Economics: With No Surprises This Week, the Rate Hike Should Come Next

During the last week before the Federal Open Market Committee meeting next Tuesday and Wednesday, economic news was devoid of major causes for alarm, setting the stage for the first hike in the fed funds rate in nine and a half years. Retail sales, the last major data point reflecting on the health of consumer spending, showed signs of life in November after a disappointing three-month stretch. Core sales, which are an input used to estimate consumer spending for goods, registered the largest monthly increase since May. The retail sales report suggests that real consumer spending is tracking to grow about 2.5 percent annualized in the current quarter, weaker than the third quarter pace but not a cause for concern. Consumers' appetite for debt continued to grow in October, as total consumer credit has increased every month since August 2011. However, revolving credit, which is mainly credit card debt, was flat after posting healthy gains over the past seven months. News on the job market was generally positive. A survey of small businesses showed hiring plans remain elevated amid continued difficulty finding qualified applicants. Notably, the net share of firms planning to raise worker compensation rose to its highest reading since November 2006, a positive sign for the wage growth outlook. Despite this week's stock market jitters, driven largely by declining crude oil prices, the strength of economic data to date confirms our view that we will see the white smoke coming from the Federal Reserve conclave on Wednesday.

➢ **Consumer (non-mortgage) credit outstanding** increased 5.5 percent annualized in October, according to the Federal Reserve Board. Non-revolving credit (primarily auto and student loan debt) grew 7.6 percent annualized, while revolving credit (primarily credit card debt) edged up 0.2 percent annualized.

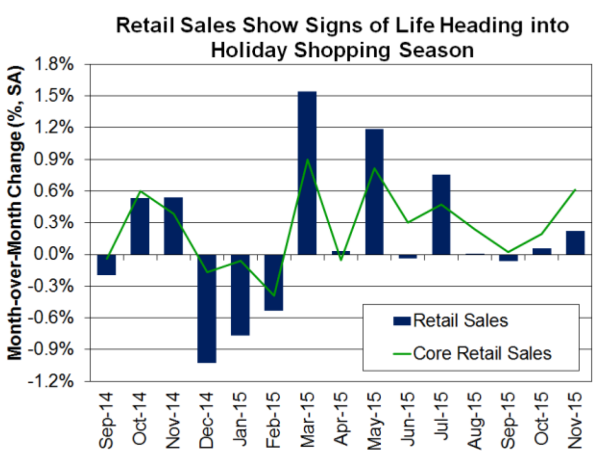
➢ **Retail sales** ticked up 0.2 percent in November, according to the Census Bureau. Core sales (excluding auto, building material, and gas station sales) rose 0.6 percent. Sales at general merchandise, grocery, sporting goods, and hobby stores grew, while furniture and building supply sales fell.

➢ **The University of Michigan Consumer Sentiment Index** continued its recent bounce-back, rising 0.5 points to 91.8 in the December preliminary reading.

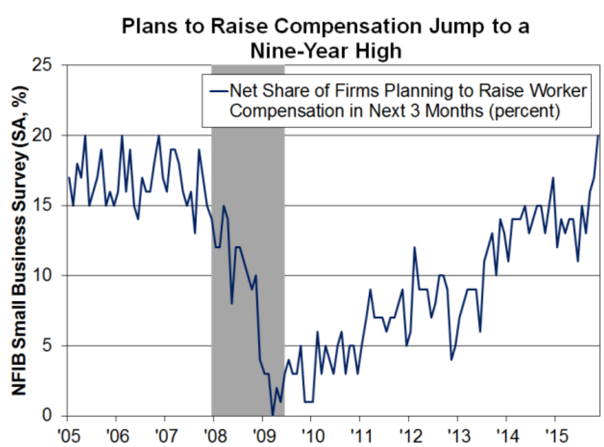
➢ **The National Federation of Independent Business (NFIB) Small Business Optimism Index** slipped for the first time in five months, dropping 1.3 points to 94.8 in November. Job indicators were generally positive. Hiring plans were unchanged from October, and the net share of firms reporting difficulty finding qualified job applicants fell one percentage point to 47 percent after tying the record high in the prior month. News was also good for the wages outlook, as the net share of firms planning to raise worker compensation rose three percentage points to 20 percent, an expansion best.

➢ **The Job Openings and Labor Turnover Survey (JOLTS)** showed that job openings fell 2.7 percent in October to 5.38 million, marking the second decline in the three months since reaching an all-time high in July, according to the Bureau of Labor Statistics (BLS). Job openings as a share of total employment dropped one-tenth of a percentage point to 3.6 percent. The hiring rate was flat for the fourth consecutive month, remaining at 3.6 percent. The quits rate, a gauge of labor market confidence, has not changed from 1.9 percent in seven months.

➢ **Import prices** (BLS) fell 0.4 percent in November as crude oil prices dropped. From a year ago, import prices declined 9.4 percent. Excluding fuel, prices slipped 0.2 percent from October and 3.2 percent from a year ago. **The Producer Price Index (PPI)** (BLS) ended three months of decline, rising 0.3 percent in November. The core PPI fell 0.1 percent.



