



TEXAS

“Prospects for the Texas economy continued to improve even as new COVID-19 cases accelerated in July.

Payrolls expanded robustly, led by hiring in the leisure and hospitality industry, while retail employment flattened. Staffing shortages exacerbated ongoing wage pressures, but **real earnings declined due to supply bottlenecks driving up inflation.** Joblessness dropped despite hiring challenges; however, unemployment claims rose for the second straight month.”

“Containment of the pandemic is vital as additional waves of infection, mainly from the Delta variant, can weigh on consumer behavior and slow the return to pre-pandemic conditions.” – Oct 2021 – Outlook for the Texas Economy – Real Estate Research Center – TAMU

AUSTIN

“The Austin economy continued to expand in August. The Austin Business-Cycle Index increased, led by declines in the unemployment rate. **Recent COVID-19 hospitalizations declined further from the latest peak in August.** Existing-home sales fell in August for the third consecutive month, and **regional consumer spending remained healthy.”** – Oct 2021 – Austin Economic Indicators – Dallas Fed

UNITED STATES

“Consumer spending on durable goods fell, labor market data were mixed, and monthly core inflation rates eased from Q2’s rapid pace.

Personal income increased modestly in August. Compensation rose while proprietors’ income fell. Saving as a percent of personal income dipped, but remained well above pre-pandemic levels.

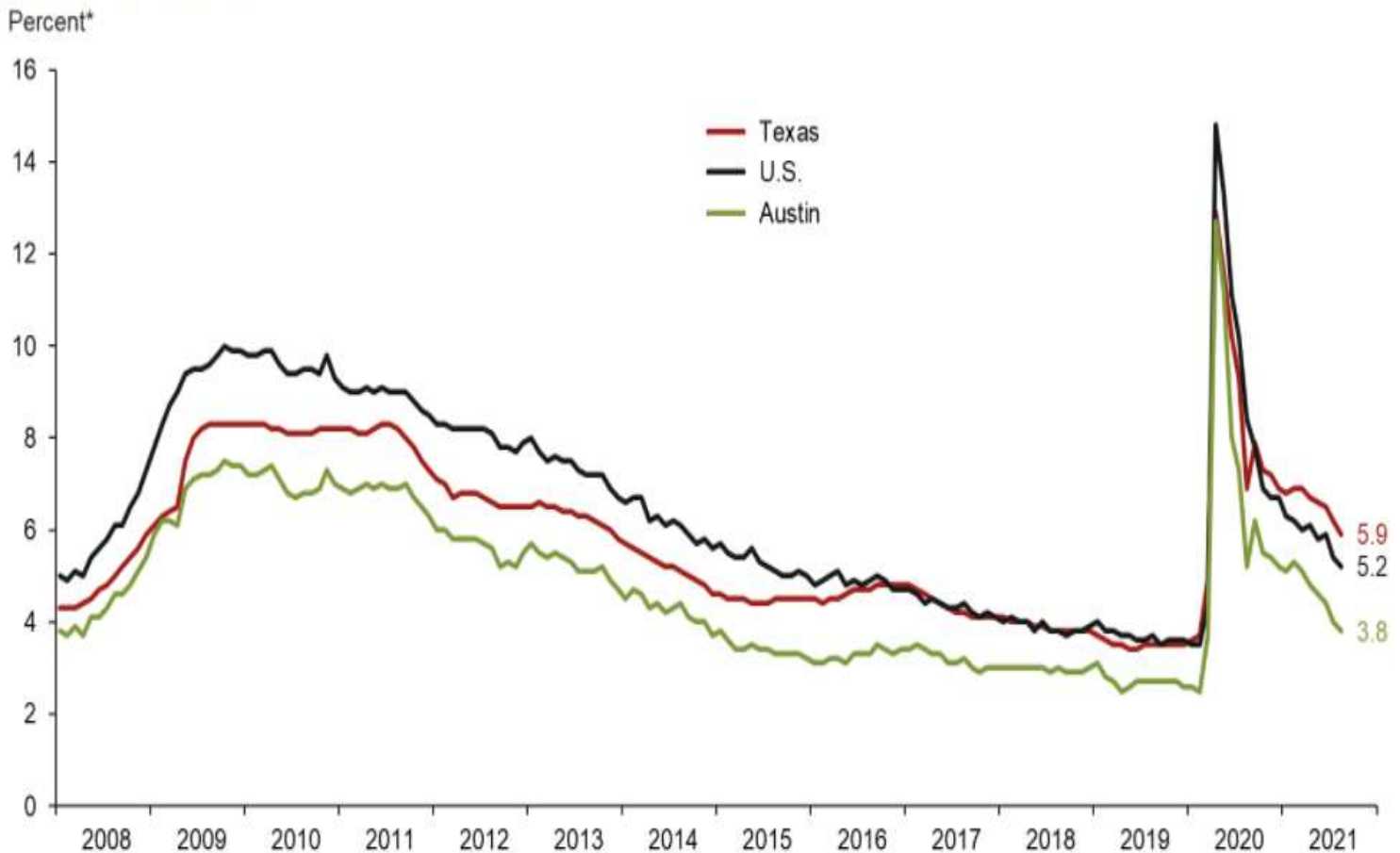
Payroll employment growth slowed in September while the unemployment rate fell sharply.

The 10-year Treasury yield rose from 1.30% in mid-September to 1.55% in early October. **The S&P 500 stock index moved modestly lower, but was still up 17% year-to-date** on October 8.” – Oct 2021 – U.S. Economy in a Snapshot – NY Fed

JOBS - UNEMPLOYMENT RATES – AUSTIN MSA, TEXAS, U.S.

“Austin’s unemployment rate continued to fall in August to 3.8 percent, the lowest level since March 2020. This is well below the state’s jobless rate of 5.9 percent and the nation’s rate of 5.2 percent.” – Oct 2021 – Austin Economic Indicators – Dallas Fed

Unemployment Rate



*Seasonally adjusted.

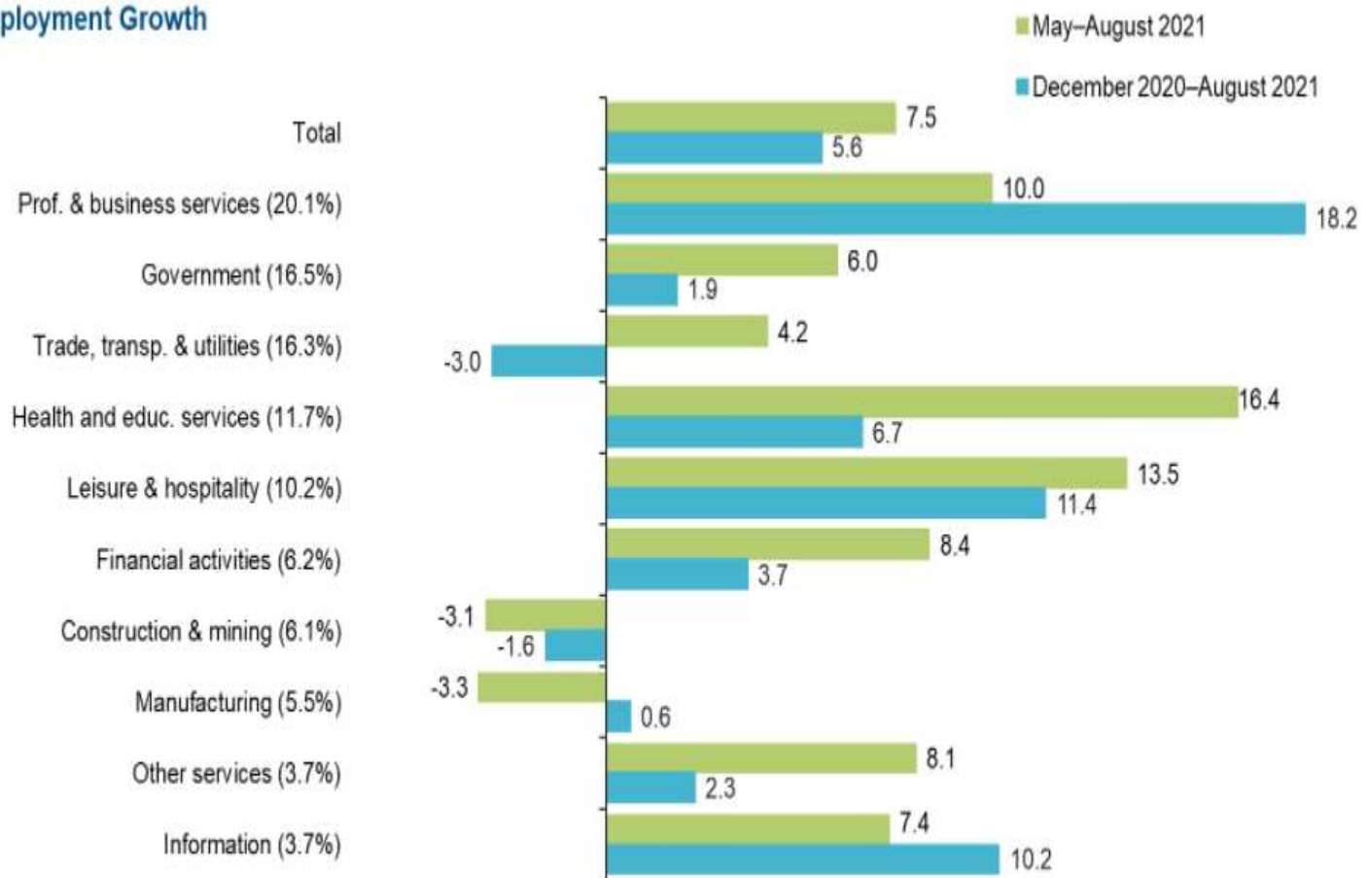
SOURCE: Bureau of Labor Statistics.

Provided by Federal Reserve of Dallas – Austin Economic Indicators – Jul 2021

JOBS – EMPLOYMENT GROWTH RATE – AUSTIN

“Austin payrolls expanded an annualized 7.5 percent, or by 20,700 net jobs, in the three months ending in August. Health and private education services led job growth (16.4 percent, or 5,010 jobs), followed by leisure and hospitality (13.5 percent, or 3,650 jobs), and professional and business services (10.0 percent, or 5,450 jobs). The only sectors that posted net job losses were construction and mining (-3.1 percent, or 560 jobs), and manufacturing (-3.3 percent, or 530 jobs).” – Oct 2021 – Austin Economic Indicators – Dallas Fed

Employment Growth



NOTE: Data show seasonally adjusted and annualized percentage employment growth by industry. Numbers in parentheses represent the share of total employment and may not sum to 100 due to rounding.

SOURCE: Bureau of Labor Statistics; Texas Workforce Commission; adjustments by the Dallas Fed.

