



MORNING BRIEFING

March 29, 2018

Speed Bump for Tech

See the [collection](#) of the individual charts linked below.

(1) Assessing the tech wreck. (2) In the future, there will be more innovation. (3) Nvidia's man in a black leather jacket is bullish on the future. (4) A terrible accident won't stop self-driving cars. (5) A reasonably valued sector with some outliers. (6) Safe havens are less stormy now that the bond yield has edged lower. (7) Food fight among grocers. (8) Takeout meals delivered to your front door. (9) Fulfilling is getting more costly. (10) What's the difference between the business practices of China and the Corleones? Scale.

Information Technology Sector: Born To Innovate. The hard knocks keep coming for the S&P 500 Technology sector. Facebook has been collecting lots of its users' personal information that they didn't realize was being tracked. Meanwhile, Uber and Nvidia have pulled their autonomous vehicles off the road while investigators determine the reasons behind the deadly accident caused by an autonomous Uber car and its distracted human driver. After Jackie had a closer look at the tech wreck, we concluded that it isn't time to throw in the towel on tech.

Before giving up on the Tech sector, may we suggest watching Nvidia CEO Jensen Huang's [presentation](#) at this week's investor conference? He is the ultimate salesman, striding around the stage in his signature black leather jacket, and his presentation is the perfect reminder of why investors were so excited about tech investments last year.

He lays out what the company has accomplished and the amazing things it is focused on achieving in the future. Nvidia is designing some of the fastest chips in the world, which it expects will have enough power to work with the troves of data that will be generated by artificial intelligence and automated cars. The chips are used in computers, cloud servers, and autonomous cars.

The presentation wasn't enough to save the company's stock from losing almost 8% on Tuesday. But it should be enough to get investors thinking about when they should return to the sector. Let's have a closer look:

(1) *A tough patch.* After leading the stock market for most of 2017, the S&P 500 Tech sector has underperformed the broad index and all of the other 10 sectors in recent weeks. Here are the performance numbers by sector since the Tech sector peaked at a record high on March 12: Utilities 2.0%, Energy (-0.8), Real Estate (-1.6), Consumer Discretionary (-4.9), Industrials (-4.9), Consumer Staples (-5.1), Telecom Services (-5.1), S&P 500 (-6.1), Health Care (-6.4), Materials (-7.2), Financials (-8.0), and Tech (-8.7).

(2) *Automated cars still in the future.* Automated cars are the ultimate computing problem, according to Huang. How to collect data from cameras, radar, and Lidar, to process it all, and to instantly act upon it is, at its heart, a computing problem. And Huang's presentation suggests his company has no intention

of giving up its ambitions to solve that problem in the wake of the Uber accident.

In addition to designing chips used in automated cars, Nvidia has created the software behind virtual reality systems that can be used to test automated cars. Testing automated cars in virtual reality will be necessary because it would take far too long to drive a real car through all of the possible problematic situations a car can find itself in. Nvidia can run its virtual cars through far more scenarios much faster than possible using a real automated car. And simulations are something that Nvidia knows a lot about given its roots in the video gaming industry. The company also offers simulation programs that can test the performance of robots.

(3) *A peak into the future.* Like any good salesman, Huang finished his presentation by giving the audience a brief preview of what the future might hold. A man using a virtually reality headset and looking at a virtual world was able to drive a car in the real world that had no driver. Imagine the impact that could have on carpools!

(4) *Cheaper by the day.* The S&P 500 Tech stock price index has had an amazing run since the market bottomed in 2009—rising 464.6%. However, it's also true that the sector isn't much higher than its peak during the 1999 tech bubble ([Fig. 1](#)). The sector's forward P/E of 19.1 is far below where it stood during the bubble years, but it's not significantly higher than the 14.4% forward earnings growth over the next 12 months that analysts are expecting ([Fig. 2](#) and [Fig. 3](#)).

Many tech stocks are far pricier than the sector as a whole. Amazon's shares trade at 148.5 times forward earnings per share. Here are some other tech stocks with lofty multiples: Autodesk (100.1), Netflix (97.3), Salesforce.com (53.3), Red Hat (44.4).

Nvidia shares, however, trade at 34.9 times the earnings per share analysts are forecasting for the next 12 months, and the company's earnings this fiscal year (ending January 2019) are expected to grow 36% y/y. Apple's shares have a 13.7 multiple, and Facebook's have a 20.0 P/E. When today's dour headlines fade away, we believe the amazing innovations that fostered last year's optimism about the Tech sector will recapture investors' imaginations.

