Economic Update, October 27, 2017
Submitted by Michael Mount

Summary

I'd like to thank Dr. Kyle for all his work on this report as I take over the weekly duty. I'll keep most things the same for now, but one change is that I've added petroleum and natural gas reports. In my previous job, I was an economist working for the natural gas and electricity regulator in Kansas. If anyone is interested in a topic that's not being covered, let me know.

Slow but steady growth continues with real GDP increasing 3.0% for the third quarter of 2017. US employment growth in the next decade is expected to average 0.7% per year, according to the Bureau of Labor Statistics, better than the 0.5% average for the previous decade. Of course, the previous decade's average was pulled down by the 2007-2009 recession. One thing I'll be monitoring is potential economic "shocks" that could drive us into the next recession. In 2007, I heard about the massive increase in sub-prime mortgages but didn't think much about it.

Census Bureau

Wednesday, Advance Report on Durable Goods Manufacturers' Shipments, Inventories, and Orders: "New orders for manufactured durable goods in September increased $5.1 billion or 2.2 percent to $238.7 billion. . . . Shipments of manufactured durable goods in September, up four of the last five months, increased $2.4 billion or 1.0 percent to $240.5 billion. . . . Unfilled orders for manufactured durable goods in September, up following two consecutive monthly decreases, increased $2.8 billion or 0.2 percent to $1,135.1 billion. . . . Inventories of manufactured durable goods in September, up fourteen of the last fifteen months, increased $2.4 billion or 0.6 percent to $403.6 billion. . . . Nondefense new orders for capital goods in September increased $4.3 billion or 6.1 percent to $74.9 billion."

Wednesday, New Residential Sales: "Sales of new single-family houses in September 2017 were at a seasonally adjusted annual rate of 667,000. . . . This is 18.9 percent above the revised August rate of 561,000 and is 17.0 percent above the September 2016 estimate of 570,000. . . . The median sales price of new houses sold in September 2017 was $319,700. The average sales price was $385,200. . . . The seasonally-adjusted estimate of new houses for sale at the end of September was 279,000. This represents a supply of 5.0 months at the current sales rate."

Thursday, Advance Economic Indicator (International Trade, Retail and Wholesale): "The international trade deficit was $64.1 billion in September, up $0.8 billion from $63.3 billion in August. . . . Wholesale inventories for September, adjusted for seasonal variations but not for price changes, were $609.1 billion, up 0.3 percent from August 2017 and up 4.6 percent from September 2016. . . . Retail inventories for September, adjusted for seasonal variations but not for price changes, were $618.0 billion, down 1.0 percent from August 2017 and up 2.1 percent from September 2016."

Bureau of Labor Statistics

Tuesday, Employment Projections and Occupational Outlook Handbook: "Employment is projected to increase by 11.5 million over the 2016-26 decade, an increase from 156.1 million to 167.6 million. . . . This growth—0.7 percent annually—is faster than the 0.5 percent rate of growth during the 2006–16 decade, a period heavily affected by the 2007–09 recession. Health care industries and their associated occupations are expected to account for a large share of new jobs projected through 2026, as the aging population continues to drive demand for health care services. The labor force will continue to grow slowly and to become older and more diverse. The aging population is projected to result in a decline in the overall labor force participation rate over the 2016 to 2026 decade."

US Department of Labor

Thursday, Initial Claims: "In the week ending October 21, the advance figure for seasonally adjusted initial claims for unemployment insurance was 233,000, an increase of 10,000 from the previous week's revised level. The previous week's level was revised up by 1,000 from 222,000 to 223,000. The 4-week moving average was 239,500, a decrease of 9,000 from the previous week's revised average. The previous week's average was revised up by 250 from 248,250 to 248,500."

Bureau of Economic Analysis

Friday, Gross Domestic Product: "Real gross domestic product (GDP) increased at an annual rate of 3.0 percent in the third quarter of 2017. . . . The increase in real GDP in the third quarter reflected positive contributions from personal consumption expenditures, private inventory investment, nonresidential fixed investment, exports, and federal government spending. These increases were partly offset by negative contributions from residential fixed investment and state and local government spending. Imports, which are a subtraction in the calculation of GDP, decreased."

Federal Reserve

Monday, Chicago Fed National Activity Index: "Led by improvements in production-related indicators, the Chicago Fed National Activity Index (CFNAI) moved up to +0.17 in September from –0.37 in August. All four broad categories of indicators that make up the index increased from August, and three of the four categories made positive contributions to the index in September. . . . A zero value for the monthly index has been associated with the national economy expanding at its historical trend (average) rate of growth; negative values with below-average growth . . . and positive values with above-average growth."

