New Reports Observe Weak Economic Environment, Reduced New Home Sales

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The National Activity Index from the Chicago Federal Reserve Bank declined from +0.02 in July to -0.43 in August [1]. The index aggregates various macroeconomic indicators, with the historical trend equaling zero. In this case, the U.S. economy is performing below the trend due to weak employment, consumption and housing data. Manufacturing production added just +0.01 to the index, a slowdown from the previous month (when it contributed +0.26).

The three-month moving average of the index edged slightly lower from -0.27 in July to -0.28 in August. Values under -0.70 suggest that the economy might be in a recession. While this figure is not within the threshold for a recession, it is the fifth consecutive month that the three-month moving average has been below trend. Clearly, these numbers confirm what many of us have been saying for a while; the U.S. economy remains stuck in neutral.

Meanwhile, the Census Bureau reported sales of new residential homes fell 2.3 percent, from 302,000 in July to 295,000 in August [2]. New home sales have fallen for four consecutive months. Nonetheless, new home sales were up 6.1 percent from last year. (This increase is somewhat distorted, however, due to the new homebuyer tax credit expiration in 2010.) Each region of the country experienced monthly sales declines in August with the exception of the Midwest; the steepest decreases were found in the Northeast.

There are currently 6.6 months of supply on the market â€“ a figure that has been virtually unchanged since April. The current median home price is $217,900.

Overall, the picture for new home sales mirrors the larger housing market. Last week, for instance, the Census Bureau noted declining housing starts in August [3], with the overall market remaining quite depressed. Even with extremely low interest rates, new and existing home sales have been unable to gain any traction. This presents both a cyclical and structural economic challenge for manufacturers moving forward.

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SOURCE [4]

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