ESR Economic and Housing Weekly Note ***November 6, 2015***

Economics: A Blockbuster Jobs Report Makes the December Liftoff Likely

In her comments on Wednesday, Fed Chair Janet Yellen noted that a December rate hike is a "live possibility," perhaps an understatement given today's nearly flawless October jobs report. After disappointing in August and September, job creation bounced back in October with the largest gain this year. In addition, the headline unemployment rate edged down for the right reasons, as the participation rate stayed flat. More importantly, the broader U-6 unemployment rate dropped to the lowest level since May 2008. Another piece of good news was the outsized jump in average hourly earnings, sending the annual gain to the best showing since July 2009. The pickup in wage gains, when combined with a report earlier this week of the fifth quarterly rise in worker compensation, suggests that rising wages might soon put upward pressure on inflation, a comforting prospect for the Fed as it looks to raise rates. Other sources of good news this week came from improved business productivity in Q3 2015, a rise in October vehicle sales to a new expansion best, and a narrowing trade deficit in September as imports fell and exports rose. Concerns remain for manufacturing, however. The sector barely avoided contraction for the second consecutive month, and continued weakness in factory orders suggests a turnaround is not imminent. Following the jobs report, the two-year Treasury yield spiked to the highest level in five years.

- **Nonfarm payroll employment** expanded by 271,000 in October, according to the Bureau of Labor Statistics. The increase was well above the average monthly gain of 199,000 year-to-date through September. The unemployment rate dropped slightly to 5.0 percent, marking the first time it has reached that threshold since April 2008. The labor force participation rate remained unchanged at a 38-year low of 62.4 percent. The U-6 unemployment rate, which includes discouraged workers and part-time workers who want full-time jobs, fell to 9.8 percent. Average hourly earnings rose 0.4 percent from September and 2.5 percent from a year ago, while the average work week held steady at 34.5 hours.

- **Nonfarm business productivity** rose 1.6 percent annualized in Q3 2015, according to the Bureau of Labor Statistics. Compensation per hour increased 3.0 percent annualized, marking the fifth quarterly rise. The larger improvement in compensation than in productivity led to an increase in unit labor costs of 1.4 percent.

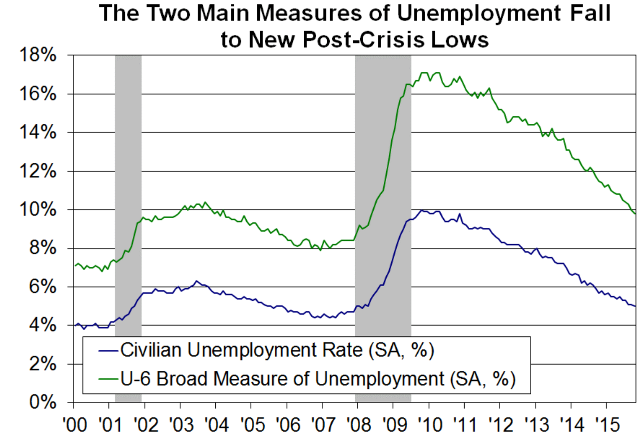
- **The Institute for Supply Management (ISM) Manufacturing Index** edged down 0.1 point to 50.1 points in October, barely remaining in expansionary territory above 50. **The ISM Nonmanufacturing Index**, a gauge of service sector activity, reversed last month's decline, rising 2.2 points to 59.1 in October.

- **Light vehicle sales** increased 0.4 percent in October to an 18.2 million annualized rate, according to Autodata.

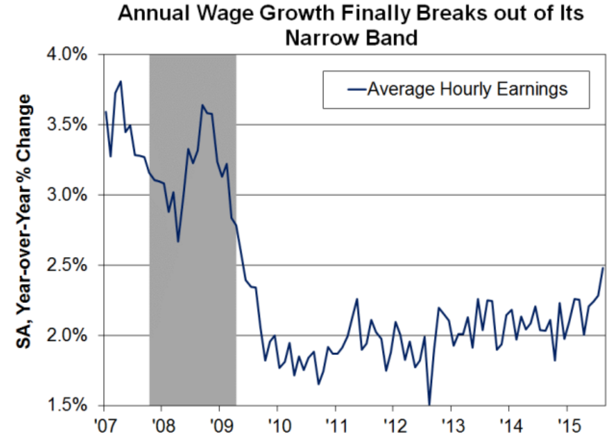
- **The U.S. trade deficit** narrowed $7.2 billion in September to $40.8 billion, according to the Census Bureau, as imports fell 1.8 percent and exports rose 1.6 percent. The inflation-adjusted goods deficit, used in the calculation of net exports in the GDP estimate, narrowed $5.8 billion to $57.2 billion.

- **Factory orders** dropped 1.0 percent in September, according to the Census Bureau. Nondurable goods, the new piece of data in the report, fell for the third consecutive month, decreasing 0.8 percent. The estimate of core capital goods orders (nondefense excluding aircraft) was revised up slightly to a 0.1 percent fall from the 0.3 percent drop initially reported.

- **Initial claims for unemployment insurance** increased by the largest amount since February, jumping 16,000 to 276,000 in the week ending October 31, according to the Department of Labor. The four-week moving average increased by 3,500 to 262,750 after reaching a 41-year low in the prior week.



