Comerica Economic Weekly

Comerica Bank

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U.S. economic indicators from this week were consistent with ongoing moderate economic growth in the third quarter. However, housing-related metrics for July were clearly weak. We expect that residential fixed investment will not be a significant boost to overall GDP growth in the second half of this year, the way it has been in previous business cycles.

Many (including us) have touted healthy consumer conditions recently. The positive effects of the strong labor market, high consumer confidence and tax reform are beyond dispute. Households are generally saving more and they are not overextended on credit. However, there are some vulnerabilities in the consumer sector. The soft housing market and the possibility of further declines in auto sales suggest that some aspects of consumer spending may be weaker than expected this fall.

Home sales continued their summer slump in July. New home sales fell by 1.7 percent in July, to a 627,000 unit annual rate. The inventory of new homes available increased to a moderate 5.9 months' worth, looser than the 4.9 months' worth of inventory from last November.

Existing home sales fell by 0.7 percent in July, to a 5,340,000 unit annual rate. This was the fourth consecutive monthly decline. The inventory of existing homes for sale in July remained tight at 4.3 months' worth. The median sales price of an existing home was up by 4.5 percent in July over the previous 12 months, according to the National Association of Realtors.

Mortgage applications for purchase increased by 2.9 percent for the week ending August 17, breaking a 5-week slide in purchase apps that included the first two weeks of August. The mortgage apps data from early August suggests that August could be another soft month for home sales. According to the Mortgage Bankers Association, the rate for a 30-year fixed-rate mortgage remained at 4.81 percent for the week.

Labor indicators remain consistent with exceptionally tight conditions. Initial claims for unemployment insurance eased by 2,000 for the week ending August 23, to hit 210,000. Continuing claims also fell by 2,000 for the week, to hit 1,727,000.

New orders for durable goods fell by 1.7 percent in July as both defense and nondefense aircraft orders exhibited normal volatility. Core orders, nondefense capital goods excluding aircraft, increased by 1.4 percent, boosted by a strong gain in orders for computers.

The Federal Reserve released the minutes of the July 31/August 1 Federal Open Market Committee meeting. Economic conditions at the time of the meeting were considered strong. It was noted by a number of meeting participants that businesses were concerned about the impact of tariffs on capital spending and hiring, but most businesses had not yet revised their plans due to new trade policy. There was also discussion about the impact of tariffs on inflation. The committee view was supportive of further gradual increases in the fed funds rate, consistent with a broad expectation of two more 25 basis point fed funds rate hikes this year.

Federal Reserve officials attended the annual retreat at Jackson Hole this week. This is not an official FOMC meeting, but at times there have been significant monetary policy developments as a result of this meeting. Fed Chair Jay Powell doubled down on "gradualism" in his speech at the conference.

Fed Funds Rate

Fed Funds Rate (Effective): After FOMC Meeting of 9/25-9/26

The Federal Reserve kept the fed funds rate unchanged at 1.75-2.00 percent at the FOMC meeting over July 31/August 1. We expect the next 25 basis point interest rate hike to be announced at the conclusion of the September 25/26 FOMC meeting. We also expect to see a fourth 25 basis point rate hike this year on December 19. According to the CME Group, the implied odds of a September rate hike are 96 percent. December odds are up to 65 percent.

The Week Ahead

June Case-Shiller 20-City (8/28, *Tuesday*)

The May Case-Shiller Home Price Index was up 6.5 percent. Up by 6.4 percent year-over-year in June. Some markets are looking a little softer. Consensus: 6.4 percent.

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The Week Ahead, Continued

2018 Q2 GDP, 2nd Estimate (8/29, *Wednesday*)

The 1st Estimate of 2018 Q2 GDP growth was 4.1 percent. We look for Q2 real GDP growth near 4.0 percent. Consensus: 4.0 percent.

2018 Q2 GDP Price Index, 2nd Estimate (8/29, *Wednesday*)

The 1st Estimate of the 2018 Q2 Price Index was 3.0 percent. Unchanged in the first revision. Consensus: 3.0 percent.

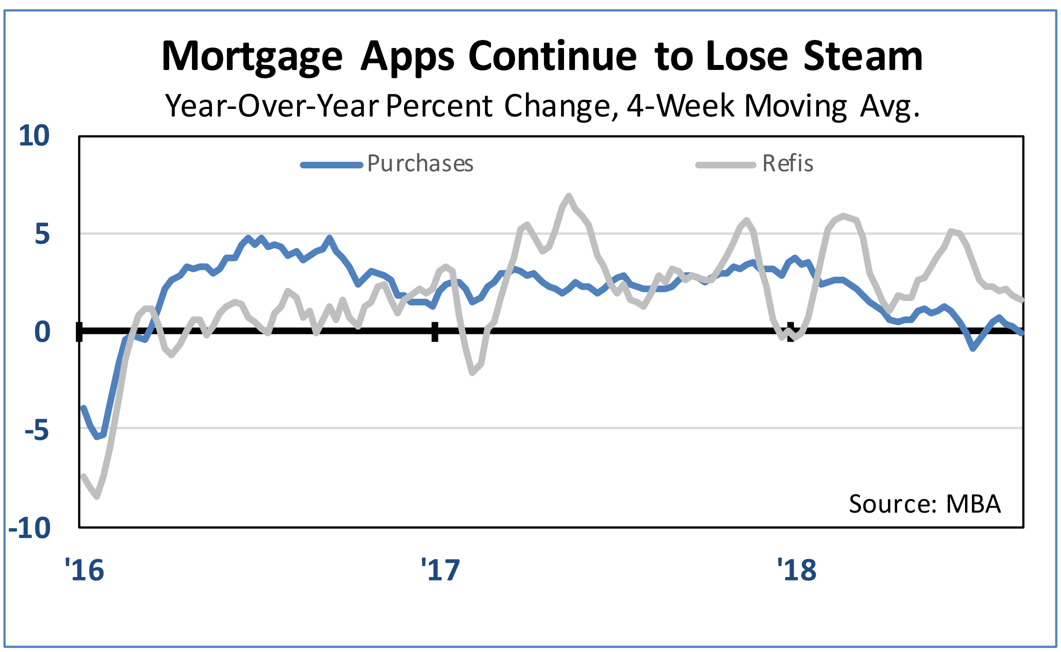
July Personal Income (8/30, *Thursday*)

Personal Income increased by 0.4 percent in June. We look for a similar 0.4 percent increase in July. Consensus: 0.4 percent.

July Personal Spending (8/30, *Thursday*)

Personal Spending increased by 0.4 percent in June. Up by 0.3 percent in July, with weaker auto sales. Consensus: 0.4 percent.

Chart of the Week



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