Financial Markets This Week

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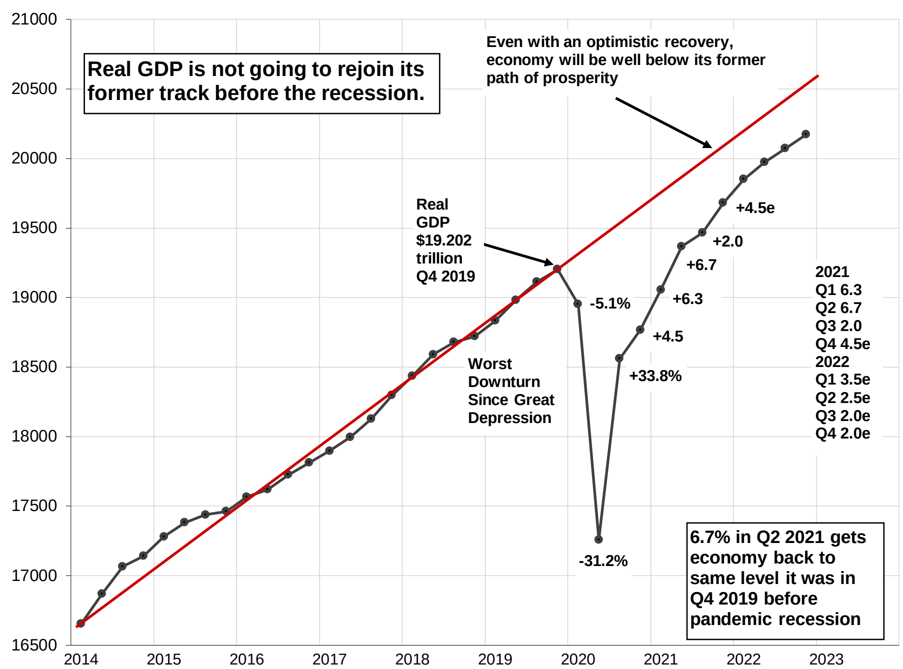
2% GDP TOO LITTLE TO PUT AMERICA BACK TO WORK

That's what economic theory used to say. The GDP economy had to grow above potential to bring down the unemployment rate. Potential GDP was 1.8% in the September 2021 Fed forecasts. Unemployment fell like a stone in the third quarter anyway—5.9% June and 4.8% September. Growth doesn't seem to matter anymore as far as the stock market is concerned either with the S&P 500 rallying another 1.0% on Thursday ahead of the Apple earnings release after the close.



But we are here this week to talk about the first look at third quarter real GDP released on Thursday. The economic statistics don't get any bigger than this. Without growth, there are no sales or revenues for companies, and no corporate profits means the stock market won't continue to rise by double digits like it has in each of the last three years. Growth stalled in the third quarter to just 2.0%. 2.0% is seen as the slower, more normal speed where growth will return to eventually after the economy moves through its recovery phase with its historical over-demand especially from consumers, but 2.0% in the third quarter is too early for the slowdown and we do expect growth to pick up in the future.

	Q1 20	Q2 20	Q3 20	Q4 20	Q1 21	Q2 21	Q3 21p
REAL GDP	-5.1	-31.2	33.8	4.5	6.3	6.7	2.0
REAL CONSUMPTION	-6.9	-33.4	41.4	3.4	11.4	12.0	1.6
CONSUMPTION	-4.8	-24.1	25.5	2.3	7.4	7.9	1.1
Durables	-0.9	0.0	5.5	0.1	3.5	1.0	-2.7
Nondurables	0.9	-1.9	4.4	-0.2	2.2	2.0	0.4
Services	-4.8	-22.2	15.6	2.3	1.8	4.9	3.4
INVESTMENT	-0.9	-9.6	11.7	4.0	-0.4	-0.7	1.9
Business Plant	0.0	-1.8	-0.5	-0.2	0.1	-0.1	-0.2
& Equipment and	-1.3	-2.0	2.7	1.3	0.8	0.7	-0.2
Intellectual Property	0.2	-0.5	0.5	0.5	0.8	0.6	0.6
Homes	0.7	-1.4	2.2	1.3	0.6	-0.6	-0.4
Inventories	-0.5	-4.0	6.8	1.1	-2.6	-1.3	2.1
EXPORTS	-2.0	-8.3	4.6	2.1	-0.3	0.8	-0.3
IMPORTS	1.9	9.9	-7.9	-3.7	-1.3	-1.0	-0.9
GOVERNMENT	0.6	1.0	-0.2	-0.1	0.8	-0.4	0.1
Federal defense	0.0	0.2	0.1	0.2	-0.3	0.0	-0.1
Fed nondefense	0.2	1.3	-0.4	-0.4	1.0	-0.3	-0.3
State and local	0.5	-0.5	0.1	0.1	0.0	0.0	0.5

