Financial Markets This Week

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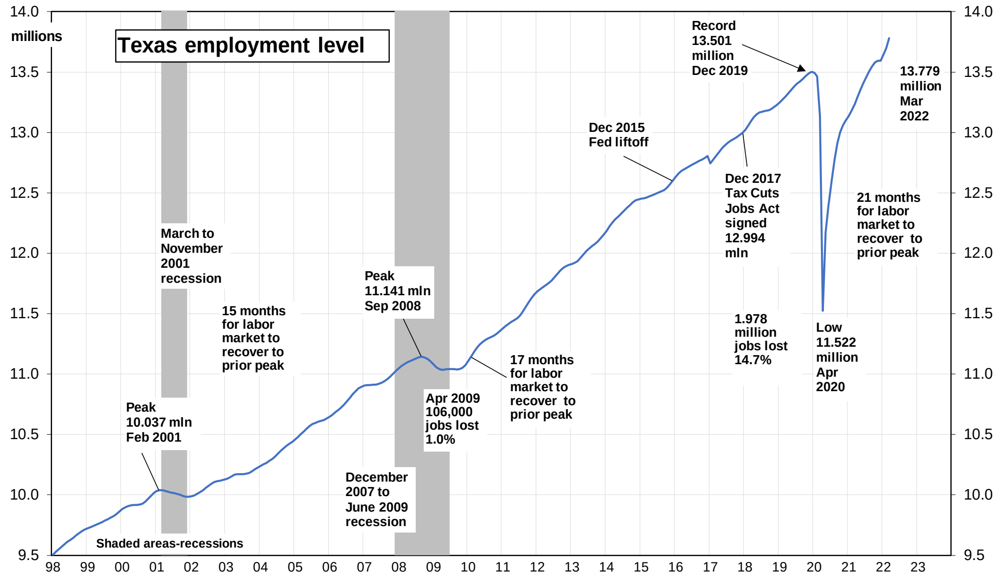
EVERYTHING'S BIGGER IN TEXAS



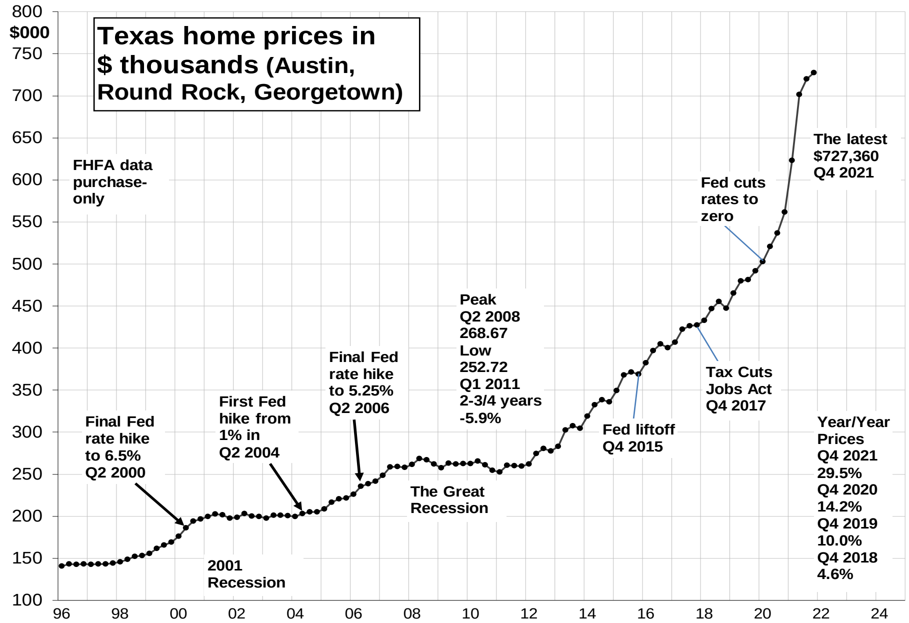
Not quite. Or not yet. In March there were 13.207 million payroll jobs in Texas which is second best of the states in the nation to California's 17.396 million. California payroll jobs growth had slowed in 2018-19 before the pandemic, when Texas jobs were multiplying like jack rabbits. Texas payroll jobs growth had its own slowdown in 2015-16 related to the 2014 oil crash and manufacturing recession. Texas employment as opposed to the payroll jobs measure is graphed here and after declining 14.7% in the first days of the 2020 pandemic, employment had fully recovered 21 months later. In the prior 2007-08 recession Texas employment only fell 1.0% and had fully recovered 17 months later; employment nationwide fell 5.8% and took over six years to get back to square one. Everything's better in Texas too if you are job hunting.

