

Monday, August 27

10:00 - Existing Home Sales (for July): Consensus 5.70M

Big Picture: Home resales reached a five-year low in June and doesn't yet show any signs of stabilization. The weak sales pace left an 8.8 month supply of inventory -- a new cyclical high. Median prices rose in 4 of the last 5 months to leave annual growth in the black after ten months of negative yoy growth. Existing sales include condos/coops which make up about 1/8 of the total. The National Assoc of Realtors expects existing home sales to bottom in the third quarter -- they may be too optimistic. The upturn will be slow as sub-prime foreclosures add to already bloated inventory.

Implications: The name speaks for itself -- this report provides a measure of the level of sales of existing homes. The report is considered a decent indicator of activity in the housing sector. Housing starts precede this report each month, but starts are a supply rather than demand-side indicator. Existing home sales precede the other key demand-side indicator of housing -- new home sales -- thus boosting the visibility of this report. Sales are highly dependent on mortgage rates, and will tend to react with a few months lag to changes in rates. Sales are also determined by the level of pent-up demand for housing -- immediately after a recession, sales are typically quite strong due to the demand which accumulated through the recession.

Tuesday, August 28

10:00 - Consumer Confidence (for August): Consensus 105.0

Big Picture: The index reached a six-year high in July as expectations led the march higher. A stronger growth outlook and the tight labor market support confidence despite rising gasoline prices, and the index continues on an upward longer term path. Conference Board's survey is far larger and more business-heavy than the household-heavy Michigan sentiment index. The index is presumed to provide an early read on consumer spending, which is far better previewed through interest rates and income growth.

Implications: The Conference Board conducts a monthly survey of 5000 households to ascertain the level of consumer confidence. The report can occasionally be helpful in predicting sudden shifts in consumption patterns, though most small changes in the index are just noise. Only index changes of at least five points should be considered significant. The index consists of two subindexes -- consumers' appraisal of current conditions and their expectations for the future. Expectations make up 60% of the total index, with current conditions accounting for the other 40%. The expectations index is typically seen as having better leading indicator qualities than the current conditions index.

Thursday, August 30

8:30 - *GDP-Preliminary (for Q2): Consensus 4.1%, Chain Deflator (for Q2): Consensus 2.7%*

Big Picture: A sharp slowing in personal spending to 1.3% after downwardly revised 3.7% growth over the last two quarters. Business investment soared 8.1% in Q2 well above Q1's 2.1% growth and Q4's decline. Residential investment plunge lightens from -16% in Q1 and -17% in Q4 to -9.3%. The trade deficit added strongly to growth given a decline in imports and a pop in exports. Government spending was stronger by 4.2% than 1% Q1's near flat pace. Modest Inventory growth added a lift after near negative contribution in Q1. GDP price index remains strong given food and energy prices. Core PCE price index near 1.4%.

Implications: Gross Domestic Product (GDP) is the the broadest measure of economic activity. Annualized quarterly percent changes in GDP reflect the growth rate of total economic output. The figures can be quite volatile from quarter to quarter. Inventory and net export swings in particular can produce significant volatility in GDP. The final sales figure, which excludes inventories, can sometimes be helpful in identifying underlying growth trends as inventories represent unsold goods, and a large inventory increase will boost GDP but might be indicative of weakness rather than strength. The broad components of GDP are: consumption, investment, net exports, government purchases, and inventories. Consumption is by far the largest component, totaling roughly 2/3rds of GDP. In addition to the GDP figures, there are GDP deflators, which measure the change in prices in total GDP and for each component. Though the consumer price index is a more closely watched inflation indicator, the GDP deflator is another key inflation measure. Unlike CPI, it has the advantage of not being a fixed basket of goods and services, so that changes in consumption patterns or the introduction of new goods and services will be reflected in the deflator.

8:30 - *Initial Claims (for Q2): Consensus 320K*

Big Picture: Initial claims can be somewhat volatile but the 4-week average has remained in a lower 300K to 320K range since topping 320K in late April. Aberrations are watched for clues on the labor market and economy as the recent levels reflect an even tighter labor market. Continued claims are showing more lift than initial claims as the 4-week average nears the year and a half high of early March. Claims provide a nearly real time read on layoffs and the labor market as the low 4.6% unemployment reflects the broader read of layoffs and hiring.

