



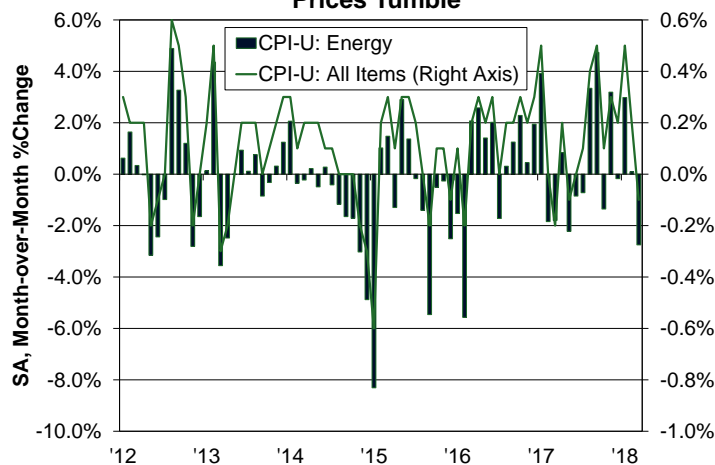
Weekly Note – April 13, 2018

Economics: Fed Sees Only Upside Risk to Inflation

Our main story this week is the release of the Federal Open Market Committee (FOMC) March 20-21 meeting [minutes](#). The minutes revealed that FOMC members believe slow growth in the first quarter was “transitory,” citing the payment of delayed tax refunds, high levels of consumer and business sentiment, and favorable fiscal policies as reasons growth should pick up during the remainder of the year. However, they believe downside risks are rising, given that volatility in the stock market has increased notably since the prior meeting, that the Administration’s tariff policies have increased the “prospect of retaliatory trade actions by other countries,” and that the mounting trade deficit has dragged heavily on growth. Many members noted that the recent increase in the labor force participation rate of prime-age workers is a sign of continued strength in the labor market. On inflation, the minutes noted that the Fed expects inflation “to move up in coming months and to stabilize around the Committee’s 2 percent objective over the medium term.” None of the Fed officials believe the downside risks of inflation outweigh the upside risks, the first time this has happened since the Fed started tracking FOMC participants’ view on the balance of risk of their core inflation forecasts in 2011. After keeping the federal funds rate near zero for nearly seven years, several members stated that the rate will eventually be set “above its longer-run normal value for a time.” Despite the hawkish tone of the meeting minutes, we still expect only two more rate hikes in 2018, with the next increase in June. In other news, the March Consumer Price Index (CPI) headline index fell for the first time in ten months, dragged down by the largest decline in energy prices in two years. On an annual basis, both headline and core CPI accelerated to reach the highest growth rates in a year. The National Federation of Independent Business reported that small business confidence fell for the first time in three months in March, though it remains at historically elevated levels. The net share of small business owners planning to raise worker compensation fell in March to the lowest reading since last November. Consumers were also less upbeat, as consumer sentiment fell in early April, driven by both the current conditions and expectations components. Finally, job openings declined in February but remain just below January’s all-time high according to the Job Openings and Labor Turnover Survey.

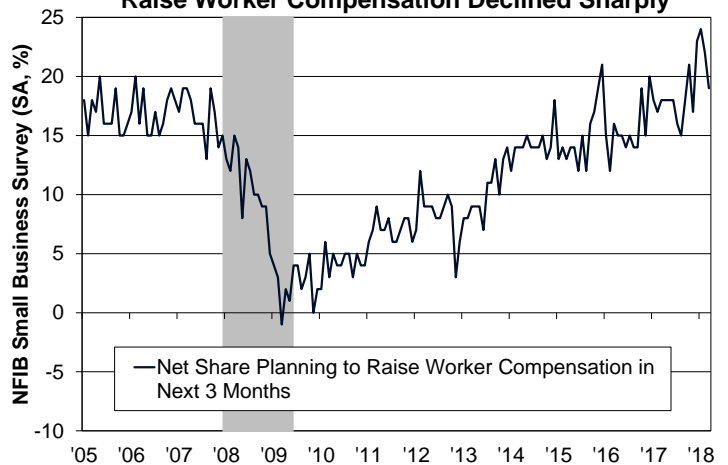
- **The Consumer Price Index (CPI)** fell 0.1 percent in March and increased 2.4 percent from a year ago. Core prices rose 0.2 percent from February and 2.1 percent from March 2017. **Import prices** were flat in March and rose 3.6 percent annually, the largest gain since last April. **The Producer Price Index (PPI)** for final demand of goods and services rose 0.3 percent in March. On an annual basis, gains in the headline and core PPI indexes accelerated to 3.0 percent and 2.7 percent, respectively. The Bureau of Labor Statistics produces each of these reports.
- **The National Federation of Independent Business (NFIB) Small Business Optimism Index** fell 2.9 points in March to 104.7, the largest monthly drop since June 2015. The net share of small businesses expecting the economy to improve fell 11 points to 32 percent, compared with the all-time high 50 percent reached in December 2016.
- **The University of Michigan Consumer Sentiment Index** fell 3.6 points to 97.8 in the April preliminary reading. Short-term and long-term inflation expectations both ticked down a tenth to 2.7 percent and 2.4 percent, respectively.
- **The Job Openings and Labor Turnover Survey (JOLTS)** showed that job openings decreased 176,000 to 6.1 million in February, according to the Bureau of Labor Statistics. The job openings rate fell one-tenth to 3.9 percent. The hires, quits, and layoffs rates were little changed at 3.7 percent, 2.2 percent, and 1.1 percent, respectively.

