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ECONOMIC REPORT

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GOOD NEWS ON HOUSE PRICES, NEW HOME SALES, DURABLE GOODS, AND CONSUMER CONFIDENCE

SUMMARY

- U.S. house prices jumped again in April, according to both the S&P/Case-Shiller and FHFA indices. Higher home prices are providing support to consumer spending.
- New home sales rose in May, to their highest level in almost five years. With demand for new homes improving residential construction is adding to economic growth.
- Durable goods orders rose 3.6 percent in May. Although much of the growth came from an increase in orders for Boeing, the details were positive.
- The Conference Board's consumer confidence measure jumped sharply in June, to its highest level since the beginning of the Great Recession.
- Today's data are largely positive, indicating that the economy is continuing to expand despite the drag from fiscal policy.

The S&P/Case-Shiller 20-city composite home price index rose 1.7 percent on a seasonally-adjusted basis from March to April, while the 10-city composite rose 1.8 percent. On a year-ago basis the 20-city composite was up 12.1 percent in April, while the 10-city composite was up 11.6 percent.

Prices rose on a seasonally-adjusted basis from March to April for all 20 of the metro areas covered. On a year-ago basis prices were also up in all 20 metro areas, with the largest gains in San Francisco (23.9 percent), Las Vegas (22.3 percent), Phoenix (21.5 percent) and Atlanta (20.8 percent). The smallest year-over-year gains were in New York (3.2 percent), Cleveland (4.8 percent), Washington (7.2 percent) and Charlotte (7.3 percent).

In addition, the FHFA reported that house prices were up 0.7 percent in April for purchases financed through mortgages eligible for sale to Fannie Mae and Freddie Mac. Prices were up over the month in seven of the nine Census divisions covered, with the biggest gains in the Mountain (2.2 percent increase) and Pacific (2.1 percent) states; they were down 0.2 percent in both the New England and South Atlantic states.

The national FHFA index was up 7.4 percent from one year earlier in April, including gains across seven of the nine regions. The largest year-over-year price increases were in the Pacific (1.5 percent) and Mountain (1.0 percent) divisions, while prices were down 0.5 percent in the West North Central states and 0.2 percent in the East South Central states.

National house prices have been rising consistently for about one year (see Chart 1). The big drop in prices during the housing bust, very low mortgage rates, an improving labor market and easing access to mortgage credit are all supporting home sales. With demand tight buyers are pushing up prices.

In turn, rising prices are supporting consumers, offsetting some of the drag from federal tax increases and spending cuts. Higher home prices are boosting household wealth, making consumers more confident. Higher prices are also reducing the number of homeowners who are underwater, in turn reducing foreclosures and short sales. This is adding to the upward pressure on house prices, creating a positive self-reinforcing cycle. The reduction in the number of distressed borrowers is also bolstering the financial system.



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House price gains will continue this year and in 2014, although the rate of growth will slow to a more sustainable pace as mortgage rates move higher, inventories increase in response to previous price gains, and foreclosures finally move their way through the pipeline. The housing market will be an important source of growth for the U.S. economy in 2013 and 2014.

Sales of new single-family homes rose 2.1 percent in May to 476,000, up from 466,000 in April (revised up from 454,000). This was the best month for new home sales since July 2008. Sales rose in three of the four regions in May, falling only in the South. May sales were up 29 percent from one year earlier, another indication of improving housing demand. Inventories of new homes for sale were 4.1 months at the current sales pace, up slightly from April, but still very low on an historical basis. Despite tight inventories the median sale price for a new home fell slightly in May, although it was still up 10.3 percent on a year-ago basis.

As with existing homes, the fundamentals of demand for new homes are very solid. New home sales will continue to improve throughout this year, leading to further gains in homebuilding. This, in turn, will contribute to an improving job market with gains in residential construction employment.

Durable goods orders rose 3.6 percent in May, the same rate of growth as in April (revised up from a 3.3 percent gain). Much of the increase in orders came from Boeing aircraft; transportation orders rose 10.2 percent, even as automobile orders fell over the month. But orders excluding transportation were still up a solid 0.7 percent. Orders for core capital goods—non-defense capital goods orders excluding aircraft—rose 1.1 percent in May, the third straight monthly gain of greater than 1 percent.

