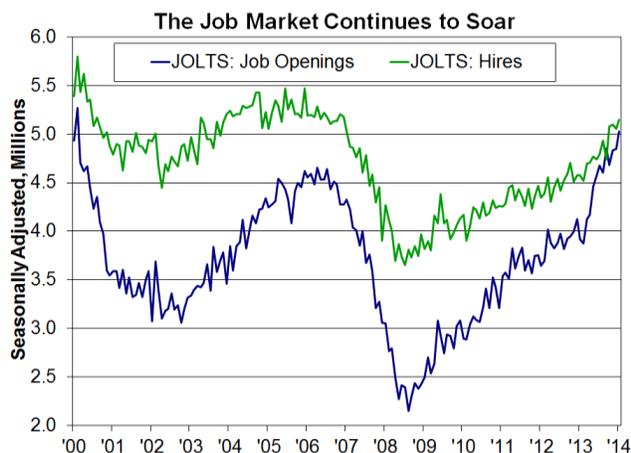


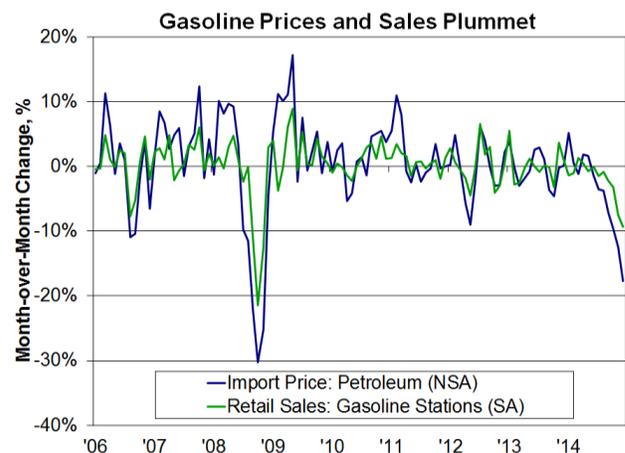
Economics: More Good Jobs News Offset by Disappointing Retail Sales

Economic data this week featured more good news for the labor market, but was dampened by disappointing retail sales. The most upbeat data came from the Job Openings and Labor Turnover Survey (JOLTS), which reported over 5 million job openings in December for only the second time on record—a feat unmatched since January 2001, the second month the survey was conducted. A survey of small business confidence, while showing a modest pullback in headline sentiment in January, also was upbeat on the labor market. The share of small businesses with positions they are unable to fill reached its highest level since 2007, suggesting reduced labor market slack—a precursor to wage growth. January retail sales, on the other hand, disappointed for the second consecutive month, dragged down by a dive in gasoline station sales. Gas sales fell for the eighth consecutive month and by the largest percent since the financial crisis, mirroring the fall in oil prices (also evident in plunging import prices). Sales excluding gasoline were flat in January, suggesting the soft trajectory of personal consumption expenditures reported in December may bleed into January. Furthermore, consumer sentiment cooled in early February from its multi-year high last month. Together, these consumer data provide a splash of cold water to recent upbeat data. However, we remain confident that the healthy pace of labor market improvement will support the consumer sector this year.

- **Retail sales** fell 0.8 percent in January according to the Census Bureau, due in large part to the 9.3 percent decline in gasoline station sales. Core retail sales, which exclude auto, building supplies, and gasoline station sales, increased 0.2 percent during the month of January, rebounding from a 0.1 percent pullback in December. Core sales have now risen in 11 of the past 12 months.
- **The National Federation of Independent Business (NFIB) Small Business Optimism Index** fell 2.5 points in January to 97.9, breaking a streak of three consecutive months of improvement to end 2014. Firms participating in the survey were split evenly on their expectations for the economy, reversing the more upbeat sentiment from the previous two months, where the net share of firms expecting the economy to improve was above 10 percent.
- **The Reuters/University of Michigan Consumer Sentiment Index** dropped 4.6 points to 93.6, but remains at pre-crisis levels. Both the current conditions and expectation components fell.
- **The JOLTS** showed a 3.7 percent increase in job openings in December to 5.03 million, according to the Bureau of Labor Statistics. Hiring rose 1.9 percent to 5.15 million, the highest level since November 2007. Quits also increased 2.1 percent to 2.72 million.
- **Import Prices** declined 2.8 percent in January, as petroleum prices fell 17.7 percent, according to the Bureau of Labor Statistics. The monthly declines in headline import prices and petroleum import prices were the largest reported since December 2008. Nonpetroleum prices also fell 0.7 percent, marking 10 consecutive months without an increase. Year over year, import prices fell 8.0 percent, the largest decline since the third quarter of 2009. Nonpetroleum import prices fell 1.2 percent on the year, the largest annual decline since Q4 2013.
- **Initial claims for unemployment insurance** increased by 25,000 to 304,000 in the week ending February 7, according to the Department of Labor. The four-week moving average decreased by 3,250 to 289,750.



