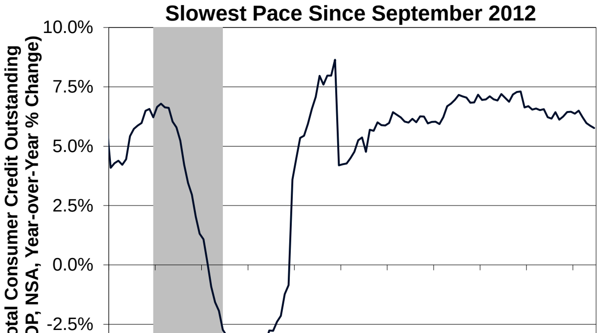
Weekly Note – August 11, 2017

Economics: Consumer Caution; Job Openings Galore

A busy week of economic data showed a growing reluctance among consumers to take on debt, an uptick in inflation, and a record number of job openings. Total consumer credit expanded in June, but the pace of growth slowed. Year-over-year growth in total consumer credit decelerated for the fourth consecutive month to the weakest pace since September 2012. The slowdown in revolving credit (mainly credit card debt) was the main culprit, with annual growth trending down since hitting an expansion high in November 2016. The declining willingness to take on debt suggests a growing caution among consumers about their personal finances. Inflation perked up in July as the Consumer Price Index rose on a monthly basis for the first time in three months, and annual growth in the index accelerated slightly for the first time in five months. Excluding food and energy, the core index edged up from June and maintained the same annual growth rate for the third consecutive month. Shifting to the labor market, the number of job openings jumped above six million in June for the first time, according to the Job Openings and Labor Turnover Survey. Job opportunities should continue to increase, at least among small businesses, as the National Federation of Independent Business reported that the share of firms planning to increase employment rose to an expansion high in July. However, firms appear reluctant to increase wages to attract qualified candidates to fill the new positions, as the share of firms planning to raise compensation fell to an eight-month low. This disconnect may explain why over half of firms have few or no qualified candidates for job openings, tying an expansion high. Finally, second quarter productivity growth rebounded slightly from the first quarter, while annual growth remained unchanged at a two-year high.

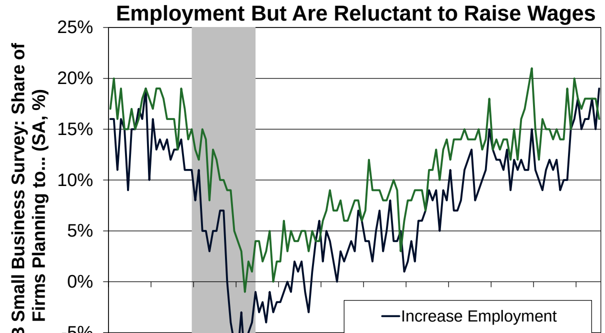
- **Consumer (non-mortgage) credit outstanding** expanded by $12.4 billion in June, according to the Federal Reserve Board. Nonrevolving credit rose $8.3 billion, while revolving credit increased $4.1 billion. From a year ago, nonrevolving and revolving credit both increased 5.8 percent. The pace of annual growth in revolving credit slowed four-tenths from the prior month, while nonrevolving ticked up one-tenth.
- **The Consumer Price Index (CPI)** increased 0.1 percent in July, according to the Bureau of Labor Statistics. The core CPI also edged up 0.1 percent. Year-over-year, the headline index ticked up to 1.7 percent while the core index held steady at 1.7 percent. **The Producer Price Index (PPI)** for final demand of goods and services fell 0.1 percent in July. Core PPI also declined 0.1 percent. From a year ago, the headline PPI rose 1.9 percent, while the core index was up 2.0 percent. The Bureau of Labor Statistics produces both reports.
- **The Job Openings and Labor Turnover Survey (JOLTS)** showed that job openings increased 8.1 percent in June to 6.2 million, according to the Bureau of Labor Statistics. As a share of total employment, the job openings rate rose to 4.0 percent and the hires rate remained constant at 3.7 percent. The quits rate decreased one-tenth to 2.1 percent.
- **The National Federation of Independent Business (NFIB) Small Business Optimism Index** rose 1.6 points to 105.2 in July. The net share of firms expecting the economy to improve rose 4 percentage points to 37 percent. The share of firms saying it is a good time to expand increased 2 percentage points to 23 percent.
- **Nonfarm business productivity** rose 0.9 percent in Q2 2017, according to the Bureau of Labor Statistics. Compensation increased 1.6 percent, and unit labor costs rose 0.6 percent. Annual productivity growth held constant at 1.2 percent.
- **Initial claims for unemployment insurance** increased by 3,000 to 244,000 in the week ending August 5, according to the Department of Labor. The four-week moving average decreased by 1,000 to 241,000.

