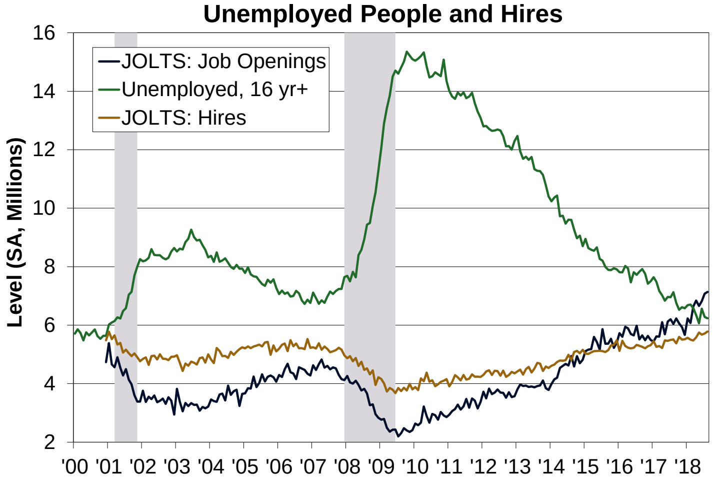
Weekly Note – November 9, 2018

Economics: Fed Emphasizes a Strong Economy

At this week's Federal Open Market Committee (FOMC) meeting, the Federal Reserve kept the federal funds rate unchanged, as expected, while offering an upbeat assessment of the economy in its post-meeting statement. While the Fed repeatedly emphasized the economy's strength, it changed the statement to note the recent pullback in business investment, which has "moderated from its rapid pace earlier in the year." Along with strong growth, contained inflation, and a healthy labor market, the statement reinforced our view that the Fed will hike rates in December. Data from the Job Openings and Labor Turnover Survey confirmed continued labor market strength. After reaching a series high in August, job openings softened slightly in September, though openings have exceeded hires since January 2017 and outnumbered unemployed persons since March. As job opportunities remain abundant and workers feel confident in the economy and their job prospects, the quits rate remained at the highest level in 17 years. More timely data also point to a tight labor market, as initial claims for unemployment insurance fell last week to just 12,000 above the cycle low recorded in mid-September. Service sector activity expanded at a slower pace in October, the first deceleration in three months, according to the ISM Nonmanufacturing Index. Three out of the four components of the index – business activity, new orders, and employment – fell during the month, while supplier deliveries posted a modest gain. On the consumer front, consumer credit expanded further in September as gains in nonrevolving credit (mainly auto and student loan debt) outweighed the first contraction in revolving credit (mainly credit card debt) in three months. Consumer sentiment remained elevated in November, though it has moderated for the past two months. The current conditions component was essentially flat while the expectations component declined modestly. Finally, producer prices rose for the second straight month in October, posting the largest monthly increase since September 2012 and reaching the fastest annual pace in three months.

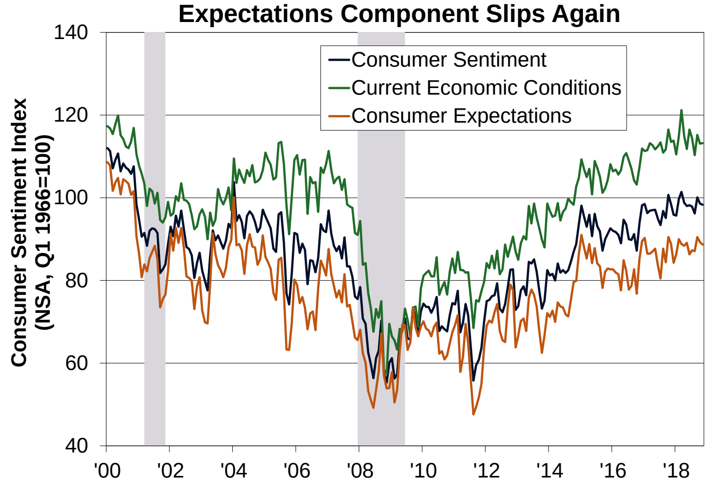
- **The Job Openings and Labor Turnover Survey** showed that job openings decreased by 284,000 to 7.0 million in September, according to the Bureau of Labor Statistics. The job openings rate fell two-tenths to 4.5 percent. The hires rate fell 0.2 percentage points to 3.8 percent, while the quits rate was flat at 2.4 percent. The layoffs rate fell a tick to 1.1 percent.
- **Consumer (non-mortgage) credit outstanding**, expanded by $10.9 billion in September, according to the Federal Reserve Board. A $300 million contraction of revolving credit was outweighed by a gain in non-revolving credit of $11.2 billion. From a year ago, nonrevolving and revolving credit rose 5.2 percent and 3.7 percent, respectively.
- **The University of Michigan Consumer Sentiment Index** fell 0.3 points to 98.3 in the November preliminary reading. Short-term inflation expectations ticked down, while the long-term inflation outlook increased by 0.2 percentage points, rising for the first time in three months.
- **The Producer Price Index (PPI)** for final demand of goods and services rose 0.6 percent in October and 2.9 percent annually, according to the Bureau of Labor Statistics. A jump in energy prices drove the increase in the overall index. Core PPI gained 0.2 percent from September and 2.8 percent from a year ago.
- **The ISM Nonmanufacturing Index,** a gauge of service sector activity, fell 1.3 points to 60.3 in October (any reading above 50 indicates expansion).
- **Initial claims for unemployment insurance** decreased by 1,000 to 214,000 in the week ending November 3, according to the Department of Labor. The four-week moving average edged down by 250 to 213,750.

