Flash Note
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Will the Fed read into the last home sales number?

- New home sales came at 553k in September. The lowest since Dec 2016 (see the chart below)
- The Housing sector has been cooling since May, and this downward trend in the housing sector has been accentuated in the last two months (after the recent spike in funding costs).
- There is little doubt that the economic expansion is mature, although the key economic and financial indicators that we monitor still suggest the **risk of a recession in the next quarters is low:**
  - The US labor market continues to generate solid job gains, and business confidence remains robust, with small business confidence at an all-time high.
  - Consumer spending remains strong on the back of higher wage growth and business investment keeps solid in the wake of favorable depreciation rules.
  - The Now tracker published by the US Federal Reserve Bank of Atlanta for the 3QGDP was tracking at 3.8%.
  - Fiscal stimulus will likely remain supportive through much of 2019.
- Nevertheless, the Fed could begin to read into this bearish data in key sectors such as **housing** and **auto sales**, **and start to relax its monetary policy stance.**
- **Inflation is not a problem:** Core inflation has stabilized near the Fed's 2.0% target, and we expect it to continue sideways in a narrow range.
  - Medicare reimbursement schedules indicate some downside for health care prices,
  - and a weaker housing market should lead to sideways shelter inflation.
  - These are two of the largest categories of core PCE, and should keep overall inflation anchored near 2.0%.
- **The implications:** Without risk of recession, and with a Fed closer to recent data, we could have a more favorable monetary environment for markets. We will have to wait to see how receptive the Fed is.

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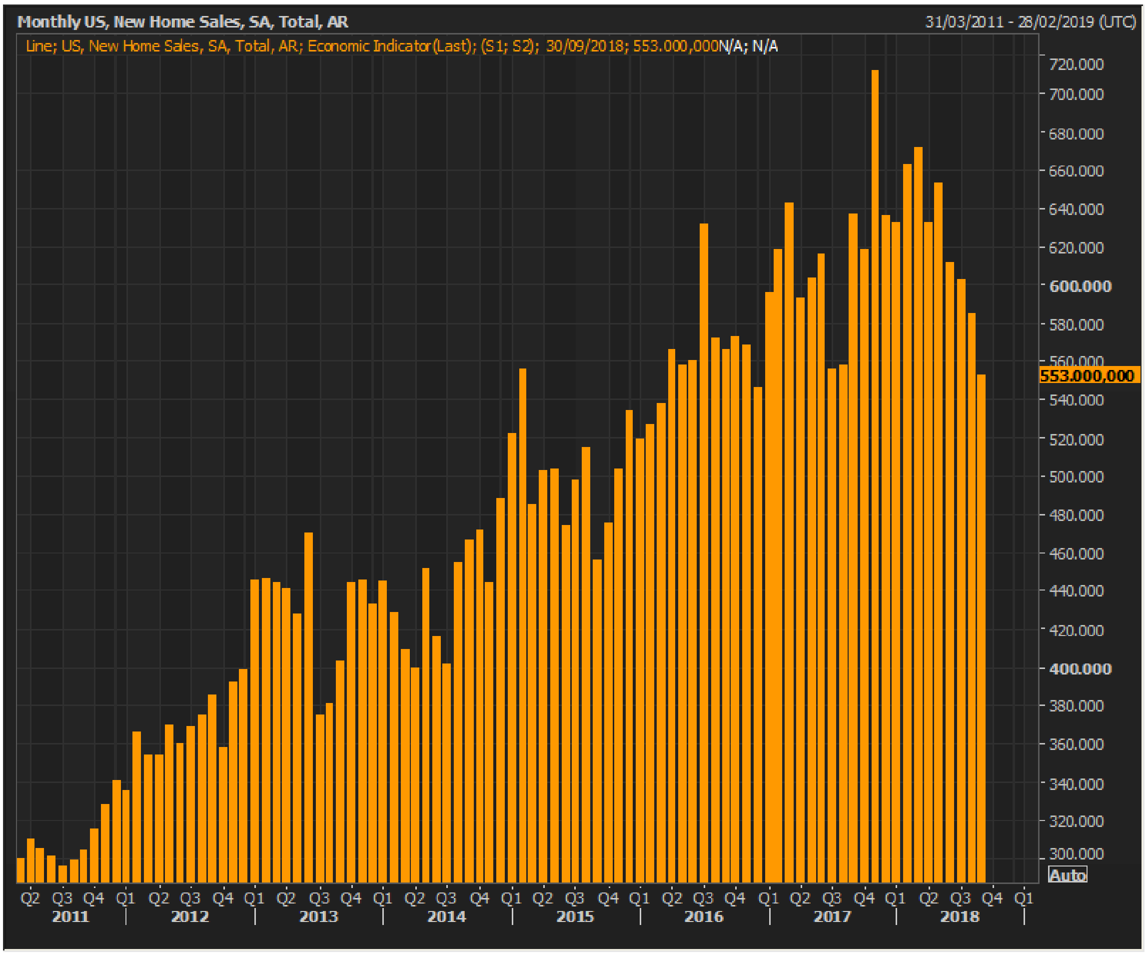

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