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Sorting the Pieces to this Week's Economic Puzzle

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The highlight of the week is expected to be the monthly labor market report released on Friday morning, but there is no shortage of data to chew in the meantime. This morning, the Mortgage Bankers Association (MBA) mortgage application index fell -6.9% for the week ending June 25th. Applications for new purchases fell -4.8% to the lowest level in over a year, while refi applications dropped -8.2% to the lowest level in 15 months. Historically, declining mortgage applications signal weakening in the housing market, but much of the weakness in new purchase applications is the result of a depleted housing inventory.

Lean inventories continue to push home prices well into record territory. The S&P CoreLogic Case-Shiller 20-city home price index rose +14.8% year-over-year in April. The biggest annual home price increase in 33 years of recordkeeping obliterated the +2.5% pre-covid price gain from 2019. Homebuilders have been hamstrung by soaring lumber costs in recent months, but materials prices are falling fast, opening a door for increased future builder production.

U.S. auto sales for June, scheduled for release tomorrow, are expected to fall to a 16.5 million unit annual pace. In April, the pace was 18.5 million. Similar to housing, vehicle demand is high, but supply is depleted. Whereas the lumber supply is returning quickly, the global microchip shortage is a longer-term problem that will hamper auto production all year.

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Yesterday, the Conference Board's headline Index of Consumer Confidence for June jumped from 120.0 to 127.3, the highest level in 15 months. Within the survey, participants seeing available jobs as "plentiful" rose to 54.4%, the highest in 21 years. The *present situation index* (which was 85.5 just five months ago) continued to climb, reaching 157.7 in June. For perspective, the index averaged 94.3 during the 10½ year expansion just before the pandemic set in. The *future expectations index*, which has a tendency to be more volatile, rose from 100.9 to 107.0 in June. This is also a very optimistic reading compared to the 87.0 pre-pandemic average from July 2009 to February 2020. Elevated consumer sentiment doesn't always translate into higher future spending, but the combination of healthy household balance sheets, massive amounts of cash sloshing around in the system, extreme pent-up consumer demand and plentiful jobs lay a solid foundation for summer consumption.

This morning, in a labor market preview, the ADP employment change report showed +692k jobs were added to company payrolls in June. Although this topped the +600k median forecast, the May count was trimmed from +978k to +886k, bringing the overall ADP report in on target. In normal times, this level of monthly job gains would be huge, but in the covid-recovery era, it's pretty much a wash. With half of U.S. states announcing an early opt-out of federal unemployment benefits by late June and early July, nonfarm payroll gains are likely to show a more significant increase next month.

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Recent deceleration in housing and vehicle sales reflects supply-demand imbalances. Until this gets sorted out, prices are likely to remain elevated and above-trend economic growth will be spread out over several quarters. The next few months will be key as government support that has been in place for more than a year fades away. Federal unemployment benefits end for everyone on September 6th and student loan payment deferral ends October 1st. Less money in; more money out.

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In March, the Centers for Disease Control and Prevention had extended the federal eviction moratorium though June 30th, but the Supreme Court just voted 5-4 to extend it another month. With an estimated 7 million Americans behind on their rent payments, the termination of this safety net will cut consumer spending capacity. The near-term economic outlook is still bright, but in the absence of government support, forward momentum is likely to slow later this year.

Market Indications as of 1:14 P.M. Central Time

DOW	Up 175 to 34,467 (HIGH: 34,778)
NASDAQ	Down 30 to 14,499 (HIGH: 14,528)
S&P 500	Up 2 to 4,294 (NEW HIGH)
1-Yr T-bill	current yield 0.07%; opening yield 0.06%
2-Yr T-note	current yield 0.25%; opening yield 0.25%
3-Yr T-note	current yield 0.46%; opening yield 0.46%
5-Yr T-note	current yield 0.87%; opening yield 0.89%
10-Yr T-note	current yield 1.45%; opening yield 1.47%
30-Yr T-bond	current yield 2.06%; opening yield 2.09%