Economics: Return of the Consumer

Economic data released this week bodes well for the consumer outlook in the current quarter and is supportive of our forecast for a pickup in consumer spending in Q4 from the 1.8 percent annualized pace in Q3. Retail sales in October rebounded, with a healthy gain in core-sales amid lower spending on gasoline, while the advance reading of November consumer sentiment showed a fourth consecutive increase to an expansion best, indicating the pickup in spending is likely to continue this month. On the heels of last week's solid employment report, labor market data released this week were also positive on balance, as the September Job Openings and Labor Turnover Survey (JOLTS) showed the largest monthly gain in hires in more than four years. The four-week moving average of initial jobless claims increased last week for the first time in two months, but claims have held below 300,000 for nine straight weeks, the longest such streak since 2000. Meanwhile, U.S. consumers are also getting a boost from lower prices of imported goods, due in large part (but not entirely) to falling oil prices. Though crude oil prices rallied a bit on Friday morning, reaching $75 a barrel, they remained near five-year lows, highlighting an additional support to consumers this quarter.

- **Retail sales** increased 0.3 percent in October, just barely reversing the decline in September. Gasoline station sales slumped 1.5 percent, and have declined in each of the past five months, weighing on headline retail sales. Excluding sales at gasoline stations, retail sales rose 0.5 percent. Core sales, which exclude auto, building supplies, and gasoline station sales, increased 0.6 percent in October—tied for the best showing since March.

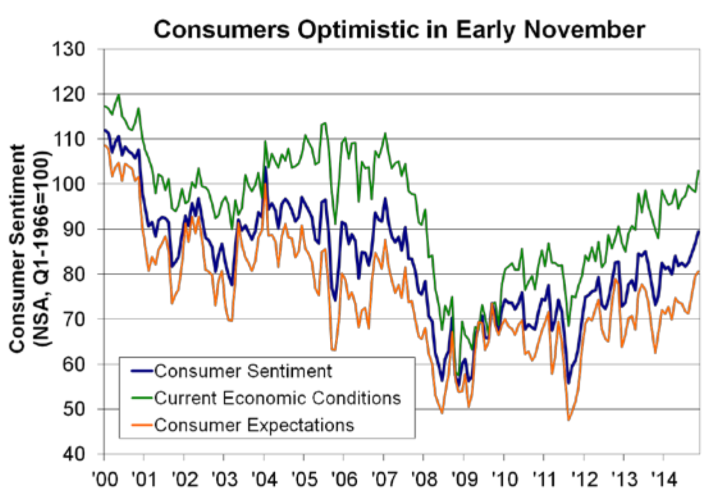
- **The Reuters/University of Michigan Consumer Sentiment Index** jumped 2.5 points in the preliminary November reading to a more than seven-year high of 89.4. Both the current conditions and expectations components reached highs for the expansion.

- **The National Federation of Independent Business (NFIB) Small Business Optimism Index** increased 0.8 points to 96.1 in October, reversing an equal decline in the prior month. Boosting the headline index, more firms expected higher sales, cited job openings, and planned to increase employment, expand inventories, and undertake capital expenditures than in the prior month.

- **Initial claims for unemployment insurance** increased 12,000 to 290,000 in the week ending November 8, according to the Department of Labor. The four-week moving average increased 6,000 to 285,000.

- **Import prices** declined 1.3 percent in October, the largest monthly drop since mid-2012, as petroleum import prices sank 6.9 percent. Nonpetroleum import prices declined 0.1 percent for the third consecutive month. Over the past 12 months, import prices are down 1.8 percent.

- **The Job Openings and Labor Turnover Survey (JOLTS)** showed a 2.4 percent decline in total job openings in September to 4.74 million from a more than 13-year high in August, according to the Bureau of Labor Statistics. Hires jumped, however, rising 6.0 percent to a recovery-best 5.03 million. Quits, a sign of confidence in the labor market, surged 9.7 percent to 2.75 million—also a recovery-high. Over the past 12 months, job openings, hires, and quits are up 19.9 percent, 6.9 percent, and 15.6 percent, respectively.



