



MORNING BRIEFING

October 13, 2021

Lots of Moving Parts in US Labor & Housing Markets

Check out the accompanying [chart collection](#).

(1) There are 1.25 jobs for each unemployed worker. (2) Surge in quits creates more job openings. (3) Employers hard-pressed to fill job openings. (4) Housing market cooling, but will stay warm. (5) New and existing home inventories edging up. (6) Home price appreciation may have peaked for a while. (7) Fewer “For Rent” signs. (8) Plenty of federal relief still left for renters. (9) Still good times for multifamily homebuilders. (10) Institutions buying homes to rent.

US Labor Market: Quitters. The US labor market has probably never been so dynamic or so confusing. We all know that there have been about 10 million job openings for about 8 million unemployed workers over the past few months ([Fig. 1](#)). The unemployed want to go back to work or else they would be counted as “not in the labor force.” Employers are offering them more than enough jobs, as there are 1.25 open positions for each of the unemployed ([Fig. 2](#)).

What’s going on? Part of the problem is that the labor market is so tight that a record 4.3 million workers quit their jobs during August ([Fig. 3](#)). That contributed to the 10.4 million job openings that are taking longer and longer to fill as workers have become pickier about the type of jobs and the amount of pay that they are willing to accept. And of course, not all of the quitters are looking for a new job. Some are simply dropping out of the labor force for other reasons, including retirement of course.

The hirings rate, which is the number of hirings divided by total payroll employment, has exceeded the comparable quits rate since the start of the data in 2001 ([Fig. 4](#)). This year, the quits rate has soared to record highs. The hirings are up too, but many employers are hard pressed to fill their job openings as rapidly as workers are quitting.

Here is the performance derby showing the number of job openings in the major industries during August from highest to lowest (in thousands): professional & business services (1,810), leisure & hospitality (1,709), health care & social assistance (1,538), retail trade (1,186), manufacturing (870), transportation, warehousing & utilities (537), financial activities (479), construction (344), wholesale trade (272), information services (154), and

mining & logging (36).

US Housing Market I: Home Price Appreciation Peaking. Temperatures are dropping nationwide now that we are well into the fall season. The housing market may be cooling nationwide too. That's partly because the best cure for sky-high home prices and a shortage of housing inventory may be sky-high home prices.

There are several reasons for this. Recent home price appreciation has incentivized some homeowners to list their homes to capitalize on their home equity gains, increasing the supply of available homes, which could put a lid on further price gains. Aggressive competition for homes and rising prices have discouraged would-be home buyers in search of affordable homes, weakening the intense pandemic-led demand for homes that drove prices up. Home sale closings increasingly are being derailed by buyer-commissioned appraisals listing home values at far lower than agreed-upon sale prices, the October 10 *WSJ* [reported](#).

As prices cool off, discouraged would-be home buyers are returning: "Rising inventory and moderating price conditions are bringing buyers back to the market," [said](#) Lawrence Yun, National Association of Realtors' (NAR) chief economist.

Consider the following:

(1) *Home sales.* The number of new US homes for sale ticked up during August to 378,000 units. That partly reversed an unexpected drop in new home sales during June, which continued into July ([Fig. 5](#)). New home sales currently remain well below the post-pandemic-onset peak of 993,000 units (saar) at the start of this year.

Total existing home sales and sales of existing single-family homes also ticked up in August, to 5.9 million and 5.2 million units (saar), respectively, but remained below their recent post-pandemic-onset peaks of 6.7 million and 6.0 million, respectively, during October 2020 ([Fig. 6](#)).

(2) *New and existing home prices.* The median single-family existing home price dropped from its record-high 24.5% y/y rate during May to 15.6% during August ([Fig. 7](#)). Both new and existing home prices, on a 12-month moving-average basis, rose to new record highs during August ([Fig. 8](#) and [Fig. 9](#)).

(3) *Housing inventories.* Housing inventories have been extremely tight in both the new and

existing markets. However, this might be changing. New homes for sale rose to 378,000 units (sa) during August, the ninth gain in 10 months and highest level since the end of 2008 ([Fig. 10](#)). And the ratio of new homes for sale to new homes sold, an indicator of months' supply, rose to 6.1 in August from the record low of 3.5 in October 2020 ([Fig. 11](#)). A similar dynamic is showing up in existing home inventories ([Fig. 12](#) and [Fig. 13](#)).

