

## Economics: The Jobs Recovery Everyone's Been Waiting For

An up-and-down week of economic data was capped off by another upbeat employment report, showing the strongest three-month trend in job creation since 1997. The improved jobs picture appears to be pulling people back into the labor force, and the long-dormant employment-to-population ratio is showing some upward momentum. Jobless claims increased on the week, but reversed only a bit of the prior week's plunge. Not all news this week was upbeat. Despite the strongest quarter of consumer spending growth in Q4 2014 since 2006, consumer spending lost a bit of momentum in December while unit auto sales continued to cool in January. Meanwhile, the nominal trade deficit in December was the largest in two years as the increase value of the dollar (boosted further after Friday's jobs report) weighed on exports and supported imports. Markets reacted swiftly to the jobs report, with the S&P 500 up 3.7 percent from last Friday amid a sharp sell-off in Treasuries. The 10-year yield jumped to 1.93 percent at the time of this writing from a 1.68 percent close last Friday.

- **Nonfarm payroll employment** rose 257,000 in January, according to the Bureau of Labor Statistics. Annual benchmark revisions increased the estimate of 2014 job growth to 3.2 million, largely from pushing November and December job growth up a combined 147,000. The average job gain over the past three months was 336,000, up from 228,000 in the prior three-month span. Average hourly earnings jumped 0.5 percent in January and were up 2.2 percent over the past 12 months. In the separate survey of households, the unemployment rate increased one-tenth to 5.7 percent as updates to the BLS population estimates pushed up the number of people in the labor force, amid a pickup in household employment.
- **Personal income**, adjusted for inflation, increased 0.5 percent in December for a second consecutive month, according to the Bureau of Economic Analysis. Over the past 12 months, income is up 3.8 percent—a two-year high. Real personal consumption expenditures (PCE) edged down 0.1 percent in December—the first monthly decline since April. The personal saving rate jumped to 4.9 percent. The PCE chain price index declined by 0.2 percent during December for a second straight month, and closed 2014 up just 0.7 percent over the past year—the lowest inflation rate since October 2009 and well below the Fed's 2.0 percent target. Excluding food and energy, core PCE inflation was up 1.3 percent on the year.
- **The Institute for Supply Management (ISM) Manufacturing Index** sank 1.6 points to a one-year low in January of 53.5 (any reading above 50 indicates expansion in the sector). The new orders, production, and employment indices all declined. **The ISM Nonmanufacturing Index** edged up 0.2 points to 56.7 in January. Business activity, new orders, and supplier deliveries all improved, while the employment index declined for a third consecutive month to 51.6.
- **Light vehicle sales** declined 1.5 percent in January to 16.7 million annualized units, according to Autodata.
- **The U.S trade deficit** widened \$6.8 billion in December to \$46.6 billion, according to the Census Bureau. Exports declined for a second consecutive month, dropping 0.8 percent, while imports jumped 2.2 percent. The real goods deficit—an input to estimate GDP—widened \$6.0 billion to \$54.7 billion.
- **Initial claims for unemployment insurance** increased by 11,000 to 278,000 in the week ending January 31, according to the Department of Labor. The four-week moving average decreased/increased by 6,500 to 292,750.