Below line: Percentage point contributions to Q3 2021 2.0% real GDP

Second estimate for Q3 is Wednesday, November 24

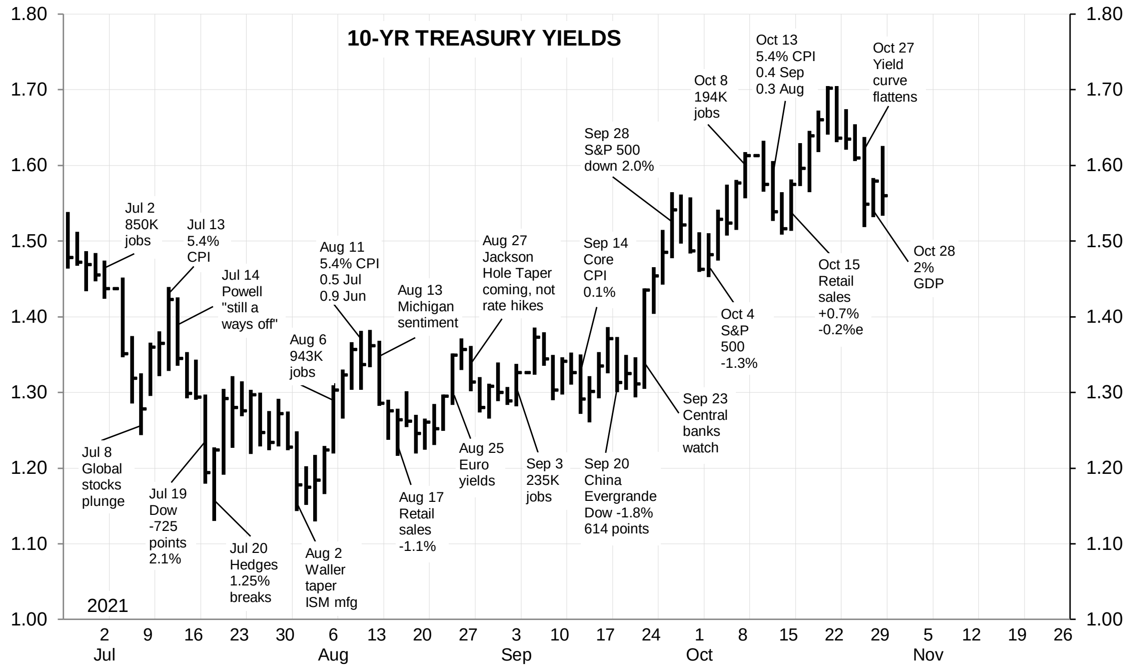
There was notable weakness in auto sales which cut growth by 2.4 percentage points. It wasn't all bad as consumers bought a lot of services which added 3.4 percentage points to growth. Auto sales are temporary of course with supply shortages. We were also surprised by the weakness in equipment spending which was a 0.2 subtraction from GDP, surprised, because nondefense capital goods orders have been so strong.

The economic expansion from the pandemic isn't over yet, not by a long shot, even though the Federal Reserve is ready to pare back its support by tapering its asset purchases. And there are risks ahead. Higher inflation may start to show up in reduced consumption from the higher prices of goods on store shelves, and the stealth labor market shortage where companies cannot get the workers they need to grow even though the statistics say there are plenty of unemployed workers available in the labor pool.

GDP growth is down, but it's not down for the count and better days lie ahead with the economic recovery on track for now. Inventories will have to be rebuilt further and that will boost factory output in coming quarters. The growth speed bump in the third quarter is an unwelcome surprise certainly, but it will not send the economy off into the ditch because it is partly based on supply disruptions in the auto industry that has cratered sales with inventories near record lows on dealer lots. There are some risks that lie ahead as the Federal government stimulus that put those 6% growth numbers on the board in the first two quarters of 2021 has all but faded away, and now that the total dollars sent to nation's unemployed have been cut in half starting in September, consumer spending will be slower in the months ahead unless payroll employment growth starts to pick back up. And let's not forget the slowdown in America's trading partners from China to Europe is hurting export-based manufacturers; foreign trade weakness hurts economic growth. Our forecast is for real GDP to bounce back by 4.5% in Q4 2021 and then slow through 2022. The quarterly 2022 growth numbers we see in the graph on page one means Q4/Q4 2022 GDP will slow to 2.5% versus the latest Fed forecast of 3.8%. We see the economy normalizing its rate of speed faster than the Fed.

