



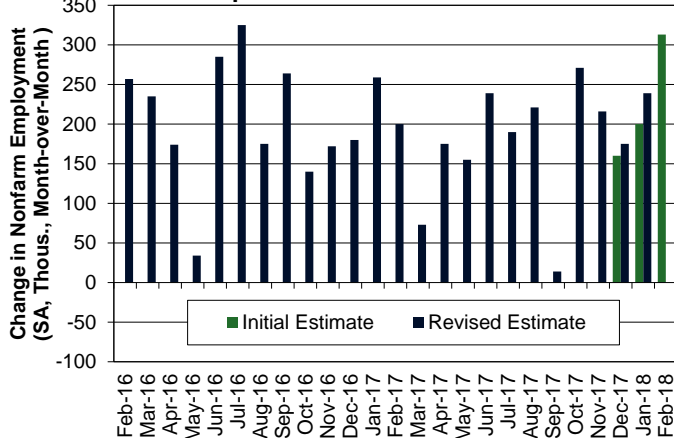
Weekly Note – March 9, 2018

### Economics: You Get a Job, and You Get a Job!

The February jobs report was as good as it gets, with the establishment survey showing the largest monthly job gain since July 2016, solid upward revisions for the prior two months, a rebound in the average workweek, and most of all, no runaway wage acceleration. Annual wage growth slowed from January, which was also revised down from an expansion high. The markets seemed to breathe a sigh of relief at the slower wage gains, after last month's surge stoked inflation fears, leading to a bout of market volatility. Not to be outdone, the household survey reported a massive gain in employment amid a rise in the labor force participation rate, which posted the biggest one-month jump since April 2010. As a result, the unemployment rate was flat at a 17-year low for the fifth consecutive month. For the Federal Reserve, the report should help soothe concerns over an overheating economy and still makes last December's dot plot, which implied three rate hikes this year, look reasonable. Expectations of a fourth hike this year had increased following Fed Chairman Powell's bullish congressional testimony last week. In other news, the trade deficit reached the widest level of the expansion in January after the largest monthly decline in exports in over a year amid flat imports. The inflation-adjusted goods deficit, used in the calculation of net exports in gross domestic product, widened the most in 11 years. Consumer credit expanded further in January, driven mostly by nonrevolving credit (mainly auto and student loan debt) as revolving credit (mainly credit card debt) posted the smallest gain in three years. The manufacturing sector could slow in the near term, as factory orders fell for the first time in six months in January. Service sector activity remained robust, according to the ISM Nonmanufacturing Index, which came in just below January's 12-year high in February. Finally, fourth quarter productivity was unchanged after revision, though compensation and unit labor costs were revised higher.

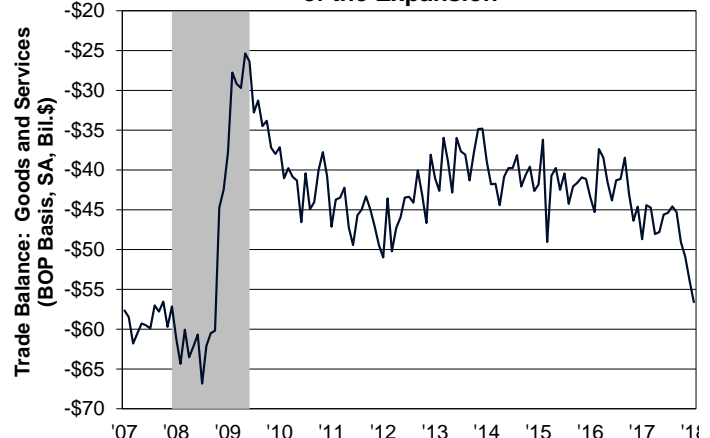
- **Nonfarm payroll employment** expanded by 313,000 in February, according to the Bureau of Labor Statistics. Job gains over the prior two months were revised upward by 54,000, on net, boosting the three-month average gain to 242,000, the highest level since September 2016. The average workweek improved a tenth to 34.5 hours. Average hourly earnings rose 0.1 percent from January and 2.6 percent from February 2017. The unemployment rate was unchanged at 4.1 percent, while the labor force participation rate rose three-tenths to 63.0 percent. The broadest measure of labor underutilization, the U-6 rate, was flat at 8.2 percent.
- **The U.S. trade deficit** increased \$2.7 billion in January to \$56.6 billion, according to the Census Bureau. Exports fell 1.3 percent, while imports were flat. The inflation-adjusted goods deficit widened \$1.3 billion to \$69.7 billion.
- **Consumer (non-mortgage) credit outstanding** expanded by \$13.9 billion in January, according to the Federal Reserve Board. Nonrevolving credit grew \$13.2 billion, and revolving credit increased \$0.7 billion. From a year ago, nonrevolving credit increased 5.0 percent and revolving credit grew 6.3 percent.
- **Factory orders** fell 1.4 percent in January, while factory shipments rose 0.6 percent, according to the Census Bureau. Nondurable goods orders, the new piece of data in the report, rose 0.8 percent.
- **Nonfarm business productivity** was unchanged in Q4 2017, according to the Bureau of Labor Statistics. Productivity grew 1.1 percent year-over-year, while unit labor costs grew 1.7 percent annually.
- **The ISM Nonmanufacturing Index**, a gauge of service sector activity, slipped 0.4 points to 59.5 in February. Any reading above 50 indicates expansion. A drop in employment outweighed gains in business activity and new orders.