Provided by Federal Reserve of Dallas – Austin Economic Indicators – Oct 2021

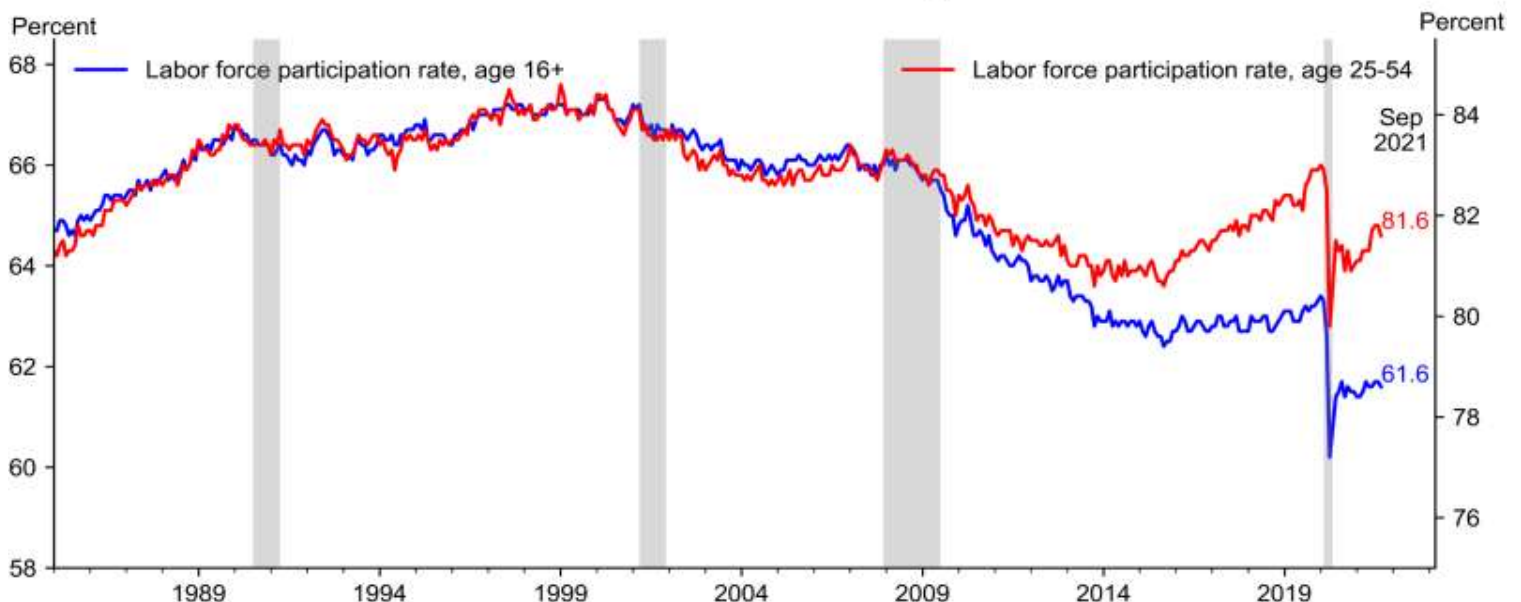
JOBS – LABOR PARTICIPATION RATE IN THE U.S.

“The labor force participation rate was little changed at 61.6 percent in September and has remained within a narrow range of 61.4 percent to 61.7 percent since June 2020. The participation rate is 1.7 percentage points lower than in February 2020. The employment-population ratio, at 58.7 percent, edged up in September. This measure is up from its low of 51.3 percent in April 2020 but remains below the figure of 61.1 percent in February 2020.

In September, the number of persons employed part time for economic reasons, at 4.5 million, was essentially unchanged for the second month in a row. There were 4.4 million persons in this category in February 2020. These individuals, who would have preferred full-time employment, were working part time because their hours had been reduced or they were unable to find full-time jobs.

The number of persons not in the labor force who currently want a job was 6.0 million in September, little changed over the month but up by 959,000 since February 2020. These individuals were not counted as unemployed because they were not actively looking for work during the last 4 weeks or were unavailable to take a job.” – Oct 2021 – News Release – Bureau of Labor Statistics

Labor Force Participation



SOURCES: Bureau of Labor Statistics.

Provided by Federal Reserve of Dallas – U.S. Economy Charts – Jul 2021

HOUSING – EXISTING HOME SALES – AUSTIN MSA

“Existing-home sales in Austin fell 3.0 percent in August after contracting 2.1 percent in July and 0.1 percent in June. This compares with a 0.6 percent decrease in the state in August (and -1.9 percent in July and -1.6 percent in June). Nonetheless, in the first eight months of the year, metro home sales were up 9.2 percent relative to the same period in 2020. At the state level, sales were up 11.5 percent for that period. In August, the median price of homes sold was \$464,593 in the metro, a 28.1 percent rise year over year, compared with \$304,668 in Texas—an 11.2 percent increase.” – Oct 2021 – Austin Economic Indicators – Dallas Fed

Existing-Home Sales

Index, January 2009 = 100*



*Seasonally adjusted.

NOTE: Data measure sales of residential units (single-family homes, condominiums and townhomes).

SOURCE: Multiple Listing Service; Real Estate Center at Texas A&M University; adjustments by the Dallas Fed.

Provided by Federal Reserve of Dallas – Austin Economic Indicators – Oct 2021

HOUSING PRICES – MAJOR METROS IN TEXAS

“The median sales price of homes across the state ticked up in July for the seventh month in a row. **Among the major Texas metros, prices grew the most in San Antonio at 1.9 percent.** Median prices rose moderately in Dallas and Austin, appreciating 1.1 and 0.8 percent, respectively. Houston was the only major Texas metro that saw a price decrease (0.3 percent) in July.” – Sep 2021 – Texas Economic Indicators



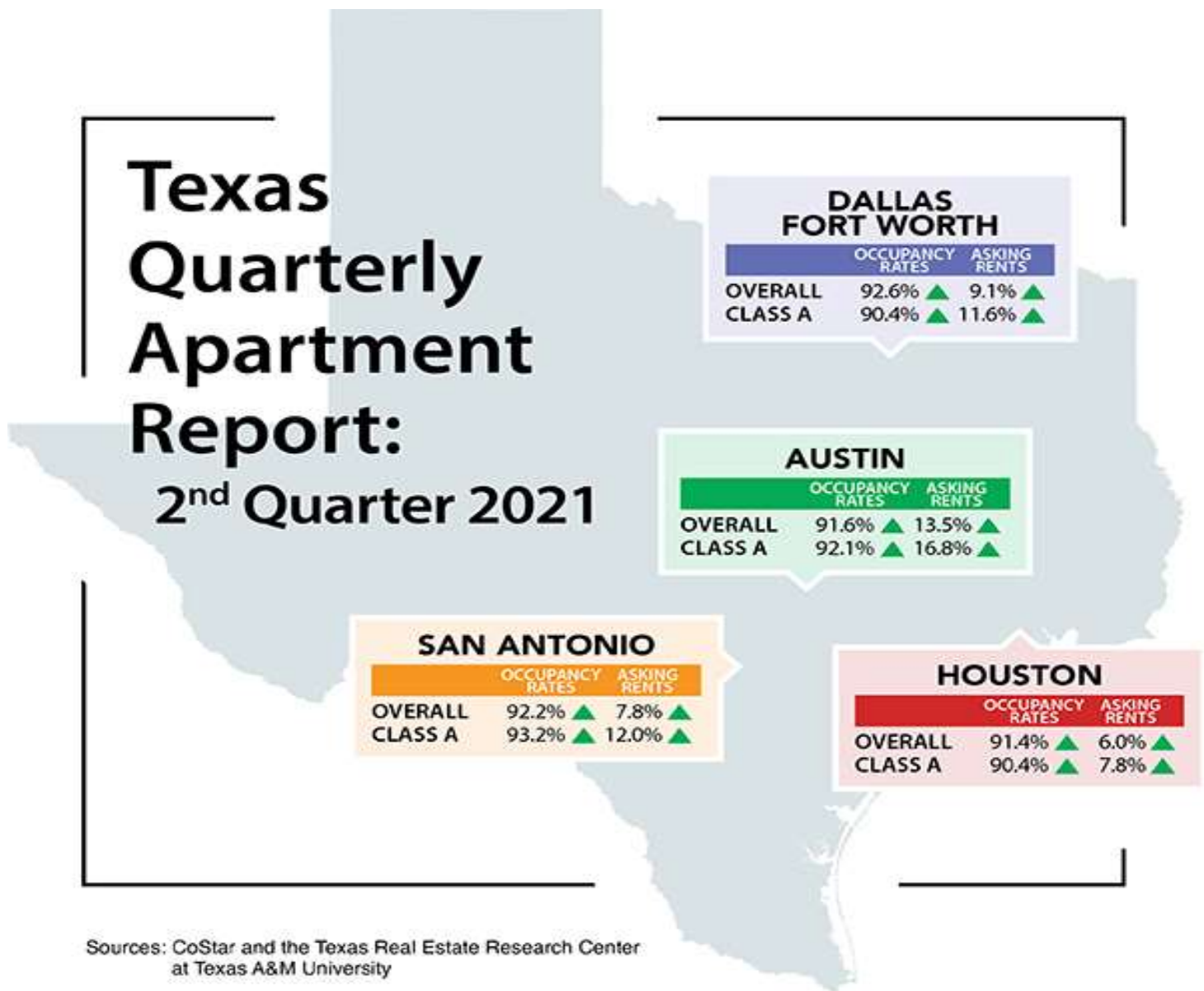
*Seasonally adjusted, real dollars.

SOURCE: Texas A&M Real Estate Center, Multiple Listing Service.

Provided by Federal Reserve of Dallas – Texas Economic Indicators – Sep 2021

TEXAS QUARTERLY APARTMENT REPORT

The graph below was included in the September 2021 – Texas Quarterly Apartment Report prepared by the Texas Real Estate Research Center in September 2021.



