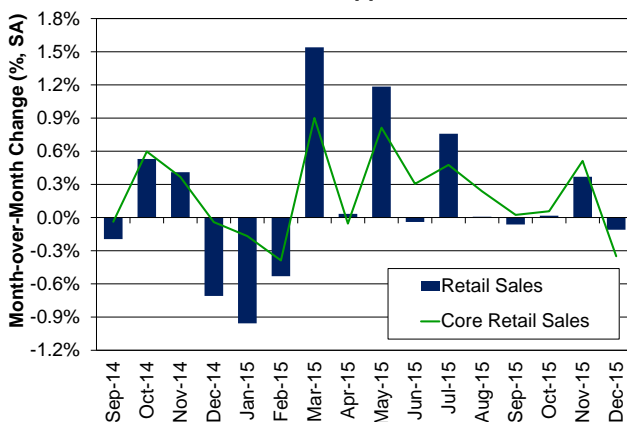


Economics: The Glass is Half Full, Thanks to Good News from the Labor Market

Economic data released this week demonstrated how the continued strength of the labor market is propping up an otherwise fragile economy. December 2015 retail sales disappointed as the holiday shopping season largely failed to materialize. Sales of apparel, electronics, and general merchandise all declined, and even non-store sales (largely online) barely rose. The decline in energy prices continued to wreak havoc on industrial production, which during November and December posted the first back-to-back annual declines since the end of 2009, as oil and gas well drilling dropped steeply again. And the pain should continue as oil prices fell to below \$30 per barrel on Friday, setting fresh intraday lows since 2003. Outside of mining, manufacturing output dropped for the fourth time in five months, and the unseasonably warm weather also depressed demand for heating utilities. The drop in oil prices, paired with the continued strength of the dollar, continued to put downward pressure on import and wholesale prices in December. A survey of small businesses provided reasons for optimism. Firms reported hiring plans rebounded in December to tie a cyclical best, and planned compensation increases remained at an expansion high. Also, the share of firms indicating difficulty finding qualified candidates tied an all-time high for the fourth time in the last six months. These results suggest moderate wage increases may be underway. In addition, the Job Openings and Labor Turnover Survey showed that the level of job openings is on pace to exceed hires for all of 2015, which would be a first in the survey's 15-year history. Declining oil prices and growing confidence in job prospects likely helped boost consumer sentiment, which improved in early January for the fourth consecutive month.

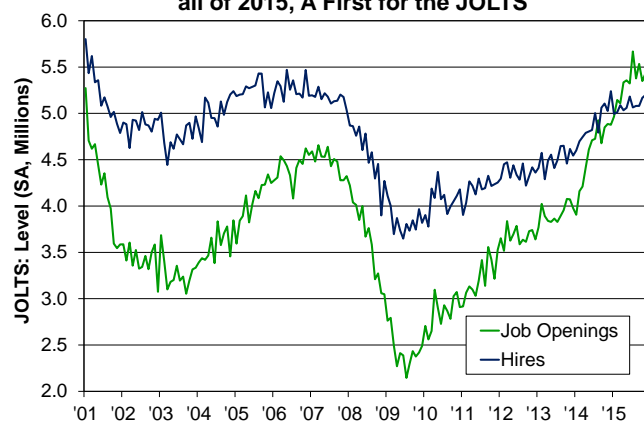
- **Retail sales** slipped 0.1 percent in December, according to the Census Bureau. Core sales (excluding auto, building material, and gas station sales) fell 0.3 percent, ending seven months of improvement. Sales grew at sporting goods stores, restaurants, furniture stores, and building supply stores, likely boosted by warm weather.
- **The Job Openings and Labor Turnover Survey (JOLTS)** indicated that job openings increased 1.5 percent to 5.4 million in December, according to the Bureau of Labor Statistics. As a share of total employment, job openings edged up one-tenth to 3.7 percent. The hiring rate remained at 3.6 percent for the fifth consecutive month. The quits rate, a gauge of worker confidence in the labor market, was unchanged last month at an expansion best of 2.0 percent.
- **Industrial Production**, a gauge of output in the manufacturing, utility, and mining sectors, fell for the third consecutive month in December, decreasing 0.4 percent, according to the Federal Reserve Board. Manufacturing production slipped by 0.1 percent again in December. Mining output fell for a fourth month in a row, while utility output dropped for a third month.
- **The National Federation of Independent Business (NFIB) Small Business Index** edged up 0.4 points to 95.2 in December. The percent of firms expecting the economy to improve fell to the lowest level since March 2014. Hiring plans, however, increased by the largest amount since December 2014, rising four percentage points to 15 percent. The share of firms reporting difficulty finding qualified candidates bounced back to 48 percent.
- **The University of Michigan Consumer Sentiment Index** increased 0.7 points to 93.3 in the January preliminary reading. A gain in consumer expectations outweighed a fall in the current economic conditions component.
- **Import prices** decreased 1.2 percent in December. Energy prices drove the fall, decreasing 10 percent, while non-petroleum prices have not risen since March 2014. **The Producer Price Index (PPI)** declined 0.2 percent in December. The core PPI edged up 0.1 percent from last month. (The Bureau of Labor Statistics produces both reports.)

