



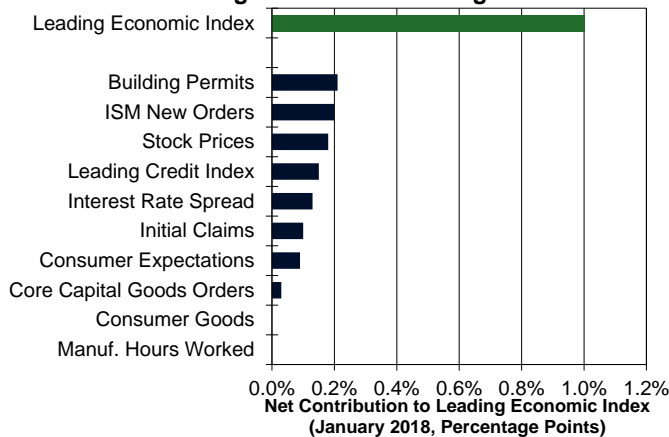
Weekly Note – February 23, 2018

Economics: Fed Sees Above-Par Growth This Year

In a holiday-shortened week, Wednesday’s release of the [minutes](#) of the January 30-31 Federal Open Market Committee (FOMC) meeting was the market mover. The minutes revealed that committee members were bullish on economic growth in 2018, anticipating that the rate of growth would exceed their estimates of its sustainable long-run pace and that labor market conditions would strengthen further. A majority of participants noted that a stronger growth outlook “raised the likelihood that further gradual policy firming would be appropriate.” Almost all of the members anticipated that inflation would move up to the 2 percent target over the medium term; however, members disagreed on whether the inflation risk lies to the upside or the downside. While several participants saw rising inflation stemming from the decline in the dollar (which puts upward pressure on import prices), a few participants argued that the corporate tax cut might lead businesses to cut prices to retain competitiveness or to increase market share, dragging on inflation. Since the FOMC meeting, inflation concerns have intensified after strong annual wage growth in the January jobs report, released in early February, and subsequent releases of January inflation data. We continue to expect a rate hike at the March FOMC meeting, which has been fully priced in by the fed funds futures market, followed by two more increases later this year. However, if inflationary pressure gains momentum, the Fed may feel the need to normalize monetary policy more aggressively. The Treasury market reacted strongly to the minutes’ hawkish tone. The 10-year Treasury yield jumped 6 basis points to close at 2.95 percent, the highest level in over four years, before edging down to 2.92 percent on Thursday. In other news this week, the Leading Economic Index reached an all-time high in January, suggesting that solid economic growth should continue in the first half of 2018. Residential permits, manufacturing new orders, and financial conditions—including stock prices—contributed the most to the gain in the index. The stock market correction will likely be reflected in the February index, however. Finally, initial jobless claims fell last week for the third time in four weeks, staying just shy of the 45-year low set in January.

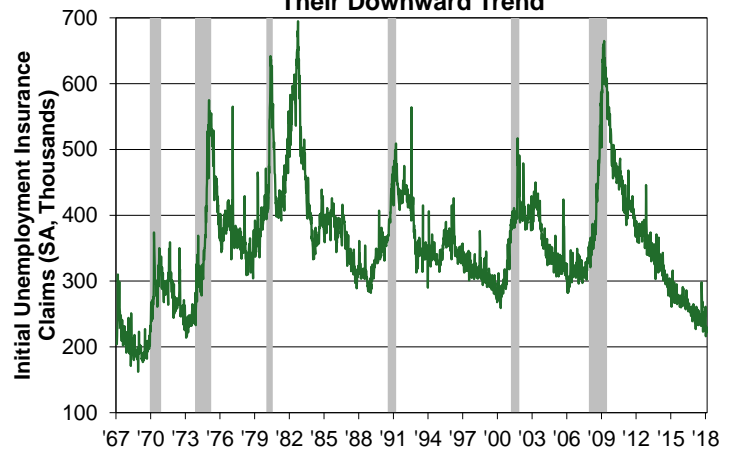
- **The Conference Board Leading Economic Index (LEI)**, a gauge of the economic outlook over the next three to six months, rose 1.0 percent in January, marking the fourth consecutive monthly increase. None of the ten components fell this month.
- **Initial claims for unemployment insurance** decreased by 7,000 to 222,000 in the week ending February 17, according to the Department of Labor. The four-week moving average decreased by 2,250 to 226,000.

