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Auto Production Drives July Business Spending

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This morning, the Commerce Department reported an unexpectedly strong +11.2% rise in durable goods orders for the month of July. The third consecutive increase was largely driven by a +21.9% jump in auto and auto parts orders, following a +85.6% boom in June which reflected the re-ignition of major auto production in the U.S. Predictably, aircrafts orders remained depressed. Boeing reported no orders in July after recording just a single order in June. Capital goods orders ex aircraft and defense, considered a proxy for business investment, climbed +1.9% in July after a +4.3% rise in June. The July advance brought year-over-year goods orders back to pre-pandemic levels. There's no denying that business spending has woken-up, and clearly a solid third quarter economic rebound is on track. But, like many indicators that crashed in the spring and have since surged back in the summer, the question for business investment will be whether continued progress can be made without massive federal support.

Yesterday, new home sales surged by +13.9% in July to a 901k annualized pace, the highest level since December 2006. With overall housing inventories historically low and a major spike in demand, prices for new homes are on the rise. The median price for a new home climbed +7% year-over-year in July to $330,600. Bloomberg reported that 70% of builders had increased prices last month compared to 27% in June. Some of the increase is probably related to lumber costs, which have risen over 110% since mid-April, according to the National Association of Home Builders (NAHB).

The available inventory of new homes declined from a 4.6-month supply to 4.0 in July. Historically, a 6-month supply is considered balanced. The combination of high sales demand and low inventory is good news for home builders. The NAHB/Wells Fargo Housing Index, a measure of home builder optimism hit a record high of 78 in August. On a related note this morning, mortgage applications fell -6.5% for the week ending August 21st. The fourth decline in the last five weeks may indicate that recent home purchases were front-loaded.

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On a head-scratching down-note from yesterday, the Conference Board's measure of consumer confidence dropped to a six-year low in August with the assessment of present conditions nosediving by more than 11 points. The 84.8 overall reading (a new low for the pandemic age) was well below the 93 median forecast. Survey responses hinted that future spending could slow after a three-month buying spree. The percentage of Americans planning to buy a car in the coming months was just 9.7%, the second lowest measure in a decade, while those expecting to purchase homes and/or major appliances both fell from July. The August survey also showed expected declines in income, overall business conditions and employment. Granted, this is "soft data" that may not actually translate into future soft spending, but it does provide a window into the current consumer mindset. With the federal unemployment lifeline in doubt, caution has crept into the picture, and a cautious consumer is more likely to save than spend.

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Third quarter GDP growth, driven by a resurgence in consumer, residential and business spending, is likely to be solid. This is a given. The question is whether the foundation is strong enough to carry the momentum forward into the fourth quarter. It's still too early to tell, but there seem to be cracks emerging in the consumer psyche.

Please see disclosure on page 2.

Market Indications as of 11:10 A.M. Central Time

DOW	Up 5 to 28,253 (HIGH: 29,551)
NASDAQ	Up 166 to 11,632 (NEW HIGH)
S&P 500	Up 19 to 3,462 (NEW HIGH)
1-Yr T-bill	current yield 0.12%; opening yield 0.12%
2-Yr T-note	current yield 0.16; opening yield 0.15%
5-Yr T-note	current yield 0.31%; opening yield 0.29%
10-Yr T-note	current yield 0.71%; opening yield 0.68%
30-Yr T-bond	current yield 1.43%; opening yield 1.39%

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