U.S. Data Review

- House price indexes: both FHFA and S&P measures advance in August, although price trends still appear to be softening
- Consumer confidence: slight decline from upwardly revised result

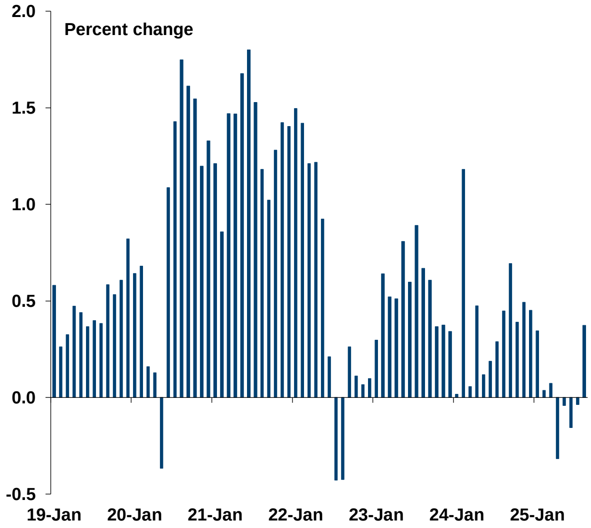
Lawrence Werther
lawrence.werther@us.daiwacm.com
+1-212-612-6393
Brendan Stuart
brendan.stuart@us.daiwacm.com
+1-212-612-6172

House Price Indexes

- Elevated mortgage rates and tight lending standards have hampered the housing market in recent years, with existing home sales stuck in the lower end of the longer-run range and new home sales sluggish before a surge in August (which we view as most likely statistical noise rather than a resurgence of demand by potential buyers; note that further data on new home sales will most likely be delayed on account of the current federal government shutdown). With that said, activity was previously strong earlier in the expansion, with many regional markets heating up at least in part on account of COVID-related migration trends. Moreover, other markets where sales were constrained by limited stock becoming available saw significant price appreciation in available units. However, with the broader economy appearing to have lost its edge after a period of highly restrictive monetary policy, demand for housing in previously hot markets has slowed and prices appear to be responding in kind. Thus, we are watching attentively developments on this front for further signs of softening (or recovery as lower interest rates possibly provide an eventual tailwind to housing).

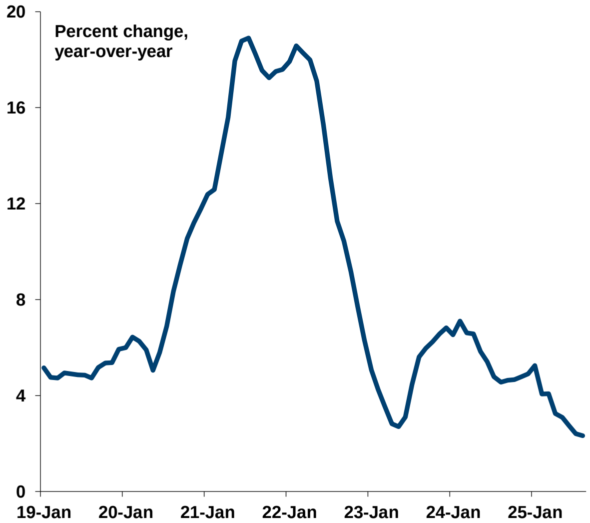
- The house price index released by the Federal Housing Finance Agency, which tracks data furnished by Freddie Mac and Fannie Mae that covers a broad subset of transactions involving conforming conventional mortgage loans, increased 0.4 percent in August. The latest result, which surpassed all estimates submitted to the Bloomberg economist survey, interrupted a four-month string of declines (note that July's observation was revised higher to -0.04 percent, rounding up to 0.0 percent). However, on a year-over-year basis, the FHFA index rose 2.3 percent (versus +2.4 percent in the prior month). In context, since surging to a record high of 18.9 percent in July 2021, growth in home prices, on balance, has decelerated, with the most recent read below levels that prevailed prior to the onset of the pandemic -- and the lowest observed since April 2012 (charts, below).

