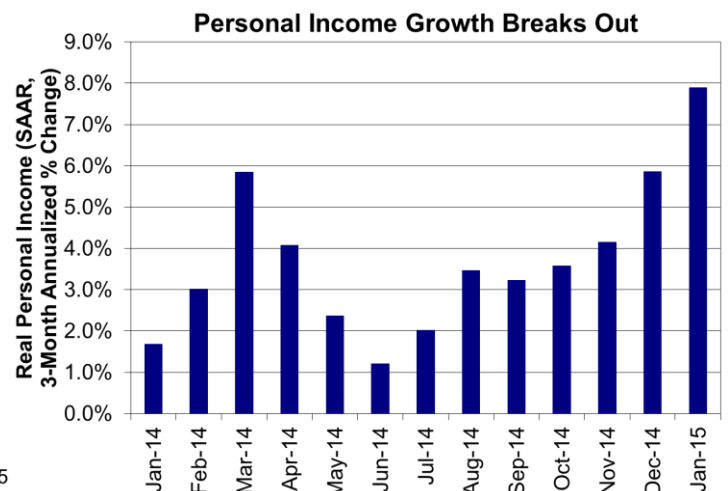
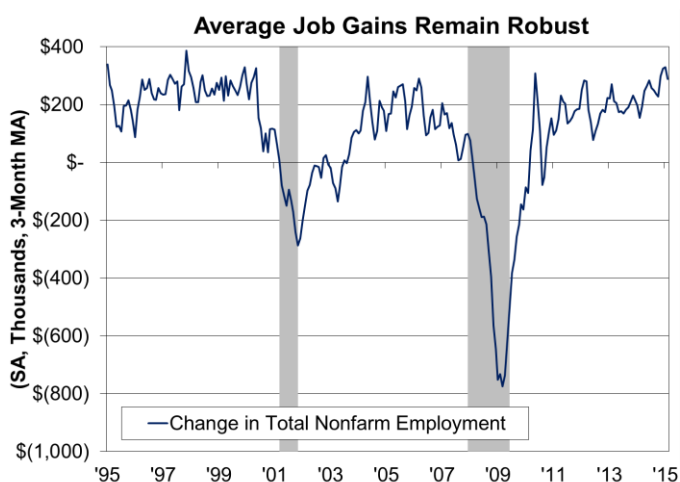


Economics: Job Growth Plows Forward, Income Growth Outpaces Wage Growth

The labor market continued to chug along in February, shaking off concerns that energy sector layoffs, worker strikes, and inclement weather would weigh on the monthly figures. The economy created a remarkable 3.3 million jobs in the 12 months ending in February, the best since 2000. However, labor force participation remains near a three-decade low, and nominal wage growth has failed to accelerate much above 2.0 percent, though with headline inflation measures running nearly flat, consumers are seeing inflation-adjusted wage gains. Data on personal income showed a more upbeat trend, with inflation-adjusted growth of 7.9 percent annualized in the three months ending in January amid the lowest inflation since October 2009. Real consumer spending picked up in January, but auto sales slumped in February to a 10-month low. The trade deficit narrowed in January, though both imports and exports contracted. The impact of labor disputes at west coast ports (which were resolved at the end of February) on the trade data remains unclear, and we will require a few more months of data to discern the trend in domestic trade. The 10-year Treasury yield spiked to 2.24 percent on Friday morning following the jobs report, up from last Friday's 2.0 percent close.

