ESR Economic and Housing Weekly Note **September 11, 2015**

Economics: More Labor Market Indicators Confirm Tighter Conditions

This week's economic news underscores the themes that have emerged over the past month. Labor market slack appears to have diminished further in the current quarter amid disinflationary pressures, putting the Fed between a rock and a hard place. In August, import prices posted the second biggest decline this year against the backdrop of a strong dollar, slow global growth, and renewed declines in imported crude prices. Meanwhile, wholesale prices were flat in August after three consecutive monthly gains. On the labor market front, the JOLTS, which is released with a one-month lag to the employment report, showed a record number of job openings at the start of the current quarter. However, hires have been lagging openings, with the ratio of hires-to-openings remaining well below one for six consecutive months. More timely data are also positive, as initial jobless claims dropped for the second time in the last three weeks. A survey of small businesses points to a tighter jobs market in August. While firms continue to view government requirements as the most important problem, quality of labor is increasingly becoming a prominent concern, cited by an expansion-high 14 percent of respondents. Consumer-related news was mixed. Consumer credit expanded at a steady clip in July, but sentiment eroded sharply in early September to the lowest level in a year, due in large part to the recent declines in the stock market.

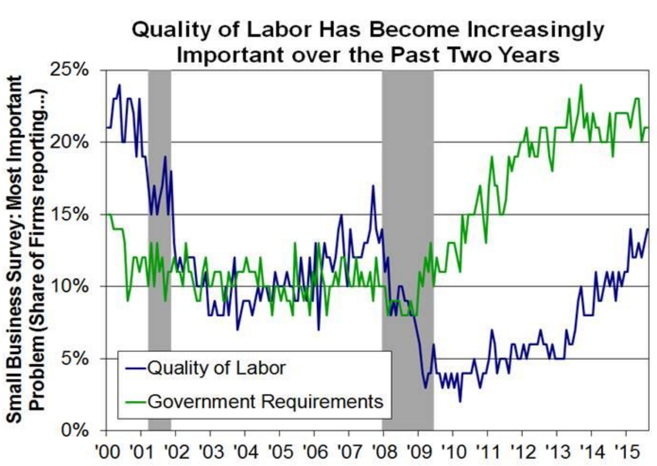
➢ **Consumer credit outstanding** rose $19.1 billion in July, according to the Federal Reserve Board. June's figure was revised higher to a gain of $27 billion, the strongest monthly increase since late 2010. Revolving credit (largely credit card debt) rose $4.3 billion while non-revolving credit (primarily auto and student loan debt) jumped $14.8 billion. The year-over-year gain in total credit was little changed at 6.8 percent, in line with the trend during the first six months of the year.

➢ **The National Federation of Independent Business (NFIB) Small Business Optimism Index** edged up 0.5 points to 95.9 in August. While this marks the fourth increase in the past five months, the index still sits well below its cyclical peak of 100.4 recorded in December 2014. Jobs indicators were positive. A net 13 percent of respondents plan to increase hiring in the next three months, the highest share since January. However, more small businesses reported difficulty in finding qualified workers, as a net 29 percent said they are unable to fill open positions, up from 25 percent in July.

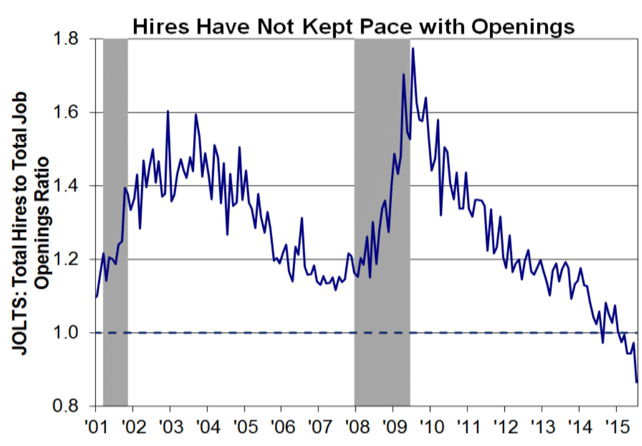
➢ **The Job Opening and Labor Turnover Survey (JOLTS)** showed that job openings surged 8.1 percent in July, the biggest gain since March 2012, according to the Bureau of Labor Statistics. The gain put the total number of openings at 5.75 million, the highest level since JOLTS' inception in 2000. As a share of total employment, the openings rate reached a fresh expansion high of 3.9 percent. However, the hiring rate fell to 3.5 percent, and the quits rate, a gauge of labor market confidence, was unchanged at 1.9 percent. The layoff and discharge rate fell to 1.1 percent, tying an expansion low.

➢ **Import prices** fell 1.8 percent in August, driven by lower crude oil prices. From a year ago, import prices were down 11.4 percent, the largest drop since September 2009. Excluding fuel, import prices slipped 0.4 percent from July and 3.0 percent from a year ago**. The Producer Price Index (PPI)** was unchanged in August while core PPI rose 0.3 percent. (Both reports are from the Bureau of Labor Statistics.)

➢ **The University of Michigan Consumer Sentiment Index** fell 6.2 points to 85.7 in the September preliminary reading. Both the current economic conditions and consumer expectations components lost ground. Seventeen percent of respondents reported unfavorable news about stocks, nearly matching the 18 percent peak during the 2009 financial crisis.