(4) *Traffic & contracts signed*. Meanwhile, traffic of prospective new home buyers declined from last November's record high through August ([Fig. 14](#)). Traffic edged up in September but remains well below the record pandemic-induced high. Some prospective home buyers were finally able to tap into available inventory as pending home sales recovered in August, realizing significant gains after two prior months of declines ([Fig. 15](#)).

US Housing Market II: Rents Stabilizing. As a part of the Q3-2021 *Zillow Home Price Expectations Survey*, more than 100 real estate experts guessed that rents likely would stabilize where they are now despite a potential rise in vacancies. Despite the expiration of the federal eviction moratorium on July 31, the widely feared eviction cliff has not occurred, [reported](#) the *Washington Post*. Consider the following:

(1) *Vacancies*. During Q2, renter vacancy rates had fallen to just 6.2%, the lowest since Q2-2020 and a near record low ([Fig. 16](#)). The percent of households renting rather than owning a home rebounded sharply during the first half of this year ([Fig. 17](#)).

In light of the expiration of the federal eviction moratorium on July 31, vacancies are anticipated to rise in the coming months—but not enough to significantly affect prices, according to Zillow's expert survey. The Supreme Court blocked the Centers for Disease Control and Prevention's attempt to prevent evictions in areas with high Covid-19 infection rates, leaving lots of renters at risk of eviction. Following the ruling, Zillow estimated more than 485,000 eviction filings in September and October, with more than half of those likely to result in actual evictions—representing just 0.6% of the 43.9 million renters in the US.

(2) *Rental prices*. Nationally, the median monthly rent for vacant units during Q2 held at Q1's record high of over \$1,200 ([Fig. 18](#)). Tenant rent inflation in the Consumer Price Index partly recovered through August after bottoming early this year ([Fig. 19](#)).

(3) *Federal relief*. States and localities have been slow to distribute federal aid to renters in need. From January through July 31, state and local programs spent just \$5.1 billion to support the housing stability of vulnerable renters out of the \$25 billion allocated under the first round of Emergency Rental Assistance, [according](#) to the US Department of the

Treasury. The pace of support quickened in August to a total of \$7.7 billion, according to a Treasury [update](#). How many renters will be at risk of eviction in the near future could depend on how quickly the aid is distributed.

US Housing Market III: Even More Upside for Homebuilders? Construction and housing stocks have had a good year. The iShares US Home Construction [ETF](#) has risen 20.2% ytd as of Monday's close, compared to a 16.1% rise in the S&P 500. Investors slightly pulled back early this summer on concerns about rising costs, then regained confidence in July. The ETF has settled again some, remaining on higher ground for this year.

The S&P 500 Homebuilding stock price index has also performed well, with a ytd gain of 19.0%, and is at a record high for the first time since 2005. However, the price index is now below its 200-day moving average (200-dma) for the first time since May 2020 ([Fig. 20](#)). The industry's forward operating earnings per share recently hit another new high, furthering its vertical ascent ([Fig. 21](#)). But while analysts' earnings growth forecasts for 2021 have risen to 66.0% as of the September 30 week, forecasts for 2022 have moderated since earlier this year to 12.7%. The industry's forward P/E (i.e., based on the time-weighted average of consensus earnings estimates for this year and next) of 7.1 remains near the bottom of its trading range over the past five years ([Fig. 22](#)).

If demand for homes is dwindling at current price levels while labor costs are elevated, what positives are investors hanging onto? Prices for key building commodities have declined, which could bring home prices down further and thereby boost demand. In addition, it's possible that remaining supply shortages may soon end as the pandemic (hopefully) abates. Over the medium term, Melissa and I have been watching for any lasting negative outcomes for the rental market stemming from continued rising rents and/or the looming eviction cliff, but none seem to be materializing.

Dragging down the pace of residential construction overall is the slow pace of housing starts in the single-family market. But the multi-family market seems to be booming, both in terms of starts and permits ([Fig. 23](#)). That trend could escalate if more states follow California's recent ruling to overturn 100-year-old single-family zoning laws, thereby legalizing duplexes and quadplexes and making it easier to build small apartment buildings. By the way, that's all part of Biden's agenda for more affordable housing.