Durable goods shipments rose 1.2 percent in May, after falling 0.6 percent in April. Shipments of core capital goods were up 1.7 percent for the month, the largest gain so far in 2013. Durable goods inventories rose 0.1 percent in May.

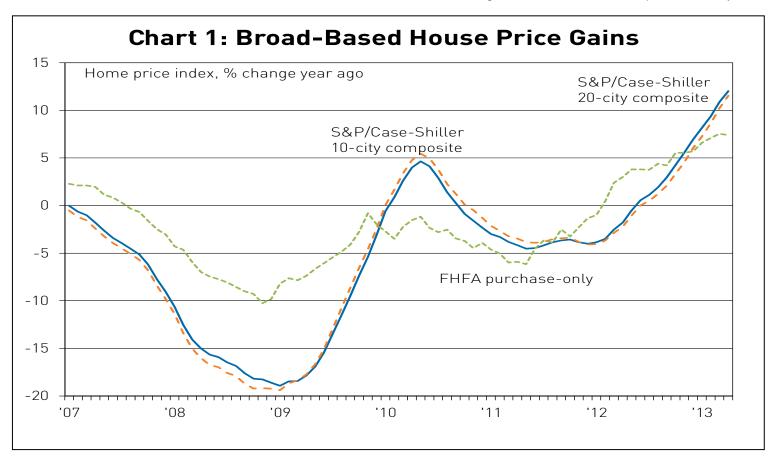


Chart sources: S&P/Case-Shiller, FHFA

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The better numbers for durable goods, particularly capital goods orders, indicate that business investment growth is picking back up after some weakening in late 2012 tied to uncertainty after government tax and spending policies (see Chart 2). Durable goods orders have been volatile over the past few years, but growth will continue in the near term. Low interest rates, despite recent increases, high corporate profits and a desire to limit hiring are all supporting business investment. Stronger growth in Asia and an end to recession in Europe will support durable goods manufacturing in 2014.

The Conference Board's consumer confidence index jumped from 74.3 points in May to 81.4 points in June, the third straight monthly increase. This is the highest reading on confidence since January 2008, the first month of the Great Recession. There was a 4.4 point increase in the present conditions component in June, and a large 8.9 point increase in the expectations component, which measures conditions over the next six months. The

employment details were also positive, with a greater share of respondents saying that jobs are plentiful. However, buying plans were largely unchanged from May.

Consumers are more confident with the improving labor market and rising house prices, despite the drag from higher taxes at the beginning of this year. Confidence may be bumpy in the near term as federal workers and contractors take a hit from spending cuts under the sequester, but it will gradually improve over the rest of 2013. Consumer confidence will further strengthen next year as the unemployment rate moves below 7 percent.

Today's numbers were positive on net, and the S&P 500 rose 1.1 percent on the day. Although there are drags on growth from fiscal policy and weakness overseas, the housing market recovery is gaining momentum, business investment growth is picking back up, and consumers continue to spend. The U.S. economy will expand about 2 percent this year and 2.5 percent in 2014.

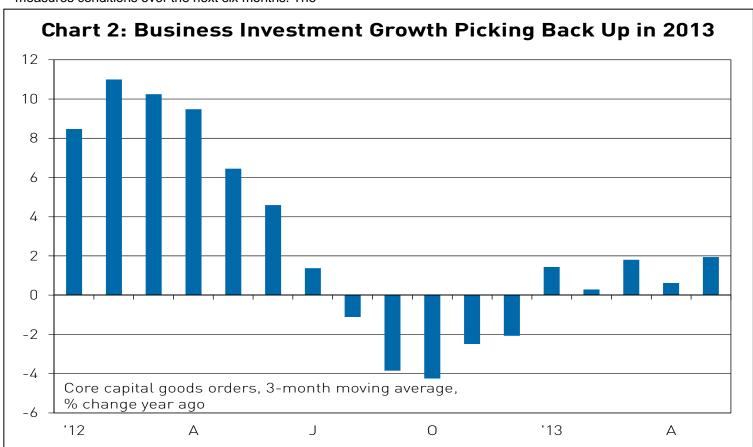


Chart source: Census

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