



## THE UNITED STATES ECONOMIC MONITOR

JANUARY 24, 2017  
IAN SHEPHERDSON, CHIEF ECONOMIST

*Recent chainstore sales data have been wild, but the underlying growth rate clearly has picked up...*

*...The renewed steep decline for imported consumer goods means the upturn likely won't last.*

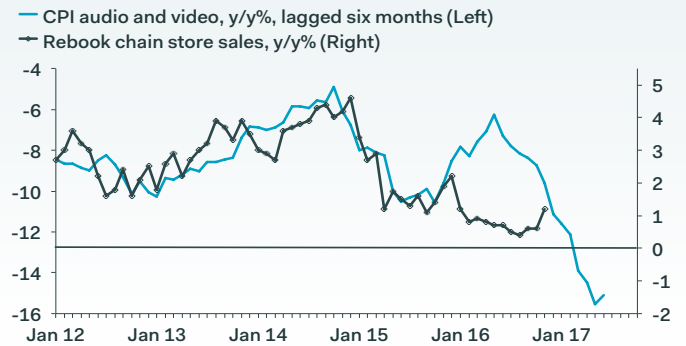
*Existing home sales very likely fell in December, but the range of possible outcomes is very wide.*

### Chainstore Sales Growth is Trending Upwards, but not for Long

Now that the holidays are just a distant memory, the distortions they cause in an array of economic data are fading. The problems are particularly acute in the weekly data—mortgage applications, chainstore sales and jobless claims—because Christmas Day falls on a different day of the week each year. *We don't believe, for example, that chainstore sales have been anything like as volatile as the year-over-year Redbook same-store sales numbers shown in our first chart.* Some short-term variation in sales growth is normal, but the swings since Thanksgiving have been exceptionally wild.

Stepping back from the noise, though, the trend in chainstore sales growth has been rising since early fall. We aren't sure, though, how long the upturn will

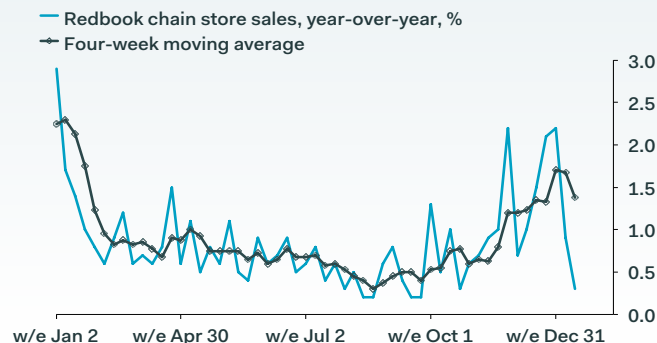
#### PLUMMETING TECH PRICES MEAN REDBOOK LIKELY WILL SLOW



last. Faster nominal wage growth is supporting sales growth, alongside the lagged effect of the weaker dollar last year. The rate of decline of key imported goods, including audio and video equipment, slowed sharply last year as the dollar fell. But chainstore sales didn't respond as strongly as suggested by prior experience as our second chart shows. *Moreover, the rebound in the dollar since October last year already has driven down prices for imported consumer goods, to the point where we have to expect the Redbook numbers to slide again over the next few months.*

Real broad consumers' spending growth will remain robust, given decent underlying real income growth and the apparent surge in consumers' confidence since the election. ***But the nominal sales***

#### CHAINSTORE SALES ARE ERRATIC, BUT RECENT DATA ARE WILD



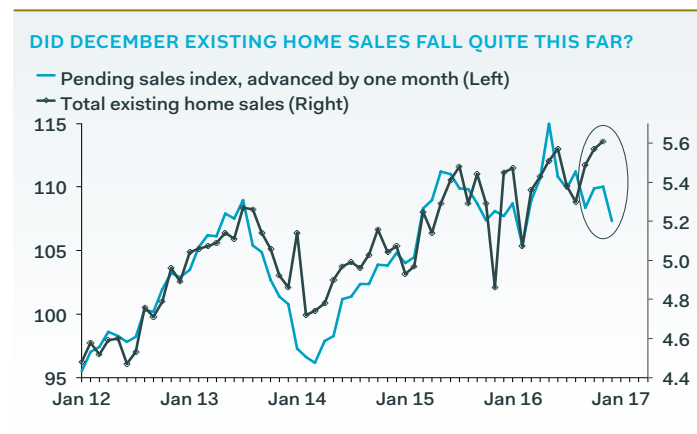
#### ...BUT SURGING CONFIDENCE SHOULD SUPPORT REAL SPENDING



*data, which are what matter to the stock market, seem likely to come under renewed pressure.*

