

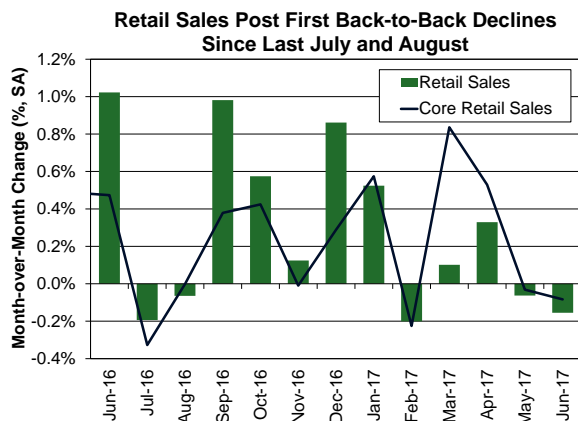


Weekly Note – July 14, 2017

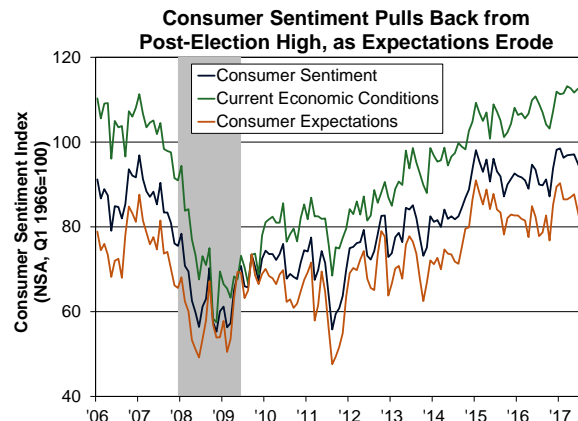
### Economics: Caution Is Growing Among Consumers

It was an action-packed week of data. Retail sales fell in June, posting the first back-to-back declines since July and August 2016. Core retail sales, which are used to estimate consumer spending for goods in gross domestic product, also declined in the last two months of the second quarter. Real consumer spending growth likely came in below three percent annualized last quarter versus our expectation of 3.1 percent in the June forecast. Consumer sentiment cooled further in early July, with the preliminary estimate of the University of Michigan Consumer Sentiment Index falling to the lowest level since October. For the second consecutive month, an erosion in expectations was responsible for the decline. Consumers also appear to be less willing to take on debt, as annual growth in consumer credit slowed for the third consecutive month in May to the slowest pace since September 2012. Annual growth for revolving credit (largely credit cards) picked up slightly, but growth in nonrevolving credit (mainly student and auto loans) slipped to the slowest pace since November 2010. The May Job Openings and Labor Turnover Survey showed that the job openings rate fell to 3.7 percent while the hires rate improved to the same reading, ending a three-month stretch during which the openings rate exceeded the hires rate. The June National Federation of Independent Business survey suggests that small businesses could have less difficulty filling open positions, as the share of firms with hard-to-fill job openings fell half a percentage point to 46 percent. Expectations for the economy deteriorated, as only a third of firms expect improvement, compared to December's 50 percent, a record high since the survey's inception in 1973. Inflation pressures continued to ease in June, with annual growth in the Consumer Price Index slowing for the fourth straight month, and growth in the core index (excluding food and energy) holding steady after moderating during the past four months. Finally, industrial production increased for the fifth straight month in June, with output from all three industries—manufacturing, mining, and utilities—posting gains.

- **Retail sales** fell 0.2 percent in June, according to the Census Bureau. Building materials and garden equipment sales rose for the first time in four months. Food and beverage sales, in contrast, fell for the first time in four months. Gasoline sales dropped for the fourth consecutive month. Online sales have increased for two straight years.
- **The Consumer Price Index (CPI)** was unchanged in June. The annual increase slowed to 1.6 percent. Core CPI edged up 0.1 percent from May and 1.7 percent from June 2016. **The Producer Price Index (PPI)** for final demand of goods and services and core PPI each rose 0.1 percent in June. From a year ago, the headline PPI and core PPI are up 2.0 percent and 1.8 percent, respectively.
- **The National Federation of Independent Business (NFIB) Small Business Optimism Index** fell 0.9 percent to 103.6 in June. The share of firms expecting the economy to improve fell 6 percentage points to 33 percent, while the share of firms saying it is a good time to expand fell 2 percentage points to 21 percent.
- **Consumer (non-mortgage) credit outstanding** expanded by \$18.4 billion in May, according to the Federal Reserve Board. From a year ago, nonrevolving and revolving credit increased 5.7 percent and 6.3 percent, respectively.
- **The Job Openings and Labor Turnover Survey (JOLTS)** showed that job openings decreased 0.5 percent in May to 5.67 million, according to the Bureau of Labor Statistics. The job openings rate fell two-tenths to 3.7 percent, while the hires rate increased two-tenths to 3.7 percent. The quits rate ticked up to 2.2 percent, tying the expansion high.
- **The University of Michigan Consumer Sentiment Index** fell 2.0 points to 93.1 in the July preliminary reading.
- **Industrial production** increased 0.4 percent in June, according to the Federal Reserve Board. Manufacturing, mining, and utility output rose 0.2 percent, 1.8 percent, and 0.1 percent, respectively.



