

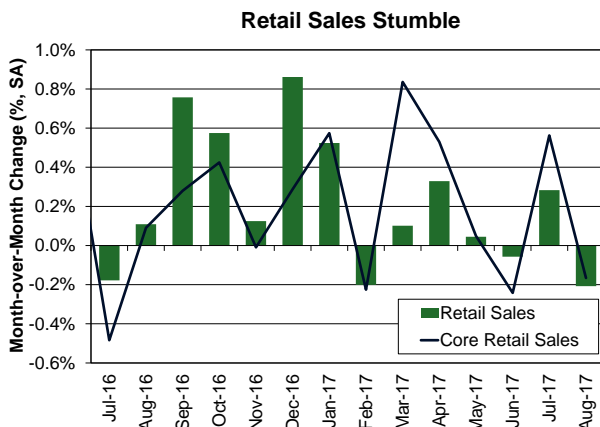


Weekly Note – September 15, 2017

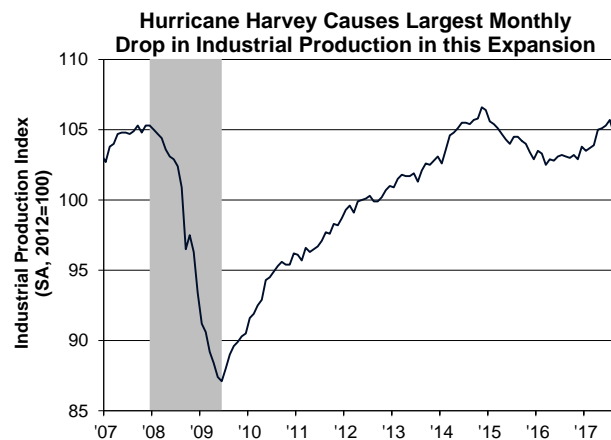
### Economics: Hurricane Effects Begin to Appear in the Data

A busy week of economic data saw consumer spending lose momentum, industrial production drop off, and inflation pick up. Retail sales fell for the second time in three months in August, as revisions cut the strong gain in July in half and flipped a rise in June to a decline. Hurricane Harvey, which hit the Gulf Coast of Texas in late August, possibly weighed on retail sales. However, the sizable downward revisions to prior months point to weakening consumer spending even before the storm. Industrial production fell sharply in August, posting the largest monthly decline of the expansion. The Federal Reserve estimated that Hurricane Harvey reduced the rate of change in total output by roughly three-quarters of a percentage point. Output from the manufacturing, mining, and utilities sectors all declined during the month. Inflation surprised to the upside in August, as a rise in energy prices lifted annual growth in the Consumer Price Index (CPI) for the second consecutive month. Year-over-year growth in the core CPI (excluding food and energy prices) was unchanged for the fourth consecutive month. Hurricanes Harvey and Irma could influence headline inflation in the coming months as oil production in Texas and food production in Florida were disrupted. The labor market continues to edge toward full employment, as the number of job openings rose in July to a new record high and have outnumbered the number of hires since the start of 2016. Small businesses continue to report difficulty filling open positions, as the share of firms unable to find qualified workers for open positions remained at an expansion high in August. However, firms refuse to offer higher wages to attract candidates, as the share of firms planning to raise compensation fell for the second straight month to hit a nine-month low. Finally, consumer confidence edged down in early September, as the hurricanes weighed on consumers' outlook for the economy.

- **Retail sales** declined 0.2 percent in August, according to the Census Bureau. Motor vehicle and parts sales fell 1.6 percent. Core retail sales, which exclude auto, building material, and gas station sales, fell 0.2 percent. The June and July gains in retail sales were both revised downward three-tenths of a percent.
- **Industrial production**, a gauge of output in the manufacturing, utility, and mining sectors, fell 0.9 percent in August, according to the Federal Reserve Board. The decline was widespread, as manufacturing output fell 0.3 percent, mining output decreased 0.8 percent, and utilities output dropped 5.5 percent.
- **The Consumer Price Index (CPI)** increased 0.4 percent in August. The core index rose 0.2 percent. Year-over-year, the headline index grew 1.9 percent, while the core index increased 1.7 percent. **The Producer Price Index (PPI)** for final demand of goods and services rose 0.2 percent in August. Core PPI edged up 0.1 percent. From a year ago the headline and core indices increased 2.4 percent and 1.9 percent, respectively. The Bureau of Labor statistics produces both reports.
- **The Job Openings and Labor Turnover Survey (JOLTS)** showed that job openings increased 0.9 percent in July to 6.2 million, according to the Bureau of Labor Statistics. As a share of total employment, the job openings rate was unchanged at 4.0 percent. The hires rate ticked up one-tenth to 3.8 percent. The quits rate ticked up to 2.2 percent.
- **The National Federation of Independent Business (NFIB) Small Business Optimism Index** ticked up 0.1 points to 105.3 in August. The percent of firms planning to raise compensation fell to 15 percent, while the share of firms unable to find qualified workers for open positions remained at 52 percent.
- **The University of Michigan Consumer Sentiment Index** fell 1.5 points to 95.3 in the September preliminary reading. A 4.3 point drop in the expectations component outweighed a 3.0 point rise in the current conditions.