Source: Bureau of Labor Statistics



Source: Bureau of Labor Statistics

Housing: Solid Rearview Performance, but Mixed Near-term Outlook

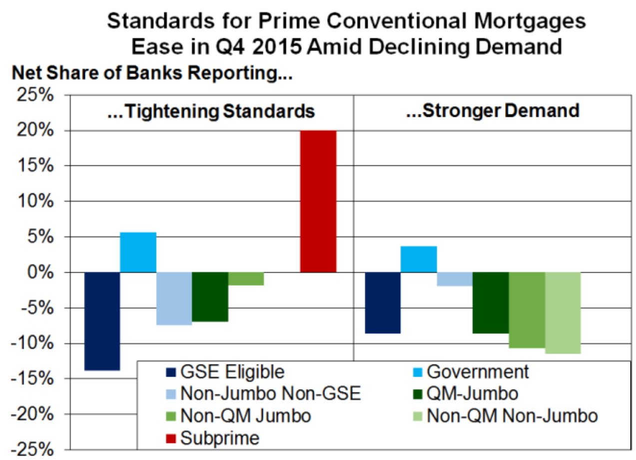
This week's housing news was positive for the prior quarter, but mixed for the current quarter. September private residential construction spending grew faster than previously assumed in the advance estimate of Q3 2015 gross domestic product. As a result, real residential investment growth in the third quarter will likely be revised higher to 7.3 percent annualized from the initial report of 6.1 percent. Home prices also ended the third quarter on a strong note, with the CoreLogic House Price Index posting the strongest annual gain in more than a year during September. The Index has increased on a year-over-year basis since March 2012, but still remains 7.0 percent below its April 2006 peak. In the latest Senior Loan Officer Opinion Survey, most banks reported that lending standards either eased or remained unchanged over the past three months for all categories of mortgages, except subprime or government-insured. Meanwhile, banks reported weaker demand across all types of mortgages except those backed by the government. Mortgage applications were little changed during the last week of October, following volatility earlier in the month due to the implementation of the new disclosure regulation (TRID). Average purchase applications for October as a whole signaled some cooling in home sales for the current quarter, as they fell for the third time over the last four months. Refinance applications fared better, rising in October for the third consecutive month. However, mortgage rates moved up this week, with Freddie Mac's 30-year fixed mortgage rate jumping 11 basis points to 3.87 percent, the first rise in three weeks.

➢ **Private residential construction spending** rose 1.9 percent in September, the sixth consecutive monthly gain, according to the Census Bureau. Spending on new single-family homes rose 1.3 percent, while spending on new multifamily residences jumped 4.9 percent. From a year ago, spending on single-family and multifamily construction rose 12.7 percent and 26.7 percent, respectively. Spending on home improvements rose 1.5 percent.

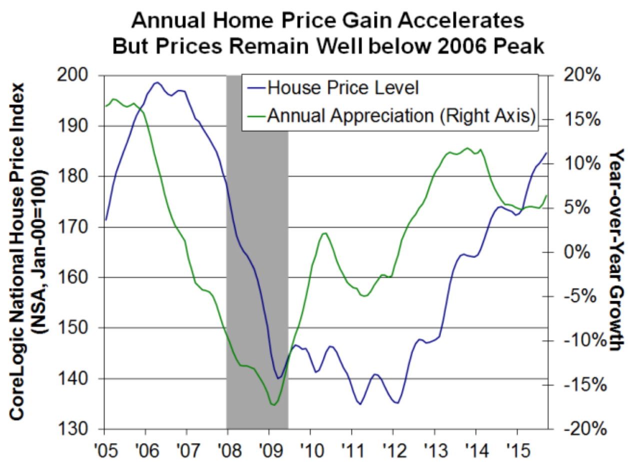
➢ **The Federal Reserve Board Senior Loan Officer Opinion Survey** for the three months ending in October showed tighter lending standards for commercial and industrial (C&I) loans as well as for commercial real estate and multifamily loans. However, for residential mortgages, banks generally continued to ease credit standards, albeit more modestly than in recent quarters. Banks reported weaker demand for mortgages for the first time in three quarters, with the exception of government mortgages, which showed slightly stronger demand.

➢ **The CoreLogic National Home Price Index** increased 0.6 percent in September. Home prices are up 6.4 percent from a year ago, the biggest gain since July 2014. Low-priced homes have performed better than higher-priced homes, especially in recent months. For example, homes priced at 75 percent or less of the median national home price rose 10.6 percent in September from a year ago, and already surpassed their pre-crisis peak. Colorado showed the largest gain in home prices, followed by Washington and Oregon. Only Mississippi and Louisiana reported year-over-year price declines.

➢ **Mortgage Applications** decreased slightly for the week ending October 30 as the average interest rate for 30-year fixed-rate mortgages increased three basis points to 4.01 percent, according to the Mortgage Bankers Association. The purchase and the refinance indices edged down 0.6 percent and 0.9 percent, respectively, driven solely by the government segment. It is the third drop over the last three weeks for both categories.



Source: Federal Reserve Board



Source: CoreLogic

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