Economics: Jobs Report Provides No Reason to Delay a September Rate Hike

This week's data offered plenty to chew on. Flat real consumer spending in June set up a soft trajectory heading into the third quarter. Despite the increase in auto sales in July, suggesting that consumers remain confident enough to purchase big-ticket items, our forecast of real consumer spending growth of 3.1 percent annualized for the current quarter appears slightly too optimistic. The June factory orders report marked down core capital goods orders—a leading indicator of business investment in equipment—from the advance report released last week. Still, the increase in core orders is the first gain since March, which is encouraging for capital expenditures for the third quarter. As the strong dollar continues to weigh on manufacturing, it also widened the trade deficit in June. The ISM surveys showed a stark contrast for manufacturing and service activity, with the former—the sector more sensitive to the strong dollar—hovering just within expansionary territory and the latter surging to nearly a 10-year best. Last but not least, we believe that the July jobs report delivered what the Fed is looking for—"some further improvement"—in the labor market before hiking the fed funds rate. The July payroll gain and upward revisions put the average monthly gain over the past three months at a solid 235,000. The average workweek ticked up and average hourly earnings posted a 2.1 percent annual increase. Following last week's report of a similar year-over-year gain in the Employment Cost Index, it is difficult to argue that wage gains are firming. However, we don't see any news this week that presents a hurdle for the September lift-off.

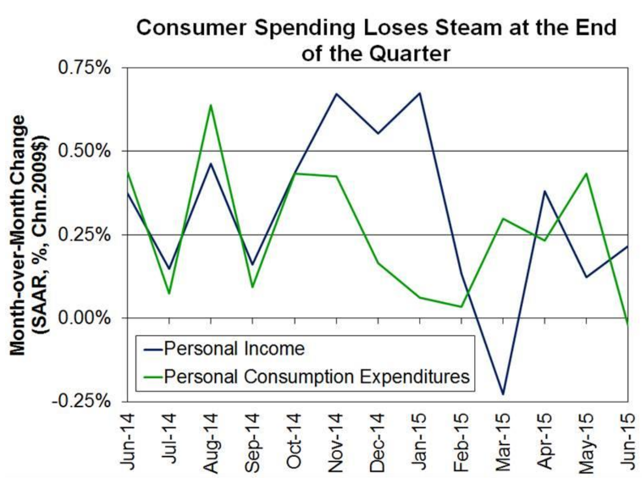
- **Nonfarm payroll employment** expanded by 215,000 jobs in July, according to the Bureau of Labor Statistics. The increase was comparable to the average monthly gain registered during the first half of 2015 of 211,000. The July total employment count was 2.7 percent above the pre-recession high, and the number of full-time workers is now just 0.2 percent shy of the previous peak. The unemployment rate remained steady at 5.3 percent, with the labor force participation rate hovering near a four-decade low of 62.6 percent. Average hourly earnings rose 0.2 percent, while the average workweek for private employees ticked up one-tenth of an hour after being stuck at 34.5 hours for four months.

- **Personal income**, adjusted for inflation, rose 0.2 percent in June, according to the Bureau of Economic Analysis**. Real personal consumption expenditures** (PCE) were unchanged following a 0.4 percent increase in May (revised lower from a 0.6 percent gain). The PCE price index increased 0.2 percent from May and 0.3 percent from June 2014, while core prices (excluding food and energy items) rose 0.1 percent during the month and 1.3 percent from a year ago.

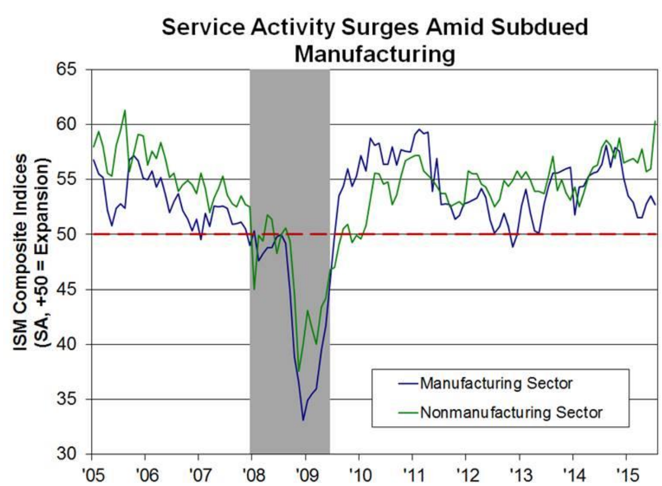
- **The Institute for Supply Management (ISM) Manufacturing Index** fell 0.8 points in July to 52.7, the lowest reading since April (any reading above 50 indicates expansion). By contrast, the **ISM Nonmanufacturing Index**, a gauge of service sector activity, jumped 4.3 points to 60.4, the highest reading since August 2005.

- **The U.S. trade deficit** widened from $40.9 billion in May to $43.8 billion in June, according to the Census Bureau. The real goods deficit widened slightly as real exports were unchanged, while real goods imports increased 1.0 percent.

