



THE **UNITED STATES** ECONOMIC MONITOR

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IAN SHEPHERDSON, CHIEF ECONOMIST

Headline durable orders are set for an aircraft-led March rebound, but early Easter will hit the core.

Case-Shiller home prices will soon flatten, but tight inventory will maintain underlying upward pressure.

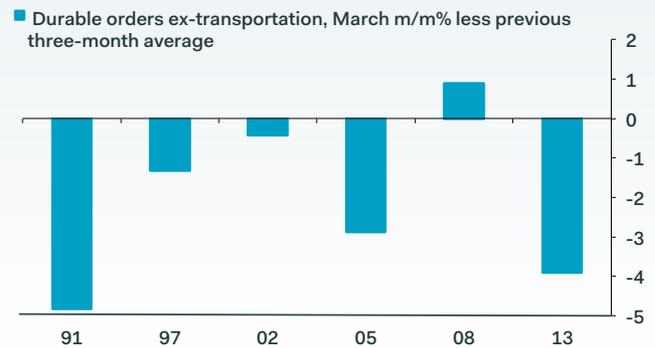
Consumers' confidence likely dipped a bit this month, but stock rebound will lift the May numbers.

Aircraft Will Lift March Durables, but Early Easter Will Depress Core

The good news in today's March durable goods report is that a rebound in orders for Boeing aircraft means February's 3.0% drop in headline orders won't be repeated. *The company reported orders for 69 aircraft in March, compared to just one in February.* Adjusting for both the mix of aircraft types and the usual seasonal patterns, we expect aircraft orders to rise by some \$3¼B, adding about 1½% to headline durable goods orders.

The bad news is that sustained seasonal adjustment problems in years when Easter falls in March mean that we have to expect a decline in orders ex-transportation. Since 1997, the median month-to-month change in orders ex-transportation in

...BUT EARLY EASTER USUALLY DEPRESS MARCH CORE ORDERS



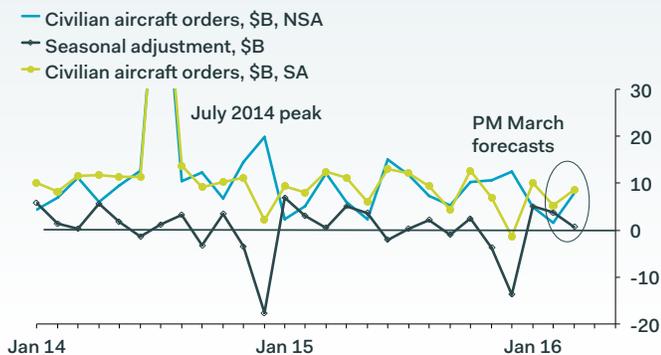
March when Easter is early has been 1.3 percentage points below the prior three-month average, with most of the hit coming in the core capital goods component.

The average monthly change in orders ex-transportation in the three months to February was -0.2%, so this implies we should expect a drop of about 1½% in March. Given the improving manufacturing surveys, though, we look for a smaller decline, about 1%.

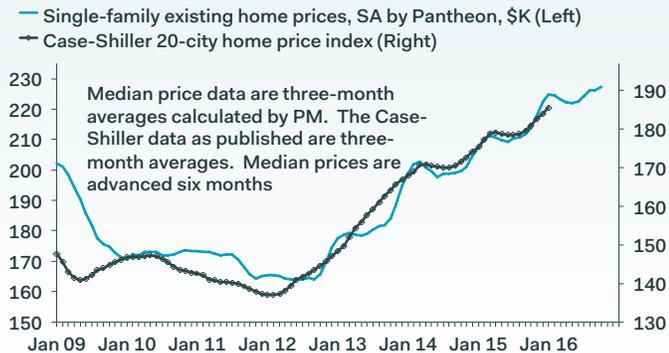
This will tell us nothing about the underlying trend, which the ISM survey suggests will soon turn higher. Indeed, if we're right about March orders, the reversal of the Easter seasonal effect suggests we should expect a 2.5% rebound in April. Today, though the risk to the +0.5% consensus forecast for March orders ex-transportation appears to be to the downside. For the headline, our 1.5% forecast is only slightly below the 1.9% consensus, presumably because we have a more aggressive forecast for the aircraft component.

