Economic Update, October 11, 2019
Submitted by Bob Moreo

Summary: Consumers continue to prop up the economy. Reports this week showed Americans—including first-time homebuyers—taking advantage of another drop in mortgage rates, and consumer sentiment increased, while inflation and real average hourly earnings remained unchanged. But two-thirds of economists surveyed by The Wall Street Journal said the U.S. manufacturing sector is in a recession, and overall growth is expected to slow in the second half of this year. Although measures of optimism among small business owners remain solid from a historical perspective, they decreased in September and are consistent with slower growth. With the GM-UAW labor dispute ending its fourth week, CNBC reported on Friday that "General Motors sweetened its latest contract offer to the United Auto Workers by upping the amount of money it's committing to invest in U.S. factories to $7.7 billion." A GM spokesperson said the offer "commits to thousands of new jobs right here in the U.S. and billions of dollars in new investments."

Friday afternoon it was announced that the U.S. and China have reached a limited trade deal. Although details have yet to be finalized, they reportedly include an agreement from China to purchase up to $50 billion in U.S. agricultural products and an agreement from the U.S. to hold off on plans to increase tariffs on $250 billion of Chinese goods.

Bureau of Labor Statistics

Tuesday, Producer Price Index: "The Producer Price Index for final demand decreased 0.3 percent in September. . . . The index for final demand services fell 0.2 percent in September following a 0.3-percent increase in August. . . . The index for final demand goods decreased 0.4 percent in September after a 0.5-percent drop in August."

Wednesday, Job Openings and Labor Turnover: "The number of job openings was little changed at 7.1 million on the last business day of August." However, year-over-year job openings declined 4 percent from August 2018, the third straight month it has declined. "Over the month, hires edged down to 5.8 million and separations were little changed at 5.6 million. Within separations, the quits rate was little changed at 2.3 percent, and the layoffs and discharges rate was unchanged at 1.2 percent. . . . Over the 12 months ending in August, hires totaled 69.5 million and separations totaled 67.1 million, yielding a net employment gain of 2.4 million."

Chart 1. Job openings rate, seasonally adjusted, August 2016 - August 2019

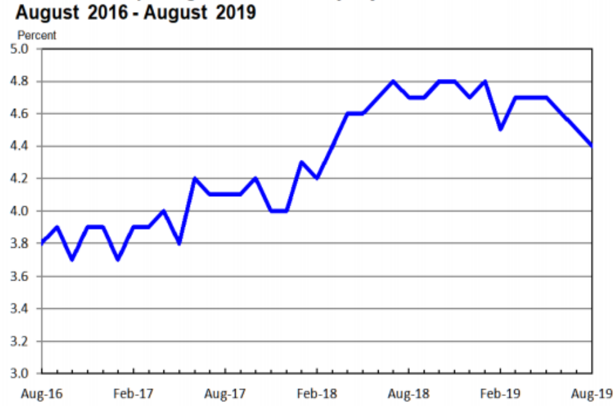
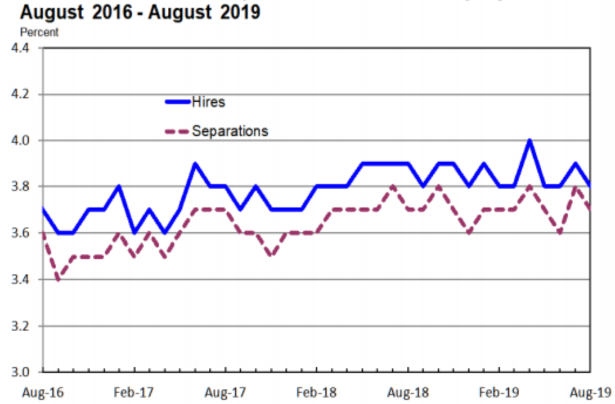


Chart 2. Hires and total separations rates, seasonally adjusted, August 2016 - August 2019



