



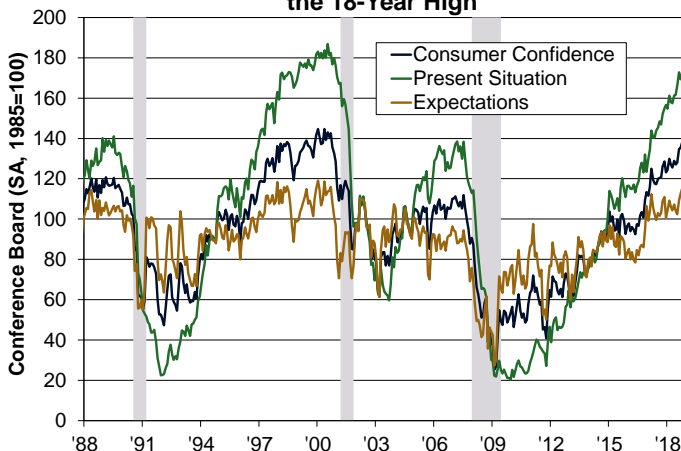
Weekly Note – November 30, 2018

Economics: Consumer Spending Growth Rises in October

This week's releases provided notable updates on consumer-related trends. The minutes from the Federal Open Market Committee (FOMC) meeting held on November 7-8 indicated agreement among members over the strong rate of growth in economic activity, also characterizing household spending as "strong." Committee members reaffirmed the view that further gradual increases in the target range for the federal funds rate would likely be consistent with sustaining the Committee's objectives of maximum employment and price stability. The second estimate of real gross domestic product (GDP) growth in the third quarter showed headline growth was unchanged. The details of the update showed small upward revisions to business fixed investment, residential fixed investment, and private inventories, which were offset by downward revisions to net exports, government spending, and personal consumption expenditures (PCE). Although growth of real PCE was marked down modestly with the second estimate, it remained the largest contributor to GDP growth in the third quarter. Over the month of October, real PCE grew at the fastest pace since March, suggesting that consumer spending will continue to support economic growth in the fourth quarter. Despite a slight decline in November, consumer confidence sits near the expansion peak set in October. Consumers' confidence in the present situation rose to just shy of a post-recession high, but the increase was more than offset by a decline in consumers' expectations. The expectations component was weighed down by decreases in expectations of business conditions on net and income expectations on net. Corporate profits, newly updated with the second release of GDP, rose in the third quarter, recording the fastest quarterly growth in over four years, while a separate release found that real personal income grew in October. However, initial claims of unemployment insurance rose for the third consecutive week, though the level remains near the expansion low. Meanwhile, the PCE price deflator, the Fed's preferred inflation gauge, held steady at 2.0 percent in October, but core PCE inflation, which excludes more volatile food and energy prices, slowed to 1.8 percent.

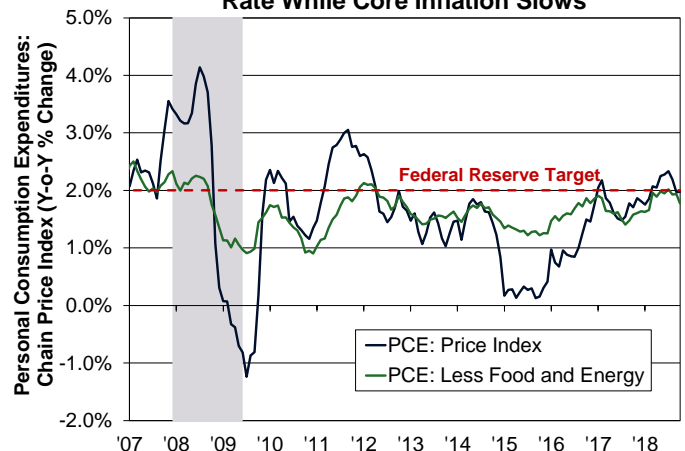
- **Gross domestic product**, adjusted for inflation, rose by 3.5 percent in Q3 2018, according to the second estimate from the Bureau of Economic Analysis. Nonresidential fixed investment growth was upwardly revised from 0.8 percent to 2.5 percent. Growth of PCE and government spending were downwardly revised to 3.6 percent from 4.0 percent and to 2.6 percent from 3.3 percent, respectively. Residential fixed investment was revised from a 4.0 percent decline to a 2.6 percent decrease. Corporate profits rose 3.4 percent in the third quarter.
- **Personal income**, adjusted for inflation, rose 0.3 percent in October, according to the Bureau of Economic Analysis. Real PCE grew by 0.4 percent. The PCE deflator rose 0.2 percent, and the core PCE price index increased by 0.1 percent. Over the past year the PCE deflator has risen by 2.0 percent, while core PCE inflation reached 1.8 percent.
- **The Conference Board Consumer Confidence Index** fell 2.2 points to 135.7 in November. The present situation component rose 0.8 points to 172.7, while the expectations component fell 4.1 points to 111.0. The difference between the share of consumers expecting better business conditions and the share expecting worse conditions fell to 13.7 percentage points. The difference between the proportion of consumers expecting income to increase and the proportion expecting income to decrease fell to 13.7 percentage points. The difference between the percentage of consumers expecting more jobs and the percentage expecting fewer jobs held steady at 11.7 percentage points.
- **Initial claims for unemployment insurance** increased by 10,000 to 234,000 in the week ending November 24, according to the Department of Labor. The four-week moving average increased by 4,750 to 223,250.