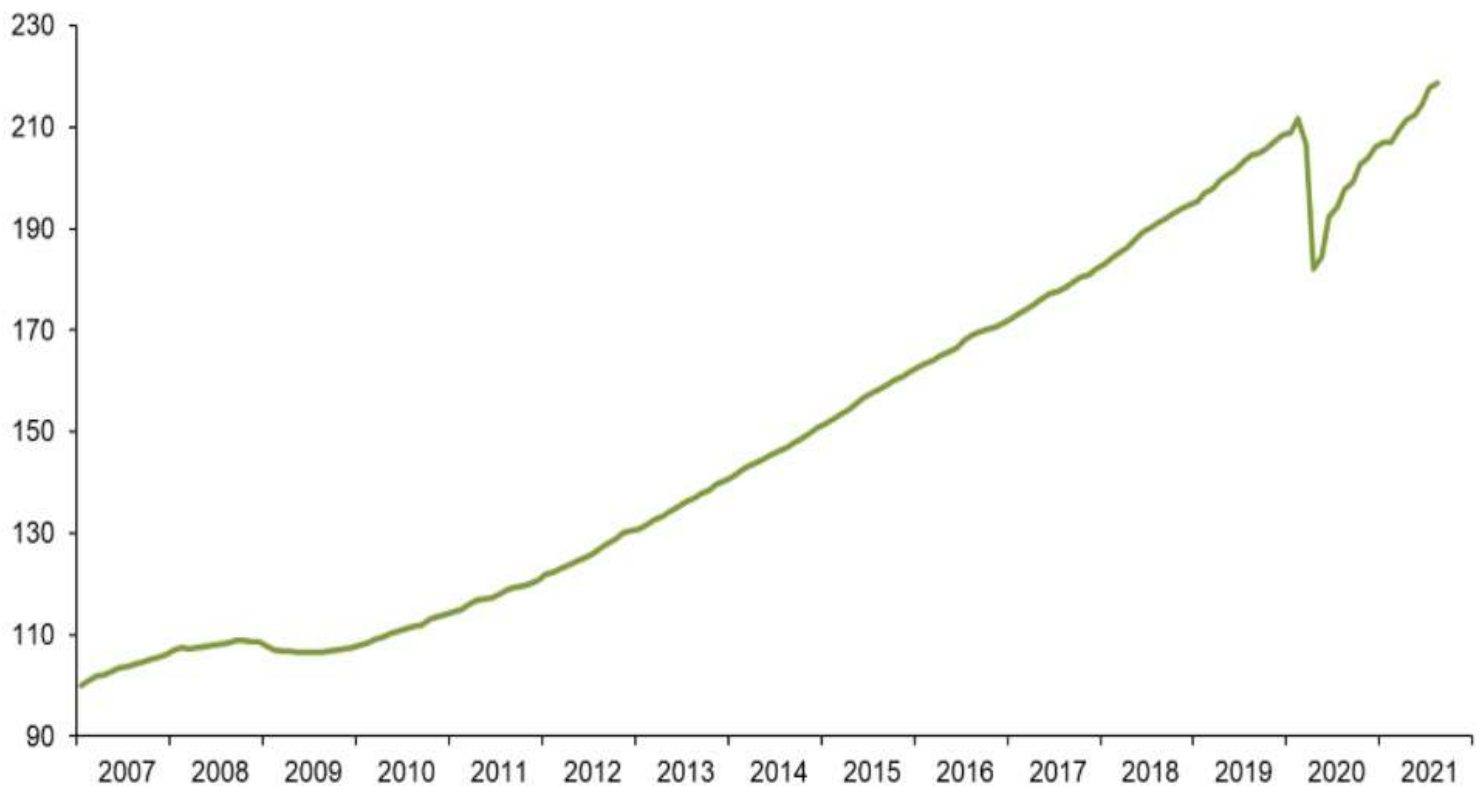
Class A properties represent highest quality apartments. “They are usually less than 10 years old and are often new, upscale apartment buildings. Average rents are high, and they are generally located in desirable geographic areas.” – multifamilypro.com

BUSINESS CYCLE INDEX – AUSTIN MSA

“The Austin Business-Cycle Index – a broad measure of economic activity – increased an annualized 5.0 percent in August after expanding a robust 20.3 percent in July. Recent strength in the economy can be attributed to unemployment rate declines and job gains.” – Oct 2021 – Austin Economic Indicators – Dallas Fed

Austin Business-Cycle Index

Index, January 2007 = 100



SOURCE: Dallas Fed.

Provided by Federal Reserve of Dallas – Austin Economic Indicators – Oct 2021

Business Cycle Indexes are meant to reflect broad movements in local economic conditions. The Dallas Fed states that “the [local area] indexes are constructed based on the aggregated movements in the local area unemployment rate, nonagricultural employment, inflation-adjusted wages, and inflation-adjusted retail sales. The weights of the components are statistically optimized for each metropolitan area in order to best capture the underlying cyclical movements in the local area economy.”

TEXAS BUSINESS OUTLOOK SURVEY HEADLINE INDEXES – TEXAS

“The TBOS manufacturing and service sector headline indexes reflected a slower but above-average pace of expansion. While still positive, both indexes fell from the previous month. Specifically, the manufacturing production index fell 10.2 points to 20.8, and the service sector revenue index fell to 16.5. After two months of contraction, the retail sales index turned positive in August, climbing 8.1 points to 7.9. The company outlook indexes remained positive but fell in August, and uncertainty increased.”– Sep 2021 – Texas Economic Indicators – Dallas Fed

Texas Business Outlook Surveys' Headline Indexes



*Seasonally adjusted.

SOURCE: Dallas Fed's Texas Business Outlook Surveys.

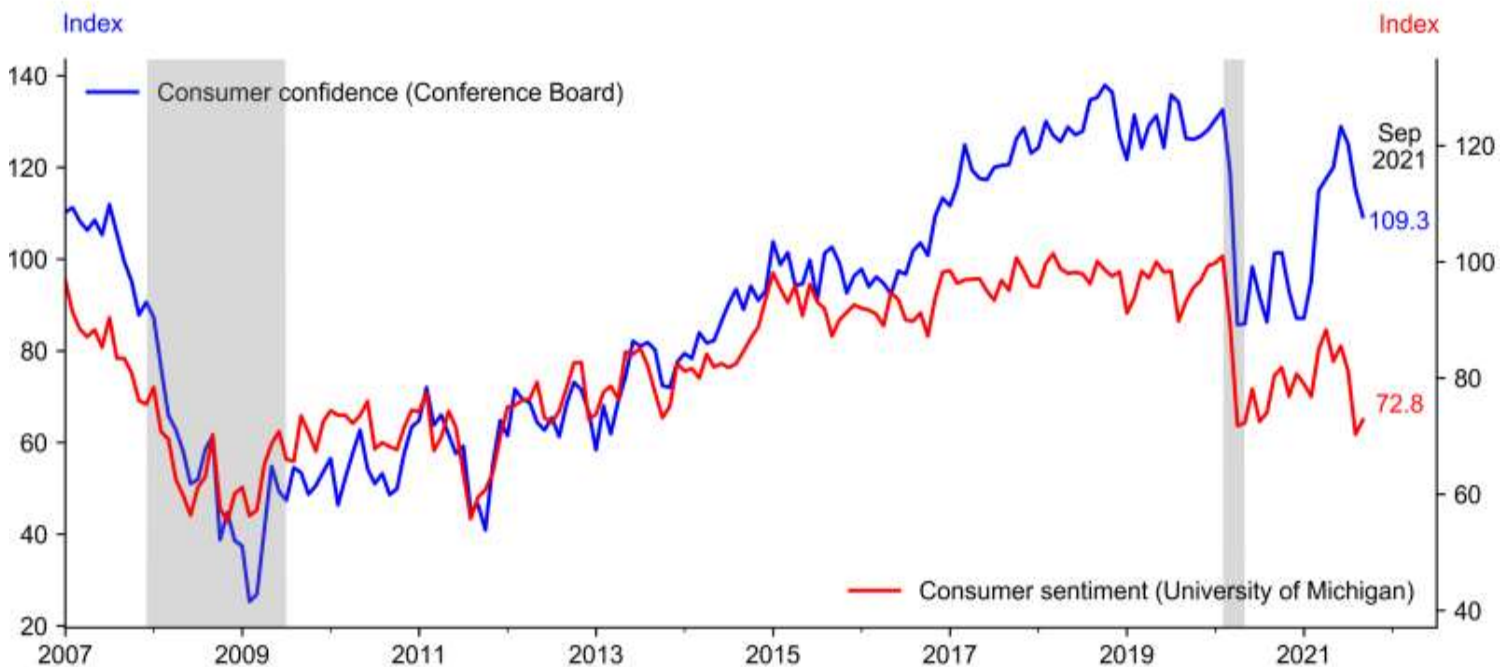
Provided by Federal Reserve of Dallas – Texas Economic Indicators – Sep 2021

CONSUMER CONFIDENCE AND SENTIMENT – U.S.

“Consumer confidence dropped in September as the spread of the Delta variant continued to dampen optimism,” said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. **“Concerns about the state of the economy and short-term growth prospects deepened, while spending intentions for homes, autos, and major appliances all retreated again.”** “[The] Index has now fallen 19.6 points from the recent peak of 128.9 reached in June. These back-to-back **declines suggest consumers have grown more cautious and are likely to curtail spending going forward.**” – September 28, 2021 – The Confidence Board

Surveys of Consumers, Chief economist, Richard Curtin, commented **“Consumer sentiment edged upward in late September**, although the overall gain still meant the continuation of depressed optimism, initially sparked by the Delta variant and supported by persistent inflation and unfavorable long-term prospects for the national economy.” **“Even if transient, higher inflation has already decreased living standards,** and further damage is anticipated as **just 18% of all households anticipated income gains would be larger than the expected inflation rate.”**

Consumer Confidence



SOURCES: The Conference Board; University of Michigan.

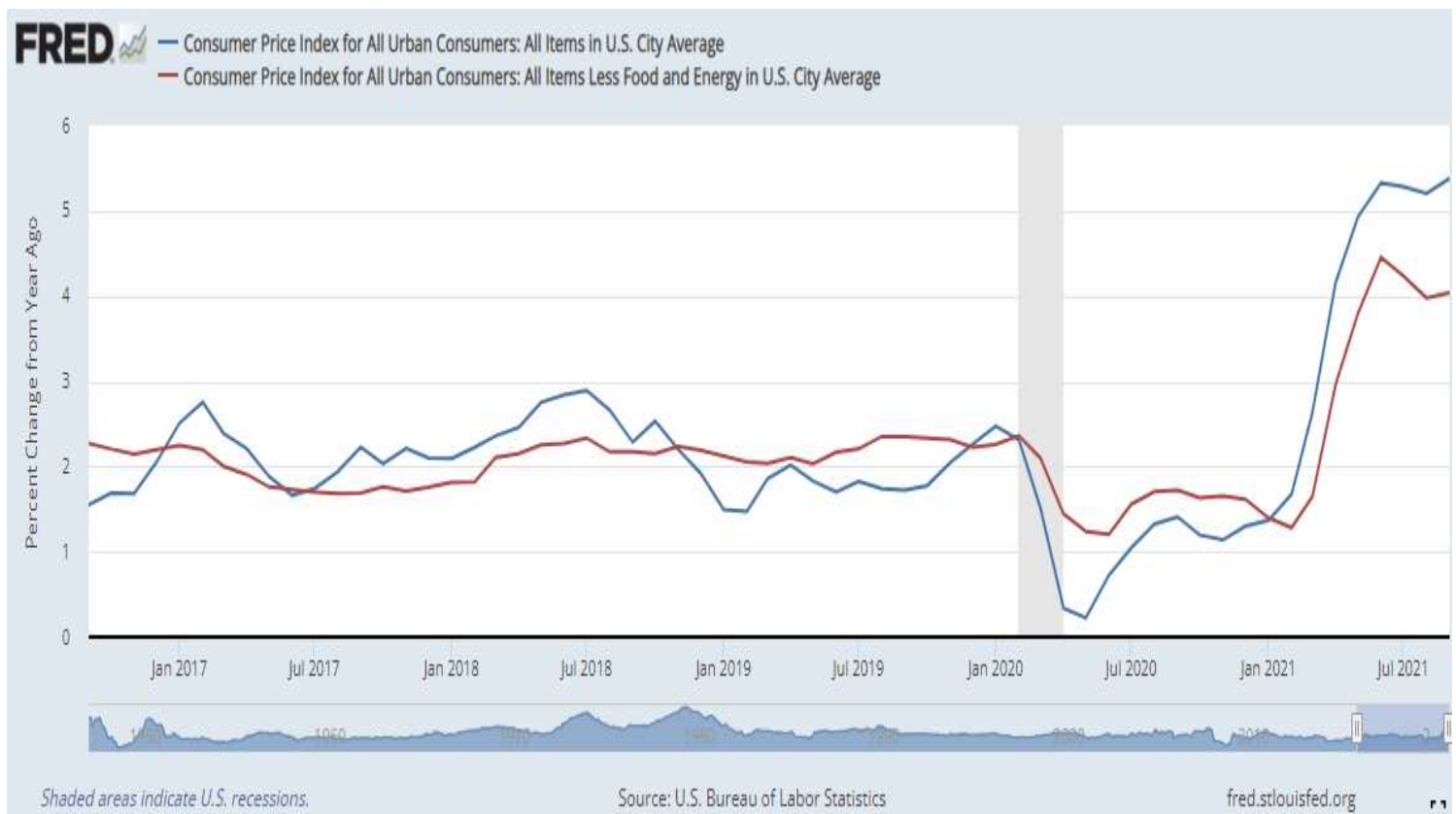
Provided by Federal Reserve of Dallas – U.S. Economy Charts– Oct 2021