Today also brings the February Case-Shiller home prices report, which we think tells us nothing new but does attract market attention. The Case-Shiller 20-city index tends to lag the median single-family home price numbers from the existing home sales report, as our next chart shows. *It's reasonable, therefore,*

AIRCRAFT ORDERS LIKELY REBOUNDED IN MARCH...



CASE-SHILLER HOME PRICES SET TO LEVEL OFF, BUT NOT JUST YET



to expect one more decent gain, before the rate of increase slows sharply for a time; prices could even fall a bit. In February, we expect a 0.5% rise, slowing from the average 0.8% increases recorded over the previous three months. Putting aside the debate over the merits of the various home prices indexes—none of which are definitive, in our view—the key point here is that a shortage of inventory has been pushing up home prices quite rapidly, even though sales have been broadly flat, net, for the past couple of years.

The rising trend in mortgage applications, though, now clearly suggests that home sales will rise quite sharply over the spring and summer. The small dip in new home sales in March, reported yesterday, does not change our view. The new home sales numbers are unreliable from month-to-month—the margin of error in March sales, 511K, was +/- 15%—and we have to allow for a lag between shifts in mortgage demand and the response from sales.

NEW HOME SALES LOOK SET TO BREAK TO THE UPSIDE



If we're right, and sales rise sharply over the spring and summer, the downward pressure on the inventory of new homes for sale will put up prices more quickly. We appreciate that rising transactions volumes in the existing homes market mean the number of homes available for sale will rise, but what matters is supply relative to sales and that tends not to increase in a rising market because would-be buyers don't wait to sell before looking for their next home.

Finally today, we expect a modest dip in the Conference Board's measure of consumer confidence, the final lagged response to the drop in stock prices in January and February. Ultimately, disposable cashflows are the key driver of sentiment, but relatively widespread stock ownership in the U.S. means that sharp declines in prices filter into the surveys directly, with a relatively short lag. People don't wait to see if the drop in stocks will depress the economy before expressing their displeasure.

If the expectations component is sustained at the 83.0 reading we forecast for April, it would be consistent with real consumption spending growing at an annualized rate of about 2.5%. *But we expect a clear rebound over the next few months, following the recovery of the stock market's losses.* The upturn in gas prices will constrain the recovery in confidence, but will not prevent it altogether; seasonally adjusted prices remain some 45% below their early 2014 peak.

THE REBOUND IN STOCK PRICES WILL CHEER CONSUMERS, SOON



Ian Shepherdson

+1 914 610 3830

ian@pantheonmacro.com

THIS WEEK IN BRIEF

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

Monday, April 25

- **D: New Home Sales (3)/10:00 EDT**

Sales dipped slightly to **511K** from a 519K, but the net revision to prior data was 23K.

Tuesday, April 26

- **Redbook Chain Store Sales (4/23)/9:00 EDT**

A rebound from last week's weak **0.5%** year-over-year.

- **D: Durable Goods Orders (3)/8:30 EDT**

Total orders should rebound by **1.5%**, led by aircraft, but orders ex-transport likely fell about 1%, depressed by the early Easter.

Consensus: Total orders 1.8%, ex-transportation 0.5%.

- **D: Case-Shiller Home Prices (2)/9:00 EDT**

We expect a **0.5%** increase, as the Case-Shiller index catches up with prior gains in median prices. **Consensus: 0.7%.**

- **D: Consumer Confidence (4)/10:00 EDT**

The dip in the Michigan index points to a nudge down to **95** from 96.2. **Consensus: 95.7.**

Wednesday, April 27

- **Mortgage Applications (4/22)/7:00 EDT**

Close to last week's **240.8**. The trend is rising.