## How far did December existing home sales fall?

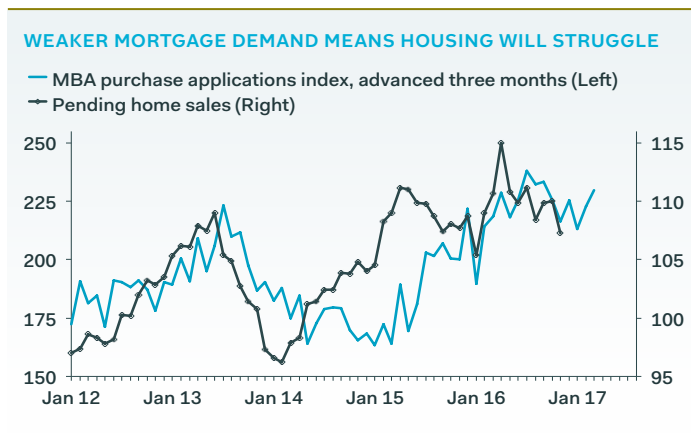
The December existing home sales numbers are a tricky call. On the face of it, the November pending home sales index, which is the only leading macro indicator for actual sales, points to a very sharp drop, as our next chart shows. But Tom Lawler, who blogs at Calculated Risk and analyses returns from Multiple Listing Services around the country, reckons sales dipped only marginally from November's elevated 5.61M. Mr. Lawler's record is good, but it is not perfect, and the gap between his numbers and pending sales index this month is very wide. Our compromise forecast is 5.40M.



We can't rule out the idea that the Q4 pending sales data have been distorted by seasonal adjustment problems, an echo of the crash of 2008. When we re-adjust the published numbers we do see a clear tendency for the data to overshoot in the spring and then weaken too far in the fall, but the differences compared to the published data are small. Given the much warmer-than-usual weather in November it might have been reasonable to expect an above-trend pending sales reading, but it appears that downward pressure exerted by the decline in mortgage applications in the summer was more important.

Our final chart suggests that pending sales should now rise slightly over the next few months, but we

are very skeptical of the idea that the increase in mortgage applications since the spring represents a sustainable reversal of the prior downward trend. *It's more likely, in our view, that applications have surged since the election because would-be buyers have been startled by the speed and extent of the increase in mortgage rates, and have rushed to lock-in.*



We appreciate that consumer confidence surveys have all rocketed since the election. *But we note that homebuying intentions in the Conference Board's survey are only marginally higher than at the same point last year.* This is consistent with the headline confidence numbers when split by age cohort. Most of the increase in headline confidence is among households aged 55 or over, with the survey reporting only a small gain among 35-to-54 year-olds, while confidence among people aged under 35 has fallen outright. The people who mostly voted for Clinton are not happy that Trump won, in other words.

***That's unfortunate for the housing market, as the typical first-time homebuyer in the U.S. is 33 years old.*** Accordingly, we're inclined to think that the combination of higher interest rates and deteriorating sentiment among the people who usually propel the market will be a problem for housing this year. We're not expecting a rollover, but we would be surprised to see sustained increases in activity. Our base case is for a broadly flat trend, net, for 2017.

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## THIS WEEK IN BRIEF

Note: "D" prefix denotes Datanotes for these releases.

### Monday, January 23

- **No significant data released.**

### Tuesday, January 24

- **D: Existing Home Sales (12/10:00 EST)**

The pending home sales index points to a sharp drop in sales, to 5.20M from 5.61M. but Tom Lawler, who blogs at Calculated Risk and estimates sales based on regional reports, expects a dip only to 5.55M. We look for **5.40M**. **Consensus: 5.55M**.

- **Redbook Chain Store Sales (1/21/9:00 EST)**

Sales growth should rebound after last week's dip to just **0.3%** year-over-year. The trend is nearer 1%.

### Wednesday, January 25

- **Mortgage Applications (1/20/7:00 EST)**

Expect little change in the purchase index from last week's **229.4**, but the underlying trend is falling.