Job Openings Continue to Exceed Unemployed People and Hires



Source: Bureau of Labor Statistics

Consumer Sentiment Falls Further, as the Expectations Component Slips Again



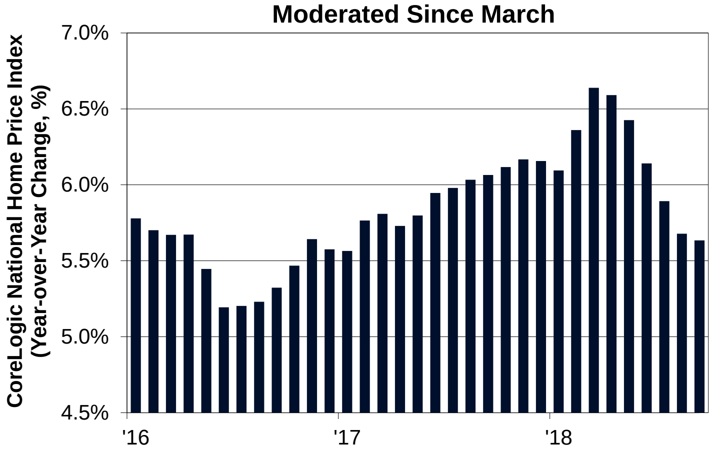
Source: University of Michigan

Housing: Home Price Gains Continue to Moderate

This week featured a report from CoreLogic showing that annual home price appreciation at the national level has steadily decelerated since its recent high in March, falling in September to the slowest pace since January 2017. Moderating home price appreciation is unlikely to provide meaningful relief to home purchase affordability, as price gains continue to outpace household income growth in many areas of the country. In addition, CoreLogic's tiered home price indices underscore affordability challenges for first-time homebuyers, as homes priced below the median continue to appreciate at a pace well above the average. On the labor market front, the Job Openings and Labor Turnover Survey pointed to softening construction job openings in September. Both the number of unfilled openings and the openings rate (job openings as a percentage of total employment plus current job openings) declined from August, when both metrics were at the second highest level since the inception of the survey in December 2000. The construction hires rate edged up in September, staying within a narrow range seen over the past four months. Rising mortgage rates continued to take their toll on mortgage demand: Purchase demand declined to the lowest level in two years, while refinance demand continued to hover near the expansion low. Mortgage rates rose further this week, with the average yield on 30-year fixed rate mortgages jumping 11 basis points to 4.94 percent, a 7-year high, according to Freddie Mac.

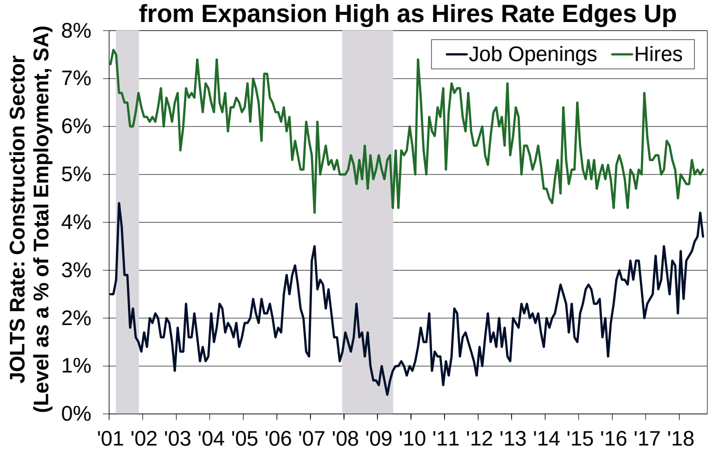
- **The CoreLogic National Home Price Index**, a repeat sales measure, rose 0.4 percent in September (not seasonally adjusted). From a year ago, the index rose 5.6 percent, down from this year's peak of 6.6 percent seen in March. Prices in every state but North Dakota posted an annual increase. The state with the strongest annual gain was Nevada, followed by Idaho, with both states showing double-digit increases. The lowest price tier (homes priced less than 75 percent of the median) showed the biggest annual increase of 8.5 percent, compared with 6.8 percent for the low- to middle-price tier (between 75 and 100 percent of the median), 6.1 percent for the middle- to moderate-price tier (between 100 and 125 percent of the median), and 4.5 percent for the high-price tier (greater than 125 percent of the median).
- **The Job Openings and Labor Turnover Survey** showed that construction job openings fell 12.3 percent in September to 278,000, according to the Bureau of Labor Statistics. However, the sharp drop did not fully reverse the 15.3 percent rise in August that sent construction job openings to the highest reading since April 2001. The construction job openings rate decreased half a percentage point to 3.7 percent. The construction hires rate edged up one-tenth to 5.1 percent. The construction layoffs and discharges rate inched up 0.1 percentage point to 2.3 percent, five-tenths higher than the cycle low recorded in December 2017. The construction quits rate held steady at 2.3 percent for the second straight month after reaching an expansion high of 2.5 percent in July.
- **Mortgage applications** fell 4.0 percent for the week ending November 2, according to the Mortgage Bankers Association. Purchase applications dropped 5.0 percent, sending the purchase index to the lowest level since the week ending November 11, 2016. Refinance applications decreased 2.5 percent. The average rate on 30-year fixed mortgages rose 4 basis points to 5.15 percent.

Annual Home Price Growth Has Steadily Moderated Since March



Source: CoreLogic

Construction Job Openings Rate Pulls Back from Expansion High as Hires Rate Edges Up



Source: Bureau of Labor Statistics

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