Economic data roundup

ODL Securities

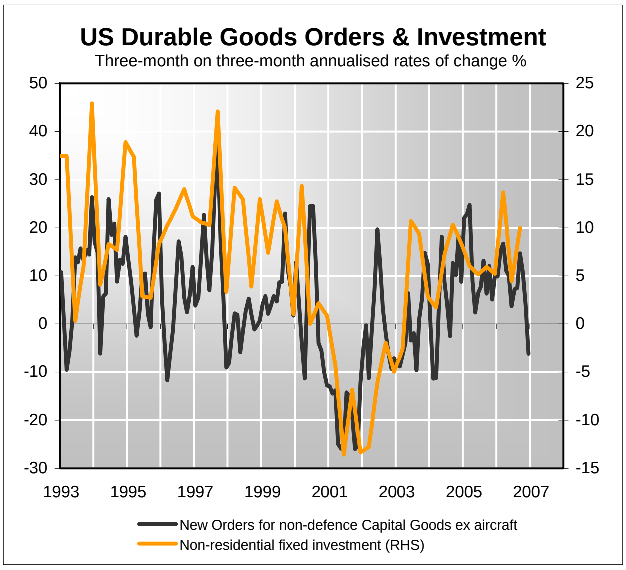
Monday, 29th January 2007

Thursday, 25th January to Friday, 26th January

United States

25/1 Durable Goods Orders (Dec)

(Previous month in brackets)	mom%	yoy%
New Orders	3.1 (2.2)	2.6 (0.4)
Capital goods non-defence ex aircraft	2.4 (-1.0)	6.7 (6.4)



There was good and bad news in the latest durable goods orders figures. Overall, durable orders rose 3.1% in December, close to the central market expectation.

However, on the positive side, within this, core capital goods orders (i.e. excluding defence and aircraft) were significantly stronger than expected, advancing 2.4%. Unfortunately, since this was the first rise in three months, the three-month on three-month annualised rate of change fell sharply sliding to -6.2% having been as high as 14.7% in September. As the chart shows, this has potentially ominous implications for non-residential fixed investment spending in Q4 or Q1. Non-residential fixed investment spending looks like being a major constraint on growth in the short term.

26/1 New Home Sales (Dec)

(Previous month in brackets)	mom%	yoy%
New Home Sales	4.8 (7.4)	-11.0 (-13.5)

The December data on new home sales provided further evidence that the US housing market is stabilising. Against a central market expectation of a 0.3% rise, new home sales jumped 4.8% last month, whilst November's previously reported 3.4% gain was more than doubled to 7.4%. This was the fourth rise in the last five months. Although the level of sales remains some 11% down on where they were a year ago, the key point to note is that the three-month on three-month rate of change accelerated to 5.4%, the highest since May 2005. Thus, increasingly it looks as though the US housing market is over the worst.

Monday, 29th January to Wednesday, 31st January 2007

United Kingdom

30/1 Nationwide House Prices (Jan)

House prices were mixed in December according to the two main sources of data, rising a seasonally adjusted 1.2% according to the Nationwide Building Society, but falling 1.0% according to the Halifax. The annual rates of change were also divergent, with the Nationwide's rising from 9.6% to 10.5% (a 23-month high), but the Halifax figure falling from 10.8% to 8.4%. However, both were in agreement that for the final quarter of 2006 as a whole the pace of house price growth had accelerated, hitting 3.4% (2.3% in Q3) and 3.8% (0.7%) respectively. Although such growth rates are stronger than we had expected six months or so ago, we remain firmly of the view that house price inflation will slow during the course of 2007. Whilst we have never shared the apocalyptic view of the housing market expressed by some commentators in recent years, we recognise that valuations, based on average household disposable incomes as well as average earnings, have now moved into unsustainable territory. However, provided we can avoid the sort of macroeconomic shock that precipitated the correction in house prices during the early 1990s – namely a recession brought about by sharply higher interest rates and a substantial rise in unemployment – we continue to expect this imbalance to resolve itself by an extended period of house prices rising gently or trending sideways rather than a protracted outright decline.

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United States

30/1 Conference Board Consumer Confidence (Jan)
Consumer confidence has been extremely volatile in recent months, jumping sharply in September, falling back in both October and November and then rising again to 109.0 in December (highest since April). However, as ever, investors should not read too much into the monthly swings or changes in the index, and instead concentrate on the level, which even in August was still consistent with annualised growth in consumer spending of more than 3%. Growth in consumer spending will be comparatively modest over the coming few quarters, but there is still nothing in the data to suggest that personal consumption is set to decline in absolute terms. Financial markets are expecting a further rise to 110.0 in January.

31/1 GDP (Q4, advance)
The pace of US economic growth in the third quarter was fractionally slower than previously reported, according to the final set of National Income statistics, with headline activity scaled down from 2.2% at annualised rates to 2.0%. This compares with 2.6% in Q2 and 5.6% in Q1. Slightly softer consumer spending, up 2.8%, and an even larger 18.6% slump in residential fixed investment spending were the main reasons for the downward revision, which left growth in final domestic sales reduced from 2.4% to 2.2%. Exports were revised up, but so too were imports and from a very much higher base, thereby leaving the contribution to growth from net trade unchanged at -0.2%. Looking ahead, the pace of growth should be somewhat higher over the coming few quarters, although it should remain sub-trend. As a result, after an estimated 3.3% in 2006, we are looking for growth to average 2.5% in 2007. An acceleration to 3.0% is the central market expectation for Q4.

31/1 FOMC interest rate announcement
As expected, the Federal Reserve left interest rates unchanged at 5.25% (where they have now been since June) in December, although once again Richmond Fed president, Jeffrey Lacker broke with the majority by voting for an immediate quarter-point rate hike. The statement that accompanied the announcement was the blandest yet, reflecting the Fed's need to start softening the hawkish rhetoric prior to beginning to relax policy later in 2007. Consequently, all the Fed noted about the real economy was that activity had slowed, partly as a result of a "substantial cooling of the housing market" and that the expansion was likely to proceed at a "moderate pace" (code for beneath trend) over coming quarters. However, some inflation concerns remained, with the statement observing that "readings on core inflation have been elevated", although such pressures were "likely to moderate over time". Nevertheless, because it believes some upside risks to inflation remain, for the time being the Fed is prepared to retain its bias to tighten, although any additional firming that may be needed will depend upon the evolution of the outlook for both inflation and economic growth. Interest rates will again be unchanged this month, but watch for continued hawkish rhetoric on near-term inflation prospects. Given the resilience of the economy, interest rates now look like remaining on hold until well into the second half of 2007.

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