U.S. consumer **confidence** index (CCI) is defined as **“the degree of optimism on the [current] state of the economy** that consumers are expressing through their activities of savings and spending.” – Wikipedia U.S. consumer **sentiment** is defined as **“the indicator of the future course of the national economy.”** – Investopedia

CONSUMER PRICE INDEX

“The all items index rose 5.4 percent for the 12 months ending September, compared to a 5.3 percent rise for the period ending August. The index for all items less food and energy rose 4.0 percent over the last 12 months, the same increase as the period ending August. The energy index rose 24.8 percent over the last 12 months, and the food index increased 4.6 percent over that period.” – Oct 2021 – Economic News Release – Bureau of Labor Statistics

Consumer Price Index - 12 Month Percentage Change



Source: Bureau of Labor Statistics, not seasonally adjusted, 1982-84=100 Provided by the St. Louis Fed

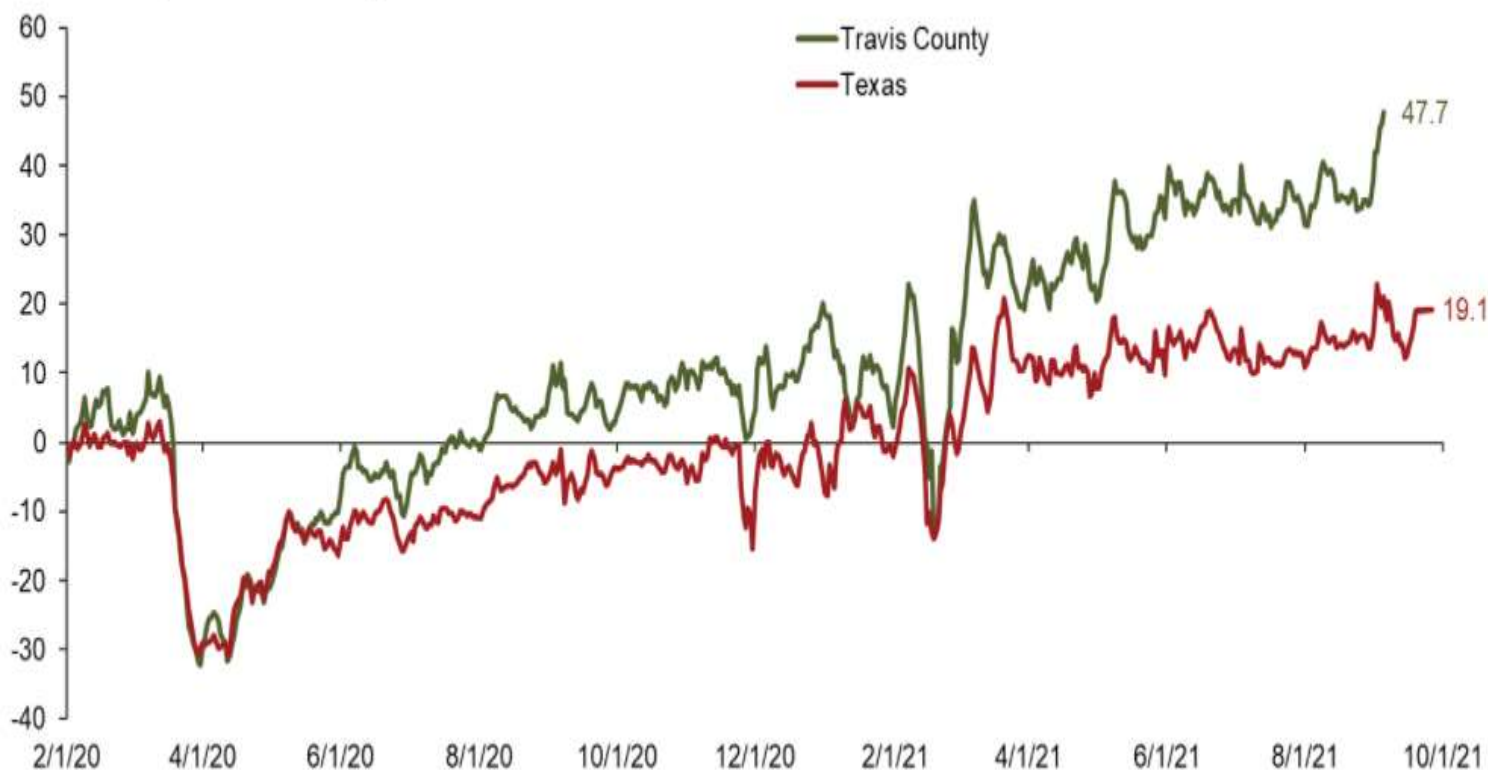
According to the Bureau of Labor Statistics (BLS), “There are a variety of CPI numbers generated each month. In the graph above, two numbers are compared. The first is the **Official CPI Number** that is reported to the media. It is the broadest and most comprehensive CPI and is called the **All Items CPI for All Urban Consumers**. The second one is called the **All items less food and energy**.” The BLS mentions that “Some users of CPI data use this index because food and energy prices are relatively volatile, and these users want to focus on what they perceive to be the ‘core’ or ‘underlying’ rate of inflation.”

CREDIT AND DEBIT CARD SPENDING – TRAVIS COUNTY AND TEXAS

“Strength in consumer spending in Austin has continued in recent weeks and reached a record high during Labor Day weekend. In the metro’s most-populous county, Travis, credit and debit card spending has consistently surpassed January 2020 levels since last July, except for a dip in late November 2020 and during Winter Storm Uri in mid-February this year. As of Sept. 5, 2021, spending in the county was up a robust 47.7 percent relative to January 2020. As of Sept. 26, spending in Texas was up 19.1 percent.” – Oct 2021 – Austin Economic Indicators – Dallas Fed

Credit and Debit Card Spending

Percent change relative to January 2020



NOTE: Texas data are daily through Sept. 26. Austin data are daily through Sept. 5, 2021. Travis County includes Austin.
SOURCE: Affinity Solutions.

OIL AND NATURAL GAS

“As of the week ending Sept. 17, the rig count moderately increased to 239 but remained far below prepandemic levels. Oil prices were at \$71.69, above levels seen in February 2020 and slightly above the average price forecast, according to contacts responding to the second-quarter Dallas Fed Energy Survey.” – Sep 2021 – Texas Economic Indicators – Dallas Fed

Energy Activity



NOTE: Oil price and rig count data are through the week ending Sep. 17, 2021. The oil price is for West Texas Intermediate crude.
SOURCE: Baker Hughes; Energy Information Administration.

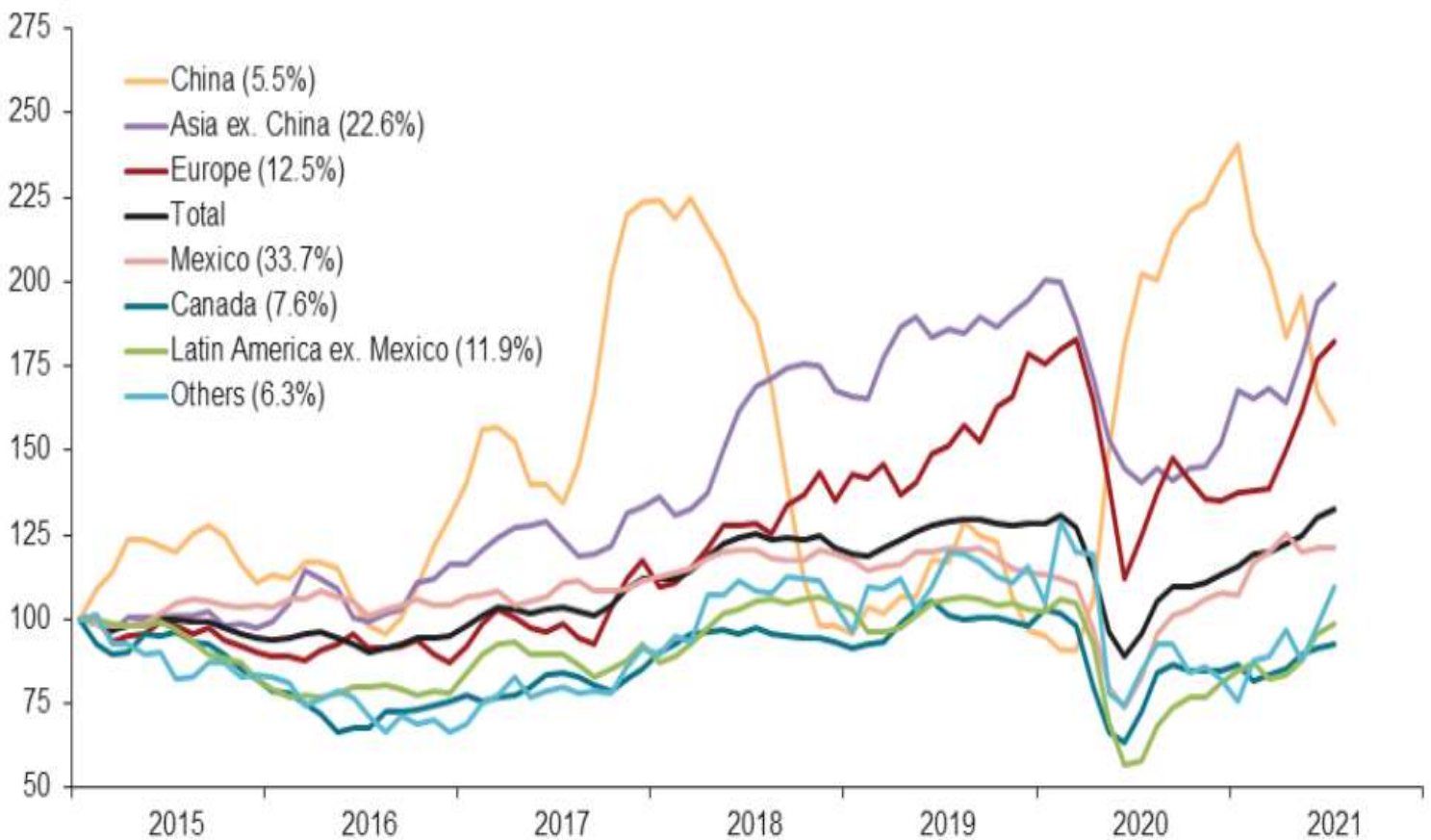
Provided by Federal Reserve of Dallas – Texas Economic Indicators – Sep 2021