Redbook Research

Tuesday, Johnson Redbook Index: "The Johnson Redbook Index measures the growth in the U.S. retail sales. The index is based on the sales data of around 9,000 large general merchandise retailers representing over 80 percent of the equivalent 'official' retail sales series collected and published by the US Department of Commerce." The Census Bureau publishes its retail sales numbers monthly, so Redbook is a timelier indicator of consumers' willingness to spend. For now, it's above average. "Redbook Index in the United States increased by 3.50 percent in the week ending October 21, 2017, over the same week in the previous year. Redbook Index in the United States averaged 2.26 percent from 2005 until 2017, reaching an all-time high of 7.60 percent in March of 2005 and a record low of -5.80 percent in July of 2009."

IHS Markit Economics

Tuesday, Purchasing Managers' Index (PMI) Composite Flash: "U.S. private sector growth accelerates to nine-month high in October, partly driven by a rebound in manufacturing." The index is 55.7 (up from 54.8 in September), a 9-month high. An index of 50 means no change. According to Tim Moore, associate director at IHS Markit, "the main near-term concern for manufacturers is that national supply chain pressures remain the most widespread since those recorded after heavy snowfall in early-2014. In particular, survey respondents pointed to depleted inventories among suppliers, ongoing transport delays and sharply rising raw material prices during October."

Mortgage Bankers Association

Wednesday, Mortgage Applications: "Mortgage applications decreased 4.6 percent from one week earlier, according to data . . . for the week ending October 20, 2017. The previous week's results included an adjustment for the Columbus Day holiday."

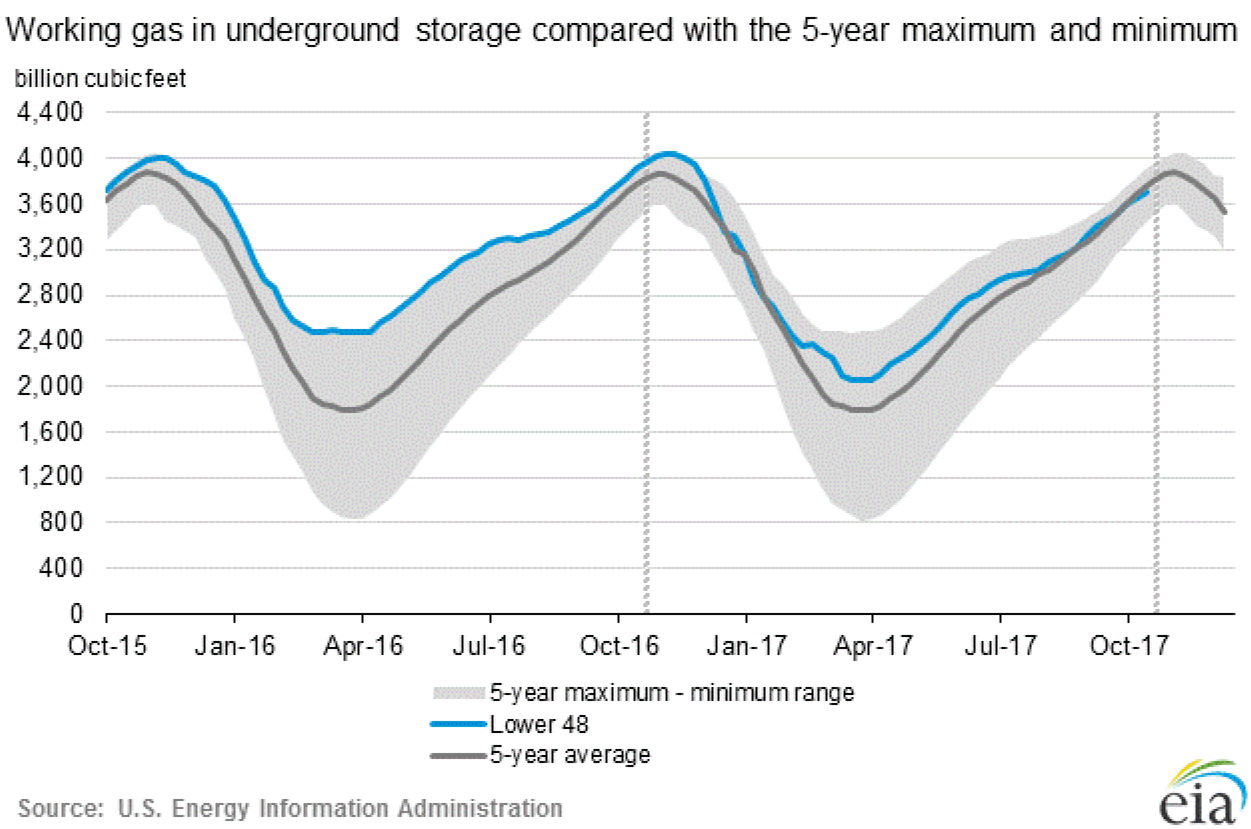
Federal Housing Finance Agency (FHFA)

