

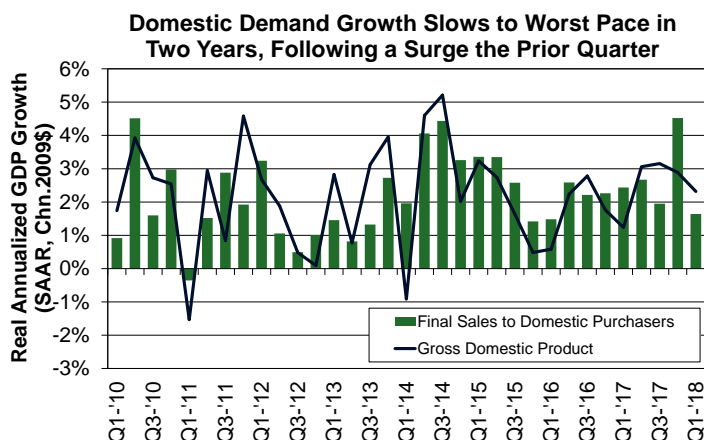


Weekly Note – April 27, 2018

Economics: Once Again, Growth Slows to Start the Year

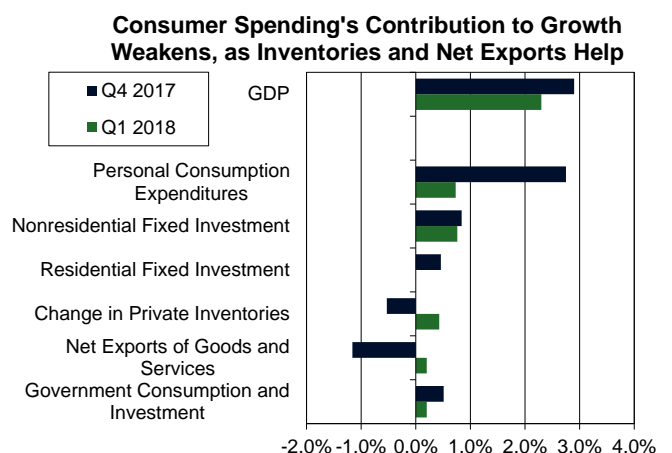
This week offered the first glance of first quarter gross domestic product (GDP), which showed that economic growth slipped to the slowest pace in a year. Since the recession, economic growth has usually slowed between the fourth and first quarters because of lingering seasonality issues, before strengthening through the remainder of the year. Consumer spending was the main culprit for the sluggish first quarter, posting the weakest growth since the second quarter of 2013. This brought growth in final sales to domestic purchasers (GDP minus trade and inventories), a gauge of strength in domestic demand, to the slowest pace in two years, after surging at the end of 2017 to the fastest growth since 2010. Nonresidential investment slowed slightly from the fourth quarter, while residential fixed investment was essentially flat. Net exports and inventories both contributed to growth in the first quarter after dragging on growth the prior quarter. In other news, durable goods orders rose for the fourth time in five months in March, while shipments posted the ninth consecutive rise. However, core shipments (nondefense excluding aircraft), a proxy for business equipment spending, declined the most in nearly two years, consistent with the slowdown in real business equipment spending growth in the first quarter to less than half the increase in the fourth quarter. Core capital goods orders fell in March for the third time in four months, pointing to a further slowdown in equipment spending growth this quarter. Consumer confidence was mixed in April, as the Conference Board index improved and the University of Michigan index stumbled. However, both indices remain less than two points below the expansion highs reached earlier this year. Shifting to the labor market, the Employment Cost Index reported that first quarter workers' compensation growth tied an expansion best, boosted by the largest gain in wages in 11 years. The strong quarterly rise helped annual growth in compensation post a new expansion high, suggesting the recent labor market tightness perhaps has begun to translate into compensation growth. In a more timely measure of labor market tightness, initial unemployment insurance claims fell last week to a 48-year low.

- **Gross domestic product (GDP)**, adjusted for inflation, increased 2.3 percent annualized in Q1 2018, slowing from 2.9 percent in Q4 2017, according to the advance estimate from the Bureau of Economic Analysis. Real consumer spending rose 1.1 percent and contributed 0.7 percentage points to growth. Nonresidential fixed investment increased 6.1 percent, while residential fixed investment ticked up 0.1 percent. Government spending increased 1.2 percent. Inventories and net exports added 0.4 percentage points and 0.2 percentage points, respectively, to GDP growth.
- **Durable goods orders** increased 2.6 percent in March, while durable goods shipments edged up 0.3 percent, according to the Census Bureau. The February gain in durable goods orders was revised upward one-half percentage point to 3.5 percent while the increase in shipments was revised down two-tenths to 0.7 percent. Core capital goods orders slipped 0.1 percent, while core shipments dropped 0.7 percent.
- **The Conference Board Consumer Confidence Index** rose 1.7 points in April to 128.7. Both the present situation and expectations components improved. **The University of Michigan Consumer Sentiment Index** slipped 2.6 points to 98.8 in the April final reading, as both components declined during the month.
- **The Employment Cost Index (ECI)**, a measure of labor compensation, increased 0.8 percent (not annualized) in Q1 2018, according to the Bureau of Labor Statistics. Wages increased 0.9 percent, while benefits improved 0.7 percent.
- **Initial claims for unemployment insurance** decreased by 24,000 to 209,000 in the week ending April 21, according to the Department of Labor. The four-week moving average decreased by 2,250 to 229,250.



