

The Week Ahead: Bernanke Testimony Amid Heavy Housing Data and Treasury Auctions

Mon, Feb 22 2010, 8:30 AM

Global equities are mostly higher Monday including gains of more than 2% in Japan and Hong Kong. In Europe, where George Provopoulos, governor of the Bank of Greece, recently said he had "full confidence" in dealing with the deficit, stocks are more mixed but on the whole still positive.

In the the US, equities are looking to a positive open. The schedule includes plenty of fresh data later in the week, but the focus this morning will be on testimony from Ben Bernanke, chairman of the Federal Reserve.

90 minutes before the opening bell, Dow futures are trading 51 points higher at 10,429 and S&P 500 futures are up 5.90 points to 1,112.10. Over the past five trading days the Dow climbed 3.9% and S&P 500 gained 4.03%.

Also, NYMEX crude oil is up 43 cents to \$80.24 per barrel while Gold is up \$1.20 to \$1123.30.

Key Events This Week:

Monday:

10:30 — **Janet Yellen**, president of the San Francisco Federal Reserve (non-voter), speaks on the economy at the University of San Diego.

Treasury Auctions:

- 11:30 — 3-Month Bills
- 11:30 — 6-Month Bills
- 1:00 — 30-Year TIPS Auction (\$8 billion; first 30-year TIPS auction since 2002)

Tuesday:

9:00 — The **S&P Case-Shiller Home Price Index** has been rising for sixth consecutive months as of November, most recently inching forward by 0.24%. Compared to one year ago, prices were down only 5.3% — the slowest pace of price decline since September 2007. Economists hope that annual number narrows further in December.

The RPX house price index — a leading indicator of house price trends — suggest prices could be unchanged in December, note economists from Nomura Global Economics.

"We look for a flat monthly growth rate and a year-on-year decline of just 2.8%," they wrote. "The fact that house prices have held their summer/autumn levels into winter months, when prices typically cool, is a strong sign that the market is on the mend."

10:00 — **Consumer Confidence** is expected to be broadly unchanged in February. The Conference Board's index moved up slightly to 55.9 last month and in February expectations range from 52.0 to 57.0, a fairly narrow range.

"The February pause in the stock market rally will reinforce consumers' cautious attitudes toward spending," said economists from IHS Global Insight. "Looking ahead, a gradual improvement in the labor market will support income growth and sustain the recovery in consumer spending that began last summer."

11:00 — **Ben Bernanke**, chairman of the Federal Reserve, speaks before the House Financial Services Committee. The hearing is called "Prospects for Employment Growth: Is Additional Stimulus Needed?"

"We expect Mr. Bernanke to reiterate the point that he made in testimony prior to the recent 50 basis point increase in the discount rate which emphasized that a larger 'penalty rate' at the discount window was not intended to reflect a tightening of monetary policy but rather a normalization of the Fed's emergency lending provisions," said Joseph LaVorgna, chief US economist at DeutscheBank.

5:00 — **James Bullard**, president of the St. Louis Fed, speaks on regulatory reform to the Chartered Financial Analysts Virginia Society in Richmond, Va.

Treasury Auctions:

- 11:30 — 4-Week Bills
- 1:00 — 2-Year Notes

Wednesday:

10:00 — **New Home Sales** have been difficult to track recently because of the homeowner tax credit, which was supposed to end in November but was then extended into April 2010. In December the index dropped 7.6%, pushing the annual pace of sales down to 342,000. With homebuyers back in the market to take advantage of the tax incentive, economists are looking for the annual pace to climb to 360k, though not all are confident — expectations range from 345k to 380k.

“January’s new home sales figures will shed light on market conditions,” said economists from IHS Global Insight, who look for sales to climb 8.2%. “New home sales were down 9.3% and 7.6% in November and December, respectively. A third straight drop in sales could spell trouble for the housing market in 2010, but we expect some rebound from December’s very weak level.”

Economists at Nomura point out that the homebuilder sentiment report from the National Association of Realtors edged up several points recently, suggesting improvement.

“New home sales also declined sharply in both November and December and look set for a payback,” they added. “Further ahead, we expect growth in new home sales to remain slow as a result of competition from excess supply in the existing home market.”

10:00 — **Ben Bernanke**, chairman of the Federal Reserve, speaks before the House Committee on Financial Services at the Semiannual Monetary Policy Report to Congress.

Treasury Auctions:

- 1:00 — 5-Year Notes

Thursday:

8:30 — **Durable Goods** are expected to thrive in January. The consensus is to see a 1.5% advance, compared to just 0.3% in December, as aircraft orders from Boeing were strong. The “core index” — non-defense capital goods orders excluding aircraft — will give a better indication of where things are at. Last month the component climbed 2.2%.

