



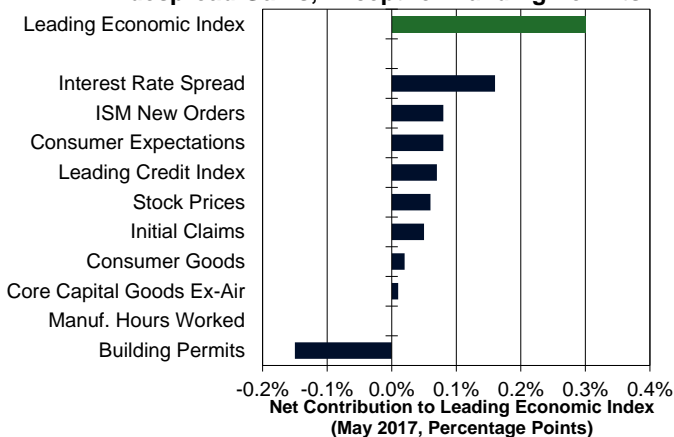
Weekly Note – June 23, 2017

Economics: Growth Is Poised to Strengthen in Q2

A quiet week of economic data allowed the focus to turn to the near-term prospects for economic growth. The Conference Board's Leading Economic Index (LEI), a gauge of the economic outlook over the next three to six months, increased in May for the ninth consecutive month. The improvement was widespread across LEI components, except for housing permits, which weighed on the index for the third time in the past four months. The largest positive contributor was the interest rate spread—the difference between the yield on 10-year Treasuries and the fed funds rate. Although the spread drove the LEI gain in May, it has narrowed since the Fed raised the fed funds rate in June, suggesting that the strong positive contribution is likely to fade in the near term. Consumer expectations of business conditions have been elevated since the presidential election and have contributed to growth in the index every month since November. Average weekly initial claims for unemployment insurance made the largest contribution in three months, as the four-week moving average dipped to a 44-year low in May. Overall, the LEI trend is consistent with our view that the economic expansion will continue in 2017, with economic growth rebounding in the second quarter after a sluggish first quarter, and averaging 2.0 percent in the second half of the year. Weekly initial jobless claims, the other report this week, rose last week for the first time in three weeks, though the level of claims remains near the historical low, pointing to continued improvement in the labor market.

- **The Conference Board Leading Economic Index (LEI)** increased 0.3 percent in May to 127.0, following a 0.2 percent increase in April and a 0.4 percent increase in March. Eight of the ten indicators that make up the index increased in May. The positive contributors, in descending order, were the interest rate spread, the Institute for Supply Management® new orders index, average consumer expectations for business conditions, the Leading Credit Index™, stock prices, average weekly initial claims for unemployment insurance, manufacturers' new orders for consumer goods and materials, and manufacturers' new orders for nondefense capital goods excluding aircraft. The only component that dragged on the LEI was residential building permits. Average weekly manufacturing hours held steady in May. Over the six-month span ending in May, the LEI increased 2.3 percent, with seven out of ten components advancing.
- **Initial claims for unemployment insurance** increased by 3,000 to 241,000 in the week ending June 17, according to the Department of Labor. The four-week moving average increased by 1,500 to 244,750.

Leading Economic Index Improves Again After Widespread Gains, Except for Building Permits



