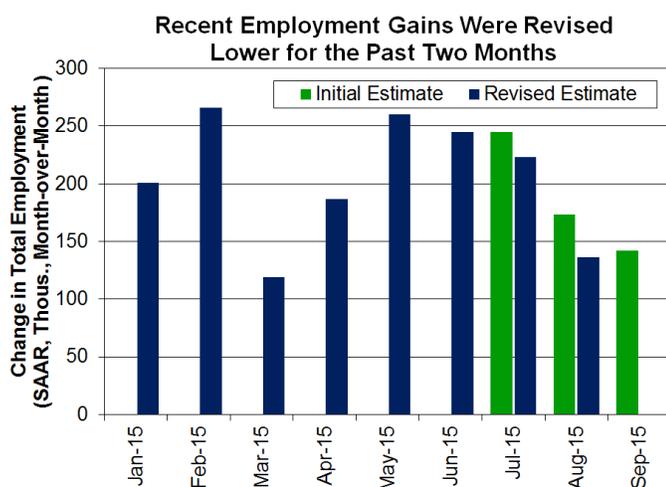


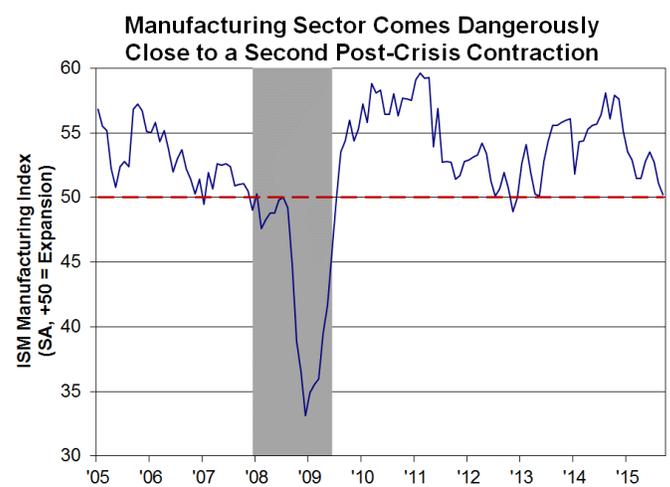
Economics: A Rough Couple of Months for the Labor Market

The Federal Reserve's path to normalizing monetary policy was further complicated this week after a disappointing September jobs report. A weak September headline number, combined with a downward revision to July and August of 59,000 jobs, could be the "surprise" that could delay the rate hike into 2016, as suggested by Fed Chair Janet Yellen in her speech last week. The unemployment rate was unchanged, as the participation rate dropped to a 38-year low. In addition to the labor market struggles, there was little evidence of improvement in the other half of the Fed's mandate: inflation. The Fed's preferred measure—the core PCE index—barely rose in August from July, and the year-over-year gain remains well below the 2.0 percent target. Real personal income continued its steady rise in August, supporting the largest gain in real consumer spending since May. Providing additional evidence of strong consumer spending for this quarter was September vehicle sales, which surpassed 18 million annualized units for the first time in over a decade. Consumers were more optimistic about current economic conditions, although their expectations eroded slightly. The last sector of focus this week was manufacturing, which continues to show signs of growing troubles. Factory orders fell in August after increasing the previous two months, and core capital goods orders—a forward-looking indicator of business equipment spending—were revised lower. Furthermore, a survey of purchasing managers for September suggests the sector is dangerously close to crossing into contraction territory, which has happened only once in the current expansion. The downbeat jobs report triggered a flight to safety, sending the 10-year Treasury yield to below 2.0 percent for the first time in more than a month.

- **Nonfarm payroll employment** expanded by 142,000 jobs in September, according to the Bureau of Labor Statistics. The increase was well below the average monthly gain of 205,000 (year to date through August). The unemployment rate was unchanged at 5.1 percent, the lowest level since April 2008. The labor force participation rate fell for the first time in three months, edging down 0.2 percentage points to 62.4 percent, marking the lowest level since October 1977. Average hourly earnings were essentially flat, and the average workweek fell one-tenth of an hour to 34.5 hours.
- **Personal income**, adjusted for inflation, increased 0.3 percent in August, according to the Bureau of Economic Analysis. **Real personal consumption expenditures (PCE)** rose 0.4 percent. The PCE price index was unchanged from July and is just 0.3 percent higher than in August 2014. Meanwhile, core prices (excluding food and energy items) increased 0.1 percent during the month and 1.3 percent from a year ago, the same gain reported for six of the past seven months.
- **The Institute for Supply Management (ISM) Manufacturing Index** fell for the third month in a row in September, falling 0.9 points to 50.2 (any reading above 50 indicates expansion), with broad-based weaknesses among subcomponents.
- **Light vehicle sales** increased 2.0 percent in September to an 18.2 million annualized rate, according to Autodata.
- **The Conference Board Consumer Confidence Index** rose 1.7 points to 103 in September, the second highest level this year. The present situation component increased for the second consecutive month, reaching an eight-year best. The expectations component, on the other hand, fell for the fifth time this year.
- **Factory orders** fell 1.7 percent in August, according to the Census Bureau. Nondurable goods orders—the new piece of data in the report—decreased 1.1 percent. Durable goods orders fell more than the advance estimate, declining 2.3 percent. Core capital goods orders (nondefense excluding aircraft) fell further than first thought, decreasing 0.8 percent.



