ESR Economic and Housing Weekly Note *November 26, 2014*

Economics: Second-Half Growth Looks Appetizing

The heavy stuffing of economic data released before Thanksgiving was a tasty offering, though there were a few sour notes. The main course was an upward revision to Q3 GDP growth amid healthy gains in personal income and spending in early Q4, bolstering our expectation for second-half economic growth near 3.0 percent following a roller-coaster first-half 2014. However, not all of the dishes were well-balanced and in line with the general upbeat economic data released over the past several months. Core capital goods orders have weakened over the past two months, and a spike in jobless claims pushed the weekly level above 300,000 for the first time since early September. Confidence measures for November were a potluck, with a decline in the Conference Board Index offset by a pickup in the University of Michigan/Reuters Consumer Sentiment Index. U.S. Treasuries were a holiday favorite, pushing the 10-year yield down seven basis points from Friday's close to 2.24 percent on Wednesday morning. Oil was a Thanksgiving stay-away (just like my Aunt's mashed turnips), with crude prices falling to a four-year low of $74/barrel, indicating the tailwind to consumers from falling gasoline prices is likely to continue in the near future.

➢ **Personal income**, adjusted for inflation, increased 0.2 percent in October and 2.6 percent over the last 12 months—the largest year-over-year growth since December 2012, according to the Bureau of Economic Analysis. Real personal consumption expenditures (PCE) increased 0.2 percent on the month and 2.2 percent on the year. The PCE chained price index edged up 0.1 percent in October and 1.4 percent over the past year—well below the Fed's 2.0 percent inflation target.

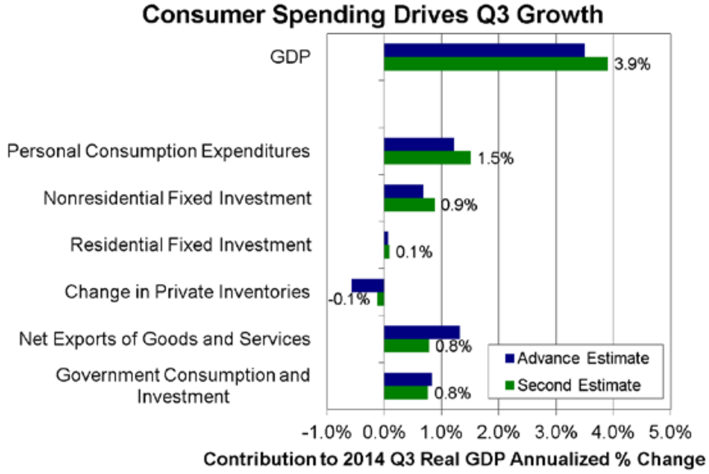
➢ **Gross Domestic Product (GDP)**, adjusted for inflation, increased at a 3.9 percent annual rate in Q3 2014 according to the second estimate from the Bureau of Economic Analysis, down from the 4.6 percent pace in Q2. Stronger contributions to growth from consumer spending (1.5 percentage points) and nonresidential fixed investment (0.9 percentage points), in addition to a smaller drag from inventory investment (-0.1 percentage points) pushed the headline growth rate up 0.4 percentage points from the initially reported 3.5 percent pace. The contributions from net exports and government spending were revised lower. A key measure of underlying growth in the private sector, real final sales to private domestic purchasers—which includes domestic spending by consumers and businesses excluding inventories—increased 3.0 percent, down from 3.8 percent in Q2, but revised up from the initially reported 2.3 percent pace.

➢ **The Conference Board Consumer Confidence Index** pulled back in November, falling 5.4 points to a five-month low of 88.7 after reaching a recovery-best in October. Both the present situation and expectations components declined during the month. Consumers were less optimistic about both jobs and income during the month, though buying plans for autos, homes, and appliances edged up. **The University of Michigan/Reuters Consumer Sentiment Index** increased 1.9 points in the final November reading to a seven-year high of 88.8, despite moderating from the preliminary reading.

➢ **Durable goods orders** increased 0.4 percent in October following two consecutive monthly declines. Over the past 12 months, durable goods orders are up 5.5 percent. Nondefense capital goods orders excluding aircraft, a leading indicator of business investment in equipment, sank 1.3 percent for the second straight month.

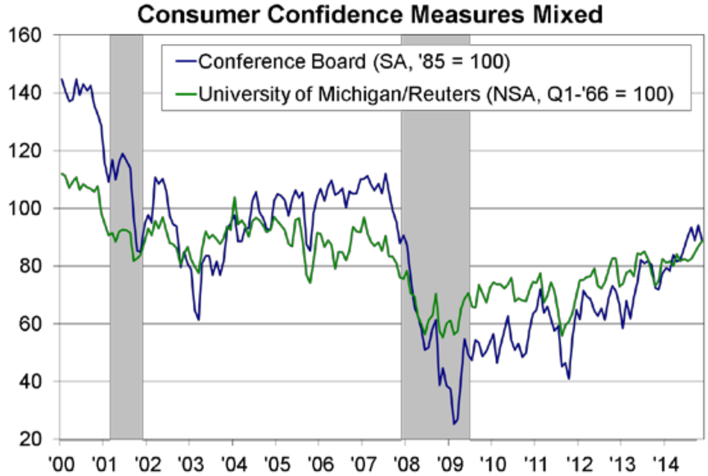
➢ **Initial claims for unemployment insurance** jumped 21,000 to 313,000 in the week ending November 22, according to the Department of Labor. The four-week moving average increased 6,250 to 294,000.

