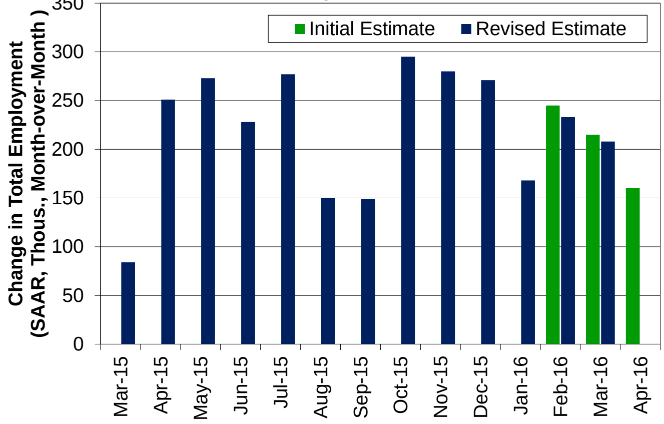
Weekly Note – May 6, 2016

Economics: Jobs Report Likely Rules Out June Rate Hike

A busy week of economic data centered on the labor market, which slowed, but did not falter, according to the April jobs report. While a weak headline job creation number and downward revisions to the past two months offered an uninspiring view of the labor market, there were some underlying positives. The pickup in the average workweek and annual wage growth were encouraging, though neither improved enough to stand up and cheer. More promising was the fall in the U-6 rate, the broadest measure of unemployment, which dropped to tie the lowest level since May 2008. In addition to weak headline job gains, another negative from the report was the labor force participation rate, which fell back in April after showing signs of turning a corner over the past six months to reach a two-year high. While the report may or may not be the start of a weakening trend in the labor market, it supports our expectation that the Fed will not hike in June. The markets agree, as the fed funds futures market dropped the odds of a June hike to a trivial 2.0 percent this morning. In other news this week, productivity was sluggish again in Q1, declining for the fourth time in the past six quarters. The trade deficit narrowed as imports fell more than exports, underscoring slow growth abroad and at home. Imports reached a five-year low, perhaps suggesting the drag from the strong dollar is starting to dissipate. A piece of good news came from the jump in vehicle sales, which almost erased the drop in March and bodes well for retail sales in April. The manufacturing sector showed more signs of life, expanding for the second straight month, according to a survey of purchasing managers. In addition, factory orders picked up for the second time this year in March. However, the sector has a ways to go before truly turning a corner.

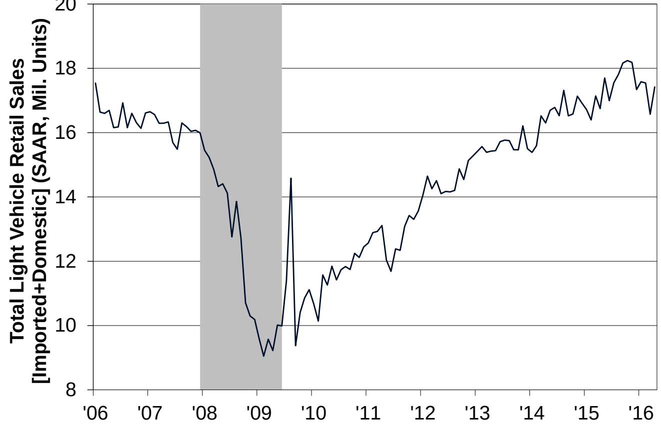
- **Nonfarm payroll employment** expanded by 160,000 jobs in April, according to the Bureau of Labor Statistics. The three-month average gain of 200,000 marked the sixth consecutive rise at or above that threshold. The unemployment rate was unchanged at 5.0 percent, as the participation rate fell two-tenths to 62.8 percent. Average hourly earnings increased eight cents during the month and rose 2.5 percent from a year ago. The average workweek ticked up one-tenth to 34.5 hours. The broadest measure of the unemployment rate (U-6) fell one-tenth to 9.7 percent.
- **Nonfarm business productivity** declined for a second straight quarter, falling 1.0 percent annualized in Q1 2016 from the prior quarter, according to the Bureau of Labor Statistics. Compensation per hour rose 3.0 percent, causing unit labor costs to increase 4.1 percent, the largest increase in over a year.
- **The Institute for Supply Management (ISM) Manufacturing Index** dropped one point to 50.8 in April (any reading above 50 indicates expansion). **The ISM Nonmanufacturing Index**, a gauge of service sector activity, improved 1.2 points in April to 55.7, the highest level this year.
- **Light vehicle sales** jumped 5.1 percent in April to a 17.4 million annualized rate, according to Autodata.
- **The U.S. trade deficit** narrowed by $6.5 billion to $40.4 billion in March, according to the Census Bureau. The 3.6 percent fall in imports outweighed a 0.9 percent drop in exports. The inflation-adjusted goods deficit, used in the calculation of net exports in the GDP estimate, narrowed $5.8 billion to $57.4 billion.
- **Factory orders** increased 1.1 percent in March, driven by the largest jump in defense orders in a year, according to the Census Bureau. Nondurable goods orders, the new piece of data in the report, ended an eight month streak of declines, posting a 1.5 percent gain. Both core capital goods orders and shipments were revised upwards slightly to 0.1 percent and 0.5 percent, respectively.