Source: Census Bureau



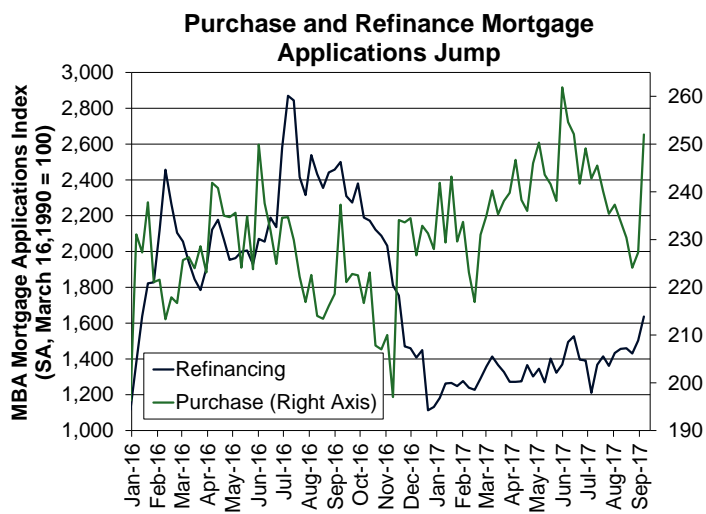
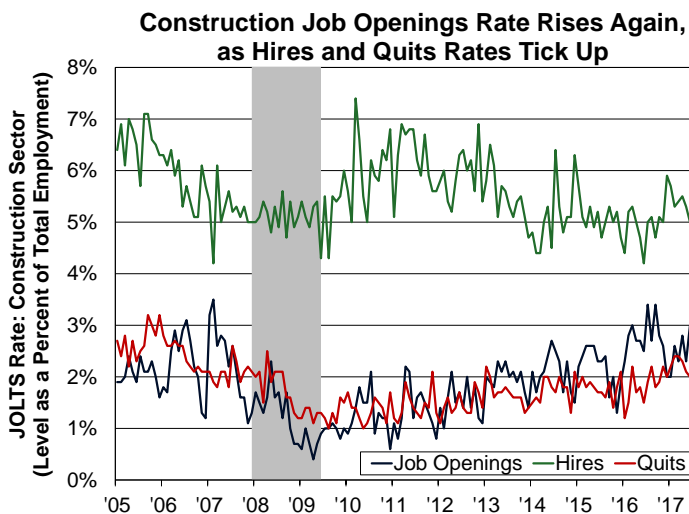
Source: Federal Reserve Board



# Housing: Good News for Construction Workers and Mortgage Demand

A quiet week of housing data was given a jolt by positive news for the construction labor market and mortgage applications. First, the Job Openings and Labor Turnover Survey (JOLTS) reported that construction hiring as a share of total construction employment rebounded in July after falling to the lowest level of the year in June. The construction job openings rate rose again after a strong gain in June to reach the second highest level of the expansion. The trend in the openings rate is consistent with surveys of home builders indicating that access to labor remains a challenge this year. Confidence among construction workers in their job prospects improved, as the quits rate ended a three-month stretch of declines after hitting an expansion high in February and March. The August jobs report released earlier this month showed continued positive momentum for the construction sector, as construction payrolls showed a strong 28,000 job gain, including a gain of 13,000 for residential construction specifically. Mortgage demand jumped last week, with strong increases in both purchase and refinance mortgage applications. Purchase applications jumped 10 percent, the strongest weekly gain since the week after the presidential election last November. Purchase applications had been trending down over the past three months since climbing to a seven-year high in early June, but last week's surge reversed most of the ground lost during that time. Refinance applications also climbed, rising to the highest level since last November after the fifth increase in the past six weeks. Finally, the average 30-year fixed mortgage rate was unchanged this week, remaining at a 2017 low of 3.78 percent, according to Freddie Mac.

- **The Jobs Openings and Labor Turnover Survey (JOLTS) showed that construction job openings** rose 9.4 percent in July to 232,000, after jumping 30.1 percent in June, according to the Bureau of Labor Statistics. The job openings rate increased two-tenths to 3.2 percent, while the hires rate improved three-tenths to 5.3 percent. The quits rate edged up one-tenth to 2.1 percent. The layoff rate increased three-tenths to 3.1 percent, the highest level of 2017.
- **Mortgage applications** increased 9.9 percent for the week ending September 8, according to the Mortgage Bankers Association. Purchase applications jumped 10.9 percent, as both conventional and government purchase applications spiked, rising 10.4 percent and 12.5 percent, respectively. Refinance applications increased 8.9 percent. Conventional refinance applications improved 7.5 percent, while government applications rose 16.2 percent. The survey's average 30-year fixed mortgage rate fell for the third consecutive week, dropping 3 basis points to 4.03 percent.



Source: Bureau of Labor Statistics

Source: Mortgage Bankers Association

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