Source: National Federation of Independent Business

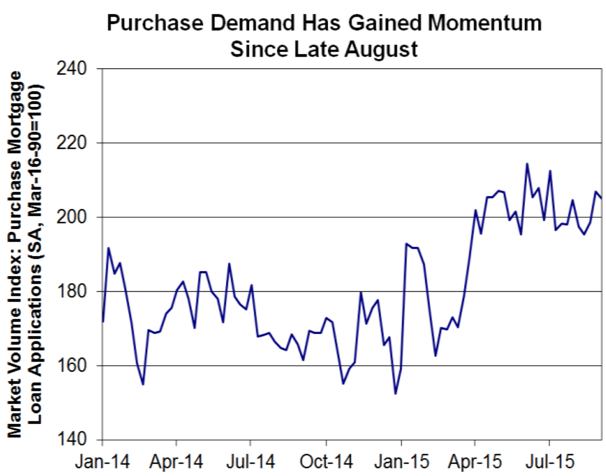


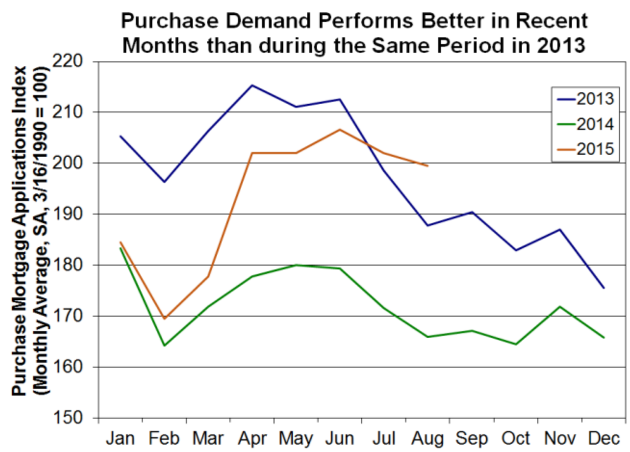
Source: Bureau of Labor Statistics

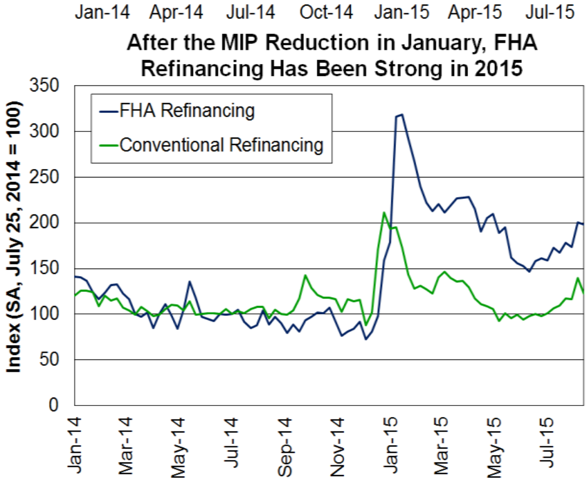
Housing: The Story So Far for 2015 Mortgage Demand—Healthy Gains

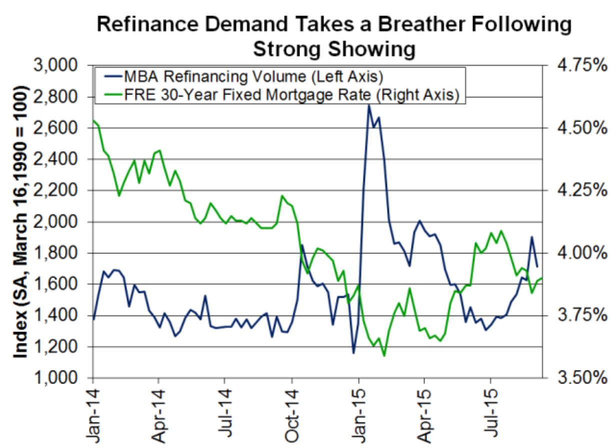
As usual with the second week of the month, this was a light week of housing data, which brings the mortgage applications market into the spotlight. Back in January, the reduction in FHA's mortgage insurance premium (MIP) caused a surge in refinance demand as the combination of reduced MIP and lower mortgage rates made an FHA refinance much more attractive. While refinance applications jumped for both the government and conventional markets, the increase in the FHA segment was significantly more pronounced. As mortgage rates began to trend up in late spring, refinance demand pulled back, but activity in the government segment has remained well above its 2014 levels and has also exceeded conventional market activity so far in 2015. On the purchase market side, applications have trended up since their recent trough in February, and even as they have cooled somewhat between July and mid-August, they are currently exceeding levels witnessed during the same period in 2013. Purchase demand picked up sharply during the last two weeks of August before slipping just modestly in the latest week. The 30-year fixed mortgage rate ticked up one basis point this week to 3.90 percent following a five basis point rise in the prior week, according to Freddie Mac. However, rates have remained below 4.0 percent for seven weeks. Despite increased volatility as the Fed approaches an interest rate hike (which could be as close as a week away), the 2015 home sales market appears on its way to becoming the best year since 2007.

➢ **Mortgage Applications** fell 6.2 percent in the week ending September 4, according to the Mortgage Bankers Association. Purchase applications fell 0.9 percent, as a 1.6 percent decrease in conventional applications outweighed a 0.7 percent increase in government applications, which reached the highest level in two months. Refinance applications fell 9.9 percent, the largest drop in 14 weeks, as the survey's 30-year fixed mortgage rate ticked up two basis points to 4.10 percent, after being unchanged the week before.









Source: Mortgage Bankers Association

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September 11, 2015