

Economic Analysis

# Weekly Focus: Home Sales & Leading Indicators

Kim Chase

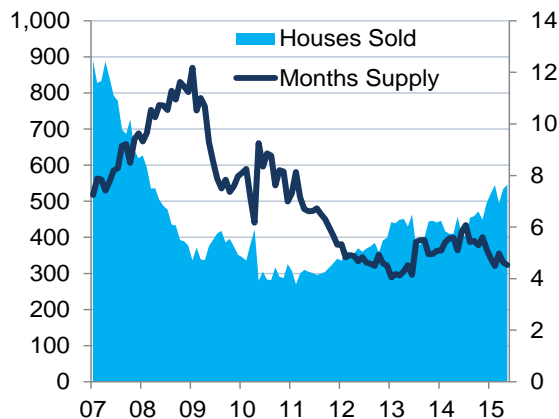
## Housing Recovery Back on Track 2H15, but Homeownership Still in Decline

This week's economic calendar lacks significant market-moving data, though the few housing indicators in focus should at least bring some positive news leading up to July's FOMC meeting announcement at the end of the month. **Existing and new home sales (Wednesday and Friday)** are both expected to increase in June, closing out the second quarter near recovery highs. New home sales have accelerated and are on track to grow at a faster rate than existing home sales in the coming months, although they make up a much smaller share of the total housing market. Housing inventory remains tight, favoring sellers as home prices continue to rise. However, the latest data suggest a strong push for new home construction, and the homebuilder confidence index hit its highest level since 2005. This supports our expectations for more robust housing activity in the second half of this year, particularly as potential buyers try to jump into homeownership before mortgage rates increase any faster. Home price appreciation is expected to slow in the coming years, creating a more favorable environment for buyers. Still, it will take a while before we get back to pre-crisis levels given that homeownership continues to decline and is now at its lowest level since the early 1990s.

## Building Permits and Consumer Expectations Support Leading Index Strength

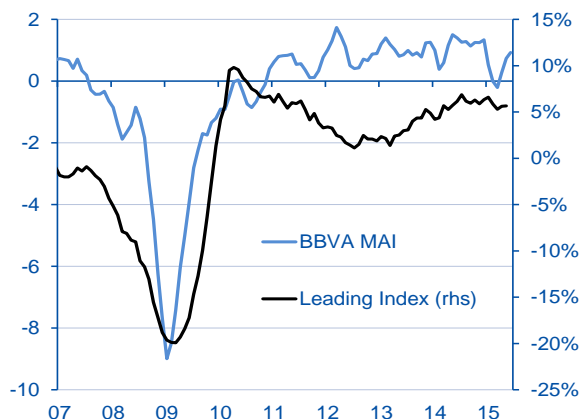
The only other highlight for the week is the **leading indicators index for June (Thursday)**, which tends to fly under the radar even though it often holds important implications for the economy. The strongest contributor as of late has been building permits, which increased another 7.4% in June for the third consecutive month and will again help boost the leading indicators index. Consumer expectations were also up significantly in June, reflecting further optimism in underlying economic activity. Downward pressures on the index will likely stem from manufacturing new orders and the S&P index, which declined 0.6% in June to mark the biggest monthly drop since January. For the most part, the leading indicators index is signaling strength ahead for the second half of 2015, with consumers and housing looking to be the shining stars.

Graph 1  
**New Homes Sold and Months Supply Rate (SAAR Thousands and SA Ratio)**



Source: Census & BBVA Research

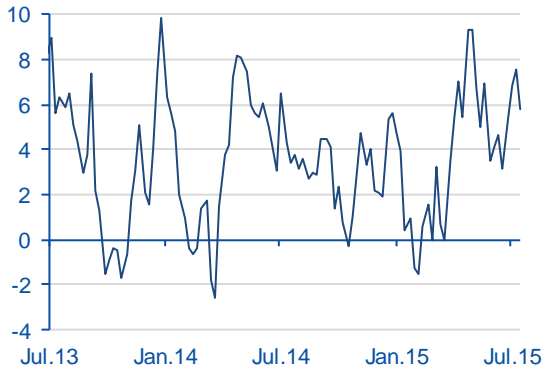
Graph 2  
**Leading Indicators Index and BBVA Research MAI (YoY % Change and 3mma)**