Texas Labor Market Trends

Thousands	Jan 2020	Mar 2022	Change	% Chg
Employment	13,494	13,779	285	2.1
Unemployed	480	634	154	--
Rate	3.4	4.4	1.0	
Payroll employment	12,953	13,207	254	2.0
Mining/Logging	234.0	201.0	-33.0	-14.1
Construction	781.0	765.0	-16.0	-2.0
Manufacturing	910.0	902.0	-8.0	-0.9
Trade/Trans/Utilities	2,528.0	2,661.0	133.0	5.3
Information	212.0	222.0	10.0	4.7
Financial activities	815.0	878.0	63.0	7.7
Professional/Business	1,830.0	1,986.0	156.0	8.5
Education/Health	1,774.0	1,775.0	1.0	0.1
Leisure/Hospitality	1,416.0	1,402.0	-14.0	-1.0
Other services	451.0	437.0	-14.0	-3.1
Government	1,996.0	1,974.0	-22.0	-1.1

Payroll employment is up 2.0% from January 2020, before the pandemic, which is a period slightly longer than two years so the annual growth is quite slow, but at least the losses have been erased. Not for all of course with Mining/Logging jobs down 14.1% even with the recovery in WTI crude oil prices. Construction jobs down 2.0% and Other services down 3.1%. Other services are mostly Repair and maintenance, Personal and laundry services, and Membership associations and organizations. Where are the jobs? Professional/Business up 8.5% from January 2020, where Administrative and waste services (includes temp help agencies) is about half the category. Computer systems design and related services, and Management of companies and enterprises are other large job categories under

Professional/Business. Financial activities including real estate jobs are up 7.7% and Trade/Trans/Utilities (Air, Rail, Truck, Pipeline transportation, Warehousing, Couriers/Messengers), is up 5.3% from January 2020.

