

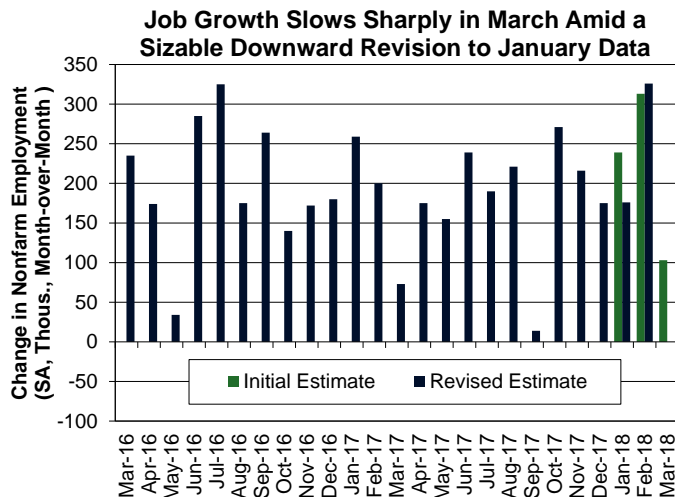


Weekly Note – April 6, 2018

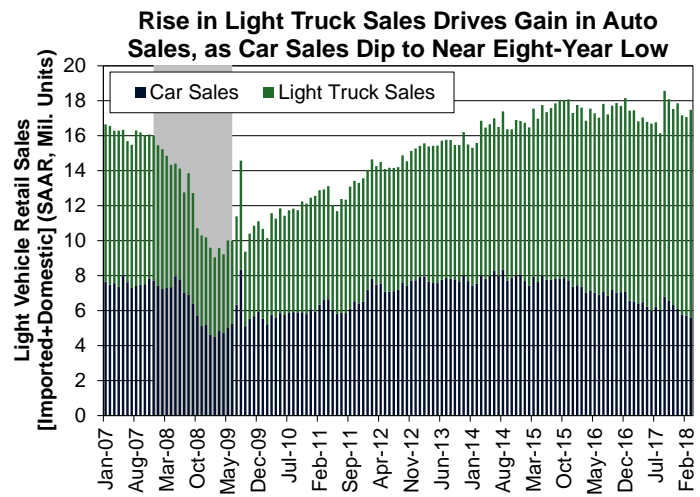
### Economics: Labor Market Hits a Patch of Turbulence

The March jobs report stepped back from many of the strengths of the prior month, showing that labor market conditions were not immune to the volatility seen lately in other sectors. The headline payroll increase weakened to the poorest showing since September, job gains in the prior two months were revised lower on net, and the labor force participation rate ticked down for the first time since October. Some aspects of the labor market did not change, however. The unemployment rate has remained flat for six straight months, and the average workweek held on to the increase in the prior month. Wages picked up during the month, but the year-over-year rise has held within the narrow band seen since late 2017. After increasing by a decade-best 65,000 in February, construction employment fell in March by 15,000, the largest drop in three years, supporting the view that the February-March swing in hiring was likely weather-induced noise. Despite hiccups in some economic activity amid increasingly heated rhetoric on trade, our growth outlook and our call of three Fed hikes this year have not changed, though downside risks appear to be intensifying. In other news this week, auto sales rose in March for the first time in three months from February's six-month low. Sales of light trucks, which include sport utility vehicles, drove the gain, rising to a 12-year high, as car sales fell for a sixth consecutive month to approach an eight-year low. Factory orders rebounded in February to post the sixth increase in seven months, as factory shipments extended a streak of gains to ten months. The trade deficit widened for the sixth consecutive month in February to the worst showing since October 2008 as both exports and imports rose to all-time highs. The jump in imports of services reflected a one-off expenditure on broadcasting rights for the winter Olympics. Measures of activity in the manufacturing and service sectors both fell in March but remain at elevated levels, suggesting the pace of expansion slowed slightly at the end of the first quarter.

- **Nonfarm payroll employment** expanded by 103,000 in March, according to the Bureau of Labor Statistics. The gains in January and February were revised downward 50,000, on net, putting the three-month average gain at 202,000. The average workweek was unchanged at 34.5 hours. Average hourly earnings rose 0.3 percent from February and 2.7 percent from a year ago. The unemployment rate remained at 4.1 percent for the sixth consecutive month, as the participation rate edged down one-tenth to 62.9 percent. The broadest measure of labor underutilization, the U-6 rate, fell two-tenths to 8.0 percent, tying an expansion low.
- **Light vehicle sales** rose 2.4 percent to 17.5 million annualized units in March, according to Autodata.
- **Factory orders** increased 1.2 percent in February, and factory shipments edged up 0.2 percent, according to the Census Bureau. Nondurable goods orders, the new piece of data in the report, fell 0.5 percent.
- **The U.S. trade deficit** widened \$926 million to \$57.6 billion in February, according to the Census Bureau. Imports increased \$4.4 billion, outweighing a \$3.5 billion increase in exports. The inflation-adjusted goods deficit, used in the calculation of net exports in the gross domestic product estimate, narrowed \$853 million to \$69.1 billion.
- **The ISM Manufacturing Index** fell 1.5 points to 59.3 in March (any reading above 50 indicates expansion). All five components – new orders, production, employment, supplier deliveries, and inventories – fell during the month. **The ISM Nonmanufacturing Index**, a gauge of service sector activity, dropped 0.7 points to 58.8 in March. Declines in the business activity and new orders components outweighed the gains in employment and supplier deliveries