Nearly Every Component Helps to Push Leading Economic Index Higher



Source: The Conference Board

Claims for Unemployment Insurance Continue Their Downward Trend



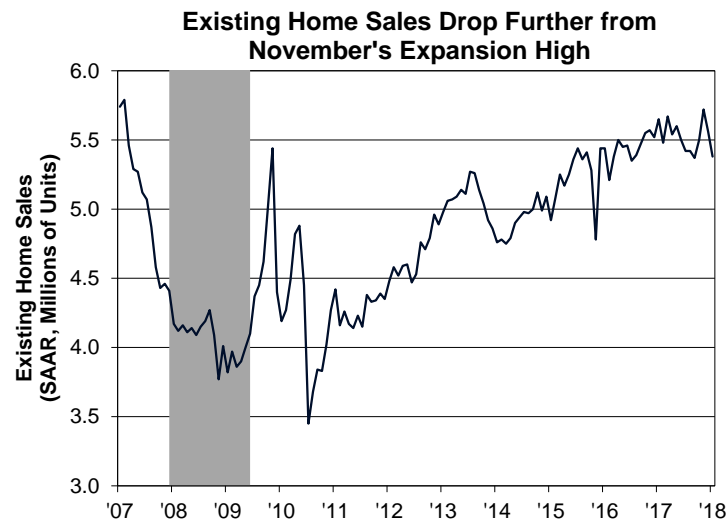
Source: Department of Labor



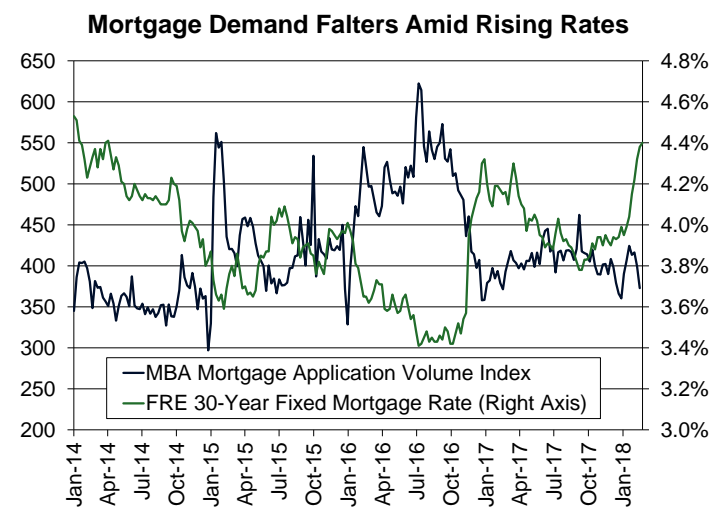
Housing: Existing Home Sales Weaken and Mortgage Demand Falters as Rates Rise

A quiet week of housing data allowed the existing home sales market to stumble into the spotlight. Total existing home sales fell in January for the second consecutive month, dropping further from the decade-high reached in November. The January decline was driven entirely by single-family home sales, as condo/coop sales improved after a sharp drop the prior month. Home sales slowed in all four Census regions, with volume in the West dipping to the lowest level since November 2015. The existing home sales market is increasingly constrained by limited supply, as the number of homes for sale has declined year-over-year for 32 consecutive months. In January, the months' supply, or inventory-to-sales ratio, sat at the second lowest level since the series' inception in 1999. Mortgage demand sputtered to a two-month low last week after decreasing for the third time in four weeks in the face of rising mortgage rates, with both purchase and refinance applications posting large drops. Since the first week of January, the average 30-year fixed mortgage rate has climbed 45 basis points and this week reached 4.40 percent, the highest level since April 2014, according to Freddie Mac. Interest rates have risen over the past two months due to increased inflation concerns. Recent signs of accelerating wage growth and inflation, combined with more fiscal stimulus, have forced the markets to consider the possibility of more aggressive monetary policy normalization. The effect of rising rates on mortgage applications varies by loan type. Refinance demand will be dampened by higher mortgage rates, while the effects on purchase demand will depend on the magnitude and pace of rate increases. If mortgage rates gradually rise in reasonable alignment with household income growth, purchase applications can improve despite a rising rate environment this year.

- **Existing home sales** fell 3.2 percent in January to a seasonally-adjusted annualized rate of 5.38 million, according to the National Association of REALTORS®. Single-family sales dropped 3.8 percent to 4.76 million, while condo sales increased 1.6 percent to 620,000. From a year ago, total existing home sales fell 1.9 percent, marking the second consecutive year-over-year decline. The number of homes for sale, which is not seasonally adjusted, fell 9.5 percent year over year. The months' supply was 3.4 months, two-tenths below the level in January 2017. The median sales price, which is not adjusted for the composition of sales, rose 5.8 percent from a year ago.
- **Mortgage applications** declined 6.6 percent for the week ending February 16, according to the Mortgage Bankers Association (MBA). Purchase applications decreased 6.2 percent, as conventional and government purchase applications posted 6.3 percent and 5.9 percent drops, respectively. Refinance applications fell 7.1 percent, as conventional refinance applications slipped 6.2 percent and government applications dropped 12.1 percent. The MBA survey's average 30-year fixed mortgage rate rose 7 basis points to 4.64 percent.



Source: National Association of REALTORS®



Source: Mortgage Bankers Association, Freddie Mac

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