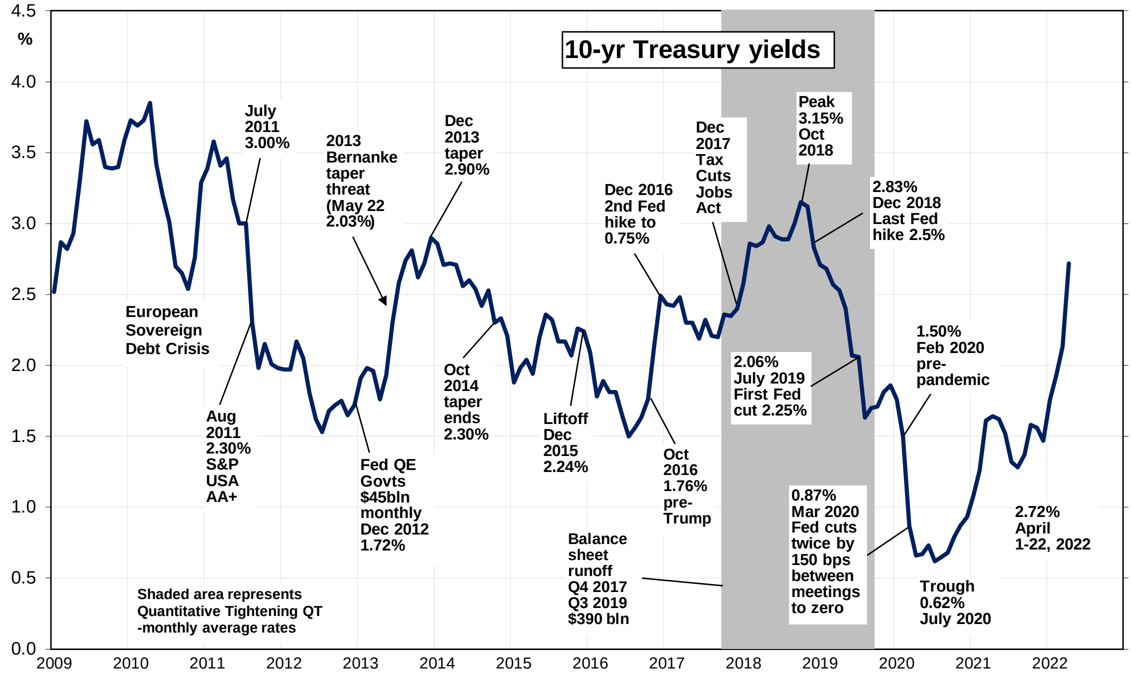


Tech jobs are big in Texas. Information jobs in the table above include Telecommunications jobs and also jobs in Data processing, hosting and related services. Computer systems design and related services jobs were in the Professional/Business category. Austin is a popular destination for tech companies. Tesla chose Austin for its factory in July 2020. The Austin Chamber has a list of major employers that is too long to summarize. The Austin metro area had a population of 2.295 million in 2020… and they are all buying homes. The 2004-06 housing bubble centered around the subprime lending crisis in California. Maybe the new housing price bubble is bigger this time down in Texas. The housing bubble this time is exacerbated by shortages from the lack of building over the last decade. The next time Tesla builds a new factory, buy a single-family home in that community. Since Q2 2020, Austin area home prices are up 39.7%... and still they come. Since the early 1990s, home prices in Austin are up the most out of the 100 largest metro areas although Salt Lake City, Utah just missed the crown. No one else comes close.

Supply of housing is often said to be part of the reason for the new housing price bubble, either boomers aren't leaving (where would they go?) or not enough new homes have been constructed. Single-family home construction is bigger in Texas than in California at least. Texas single-family housing permits were 176,318 in 2021 against 13.207 million payroll workers in March 2022. California single-family housing permits were only 64,500 in 2021 against 17.396 million payroll workers; elected officials in California are very concerned about the housing crisis in the state where new construction is held back by regulations and the lack of land. There's still plenty of land in Texas and its diverse economy recovers faster from recessions than other states. Better move quick.

Housing Permits - Texas				
	Total	One Unit	5 or more Units	Number of Structures with 5 or more Units
2021	261,951	176,318	79,352	2,141
2020	230,503	158,242	67,295	2,033
2019	209,895	129,094	76,440	2,070
2018	192,878	126,048	63,053	1,764
2017	175,112	116,766	54,874	1,581
2016	165,853	106,511	55,633	1,633
2015	175,443	105,448	66,792	2,130
2014	166,982	99,701	64,103	2,190
2013	147,460	90,832	53,615	1,917
2012	135,514	79,532	53,729	1,963
2011	97,450	65,506	30,417	1,311
2010	88,461	66,973	19,741	1,134
2009	84,440	67,069	15,837	773
2008	129,523	79,626	46,918	1,901
2007	176,992	118,455	53,196	2,398
2006	216,642	162,750	47,271	2,151
2005	210,611	166,178	38,671	2,170
2004	188,842	149,056	33,030	1,893

INTEREST RATES



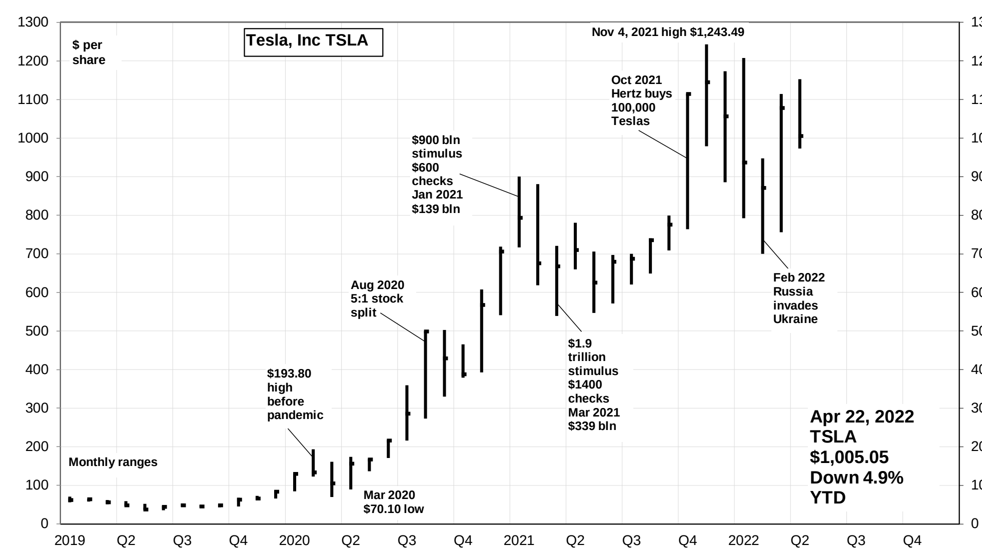
QT was about $200 billion a year 2017-19. Fed talking $720 billion QT this time to be announced as early as May 4.