	Seasonally adjusted at annual rates								Change $bil and %	
	2019	2020	2020	2020	2020	2021	2021	2021	2019 Q4	2019 Q4
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	2021 Q3	2021 Q3
Real Gross domestic product (GDP)	19202.3	18952.0	17258.2	18560.8	18767.8	19055.7	19368.3	19465.2	**262.9**	**1.4**
Personal consumption expenditures	13249.0	13014.5	11756.4	12820.8	12927.9	13282.7	13665.6	13719.3	**470.3**	**3.5**
Goods	4786.9	4790.2	4665.8	5158.9	5155.0	5476.6	5646.7	5512.4	**725.5**	**15.2**
Durable goods	1794.7	1738.3	1731.8	2030.6	2036.4	2253.5	2316.2	2147.0	**352.3**	**19.6**
Motor vehicles and parts	537.5	493.0	498.4	586.8	589.7	661.2	686.1	565.4	**27.9**	**5.2**
Furnishings and durable household equipment	421.8	420.6	415.3	474.3	467.4	517.0	517.1	503.2	**81.4**	**19.3**
Recreational goods and vehicles	596.2	603.7	655.6	726.8	727.7	792.2	814.7	799.5	**203.3**	**34.1**
Other durable goods	258.9	248.1	196.9	276.6	285.7	317.0	332.6	339.3	**80.4**	**31.1**
Nondurable goods	3010.1	3061.8	2949.1	3159.9	3151.1	3269.3	3377.2	3398.7	**388.6**	**12.9**
Food/beverages for home consumption	994.7	1066.8	1056.5	1066.8	1057.9	1103.3	1112.1	1112.1	**117.4**	**11.8**
Clothing and footwear	415.1	377.5	322.8	428.6	431.8	466.2	505.2	504.6	**89.5**	**21.6**
Gasoline and other energy goods	443.0	414.1	341.7	401.2	388.3	393.7	425.5	439.6	**-3.4**	**-0.8**
Other nondurable goods	1137.9	1167.9	1164.8	1223.8	1229.0	1259.6	1294.9	1304.8	**166.9**	**14.7**
Services	8505.9	8284.4	7217.3	7815.2	7917.0	7993.4	8214.3	8371.0	**-134.9**	**-1.6**
Household consumption expenditures (for services)	8157.0	7870.2	6748.9	7422.8	7531.9	7622.4	7863.1	8033.1	**-123.9**	**-1.5**
Housing and utilities	2111.8	2104.9	2128.9	2130.7	2132.5	2142.4	2143.9	2149.8	**38.0**	**1.8**
Health care	2263.3	2165.7	1782.6	2094.5	2164.4	2140.7	2193.6	2224.1	**-39.2**	**-1.7**
Transportation services	461.9	429.1	272.4	321.2	325.8	330.1	366.5	399.8	**-62.1**	**-13.4**
Recreation services	510.2	462.9	258.0	344.3	349.0	371.1	404.6	420.4	**-89.8**	**-17.6**
Food services and accommodations	854.6	777.9	514.3	684.3	676.1	725.9	826.4	850.9	**-3.7**	**-0.4**
Financial services and insurance	850.9	847.3	842.0	852.4	864.7	874.7	867.9	878.6	**27.7**	**3.3**
Other services	1132.6	1100.7	913.4	986.3	1015.5	1031.8	1064.4	1120.6	**-12.0**	**-1.1**

INTEREST RATES

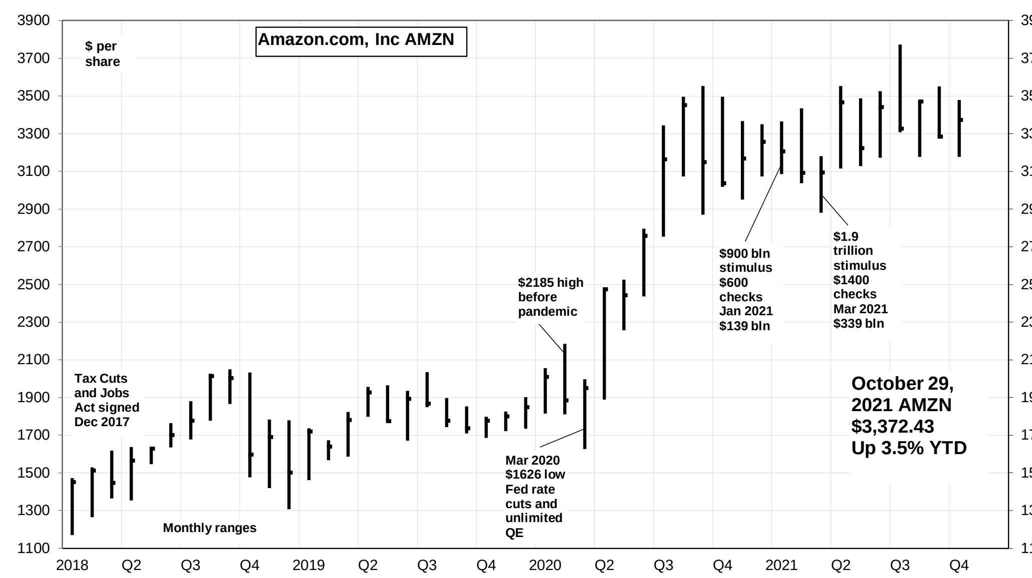


The yield curve flattened this week as 10-year yields came back down and 2-year yields broke above 0.50%. Short-term rates have been rising around the world as they ready themselves for central banks lifting policy rates. At the start of the month, 2-year yields were 0.27% and they closed Friday at 0.50%. Short-term rates are up while our savings account interest at the bank, probably yours too, is 0.0%. A month before the Fed lifted off from zero back in December 2015, 2-year yields rose to 0.90% so we aren't discounting much yet. Stocks continued rallying despite some concerns about Amazon and Apple earnings on Thursday after the close. S&P 500 record close +22.6% YTD.