Consumer Staples Sector: Less Defensive? When the going gets tough, investors typically turn to defensive stocks with high dividends to cushion the blow. But this year, after the S&P 500 peaked on January 26, these stocks also fell. Turns out, the backup in interest rates that was also occurring hurt the safe-haven names, which had been purchased in recent years for dividend yields that were attractive in a low-interest-rate environment.

Here's how the S&P 500 sectors have performed ytd through Tuesday's close: Consumer Discretionary (2.6%), Tech (1.9), S&P 500 (-2.3), Health Care (-2.7), Financials (-2.8), Industrials (-3.1), Utilities (-4.6), Materials (-6.5), Energy (-6.7), Real Estate (-7.3), Consumer Staples (-9.6), and Telecom Services (-10.2) ([Fig. 4](#)).

Tuesday's selloff was notable, however, because it seemed to change that market trend. On Tuesday, as S&P 500 tumbled nearly 46 points, the safe sectors did outperform other S&P 500 sectors. Perhaps it was a sign of investors' heightened fear or it could have been prompted by the decline in the yield on the 10-year Treasury below 2.8%.

Here's the S&P 500 performance derby for Tuesday's market: Utilities 1.5%, Telecom Services (0.5%), Real Estate (0.1), Consumer Staples (0.1), Energy (-0.9), Materials (-1.0), Health Care (-1.1), Industrials (-1.4), S&P 500 (-1.7), Consumer Discretionary (-1.9), Financials (-2.0), and Tech (-3.5).

It's important to note that the Consumer Staples sector isn't your father's (or mother's) defensive sector. As we've explained in the past, the sector is undergoing massive change thanks to Amazon and two German grocers that are expanding rapidly. Throw in the growing popularity of meal kits, and you have a sector that contains far more risk than usual. Let's take a look at some of the stormy weather in the safe harbors:

(1) *Who's expanding?* Supermarkets are facing growing competition from many new entrants. Amazon purchased Whole Foods' 500 locations. The online company has yet to tip its hand on how it plans to fold Whole Foods into its operation; however, its entrée into the physical grocery market has forced all grocers to up their game. For example, Walmart recently announced plans to add 500 FedEx Office locations in Walmart stores across the US, a 3/20 Business Insider [article](#) revealed.

Meanwhile, the German grocers are expanding rapidly. "Aldi has been operating in the U.S. since 1976 and now has more than 1,750 stores. It's spending more than \$5 billion to remodel 1,300 existing stores and build an additional 750 locations over the next five years," a 3/19 Bloomberg [article](#) reported. Another German grocer, Lidl, is entering the US market for the first time and plans to have 100 stores in the US by the middle of this year.

Research out of the University of North Carolina's (UNC) Kenan-Flagler Business School looked at six cities where there is a Lidl store and six nearby cities without one. The research—commissioned by Lidl but with UNC controlling methodology and analysis—compared the price on 49 frequently purchased food items at Lidl, Walmart, Kroger, Aldi, Publix and Food Lion, reported a 1/12 CNBC [article](#). The researchers found that: "On average, competing retailers near Lidl stores set their prices approximately 9.3 percent lower than in markets where Lidl is not present, which is more than three times as much as was typically reported in other academic work on Walmart's entry in a new market."

(2) *Meal kits for dinner.* Were traditional competition not enough, the advent of meal planning kits has upped the ante once again. Meal kits were estimated to be a \$2.2 billion business last year with an annual growth rate of 25%-30% over the next decade, a 7/3/17 *USA Today* [article](#) reported. Some grocers are fighting back by offering their own meal kits that can be picked up in store or delivered.

Delivered meal kits are problematic because they keep people out of the grocery stores. "When you're not going into the grocery store, the grocer is losing out on the opportunity to capture more impulse purchases and realizing, 'Also, we need that and that,'" Andy Levitt, CEO of Purple Carrot, a vegan meal-kit company, told *USA Today*. "You spend \$100 more than you planned to when you walked into that grocery store."

(3) *Bankruptcies in Aisle 8.* So far, the competition has taken a toll on some of the smaller, regional chains. Southeastern Grocers, parent to Winn-Dixie and Bi-Lo supermarket chains, filed for bankruptcy protection earlier this month. It plans to close 94 stores, but will continue to operate 580 under its reorganization plan.