Over the longer term, current housing market dynamics and generational trends that we've previously discussed suggest to us that the most bullish opportunities can be found in the shares of apartment developers. Surely, they'll be building assisted living facilities for aging

seniors and affordable complexes for debt-laden millennials. Let the multifamily-unit building continue!

US Housing Market IV: Institutional Investors Buying the American Dream. Have you seen the barrage of new Zillow commercials advertising that they'll buy your home instantly for cash? Maybe not if you live up North. But down South—where both of my Millennial daughters live—iBuyers, or “instant buyers,” and other large institutional buyers are gobbling up residential real estate. That seems to be especially true in my daughter Sarah's neighborhood in suburban Raleigh, NC.

While large institutional investors such as iBuyers are cropping up in certain regions, however, they're still relatively small players in the nationwide residential real estate market. But that doesn't mean that they're not growing as a share of it. Consider the following:

(1) *Zillow*. During Q2, Zillow purchased a record 3,805 homes, more than double its Q1 total, and sold 2,086 homes, [according](#) to Vice.com. Zillow Research reported that homeowners used an iBuying service to sell more than 15,000 homes during Q2, pushing the iBuyers' overall market share to a record 1% of all US home purchases.

(2) *BlackRock*. Back in June, we [explored](#) the flak that BlackRock had taken for reportedly forcing families out of residential markets by snapping up homes and propping up prices. But the singling out of BlackRock was unwarranted, we observed, given how small a portion of the US rental housing market BlackRock represents. Specifically, BlackRock's asset funds that invest in real estate or infrastructure had a fair market value of just \$75 million in 2020—with just a piece of that invested in rental properties—compared with the \$4.5 trillion size of the US rental market. That was according to an [analysis](#) in *The American Prospect*, an independent political journal with a self-proclaimed *progressive* tilt.

(3) *Getting bigger*. But counting all institutional real estate investors broadly defined, their combined market share is significant and growing as a share of the national residential housing market. In a recent [study](#), Redfin found that Q2, 68,000 homes were purchased by investors compared to around 60,000 during 2019 before the pandemic triggered a downturn. That was up from the series low (going back to 2000) of 10,000 during 2009. (See the second chart in the study for a demonstration of the rising market share.)

“Investors see soaring home prices as an opportunity,” said Redfin Senior Economist Sheharyar Bokhari. “With housing values consistently on the rise, solid returns are pretty much guaranteed—especially when you're an investor who has access to extremely cheap

debt.” Bokhari continued: “Investors are also taking advantage of surging demand in the rental market. With so many Americans priced out of homeownership, investors can turn an easy profit by buying up properties and renting them out.”

Redfin broadly defined an investor “as any buyer whose name includes at least one of the following keywords: LLC, Inc, Trust, Corp, Homes” as well as any “buyer whose ownership code on a purchasing deed includes at least one of the following keywords: association, corporate trustee, company, joint venture, corporate trust.” It noted: “This data may include purchases made through family trusts for personal use.”

Calendars

US: Wed: Headline & Core CPI 0.3%/m/m/5.3%/y/y & 0.3%/m/m/4.0%/y/y, MBA Mortgage Applications, Federal Budget Balance, OPEC Monthly Report, FOMC Meeting Minutes, API Crude Oil Inventories, Brainard, Bowman. **Thurs:** Headline & Core PPI 0.6%/m/m/8.7%/y/y & 0.5%/m/m/6.7%/y/y, Initial & Continuous Jobless Claims 320k/2.675k, Natural Gas Storage, Crude Oil Inventories, IEA Monthly Report, Williams, Barkin, Bostic. (Bloomberg estimates)

Global: Wed: Eurozone Industrial Production -1.6%/m/m/4.7%/y/y, Germany CPI 4.1%/y/y, UK GDP, UK Headline & Manufacturing Industrial Production 0.2%/m/m/3.1%/y/y & 0.1%/m/m/4.1%/y/y, UK Trade Balance - £12.0b, China CPI & PPI 0.9%/10.5% y/y, Australia Employment Change & Unemployment Rate -120k/4.7%, Cunliffe, Debelle. **Thurs:** Spain CPI 1.1%/m/m/4.0%/y/y, Japan Industrial Production -3.2%, China New Loans & Social Financing \$1.22b/\$2.96b, China M2 8.2% y/y, BOE Credit Conditions Survey, Enria, Elderson, Tennreyyro. (Bloomberg estimates)