Annual Consumer Credit Growth Slips to the Slowest Pace Since September 2012



Source: Federal Reserve Board

Small Businesses Plan to Increase Employment But Are Reluctant to Raise Wages



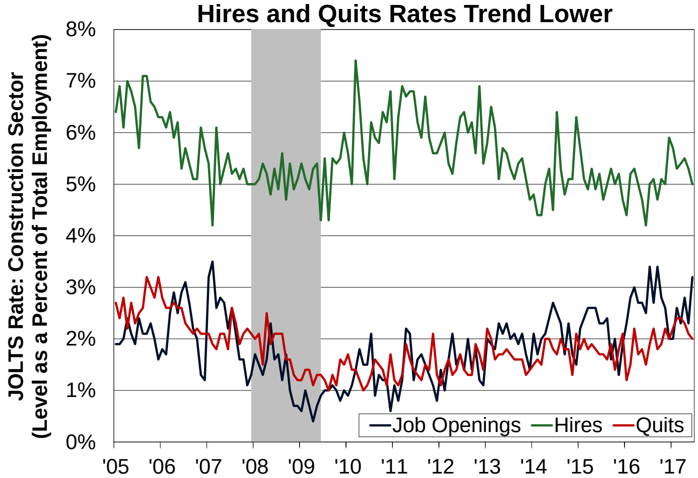
Source: National Federation of Independent Business

Housing: The Search for Construction Workers Continues

A quiet week of housing data brought the construction labor market and mortgage demand to the fore. The June Job Openings and Labor Turnover Survey reported that construction job openings as a share of total construction employment jumped almost a full percentage point to the second highest rate of the expansion. The job openings rate has trended upward in the first half of the year, rising 1.2 percentage points from January. The construction hires rate, on the other hand, has moved in the opposite direction during the same time period, declining in four of the past six months, including back-to-back drops in May and June. As a result, the hires rate dipped to the lowest level since last November after reaching a two-year high in December 2016. The quits rate, a gauge of construction workers' confidence in their job prospects, has declined for three consecutive months to the lowest level this year, after hitting an expansion high in February and March. Construction workers could be reacting to lackluster wage growth despite the increasing number of job openings. Annual growth in average hourly earnings for construction workers has trended down since climbing to an expansion high of 3.5 percent in September 2016 to only 2.4 percent in July, according to last week's payroll report. While there might be a sufficient number of job opportunities in construction, the wages offered could be too low to entice potential workers. Shifting to mortgage demand, mortgage applications improved last week for the third time in four weeks. A recent turnaround in refinance demand continued, with applications rising for the third time over the past month to reach a seven-week high. Purchase applications rose for the first time in three weeks; however, purchase applications have trended downward over the past two months since hitting a seven-year high in early June. Mortgage rates slipped further this week, as the average 30-year fixed mortgage rate fell 3 basis points to 3.90 percent, having climbed above 4.0 percent only once in the past three months, according to Freddie Mac.

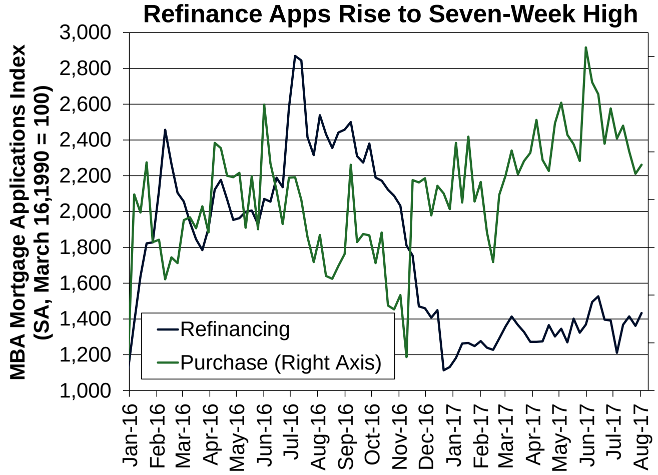
- **The Jobs Openings and Labor Turnover Survey (JOLTS) showed that construction job openings** increased 38.0 percent to 225,000 in June, more than reversing the 18.5 percent drop in May, according to the Bureau of Labor Statistics. The job openings rate jumped nine-tenths to 3.2 percent. The hires rate, in contrast, fell three-tenths to 5.0 percent. The quits rate edged down one-tenth to 2.0 percent, while the layoffs rate increased two-tenths to 2.9 percent.
- **Mortgage applications** improved 3.0 percent for the week ending August 4, according to the Mortgage Bankers Association. The 5.3 percent rise in refinance applications drove the gain. Conventional refinance applications increased 3.4 percent, reversing the 3.3 percent drop from the prior week, while government applications jumped 14.7 percent. Purchase applications edged up 0.8 percent during the week as conventional and government applications rose 0.9 percent and 0.5 percent, respectively. The survey's 30-year fixed mortgage rate slipped 3 basis points to 4.14 percent, marking a six-week low.

Construction Job Openings Rate Jumps, But Hires and Quits Rates Trend Lower



Source: Bureau of Labor Statistics

Purchase Applications Halt Recent Slide, as Refinance Apps Rise to Seven-Week High



Source: Mortgage Bankers Association

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