Implications: Initial jobless claims measure the number of filings for state jobless benefits. This report provides a timely, but often misleading, indicator of the direction of the economy, with increases (decreases) in claims potential signaling slowing (accelerating) job growth. On a week-to-week basis, claims are quite volatile, and many analysts therefore track a four-week moving average to get a better sense of the underlying trend. It typically takes a sustained move of at least 30K in claims to signal a meaningful change in job growth.

Friday, August 31

8:30 - *Personal Income (for July): Consensus 0.3%, Personal Spending (for July): Consensus 0.4%, Core PCE Inflation (for July): Consensus 0.2%*

Big Picture: Consumer spending averaged 4.3% in Q4 and Q1 as the drop in energy prices left fuller pockets and less drag from the inflation deflator. The pace softened in Q2 as higher gasoline prices provide the opposite effect. While we expect spending to run at a more moderate 3% pace, it is the key factor for economic growth given its dominant weight (70%) in GDP. Strong employment and income growth provide the underlying support and trend pace. The Fed's favored core PCE price index stands at 1.9% yoy -- within the Fed's 1% - 2% "comfort zone" but not yet in the safety zone. Benchmark revisions now leave a positive savings rate -- savings from after tax income.

Implications: Personal income measures income from all sources. The largest component of total income is wages and salaries, a figure which can be estimated using payrolls and earnings data from the employment report. Beyond that, there are many other categories of income, including rental income, government subsidy payments, interest income, and dividend income. Personal income is a decent indicator of future consumer demand, but it is not perfect. Recessions usually occur when consumers stop spending, which then drives down income growth. Looking solely at income growth, one may therefore miss the turning point when consumers stop spending. The income report also includes a section covering personal consumption expenditures, also known as PCE. PCE is comprised of three categories: durables, nondurables, and services. The retail sales report will provide a good read on durable and nondurable consumption, while service purchases tend to grow at a fairly steady pace, making this a relatively predictable report, and ranking it well below retail sales in terms of market importance.

9:45 - Chicago PMI (for August): Consensus 53.0

Big Picture: The index rebounded to an annual high of 61.7 in March and returned in May after holding below 49 (in contraction) in January and February. A volatile regional measure reflects the stronger outlook, as business investment refires and the downward effects from the auto and housing sectors fade. The manufacturing sector moves in sharper cycles than the overall economy and the regional measures move in even shorter, more volatile patterns. Briefing.com expects the mid-expansion stall will be just that with stronger capital investment and manufacturing demand as 2007 progresses.

Implications: There are many regional manufacturing surveys, and they tend to be ranked in order of timeliness and the importance of the region. The New York and Philadelphia Fed's surveys are the first each month followed by the Chicago purchasing managers' report on the last day of each month. A few, such as the Atlanta and Richmond Fed surveys, are released after the ISM and are of little value. The purchasing managers' reports are measured like the national ISM -- 50% marks the breakeven line between an expanding and contracting manufacturing sector. For the New York, Philadelphia and Atlanta Fed indexes, 0 is the breakeven mark. These surveys can be of some help in forecasting the national ISM.

10:00 - Factory Orders (for July): Consensus 0.9%

Big Picture: Volatile factory orders peaked in March but are expected to exceed that level in July. The struggling auto and housing sectors added to the softening in business capital investment, as orders and production are back on the rise. Some of the falloff was due to the drawing down of unwanted inventories as the correction is complete. The underlying fundamentals of flush corporate balance sheets and high capacity use helps support capital investment and factory production.

Implications: Factory orders consist of the earlier announced durable goods report plus non-durable goods orders. The report is very predictable with nondurables the only new component. Nondurables consist of such items as food and tobacco products which grow at a fairly consistent monthly rate, so that market forecasts for this report are far more accurate than for the durable orders report. In addition to seeing nondurables for the first time, the market also watches for revisions to the durable orders data, which can be significant. At present, durable goods orders sum to about 54% of total orders.

10:00 - Mich Sentiment (for July): Consensus 83.0

Big Picture: The push to a two-year high in January was largely tied to the drop in gasoline prices. Plunging equity prices and economic fears have pushed the index down -14% since. The University of Michigan survey is significantly smaller (500 phone calls, just 250 in preliminary) than the Conference Board's, and includes a longer outlook (for expectations) as questions are focused on the household compared to the business-heavy CB survey. The index far better tracks the consumers' mood than spending habits better indicated through interest rates and income growth.

Implications: The Michigan index is almost identical to the Conference Board Consumer Confidence index, though there are two monthly releases, a preliminary and final reading. Like the Conference Board index, it has two subindexes -- expectations and current conditions. The expectations index is a component of the Conference Board's Leading Indicators index.

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