



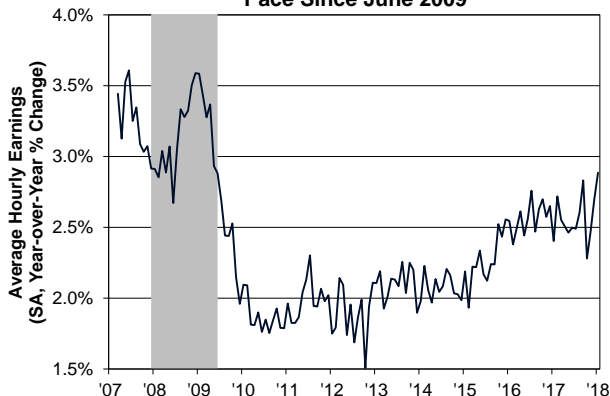
Weekly Note – February 2, 2018

### Economics: Strong Wage Gain Puts Fed in a Pickle

This week featured a strong jobs report to start 2018. The January job gain of 200,000 was nearly 20,000 more than the average monthly gain in 2017. The big news was the pop in annual wage gains to the fastest pace since June 2009. The unemployment rate was flat, as more people joined the labor force, offsetting the increased employment, a phenomenon witnessed for the third consecutive month. The acceleration in wage growth could embolden the Fed to hike interest rates faster than what the market expects. In the [statement](#) following the January Federal Open Market Committee meeting, the Committee set the stage for a March rate hike, noting that inflation remains below the two-percent target, but also remarking that market-based measures of inflation compensation have risen recently. The annual increase in the personal consumption expenditures deflator (PCE), the Fed’s preferred measure of inflation, decelerated slightly in December to 1.7 percent. A measure of labor compensation that includes benefits showed the fastest annual compensation growth rate of the expansion during the fourth quarter, thanks to the biggest annual wage gains since the fourth quarter of 2008. On the consumer front, real consumer spending growth rose for the fourth consecutive month in December. However, spending growth outpaced disposable income gains, pushing the saving rate down to 2.4 percent, a 12-year low. Auto sales fell in January for the third time in four months. Two measures of consumer confidence showed improving consumer expectations in January amid deteriorating assessments of current conditions. Manufacturing maintained recent momentum, as factory orders increased for the fifth straight month in December and a gauge of activity in the sector cooled slightly in January but remained just below September’s 13-year high. Lastly, productivity fell last quarter for the first time since the first quarter of 2016, while the year-over-year growth rate decelerated for the first time in five quarters.

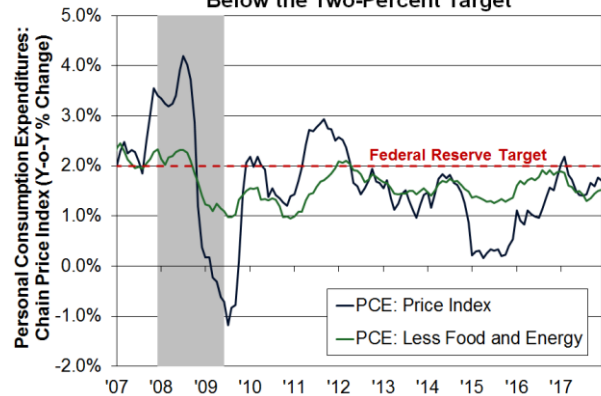
- **Nonfarm payroll employment** expanded by 200,000 in January, according to the Bureau of Labor Statistics (BLS). Hiring during the prior two months was revised downward 24,000, on net, to put the three-month average gain at 192,000. The average workweek fell two-tenths to 34.3 hours. Average hourly earnings rose 0.3 percent during the month and 2.9 percent from a year ago. The unemployment rate and labor force participation rate were both flat at 4.1 percent and 62.7 percent, respectively. The broadest measure of labor underutilization, the U-6 rate, ticked up one-tenth to 8.2 percent.
- **Personal income**, adjusted for inflation, increased 0.2 percent in December, according to the Bureau of Economic Analysis. Real consumer spending rose 0.3 percent. Core PCE rose 1.5 percent from a year ago.
- **The Conference Board Consumer Confidence Index** rose 2.3 points in January to 125.4. **The University of Michigan Consumer Sentiment Index** edged down 0.2 points to 95.7 in the January final reading.
- **The Employment Cost Index (ECI)** increased 0.6 percent (not annualized) in Q4 2017 from Q3 2017 and 2.7 percent from Q4 2016, according to the BLS. Both wages and benefits increased 0.5 percent during the quarter.
- **Nonfarm business productivity** declined 0.1 percent annualized in Q4 2017, according to the BLS. Compensation grew 1.8 percent, and unit labor costs increased 2.0 percent. Productivity increased 1.1 percent from a year ago.
- **Factory orders** increased 1.7 percent in December, while shipments rose 0.6 percent, according to the Census Bureau. Nondurable goods orders, the new piece of data in the report, rose 0.7 percent.
- **The ISM Manufacturing Index** edged down 0.2 points to 59.1 in January (any reading above 50 indicates expansion). Drops in the employment, new orders, and production components drove the decline.
- **Light vehicle sales** fell 3.9 percent to 17.2 million annualized units in January, according to Autodata.

