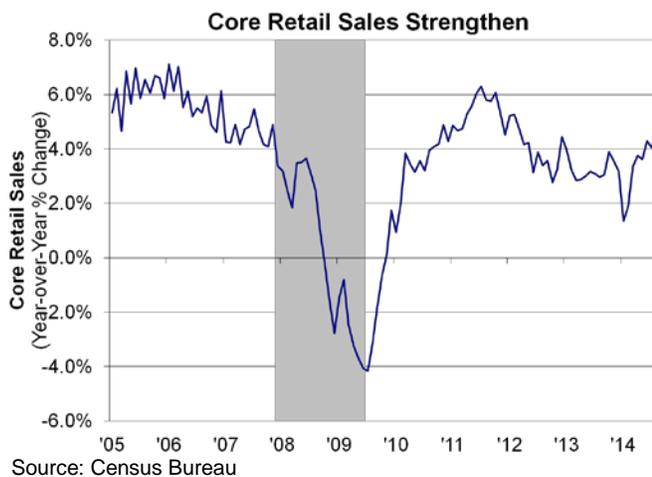


Economics: Consumers Bounce Back

A healthy serving of economic data releases this week gave reason for optimism in the consumer sector. Combined with last week's report of a surge in August auto sales, strength in August retail sales suggests the surprising decline in consumer spending in July likely reversed in August, while upward revisions to prior months' data in addition to detailed service spending data from the Q2 Quarterly Services Survey point to stronger Q2 consumer spending growth than the Bureau of Economic Analysis' second estimate of 2.5 percent annualized. Meanwhile, preliminary September consumer sentiment advanced to a 13-month best, while recent data on consumer credit point to growing willingness on the part of consumers to take on credit card debt, as year-over-year revolving credit growth reached 3.2 percent—the strongest since late 2008. Labor market data was mixed but tilted towards positive as job openings held steady at healthy levels in July amid stronger hiring, while jobless claims increased the first week of September. However, given the difficulty in seasonally adjusting the week following Labor Day, we will wait for forthcoming data before drawing any conclusions.

- **Retail sales** increased 0.6 percent in August—the fastest pace since April—boosted by a 1.5 percent gain in sales at motor vehicle and parts dealers. Excluding auto sales, retail sales increased 0.3 percent for the second consecutive month. Core retail sales (excluding auto, building supply and gasoline store sales), an input to estimate consumer spending, rose 0.4 percent in August and 4.6 percent over the past 12 months—a two-year best.
- **The University of Michigan/Reuters Consumer Sentiment Index** increased 2.1 points to 84.6 in the preliminary September reading as a sharp rebound in the consumer expectations component outweighed a small decline in the current conditions component.
- **The National Federation of Independent Business (NFIB) Small Business Optimism Index** increased 0.4 points in August to 96.1. Details showed a pickup in the share of firms with job openings to a recovery high, more firms expecting the economy to improve, and the largest share of firms planning capital expenditures in the next three to six months since December 2007. However, the share of firms planning on increasing employment declined three percentage points to 10 percent from a recovery best.
- **Consumer (nonmortgage) credit outstanding** increased at the fastest pace in three years, rising 9.7 percent annualized in July. Non-revolving credit outstanding (composed primarily of auto and student loans), which has acted as the primary driver of consumer credit growth in the current cycle, increased 10.6 percent annualized, while revolving credit outstanding (mostly credit card debt) jumped 7.4 percent annualized—the fifth consecutive month of growth.
- **The Job Openings and Labor Turnover Survey (JOLTS)** showed that the number of job openings held steady at a 13-year high of 4.67 million in July. Hires rose 1.7 percent to 4.87 million—the highest level since December 2007. Over the past 12 months, job openings and hires are up 22.5 percent and 7.7 percent, respectively.
- **Initial claims for unemployment insurance** increased 11,000 to 315,000 in the week ending September 6 according to the Department of Labor, the highest level reached since the end of June.
- **Import prices** dipped for the second straight month in August, falling 0.9 percent from July and 0.4 percent from August 2013. Falling prices for petroleum imports drove the decline, though nonpetroleum prices also fell.