FHFA House Price Index



Source: Federal Housing Finance Agency via Haver Analytics

FHFA House Price Index



Source: Federal Housing Finance Agency via Haver Analytics

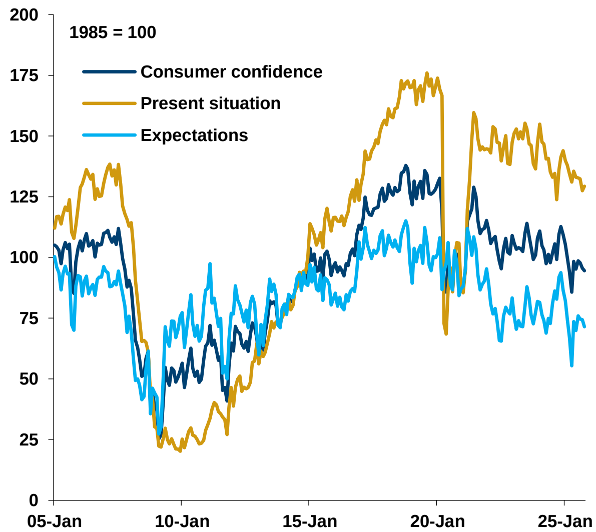
- Today also saw the release of the S&P Cotality Case-Shiller 20-city home price index, a metric which tracks changes in the value of residential real estate nationally, specifically in key urban areas. Similarly, after five consecutive months of decreases, this measure rose 0.2 percent in August (versus a median projection of -0.1 percent in the Bloomberg survey). Resultantly, the year-over-year advance eased 0.2 percentage point to 1.6 percent (versus +5.2 percent in the same month last year and off notably from the record high of +21.3 percent in April 2022). All told, the data suggest price trends are still softening despite pickups in the latest month.

Consumer Confidence

- The Conference Board's index of consumer confidence fell 1.0 index point (-1.0 percent) to 94.6 in October – its third consecutive decline. That said, the latest shift followed an upward revision in the prior month (95.6 versus a preliminary tally of 94.2), indicating that consumer attitudes are actually a touch stronger than previously believed. Nonetheless, October's result still leaves the metric in the low end of the post-pandemic range, emphasizing concerns that households have with respect to the economic outlook – especially with uncertainty swirling about the ultimate impact of tariffs and the current government shutdown threatening to disrupt essential services. On the point, the consumer expectations index dropped 2.9 points (-3.9 percent) to 71.5, offsetting the 1.8-point increase (+1.4 percent) to 129.3 for the present situation index. Following the latest shifts, both of these measures remain well below their respective post-election highs, most notably expectations (93.7 and 144.0; chart, below left).

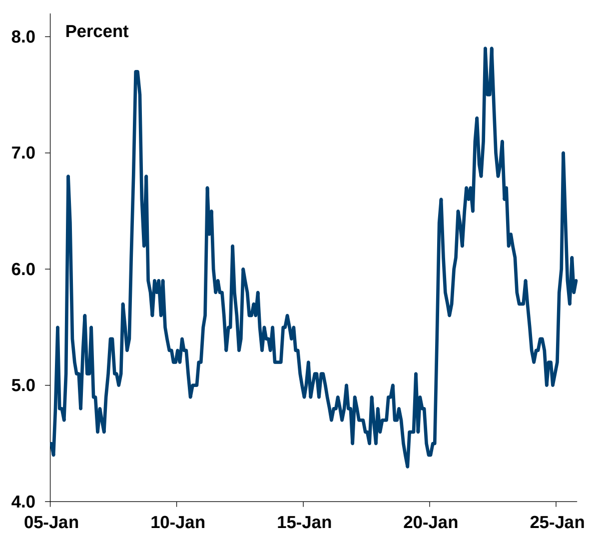
- As noted above, uncertainty surrounding the Trump administration's tariff policies and their associated impact on consumer prices were once again a key concern for survey respondents in October, though to a slightly lesser degree than in previous months. As mentioned by Stephanie Guichard, Senior Economist, Global Indicators at The Conference Board, in the official release: "Consumers' write-in responses were led by references to prices and inflation, which continued to be the main topic influencing consumers' views of the economy. References to tariffs declined further this month but remained elevated." Perhaps a bit curious, expectations for inflation 12 months hence rose 0.1 percentage point to 5.9 percent in the latest month. After falling from a recent peak of 7.9 percent in the first half of 2022, near-term inflation expectations have turned higher again since falling to the recent low of 5.0 percent in November of last year (chart, below right).