Source: Census Bureau



Source: National Federation of Independent Business

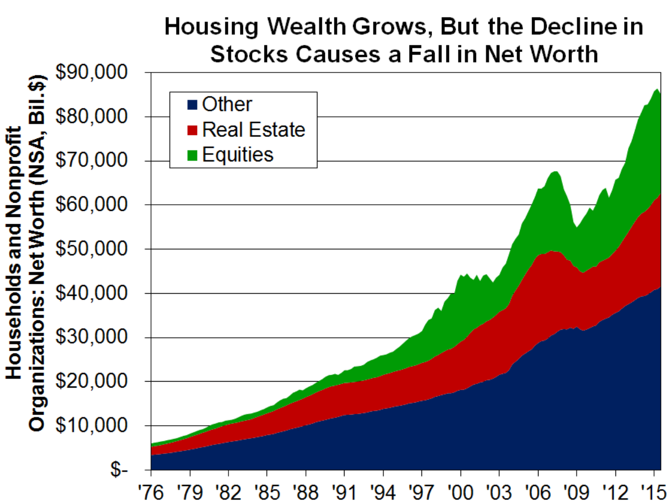
Housing: Waiting for a JOLT in Construction Hiring

Data released this week gave a view into the financial health of households and the ongoing labor shortage in construction. Households felt the pain from this summer's stock market swoon in their balance sheets. The decline in the stock market outweighed the increases in the value of housing and non-equity financial assets, bringing down household net worth for the first time in four years, according to the Federal Reserve's Financial Accounts of the Unites States for the third quarter. However, the drop in net worth should prove short-lived, as stocks have regained most of the ground lost. Housing wealth continued to improve thanks to strong home price appreciation. Owners' equity as a share of real estate value continues to climb from the trough of 37 percent reached in 2009 toward the pre-recession peak of 60 percent in 2005. Meanwhile, the report confirms that the deleveraging process for mortgage debt has come to an end. Single-family (1-4 unit properties) mortgage debt outstanding rose again, marking the fourth increase over the last five quarters. In other news this week, the Job Openings and Labor Turnover Survey (JOLTS), which is released with a one-month lag to the employment report, underscored the shortage of construction workers that has created a bottleneck for homebuilding. While job openings and hires rebounded in October, openings continued to outpace hires. Meanwhile, the number of quits, a proxy for construction workers' confidence in their job prospects, fell dramatically to its lowest level since December 2013. However, the November jobs report suggested that the construction industry might be turning the corner. Construction payrolls saw the biggest back-to-back improvements since January, with most of the increase coming from the residential space, supporting our view that the strength in residential investment will help offset weakness in hard-hit sectors including manufacturing and exports. Mortgage applications rose last week as purchase applications maintained their recent gains and refinancing applications bounced back. The 30-year fixed mortgage rate bumped up two basis points to 3.95 percent, according to Freddie Mac's survey.

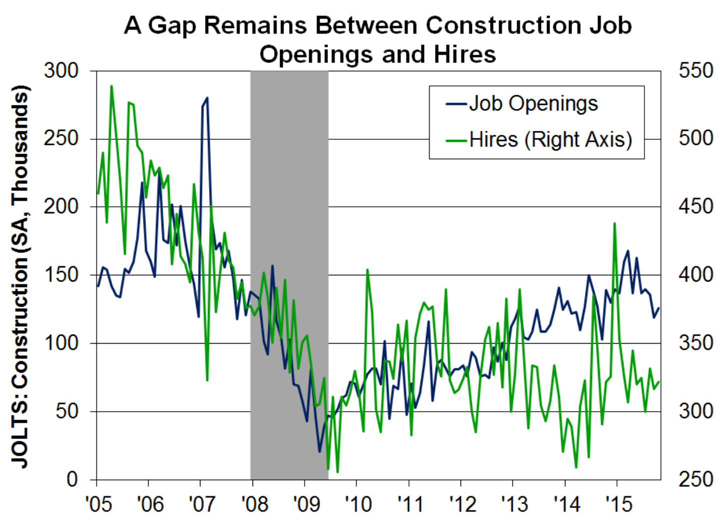
- **The net worth of U.S. households and nonprofit organizations**—the value of assets minus liabilities—fell 1.4 percent, or about $1.2 trillion, from last quarter's record level to $85.1 trillion in the third quarter, according to the Federal Reserve. The first drop in financial wealth in four years outweighed a gain in housing wealth. **Owners' equity in real estate as a percentage of the value of household real estate** rose to 56.7 percent. **Single-family mortgage debt outstanding** increased for the second quarter in a row, edging up 0.5 percent. From a year ago, mortgage debt outstanding rose 0.9 percent, marking the second consecutive quarter of increases.

- **The Job Openings and Labor Turnover Survey (JOLTS) showed that construction job openings** increased by 5.9 percent in October to 126,000, ending two months of declines, according to the Bureau of Labor Statistics. The job openings rate for construction workers crept up one-tenth of a percentage point to 1.9 percent, marking the first rise in five months. The construction hires rate increased one-tenth of a percentage point to 5.0 percent. The quits rate dropped sharply by one-half of a percentage point to 1.4 percent, its lowest level in nearly two years.

- **Mortgage applications** rose 1.2 percent for the week ending December 4, according to the Mortgage Bankers Association. The purchase application index was flat this week after a sizable gain the previous week. The refinancing application index ended two weeks of declines, rising 3.5 percent, even though the 30-year fixed mortgage rate increased two basis points to 4.14 percent.



Source: Federal Reserve



Source: Bureau of Labor Statistics

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