Economics: Consumers Prove Resilient, Thanks to Solid Jobs Market

This week's economic reports support our view that consumer spending will pick up in the current quarter given positive consumer fundamentals. Weak headline January retail sales, weighed down by declining gasoline prices, masked upbeat core sales, which are used to estimate consumer spending. Strong core sales suggest some upside risk to our forecast of Q1 2016 real consumer spending growth of 2.7 percent annualized. Two reports reaffirm healthy labor market conditions despite financial market crosscurrents. The December JOLTS showed the best performance for the rates of job openings, hires, quits, and layoffs for the expansion. The timely weekly initial jobless claims report also pointed to a solid jobs market. The combination of more job openings and quits from the JOLTS points to continued firming of wages amid a tightening labor market. The January NFIB survey indicated that both the share of firms reporting unfilled job openings and the share reporting increasing compensation over the past three months were at expansion highs. On the inflation front, the disinflationary pressure from past appreciation of the dollar on import prices did not abate in January. In her semi-annual Congressional testimony, Fed Chair Yellen noted that concerns about low inflation remain given increased financial and global growth uncertainty, but reiterated that inflation should gradually rise to the target as oil prices and the dollar stabilize.

➢ **Retail sales** edged up only 0.2 percent in January, according to the Census Bureau, weighed down by a price-related 3.1 percent decline in gasoline station sales. Otherwise, sales were strong across the board, especially for non-store sales. Core sales (excluding autos, gasoline and building materials) rebounded 0.6 percent, more than reversing the 0.3 percent dip in December. Overall sales were 3.4 percent above their year-ago level, the best showing in a year.

➢ **The University of Michigan Consumer Sentiment Index** dipped 1.3 points to 90.7 in the February preliminary reading.

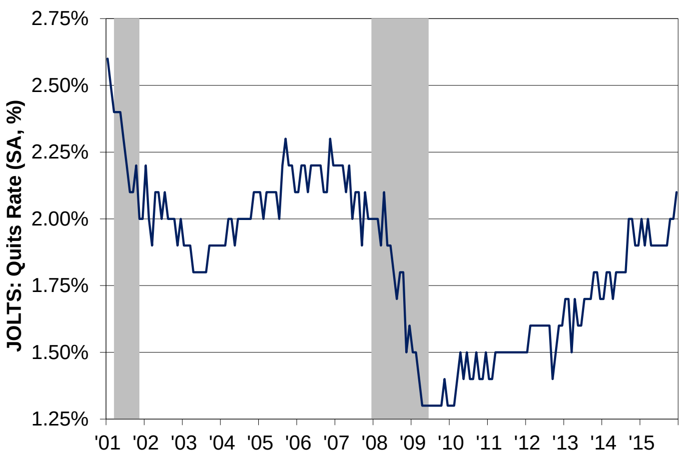
➢ **The National Federation of Independent Business (NFIB) Small Business Optimism Index** dropped 1.3 points to 93.9 in January, the second decline over the past three months, sending the index to its lowest level since February 2014. Details reinforced the notion of a tightening labor market in January. The share of firms reporting unfilled job openings and the share reporting increasing compensation over the past three months rose to 29 percent and 27 percent, respectively. However, the share planning to raise compensation in the near term pulled back from its expansion high in the prior month.

➢ **The Job Openings and Labor Turnover Survey (JOLTS)** showed that the job openings rate rebounded as the hires rate was unchanged in December, according to the Bureau of Labor Statistics. The job openings rate rose to 3.8 percent, matching the post-recession high reached last July, while the hire rate was unchanged at 3.7 percent, also the highest rate during the expansion. The number of workers who quit posted the biggest jump since September 2014, pushing the quit rate up to 2.1 percent, a fresh high for the expansion. The layoff rate fell to 1.1 percent, matching post-recession lows.

➢ **Import prices** fell 1.1 percent in January for the second consecutive month, according to the Bureau of Labor Statistics. Imported petroleum prices dropped 13.4 percent while nonfuel import prices continued to be weak, falling 0.2 percent.

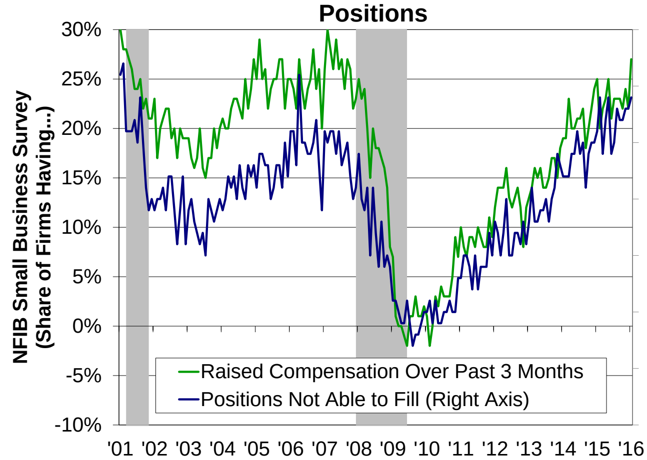
➢ **Initial claims for unemployment insurance** fell by 16,000 to 269,000 in the week ending February 6, according to the Department of Labor. The four-week moving average decreased by 3,500 to 281,250.

