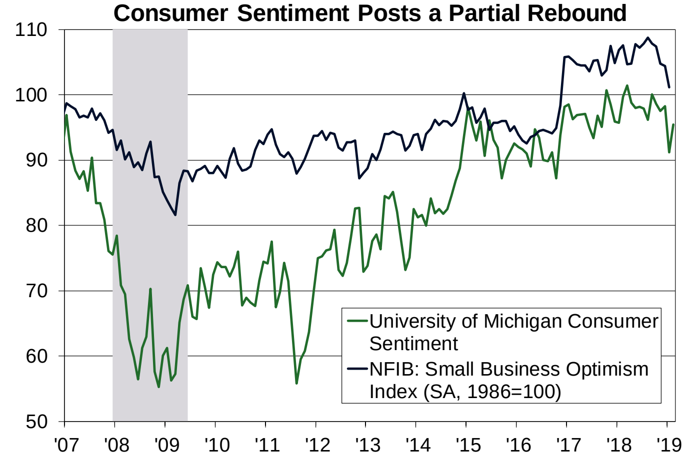
Weekly Note – February 15, 2019

Economics: Retail Sales Take a Hit

This week's news was mostly bleak, with declining retail sales, industrial production, and business confidence. Nominal retail sales in December posted the largest monthly decline since September 2009 helped along by a steep drop in gas station sales to the lowest level in over a year. Core sales (excluding autos, building materials, and gasoline), which are an input to estimate consumer spending on goods, posted the biggest drop in 17 years, weakening momentum going into 2019. The report poses a downside risk to our forecast of real consumer spending growth of 3.4 percent annualized in the fourth quarter. Industrial production fell in January for the first time since last May as a drop in manufacturing output offset slight gains in mining and utilities output. Capacity utilization declined for the second straight month to reach a six-month low. Small business confidence fell for the fifth straight month in January, driven by the plunge in the net share of firms expecting the economy to improve to single digits for the first time since October 2016. Firms planning to increase employment or inventories also fell precipitously. Alternatively, consumer sentiment staged a partial rebound in February, as worries over the shutdown and a volatile stock market eased. Consumer expectations rose for the first time in five months and consumers' long-term inflation expectations fell to the lowest level recorded in the past half century. On the inflation front, the Consumer Price Index was unchanged for the third straight month in January, dragged on by the largest drop in energy prices in nearly three years. The annual gain in the index moderated to the slowest pace since June 2017. Contained inflation supports the Fed's patient stance. A bright spot this week was the Job Openings and Labor Turnover Survey (JOLTS), which is released with a one-month lag to the employment report and showed that job openings rose for the third straight month in December to a record high since the inception of the series in 2000. Job openings have exceeded unemployed workers for ten months now. Hires also edged up but remained shy of August's expansion high.

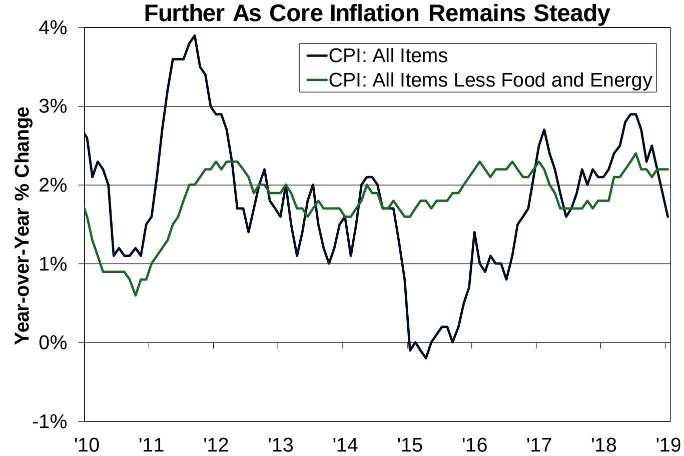
- **Retail sales** fell 1.2 percent in December but rose 2.3 percent annually, according to the Census Bureau. November's gain was revised down to 0.1 percent. Core sales fell 1.7 percent during the month while rising 1.9 percent annually.
- **Industrial production**, a gauge of output in the manufacturing, utility, and mining sectors, fell 0.6 percent in January, according to the Federal Reserve Board. Manufacturing output dropped 0.9 percent, while mining and utilities output edged up 0.1 percent and 0.4 percent, respectively. Capacity utilization decreased six-tenths to 78.2 percent.
- **The National Federation of Independent Business (NFIB) Small Business Optimism Index** declined 3.2 points to 101.2 in January as the net share of firms expecting the economy to improve fell 10 points to 6 percent.
- **The University of Michigan Consumer Sentiment Index** rose 4.3 points to 95.5 in the February preliminary reading. The current economic conditions and consumer expectations components rose 1.2 points and 6.3 points, respectively.
- **The Consumer Price Index (CPI)** was flat in January while core CPI (excluding food and energy) rose 0.2 percent. On an annual basis, headline inflation slowed three-tenths to 1.6 percent, while core inflation was unchanged at 2.2 percent. **The Producer Price Index (PPI)** for final demand of goods and services fell 0.1 percent in January. Annually, headline PPI and core PPI slowed to 2.0 percent and 2.5 percent, respectively. **Import prices** fell 0.5 percent in January and 1.7 percent annually. The Bureau of Labor Statistics produces each of these reports.
- **The Job Openings and Labor Turnover Survey** showed that job openings rose by 169,000 to 7.3 million in December, according to the Bureau of Labor Statistics. The job openings rate increased a tick to tie an expansion high of 4.7 percent, while the hires rate was flat at 3.9 percent. The quits rate was unchanged at 2.3 percent.

