

## Economics: First Half Growth Isn't So Bad After All

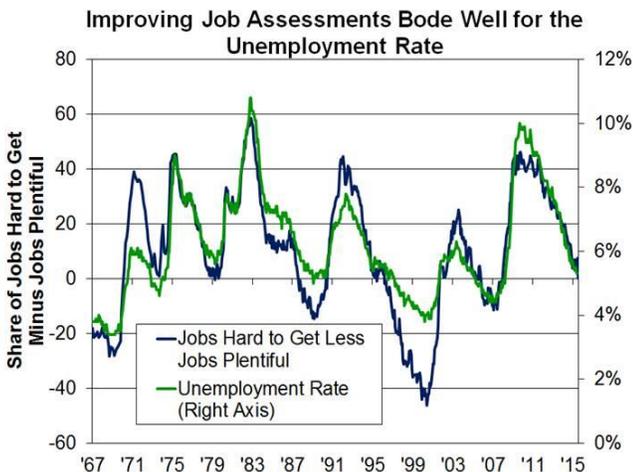
This week's economic news was generally positive. The second print of Q2 2015 GDP upgraded all of its major components, putting average growth in the first half of 2015 at 2.2 percent. The July durable goods orders report showed the biggest gain in core capital goods orders in a year, pointing to renewed life in business equipment spending after a slight drop in Q2 2015. Real consumer spending rebounded modestly in July after June's flat reading, consistent with our forecast of 2.9 percent annualized growth in Q3. Meanwhile, core inflation tied to consumer spending posted the weakest gain in July in more than four years, and some gauges of consumer mood were mixed in August. Notably, the Conference Board's Consumer Confidence Index posted a double-digit rebound to the highest level since reaching an expansion high in January. Details bode well for the August jobs report, as an indicator measuring perceived job availability that closely tracks the unemployment rate showed the biggest improvement on record. Asian stocks finished off the week on a high note on news of the Chinese government's interventions. Overall, this week's developments support our expectation of Q3 2015 economic growth of 2.5 percent annualized. Though the inflation picture continues to defy the Fed's target, a September rate hike remains on the table. Next Friday's jobs report, the last one before the Fed meets, should help add clarity.

➤ **Gross domestic product (GDP)**, adjusted for inflation, rose 3.7 percent annualized in Q2 2015, according to the second estimate from the Bureau of Economic Analysis (BEA), an upgrade from 2.3 percent in the first print. Solid gains in consumer spending (3.1 percent), nonresidential fixed investment (3.2 percent), and residential investment (7.8 percent) contributed to private domestic GDP growth. Increases in inventory investment, net exports, and government spending also added to overall GDP growth. The main negative in the report was tepid growth in Gross Domestic Income (GDI), which increased 0.6 percent, only slightly higher than the 0.4 percent gain registered in Q1 2015.

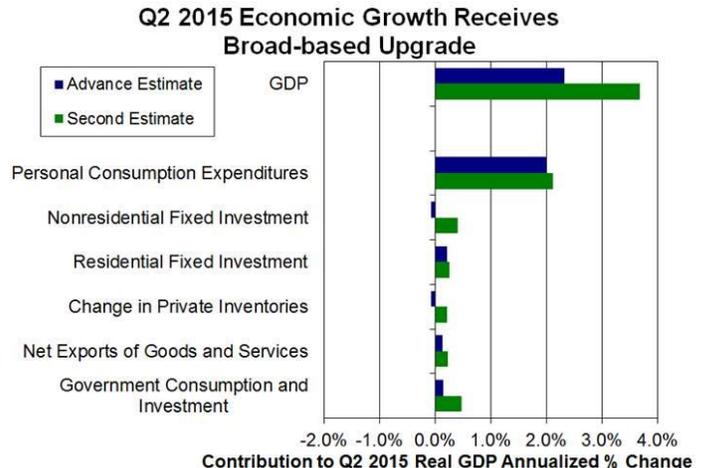
➤ **Durable goods orders** rose 2.0 percent in July, according to the Census Bureau. Core capital goods orders (nondefense orders excluding aircraft), a leading indicator of business investment in equipment, jumped 2.2 percent after an upwardly revised 1.4 percent rise in the prior month. Core capital goods shipments increased 0.6 percent in July, marking the fourth rise over the last five months.

➤ **Personal consumption expenditures (PCE)**, adjusted for inflation, rose 0.2 percent in July, according to the Bureau of Economic Analysis. Real disposable income picked up 0.4 percent, the biggest gain since January. The PCE deflator ticked up 0.1 percent from June and 0.3 percent from July 2014. Core PCE, which excludes food and energy items, rose 0.1 percent during the month and 1.2 percent from a year ago—the smallest gain since March 2011.

