



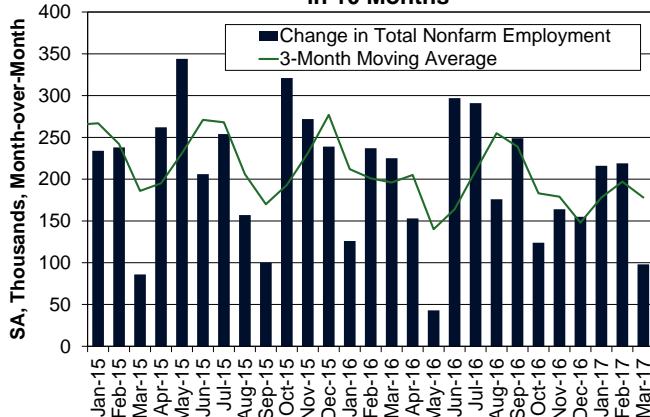
Weekly Note – April 7, 2017

### Economics: A Late Case of the Winter Blues for Jobs

Today’s jobs report was a tale of two surveys. On the disappointing side, the establishment survey showed that headline job gains fell below 100,000 in March for the first time since last May on the heels of sizable downward revisions for the prior two months. The temptation was to blame the stormy March weather that followed the unseasonably warm January and February. One supporting piece of evidence was construction payrolls, which moderated sharply after robust gains earlier in the year. On the brighter side, the household survey showed that both the official unemployment rate and the broadest measure of labor underutilization, the U-6 rate, slipped to fresh expansion lows, while the employment-to-population ratio increased to a new expansion best. Overall, the report offered additional evidence of the ongoing disparity between subdued hard economic data and upbeat consumer and business sentiment, but we believe that economic activity, including hiring, will pick up this quarter from a temporary lull, keeping the Fed on track for two more rate hikes this year. In other news this week, the third consecutive rise in factory orders in February suggests the manufacturing sector is gaining momentum; however, a survey of purchasing managers indicated the expansion in the sector slowed slightly in March. A purchasing manager survey on the service sector for March pointed to the weakest expansion in five months. Data related to consumer spending remained weak in March, as auto sales fell for the third consecutive month to the slowest pace in over two years. The trade deficit narrowed sharply in February after widening the most in nearly two years in January. Finally, the [minutes](#) of the March Federal Open Market Committee meeting suggested the Fed may alter the reinvestment policy for its \$4.5 trillion balance sheet sooner than markets had anticipated. Provided that the economy continued to perform as expected, most participants anticipated that “gradual increases in the federal funds rate would continue and judged that a change to the Committee’s reinvestment policy would likely be appropriate later this year.”

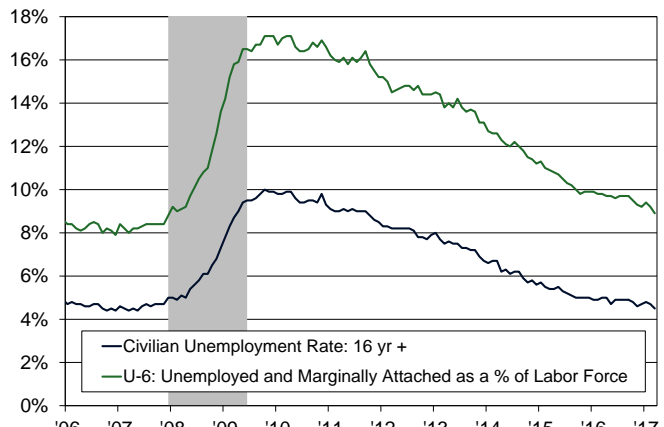
- **Nonfarm payroll employment** expanded 98,000 in March, according to the Bureau of Labor Statistics. The three-month average change slowed to 178,000 from 197,000 in February. Job gains in the prior two months were revised downward 38,000 on net. The unemployment rate declined two-tenths to 4.5 percent, as the participation rate was unchanged at 63.0 percent. The average workweek was unchanged at 34.3 hours. Average hourly earnings increased 0.2 percent from February and 2.7 percent from a year ago. The U-6 declined three-tenths to 8.9 percent.
- **The Institute for Supply Management (ISM) Manufacturing Index** slipped 0.5 points in March to 57.2 (any reading above 50 indicates expansion). Declines in the new orders, production, and inventories components outweighed rises in the employment and supplier deliveries components. **The ISM Nonmanufacturing Index**, a gauge of service sector activity, fell 2.4 points to 55.2 in March, as every component except supplier deliveries declined.
- **Factory orders** increased 1.0 percent in February, according to the Census Bureau. Nondurable goods, the new piece of data in the report, edged up 0.2 percent, marking the seventh consecutive rise. The gains in durable goods orders, core capital goods orders, and shipments were revised upward.
- **Light vehicle sales** fell 5.4 percent to a 16.6 million annualized pace in March, according to Autodata.
- **The U.S. trade deficit** narrowed by \$4.6 billion to \$43.6 billion in February, according to the Census Bureau. The improvement was the result of a 1.8 percent decrease in imports combined with a 0.2 percent rise in exports. The inflation-adjusted goods deficit, used in the calculation of net exports in the gross domestic product estimate, narrowed \$5.4 billion to \$59.7 billion.