Retail Sales Disappoint in December



Source: Census Bureau

Job Openings Are on Pace to Exceed Hires for all of 2015, A First for the JOLTS

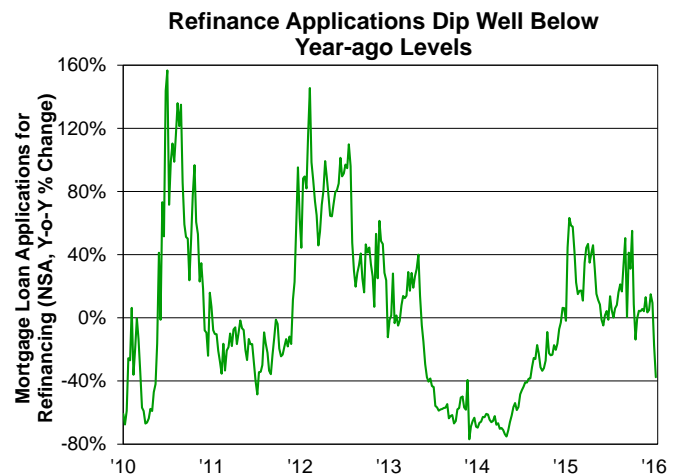
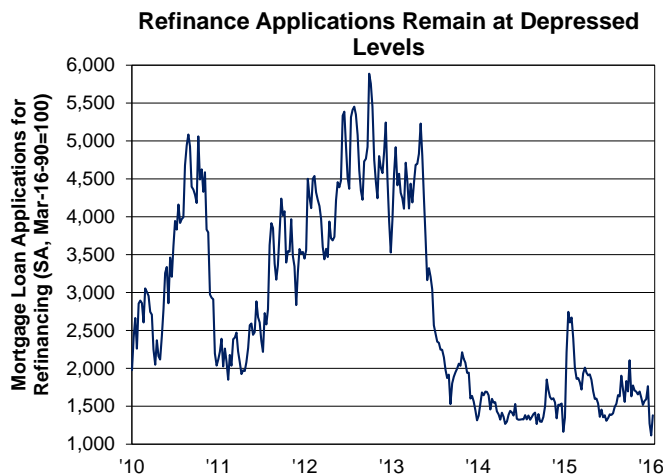
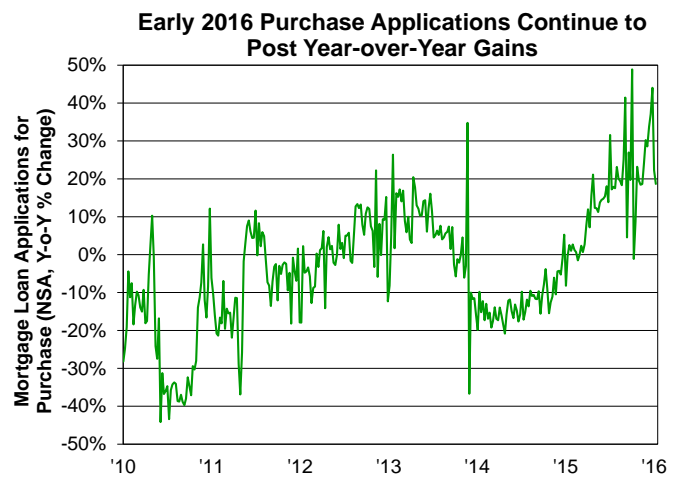
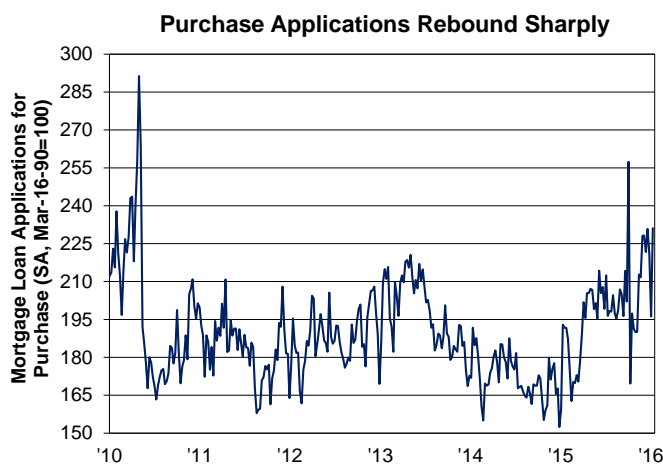


