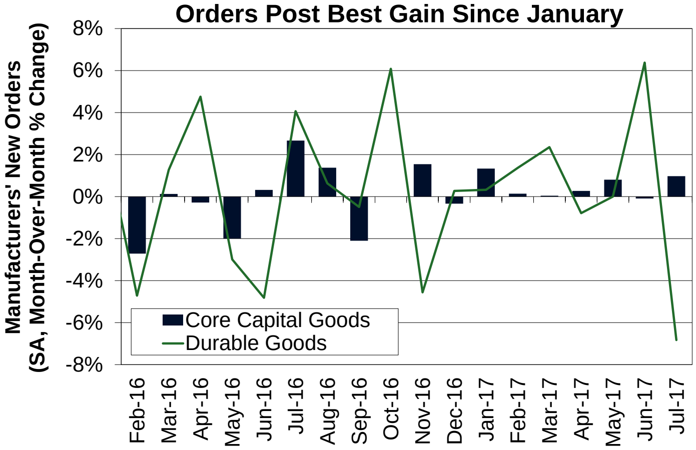
Weekly Note – September 8, 2017

Economics: Business Capital Investment Expected to Help Drive Growth Again

This week's data were largely positive for current-quarter economic activity. First, factory orders fell predictably in July, payback from the surge in volatile nondefense aircraft orders that drove a large gain the prior month. However, core capital goods orders, a leading indicator for business investment in equipment, were revised upward for July to show the biggest monthly gain since January. Based on the report, we expect that real business equipment investment will likely register another solid rise this quarter, after posting the strongest quarterly gain in nearly two years in the second quarter. On the trade front, after narrowing the prior two months, the trade deficit widened slightly in July, as a drop in exports outweighed a fall in imports. The second print of second quarter productivity growth was better than initially estimated, with annual growth accelerating for the third consecutive quarter to the strongest gain in two years. Despite this recent improvement, the trend in productivity growth during the entire expansion remains weak. The Institute for Supply Management Nonmanufacturing Survey showed activity in the service sector improved in August after expanding at the slowest pace in nearly a year in July. Details showed that business activity, new orders, and employment all improved. Finally, initial claims for unemployment insurance jumped last week as a result of Hurricane Harvey. The 62,000 rise in claims is similar to past spikes in the week following major hurricanes. Claims jumped 81,000 after Hurricane Sandy in 2012 and 96,000 after Hurricane Katrina in 2005.

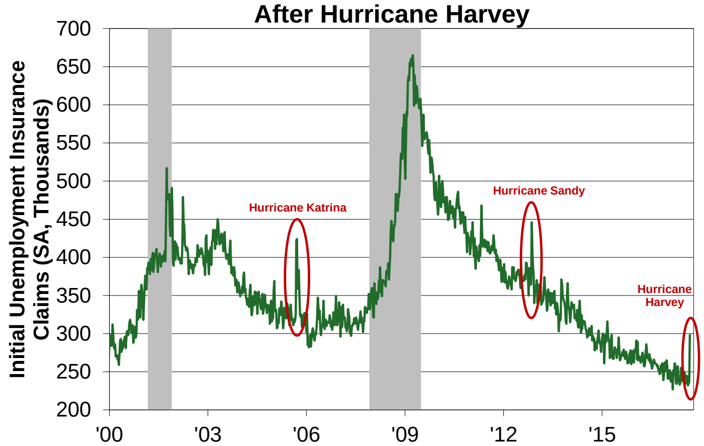
- **Factory orders** fell 3.3 percent in July, according to the Census Bureau. Nondurable goods orders, the new piece of data in the report, increased 0.4 percent, marking the second consecutive rise. Factory shipments increased 0.3 percent, the third straight monthly gain. Durable goods orders saw a negligible revision, while core capital goods orders (nondefense orders excluding aircraft) were revised upward five-tenths to 1.0 percent.
- **The U.S. trade deficit** widened $146 million in July to $43.7 billion, according to the Census Bureau. Exports fell 0.3 percent and imports declined 0.2 percent. The inflation-adjusted goods deficit, used in the calculation of net exports in the gross domestic product estimate, widened $797 million to $61.6 billion.
- **Nonfarm business productivity** increased 1.5 percent in Q2 2017, after an upward revision of six-tenths from the initial estimate, according to the Bureau of Labor Statistics. Compensation increased 1.8 percent, resulting in a 0.2 percent rise in unit labor costs, a downward revision from 0.6 percent. On an annual basis, productivity improved 1.3 percent, while unit labor costs fell 0.2 percent.
- **The Institute for Supply Management (ISM) Nonmanufacturing Index**, a gauge of service sector activity, increased 1.4 points in August to 55.3 (any reading above 50 indicates expansion). Only the supplier deliveries component declined.
- **Initial claims for unemployment insurance** increased by 62,000 to 298,000 for the week ending September 2, according to the Department of Labor. The four-week moving average increased by 13,500 to 250,250.

