

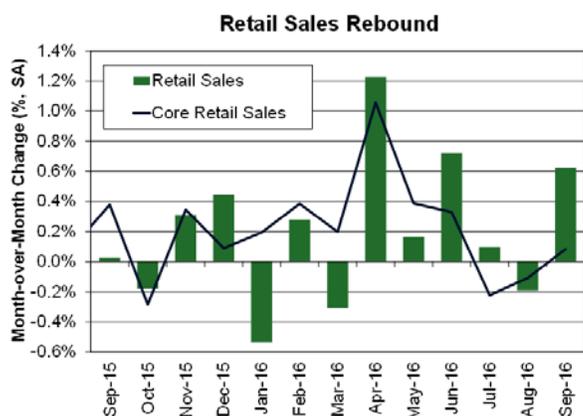


Weekly Note – October 14, 2016

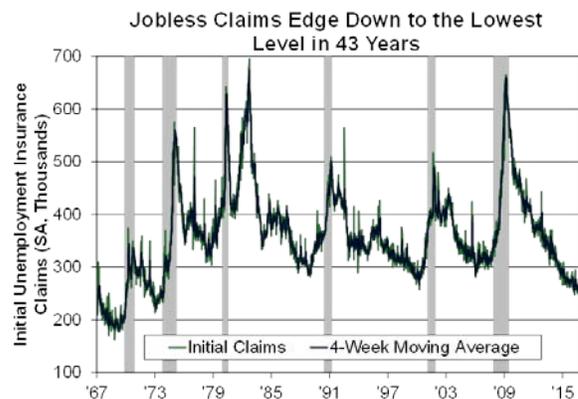
Economics: Fed Appears Ready to Hike by Year End, Again

This week's biggest news included another sign of a slowdown in consumer spending during the third quarter, and the release of the minutes to the September Federal Open Market Committee (FOMC) meeting. Headline retail sales increased in September, largely because of a rebound in auto sales. However, core retail sales, which are used to estimate consumer spending for goods, rose only slightly after falling for two consecutive months. We had expected real consumer spending growth to moderate in the third quarter to 3.0 percent annualized from the unsustainable pace of 4.3 percent in the second quarter; however, growth likely came in closer to 2.5 percent than 3.0 percent. Meanwhile, the minutes showed that Fed officials appeared ready to hike the target rate this year, as they have consistently communicated. Even among participants who voted not to hike last month, "several stated that the decision at this meeting was a close call." Support for a rate hike appears to be growing, with several voting members anticipating an increase "relatively soon." However, a lot of key data, including two jobs reports, will be released between now and the FOMC meeting on December 13-14. Importantly, Fed officials continued to have differing views on how much slack remains in the labor market. Other economic news this week was subdued, with the exception of initial jobless claims, which trended down to the lowest level in more than four decades. Small business sentiment fell in September for the second consecutive month, and consumer sentiment declined in early October to a 13-month low, driven entirely by bearish expectations, which deteriorated to the lowest level since September 2014.

- **Retail sales** rose 0.6 percent in September, according to the Census Bureau. A rebound in motor vehicle sales helped boost the headline gain. Sales at building supply stores, sporting goods and hobby stores, and furniture stores increased, outweighing declining sales at electronics and appliance, drug, and general merchandise stores. Core sales, which excludes auto, building supply, and gasoline station sales, ticked up 0.1 percent.
- **Import prices** edged up 0.1 percent in September, boosted by rising imported crude and fuel oil prices. Excluding fuel, import prices were flat. **The Producer Price Index (PPI)** for final demand of goods and services rose 0.3 percent in September, the first rise in three months. Excluding food and energy, core goods prices also increased 0.3 percent, an acceleration from August's 0.1 percent gain. (The Bureau of Labor Statistics produces both reports.)
- **The National Federation of Independent Business (NFIB) Small Business Index** dipped from 94.4 in August to 94.1 in September. The index remains above its year-to-date average of 93.8 but below the 96.1 monthly average in 2015.
- **The Job Openings and Labor Turnover Survey (JOLTS)** showed the number of job openings declined 6.7 percent to 5.44 million in August, according to the Bureau of Labor Statistics. The job openings rate fell 0.3 percentage points to 3.6 percent, the lowest rate since December 2015. The hires rate was unchanged at 3.6 percent. The layoffs and the quits rates were also flat at 1.1 percent and 2.1 percent, respectively.
- **The University of Michigan Consumer Sentiment Index** dropped 3.3 points to 87.9 in the October preliminary reading as a result of a large drop in consumer expectations. The current conditions component was up 1.3 points.
- **Initial claims for unemployment insurance** were flat at 246,000 in the week ending October 8, according to the Department of Labor. This marks the 84th consecutive week of initial claims remaining below 300,000, the longest streak since 1970. The four-week moving average fell by 3,500 to 249,250, the lowest level since November 1973. However, initial claims are likely to rise in coming weeks, reflecting hurricane-related delayed filing and new layoffs.



