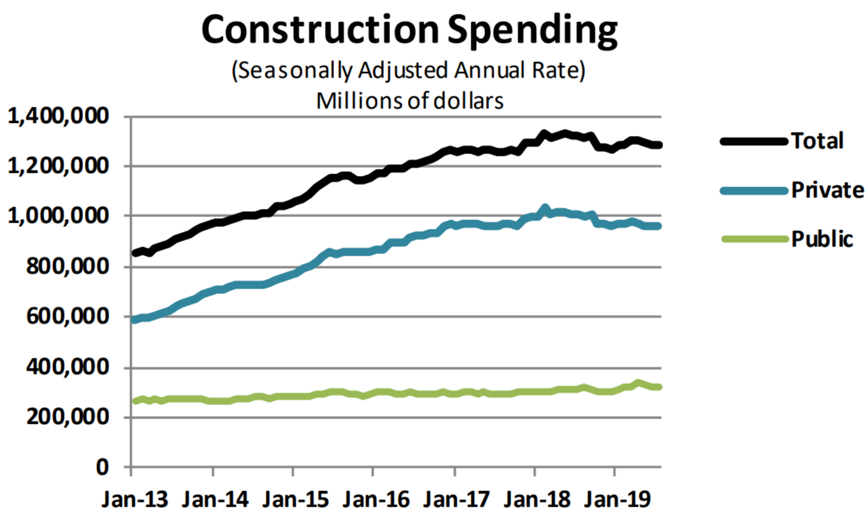
Economic Update, September 6, 2019

Submitted by Bob Moreo

Summary: Construction spending remains sluggish, and two separate surveys reported slowing manufacturing activity and uncertainty. The Institute for Supply Management manufacturing index fell from 51.2% in July to 49.1%—a sharper drop than expected. Marketwatch reported it is the lowest reading since January 2016. IHS Markit reported its U.S. Manufacturing Purchasing Managers' Index (PMI) was 50.3 in August, down slightly from 50.4 in July. Chris Williamson, Chief Business Economist at IHS Markit said, "The August PMI indicates that US manufacturers are enduring a torrid summer, with the main survey gauge down to its lowest since the depths of the financial crisis in 2009." And Friday's employment report from the Bureau of Labor Statistics "will do little to dispel worries that commerce is slowing," says The Washington Examiner. "The monthly employment report [130,000] fell short of forecasters' expectations for roughly 163,000 new payroll jobs." That said, long-term outlooks from the Federal Reserve and Bureau of Labor Statistics predict continued growth—slower, but continued.

Census Bureau

Tuesday, Construction Spending: "Total Construction spending during July 2019 was estimated at a seasonally adjusted annual rate of $1,288.8 billion, 0.1 percent above the revised June estimate of $1,288.1 billion. The July figure is 2.7 percent below the July 2018 estimate of $1,324.8 billion. During the first seven months of this year, construction spending amounted to $733.8 billion, 2.1 percent below the $749.9 billion for the same period in 2018."



Source: U.S. Census Bureau, September 3, 2019. Data revised back to January 2008.

Wednesday, International Trade Deficit: "[T]he goods and services deficit was $54.0 billion in July, down $1.5 billion from $55.5 billion in June, revised. . . . July exports were $207.4 billion, $1.2 billion more than June exports. July imports were $261.4 billion, $0.4 billion less than June imports. . . . Year-to-date, the goods and services deficit increased $28.2 billion, or 8.2 percent, from the same period in 2018. Exports decreased $3.4 billion or 0.2 percent. Imports increased $24.9 billion or 1.4 percent."

Wednesday, Quarterly Financial Report—Manufacturing, Mining, Trade, and Selected Service Industries: "U.S. manufacturing corporations' seasonally adjusted after-tax profits in the second quarter of 2019 totaled $148.5 billion, down $11.6 billion from the after-tax profits of $160.1 billion recorded in the first quarter of 2019, and down $32.0 billion from the after-tax profits of $180.5 billion recorded in the second quarter of 2018. Seasonally adjusted sales for the quarter totaled $1,748.8 billion, up $22.4

billion from the $1,726.4 billion recorded in the first quarter of 2019, but not statistically different from the $1,739.0 billion recorded in the second quarter of 2018."

Wednesday, Quarterly Financial Report—Retail Trade Industries: "Seasonally adjusted after-tax profits of U.S. retail corporations with assets of $50 million and over totaled $29.7 billion, up $2.7 billion from the $26.9 billion recorded in the first quarter of 2019, and up $9.3 billion from the $20.4 billion recorded in the second quarter of 2018. Seasonally adjusted sales for the quarter totaled $794.3 billion, up $18.1 billion from the $776.2 billion recorded in the first quarter of 2019, and up $27.1 billion from the $767.3 billion recorded in the second quarter of 2018."

