



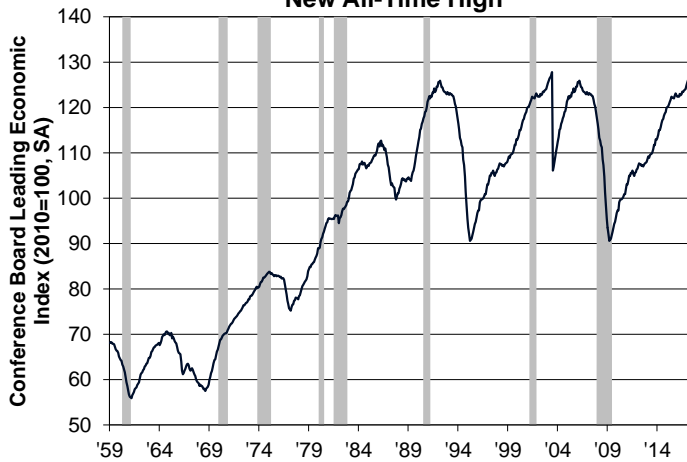
Weekly Note – July 21, 2017

Economics: Continued Growth Is Expected

This week's quiet economic calendar offered a positive message from The Conference Board Leading Economic Index (LEI) and further evidence of weakening inflation. The LEI increased in June for the tenth consecutive month to reach a new all-time high. According to the Conference Board, recent trends in the index suggest that the economy will continue to grow and perhaps moderately improve during the second half of the year. Fannie Mae's [economic outlook](#) remains unchanged, with expectations that growth will decelerate in the second half of the year. Eight of the index's ten indicators contributed to its largest jump in five months. Among the biggest contributors were building permits, which finally improved after several months of weakness, the Institute of Supply Management New Orders Index, and the interest rate spread. The only detractor was average weekly initial claims for unemployment insurance, while average weekly manufacturing hours were unchanged. On the inflation front, import prices declined in June for the second straight month and the third time in four months, driven by lower fuel prices, which fell for the fourth consecutive month. Prices for nonfuel imports increased slightly after being flat in May. Year-over-year growth in import prices decelerated for the fourth consecutive month to the slowest pace in seven months. Annual growth in fuel prices slowed from almost 75 percent in February to below 5 percent in June. Lastly, initial claims for unemployment insurance fell last week for the second straight week, dropping by the largest amount since the end of April.

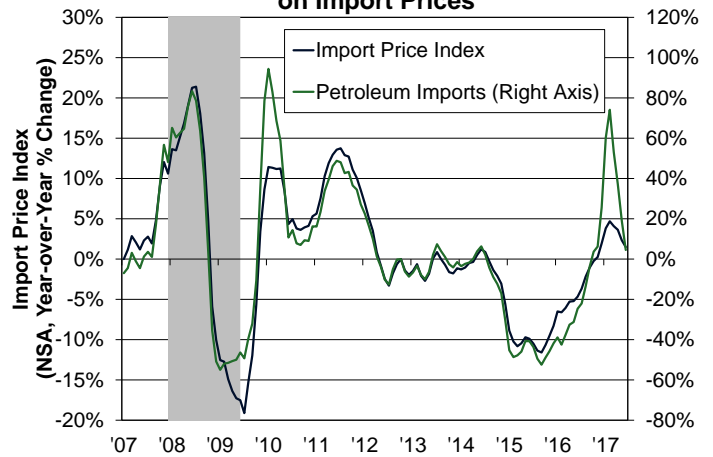
- **The Conference Board Leading Economic Index (LEI)**, a gauge of the economic outlook over the next three to six months, rose 0.6 percent in June, following 0.2 percent increases in May and April. In the first half of the year, the index increased 2.5 percent, compared with 1.5 percent growth in the second half of 2016.
- **Import prices** fell 0.2 percent in June, while nonfuel prices rose 0.1 percent, according to the Bureau of Labor Statistics. Import prices rose 1.5 percent from a year ago, and nonfuel prices were 1.4 percent higher. Petroleum and petroleum products fell 2.2 percent from May but increased 4.5 percent from a year ago.
- **Initial claims for unemployment insurance** decreased by 15,000 to 233,000 in the week ending July 15, according to the Department of Labor. The four-week moving average decreased by 2,250 to 243,750.