Tops Friendly Markets, which has about 170 stores, filed for bankruptcy protection in February. The supermarket chain, which opened its first supermarket in Niagara Falls in 1962, competed with Walmart and Wegmans and is hoping to restructure its operation, an [article](#) in the *Democrat & Chronicle* reported on 2/21.

(4) *Suppliers pinched too.* Amazon's shipping costs have increased as it has jumped into the grocery business, and it's hoping its suppliers will help shoulder some of the burden. A 3/20 Bloomberg [article](#) explained: "Amazon has been willing to absorb losses of millions of dollars a year on certain products to make sure it has the items in stock and to fight a price war with Walmart Inc. and other retailers. But

those costs are becoming unsustainable as the company sells more household goods. Fulfillment expenses—the cost of storing, packing and shipping goods—surged 43 percent in 2017 to \$25 billion, outpacing revenue growth of 31 percent that year.”

The article continued: “Now, the people say, it’s shifting more of those costs onto vendors including Procter & Gamble Co. Amazon deducts the cost of moving inventory through its distribution network from what it pays suppliers for bulk orders. Now the company is seeking to significantly increase those deductions, which amount to transportation fees. P&G declined to comment.”

(5) The S&P 500 Consumer Staples stock price index has fallen 12.3% from its peak on January 26 through Tuesday’s close ([Fig. 5](#)). However, the sector’s earnings have continued to climb, so its forward multiple has shrunk to 17.6, down from a high of 21.1 in July 2016 ([Fig. 6](#)). Earnings are expected to grow by 11.7 this year and 8.5 in 2019 ([Fig. 7](#)).

The forward earnings multiple for the Food Retail industry, which has Kroger as its only constituent, has fallen to 11.2 from a recent peak of 22.7 in February 2015 ([Fig. 8](#)). Likewise, the forward multiple for the Hypermarkets & Super Centers industry (COST and WMT) has shrunk to 19.9 from 23.4 at the end of January ([Fig. 9](#)).

The forward earnings multiple for the Packaged Foods industry has also fallen, to 16.1 from 22.2 in July 2016 ([Fig. 10](#)). The exception has been the forward P/E in the Personal Products industry, which at 27.9 remains near its highest level in recent years.

China Trade I: Tech Rip-off. Earlier this week, in our [3/26](#) and [3/27 Morning Briefings](#), Melissa and I introduced our short series covering the USTR’s 215-page Section 301 [report](#) on China’s unfair trade practices. The upshot from that first part: Over the past decade, China has publicly set several well-funded and government-supported goals and strategic plans to support its global domination of technology innovation. As we discussed, China’s approach has been to gobble up foreign company assets using what the government calls the “IDAR” approach: “Introduce, Digest, Assimilate, and Re-innovate.”

Today, we discuss the USTR’s assertion that China’s technology transfer regime is unfair for US companies doing business in China. An anonymous source told investigators voluntary technology transfers take place in China like the “business transactions engaged in by the fictional gangster of the Godfather series, Vito Corleone, were voluntary. China is effectively making an offer multinationals cannot refuse.” Here we break down the related section of the USTR’s report to make it easier to digest:

(1) *Controlling interest.* Foreign investors are prohibited from doing business in certain industries in China unless they partner with a Chinese company, typically through a joint venture (JV) arrangement. Oftentimes, the “Chinese partner is the controlling shareholder.” For example, China has “long required U.S. and other foreign car makers to enter into JVs where non-Chinese ownership is capped at 50 percent.” JVs are also used as “a key mechanism for obtaining the technology needed to support the development of a domestic supply chain for Chinese-made aircraft.”

These arrangements directly support China’s IDAR initiative, because the intellectual technology property possessed by the US entity that has been introduced into China (i.e., the “I” in IDAR) is slated for digestion, assimilation, and reinvention. In many instances, as a condition of partnership, the technology is turned over to the controlling Chinese entity, a.k.a. “partner.” One anonymous expert called Chinese instructions to voluntarily hand over technology “today’s rules of the road.”

Why would US companies agree to unfair terms? Because “they must either transfer their technology to the new China-based joint venture, or they must cede the world’s fastest-growing market to foreign competitors,” according to the National Association of Manufacturers. The American Bar Association says that many big US multinationals have “sued for the misappropriation of trade secrets by JV partners, employees and others in Chinese courts,” including American Superconductor Corporation, Corning, DuPont, Eli Lilly, and General Motors.