Amazon AMZN up 3.5% YTD, calendar Q3 earnings released Thursday

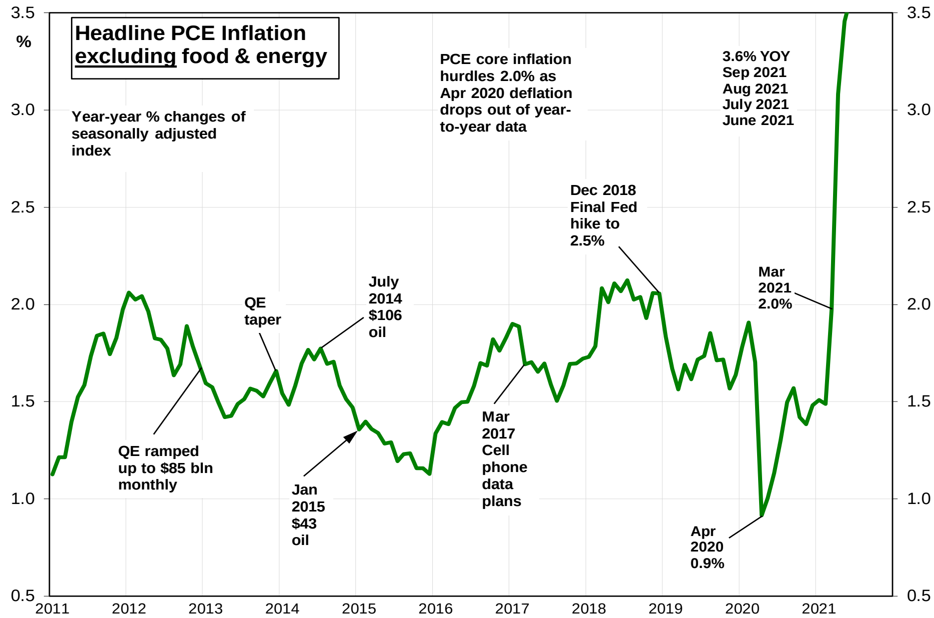
Earnings for the September 30, 2021 quarter were released October 28, 2021 after the bell. Ding. Investors didn't like it. The stock was down 3.7% around 6pm ET Thursday evening. Not sure the TV commentators read the press release of Amazon's earnings. Even an economist can read the company expects 0 to $3.0 billion of profit in the December (holiday) quarter. Zero? AWS services had profits of $4.883 billion where total Amazon operating income was $4.852 billion.

S&P 500 Weights	
Top 6: 24% of S&P	
6.25	MSFT
6.14	AAPL
3.85	AMZN
2.24	TSLA
1.94	FB
2.25	GOOGL
2.11	GOOG
24.78	Top 6



FEDERAL RESERVE POLICY

The ECB and Bank of Canada signal the end on stimulus



The Fed meets on November 2-3, 2021 to consider its monetary policy. A policy change is expected to be announced: the start of tapering those $80 billion monthly Treasury securities that are "holding down bond yields" and the $40 billion monthly mortgage-backed securities purchases that are doing who knows what to the housing market, both mortgage rates and home prices. The 30-yr mortgage rate was 3.14% this week.

Meanwhile, there was hawkish central bank news in other parts of the world. Lagarde said in Q&A during Thursday's ECB press conference, "This pandemic emergency purchase programme, PEPP, is at this point in time, in my view, going to end at the end of March 2022." Even if this was the PEEP term "envisaged in the first place," the market was surprised at her direct comment. In other news, the Bank of Canada, America's neighbor to the north where policies and economies tend to run closely together over time, signaled an earlier move on interest rates than anyone was willing to believe. The bank also ended quantitative easing at this meeting. Bank of Canada Governor Macklem's opening statement said interest rates would likely rise in the middle quarters of 2022. In the September 8 press conference, Macklem said the bank would meet its goals such that interest rates would go up in the second half of 2022.

When will QE tapering start? Check your bank accounts. The Open Market Desk at the New York Fed is currently purchasing about $80 billion in U.S. government securities for the period covering October 15 to November 12. Maybe they buy less in the next period starting November 13? Taking away the punchbowl right before Thanksgiving perhaps. Stay tuned. Set your watches and watch the stock market. Fed policy is finally starting to get interesting again.

