

Economic Analysis

# Rising Demand for Existing Home Sales in December as Prices Remain Favorable

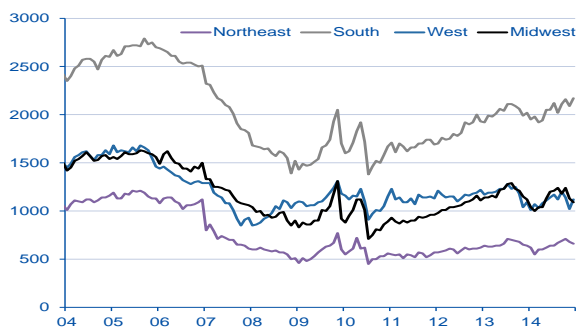
Kim Fraser Chase

The existing home market has seen its fair share of volatility throughout the past few years, with a downward trend to end 2013 and an extremely slow pickup thereafter. Although 2014 started out relatively weak, existing home sales ended the year on a stronger note, up 2.4% in December. At 5040K, sales are once again back on track to approach a recovery high, and annual growth has finally crossed into positive territory following 11 straight months of YoY declines. Not surprisingly, total sales of existing homes continue to be driven by the West and South regions, up 9.8% and 3.8%, respectively. In level terms, sales in the South have made more progress than all other regions, most likely due to the fact that affordability tends to be higher in these states. Overall affordability is rising as home price growth continues to decelerate and upward pressure on mortgage rates remained limited. The median sales price of all existing homes increased a modest 1.1% in December, but this followed five consecutive months of price declines, which likely helped boost demand for the end of the year. Looking at 2015, we expect to see a continuation of this gradual recovery in existing home sales, particularly with low inflation helping to boost consumer confidence and encouraging more potential homebuyers to finally jump into the market.

## Housing Starts Increase in December as Permits Fall; Seasonal Factors at Play

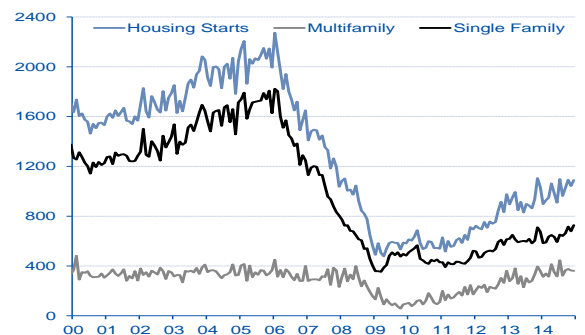
Housing starts and building permits moved in opposite directions in December for the first time in nine months, though in level terms both are holding near recovery highs. Housing starts increased 4.4% to 1089K, mostly making up for November's decline. This is somewhat in line with the gains in building permits seen in September and October, which tend to lead housing starts by a few months. However, building permits declined in December for the second consecutive month, down 1.9% to 1032K. We will probably see the influence of this back-to-back decline on housing construction during 1Q15, though hopefully rising demand will continue to boost both series simultaneously. Furthermore, seasonal factors are most likely at play here given that winter conditions usually deter new home construction and/or approvals. For 2015, we continue to expect volatility between housing starts and building permits amidst a slow but steady trend upward toward healthier levels.

Graph 1  
**Existing Home Sales (SAAR, Thousands)**



Source: NAR & BBVA Research

Graph 2  
**Housing Starts (SAAR, Thousands)**



Source: U.S. Census Bureau & BBVA Research

## Week Ahead

### Durable Goods Orders, Ex Transportation (December, Tuesday 8:30 ET)

Forecast: 0.5%, 0.4%

Consensus: 0.4%, 0.6%

Previous: -0.9%, -0.7%

Durable goods orders are expected to increase in December following November's modest decline. The data have been extremely volatile as of late, with massive double-digit movements seen in July and August. Transportation new orders are mostly at fault for the volatile swings, though we could see a big rebound given that the current environment of low oil prices remains favorable for transportation-related services and consumption. Unfortunately, we do not see much upside for capital goods orders excluding aircraft as this component has been in decline since September.