Thursday, Manufacturers' Shipments, Inventories, and Orders: "New orders for manufactured goods in July, up two consecutive months, increased $6.9 billion or 1.4 percent to $500.3 billion. . . . Transportation equipment . . . drove the increase, $5.7 billion or 7.0 percent to $86.4 billion."

"Shipments, down following two consecutive monthly increases, decreased $0.9 billion or 0.2 percent to $504.0 billion. . . . Transportation equipment . . . led the decrease, $1.8 billion or 2.0 percent to $86.5 billion." Shipments of petroleum and coal products led an increase among manufactured nondurable goods, up $1.3 billion or 2.4 percent to $53.4 billion.

"Unfilled orders, up following three consecutive monthly decreases, increased $0.6 billion or virtually unchanged to $1,161.5 billion, [and] inventories, up ten of the last eleven months, increased $1.2 billion or 0.2 percent to $696.5 billion."

Institute for Supply Management

Tuesday, Manufacturing Report: "The August PMI registered 49.1 percent, a decrease of 2.1 percentage points from the July reading of 51.2 percent. The New Orders Index registered 47.2 percent, a decrease of 3.6 percentage points from the July reading of 50.8 percent. The Production Index registered 49.5 percent, a 1.3-percentage point decrease compared to the July reading of 50.8 percent. The Employment Index registered 47.4 percent, a decrease of 4.3 percentage points from the July reading of 51.7 percent. The Supplier Deliveries Index registered 51.4 percent, a 1.9-percentage point decrease from the July reading of 53.3 percent. The Inventories Index registered 49.9 percent, an increase of 0.4 percentage point from the July reading of 49.5 percent. The Prices Index registered 46 percent, a 0.9-percentage point increase from the July reading of 45.1 percent."

"Comments from the panel reflect a notable decrease in business confidence," said Timothy R. Fiore, Chair of the ISM Manufacturing Business Survey Committee. "The PMI contracted for the first time since August 2016 (when it registered 49.6 percent) and ended a 35-month expansion period in which the composite index averaged 56.5 percent. The August contraction ended four straight months of expansion softening."

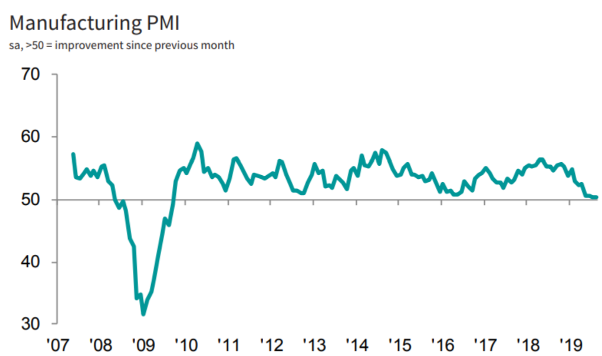
"Customer demand [for new orders] contracted for the first time since December 2015 (when the New Orders Index registered 49.6 percent) and ended a 43-month expansion period in which it averaged 58.5 percent."

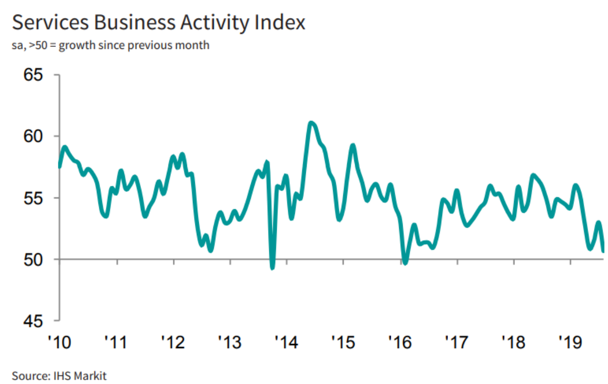
Thursday, Non-Manufacturing Report: "Economic activity in the non-manufacturing sector grew in August for the 115th consecutive month. . . . The NMI registered 56.4 percent, which is 2.7 percentage points higher than the July reading of 53.7 percent." Anthony Nieves, Chair of the ISM Non-Manufacturing Business Survey Committee, said "This represents continued growth in the non-manufacturing sector, at a faster rate. . . . [rebounding] after two consecutive months of cooling off. The respondents remain concerned about tariffs and geopolitical uncertainty; however, they are mostly positive about business conditions."