Short-term yields got a boost this week, starting Tuesday after Bullard's 75 bps rate hike comment. It did not matter that there was less "Yes" standing behind these news story quotes or not. Reinforcing the trend here, 2-year yields in Europe got a boost on Thursday starting 230am ET with an interview from ECB Vice-President Luis de Guindos saying a rate hike in July was possible. August Fed funds futures now discount three 50 bps rate hikes at the next three Fed meetings. 2-year Treasury yields reached a new high of 2.72% even before Powell spoke Thursday afternoon. Yields at the close of last week before Good Friday had closed at 2.45%. S&P 2.8% collapse Friday didn't turn yields down.

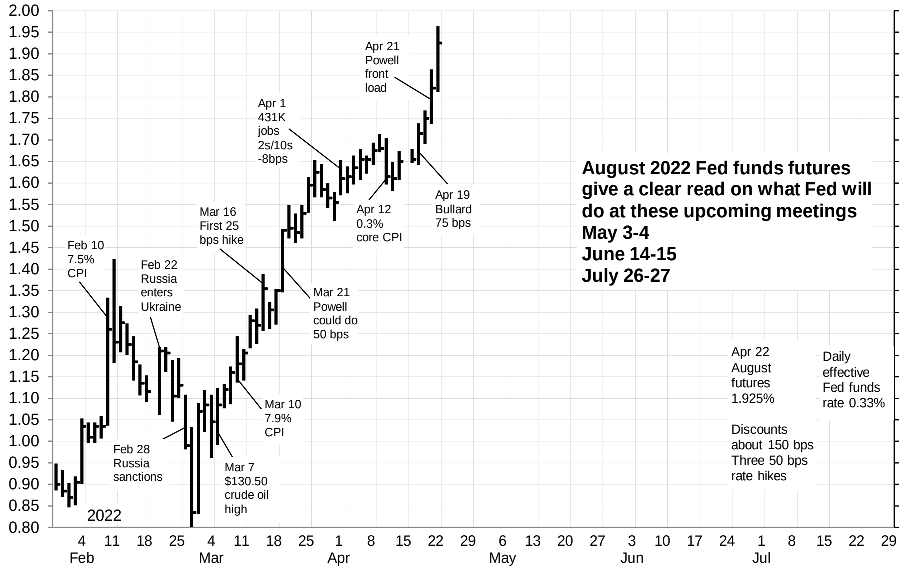
Tesla, Inc. down on year with better earnings this week

Tesla jumped after its earnings Wednesday after the close with the stock up as much as 11.8% to $1,092.22 at Thursday's opening. The cars are sold out, but it has still been a wild ride for investors with the stock down as much as 43.7% from the record high last November at the worst point in February this year after Russia invaded Ukraine. The PE ratio is over 200. Model 3/Y deliveries were 295,324 in Q1 2022. "Over a multi-year horizon, we expect to achieve 50% average annual growth."