### S&P Case-Shiller HPI (November, Tuesday 9:00 ET)

Forecast: 3.92%

Consensus: 4.32%

Previous: 4.50%

The S&P Case-Shiller Home Price Index has flattened considerably in the past few months, with YoY growth on a downward trend since late 2013. Growth has decelerated from above 10% to 4.5% in just six short months, and we expect that this trend will continue throughout 2015. November's report is likely to show another monthly drop (on a non-seasonally adjusted basis) as median prices for both existing and new home sales declined for the month. However, given that home sales are often impacted by severe winter weather this time of year, we may see more aggressive seasonal adjustments come into play.

### New Home Sales (December, Tuesday 10:00 ET)

Forecast: 450K

Consensus: 450K

Previous: 438K

New home sales have experienced extremely anemic growth throughout the recovery period, with annualized levels not much higher than where we were at the depths of the crisis. In December, we expect that new home sales will rebound slightly following two consecutive months of decline. However, it is unlikely that we will see a more stable upward trend in the near future. Demand for new homes has been extremely subdued compared to the existing home market, with tight credit and constrained supply still playing a significant role.

### GDP, Advance (4Q14, Friday 8:30 ET)

Forecast: 2.3%

Consensus: 3.1%

Previous: 5.0%

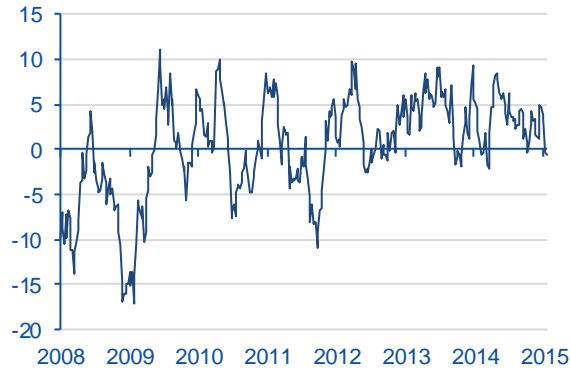
Real GDP is expected to increase in 4Q but at a slower pace compared to the previous quarter. Personal spending has remained in line with that seen in 3Q, and it is likely that falling oil prices had an even bigger boost on consumption towards the end of the year. The trade balance also remained mostly unchanged moving into the fourth quarter. Despite weakness in some housing data, we did see a big spike in construction spending in October, which could lift the residential component of GDP. However, nonresidential spending appears to be a bit weaker for 4Q, with a slowdown in inventory growth and capital goods orders. Overall, we expect to see much of 3Q's momentum carry over into 4Q, aside from the one-time spike in government defense spending.

### Market Impact

Markets will be looking toward Friday's 4Q14 GDP report as a hint at what strength may come for 2015. Wednesday's FOMC announcement will also warrant significant market attention given that we are closing in on the Fed's estimated timeline for the first rate hike.

