Economics: Good Start for Goods Spending This Quarter

This week’s economic news presented an upbeat picture on consumer spending. Headline retail sales increased solidly at the start of the fourth quarter, and details contained even more encouraging news on consumer spending. Core retail sales, which are used to estimate consumer spending on goods in Gross Domestic Product (GDP) estimates, posted the biggest jump in October since April. In addition, core sales for the prior two months were revised higher, suggesting some upward revision in the initial estimate of last quarter’s real consumer spending of 2.1 percent annualized. The October industrial production report showed a modest gain in manufacturing output, which largely continued the flat trend that has been in place since 2014, when the dollar began to trend up. Unseasonably warm October temperatures led to a drop in utility output. Meanwhile, mining output recorded the biggest increase since March 2014, pointing to a recovery in oil and gas extraction in response to recent increases in oil prices. Inflation measures for October reflected the impact of higher energy prices. Notably, the headline Consumer Price Index showed the biggest annual increase in two years. Annual core prices moderated, however, as medical care services prices were flat for the second consecutive month following outsized gains earlier in the year. Shelter costs continued to climb, with the annual increases for both components – owners’ equivalent rents and primary residence rents – at their expansion highs. Lastly, the slight rise in the October Leading Economic Index is consistent with continued expansion through early next year.

• Retail sales rose 0.8 percent in October, according to the Census Bureau. Increases were broad-based across major categories except at restaurants and furniture and department stores. Core sales, which exclude auto, gasolines, and building material sales, jumped 0.8 percent. Sales at building material stores – a proxy for the home improvement portion of residential investment – rose 1.1 percent, supporting our expectation that residential investment will increase this quarter after dropping in the prior two quarters.

• The Consumer Price Index (CPI) was up 0.4 percent in October, boosted by rising energy prices. Core prices, excluding food and energy items, edged up 0.1 percent. From a year ago, overall CPI rose 1.6 percent, compared with a 2.1 percent rise for the core CPI. Owners’ equivalent rents and tenant rents jumped 0.3 percent and 0.4 percent, respectively, from September. From a year ago, the former rose 3.4 percent, tying the expansion high of the prior month, while the latter climbed 3.8 percent, also tying the expansion high. Import prices rose 0.5 percent in October, boosted entirely by rising petroleum prices. Excluding energy, import prices prices fell 0.1 percent. The Producer Price Index (PPI) for final demand of goods and services was flat in October, as a drop in services prices offset a gain in goods prices, which was largely due to higher energy prices. The core PPI fell 0.2 percent. Year over year, the headline PPI was up 0.8 percent, compared with a second straight 1.2 percent rise in the core PPI. (The Bureau of Labor Statistics produces all three reports.)

• Industrial production, a gauge of output in the manufacturing, utility, and mining sectors, was flat in October, according to the Federal Reserve Board. A 0.2 percent gain in manufacturing production and a 2.1 percent increase in mining output offset a 2.6 percent decline in utility production.

• The Conference Board Leading Economic Index (LEI), a gauge of the economic outlook over the next three to six months, ticked up 0.1 percent in October. The interest rate spread was the biggest driver of the increase in the index.

• Initial claims for unemployment insurance fell 19,000 in the week ending November 12 to reach 235,000, according to the Department of Labor. The four-week moving average fell 6,500 to 253,500.
Housing: Home Building Jumps, as Do Mortgage Rates

Housing data released this week featured an upside surprise for homebuilding activity. Strong gains for both the single-family and multifamily sectors led to the biggest surge in total housing starts since 1982. Single-family starts reached a nine-year best, while multifamily starts more than recovered from the massive drop in September to reach the highest level since June 2015. Single-family permits increased for the third consecutive month to reach a new expansion high, a positive for the near-term outlook. Multifamily permits, on the other hand, pulled back slightly from a 2016 best reached the prior month. On a year-to-date basis, single-family starts and permits have increased while multifamily activity has declined. This reflects the fact that the multifamily expansion is now in a mature stage, while the single-family sector still has room to grow. Home builders maintained a positive outlook for the single-family market in November, as a gauge of their confidence remained at the second-highest level of the expansion. The current sales component was flat at an elevated reading, hovering just two points below an expansion high. Meanwhile, expectations of sales over the next six months slipped slightly, while foot traffic improved to near an expansion high. On a downbeat note, mortgage rates spiked this week, posting the biggest one-week jump since the taper tantrum in June 2013, according to Freddie Mac’s survey. The average 30-year fixed mortgage rates rose 37 basis points to 3.94 percent, reaching the highest level since the first week of January. The increase should further muffle mortgage demand, which dropped sharply last week amid the third consecutive weekly rise in mortgage rates. Refinance applications, which are more rate-sensitive, fell to the lowest reading since March, while purchase applications also declined, reaching a new low for the year. The recent sharp rise in mortgage rates, if sustained, presents downside risks to the housing and mortgage markets.

- **Housing starts** jumped 25.5 percent in October to 1.32 million annualized units, the highest level in more than nine years, according to the Census Bureau. Single-family starts increased 10.7 percent to 869,000 units, while multifamily starts spiked 68.8 percent to 454,000 units. Through the first ten months of the year, single-family starts are 10.0 percent higher than the same period a year ago, while multifamily starts are 1.6 percent lower. New residential building permits edged up 0.3 percent to 1.23 million annualized units, an 11-month high. Single-family permits rose 2.7 percent to 762,000, while multifamily permits decreased 3.3 percent to 467,000. On a year-to-date basis, single-family permits are up 6.8 percent, compared with an 11.6 percent decline for multifamily permits.

- **The National Association of Home Builders/Wells Fargo Housing Market Index** was unchanged at 63 in November. A reading above 50 indicates more builders view the single-family market as “good” rather than “poor”. The present sales component was flat at 69, while sales expectations for the next six months fell two points to 69. Traffic of potential buyers edged up one point to 47, tying the second highest level of the expansion.

- **Mortgage applications** fell 9.2 percent for the week ending November 11, marking the largest drop since mid-July, according to the Mortgage Bankers Association. Purchase and refinance applications declined by 6.2 percent and 10.9 percent, respectively. Applications for government and conventional loans fell for both loan types. The average 30-year fixed mortgage rate jumped 18 basis points to 3.95 percent, the highest level since January.

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Source: Census Bureau  
Source: Freddie Mac

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