Business Optimism Declines Further But Consumer Sentiment Posts a Partial Rebound



Source: University of Michigan, NFIB

Headline Consumer Inflation Decelerates Further As Core Inflation Remains Steady



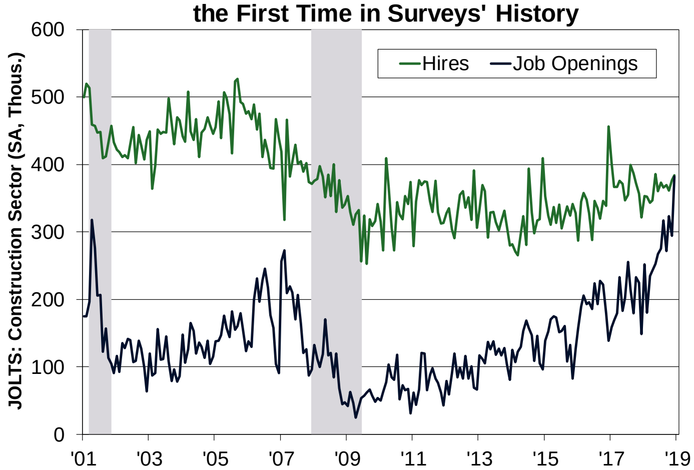
Source: Bureau of Labor Statistics

Housing: Construction Job Openings Overtake Hires

This week's releases offered mixed news on the housing market. According to the JOLTS, construction job openings in December posted the largest monthly gain since January 2018, reaching a new series' best and surpassing the number of hires for the first time in the series' history. The job openings rate, which scales the number of openings by the total number employed in the industry, also reached an all-time high while the hires rate held steady. Tightness in the construction labor market will likely continue to impede home building. The total separations rate within the industry fell modestly, reflecting a decrease in the layoffs and discharges rate that was partially offset by an increase in the quits rate. Mortgage rates fell 4 basis points this week to 4.37 percent, the lowest level in a year. In spite of falling mortgage rates, last week purchase mortgage applications declined for the fourth consecutive week driven by a drop in conventional applications. In contrast, government purchase applications stemmed a three-week decline, possibly reflecting the return of USDA and FHA employees following the end of the government shutdown on January 25. Refinance applications edged down as a large increase in government refinance applications was offset by a decrease in conventional refinance applications. After ticking up in the third quarter of 2018, the overall market delinquency rate fell in the fourth quarter of 2018 to the lowest level since the first quarter of 2000, according to a report from the Mortgage Bankers Association. The foreclosure starts rate ticked up from the 33-year low registered in the third quarter, marking only the third quarterly increase in four years. The overall market serious delinquency rate dropped for the fourth consecutive quarter and has fallen on an annual basis every quarter since 2010.

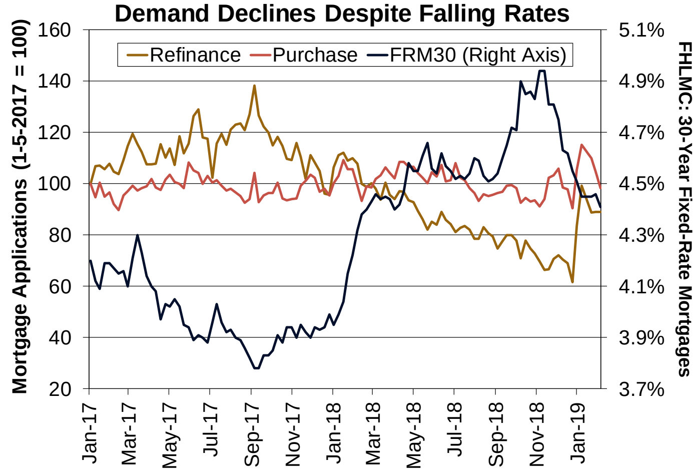
- **The Job Openings and Labor Turnover Survey** showed that construction job openings rose by 88,000 in December to 382,000, according to the Bureau of Labor Statistics. The construction job openings rate climbed 1.0 percentage point to 4.9 percent. The construction hires rate stabilized at 5.2 percent. The construction separations rate fell 0.3 percentage point to 5.0 percent. The layoffs and discharges rate fell five-tenths to 2.0 percent, and the quits rate rose two-tenths to 2.8 percent.
- **Mortgage applications** fell 3.7 percent for the week ending February 8, according to the Mortgage Bankers Association. Conventional mortgage applications declined 5.6 percent but government applications rose 3.1 percent. Mortgage applications for purchase fell 6.1 percent as conventional applications declined 8.3 percent, while government applications ticked up 0.1 percent. Mortgage applications for refinance fell 0.1 percent as conventional applications decreased 2.1 percent and government applications rose 10.2 percent. The average 30-year fixed mortgage rate in the survey fell 4 basis points to 4.65 percent.
- **The Mortgage Bankers Association National Delinquency Survey** for Q4 2018 showed that the delinquency rate for mortgage loans on one-to-four unit residential properties fell 41 basis points to a seasonally-adjusted rate of 4.06 percent of all loans outstanding. The percentage of loans on which foreclosure actions were started ticked up 2 basis points to 0.25 percent. The survey showed that the serious delinquency rate (the percent of loans that are 90 days or more past due or in the process of foreclosure, not seasonally adjusted) fell 7 basis points from the prior quarter to 2.06 percent, 85 basis points below the rate a year ago.

Construction Job Openings Surpass Hires for the First Time in Surveys' History



Source: Bureau of Labor Statistics

After a Spike in Early January, Mortgage Demand Declines Despite Falling Rates



Source: Mortgage Bankers Association, Freddie Mac

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