Economics: Small Businesses Are Excited for 2017

A busy week of economic data saw a spike in small business sentiment, a pause in the recent uptrend in consumer optimism, and a strong 2016 finish for retail sales. In December, small business sentiment posted the largest monthly jump ever recorded to reach a 12-year high, driven by spikes in economic expectations and the share of firms saying it is a good time to expand. The improved optimism comes from the prospect of tax cuts and deregulation, as small businesses have cited taxes and government regulations as their top two concerns throughout the expansion. After improving rapidly in the two months following the election, consumer optimism stalled in January, as the preliminary reading of the University of Michigan Consumer Sentiment Index ticked down slightly but remained near the expansion high. A drop in the expectations component outweighed a slight gain in the current conditions component. Retail sales picked up the pace in December after appearing to lose steam in the prior two months. A rebound in auto sales drove the gain, as dealers increased incentives in an effort to lower year-end inventory. Core retail sales, which exclude auto, building supply, and gasoline station sales, improved modestly, aided by a pickup in online sales. In other news this week, rising oil prices boosted December import prices, while producer prices posted a second straight month of solid gains. The labor market continues to struggle finding qualified workers, as the job openings rate rose in November while the hires rate was unchanged.

- **Retail sales** rose 0.6 percent in December, according to the Census Bureau. The strongest gain in motor vehicle sales since April helped boost the headline gain. Gasoline station sales were also strong. Core sales, which exclude auto, building supply, and gasoline station sales, rose 0.2 percent, helped by a 1.3 percent rise in nonstore retail sales (mainly online sales).

- **The National Federation of Independent Business (NFIB) Small Business Index** jumped 7.4 points to 105.8 in December. Expectations for the economy to improve leapt 38 points to 50, a 14-year high, while the share of firms saying it is a good time to expand rose by the largest amount ever recorded to 23 percent, the highest level since June 2005.

- **The University of Michigan Consumer Sentiment Index** ticked down slightly to 98.1 in the January preliminary reading, as the expectations component fell 0.6 points but still outweighed the 0.6 point rise in current conditions.

- **Import prices** increased 0.4 percent in December, driven by a large jump in petroleum prices. Excluding oil prices, import prices slipped 0.2 percent. **The Producer Price Index (PPI)** for final demand of goods and services increased 0.3 percent in December. Excluding food and energy, core prices also rose 0.2 percent. (The Bureau of Labor Statistics produces both reports.)

- **The Job Openings and Labor Turnover Survey (JOLTS)** showed that job openings increased 1.3 percent in November to 5.52 million, according to the Bureau of Labor Statistics. As a share of total employment, the job openings rate ticked up one-tenth of a point to 3.7 percent. The hires rate was unchanged at 3.6 percent. The layoffs and quits rates were both flat at 1.1 percent and 2.1 percent, respectively.

- **Initial claims for unemployment insurance** increased by 10,000 to 247,000 in the week ending January 7, according to the Department of Labor. The four-week moving average decreased by 1,750 to 256,500.
Housing: Construction Workers Have a Pep in Their Step

A quiet week of housing data brought construction employment and mortgage demand into focus. The November Job Openings and Labor Turnover Survey reported construction job openings dipped to the lowest level since last January. As a share of total employment, the job openings rate slipped to the lowest level since June. The hiring rate, on the other hand, improved for the second consecutive month. Construction workers are increasingly confident in their job prospects, as the quits rate jumped to the highest level since March, tying an expansion high. Shifting to the mortgage market, mortgage applications rebounded last week as mortgage rates have pulled back recently after rising sharply in the weeks immediately following the presidential election. Mortgage rates jumped a total of almost 80 basis points during the eight weeks post-election before falling 12 basis points last week and an additional eight basis points this week to 4.12 percent, according to the survey by Freddie Mac. Last week, purchase applications reached a six-month high after posting the largest weekly jump since the week following the election, when potential home buyers rushed to apply for a mortgage before mortgage rates rose further. Refinance applications also responded positively to the recent pullback in mortgage rates, rising for the second consecutive week after hitting an expansion low at end of December. In other mortgage market news, the Federal Housing Administration reduced mortgage insurance premiums on loans it insures by a quarter of a percentage point on Monday, in an effort to partially offset the rise in mortgage rates. However, the influence of the insurance premium reduction on mortgage applications will not be visible in the data until for a couple of weeks.

- **The Job Openings and Labor Turnover Survey (JOLTS)** showed construction job openings fell 4.7 percent in November to 184,000, marking the third drop in the past four months, according to the Bureau of Labor Statistics. As a share of total employment, the construction job openings rate fell one-tenth of a point to 2.7 percent, a five-month low. The hires rate, on the other hand, rose one-tenth to 5.0 percent. The quits rate jumped half a percentage point to 2.4 percent.

- **Mortgage applications** rose 5.8 percent for the week ending January 6, according to the Mortgage Bankers Association. Purchase applications increased 6.1 percent, ending two weeks of decline. Conventional purchase applications rebounded from declines the previous two weeks, while government purchase applications rose for the fourth consecutive week. Refinance applications rose for the second consecutive week, improving 4.4 percent. Conventional refinance applications posted a second modest gain after a sharp drop three weeks ago, while government refinance applications lifted off of the lowest level since year-end 2014, reached the previous week. The average 30-year fixed mortgage rate declined seven basis points following the six basis point drop the prior week, reaching 4.32 percent.

![Construction Job Openings Rate Falls as Hires and Quits Rates Rise](image1)

Source: Bureau of Labor Statistics

![Purchase Applications Jump to a Six-Month High, as Refinance Applications Improve](image2)

Source: Mortgage Bankers Association

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January 13, 2017

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