IHS Markit

Tuesday, US Manufacturing PMI: "The seasonally adjusted [index] posted 50.3 in August, up from the flash reading of 49.9 but still down slightly from 50.4 in July. As such, the latest reading signaled the least marked improvement in the health of the U.S manufacturing sector since the depths of the financial crisis in September 2009." Chief Business Economist Chris Williamson said, "Hiring has stalled as companies worry about the outlook: optimism about the year ahead is at its lowest since comparable data were first available in 2012. Similarly, price pressures are close to a three-year low, as crumbling demand has removed firms' pricing power."

Thursday, US Services PMI: "August data signaled a loss of momentum across the U.S service sector, with business activity rising at the softest pace since the current sequence of expansion began in March 2016. . . . The seasonally adjusted final IHS Markit U.S. Services Business Activity Index registered 50.7 in August, down from 53.0 in July. . . . Expectations towards business activity over the coming year hit a fresh series low, as firms expressed greater concerns surrounding ongoing trade wars and a slowdown across the wider economy."





Federal Reserve

Wednesday, The Beige Book: "On balance, reports from Federal Reserve Districts suggested that the economy expanded at a modest pace through the end of August. Although concerns regarding tariffs and trade policy uncertainty continued, the majority of businesses remained optimistic about the near-term outlook. Reports on consumer spending were mixed . . . Home sales remained constrained in the majority of Districts due primarily to low inventory levels, and new home construction activity remained flat. Commercial real estate construction and sales activity were steady."

"Overall, Districts indicated that employment grew at a modest pace, on par with the previous reporting period . . . [and] the pace of wage growth remained modest to moderate, similar to the previous reporting period."

In the Atlanta district (which includes Middle and East Tennessee), "Economic activity moderated slightly over the reporting period. Labor market tightness persisted. Wage growth remained steady and input costs rose slightly. Retail sales and tourism activity were mixed. Real estate sales and construction were down from a year ago. Manufacturing activity softened. Banking conditions remained steady."

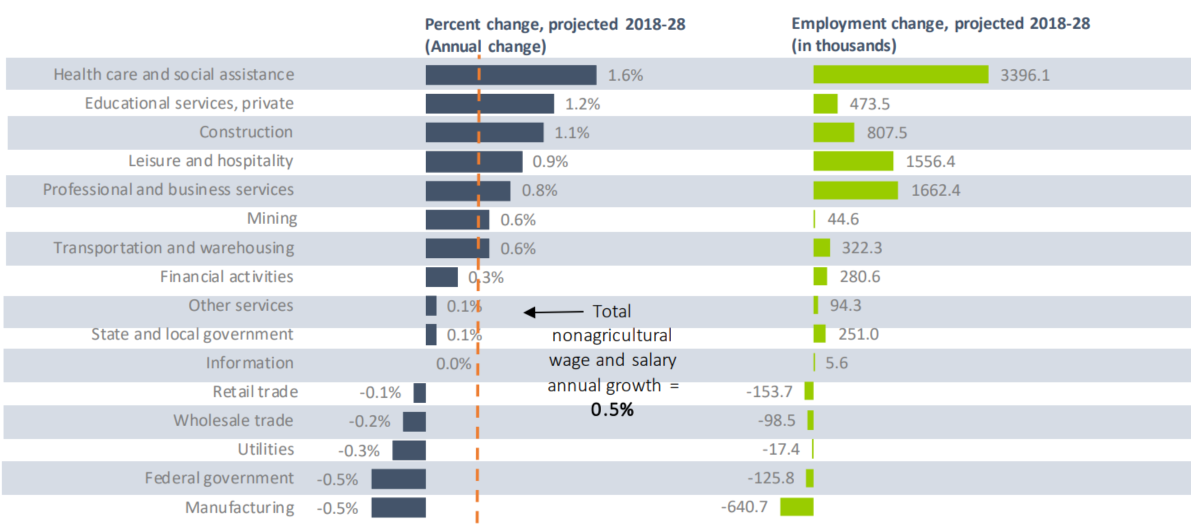
The St. Louis district (which includes West Tennessee) reported little change. "Construction activity ticked up. Barge traffic continued to improve, but air cargo traffic decreased slightly from a year ago. Farming conditions remain strained by low commodity prices and residual effects from flooding in the spring. Overall, contacts' economic outlook for the remainder of the year turned slightly pessimistic."

Bureau of Labor Statistics

Wednesday, Employment Projections—2018-2028: "Employment is projected to grow by 8.4 million jobs to 169.4 million jobs over the 2018–28 decade . . . This expansion reflects an annual growth rate of 0.5 percent, which is slower than the 2008–18 annual growth rate of 0.8 percent. An aging population and labor force will contribute to changes expected over the coming decade including a continued decline in the labor force participation rate and continued growth in employment in healthcare and related industries and occupations."

