Fannie Mae

Economic and Strategic Research

Weekly Note – December 14, 2018

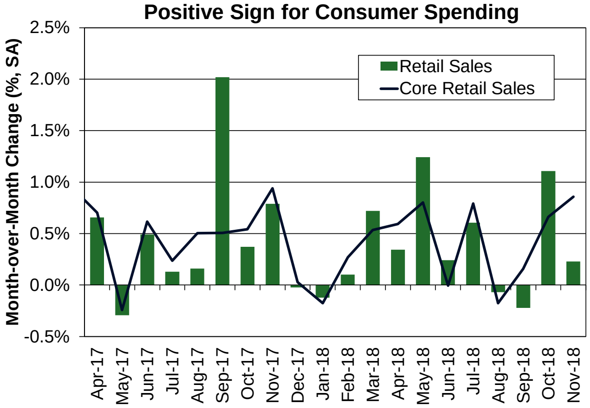
In our final Economic and Housing Weekly Note of 2018, the Economic and Strategic Research Group would like to wish you a happy holiday and productive New Year. See you all in 2019!

Economics: Consumer Spending Forges Ahead

This week's news was largely positive, with rising retail sales, increased industrial production, and further evidence of a strong labor market. Nominal retail sales posted a modest gain for the second straight month in November, despite the largest monthly decline in gas station sales since May 2017. Core sales (excluding autos, building materials, and gasoline), which are an input into GDP, rose for the third consecutive month, posting the biggest gain in a year. The report poses an upside risk to our forecast of real consumer spending growth of 3.0 percent annualized this quarter. Industrial production rose to a fresh record high in November, driven by mining and utilities production as manufacturing output was flat. However, on an annual basis, mining output has decelerated for the past three months thanks to declining oil prices. Utilities output hit the highest level since April, boosted by an unusual amount of snow and cold weather. The Job Openings and Labor Turnover Survey, which is released with a one-month lag to the employment report, showed that job openings rebounded in October from September's large decline. Job openings continued to exceed unemployed workers for the eighth consecutive month. Hires also rose, coming in just shy of August's expansion high. In a timelier measure of labor market tightness, last week's initial unemployment insurance claims posted the largest decline in over three years, falling to just shy of the 48-year low reached in mid-September. On a less positive note, small business confidence fell sharply in November to the lowest level since March. The share of firms expecting the economy to improve plummeted to the lowest level since the Presidential election. Quality of labor remained the single most important problem, with the net share of firms reporting this challenge tying the all-time high. On the inflation front, the Consumer Price Index (CPI) was unchanged in November, dragged on by the largest drop in energy prices since March. The annual gain in the index moderated to the slowest pace since February.

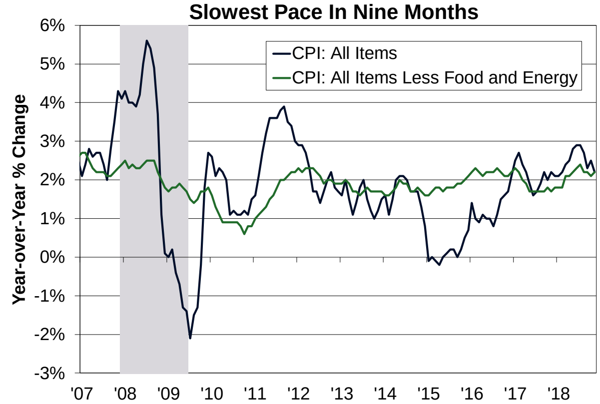
- **Retail sales** rose 0.2 percent in November and 4.2 percent annually, according to the Census Bureau. October's initially reported 0.8 percent gain was revised higher to 1.1 percent. Core sales increased 0.9 percent in November and 4.4 percent annually.
- **The Job Openings and Labor Turnover Survey (JOLTS)** showed that job openings rose by 119,000 to 7.1 million in October, according to the Bureau of Labor Statistics. The job openings and hires rates were up a tick to 4.5 percent and 3.9 percent, respectively. The quits rate fell a tenth to 2.3 percent from September's expansion high.
- **The National Federation of Independent Business (NFIB) Small Business Optimism Index** fell 2.6 points to 104.8 in November as the net share of firms expecting the economy to improve declined 11 points to 22 percent.
- **The Consumer Price Index** was flat in November while core CPI (excluding food and energy) rose 0.2 percent. On an annual basis, headline inflation slowed three-tenths to 2.2 percent and core inflation accelerated one-tenth to 2.2 percent. **The Producer Price Index (PPI)** for final demand of goods and services rose 0.1 percent in November. Headline PPI slowed to 2.5 percent annually, while core PPI was unchanged at 2.8 percent. **Import prices** declined 1.6 percent in November but rose 0.7 percent annually. All 3 reports are produced by the Bureau of Labor Statistics.
- **Industrial production**, a gauge of output in the manufacturing, utility, and mining sectors, rose 0.6 percent in November, according to the Federal Reserve Board. Manufacturing output was flat, while mining and utilities output improved 1.7 percent and 3.3 percent, respectively. Capacity utilization increased four-tenths to 78.5 percent.
- **Initial claims for unemployment insurance** decreased by 27,000 to 206,000 in the week ending December 8, according to the Department of Labor. The four-week moving average fell by 3,750 to 224,750.

