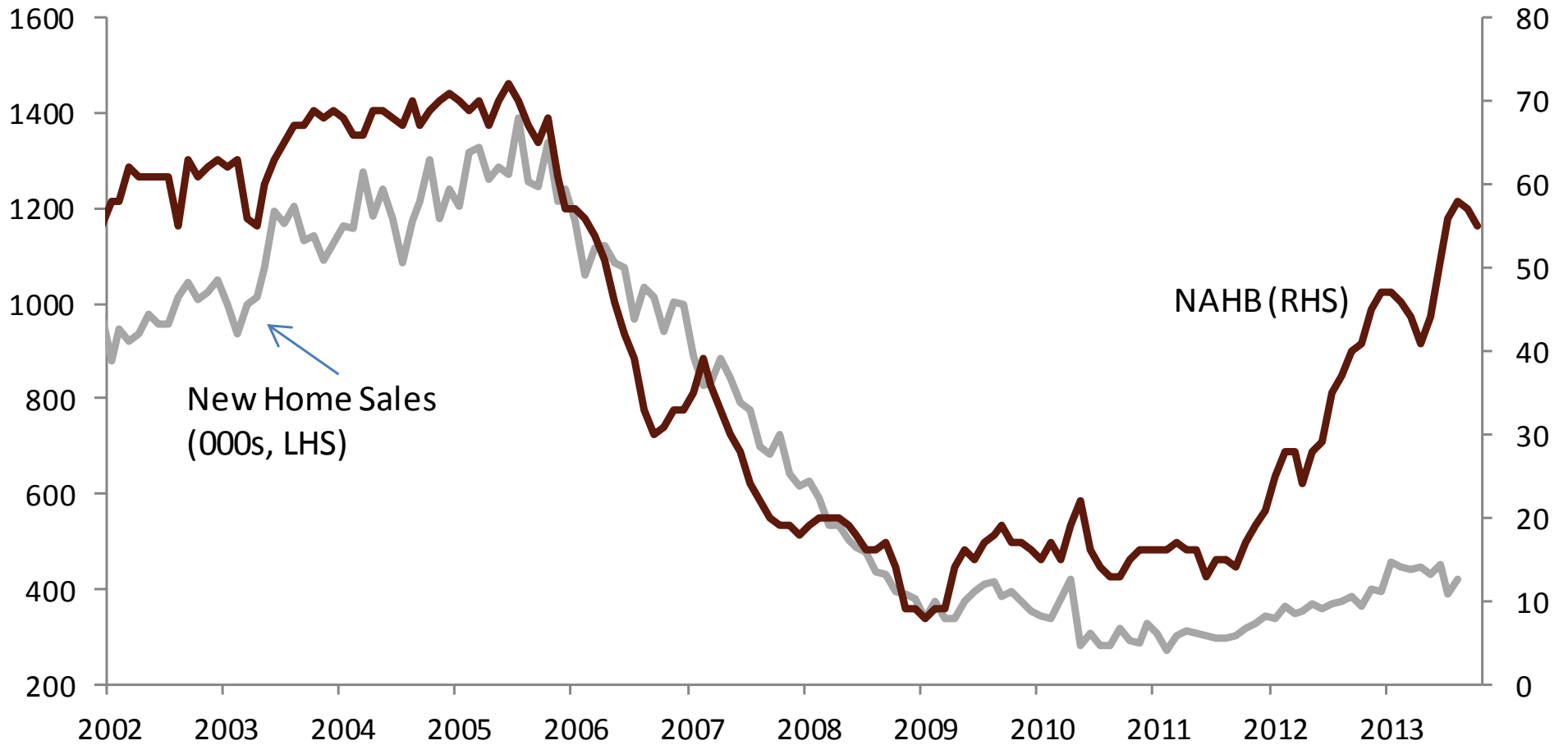
not be impacted by the shutdown – because these are submitted electronically.

In short, the September employment report should not have data issues, but the risk is that the October report's household survey, i.e. the unemployment rate, may be more volatile than usual.

