



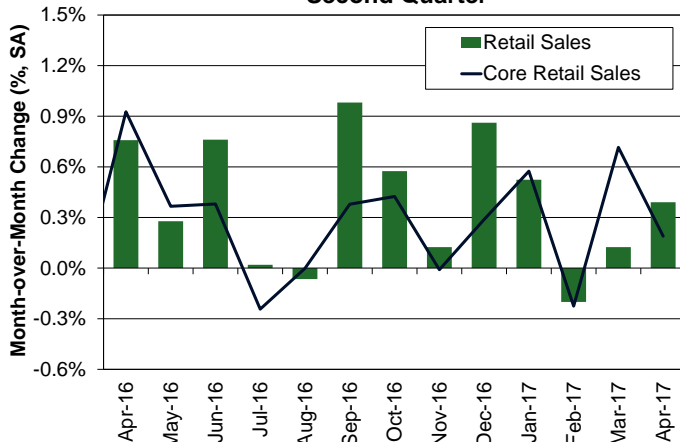
Weekly Note – May 12, 2017

Economics: Consumers Reopen Their Wallets

Consumer spending improved amid a tight labor market, according to data released this week. Retail sales gained momentum to start the second quarter, posting in April the largest monthly gain since January. Sales in March were also revised upward from a decline to a slight gain, suggesting first quarter consumer spending might not be as anemic as initially reported. An increasingly tight labor market should continue to support consumers, as the rate of job openings as a share of total employment continued to outpace the hires rate in March, according to the Job Openings and Labor Turnover Survey. The rates of job openings, hires, quits, and layoffs were all unchanged in March and remain just below their expansion bests. Turning to inflation, the Consumer Price Index rebounded in April from the first monthly drop in over a year in March. On an annual basis, however, growth in the headline index slowed for the second consecutive month after reaching a near five-year high in February. Slowing growth in energy prices has been the main drag on the headline index over the past two months. Annual growth in the core index (excluding food and energy) also slowed during April, weighed down by moderating growth in rent and owners' equivalent rent, which have trended down from expansion highs reached in December. Annual growth in the Producer Price Index accelerated in April, while annual import price gains moderated during the month. Sentiment measures among consumers and small businesses remain elevated, holding on to their post-election spikes. The University of Michigan Consumer Sentiment Index edged up in early May to just below the 13-year high reached in January. Meanwhile, the National Federation of Independent Business Small Business Optimism Index edged down for the third consecutive month in April but remains near January's 12-year high.

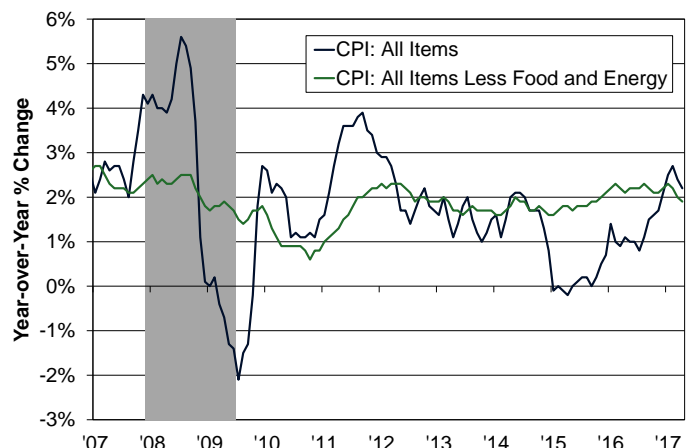
- **Retail sales** improved 0.4 percent in April, according to the Census Bureau. Core retail sales (excluding auto, gasoline, and building materials) rose 0.2 percent. Sales of motor vehicles and parts increased for the first time in four months. Building materials sales also bounced back from a drop in March.
- **The Job Openings and Labor Turnover Survey (JOLTS)** revealed that job openings rose 1.1 percent to 5.74 million in March, according to the Bureau of Labor Statistics. As a share of total employment, the job openings rate was unchanged at 3.8 percent. The hires rate was flat at 3.6 percent. The quits rate and layoffs rate remained at 2.1 percent and 1.1 percent, respectively.
- **The Consumer Price Index (CPI)** rose 0.2 percent in April. Core prices edged up 0.1 percent. The annual increases in the headline and core CPI moderated further to 2.2 percent and 1.9 percent, respectively. **Import prices** rose 0.5 percent in April. Nonfuel prices rose 0.3 percent. **The Producer Price Index (PPI)** for final demand of goods and services rose 0.5 percent in April. Core prices rose 0.4 percent from March and 1.9 percent from a year ago, the fastest annual pace since December 2014. The Bureau of Labor Statistics produces all three reports.
- **The National Federation of Independent Business (NFIB) Small Business Optimism Index** slipped 0.2 points to 104.5 in April. The share of firms expecting the economy to improve fell eight points to 38 percent. The share of firms saying it is hard to fill job openings rose to 33 percent, the highest reading since November 2000.
- **The University of Michigan Consumer Sentiment Index** ticked up 0.7 points to 97.7 in the May preliminary reading.
- **Initial claims for unemployment insurance** decreased 2,000 to 236,000 in the week ending May 6, according to the Department of Labor. The four-week moving average increased 500 to 243,500.

