

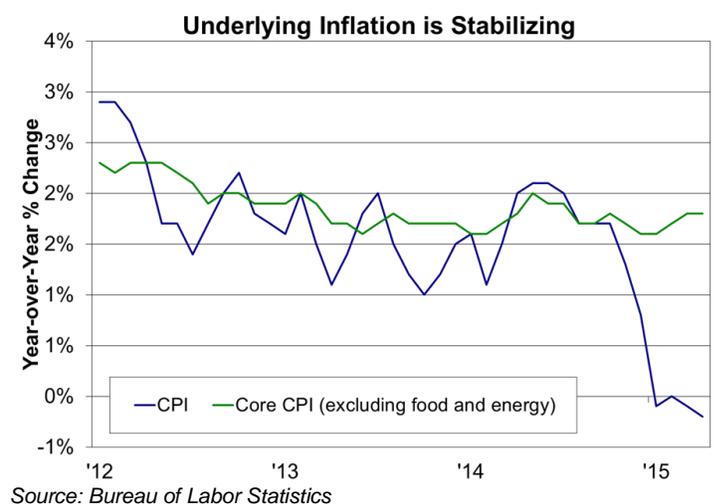
Economics: September Remains Our Call for Fed Liftoff

In this light data week, we saw reports of steady core retail inflation over the past year, with an upward trend in the month-to-month gain, and continued declines in the trend in layoffs to the lowest level in decades. [The minutes of the April Federal Open Market Committee \(FOMC\) meeting](#) confirmed what we already knew from the statement following the meeting. The Fed noted that weak first quarter growth was partly due to transitory factors, including weather conditions, West Coast port disruptions, and “statistical noise,” which tends to suppress growth during the first quarter of the year. The Conference Board’s Leading Economic Index (LEI) largely corroborated that view, as the jump in the April index indicates that growth is poised to rebound in the near term. Regarding the timing of the liftoff in the fed funds rate, the minutes noted that “many” participants viewed a June rate hike as “unlikely,” while “most” participants were reluctant to give “an explicit indication” of a near-term rate hike and prefer to remain data dependent. While the market has already priced out the first hike until the December meeting, we continue to hold our call that the liftoff will be at the September meeting, with the risk skewed toward later meetings.

➤ **The Consumer Price Index (CPI)** edged up 0.1 percent in April, according to the Bureau of Labor Statistics. Core CPI, which excludes food and energy, rose 0.3 percent, the biggest rise since January 2013, driven by the jump in medical care services. The gain in core CPI pushed the three-month annualized rate up to 2.6 percent, nearly a four-year high. On a year-over-year basis, headline CPI is down 0.2 percent in April, while core CPI is up 1.8 percent for the second consecutive month. As a result of the rebound in crude prices, retail gasoline prices have moved up sizably since mid-April, which will likely be reflected in the headline CPI in May.

➤ **The Conference Board Leading Economic Index (LEI)**, a gauge of the economic outlook over the next three to six months, jumped 0.7 percent in April, marking the largest increase since July 2014. Only one of the 10 components—the ISM New Orders Index—subtracted from growth. Building permits, which jumped to an expansion-high in April, were the largest positive contributor.

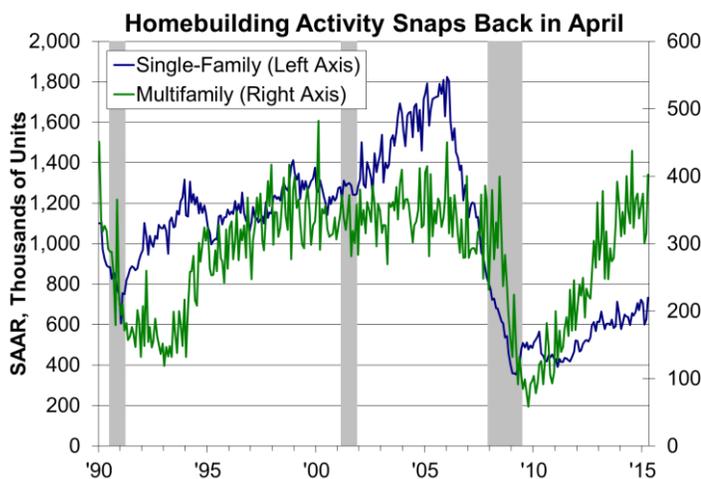
➤ **Initial claims for unemployment insurance** increased 10,000 to 274,000 in the week ending May 16, according to the Department of Labor. The four-week moving average decreased 5,500 to 266,250, matching the reading witnessed in mid-April 2000, which is the lowest since mid-December 1973. By state, initial claims in Texas held roughly steady from the prior week but were down from the levels seen in February and March, perhaps reflecting declining layoffs in the oil industry. Continuing claims edged down to a fresh expansion low of 2.21 million.