Strategy Indicators

S&P 500 Q3 Earnings Season Monitor ([link](#)): With just over 4% of S&P 500 companies finished reporting revenues and earnings for Q3-2021, revenues are beating the consensus forecast by a well-above-trend 2.1%, but earnings have exceeded estimates by a less-than-stellar 3.9%. At the same point during the Q2 season, revenues were 4.3% above forecast and earnings beat by 15.3%. For the 22 companies that have reported Q3 earnings through mid-day Tuesday, the aggregate y/y revenue and earnings growth rates and the percentage

of companies reporting a positive revenue and earnings surprise have slowed considerably from their Q2 measures. The small sample of Q3 reporters so far collectively has a y/y revenue gain of 17.0% and an earnings gain of 32.9%. Just 73% of the Q2 reporters so far has reported a positive earnings surprise, and 82% has beaten revenues forecasts. Fewer companies have reported positive y/y earnings growth in Q3 (73%) than positive y/y revenue growth (96). These figures will change markedly as more Q3-2021 results are reported in the coming weeks. With the US economy largely re-opened compared to a year earlier, we expect the y/y growth rates to ease in Q3 compared to Q2. The revenue and earnings surprises are expected to moderate as well due to missed deliveries and higher costs.

US Economic Indicators

NFIB Small Business Optimism Index ([link](#)): “Small business owners are doing their best to meet the needs of customers, but are unable to hire workers or receive the needed supplies and inventories,” said NFIB Chief Economist Bill Dunkelberg. “The outlook for economic policy is not encouraging to owners, as lawmakers shift to talks about tax increases and additional regulations.” Three standouts in September’s survey: 1) Owners expecting business conditions to improve over the next six months (-33%) dropped 5ppts in September and 21ppts the past three months to its lowest reading since December 2012. 2) Job openings (51%) hit a 48-year record high for the third successive month. 3) A record net 42% of owners reported raising compensation in September—and a record 30% plans to raise compensation over the next three months. The SBOI fell for the second time in three months, down 1 point in September and 3.4 points over the period to 99.1; only three components rose, while five fell and two were unchanged: now is a good time to expand (11%) and expected credit conditions (-4). The decline in September’s SBOI was led by plans to increase employment (to 26% from 32%) and expect economy to improve (-33 from -28), followed by capital spending plans (28 from 30), plans to increase inventories (9 from 11), and current inventory (10 from 11). Sales expectations (to 2% from -2%) led gainers, with current job openings (51 from 50) and earnings trends (-14 from -15) each up a percentage point. Meanwhile, the Uncertainty Index climbed to 74% in September, up from 69% in August though still considerably below last October’s recent peak of 98%.

JOLTS ([link](#)): August saw job openings—which had been soaring in prior months—retreat for the first time this year as well as a record-high number of people quit their jobs. Specifically, job openings sank 659,000 in August to 10.4 million after soaring the first

seven months of this year (by 4.3 million) to a record-high 11.1 million in July. Job openings fell in several industries in August, with the most notable decreases occurring in health care & social assistance (-224,000), accommodation & food services (-178,000), and state & local government education (-124,000). Here's a look at the industries posting the biggest ytd increases in job openings: accommodations & food services (809,000), followed by retail trade (422,000), manufacturing (391,000), health care & social assistance (351,000), professional & business services (332,000) and transportation, warehousing & utilities (260,000) Turning to quits, this measure is generally voluntary separations initiated by the employee and therefore can be viewed as the workers' willingness or ability to leave jobs. The number of quits climbed for the sixth time this year, by 242,000 m/m and 863,000 ytd, to a record-high 4.3 million. Most of August's increase occurred in sectors that involve close contact with the public—with recent Covid fears likely playing a role. Another factor boosting the quit rate (which is at a record-high 2.9%) is that employers are raising wages and incentives amid a severe labor shortage, which gives confidence that they can get better pay elsewhere.

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