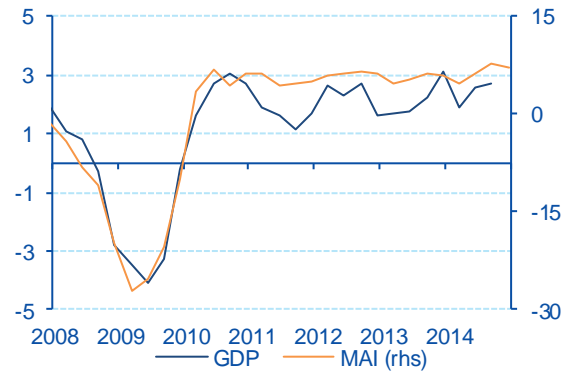
## Economic Trends

Graph 3  
**BBVA US Weekly Activity Index (3 month % change)**



Source: BBVA Research

Graph 4  
**BBVA US Monthly Activity Index & Real GDP (4Q % change)**



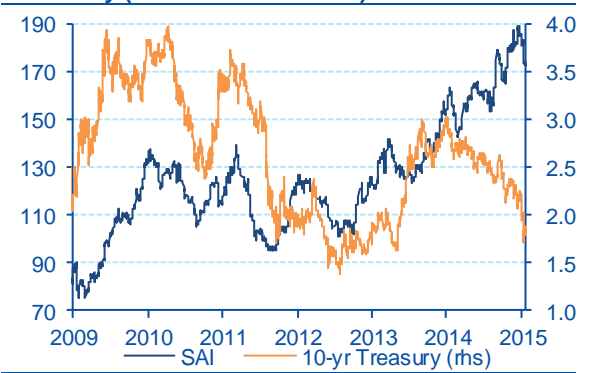
Source: BBVA Research & BEA

Graph 5  
**BBVA US Surprise Inflation Index (Index 2009=100)**



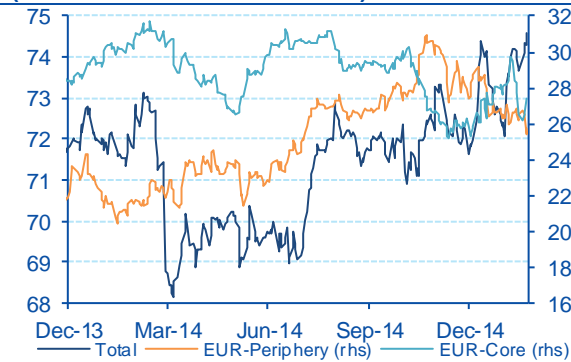
Source: BBVA Research

Graph 6  
**BBVA US Surprise Activity Index & 10-yr Treasury (Index 2009=100 & %)**



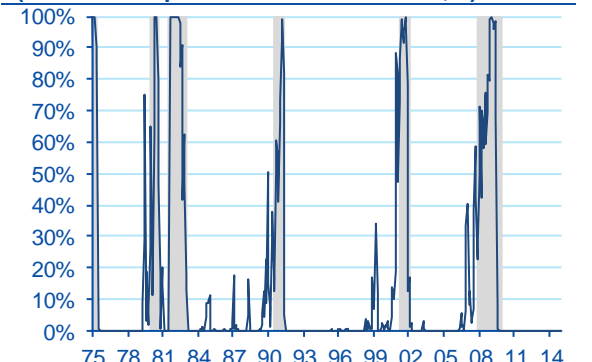
Source: Bloomberg & BBVA Research

Graph 7  
**Equity Spillover Impact on US (% Real Return Co-Movements)**



Source: BBVA Research

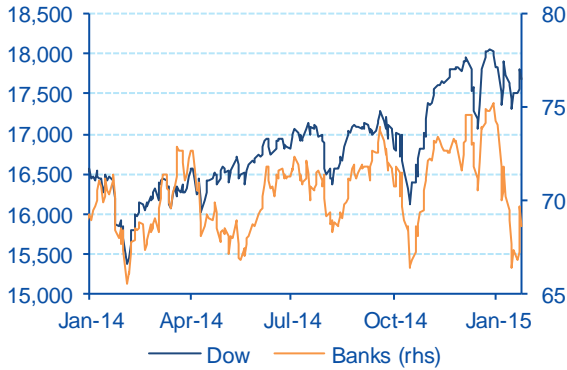
Graph 8  
**BBVA US Recession Probability Model (Recession episodes in shaded areas, %)**



