ESR Economic and Housing Weekly Note ***April 15, 2016***

Economics: Ready…Set…Stumble! Economy Poised for Another Slow Start

A busy week of economic data suggested the economy is off to yet another slow start in the first quarter. A disappointing retail sales report signaled that consumer spending, the biggest contributor to economic growth since Q1 2014, has stalled. Vehicle sales, previously a key driver of retail sales, slowed in March, pulling the headline number down. In addition, consumers cut back on discretionary spending at restaurants, bars, clothing and department stores. Gasoline station sales, however, improved for the first time in nine months because of the turnaround in gasoline prices in March. Consumer sentiment dropped for a third consecutive month, driven by worsening expectations. Small businesses are also weighed down by economic uncertainty, as a survey of their sentiment continued to trend down from its recent peak in December 2014. However, they are feeling the benefit of the recent improvement in the labor force participation rate, as the share of firms with few or no qualified candidates dropped to the lowest level since April 2014. However, even as firms are finding it easier to fill positions, plans to increase compensation over the next three months bounced back from sharp drops in the prior two months. Industrial production sputtered again in March, as mining output posted the largest drop since September 2008. There was little evidence this week of a pickup in inflation. After firming to the strongest pace since May 2012, the year-over-year rise in the Consumer Price Index (CPI) softened slightly in March, as price increases for medical care services moderated sizably following two consecutive robust gains.

➢ **The Consumer Price Index (CPI)** increased 0.1 percent in March. Excluding food and energy, core prices edged up 0.1 percent from February, and rose 2.2 percent from a year ago. Notably, growth in medical care service prices edged up just 0.1 percent in March, after growing 0.5 percent in January and February. **Import prices** edged up 0.2 percent last month. Energy prices drove the gain, rising 6.5 percent. **The Producer Price Index (PPI)** for final demand of goods and services declined 0.1 percent in March. Core PPI also fell 0.1 percent from the previous month, but rose 1.0 percent from a year ago. The Bureau of Labor Statistics produces all three reports.

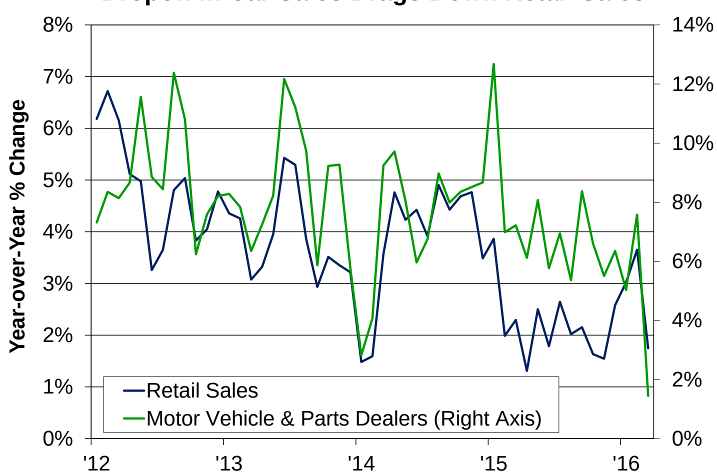
➢ **Retail sales** slipped 0.3 percent in March, according to the Census Bureau. The decline in February was revised to no change. Core sales (excluding autos, gasoline, and building materials), a proxy for consumer goods spending, edged upwards for a third consecutive month, rising 0.1 percent. From a year ago, overall sales rose 1.7 percent, slowing from the 3.7 percent pace in February. Annual growth in core sales also slowed from the pace of the prior month, rising 2.7 percent.

➢ **Industrial production**, a gauge of output in the manufacturing, utility, and mining sectors, declined 0.6 percent for a second consecutive month in March, according to the Federal Reserve Board. Mining production declined 2.9 percent and has not increased since August 2015. In addition, both manufacturing and utilities fell for a second consecutive month.

➢ **The National Federation of Independent Business (NFIB) Small Business Index** fell for the fourth time in the past five months in March, dropping 0.3 points to 92.6, the lowest level since February 2014. On the labor front, the share of firms reporting unfilled job openings fell for a second month to reach the lowest level since last July, while the share of firms planning to increase employment fell to a nine-month low.

