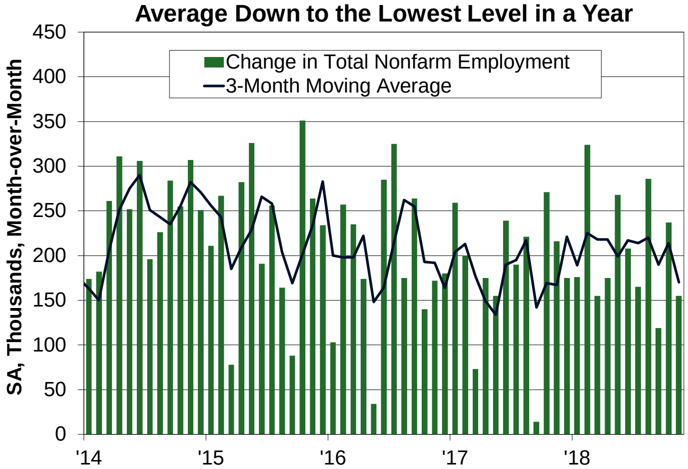
Weekly Note – December 7, 2018

Economics: Hiring Slows amid Steady Wage Growth

This week's news featured the November jobs report, which came in on the soft side, as weakening hiring and a net downward revision in the prior two months sent the three-month average payroll gain to the weakest pace in a year. Details were uneventful, with annual wage growth holding steady at the expansion high, and both the unemployment rate and the labor force participation rate remaining unchanged. Auto sales fell slightly in November and consumer sentiment was flat in early December. Both reports still support our forecast of real consumer spending growth of 2.9 percent annualized this quarter. While consumer spending will likely continue to be a strong driver of growth, trade will likely subtract from growth this quarter, as the nominal trade gap widened to the largest level of the expansion with exports falling and imports rising. The worsening trade deficit partly reflects recently imposed tariffs, especially between the U.S. and China. While overall year-over-year U.S. export growth has slowed recently, exports to China plunged 30 percent in October. Factory orders posted the biggest decline in more than a year in October, with slight downward revisions to September's core capital goods orders and core shipments. However, the ISM manufacturing survey showed that activity expanded in November at a faster pace than in October, driven by a rise in the new orders index to the highest level since August. The ISM nonmanufacturing survey was also upbeat, remaining just below the 21-year high reached in September. Third quarter productivity growth was revised one-tenth higher. Significant downward revisions in compensation led to much lower unit labor costs.

- **Nonfarm payroll employment** increased 155,000 in November, according to the Bureau of Labor Statistics. Payrolls in the prior two months were revised lower, on net, by 12,000. Average hourly earnings were up 0.2 percent from October and 3.1 percent from a year ago. The unemployment rate and the labor force participation rate were both unchanged, at 3.7 percent and 62.9 percent, respectively. The broadest measure of labor underutilization (U6) rose two-tenths to 7.6 percent.
- **The U.S. nominal trade deficit** widened $0.9 billion to $55.5 billion in October, according to the Census Bureau. Exports of goods and services fell 0.1 percent while imports rose 0.2 percent. The real goods deficit, which is used in the estimate of GDP, widened $0.6 billion to $87.9 billion.
- **Factory orders** fell 2.1 percent in October, according to the Census Bureau. Shipments fell 0.1 percent. Core capital goods orders in September were revised lower to a 0.6 percent drop, and core shipments were downwardly revised to a 0.3 percent drop. The new data in the report – orders and shipments of nondurables – were up 0.3 percent.
- **The University of Michigan Consumer Sentiment Index** was unchanged at 97.5 in the December preliminary reading. The rise in the current economic conditions component offset the drop in the expectations component.
- **Nonfarm business productivity** increased 2.3 percent annualized in Q3 2018, according to the Bureau of Labor Statistics. Compensation per hour rose 3.1 percent, four-tenths lower than initially reported, and the Q2 2018 figure was revised down 1.9 percentage points to be flat. As a result, the annual increase in unit labor costs was revised lower six-tenths to 0.9 percent, the weakest growth in two years.
- **The Institute for Supply Management (ISM) Manufacturing Index** rose 1.6 points to 59.3 in November (any reading above 50 indicates expansion). **The ISM Nonmanufacturing Index** edged up 0.4 points 60.7 in November.
- **Light vehicle sales** edged down 0.2 percent in November to 17.5 million annualized units, according to Autodata.