Mln $	Revenue	Operating Income	Model 3/Y Deliveries
Q1 2020	5,985	283	76,266
Q2 2020	6,036	327	80,277
Q3 2020	8,771	809	124,318
Q4 2020	10,744	575	161,701
Q1 2021	10,389	594	182,847
Q2 2021	11,958	1,312	199,409
Q3 2021	13,757	2,004	232,102
Q4 2021	17,719	2,613	296,884
Q1 2022	18,756	3,603	295,324



FEDERAL RESERVE POLICY



The Fed meets on May 3-4, 2022 to consider its monetary policy. A 50 bps rate hike is expected. The market has been expecting about 125 bps of rate hikes over the next three Fed meetings for a while: front-loaded with two 50s, followed by a 25 bps move at the end of July perhaps. That would put the Fed funds rate at 1.75%. 25 bps moves at the remaining three meetings of the year would then give us a Fed funds rate of 2.5% in December 2022 if it doesn't wreck the economy first. This was what we had said, but now the market discounts three 50 bps rate hikes.

It is apparently not enough to talk up a series of 25 bps rate hikes at every meeting this year with a couple of 50 bps moves thrown in. Fed officials and others talk about the need to move rates higher than the 2.5% neutral rate. We don't know if they are trying to move the 10-year Treasury yield above 3% to slow the economy or not. Actually, the economy is slow already which shows little understanding of what a higher-rates monetary policy will do. The Atlanta Fed GDPNow forecast for Q1 2022 real GDP is 1.3% with the first estimate due for release on Thursday, April 28 at 830am ET. Anyway, the Fed's own forecasts look for a 2-7/8% Fed funds rate at the end of the year. Back in the last tightening cycle ending December 2018, the Fed forecasts at one point had been looking for a 3.5% Fed funds rate, so with inflation much higher this time, it seems obvious interest rates need to go much higher.

Meanwhile, Number 1 at the Fed was on an IMF panel Thursday afternoon and one of his first questions came around 1:17pm ET. August Fed funds futures yields rose all of 2 bps before retreating. What are 2 bps when 150 bps of tightening is discounted at the next three Fed meetings. Powell didn't want to comment on what the market was discounting for Fed rates in the months ahead. Although he would say he said (he would says a lot recently) that at the March meeting, there were many Fed officials who saw one or more 50 bps moves this year. He reminded us that this is not 2004-06 with steady, "measured" 25 bps rate hikes at every meeting. Inflation is much higher today so he figures the Fed could move a little more quickly and front-load its rate hikes. He said a 50 bps rate hike was on the table for the May meeting.

Memo: Projected appropriate policy path

Fed Meeting	2018	2019	2020	2021	2022	2023	2024	Longer run
Mar 22					1.9	2.8	2.8	2.4
Dec 21				0.1	0.9	1.6	2.1	2.5
Sep 21				0.1	0.3	1.0	1.8	2.5
Jun 21				0.1	0.1	0.6		2.5
Mar 21				0.1	0.1	0.1		2.5
Dec 20			0.1	0.1	0.1	0.1		2.5
Sep 20			0.1	0.1	0.1	0.1		2.5
Jun 20			0.1	0.1	0.1			2.5
Mar 20	No meeting: 150 bps rate cuts between Jan and Mar (scheduled)							
Dec 19		1.6	1.6	1.9	2.1			2.5
Sep 19		1.9	1.9	2.1	2.4			2.5
Jun 19		2.4	2.1	2.4				2.5
Mar 19		2.4	2.6	2.6				2.8
Dec 18	2.4	2.9	3.1	3.1				2.8
Sep 18	2.4	3.1	3.4	3.4				3.0
Jun 18	2.4	3.1	3.4					2.9
Mar 18	2.1	2.9	3.4					2.9

OTHER ECONOMIC NEWS

Residential housing construction hasn't broken yet (Tuesday)

