Uncertainty Chips Away at Third Quarter Outlook

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The rapid spread of the Delta variant has prompted a recalibration of the economic outlook, with a majority of economists already lowering third quarter forecasts. Weaker GDP growth could postpone the Fed's initial tapering of asset purchases.

There were no major economic data releases today, but looking back on the week's second-tier releases, there were several points worth mentioning.

On Wednesday, July housing starts fell -7.0% to an annualized unit pace of 1.534 million, nearly -200k below the 15-year high from four months earlier. The demand for homes is still strong, but labor and materials remain in short supply. The number of homes under construction, but not yet completed, stood at 689k in July, *the most since 2007*. Building permits increased by +2.6% in July to a 1.635 million unit pace. This forward-looking indicator is down almost -250k from the beginning of 2021.

The minutes to the July FOMC meeting were released on Wednesday afternoon. There wasn't anything said that hadn't been said before, but there were a couple of language tweaks that caught the eye of analysts. In particular, the addition of the word "most" when describing committee members who thought it could be appropriate to begin reducing the pace of asset purchases later this year. However, the July Fed meeting was three long weeks ago, and during that time the rapid Delta spread has introduced another dose of uncertainty that Fed officials are certain to address at the September meeting.

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On Thursday, initial jobless claims fell from a revised 377k to a pandemic low of 348k for the week ending August 14th. Although a drop in weekly filings might sound encouraging, the number remains roughly 50% above pre-pandemic normal, indicating the labor market is far from healed. Nearly 350,000 Americans filed for first-time unemployment benefits last week; at the same time, help-wanted signs are seemingly posted on the door of every business.

Mortgage rates have risen off record lows, but are still historically favorable. The 15-year fixed rate average, according to Freddie Mac, was 2.16% as of August 19th, just 6 bps above its historical low, while the 30-year fixed rate average was 2.86%, 9 bps above the low from two weeks earlier.

Despite favorable lending rates, mortgage applications fell -3.9% for the week ending August 13th. Refi applications, which made up roughly two-thirds of the total, fell -5.3% during the week, while new purchase applications slipped -0.8%. The decline in refinancing activity reflects the fact that lending rates have been so low for so long, while the decline in new purchase applications has much to do with the lack of available homes on the market.

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Treasury yields on the short end are slightly higher on the week, while longer yields are lower. The fact that investors are buying long maturities at historically low levels indicates a fading economic outlook and expectations that inflation will be contained.

Market Indications as of 2:48 P.M. Central Time

DOW	Up 260 to 35,154 (HIGH: 35,625)
NASDAQ	Up 169 to 14,711 (HIGH: 14,895)
S&P 500	Up 35 to 4,441 (HIGH: 4,480)
1-Yr T-bill	current yield 0.06%; opening yield 0.06%
2-Yr T-note	current yield 0.23%; opening yield 0.22%
3-Yr T-note	current yield 0.45%; opening yield 0.43%
5-Yr T-note	current yield 0.79%; opening yield 0.77%
10-Yr T-note	current yield 1.26%; opening yield 1.24%
30-Yr T-bond	current yield 1.87%; opening yield 1.87%