Selected Fed assets and liabilities					March 11
Fed H.4.1 statistical release					2020**
billions, Wednesday data	27-Oct	20-Oct	13-Oct	6-Oct	pre-Covid
Factors adding reserves					
U.S. Treasury securities	5513.329	5499.267	5465.924	5449.277	2523.031
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347
Mortgage-backed securities (MBS)	2527.777	2546.932	2494.759	2494.749	1371.846
Repurchase agreements	0.000	0.000	0.000	0.000	242.375
Primary credit (Discount Window)	0.605	0.606	0.418	0.389	0.011
MMLF	0.000	0.000	0.000	0.000	
PDCF	0.000	0.000	0.000	0.000	
Commerical Paper Funding Facility	0.000	0.000	0.000	0.000	
Paycheck Protection Facility	49.930	52.144	55.000	57.714	
Corporate Credit Facility (CCF)	0.515	0.515	0.515	0.515	
Municipal Liquidity Facility	9.782	9.780	9.779	9.777	
Main Street Lending Program	30.289	30.285	30.465	30.457	
Term Asset-Backed Facility (TALF II)	4.496	4.495	4.495	4.495	
Central bank liquidity swaps	0.323	0.336	0.333	0.328	0.058
Federal Reserve Assets	8605.2	8614.4	8530.4	8513.5	4360.0
3-month Libor %	0.14	0.13	0.12	0.12	0.77
Factors draining reserves					
Currency in circulation	2205.482	2204.329	2204.830	2201.113	1818.957
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	236.495	117.364	72.460	95.854	372.337
Treasury credit facilities contribution	26.397	26.397	26.397	26.397	
Reverse repurchases w/others	1433.370	1493.961	1364.701	1451.175	1.325
Reserve Balances (Net Liquidity)	4123.154	4050.343	4204.509	4167.544	1779.990
Treasuries within 15 days	66.945	80.856	57.950	64.682	21.427
Treasuries 16 to 90 days	318.997	304.867	319.321	318.226	221.961
Treasuries 91 days to 1 year	706.530	706.735	706.046	699.428	378.403
Treasuries over 1-yr to 5 years	2113.812	2108.800	2096.802	2085.301	915.101
Treasuries over 5-yrs to 10 years	1006.665	1001.502	995.154	994.263	327.906
Treasuries over 10-years	1300.380	1296.509	1290.652	1287.378	658.232

**March 11, 2020 start of coronavirus lockdown of country

MMLF: Money Market Mutual Fund Liquidity Facility: loans secured by assets bought by banks from money market funds

PDCF: Primary Dealer Credit Facility: o/n and term funding with maturities to 90 days

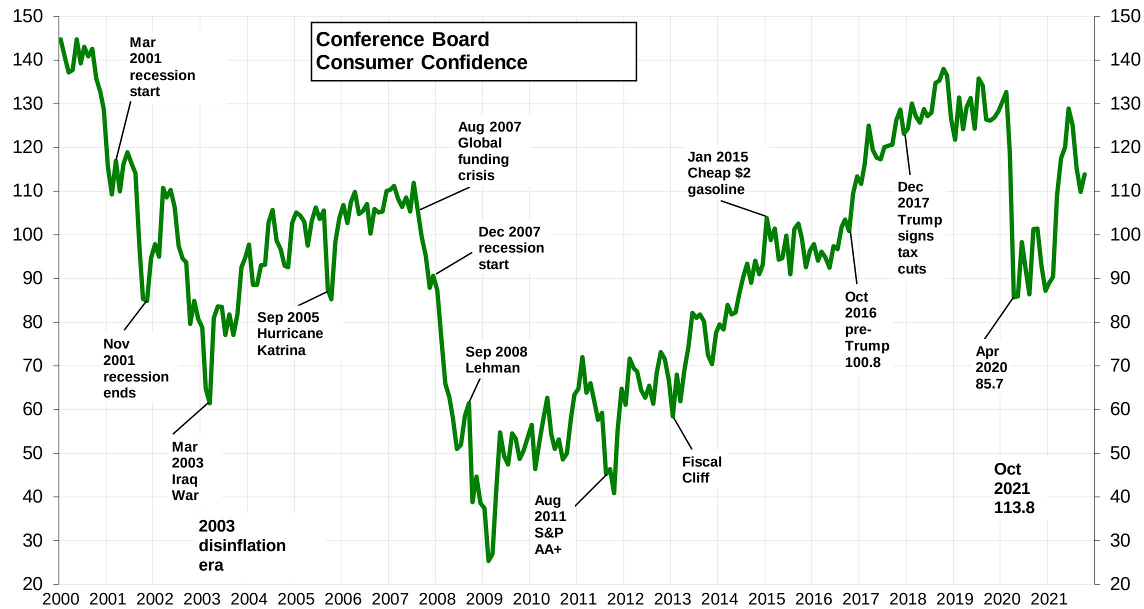
CCF: Corporate credit facility: Primary market (PMCCF) and Secondary Market (SMCCF)

