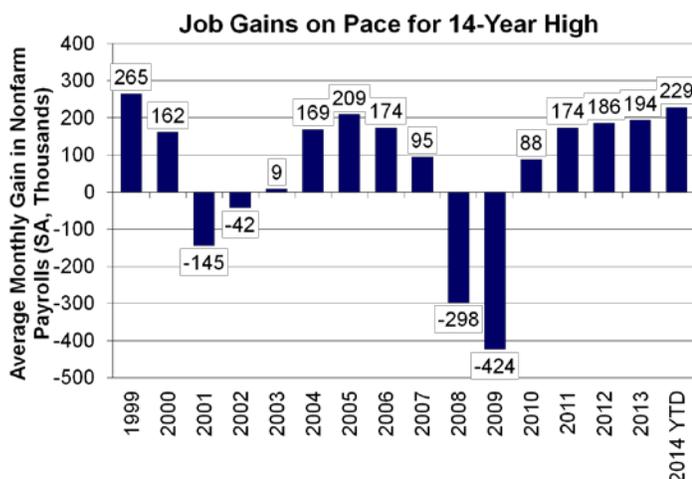


Economics: Labor Market Momentum Continues in October

The typical flurry of economic data in the first week of the month gave more evidence of labor market momentum in the final quarter of 2014. The October employment report showed the ninth consecutive month of job gains above 200,000 and an additional 0.1 percentage point decline in the unemployment rate to a more than six-year low. The steady downward trend in jobless claims and remarkable strength in purchasing manager employment indices also were supportive. While accelerating wage growth has yet to materialize, a longer work week points to a pickup in labor income nonetheless. The September trade report was less rosy, suggesting that net exports' contribution to Q3 2014 GDP of 1.3 percentage points assumed in the Bureau of Economic Analysis advance estimate likely will be revised lower to about one percentage point.

- **Nonfarm payroll employment** rose 214,000 in October while the prior two month totals were revised up a cumulative 31,000 jobs. The average monthly gain of 224,000 over the past three months—while below the 246,000 average in the prior three months—is indicative of continued momentum in the labor market, further evidenced by the longest average work week reported since May 2008 of 34.6 hours. Wages didn't respond, however, with average hourly earnings edging up just 0.1 percent in October and 2.0 percent for the year. The separate household survey showed a surge in the number of employed that outpaced a pickup in the labor force, pushing the unemployment rate down to 5.8 percent. The labor force participation rate inched off a 36-year low to 62.8 percent.
- **The Institute for Supply Management (ISM) Manufacturing Index** increased 2.4 points to 59 in October, reversing a decline of the same magnitude in the prior month (any reading above 50 indicates growth in the sector). Rebounding new orders and supplier deliveries supported the increase in the headline index, while the production index edged up to a 10-year best. The employment index rose 0.9 points to 55.5. **The ISM Nonmanufacturing Index** fell for a second consecutive month in October, dropping 1.5 points to 57.1. A pullback in the business activity, new orders, and supplier deliveries indices dragged the headline index lower, while the employment index rose for a sixth consecutive month to a nine-year high.
- **Light vehicle sales** edged up 0.2 percent to 16.5 million annualized units in October, according to Autodata. Despite the increase in October, the sales pace lagged well behind the 17.5 million reported for August, when an early Labor Day helped boost vehicle sales to the fastest pace since 2006.
- **Factory orders** declined 0.6 percent in September as flat nondurable goods orders failed to overcome the 1.1 percent decline in durable goods orders previously reported last week, according to the Census Bureau. The decline in nondefense capital goods orders excluding aircraft, a leading indicator of business fixed investment in equipment, was revised to 1.6 percent from the previously reported 1.7 percent.
- **The U.S. trade deficit** widened by \$3.0 billion to \$43.0 billion in September, the largest in four months, due to a decline in exports amid flat imports, according to the Census Bureau. The real goods deficit, used to estimate the trade sector in the estimation of GDP, also widened as a 1.8 percent drop in goods exports combined with a 0.2 percent rise in imports.
- **Initial claims for unemployment insurance** fell 10,000 to 278,000 in the week ending November 1, according to the Department of Labor. The four-week moving average fell to a 14-year low of 279,000.

