



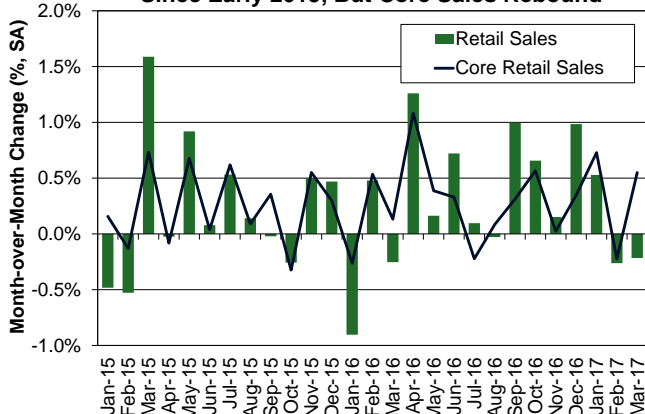
Weekly Note – April 14, 2017

Economics: Soft Retail Sales; More Upbeat Consumers

A busy week for economic reports offered additional evidence of the ongoing disparity between lackluster consumer spending and bullish consumers. While overall retail sales fell in March for the second consecutive month, core retail sales (excluding auto, gasoline, and building material sales), an input used to estimate consumer spending on goods, posted a solid gain. However, the 0.1 percent rise in core sales in February was revised to a 0.2 percent drop. While more seasonable March weather should lead to a rebound in utility spending after sharp declines the prior two months, it appears that first quarter real consumer spending growth slowed dramatically from the prior quarter’s 3.5 percent annualized pace. In contrast to the weak consumer spending data, consumer sentiment rose again in early April to just shy of the expansion best reached in January, largely driven by improvement in the Current Conditions Index, which reached its highest level since November 2000. Meanwhile, headline retail and wholesale inflation measures declined in March as energy prices fell, with the CPI showing a monthly drop for the first time in more than a year and the PPI falling for the first time in seven months. Core prices also showed no inflationary pressures. Notably, core CPI fell for the first time in seven years, but the decline partly reflected a record drop in prices for wireless telephone services. In other news this week, several reports suggest continued healthy labor market conditions. Small business owners remained optimistic in March. Although the Small Business Index dipped for the second straight month, it remained near its record high. The employment details were positive, pointing to a tightening labor market and a gradual pickup in wage growth. The February Job Openings and Labor Turnover Survey (JOLTS) showed job openings rose to a seven-month high, and weekly initial jobless claims moved lower last week for a third consecutive week. These reports support our view that the marked slowdown in March payroll growth was likely a weather-driven aberration.

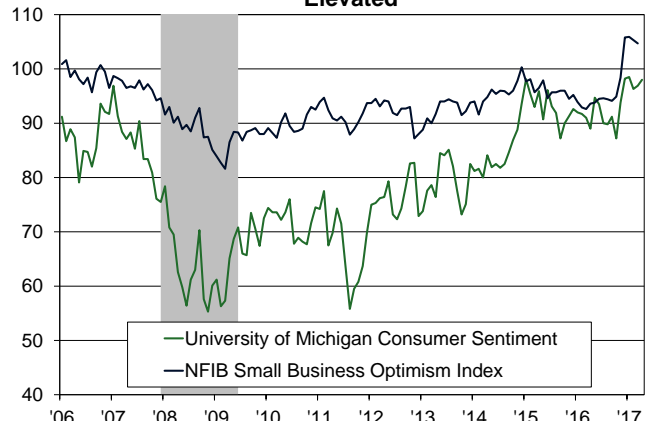
- **Retail sales** dropped 0.2 percent in March, according to the Census Bureau, held down by sales at auto dealers and gasoline stations. Building material sales fell for the first time in seven months. Core retail sales rose 0.5 percent.
- **The Job Openings and Labor Turnover Survey (JOLTS)** showed that job openings rose to 5.74 million in February, according to the Bureau of Labor Statistics. The job openings rate edged up one-tenth to 3.8 percent. Both the hiring and quits rates ticked down, to 3.6 percent and 2.1 percent, respectively. The layoff rate held steady at 1.1 percent.
- **Import prices** fell 0.2 percent in March, driven by declining petroleum prices. Nonfuel import prices rose for the second consecutive month, increasing 0.2 percent from February and 1.0 percent from a year ago. **The Producer Price Index (PPI)** for final demand of goods and services fell 0.1 percent in March. Excluding food and energy, core prices were unchanged from February and rose 1.6 percent from last March. **The Consumer Price Index (CPI)** fell 0.3 percent in March. Core prices edged down 0.1 percent. The annual increases in the headline CPI and core CPI moderated to 2.4 percent and 2.0 percent, respectively. (The Bureau of Labor Statistics produces all three reports.)
- **The National Federation of Independent Business (NFIB) Small Business Index** fell 0.6 points to 104.7 in March. The net share of owners who reported raising workers’ compensation climbed to the second-highest reading of the expansion, while the net share of firms planning to expand employment edged higher.
- **The University of Michigan Consumer Sentiment Index** rose 1.1 points to 98.0 in the April preliminary reading.
- **Initial claims for unemployment insurance** fell 1,000 to 234,000 in the week ending April 8, according to the Department of Labor. The four-week moving average decreased 3,000 to 247,250.