Source: BBVA Research

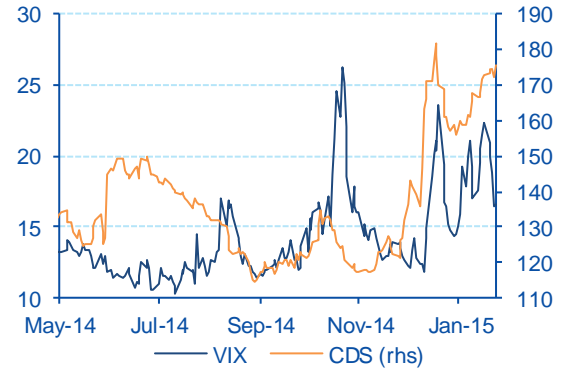
**Financial Markets**

**Graph 9**  
**Stocks**  
**(Index, KBW)**



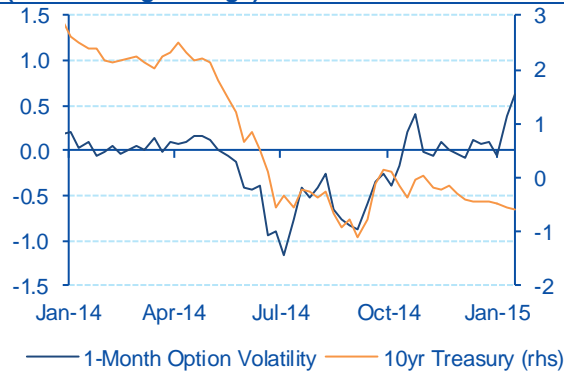
Source: Bloomberg & BBVA Research

**Graph 10**  
**Volatility & High-Volatility CDS**  
**(Indices)**



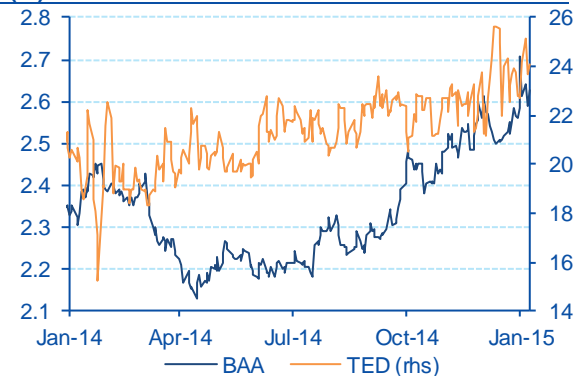
Source: Bloomberg & BBVA Research

**Graph 11**  
**Option Volatility & Real Treasury**  
**(52-week avg. change)**



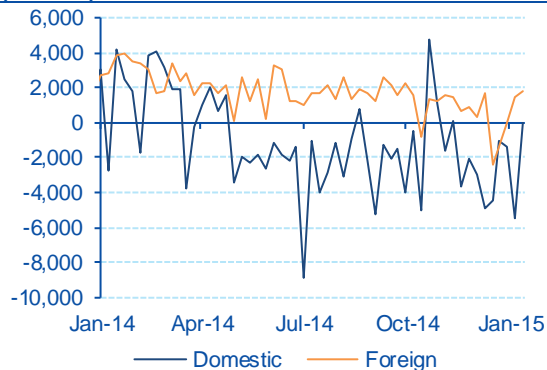
Source: Haver Analytics & BBVA Research

**Graph 12**  
**TED & BAA Spreads**  
**(%)**



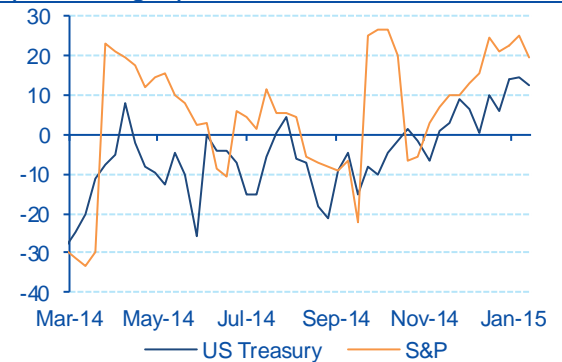
Source: Bloomberg & BBVA Research

**Graph 13**  
**Long-Term Mutual Fund Flows**  
**(US\$Mn)**



Source: Haver Analytics & BBVA Research