### Thursday, January 26

- **Jobless Claims (12/20/8:30 EST)**

The trend in claims might be falling again, but we doubt it is as low as last week's 234K. Accordingly, we look for a rebound to about **250K**. **Consensus: 247K**.

- **D: Retail/Wholesale Inventories (12 advance)/8:30 EST**

We expect both retail and wholesale inventories to drop by about **0.3%** in December, correcting after big increases in November.

**Consensus: Retail N/A, wholesale 0.3%.**

- **D: International Trade in Goods (12 advance)/8:30 EST**

The deficit should rise marginally to **\$65.5B** from \$65.3B. Falling soybean exports and higher oil prices should be partly offset by a rebound in aircraft exports. **Consensus: \$64.3B**.

- **D: New Home Sales (12)/10:00 EST**

The downward trend in mortgage applications last fall suggests sales slid to **550K** from 592K. **Consensus: 586K**.

- **D: Index of Leading Indicators (12)/10:00 EST**

The index should rise 0.5%, propelled by higher stock prices, rising consumer sentiment, stronger industrial new orders and the steep yield curve. **Consensus: 0.5%**.

### Friday, January 27

- **D: GDP (Q1 advance)/8:30 EST**

We think the economy expanded at a **1.8%** rate, with consumption up 2.6% and fixed investment up by 3.5%, propelled by the oil sector. Government spending likely rose by 1%. But net trade will be a big drag, subtracting 1½ percentage points from growth. Inventories should be broadly neutral for growth. The GDP deflator should rise at a **2.0%** rate, with the core PCE deflator up **1.4%**. **Consensus: GDP 2.2%, GDP deflator 2.1%, core PCE deflator 1.4%**.

- **D: Durable Goods Orders (12)/8:30 EST**

Total orders should rise **1.5%**, thanks to a **1%** increase in orders ex-transportation and a modest rebound in aircraft orders.

**Consensus: Total orders 2.9%, ex-transport 0.5%.**

- **Univ. Michigan Consumer Sentiment (1f)/10:00 EST**

The preliminary reading, **98.1**, was little changed from December. **Consensus: 98.1**.

## THIS WEEK'S FUNDING

**Monday 23** Auction: \$34B 3-month, \$28B 6-month bills  
Announcement: 4-week bills (Jan. 24)

**Tuesday 24** Auction: \$26B 2-year notes (settles Jan. 31)  
Auction: 4-week bills

**Wednesday 25** Auction: \$34B 5-year notes (settles Jan. 31)  
Auction: \$15B 2-year FRN (settles Jan. 31)

**Thursday 26** Announcement: 3-month, 6-month bills (Jan. 30)  
Announcement: 1-year bills (Jan. 31)  
Auction: \$28B 7-year notes (settles Jan. 31)

**Friday 27** Nothing

## PANTHEON'S FINANCIAL FORECASTS

	End-month:				
	4:00pm Mon.	Mar	Jun	Sep	Dec
Fed funds target	½-to-¾	¾-to-1	1-to-1¼	1¼-to-1½	1¾-to-2
2-yr	1.15	1.30	1.50	1.80	2.10
10-yr	2.40	2.70	3.00	3.25	3.50
30-yr	2.99	3.40	3.80	4.00	4.00
Curve 10-2	125	140	150	145	140
Curve 30-2	184	190	230	220	190
S&P 500	2,265	2,250	2,200	2,150	2,100
Yen/Dollar	113.1	118	120	122	124
Dollar/Euro	1.07	1.05	1.05	1.05	1.05
Dollar/Sterling	1.25	1.22	1.25	1.28	1.30

## PANTHEON'S ECONOMIC FORECASTS

GDP	Q1	0.8%	2013 year:	1.7%
	Q2	1.4%	2014 year:	2.4%
Q3	Q3	3.5%	2015 year:	2.6%
	Q4 forecast	1.8%	2016 year:	1¾%
Q1 forecast	Q1 forecast	3%	2017 year:	3%
	Q2 forecast	3%		

**CPI** Dec. 0.3% (2.1% y/y); core 0.2% (2.2% y/y)

March 2017 forecast: 2.8% y/y; core 2.2% y/y

June 2017 forecast: 2.7% y/y; core 2.4% y/y

**Unemployment:** March 2016: 4.5%; June 2017: 4.4%.

**Federal budget:** FY 17 forecast: -\$750B (3.0% of GDP)