- **D: Advance Trade in Goods (3)/8:30 EDT**

The rebound in oil prices likely lifted oil imports, so we expect the deficit to rise to **\$63.3B** from \$62.8B. **Consensus: \$62.8B.**

- **D: Pending Home Sales (3)/10:00 EDT**

With mortgage demand clearly rising, we expect a further **1%** gain after February's 3.5% jump. **Consensus: 0.5%.**

- **D: FOMC Announcement/14:00 EDT**

We expect **no change** in rates, with at least one dissent in favor of a hike. **Consensus: No change.**

Thursday, April 28

- **D: Jobless Claims (4/23)/8:30 EDT**

Claims should rebound to about **265K** from last week's 43-year low, 243K, triggered by Easter seasonals. **Consensus: 268K.**

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

We expect growth of **zero**, with a 1.7% increase in consumption and higher government spending offset by a -0.9 percentage point contribution from inventories and a 0.8 bp hit from foreign trade. The headline deflator should rise **0.7%**, with the core PCE deflator up **2.0%**. **Consensus: GDP 0.6%, GDP deflator 0.5%, core PCE deflator 1.9%.**

Friday, April 29

- **D: Employment Costs Index (Q1)/8:30 EDT**

The ECI likely rose **0.7%**, keeping the year-over-year rate at 2.0%, lagging the pace of hourly earnings. **Consensus: 0.6%.**

- **D: Personal Income and Spending (3)/8:30 EDT**

Incomes likely rose **0.4%**, with nominal spending up **0.2%**. With the headline deflator up 0.1%, real spending should be up 0.1%. We expect a **0.1%** increase in the core deflator. **Consensus: Incomes 0.3%, nominal spending 0.2%, core deflator 0.1%.**

- **D: Chicago PMI (4)/9:45 EDT**

Up to about **56** from 53.6, in line with gains in other industrial surveys? **Consensus: 53.0.**

- **D: Univ. of Michigan Sentiment (4f)/10:00 EDT**

We expect little change from the preliminary **89.7**. The rebound in stock prices should lift sentiment over the next few months. **Consensus: 90.0.**

THIS WEEK'S FUNDING

Monday 25 Auction: \$28B 3-month, \$24B 6-month bills

Announcement: 4-week bills (Apr. 26)

Auction: \$26B 2-year notes (settles May 2)

Tuesday 26

Auction: 4-week bills

Auction: \$20B 1-year bills (settles Apr. 28)

Auction: \$34B 2-year notes (settles May 2)

Wednesday 27 Nothing

Thursday 28

Announcement: 3-month, 6-month bills (May 2)

Auction: \$28B 7-year notes (settles May 2)

Auction: \$15B 2-year FRN (settles May 2)

Friday 29

Nothing

PANTHEON'S FINANCIAL FORECASTS

| | End-month: | | | | |
|------------------|-------------|--------|--------|--------|----------|
| | 4:00pm Mon. | Jun | Sep | Dec | Mar '17 |
| Fed funds target | ¼-to-½ | ¼-to-½ | ½-to-¾ | ¾-to-1 | 1¼-to-1½ |
| 2-yr | 0.83 | 1.00 | 1.50 | 2.00 | 2.50 |
| 10-yr | 1.91 | 2.25 | 2.50 | 3.00 | 3.25 |
| 30-yr | 2.73 | 3.00 | 3.15 | 3.25 | 3.40 |
| Curve 10-2 | 108 | 125 | 100 | 100 | 75 |
| Curve 30-2 | 190 | 200 | 165 | 125 | 90 |
| S&P 500 | 2,088 | 2,000 | 1,950 | 1,950 | 1,950 |
| Yen/Dollar | 111.2 | 114 | 122 | 130 | 135 |
| Dollar/Euro | 1.13 | 1.12 | 1.08 | 1.06 | 1.04 |
| Dollar/Sterling | 1.45 | 1.38 | 1.40 | 1.42 | 1.42 |

PANTHEON'S ECONOMIC FORECASTS

| | | | | |
|-----|-------------------------|---------------------------------------|------------|------|
| GDP | Q2 | 3.9% | 2012 year: | 2.3% |
| | Q3 | 2.0% | 2013 year: | 2.2% |
| | Q4 third | 1.4% | 2014 year: | 2.7% |
| | Q1 forecast | 0.0% | 2015 year: | 2.4% |
| | Q2 forecast | 3½% | 2016 year: | 2½% |
| | Q3 forecast | 3½% | | |
| CPI | March | 0.1% (0.9% y/y); core 0.1% (2.2% y/y) | | |
| | June 2016 forecast: | 1.3% y/y; core 2.5% y/y | | |
| | December 2016 forecast: | 2.0% y/y; core 2.7% y/y | | |

Unemployment: June 2016: 4.7%; December 2016: 4.3%.

Federal budget: FY 16 forecast: -\$430B (2.3% of GDP)