OTHER ECONOMIC NEWS

Consumers are more upbeat after a rocky third quarter (Tuesday)

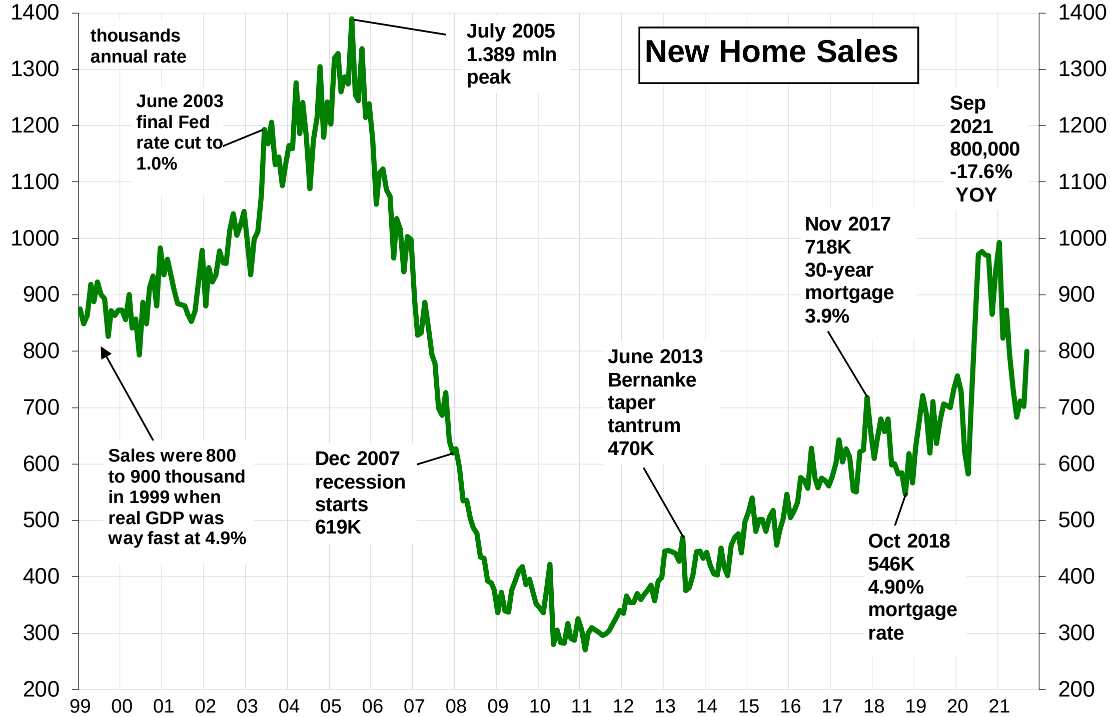
Breaking economy news. The consumer confidence index rebounded to 113.8 in October from 109.8 in September. Diminished consumer confidence is likely to mirror the growth of the economy in the third quarter as consumer spirits fell and real GDP growth probably came to a near standstill. The stock market was rocky in September and millions lost their unemployment checks as the special legislation expired, but in October the consumer is not as pessimistic about the future even if there is still uncertainty about the road ahead. Consumers are more upbeat after a rocky third quarter and this argues for a strong finish for the economy in 2021. Today's data are another sign that the Fed's emergency stimulus is no longer needed and we expect policymakers to announce a tapering of their asset purchases at next week's meeting.

Net, net, consumers are still relatively cautious on the outlook for the economy after the surge of optimism they had at the start of the summer. The bad news is consumers still are somewhat worried about their futures, but the good news is that they continue to spend their paychecks freely on goods and services as they have a tight labor market to rely on to give them new opportunities for work if they need it. Knowing there are millions of job openings posted nationwide is the key to the consumer's confidence. Consumers know the tight labor market has their backs. Those forecasting a recession from the drop in the confidence late in the summer will have to back off that call. Consumer spending slowed in the third quarter, but a new recession appears to be out of the question especially with the stock market record highs sounding the all-clear siren. Stay tuned. Watch here where the world goes next.



New home sales jump after months of sitting in the doldrums (Tuesday)

Breaking economy news. New home sales jumped 14.0% in September to 800K at an annual rate. Single-family housing starts have been over 1 million every month this year, so new home sales were bound to rise back. Activity is well below the Covid surge in activity when many sought new housing during the work from home activity during the pandemic for millions of workers. It is a puzzle why new home sales and building has not returned to the housing bubble highs over a decade ago, especially now that there are shortages of affordable housing. Most of the sales are in the South where there is still plenty of land. Sales in the South were 498K in September which is 62 percent of total sales across the nation.



Speaking of affordable housing, it has grown more unaffordable during the pandemic. Median prices rose 4.8% from 2019 to 2020. Now in September 2021, prices are $408,800 which is 21.3% higher than the average price in 2020.