Note: Final sales to domestic purchasers is gross domestic product less net exports and change in private inventories

Source: Bureau of Economic Analysis



Contribution to Real GDP Annualized % Change

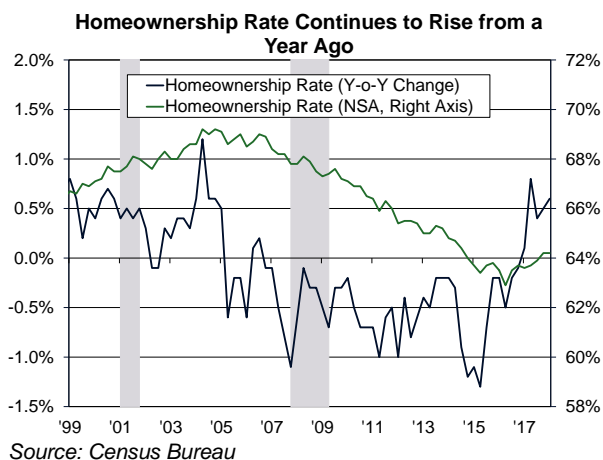
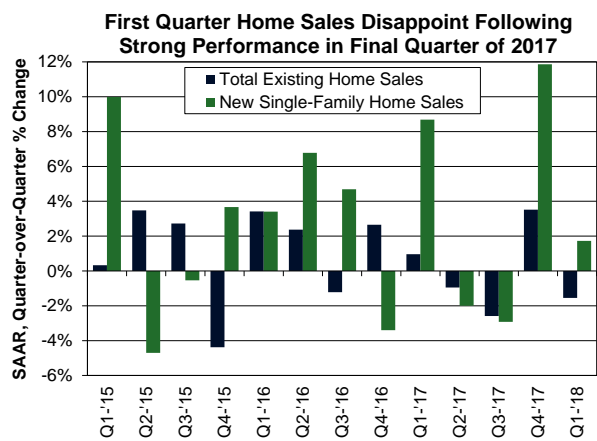
Source: Bureau of Economic Analysis



Housing: Home Sales Hit a Soft Patch Last Quarter

This week's news featured soft home sales during the first quarter amid strong home price appreciation and ongoing improvement in the owner-occupied housing market. Both new and existing home sales increased in March; however, first quarter performances were mixed. Following the best quarterly performance since the second quarter of 2015, total existing home sales fell during the first quarter for the third time in four quarters. The for-sale inventory has posted annual drops for nearly three years, which is likely playing a role in restricting sales. Homes are selling faster than in prior years, suggesting increased competition in the existing home market. New home sales have fared better so far in 2018; however, while first quarter new home sales rose for the second consecutive quarter, the increase paled in comparison to the double-digit gain in the fourth quarter. Lean inventory has remained a tailwind for home prices, with the annual gains in the FHFA purchase-only and S&P CoreLogic Case-Shiller Indices continuing to show strength in February. The Housing Vacancy Survey offered some good news in the owner-occupied sector. While the homeownership rate stayed flat in the first quarter, it continued to increase on an annual basis. Meanwhile, the homeowner vacancy rate fell two-tenths from the level a year ago, and the increase in owner households outpaced the drop in renter households, resulting in an annual rise in the total number of households of more than one million for the second consecutive quarter. Lastly, mortgage demand was essentially flat last week, and Freddie Mac's survey indicated that the average 30-year fixed mortgage rate rose 11 basis points this week to 4.58 percent, the highest level in more than four years.

- **Existing home sales** increased 1.1 percent to 5.6 million units (seasonally adjusted annualized rate or SAAR) in March, according to the National Association of REALTORS®. Average sales for Q1 2018 fell 1.5 percent compared with Q4 2017. The number of homes for sale (not seasonally adjusted) dropped 7.2 percent in March from last year's level. The months' supply was 3.6 months, compared with 3.8 months last March. Properties typically stayed on the market for 30 days in March, selling four days faster than in March 2017 and 17 days faster than in March 2016.
- **New single-family home sales** rose 4.0 percent to 694,000 units (SAAR) in March, according to the Census Bureau. Sales in the prior two months were revised higher by 71,000 units. New home sales rose 1.7 percent in Q1 2018 from Q4 2017. For-sale inventory (seasonally adjusted) was flat in March.
- **The Housing Vacancy Survey** for Q1 2018 showed that the homeownership rate (not seasonally adjusted) was unchanged at 64.2 percent, according to the Census Bureau. The rate was 0.6 percentage points higher than in Q1 2017. The homeowner vacancy rate fell one-tenth on the quarter to 1.5 percent, while the rental vacancy rate edged up one-tenth to 7.0 percent. The number of households increased 1.06 million from a year ago as the increase in owner households outpaced the drop in rental households, the latter of which fell for the fourth consecutive quarter.
- **The FHFA Purchase-Only House Price Index**, reported on a seasonally-adjusted basis, rose 0.6 percent in February. From a year ago, the index increased 7.2 percent, cooling from 7.4 percent in the prior month. **The S&P CoreLogic Case-Shiller National Home Price Index** (not seasonally adjusted) increased 0.4 percent from January and 6.3 percent from February 2017, two-tenths higher than the prior month's annual gain.
- **Mortgage applications** edged down 0.2 percent for the week ending April 20, according to the Mortgage Bankers Association. Purchase applications were flat, while refinance applications fell slightly. The average 30-year fixed mortgage rate rose 7 basis points to 4.73 percent.



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