Headline Inflation Falls As Energy Prices Tumble



Source: Bureau of Labor Statistics

The Net Share of Small Businesses Planning to Raise Worker Compensation Declined Sharply



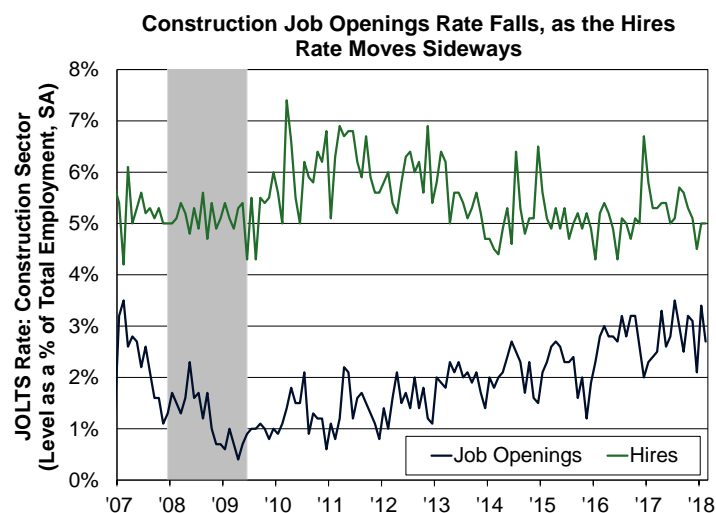
Source: The National Federation of Independent Business



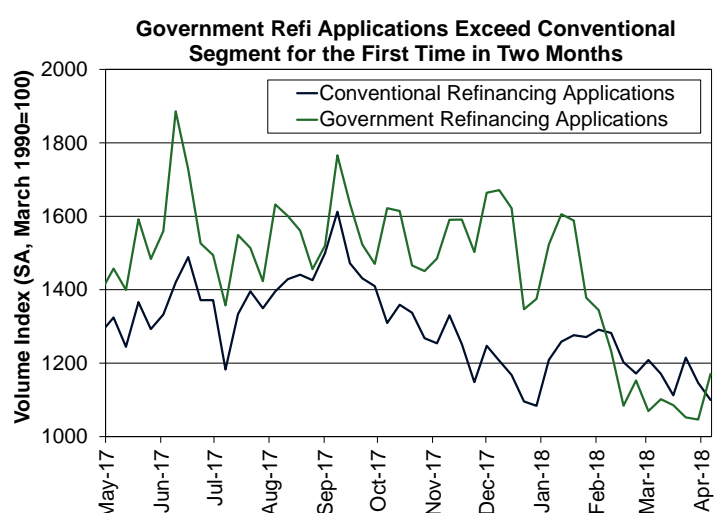
Housing: Refinance Mortgage Demand Hovers Around Expansion Lows

This week's limited housing news was on the soft side. The Job Openings and Labor Turnover Survey showed that construction job openings pulled back in February after approaching an expansion high in January. Despite the decline, openings have increased from year-ago levels every month since September 2017. The hires rate was flat in February but likely deteriorated in March, presaged by the March employment report released last week, which showed the largest decline in construction payrolls in three years. The only other report released this week showed that both purchase and refinance mortgage demand fell last week. Notably, refinance mortgage applications dropped for the fourth time in five weeks to the second lowest level of the expansion, even as mortgage rates have stabilized over the past two months. As a share of total mortgage applications, refinance applications continued to edge down to a fresh expansion low of 38.4 percent. The decline in conventional refinance applications last week was responsible for the overall drop in refinance demand as it outweighed the jump in the government segment. However, the surge in government refinance demand was enough to cause the level of government applications to exceed conventional refinance applications for the first time in two months. The average 30-year fixed mortgage rate rose 2 basis points this week to 4.42 percent, according to Freddie Mac.

- **The Job Openings and Labor Turnover Survey (JOLTS)** showed that construction job openings fell 22.2 percent to 196,000 in February, according to the Bureau of Labor Statistics. The job openings rate declined 0.7 percentage points to 2.7 percent, while the hires rate held steady at 5.0 percent. The quits rate edged down one tick to 2.1 percent.
- **Mortgage applications** fell 1.9 percent for the week ending April 6, according to the Mortgage Bankers Association. Purchase applications dropped for the second consecutive week, declining 2.0 percent. Refinance applications decreased 1.7 percent as the 4.1 percent drop in conventional refinance applications outweighed an 11.8 percent rise in government refinance applications. The survey's average 30-year fixed mortgage rate fell 3 basis points to 4.66 percent.



Source: Bureau of Labor Statistics



Source: Mortgage Bankers Association

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