



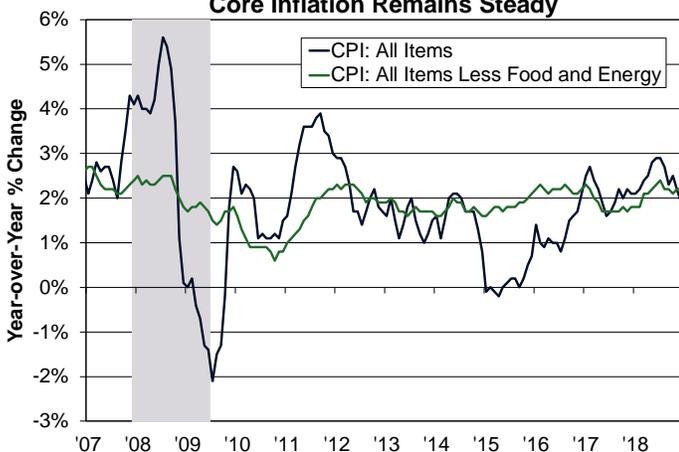
### Weekly Note – January 11, 2019

## Economics: Softer Inflation and a More Dovish Fed

As recent growth concerns have coincided with a partial inversion of the Treasury yield curve and heightened financial market volatility, many eyes were focused this week on clues pointing to future Fed policy direction. Of prominence was the release of the Federal Open Market Committee's (FOMC) minutes from its December 18-19 meeting at which it raised the federal funds rate to a range of 2.25 percent to 2.50 percent. The minutes were largely interpreted as showing a dovish shift in the Fed's thinking. Though the decision to raise the target rate was unanimous, "a few" participants favored no change, citing a lack of mounting inflationary pressure. Even with a tight labor market, the muted inflationary backdrop meant the FOMC could "afford to be patient about further policy firming" and that recent developments had "made the appropriate extent and timing of future policy firming less clear than earlier." At the December meeting, the FOMC lowered its projection of rate hikes in 2019 to two from three at the September meeting. Other releases this week showed continued strong labor market conditions, but were consistent with a view of modest inflationary pressure and softening growth expectations. In December, the consumer price index declined for the first time since March, driven down by gasoline prices. The core index still rose, but at a pace similar to previous months, and the year-over-year change remained at a level consistent with the Fed's target. Two separate business surveys from the National Federation of Independent Business (NFIB) and the Institute for Supply Management (ISM) showed a tight labor market, but declining expectations for future economic growth and slowing pricing pressure.

- **The Job Openings and Labor Turnover Survey (JOLTS)** showed that job openings fell by 3.4 percent to 6.9 million in November, according to the Bureau of Labor Statistics. The job openings rate fell a tenth of a point to 4.4 percent, while the hires rate fell two-tenths to 3.8 percent. Despite the softening over the month, total job openings and hires were up 16.1 percent and 3.7 percent, respectively, from a year prior.
- **The Consumer Price Index (CPI)** fell 0.1 percent in December, driven by a 7.5 percent decline in gasoline prices. The core index, excluding prices for food and energy products, rose by 0.2 percent, identical to the increases in October and November. From a year prior, the CPI was 1.9 percent higher, the first time it has fallen below 2.0 percent since August 2017. The core index rose 2.2 percent from a year prior, unchanged from November.
- **The National Federation of Independent Business (NFIB) Small Business Optimism Index** fell in December by 0.4 point to 104.4. This was the fourth consecutive monthly decline, though the level remains near an expansion high. The job openings and hiring plans subcomponents of the index both improved; however, the topline index was pulled down by declining expectations for improving future economic conditions.
- **The ISM Nonmanufacturing Index**, a gauge of service sector activity, fell 3.1 points in December, though at 57.6 it remained solidly above the neutral threshold (a reading above 50 indicates expansion). Despite the headline index's decline, the new orders subcomponent inched up by 0.2 point to 62.7, suggesting continued strength in the service sector. Also of note was the prices paid subcomponent, which fell 6.7 points to 57.6, the lowest level since July 2017.
- **Consumer (non-mortgage) credit outstanding**, rose by \$22.1 billion (6.7 percent annualized pace) in November, according to the Federal Reserve Board. Both revolving and non-revolving credit contributed to the strong growth.
- **Initial claims for unemployment insurance** decreased by 17,000 to 216,000 in the week ending January 5, according to the Department of Labor. However, the four-week moving average increased by 2,500 to 221,750.