Annual Wage Growth Jumps to the Fastest Pace Since June 2009



Source: Bureau of Labor Statistics

Fed's Preferred Measure of Inflation Remains Below the Two-Percent Target



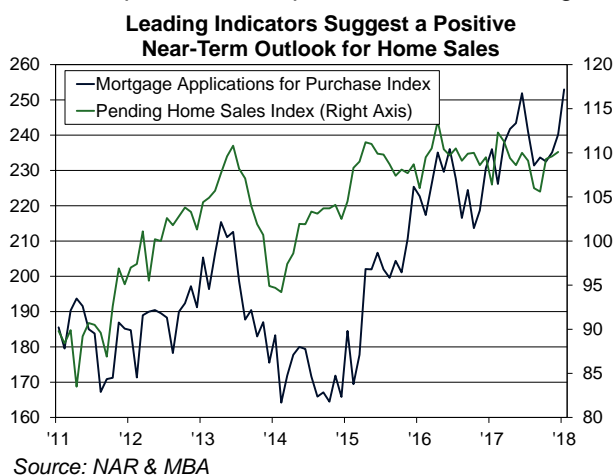
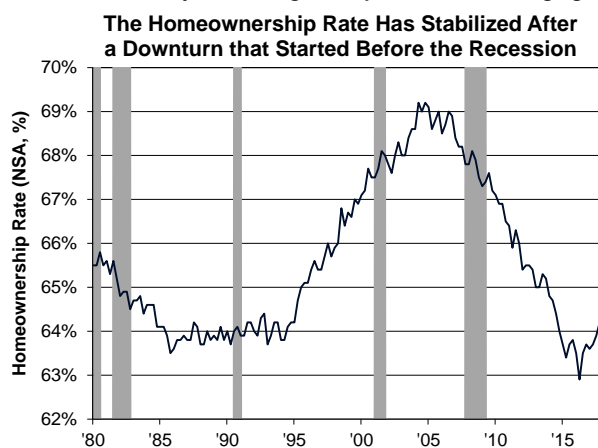
Source: Bureau of Economic Analysis



## Housing: A Week of Good News

Housing data released this week were largely positive, providing good news on homeownership, residential construction spending, and home sales. The fourth quarter Housing Vacancy Survey supports our view that the homeownership rate stabilized in 2017 after trending steadily down since the peak in 2004. The rate increased on a year-over-year basis in every quarter last year, marking the longest streak of annual gains in 13 years. The survey also showed the fastest pace of annual household formation during the fourth quarter in more than two years, driven by the largest gain in homeowner households since 2005. Renter households, on the other hand, declined year-over-year for the third consecutive quarter. Homebuilding activity ended 2017 on a strong note. Spending on new single-family construction was up for the seventh consecutive month to reach a decade high. Multifamily construction spending showed the largest monthly gain since May 2016 to reach the highest level since April 2017. The near-term outlook for home sales brightened as pending home sales, which record contract signings of existing homes and typically lead closings by one to two months, increased in December for the third consecutive month to reach the highest level since last March. In addition, purchase mortgage applications, another leading indicator for home sales, rose in January for the third month in a row, reaching the highest monthly average in over eight years. On a weekly basis, overall mortgage demand fell during the last week of January for the first time in four weeks as both purchase and refinance applications retreated after three consecutive weekly gains. Home prices continued to rise at a rapid clip. The S&P/Case-Shiller National Home Price Index accelerated year-over-year in November for the fourth straight month, reaching the fastest annual growth rate since June 2014. Finally, Freddie Mac's survey showed that the average 30-year fixed mortgage rate increased for the fourth consecutive week to a ten-month high of 4.22 percent.

- **The Housing Vacancy Survey** for Q4 2017 (not seasonally adjusted) showed that the homeownership rate was 64.2 percent, five-tenths higher than in Q4 2016, according to the Census Bureau. The rental vacancy rate fell the first time in six quarters to 6.9 percent, the same as the level a year ago, while the homeowner vacancy rate was flat at 1.6 percent, two-tenths below that level in Q4 2016. The number of households increased 1.4 million from a year ago, as homeowner households rose by 1.5 million but renter households declined by 76,000.
- **Private residential construction spending** increased 0.5 percent in December, according to the Census Bureau. Spending on new multifamily and single-family construction was up 2.6 percent and 0.4 percent, respectively, outweighing the 0.2 percent decline in home improvement spending. On an annual basis, single-family construction spending rose 9.2 percent, compared with a 3.2 percent gain for the multifamily segment.
- **The National Association of REALTORS® (NAR) Pending Home Sales Index** rose 0.5 percent to 110.1 in December. From a year ago, the index also rose 0.5 percent.
- **The S&P/Case-Shiller National Home Price Index** (not seasonally adjusted) rose 0.2 percent in November and 6.2 percent from a year ago.
- **Mortgage applications** decreased 2.6 percent for the week ending January 26, according to the Mortgage Bankers Association (MBA). Purchase applications were down 3.4 percent and refinance applications dropped 2.9 percent. The MBA survey's average 30-year fixed mortgage rate rose 5 basis points to 4.41 percent, a 10-month high.



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