Today's events

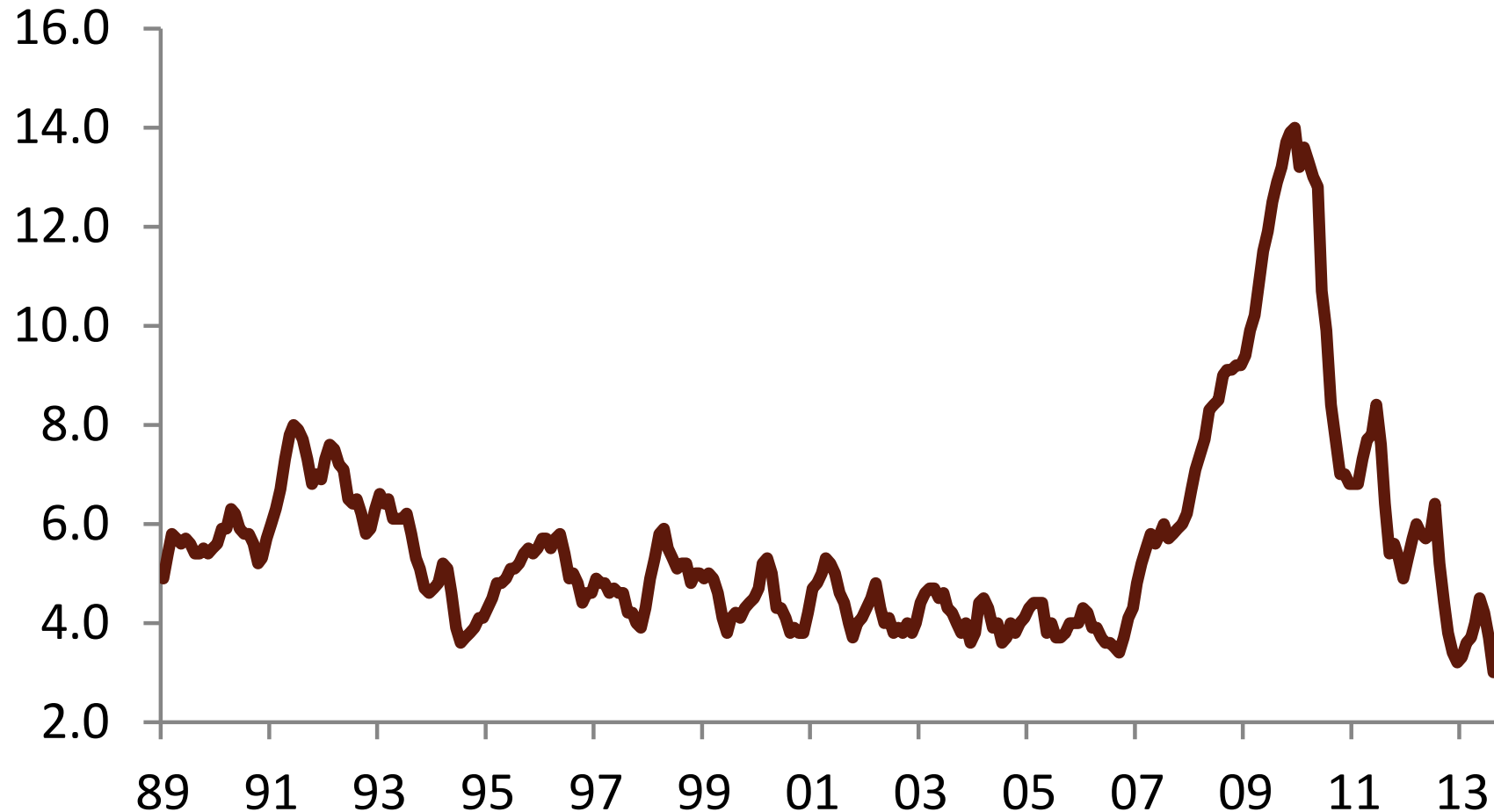
- 8:30am: Initial jobless claims
- 10:00am: Philly Fed Index (October)