The Leading Economic Index Climbs to a New All-Time High



Source: The Conference Board

Slowdown in Petroleum Price Growth Weighs on Import Prices



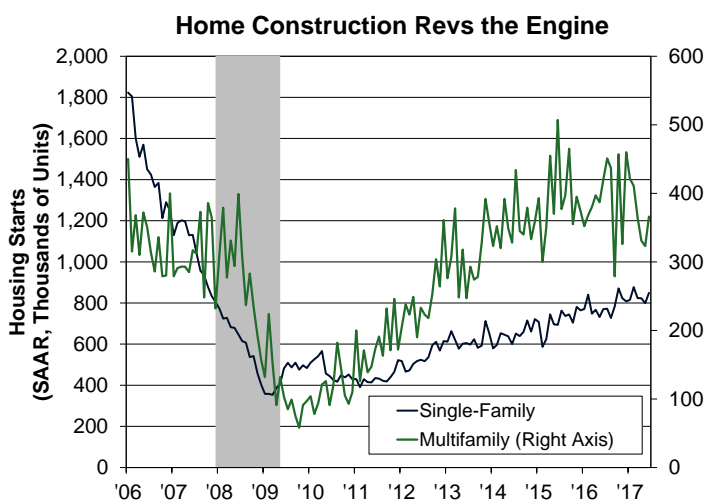
Source: Bureau of Labor Statistics



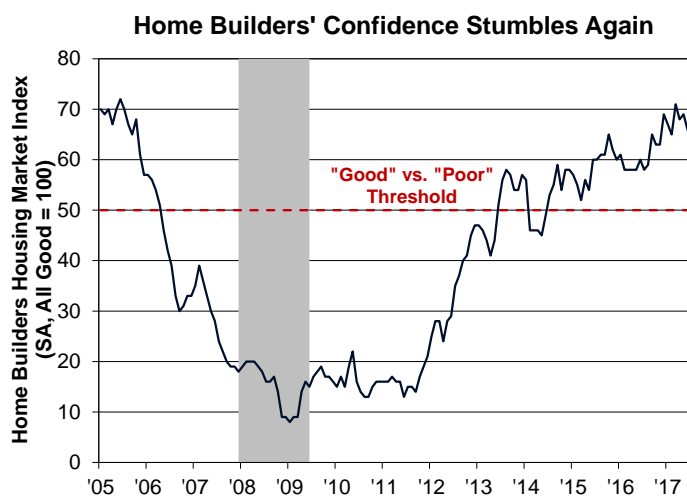
Housing: Construction Shifts to a Higher Gear

Housing data released this week showed rebounds in both home construction and mortgage demand. Total housing starts posted the strongest monthly gain this year in June, ending a three-month stretch of declines. Both the single-family and the multifamily sectors contributed to the improvement. Single-family starts rose for the first time in four months to reach the highest level since February, while multifamily starts increased for the first time this year. Through the first half of the year, home construction is 4 percent higher than a year ago, solely because of single-family building. Multifamily building is off to a slower start through the first six months in 2017 than in 2016, reflecting the mature state of the sector's expansion. The near-term outlook for home building improved in June, as single-family and multifamily permits rose. While home construction improved in June, home builders' confidence in the new home market stumbled for the third time in the past four months in July, receding further from the 11-year high reached in March. Builders' outlook for future sales dipped to a five-month low, while the current sales component slipped to an eight-month low. Mortgage demand increased last week, recovering most of the drop from the prior week. The largest jump in refinance applications in a year drove the gain, as refinance demand improved from the lowest level since the first week of January the previous week. Purchase applications also rose modestly for the second time in three weeks. Mortgage rates remain supportive of mortgage demand, as the average 30-year fixed mortgage rate slipped seven basis points to 3.96 percent, marking the eighth time in the past nine weeks mortgage rates have been below 4 percent.

- **Housing starts** rose 8.3 percent to a 1.22 million seasonally-adjusted annualized rate in June, according to the Census Bureau. Single-family starts increased 6.3 percent to 849,000 units, and multifamily starts improved 13.3 percent to 366,000 units. Through the first six months of the year, single-family starts are 7.9 percent higher than the same period a year ago, while multifamily starts are 4.5 percent lower. New residential permits increased 7.4 percent to 1.25 million annualized units. Single-family permits rose 4.1 percent to 811,000 units, and multifamily permits increased 13.9 percent to 443,000 units. On a year-to-date basis, single-family permits are 9.4 percent higher, while multifamily permits are 1.1 percent lower.
- **The National Association of Home Builders/Wells Fargo Housing Market Index** slipped 2 points to 64 in July. A reading above 50 indicates more builders view the single-family market as "good" rather than "poor". All three components – present sales, sales expectations over the next six months, and foot traffic of prospective buyers – declined.
- **Mortgage applications** increased 6.3 percent for the week ending July 14, according to the Mortgage Bankers Association. Refinance applications jumped 13.0 percent, as both conventional and government applications posted strong gains. Purchase applications edged up 1.1 percent, as a rise in conventional applications outweighed a drop in government applications. The survey's average 30-year fixed mortgage rate was unchanged at a two-month high of 4.22 percent.



Source: Census Bureau



Source: National Association of Home Builders

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Economic and Strategic Research Group
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