TEXAS EXPORTS

“Texas exports dipped in July, though the three-month moving average rose for the 13th month in a row, up 1.95 percent. The three-month moving average of Texas exports to Latin America (excluding Mexico) and Europe climbed 3.3 and 3.4 percent, respectively. Moderate growth was seen in Texas exports to the rest of Asia and Canada at 2.8 and 1.1 percent, respectively. Exports to both China and Mexico declined.” – Sep 2021 – Texas Economic Indicators – Dallas Fed

Texas Exports by Region

Index, 2015 = 100*



*Three-month moving average, real dollars; seasonally adjusted.

NOTE: Numbers in parentheses refer to share of July 2021 Texas exports; percentages do not add to 100 due to rounding.

SOURCE: Census Bureau; Bureau of Labor Statistics.

Provided by Federal Reserve of Dallas – Texas Economic Indicators – Sep 2021

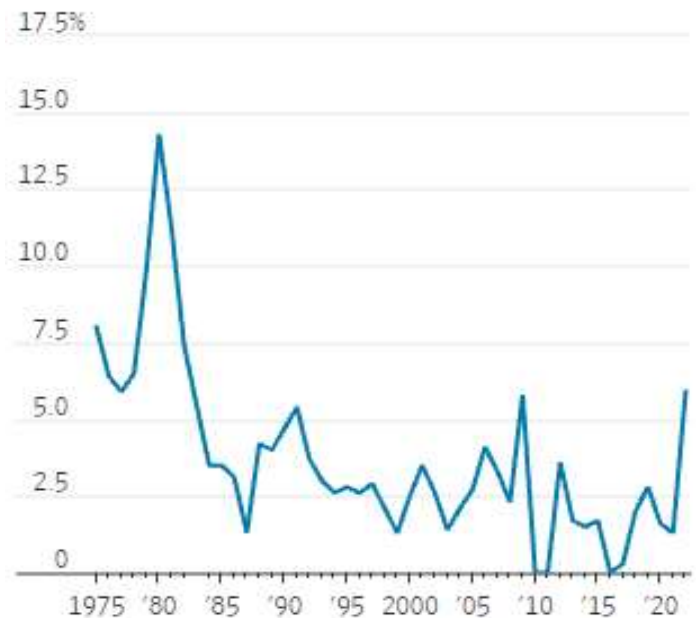
SOCIAL SECURITY BENEFITS TO INCREASE 5.9% FOR 2022

“Seniors and other Americans receiving Social Security benefits in 2022 will see the largest increase in their payments in four decades, reflecting surging inflation during the pandemic.

Next year’s cost-of-living adjustment, or COLA, will be 5.9%, the Social Security Administration said Wednesday. The increase will translate to an addition of \$92 to retirees’ average monthly benefit next year, bringing the amount to \$1,657, the agency estimates.

The nearly 6% cost-of-living adjustment is the largest since 1982, according to Social Security Administration data. The adjustment is calculated based on the Labor Department’s measure of inflation faced by blue-collar workers.” – Oct 2021 – The Wall Street Journal

Social Security Cost of Living Adjustments



Note: Adjustments were effective with benefits received in July between 1975-82 and benefits received in January after 1982. Social Security Administration data show no adjustment was made in 1983.

Source: Social Security Administration

Provided by The Wall Street Journal – Oct 2021

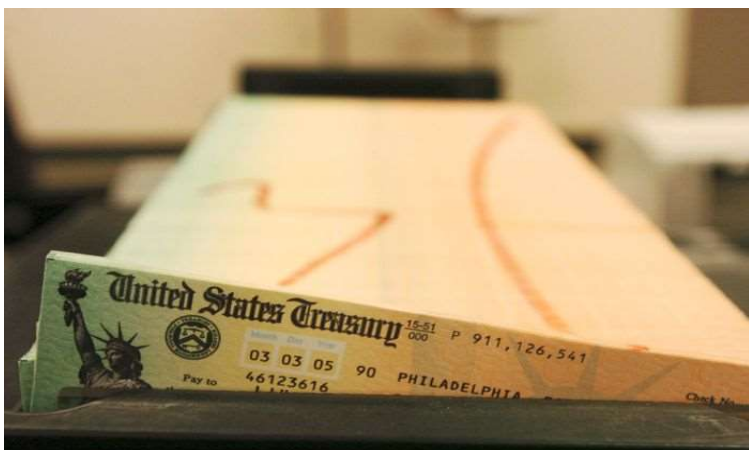


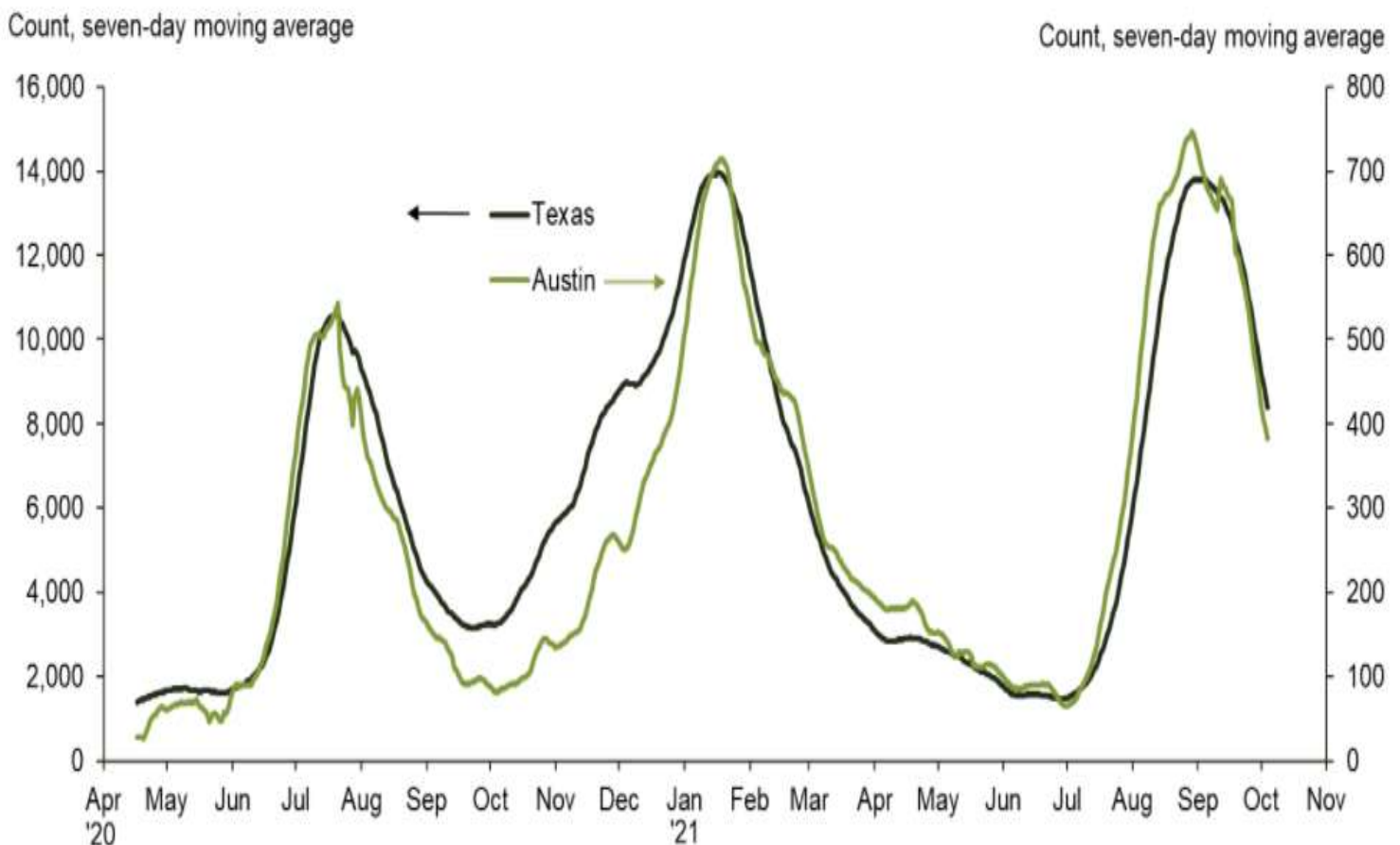
Photo: Bradley C Bower/ Associated Press
Provided by The Wall Street Journal – Oct 2021

“Roughly half of Americans aged 65 and older relied on Social Security for 50% or more of their income in 2019, according to an AARP analysis of Census Bureau data. About a quarter of seniors 65 and older relied on the benefits for 90% or more of their income, the analysis found.” – Oct 2021 – The Wall Street Journal

COVID – 19 HOSPITALIZATIONS – AUSTIN

“The number of people currently hospitalized with COVID-19 in Austin has continued to decline since its recent peak in mid-September. **As of Oct. 4th, 383 people were hospitalized in Austin and 8,407 in Texas – well below the state peak in late August.**” – Oct 2021 – Austin Economic Indicators – Dallas Fed

COVID-19 Hospitalizations



NOTE: Data for Austin refer to the area covered by the Austin Trauma Service Area. Data are daily, seven-day moving averages through Oct. 4, 2021.

SOURCE: Texas Department of State Health Services.

