

Durable Goods and New Home Sales Stall in December

New Orders for Durable Goods stalled in December 2003. The report showed a slight decline compared to the November level.

The Mortgage Bankers Association reported that mortgage applications declined 5.2% for the week ending January 23.

The Commerce Department announced that new homes sold at a slower rate in December than in November. The seasonally adjusted and annualized number dropped 5.1% from November.

Durable goods Look Weaker than Expected

The Durable Goods number was a negative surprise to most analysts. They had expected orders to increase, particularly in light of the strong economic growth reported in the third quarter of last year. However, we can see what happened by looking a little more deeply in to the details.

The report subdivides durable goods into numerous subcategories such as capital goods, transportation equipment and defense orders. In particular, the transportation and defense numbers can fluctuate widely from month to month; so normal practice is to report the change in durable goods orders after subtracting these. On this basis, the durable goods less transportation actually fell 0.7% from November, compared to an expected increase of about 2.5%.

This is an especially poor showing for an economy that is forecast to grow 5% in the last quarter of 2003. If other economic releases begin to come in below expectations, the durability of this economic recovery may come into question.

Mortgage Apps Light

Since the weekly index of mortgage applications can be quite volatile, it is hard to read anything into a one week decline. However, mortgage interest rates are close to the lows of last summer. If they begin to rise from these levels we will need to watch this index closely for signs of a slowing housing market.

New Homes Sales Fall in December

The annualized and seasonally adjusted rate at which new homes sold in December declined 5.1% from November. The Commerce Department takes the current month's new home sales, adjusts it for seasonal variation and then annualizes it. That number peaked in June, 2003 at 1.2 million and has now fallen to 1.06 million or about 12% below that high.

With mortgage rates now close to last summer's lows, we expect that January's new home sales should pick up from the December level. But the degree to which it picks up will tell us a lot about the continuing strength in the housing sector.

Another figure released in this report, called the 'supply' of homes, compares the number of homes available for sale to the number sold that month. Supply has been relatively stable for years, but has been edging up from a six year low since June of last year. If supply were to break above the high for this six year period (4.8 months compared to the current 4.3 months), we would take that as a warning that the housing boom was slowing or beginning to roll over.