Economics: Euro-Crisis Looms over Cautiously Optimistic Fed

A quiet week of economic data was largely overshadowed by the release of the minutes from the June Federal Open Market Committee meeting, which had a little bit of everything. The committee showed cautious optimism for the domestic economy, citing improvements in the labor and housing markets and evidence that transitory factors that dampened first quarter growth are dissipating, though worry over below-target inflation lingers. International financial market turmoil, a familiar topic for the Fed these past five years, was back on the Fed's radar as the possible spillover effects from the Greek-Euro crisis and the decline in the Chinese stock market were discussed, and both situations have worsened since the meeting. There also was debate over the risks associated with delaying the start of monetary policy normalization. The Committee concluded that "although it had seen some progress, the conditions warranting an increase in the target range for the federal funds rate had not yet been met", leaving markets still in the dark over the timing of the first rate hike. Futures markets suggest market participants have largely priced out a September hike. The labor market received another indication of growing wage pressure this week, as a gap between job openings and hiring widened in May, suggesting that firms are having a difficult time filling positions and may have to raise wages to attract candidates. Initial jobless claims jumped in the week of July 4th to the highest level since the end of February. The rise was likely due in part to seasonal adjustment difficulties around summer auto plant shutdowns for retooling. Consumers took on more debt in May. Although the growth in consumer credit has been driven by large-ticket items, such as auto and student loans, credit card debt trended higher this spring following setbacks in January and February, indicating consumers' growing confidence in their financial prospects and propensity to spend. After previous months of wild swings in the data, the trade deficit widened modestly in May. Weakness in exports persisted amid continued strength in the U.S. dollar. Wait-and-see continues to be the theme, both for the Fed to start normalizing rates, and for the economy as a whole to shift into higher gear.

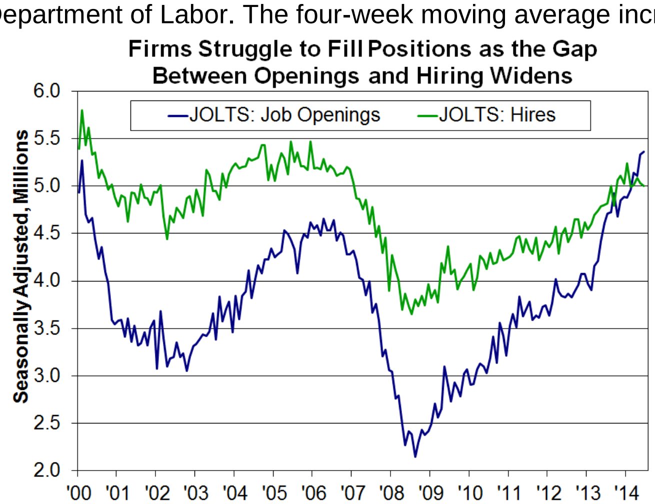
- **Consumer (non-mortgage) credit outstanding** increased 5.7 percent annualized in May, according to the Federal Reserve Board. Non-revolving credit (primarily auto and student loan debt) and revolving credit (primarily credit card debt) rose 7.0 percent and 2.1 percent, respectively. May is the third consecutive month in which revolving credit has increased, while non-revolving credit outstanding has increased every month since August 2011.

- **The Job Openings and Labor Turnover Survey (JOLTS)** showed that job openings edged up 0.5 percent to 5.4 million in May, a record high, according to the Bureau of Labor Statistics. The job openings rate (openings as a share of total employment) held steady at 3.6 percent—the highest level since January 2001. The hiring rate edged down 0.1 percentage points to 3.5 percent, while the quits rate, an indicator of labor market confidence, was unchanged at 1.9 percent.

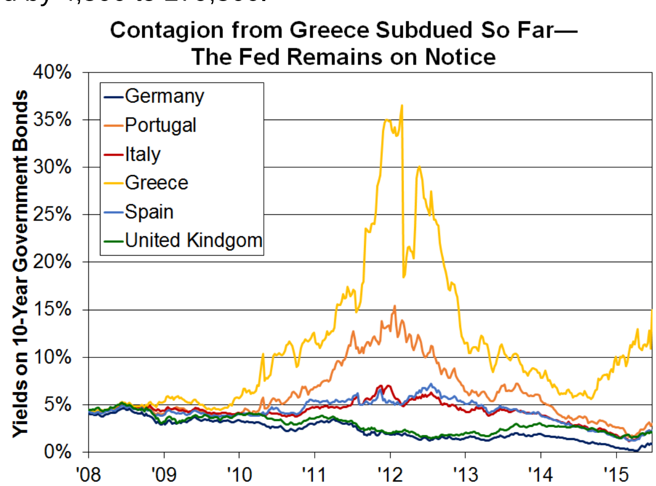
- **The U.S. trade deficit** widened by $1.2 billion in May to $41.9 billion, according to the Census Bureau. Exports declined for the first time in three months, falling 0.8 percent, while imports edged down 0.1 percent. The inflation-adjusted goods deficit, used in the calculation of net exports in the GDP estimate, widened $1.4 billion to $58.4 billion.