Core Retail Sales Post Another Solid Gain, A Positive Sign for Consumer Spending



Source: Census Bureau

Consumer Inflation Decelerates To The Slowest Pace In Nine Months



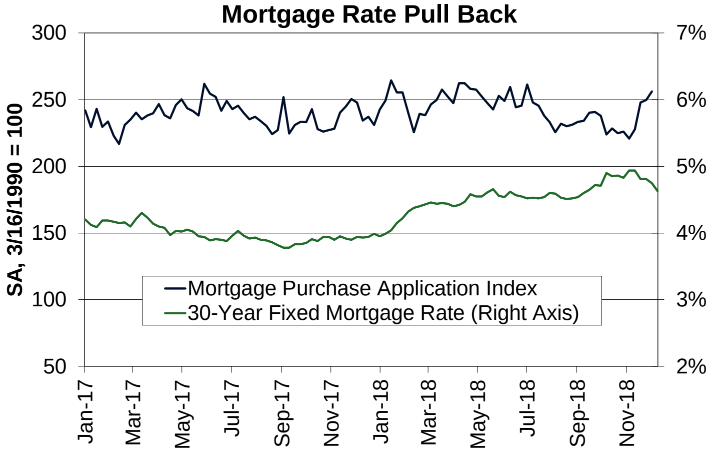
Source: Bureau of Labor Statistics

Housing: Construction Job Openings Rise and Hires Slow

This week featured the Bureau of Labor Statistics (BLS) Job Openings and Labor Turnover Survey, which showed that construction job openings increased in October to the second highest level of the expansion but that the pace of new hires softened to the lowest reading since April. In light of weakness in many construction indicators in recent months, the continued growth in job openings is an encouraging sign that builders still see solid demand for new homes and other structures. However, the slowing pace of hires should temper expectations of a near-term rebound in construction spending or housing starts. The continued divergence in the trends of openings and hires is consistent with home builder surveys citing cost and availability of labor as the most significant problem facing builders and BLS data showing that construction wage growth has been faster than overall wage gains. Tightness in the construction labor market will likely continue to impede home building. On the mortgage market front, the Mortgage Bankers Association reported that mortgage applications rose last week as mortgage rates continued to pull back. Overall applications rose modestly for the third straight week. Purchase applications rose for the fourth straight week to reach the highest level since July. This suggests a modest rebound in home sales may be in store following the downward trend in recent months. Lastly, Freddie Mac reported that the average rate on 30-year fixed-rate mortgages fell to 4.63 percent this week, down 12 basis points from the prior week and 31 basis points from the seven-year high reached in mid-November.

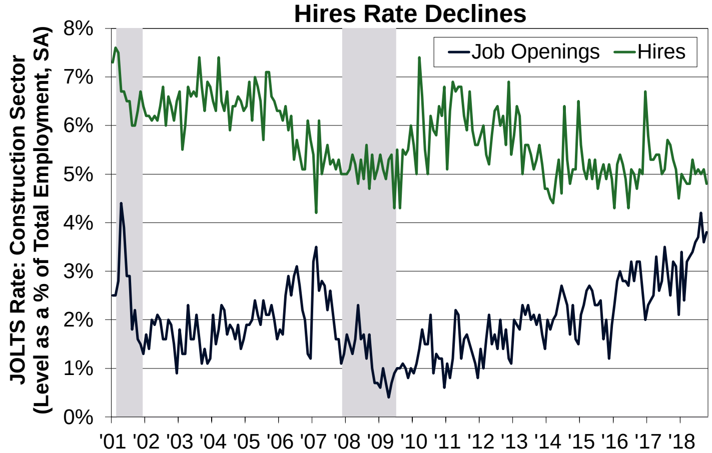
- **The Job Openings and Labor Turnover Survey** showed that construction job openings rose 7.4 percent in October to 292,000. The jump continues a recent streak of volatility in the measure, which plunged 14.2 percent in September following a 15.3 percent surge in August. The October level of openings sat at the second highest seen over the expansion, up 25.3 percent from a year earlier and surpassed only by the August level. While openings rose, hires declined by 5.4 percent to 349,000, the slowest pace in six months, and were down 6.9 percent from a year prior. Similarly, the openings rate rose 0.2 percentage points to 3.8 percent, while the new hires rate fell three-tenths to 4.8 percent. The separations rate fell four-tenths to 4.3 percent. Both the hires and separations rates were the lowest since the spring.
- **Mortgage applications** rose 1.6 percent for the week ending December 7, according to the Mortgage Bankers Association. Refinance mortgage applications increased by 1.8 percent, the third consecutive gain, following a general downward trend over the previous two months. Meanwhile, purchase mortgage applications advanced 2.5 percent over the week. The rise in applications occurred as mortgage rates continued their recent decline. The average 30-year fixed contract rate fell for the fourth consecutive week, declining 12 basis points to 4.96 percent, the lowest rate in almost three months. From a year prior, purchase applications were up 3.6 percent, the largest annual advance since mid-September. In contrast, refinance applications were down 33.5 percent from a year earlier.

Purchase Mortgage Applications Rebound on Mortgage Rate Pull Back



Source: Mortgage Bankers Association, Freddie Mac

Construction Job Openings Rate Rises as Hires Rate Declines



Source: Bureau of Labor Statistics

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Economic and Strategic Research Group
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