(2) *FDI scale*. “By promoting foreign investment in certain industries while limiting or altogether prohibiting investment in others, the Chinese government uses its foreign investment regime to channel foreign investment into industries of its choosing to support policy objectives.” China’s “Foreign Investment Catalogue” (“FDI Catalogue”) is the go-to source for industries that face the most significant deal-making barriers.

The FDI Catalogue divides industries into three categories: (i) “encouraged,” (ii) “restricted,” and (iii) “prohibited.” These categories represent a scale of sorts for industries that are “subject to stricter government review and a case-by-case administrative approval process.” (See Table II.1 of the USTR report.) If an industry is not listed, it is generally considered to be “permitted.” The implicit “permitted” category represents China’s “negative list” system, “in which foreign investment in all sectors is permitted unless it is expressly included on a negative list.”

China shifts industries in and out of categories as they progress through the IDAR stages. For example, the FDI Catalogue included “manufacturing of complete automobiles” on its “encouraged” list until 2010. From 2011 to 2014, the activity was “permitted.” Once China had increased its domestic capability, the activity became “restricted” in 2015.

(3) *Unwritten rules*. According to the USTR report, when China joined the WTO in 2001, it committed “not to condition the approval of investment or importation on technology transfer.” However, sources cited in the report say that China has implicitly violated WTO rules. China has gotten away with these violations by not putting technology transfer contingencies in writing, often conducting negotiations verbally and “behind closed doors.”

Chinese pressure for technology transfer may come directly from the government or from a Chinese partner. But the pressure, while strong, is carefully veiled. During the USTR’s investigation, “certain Chinese trade associations and law firms representing Chinese interests defended China’s technology transfer regime, arguing that technology transfer decisions are products of ‘voluntary agreement’ without ‘government intervention.’ ... Further, they stated that no Chinese laws or regulations explicitly force foreign investors to transfer technology, and that the central government has instructed local governments not to require technology transfer.”

China Trade II: Surveys Say. In fairness, the USTR report’s sources are questionable. They include surveys and interviews rather than hard evidence. Purportedly, the Chinese government has been intentionally careful not to be transparent on its policies so as to avoid explicit WTO violations. In any event, several surveys were quoted in the report supporting the claims made in the section above. Here are a few highlights:

(1) *Conditional deals*. The American Chamber of Commerce (AmCham) in China’s 2018 survey of US companies showed that they would “significantly increase investment if China’s government were able to,” among other things: (i) “allow U.S. companies to enter business segments that are currently restricted,” (ii) “allow U.S. companies to increase control over their operations by reducing the need for joint ventures and local business partners,” and (iii) “reduce the need to engage in technology transfer.” Earlier, in a 2013 AmCham survey of 325 US companies in various sectors, 35% reported being

worried about “de facto technology transfer requirements as a condition for market access.” Even more respondents in advanced technology sectors, specifically 42%, shared these concerns.

(2) *Circuits crossed.* In 2017, the Department of Commerce's Bureau of Industry and Security conducted a survey of the US integrated circuit design and manufacturing industry. The results: “25 U.S. integrated circuit companies responded that they will have to form JVs with Chinese entities and transfer intellectual property to obtain or maintain access to the China market.” These 25 integrated circuted companies “accounted for more than \$25 billion in total sales” and represented more than a quarter, or 26%, of all integrated circuits made and sold in the US last year.

(3) *JVs for EU too.* US companies aren't alone in their frustrations with FDI in China. “According to a 2011 public consultation process conducted by the EU, the top barriers to investment in China included technology transfer requirements” and “JV requirements” among other things. In a survey of 1,000 companies conducted on behalf of the EU, just 12% respondents “reported they would have chosen their current JV structure in the absence of JV requirements.”