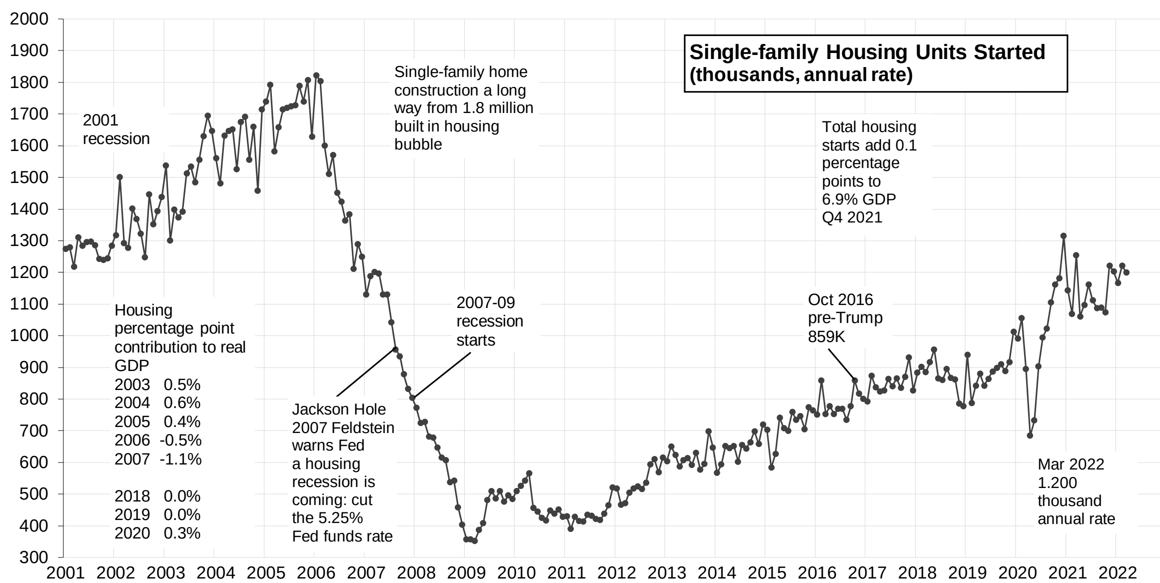
Breaking economy news. The surge in mortgage rates hasn't broken residential housing construction yet. Housing starts rose 0.3% in March to 1.793 million at an annual rate. Single-family housing starts fell 1.7% to 1.200 million at an annual rate in March. There are reports that many families looking for shelter would rather rent than buy a new home and this is what we are seeing in the data. Single-family homes started are down 4.4% the last year, while construction of 5 units or more are up 28.1%. Higher home prices may have already shut many buyers out of the market even before mortgage rates surged.

Net, net, mortgage rates are flying ever higher, but residential construction of single-family homes started this month are solid and home builders are not heading for the exits yet. At some point, housing starts will fall this year as the market is on a collision course for buyers with rising prices and higher costs of borrowing. Mortgage rates just touched 5.0% in April, so home buyers haven't been hit with sticker shock yet.

Housing Starts Total, Single-Family, Multi-Family

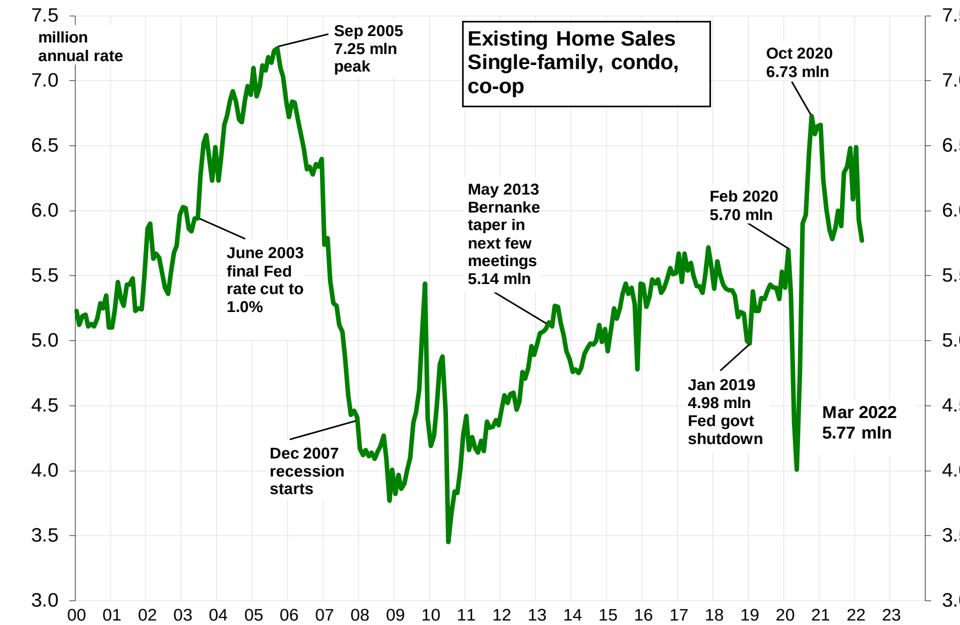
	United States			Northeast		Midwest		South		West	
000s	Total	1 unit	Multi	Total	1 unit	Total	1 unit	Total	1 unit	Total	1 unit
Mar 2022	1793	1200	574	293	64	232	168	834	672	434	296
Feb 2022	1788	1221	534	139	73	239	157	1007	690	403	301
Mar 2021	1725	1255	448	165	95	288	217	891	676	381	267
% Chgs											
Mar/Feb	0.3	-1.7	...	110.8	-12.3	-2.9	7.0	-17.2	-2.6	7.7	-1.7
Mar/Mar	3.9	-4.4	...	77.6	-32.6	-19.4	-22.6	-6.4	-0.6	13.9	10.9