- **Factory orders** rose 1.8 percent in June, according to the Census Bureau. Durable goods orders increased 3.4 percent, in line with the advance report, but core capital goods orders (nondefense excluding aircraft) were revised down from a 0.9 percent rise to a 0.7 percent gain. Nondurable goods orders—the new piece of data in the report—rose 0.4 percent.



Source: The Bureau of Economic Analysis



Source: The Institute for Supply Management

Housing: Mortgage Demand Shows Signs of Life, But Single-Family Supply Still Struggles

Housing data released this week were mostly positive, as indicators point to growing mortgage demand amid further easing of lending standards. In its quarterly survey of senior loan officers, the Federal Reserve reported strengthening demand for mortgages, especially for GSE and government loans. Purchase mortgage applications from the Mortgage Bankers Association weekly survey told a similar story, posting a solid gain last week that sent applications approximately 23 percent above last year's level. The loan officer survey also indicated further loosening of credit standards for residential mortgages as banks compete for a share of the growing demand. However, improvement in single-family housing supply has been choppy. Presaged by the drop in single-family starts in May and June, private single-family construction spending was bearish. After decreasing only twice in all of 2014, single-family residential construction spending has fallen three times during the first six months of 2015 and remains below its historical average. Multifamily construction spending, on the other hand, continues to soar toward its peak reached in January 2007. The dearth of new single-family construction amid growing demand and tight inventory of existing homes has helped create upward pressure on home prices. The CoreLogic home price index rose in June for the sixth time in a row, and year-over-year growth accelerated for the fourth consecutive month. Mortgage rates have been supportive for home purchases, as average fixed mortgage rates fell for the third consecutive week to 3.91 percent, according to Freddie Mac.

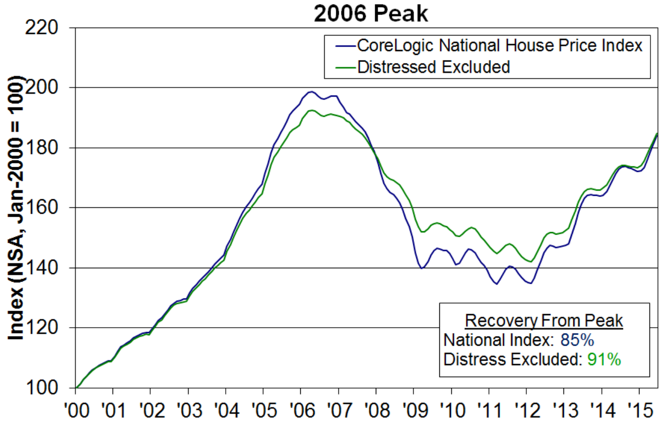
- **Private residential construction spending** rose 0.4 percent in June, according to the Census Bureau, boosted by private multifamily construction spending, which increased 2.8 percent during the month. Spending on single-family construction fell 0.3 percent, while home improvement outlays edged up 0.7 percent. Through the first half of the year, single-family construction spending is 13.6 percent above the level during the same period last year, compared with a 25.6 percent increase for multifamily.

- **The Federal Reserve Board Senior Loan Officer Opinion Survey** showed continued loosening in lending standards for residential mortgages in the three months ending in July, though at a more modest pace than in the prior three months. Net shares of 11.3 percent and 5.1 percent of banks reported loosening lending standards for GSE-eligible and government mortgage loans, respectively. On the demand side, a net 41.9 percent of banks indicated stronger demand for GSE loans and a net 40.7 percent of banks indicated stronger demand for government loans. Lending standards for multifamily residential loans also eased as demand increased during the latest quarter.

- **The CoreLogic national home price index** (not seasonally adjusted) rose 1.7 percent in June, marking six consecutive months of gains. On a year-over-year basis, prices increased 6.5 percent, the largest jump since June 2014. Prices are 7.4 percent below the series peak reached in April 2006.

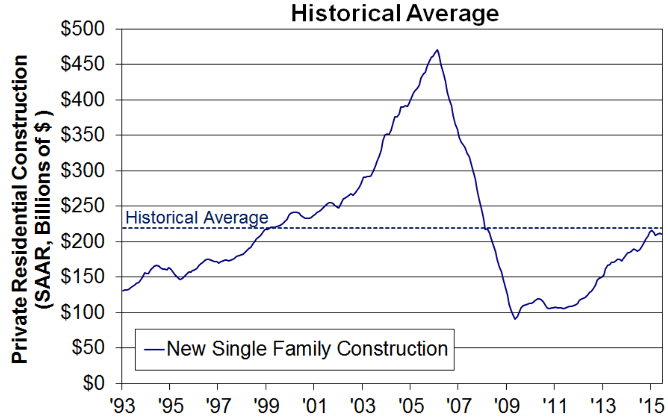
- **Mortgage Applications** rose by 4.7 percent in the week ending July 31, reaching the highest level since early June, according to the Mortgage Bankers Association. Refinance applications rose 5.9 percent, the second consecutive increase and the fourth gain over the last five weeks, amid a four basis point drop in the 30-year fixed mortgage rate to 4.13 percent, the lowest level since the end of May. Purchase applications increased 3.3 percent.

Home Prices Continue to Climb toward Their 2006 Peak



Source: CoreLogic

Single-Family Construction Is Yet to Reach Its Historical Average



Source: Census Bureau

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August 7, 2015