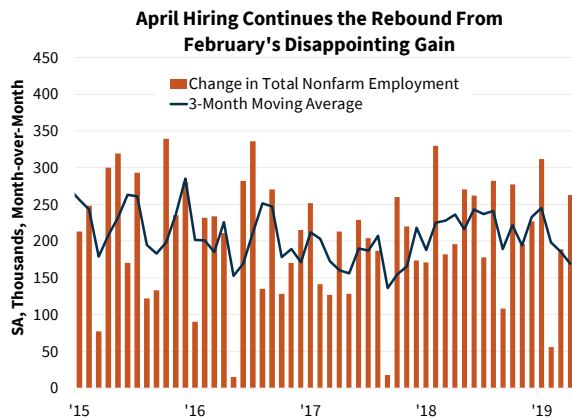


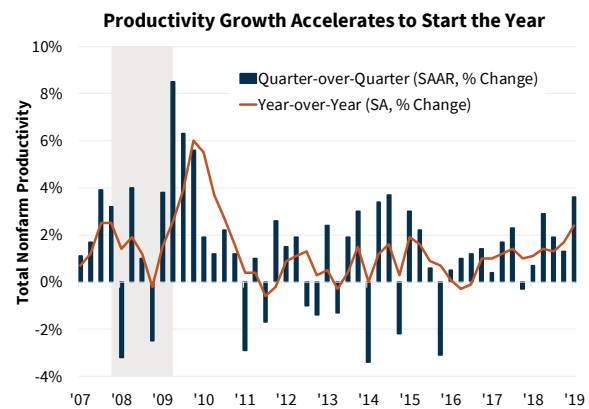
Economics: Job Growth Strengthens Further

Employment took center stage in a busy week for economic news. The jobs report showed that the labor market remained strong in April, with nonfarm payrolls continuing their rebound from February’s anemic gain, adding 263,000 jobs. Despite net positive revisions to the prior two months, the three-month moving average fell to 169,000, the lowest level since November 2017, as it moved past January’s impressive gain. Annual wage growth was unchanged at 3.2 percent, moving sideways in recent months after climbing steadily over 2018. The household survey was less upbeat. While the unemployment rate dropped to the lowest level since December 1969, it was because a decline in the civilian labor force significantly outpaced a drop in household employment, pushing the labor force participation rate down to a seven-month low. The U6, a broader measure of labor market slack, held steady for the third straight month at 7.3 percent, the lowest level in 18 years. Turning to inflation, the annual gain in the personal consumption expenditures (PCE) deflator, the Fed’s preferred measure of inflation, accelerated in March for the first time in eight months, though it remains well below the six-year high reached last July and one-half percentage point below the Fed’s 2.0 percent target. The May 1 [statement](#) following the Federal Open Market Committee (FOMC) meeting acknowledged that both headline and core inflation “have declined and are running below 2 percent.” However, in the post-meeting press conference, Fed Chair Powell attributed the recent slowdown in inflation to “transitory factors” such as portfolio management service fees and apparel prices. Powell also reiterated that the FOMC is comfortable with its patient stance and does not “see a strong case for moving in either direction.” In other news, productivity jumped over the first quarter, showing year-over-year growth of more than 2.0 percent for the first time since 2010. Real consumer spending posted the largest gain in two years in March amid a slight drop in real personal income, while the saving rate fell to a four-month low. Factory orders posted the largest gain in seven months in March and nondurable goods orders rose to a five-month high, but a measure of manufacturing activity showed the slowest pace of expansion since October 2016. Finally, auto sales posted the largest decline in nearly eight years in April with car sales falling to the lowest level in ten years.

- **Nonfarm payroll employment** expanded by 263,000 in April, according to the Bureau of Labor Statistics. The gains in February and March were revised upward 16,000, on net. The average workweek edged down one-tenth to 34.5 hours. Average hourly earnings rose 0.2 percent over the month and 3.2 percent from the prior year. The unemployment rate fell two-tenths to 3.6 percent. The labor force participation rate fell 0.2 percentage points to 62.8 percent.
- **Personal income**, adjusted for inflation, rose 0.1 percent in February and fell 0.1 percent in March, according to the Bureau of Economic Analysis. Real PCE was flat in February before spiking 0.7 percent in March. Annually, real PCE rose 2.9 percent in March. The personal saving rate fell in March to 6.5 percent from 7.3 percent the prior month. The PCE deflator rose 0.2 percent from February and 1.5 percent annually. The core deflator was flat over March but slowed to 1.6 percent annually.
- **Nonfarm business productivity** rose 3.6 percent annualized in Q1 2019 and 2.4 percent year over year, according to preliminary estimates by the Bureau of Labor Statistics. Annually, unit labor costs edged up only 0.1 percent.
- **The ISM Manufacturing Index** fell 2.5 points to 52.8 in April (any reading above 50 indicates expansion). **The ISM Nonmanufacturing Index**, a gauge of service sector activity, fell 0.6 points to 55.5 in April, the lowest level since August 2017.
- **Factory orders** jumped 1.9 percent in March, while factory shipments rose 0.7 percent, according to the Census Bureau. Nondurable goods orders, the new piece of data in the report, spiked 1.1 percent.
- **The Employment Cost Index (ECI)**, a measure of labor compensation, improved 0.7 percent (not annualized) in Q1 2019, according to the Bureau of Labor Statistics. Wages and benefits both increased 0.7 percent as well.
- **The Conference Board Consumer Confidence Index** rose 5.0 points in April to 129.2 with the present situation component and the expectations component increasing 5.3 points and 4.7 points, respectively.
- **Light vehicle sales** fell 6.1 percent to 16.4 million annualized units in April, according to Autodata.