**Nonfarm Payrolls Jump in February and See Sizable Upward Revisions to Prior Two Months**



Source: Bureau of Labor Statistics

**Trade Deficit Reaches Widest Level of the Expansion**



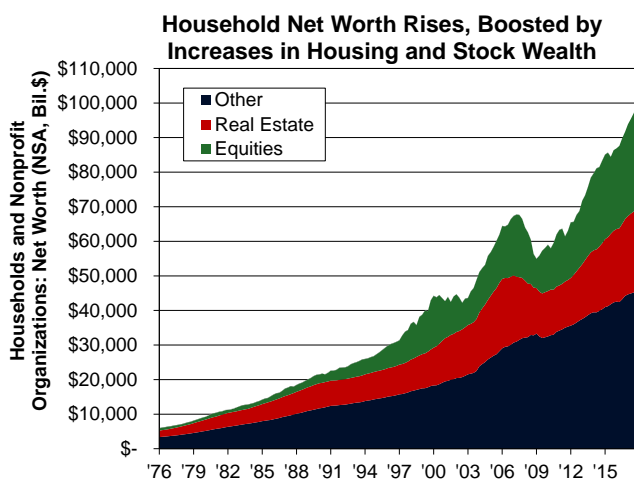
Source: Census Bureau



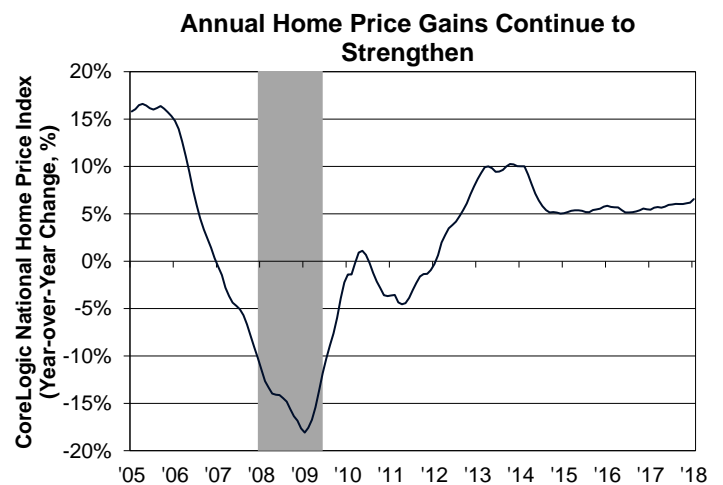
## Housing: Household Net Worth Gain Accelerates

In a positive week for housing, strong home price appreciation helped boost household net worth. The Federal Reserve's Financial Accounts of the United States reported household net worth rose last quarter for the ninth consecutive quarter, climbing to a record high. Large gains in both stock market and real estate wealth drove the strong performance. Meanwhile, growth in single-family mortgage debt outstanding decelerated for the first time in three quarters, but the debt level still managed to reach a seven-year high. Owner's equity in real estate posted the largest gain in four years and remains well above the prior peak in 2006. Homeowners' equity as a share of real estate value reached the highest level in nearly twelve years. The Federal Reserve uses the CoreLogic Home Price Index to estimate the value of real estate assets. During the fourth quarter, the CoreLogic Index rose 6.1 percent year-over-year, the strongest annual gain in over three years. In January, the annual increase reached 6.6 percent, although initial estimates are prone to downward revisions in subsequent releases. The index has increased on an annual basis every month since February 2012 and is 1.1 percent higher than the pre-crisis peak set in April 2006. However, adjusting for inflation, prices are still 16.5 percent below their peak. Homes priced below the median continue to appreciate faster than homes priced above the median. Regionally, 36 states, including Washington, DC, have seen prices rise above their pre-crisis peaks. Mortgage demand ticked up last week, driven by the first increase in refinance applications in four weeks, while purchase applications fell slightly. Mortgage rates rose this week for the ninth consecutive week to 4.46 percent, the highest level since January 2014, according to Freddie Mac.

- **U.S. household and nonprofit organization net worth**—the value of assets minus liabilities—rose \$2.1 trillion in the fourth quarter to \$98.7 trillion, according to the Federal Reserve. **Owners' equity in real estate** increased \$375 billion to \$14.4 trillion. **Owners' equity in real estate as a percentage of household real estate value** improved 0.5 percentage points to 58.8 percent. **Single-family mortgage debt outstanding** rose 2.8 percent annualized.
- **The CoreLogic National Home Price Index**, a repeat sales measure, increased 0.5 percent in January (not seasonally adjusted). From a year ago, the index increased 6.6 percent. Prices in the lowest price tier (75 percent or less of the median) increased 9.0 percent year over year, while prices in the low-to-middle price tier (between 75 and 100 percent of the median) rose 8.2 percent annually. The middle-to-moderate price tier (between 100 and 125 percent of the median) and the high price tier (greater than 125 percent of the median) posted 6.9 percent and 5.3 percent annual gains, respectively. Regionally, the state of Washington showed the largest annual gain of all states with a 12.1 percent increase, followed by Nevada with an 11.3 percent gain.
- **Mortgage applications** were virtually unchanged, edging up 0.3 percent for the week ending March 2, according to the Mortgage Bankers Association. Purchase applications fell 0.5 percent, driven entirely by a 1.7 percent decline in government applications. Refinance applications posted a 1.5 percent gain with conventional applications rising 3.1 percent and government applications falling 7.2 percent. The MBA survey's average 30-year fixed mortgage rate rose 1 basis point to 4.65 percent.



Source: The Federal Reserve



Source: CoreLogic

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