Source: Census Bureau



Source: Department of Labor

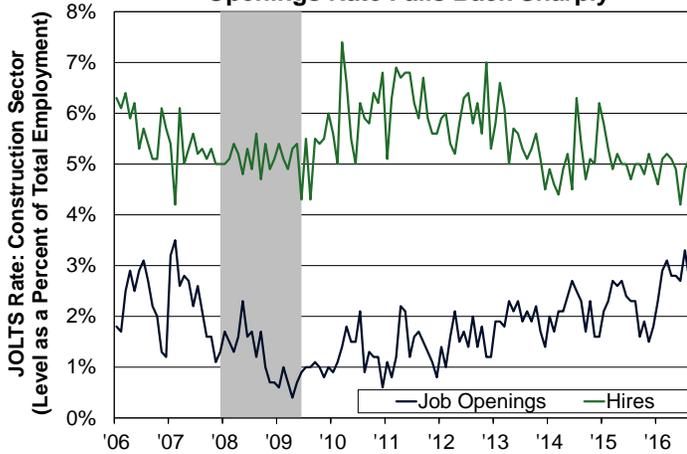
Housing: Rebuilding the Construction Labor Market

A quiet week of housing data showed an improving picture for the construction labor market and slowing mortgage demand. The JOLTS report, which is released with a one-month lag to the jobs report, showed that the construction jobs opening rate pulled back in August from an expansion high the prior month. More encouragingly, the hires rate improved for a second straight month after dipping to tie the all-time low in June. Also, construction workers appear more confident in their labor prospects, as the rate at which they quit jobs also rose for a second straight month in August to the highest level since March. The September jobs report released last week suggested the construction hires rate likely improved further, as the sector posted a strong monthly payroll gain, boosted by the largest increase in residential construction jobs since January. All of this suggests a coming improvement in housing supply for a highly constrained market. Mortgage demand, on the other hand, has lost some momentum in recent weeks as the Mortgage Bankers Association survey revealed that applications for both purchase and refinance mortgages fell last week for the third time in the past four weeks as mortgage rates rose for the first time in three weeks. Purchase applications are back to a six-week low, and refinancing applications are near a four-month low. The average 30-year fixed mortgage rate rose five basis points to 3.47 percent this week, according to the survey by Freddie Mac.

- **The Job Openings and Labor Turnover Survey (JOLTS) showed construction job openings** fell 18.2 percent in August to 184,000, according to the Bureau of Labor Statistics. As a share of total employment, the construction job openings rate fell six-tenths to 2.7 percent, fully reversing the jump in July. The hires rate, on the other hand, improved two-tenths to 5.1 percent. The quits rate increased two-tenths to 2.1 percent.
- **Mortgage applications** decreased 6.0 percent for the week ending October 7, according to the Mortgage Bankers Association. This was the third decline over the past four weeks, bringing overall mortgage demand to the lowest level since the last week of June. Purchase applications dropped 2.6 percent, driven by a 4.1 percent decrease in conventional applications, as government purchase applications increased 1.2 percent. Refinancing applications declined 8.0 percent due to a 9.8 percent drop in conventional applications. Refinance activity in the government segment continues to contrast starkly by agency. VA applications have dropped precipitously since the beginning of August, when they reached the highest level dating back to the inception of the series in October 2014. FHA refinance applications, on the other hand, have climbed steadily since mid-August. The average 30-year fixed mortgage rate rose six basis points to 3.68 percent.

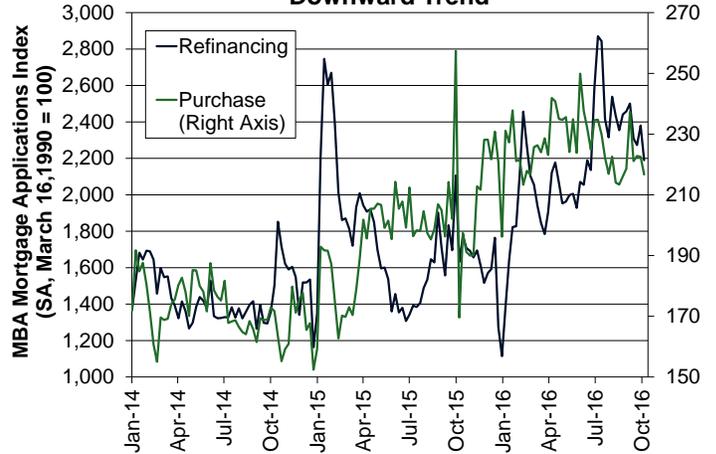


Construction Hires Rate Rises Again as Job Openings Rate Falls Back Sharply



Source: Bureau of Labor Statistics

Mortgage Demand Resumes the Recent Downward Trend



Source: Mortgage Bankers Association

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