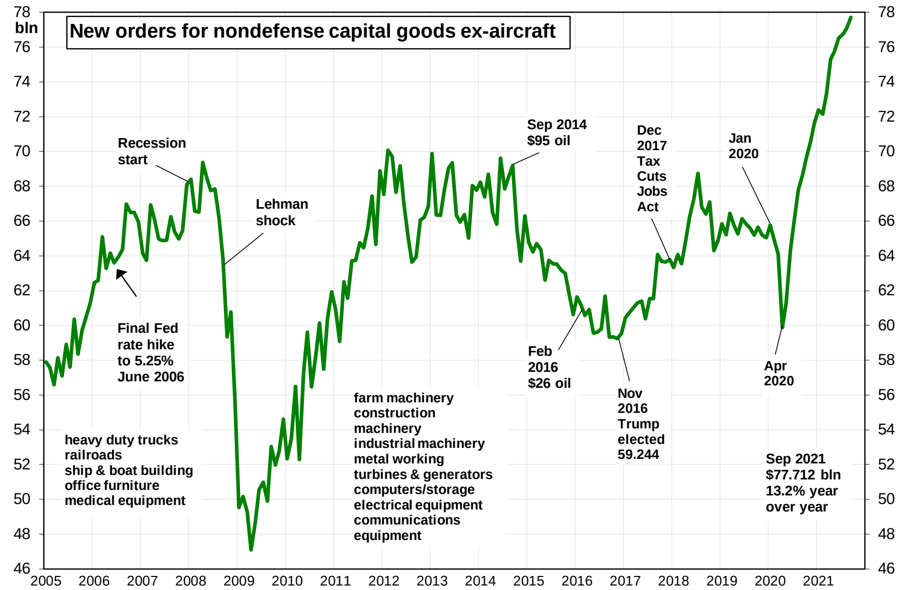
New Home Sales

	Total	Northeast	Midwest	South	West	Median Price $
2019 Year	683	30	72	399	182	321,500
2020 Year	822	37	93	474	218	336,900
May 2021	733	40	92	412	189	390,400
Jun	683	28	96	391	168	374,700
Jul	712	25	77	414	196	399,700
Aug	702	31	65	424	182	401,500
Sep	800	41	64	498	197	408,800
	Thousands at Seasonally Adjusted Annual Rate					

Business investment in equipment and trade deficit at record highs (Wednesday)

Breaking economy news. Consumers may be not quite as optimistic about the future, but businesses sure are as they ordered up record amounts of core durable goods in September to help keep the factory lights on. The economy cannot go too far off course if companies continue to place new orders for equipment to match the stronger economic growth they see in the next year. Durable goods by definition are built to last and companies would not be buying record amounts of capital goods if they didn't think the economy wasn't going to continue to grow faster for the next few years.

Meanwhile, the international trade deficit in goods exploded in September up 9.2% to $96.3 billion. Exports plunged for every category except consumer goods. Imports rose 0.5% while exports tumbled 4.7%. The biggest jump in imports was for capital goods which shows U.S. manufacturers are still dependent on offshore factories to provide the machinery and inpurts they need to make American factories run. Making it in America won't happen anytime soon based on the latest import data.



Net, net, the third quarter may be the weakest quarter for economic growth in over a year, but you would never know it looking at business capital spending setting records this month. Companies are making big bets that the economic recovery will continue to roll with their purchases of core durable goods equipment in September where new orders for machinery were up a strong 1.1%. Business is looking past the slowdown in consumer spending in the third quarter and betting consumers will return to the shops and malls later this year and clear the shelves. Business investment can often kick-start economic growth and we expect the durable equipment spending to pave the way for a better tomorrow for the economy. Fed officials are likely to look past the slowdown in consumer spending when they see that companies remain confident in the economic recovery by bringing in more equipment and machinery to ensure they can meet the demand for their products.

ADVANCE TRADE STATISTICS FOR SEPTEMBER

	Monthly				Percent changes		
Seasonally adjusted Trade	Sep 2021	Aug 2021	Jul 2021	Sep 2020	Sep 21 Aug 21	Aug 21 Jul 21	Sep 21 Sep 20
Balance	-96,252	-88,164	-86,920	-80,243			
Exports	142,152	149,111	147,936	121,729	-4.7	0.8	16.8
Foods, Feeds, & Beverages	11,958	12,170	12,810	12,478	-1.7	-5.0	-4.2
Industrial Supplies (1)	51,540	57,234	53,699	39,311	-9.9	6.6	31.1
Capital Goods	42,307	43,868	44,697	37,646	-3.6	-1.9	12.4
Automotive Vehicles, etc.	10,978	11,201	12,181	12,438	-2.0	-8.0	-11.7
Consumer Goods	19,915	19,104	18,809	15,184	4.2	1.6	31.2
Other Goods	5,453	5,533	5,740	4,673	-1.5	-3.6	16.7
Imports	238,403	237,275	234,857	201,972	0.5	1.0	18.0
Foods, Feeds, & Beverages	15,629	15,695	15,933	13,397	-0.4	-1.5	16.7
Industrial Supplies (1)	57,794	57,091	55,285	37,052	1.2	3.3	56.0
Capital Goods	65,366	63,095	63,353	55,293	3.6	-0.4	18.2
Automotive Vehicles, etc.	25,862	28,012	29,562	31,006	-7.7	-5.2	-16.6
Consumer Goods	62,800	63,236	60,257	56,181	-0.7	4.9	11.8
Other Goods	10,952	10,145	10,467	9,043	8.0	-3.1	21.1

