



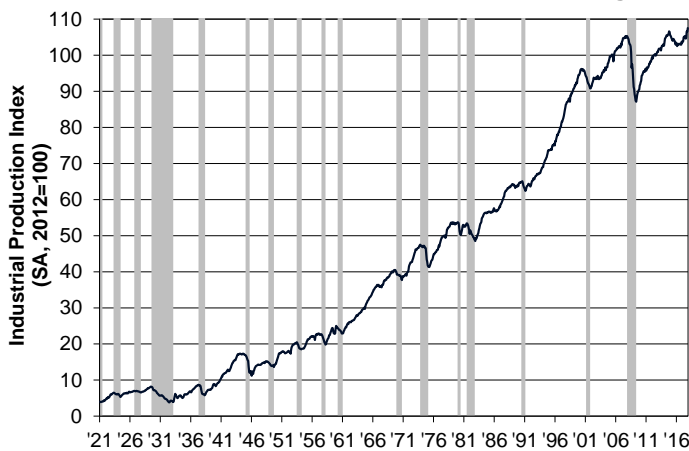
Weekly Note – January 19, 2018

### Economics: Industry Gets a Win

Industrial production stormed into the spotlight this week with gains on a monthly, quarterly, and annual basis. In December, total industrial production increased for the third time in four months and reached its highest level since the series began in 1921. For the fourth quarter, the index jumped 2.0 percent after being held down in the third quarter by hurricanes. Finally, on an annual basis, production posted its largest gain since 2010. December gains in manufacturing propelled that component of the index to its highest level in nearly a decade. Motor vehicles and parts drove the manufacturing gains. Mining output increased for the fourth straight month in December, helped by the first monthly rise in oil and gas extraction in six months. Utility output showed the biggest month-over-month rise since March, thanks to a colder-than-normal December. In other news, consumer sentiment as measured in the University of Michigan survey fell for the third consecutive month in the January preliminary reading, dropping to the lowest level since July, solely because of an erosion of confidence in economic conditions. The expectations component edged up slightly. Buying sentiment for household items receded to preholiday levels. Lastly, initial claims for unemployment insurance experienced the largest weekly decline since 2009, falling to the lowest level since 1973.

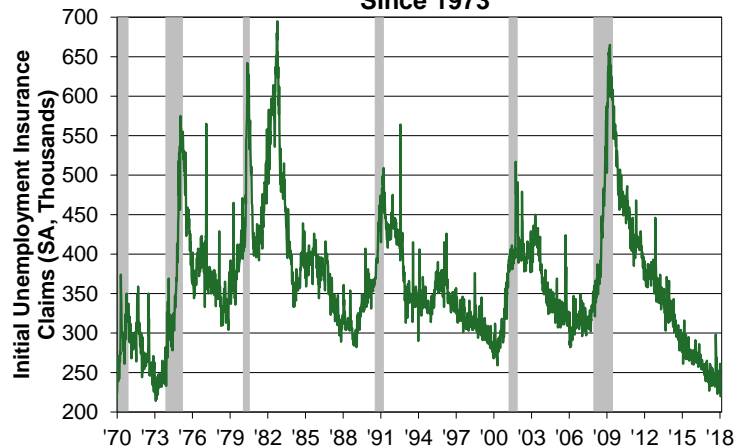
- **Industrial production**, a gauge of output in the manufacturing, utility, and mining sectors, increased 0.9 percent in December, according to the Federal Reserve Board. Manufacturing output edged up 0.1 percent, the fourth consecutive month of gains. Utility output and mining output rose 5.6 percent and 1.6 percent, respectively. In 2017, the total index increased 3.6 percent, while manufacturing, utility, and mining outputs increased by 2.4 percent, 1.8 percent, and 11.5 percent, respectively. Capacity utilization rose seven-tenths to 77.9 percent in December, yet remains 2 percentage points below its long-run average.
- **The University of Michigan Consumer Sentiment Index** fell 1.5 points to 94.4 in the January preliminary reading. The economic conditions component drove the drop, declining 4.6 points to a 14-month low while the expectations component remained virtually unchanged, edging up only 0.5 percent. Long-term inflation expectations remained at their 2017 average level, while short-term inflation expectations inched upward.
- **Initial claims for unemployment insurance** plunged by 41,000 to 220,000 in the week ending January 13, according to the Department of Labor. The four-week moving average decreased by 6,250 to 244,500.

