Fannie Mae

Economic and Strategic Research

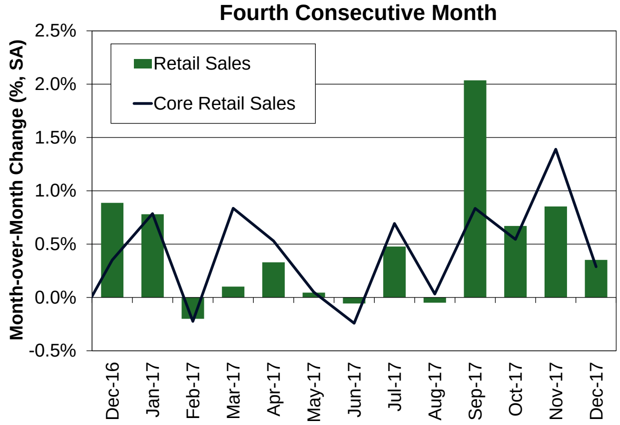
Weekly Note – January 12, 2018

Economics: Consumers Were Filled with Holiday Cheer

A busy week of economic data featured news on consumers, inflation, small businesses, and the labor market. Consumers spent big through the holiday shopping period. Retail sales rose in December for the fourth consecutive month, and gains in October and November were revised higher. Core retail sales, which exclude auto, gasoline, and building materials sales and are an input for the consumer goods spending component of GDP, also rose for the past four months, and the November gain was revised up to show the largest monthly rise in 12 years. Consumers have recently shown a greater willingness to take on debt to fund their spending. Consumer credit expanded in November by the largest amount in almost seven years, with year-over-year growth accelerating for the first time in nine months. Both nonrevolving credit (mainly auto and student debt) and revolving credit (mainly credit card debt) posted the largest percentage increases of 2017. Headline retail inflation moderated in December, as a decline in energy prices weighed on the Consumer Price Index (CPI). In contrast, core CPI (excluding food and energy prices) jumped in December to tie the largest monthly gain of the expansion. On a year-over-year basis, the increase in the overall CPI slowed slightly compared to a slight pickup for the core CPI. Small business confidence slipped in December from November's 34-year high, according to the National Federation of Independent Business. Details suggest businesses struggled to fill job openings amid a tightening labor market. The share of firms reporting job openings ticked up while the share reporting difficulty finding qualified job candidates jumped to a record high. As for the near-term outlook, the net share planning to raise compensation approached an 18-year high, but plans to hire dropped. Finally, job openings as a share of total employment fell in November for the second consecutive month, according to the Job Openings and Labor Turnover Survey. However, workers remain confident in their job prospects, as the quits rate remained at an expansion high.

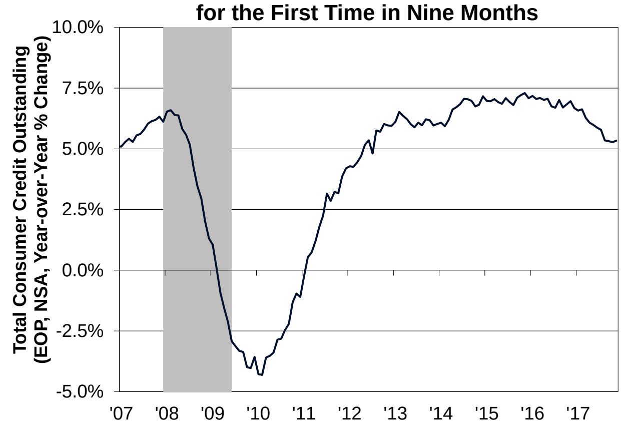
- **Retail sales** rose 0.4 percent in December and core retail sales improved 0.3 percent, according to the Census Bureau. Nonstore sales and building supply store sales posted the strongest gains. Sales fell at department stores, as well as at stores in the sporting goods and hobby, apparel, and electronics and appliance categories.
- **Consumer (non-mortgage) credit outstanding** expanded by $28.0 billion in November, according to the Federal Reserve Board. Nonrevolving credit increased $16.8 billion and revolving credit rose $11.2 billion. From a year ago, total consumer credit outstanding rose 5.5 percent. Annual growth in nonrevolving credit picked up two-tenths to 5.2 percent, while revolving credit increased 6.2 percent year-over-year, one-tenth faster than in October.
- **The Consumer Price Index (CPI)** increased 0.1 percent in December and 2.1 percent from a year ago. Core prices jumped 0.3 percent from November, and 1.8 percent from December 2016. **Import prices** edged up 0.1 percent in December and rose 3.0 percent annually. **The Producer Price Index (PPI)** for final demand of goods and services and core PPI both fell 0.1 percent in December. On an annual basis, gains in the headline and core PPI indexes slowed to 2.6 and 2.2 percent, respectively. The Bureau of Labor Statistics (BLS) produces each report.
- **The National Federation of Independent Business (NFIB) Small Business Optimism Index** fell 2.6 points to 104.9 in December. The share of firms expecting the economy to improve fell sharply by 11 percentage points to 37 percent, after jumping to the second highest level of the expansion in November.
- **The Job Openings and Labor Turnover Survey (JOLTS)** showed that job openings fell 46,000 in November to 5.9 million, according to the BLS. The job openings rate fell one-tenth to 3.8 percent. The hires rate also ticked down one-tenth to 3.7 percent. The quits rate was flat at 2.2 percent.