Consumer Spending Drives Q3 Growth



Source: Bureau of Economic Analysis

Consumer Confidence Measures Mixed



Source: Conference Board, University of Michigan/Reuters

Housing: More of the Same

Following an upbeat week of housing data, this week's releases presented a more sober outlook for the sector. October home sales data were mixed. New home sales posted the third consecutive monthly increase in October, tying a 16-month best. However, a leading indicator of existing home sales suggests the steadily rising trend in resales may hit a pause in the near-term, though the trend remains healthy. Two separate home price indices showed a similar trend in September—flat monthly home price growth and moderating year-over-year gains. After picking up in the prior week, purchase mortgage applications sank last week despite a modest decline in the interest rate for 30-year fixed rate mortgages.

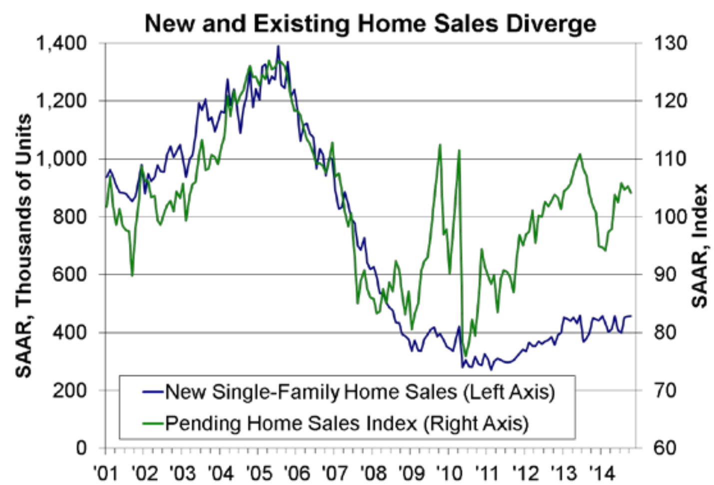
- **New single-family home sales** increased 0.7 percent in October to a seasonally adjusted annual rate of 458,000 according to the Census Bureau. Through the first 10 months of the year, new home sales were up 1.9 percent from the same period last year. The months' supply, or inventory/sales ratio, ticked up 0.1 to 5.6 during the month amid steadily (but modestly) rising inventory. The median sales price, which can be biased due to the changing mix of sales, jumped in October and was up 15.4 percent from October 2013.

- **The National Association of REALTORS® Pending Home Sales Index**, which records contract signings on existing homes and typically leads closings by one to two months, declined 1.1 percent in October and has fallen in two of the past three months. However, the index was up from a year ago for the second straight month, rising 2.2 percent from October 2013.

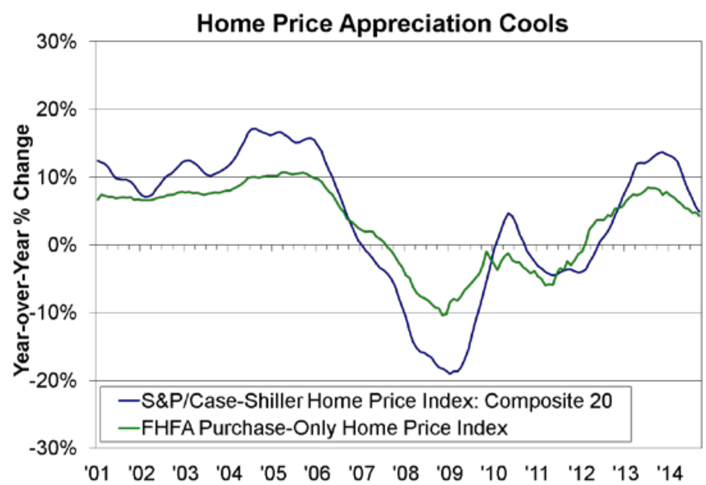
- **The S&P/Case-Shiller composite 20-city home price index** (not seasonally adjusted) was flat in the three months ending in September, and up 4.9 percent from a year ago—down from a recent peak of 13.7 percent year-over-year reached last November and the slowest annual appreciation since October 2012. All 20 metro areas experienced year-over-year price growth in September.

- **The FHFA purchase-only home price index** (reported by FHFA on a seasonally adjusted basis) was flat in September following a 0.4 percent gain in August. Over the past 12 months, prices were up 4.3 percent, down from a recent peak increase of 8.4 percent reached in July 2013, and the slowest annual gain since September 2012. All nine Census divisions showed year-over-year price growth. The quarterly purchase-only index increased 0.9 percent in Q3 and 4.5 percent from a year ago.

- **Mortgage applications** declined 4.3 percent in the week ending November 21, according to the Mortgage Bankers Association (MBA), as purchase mortgage applications dropped 4.8 percent and refinance applications fell 3.5 percent—the fourth decline in refinance demand in five weeks. The average contract 30-year mortgage rate measured in the MBA survey ticked down three basis points to a four-week low of 4.15 percent.



Source: Census Bureau, National Association of REALTORS®



Source: S&P/Case-Shiller, Federal Housing Finance Agency

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