- **The Institute of Supply Management (ISM) Non-manufacturing Index**, a gauge of service sector activity, edged up 0.3 points in June to 56.0 (any reading above 50 indicates expansion).

- **Initial claims for unemployment insurance** increased by 15,000 to 297,000 in the week ending July 4, according to the Department of Labor. The four-week moving average increased by 4,500 to 279,500.



Source: Bureau of Labor Statistics



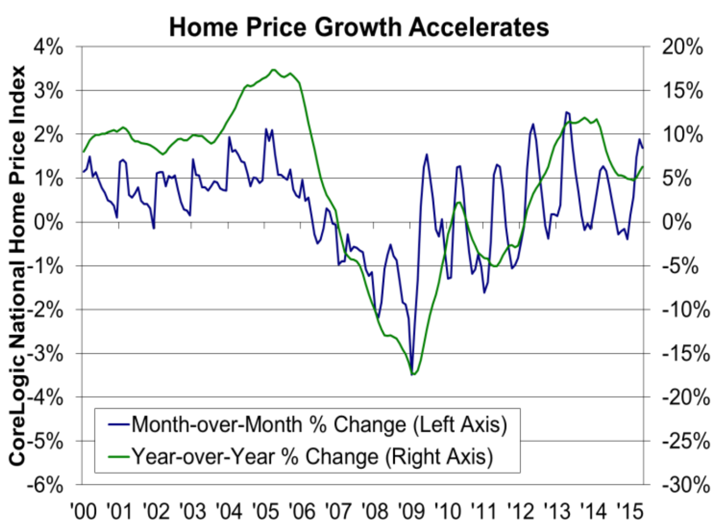
Source: Bloomberg

Housing: Home Price Appreciation Accelerates

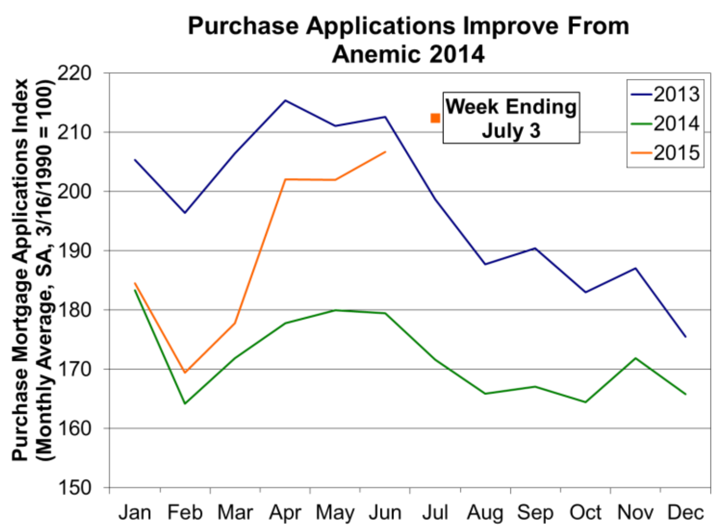
Housing data released this week were upbeat. After posting an annual gain of 4.8 percent in February—the slowest gain since July 2012—home price appreciation has accelerated, according to CoreLogic. Its repeat sales index showed 6.3 percent year-over-year growth in May, the biggest year-over-year increase since July 2014, though remaining significantly below the recent peak of 11.9 percent recorded in October 2013. Price growth was widespread geographically in May, with 92 of the top 100 Core Based Statistical Areas (CBSAs) showing annual appreciation. Data on mortgage applications also were upbeat. Purchase mortgage applications jumped last week for both conventional and the government segments. On the government side, purchase applications rose to the highest level since April 2013. These data, along with five consecutive gains in pending home sales in May to an expansion-high, suggest the recent strength in home sales so far this spring will extend into the summer months. This supports our forecast for accelerating home sales this year to the strongest pace since 2007. Refinance applications ticked up last week as well, amid a modest decline in mortgage rates. The 30-year fixed mortgage rate edged down from a six-year high this week, falling four basis points to 4.04 percent, according to Freddie Mac.

- **The CoreLogic national home price index**, a repeat sales measure, jumped 1.7 percent in May (not seasonally adjusted) following a 1.9 percent increase in the prior month. Prices remain 8.4 percent below the April 2006 peak, according to CoreLogic.

- **Mortgage applications** increased 4.6 percent in the week ending July 3, rebounding from a 4.7 percent decline in the prior week, according to the Mortgage Bankers Association. A 6.6 percent jump in purchase mortgage applications to the second-highest level since June 2013 drove the headline increase. Refinance applications rose 2.7 percent amid a three basis point decline in the 30-year fixed mortgage rate to 4.23 percent.



Source: CoreLogic



Source: Mortgage Bankers Association

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