



Weekly Note – December 15, 2017

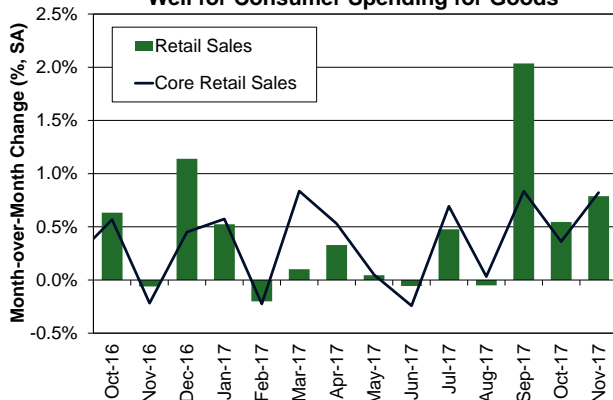
In our final Economic and Housing Weekly Note of 2017, the Economic and Strategic Research Group wishes you all happy holidays and a fruitful New Year. See you in 2018!

Economics: Fed Raises Near-Term Growth Projection

In this week's headline story, the Federal Open Market Committee (FOMC) raised the fed funds rate for the third time in 2017, as widely expected. The FOMC also released updated economic projections showing that the median economic growth forecast for 2018 was revised up from 2.1 percent to 2.5 percent. Despite a more optimistic growth outlook, the "dot plot," which provides FOMC members' assessment of the appropriate target level for the fed funds rate, implies three rate hikes in 2018, unchanged from the September projection. The post-meeting statement noted that the committee expects the labor market will "remain strong" but that annual inflation is below the Fed's two-percent target and is expected to remain there in the near term. Price-related data released this week did little to suggest any change in the near-term inflation outlook. The CPI jumped in November due to a surge in energy prices, which have been volatile since the hurricanes. However, annual growth in core CPI (excluding food and energy prices) decelerated. Retail sales rose in November for the third consecutive month with broad-based increases across major categories. Core retail sales (excluding auto, gasoline and building materials sales), which is an input for estimating the consumer goods spending component of GDP, increased for the fourth time in five months, supporting our view that consumer spending growth will accelerate this quarter. Industrial production rose in November for the third straight month, normalizing from the hurricane disruptions, with manufacturing output rising to a fresh expansion high. The NFIB survey showed that small business confidence jumped to a three-decade high in November, as the component reflecting firms' outlook for the economy rose to just below an expansion high. Concerning the labor market, the share of firms planning to increase employment rose to an all-time high; however, the share reporting difficulty finding qualified workers fell to a nine-month low. Lastly, the October JOLTS showed that the job openings rate (openings as a share of total employment) fell from an expansion high while the hires rate rose to tie an expansion best.

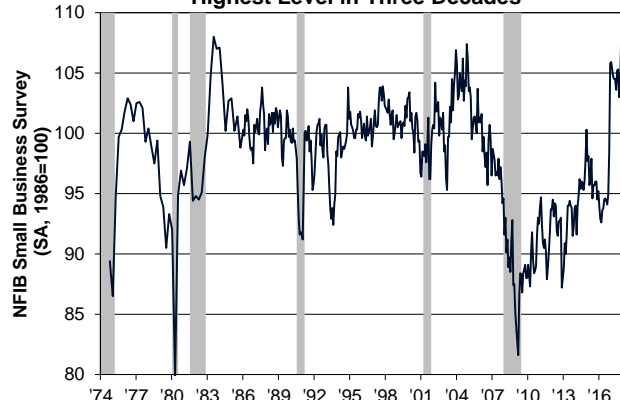
- **Retail sales** and core retail sales both rose 0.8 percent in November, according to the Census Bureau. All major retail categories rose with the exception of motor vehicles. Nonstore sales posted the largest gain in a year.
- **Industrial production**, a gauge of output in the manufacturing, utility, and mining sectors, was up 0.2 percent in November, according to the Federal Reserve Board. Manufacturing edged up 0.2 percent. Mining output rose 2.0 percent, the biggest gain since February, while utility output fell 1.9 percent.
- **The Consumer Price Index (CPI)** jumped 0.4 percent in November and 2.2 percent from a year ago. Core prices rose 0.1 percent from October and 1.7 percent from last November. **Import prices** grew 0.7 percent in November. **The Producer Price Index (PPI)** for final demand of goods and services and core PPI rose 0.4 percent and 0.2 percent, respectively, in November. (The Bureau of Labor Statistics produces each report)
- **The National Federation of Independent Business (NFIB) Small Business Optimism Index** jumped 3.6 points in November to 107.5. The share of businesses planning to increase employment jumped 6 percentage points to 24 percent. The share of businesses expecting sales to improve over the next six months hit an expansion high.
- **The Job Openings and Labor Turnover Survey (JOLTS)** showed that job openings fell 2.9 percent in October to 6.0 million, according to the Bureau of Labor Statistics. The job openings rate edged down to 3.9 percent. The hires rate rose two-tenths to 3.8 percent. The quits rate was flat at 2.2 percent. The layoffs rate fell one-tenth to 1.1 percent.