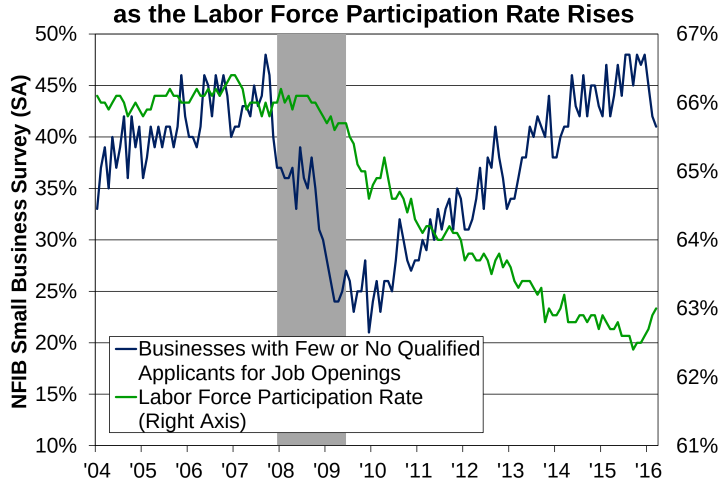
➢ **The University of Michigan Consumer Sentiment Index** fell 1.3 points to 89.7 in the April preliminary reading, as both the present situation and the expectations components declined.

Dropoff in Car Sales Drags Down Retail Sales



Source: Census Bureau

Small Businesses Find Qualified Candidates as the Labor Force Participation Rate Rises

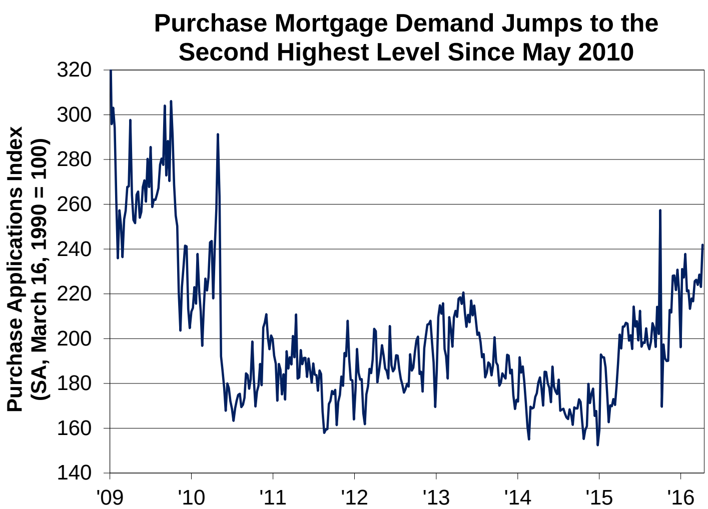


Source: NFIB; Bureau of Labor Statistics

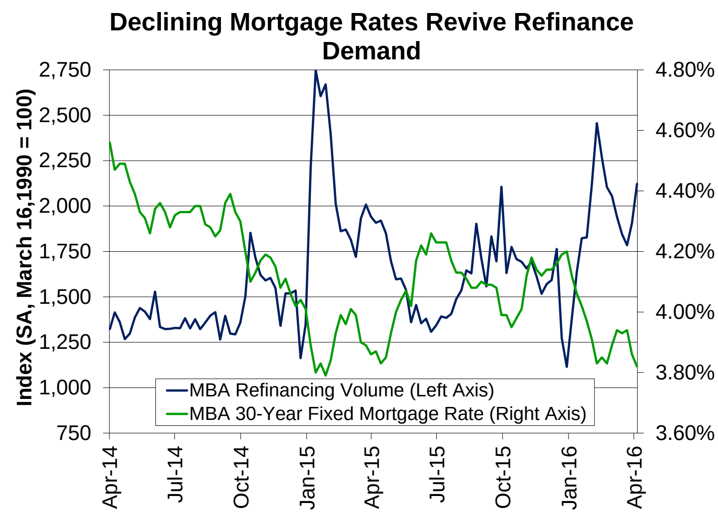
Housing: A Fresh Low for Mortgage Rates This Year Boosts Mortgage Demand

This week offered no major housing indicator releases. The only report — the Mortgage Bankers Association Weekly Survey of Mortgage Applications — provided data supporting a positive near-term outlook for the housing and mortgage market. Both purchase and refinance demand picked up last week amid the second consecutive drop in mortgage rates to the lowest level since January 2015. The surge in purchase mortgage demand sent applications to the second highest level since May 2010. Year-to-date purchase applications are about 24 percent above last year's levels, pointing to an improved spring home sales season this year. Refinance applications posted a double-digit jump last week, the second consecutive rise following six straight declines, to the highest level since February 2016. This week Freddie Mac's survey showed that the average 30-year fixed mortgage rate edged down one basis point to 3.58 percent, the lowest level since May 2013.

➢ **Mortgage applications** rose 10 percent in the week ending April 8, according to the Mortgage Bankers Association. Purchase applications surged 8.4 percent, marking the best showing since early October 2015, just before the TILA-RESPA Integrated Disclosures (TRID) Rule went into effect. After an eight-basis-point drop in the prior week, the average 30-year fixed mortgage rate fell another four basis points last week to 3.82 percent. Refinance applications jumped 11.3 percent last week following a 6.8 percent rise in the prior week.



Source: Mortgage Bankers Association



Source: Mortgage Bankers Association

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