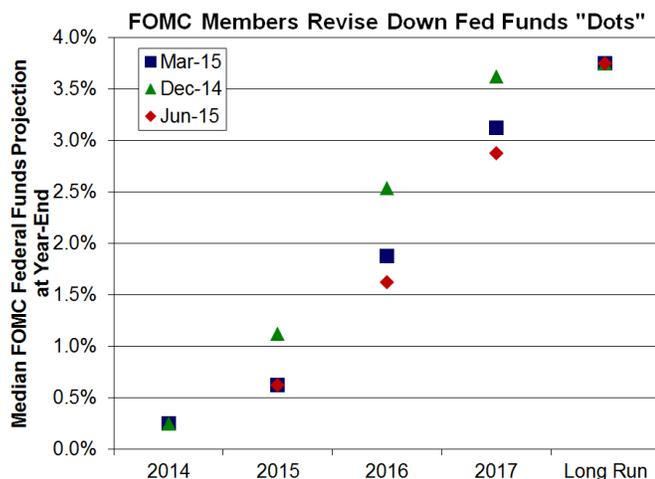


Economics: Rates Will Rise This Year, They Promise, Slowly

Economic data released this week was overshadowed by the [Federal Open Market Committee \(FOMC\) meeting](#), the subsequent statement and press conference, and updated economic projections. The statement itself was little changed from March while the Committee's median fed funds projection for the end of 2015 held steady at 0.625 percent—implying two moves this year. However, a slower pace of future increases was emphasized, as the median projections for year-end 2016 and 2017 were revised lower (and closer to fed funds futures) again. Data released on the labor market and inflation this week, areas of primary importance to the Fed, helped set the stage for a September liftoff, though Chair Janet Yellen highlighted in her press conference that officials are still waiting for “decisive evidence” before moving. Jobless claims fell again this week and remain lower than any period during the prior economic expansion (2001-2007), supporting the Fed's claim that labor market slack has “diminished somewhat.” Also, though it is not the Fed's main measure of inflation, the Consumer Price Index (CPI) gave evidence of firming price growth with its largest month-over-month increase in over two years. Consistent with the Fed's view, the economy seems to be turning a corner after a weak first quarter, as an index of leading indicators by the Conference Board posted a strong gain again in May. However, industrial production declined for a second straight month in May, highlighting a weak spot in the economy beyond the “transitory factors” mentioned in the previous FOMC statement. Although the strength in May unit sales and dollar sales of autos fed through into increased vehicle output (motor vehicle production increased for the third month running), oil and gas drilling continued its plunge, falling for the eighth consecutive month while a decline in non-energy, non-auto production suggested broader manufacturing weakness.

- **Industrial production**, a gauge of output in the manufacturing, utility, and mining sectors, fell 0.2 percent in May, according to the Federal Reserve Board. Manufacturing output also fell 0.2 percent after rising during the two previous months, even amid a third consecutive healthy gain in motor vehicle production. Mining output has fallen in every month of 2015—including a 0.3 percent drop in May—weighed down by oil and gas drilling, which fell again in May by 7.9 percent and is down 51.1 percent from May 2014. Other sectors also exhibited weakness, as non-energy, non-auto industrial production sank 0.3 percent on the month. Utility production ended two months of decline with a slight 0.2 percent improvement in May.
- **The Consumer Price Index (CPI)** rose 0.4 percent in May, according to the Bureau of Labor Statistics, marking four consecutive months of inflation following a three-month stretch of deflation following the collapse in oil prices in the second half of 2014. The three-month annualized growth rate rose to 3.2 percent, the strongest since 2012. A 10.4 percent rise in gasoline prices drove the increase. Core CPI, which excludes food and energy, increased just 0.1 percent during the month. On a year-over-year basis, headline CPI growth was flat for the second time in four months and has not increased this year, while core CPI was up 1.7 percent. Core CPI has hovered between 1.5 and 2.0 percent since mid-2011.
- **The Conference Board Leading Economic Index (LEI)**, a gauge of the economic outlook over the next three to six months, rose 0.7 percent for the second month in a row in May. All 10 components contributed to the gain.
- **Initial claims for unemployment insurance** decreased by 12,000 to 267,000 in the week ending June 13, according to the Department of Labor. The four-week moving average decreased by 2,000 to 276,750.