Wednesday, FHFA House Price Index: "U.S. house prices rose in August, up 0.7 percent from the previous month. . . . The previously reported 0.2 percent increase in July was revised upward to 0.4 percent."

US Energy Information Administration

Wednesday, Petroleum Status Report: "U.S. crude oil refinery inputs averaged over 16.0 million barrels per day during the week ending October 20, 2017, 586,000 barrels per day more than the previous week's average. Refineries operated at 87.8% of their operable capacity last week. Gasoline production decreased last week, averaging over 9.9 million barrels per day. Distillate fuel production increased last week, averaging 4.8 million barrels per day."

Thursday, Natural Gas Report: "Working gas in storage was 3,710 [billion cubic feet (Bcf)] as of Friday, October 20, 2017, according to EIA estimates. This represents a net increase of 64 Bcf from the previous week. Stocks were 189 Bcf less than last year at this time and 46 Bcf below the five-year average of 3,756 Bcf. At 3,710 Bcf, total working gas is within the five-year historical range." Natural gas is stored underground to meet demand for winter heating. Here's what that looks like:



Bloomberg

Thursday, Consumer Comfort Index: "Americans' confidence held steady last week, remaining near the highest level of the expansion, as faith in the buying climate improved while views on the economy deteriorated." Overall, the index decreased to 51 this week from 51.1 last week.

National Association of Realtors

Wednesday, Pending Home Sales: "Pending home sales were unchanged in September, but activity declined on an annual basis both nationally and in all major regions." The index "was at 106.0 in September (unchanged from a downwardly revised August figure). The index is now at its lowest reading since January 2015 (104.7), is 3.5 percent below a year ago, and has fallen on an annual basis in five of the past six months." According to Lawrence Yun, NAR chief economist, the quest to buy a home continues to be challenging: "Demand exceeds supply in most markets, which is keeping price growth high and essentially eliminating any savings buyers would realize from the decline in mortgage rates from earlier this year. While most of the country, except for the South, did see minor gains in contract signings last month, activity is falling further behind last year's pace because new listings aren't keeping up with what's being sold."

University of Michigan

Friday, Consumer Sentiment Index: "Consumer sentiment slipped ever so slightly in late October, despite remaining at its highest monthly level since the start of 2004. This is only the second time the Sentiment Index has been above 100.0 since the end of the record 1990's expansion, and its average during the first ten months of 2017 (96.7) has been the highest since 2000 (108.5). The October gain was reflected in more favorable consumers' assessments of current economic conditions (+4.8) as well as expected economic prospects (+6.1). Personal finances were judged near all-time record favorable levels due to gains in household incomes as well as decade highs in home and stock values. Lingering doubts about the near term strength of the national economy were dispelled as more than half of all respondents expected good times during the year ahead and anticipated the expansion to continue uninterrupted over the next five years. To be sure, consumers do not anticipate accelerating growth rates but rather a continuation of the slower pace of growth that has characterized this recovery. Low unemployment and low inflation rates have made lower income growth rates more acceptable. Moreover, the Great Recession has caused a fundamental change in assessments of economic risks, with consumers now giving greater preference to economic stability relative to economic growth. This is the essential reason why consumers have voiced such positive economic assessments of such a modest pace of economic growth. Overall, the data indicate a 2.6% growth rate in real consumption in 2017 and in the first half of 2018."

Bureau of Transportation Statistics

Tuesday, North American Freight Data: "U.S.-NAFTA freight totaled $97.4 billion as all five major transportation modes carried more freight by value with North American Free Trade Agreement (NAFTA) partners Canada and Mexico in August 2017 compared to August 2016. . . . The 4.6 percent rise from August 2016 is the 10th consecutive month in which the year-over-year value in current dollars of U.S.-NAFTA freight increased from the same month of the previous year."