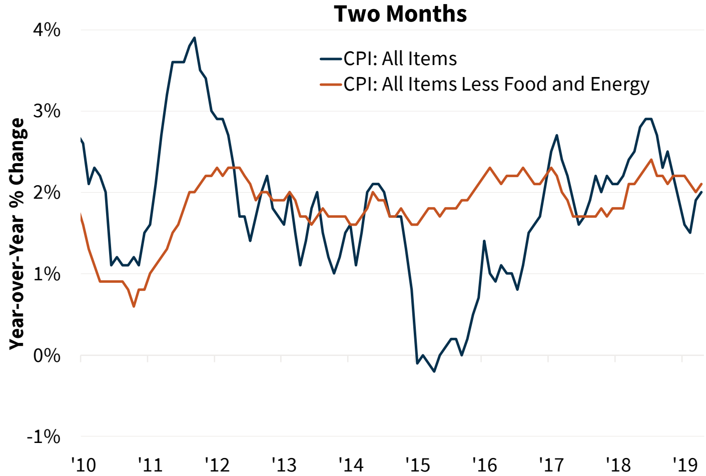
Economics: Amid Tight Labor Market, Inflation Edges Up

This week's economic news was dominated by U.S.-China tariff negotiations but also included important information about labor markets, inflation, and consumer credit. The Job Openings and Labor Turnover Survey (JOLTS) provided further evidence of tight labor market conditions as job openings rose in March by the largest amount in a year, while total separations fell by the most since April 2017. The number of hires fell for the second month in a row although the hires rate (relative to total employment) was unchanged. Initial unemployment insurance claims told a similar story, falling slightly last week. Prices turned upward as headline Consumer Price Index (CPI) inflation increased in April for the third month in a row, but the rise in inflation was driven primarily by higher energy prices rather than by wage pressures. On an annual basis, headline CPI rose above the Fed's 2.0 percent target for the first time in five months and core CPI accelerated one-tenth. We expect the Fed to continue its "wait and see" posture as it considers the effect of tariff negotiations, the recent slowdown in unit labor costs, and other information regarding labor market tightness and business investment before reacting to the rise in inflation. The U.S. trade deficit widened slightly in March, ending two months of significant narrowing. The real goods trade deficit, an input into the net exports portion of GDP, also widened marginally in March, though for the full quarter it narrowed by the largest amount since Q2 2009. The significant decline in the real goods trade deficit is consistent with the large net export contribution to Q1 2019 GDP seen two weeks ago. We expect the trade deficit to widen in the second half of the year as imports recover and exports moderate. In other news, consumer credit outstanding increased in March, driven entirely by an increase in nonrevolving credit (largely student and auto loans), while revolving credit (largely credit card debt) fell for the first time in three months.

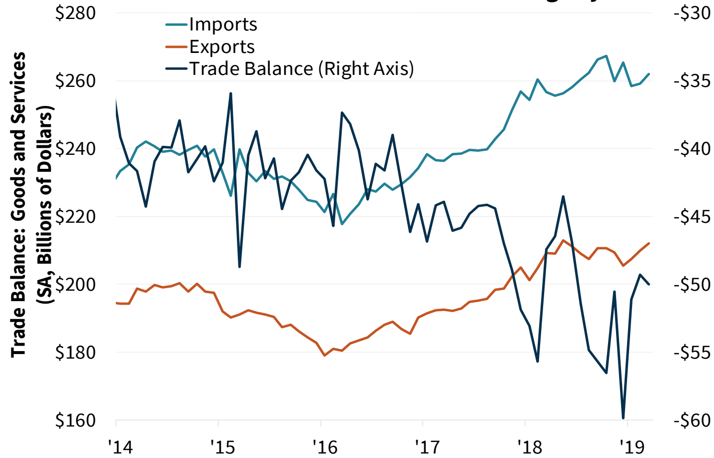
- **The Job Openings and Labor Turnover Survey** showed that job openings rebounded by 346,000 to 7.5 million in March, according to the Bureau of Labor Statistics. Hires fell 35,000 to 5.7 million, while total separations plunged by 142,000 to 5.4 million. The job openings rate rose two-tenths to 4.7 percent. The hires and quits rates were unchanged at 3.8 percent and 2.3 percent, respectively, while the layoffs and discharge rate fell a tick to 1.1 percent.
- **Initial claims for unemployment insurance** fell by 2,000 to 228,000 in the week ending May 4, according to the Department of Labor. The four-week moving average increased by 7,750 to 220,250.
- **The Consumer Price Index** rose 0.3 percent in April. Core prices edged up 0.1 percent. From a year ago, headline CPI rose 2.0 percent, while core CPI rose 2.1 percent. **The Producer Price Index (PPI)** for final demand of goods and services rose 0.2 percent in April and 2.25 percent from a year ago. Excluding food and energy and trade services, core prices rose 0.4 percent from the prior month and 2.2 percent from a year ago. Both reports are produced by the Bureau of Labor Statistics.
- **The U.S. trade deficit** grew by $717 million to $50 billion in March, according to the Census Bureau. Exports rose 1.0 percent, while imports grew 1.1 percent. The real goods trade deficit widened by $496 million.
- **Consumer (non-mortgage) credit outstanding** grew $10.3 billion in March to $4.05 trillion, according to the Federal Reserve Board. Revolving credit fell $2.2 billion, while nonrevolving credit grew $12.5 billion. On an annual basis, nonrevolving credit rose 5.6 percent and revolving credit increased 3.4 percent.