Industrial Production Reaches a Series High



Source: Federal Reserve Board

Initial Jobless Claims Fall to Lowest Level Since 1973



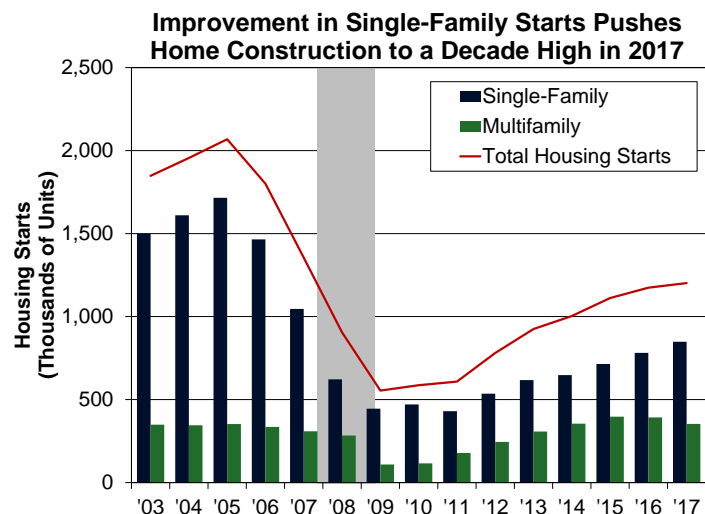
Source: Department of Labor



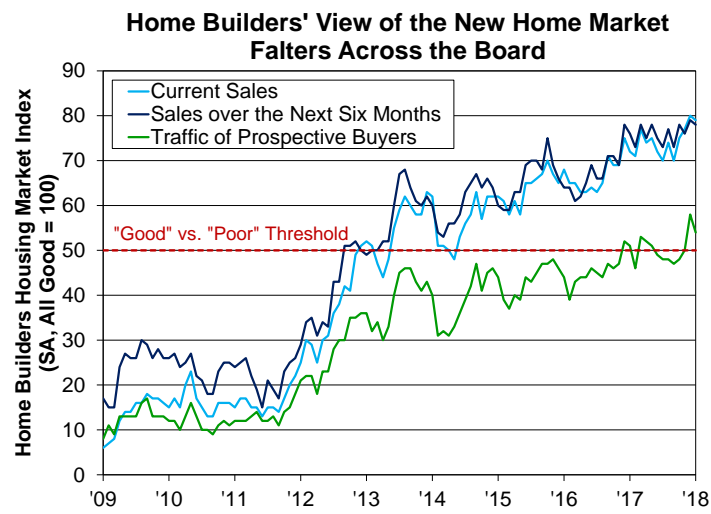
# Housing: Single-Family Starts Stumble at Year End

Housing data released this week featured a setback in single-family homebuilding during the final month of last year and home builders' confidence at the start of this year. After climbing to the highest level of the year in November, total housing starts posted the largest month-over-month drop in December since November 2016, pulled down by the biggest monthly decline in single-family starts since February 2015. The retrenchment in single-family building was nationwide, as all four regions declined. The South, in particular, saw its largest monthly drop since June 2014. Multifamily starts rose for the third time in four months. Despite the December drop, total housing starts for all of 2017 reached a decade high, thanks to the single-family segment. Multifamily starts fell in 2017, marking the second straight annual decline since their peak in 2015. As single-family construction faltered at the end of 2017, home builders' outlook for 2018 worsened in January, with a measure of their confidence falling for the first time in four months from an expansion high in December. Builders in the Northeast were the only ones with an improved outlook. Mortgage demand grew last week, boosted by rises in both purchase and refinance applications. Government purchase applications were particularly impressive, reaching the highest level since January of last year. The average 30-year fixed mortgage rate increased 5 basis points to 4.04 percent, an eight-month high, according to Freddie Mac.

- **Housing starts** fell 8.2 percent in December to 1.19 million units SAAR, according to the Census Bureau. Single-family starts fell 11.8 percent to 836,000, while multifamily starts increased 1.4 percent to 356,000. In 2017, single-family starts were 8.5 percent higher than in 2016, whereas multifamily starts fell 9.8 percent from a year ago. New residential permits edged down 0.1 percent in December to 1.30 million annualized units. Single-family permits rose 1.8 percent to 881,000 units, while multifamily permits dropped 3.9 percent to 421,000 units. For all of 2017, single-family permits were up 8.9 percent, compared with a 2.2 percent decline for multifamily permits.
- **The National Association of Home Builders/Wells Fargo Housing Market Index** fell 2 points to 72 in January. A reading above 50 indicates more builders view the single-family market as "good" rather than "poor." All three components - current sales, sales expectations, and foot traffic of prospective buyers - decreased but remained near expansion highs.
- **Mortgage applications** increased 4.1 percent for the week ending January 12, according to the Mortgage Bankers Association (MBA). Purchase applications rose 2.7 percent, driven by 3.2 percent and 1.3 percent increases in conventional and government purchase applications, respectively. Refinance applications rose 4.4 percent, as conventional and government applications increased 4.1 percent and 5.4 percent, respectively. The MBA survey's average 30-year fixed mortgage rate surged 10 basis points to 4.33 percent, its highest level since March 2017.



Source: Census Bureau



Source: National Association of Home Builders

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