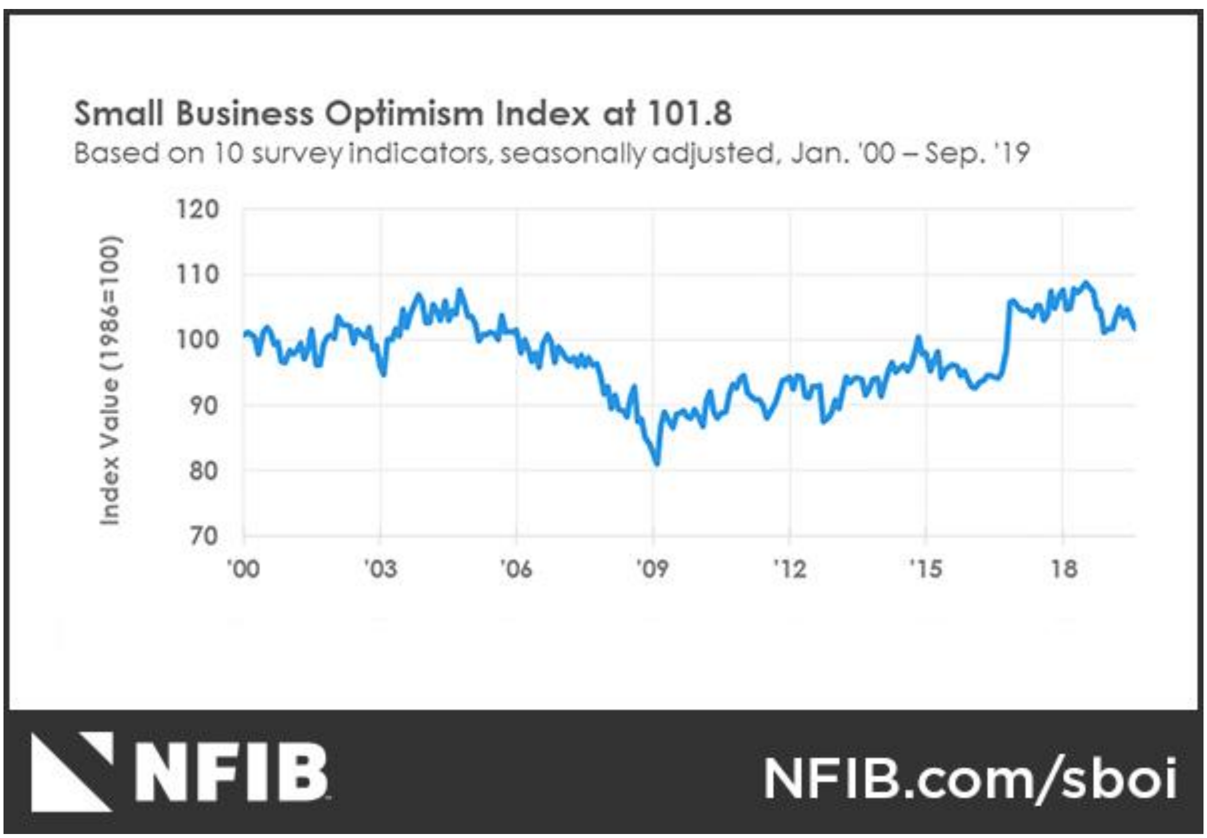
Thursday, Consumer Price Index: "The Consumer Price Index for All Urban Consumers (CPI-U) was unchanged in September on a seasonally adjusted basis after rising 0.1 percent in August. Over the last 12 months, the all items index increased 1.7 percent before seasonal adjustment. . . . The index for all items less food and energy rose 0.1 percent in September after increasing 0.3 percent in each of the last 3 months. . . . The index for all items less food and energy rose 2.4 percent over the last 12 months."

Thursday, [Real Hourly Earnings](): "Real average hourly earnings for all employees were unchanged from August to September. . . . This result stems from no change in average hourly earnings combined with no change in the Consumer Price Index. . . . Real average hourly earnings increased 1.2 percent, seasonally adjusted, from September 2018 to September 2019." Real average hourly earnings for all employees on private nonfarm payrolls, seasonally adjusted, were $10.96 in September 2019.

