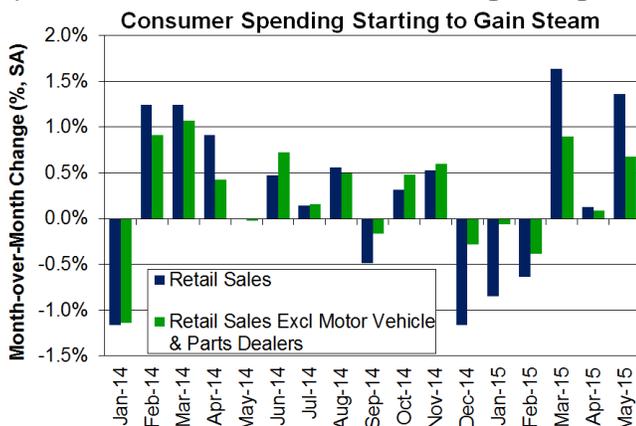


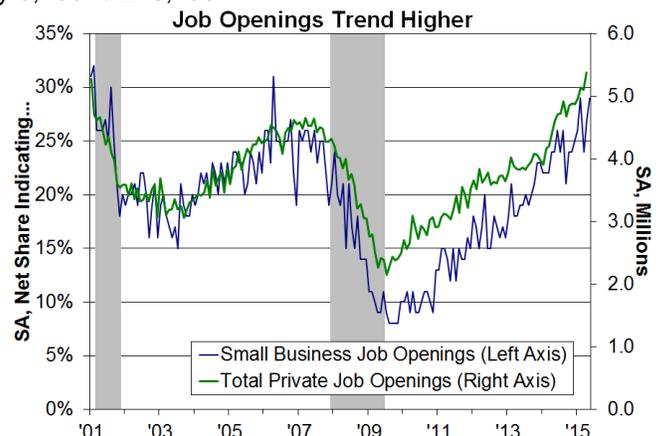
Economics: Consumers Starting to Spend Amid Improving Job Prospects

Economic data released this week featured a much-anticipated boost in retail sales, as well as further evidence of a strengthening labor market. After fears of continuing sluggishness in the second quarter, growth in May retail sales hint at improving personal consumption, the engine for economic growth. While last week's report of strong unit auto sales in May translated into high auto retail sales, gains in core retail sales improved as well. Further evidence of rising consumer confidence in the economy came from an increase in the Conference Board's consumer sentiment index. Both increased consumer spending and confidence bode well for a rebound in second quarter growth following a contraction during the first quarter. This week also featured additional evidence of a firming labor market, which will provide additional support to consumption. Total job openings reached a record high in April since the inception of the series in December 2000, while the share of small businesses with open positions tied its expansion best. In addition, initial jobless claims have held under 300,000 for 14 consecutive weeks—the longest stretch in 15 years.