Source: Bureau of Labor Statistics



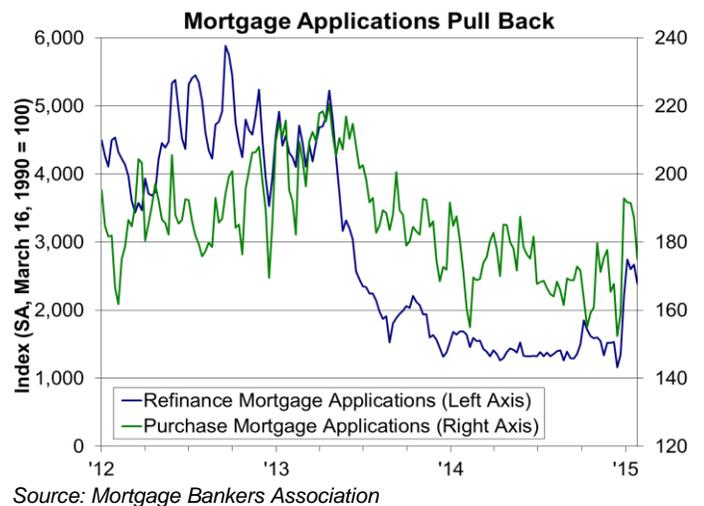
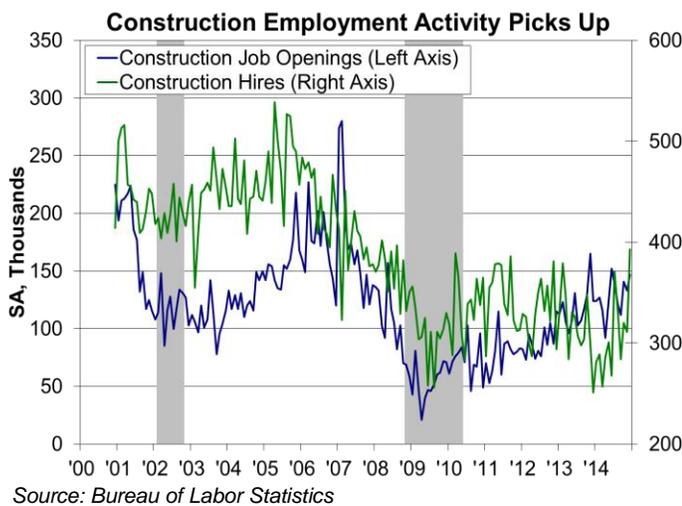
Source: Bureau of Labor Statistics, Census Bureau

Housing: Mortgage Demand Cools After White-Hot Start to 2015

Limited housing data released this week gave a snapshot of increased construction labor market churn in December 2014 and a pullback in mortgage demand last week from recent highs. Construction hiring and job opening activity rebounded in the second half of 2014, finishing the year on an upbeat note following a slowdown earlier in the year. The recent trends are encouraging, particularly the increase in construction quits, which signals increased worker confidence and tighter labor market conditions. These data are corroborated by a general strengthening in construction employment witnessed in recent months, underscored by the January jobs report showing the strongest three-month construction employment growth since last March. The pullback in mortgage applications last week was substantial, but only the second dip reported in the first six weeks of 2015, a period highlighted by a sharp pickup in mortgage demand. Refinance applications, despite the decline last week, held near the highs witnessed since July 2013 (and significantly higher than any point last year). However, continued moderation should be expected in the near term as the 30-year fixed-rate mortgage yield rose 10 basis points this week to a still historically low 3.69 percent, according to Freddie Mac. Weakening purchase demand was more concerning, with the level of purchase applications falling back down to levels witnessed in early December, suggesting that much of the fluctuation—including a sharp decline at the end of the year followed by a surge to start 2015—may be due to the difficulty in capturing seasonal adjustment factors during the holiday seasons.

➤ **Construction job openings** increased 10.5 percent in December to 147,000, according to the Bureau of Labor Statistics. For all of 2014, construction job openings averaged 147,000, up nearly 19 percent from 2013. Construction hires surged 26.4 percent to a six-year best of 393,000. Quits also reached a six-year high during the month, rising 75.3 percent to 156,000.

➤ **Mortgage applications** pulled back last week, falling 9.0 percent in the week ending February 6, according to the Mortgage Bankers Association. Purchase mortgage applications dropped for a fourth consecutive week, declining 6.5 percent last week, while refinance applications dipped 10.3 percent, though remained elevated relative to last year. The contract interest rate for 30-year fixed mortgages ticked up five basis points to 3.84 on the week.



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