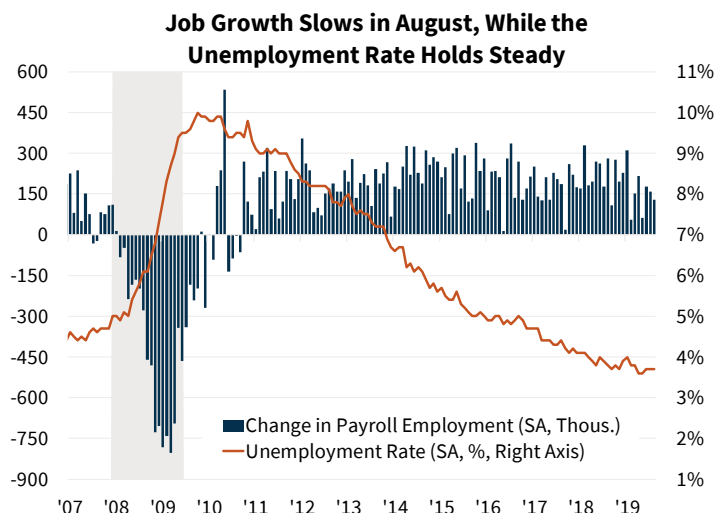


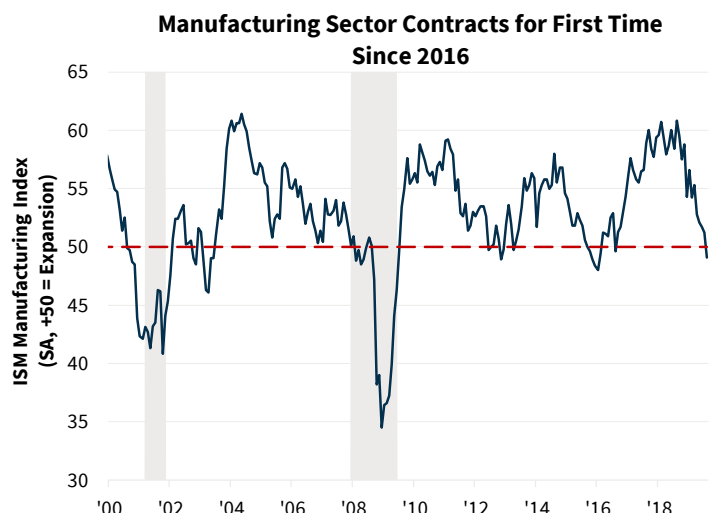
Economics: Though Still Healthy, Labor Market is Slowing

Nonfarm payroll employment slowed for the second consecutive month in August, adding only 130,000 jobs, with 25,000 of those due to the temporary hiring of Census workers. Job growth in the prior two months was revised lower, the fourth consecutive month of downward revisions to prior months. The household survey contained good news, with the labor force participation rate increasing two-tenths while the unemployment rate held steady; in fact, the labor force grew by more than one-half million persons, the largest gain this year, as more workers continue to return from the sidelines. The revised estimates for nonfarm business productivity in the second quarter showed no significant changes other than a slight increase in unit labor costs, which could translate to an increase in core inflation. Overall the report was consistent with our view of a weakening labor market in 2020: The quarterly drop in total hours worked is more than just a blip in the data, and weaker-than-expected job growth will likely mean a downward revision to our employment forecast for the remainder of the year. A relatively weak gain in manufacturing employment was consistent with the growing evidence of a global manufacturing recession amid continued trade uncertainties—a signal that was reinforced by the ISM Manufacturing Index, which fell below 50 for the first time since August 2016, due to a decline in the new export orders index to the lowest level of the expansion. The contraction in manufacturing activity supports our expectation that the FOMC will cut the federal funds rate by 25 basis points in September. On a more positive note, the ISM Nonmanufacturing Index posted the biggest gain in six months, driven by the largest jump in the business activity index since February 2008, emphasizing that the overall economy remains relatively robust. The real trade deficit narrowed in July due to a rise in exports; the narrowing was less than expected, however, which may indicate that net exports will continue to drag on growth for the remainder of the year as demand abroad slows and trade uncertainty escalates. Finally, light vehicle sales rose in August as consumers remain resilient to financial and trade uncertainty, suggesting an upside risk to our outlook for consumer spending in the third quarter.

- **Nonfarm payroll employment** grew by 130,000 in August, according to the Bureau of Labor Statistics. The gains in June and July were revised downward by a total of 20,000. The average workweek ticked up one-tenth this month to 34.4 hours, and average hourly earnings rose 0.4 percent over the month and 3.2 percent from a year ago. The unemployment rate was 3.7 percent, and the labor force participation rate rose to 63.2 percent. The U-6 rate rose two-tenths to 7.2 percent.
- **Nonfarm business productivity** rose 2.3 percent annualized in Q2 2019, unchanged from the preliminary report, according to revised estimates by the Bureau of Labor Statistics. Unit labor costs rose 2.6 percent annualized and 2.6 percent from a year ago, slightly faster than the initial report.
- **The ISM Manufacturing Index** fell 2.1 points in August to 49.1 (any reading below 50 indicates contraction). **The ISM Nonmanufacturing Index**, a gauge of service sector activity, rose 2.7 points to 56.4 in August.
- **Factory orders** rose 1.4 percent in July, while factory shipments fell 0.2 percent, according to the Census Bureau. Core capital goods orders rose 0.2 percent, a downward revision of two-tenths from the advance report, while core capital shipments fell 0.6 percent, a one-tenth improvement. Nondurable goods orders, the new data in the report, rose 0.8 percent.
- **The U.S. trade deficit** narrowed \$1.5 billion in July to \$54.0 billion, according to the Census Bureau. The real goods trade deficit narrowed slightly by \$673 million to \$85.5 billion, as exports rose 0.4 percent and imports were unchanged.
- **Light vehicle sales** rose 1.1 percent to 17.1 million annualized units in August, according to Autodata.



