



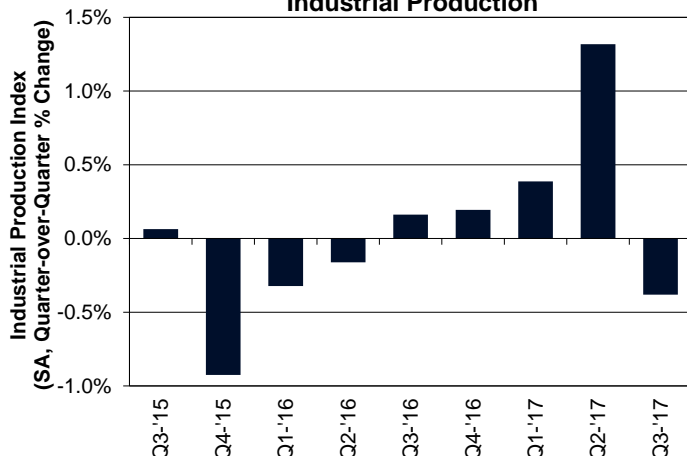
Weekly Note – October 20, 2017

Economics: Hurricane-Related Impacts on Economy Have Receded

This week provided additional evidence on the economic impact of the hurricanes. The hurricanes contributed to a decline in industrial production in August and held back the gain in September. For the third quarter, industrial production declined 1.5 percent annualized, the first drop since the second quarter of 2016. The Federal Reserve estimated that, excluding the hurricane impacts, industrial production would have risen at least 0.5 percent annualized during the quarter. The hurricanes also weighed on the Leading Economic Index, a gauge of the economic outlook over the next three to six months, which fell for the first time since last August. Weaknesses in the average manufacturing workweek, jobless claims, and building permits, which were likely affected by the hurricanes, drove the decline in the index. However, high frequency data showed that the storm effects are dissipating, as the latest week's initial jobless claims fell to a fresh low for the expansion. After surging in early September, initial claims declined for three consecutive weeks to the lowest level since March 1973. Claims in Texas and Florida continued to fall, pointing to a rebound in payrolls in October as people return to work, following a 33,000 drop in the prior month. Lastly, rising petroleum prices pushed import prices higher in September. Prices excluding fuel also rose for the second consecutive month and the seventh time in the past eight months, thanks to the decline in the dollar since the start of the year.

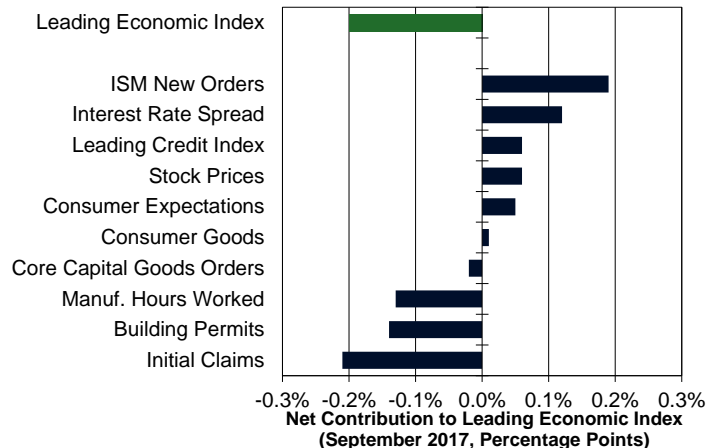
- **Industrial production**, a gauge of output in the manufacturing, utility, and mining sectors, rebounded 0.3 percent in September, partially recovering the 0.7 percent drop in the prior month, according to the Federal Reserve Board. Manufacturing output edged up 0.1 percent, the first rise in three months. Utility output and mining output rose 1.5 percent and 0.4 percent, respectively. The Federal Reserve noted that the gain in September would have been stronger without the hurricane effects.
- **The Conference Board Leading Economic Index (LEI)** fell 0.2 percent from a record high to 128.6 in September. Six components contributed positively to the index, with the Institute for Supply Management new orders and the interest rate spread the two largest drivers, adding 0.19 percentage points and 0.12 percentage points, respectively. The drags included initial jobless claims, building permits, manufacturing hours worked, and core capital goods orders.
- **Import prices** increased 0.7 percent in September, driven by rising imported petroleum prices, according to the Bureau of Labor Statistics. Import prices excluding fuels rose 0.3 percent from August and 1.3 percent from last September.
- **Initial claims for unemployment insurance** fell 22,000 to 222,000 in the week ending October 14, according to the Department of Labor. The four-week moving average decreased 9,500 to 248,250. Declines in Michigan, California and Florida drove the overall drop in claims. Claims also declined in Texas, where they are now close to pre-hurricane levels.