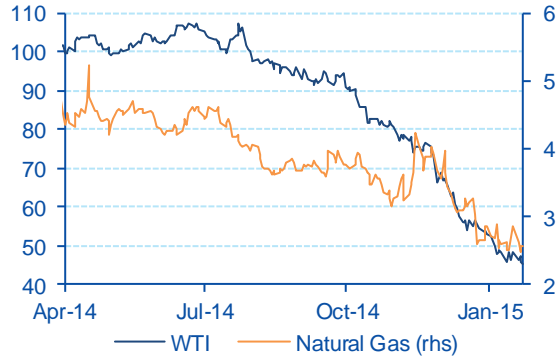
**Graph 14**  
**Total Reportable Short & Long Positions**  
**(Short-Long, K)**



Source: Haver Analytics & BBVA Research

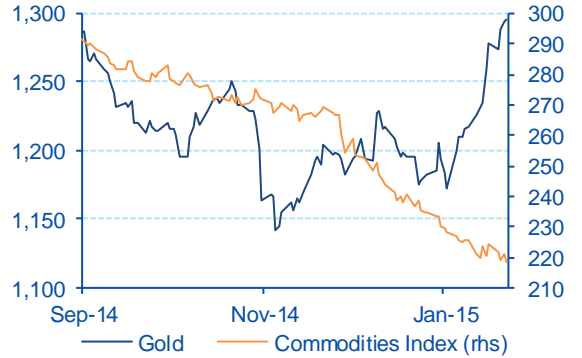
**Financial Markets**

Graph 15  
**Commodities**  
(Dpb & DpMMBtu)



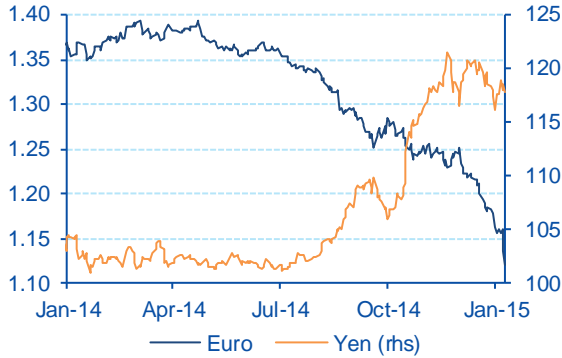
Source: Bloomberg & BBVA Research

Graph 16  
**Gold & Commodities**  
(US\$ & Index)



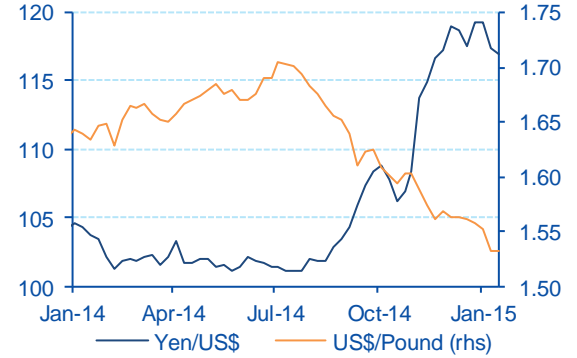
Source: Haver Analytics & BBVA Research

Graph 17  
**Currencies**  
(Dpe & Ypd)



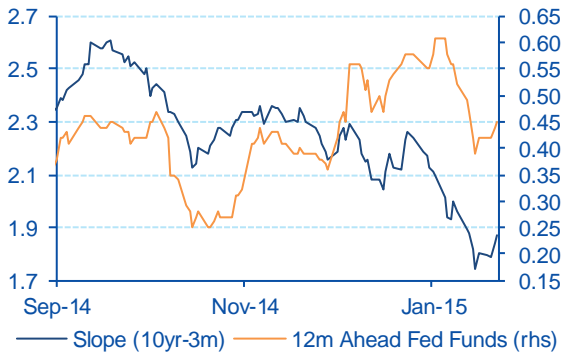
Source: Bloomberg & BBVA Research

Graph 18  
**6-Month Forward Exchange Rates**  
(Yen & Pound / US\$)



