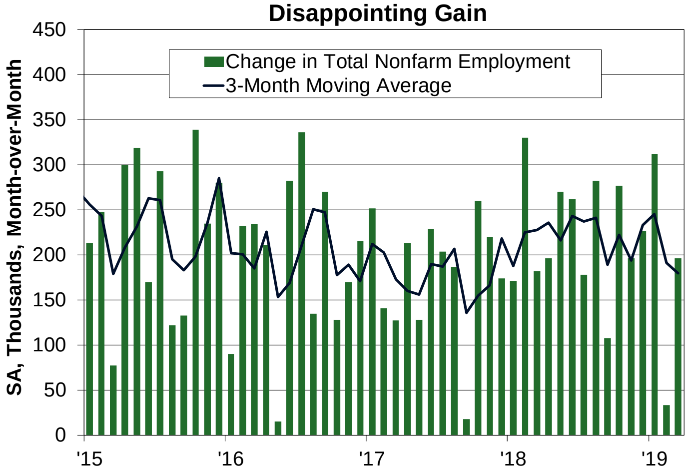
Weekly Note – April 5, 2019

Economics: Solid Job Gains Soothe Recession Fears

The employment report took center stage this week, with solid job gains helping to offset concerns over weak data elsewhere. Hiring rebounded strongly in March, rising 196,000 after a disappointing February number, which was likely an aberration. The details of the report were largely positive. Both the unemployment rate and U6 rate (the broadest measure of labor underutilization) were unchanged with the latter at an 18-year low. While the labor force participation rate ticked down, it remained close to February's 5-year high. Despite the continued tightness in the labor market, annual wage growth fell back from February's expansion high. March's solid employment gain should soothe recessionary fears and curb the fed funds futures' odds that the Federal Reserve will cut interest rates this year. In other news, retail sales declined in February despite solid gains in motor vehicle and parts sales and gasoline station sales. Core retail sales, which exclude auto, gasoline, and building material sales and are an input for the consumer goods spending component of gross domestic product, edged down after posting the largest monthly gain in 17 years in January. The pullback in February retail sales likely indicates increasing caution among consumers, though this may be due to temporary factors such as the weakness in the stock market at the beginning of the year, the government shutdown, and below-normal temperatures in February. Both January headline and core retail sales were upwardly revised, limiting our concerns over the February declines. Durable goods orders fell for the first time in four months in February, while shipments posted a modest gain. However, core shipments (nondefense excluding aircraft), a proxy for business equipment spending, were unchanged, supporting our call for a slowdown in real business equipment spending growth in the first quarter. Core capital goods orders, a forward-looking indicator, fell for the third time in four months, suggesting that equipment spending will remain lackluster this quarter. A survey of manufacturing purchasing managers showed the pace of expansion picked up in March, though the growth has trended downward since August. Details showed notable weaknesses, with supplier deliveries and new export orders expanding at their slowest paces in over two years. A similar survey for the service industry indicated the weakest pace of expansion since August 2017. Finally, light vehicle sales rose in March for the first time in three months, posting the largest gain in over a year; however, quarterly sales declined the most in two years.

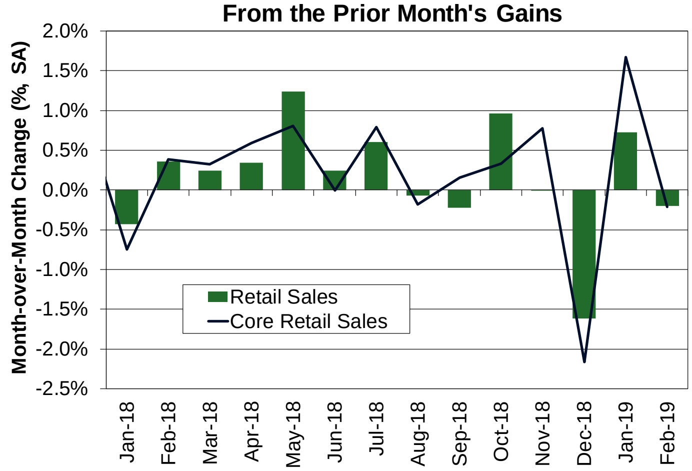
- **Nonfarm payroll employment** expanded by 196,000 in March, according to the Bureau of Labor Statistics. The gains in January and February were revised up 14,000, putting the three-month average gain at 180,000. The average workweek edged up 0.1 hour to 34.5 hours. Average hourly earnings rose 0.1 percent from February and 3.2 percent from a year ago. The unemployment rate and U6 rate remained at 3.8 percent and 7.3 percent, respectively. The labor force participation rate fell two-tenths to 63.0 percent.
- **Retail sales** fell 0.2 percent in February, according to the Census Bureau. Core retail sales also declined 0.2 percent. Annual growth in headline and core retail sales decelerated by six-tenths to 2.2 percent and 2.9 percent, respectively.
- **Durable goods orders** fell 1.6 percent in February, while durable goods shipments rose 0.2 percent, according to the Census Bureau. The January gain in orders was revised down two-tenths to 0.1 percent and the decline in shipments was revised up a tick to 0.4 percent. Core capital goods orders slipped 0.1 percent and core shipments were flat.
- **The ISM Manufacturing Index** rose 1.1 points in March to 55.3 (any reading above 50 indicates expansion). **The ISM Nonmanufacturing Index**, a gauge of service sector activity, fell 3.6 points to 56.1 in March.
- **Light vehicle sales** rose 5.3 percent to 17.5 million annualized units in March, according to Autodata.