Source: Federal Reserve



Source: Federal Reserve

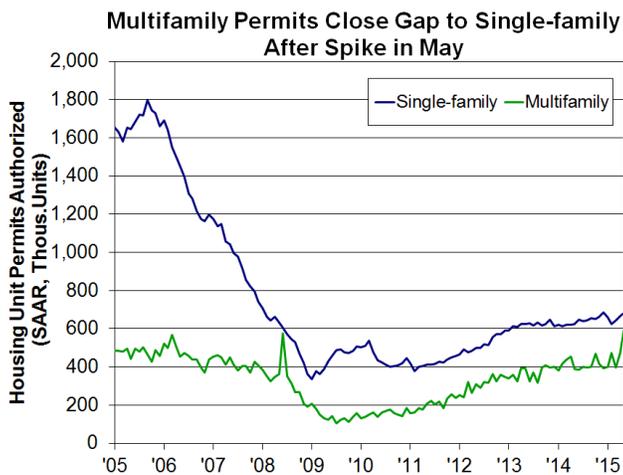
Housing: Housing Starts Take a Breather after a Strong April

Housing data released this week featured housing starts falling back to earth in May after April's post-winter spike. However, leading indicators of new residential construction were upbeat. Building permits gained momentum in April and May, jumping a cumulative 22.8 percent to reach their highest level since August 2007—boosted by surging multifamily permits. Though growth in single-family permits was more modest, they increased for a third consecutive month in May. In addition, home builders' confidence in the single-family housing market has trended up since falling to a nine-month low in March, returning to its expansion-best in June—the highest level in nearly a decade. With permits and home builders' confidence at post-recession highs, residential construction appears healthier than the decrease in housing starts suggests. Mortgage applications fell back last week, reversing much of the bump in the previous week, as purchase mortgage applications came down from a two-year high while refinance applications continued to trend lower following the spike in January. Purchase activity remained higher than at any point in 2014, but as the Fed approaches monetary policy normalization, it appears the refi-resurgence of 2015 has come to an end. Even though the 30-year fixed mortgage rate edged down four basis points to 4.00 percent from an eight-month high last week, according to Freddie Mac, it remains 41 basis points up from its 2015 low of 3.59 from February.

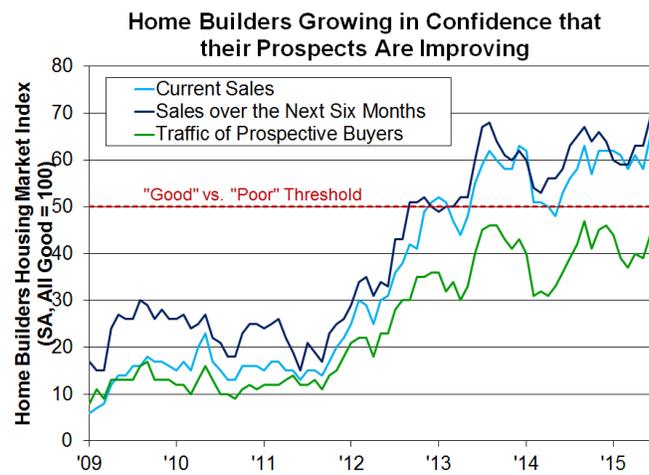
➤ **Housing starts** fell 11.1 percent in May to 1.04 million annualized units, according to the Census Bureau. Single-family and multifamily starts declined 5.4 and 20.2 percent, respectively, during the month. The decrease was nationwide, as all four census regions saw declines from April. Through the first five months of 2015, single-family and multifamily housing starts are 6.7 and 4.6 percent, respectively, from the same period last year. Residential building permits, on the other hand, jumped 11.8 percent in May to 1.28 million following a near-10 percent jump in April. Both single-family and multifamily permits rose for the second consecutive month in May, but multifamily permits led the way, jumping a cumulative 49.5 percent in two months to a 25-year high of 592,000.

➤ **The National Association of Home Builders/Wells Fargo Housing Market Index** rose five points to 59 in June (a reading above 50 indicates more builders view the market as “good” than “poor”). All three subcomponents rose, with builders' assessment of current sales and sales over the next six months both reaching expansion-highs.

➤ **Mortgage applications** declined after a strong gain in the previous week, falling 5.5 percent in the week ending June 12, according to the Mortgage Bankers Association. Purchase applications decreased 4.2 percent from a two-year high as both conventional (-5.1 percent) and government (-2.1 percent) sectors fell. Refinance applications also declined, falling 6.9 percent this week and reversing the jump in the prior week. The survey's 30-year fixed mortgage rate rose for seventh time in eight weeks, rising by five basis points to an eight-month high of 4.22 percent during the week.



Source: Census Bureau



Source: National Association of Home Builders

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