Source: Bureau of Labor Statistics



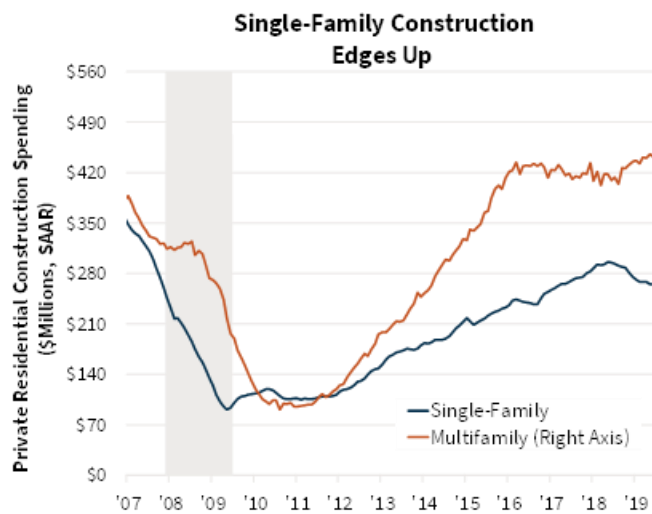
Source: Institute for Supply Management



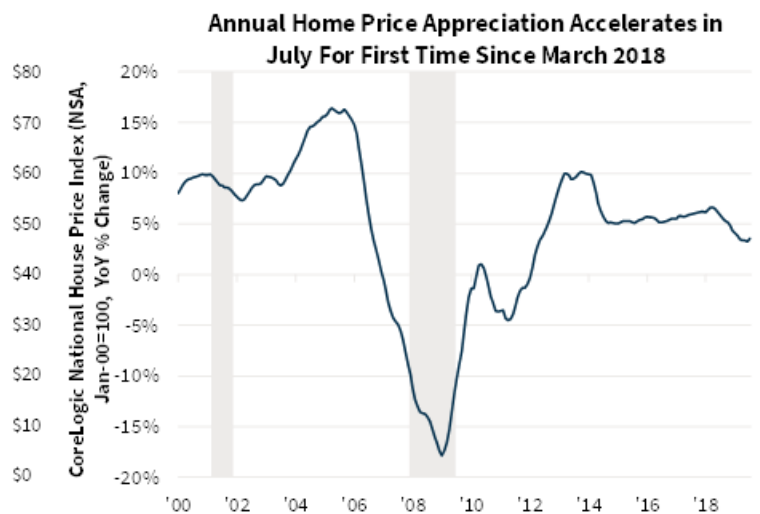
Housing: Sliver of Hope for Residential Investment?

Total private residential construction spending in July registered the first gain in eight months, rebounding to the highest nominal level since February. A sizable recovery in new single-family spending drove the increase as it posted the largest monthly gain in more than a year, while spending on new multifamily construction fell for the third time in four months and home improvement spending was essentially flat during the month. The annual trends in construction spending tell a different story, however, as single-family spending has declined year over year since last December and multifamily spending has risen annually every month for nearly a year. The monthly gain in construction spending supports our expectation that residential fixed investment will return to positive territory after dragging on economic growth in the second quarter for the sixth straight period. The CoreLogic National Home Price Index showed that house prices in July posted the strongest annual growth rate in five months, accelerating for the first time since March 2018. The index has increased on a year-over-year basis every month for more than seven years and has exceeded its pre-crisis peak (April 2006) by approximately 9 percent. Adjusted for inflation, however, real home prices were still 11.5 percent below their prior peak. The decline of mortgage rates in August for the ninth straight month propelled refinance applications to the highest monthly level in three years, but purchase applications went the opposite direction, falling for the third time in four months to the lowest level since February. The average rate on 30-year fixed-rate mortgages fell 9 basis points this week to 3.49 percent, according to Freddie Mac, the lowest level since October 2016 and 105 basis points below year-ago levels. Though we believe mortgage rates will stabilize around 3.5 percent for the remainder of this year, it is unlikely that the low rates will boost purchase applications significantly due to a lack of housing supply and continued uncertainties regarding domestic and international economic conditions.

- **Private residential construction spending** rose 0.6 percent in July, according to the Census Bureau. Spending on new single-family building increased 1.4 percent, while new multifamily construction spending fell 1.1 percent. Home improvement spending edged up just 0.2 percent during the month. From a year ago, single-family spending declined 8.5 percent, while multifamily spending rose 6.2 percent.
- **The CoreLogic National Home Price Index**, a repeat sales measure, increased 0.5 percent in July and 3.6 percent from a year ago (not seasonally adjusted). Prices in the lowest price tier (75 percent or less of the median) increased 5.5 percent on an annual basis, compared with 4.7 percent for prices in the low-to-middle price tier (between 75 and 100 percent of the median). 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 4 percent and 3.1 percent annual gains, respectively.
- **Mortgage applications** decreased by 3.1 percent in the week ending August 30, according to the Mortgage Bankers Association. Refinance applications drove the decline, falling 7.0 percent, while purchase applications improved 3.6 percent. For all of August, refinance applications spiked 37.8 percent and purchase applications fell 7.4 percent.



Source: Census Bureau



Source: CoreLogic

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