Builder sentiment running well ahead of sales



Source: Census Bureau, National Association of Home Builders

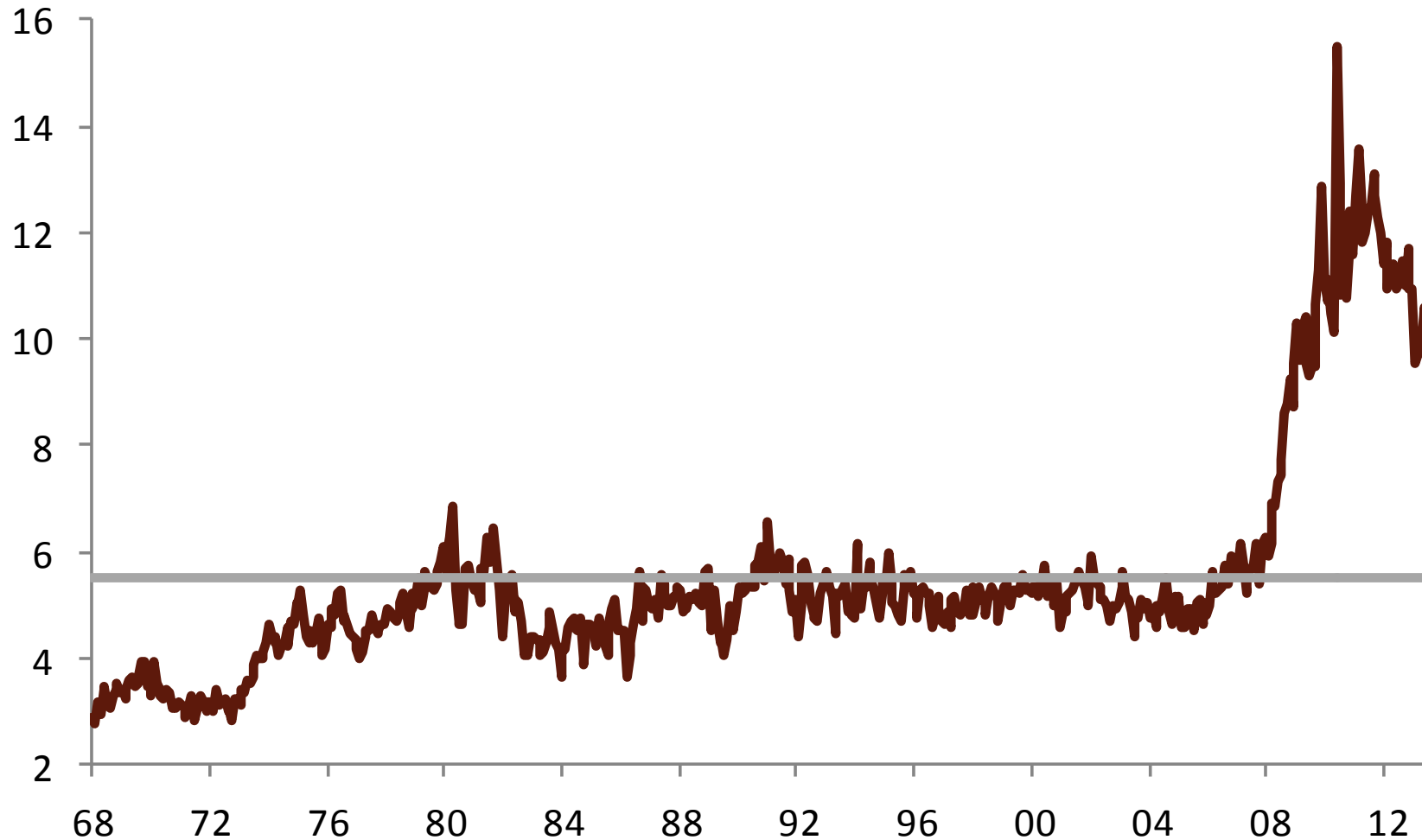
Completed homes not collecting much dust Median number of months for sales since completion