Continued Strength in Core Retail Sales Bodes Well for Consumer Spending for Goods



Source: Census Bureau

Small Business Confidence Jumps to the Highest Level in Three Decades



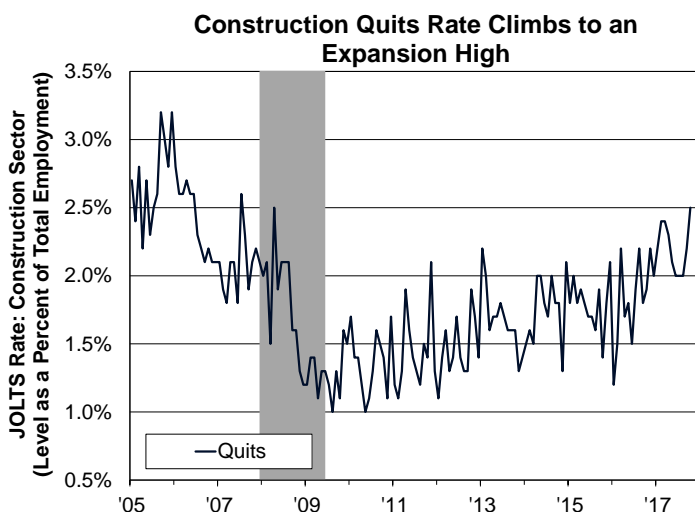
Source: National Federation of Independent Business



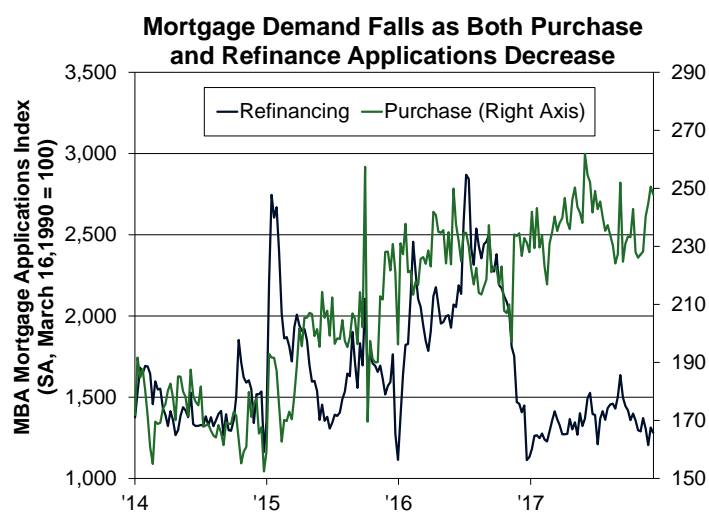
Housing: Construction Job Opportunities Rebound

The construction labor market stepped into the spotlight amid a quiet week of housing data. The Job Openings and Labor Turnover Survey reported a sizable increase in construction job openings but a drop in hires in October. The hires rate (hires as a share of construction employment) fell for the first time in four months, declining from an eight-month best in September. The job openings rate, on the other hand, rose for the first time since July, fully reversing a large drop in the prior month. Construction workers grew more confident in their job prospects in October, as the quits rate rose for the second consecutive month to reach an expansion high. Mortgage demand fell last week for the second time in three weeks, as both purchase and refinance applications declined. Purchase applications posted their first loss in six weeks, while refinance applications fell for the third time in four weeks. Mortgage rates decreased this week, as the average yield on a 30-year fixed mortgage fell 1 basis point to 3.93 percent, according to Freddie Mac.

- **The Job Openings and Labor Turnover Survey (JOLTS)** showed that **construction job openings** increased 26.8 percent to 227,000 in October, according to the Bureau of Labor Statistics. The construction job openings rate rose seven-tenths of a percentage point to 3.2 percent. The hires rate fell two-tenths to 5.4 percent. The quits rate increased three-tenths to 2.5 percent, while the layoffs rate fell to a near two-year low of 2.1 percent.
- **Mortgage applications** fell 2.3 percent for the week ending December 8, according to the Mortgage Bankers Association (MBA). Purchase applications fell 1.1 percent, thanks to 0.3 percent and 3.3 percent decreases in conventional and government purchase applications, respectively. Refinance applications fell 2.5 percent, as conventional applications decreased 3.2 percent while government applications edged up 0.4 percent. The MBA survey's average 30-year fixed mortgage rate increased 1 basis point to 4.20 percent.



Source: Job Openings and Labor Turnover Survey



Source: Mortgage Bankers Association

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