



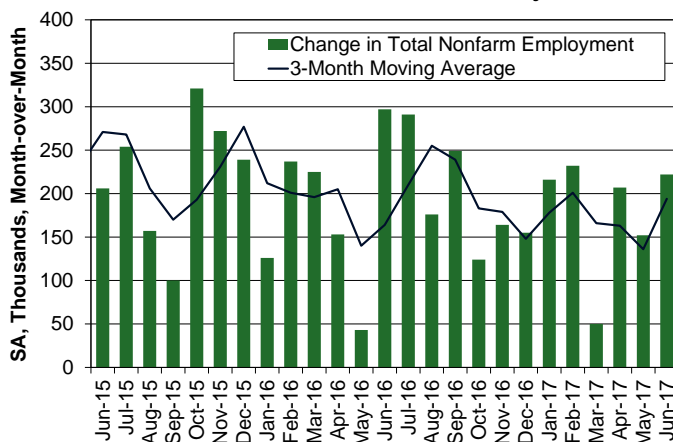
Weekly Note – July 7, 2017

### Economics: Job Gains Accelerate, But Wage Growth Lags

Today's positive jobs report featured strong hiring in June, upward revisions to job growth in the prior two months, an increase in the average workweek, and rising labor force participation. These broad-based improvements put the labor market on par with the solid performance experienced last year. The monthly job gain during the first half of this year averaged 180,000, the same as registered year-to-date in 2016, which is impressive considering that the expansion is in its ninth year and the labor market is inching closer to full employment. The one elusive aspect remains accelerating wage gains, as annual wage growth has been stuck around 2.5 percent for most of the year. The report signals no sense of urgency for the Fed and should give the Fed every reason to stay the course of gradual monetary policy normalization that it has been telegraphing to the markets, including in the [minutes](#) of the June Federal Open Market Committee meeting released this week. We now expect the Fed to announce its policy to taper the balance sheet in September and hike the fed funds rate once more this year in December. In other news this week, the decline in auto sales in June, the fifth monthly decline of the year, dragged sales further below last December's expansion peak to the lowest level since February 2015. Car sales were the culprit, as light truck sales rose for the second time in three months. A small rise in exports and a small drop in imports in May caused the trade deficit to narrow for the first time in three months. The manufacturing sector received mixed news this week. New factory orders fell in May for the second consecutive month, but core capital shipments and core capital goods orders—an input for the business fixed investment in equipment component of gross domestic product (GDP) and its leading indicator, respectively—were revised upward. Core orders have now improved every month in 2017. In further good news for manufacturing, the June ISM Manufacturing Survey showed the fastest expansion in activity since August 2014 as the index posted the biggest rise since January 2013.

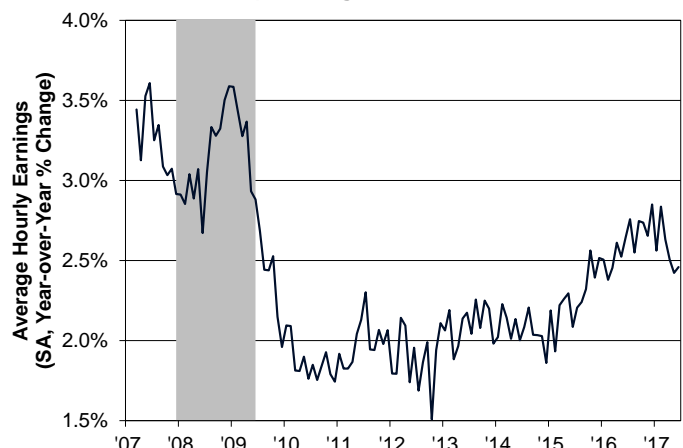
- **Nonfarm payroll employment** expanded by 222,000 in June, according to the Bureau of Labor Statistics. The three-month average gain accelerated to 194,000 from 136,000 in May. Job gains from the prior two months were revised upward 47,000 on net. The average workweek edged up one-tenth to 34.5 hours. Average hourly earnings rose 0.2 percent from May and 2.5 percent from a year ago. The unemployment and the labor force participation rates both rose one-tenth to 4.4 percent and 62.8 percent, respectively. The U-6 rate rose two-tenths to 8.6 percent.
- **Light vehicle sales** fell 0.9 percent to a 16.5 million annualized rate in June, according to Autodata.
- **The U.S. trade deficit** narrowed \$1.1 billion to \$46.5 billion in May, according to the Census Bureau. Exports rose 0.4 percent, and imports edged down 0.1 percent. The inflation-adjusted goods deficit, used in the calculation of net exports in the GDP estimate, narrowed by \$984 million to \$62.8 billion.
- **Factory orders** dropped 0.8 percent in May, according to the Census Bureau. New orders for nondurable goods, the new piece of data in the report, also slipped 0.8 percent. Factory shipments edged up 0.1 percent. The decline in durable goods orders was less than initially reported, while the rise in durable goods shipments was better after revision. Core capital goods orders and shipments were revised upward from small declines to small gains.
- **The Institute for Supply Management (ISM) Manufacturing Index** jumped 2.9 points to 57.8 in June (any reading above 50 indicates expansion). Every component rose except for the inventories index. **The ISM Nonmanufacturing Index**, a gauge of service sector activity, increased 0.5 points in June to 57.4.

