

THE ECONOMIC OUTLOOK GROUP



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ECONOMIC TALKING POINTS

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Recovery On Track as Jobless Claims Drops and Home Sales Pick Up

The economy is building up more momentum towards recovery. The number of positive economic reports out the last several months is now outpacing negative ones and that suggests the economy is in the process of switching tracks from contraction to growth.

We got more evidence of that today. Employers, sensing the recession is winding down, have begun to scale back layoffs. After 22 consecutive weeks that saw applications for unemployment benefits stay above 600,000, we now have had three straight weeks below that threshold. In the latest week ending July 18th, new filings came to 554,000, bringing the four week moving average down to its lowest since January. Equally encouraging is that the total number of jobless Americans collecting unemployment insurance has fallen to 6.23 million people, the lowest since April and 674,000 less than its peak on June 27th.

We're well aware that some economists have warned against reading too much into these better numbers because they were heavily influenced by earlier than usual shutdowns in the auto industry. Plants were closed and many autoworkers dismissed in the second quarter as GM and Chrysler entered bankruptcy protection and began their restructuring process. With so many being laid off this spring, the numbers were bound to be smaller by summer, these economists argue, and so the latest declines in new filings for jobless benefits should not be interpreted as an improvement in economic conditions.

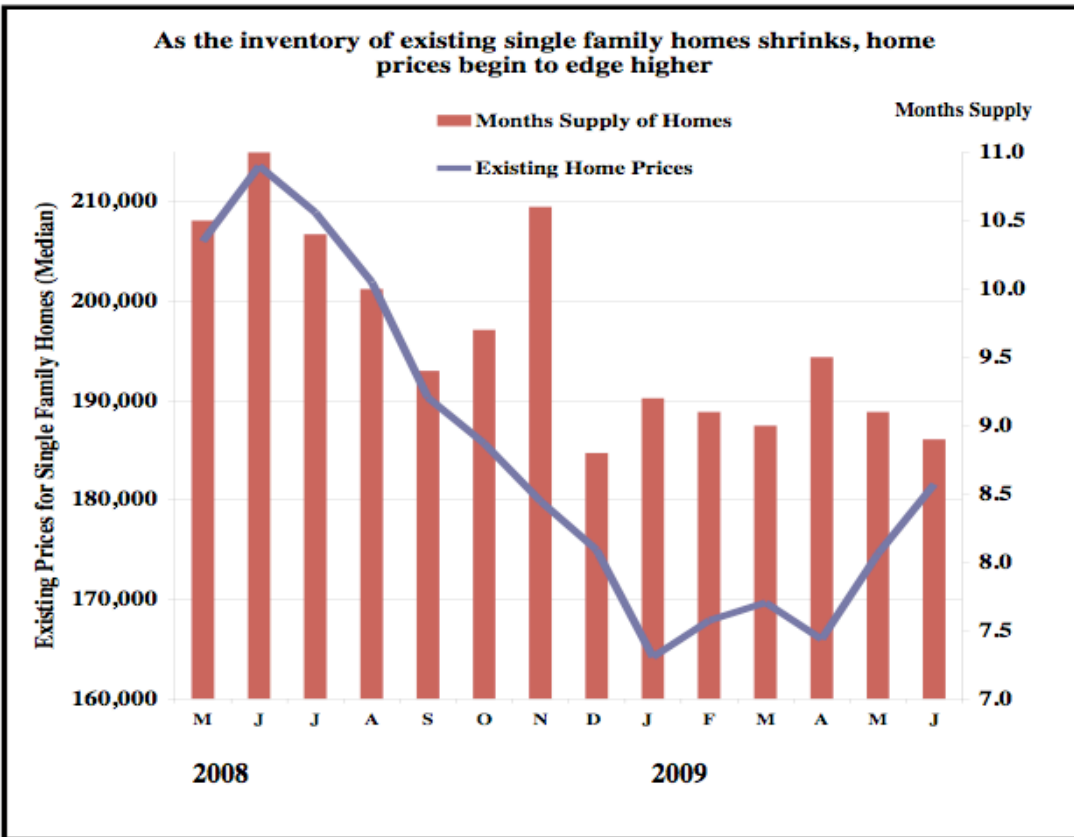
We disagree. Evidence continues to mount the economy has finally turned the corner and that the weekly claims data is just one of several pointing to a recovery underway. (See our [Economic Talking Points](#) report of July 16th for details). Our expectation is that jobless claims will continue to trend downward, if unevenly, from this point on.

