Weekly Note – October 5, 2018

Economics: Solid Economic Growth Likely to Continue

This week featured the September jobs report. The weak hiring headline should not spark any concerns regarding the strength of the labor market and the broader economy, as sizable upward revisions in the prior two months put the 3-month average increase at a healthy 190,000. In addition, Hurricane Florence may have temporarily suppressed hiring, as suggested by the first drop in leisure and hospitality payrolls since last September, shortly after Hurricane Harvey’s landfall. Annual wage growth, which slowed one-tenth from the expansion high in the prior month, should not stoke inflationary concerns. The household survey offered clear evidence of a tighter labor market. The unemployment rate fell to the lowest level since December 1969, as the gain in employed persons outpaced the increase in the labor force. The report supports our view that the Fed will raise rates for the fourth time this year in December. In other news, surveys of purchasing managers from the Institute for Supply Management (ISM) showed that the manufacturing expansion slowed in September from the best performance in 14 years in August. By contrast, the ISM survey for the service industry showed the fastest pace of expansion in over two decades. The August factory orders report indicated the strongest monthly gain in factory orders in nearly a year; however, both core shipments and core orders were revised lower from the advance estimates, suggesting weak business equipment investment growth last quarter. The trade deficit widened in August to a six-month high, suggesting that trade will be a sizable drag on third quarter economic growth. Lastly, vehicle sales rose in September for the first time in three months, likely reflecting replacement demand from the hurricane. It appears that real consumer spending growth slowed only moderately in the third quarter from the second quarter’s 3.8 percent annualized pace.

- **Nonfarm payroll employment** increased 134,000 in September, according to the Bureau of Labor Statistics. Payroll gains in the prior two months were revised higher by 87,000. Average hourly earnings rose 0.3 percent from August and 2.8 percent from a year ago, while the average workweek was flat at 34.5 hours. The unemployment rate fell two-tenths to 3.7 percent. The broadest measure of labor underutilization, the U6 rate, rose one-tenth to 7.5 percent. The labor force participation rate was unchanged at 62.7 percent.
- **The U.S. trade deficit** widened $3.2 billion in August to $53.2 billion, according to the Census Bureau. Exports fell 0.8 percent as agricultural exports tumbled and industrial exports also dropped. Imports rose 0.6 percent, driven by autos and consumer goods. The real goods trade deficit, which is an input to estimate GDP, rose 3.8 billion to $86.3 billion.
- **Factory orders** increased 2.3 percent in August, according to the Census Bureau. Nondurable goods orders rose 0.2 percent. Core (nondefense excluding aircrafts) shipments were revised lower from an increase of 0.1 percent in the advance estimate to a decline of 0.2 percent. Core capital goods orders were downwardly revised from a decline of 0.5 percent to a decline of 0.9 percent.
- **The Institute for Supply Management Manufacturing Index** fell 1.5 points to 59.8 in September (any reading above 50 indicates expansion). The decrease was driven by new orders, the supplier deliveries, and the inventory components. The export orders and production components rose. Notably, the price component fell below 70 for the first time this year. The **ISM Nonmanufacturing Index**, a gauge of service sector activity, jumped 3.1 points in September to 61.6, the highest reading since August 1997. The employment index jumped to an all-time high of 62.4.
- **Light vehicle sales** rose 4.3 percent to 17.4 million annualized units in September, according to Autodata.
- **Initial claims for unemployment insurance** fell 8,000 to 207,000 in the week ending September 29, according to the Department of Labor. The four-week moving average increased slightly to 207,000.
Housing: Construction Spending Falls, Suggesting a Decline in Third Quarter Residential Investment

This week’s housing news was mixed, with disappointing construction spending but easing home price appreciation. In August, private residential construction spending fell for the third time in four months, hitting the lowest level since March. Both multifamily and single-family spending declined, with the latter falling for the third consecutive month. On an annual basis, the gain in private residential construction spending decelerated for the third consecutive month, as single-family spending hit the slowest growth rate in nearly seven years and multifamily spending posted the largest decline since March. The disappointing construction spending report supports our forecast of a modest decline in real residential investment in the third quarter. On a positive note for purchase affordability, annual home price appreciation in the CoreLogic National Home Price Index decelerated for the fifth straight month in August, posting the slowest growth rate since October 2016. However, home prices still increased more than 5 percent and have not dipped below the 5-percent mark for six years. The index is now 4.9 percent higher than its pre-crisis peak, although the inflation-adjusted index remains 13.8 percent below the peak. Homes priced below the median continued to appreciate more rapidly than homes in the high end of the market, posing a particular challenge for first-time homebuyers. Mortgage demand was flat last week after increasing the prior two weeks. For all of September, average monthly mortgage applications rose for the first time in five months, driven by the first increase in purchase applications in three months. Refinance applications continued their downward trend; falling for the eighth consecutive month to the lowest level since December 2000. Finally, Freddie Mac’s survey showed that the average yield on 30-year fixed-rate mortgages fell 1 basis point to 4.71 percent this week, the first decline in six weeks.

- **Private residential construction spending** fell 0.7 percent in August but rose 3.3 percent annually, according to the Census Bureau. Spending on new single-family building and new multifamily building decreased 0.7 percent and 1.7 percent, respectively, while home improvement spending edged down 0.6 percent. From a year ago, single-family construction spending grew 4.0 percent, while multifamily spending declined 1.3 percent.

- **The CoreLogic National Home Price Index**, a repeat sales measure, rose 0.1 percent in August and 5.5 percent from a year ago (not seasonally adjusted). Prices in the lowest price tier (75 percent or less of the median) increased 8.2 percent year over year, while prices in the low-to-middle price tier (between 75 and 100 percent of the median) rose 6.8 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 5.8 percent and 4.4 percent annual gains, respectively. Regionally, the states of Nevada and Idaho saw the strongest annual gains of 13.0 percent and 12.2 percent, respectively.

- **Mortgage applications** were unchanged for the week ending September 28, according to the Mortgage Bankers Association. Purchase applications ticked up 0.1 percent, while refinance applications edged down 0.1 percent. The MBA survey’s average 30-year fixed mortgage rate slipped 1 basis point to 4.96 percent.

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Source: [Census Bureau](https://www.census.gov), [CoreLogic](https://www.corelogic.com)
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