Consumer Confidence



Source: The Conference Board via Haver Analytics

Consumer Inflation Expectations*

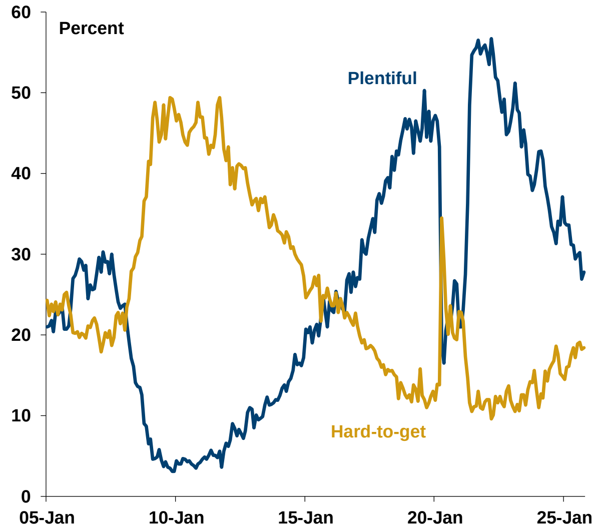


** 12 months hence*

Source: The Conference Board via Haver Analytics

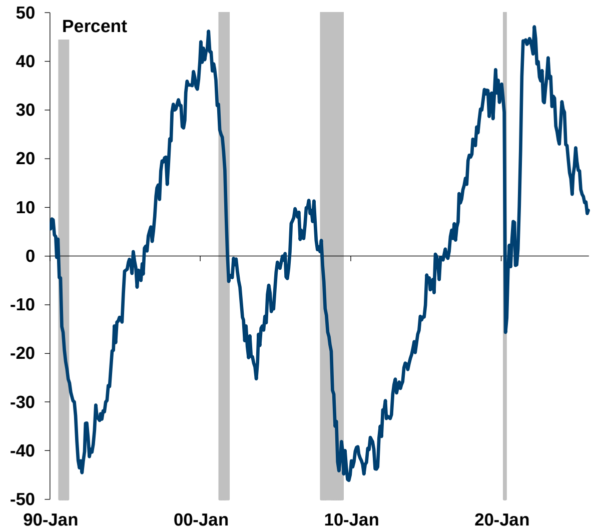
- Surprisingly, despite the dip in overall confidence, views on the labor market improved somewhat. The share of survey respondents indicating that jobs were plentiful rose 0.9 percentage point to 27.8 percent while those reporting that they were hard to get increased a smaller 0.2 percentage point to 18.4 percent (chart, below left). Resultantly, the net labor market differential (plentiful less hard-to-get) rose 0.7 percentage point to 9.4 percent. That said, the latest uptick did little to alter the prevailing downward trend, with this metric well below the expansion peak of 47.1 percent in March 2022 (chart, below right). The employment situation has softened notably in recent months, a development that prompted FOMC officials to resume its monetary policy easing cycle last month (with another 25-basis point cut seemingly a foregone conclusion following the end of tomorrow's meeting). We do not view current labor markets as indicative of an economy in recession, but the trajectory of the labor market differential certainly resembles that in past downturns – which has likely caught the eye of policymakers (as have other data highlighting sluggish labor-market conditions).

Consumers' Views on Jobs



Source: The Conference Board via Haver Analytics

Labor Market Differential*



** The share of survey respondents who reported that jobs were "plentiful" less those who said they were "hard-to-get." The shaded areas indicate periods of recession in the United States.*

Sources: The Conference Board, National Bureau of Economic Research via Haver Analytics