



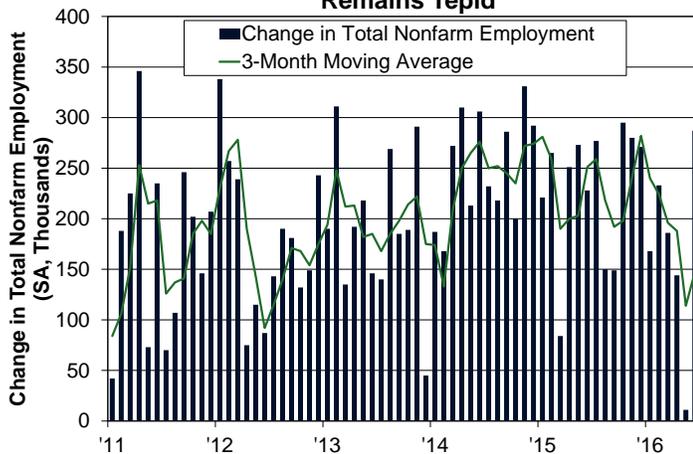
Weekly Note – July 8, 2016

Economics: Jobs Report Comes to Our Emotional Rescue

Following two weeks of global uncertainty caused by the U.K.'s vote to leave the European Union (EU), today's June employment report should allay fears of an imminent recession in the U.S. The outsized headline number reflected workers returning from the Verizon strike, strong hiring by state and local governments (which are where the vast majority of government workers are employed), and significant contributions by hospitality and leisure as well as healthcare. Not all was rosy. Construction employment remained flat after two consecutive monthly declines, adding downside risks to badly needed homebuilding activity. A surge in the number of people joining the labor force, which expanded for the first time in three months, led to a rise in the unemployment rate. Other details in the report were uninspiring. The workweek was flat for the fourth consecutive month, and annual nominal wage growth improved, but remained well below its historical average. May's weak payroll gain was revised down to an anemic 11,000. The three-month hiring trend improved but remained tepid as the poor May jobs number counteracted the strong June number. Also this week, the Federal Reserve released [minutes](#) from the June Federal Open Market Committee meeting. Members agreed that "it was prudent to wait for additional data" on both the labor market and the fallout from the U.K. referendum before deciding the next monetary policy move. The other economic data released this week were muddled. The U.S. trade deficit widened in May for a second consecutive month as imports rose and exports fell for the second time in three months. A drop in May factory orders suggests weakness in the manufacturing sector will linger, providing a counter to the more optimistic picture offered by last week's June ISM manufacturing survey. The service sector, on the other hand, bounced back as this week's June ISM nonmanufacturing survey indicates the fastest expansion in the sector since February 2008.

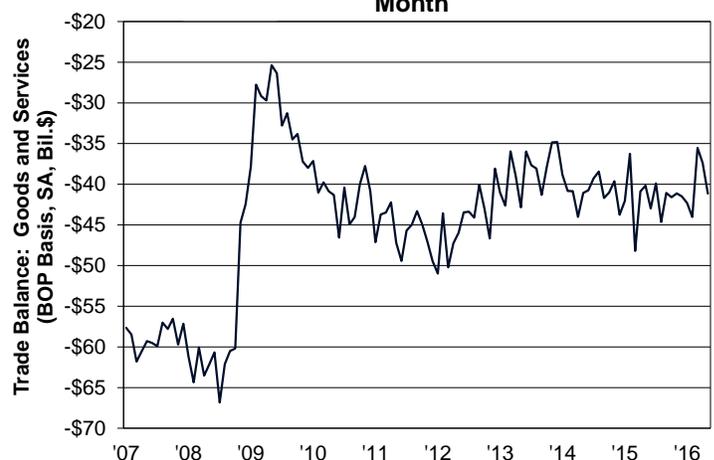
- **Nonfarm payroll employment** expanded by a robust 287,000 in June, according to the Bureau of Labor Statistics. The three-month average change rose to 147,000 from last month's near four-year low. The unemployment rate rose two-tenths to 4.9 percent as the labor force participation rate ticked up one-tenth to 62.7 percent, ending a two-month decline. Average hourly earnings rose 0.1 percent from May and 2.6 percent from one year ago. The average work week remained at 34.4 hours. The broadest measure of the unemployment rate (U-6) edged down one-tenth to 9.6 percent, marking a new expansion low.
- **The U.S. trade deficit** widened by \$3.8 billion to \$41.1 billion in May, according to the Census Bureau. Imports drove the change, rising 1.6 percent, as exports edged down 0.2 percent. The inflation-adjusted goods deficit, used in the calculation of net exports in the GDP estimate, widened \$3.6 billion to \$61.1 billion.
- **Factory orders** slipped 1.0 percent in May after rising the prior two months, according to the Census Bureau. Nondurable goods, the new piece of data in the report, rose 0.3 percent to mark the third consecutive rise. Core capital goods orders (nondefense orders excluding aircraft) was revised upward to a 0.4 percent drop and core shipments was revised down to a 0.5 percent fall.
- **The Institute for Supply Management (ISM) Nonmanufacturing Index**, a gauge of service sector activity, increased 3.6 points to 56.5 in June, marking the highest reading since November 2015 (any reading above 50 indicates expansion). All four of the main components (business activity, new orders, employment, and supplier deliveries) rose during the month.