Source: Census Bureau

Plenty of room for new homes to gain market share

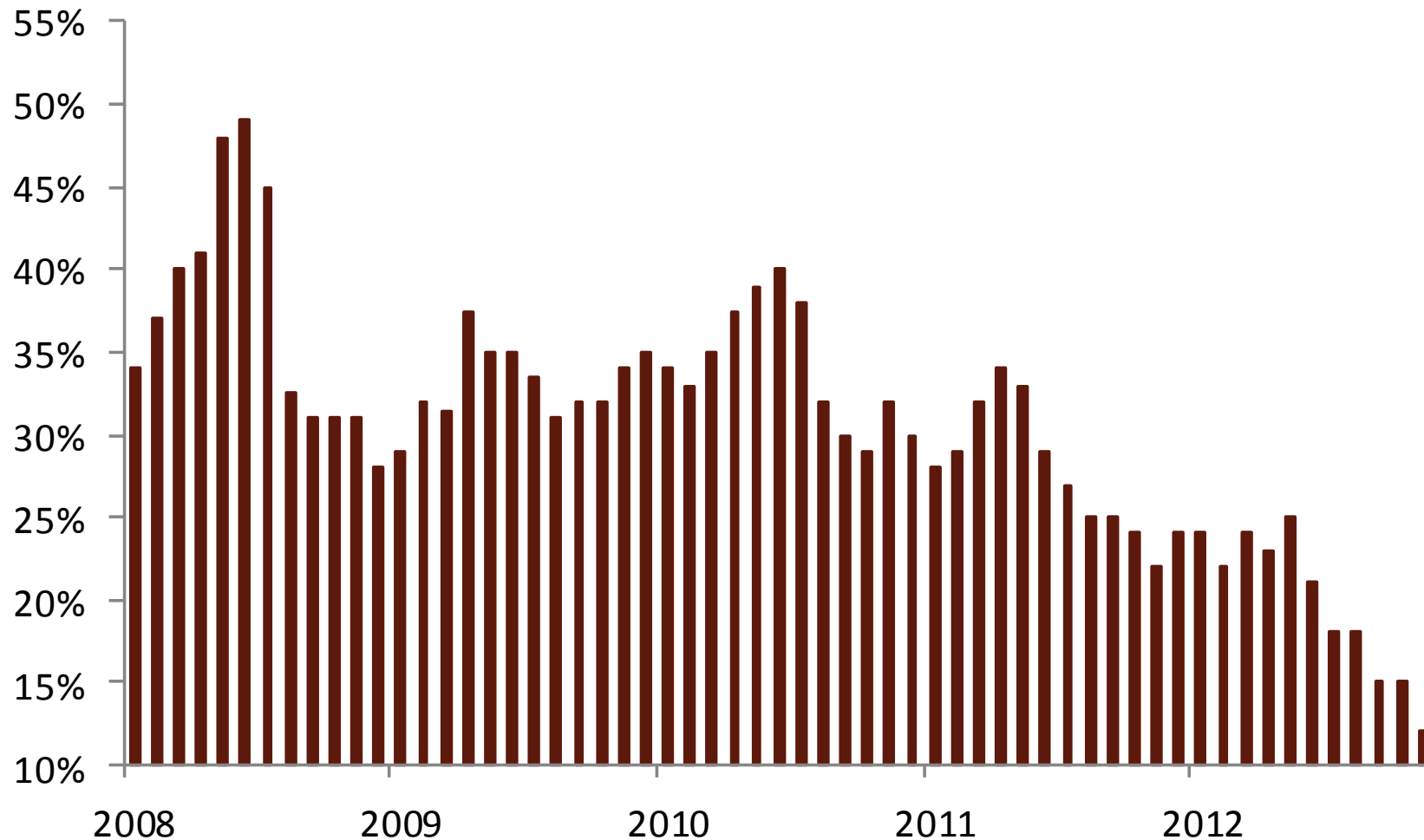
Existing home sales to new home sales (ratio)



