

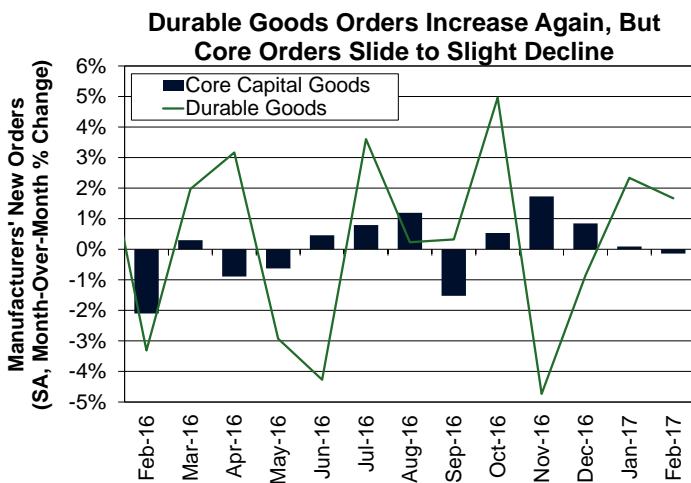


Weekly Note – March 24, 2017

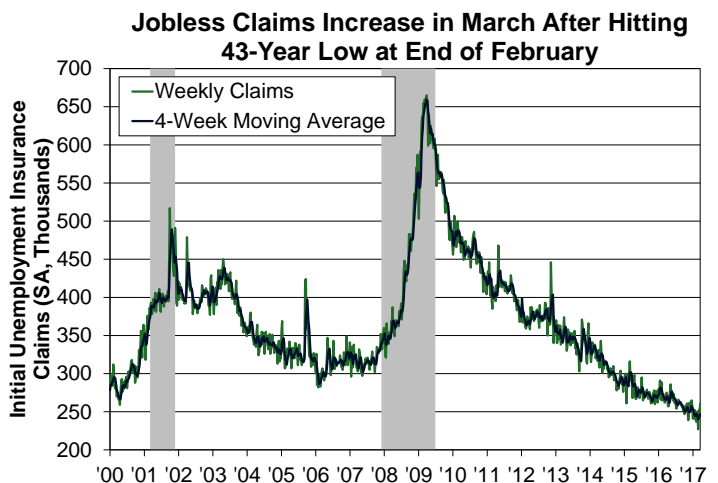
Economics: Manufacturing Sector Trudges Forward

A quiet week of economic data featured updates on durable goods and initial claims for unemployment insurance. New durable goods orders rose for the second consecutive month, helped by another boost from big-ticket nondefense aircraft orders. Core capital goods orders, which are a proxy for future business fixed investment in equipment and exclude the volatile aircraft and defense orders, declined slightly for the first time in five months. Growth in core orders had slowed in the two months prior to the drop in February after posting the largest monthly increase in 10 months in November. Core shipments, the input for the GDP calculation of business fixed investment in equipment, increased for the third time in four months. The durable goods report can be volatile on a month-to-month basis, but February’s report suggests a slowly firming trend in manufacturing. Through the first two months of the year, new durable goods orders are 1.6 percent higher than the same period a year ago, while core orders are up 1.3 percent. The manufacturing sector seems to be stabilizing and even possibly turning a corner; however, a gap remains between hard economic data, such as the durable goods report, and survey data, such as the Institute for Supply Management Manufacturing Index, which has risen for six consecutive months and suggests the sector is expanding at the fastest pace in two-and-a-half years. Shifting to the labor market, initial claims for unemployment insurance have climbed in March from the 43-year low reached at the end of February. In the first three weeks of March, claims increased by 34,000 from the recent low to reach a three-month high. Despite the recent rise, the steady downward trend of jobless claims in this expansion reflects the declining slack in the labor market.

- **Durable goods orders** increased 1.7 percent in February, according to the Census Bureau. Volatile nondefense aircraft orders increased 47.6 percent from January, driving the rise. Shipments of durable goods increased 0.3 percent, marking the third rise in the past four months. Durable goods orders in January were revised upward by four-tenths, while shipments were revised down to a slight drop from the initial unchanged estimate. Core capital goods (nondefense capital goods excluding aircraft) orders edged down 0.1 percent, while core shipments increased 1.0 percent during the month. January core orders were revised upward two-tenths, reversing the initial estimate of a slight decline into a small gain.
- **Initial claims for unemployment insurance** increased by 15,000 to 261,000 in the week ending March 18, according to the Department of Labor. The four-week moving average increased by 3,500 to 246,500.