Hurricanes Lead to a Decline in Third Quarter Industrial Production



Source: Federal Reserve

Hurricane Impacts Help Push the Leading Economic Index Lower



Source: The Conference Board

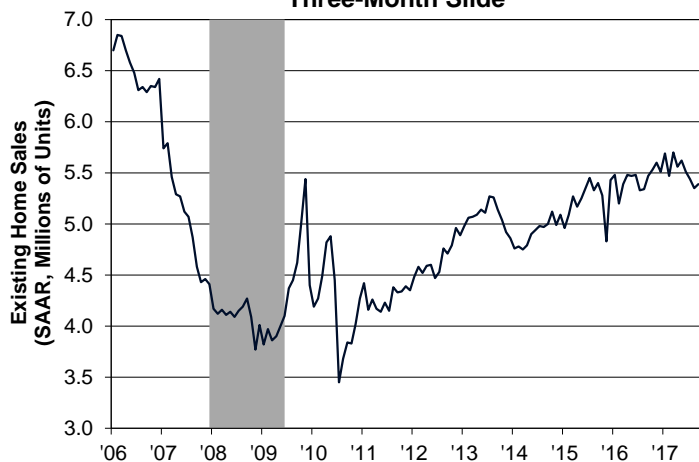


Housing: Existing Sales Rise, Home Construction Falters

Housing data released this week featured an upside surprise from existing home sales and an expected drop in housing starts. Total existing home sales ended a three-month streak of declines, posting a slight gain in September to improve from the 12-month low reached in August. Increased sales in the West and Midwest outpaced the decrease in the South amid flat sales in the Northeast. The National Association of REALTORS® noted significant declines in sales in parts of Texas and South Florida hit by Hurricanes Harvey and Irma. The market is still constrained by ongoing supply shortages, however, as the number of existing homes for sale fell on an annual basis for the 28th consecutive month. New home construction slowed further in September, declining for the sixth time in the past seven months to reach a 12-month low. Multifamily starts fell for the third consecutive month, while single-family starts slipped for the second time in three months. Single-family starts were weighed down by the largest monthly drop in the South since June 2014, outweighing the increases in the other three regions. Home builders remain upbeat about the single-family market, as a measure of their confidence picked up in October, more than reversing the prior month's drop to hit a five-month high. Mortgage demand improved last week, boosted by the first rise in refinance applications in five weeks. Purchase applications also posted a gain after a negligible decline the prior week. The average 30-year fixed mortgage rate edged down three basis points to 3.88 percent, the first drop in three weeks, according to Freddie Mac.

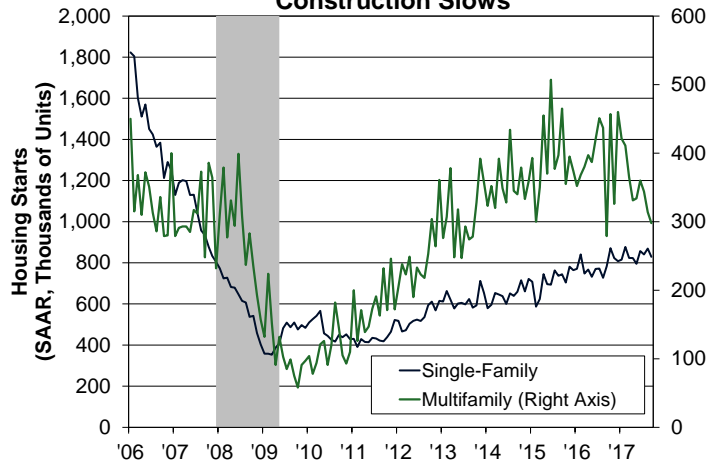
- **Existing home sales** edged up 0.7 percent to a 5.39 million seasonally adjusted annualized rate (SAAR) in September, according to the National Association of REALTORS®. On a year-to-date basis, sales are 1.3 percent higher than a year ago. Single-family home sales rose 1.1 percent, while condo/coop sales fell 1.6 percent. The number of homes for sale, which is not seasonally adjusted, fell 6.4 percent from a year ago. The months' supply (inventory-to-sales ratio) was 4.2 months, compared with 4.5 months a year ago.
- **Housing starts** fell 4.7 percent in September to a 1.13 million SAAR, according to the Census Bureau. Single-family starts fell 4.6 percent to 829,000, while multifamily starts declined 5.1 percent to 298,000. Through the first nine months of the year, single-family starts are 9.1 percent higher than the same period a year ago, while multifamily starts are 9.2 percent lower. New residential permits declined 4.5 percent to 1.22 million annualized units. Single-family permits rose 2.4 percent to 819,000 units, while multifamily permits dropped 16.1 percent to 396,000 units. On a year-to-date basis, single-family permits are up 9.0 percent, while multifamily permits are 4.8 percent lower.
- **The National Association of Home Builders/Wells Fargo Market Index** rose four points to 68 in October. A reading above 50 indicates more builders view the single-family market as "good" rather than "poor". All three components—current sales, sales expectations, and foot traffic of prospective buyers—increased.
- **Mortgage applications** rose 3.6 percent for the week ending October 13, according to the Mortgage Bankers Association. Purchase and refinance applications increased 4.2 percent and 3.0 percent, respectively. The average 30-year fixed mortgage rate slipped two-basis points to 4.14 percent, ending a four week stretch of increases.

Existing Home Sales Edge Up to End a Three-Month Slide



Source: National Association of REALTORS®

Single-Family and Multifamily Home Construction Slows



Source: Census Bureau

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