Source: Haver Analytics, Renaissance Macro Research

Conditions in the existing market are normalizing

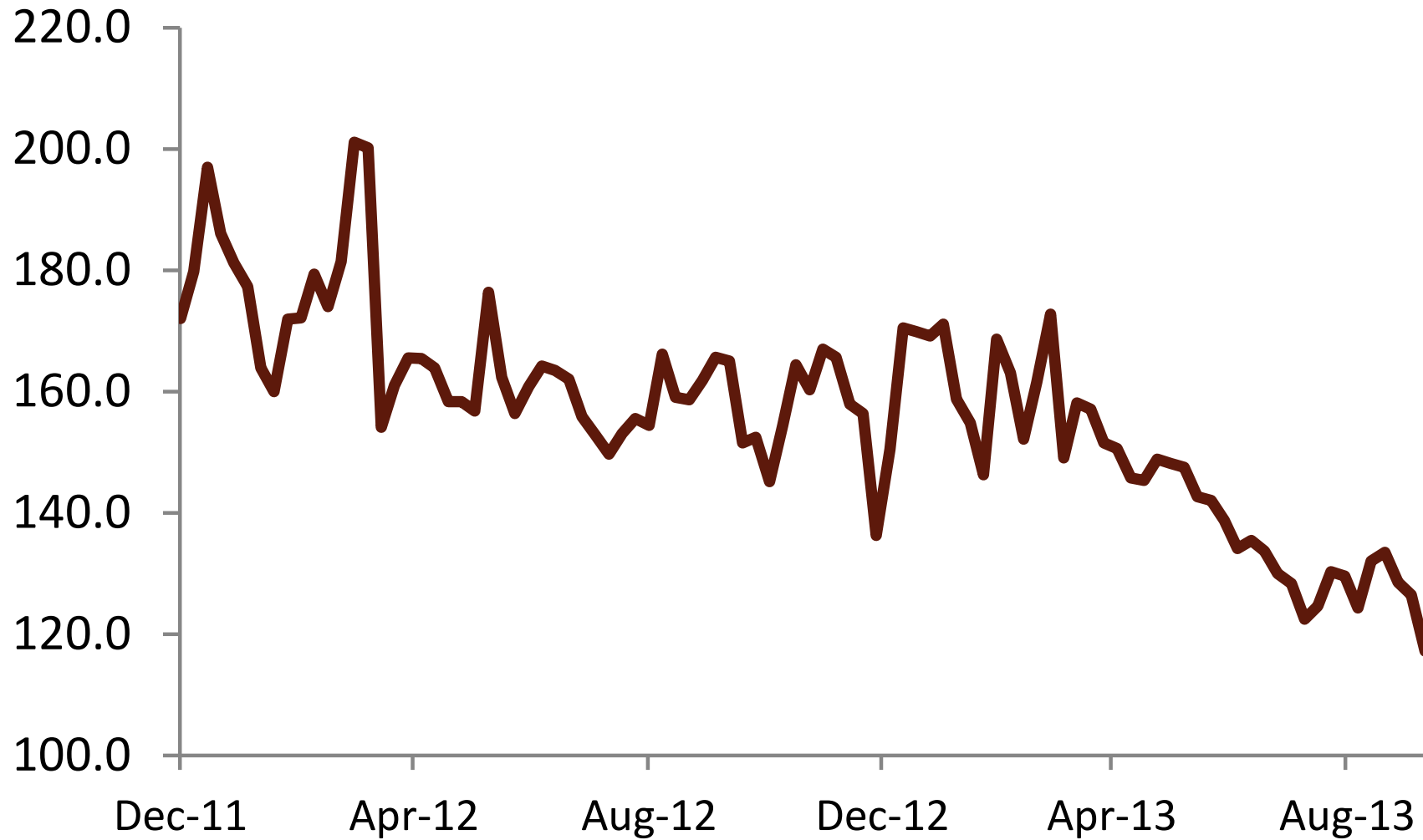
Distressed sales (% of total existing home purchases)