Source: Census Bureau



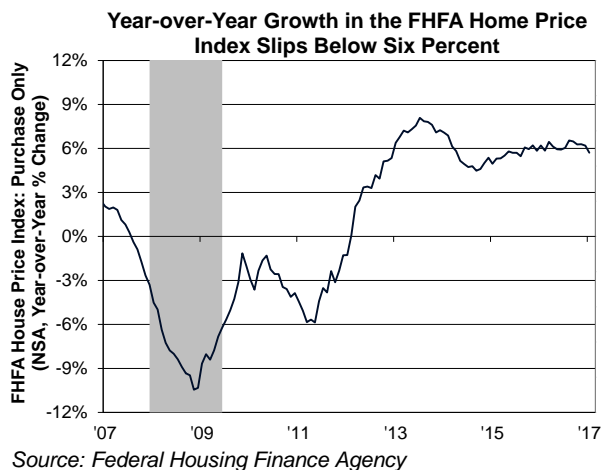
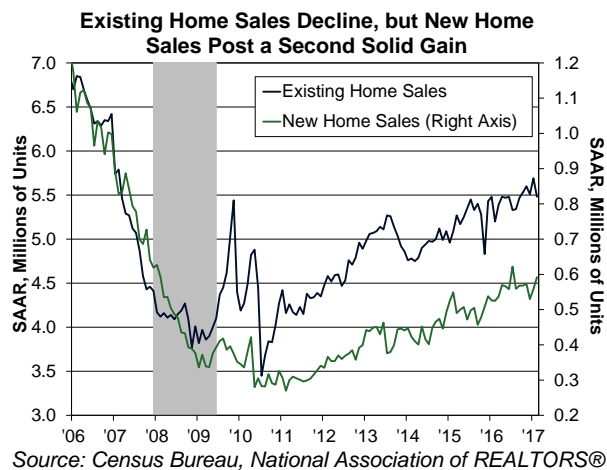
Source: Department of Labor



Housing: Home Sales Perform Unevenly in Early 2017

February home sales were the key data released this week. New home sales posted another strong monthly gain in February to reach the second highest level of the expansion. Existing home sales, on the other hand, saw the largest monthly drop in a year, falling from the expansion best reached in January. In part, the February fall in existing sales was payback for sales that were pulled forward in reaction to the post-election run up in mortgage rates, as home buyers rushed to buy before rates could rise any further. A fast pace of Fed rate hikes poses a downside risk to the home sales market. However, extremely low inventory of homes for sale remains the primary headwind. The number of existing homes for sale declined year-over-year for the 2^{1st} consecutive month. The inventory of new homes for sale improved to the highest level since July 2009, yet still remains more than 40,000 units below the historical average. Tight inventory has helped maintain annual home price appreciation between five and seven percent over the past three years. In January, however, the FHFA Purchase-Only House Price Index slowed to the lowest year-over-year growth rate since August 2015, though it remains well within the recent range. The slowdown in growth in the FHFA index contrasts with other main home price indices that have accelerated on an annual basis in recent months. Mortgage applications declined for the first time in four weeks last week for both purchase and refinance applications. The rise in mortgage applications in the three weeks prior to last week's Fed rate hike could be another indication of demand being pulled forward in anticipation of future increases in mortgage rates. This week, however, the average 30-year fixed mortgage rate fell seven basis points to 4.23 percent, according to the survey by Freddie Mac.

- **New single-family home sales** rose 6.1 percent in February to a seasonally-adjusted annualized rate (SAAR) of 592,000, according to the Census Bureau. Sales over the prior three months were revised downward 4,000 on net. Through the first 2 months of the year, sales are up 7.1 percent from the same period a year ago. Sales in the Midwest jumped to a new expansion high. The number of homes for sale increased 1.5 percent, marking the seventh consecutive monthly increase. Annual growth in new home inventory remained steady at 10.6 percent. The months' supply slipped two-tenths to 5.4 percent. The median sales price, which is not adjusted for the composition of sales, fell 4.9 percent, the largest drop in five years.
- **Existing home sales** fell 3.7 percent to a SAAR of 5.5 million units in February, according to the National Association of REALTORS®. On a year-to-date basis, existing sales are 2.9 percent higher than the same period a year ago. Single-family sales declined 3.0 percent and condo/coop sales dropped 9.2 percent in February from the prior month. The number of homes for sale, which is not seasonally adjusted, decreased 6.4 percent from a year ago. The months' supply was 3.8 months, 0.5 months lower than in February 2016. The median sales price increased 7.7 percent from a year ago.
- **The FHFA Purchase-Only House Price Index**, reported on a seasonally-adjusted basis, was flat in January, marking the first time the index did not increase on a monthly basis since October 2013. From a year ago, home prices rose 5.7 percent, slowing from the 6.2 percent annual gain in December.
- **Mortgage applications** dropped 2.7 percent for the week ending March 17, according to the Mortgage Bankers Association. Both purchase and refinance applications declined, by 2.1 and 3.3 percent, respectively. The survey's average 30-year fixed mortgage rate was unchanged at a near three-year high of 4.46 percent.



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