Source: Bureau of Labor Statistics



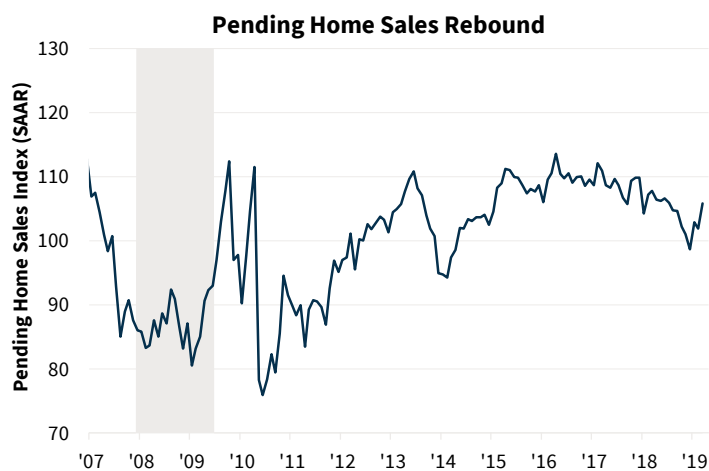
Source: Bureau of Labor Statistics



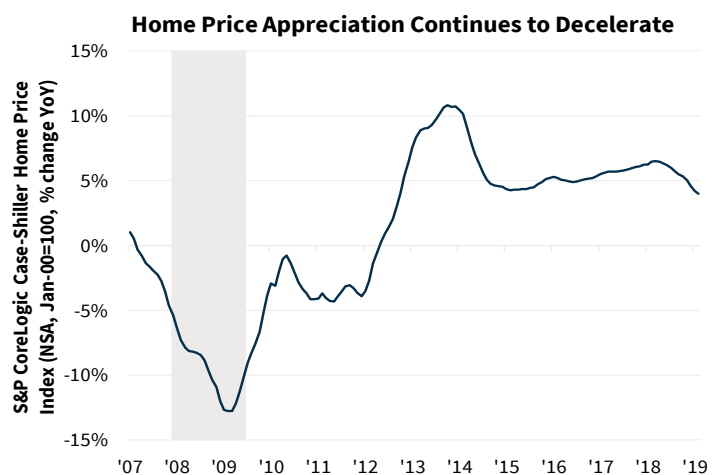
Housing: Pending Home Sales Jump

The housing news this week was mixed with improved pending home sales and slower home price appreciation but falling private residential construction spending and weak residential construction employment. Pending home sales rose strongly in March to the highest level since last July, driven by particularly strong gains in the West. While pending sales continued to decline on an annual basis, the recent jump suggests a boost in sales in the coming months, especially as mortgage rates remain subdued. Regarding annual house price growth, the February gain in the S&P CoreLogic Case-Shiller Index was the slowest since October 2012 and the tenth straight month of deceleration. Lower mortgage rates have also improved affordability, with the average yield on 30-year fixed-rate mortgages falling 6 basis points this week to 4.14 percent, according to Freddie Mac. The decline ended a four-week run-up in mortgage rates and remained 41 basis points below year-ago levels. We currently project rates to remain steady around 4.2 percent through the end of this year. On a less positive note, private residential construction spending fell for the third straight month in March and for the third straight quarter in Q1 2019. The decline in quarterly spending was driven by weak single-family spending, which fell to the lowest level in over two years. The last time single-family construction spending was negative for three consecutive quarters was from Q3 2010 to Q1 2011. Additionally, while overall construction jobs rose strongly in April, residential construction added fewer than 1,000 jobs, which will constrain builders' ability to increase housing supply. Finally, mortgage applications fell for the fourth straight week last week, driven by declines in both purchase and refinance applications, of which the latter continued to pull back from a surge in late March. Still, on a monthly basis, overall mortgage applications rose in three of the past four months, including in April when both purchase and refinance applications improved. Though there is clear weakness in residential construction spending and employment, the increase in pending home sales, combined with moderating home price appreciation and subdued mortgage rates, supports our view for a strong spring buying season.

- **The National Association of REALTORS® Pending Home Sales Index**, which records contract signings of existing homes and typically leads closings by one to two months, rose 3.8 percent in March. The index was down 1.2 percent from a year ago. Pending sales improved in every region except the Northeast, with an impressive 8.7 percent rise in the West.
- **Private residential construction spending** fell 1.8 percent in March, according to the Census Bureau. For Q1 2019, spending dropped 3.4 percent as a 3.4 percent decline in single-family spending and a 5.3 percent decline in spending on improvements outweighed a 2.3 percent increase in multifamily spending. Overall, total construction spending was down 6.7 percent annually in March.
- **S&P CoreLogic Case-Shiller National Home Price Index** (not seasonally adjusted) rose 0.2 percent in February and 4.0 percent annually. Home prices in the West appreciated the fastest, particularly in the Las Vegas and Phoenix metros.
- **Mortgage applications** fell 4.3 percent for the week ending April 26, according to the Mortgage Bankers Association. Refinance and purchase applications fell 5.0 percent and 3.7 percent, respectively. Monthly mortgage applications rose 6.3 percent in April, with purchase and refinance applications rising 5.6 percent and 7.8 percent, respectively.



Source: National Association of REALTORS®



Source: S&P CoreLogic Case-Shiller

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