Hiring Slows and Pulls the Three-Month Average Down to the Lowest Level in a Year



Source: Bureau of Labor Statistics

U.S. Exports to China Plummet

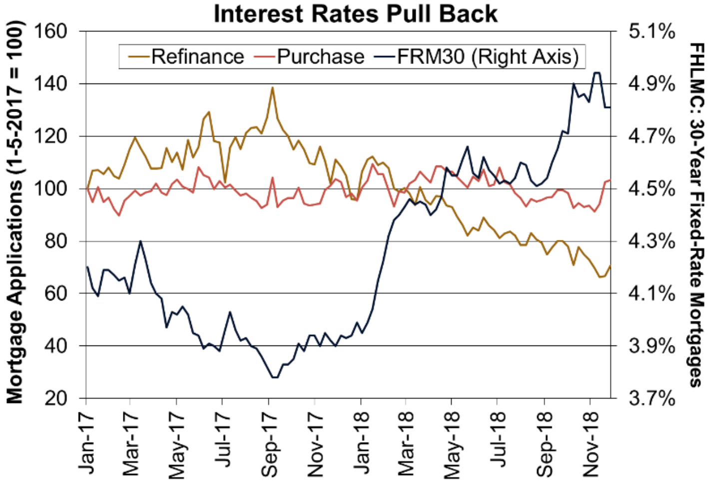
Source: Census Bureau

Housing: Construction Spending Declines

Continuing the recent trend of soft housing market data, this week's releases included declining construction spending numbers for October. Private residential home construction spending fell over the month driven by declines in single-family and home renovation spending. Single-family spending has now fallen for seven of the last eight months. In contrast, multifamily spending rose for the second straight month. Combined with lackluster October new home sales and pending home sales data released last week, the construction spending report points to the fourth consecutive drop in real residential investment this quarter. On the home price front, the annual gain in the CoreLogic National Home Price Index continued to slow in October from the pace seen during the first half of the year, where annual appreciation ranged between 6.1 and 6.6 percent. While October's increase remained solid, it marks the fourth straight month of annual gains under 6.0 percent. Moderating home price appreciation should help provide some affordability relief. Falling mortgage rates over the past few weeks are also aiding affordability and have helped breathe signs of life into the mortgage market. The Mortgage Bankers Association's survey showed that purchase applications rose for the third straight week while refinance applications posted the biggest jump in seven weeks. Freddie Mac's survey showed that the average 30-year fixed mortgage rate dropped 6 basis points to 4.75 percent this week. Since reaching its expansion high in early November, the rate has now fallen 19 basis points.

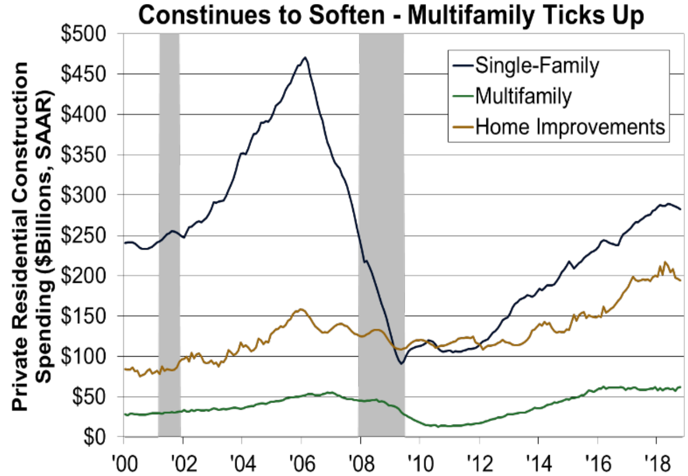
- **The CoreLogic National Home Price Index**, a repeat sales measure, rose 0.5 percent in October (not seasonally adjusted). From a year prior, the index was up 5.4 percent, unchanged from September's year-over-year pace. This compares to over 6.0 percent annual growth rates experienced in each of the first six months of the year. All states saw year-over-year increases except North Dakota. The lowest price tier (homes priced less than 75 percent of the median) showed the biggest annual increase of 7.9 percent, compared with 6.5 percent for the low- to middle-price tier (between 75 and 100 percent of the median), 5.8 percent for the middle- to moderate-price tier (between 100 and 125 percent of the median), and 4.4 percent for the high-price tier (greater than 125 percent of the median).
- **Private residential construction spending** fell by 0.5 percent in October, according to the Census Bureau. Multifamily construction rose by 1.0 percent over the month. However, single-family construction spending fell 0.5 percent and home improvement spending declined by 0.9 percent. From a year prior, single-family and multifamily spending rose 2.3 percent and 4.0 percent, respectively, while home improvement spending fell 3.8 percent.
- **Mortgage applications** rose 2.0 percent for the week ending November 30, according to the Mortgage Bankers Association. Refinance mortgage applications rose by 6.2 percent while purchase applications increased by 0.8 percent. For November, average purchase mortgage applications rose by 2.5 percent, following a 3.5 percent decline in October. In contrast, average refinance mortgage applications fell by 8.1 percent, following a 3.5 percent decline in October. The average 30-year fixed contract rate fell for the third consecutive week, declining 4 basis points to 5.08 percent. The average rate for the month rose 5 basis points from October, sitting at 5.14 percent.

Mortgage Applications Rise as Interest Rates Pull Back



Source: Freddie Mac, Mortgage Bankers Association

Single-Family Construction Spending Constinues to Soften - Multifamily Ticks Up



Source: Census Bureau

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