Source: Conference Board

Jobless Claims Increase in June After Hitting 44-Year Low at End of May



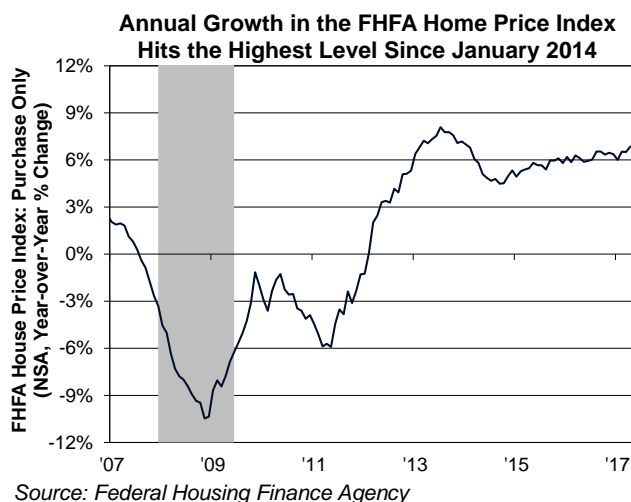
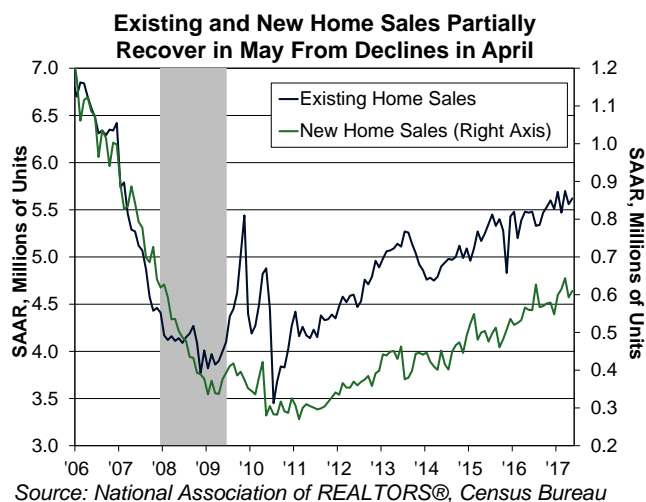
Source: Department of Labor



Housing: Home Sales Rebound, But Supply Issue Lingers

The home sales market steadied in May, as both new and existing home sales improved after declining in April from expansion highs in March. New home sales partially recovered from the large fall in April, and sales in the prior three months were revised upward substantially. Not all regions participated in the new home sales rebound, however. Sales in the South and West increased, outweighing declines in New England and the Midwest. The drop in the Midwest was particularly notable, as sales in that region fell for the second consecutive month to reach the lowest level since February 2015 after reaching an expansion high in March. Existing home sales rebounded during May to a level just below the expansion high. Similar to new home sales, existing sales in the Midwest fell sharply, but sales in the other three regions rose. Limited supply continues to constrain the home sales market. The for-sale inventory of existing homes, which makes up the vast majority of supply, has declined year-over-year for two consecutive years, marking the second longest stretch of annual declines ever recorded. The number of new homes for sale, while improving steadily in this expansion, remains over 40,000 units below the historical average. The lack of existing supply and the slow pace of new home building has maintained upward pressure on home prices, as the FHFA Purchase-Only House Price Index posted the largest annual gain in April since January 2014. Overall mortgage demand was little changed last week, as a small rise in refinance applications barely outweighed a small drop in purchase applications. Purchase applications slipped for the second consecutive week after hitting a seven-year high in the first week of June. Mortgage rates continue to support mortgage demand, as the 30-year fixed mortgage rate ticked down one-tenth to 3.90 percent this week, according to Freddie Mac.

- **New single-family home sales** rose 2.9 percent in May to a seasonally-adjusted annualized rate (SAAR) of 610,000 units, according to the Census Bureau. Sales over the prior three months were revised upward 34,000 units, on net. Through the first five months of the year, new home sales are 12.4 percent higher than the same period a year ago. The number of homes for sale rose 1.5 percent during the month and 11.3 percent from a year ago. The months' supply, or the inventory-to-sales ratio, was 5.3 percent, one-tenth higher than the previous May. The median sales price, which is not adjusted for the composition of sales, rose 16.8 percent year-over-year after posting a 3.5 percent drop in April.
- **Existing home sales** increased 1.1 percent in May to a SAAR of 5.62 million units, according to the National Association of REALTORS®. On a year-to-date basis, existing sales are 2.9 percent higher than a year ago. Single-family sales increased 1.0 percent and condo/coop sales increased 1.6 percent from the prior month. The number of homes for sale, which is not seasonally adjusted, decreased 8.4 percent from a year ago. The months' supply was 4.2 months, 0.5 months lower than in May 2016. The median sales price increased 5.8 percent from a year ago.
- **The FHFA Purchase-Only House Price Index**, reported on a seasonally adjusted basis, increased 0.7 percent in April. From a year ago, home prices rose 6.9 percent, according to the index. Regionally, annual home price growth in the Middle Atlantic approached an 11-year high.
- **Mortgage applications** edged up 0.6 percent for the week ending June 16, according to the Mortgage Bankers Association. Purchase applications edged down 1.0 percent. Refinance applications rose 2.1 percent. The survey's average 30-year fixed mortgage rate was unchanged at 4.13 percent.



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