➤ **The Conference Board Consumer Confidence Index** jumped 10.5 points in August to 101.5, after an 8.8 point drop in July. Both the present situation and the expectations components posted double-digit gains, though the survey was taken before the recent plunge in the stock market. The difference between the share of respondents reporting jobs were hard to get minus the share saying jobs were plentiful dropped from 7.5 to 0, the biggest improvement since the index began in 1967 and the lowest gap since January 2008. However, buying plans worsened across the board, with plans to buy a home declining to 4.1 percent—the lowest since early 2013. **The University of Michigan Consumer Sentiment Index** fell 1.2 points in August to 91.9, as both the current conditions and the expectations components retreated.



Source: Conference Board, Bureau of Labor Statistics



Source: The Bureau of Economic Analysis

## Housing: The Housing Market Flexes Its Muscle, as Sales and Prices Are Strong

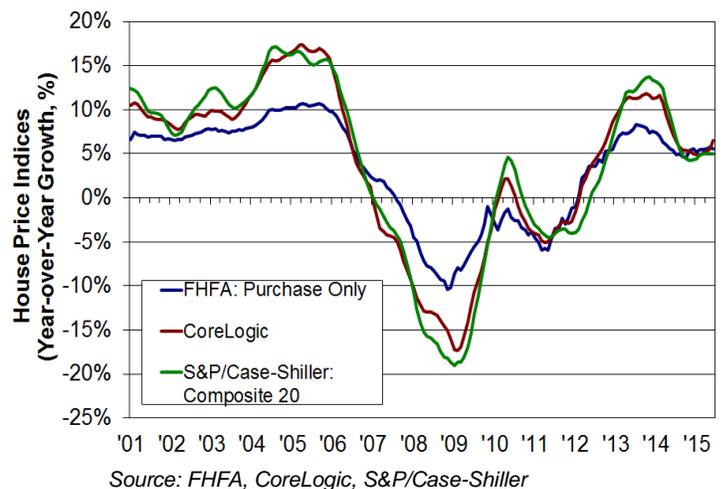
It has been a week of good news for housing, as several indicators posted healthy gains. After a disappointing June, new home sales rebounded in July, registering the largest monthly increase since January. Combining new home sales with last week's strong existing home sales, which hit the highest level in eight and a half years, total home sales reached over 6 million annualized units for the first time since the onset of the recession. Leading indicators suggest some temporary cooling in the near term, but the longer-term trend appears to remain positive. Pending home sales, which lead existing home sales by one to two months, rebounded in July, but recouped less than half of the drop in the prior month. Meanwhile, average purchase mortgage applications during the month of July fell slightly from the prior month; however, the latest week's figure posted the first gain in three weeks. Year-over-year gains for two home price indices released this week trended at or above 5.0 percent in June, slightly weaker than the CoreLogic measure released earlier. The negative surprise of the week was the first pullback in refinancing applications in more than a month amid continued declining mortgage rates. The Freddie Mac 30-year mortgage rate fell nine basis points to a 14-week low of 3.84 percent, partly due to a flight to quality amid turmoil in China.

- **New single-family home sales** rose 5.4 percent in July to 507,000 annualized units, according to the Census Bureau. Through the first seven months of 2015, sales are 20.2 percent higher than during the same period last year. The number of new single-family homes available for sale increased 1.9 percent from June, reaching its highest level since March of 2010. The months' supply, or inventory/sales ratio, edged down one-tenth from a seven-month high in June to 5.2 months. The median sales price, which is not adjusted for the composition of sales, rose 2.0 percent from a year ago, after posting year-over-year drops in the previous two months.
- **The National Association of REALTORS® pending home sales index**, which records contract signings on existing homes, rose 0.5 percent in July after a 1.7 percent drop in the prior month. Pending sales rose 7.4 percent from a year ago.
- **The S&P/Case-Schiller composite 20-city home price index** (not seasonally adjusted) rose 1.0 percent in the three months ended in June. From the prior year, the index is up 5.0 percent for the fourth consecutive month. All 20 cities saw annual price appreciation in June.
- **The FHFA purchase-only house price index**, reported on a seasonally adjusted basis, increased 0.2 percent in June and 5.6 percent from a year ago. All nine Census Divisions recorded year-over-year appreciation for the 33rd consecutive month. The quarterly index reported a 1.2 percent increase in Q2 2015 from the preceding quarter and a 5.6 percent rise since Q2 2014.
- **Mortgage applications** rose for the sixth consecutive week, increasing by 0.2 percent in the week ending August 21, according to the Mortgage Bankers Association. Purchase applications drove the rise, improving 1.7 percent after two previous weeks of decline. Refinance applications fell 1.0 percent, ending four weeks of gains. The 30-year fixed mortgage rate fell three basis points to 4.08 percent, making it eight weeks since the last rise.

**Total Home Sales Reach Over Six Million For the First Time Since the Recession**



**House Price Growth Remains Robust in 2015**



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