Economics: Job Growth, not Wage Growth

Job growth picked up in September while much of the previously reported weakness in August was revised away. Combined with the lowest monthly average of jobless claims since February 2006 (and a record low as a share of the labor force), the latest jobs report painted a healthy picture of labor market conditions. The sub-6 percent unemployment rate, though due partly to a shrinking labor force, will get the attention of Federal Reserve officials, but the muted wage gains may help soothe their concerns over brewing wage inflation. While purchasing manager surveys signaled cooling manufacturing and service activity in September from multi-year highs in August, both sectors showed dramatic improvement for all of Q3 2014. The trade deficit surprisingly narrowed in August, strengthening our confidence for an expected three-handle annualized growth rate in Q3. We would be remiss not to mention continued global risks, including tensions with Russia, war in the Middle East, and slowing growth in both Europe and China, which, despite a positive jobs report here at home, left the 10-year Treasury yield below 2.50 percent on Friday.

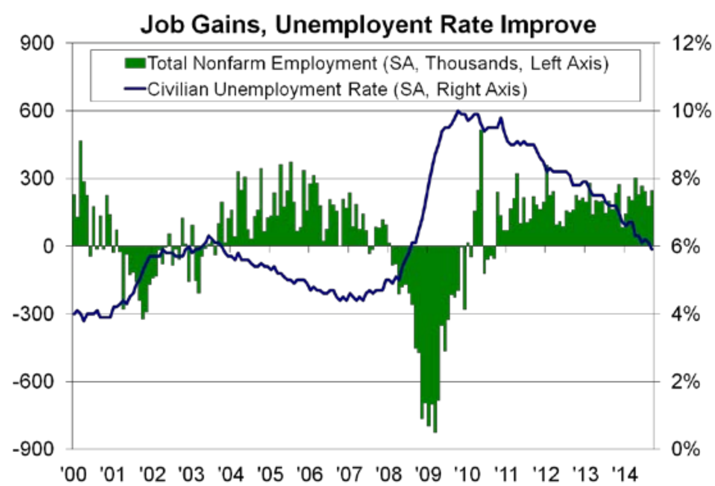
- **Nonfarm payroll employment** rose 248,000 in September while upward revisions to the prior two months totaling 69,000 jobs pushed the average monthly gain in Q3 2014 up to 224,000, down modestly from 267,000 in Q2 2014. Though average hourly earnings held steady, average hours worked ticked up to 34.6—the best since May 2008. The separate household survey showed a decline in the unemployment rate to a six-year low of 5.9 percent amid a pickup in household employment and a decline in the labor force, pushing the labor force participation rate down to 62.7 percent, the lowest since February 1978.

- **Personal income**, adjusted for inflation, increased 0.4 percent in August following an upwardly revised 0.2 percent gain in July. Real income has now increased for eight consecutive months, a streak unmatched since 2004, while year-over-year growth of 2.8 percent is the highest since late 2012. Real personal consumption expenditures (PCE) jumped 0.5 percent, reversing the 0.1 percent July decline, and the 2.6 percent year-over-year gain marks an eight-month best. The PCE chained price index was flat and increased just 1.5 percent from a year ago, well below the Fed's target of 2.0 percent.

- **The Conference Board Consumer Confidence Index** sank 7.4 points in September to a four-month low of 86.0. Both the current conditions and consumer expectations sub-indices fell, with the latter posting a 9.4 point drop. Fewer respondents indicated that jobs were plentiful than in August, while buying plans for autos and homes also deteriorated.

- **The Institute for Supply Management (ISM) Manufacturing Index** declined 2.4 points in September to 56.6 (any reading above 50 indicates expansion in the sector). Though the current production index actually ticked up to a four-year high, the forward-looking new orders, employment, and supplier deliveries indices all moved lower in August. **The ISM Nonmanufacturing Index**, which measures service activity, dipped 1.0 point to 58.6, though the employment index reached its highest level since August 2005.

- **The trade deficit** narrowed $212 million in August to $40.1 billion—the fourth consecutive improvement and the smallest trade gap since January—as a small gain in exports outpaced even smaller growth in imports. The real goods deficit, used to estimate the trade sector in the calculation of GDP, widened modestly to $47.9 billion as a 1.0 percent gain in real goods imports bested a 0.8 percent gain in real goods imports.



