

August 26, 2014



## UNITED STATES

### Confidence and orders rise, but house prices fall

#### HIGHLIGHTS

- According to the Conference Board survey, consumer confidence improved in August. The 2.1 point increase takes the index from 90.3 to 92.4. The gain stems from the current situation of households, while the expectations index slipped 1.0 point.
- New durable goods orders rebounded 22.6% in July, thanks to the aviation sector. Excluding defence and aviation, new capital goods orders dipped 0.5% after a sharp 5.4% increase in June (revised from 1.4%).
- The S&P/Case-Shiller index of existing home prices in the 20 largest cities saw a second consecutive pullback, with a decrease of 0.2% in June. The index's annual change went from 9.4% to 8.1%.

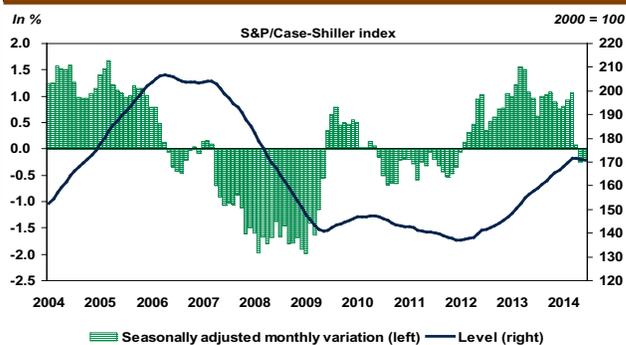
#### COMMENTS

Orders already announced by Boeing suggest that the aviation sector will make a strong contribution to growth in new orders for durable goods. The effect was even more pronounced than anticipated, with the 318.0% increase in orders related to civil aviation driving the biggest advance in total orders since the introduction of this indicator in 1992. Aside from airplanes, results are more disappointing: new orders excluding transportation dropped 0.8%. However, June's numbers were significantly revised upwards, particularly for new capital goods orders excluding aviation and defence. All signs indicate that business investment will see strong growth in the second quarter of 2014.

Existing home prices are making up the ground lost, as shown by the poor housing data released since the end of 2013. For the first time since prices hit bottom in 2012, the S&P/Case-Shiller index slipped, with a total decrease of 0.5% in two months. In June, 13 of the 20 cities studied recorded a drop in prices. However, home values continue to be up 24.5% from the low point.

Higher consumer confidence in August is welcome, although surprising. Several factors suggested that the

#### Existing home prices stop rising suddenly



Sources: Standard & Poor's and Desjardins, Economic Studies

Conference Board index would slide, particularly the dismal performance of other confidence indexes. Increased geopolitical uncertainty and some tensions within the United States had the potential to affect household sentiment. However, they are showing confidence in their current situation, possibly due to the good performance of the labour market, the recent fall in gas prices and the recovery in the stock market after difficulties in July. Yet, the slide in the expectations component is less encouraging and does not raise hopes for a notable acceleration in spending.

**Implications:** The U.S. economy should continue to perform well in the coming months, particularly if business investment follows consumption to boost growth. Soft home prices should be temporary as other housing market indicators begin to turn around.

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