Source: Bureau of Labor Statistics

Housing: Mortgage Demand Signals Badly Needed Home Sales Rebounds

Without major housing indicators on tap this week, we focus on mortgage demand from the Mortgage Bankers Association Weekly Survey of Mortgage Applications. Recent trends in purchase mortgage applications brought potential good news to the home sale market for the current quarter, following the downbeat fourth quarter of 2015. Existing home sales posted a double-digit plunge in November, the second consecutive monthly drop. Implementation of the new mortgage disclosure TILA-RESPA Integrated Disclosure (TRID) rule, which requires lenders to give buyers more time to review loan documents, may have delayed closings that otherwise would have occurred in November. Thus, we could see a sizable rebound in December existing home sales (to be released next Friday). However, pending home sales, a forward-looking housing indicator, edged down in November for the third time over the last four months, casting doubts over home sales going into the new year. Fortunately, recent trends in purchase applications offer some hope that the bearish performance in existing home sales during late 2015 will likely reverse in early 2016, as average monthly applications rose 4.8 percent in November and 7.0 percent in December despite rising mortgage rates late last year. With mortgage rates declining for the first time in six weeks, the latest week's data showed that the purchase index jumped to the highest level since May 2010, excluding the week prior to the implementation of the TRID rule, and remains well above the level of a year ago. Meanwhile, the refinance index also bounced back sharply following two consecutive weekly drops. Despite the latest week's jump, refinance applications remain low, and are staying well below the level of a year ago. A flight-to-safety amid financial market turmoil brought mortgage rates down this week, with the 30-year fixed mortgage rate dropping five basis points to 3.92 percent, according to Freddie Mac's survey. While rates should remain supportive to home sales, home price appreciation that continues to outpace income growth should constrain home purchase affordability this year.

➤ **Mortgage applications** jumped 21.3 percent in the week ending January 8, according to the Mortgage Bankers Association. The purchase index rebounded 17.8 percent, while the refinance index picked up 23.8 percent. The survey's average rate for 30-year fixed-rate mortgages decreased eight basis points to 4.12 percent.



Source: Mortgage Bankers Association

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