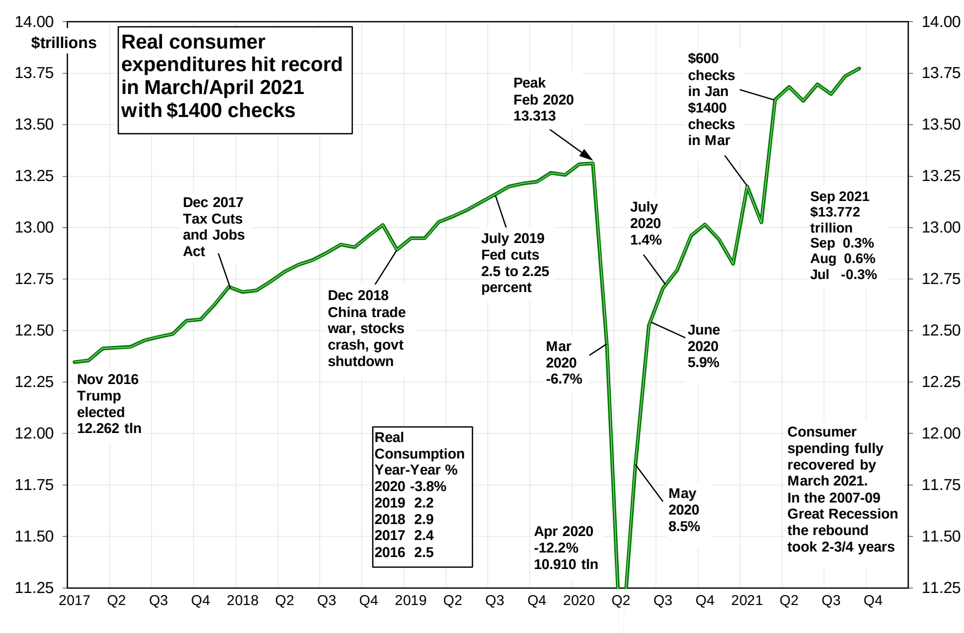
(1) Includes petroleum and petroleum products.

Inflation on high, consumer spending strong in September (Friday)

Breaking economy news. The personal income report for September. Don't worry, you don't have any, personal income fell 1.0% in September as two major unemployment benefits programs ended abruptly. We thought the loss of roughly $15 billion in benefits would affect consumer spending but boy were we wrong with consumer spending finishing the quarter on a strong note. Real consumer spending rose 0.3% in September which is 3.2% annualized so maybe there is hope for the economy to return to a faster pace of growth in the fourth quarter after yesterday's subpar 2.0% Q3 2021 real GDP report. Consumer spending would have been even stronger without a drop in car sales and transportation services: car repairs, air travel, taxis etc. Every other spending category was up, up, up.

Net, net, surprise, surprise, inflation and consumer spending remain hot this month. This isn't the picture of an economy that needs support from Washington. The economy continues to build back better all on its own, thanks to the spending of millions and millions of Americans. The inflation switch seems stuck on high for core consumer goods for four consecutive months now of 3.6% year-year price increases, and with no relief for the economy from higher prices, Wall Street is increasing their bets that Fed officials will announce a tapering of their asset purchases at next week's meeting. Yesterday, Q3 real GDP was surprisingly weak, but today the surprise is how much the consumer spent in September, the final month of a weak quarter. A strong finish to last quarter means growth in the fourth quarter may bounce back more than economists had thought. At the moment, the economy is running hotter than portrayed by 2.0% growth. We didn't see much of a Delta variant slowdown effect on the economy for spending and inflation in September, but we did see a shortage-related slowdown with the sharp drop in auto sales. When car dealers can rebuild inventories on the lot with more vehicles for consumers to choose, the economy could be off to the races again. The recovery from the pandemic isn't over yet. Bet on it.

The economy has a supply problem not a demand problem. The economy lost some spending from the expiration of two big unemployment support programs, but other consumers have a lot of money in the bank to spend after over a year of Fed QE stimulus, sky-high stock market valuations, and better wages thanks to the tight labor market with millions of job openings. The economy has money to burn and that is why inflation will be hard to extinguish.



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