Source: National Association of Realtors

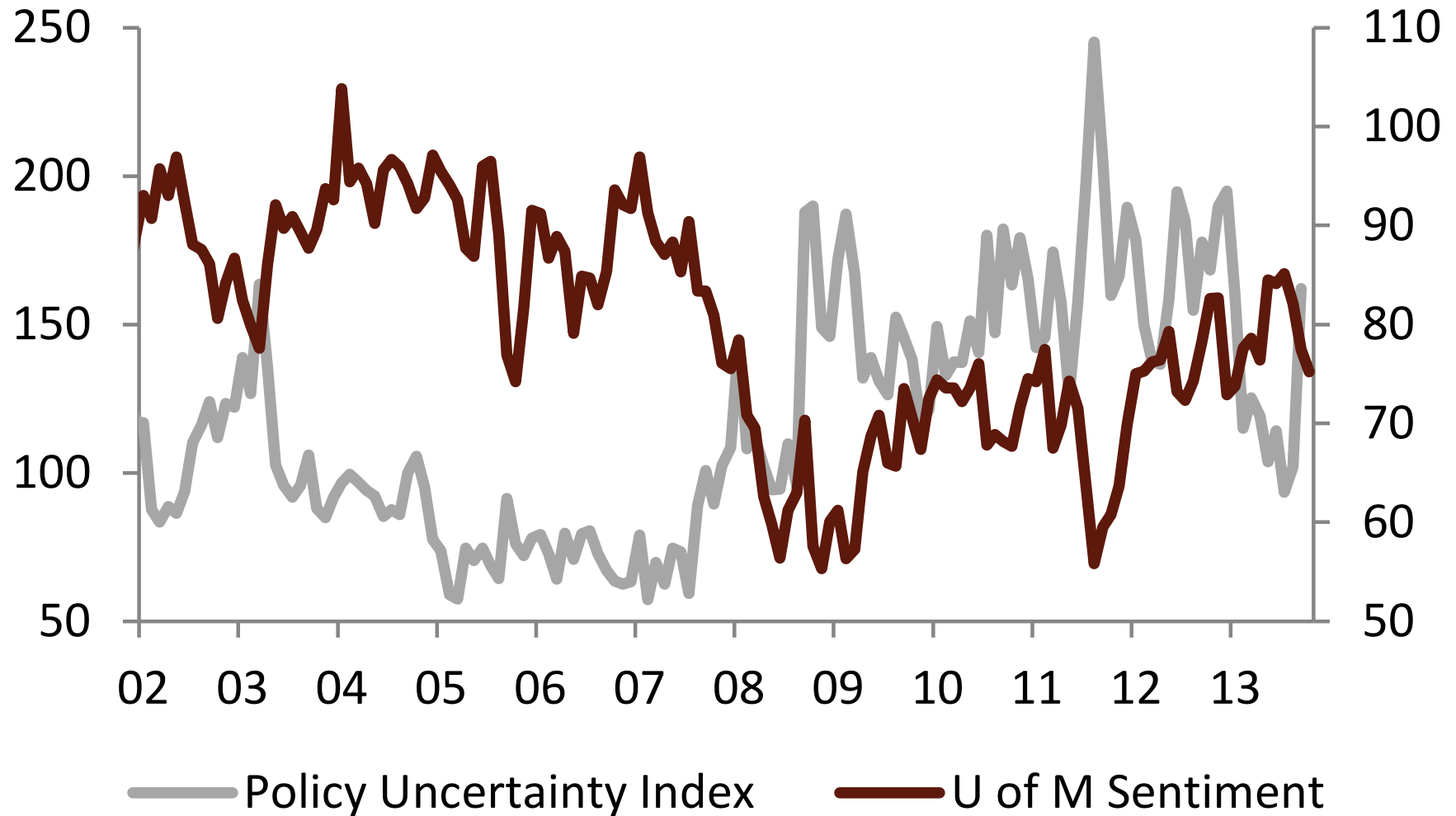
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