



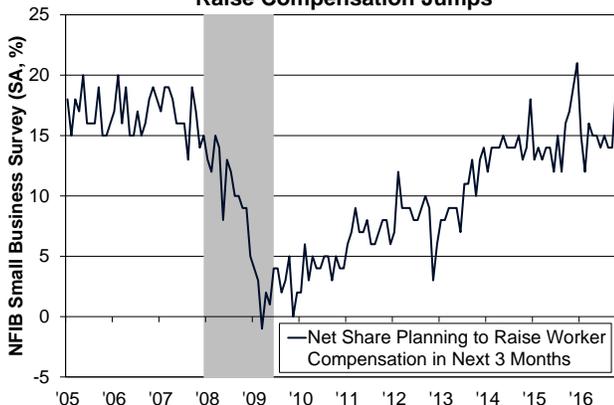
Weekly Note – November 10, 2016

Economics: A Step into the Unknown after Election

The result to the U.S. presidential election left financial markets uncertain about the future path of the economy and government policy. The strongest reaction came from the bond market, as U.S. Treasury yields rose across the curve, especially at the long end, resulting in a steepening yield curve. The yield on the 10-year Treasury climbed to 2.1 percent at the time of writing, the highest level since January. The rise in yields has been attributed to a jump in inflation expectations based on speculation that the new administration and Republican-led Congress will lead to a wave of government spending due to the candidate’s campaign promise to increase defense and infrastructure spending. The stock market appears to have taken the election result in stride. After reaching the lowest level since the Brexit vote in the week before the election, the Dow Jones Industrial Average has risen since, reaching a new intraday record high this morning. At this point, there is little visibility into the priorities of economic policy, and it will take some time to gauge the policy impact of the new government. The quiet week of economic data was relatively positive. Consumer credit continued to expand in September, though annual growth dipped to the slowest pace since February 2014. Annual growth in revolving credit (largely credit card debt) has outpaced growth in nonrevolving credit (mainly auto and student loan debt) for four consecutive months, a first for this expansion. Optimism among small businesses edged up to a new high for 2016, even though their economic outlook worsened after improving over the past couple of months. Notably on the wage growth front, plans to raise compensation jumped to the second highest level of the expansion, which was reached in December 2015. The rising net share of firms planning to raise wages likely stems from the continued difficulty to find qualified candidates, as almost half of small businesses report having few or no qualified candidates for open positions. The Job Openings and Labor Turnover Survey showed the job openings rate rose in September to just two-tenths below the expansion best reached in July, while the hires rate fell. Another piece of good news was the decline in the rate of layoffs to a record low.

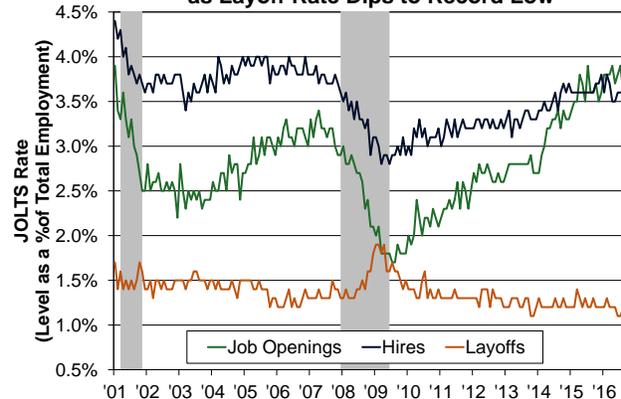
- **Consumer (non-mortgage) credit outstanding** expanded \$19.3 billion in September, according to the Federal Reserve Board. Nonrevolving credit grew \$15.1 billion, while revolving credit increased \$4.2 billion. Revolving credit has expanded month-over-month since January. From a year ago, nonrevolving credit improved 6.0 percent, compared to 6.1 percent for revolving credit.
- **The National Federation of Independent Business (NFIB) Small Business Optimism Index** rose 0.8 points to 94.9 in October. The net share of firms expecting the economy to improve dropped back from zero to negative seven percent. On the labor front, the share of firms planning to increase employment remained flat at 10 percent, just below its year-to-date average. The share of firms unable to fill open positions rose four percentage points to 28 percent. The share of firms with few or no qualified applicants has remained unchanged at 48 percent for three months.
- **The Job Openings and Labor Turnover Survey (JOLTS)** showed the number of job openings edged up 0.6 percent to 5.49 million in September, according to the Bureau of Labor Statistics. As a share of total employment, the job openings rate ticked up one-tenth to 3.7 percent, after reaching the lowest level of the year in August. The hires rate slipped one-tenth to 3.5 percent. The quits rate, a proxy for worker confidence in the labor market, was unchanged at 2.1 percent for the fourth consecutive month. The layoff and discharge rate dropped two-tenths to 1.0 percent.
- **Initial claims for unemployment insurance** increased by 7,000 to 265,000 in the week ending November 5, according to the Department of Labor. The four-week moving average increased by 4,750 to 257,750.