Provided by Federal Reserve of Dallas – Austin Economic Indicators – Oct 2021

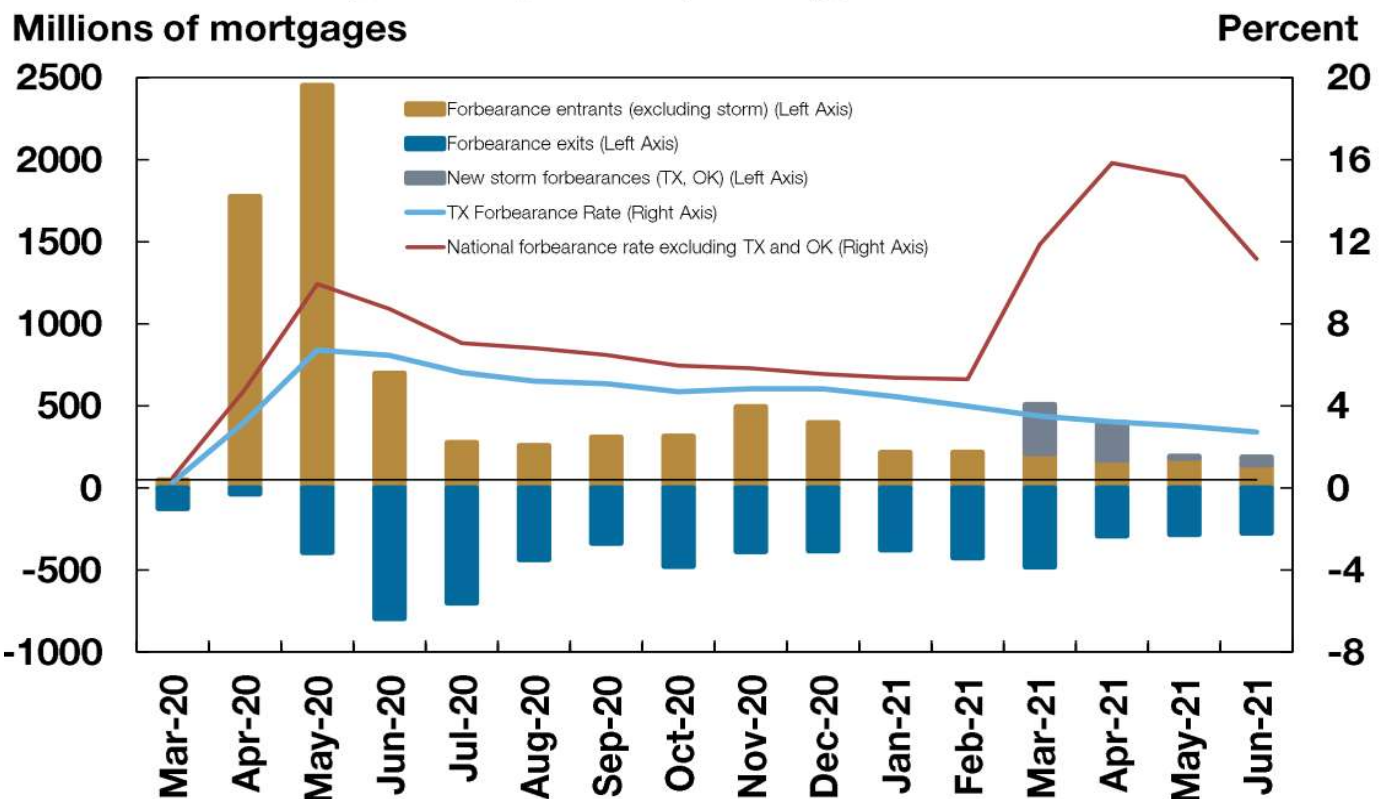
MORTGAGE FORBEARANCES PARTICIPATION

“Forbearance on federally-backed mortgages have been in place since the pandemic began.

The forbearance participation rate has declined as the program is scheduled to end.

- These declines were offset by the storm-related forbearances in Texas and neighboring states.
- **Forbearances rates, including the natural disaster forbearances, spiked to over 16% of mortgages in Texas.**
- Meanwhile, the national forbearance rate excluding the storm related forbearances declined to just 2.7% of mortgages.” – Sep 2021 – Federal Reserve Bank of New York

Forbearance participation, entry, and exit



Source: New York Fed Consumer Credit Panel / Equifax

Provided by Federal Reserve Bank of New York – Sep 2021

CREDIT SCORE COMPOSITION OF MORTGAGES OUTSTANDING

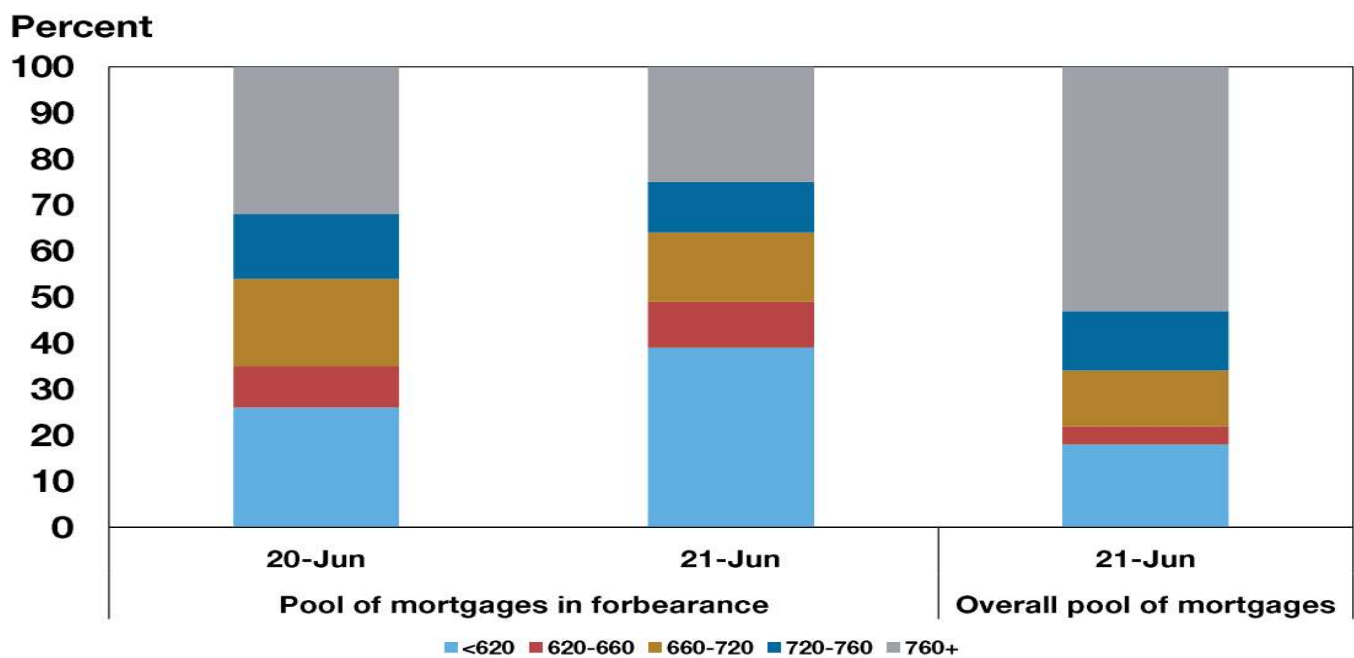
“Forbearance participation tilts to subprime borrowers .

When participation in the forbearance program peaked, 32% of the participating mortgages were to those with credit scores over 760.

Many high-score borrowers have exited the program, leaving the remaining participants disproportionately comprised of those with lower credit scores.

- As of June 2021, 39% of the remaining pool of forbearance participants had credit scores under 620 at origination.
- Only 25% of forbearance participants had credit scores of 760 or higher.
- This distribution is different than the overall pool of mortgages, of which 56% of borrowers have credit scores over 760.” – Sep 2021 – Federal Reserve Bank of New York

Credit score composition of mortgages outstanding



Source: New York Fed Consumer Credit Panel / Equifax

Provided by Federal Reserve Bank of New York – Sep 2021

SOMETHING OF INTEREST

WHY DO THE LIFE SPANS OF SOME LED BULBS FAIL TO MEET EXPECTATIONS?

“According to the U.S. Department of Energy, LEDs use at least 75% less power than incandescent bulbs and last up to 25 times longer. But **it’s not clear how long the modern lights last outside of ideal laboratory conditions**, and in certain circumstances, they might not outlive the traditional bulbs they bumped off the shelf.

‘A lot of expectations have been created that if you buy an LED lightbulb, you don’t have to change it ever,’ said Nadarajah Narendran, director of research at Rensselaer Polytechnic Institute’s Lighting Research Center. ‘It’s time for us to reset those expectations.’

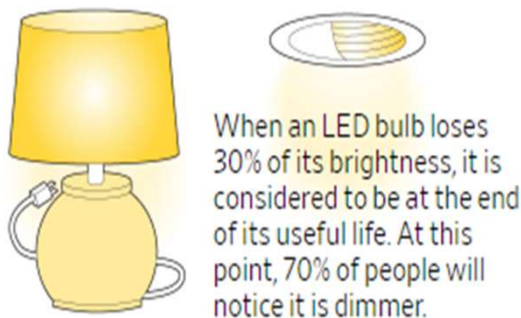


An LED bulb, center, whose useful life is over when its brightness is diminished by 30%—and that can occur sooner than promised.

PHOTO: PARKER ESHELMAN/THE WALL STREET JOURNAL

When an incandescent bulb burns out, it extinguishes with a pop as its glowing filament snaps.

Light-emitting diodes—the components that provide illumination in LED bulbs—are different. Instead of experiencing sudden death, they grow dimmer over time, and according to industry standards, **their useful life is over when their brightness is diminished by 30%.**



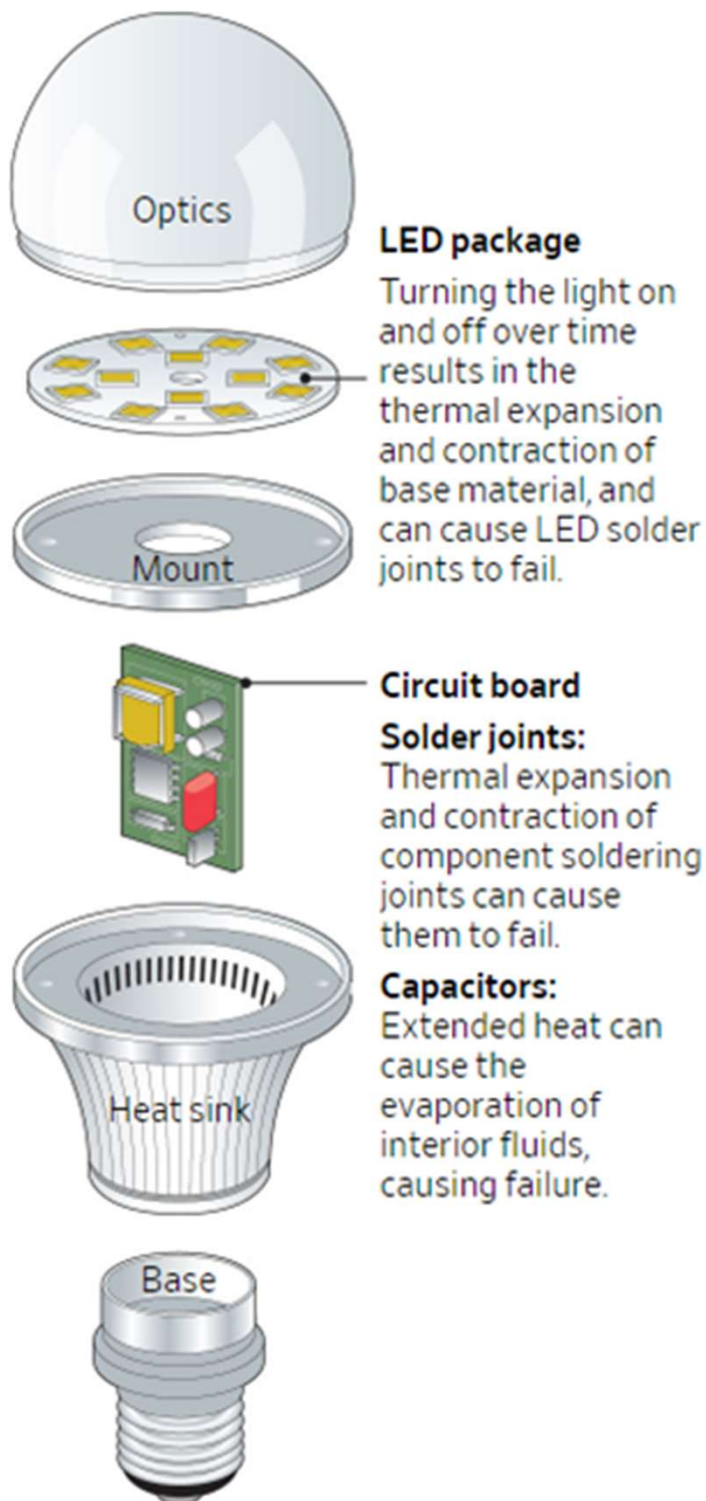
Source: Energy Efficient End-use Equipment
International Energy Agency; Shutterstock; Kevin
Hand and Erik Brynildsen/THE WALL STREET
JOURNAL