April Jobs Report Suggests a Slowing Trend in Payroll Growth



Source: Bureau of Labor Statistics

Rebound in Vehicle Sales Bodes Well for Retail Sales

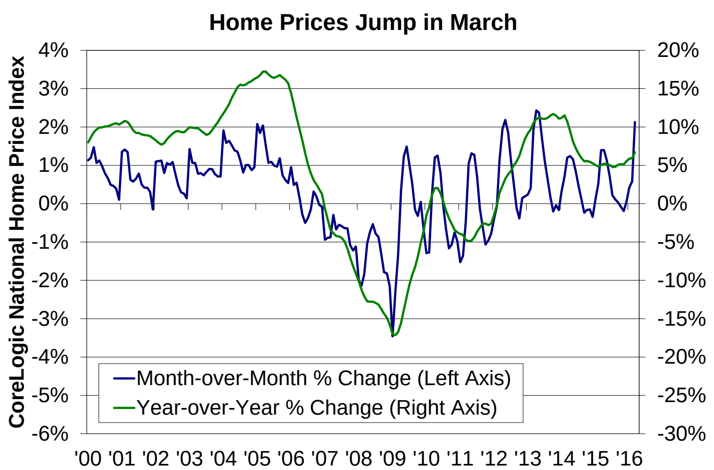


Source: Autodata

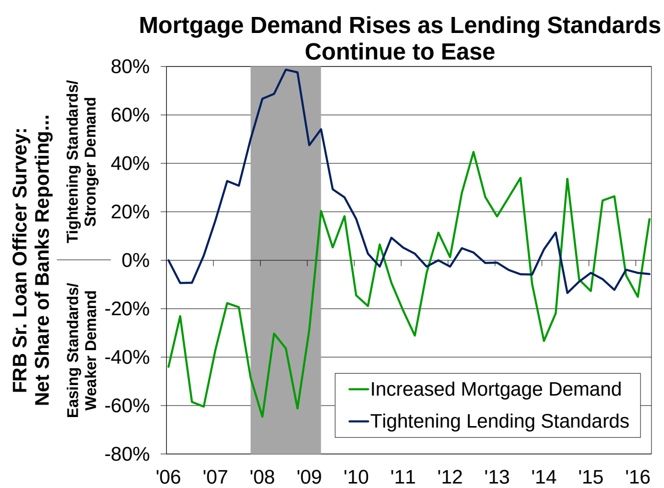
Housing: Small Steps in the Right Direction

A motley crew of data released this week revealed the housing market is maintaining its forward momentum. Total private residential construction spending improved in March for a second straight month, almost recovering from a sharp drop in January. Although single-family spending ended an 11-month stretch of monthly gains, it maintained its expansion-best level reached in February. Multifamily spending jumped to a new record high during the month and posted the largest year-over-year increase since September 2014. Home price growth accelerated further in March, as the Corelogic National Home Price Index showed the largest monthly gain since May 2013 and the largest annual increase since June 2014. However, prices are still 5.3 percent below the April 2006 peak, despite having risen 39.1 percent from the recent trough in 2011. The Federal Reserve's Senior Loan Officer Opinion Survey showed that banks reported easing lending standards for residential mortgages over the three months ending in April, marking a two-year stretch of easing. In addition, demand for mortgages rebounded, ending two quarters of decline. Mortgage applications over the past month corroborate the Fed survey results of rising demand. Both refinance and purchase applications rose, on average, in April from March. Purchase applications posted the highest monthly average level in six years in April, which bodes well for home sales this spring. Mortgage rates declined in the first week of May, with the average 30-year fixed mortgage rate almost reversing the six-basis-point jump in the prior week, falling five basis points to 3.61 percent, according to the survey by Freddie Mac.

- **Private residential construction spending** rose 1.6 percent in March, marking the fourth gain in the past five months, according to the Census Bureau. Spending on new single-family homes was flat from February, while spending on multifamily homes increased 5.6 percent. Spending on improvements rose for a second consecutive month, increasing 2.4 percent, but has not recovered from the largest recorded monthly drop in January. From a year ago, single-family construction spending increased 13.8 percent, compared with a 34.9 percent gain for multifamily.
- **The Federal Reserve Board Senior Loan Officer Opinion Survey** showed continued easing of lending standards for residential mortgage loans in the three months ending in April. Lending standards eased for both GSE-eligible and jumbo loans, according to the responding banks. Lending standards for government and subprime loans were unchanged from the previous survey. Demand for residential mortgages rose for the first time since Q3 2015, while demand for home equity lines of credit strengthened for the eighth consecutive quarter.
- **The CoreLogic National Home Price Index**, a repeat sales measure (not seasonally adjusted), increased 2.1 percent in March. On a year-over-year basis, the index rose 6.7 percent. Every state and the District of Columbia saw year-over-year price gains, with Washington, Colorado, and Oregon leading the way with double-digit gains.
- **Mortgage applications** fell 3.4 percent for the week ending April 29, marking the second consecutive drop, according to the Mortgage Bankers Association. A 5.5 percent decrease in refinance applications drove the decline, although purchase applications edged down 0.1 percent as well. However, average applications in April were up 4.0 percent and 7.3 percent over average March readings for purchase and refi loans, respectively. The average contract rate for a 30-year fixed-rate mortgage ticked up for a third straight week, rising two basis points to 3.87 percent, marking the highest level in April.



Source: Corelogic



Source: Federal Reserve Board

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