



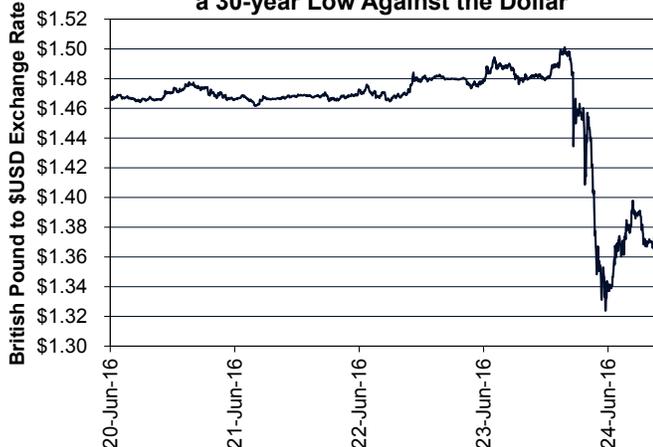
Weekly Note – June 24, 2016

Economics: Britain Shocks the World, Votes to Leave EU

In a stunning turn, the British people voted to leave the European Union (EU) yesterday in a referendum by a 52-48 percent margin. The result creates abounding uncertainty for the United Kingdom, Europe and the world, as the British people take a step into the unknown. After invoking article 50 of the Lisbon Treaty, the first legal step in leaving the EU, Britain will have a two-year timetable to negotiate a divorce. They will do so without their prime minister, David Cameron, who resigned this morning. The voting results showed geographic divisions within Great Britain, as Scotland and Northern Ireland voted to remain, by 62 percent and 56 percent, respectively. The Scottish First Minister, Nicola Sturgeon, facing the prospect of Scotland being forced to leave the EU against its will, announced that the option of a second referendum on Scottish independence is on the table. England itself was divided between the capital and the rest of the country, as only London voted to remain. The global aftermath of the vote is starting to take shape this morning. Stock markets around the world plunged, and the pound dropped to a 30-year low against the dollar of \$1.32. Investors fled to safety, causing the U.S. 10-year treasury yield to drop 34 basis points to 1.40 percent, a near four-year low, before rising slightly this morning. While the initial turmoil in financial markets should eventually settle, the long-term uncertainty is expected to linger as the logistics of a Brexit are sorted out over the next two years. Shifting stateside, economic data released this week provided a muddled picture of the U.S. economy. The manufacturing sector did not gain momentum, as durable goods orders declined, ending a two-month stretch of gains. In addition, core capital goods orders, a leading indicator for business fixed investment in equipment, fell for the third time in four months, extending the declining trend in capital expenditures that began in the summer of 2014 amid the surge in the dollar and the collapse in oil prices. Consumer sentiment took a step back this month from an 11-month high in May, as consumer expectations fell. An index of leading indicators for economic growth dropped in May, triggered by a jump in initial unemployment insurance claims during the month. However, initial claims have fallen back in June to the levels of late April.

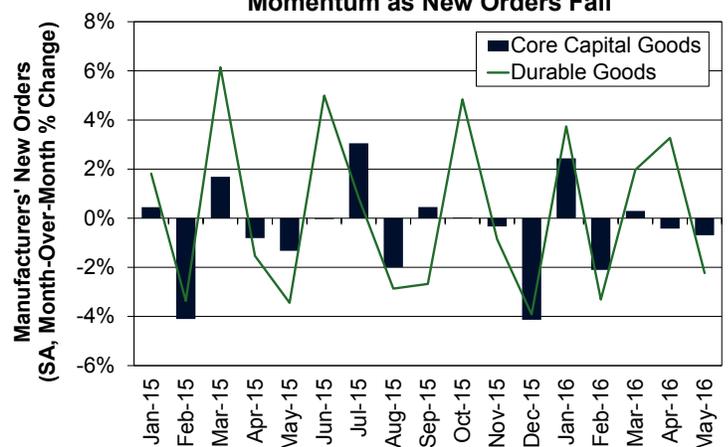
- **Durable goods orders** fell 2.2 percent in May, according to the Census Bureau. Core capital goods orders (which exclude aircraft and defense items) fell for the second consecutive month, dropping 0.7 percent. Core shipments declined as well, falling 0.5 percent. April core capital goods orders and core shipments were revised higher.
- **The University of Michigan Consumer Sentiment Index** slipped 1.2 points to 93.5 in the final June reading, a downward revision of eight-tenths. The current economic conditions component rose for the third straight month to reach an expansion best, while the expectations component dropped after a large gain in the prior month.
- **The Conference Board Leading Economic Index (LEI)**, a gauge of the economic outlook over the next three to six months, declined 0.2 percent in May after rising for two consecutive months. A large negative contribution from initial unemployment insurance claims more than offset positive contributions from the yield spread, the leading credit index, manufacturing orders, and building permits. In the six-months ending in May, the index remained flat, after increasing by 1.2 percent during the previous six months.
- **Initial claims for unemployment insurance** decreased by 18,000 to 259,000 in the week ending June 18, marking the largest drop since the beginning of February, according to the Department of Labor. The four-week moving average decreased by 2,250 to 267,000, the lowest level since the end of April.