Friday, [U.S. Import and Export Price Indexes](): "U.S. import prices increased 0.2 percent in September . . . following a 0.2-percent decline the previous month. The advance in September was driven by higher fuel prices; prices for nonfuel goods edged down 0.1 percent. The price index for U.S. exports fell 0.2 percent in September, after decreasing 0.6 percent in August."

National Federation of Independent Business

Tuesday, [Small Business Optimism Index](): "The small business Optimism Index maintained a historically solid reading, but took a dip in September, falling 1.3 points to 101.8. September's figure falls within the top 20% of all readings in the Index's 46-year history. The survey shows no sign of a recession and indicated continued job creation, capital spending, and inventory investment, all consistent with solid, but slower growth. . . . 'As small business owners continue to invest, expand, and try to hire, they're doing so with less gusto than they did earlier in the year, thanks to the mixed signals they're receiving from policymakers and politicians,' said NFIB President and CEO Juanita D. Duggan. 'All indications are that owners are eager to do more, but they're uncertain about what the future holds and can't find workers to fill the jobs they have open.'"



Census Bureau

Wednesday, [Wholesale Trade Sales and Inventories]: "August 2019 sales of merchant wholesalers . . . were $499.1 billion, virtually unchanged from the revised July level, but were down 0.7 percent from the August 2018 level. . . . Total inventories of merchant wholesalers . . . were $680.7 billion at the end of August, up 0.2 percent from the revised July level. Total inventories were up 6.2 percent from the revised August 2018 level."

Mortgage Bankers Association

Wednesday, Mortgage Applications: "The Market Composite Index, a measure of mortgage loan application volume, increased 5.2 percent on a seasonally adjusted basis from one week earlier." According to Joel Kan, Associate Vice President of Economic and Industry Forecasting, "U.S. Treasury rates moved sharply lower last week, as data showing weakness in the services sector was a sign that slowing economic growth is not confined to the manufacturing sector. This in turn caused a flight to safety by investors, resulting in mortgage rates dropping across the board, with the 30-year fixed rate decreasing nine basis points to 3.9 percent—the lowest level in a month." The average 15-year fixed-rate mortgage decreased to 3.35 percent from 3.43 percent.

U.S. Department of Labor

Thursday, Initial Claims: "In the week ending October 5, the advance figure for seasonally adjusted initial claims was 210,000, a decrease of 10,000 from the previous week's revised level. . . . The 4-week moving average was 213,750, an increase of 1,000 from the previous week's revised average."

