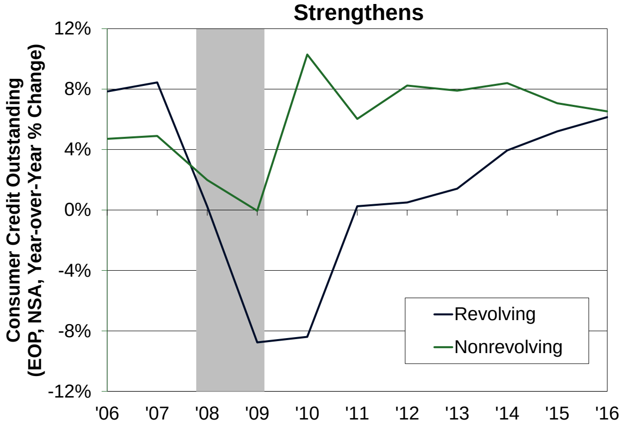
Weekly Note – February 10, 2017

Economics: Consumer Expectations Turn Less Rosy

This week's reports offers news on consumers. Consumer credit growth disappointed during the final month of the holiday shopping season. However, for all of 2016, revolving credit (largely credit cards) growth picked up, posting the strongest gain in the expansion, and rivaled growth in nonrevolving (largely auto and student loans) credit, which has decelerated in recent years. One potential headwind for consumers is emerging signs of tightening lending standards. For the first time in nearly seven years, the Federal Reserve Senior Loan Officer Survey showed a net share of banks tightening lending standards for credit cards. Continued increases in revolving debt usage would help support consumer spending, especially when rising energy prices are taking a bite out of real disposable income. In early February, consumer sentiment as measured in the University of Michigan survey pulled back for the first time in four months as the expectations component eroded, with household finance expectations declining to the lowest level since last August. This followed the Conference Board's measure showing confidence cooled in December due to the largest drop in consumer expectations since November 2015. Rising prices of petroleum products pushed import prices higher in January. After posting year-over-year drops in 2015 and most of 2016, nonpetroleum import prices showed signs of firming, suggesting that the impacts from the dollar appreciation from a few years ago have faded. Lastly, the trade deficit narrowed in December, as exports increased more than imports, but trade performance for the entire fourth quarter was dismal.

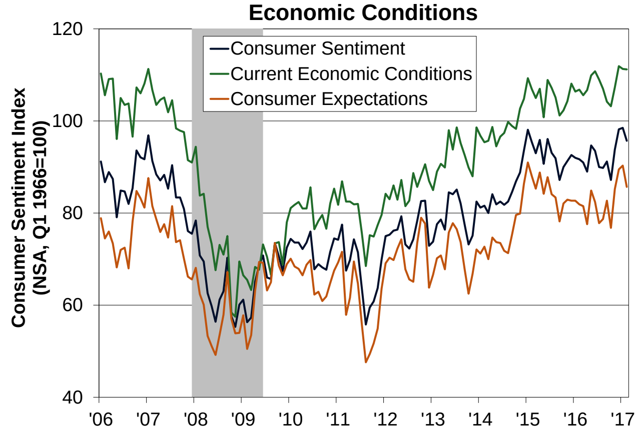
- **Consumer (non-mortgage) credit outstanding** rose $14.2 billion in December, according to the Federal Reserve Board. Revolving credit rose $2.4 billion following the prior month's $11.8 billion gain, the biggest rise in the expansion. Nonrevolving credit rose $11.8 billion, the smallest gain since June. For 2016 as a whole, revolving credit growth continued to accelerate to 6.1 percent, while nonrevoving credit growth slowed to 6.5 percent.
- **The trade deficit** narrowed $1.5 billion to $44.3 billion in December, according to the Census Bureau. Exports rose 2.7 percent to a 20-month high following two consecutive monthly drops, while imports rose 1.5 percent. The real goods deficit, an input in the estimate of gross domestic product, narrowed by $1.5 billion to $62.3 billion.
- **The University of Michigan Consumer Sentiment Index** fell 2.8 points to 95.7 in the February preliminary reading. The expectations component drove the drop, declining 4.6 points to a three-month low. The net share of consumers expecting their finances to improve dropped to 34 percent.
- **Import prices** rose 0.4 percent in January, according to the Bureau of Labor Statistics. A sharp rebound in prices of imported petroleum products and industrial supplies drove the gain. Overall import prices rose 3.7 percent from a year ago. Nonpetroleum import prices were flat during the month but rose 0.3 percent from a year ago.
- **The Federal Reserve Board Senior Loan Officer Opinion Survey** for the three months ending in January showed that the net share of banks reported tightening standards for auto loans jumped 8.4 points to 11.7 percent, while the net share tightening lending standards for credit cards surged from 0.0 percent to 8.3 percent.
- **The Job Openings and Labor Turnover Survey (JOLTS)** showed that job openings edged slightly lower to 5.501 million in December, according to the Bureau of Labor Statistics. The job openings rate ticked down to 3.6 percent, while the hires rate held steady at 3.6 percent. The quits rate, which tends to increase when confidence in the labor market improves, edged down one-tenth to 2.0 percent. The layoffs rate, which represents involuntary separations, held at 1.1 percent for the third consecutive month, near its record low of 1.0 percent reached last September.

