



VICTORY PARTNERS

MIDDLE MARKET INSIGHT

What Business Owners Need To Know

US ECONOMY SLOWED TO A 2% RATE LAST QUARTER

US Economy Slowed Last Quarter

- Supported by an increase in COVID-19 cases and a bottlenecked supply chain, the US economy slowed sharply during the July-September period to an annual rate of 2%. This is the weakest quarterly growth since the recovery from last year's pandemic recession began.
- "Consumer spending, which fuels about 70% of overall economic activity, slowed to an annual growth rate of just 1.6% after having surged at a 12% rate in the previous quarter."
- For the full year of 2021, economists generally expect growth rate of around 5.5%. This is the highest calendar-year expansion since the mid-1980s and will significantly improve the 3.4% drop in GDP during the 2020 recession. It also slightly exceeds the annual economic growth rate of less than 3% seen in the previous few years before the pandemic recession.

CONSUMER SPENDING SLOWED TO AN ANNUAL GROWTH RATE OF 1.6%

CONSUMER SPENDING THE PREVIOUS QUARTER SURGED TO A 12% RATE

N.A.R.

SAYS THAT ITS PENDING
HOME SALES INDEX
DECREASED BY 2.3%

US Pending Home Sales Fall in September

- The National Association of Realtors (NAR) announced Thursday that the Pending Home Sales Index under signed contracts fell 2.3% last month in all four regions.
- "Some potential buyers have momentarily paused their home search with intentions to resume in 2022," said Lawrence Yun, NAR's chief economist."
- Demand for housing surged early in the coronavirus pandemic amid an exodus from cities to suburbs and other low-density locations. Americans sought more spacious accommodations for their home offices and online schooling. The purchasing frenzy subsided as workers returned to the office thanks to the COVID-19 vaccination and schools were reopened for in-person learning.

8.0% DROP IN YOY PENDING HOMES REPORTED BY ECONOMISTS

SOME NEW HOME BUYERS HAVE DECIDED TO WAIT TO BUY TILL 2022

YIELD CURVE HAS FALLEN TO 1.556% FROM ITS 2021 HALF HIGH OF 1.702%

The Yield Curve Is Flattening

- "The yield curve has flattened recently. The 10-year Treasury yield has fallen to 1.556% from its 2021 second-half high of 1.702%, hit a week ago, signifying that markets are less optimistic about economic demand and less concerned about the long-term inflation it could bring. Higher inflation, spurred in part by strong demand, means bond investors need higher yields to avoid losing money in real terms on the fixed payments they receive on the debt."
- If the yield curve remains flat for some time, a slowdown in earnings can lead to selling. This means that the market believes that the outlook for economic growth is deteriorating.
- That isn't the most likely scenario. Most on Wall Street expect the yield curve to expand. The 10 year yield—at the least—could easily rise to close to 2% over time, given that long-term inflation expectations are above 2%, according to St. Louis Fed data. That is partly because, although the economic outlook has weakened, it remains positive.

2-YEAR YIELD HAS RISEN TO 0.49% FROM 0.46%

HOWEVER MOST ON WALL STREET EXPECT THE YIELD CURVE TO EXPAND

Sources: www.reuters.com | www.apnews.com | www.barrons.com | www.marketwatch.com