If a bulb no longer seems sufficiently bright, it might be time to replace it.” – Oct 2021 – The Wall Street Journal

SOMETHING OF INTEREST

WHY DO THE LIFE SPANS OF SOME LED BULBS FAIL TO MEET EXPECTATIONS?

(continued)



"A bulb certified by Energy Star, a program run by the Environmental Protection Agency and Department of Energy to promote energy efficiency, might have a rated life of 20,000 hours, or around 18 years based on three hours of use each day.

But in ordinary use, as many as a dozen LEDs might be connected in a series inside a lightbulb; one or more bulbs might be enclosed in a light fixture that inhibits air circulation; and the lights might be turned on and off multiple times a day—all conditions that can cause LEDs to grow dimmer more quickly than promised.

'You would find LED lifetime is not 20 years,' Dr. Narendran said. 'It would be much shorter. It could be worse than an incandescent lamp in some cases. You could get only 500 hours if you have three bulbs trapped in a surface-mounted fixture' where airflow is restricted.

In comparison, incandescent bulbs are expected to last 1,000 hours." – Oct 2021 – The Wall Street Journal

IN-DEPTH – EVERGRANDE

“Chinese property giant Evergrande is on the brink of collapse, and analysts warn the potential fallout could have far-reaching implications that spill outside China’s borders.” – Sep 2021 – CNBC

“Snowed under its crushing debt of \$300 billion, Evergrande is so huge that the fallout from any failure could hurt not just China’s economy. Contagion could spread to markets beyond China.” – Sep 2021 – CNBC



Evergrande’s headquarters in Shenzhen, China.

PHOTO: NG HAN GUAN/ASSOCIATED PRESS; Provided by WSJ Sep 2021

WHAT IS EVERGRANDE?

“Evergrande is one of China's largest real estate developers. The company is part of the Global 500 – meaning that it's also one of the world's biggest businesses by revenue.” – Sep 2021 – CNN Business

- **“Evergrande owns more than 1,300 real estate projects** in over 280 cities in China.
- Its **property services management arm is involved in nearly 2,800 projects** across more than 310 cities in China.
- The company has seven units dabbling in a wide range of industries, including **electric vehicles, health-care services, consumer products, video and television production units and even a theme park.**
- The firm says it has 200,000 employees, but **indirectly creates more than 3.8 million jobs every year**, according to its website.
- **Evergrande’s shares and bonds are included in indexes across Asia.”** – Sep 2021 – CNBC

IN-DEPTH – EVERGRANDE

HOW DID EVERGRANDE RUN INTO TROUBLE?

“Evergrande did lots of borrowing.

It could justify that borrowing because the value of its property kept rising, and it kept purchasing more land.

Meanwhile, those rising property values appeared to be good for Chinese home buyers, because they almost constantly saw the value of their homes increase, fueling the continued growth of the consumerist middle class.



In reality, experts say, the system just created a bubble.” – Sep 2021 – Washington Post

“Outside housing, the group has invested in electric vehicles, sports and theme parks. It even owns a food and beverage business, selling bottled water, groceries, dairy products and other goods across China.” – Sep 2021 – CNN Business

“In some ways, the company's aggressive ambitions are what landed it in hot water, according to experts. **The group ‘strayed far from its core business,** which is part of how it got into this mess,’ said Mattie Bekink, China director of the Economist Intelligence Unit.” – Sep 2021 – CNN Business

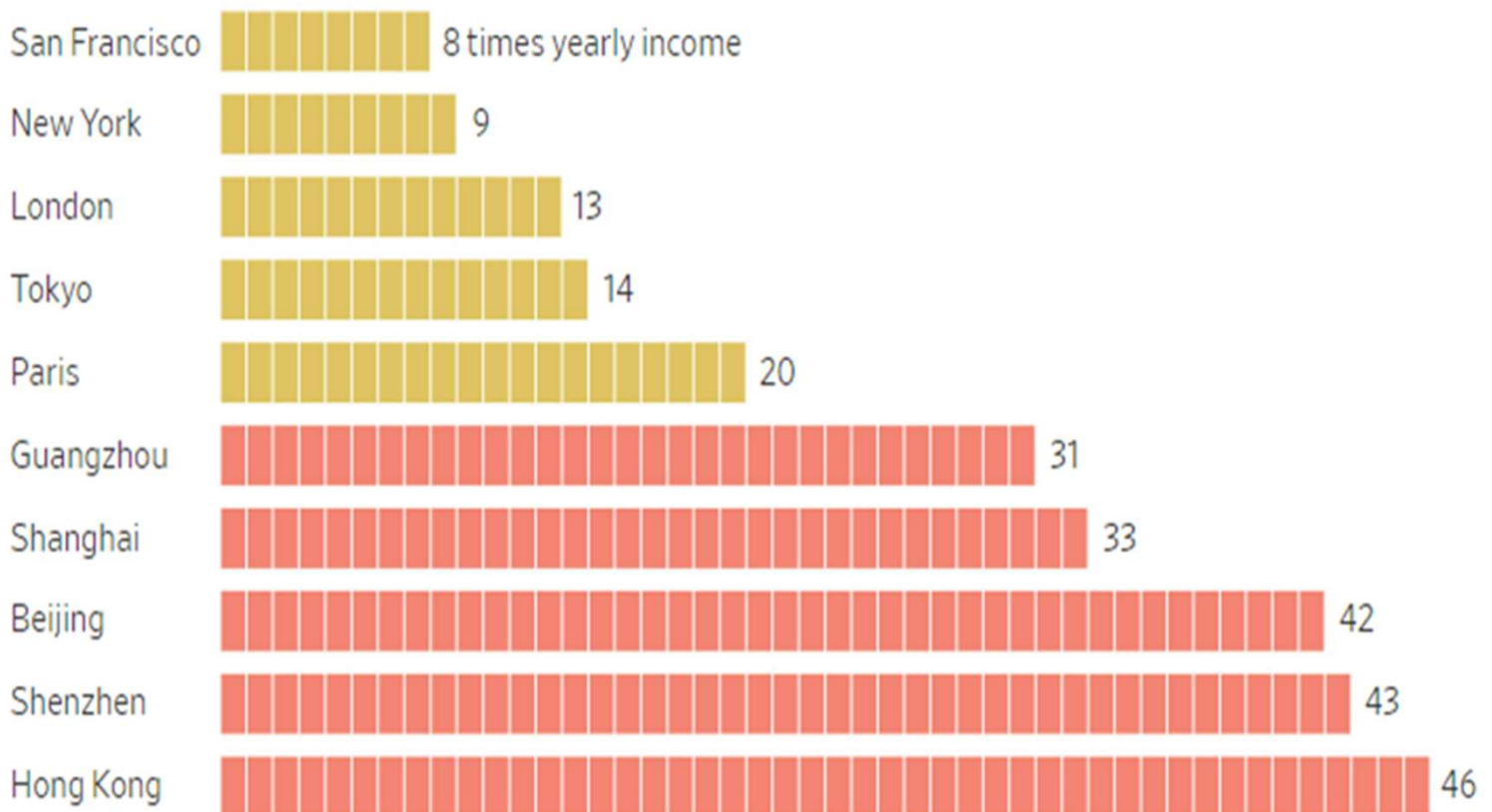
As reported by Bloomberg News, People’s Bank of China official Zou Lan said at a news briefing on Friday, October 15th, “In recent years, **the company failed to manage its business** well and to operate prudently amid changing market conditions. Instead **it blindly expanded and diversified.**”

IN-DEPTH – EVERGRANDE

RATIO OF HOME VALUES TO INCOME

“Another sign of the scale of China’s housing boom: **home price-to-income ratios in China’s big cities make New York, London and Paris look cheap.**” – Oct 3, 2021 – WSJ

Ratio of home prices-to-income, by city



Note: Ratio of median apartment price to median family disposable income, as of mid-2021

Source: J.P. Morgan Asset Management Guide to China

IN-DEPTH – EVERGRANDE

WHAT TRIGGERED THE RECENT REAL ESTATE DEVELOPER DISTRESS?

"As China enters what many economists say is the final stage of one of the largest real-estate booms in history, it is confronting a staggering bill: **More than \$5 trillion in debt that developers took on when times were good**, according to economists at Nomura Holdings Inc." – Oct 10, 2021 – WSJ

"The latest buying frenzy began **in early 2020, as the government turned to property investment to help offset a pandemic-induced blow to exports and domestic spending.**

By the late summer last year, authorities, **fearing that the housing market had become overheated, introduced a set of policies to cool down the sector – and**, in particular, to rein in the heavy borrowing of property developers.

Most prominent among the measures last year was a **'three red lines' policy that requires developers to bring down debt levels below certain thresholds before they are able to borrow more money from financial institutions.**" – Sep 2021 – WSJ



An Evergrande housing complex in Shenzhen, China. The developer has run out of credit, partly due to Beijing's policy shifts. PHOTO: NOEL CELIS/AGENCE FRANCE-PRESSE/GETTY IMAGES; Provided by WSJ Sept 2021

"The more overleveraged a developer was, the less regulators would allow it to borrow. **Evergrande breached all three red lines, so regulators placed a hard cap on its debt** — the main way the company created liquidity."