“About 40% of the projected increase will come from a rebound in aircraft,” estimate economists from IHS Global Insight. “Most durables orders should show respectable gains of about 1%, but get an additional kick upwards from defense orders. There is strong underlying after-tax earnings momentum, and that should continue to provide solid momentum for orders in early 2010.”

8:30 — **Initial Jobless Claims** were on a fairly steady downtrend in the final months of last year but recently volatility has set in. The four-week average rose by 2k to 462k in January, and things weren’t looking any better as weekly claims rose by 31k to 473k in the week ending February 13.

This week the expectation is to see 460k claims, but as Ian Shepherdson from High Frequency Economics notes, “uncertainty is huge because of the weather.”

Analysts from Nomura added: “The abrupt turn in initial jobless claims adds to concerns that the labor picture may not be improving as quickly as anticipated. If claims remain at the current level for the remainder of February we would likely forecast negative nonfarm payroll employment growth for the month.”

8:35 — **Sandra Pianalto**, president of the Cleveland Fed, speaks at the Dayton Area Chamber of Commerce Government Affairs Breakfast.

9:00 — **Ben Bernanke** repeats his testimony from Wednesday, so the Q&A session will be the focus.

12:35 — **James Bullard**, speaks to the St. Louis Fed, speaks to an economic forecast luncheon at Texas A&M University-Texarkana.

Treasury Auctions:

- 1:00 — 7-Year Notes

Friday:

8:30 — **GDP** expanded well beyond expectations in the fourth quarter, rising 5.7% and marking the fastest quarterly surge in more than six years. Details were less optimistic, however, as inventories made up much of the gains, as did spending from the stimulus package, though that played a less of a role than in the prior quarter. In this first set of revisions, the consensus is to see no change.

Economists from IHS Global Insight, however, look for 5.9% growth. “Based on December’s data, it seems that inventories fell even less in the fourth quarter than initially estimated, so that the boost to growth from inventories will be even bigger,” they predict. “That positive should be partly offset by lower estimates for construction spending (especially state and local), and a smaller boost from foreign trade than first thought.

“The shift in the composition of growth – more inventories, less final sales – is mildly negative for first-quarter growth prospects,” they added.

9:45 — The **Chicago Business Barometer**, which tracks the services and manufacturing industries, has nearly doubled over the past year, and last month it hurdled over the 60 mark for the first time in close to three years. In February the index is expected to retrace some gains and fall back 1.5 points to 60.0, but some economists are looking for further gains to as high as 64.3.

“Although we expect business conditions for firms in the Chicago area to continue to improve, the rate of change in activity — which is related to the level of the index — is likely to slow,” said analysts from Nomura. “The index is also at quite high levels and has increased for four consecutive months. We therefore think a modest retreat looks likely.”

10:00 — The U of Michigan/Reuters **Consumer Sentiment** report was a bit weaker than forecasts earlier this month. It declined slightly to 73.7 in the preliminary reading and there isn’t much reason to expect a dramatic change in the revisions.

“The final report should confirm the early February findings — consumers view the current economic situation more favorably but they are a bit more pessimistic about the outlook for the economy and personal finances in the year ahead,” said economists from IHS Global Insight. “After a solid gain in retail sales in January, we expect that real consumer spending will increase at a 2.6% annual rate in the first quarter, up slightly from 2.0% growth in the fourth quarter of 2009.”

10:00 — **Existing Home Sales** fell 16.7% in December, with sales falling in all four regions including a 26% decline in the Midwest. The broad decrease reflected the passing of the original November 31st expiration date of the first-time home buyers tax credit. With the tax credit being extended into April 2010, growth in sales should resume: the consensus is for the pace of sales to be 5.50 million, up from 5.45 million a month before.

“December’s decline showed just how much the fragile housing market recovery is dependent on government support at the moment,” said Ellen Zentner, macroeconomist at BTMJ. This month she expects a tepid rebound.

The evidence so far is that the extended tax credit is having “minimal effects,” said economists from IHS Global Insight, who noted that mortgage applications tumbled to a 13-year low in November, according to the Mortgage Bankers Association.

“We still believe that the effects of the second tax credit will kick in soon,” they wrote. “But time is getting short, since homeowners have until April 30 to sign the contract and until June 30 to close the deal.”

1:30 — **Daniel Tarullo**, governor of the Federal Reserve, and **Charles Evans**, president of the Chicago Fed, discuss financial reform.

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