Source: Conference Board & BBVA Research

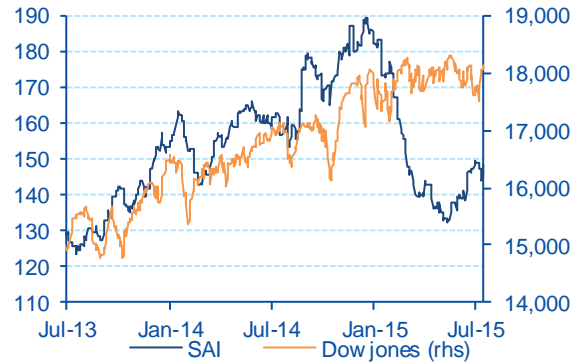
## Economic Trends

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



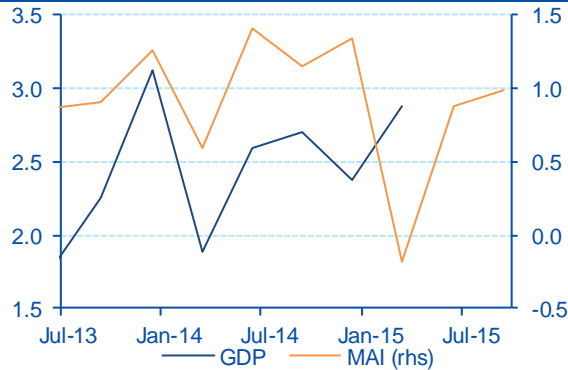
Source: BBVA Research

Graph 4  
**BBVA USA Surprise Activity Index & Dow Jones (Index 2009=100 & eop)**



