

Existing home sales were a small bright spot in a light data week. Jobless claims continued to improve, although questions remain about the trend form here. Consumer confidence faded in late July, but seems still on the road to improvement.

Sales of existing homes increased 3.6% from May to June. On average for the second quarter, sales edged up 0.1% following a 1.2% rise in the first quarter. Compared with a year earlier, the 3-month average of sales was lower by 5.4% but that marks a substantial improvement from the 16.6% year-over-year decline registered back in January.

The number of existing homes on the market increased modestly during the month, but remained well below the 4.6 million unit overhang that existed in July 2008. By virtue of the increase in the sales pace, the number of months' supply of homes on the market decreased to 9.4, matching the lowest level since before the housing crisis swept into full swing in 2007.

Existing home sales mounted false recoveries twice before since the downturn started in 2005 – in late 2006, early 2007 and again in mid-2008. The 2008 comeback might have continued had it not been for the financial panic that started last September. In any event, the two previous false starts are cautionary tales relevant for interpreting the current improvement in sales.

According to recent reports on jobless claims, labor markets are stabilizing. It is a stretch to say that they are getting better while total employment is still falling, the length of the workweek stands at an all-time low and wage and salary disbursements have fallen in eight of the past nine months). Wage and salary disbursements comprise more than one-half of personal income.

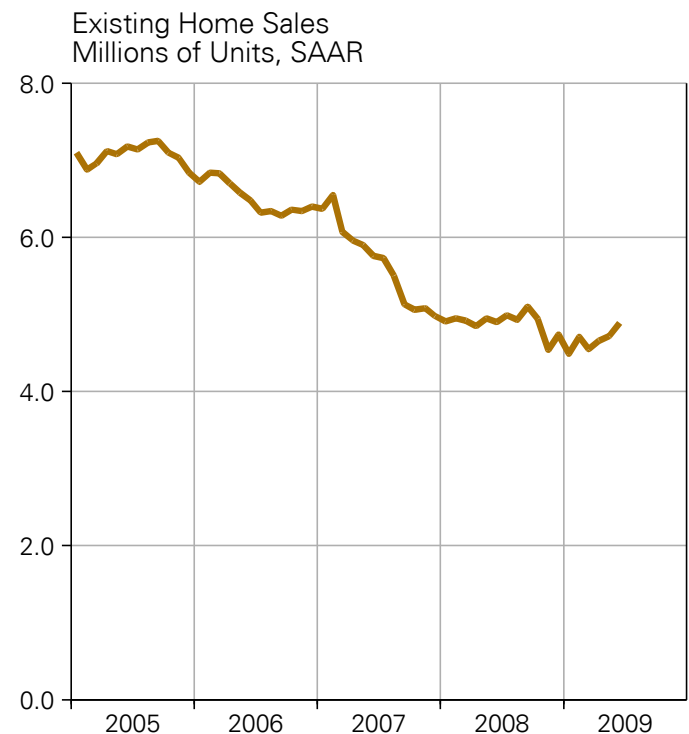
Nonetheless, initial jobless claims rolled over and are moving further and further below the cycle high reached in March. (See chart on next page.) Initial claims ticked higher in the latest week, but remain well below the 4-week moving average. The recent downdraft owes something to the altered timing of auto plant shutdowns this summer, and a definitive assessment is probably not possible without another week or two of data. Continuing

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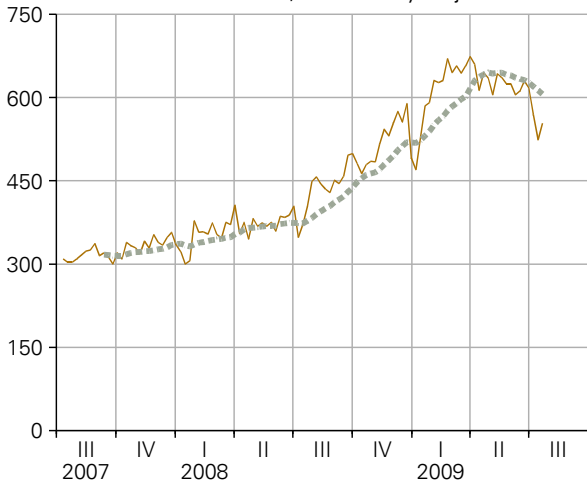
claims have also switched from rising to falling, although in this case questions remain about the effect of lapsing eligibility on the numbers. If continuing claims fall not because claimants find work but because their benefit periods expire, then they are still unemployed.

Finally, consumer sentiment as measured by Reuters/University of Michigan faded in July compared with June; however, the trend toward improvement appears to remain in place.

Jim Coons



Initial Claims for Unemployment Insurance
Thousands Per Week, Seasonally Adjusted



U. S. Dollar Exchange Rate
FRB Major Currency Index, 1973 = 100



Price of Oil
West Texas Int, \$/bbl



Price of Gold
London PM Fixing, \$/oz



S&P 500 Stock Prices
Daily Close, Index 1941-43 = 10



Mortgage Loan Originations
MBA Purchase Index 3/16/90=100 SA