"**The real trigger was these rules that came into place, these three red lines**, that said, 'This time we're serious,' Bishop said. **'These real estate companies can't take on any more debt, and if you can't take on any more debt, then the game stops.'**" – Sep 2021 – Washington Post

IN-DEPTH – EVERGRANDE

WHO WOULD BE IMPACTED IF EVERGRANDE COLLAPSES?

“Firstly, many people bought property from Evergrande even before building work began. They have paid deposits and could potentially lose that money if it goes bust.” – Sep 2021 – BBC

“Much of the cash that Evergrande has been able to drum up has come from presold apartments that aren’t yet completed. Evergrande has nearly 800 projects across China that are unfinished, and as many as 1.6 million people who are still waiting to move into their new homes, according to an estimate from Barclays.” – Sep 2021 – The New York Times



An Evergrande housing development in Beijing. PHOTO: ASSOCIATED PRESS; Provided by WSJ Oct. 3, 2021

“There are also the companies that do business with Evergrande. Firms including construction and design firms and materials suppliers are at risk of incurring major losses, which could force them into bankruptcy.” – Sep 2021 – BBC

IN-DEPTH – EVERGRANDE

WHO WOULD BE IMPACTED IF EVERGRANDE COLLAPSES? (continued)

The third is the potential impact **on China's financial system.**

“‘The financial fallout would be far reaching. **Evergrande reportedly owes money to around 171 domestic banks and 121 other financial firms,**’ the Economist Intelligence Unit's (EIU) Mattie Bekink told the BBC.

If Evergrande defaults, banks and other lenders may be forced to lend less. This could lead to what is known as a credit crunch, when companies struggle to borrow money at affordable rates.

A credit crunch would be very bad news for the world's second largest economy, **because companies that can't borrow find it difficult to grow, and in some cases are unable to continue operating.**

This **may also unnerve foreign investors,** who could see China as a less attractive place to put their money.”
– Sep 2021 – BBC



*The Evergrande Fairyland complex in Lu'an, China, with towers under construction. Evergrande recently missed two bond-interest deadlines.
PHOTO: RAUL ARIANO FOR THE WALL STREET JOURNAL*

“[Evergrande’s] stock has shed nearly 85% of its value this year.” – Sep 2021 – CNN Business

“‘In our opinion, how Evergrande credit stresses will be resolved will drive market sentiment,’ Goldman Sachs analysts wrote recently, referring to the credit market and the broader economy. They added that **the Chinese bond market could be hit and a loss of confidence could ‘spill over to the broader property sector.’**” –
Sep 2021 – CNN Business

IN-DEPTH – EVERGRANDE

WHAT WILL CHINA DO NEXT? IS EVERGRANDE TOO BIG TO FAIL?

“Beijing has few good choices. **It will want to protect the thousands of people who have bought unfinished apartments, as well as construction workers, suppliers and small investors.**

In China, real estate, and its related industries, account for as much as 20% of the urban workforce, according to Christina Zhu, an economist at Moody's Analytics.

Authorities will also likely **aim to limit the risk of other real estate firms going under.** But at the same time, they have long been trying to rein in excessive borrowing by developers — and won't want to dilute that message.” – Sep 2021 – CNN Business

“The very serious potential fallout of such a heavily-indebted company collapsing has led some analysts to suggest that **Beijing may step in to rescue it.**

The EIU's [Economist Intelligence Unit's] Mattie Bekink thinks so: ‘Rather than risk disrupting supply chains and enraging homeowners, we think the government will probably find a way to ensure Evergrande's core business survives.’



An aerial view from a drone of the Evergrande City last month in Wuhan, China. Getty Images. Provided by Business Insider - Oct 2021

Others though are not sure.

In a post on China's chat app and social media platform WeChat, the influential editor-in-chief of state-backed Global Times newspaper Hu Xijin said Evergrande should not rely on a government bailout and instead needs to save itself.

This also chimes with Beijing's aim to rein in corporate debt, which means that such a high profile bailout could be seen as setting a bad example.” – Sep 2021 – BBC

IN-DEPTH – EVERGRANDE

WILL THERE BE A RUSH TO SELL PROPERTIES?

“In 2017, Bloomberg described Beijing's nightmare scenario as one in which people rush to sell off their second properties if cracks in the market appear, thereby sending prices on a downward spiral. When I asked [Li Gan, a professor of economics at Texas A&M University and the director of the Survey and Research Center for China Household Finance at Chengdu's Southwestern University of Finance and Economics], whether this was the scenario now unfolding in China, he said it wasn't — but not because there aren't cracks in the market.

Instead, **the government is making it so difficult to complete a sale that it's dissuading homeowners from selling**, Gan said.

‘China can stop a transaction. The government can change the number of years you have to own a home. Or if prices are too low, the government won't give you a certificate of sale,’ Gan said. ‘That is what's happening now.’

‘You won't see the price drop substantially, but you will see the transaction volume drop massively,’ he added. ‘They'll stop the sale. By doing that, they can prevent the look of a massive price drop. They can prevent the crash.’

This very move — suppressing home sales — stands to hurt those who need to sell their homes to access cash, Gan said. ‘Real estate is a massive chunk of people's wealth,’ he said. ‘If they need that wealth for education, or health problems, or retirement, the liquidity sellers will suffer.’

Gan stressed that the stopping of sales was not singularly, or even directly, linked to Evergrande's debt crisis: ‘This was happening before Evergrande became evident,’ he said.” – Oct 2021 – Business Insider

IN-DEPTH – EVERGRANDE

CHINA'S PROPERTY MARKET

“As recently as the 1990s, it was illegal under China’s communist system for most people to own homes. A State Council decision in 1998 abandoned the country’s system of employer-allocated housing, and homeownership took off.

By late last year, about 96% of China’s urban households owned at least one home, according to a Chinese central bank survey released in April, far exceeding the 65% homeownership rate in the U.S.” – Jul 2020 – WSJ

“Chinese households are restricted from investing abroad, and domestic bank deposits offer low returns. Many people are wary of the country’s boom-and-bust stock markets. So some have poured money into housing, in some cases buying three or four units without any intention of living in them or renting them out.” – Oct 10, 2021 – WSJ



A model of a residential compound by China Vanke, a large developer, at its showroom in Dongguan, China.

PHOTO: CHINA STRINGER NETWORK/REUTERS; Provided by WSJ Sep 2021

“In essence, urban Chinese have bet everything on their homes. They now have nearly 78% of their wealth tied up in residential property, versus 35% in the U.S., where more people invest in stocks and pensions, according to a report by China Guangfa Bank and Southwestern University of Finance and Economics.” – Jul 2020 – WSJ

IN-DEPTH – EVERGRANDE

CHINA'S GHOST CITIES

"If you drive an hour or two outside Shanghai or Beijing, you'll find something odd. **The cities are still tall, and they're still modern.** They're also, **generally, in good condition.** But unlike their bustling, Tier 1-city counterparts, **they're basically empty.** These are China's ghost cities." – Oct 2021 – Business Insider

"About 21% of homes in urban China were vacant in 2017 – a very high proportion relative to international standards – **which equated to 65 million empty units,** according to the most recent data from China Household Finance Survey." – Jul 2020 – WSJ

"That many empty units could house the population of France. But unlike parts of the US and Japan, where homes in various states of abandonment and decay have prompted cities and regions to be called ghost towns, China's are different. **They're not abandoned; they're just unoccupied.**

As [Li Gan] put it, these **ghost cities are 'a unique China phenomenon.'** The first thing to understand about China's ghost cities is that **they are not cities in states of disrepair.** Instead, they are full of new builds that were bought as investments. They're also a **symptom of mismatched supply and demand.**

"These homes being empty means they are sold out to investors and buyers, but not occupied by either the owners or renter," Xin Sun, a senior lecturer in Chinese and East Asian business at King's College London, told Insider." – Oct 2021 – Business Insider



Residential buildings in which only few people actually lived in Kangbashi in 2017. South China Morning Post / Contributor; Provided by Business Insider Oct 2021

IN-DEPTH – EVERGRANDE

SUPPLY, DEMAND, AND VACANCIES

SUPPLY: “On the supply side, Sun said, the [local] government gets big sales revenue from leasing out land to developers. ‘This gives the government very strong incentive to encourage development instead of limiting it,’ he said. **Every year, China starts building 15 million new homes** – five times as many as the US and Europe combined, The Economist reported in January.” – Oct 2021 – Business Insider

“In 2019, **new homes made up more than three-quarters of home sales in China, versus less than 12% in the U.S.**, according to data cited by Chinese property broker KE Holdings Inc. in a listing prospectus last year.” – Oct. 10, 2021 – WSJ

DEMAND FOR INVESTMENT: “On the demand side, the general **upward trend of house prices has spawned huge demand for second and third properties**, Sun said. ‘Within two decades, house prices have grown multiple times in many places, including major cities,’ Sun said. ‘Most people in China haven't experienced a substantial real-estate bubble burst like what the US experienced in 2008 or Japan in the 1990s.’

“This leads to a **strong popular belief that real estate is the best way to preserve and generate wealth**,’ Sun said. ‘And this stimulates the demand for buying additional properties.’” – Oct 2021 - Business Insider

DEMAND FOR HOMES: “Demand for units [to live in], however — and this is where the mismatch comes into play — has been affected by a series of factors, said Bernard Aw, an economist overseeing Asia Pacific for Coface. Among these factors is the **increasing unaffordability of homes, an aging population, and slowing population growth**. Aw pointed to China's 2020 census, which recorded the slowest population growth since the 1970s.”

VACANCIES: “‘**They built an oversupply, and then they sold it**,’ Gan said. ‘**And that's why you see the vacancies.**’” – Oct 2021 – Business Insider

IN-DEPTH TOPICS LOCATED ON THE COUNTY AUDITOR'S WEBPAGE

5G Network	4th Qtr 2018
Afterpay	4th Qtr 2020
Alibaba	3rd Qtr 2017
Bitcoin	4th Qtr 2016
Cashless Society	4th Qtr 2017
Chatbots	1st Qtr 2019
Deep Sea Mining	3rd Qtr 2020
Evergrande	3rd Qtr 2021
Facial Recognition	1st Qtr 2018
Labor Participation Rate	4th Qtr 2015
Libra, Calibra, Facebook	2nd Qtr 2019
Money Market Fund Reform – New Rules	3rd Qtr 2016
Natural Gas – U.S. 3rd Largest Exporter of LNG	4th Qtr 2019
Negative Interest Rate Policy (NIRP)	2nd Qtr 2016
New Silk Road	2nd Qtr 2017
Non-Fungible Tokens	1st Qtr 2021
Pandemic – Possible Impact	1st Qtr 2020
Quantitative Easing	1st Qtr 2016
Repurchase Agreements – Repo Market in Crisis	3rd Qtr 2019
Small Business Reorganization Act	2nd Qtr 2020
Texas Imports and Exports	2nd Qtr 2018
Universal Postal Union	3rd Qtr 2018
Vehicle Shortage	2nd Qtr 2021

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