Economics: Retail Sales Disappoint, But Optimism Reigns

A busy week of economic data featured updates on retail sales, inflation, small business confidence, and industrial production. Retail sales disappointed in February, falling for the third consecutive month and marking the longest stretch of monthly declines since the beginning of 2015. Core retail sales, which exclude auto, gasoline, and building material sales and are an input for the consumer goods spending component of gross domestic product, edged up just 0.1 percent. The delays in tax refunds or in employers’ adjustment of tax withholdings from the Tax Act may have contributed to lackluster sales. The February Consumer Price Index (CPI) helped cool recent inflation fears, as the monthly gains in the headline and core (excluding food and energy) indices slowed from January’s large increases. On an annual basis, the headline CPI ticked up slightly, while the core CPI was unchanged for the third consecutive month. The National Federation of Independent Business reported that small business confidence improved in February to reach the highest level since 1983, as the net share of firms expecting the economy to improve picked up while the net share indicating that it is a good time to expand remained at a record high. Consumers were more upbeat, too, as consumer sentiment in early March reached its highest level since 2004. The current conditions component spiked to an all-time high, though the expectations component fell slightly. February industrial production posted its largest monthly gain since October to reach a record high. Manufacturing output hit the highest level of the expansion and mining output spiked to its highest level in over three years thanks to oil and gas extraction. Utilities output dragged on overall production as warmer-than-normal February temperatures reduced the demand for heating. Job openings jumped in January the most since July 2015, over three years thanks to oil and gas extraction. Utilities output dragged on overall production as warmer-than-normal February temperatures reduced the demand for heating. Job openings jumped in January the most since July 2015, reaching an all-time high, according to the Job Openings and Labor Turnover Survey. As a share of total employment, the job openings rate rose to tie an expansion high.

- **Retail sales** fell 0.1 percent in February while core retail sales rose 0.1 percent, according to the Census Bureau. Sales fell most at gas stations and motor vehicle dealers.
- The **Consumer Price Index** increased 0.2 percent in February and 2.2 percent from a year ago. Core prices rose 0.2 percent from January and 1.8 percent from February 2017. **Import prices** increased 0.4 percent in February and rose 3.5 percent annually, driven by rising nonpetroleum prices. The **Producer Price Index (PPI)** for final demand of goods and services rose 0.2 percent in February. Annually, gains in the headline and core PPI indexes accelerated to 2.8 and 2.5 percent, respectively. The Bureau of Labor Statistics produces each of these reports.
- The **National Federation of Independent Business (NFIB) Small Business Optimism Index** rose 0.7 points to 107.6 in February. The share of firms planning to hire or raise compensation fell to 18 and 22 percent, respectively.
- The **University of Michigan Consumer Sentiment Index** rose 2.3 points to 102.0 in the March preliminary reading. Short-term inflation expectations edged up as long-term inflation expectations were unchanged.
- **Industrial production**, a gauge of output in the manufacturing, utility, and mining sectors, rose 1.1 percent in February, according to the Federal Reserve Board. Manufacturing and mining outputs gained 1.2 and 4.3 percent, respectively, while utility output fell 4.7 percent. The capacity utilization rate rose seven-tenths to 78.1 percent.
- The **Job Openings and Labor Turnover Survey (JOLTS)** showed that job openings increased 645,000 to 6.3 million in January, according to the Bureau of Labor Statistics. The job openings rate rose four-tenths to 4.1 percent. The hires, quits, and layoffs rates were little changed at 3.8 percent, 2.2 percent, and 1.2 percent, respectively.
Housing: A Muddled Picture for Home Building

It was a mixed week of news for home building. Total housing starts fell in February after climbing to the second highest level of the expansion in January. Multifamily starts were the culprit, as they posted the largest monthly drop since November 2016, reversing the prior month’s gain. Single-family starts, on the other hand, rose modestly, marking the fourth rise over five months to reach the second highest level of the expansion. The near-term outlook for both sectors worsened in February. Multifamily permits dropped from a 15-month high in January, and single-family permits edged down again. Homebuilders’ confidence continued to decline in March, although remaining at a healthy level, as the National Association of Home Builders Housing Market Index dropped for the third straight month after reaching an 18-year high in December. Home builders’ outlook for sales over the next six months fell from the prior month’s 12-year high, while foot traffic of prospective buyers slowed for the second time this year. The run up in mortgage rates since the start of 2018 may have discouraged potential home buyers. The average 30-year fixed mortgage rate finally declined this week for the first time this year, edging down 2 basis points to 4.44 percent following a cumulative increase of 51 basis points to reach a four-year high last week, according to Freddie Mac. The JOLTS report provided good news for the construction labor market in January, as the construction job openings rate jumped to just below the expansion high and the hires rate improved from an eighteen-month low in December. Construction workers are increasingly confident in their job prospects, as the quits rate rose to tie an expansion high. Finally, mortgage demand improved last week for the third consecutive week, as the increase in purchase applications outweighed the decline in refinance applications. The share of loan applications that are refinance loans dipped to 40 percent, the lowest level of the expansion.

- **Housing starts** fell 7.0 percent to 1.24 million annualized units in February, according to the Census Bureau. Multifamily starts fell 26.1 percent to 334,000 units, while single-family starts improved 2.9 percent to 902,000 units. New residential permits fell 5.7 percent to 1.30 million annualized units. Multifamily permits dropped 14.8 percent to 426,000 and single-family permits slipped 0.6 percent to 872,000.

- **The National Association of Home Builders/Wells Fargo Housing Market Index** fell 1 point in March to 70. The present sales component was unchanged at 77. The sales expectations in the next six months component dropped 2 points to 78, and the foot traffic of prospective buyers component declined 3 points to 51, a four-month low.

- **The Job Openings and Labor Turnover Survey (JOLTS)** showed that construction job openings jumped 67.8 percent to 250,000 in January, according to the Bureau of Labor Statistics. The construction job openings rate rose 1.3 percentage points to 3.4 percent. The hires rate increased three-tenths to 4.8 percent. The quits rate improved two-tenths to 2.4 percent, while the layoffs rate rose three-tenths from January’s record low to 2.1 percent.

- **Mortgage applications** increased 0.9 percent for the week ending March 9, according to the Mortgage Bankers Association (MBA). Purchase applications rose 3.4 percent, while refinance applications fell 2.2 percent. The MBA survey’s average 30-year fixed mortgage rate rose 4 basis points to 4.69 percent, a four-year high.

![Single-Family Starts Improve Again as Multifamily Starts Drops Sharply](Source: Census Bureau)

![Finally, the 2018 Run Up in Mortgage Rates Takes a Breather](Source: Freddie Mac)

Frank Shaw and Rebecca Meeker
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