Source: Bureau of Labor Statistics



Source: Census Bureau

## Housing: Policy Change Helps FHA Refinancing Gain Steam to Start the Year

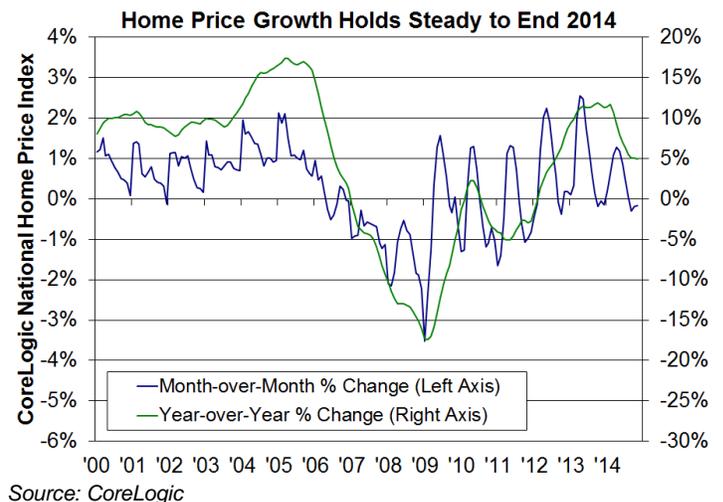
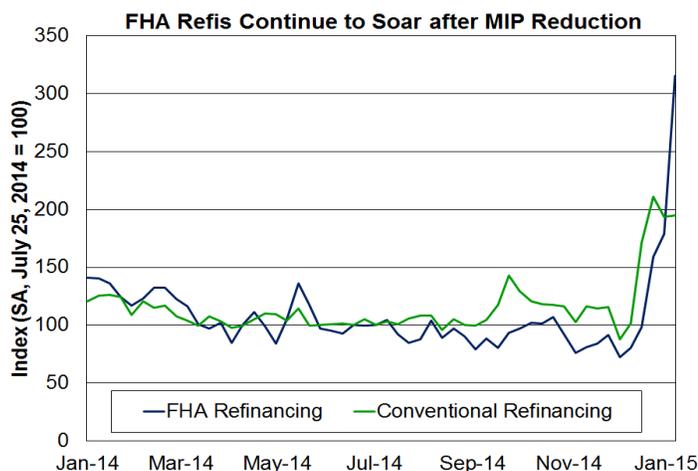
Housing data released this week were generally positive. Private residential construction spending increased for the fourth consecutive month, reversing a declining trend during the summer months. Annual home price gains in the CoreLogic house price index held up quite well, with the steady fall in year-over-year appreciation stalled during the last four months of 2014, ending the year at a solid 5.0 percent. The MBA released new data separating government agency mortgage applications into FHA, VA, and USDA loans, dated back to the second week of January 2014, giving insight into the trends of mortgage applications among the government agencies over the past year. The results showed that the cut in FHA's mortgage insurance premiums (MIP), which took effect on January 26, appeared to have boosted refinance mortgage demand for FHA at the expense of the conventional market. The refinance applications for FHA loans jumped 76.5 percent in the past week following a rise of 12.4 percent in the prior week. Conventional refinance applications, on the other hand, rose only 0.5 percent, after falling for the first time in 2015 during the previous week. The interest rate environment continues to support refinance demand, as Freddie Mac's 30-year fixed-rate mortgage yield fell seven basis points to 3.59 percent this week. Also supporting the housing and mortgage markets at the start of the year is continued modestly easing lending standards for residential mortgages reported in the latest Federal Reserve survey.

➤ **Private residential construction spending** ended the year with a fourth consecutive month of improvement, increasing 0.3 percent in December 2014, according to the Census Bureau. Spending on private new construction increased 1.0 percent, driven by a 1.2 percent increase in the single-family category and a 0.3 increase in multifamily spending. Spending on improvements declined 1.3 percent, dropping during each month of 2014, the first time that has happened since the data was published by the Census Bureau in 1993. Year-over-year single-family private construction spending was up 11.3 percent in December, compared to a 27.5 percent jump in multifamily.

➤ **The Federal Reserve Board Senior Loan Officer Opinion Survey** showed a loosening of lending standards for business and consumer loans in January amid strengthening demand. Specific to the mortgage market, a net share of 11.1 percent of banks indicated loosening standards for prime residential mortgages, ending the year with two consecutive quarters of net loosening. Demand for prime residential mortgages deteriorated in the fourth quarter, with a net share of 1.4 percent of respondents indicating falling demand, a sharp reverse from the third quarter when a dramatic 45.1 percent of firms indicated increasing demand.

➤ **The CoreLogic national home price index**, a repeat sales measure, ticked down 0.1 percent in December 2014 from November, thus ending the year with four consecutive months of price declines. Year-over-year, prices increased 5.0 percent in December, slightly up from the 4.9 percent year-over-year increase reported in November, but well below the recent peak of 11.9 percent recorded in October 2013.

➤ **Mortgage applications** increased 1.3 percent in the week ending January 30, according to the Mortgage Bankers Association (MBA), as the 2.5 percent increase in refinancing applications outweighed the 2.3 percent drop in applications for purchase mortgages. Refinancing application volumes increased in three out of the four weeks in January amid a contract mortgage rate for 30-year fixed mortgages, which declined from 4.01 percent at the start of 2015 to 3.79 percent at month-end.



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