Federal Reserve officials are desperate to slow the economy by raising rates and lowering the boom on interest-sensitive sectors of the economy, but today's residential housing construction report shows the market is still resilient. Sometimes we wonder if this is the first rising rates cycle that will fail to bring down construction. There are too few homes on the market after many years where not enough homes were built. The pandemic sparked some homebuilding with 1.131 million one-family homes started in 2021, but this is nowhere near the frenzied housing bubble activity over a decade ago with construction of 1.505 million in 2003, 1.604 milion in 2004, and 1.719 million in 2006. Stay tuned. It will be a miracle if the building of new homes across America can continue at its current rate this year with Fed officials painting a big bulls-eye target on the homebuilding industry's back. The Fed's inflation fight starts right here with the residential housing construction industry. Bet on it.



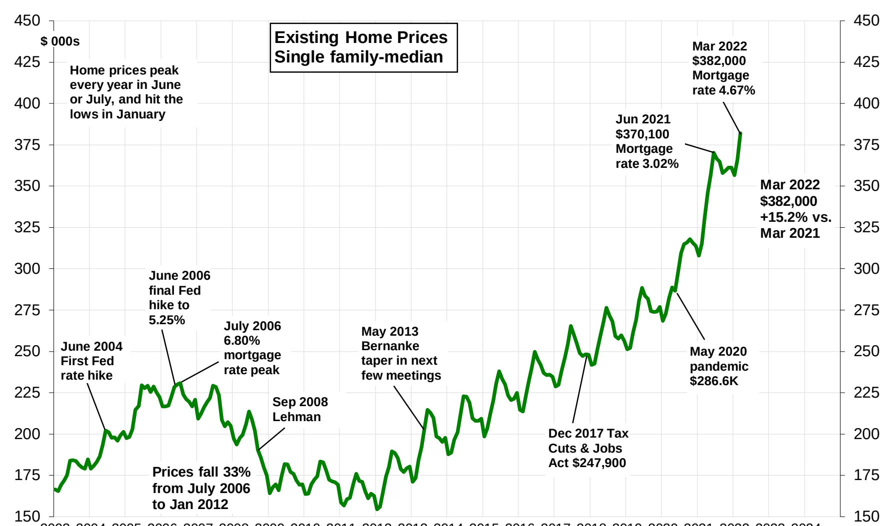
Existing home sales plummet (Wednesday)

Breaking economy news. Existing home sales fell 2.7% in March to 5.77 million at an annual rate. The jump in the number of home buyers kicking the tires on properties in the fourth quarter last year has now faded. We expect sales to diminish further as the Federal Reserve's rate hikes start to bite. To put it in perspective, existing home sales bounced during the pandemic from 5.34 million in 2019 to 5.64 million in 2020 and 6.12 million in 2021, but now home buyers facing uncertain times are less confident about making the biggest purchase of their lives.



