

Economic highlights from the week ending on July 23, 2021

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This week's housing data suggest that the housing market remains strong, underpinned by strong demand, low mortgage rates, and tight supply. Most of the data were in line or slightly below expectations, suggesting that housing trends remain solid but aren't overheating. Total housing starts rose 6.3% in June to an annual pace of 1,643,000, in line with expectations. Single-family starts rose 6.3% in June while multi-family starts were up 6.2%. On a year-over-year basis, housing starts were up 29.1% in June, due in part to a decline in activity due to the pandemic last year. Permits fell 5.1% month-over-month in June, with declines for both single- and multi-family housing. Existing home sales rose 1.4% in June to a seasonally adjusted rate of 5.860 million units, slightly below the consensus forecast. Mortgage rates remain near historic lows, with the average for a 30-year loan at 2.78%, according to Freddie Mac. However, home prices are firm (up 14.9% year-over-year in April, according to the Case-Shiller 20-city home price index), due in part to tight inventory. We will get an update on home prices next week. The NAHB/Wells Fargo housing market index eased by one point to 80 in July, reflecting a modest decline in buyer traffic.



Financial market volatility picked up earlier this week, due in part to concerns about the recent acceleration in COVID-19 cases and hospitalization rates in the US, particularly in areas with lower vaccination rates. We believe surging COVID-19 cases in other countries and low sovereign bond yields abroad have also fueled demand for US Treasuries. Month-to-date, the yield on 10-year Treasuries has declined nearly 19 basis points to 1.28%, about 46 basis points lower than this year's 10-year Treasury yield peak in late-March. We believe equity market volatility increased earlier this week as investors tried to digest the impact of lower Treasury yields and renewed concerns about the pandemic. Meanwhile, though second quarter corporate earnings season has gotten off to a strong start, many companies have been revising their expense forecasts higher, which points to potential margin headwinds, at least over the near-term. We expect financial market volatility may be elevated through year-end. While expectations for a full US economic reopening this fall may be delayed due to rising virus cases, we are not anticipating renewed widespread US lockdowns. Ongoing supply chain bottlenecks and dislocations in the labor market are likely to remain a headwind for many companies over the near-term. Nevertheless, we believe ongoing monetary policy accommodation from the Federal Reserve and continued fiscal support (including the new monthly child tax credit payments), should provide ongoing tailwinds for the economy at least through year-end. The current consensus forecast calls for 7.1% GDP growth in the current quarter and 5.1% growth in the fourth quarter, well above the long-run trend growth rate of about 1.8%.

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Next Week

New Home Sales, Durable Goods, Case-Shiller Home Price Index, FHFA House Price Index, Consumer Confidence, FOMC Announcement, GDP, Pending Home Sales, Personal Income & Outlays, Consumer Sentiment



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