Job Creation Finds Its Mojo



Source: Bureau of Labor Statistics

A Pick Up in Wage Growth Remains Elusive



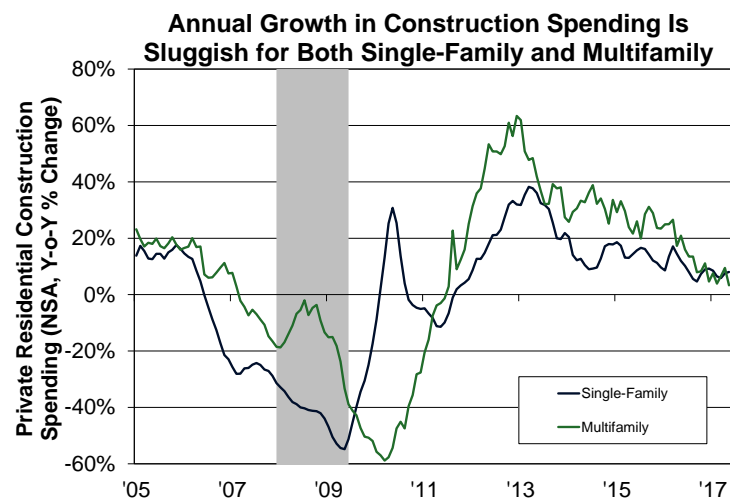
Source: Bureau of Labor Statistics



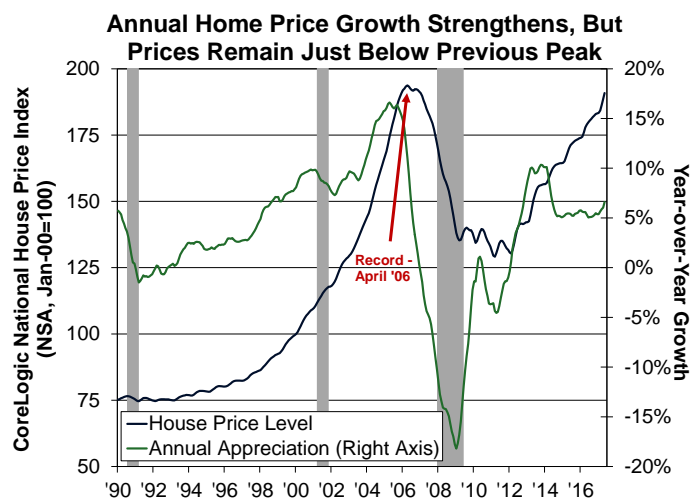
## Housing: Construction Spending Stumbles

This week offered mixed news on homebuilding, home prices, and mortgage demand. On the bearish side, private residential construction spending fell in May for the first time in more than a year, with annual growth hitting an eight-month low. The decline in spending was driven largely by the multifamily sector, which has posted back-to-back drops after hitting an expansion high in March. Annual growth for new multifamily construction spending dipped to the slowest pace in almost six years. Single-family construction spending edged lower after experiencing steady gains over the prior seven months to reach an expansion high in April. An extremely tight inventory of homes for sale continues to support home prices, with May's CoreLogic House Price Index registering the strongest annual increase in three years. Prices have increased on a year-over-year basis every month since February 2012 but are still slightly below the April 2006 peak, according to CoreLogic. While robust home price appreciation amid scarce supply is a boon to homeowners and home sellers, it has restrained home sales. CoreLogic's analysis of the market by price tiers indicates that lower-priced homes experienced significantly stronger appreciation, suggesting that the starter home market is facing substantial affordability constraints. On a positive note, mortgage demand improved during the last week of June, as the first increase in purchase applications in four weeks outweighed a small drop in refinance applications. Because of a surge in purchase applications during the first week of June, average purchase applications for the month rose for the fourth consecutive month. Recent trends in purchase applications appear to be at odds with recent changes in pending home sales, another forward-looking indicator for home sales, which fell in May for the third consecutive month, according to last week's release from the National Association of REALTORS®. Meanwhile, refinance applications rose in June for the second straight month amid declining mortgage rates, which fell to the lowest monthly level since November. Mortgage rates rose this week for the first time in three weeks, according to Freddie Mac, as global interest rates turned up sharply. The average rate on 30-year fixed-rate mortgages increased eight basis points, marking the largest weekly jump since March, to 3.96 percent.

- **Private residential construction spending** edged down 0.6 percent in May, according to the Census Bureau. New single-family construction spending decreased 0.3 percent. Spending on new multifamily construction fell 3.3 percent. Spending on home improvement declined 0.1 percent. From a year ago, single-family construction spending rose 8.0 percent, while multifamily construction spending increased 3.3 percent.
- **The CoreLogic National Home Price Index**, a repeat sales measure, increased 1.2 percent in May (not seasonally adjusted). Prices rose 6.6 percent from a year ago. Home prices have risen 47.8 percent since their trough in March 2011. Prices in the lowest tier (75 percent or less of the median) rose 9.4 percent from a year ago, while prices for the low-to-middle tier (between 100 and 125 percent of the median) posted an 8.1 percent year-over-year gain.
- **Mortgage applications** rose 1.4 percent in the week ending June 30, according to the Mortgage Bankers Association (MBA). Purchase applications increased 3.1 percent, while refinance applications decreased 0.4 percent. The MBA survey's average contract interest rate for 30-year fixed-rate mortgages increased seven basis points to 4.20 percent.



Source: Census Bureau



Source: CoreLogic

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