The Share of Small Businesses Planning to Raise Compensation Jumps



Source: National Federation of Independent Business

Job Openings Rate Climbs Above Hires Rate, as Layoff Rate Dips to Record Low



Source: Bureau of Labor Statistics

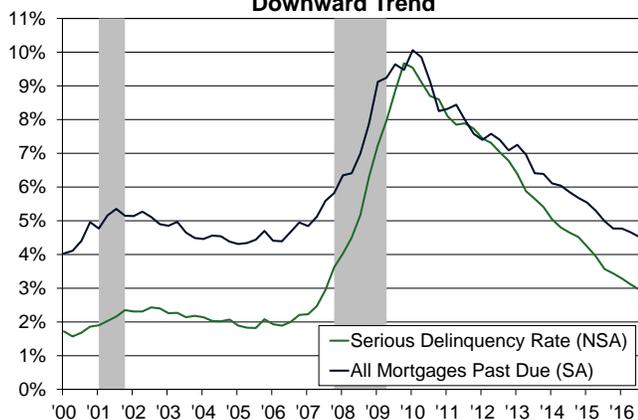


Housing: Mortgage Performance Shows Steady Progress

Housing data released this week reaffirm the long-term health of the housing market, while still showing signs of short-term challenges. Mortgage performance continued to improve in the third quarter, with delinquency rates and the foreclosures started rate falling further. For the overall U.S. housing market, the total delinquency rate dropped to a more than ten-year low, while the serious delinquency rate fell below three percent for the first time in nine years. The inventory of foreclosed homes in the U.S. housing market continues to move lower toward its historical average. The Senior Loan Officer Survey showed that mortgage demand rose in the three months ending in October for the third consecutive quarter, marking the longest streak of growing demand in three years. Meanwhile, lending standards eased for the eighth straight quarter. The JOLTS showed that the construction job openings rate rose in September to the second highest level of the expansion. However, the hires rate dropped to just four-tenths above an all-time low reached back in June. The Mortgage Bankers Association Survey showed mortgage applications continued their recent slide last week, driven entirely by declining refinance applications, which have fallen for five consecutive weeks amid a 12 basis point rise in mortgage rates. Purchase applications fared better, improving for the first time in three weeks after dipping to the lowest level since early January. Freddie Mac's survey showed that mortgage rates rose three basis points this week to 3.57 percent. However, the survey reflected pre-election market conditions.

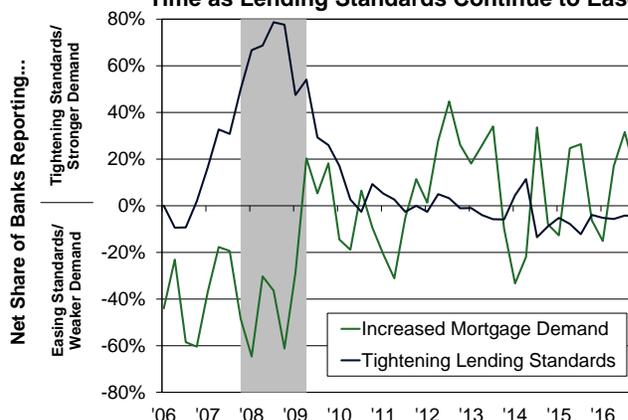
- **The Mortgage Bankers Association National Delinquency Survey** for Q3 2016 showed that the delinquency rate for mortgage loans on one-to-four unit residential properties decreased 14 basis points from the prior quarter to 4.52 percent, marking the lowest level since Q2 2006. The percentage of loans on which foreclosure actions were started edged down another two basis points to 0.30 percent, marking the lowest level in more than 16 years. The Survey showed that the serious delinquency rate—the percentage of loans that are 90 days or more past due or in the process of foreclosure—dropped 15 basis points to 2.96 percent, the lowest level since Q3 2007.
- **The Federal Reserve Board Senior Loan Officer Opinion Survey** showed continued easing of lending standards for residential mortgage loans in the three months ending in October. Banks reported easing of lending standards on GSE-eligible and jumbo loans. Lending standards for government and subprime loans were unchanged. Demand for mortgages increased, while demand for home equity lines of credit grew for the ninth consecutive quarter, as lending standards for that type of loan eased for four straight years.
- **The Jobs Openings and Labor Turnover Survey (JOLTS)** showed that **construction job openings** rose 15.1 percent in September to 221,000, according to the Bureau of Labor Statistics. As a percentage of total employment, the jobs openings rate improved four-tenths to 3.2 percent, nearly fully reversing the prior month's drop from an expansion best in July. In contrast, the hires rate declined five-tenths to 4.6 percent. The quits rate fell four-tenths to 1.7 percent, undoing the gains from the previous two months.
- **Mortgage applications** fell 1.2 percent for the second straight time in the week ending November 4, according to the Mortgage Bankers Association. Refinance applications drove the decline, decreasing 2.7 percent. Another rise in the average 30-year fixed mortgage rate contributed to the fall in refinance applications, increasing two basis points to 3.77 percent. Purchase applications, on the other hand, rose 1.4 percent.

Mortgage Delinquency Rates Continue Downward Trend



Source: Mortgage Bankers Association

Mortgage Demand Rises for a Third Straight Time as Lending Standards Continue to Ease



Source: Federal Reserve Board

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Economic and Strategic Research Group
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