Brexit Causes Pound to Plummet Overnight to a 30-year Low Against the Dollar



Source: Bloomberg

The Manufacturing Sector Did Not Gain Momentum as New Orders Fall



Source: Census Bureau

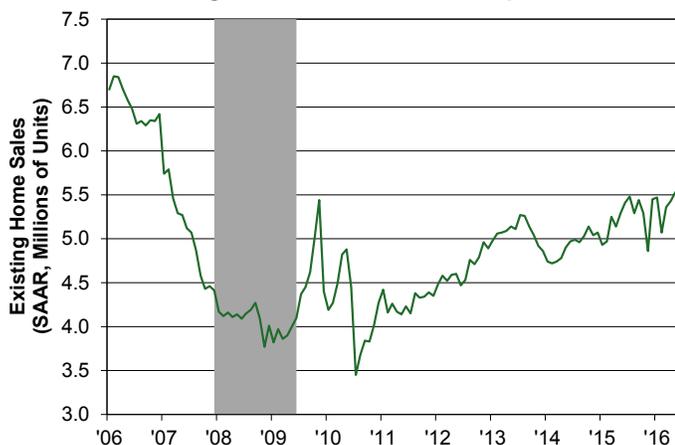


Housing: Home Sales Are at or Near Expansion Highs

The week's indicators point to continued housing expansion. Existing home sales rose for the third consecutive month in May to the strongest pace in more than nine years amid exceptionally low inventory. New home sales retreated sizably during the month; however, the drop was a payback from a double-digit surge in the prior month, keeping sales elevated at the second-best level of the expansion. Home price appreciation remained strong in April, with annual gains in the FHFA house price index staying within the narrow range of 5.5 to 6.2 percent witnessed over the past year. Refinance applications jumped last week to the highest level since mid-February as fixed mortgage rates dropped to a three-year low according to the Mortgage Bankers Association's survey. Freddie Mac's survey showed the 30-year fixed mortgage rate edging higher this week by two basis points to 3.56 percent, remaining near its three-year low. Mortgage rates will likely move lower in the near-term in response to the U.K.'s surprise vote to leave the European Union, which has triggered a flight to quality.

- **Existing home sales** rose 1.8 percent in May to 5.53 million annualized units, according to the National Association of REALTORS®. This marks the strongest sales pace since February 2007. Sales increased in every region but the Midwest. Through the first five months of this year, existing home sales are 5.6 percent higher than sales during the same period in 2015. The number of homes for sale (not seasonally adjusted), which has posted year-over-year declines since last June, fell 5.7 percent in May from one year ago, the biggest drop since October 2015. The months' supply (inventory-to-sales ratio) was 4.7 months, 0.5 months lower than the level last May. The median price, which does not control for changes in the mix of sales, rose 4.7 percent from a year ago. The share of first-time buyers fell to 30 percent from 32 percent in the prior month and one year ago.
- **New single-family home sales** fell 6.0 percent to 551,000 annualized units in May, according to the Census Bureau. The decline followed a 12.3 percent jump in April, which was a downgrade from an initially reported 16.6 percent surge. Sales in the prior three months were downwardly revised by a total of 55,000 units. Year-to-date new home sales are 7.1 percent higher than for the same period last year. New home sales were lower in every region except the Midwest. Reflecting the decline in sales and a modest increase in the number of homes for sale, the months' supply rose from 4.9 months to 5.3 months, but remained below the reading at the start of the year. The median price rose 1.0 percent from last May.
- **The FHFA Purchase-Only House Price Index**, reported on a seasonally adjusted basis, rose 0.2 percent in April. From one year ago, prices were up 5.9 percent, moderating from 6.2 percent in the prior month. Six of the nine Census Divisions saw monthly increases, led by the West North Central and New England. The Mountain and Middle Atlantic Divisions were the only two areas showing lower prices from March.
- **Mortgage applications** rose 2.9 percent for the week ending June 17, according to the Mortgage Bankers Association. Purchase applications fell 2.4 percent, marking the third drop over the last four weeks. Refinance applications increased 6.5 percent. The average rate for 30-year fixed-rate mortgages decreased three basis points to 3.76 percent, the lowest level since May 2013.

Existing Home Sales Climb to Expansion Best



Source: The National Association of REALTORS®

New Home Sales Pull Back from Expansion High



Source: Census Bureau

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