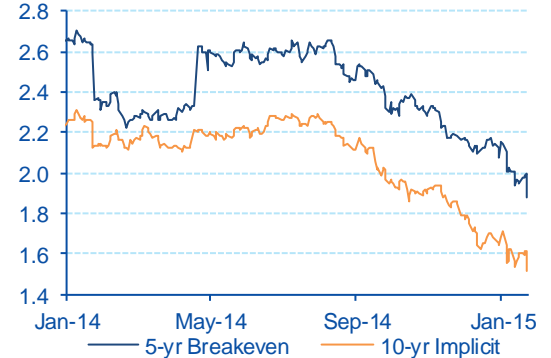
Source: Haver Analytics & BBVA Research

Graph 19  
**Fed Futures & Yield Curve Slope**  
(% & 10year-3month)



Source: Haver Analytics & BBVA Research

Graph 20  
**Inflation Expectations**  
(%)



Source: Bloomberg & BBVA Research

## Interest Rates

Table 1  
**Key Interest Rates (%)**

|                          | Last  | Week ago | 4-Weeks ago | Year ago |
|--------------------------|-------|----------|-------------|----------|
| Prime Rate               | 3.25  | 3.25     | 3.25        | 3.25     |
| Credit Card (variable)   | 14.86 | 14.86    | 14.86       | 14.10    |
| New Auto (36-months)     | 2.64  | 2.63     | 2.69        | 2.33     |
| Heloc Loan 30K           | 4.99  | 4.99     | 4.91        | 5.37     |
| 5/1 ARM *                | 2.83  | 2.90     | 3.01        | 2.90     |
| 15-year Fixed Mortgage * | 2.93  | 2.98     | 3.10        | 3.23     |
| 30-year Fixed Mortgage * | 3.63  | 3.66     | 3.83        | 3.99     |
| Money Market             | 0.42  | 0.42     | 0.43        | 0.42     |
| 2-year CD                | 0.83  | 0.85     | 0.87        | 0.82     |

\*Freddie Mac National Mortgage Homeowner Commitment US  
Source: Bloomberg & BBVA Research

Table 2  
**Key Interest Rates (%)**

|            | Last | Week ago | 4-Weeks ago | Year ago |
|------------|------|----------|-------------|----------|
| 1M Fed     | 0.12 | 0.12     | 0.13        | 0.07     |
| 3M Libor   | 0.26 | 0.25     | 0.23        | 0.24     |
| 6M Libor   | 0.36 | 0.36     | 0.32        | 0.33     |
| 12M Libor  | 0.62 | 0.62     | 0.55        | 0.57     |
| 2yr Sw ap  | 0.74 | 0.72     | 0.92        | 0.49     |
| 5yr Sw ap  | 1.47 | 1.46     | 1.85        | 1.68     |
| 10Yr Sw ap | 1.93 | 1.96     | 2.37        | 2.88     |
| 30yr Sw ap | 2.29 | 2.38     | 2.77        | 3.67     |
| 30day CP   | 0.12 | 0.12     | 0.11        | 0.12     |
| 60day CP   | 0.15 | 0.11     | 0.11        | 0.15     |
| 90day CP   | 0.17 | 0.13     | 0.13        | 0.12     |

Source: Bloomberg & BBVA Research

## Quote of the Week

President Barack Obama

Remarks by the President in the State of the Union Address

20 January 2015

*“Looking to the future instead of the past. Making sure we match our power with diplomacy, and use force wisely. Building coalitions to meet new challenges and opportunities. Leading -- always -- with the example of our values. That’s what makes us exceptional. That’s what keeps us strong. That’s why we have to keep striving to hold ourselves to the highest of standards -- our own.”*