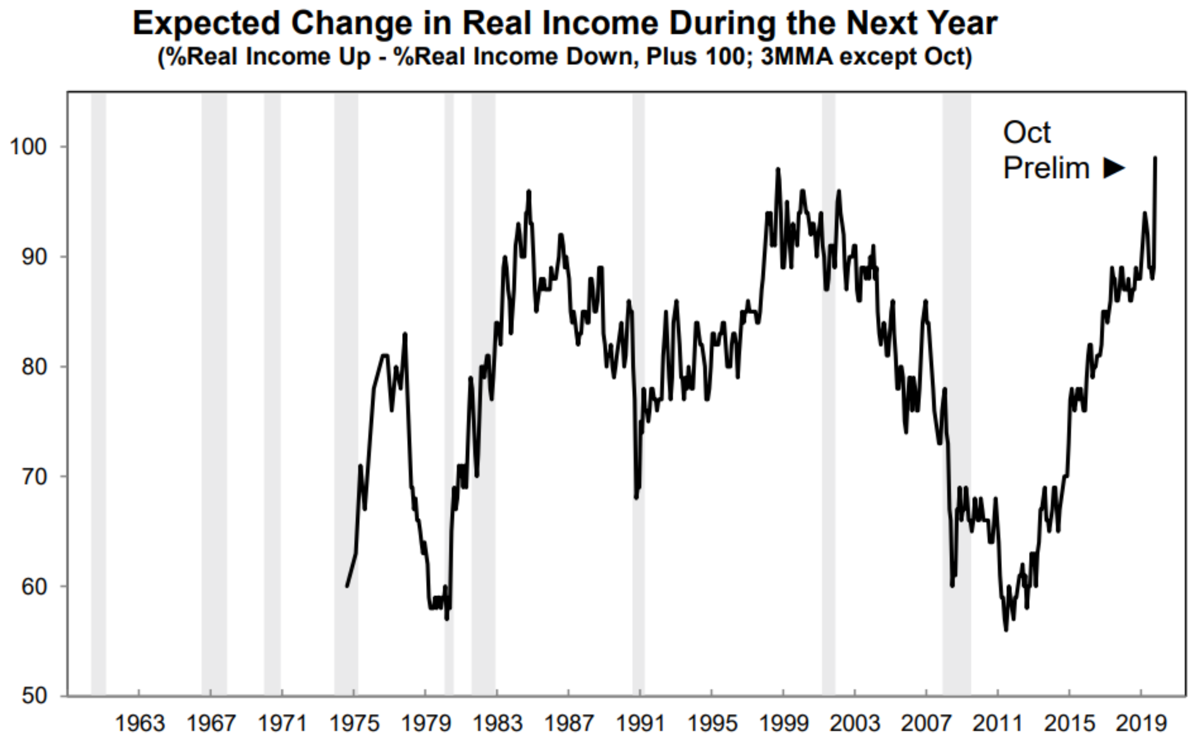
Freddie Mac

Thursday, Primary Mortgage Market Survey: "Despite the economic slowdown due to weakening manufacturing and corporate investment, the consumer side of the economy remains on solid ground. The fifty-year low in the unemployment rate combined with low mortgage rates has led to increased homebuyer demand this year. Much of this strength is coming from entry-level buyers—the first-time homebuyer share of the loans Freddie Mac purchased in 2019 is forty-six percent, a two-decade high." The U.S. weekly averages as of October 10, 2019 were as follows:

30-Yr FRM	15-Yr FRM	5/1-Yr ARM
3.57%	3.05%	3.35%
0.08 1-Wk	0.09 1-Wk	0.03 1-Wk
1.33 1-Yr	1.24 1-Yr	0.72 1-Yr
0.6 Fees/Points	0.5 Fees/Points	0.30 Fees/Points

University of Michigan

Friday, Consumer Sentiment: The preliminary index for October 2019 increased to 96.0 from 93.2 in September. According to Surveys of Consumers chief economist, Richard Curtin, "Sentiment rebounded in early October as consumers anticipated larger income gains and lower inflation during the year ahead. As a result, real income expectations rose to their most favorable level in two decades (see the chart). Stronger finances and lower interest rates helped to modestly bolster buying plans. . . . A slower pace of overall economic growth is still anticipated, including some modest increases in the national unemployment rate during the year ahead. . . . Overall, the data indicate that consumption spending will be strong enough to offset weakness in business investment spending so as to keep the economy expanding into 2020."



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Federal Reserve Board

Wednesday, Minutes of the FOMC, September 17-18, 2019: Minutes released by the Federal Reserve this week from last month's policy meeting revealed a divide within the central bank about future policy. "In projections that accompanied the September statement, seven of the Fed's 17 policymakers indicated they forecast one more rate cut this year," Reuters reported on Wednesday. "Five policymakers did not see any more cuts needed and the other five projected a rate rise by the end of 2019. Investors overwhelmingly expect another rate cut at the next meeting on Oct. 29-30."

Friday, Statement Regarding Monetary Policy Implementation: "To ensure that the supply of reserves remains ample, the Committee approved . . . the following steps:

- In light of recent and expected increases in the Federal Reserve's non-reserve liabilities, the Federal Reserve will purchase Treasury bills at least into the second quarter of next year in order to maintain over time ample reserve balances at or above the level that prevailed in early September 2019.
- In addition, the Federal Reserve will conduct term and overnight repurchase agreement operations at least through January of next year to ensure that the supply of reserves remains ample even during periods of sharp increases in non-reserve liabilities, and to mitigate the risk of money market pressures that could adversely affect policy implementation."