March Hiring Rebounds From February's Disappointing Gain



Source: Bureau of Labor Statistics

Both Headline and Core Retail Sales Pullback From the Prior Month's Gains

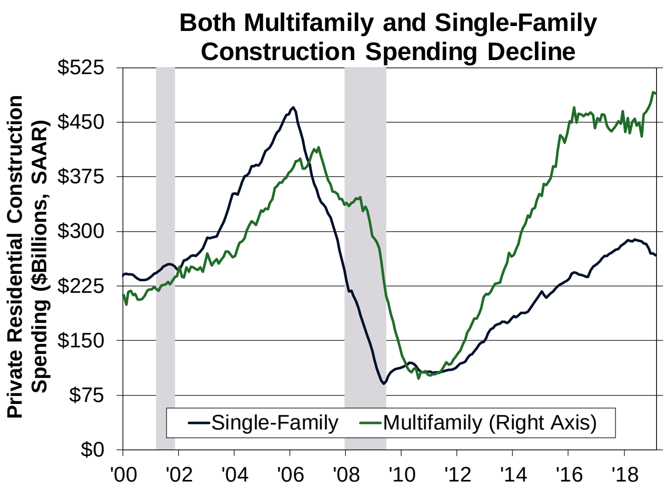


Source: Census Bureau

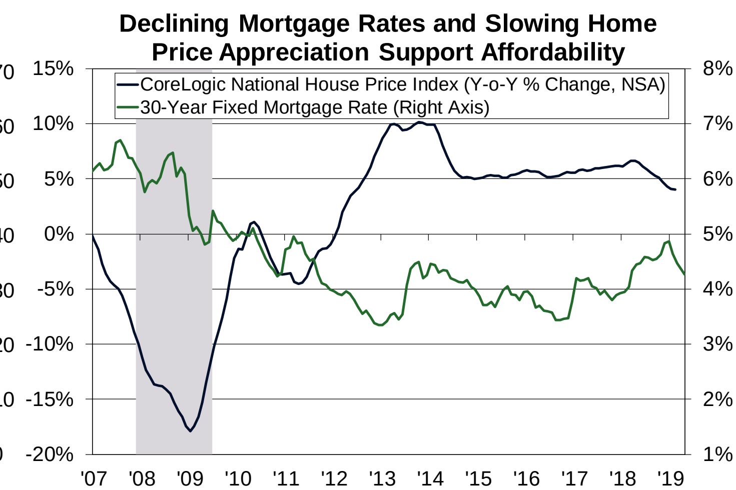
Housing: Affordability Continues to Improve

This week's housing news was largely positive with residential construction spending edging up, home price growth decelerating, and mortgage applications increasing. Total private residential construction spending rose for the third straight month in February, driven entirely by spending on improvements. Less positive was spending on new housing as single-family spending declined for the eighth time in nine months and multifamily construction spending fell for the first time in five months. While we believe that improved housing affordability will help increase demand in the coming months, construction spending may continue to stagnate as builders face significant supply constraints, such as labor, availability of buildable lots, and strict zoning regulations. In February, the CoreLogic National House Price Index showed annual home price growth increased at the slowest pace in over six years after decelerating for ten consecutive months. Lower-priced homes continued to appreciate faster than higher-priced homes. According to Freddie Mac, the average yield on 30-year, fixed-rate mortgages rose 2 basis points to 4.08 percent this week, the first increase in four weeks. Despite the small rise, mortgage rates were 32 basis points below year-ago levels and just shy of the 14-month low reached last week. The recent decline in mortgage rates has had a positive effect on mortgage demand as mortgage applications rose for the fourth straight week last week. Refinance applications posted the largest weekly gain in three years and were 80.8 percent higher than at the beginning of the year. Purchase applications improved for the sixth time in seven weeks and the monthly average reading posted a solid gain, supporting our forecast of a strong spring homebuying season.

- **Private residential construction spending** grew 0.7 percent in February, according to the Census Bureau. Single-family construction spending declined 1.1 percent, while multifamily construction spending fell 0.4 percent. Spending on home improvements rose 3.6 percent. Annually, single-family spending and home improvement spending fell 7.1 percent and 0.4 percent, while multifamily spending rose 8.4 percent.
- **The CoreLogic National Home Price Index**, a repeat sales measure, grew 0.7 percent in February (not seasonally adjusted). Year over year, the index increased 4.0 percent. Prices in the lowest price tier (75 percent or less of the median) increased 5.6 percent year over year, while prices in the low-to-middle price tier (between 75 and 100 percent of the median) rose 4.9 percent annually. The middle-to-moderate price tier (between 100 and 125 percent of the median) and the high price tier (greater than 125 percent of the median) posted 4.2 percent and 3.3 percent annual gains, respectively. Regionally, the state of Idaho showed the largest annual gain of all states with a 10.2 percent increase.
- **Mortgage applications** rose 18.6 percent for the week ending March 29, according to the Mortgage Bankers Association. Refinance applications shot up 38.5 percent and purchase applications grew 3.4 percent. For all of March, purchase applications rose 7.1 percent and refinance applications grew 20.1 percent. The average 30-year, fixed-rate mortgage rate averaged 4.53 percent in March, down 13 basis points from the prior month.



Source: Census Bureau



Source: CoreLogic, Freddie Mac

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