We got additional good news this morning from the National Association of Realtors. Existing home sales jumped for the third month in a row in June, to a 4.89 million-unit rate. It's the strongest showing since October of 2008. Every region of the country recorded a jump purchases and that has pushed inventory levels lower and firmed up prices. The months supply of homes for sales has dropped to 9.4 from a recent high of 11 in November. With inventories dropping and sales picking up, it allowed the median sales price of existing homes to climb to \$181,800 last month, a seven-month high.

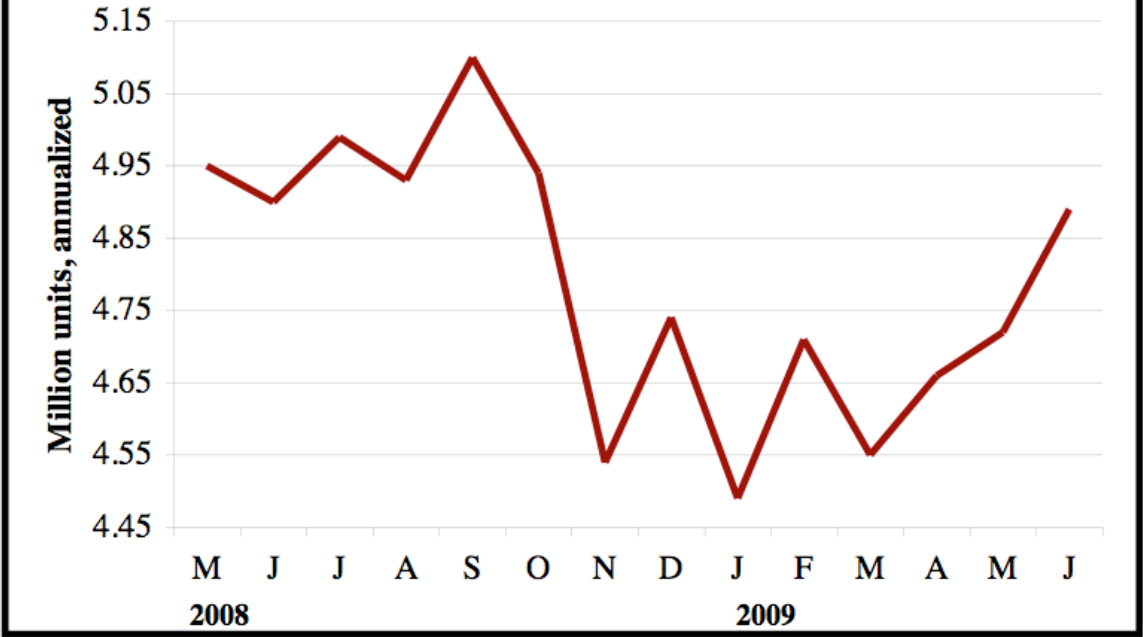
Breaking down the numbers further, we see that both single family homes sales as well as those of condos and co-ops surged. Purchases of single-family homes, a measure closely followed by experts because it corresponds closely with consumer spending and overall economic activity, rose 2.4% in June, to a 4.32 million-unit rate, the best showing since last October. Doing even better were sales of co-ops and condos, which jumped in the latest month to a 570,000 pace, the strongest in nearly a year. The inventory of single-family homes has now shrunk to 8.9 months last month from 9.1 in May and 10.6 in November.

But again, it's pricing that we're following very closely. The median sales price for single-family homes rose to \$181,600, the most since September last year.

This is all very positive for the economy. We graphed out the latest set of existing home sales numbers below to illustrate the genuine improvement in the housing market. Higher home prices helps stop the deterioration in household wealth (which can encourage consumer spending in the future) and increases the value of real estate securitized assets banks have on their balance sheets. Both trends are absolutely critical if this recovery is to take hold.



Total Existing Home Sales Has Turned The Corner



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