- **Retail sales** jumped 1.2 percent in May, while sales in the prior two months were revised upward, according to the Census Bureau. Increases in sales for auto dealers and gasoline stations led the improvement, rising 2.0 percent and 3.7 percent, respectively, but the growth was widespread, with only one major category—health and personal-care stores—posting a monthly decline. Core sales (excluding food services, autos, building supplies, and gasoline) increased for the third consecutive month, rising 0.7 percent in May.
- **The Job Opening and Labor Turnover Survey (JOLTS)** showed that job openings jumped 5.2 percent in April to 5.4 million, according to the Bureau of Labor Statistics. The job opening rate (openings as a share of total employment) rose to 3.7 percent, the highest since January 2001 and the second highest in the history of the series. The hiring rate fell 0.1 percentage points to 3.5 percent. The quits rate, an indicator of labor market confidence, ticked down from March to 1.9 percent in April, but remains near the expansion high of 2.0 percent.
- **The Reuters/University of Michigan Consumer Sentiment Index** rose 3.9 points to 94.6 in the June preliminary reading, as both the present conditions and expectations components improved.
- **The National Federation of Independent Business (NFIB) Small Business Optimism Index** continued its second quarter rebound, climbing 1.4 points in May to 98.3 points, its highest level since December. Gains were broad-based among the subcomponents, with the net share of firms reporting higher earnings this quarter improving by the largest margin in over three years to a near decade-best. The share of firms with job openings improved for a second consecutive month—tying an expansion best at 29 percent.
- **Import prices** rose 1.3 percent in May, breaking a streak of 10 consecutive months of decline, according to the Bureau of Labor Statistics. Petroleum prices drove the increase, jumping 12.7 percent, while non-petroleum prices were flat during the month and have not risen in 14 months. From a year ago, import prices are down 9.6 percent. **The Producer Price Index (PPI)** for final demand of goods and services rose 0.5 percent in May but fell 1.1 percent from a year ago, according to the Bureau of Labor Statistics. Core prices (excluding food and energy items) rose 0.2 percent from April, and 0.5 percent from a year ago.
- **Initial claims for unemployment insurance** increased by 2,000 to 279,000 in the week ending June 6, according to the Department of Labor. The four-week moving average increased by 3,750 to 278,750.



Source: Census Bureau

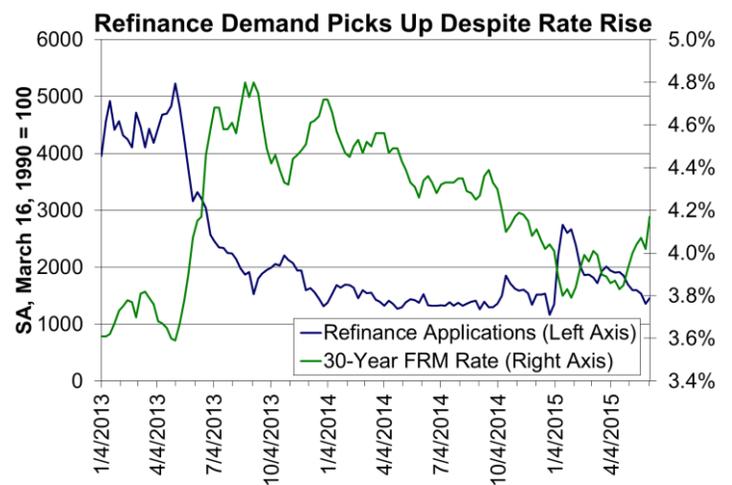
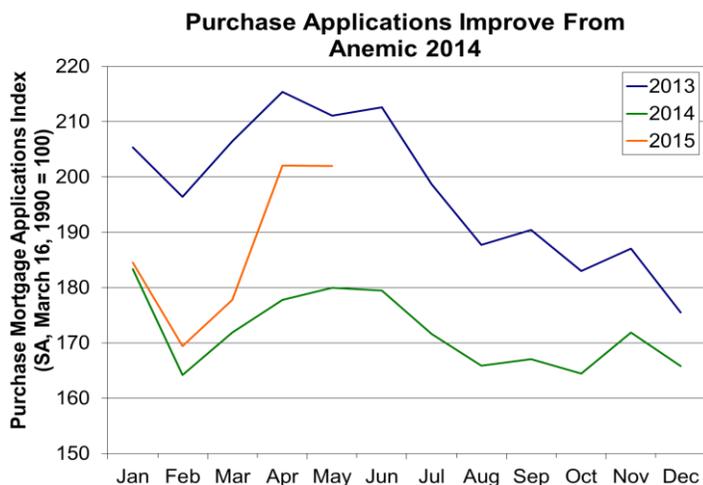
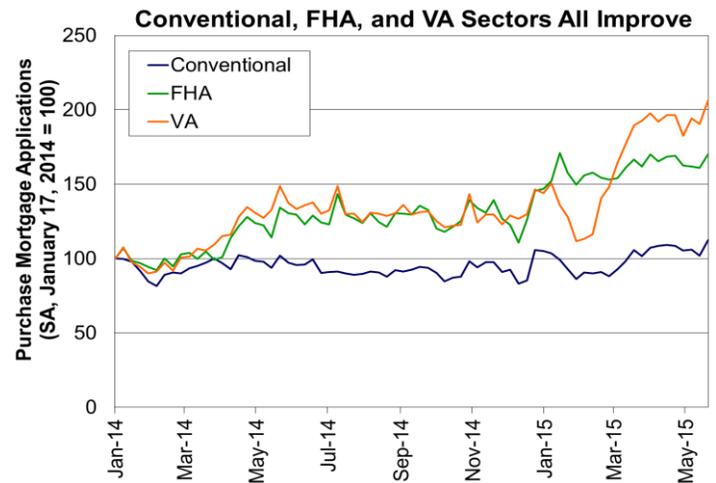
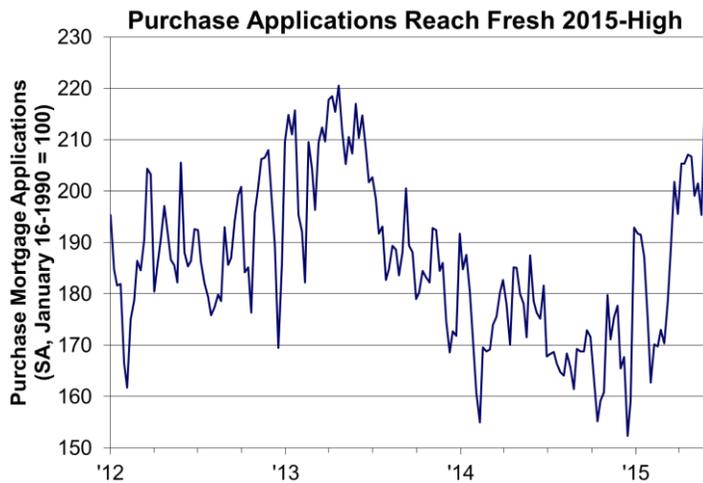


