Market Procrastination

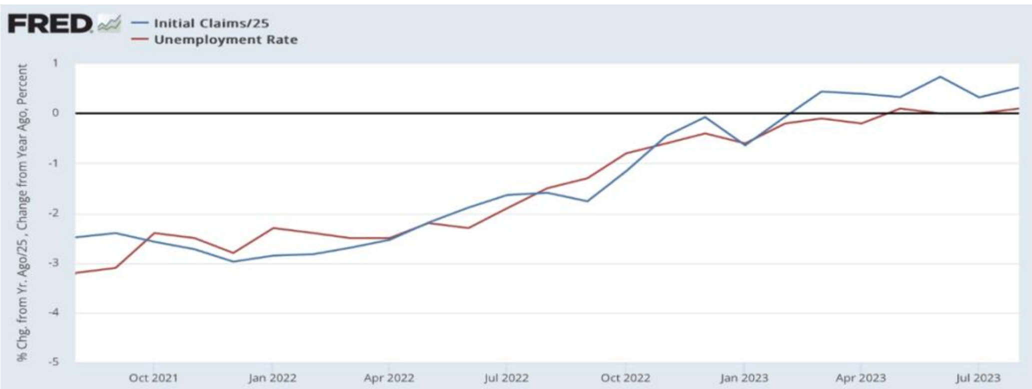
It's been a year since the FED started the Interest Rate hike process, with the main intention to reduce inflation. Consequently, Home Buyers had been facing unaffordable market conditions that simply prevents them to access a Home. On the other side of the coin, Sellers are falling back to protect their current conditions (Purchase Prices & Interest Rates) and delaying any critical decision.

Now, that the US seems to be heading into a different direction, the question is how and when will this procrastination starts to unwind.

Economics

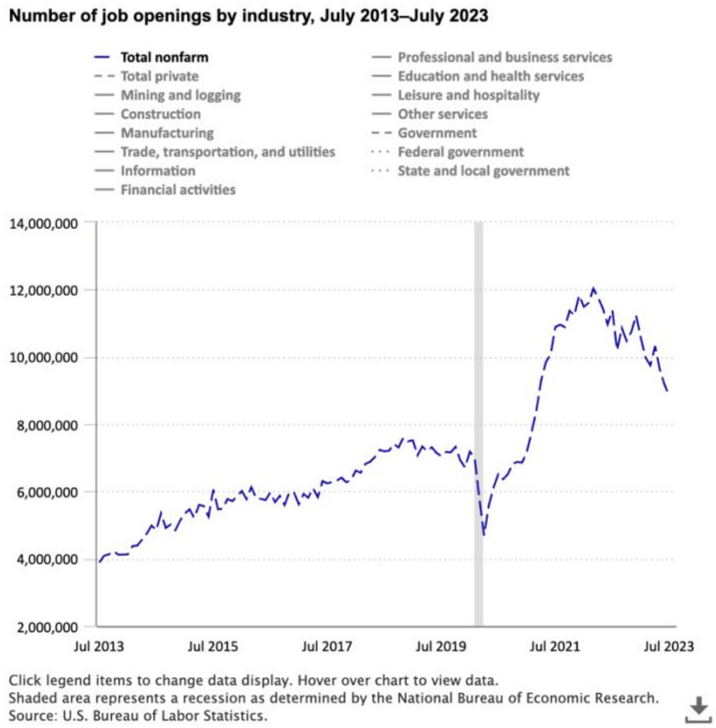
During the month of August and September 2023 there were some labor indicators released that could have set off an alarm for the economy:

- Unemployment Rate increases to 3.8% YtY (coming up from 3.4%)



- Job Openings plummeted 27% from peak.

- Wage growth slowed to 3.8% YtY.



Another aspect worth paying attention from Aug'23 BLS report, is the downward revisions that occurred to previous months' data. In particular, July 2023's non-farm payroll growth was revised down from 187,000 to 157,000 (-30,000). While June's growth was cut in half from 209,000 to 105,000 (-104,000).

US Government Revisions to Job Figures

Month	Initial Growth	Revised Growth	Revisions
January 2023	517,000	472,000	-45,000
February 2023	311,000	248,000	-63,000
March 2023	236,000	217,000	-19,000
April 2023	253,000	217,000	-36,000
May 2023	339,000	306,000	-33,000
June 2023	209,000	105,000	-104,000
July 2023	187,000	157,000	-30,000
Total	**2,052,000**	**1,722,000**	**-330,000**

**Source: BLS; comparing reported job growth each month to revised figures as of August 2023*

That brings total downward revisions for the first seven months of 2023 to -330,000. Meaning that job growth has been 16% lower than initially reported. The consistent nature of these downward revisions turn to think that there will be further cuts to 2023's job growth data in future months.

Impact on the Real Estate Market

Assuming these market trends continue, we can predict different scenarios for Real Estate, depending on what the government does with these metrics.

On one side, many investors think this situation might push the FED stop increasing rates, or even start decreasing them earlier than expected, mostly due to a weak labor market. This effect would definitely encourage the demand, and could potentially put an end to the stagflation we've seen in Real Estate in the past 12 months.

On the contrary, other analysists thinks this trend might convince the FED they are on the right track, and keep the rates at this level for a longer period, in order to reinforce the declining inflation. In this case, if the labor data keeps coming in as weak as the last month, we might see some headwind for the Home Owners for the first time in more than a decade. They could be forced to sell their such appreciated assets due to insecurities about their employment, dragging home prices down. Would this new distressed Seller's be strong and wide enough for the Demand to react despite the high interest rates? We will see in the next couple of months.

We will be monitoring Labor data, Pending Sales, Median Sales Prices, Closed Sales and some other metrics to anticipate any effect. If you need further information or if you want to give us your POV, please don't hesitate to email us at ir@equity305.com