Source: Bureau of Labor Statistics

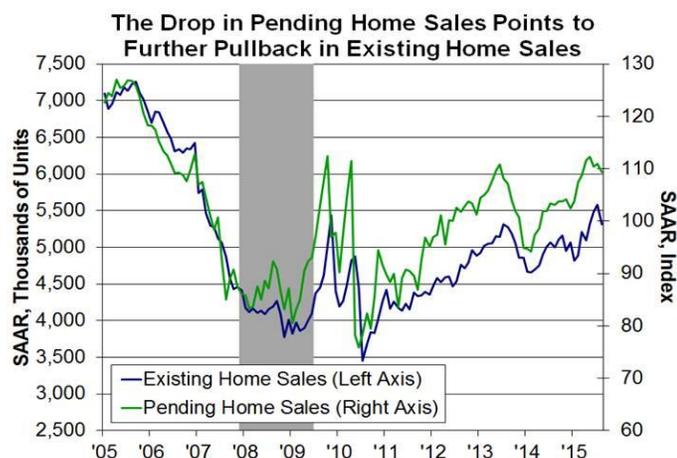


Source: Institute for Supply Management

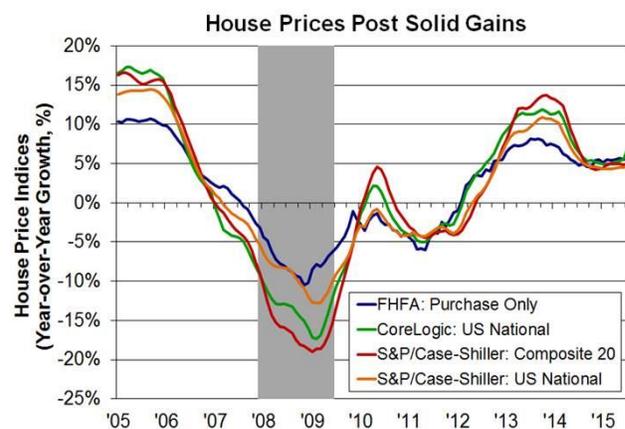
Housing: A Near-term Pullback in Home Sales Is Likely

This week's housing news revealed the latest data on two leading indicators of home sales, both of which point to additional retrenchment in existing home sales in the near-term. Pending home sales dropped in August, marking the second decline over the past three months. Combined with the second consecutive drop in average monthly purchase applications in August, existing home sales will likely soften further after posting a 4.8 percent drop in August from an expansion-high pace in July. Our forecast that 2015 total home sales will be the strongest since 2007 remains on target, however. While purchase applications dropped during the final week of September, average applications for the entire month rose for the first time in three months and are about 23 percent and 8 percent higher than during the same period in 2014 and 2013, respectively. Low mortgage rates will remain supportive for the housing market. The Freddie Mac survey's average yield on 30-year fixed-rate mortgages ticked down to 3.85 percent, staying below 4.0 percent for the tenth consecutive week. Home price trends continue to be strong. The S&P/Case-Shiller house price index showed solid year-over-year appreciation in July, albeit at a more moderate pace than other main measures of home prices reported earlier. Strong housing demand during the summer season, lean inventories, and fewer distressed sales helped boost home prices. The August construction spending report suggests that real residential investment will likely post solid growth this quarter, though not as strong as the 9.4 percent annualized pace recorded for the second quarter.

- **The National Association of REALTORS® Pending Home Sales Index**, which records contract signings of existing homes and typically leads closings by one to two months, dropped 1.4 percent to 109.4 in August, the lowest level since March. Pending sales are 6.1 percent above the level a year ago, the smallest year-over-year gain since November 2014. Pending sales dropped in the Northeast, Midwest and South, with the largest decline occurring in the Northeast. The West was the only region that saw a rise in pending sales.
- **Private residential construction spending** advanced 1.3 percent in August from the prior month, according to the Census Bureau. Spending on new single-family homes rose 0.7 percent, compared with a 4.8 percent jump for multifamily spending. Data for the prior two months were revised lower. Spending for home improvement increased 0.7 percent. From a year ago, new single-family and multifamily construction spending increased 14.0 percent and 24.7 percent, respectively.
- **The S&P/Case-Shiller 20-city Composite Home Price Index** (not seasonally adjusted) rose 0.6 percent in July. From a year ago, the index increased 5.0 percent, a slight pickup from 4.9 percent pace of the prior month. Of the 20 cities, San Francisco, Denver, and Dallas posted the largest year-over-year increases, while New York City, Chicago, and Washington, D.C. saw the smallest gains. The pace of increase for the national index also firmed slightly in July, posting a 4.7 percent year-over-year gain, compared with a 4.5 percent gain in June. Other measures of home prices, including the FHFA purchase-only index and the CoreLogic index, also showed a pickup in year-over-year increases in July.
- **Mortgage applications** fell 6.7 percent in the week ending September 25, according to the Mortgage Bankers Association. The purchase index fell for the third time over the past four weeks, decreasing 5.6 percent following a 9.1 percent jump the prior week. The refinance index also fell for the third time over the last month, dropping 7.5 percent after a 17.7 percent surge during the preceding week. Refinance demand was lower across products, with the exception of FHA applications, which rose 5.3 percent, compared with a 9.7 percent drop for the conventional segment. The average contract interest rate for 30-year fixed-rate mortgages ticked down to 4.08 percent from 4.09 percent.



Source: The National Association of REALTORS®



Source: CoreLogic, FHFA, S&P/Case-Shiller



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