Source: Bureau of Labor Statistics



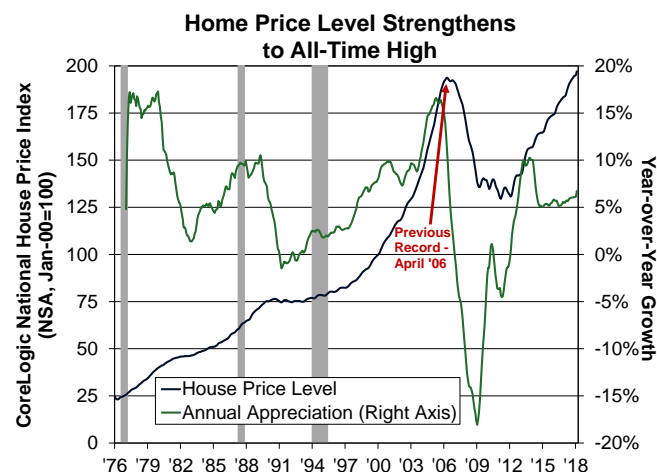
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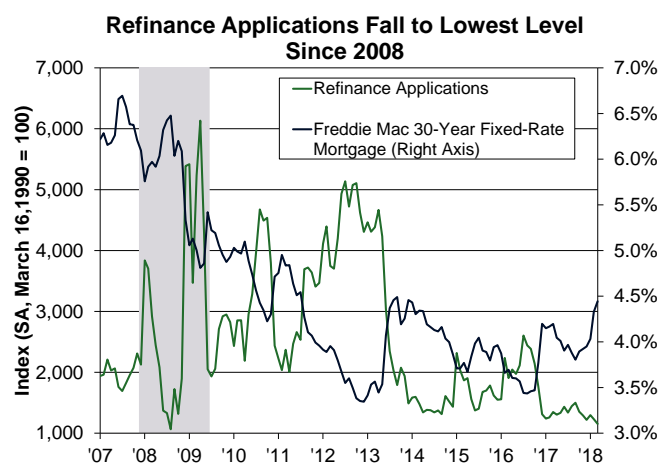
## Housing: Residential Construction Spending Disappoints

This week's news featured lackluster residential construction spending, surging home prices, and declining mortgage demand. Spending on residential construction disappointed in February, barely rising for the second consecutive month, as the decline in home improvement spending nearly offset gains in spending on new single-family and multifamily housing units. The annual increase in total private residential construction spending decelerated to the slowest pace since April 2012. Anemic gains in construction spending and sluggish home sales (and thus broker commissions) in the first two months of the year support our view that residential investment likely declined in the first quarter following the fourth quarter's robust growth. We expect the pullback in residential investment to be a one-off this year as strong home price appreciation and limited housing supply should help drive homebuilding activity to meet rising demand. The strength of home price appreciation was apparent in the CoreLogic National Home Price Index, which posted the fastest annual growth rate in nearly four years in February. We note, however, that initial estimates are often prone to downward revisions in subsequent releases. The index has increased every month since February 2012 to the highest reading since the inception of the series in 1976 and is 1.8 percent higher than the pre-crisis peak set in April 2006. However, adjusting for inflation, prices are still 16.0 percent below their peak. Lower-priced homes continue to appreciate faster than higher-priced homes. The news on mortgage demand was disappointing as mortgage applications decreased during the last week of March. The monthly average reading fell in March for the second consecutive month. Refinance applications drove the decline, falling to the lowest monthly level since August 2008 amid the sixth consecutive monthly rise in mortgage rates. By contrast, purchase applications partially rebounded from a large drop in February—the fourth monthly gain in five months. As a result, the refinance share of total applications fell to the lowest level of the expansion. Finally, the average rate on 30-year fixed-rate mortgages fell 4 basis points this week to 4.40 percent, according to Freddie Mac.

- **Private residential construction spending** edged up 0.1 percent in February for the second straight month, according to the Census Bureau. Spending on new multifamily construction increased 1.2 percent, compared with a 0.9 percent increase for single-family home building. Home improvement spending fell 1.5 percent during the month. From a year ago, multifamily construction spending was flat, while single-family spending rose 9.5 percent.
- **The CoreLogic National Home Price Index**, a repeat sales measure, increased 1.0 percent in February (not seasonally adjusted). From a year ago, the index was up 6.7 percent, the largest annual gain since mid-2014. Prices in the lowest price tier (75 percent or less of the median) increased 9.3 percent year over year, while prices in the low-to-middle price tier (between 75 and 100 percent of the median) rose 8.5 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 7.0 percent and 5.4 percent annual gains, respectively. Regionally, the state of Washington showed the largest annual gain of all states with a 12.5 percent increase, followed by Nevada with a 12.2 percent gain.
- **Mortgage applications** fell 3.3 percent for the week ending March 30 amid a flat average 30-year fixed mortgage rate of 4.69 percent, according to the Mortgage Bankers Association. Purchase applications and refinance applications fell 2.1 percent and 4.9 percent, respectively. For all of March, purchase applications rose 3.6 percent after February's 5.1 percent drop while refinance applications fell 6.3 percent, the fifth monthly drop in six months.



Source: CoreLogic



Source: Mortgage Bankers Association, Freddie Mac

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