Retail Sales Post First Back-to-Back Drops Since Early 2015, But Core Sales Rebound



Source: Census Bureau

Consumer and Business Optimism Remain Elevated



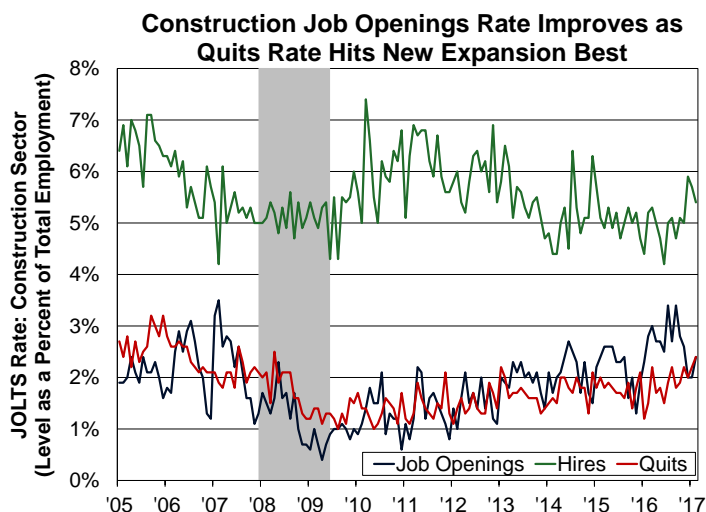
Source: University of Michigan, NFIB



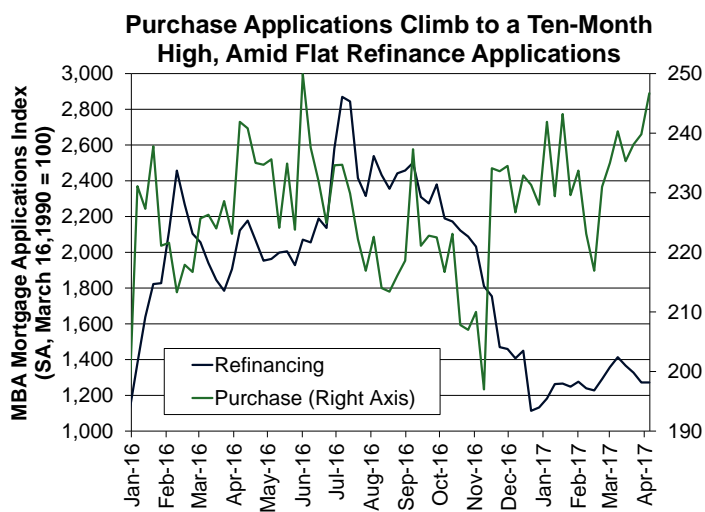
Housing: Opportunity Abounds for Construction Workers

A quiet week in housing data allowed the construction labor market and mortgage demand to step into the limelight. The second warmest February on record created high demand for construction workers, as construction job openings as a share of total construction employment jumped during the month. However, the rate remains a full percentage point below the expansion high reached last September. The construction hires rate, in contrast, fell for the second consecutive month in February. However, construction workers are increasingly confident in their job prospects, as the quits rate improved for the fourth time in the past five months to reach a new expansion high. Shifting to mortgage demand, purchase mortgage applications rose last week for the sixth time in seven weeks, reaching the highest level since early June 2016. Refinance applications, on the other hand, were flat, ending a three-week stretch of declines, and remain stuck at a seven-week low. Recent declines in refinance applications occurred despite falling mortgage rates. Freddie Mac's survey showed that the average 30-year fixed mortgage rate fell for the fourth straight week, edging down two basis points to 4.08 percent, the lowest level this year. Rates have declined 22 basis points since the week ending March 16.

- **The Job Openings and Labor Turnover Survey (JOLTS) showed construction job openings** jumped 19.0 percent to 169,000 in February, marking the second consecutive monthly rise, according to the Bureau of Labor Statistics. As a share of total construction employment, the construction job opening rate rose to 2.4 percent, a three-month high. The hires rate fell three-tenths to 5.4 percent. The quits rate climbed two-tenths to 2.4 percent. The layoff rate dropped half of a percentage point to 2.1 percent, a 14-month low and the second lowest level of the expansion.
- **Mortgage applications** increased 1.5 percent for the week ending April 7, halting a three-week slide, according to the Mortgage Bankers Association. Purchase applications improved for the third consecutive week, increasing 2.9 percent. Conventional purchase applications rose to the highest level since the implementation of the TILA-RESPA Integrated Disclosure Rule (TRID) in October 2015, while government applications increased for the third consecutive week. Refinance applications were unchanged from the prior week, as a drop in government applications negated a slight gain in conventional applications. The survey's average 30-year fixed mortgage rate fell for the second time in three weeks, slipping six basis points to 4.28 percent, the lowest level since the second week of January.



Source: Bureau of Labor Statistics



Source: Mortgage Bankers Association

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