Source: Bureau of Labor Statistics, NFIB

Housing: Refis Buck Rates; Purchase Demand Pushes Higher

In a light week of housing data typical of the second week of the month, data on mortgage applications were mildly surprising. Despite the largest one-week spike in 30-year fixed mortgage rates since the 2013 “Taper Tantrum” leaving rates at their highest level since November, mortgage refinance demand improved last week from a 2015 low. Even with the increase, refinance applications still sit at the second-lowest reading so far this year. According to Freddie Mac, the 30-year fixed mortgage rate increased 17 basis points this week to an eight-month high of 4.04 percent, suggesting the rebound in refi applications seen last week is unlikely to be sustained. Purchase mortgage demand also jumped last week to the highest level since June 2013 after falling a cumulative 5.6 percent during the month of May from previous 2015 highs reached in April. These results, along with a previously reported increase in pending home sales in April, support our view that the April decline in existing home sales was temporary and a rebound is in the cards. Increased interest rate volatility associated with strengthening economic data (particularly on the labor market) and expectations for Fed tightening this year, if severe enough, has the potential to derail improvement in home sales later this year similar to what happened during the second half of 2013. However, consumer and housing fundamentals are on a stronger footing than they were two years ago, which should help the sector weather moderate swings in mortgage rates over coming months.

➤ **Mortgage applications** increased 8.4 percent in the week ending June 5, according to the Mortgage Bankers Association. Purchase applications increased 9.7 percent on the week, supported by both conventional (+10.5 percent) and government (+7.9 percent) sectors. The former reached their highest level since June 2013. Refinance applications rose 7.0 percent—the first substantial increase since March—even as the survey’s 30-year fixed mortgage rate increased 15 basis points to 4.17 percent during the week.



Source: Mortgage Bankers Association



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