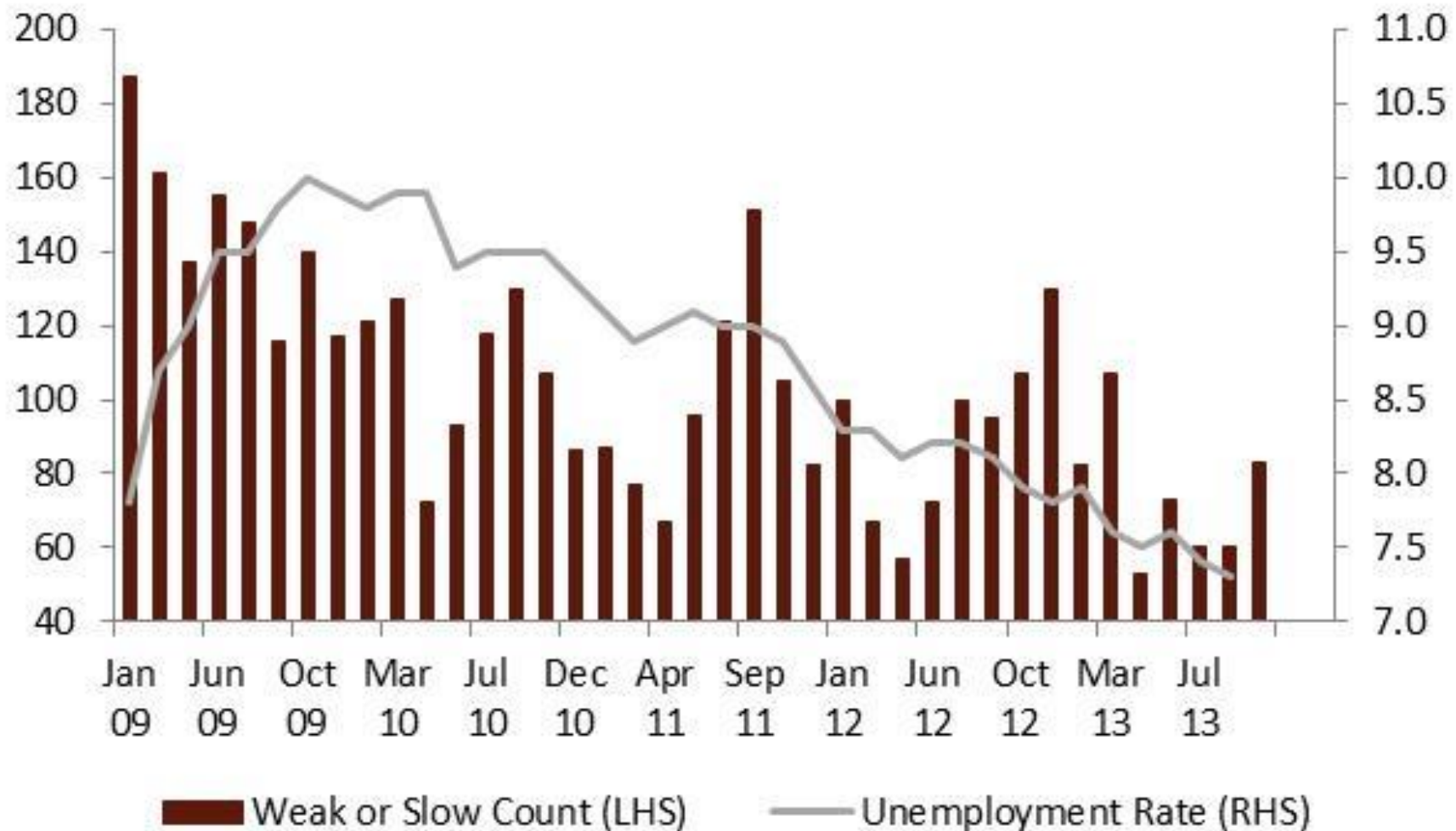
Source: Mortgage Bankers Association, Renaissance Macro Research

