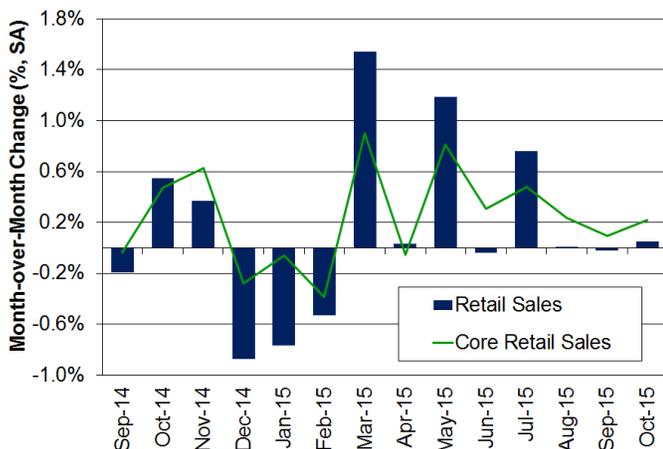


## Economics: Consumer Spending Should Remain a Solid Contributor to Growth

A busy week of economic data support our forecast of a modest slowdown in consumer spending growth in the current quarter to 2.9 percent annualized from the 3.2 percent pace in the prior quarter. Total retail sales remained stuck in the mud in October for the third month in a row, leaving retailers hoping for a rebound during the holiday shopping season. The disappointing headline retail sales data followed last week's upbeat September consumer credit reading, which showed that consumers appeared more comfortable incurring credit card debt, as revolving credit posted the largest year-over-year increase of the expansion. Core retail sales—which are used to estimate consumer spending on goods—picked up slightly in October. Other consumer fundamentals remain positive. After increasing in October for the first time in four months, consumer sentiment rose in early November. Meanwhile, evidence of diminishing slack in the labor market is mounting, as more small businesses reported difficulty finding qualified candidates in October. The number of job openings rebounded in September, nearly regaining the record high reached in July. On the inflation front, the strong dollar continued to flex its muscle, as two measures of prices, one for imports and the other for producers, dropped sharply again in October.

- **Retail sales** edged up 0.1 percent in October after two flat months, according to the Census Bureau. Core sales (excluding autos, building materials, and gas station sales) increased 0.2 percent following a 0.1 percent gain in the prior month. Non-store, building supply, and drugstore sales rose, while gasoline station and auto sales fell.
- **The University of Michigan Consumer Sentiment Index** rose 3.1 points to 93.1 in the November preliminary reading. Both the current conditions and expectations components increased for the second month in a row.
- **The National Federation of Independent Business (NFIB) Small Business Optimism Index** remained flat at 96.1 in October, ending three months of improvement. Hiring plans fell one percentage point to 11 percent, while the share of firms reporting difficulty finding qualified candidates picked up three points to tie the record high of 48 percent witnessed in July and August of this year.
- **The Job Openings and Labor Turnover Survey (JOLTS)** showed that job openings rose 2.8 percent in September to 5.5 million, according to the Bureau of Labor Statistics. As a share of total employment, the openings rate edged up one-tenth to 3.7 percent. However, the hiring rate fell for the second time in three months, hitting 3.5 percent, while the quits rate, a gauge of worker confidence in the labor market, was unchanged for the sixth consecutive month at 1.9 percent.
- **Import prices** declined for the fourth consecutive month, falling 0.5 percent in October. Energy prices dropped again, decreasing 2.1 percent, while non-petroleum prices fell for the tenth consecutive month, decreasing 0.4 percent. **The Producer Price Index (PPI)** fell 0.4 percent in October, following a 0.5 percent drop in the prior month. Excluding food and energy items, the core PPI declined 0.3 percent. Both the headline and the core indices fell in October from a year ago. (The Bureau of Labor Statistics produces both reports.)
- **Initial claims for unemployment insurance** remained unchanged at 276,000 in the week ending November 7, ending three weeks of rises, according to the Department of Labor. The four-week moving average increased by 5,000 to 267,750.