Source: Bureau of Labor Statistics

Source: Department of Labor

Housing: Ho-Hum Housing Data

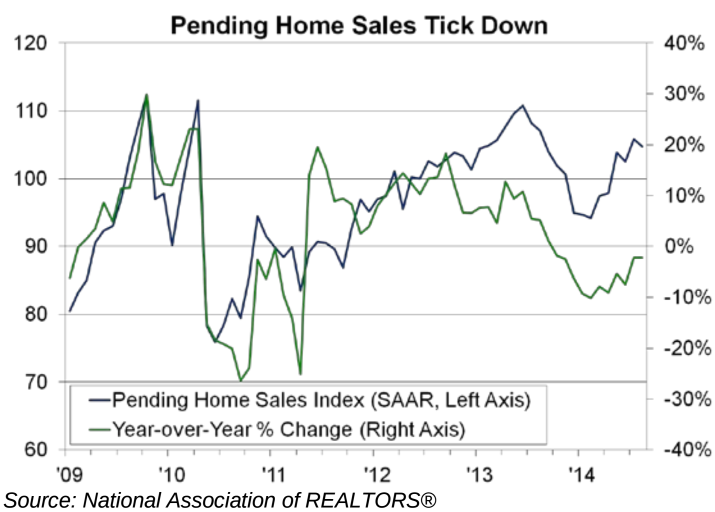
This week's housing data releases continued a trend that has prevailed for much of the year, depicting a housing market that appears more likely to continue its sluggish pace of improvement rather than poised for a break-out into the next phase of growth. A week after the National Association of REALTORS® reported a setback in August existing home sales, its pending home sales index—a leading indicator of existing home sales—released this week also moved lower, remaining below its year-ago level and supporting our outlook of a roughly 3.0 percent decline in existing home sales for all of 2014. Mortgage demand also has been lackluster, particularly on the purchase side. Since 1995, the three worst months for purchase mortgage applications all occurred this year, with August and September accounting for two of them. Refinance applications declined to near six-year lows even as mortgage rates dipped during the week. Furthermore, private single-family construction spending posted the slowest annual growth in two years in August as the flat trend in residential construction spending mirrors the movement in construction units data (housing starts). On a brighter note, though home price appreciation continues to soften, the S&P/Case-Shiller index showed all 20 cities with year-over-year price gains for the 27th straight month.

- **The National Association of REALTORS® pending home sales index**, which records contract signings of existing homes and typically leads existing home sales by one to two months, fell 1.0 percent in August from an 11-month high in July. Over the past 12 months, the index has declined 2.2 percent.

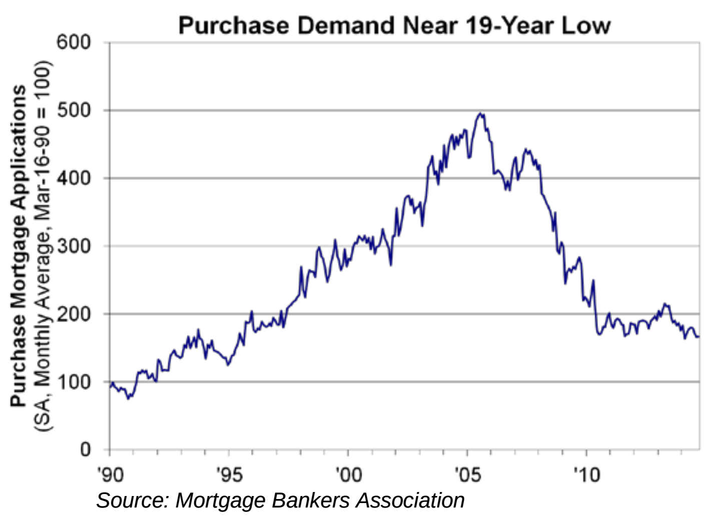
- **Construction spending** declined 0.8 percent in August to a seasonally adjusted annual rate of $961 billion, reversing much of the 1.2 percent July gain, according to the Census Bureau. Though spending has moved sideways for much of the year, it was up 5.0 percent from August 2013. Private residential construction spending ticked down 0.1 percent during the month—the third drop in four months—as a 2.0 percent fall in spending on improvements outweighed 0.7 percent and 1.4 percent gains in single-family and multifamily private residential construction spending, respectively. Year-over-year growth in single-family sector construction spending eased to 8.3 percent while multifamily growth moderated to 35.9 percent.

- **The S&P/Case-Shiller composite 20-city home price index** (not seasonally adjusted) increased 0.6 percent in the three months ending in July, slowing from a 1.0 percent gain in June. Annual price growth slid to 6.7 percent, down from 8.1 percent in June and from its recent peak of 13.7 percent last November. All 20 cities saw year-over-year price appreciation.

- **Mortgage applications** ticked down 0.2 percent in the week ending September 26 after a 4.1 percent decline in the prior week, according to the Mortgage Bankers Association. Purchase applications held steady for the week, while a 0.3 percent drop in refinance applications drove the headline decline, despite a six-basis-point decrease in the contract interest rate for 30-year fixed-rate mortgages to 4.33 percent.



Source: National Association of REALTORS®



Source: Mortgage Bankers Association

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