An inverse relationship between uncertainty and confidence



Source: Stanford University, University of Michigan

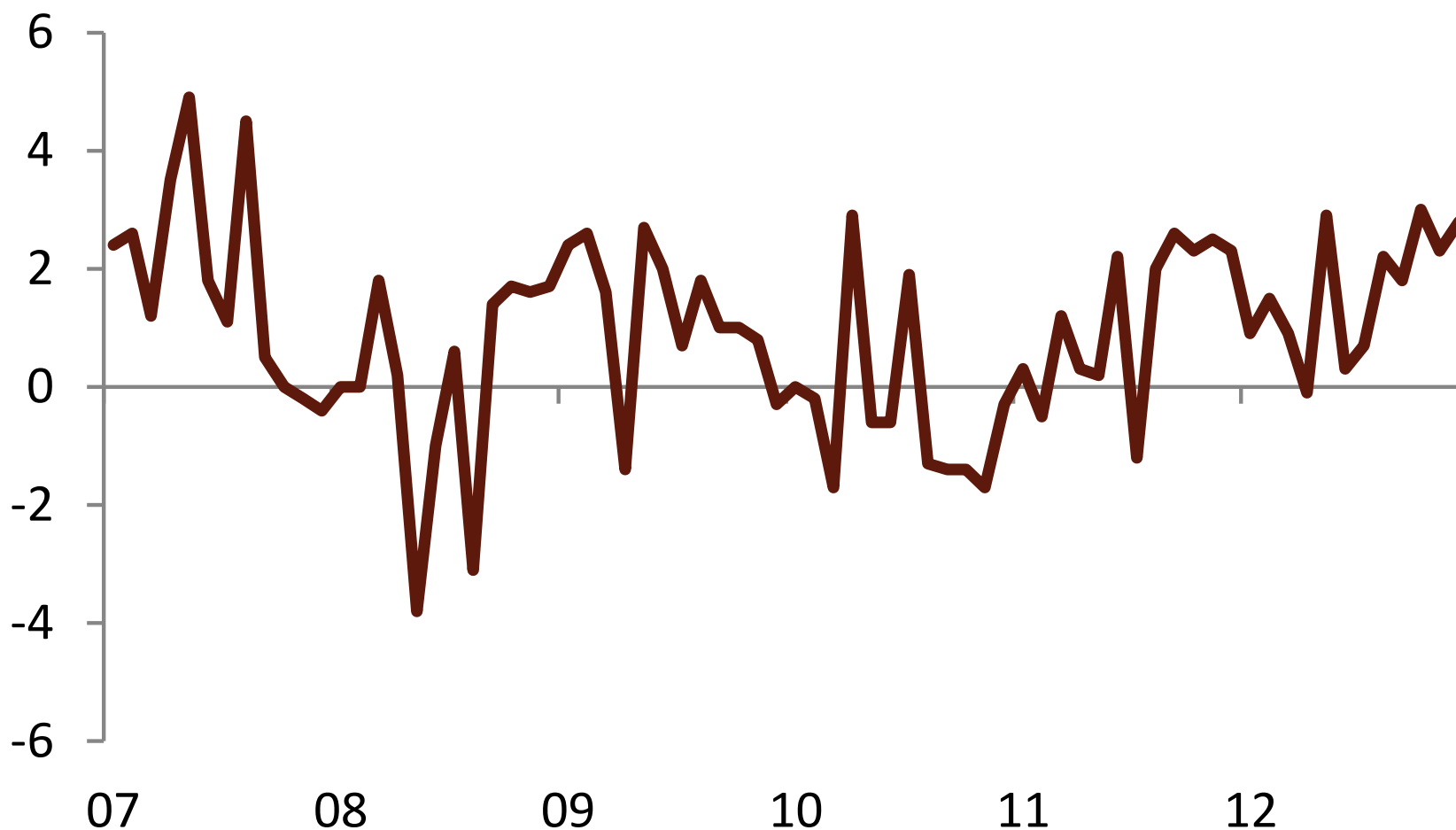
Beige Book not too shabby all things considered



Source: Federal Reserve, Bureau of Labor Statistics

More good news from the UK: More consumer spending

Retail sales excluding autos (year-over-year % change)



Source: Bloomberg, Renaissance Macro Research

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