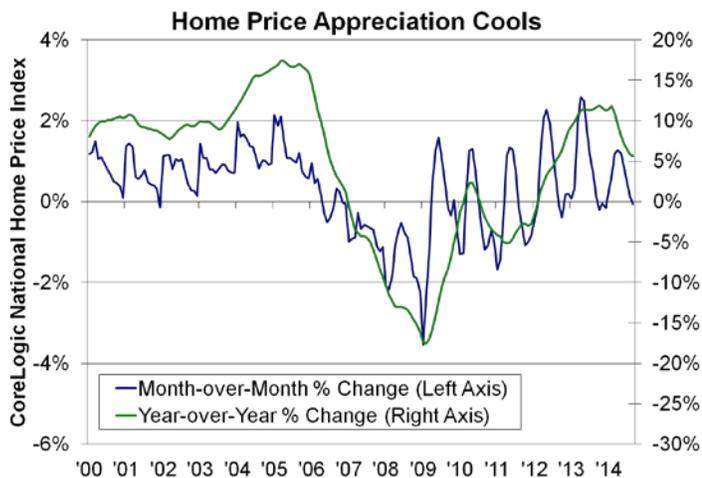


Source: Bureau of Labor Statistics

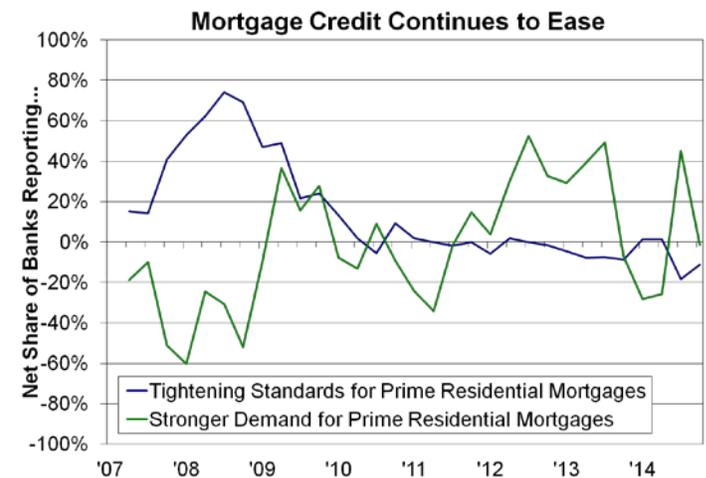
Housing: Refi Activity Loses Steam

Another week of so-so housing data fit our current view of the market with “sluggish” being the key buzz word. Though spending on private single-family residential construction increased in September amid a decline in multifamily spending, the sharp disparity in year-over-year growth aligns well with the ongoing trend of multifamily being the bright spot in housing—a trend also evidenced by unit housing starts data. The CoreLogic house price index fell for the first time since last December, underscoring the ongoing trend of moderating home price gains from last year’s robust pace. Despite the typical seasonal slowdown in housing activity as summer turns to fall, the non-seasonally adjusted CoreLogic index showed an increase in September 2013. On the mortgage front, while banks reported easing of prime residential mortgage lending standards, consumer demand was unable to build on the mid-year rebound from a dismal winter stretch. More timely data for mortgage applications show that even as rates have only gradually moved off a 16-month low, the recent resurgence in refinance demand is waning quickly, though demand still remains above mid-year levels. According to Freddie Mac, the 30-year fixed mortgage rate moved up three basis points to 4.02 percent this week.

- **Private residential construction spending** increased 0.4 percent in September 2014, breaking a streak of four consecutive monthly declines, according to the Census Bureau. Spending on private new residential construction increased 0.7 percent as a 1.1 percent gain in the single-family category outweighed a 1.0 percent decline in multifamily spending. Spending on improvements declined for the ninth consecutive month, but at the slowest pace during that span, falling 0.3 percent. Year-over-year, single-family private construction spending is up 9.8 percent, compared to a 25.7 percent jump in multifamily spending.
- **The CoreLogic national home price index**, a repeat sales measure, declined 0.1 percent on a non-seasonally adjusted basis in September following a 0.1 percent increase in August. Over the past 12 months, home prices are up 5.6 percent, down from the recent peak increase of 11.9 percent reached last October.
- **The Federal Reserve Board Senior Loan Officer Opinion Survey** for October showed continued loosening credit offered to businesses and consumers over the last three months. With respect to the mortgage market, a net share of 11.1 percent of banks indicated loosening of credit for prime residential mortgages—the second consecutive period of easing—while a net share of 1.4 percent reported weaker demand for such loans following a rebound in demand reported in the July survey.
- **Mortgage applications** declined 2.6 percent in the week ending October 31, according to the Mortgage Bankers Association (MBA), as the first increase in purchase mortgage applications in four weeks (a 2.6 percent gain) could not overcome a decline in refinance applications (a 5.5 percent drop). This marks the second drop in refinance demand following three weekly gains, corresponding to the second straight weekly increase in the contract interest rate for 30-year fixed-rate mortgages of 4 basis points to 4.17 percent.



Source: CoreLogic



Source: Federal Reserve Board Senior Loan Officer Opinion Survey

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