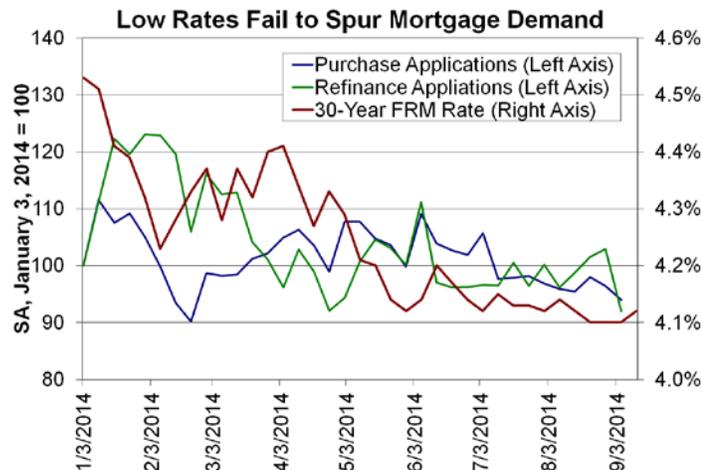


Housing: Housing Employment Alive and Well amid Continued Mortgage Morass

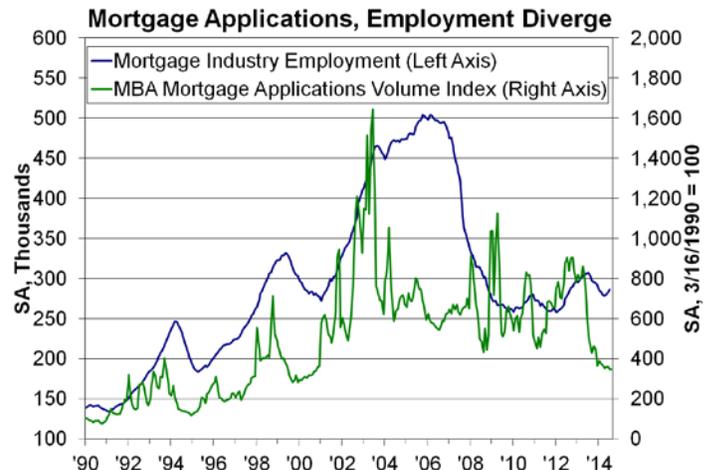
In a light week of housing data, the MBA weekly mortgage applications survey painted a dismal picture of mortgage activity in the first week of September, showing the lowest total mortgage applications since 2001. The four-week moving average of purchase mortgage applications, a gauge of the underlying trend amid noisy weekly data, fell for the 10th consecutive week, while applications for mortgage refinance plunged to the lowest level since late 2008. Though we are hesitant to overreact to this week's data given the difficulty in seasonally adjusting a short week following an early Labor Day holiday, the persistent weakness in refinance applications amid mortgage rates that have stabilized near their lows for the year shows the extent of refi-burnout among borrowers. We expect the transition to a purchase mortgage market, which started in the first quarter of this year, will strengthen through next year. Unfortunately, even as the cash share of home purchases has trended down from recent highs due in part to declining distressed sales, according to data from CoreLogic, organic mortgage demand has been remarkably tepid—underscoring our cautious view on the strength of the housing recovery for the rest of this year and into 2015. Surprisingly, mortgage industry employment (which includes real estate credit and mortgage and nonmortgage loan broker employees) has rebounded in recent months after declining steadily for much of the year in line with shrinking mortgage demand. Last week's August employment situation report showed a healthy gain in residential construction employment—the 27th consecutive monthly increase. The JOLTS report, which is released with a one-month lag of the employment report, corroborated a picture of healthy demand for workers in the construction industry, as construction hires surged in July to the highest level in more than a year. Though construction job openings edged lower during the month, they remained near recovery highs.

➤ **Mortgage applications** declined in the week ending September 5, dropping 7.2 percent according to the Mortgage Bankers Association (MBA). Purchase mortgage applications fell 2.6 percent—the second straight weekly drop and the fifth decline in six weeks—to the lowest level since February. Refinance applications declined for the first time in four weeks, plummeting 10.7 percent.

➤ **Construction job openings** from the JOLTS report declined 7.9 percent in July to 140,000 after a 21.6 percent jump in June. Construction hires rebounded from an 11.0 percent drop in June, jumping 36.6 percent in July to 366,000. Over the past twelve months, construction openings and hires are up 35.9 percent and 19.2 percent, respectively.



Source: Mortgage Bankers Association, Freddie Mac



Source: Bureau of Labor Statistics, Mortgage Bankers Association

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