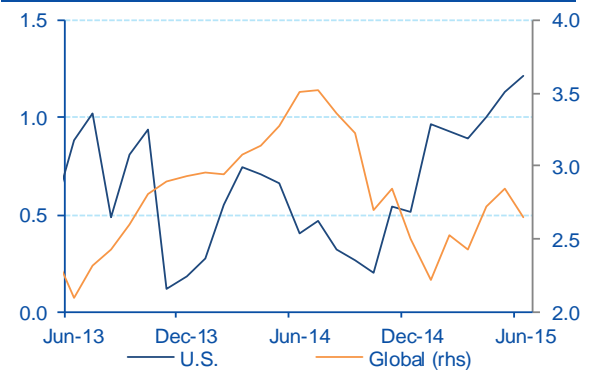
Source: Bloomberg & BBVA Research

Graph 5  
**BBVA USA Monthly Activity Index & Real GDP (4Q % change)**



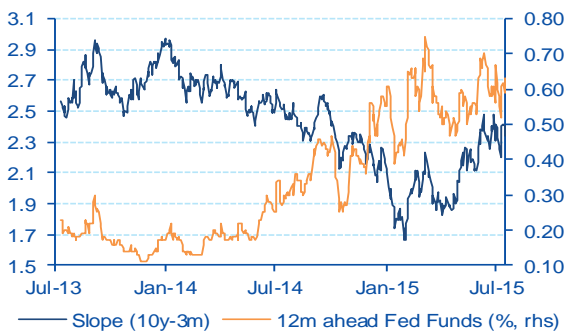
Source: BBVA Research & BEA

Graph 6  
**BBVA USA Risk Index (> 0 = increasing risk)**



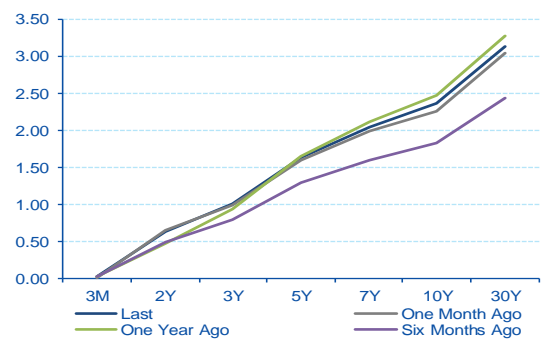
Source: BBVA Research

Graph 7  
**Fed Futures & Yield Curve Slope (% & 10year-3month)**



Source: Haver Analytics & BBVA Research

Graph 8  
**U.S. Treasury Yield Curve (% p.a.)**



Source: Haver Analytics & BBVA Research

## Week Ahead Economic Calendar

Date	Event	Period	BBVA	Consensus	Previous
22-Jul	US Existing Homes Sales SAAR	JUN	5.40	5.40	5.35
22-Jul	US Existing Homes Sales MoM SA	JUN	0.84	0.93	5.11
23-Jul	US Initial Jobless Claims SA	JUL 18	278.00	277.50	281.00
23-Jul	US Continuing Jobless Claims SA	JUL 11	2207.00	0.00	2215.00
23-Jul	Chicago Fed National Activity Index	JUN	-0.08	-0.05	-0.17
23-Jul	Conference Board US Leading Index MoM	JUN	0.30	0.10	0.70
24-Jul	US New One Family Houses Sold Annual Total SAAR	JUN	565.00	541.25	546.00
24-Jul	US New One Family Houses Sold Annual Total MoM SA	JUN	3.48	-0.87	2.20

## Economic Outlook (revisions pending)

	2014				2015				2014	2015	2016	2017
	4Q	1Q	2Q	3Q	2014	2015	2016	2017				
Real GDP (% SAAR)	2.2	-0.2	<b>2.5</b>	<b>4.7</b>	2.4	<b>2.5</b>	<b>2.8</b>	<b>2.8</b>				
CPI (YoY %)	1.2	-0.1	0.0	<b>0.6</b>	1.6	<b>0.5</b>	<b>1.8</b>	<b>2.1</b>				
CPI Core (YoY %)	1.7	1.7	1.8	<b>1.7</b>	1.7	<b>1.7</b>	<b>1.8</b>	<b>2.0</b>				
Unemployment Rate (%)	5.7	5.6	5.4	<b>5.2</b>	6.2	<b>5.3</b>	<b>4.9</b>	<b>4.6</b>				
Fed Target Rate (eop, %)	0.25	0.25	0.25	<b>0.50</b>	0.25	<b>0.50</b>	<b>1.50</b>	<b>2.50</b>				
10Yr Treasury (eop, % Yield)	2.21	2.04	2.36	<b>2.43</b>	2.21	<b>2.53</b>	<b>2.72</b>	<b>3.64</b>				
US Dollar/ Euro (eop)	1.23	1.08	1.12	<b>1.02</b>	1.23	<b>1.01</b>	<b>1.12</b>	<b>1.24</b>				
Core Logic Home Prices (YoY %)	5.07	5.00	<b>6.14</b>	<b>6.05</b>	7.48	<b>6.26</b>	<b>4.40</b>	<b>2.45</b>				

## Fun Fact

New insights from NASA's New Horizons spacecraft suggest that Pluto is larger than originally expected, but still small compared to others in the Solar System. If the sun were as tall as a typical front door, Earth would be the size of a nickel and Pluto would be about the size of the head of a pin. (NASA)

## Recent Publications

[June CPI Up for the Fifth Month in a Row](#) (July 17, 2015)

[U.S. Negotiates Historic Deal with Iran](#) (July 16, 2015)

[June Retail Sales Show Broad Weakness](#) (July 14, 2015)

[Blockchain Technology: The Ultimate Disruption in the Financial System](#) (July 10, 2015)

[FOMC Minutes: Discussion Highlights Risks to Delaying Liftoff](#) (July 8, 2015)

[U.S. Real GDP Growth Nowcast: 2.15% for 2Q15](#) (July 7, 2015)

[U.S. and Cuban Embassy Openings Solidify Ties](#) (July 2, 2015)

[The Puerto Rican Debt Crisis](#) (July 2, 2015)

[Unemployment Hits 5.3% but Wages Hold Flat](#) (July 2, 2015)

[Greek Uncertainty and Risks to the U.S.](#) (July 1, 2015)

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