CALENDARS

US. Thurs: Jobless Claims 228k, Personal Income & Outlays 0.4%/0.2%, Headline & Core PCED 1.7%/1.5% y/y, Consumer Sentiment Index 102.0, Weekly Consumer Comfort Index, Chicago PMI 62.8, EIA Natural Gas Report. **Fri:** None. (*Wall Street Journal* estimates)

Global. Thurs: Germany Unemployment Change & Unemployment Rate -15k/5.3%, Germany CPI 0.5%/m/1.7%/y/y, UK Mortgage Approvals 66k, Canada GDP 0.1%/m/2.9%/y/y, Japan Jobless Rate 2.6%, Japan Industrial Production 5.0%/m/2.3%/y/y. **Fri:** Japan Housing Starts 912k. (DailyFX estimates)

STRATEGY INDICATORS

Stock Market Sentiment Indicators ([link](#)): Our Bull/Bear Ratio (BBR) fell below 3.00 this week for the first time since mid-September. The BBR sank for the second week from 3.50 to 2.83 over the period; ten weeks ago it was at 5.25—which was the highest reading since early April 1986. Bullish sentiment dropped to 49.5%, after rising the prior three weeks from 48.1% to 55.5%, with nearly all fleeing to the correction camp. The correction count jumped to 33.0% this week after falling from 37.5% to 27.7% the prior three weeks. Bearish sentiment climbed for the fourth week from 14.4% to 17.5% over the period, after little change the prior few weeks. The AAI Ratio fell to 53.8% last week after rebounding from 48.2% to 63.3% the prior week. Bullish sentiment fell from 36.8% to 33.2% last week, while bearish sentiment rose from 21.3% to 28.5%.

S&P 500 Earnings, Revenues & Valuation ([link](#)): Last week saw S&P 500 consensus forward revenues edge down for a second week to 0.2% below its early March record high, and but forward earnings dropped for the first time in 35 weeks to 0.2% below its record high. The 2018 and forward profit margin forecasts were steady w/w at 11.8% and 12.0%, respectively, but the 2019 profit margin edged down 0.1ppt to 13.1%. Prior to the passage of the TCJA, the forward profit margin had been steady at 11.1% since October, which was the highest since September 2015 and up from a 24-month low of 10.4% in March 2016. Forward revenue growth for the S&P 500 edged up 0.1ppt w/w to 6.1%, which is little changed from an 80-month high of 6.3% at the end of February. That reading compares to a cyclical low of 2.7% in February 2016. Forward earnings growth also edged up 0.1ppt to 16.3%, but that's down from 16.9% in late February, which had been the highest since October 2010. Still, that's up 5.2ppts from 11.1% prior to the passage of the TCJA, and 11.5ppts from the cyclical low of 4.8% in February 2016. Among the 11 sectors, five had their forward earnings growth forecast improve between

0.1-0.6ppt, and two weakened between 0.1-0.3ppt. Energy's contribution to forward growth peaked at the start of 2017. Looking at last week's results, the S&P 500 ex-Energy's forward growth was steady at 5.5% for revenues and improved 0.1ppt to 15.0% for earnings. The S&P 500 ex-Energy forward profit margin remained steady at a record high of 12.6%, which is up from 11.7% before the TCJA. The S&P 500's forward P/E dropped to 17.0 from 17.2, which compares to a 16-year high of 18.6 at the market's peak in late January and a 15-month low of 14.9 in January 2016. The S&P 500 price-to-sales ratio fell to 2.04 from 2.06, which compares to late January's record high of 2.16.

S&P 500 Sectors Earnings, Revenues & Valuation ([link](#)): Consensus forward revenues forecasts rose last week for 6/11 sectors, but forward earnings rose for only 4/11. Industrials had both measures rise, and these three had both weaken: Energy, Health Care, and Real Estate. Forward revenues and earnings are at or around record highs for 5/11 sectors: Consumer Discretionary, Consumer Staples, Health Care, Industrials, and Tech. Energy's forward revenues and earnings appear to be back on uptrends after stalling during 2016-2017, and earnings have nearly tripled from their 18-year low in April 2016. Forward P/S and P/E ratios are down from their highs for all sectors. Energy's valuations remain elevated relative to historical levels, but are normalizing now after soaring in 2016 when revenues and earnings collapsed. Energy's P/S ratio of 1.22 compares to a record high of 1.56 in May 2016, and its P/E of 19.5 is down from a record high of 57.5 then. Due to the TCJA, higher margins are expected y/y in 2018 for all but Real Estate, but the sector's earnings includes gains from property sales and typically improves as the year progresses. The post-TCJA improvements in forward profit margins are waning now; two sectors improved 0.1ppt w/w (Tech and Materials) and four edged down 0.1ppt (Energy, Financials, Health Care, and Telecom). Here's how the sectors rank based on their current forward profit margin forecasts: Information Technology (22.4%), Financials (18.3), Real Estate (16.3), Telecom (13.2), Utilities (12.1), S&P 500 (12.0), Materials (11.4), Health Care (11.1), Industrials (10.1), Consumer Discretionary (8.1), Consumer Staples (7.1), and Energy (6.2).