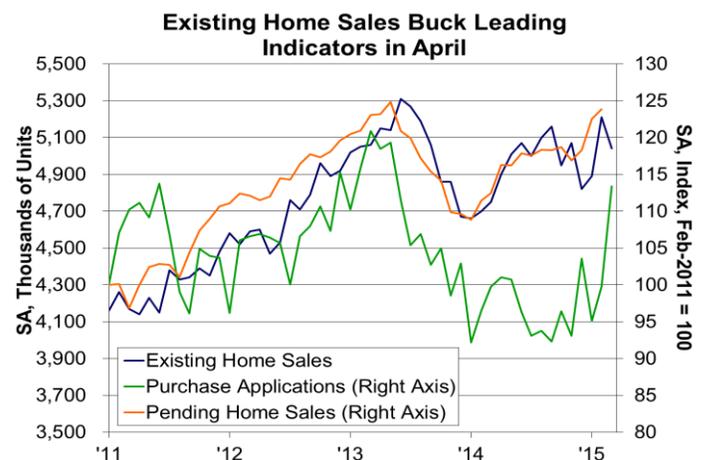
Housing: Housing Starts Come Back to Life

Housing data released this week were mixed, though supportive of our outlook for improved activity this year. The long-awaited rebound in housing starts arrived in April following a second consecutive dismal first quarter. The April spike put new home construction well ahead of last year's pace. Regional activity varied significantly, however. Nearly half of the increase in total housing starts came from the Northeast, which typically accounts for only about 15 percent of housing starts in the United States. The region posted an 85.9 percent jump in starts, following a 115.2 percent surge in March from the second-lowest reading since record-keeping began in 1959. The Midwest and West regions also rebounded significantly, but the South, which accounts for nearly half of all housing starts in the country, saw a modest drop. Despite the back-to-back surge in construction activity, the Northeast is the only region recording a year-to-date decline compared with last year. On the soft side this week, builder confidence retreated in May after increasing in April for the first time since last November, and existing home sales declined in April, bucking healthy improvements in pending home sales and purchase mortgage applications. Still, the sales pace remains healthy amid relatively tight inventories. In its press release, the National Association of REALTORS® reported that the average time on the market for existing homes declined to just 39 days in April, the second shortest duration since tracking began in May 2011. The composition of sales indicated healthier market conditions, with the shares of distressed sales and cash sales trending down to levels well below those recorded a year ago. While purchase mortgage applications pulled back last week, they stood higher than at any point in 2014. As we've highlighted in the past, the housing market remains vulnerable to heightened volatility in interest rates as the Fed moves closer to tightening monetary policy. The 30-year fixed mortgage rate ticked down one basis point this week to 3.84 percent according to Freddie Mac.

- **Housing starts** jumped 20.2 percent in April to 1.14 million annualized units, according to the Census Bureau. Single-family and multifamily housing starts rose 16.7 and 27.2 percent, respectively, during the month, with single-family starts reaching an expansion-high of 733,000 units. Through the first four months of 2015, single-family and multifamily housing starts are up 7.6 and 1.5 percent, respectively, from their totals over the same period last year. Residential building permits also spiked in April, jumping 10.1 percent to an expansion-best 1.14 million as single-family and multifamily permits increased 3.7 and 20.5 percent, respectively. Year to date, single-family and multifamily permits are up 5.5 and 5.2 percent, respectively, from a year ago.
- **Existing home sales** pulled back 3.3 percent in April to 5.04 million annualized units, according to the National Association of REALTORS®. Through the first four months of the year, sales are up 6.4 percent from the same period last year. The number of homes available for sale (not seasonally adjusted) jumped 10.0 percent in April but was down 0.9 percent from a year ago. The months' supply (or inventory/sales ratio) rose seven-tenths to 5.3—the highest since last September. The median sales price of existing homes, which is not adjusted for the composition of sales, increased 8.9 percent from a year ago—the fastest appreciation since January 2014.
- **The National Association of Home Builders/Wells Fargo Housing Market Index** edged down two points to 54 in May (a reading above 50 indicates more builders view the market as “good” than “poor”). A decline in builders' assessments of current sales and buyer traffic offset an uptick in sales expectations over the next six months.
- **Mortgage Applications** declined for a fourth consecutive week, sliding 1.5 percent in the week ending May 15, according to the Mortgage Bankers Association. Refinance applications broke a streak of three straight drops, edging up 0.3 percent even as the survey's 30-year fixed mortgage rate rose four basis points to its highest level since December. Purchase applications fell 3.7 percent to a five-week low.



Source: Census Bureau



Source: National Association of REALTORS®, Mortgage Bankers Association



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