Retail Sales Gain Momentum at the Start of the Second Quarter



Source: Census Bureau

Headline and Core Retail Inflation Growth Slow



Source: Bureau of Labor Statistics

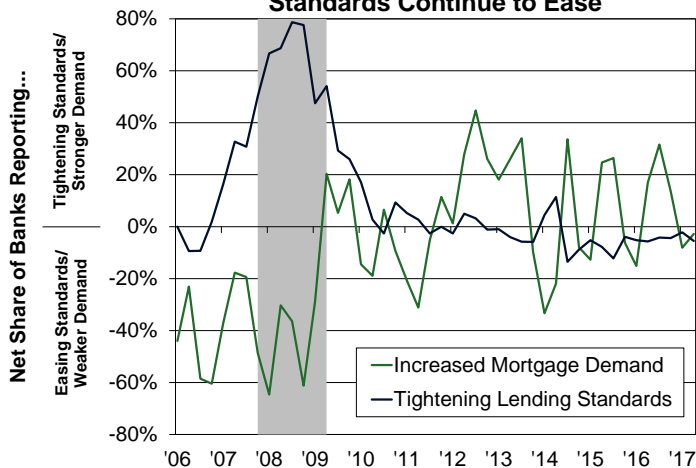


Housing: Lending Standards Ease Slightly

This week's light housing news offered three surveys, two providing insights on the health of the mortgage market and one providing data on the construction labor market. The latest Federal Reserve Board's survey of senior loan officers revealed that banks eased lending standards for residential mortgages in the three months ending in April, continuing the practice that started three years ago. However, they also reported declining mortgage demand for the second consecutive quarter. The Mortgage Bankers Association's weekly survey of mortgage applications showed that both purchase and refinance demand increased during the first week of May, following mixed performance in April, when purchase applications rose 1.7 percent amid a 3.2 percent drop in refinance applications. The average 30-year fixed mortgage rate edged up three basis points this week to 4.05 percent, according to Freddie Mac. Lastly, the Job Openings and Labor Turnover Survey showed that the construction industry quits rate, which is a gauge of workers' confidence in the jobs market, rose in March for the third consecutive month, reaching an expansion high. Overall, the survey indicates a competitive market for construction workers, supporting survey results and commentaries from home builders that a labor shortage remains a significant challenge this year.

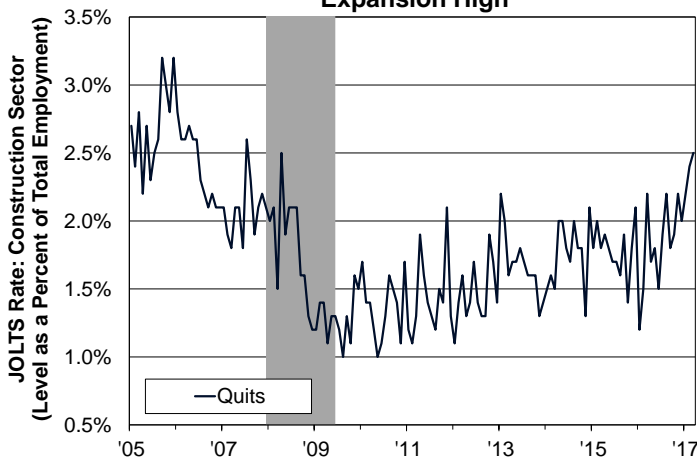
- **The Federal Reserve Board Senior Loan Officer Opinion Survey** for the three months ending in April showed little changed lending standards and demand for residential mortgages. Relative to the last survey, moderate and modest net shares of banks reported easing credit standards on GSE-eligible and government mortgage loans, respectively, while standards for other categories were basically unchanged. Demand declined for most types of residential mortgages.
- **The Job Openings and Labor Turnover Survey (JOLTS)** showed that construction job openings dropped 5.0 percent in March to 172,000, following a 27.5 percent jump in February, according to the Bureau of Labor Statistics. The openings rate fell two-tenths to 2.4 percent, while the hires rate rose one-tenth to 5.4 percent. The separations rate increased 0.5 percentage points to 5.4 percent. The quits rate edged up 0.1 percentage points to 2.5 percent.
- **Mortgage applications** rose 2.4 percent for the week ending May 5, according to the Mortgage Bankers Association (MBA). Purchase applications rose for a second consecutive week, increasing 1.7 percent. Refinance applications rebounded 3.3 percent after a 4.7 percent drop in the prior week. The MBA survey's average 30-year fixed mortgage rate held steady at 4.23 percent.

Mortgage Demand Slows Again as Lending Standards Continue to Ease



Source: The Federal Reserve Board

Construction Quits Rate Climbs to an Expansion High



Source: The Bureau of Labor Statistics

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