"Real Gross Domestic Product (GDP) in 2012 chained dollars is projected to grow at an annual rate of 1.8 percent from 2018 to 2028, the same rate as that of the 2008–18 decade. Although GDP growth is projected to remain steady, labor productivity is expected to accelerate. Productivity is projected to grow at an annual rate of 1.6 percent from 2018 to 2028, slightly faster than the 2008–18 rate of 1.3 percent."

Chart 5. Percent change and numeric growth by industry sector, projected 2018-28

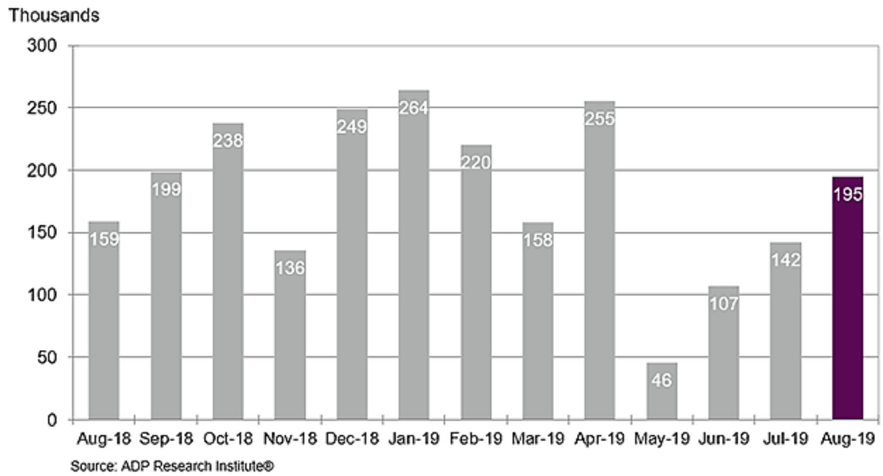


Challenger, Gray & Christmas

Thursday, Job Cuts Report: "U.S.-based employers ramped up the pace of downsizing in August, as companies announced plans to cut 53,480 jobs from their payrolls. This is up 37.7% from July's total of 38,845. . . . So far this year, employers have announced plans to cut 423,312 jobs from their payrolls, up 36.2% from the 310,773 cuts in the first eight months of 2018."

ADP

Thursday, National Employment Report: "Private-sector employment increased by 195,000 from July to August, . . . on a seasonally adjusted basis." This was the highest monthly gain since employment increased by 255,000 jobs from March to April.



Department of Labor

Thursday, Unemployment Insurance Weekly Claims: "In the week ending August 31, the advance figure for seasonally adjusted initial claims was 217,000, an increase of 1,000 from the previous week's revised level [of] 216,000. The 4-week moving average was 216,250, an increase of 1,500 from the previous week's revised average [of] 214,750."

Friday, Employment Situation: "Total nonfarm payroll employment rose by 130,000 in August, and the unemployment rate was unchanged at 3.7 percent. . . . Employment in federal government rose, largely reflecting the hiring of temporary workers for the 2020 Census. Notable job gains also occurred in health care and financial activities. . . . Job growth has averaged 158,000 per month thus far this year, below the average monthly gain of 223,000 in 2018."

"In August, average hourly earnings for all employees on private nonfarm payrolls rose by 11 cents to $28.11, following 9-cent gains in both June and July. Over the past 12 months, average hourly earnings have increased by 3.2 percent."

Mortgage Bankers Association

Wednesday, Weekly Mortgage Applications: Mortgage applications for the week ending August 30, 2019, decreased 3.1 percent from the week earlier. Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting, said, "declining Treasury rates last week, caus[ed] the 30-year fixed mortgage rate to fall to 3.87 percent, its lowest level since November 2016. . . . Consumers continue to act on these lower rates, but the volatility in the market is likely leading some borrowers to pause refinancing and buying decisions."

"The refinance share of mortgage activity decreased to 60.4 percent of total applications from 62.4 percent the previous week. The average contract interest rate for 30-year fixed-rate mortgages with conforming loan balances ($484,350 or less) decreased to 3.87 percent from 3.94 percent; the average contract interest rate for 30-year fixed-rate mortgages with jumbo loan balances (greater than $484,350) increased to 3.94 percent from 3.89 percent."

Freddie Mac

Thursday, Primary Mortgage Market Survey: "Mortgage rates continued the summer swoon due to weaker economic data. While economic growth is clearly slowing due to rising manufacturing and trade headwinds, economic fundamentals are still solid for U.S. consumers. The unemployment rate is low, housing affordability is improving, homebuyer demand is rising, and home price growth is stable." The U.S. weekly average rate on a 30-year fixed-rate mortgage was 3.49% (with 0.5 points), down 0.09% from the previous week and a full point lower than one year ago.