Annual Revolving Consumer Credit Usage Strengthens



Source: Federal Reserve Board

Consumers Are Less Optimistic about Future Economic Conditions



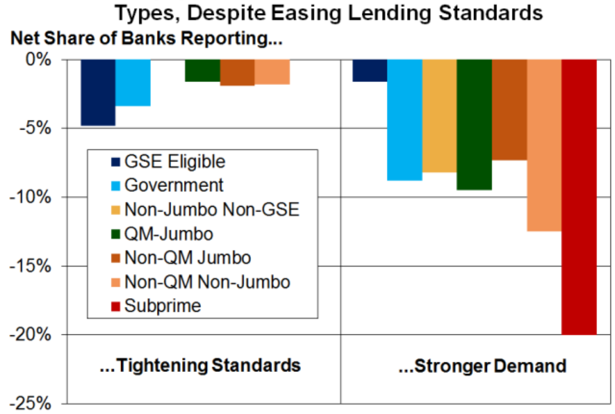
Source: University of Michigan

Housing: Mortgage Demand Cools amid Continued Easing Lending Standards

Housing data released this week provided a view on mortgage demand and lending standards, construction job openings and hiring, and home prices. The Federal Reserve's Senior Loan Officer Opinion Survey for the three months ending in January showed that overall mortgage demand fell from the prior quarter for the first time in a year. In addition, demand for mortgages declined across all loan types for the first time in two years. The drop in demand occurred amid the 11th consecutive quarter in which the net share of banks reported easing lending standards, though the share in the most recent three months was the smallest of the easing streak. The decline in demand is most likely a result of a nearly 80 basis point rise in mortgage rates that occurred during the survey's timeframe. More recently, however, mortgage rates have fallen from their peak at the end of 2016, with the average 30-year fixed mortgage rate dropping two basis points this week to 4.17 percent, according to Freddie Mac. Also of note from the Fed survey, demand for home equity lines of credit fell for the first time in 11 quarters, even as banks reported easing lending standards for such loans for the 17th straight quarter. Shifting to the construction labor market, the job openings rate for the sector fell for a third consecutive month to a 12-month low while the hires rate jumped to a nearly two-year high. Home price growth picked up, as the annual increase in the CoreLogic National Home Price Index has accelerated in each of the past six months and ended the year by rising at the fastest pace since May 2014. On a nominal basis, home prices for the low-price tier (75 percent or less of the median) have passed their pre-crisis peak, the only of the four price tiers to accomplish that feat. Finally, mortgage applications increased last week, as refinance applications crept up to their highest level this year and purchase applications partially recovered from the drop the prior week.

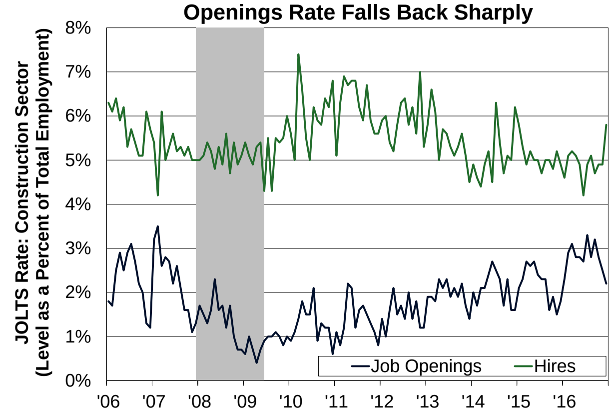
- **The Federal Reserve Board Senior Loan Officer Opinion Survey** for the three months ending in January showed banks reported easing of lending standards on GSE-eligible, jumbo, and government home loans. Lending standards on subprime loans were unchanged.
- **The Job Openings and Labor Turnover Survey (JOLTS)** showed that the job openings rate in the construction sector dipped three-tenths to 2.2 percent, while the hires rate rose 0.9 percentage points to 5.8 percent. The quits rate fell four-tenths to 1.8 percent, a six-month low. The layoff rate jumped to an eight-month high of 3.3 percent.
- **The CoreLogic National Home Price Index** (not seasonally adjusted), a repeat sales measure, increased 7.2 percent in December from a year ago. Home prices have increased year-over-year for every month since February 2012. In addition to the overall index, CoreLogic reports four home price tiers calculated relative to the median national home price. The low-price tier rose 10.2 percent from a year ago, compared with 8.4 percent for the low-to-middle tier (between 75 and 100 percent of the median) and 7.3 percent for the middle-to-moderate tier (between 100 and 125 percent of the median). The highest-price tier (greater than 125 percent of the median) rose 5.7 percent.
- **Mortgage applications** rose 2.3 percent for the week ending February 3, partially reversing the 3.2 percent drop from the prior week, according to the Mortgage Bankers Association. Purchase applications rose 1.8 percent, as applications for both conventional and government loans increased. Refinance applications improved 2.2 percent, as the average 30-year fixed mortgage rate dropped four basis points to 4.35 percent after rising the previous two weeks.

Mortgage Demand Declines Across All Loan Types, Despite Easing Lending Standards



Source: Federal Reserve Board

Construction Hires Rate Jumps as Job Openings Rate Falls Back Sharply



Source: Bureau of Labor Statistics

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