Job Creation Jumps in June, but Hiring Trend Remains Tepid



Source: Bureau of Labor Statistics

Trade Deficit Widens for a Second Consecutive Month



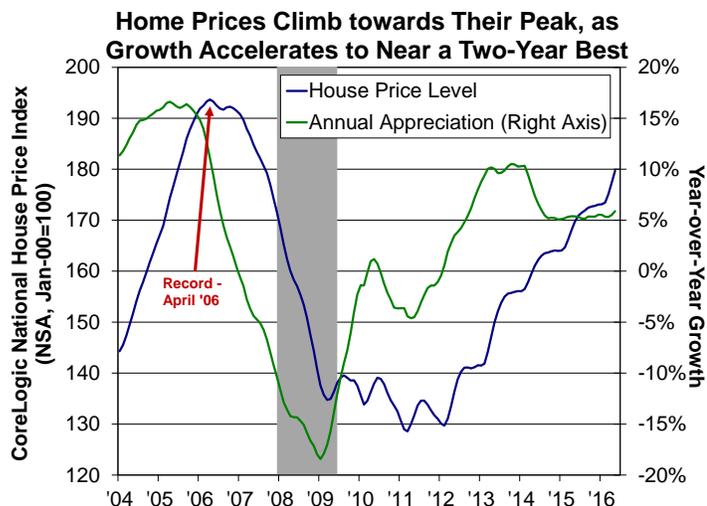
Source: Census Bureau



Housing: Mortgage Market Receives a Brexit Boost

This week's reports revealed the first mortgage market impacts of Brexit. As investors searched for safety in the face of the increased global uncertainty, mortgage rates have fallen and mortgage demand has spiked. According to Freddie Mac's survey, the average 30-year fixed mortgage rate fell eight basis points last week and seven basis points this week to 3.41 percent, a more than two-year low. In the week immediately following the U.K. referendum, mortgage demand jumped, as refinance applications soared to the highest level in almost a year and a half, and purchase applications rose for the first time in a month. The spike in refinance demand led to the largest year-over-year increase in applications in four years. The immediate drop in mortgage rates and corresponding rise in mortgage demand was to be expected in the aftermath of such a surprise for financial markets. The long-term effects, on the other hand, will slowly come to light over the two-year negotiation period between the U.K. and the EU before the actual exit in 2019. In other news this week, the May CoreLogic National Home Price Index posted the fastest annual appreciation since July 2014. Home price growth was widespread, with only three states seeing price declines from one year ago. The struggle of the energy sector has started to leak into regional house prices. Midland, Texas, which has the highest concentration of oil employment of all metropolitan areas in the U.S., saw house prices decline year-over-year in May.

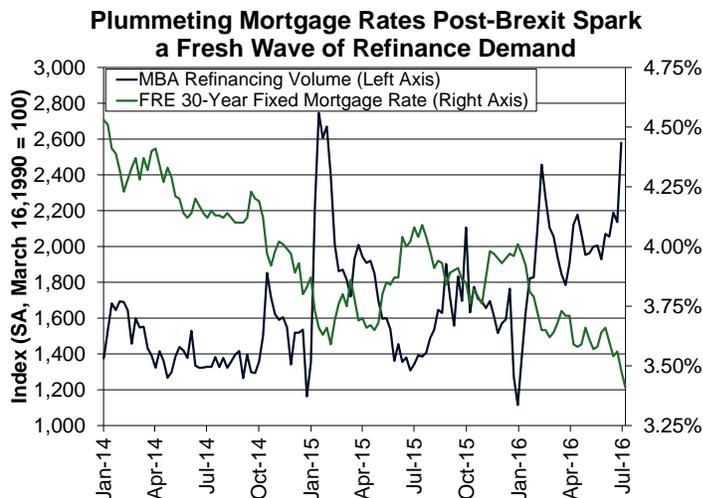
- **The CoreLogic National Home Price Index** (not seasonally adjusted), a repeat sales measure, increased 1.3 percent in May from the prior month. From one year ago, the index increased 5.9 percent. Although the index has increased on a year-over-year basis every month since February 2012, prices are still 7.2 percent below the April 2006 peak. Oregon and Washington saw the fastest annual appreciation among the 50 states and were the only states to post double-digit growth. Connecticut, New Jersey, and Pennsylvania were the only states to see year-over-year declines.
- **Mortgage applications** jumped 14.2 percent for the week ending July 1, marking the largest weekly increase since the beginning of the year, according to the Mortgage Bankers Association. Refinance applications drove the gain, rising 20.8 percent. From one year ago, conventional and government refinance applications rose 111.5 percent and 121.9 percent, respectively. Purchase applications increased 4.3 percent off of a four-week low. The average contract rate for a 30-year fixed-rate mortgage dropped for the fifth straight week, falling nine basis points to 3.66 percent, the lowest level since early May 2013.



Source: CoreLogic

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Source: Mortgage Bankers Association, Freddie Mac