Confidence Edges Down, But Remains Near the 18-Year High



Source: Conference Board

Headline Inflation Holds Steady at Fed's Target Rate While Core Inflation Slows



Source: Bureau of Economic Analysis

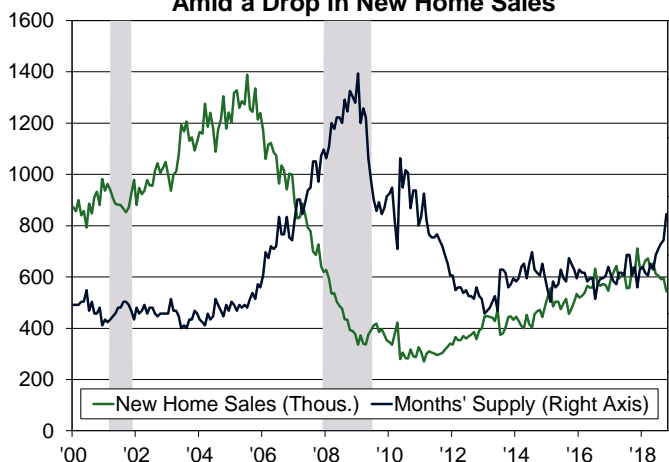


Housing: Contract Signings Turn Downbeat

This week offered bearish news on contract signings of both new and existing homes but upbeat news on mortgage applications. New home sales, which are recorded at contract signing, plunged in October to the lowest level since March 2016, though sales in the prior months were revised substantially higher. At the same time, pending home sales, which measure contract signings of existing homes, dropped 2.6 percent. Another leading indicator of home sales, purchase mortgage applications, also fell in October, declining for the third time in four months. Both reports suggest total home sales this quarter will likely come in below our forecast, and real residential investment is now tracking to decline for the fourth consecutive quarter versus our expectation of a slight gain. These lackluster October housing indicators occurred amid the third straight rise in monthly mortgage rates, with the average 30-year fixed mortgage rate increasing 20 basis points to 4.83 percent, according to Freddie Mac. These developments bode poorly for home sales during the rest of the year. However, more recent news offered hopeful signs for the home sales market at the start of 2019. After declining 13 basis points last week to 4.81 percent, the average 30-year fixed mortgage rate held steady this week, putting the November average at 4.87 percent, only slightly higher than the October level. Recent declines in mortgage rates appeared to motivate fence-sitters to jump into the purchase market, as purchase mortgage applications rose for the second consecutive week last week, posting the biggest weekly gain since early September 2017. Last but not least, two measures of home prices showed that annual home price appreciation moderated in September to the slowest pace since January 2017, which, along with the recent stabilization in mortgage rates, should help improve affordability.

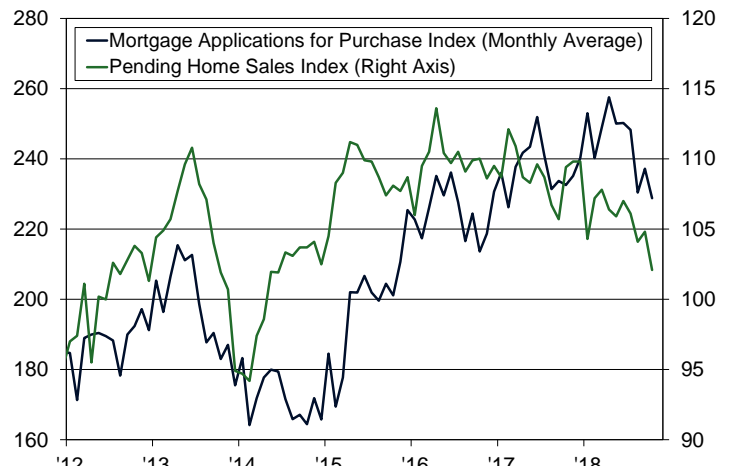
- **New single-family home sales** fell 8.9 percent to a 544,000 seasonally-adjusted annualized rate in October, according to the Census Bureau. This marks the biggest drop since December 2017. Sales in the prior three months were revised higher by 53,000 units, which put year-to-date sales 2.9 percent higher than sales during the same period in 2017. Sales fell in every Census region. The October for-sale inventory (seasonally adjusted) jumped 17.5 percent from a year ago and 4.3 percent from September, the biggest month-to-month rise in five years. The months' supply surged from 6.5 months to 7.4 months, the highest reading since February 2011. The median price, which is not adjusted for the mix of sales, fell 3.1 percent from a year ago for the second straight month.
- **The National Association of REALTORS® Pending Home Sales Index**, which typically leads closings by one to two months, decreased 2.6 percent in October. Pending sales rose slightly in the Northeast but dropped in the other three regions. From a year ago, pending sales fell 6.7 percent, the tenth straight month of annual declines.
- **The FHFA Purchase-Only House Price Index**, reported on a seasonally-adjusted basis, increased 0.2 percent in September. From a year ago, the index rose 6.0 percent. **The S&P CoreLogic Case-Shiller National Home Price Index** (not seasonally adjusted) edged up 0.1 percent in September and rose 5.5 percent from a year ago.
- **Mortgage applications** increased 5.5 percent for the week ending November 23, the biggest gain since the first week of the year, according to the Mortgage Bankers Association. Purchase applications increased 8.8 percent to the highest level since mid-July. Refinance applications increased for the first time in five weeks, ticking up 0.5 percent. The survey's average 30-year fixed mortgage rate fell 4 basis points to 5.12 percent.

The Months' Supply of New Homes Jumps Amid a Drop in New Home Sales



Source: Census Bureau

Near-Term Outlook for Home Sales Is Bleak



Source: National Association of REALTORS® and MBA

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Economic and Strategic Research Group
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