## Economic Calendar

| Date   | Event  | Period | Forecast | Survey  | Previous |
|--------|--|--------|----------|---------|----------|
| 26-Jan | Dallas Fed Manufacturing Outlook Level Of General Business Activity              | JAN    | 2.50     | 3.20    | 4.10     |
| 27-Jan | US Durable Goods New Orders Industries MoM SA                                    | DEC    | 0.50     | 0.40    | -0.90    |
| 27-Jan | US Durable Goods New Orders Total ex Transportation MoM SA                       | DEC    | 0.40     | 0.60    | -0.70    |
| 27-Jan | S&P/Case-Shiller Composite-20 City Home Price Index SA MOM % Change              | NOV    | 0.36     | 0.60    | 0.76     |
| 27-Jan | S&P/Case-Shiller Composite-20 City Home Price Index YoY                          | NOV    | 3.92     | 4.32    | 4.50     |
| 27-Jan | US New One Family Houses Sold Annual Total SAAR                                  | DEC    | 450.00   | 450.00  | 438.00   |
| 27-Jan | US New One Family Houses Sold Annual Total MoM SA                                | DEC    | 2.74     | 2.74    | -1.60    |
| 27-Jan | Conference Board Consumer Confidence SA 1985=100                                 | JAN    | 94.90    | 95.50   | 92.60    |
| 28-Jan | Federal Funds Target Rate - Upper Bound  | JAN 28 | 0.25     | 0.25    | 0.25     |
| 29-Jan | US Initial Jobless Claims SA   | JAN 24 | 301.00   | 300.00  | 307.00   |
| 29-Jan | US Continuing Jobless Claims SA  | JAN 17 | 2430.00  | 2400.00 | 2443.00  |
| 29-Jan | US Pending Home Sales Index MoM SA   | DEC    | 0.30     | 0.50    | 0.77     |
| 30-Jan | GDP US Chained 2009 Dollars QoQ SAAR   | 4Q A   | 2.30     | 3.10    | 5.00     |
| 30-Jan | GDP US Personal Consumption Chained 2009 Dirs % Change from Previous Period SAAR | 4Q A   | 2.50     | 4.00    | 3.20     |
| 30-Jan | US GDP Price Index QoQ SAAR  | 4Q A   | 0.70     | 0.90    | 1.40     |
| 30-Jan | US GDP Personal Consumption Core Price Index QoQ % SAAR                          | 4Q A   | 1.00     | 1.10    | 1.40     |
| 30-Jan | Bureau of Labor Statistics Employment Cost Civilian Workers QoQ SA               | 4Q     | 0.30     | 0.60    | 0.70     |
| 30-Jan | MNI Chicago Business Barometer (sa)  | JAN    | 56.90    | 57.80   | 58.80    |
| 30-Jan | University of Michigan Consumer Sentiment Index                                  | JAN F  | 98.70    | 98.20   | 98.20    |

## Forecasts *(Revisions pending)*

|                              | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|------------------------------|------|------|------|------|------|------|------|------|
| Real GDP (% SAAR)            | 1.8  | 2.8  | 1.9  | 2.0  | 2.5  | 2.8  | 2.8  | 2.9  |
| CPI (YoY %)                  | 3.1  | 2.1  | 1.5  | 1.6  | 2.0  | 2.3  | 2.4  | 2.4  |
| CPI Core (YoY %)             | 1.7  | 2.1  | 1.8  | 1.8  | 2.1  | 2.3  | 2.4  | 2.4  |
| Unemployment Rate (%)        | 8.9  | 8.1  | 7.4  | 6.2  | 5.8  | 5.5  | 5.0  | 5.0  |
| Fed Target Rate (eop, %)     | 0.25 | 0.25 | 0.25 | 0.25 | 0.50 | 1.50 | 2.50 | 3.25 |
| 10Yr Treasury (eop, % Yield) | 1.98 | 1.72 | 2.90 | 2.21 | 2.60 | 3.11 | 3.54 | 3.90 |
| US Dollar/ Euro (eop)        | 1.31 | 1.31 | 1.37 | 1.23 | 1.15 | 1.20 | 1.28 | 1.32 |

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