

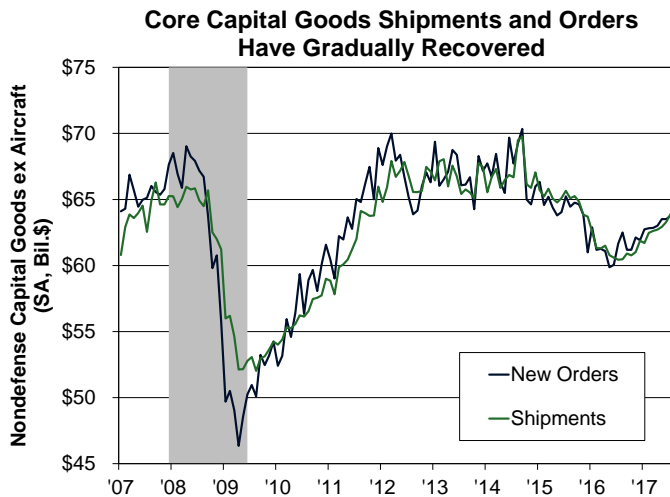


Weekly Note – August 25, 2017

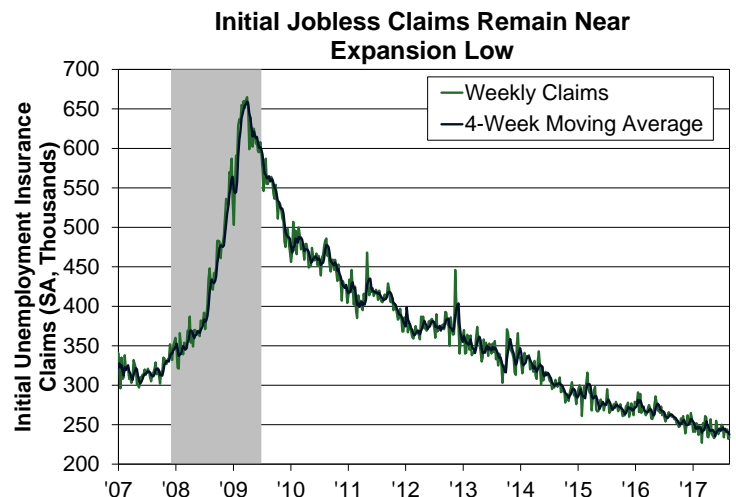
Economics: Rosier Outlook for Business Capital Spending

This week's economics reports, though sparse, bode well for near-term economic growth. Headline durable goods orders fell sharply in July, but the decrease was driven by a drop in volatile civilian aircraft orders, which pulled back following a surge in June. Details in the report point to firmer growth in business investment in equipment this quarter, thanks to a strong rise in core capital goods shipments, a key input used to estimate the equipment investment component in gross domestic product (GDP). In addition, core capital goods shipments were revised higher in June, implying a pickup in momentum at the end of the second quarter. Meanwhile, core capital goods orders, a forward-looking indicator for core shipments, rose in July, continuing an upward trend that started a year ago after a protracted downturn triggered by the sharp rise in the dollar in 2014. Overall, the durable goods report suggests that business equipment investment will be a strong driver of growth this quarter for the second consecutive quarter. Other news this week points to continued improvement in the labor market. Initial jobless claims ticked up in the most recent week, but the small increase followed a sizable drop in the prior week. The trend portrays an upbeat picture of labor market conditions, as the four-week moving average fell to the second lowest level of the expansion.

- **Durable goods orders** fell 6.8 percent in July, according to the Census Bureau. Civilian aircraft orders drove the decline, falling 70.7 percent following a 129.3 percent surge in June. Excluding transportation, durable goods orders rose 0.5 percent. Orders for new vehicles and parts fell 1.2 percent, the second consecutive drop and the fifth decline this year, confirming our view that auto sales and production will drag on GDP. Nondefense capital goods shipments excluding aircraft rose 1.0 percent, the biggest monthly gain since February, and the June increase was revised higher from 0.1 percent to 0.6 percent. Nondefense capital goods orders excluding aircraft rose 0.4 percent.
- **Initial claims for unemployment insurance** edged up 2,000 to 234,000 in the week ending August 19, according to the Department of Labor. The four-week moving average fell 2,750 to 237,750, only slightly higher than the expansion low of 235,000 recorded in the week ending May 20 of this year.