Source: Reuters/University of Michigan

Source: Bureau of Labor Statistics

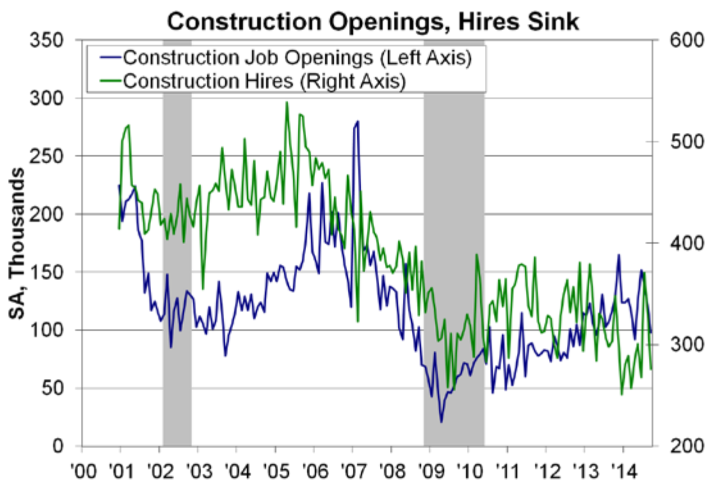
Housing: Construction Labor Market Improvement Lacking Thus Far

Housing data were light this week. Data on construction job openings and hires from the aforementioned JOLTS showed retrenchment in the construction labor market. Job openings for construction workers in September fell to near two-year lows along with a steep drop in hires. Both declined sharply from a year ago. However, construction quits, though down in September, exhibited strong year-over-year improvement, underscoring leverage, confidence, or both for employed construction workers. Still the lack of a consistent upward trend in construction hiring fits our sanguine outlook for residential construction, which we view as hampered not just by sluggish housing demand, but also by supply constraints as builders struggle to resurrect the supply chain that was dismantled during the crisis. We expect improvement in 2015, though our sub-1.2 million forecast for housing starts next year remains slightly below consensus. On the mortgage front, mortgage loan performance continued its steady improvement in Q3, with short-term delinquency hovering just above a four-decade low. Recent mortgage demand, however, was mixed. The recent pickup in refinance mortgage applications, as measured by the Mortgage Bankers Association, continued to wane last week as mortgage rates slowly increased from a more than one-year low. After reaching the lowest level since March in October, purchase activity has inched higher for three consecutive weeks, but remains quite anemic. According to Freddie Mac, the yield on 30-year fixed-rate mortgages ticked down one basis point this week to 4.01 percent.

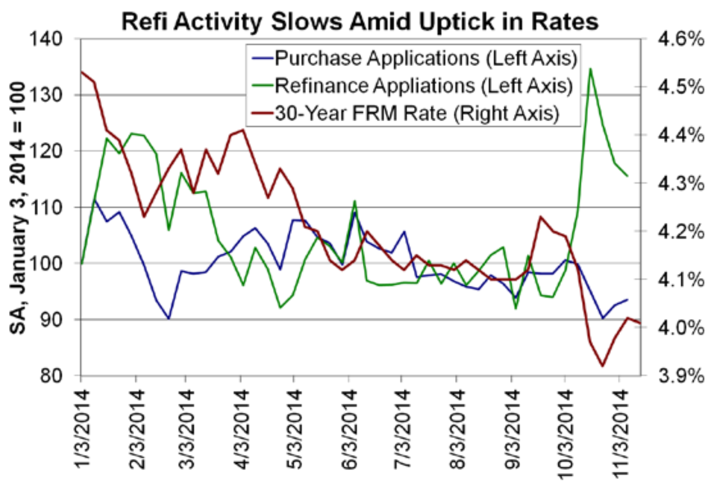
- **Construction job openings** fell 19.0 percent in September to 98,000, the lowest level since April. Construction hires dropped 16.4 percent during the month to a three-month low of 276,000. Quits in the construction sector declined 3.9 percent to 122,000, though they held at the third-highest level witnessed during the current expansion. Over the past 12 months, openings are down 16.2 percent—the worst showing in more than two years—while hires declined 9.2 percent. Quits have trended higher, however, and are up 29.8 percent over the past year.

- **Mortgage delinquency** continued to trend downward in Q3 according to the MBA National Delinquency Survey. The seasonally adjusted share of mortgages past due declined 19 basis points to 5.85 percent during the quarter. Short-term delinquency, or mortgages 30-59 days past due, ticked down one basis point to 2.65 percent—the lowest since Q1 2006. Seriously delinquent mortgages, which are not seasonally adjusted and include mortgages 90 days past due or in the process of foreclosure, declined for the 12th consecutive quarter, falling 15 basis points to 4.65 percent.

- **Mortgage applications** declined for a third consecutive week in the week ending November 7, according to the Mortgage Bankers Association (MBA), edging down 0.9 percent. A small increase in the contract rate for 30-year fixed-rate mortgages coincided with a 1.9 percent drop in refinance mortgage applications—a third straight decline—while purchase applications increased for a second consecutive week, rising 1.1 percent.



Source: Bureau of Labor Statistics



Source: Mortgage Bankers Association, Freddie Mac

Brian Hughes-Cromwick
Economic and Strategic Research Group
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