Core Consumer Inflation Rises for the First Time in Two Months



Source: Bureau of Labor Statistics

The U.S. Trade Deficit Widens Slightly

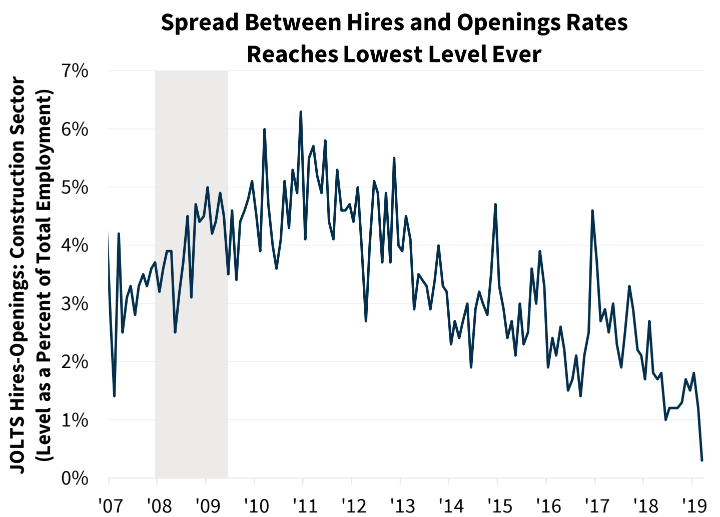


Source: Census Bureau

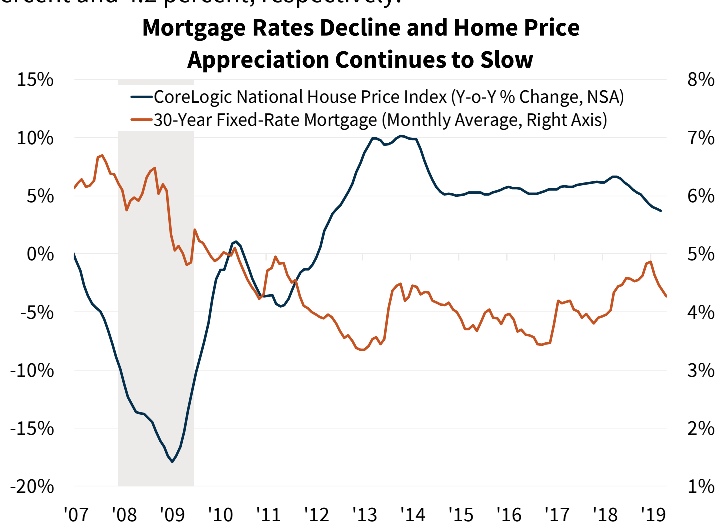
Housing: Construction Hires Fall Again

In a busy week for housing news, the highlights were construction job openings, residential mortgage lending standards, and slowing home price growth. Construction job openings jumped in March by the largest amount since the beginning of 2007, according to the Job Openings and Labor Turnover Survey. After posting the largest monthly drop in more than six years in February, construction hires posted a more modest decline in March. This is consistent with builder reports that the cost/availability of labor is among the most significant problems they expect to face in 2019. The spread between the hires rate and the job openings rate in March was the narrowest in the history of the survey, highlighting the recent shortage of labor in construction. Shifting to the world of lending, the Federal Reserve Board's Senior Loan Officer Opinion Survey showed declining demand for mortgages in the three months ending in April. The Fed survey also pointed to the continued gradual easing in lending standards, which has been the trend since 2014. The March gain in the CoreLogic National Home Price Index showed the slowest annual growth since May 2012. The continued deceleration of annual home price growth, as well as the recent uptick in wage growth, provides some upside to housing affordability, though home price growth remains above the growth in earnings. Also regarding affordability, the average yield on 30-year, fixed-rate mortgages fell 4 basis points this week to 4.10 percent according to Freddie Mac, down 45 basis points from a year ago. Finally, mortgage applications rose last week, ending a four-week string of declines, as refinance applications nudged up for the first time in a month and purchase applications rose for the first time in three weeks. Overall, this week's news still supports our forecast of a strong spring home-buying season, as slowing home price growth, low mortgage rates, a strong labor market, and steady wage growth should help entice buyers into the market in the coming months.

- **The Job Openings and Labor Turnover Survey** showed that construction job openings jumped 73,000 to 360,000 in March, according to the Bureau of Labor Statistics. The job openings rate rose 0.9 percentage points to 4.6 percent. The hires rate was unchanged at 4.9 percent, while total hires fell 6,000 to 361,000. The separations rate dropped by 0.2 percentage points to 4.7 percent. The quits rate declined five-tenths to 2.0 percent.
- **The Federal Reserve Board Senior Loan Officer Opinion Survey** in the three months ending in April showed a modest net easing in lending standards for residential mortgage loans across all residential loan categories. Banks reported significantly less demand across all categories. Standards on commercial real estate loans tightened strongly amid the largest decline in demand since early 2010.
- **The CoreLogic National Home Price Index**, a repeat sales measure, increased 1.0 percent in March (not seasonally adjusted). From a year ago, the index grew by 3.7 percent. Home prices in Idaho, Maine, and Utah grew the most.
- **Mortgage applications** rose 2.7 percent for the week ending May 3, according to the Mortgage Bankers Association. Refinance applications and purchase applications rose 0.8 percent and 4.2 percent, respectively.



Source: Bureau of Labor Statistics



Source: CoreLogic, Freddie Mac

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