Headline and Core Retail Sales Rise for the Fourth Consecutive Month



Source: Census Bureau

Annual Consumer Credit Growth Accelerates for the First Time in Nine Months



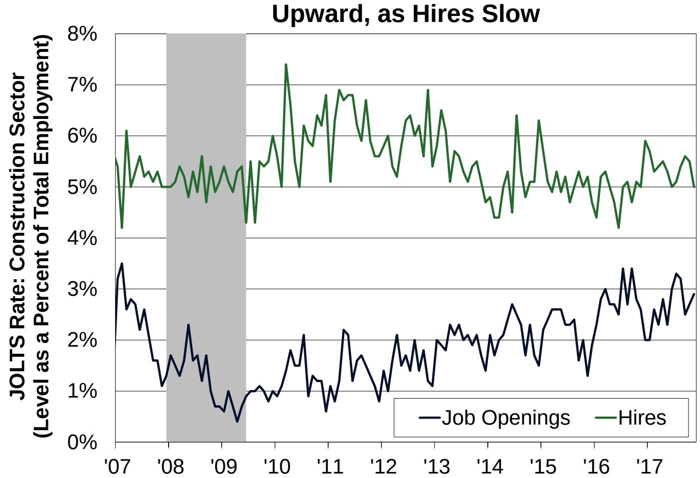
Source: Federal Reserve Board

Housing: Construction Help Wanted; Mortgage Demand Jumps

A quiet week offered mixed news on construction labor market conditions and upbeat news on mortgage demand. The Job Openings and Labor Turnover Survey, which is released with a one-month lag to the employment report, showed an increase in the construction job openings rate (open positions as a share of construction employment) in November for the second consecutive month. In contrast, the hires rate fell for the second straight month to the lowest level since June. The diverging trends in openings and hires could indicate that builders are having difficulty finding qualified workers to fill open positions. Construction workers appeared slightly more cautious regarding their job prospects in November, as the quits rate fell for the first time in five months from an expansion best amid an uptick in the rate of layoffs from an eight-month low. The December jobs report, released last week, painted a rosier picture for the construction labor market at the end of the year, however, as construction employment posted the largest monthly gain since February. Mortgage demand rose last week for the first time in five weeks, as both purchase and refinance applications surged. Purchase applications were up for the second time in three weeks, with government purchase applications rising to the highest level since early June. Refinance applications increased for the first time in five weeks, posting the largest week-over-week gain since mid-July. Freddie Mac's survey showed that the average yield on 30-year fixed-rate mortgages rose 4 basis points this week to 3.99 percent, retracing the drop in the prior week.

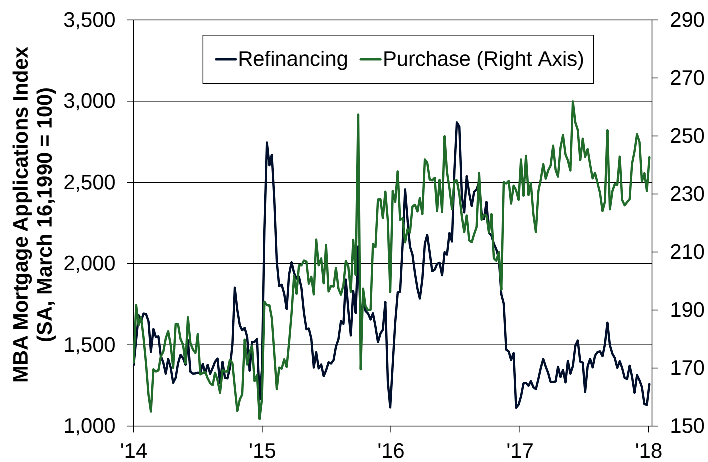
- **The Job Openings and Labor Turnover Survey (JOLTS) showed that construction job openings** increased 7.7 percent to 210,000 in November, according to the Bureau of Labor Statistics. The construction job openings rate rose 0.2 percentage points to 2.9 percent. The hires rate fell half a percentage point to 5.0 percent. The quits rate decreased two-tenths to 2.2 percent, while the layoffs rate edged up to 2.6 percent.
- **Mortgage applications** jumped 8.3 percent for the week ending January 5, according to the Mortgage Bankers Association (MBA). Purchase applications rose 5.0 percent, driven by increases in conventional and government applications of 4.3 percent and 6.9 percent, respectively. Refinance applications posted an 11.4 percent rise, thanks to an 11.5 percent increase in conventional mortgage demand and a 10.8 percent gain in government applications. The MBA survey's average 30-year fixed mortgage rate edged up 1 basis point to 4.23 percent.

Construction Job Openings Trend Upward, as Hires Slow



Source: Bureau of Labor Statistics

Purchase and Refinance Applications Surge



Source: Mortgage Bankers Association

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Economic and Strategic Research Group
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