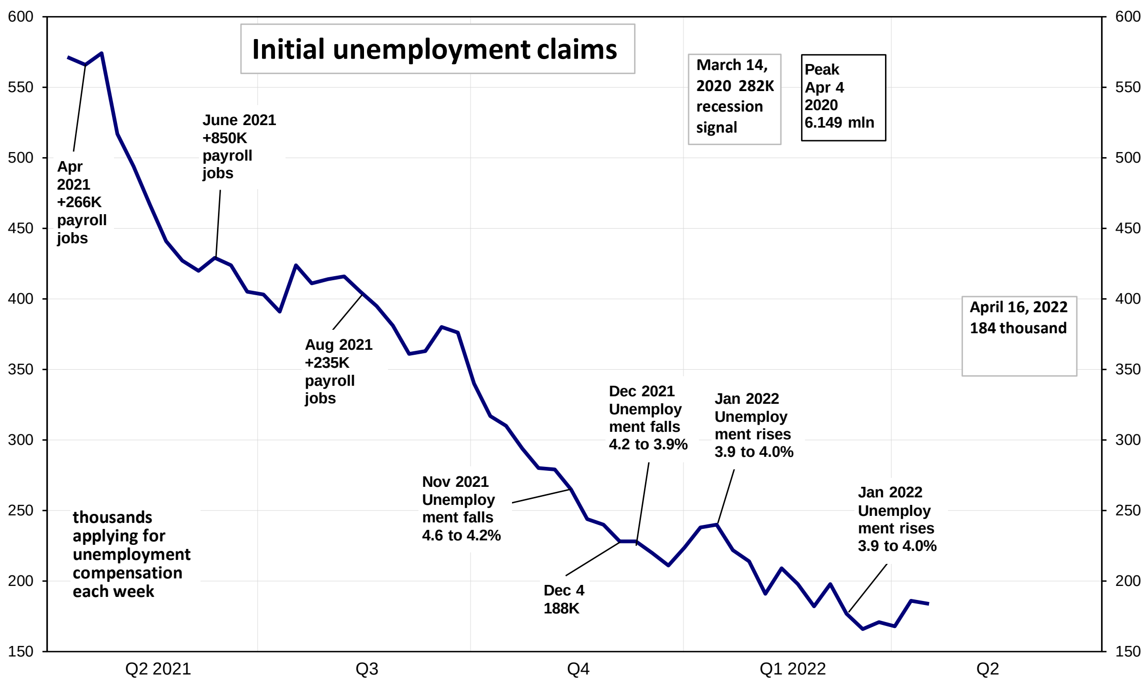
It isn't all the Federal Reserve that has stopped serving the economy's punch, the housing price bubble is still inflating and making it more costly to buy a home as well. Consumers are getting more in their paychecks, but it isn't enough to keep up with home prices. Single-family homes were $382,000 in March that is 15.2% higher than last year. If you are thinking of working from a new home in Florida or Texas, forget about it as homes in the South are up 21.1% the last year. Homes in the West are only up 3.9% the last year, but that is only because they are the most expensive in the nation at $522,500 in March.

Net, net, sales turnover of existing homes is fading fast as the sharp rise in the cost of borrowing is leading to a big reduction in home buyer traffic. This is exactly what the doctor ordered if you are a Federal Reserve official looking to brake the economy and slow demand to fight inflation, but if you are a home buyer you are getting it from both sides with rising mortgage rates and sky-high home prices that just won't stop inflating. Stay tuned. Story developing.



Jobless claims low means higher wages and more inflation for all (Thursday)

Not a lot to say about the state of the labor market with the timeliest of economic indicators of weekly unemployment claims. The labor market is still tight as a drum where companies are finding it difficult to hire new workers so they aren't letting any workers go out. The war continues over in Europe sending food and gasoline prices ever higher to unaffordable levels, and the stock market is still down on the year, but so far none of the uncertainty out there either known or unknown is leading to a reduction in demand. The Fed is ahead of the game in taking away the punch bowl for economic growth when looking at the sharp rise in market yields this year, but this has not led businesses or consumers to pull back on their spending yet. You can't have a recession without job losses, and rock bottom lows for weekly jobless claims show there are no job losses. Stay tuned. Story developing. First-time jobless claims fell 2,000 to 184,000 in the April 16 week. No recession yet. No change in the status quo with the labor supply pool nearly empty. Economic growth may eventually hit a wall without more workers for companies to hire, but not today. Meanwhile, jobless claims at near record lows mean worker wages will continue to go up and up, guaranteeing that inflation remains more persistent and at more worrisome levels for longer than Fed officials believe.



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