**Headline Consumer Inflation Decelerates As Core Inflation Remains Steady**



Source: Bureau of Labor Statistics

**Business Confidence Remains Historically High, Though Economic Expectations Weaken**



Source: National Federation of Independent Business

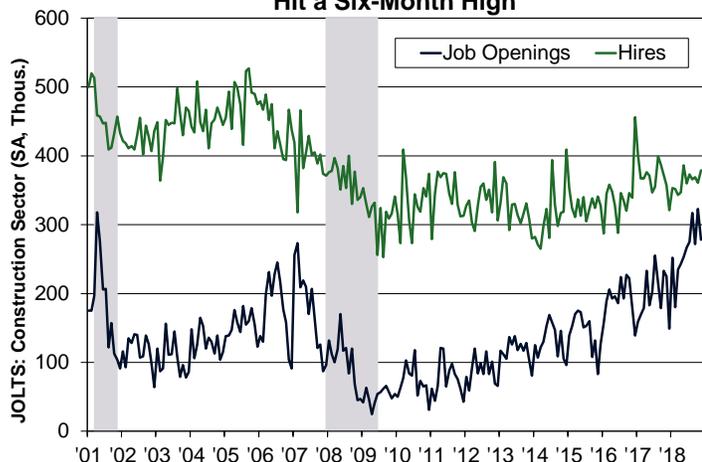


# Housing: Mortgage Demand Starts 2019 With a Bang

A slow week for housing releases featured updates for construction employment and mortgage demand. The Job Openings and Labor Turnover Survey (JOLTS) showed a softening in construction job openings in November. However, the large monthly drop did not fully reverse the significant increase in October, which sent construction job openings to the highest level since the survey began in December 2000. Also encouraging, job openings have increased on an annual basis every month since September 2017. Construction hiring picked up in November, with the hires rate rising to a six-month high. Increased hiring likely continued into December, as the December employment report released last week showed the largest increase in construction payrolls since February. Construction workers seemed to be more confident in their job prospects as both the quits level and quits rate climbed to expansion bests. This week, Freddie Mac's survey showed that the average 30-year fixed mortgage rate declined for the seventh time in eight weeks, falling six basis points to 4.45 percent, the lowest level since mid-April. Since reaching the expansion high in early November, mortgage rates have fallen 49 basis points, though they remain 46 basis points above year-ago levels. In the first week of 2019, mortgage demand rebounded thanks to the downtrend in mortgage rates. Total mortgage applications posted the largest weekly increase since October 2015, hitting the highest level since mid-July 2018. Purchase mortgage applications rose for the first time in four weeks, virtually reversing the cumulative declines during the last three weeks of December. Refinance applications spiked to a five-month high, posting the biggest weekly increase in four years. From a year ago, purchase applications are only 4.3 percent higher while refinance applications are 21.6 percent lower.

- **The Job Openings and Labor Turnover Survey** showed that construction job openings fell 13.9 percent in November to 278,000, according to the Bureau of Labor Statistics. The construction job openings rate decreased half a percentage point to 3.7 percent. The construction hires rate rose three-tenths to 5.2 percent. The construction layoffs and discharges rate spiked six-tenths to 2.6 percent, the highest level since September 2017. The construction quits rate jumped 0.3 percentage points to 2.6 percent.
- **Mortgage applications** skyrocketed 23.5 percent for the week ending January 4, according to the Mortgage Bankers Association. Purchase applications rose 16.5 percent and refinance applications jumped 35.3 percent. The average rate on 30-year fixed mortgages fell to 4.74 percent.

**Construction Job Openings Soften While Hires Hit a Six-Month High**



Source: Bureau of Labor Statistics

**Purchase and Refinance Applications Rebound**



Source: Mortgage Bankers Association

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