The advance estimate of GDP growth for 1999:IIQ is 2.3%, significantly slower than the 3.4% expected by analysts. The deceleration from the 1999:IQ growth rate of 4.3% primarily reflected a decline in inventory investment and a lower rate of increase in consumer and government spending. Nevertheless, consumer spending grew at a brisk pace (4.0%), indicating that domestic demand is still quite strong. Blue Chip forecasts predict that economic growth for 1999 will exceed the 3.0% historical average rate of economic growth.

Existing home sales set an all-time record in June of 5.53 million units on an annualized, seasonally adjusted basis, a 10.6% increase from May’s level of sales. New home sales also were quite strong in June, posting an annualized, seasonally adjusted rate of 929,000 units. Housing starts, however, fell to their lowest level since May of last year. Permits did increase slightly in June, indicating that housing starts may rebound somewhat in July or August. Overall, the housing market remains robust, and buying activity remains surprisingly high considering recent increases in mortgage rates.

The fixed rate for a 30-year mortgage averaged 7.6% in June, up from 7.1% in May and 6.9% in April. Potential homebuyers may have interpreted recent increases in mortgage rates as indicative of a strengthening economy, leading to higher home prices and sales. The Federal Reserve’s decision to raise interest rates in June was seen as a sign of economic strength and a move to keep inflation in check.

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rates as the start of an upward climb and purchased homes quickly to lock in a rate. With the labor market so strong and consumer confidence so high, rising interest rates apparently were not enough to discourage would-be homebuyers.

Indeed, people have been spending more on housing. Although the median sales price of new homes fell to about $150,000 in May, it rebounded in June to $157,000, about $9,000 higher than the median price in June last year. For existing homes, June’s median price was roughly $6,000 higher than a year earlier; in fact, it has increased at an average rate of around 4.0% so far in 1999, and at about 5.4% in 1998. The pace of growth in the median sales price far exceeds the rate of inflation, which has hovered around 2.0% in 1998 and 1999.

The brisk pace of home sales has brought down the supply of homes on the market. At June’s rate of sales, the current supply of existing homes will last 4.7 months, while the supply of new homes will last only 4.1 months. Certainly, the recent decline in housing starts has affected the supply of new homes. Perhaps builders have been more sensitive than consumers to rising interest rates. The median length of time new houses have been on the sales market (3.2 months in June) is also quite low.