

Economic Update, October 12, 2018
Submitted by Michael Mount

Summary: Inflation remains a concern, with the latest measures coming in over the Fed's two percent target. To combat this, the Fed is set to raise interest rates in December and March. Average interest rates for 30-year mortgages rose above five percent this week. Meanwhile, the yield curve (see chart at the end), the difference between the yield on long-term government bonds and short-term government bonds, which is a good predictor of recessions, has been falling (look at where it was before the 2007-2009 recession).

Census

Wednesday, [Wholesale Trade](#): Sales increased 0.8 percent and were \$511.1 billion in August 2018. Monthly wholesale inventories increased one percent from \$636.3 billion in July 2018 to \$642.7 billion in August. The inventories to sales ratio was 1.26 in August 2018 and 1.30 in August 2017.

Bureau of Labor Statistics

Wednesday, [Producer Price Indexes](#): "The Producer Price Index for final demand increased 0.2 percent in September. . . . Final demand prices declined 0.1 percent in August. . . . In September, over one-third of the advance in prices for final demand services can be traced to the index for airline passenger services, which rose 5.5 percent. . . . The index for final demand goods edged down 0.1 percent in September."

Thursday, [Real Earning](#): "Real average hourly earnings for all employees increased 0.3 percent from August to September. . . . This result stems from a 0.3-percent increase in average hourly earnings combined with a 0.1-percent increase in the Consumer Price Index for All Urban Consumers (CPI-U)."

Thursday, [Consumer Price Index](#): "The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.1 percent in September. . . . The all items index rose 2.3 percent for the 12 months ending September, a smaller increase than the 2.7-percent increase for the 12 months ending August."

Friday, [Import and Export Price Indexes](#): "Prices for U.S. imports increased 0.5 percent in September . . . after declining 0.4 percent in August and 0.1 percent in July. The September advance was led by higher fuel prices. U.S. export prices recorded no change in September following declines of 0.2 percent and 0.5 percent the previous 2 months."

Department of Labor

Thursday, [Initial Claims](#): "In the week ending October 6, the advance figure for seasonally adjusted initial claims was 214,000, an increase of 7,000 from the previous week's unrevised level of 207,000."

National Federation of Independent Businesses

Tuesday, [Small Business Optimism Index](#): "Small business owners continued to deliver a spectacular performance with September's third highest Index reading in the survey's 45 year history. The Index fell slightly from August's survey record breaking high of 108.8 to 107.9."

IBD/TIPP

Tuesday, [Economic Optimism Index](#): The index "rose 3.8% in October to 57.8, after dropping 4% in September. The gain put the index just below August's 58.0 level, which was the second-highest reading since January 2004. It also marks the 25th straight month that Economic Optimism Index has been over 50—which signals overall optimism about the economy—a record run for this index."

Mortgage Bankers Association

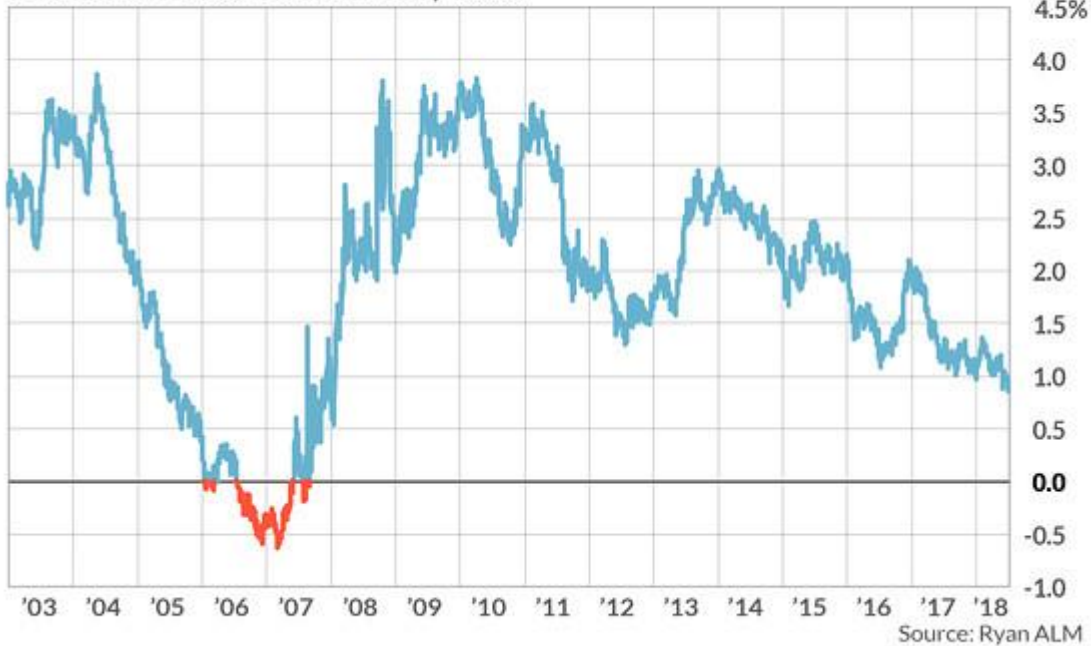
Wednesday, [Mortgage Applications](#): “Mortgage applications decreased 1.7 percent from one week earlier. . . . The average contract interest rate for 30-year fixed-rate mortgages with conforming loan balances (\$453,100 or less) increased to its highest level since February 2011, 5.05 percent, from 4.96 percent. . . . The average contract interest rate for 15-year fixed-rate mortgages increased to its highest level since April 2010, 4.44 percent, from 4.39 percent.”

University of Michigan

Friday, [Consumer Sentiment](#): “Consumer sentiment slipped in early October, although it remained at quite favorable levels and just above the average reading during 2018 (98.5). The small decline was due to less favorable assessments by consumers of their personal finances. Unfortunately, the downward revisions in the rate of growth in household incomes were accompanied by upward revisions in the year-ahead expected inflation rate, weakening real income expectations.”

Spread between 3-month bill and 10-year note

Close to narrowest since January 2008



Source: <https://www.marketwatch.com/story/5-key-ways-wall-street-and-economists-think-about-the-yield-curve-2018-07-12>