Job Gains Fall Below 100,000 for the First Time in 10 Months



Source: Bureau of Labor Statistics

Unemployment Rates Dip to Expansion Lows



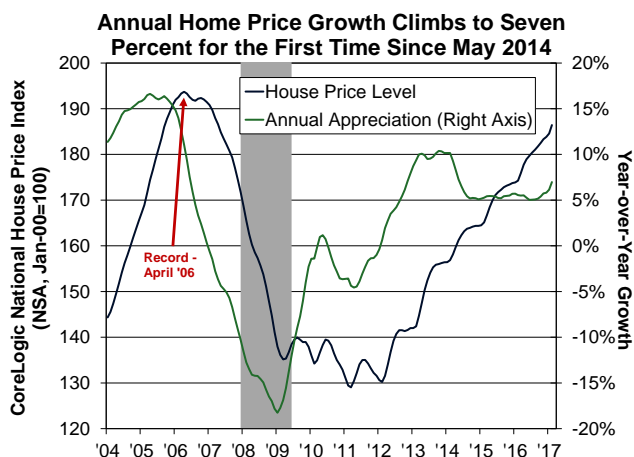
Source: Bureau of Labor Statistics



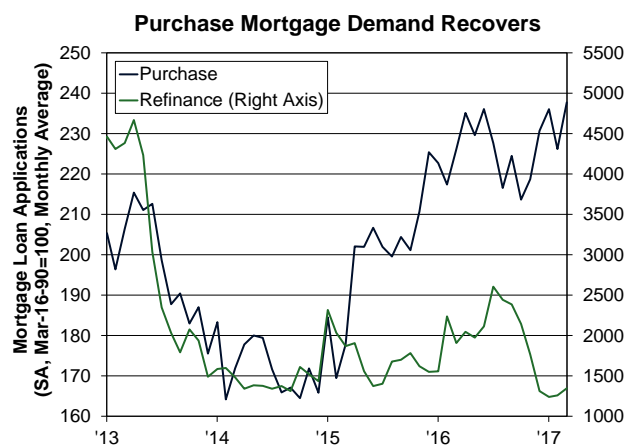
# Housing: Positive Spring Sales Outlook amid Robust Price Appreciation

Housing news was sparse but positive this week. Unseasonably warm winter weather helped boost homebuilding and remodeling activity, as private residential construction spending saw broad improvement in February across new construction and home improvement components. The increase in the latter was consistent with the strong rise in sales at building material and garden supply stores in the February retail sales report released last month. Overall, the recent news on construction spending bodes well for first quarter residential investment, which will likely rival the solid performance in the fourth quarter of 2016 that showed a 9.6 percent annualized rise in real residential investment. A report from CoreLogic showed that the annual gain in its House Price Index strengthened in February to 7.0 percent. The CoreLogic measure tends to be more positive than other measures of home prices and is prone to downward revisions, however. Finally, mortgage demand dropped during the last week of March, as purchase demand was little changed amid continued declines in refinance demand. Nonetheless, for March as a whole, both components of mortgage demand increased. While refinance applications remained near the levels observed over the last few months, purchase applications have trended up since their recent monthly lows in October, fully recovering the loss experienced during the post-election spike in mortgage rates. Freddie Mac's survey showed the average rate on a 30-year fixed-rate mortgage fell this week for the third consecutive week, declining 4 basis points to 4.10 percent, just one basis point above the year-to-date low from mid-January. Coupled with the jump in February pending home sales that we reported on last week, the rebound in March purchase applications and the decline in mortgage rates point to a decent spring selling season.

- **Private residential construction spending** rose 1.8 percent in February, according to the Census Bureau. Spending on new single-family construction rose for the fifth consecutive month, increasing 1.2 percent. Spending on new multifamily construction was up 2.0 percent following a 4.0 percent rise in the prior month. Spending on home improvements increased 2.7 percent. Compared with last February, new single-family construction spending rose 3.5 percent, the best showing since last June, while new multifamily construction spending increased 7.5 percent.
- **The CoreLogic National Home Price Index**, a repeat sales measure, jumped 1.0 percent in February (not seasonally adjusted). From a year ago, prices rose 7.0 percent, the biggest increase since May 2014. Since their trough in March 2011, nominal home prices have risen about 45 percent according to the CoreLogic National Home Price Index; however, they remain approximately 4 percent below the peak reached in April 2006. Adjusting for inflation, prices rose 4.4 percent from last February and were about 19 percent below their peak.
- **Mortgage applications** fell 1.6 percent for the week ending March 31, according to the Mortgage Bankers Association, amid steady mortgage rates. Purchase mortgage applications edged up 0.7 percent after a 1.2 percent rise in the prior week. Refinance applications dropped 4.2 percent, marking the third consecutive weekly decline. For the March average, purchase applications rose 5.1 percent, more than offsetting the 4.2 percent drop in February. Despite the pullbacks during the last weeks of March, refinance applications jumped 7.0 percent during the month, the second straight monthly rise following six consecutive monthly declines. The average 30-year fixed mortgage rate ticked up one basis point to 4.34 percent.



Source: CoreLogic



Source: Mortgage Bankers Association

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