Source: Census Bureau



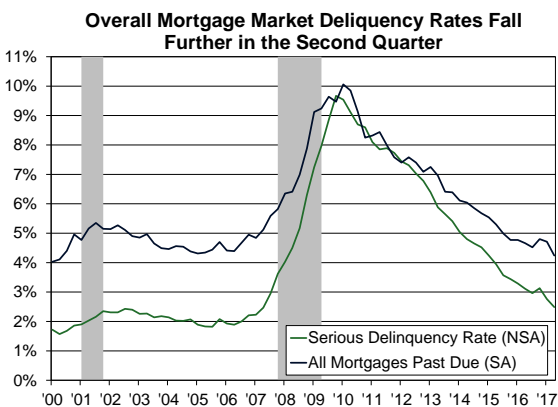
Source: The Department of Labor



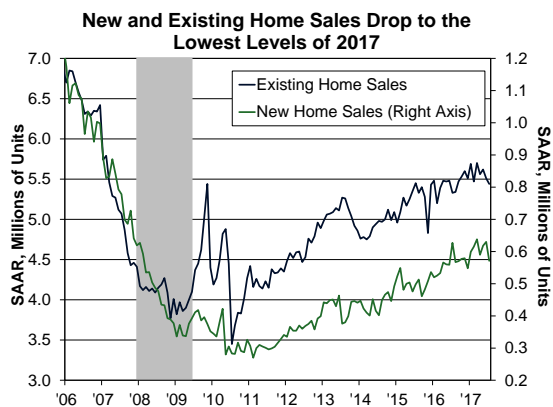
Housing: Sales Stumble as Loan Performance Improves

Housing data released this week showed continued declines in mortgage delinquency rates and a drop off in home sales. The Mortgage Bankers Association reported that the overall mortgage delinquency rate fell further in the second quarter to a 17-year low. The serious delinquency rate also fell, reaching a decade-low, and the rate of new foreclosures started dipped to an expansion low. In contrast to the continued improvement in mortgage loan performance, home sales stumbled in July. New home sales dropped for the first time in three months, decreasing sharply to the lowest level this year, though sales in the prior three months saw sizable upward revisions. The inventory of new homes for sale has increased steadily over the past year, and posted the biggest year-over-year gain since March 2016. However, inventory remains historically low, having just returned to the level seen at the end of the recession in June 2009. Existing home sales fell in July for the third time in the past four months to reach an 11-month low. Meanwhile, for-sale inventories declined on an annual basis for the 26th consecutive month. Spurred by anemic supply, home price growth remained strong in June, albeit slowing from the pace witnessed at the start of the year. The FHFA Purchase-Only House Price Index posted the weakest monthly gain since November 2013 and the weakest annual gain since January. Lastly, mortgage demand slipped last week for the first time this month, driven by the fourth decline in purchase mortgage applications in the past five weeks to the lowest level since mid-February, flashing a warning sign for the near-term outlook for home sales. Refinance applications, on the other hand, have increased every week this month to reach a two-month best, boosted by the renewed decline in mortgage rates. The average 30-year fixed mortgage rate slipped further this week, dropping 3 basis points to 3.86 percent, marking a new low for 2017, according to Freddie Mac.

- **The Mortgage Bankers Association National Delinquency Survey** for Q2 2017 showed that the delinquency rate for all outstanding mortgage loans on one-to-four unit residential properties fell 47 basis points to a seasonally adjusted rate of 4.24 percent. The percentage of loans on which foreclosure actions were started ticked down to 0.27 percent. The serious delinquency rate (the share of loans 90 days or more past due or in the foreclosure process, not seasonally adjusted) fell 27 basis points from the prior quarter and 62 basis points from a year ago to 2.49 percent.
- **New single-family home sales** fell 9.4 percent in July to a 571,000 seasonally-adjusted annualized rate (SAAR), according to the Census Bureau. Sales over the prior three months were revised upward by 46,000 units, on net. Through the first seven months of the year, new home sales are 9.5 percent higher than the same period a year ago. The number of homes for sale (seasonally-adjusted) increased 1.5 percent from June and 17.4 percent from July 2016. The months' supply was 5.8 months, six-tenths higher than June and 1.3 months higher than a year ago.
- **Existing home sales** fell 1.3 percent in July to 5.44 million units (SAAR), according to the National Association of REALTORS®. On a year-to-date basis, sales are 2.5 percent higher than a year ago. The number of homes for sale, which is not seasonally adjusted, declined 9.0 percent year-over-year. The months' supply was 4.2 months, compared with 4.8 months a year ago.
- **The FHFA Purchase-Only House Price Index**, reported on a seasonally adjusted basis, edged up 0.1 percent in June. From a year ago, the index increased 6.5 percent, slowing four-tenths from May.
- **Mortgage applications** slipped 0.5 percent for the week ending August 18, according to the Mortgage Bankers Association. Purchase applications fell 1.5 percent for the second consecutive week. Refinance applications edged up 0.3 percent. The survey's average 30-year mortgage rate remained at 4.12 percent, a nine-month low.



Source: Mortgage Bankers Association



Source: Census Bureau, National Association of REALTORS®

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Economic and Strategic Research Group
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