Durable Goods Orders Fall Back, But Core Orders Post Best Gain Since January



Source: Census Bureau

Initial Jobless Claims Jump After Hurricane Harvey



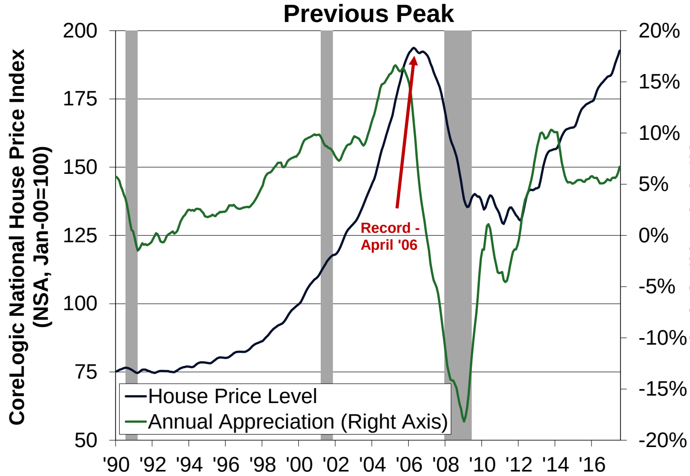
Source: Department of Labor

Housing: Affordability Continues to Deteriorate for Starter Homes

A quiet week of housing data brought home prices and mortgage applications to the fore. The CoreLogic National House Price Index showed that home prices grew at the fastest year-over-year pace in July since May 2014. Prices are only 0.5 percent below the April 2006 peak, having risen 49.1 percent since bottoming in March 2011. CoreLogic also analyzes four individual home-price tiers that are calculated relative to the median national home sales price. The lowest price tier (75 percent or less of the median price) increased 9.1 percent year-over-year, compared with 8.2 percent for the low-to-middle-price tier (75-100 percent of the median), 7.1 percent for the middle-to-moderate-price tier (100-125 percent of the median), and 5.5 percent for the high-price tier (greater than 125 percent of the median). In addition, the lowest-price tier is the only tier that surpassed (by 16.1 percent) its pre-crisis peak. Stronger appreciation for lower-priced homes, typically starter homes, suggests potential first-time home buyers are facing affordability constraints and could be priced out of the market. Shifting to mortgage demand, mortgage applications rose last week for the first time in three weeks, as both purchase and refinance applications improved. Purchase applications ended a three-week stretch of declines to rise off of a six-month low. Refinance applications, on the other hand, rose for the fourth time in five weeks to reach a near three-month best. The downward trend in mortgage rates continued, providing further support to the housing market. The average 30-year fixed mortgage rate dropped 4 basis points this week to 3.78 percent, the lowest level since the presidential election last November, according to Freddie Mac.

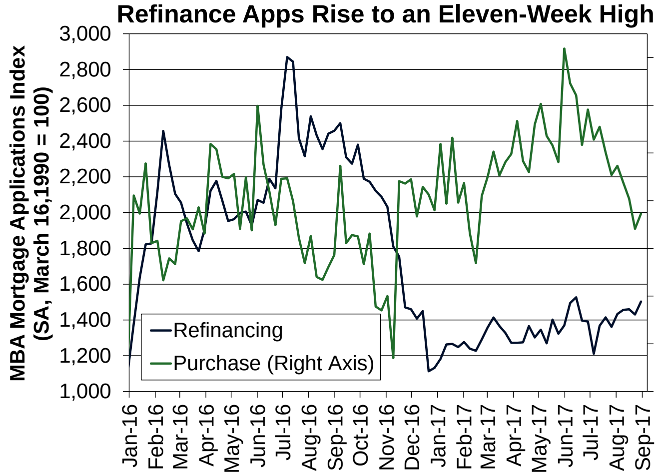
- **The CoreLogic National Home Price Index**, a repeat sales measure, increased 0.9 percent in July (not seasonally adjusted). From a year ago, the index increased 6.7 percent. Regionally, the state of Washington showed the largest annual gain of all states with a 12.9 percent year-over-year increase, followed by Utah at 10.8 percent. Prices in 34 states (including the District of Columbia) have risen above their pre-crisis peaks.
- **Mortgage applications** increased 3.3 percent for the week ending September 1, according to the Mortgage Bankers Association. Purchase applications improved 1.4 percent. Conventional purchase applications rose 1.6 percent and government applications rose 0.9 percent. Refinance applications posted a 5.1 percent gain, as conventional and government refinance applications increased 5.2 percent and 4.4 percent, respectively. The survey's average 30-year fixed mortgage rate fell 5 basis points to 4.06 percent.

Home Prices Remain Just 0.5 Percent Below Previous Peak



Source: CoreLogic

Purchase Applications Halt Recent Slide, as Refinance Apps Rise to an Eleven-Week High



Source: Mortgage Bankers Association

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