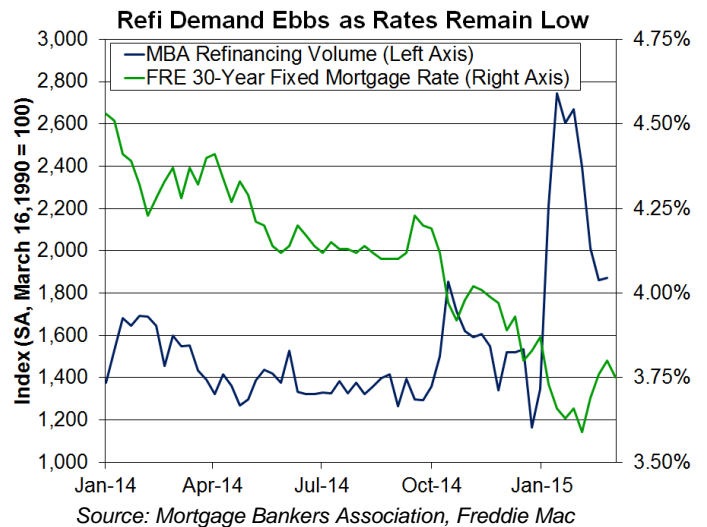
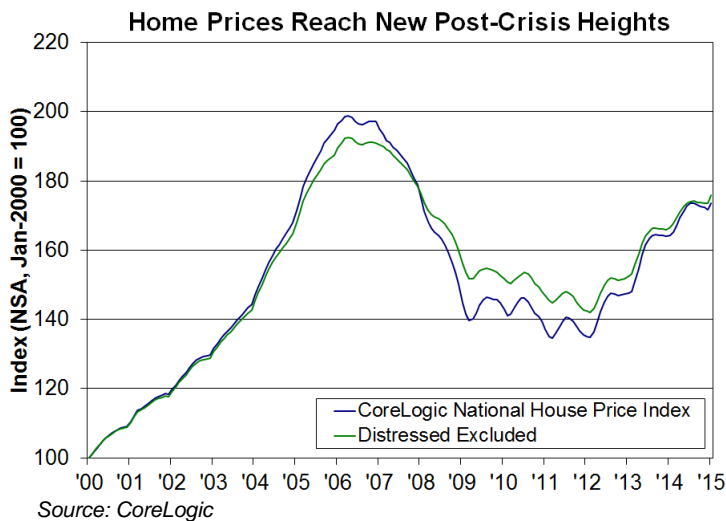
- **Nonfarm payroll employment** rose 295,000 in February, according to the Bureau of Labor Statistics. The three-month average gain in jobs edged down to 288,000. However, average hourly earnings increased just 0.1 percent from January and 2.0 percent from a year ago. The unemployment rate declined two-tenths to 5.5 percent, due in large part to labor force exits, leaving the labor force participation rate at 62.8 percent—just one-tenth above a more than three-decade low.
- **Personal income**, adjusted for inflation, jumped 0.8 percent in January and increased a two-year best 4.4 percent from January 2013, according to the Bureau of Economic Analysis. Real personal consumption expenditures (PCE) increased 0.3 percent following a 0.1 percent decline in December. The personal saving rate pushed higher to 5.5 percent. The PCE chain price index declined 0.5 percent in January, leaving year-over-year inflation at just 0.2 percent—the lowest since October 2009. Energy prices fell 21.2 percent over the past 12 months, pulling down headline inflation. Core PCE, which excludes food and energy, ticked up 0.1 percent in January and 1.3 percent from a year ago.
- **Light vehicle sales** declined 2.6 percent in February to a 16.2 million annual rate, according to Autodata. The February decline was the third consecutive monthly drop, leaving auto sales at the slowest pace since last April.
- **The Institute for Supply Management (ISM) Manufacturing Index** edged down 0.6 points in February to 52.9 (any reading above 50 indicates expansion in the sector). The new orders, production, and employment sub-indices all declined during the month. **The ISM Nonmanufacturing Index**, a gauge of service sector activity, ticked up 0.2 points in February to 56.9, as gains in the employment and supplier deliveries indices outweighed a pullback in business activity and new orders.
- **The U.S. trade deficit** narrowed by \$3.8 billion to \$41.8 billion in January, according to the Census Bureau. The 3.9 percent decline in imports outweighed a 2.9 percent drop in exports. The inflation-adjusted goods deficit, used in the calculation of net exports in the GDP estimate, narrowed slightly to \$53.6 billion.
- **Initial claims for unemployment insurance** increased 7,000 to 320,000 in the week ending February 28, according to the Department of Labor. The four-week moving average increased by 10,250 to 304,750.



Housing: More Evidence of a Trepid Housing Expansion

Housing data released this week highlight the sluggish pace of improvement in both the supply of and demand for housing typical in this housing expansion. Private residential construction spending grew only modestly in January, remaining 3.4 percent below the post-recession high reached a year ago, and has declined on a year-over-year basis for three consecutive months. On the demand side, mortgage applications were stagnant in the last week of February, ending a streak of declines earlier in the month. The boom in refinancing applications, in particular, has lost momentum, giving back over 50 percent of the gains from the first 3 weeks of the year as mortgage rates have moved up from the January trough. Mortgage rates remain low, however, with the Freddie Mac contract interest rate for 30-year mortgages at 3.75 percent this week, down 5 basis points from a week ago. Despite only modest improvement in housing demand, home prices rose in January to a level not seen in seven years, according to the CoreLogic national home price index, supported by tight supply. Year-over-year growth in home prices also accelerated in January after slowing down for 10 months.

- **Private residential construction spending** rose 0.6 percent in January, according to the Census Bureau. Spending on private new construction increased for the eighth consecutive month, rising 0.8 percent. Single-family construction spending increased 0.6 percent, while multifamily spending rose 1.9 percent during the month. Spending on improvements inched up 0.1 percent. Year-over-year single-family private construction spending increased 10.3 percent, compared with a 28.6 percent spike in the multifamily sector.
- **The CoreLogic national home price index**, a repeat sales measure, increased 1.1 percent in January on a non-seasonally adjusted basis, reversing four consecutive months of decline. The 5.7 percent year-over-year increase in January was the largest since August of last year, but down from the recent peak of 11.9 percent reached in October 2013.
- **Mortgage applications** were relatively flat last week, according to the Mortgage Bankers Association (MBA). Total applications increased just 0.1 percent in the week ending February 27, the first rise in five weeks, as a 0.5 percent increase in refinance applications outweighed the 0.2 percent decline in purchase applications. Refinancing applications have been receding from the burst at the start of 2015, in line with mortgage rates that have moved off their recent lows, although refinancing demand still remains at a level higher than at any point during 2014. After seeing a similar spike to start the year, purchase mortgage applications have lost over half of the ground gained, falling 57.0 percent from 2015's high of 192.9 reached in the first full week of the year. The contract interest rate for 30-year fixed-rate mortgages in the survey fell slightly to 3.96 percent last week, but has remained below the 4.0 percent threshold for all of 2015.



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