Source: Census Bureau



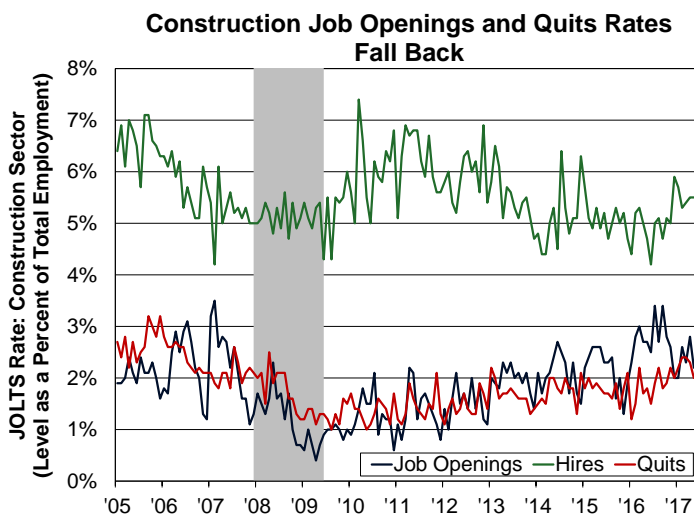
Source: University of Michigan



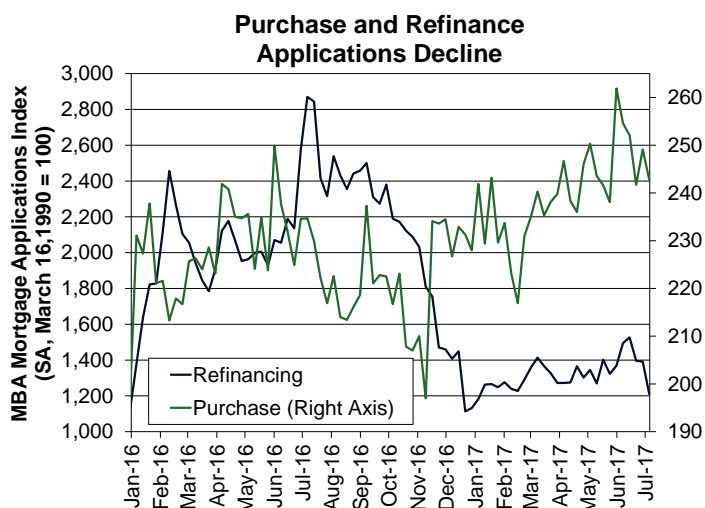
## Housing: Construction Labor Market Cools

A quiet week in housing data allowed focus to shift to the construction labor market and to mortgage demand. The May Job Openings and Labor Turnover Survey reported that the rate of construction job openings as a share of total construction employment dropped sharply to the lowest level since January, more than reversing the strong rise in April. The rate remains more than a percentage point below the expansion high reached last September. The construction hires rate was unchanged from April. Meanwhile, the quits rate, a gauge of construction workers' confidence in their job prospects, fell for the second consecutive month to the lowest reading this year. The pullbacks in the construction job openings and quits rates could be due, at least in part, to the quieting down of the construction sector after a busy early part of the year when the weather was unseasonably warm. Shifting to mortgage demand, mortgage applications fell sharply last week for the second time in three weeks. Purchase mortgage applications have declined in four of the past five weeks after jumping to a seven-year high during the first week of June. Refinance applications posted the first double-digit decline since late December, marking the third consecutive fall. Refinance applications are now at the lowest level since the first week of January. Freddie Mac's survey reported that the average 30-year fixed mortgage rate increased to 4.03 percent this week, up 7 basis points from last week, marking the first time since May that mortgage rates have been above 4.0 percent.

- **The Job Openings and Labor Turnover Survey (JOLTS) showed construction job openings** decreased 23 percent to 154,000 in May, according to the Bureau of Labor Statistics. As a share of total construction employment, the construction job opening rates fell six-tenths to 2.2 percent. The hires rate remained the same at 5.5 percent for the second consecutive month. The quits rate fell three-tenths to 2.0 percent. The layoff rate dropped one-tenth to 2.9 percent.
- **Mortgage applications** fell 7.4 percent for the week ending July 7, according to the Mortgage Bankers Association. Purchase applications declined 2.5 percent. Conventional purchase applications fell 4.3 percent, outweighing a 2.7 percent rise in government purchase applications. Refinance applications fell 13.0 percent as the survey's average 30-year fixed mortgage rate edged up 2 basis points to 4.22 percent, the highest level since the middle of May.



Source: Bureau of Labor Statistics



Source: Mortgage Bankers Association

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