Quit Rate Jumps to Expansion High



Source: Bureau of Labor Statistics

Small Businesses Compete to Fill Open Positions



Source: National Federation of Independent Business

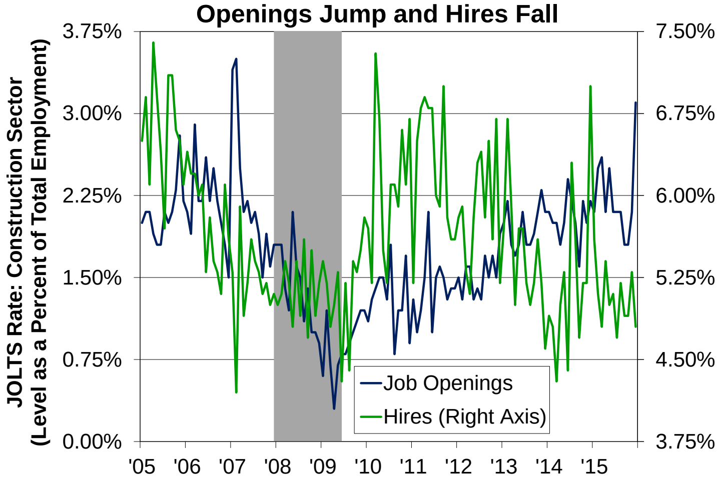
Housing: Refi and Construction Job Opportunities Brighten

A quiet week of housing data allowed mortgage demand and construction jobs to step into the spotlight. Total mortgage applications jumped to the highest level since the surge just before the implementation of the TILA-RESPA Integrated Disclosure (TRID) regulation last October, as declining mortgage rates have revived refi demand. After a steep drop during the two weeks following the December Fed rate liftoff, demand for refinancing has increased as mortgage rates plummeted in a flight to safety amid global financial markets turmoil. This week's Freddie Mac survey showed that mortgage rates fell for the sixth consecutive week, with 30-year fixed mortgage rates dropping seven basis points to 3.65 percent, the lowest level since last April. Demand for purchase mortgages, on the other hand, has cooled at the start of 2016. After rising at a good clip during the last two months of 2015, the average level of purchase applications for January fell 1.2 percent from December, and data for the first week of February showed only a smidgen of improvement from the prior week. On the labor market front, job opportunities opened up in a big way for construction workers, according to the JOLTS, which is released with a one-month lag to the employment report. The December survey showed that the job openings rate for the construction industry surged to a fresh expansion high, while the hires rate fell to the lowest reading in six months. The diverging trends in openings and hires suggest that builders are having difficulties filling openings. Meanwhile, construction workers appear to be gaining more confidence in their job prospects, as the rate of quits in the industry rebounded to a 12-month best. Overall, recent trends from the JOLTS are consistent with the results from the January National Association of Home Builders survey, which indicated that the biggest problem builders faced in 2015 and expect to face in 2016 is the cost and availability of labor, followed by the cost and availability of lots, suggesting continued constrained housing supply this year.

➢ **The Job Openings and Labor Turnover Survey (JOLTS) showed that construction job openings** jumped 50 percent in December to 207,000, according to the Bureau of Labor Statistics. The job openings rate for construction workers rose one percentage point to 3.1 percent, the highest level since February 2007. The hires rate fell by one-half of a percentage point to 4.8 percent, more than undoing the gain in November. The quit rate rose two-tenths to 2.2 percent, the highest level in 2015.

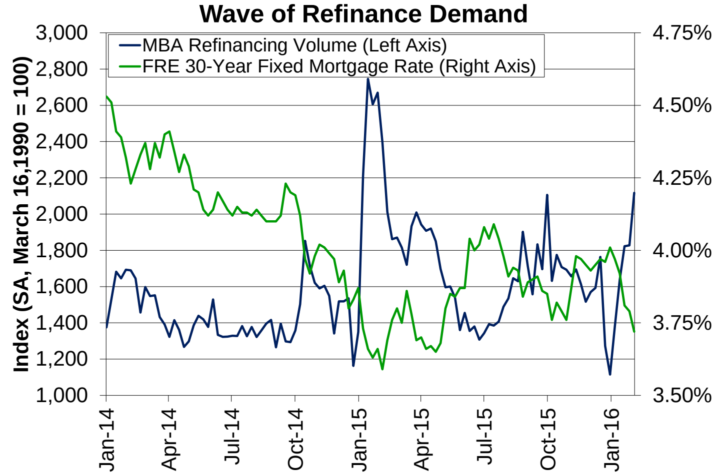
➢ **Mortgage applications** rose for the fourth time in the past five weeks, improving 9.3 percent for the week ending February 5, according to the Mortgage Bankers Association. Refinancing applications drove the gain, increasing by 15.8 percent, as the 30-year fixed mortgage rate dropped six basis points to 3.91 percent. Mortgage rates have declined every week since the start of this year, reaching the lowest level since the end of April 2015. Purchase applications edged up 0.2 percent following a 7.0 percent drop in the prior week.

Construction Job Market Is Out of Sync as Openings Jump and Hires Fall



Source: Bureau of Labor Statistics

Plummeting Mortgage Rates Create a New Wave of Refinance Demand



Source: Mortgage Bankers Association

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