AIB Group Treasury
Economic Services Unit

US Data Continue to Worry

This week's batch of US economic numbers were less than flattering with home sales moderating, consumer confidence falling when it was expected to rise, GDP growth all but coming to a standstill and jobless claims rising. There were some encouraging signs from the manufacturing sector but the bulk of the numbers have increased the odds of the Fed cutting interest rates again.

Existing Home Sales Moderating

The housing market remains strong but there are signs that the pace of growth is easing. Existing home sales declined to an annualized pace of 5.17 million units in July, a 3% fall from June levels. On a year-on-year basis sales were up 7.3%. Along with consumers, the strong performance of the housing market has been largely responsible for propping up the economy in the face of larger economic weakness. Although levels are expected to remain high, there is a risk that home sales will continue to decelerate through the rest of the year. With interest rates cut by 3.00% mortgage levels will be supportive. However, continued layoffs could dampen consumers' appetite to take on new debt.

U.S. Consumer Confidence Falls Unexpectedly

U.S. consumer confidence fell unexpectedly to its lowest level in four months in August with a weakening jobs market undermining sentiment. The Conference Board said its monthly index fell to 114.3 in August, from a downwardly-revised 116.3 in July. Only 33.4% of respondents to this month's survey thought jobs were plentiful in August compared to 53.5% one year ago. However, this is still much better than the measure of 5% recorded during the last recession. The weakness in the headline index was entirely due to deterioration in the current conditions component. The present situation index, fell to 145.8, its lowest since April 1997. The expectations index, which gauges consumers' outlook for the next six months, edged up to 93.3 in August from 92.9. The dip in consumer confidence came despite a fiscal stimulus to consumers. After an unexpected slide in July, recent tax rebates were expected to provide some boost to the index in August. After showing some improvement at the beginning of the summer consumer confidence has now declined for two consecutive months. A continued deterioration in consumer confidence does not bode well for consumer spending.

MBA Mortgage Applications Survey

Total US mortgage applications rose 7.1% in the week ending August 24, suggesting that the housing market remains strong. Much of this strength continues to be fuelled by strong refinancing applications, which rose 15.7% for the week ending August 24. The strength of the index should help allays fears of a sharp downtown in the housing market going forward.

Economy Barely Grows in Q2

GDP growth in Q2 was revised down to 0.2% from 0.7%. This was slightly above expectations of a drop to 0.0% but still represents the slowest growth rate for eight years. . The basic outline of economic conditions in the second quarter was little changed by this revision. Downward revisions to the trade balance, inventory stockpiles (knocked 1.5% of growth), and capital spending were partly offset by a surprising upward revision to consumer purchasing. Spending on autos, home furnishings and equipment mainly boosted consumer spending. Purchases of energy products were lower with higher costs forcing cutbacks.

Business spending was revised further downward, falling 14.6% in the current estimate. Both construction expenditure and equipment sales were revised sharply downward. The slump in IT equipment buying intensified sharply, with a near 30% decline for both computer and communications equipment categories. The hope continues to be that the monetary easing implemented to date and that which is to come, along with the government tax rebates, will jumpstart the economy by year's end. This GDP report does little to raise those hopes. After a drop of 7.8% in Q1, US corporate profits fell 2.0% in the second quarter of the year.

ABC/Money Magazine Confidence Survey

The latest ABC/Money weekly confidence survey reaffirms the deterioration in confidence reported by the Conference Board. The survey showed confidence falling to its lowest level in three months. The index edged lower to 2 in the week ended August 26 from a reading of 5 one week earlier. The buying climate gauge, a measure of consumers' willingness to spend, shed 3%, with 41% of Americans saying this is "an excellent or good" time to buy the things they want or need. 64% of Americans rated their personal finances positively, down from 66% in the preceding week, but still close to a peak rating of 70% set in August 1998.

Weekly Jobless Claims

Initial claims for unemployment insurance in the week ending August 25 fell by 1,000 to 399,000. The four-week moving average rose to 393,000, up from a revised 380,500 in the week ending August 18. Continuing claims also rose during the week ending August 18. The number of filings for additional unemployment benefits rose to 3,170,000, the highest level in nearly nine years. Volatile seasonal factors during the summer months make interpretation of the data more difficult. Nevertheless, it is safe to say that there are few signs of a significant improvement in the labor market. Rising continuing claims indicate that those out of work are still having difficulty finding new jobs. News of further layoffs from large employers like Ford and Gateway suggest that the near term trend in jobless claims remains upward.

Personal Income & Spending

According to personal income and spending data, consumers slowed down in July despite the fact that, boosted by federal tax refunds, their incomes rose by the largest amount in more than six months. Personal income rose 0.5% in July while personal consumption expenditures edged up by 0.1%, the smallest amount since last October. June income was revised to a gain of 0.4% from the 0.3% increase previously estimated while consumer spending was revised up to 0.4% from 0.3%.

Factory Orders

New orders for goods produced at U.S. factories edged up in July, suggesting that the manufacturing sector might be showing some fledgling signs of improvement. The value of new orders rose 0.1% in July, after a revised 2.9% drop in June. The rise, led by demand for electrical and transportation equipment, was better than expectations of a 0.5% decline. Orders for transportation equipment rose 0.9%. Led by strong demand for household appliances, electrical equipment orders rose 1.2%. However, there were also some worrying trends, with the demand for computers and electronic products continuing to flag. This category posted a 4.5% decline.

Chicago PMI

A stronger than expected Chicago PMI report was also good news for the manufacturing sector. The index came in at 43.5 in August, up from 38.0 in July. Production, new orders, order backlogs, inventories, employment and supplier deliveries all decreased their rate of descent. While the report was welcome, it may not be indicate of the national trend. August's NAPM index will provide a clearer picture.

Geraldine Concagh, 31 August 2001