US ECONOMIC INDICATORS

GDP ([link](#)): Real GDP growth for Q4 was revised up to 2.9% (saar) from 2.5%, according to the third estimate, slowing slightly from gains of 3.2% and 3.1% the prior two quarters; those prior quarters represented the first time in three years that growth posted two consecutive quarters of 3.0%-plus growth. The upward revision to Q4 reflected stronger consumer spending, business investment, and inventory investment. Real consumer spending (revised to 4.0% from 3.8%, saar) accelerated at its strongest rate in three years—led by the biggest gain in goods consumption (7.8 from 7.5) since Q1-2006; services outlays (2.3 from 2.1) was double Q3's gain of 1.1%. The upward revision to goods consumption reflected stronger nondurable goods consumption (4.8 from 4.3); durable goods consumption (13.7 from 13.8) was little changed from the prior estimate—posting its best growth since Q3-2009. Real nonresidential fixed investment (6.8 from 6.6) was little changed from the prior reading, but there were major revisions within the components. Spending on structures (6.3 from 2.5) was revised up sharply for the second time from its initial estimate of 1.4%, while investment in intellectual property properties (0.8 from 2.4) was revised down considerably for the second time from the initial estimate of 4.5%; there was a negligible revision to equipment spending (11.6 from 11.8), which posted its second straight double-digit gain. Inventory investment (\$15.6 billion from \$8.0 billion, saar) was double the prior estimate, though less than half Q3's \$38.5 billion. Residential investment (12.8 from 13.0) accelerated at a brisk rate, reversing declines the prior two quarters. There wasn't much of a revision to real government spending (3.0 from 2.9), which accelerated at a 10-quarter high, with both federal (unchanged at 3.2) and state & local (2.9 from 2.7) government spending heading higher. Growth in both exports (7.0 from 7.1) and imports (14.1 from 14.0) were little changed from the prior report—with the latter double the pace of the former, subtracting from GDP growth.

Contributions to GDP Growth ([link](#)): Real consumer spending once again was the number-one

contributor to real GDP last quarter, while trade and inventory investment were drags on growth. Some details: (1) Real consumer spending accounted for 2.75ppts of real GDP growth during Q4 as goods consumption added 1.67ppts—durable (0.98ppt) and nondurable (0.69)—while services contributed 1.08ppt. (2) Nonresidential fixed investment (0.84) was the number-two contributor to growth, driven by spending on equipment (0.63); contributions from structures (0.18) and intellectual property products (0.03) were more modest. (3) Real government spending (0.51) rounded out the top three, with state & local (0.31) and federal (0.20) government spending complementing one another. (4) Residential investment (0.46) ended 2017 as it began, contributing positively to growth after subtracting from growth the prior two quarters. (5) Trade (-1.16) was the biggest negative contributor to growth during Q4, as the negative contribution from imports (-1.99) more than offset the positive one from exports (0.83). (6) Inventory investment (-0.53) also subtracted from growth last quarter—all nonfarm related.

Pending Home Sales ([link](#)): The Pending Home Sales Index (PHSI)—measuring sales contracts for existing-home purchases—snapped back in February, but rising prices and lower inventory continued to restrict activity. The PHSI rebounded 3.1% last month to 107.5, after falling to more than a three-year low in January, but sales were still 4.1% below last February's 112.1—which was the second highest reading in over a decade. NAR's Chief Economist Lawrence Yun noted, "The expanding economy and healthy job market are generating sizeable homebuyer demand, but the miniscule number of listings on the market and its adverse effect on affordability are squeezing buyers and suppressing overall activity." Regionally, sales were below year-ago levels in all regions: the Midwest (-9.5% y/y), Northeast (-5.1), West (-2.2), and South (-1.5). "Homeowners are already staying in their homes at an all-time high before selling, and any situation where they remain put even longer only exacerbates the nation's inventory crunch," said Yun. "Even if new home construction starts picking up at a faster pace this year, as expected, existing sales will fail to break out if these record low supply levels do not recover enough to meet demand."

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