Retail Sales Are Stuck in the Mud



Source: Census Bureau

Job Openings Surpass 5.5 Million for the Second Time Ever



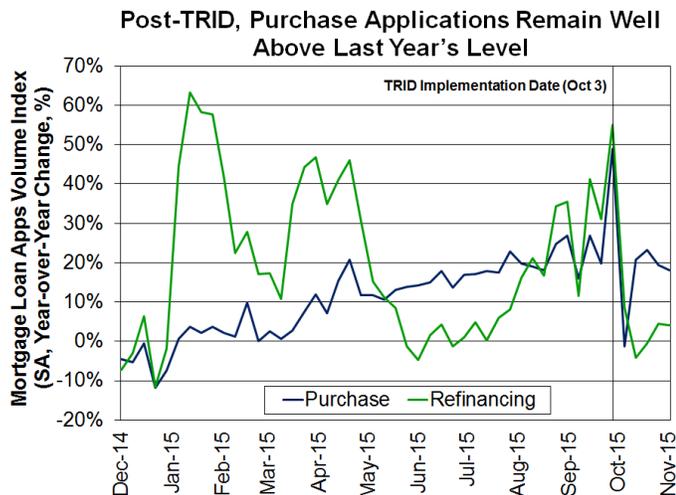
Source: Bureau of Labor Statistics

## Housing: Refinance Demand Pulls Back as Mortgage Rates Jump

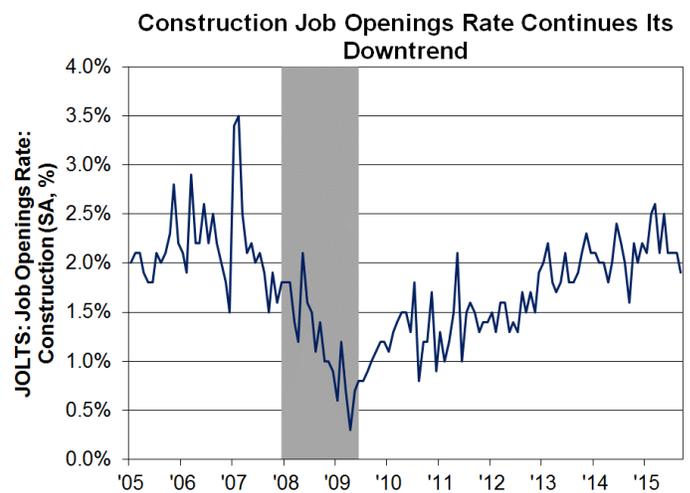
This week's sparse housing data showed the results from the weekly survey of mortgage applications. Refinance demand declined in the latest week for the third consecutive week as mortgage rates picked up, while purchase demand stabilized after falling two weeks in a row. Looking back over the past month, mortgage applications in the conventional market appear to have stabilized since the implementation of the new disclosure regulation (TRID). However, the impact of TRID may still be working its way through the government market, especially in the refinance segment, as FHA refinance applications rose 9.0 percent during the week. Over the past year, purchase mortgage demand has increased approximately 20 percent following some volatility around TRID implementation, continuing to support our forecast that this year's home sales will be the best since 2007. The September Job Openings and Labor Turnover Survey (JOLTS) offered some bearish news on construction employment. The construction job openings rate fell to the lowest level in a year, while the hires rate also fell during the month. On a positive note, the quits rate increased to the best showing this year, which suggests that construction workers have increased confidence in their job prospects. In any case, hiring data from the JOLTS are rather dated, since the survey is released with a one-month lag to the employment report. The October employment report, released last week, showed that construction payrolls improved substantially, posting the biggest gain since February 2015. The 30-year fixed mortgage rate rose 11 basis points again this week to 3.98 percent, according to Freddie Mac's survey.

➤ **Mortgage Applications** fell 1.3 percent in the week ending November 6, as the average yield on 30-year fixed-rate mortgages jumped 11 basis points to 4.12 percent, its highest level since August 2015, according to the Mortgage Bankers Association. The refinance applications index dropped 2.2 percent, the third consecutive weekly decline. Purchase applications rose 0.1 percent, the first rise in three weeks.

➤ **The Job Openings and Labor Turnover Survey (JOLTS) showed that construction job openings** fell 10.3 percent in September to 122,000, according to the Bureau of Labor Statistics. The job openings rate for construction workers dropped two-tenths of a percentage point to 1.9 percent, reaching the lowest level since September 2014. The openings rate has been trending down since reaching its expansion high of 2.6 percent in March 2015. The construction hires rate dropped three-tenths of a percentage point to 4.9 percent, significantly below its recent peak of 7.0 percent in December 2014. The quits rate rose for the first time in seven months, increasing from 1.7 percent to 2.0 percent and reaching the highest level since December 2014.



Source: The Mortgage Bankers Association



Source: The Bureau of Labor Statistics

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