

The Virginia Tech – U.S. Forest Service

September 2018

Housing Commentary: Section II



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2018

Virginia Polytechnic Institute and State University

VCE-CNRE NP

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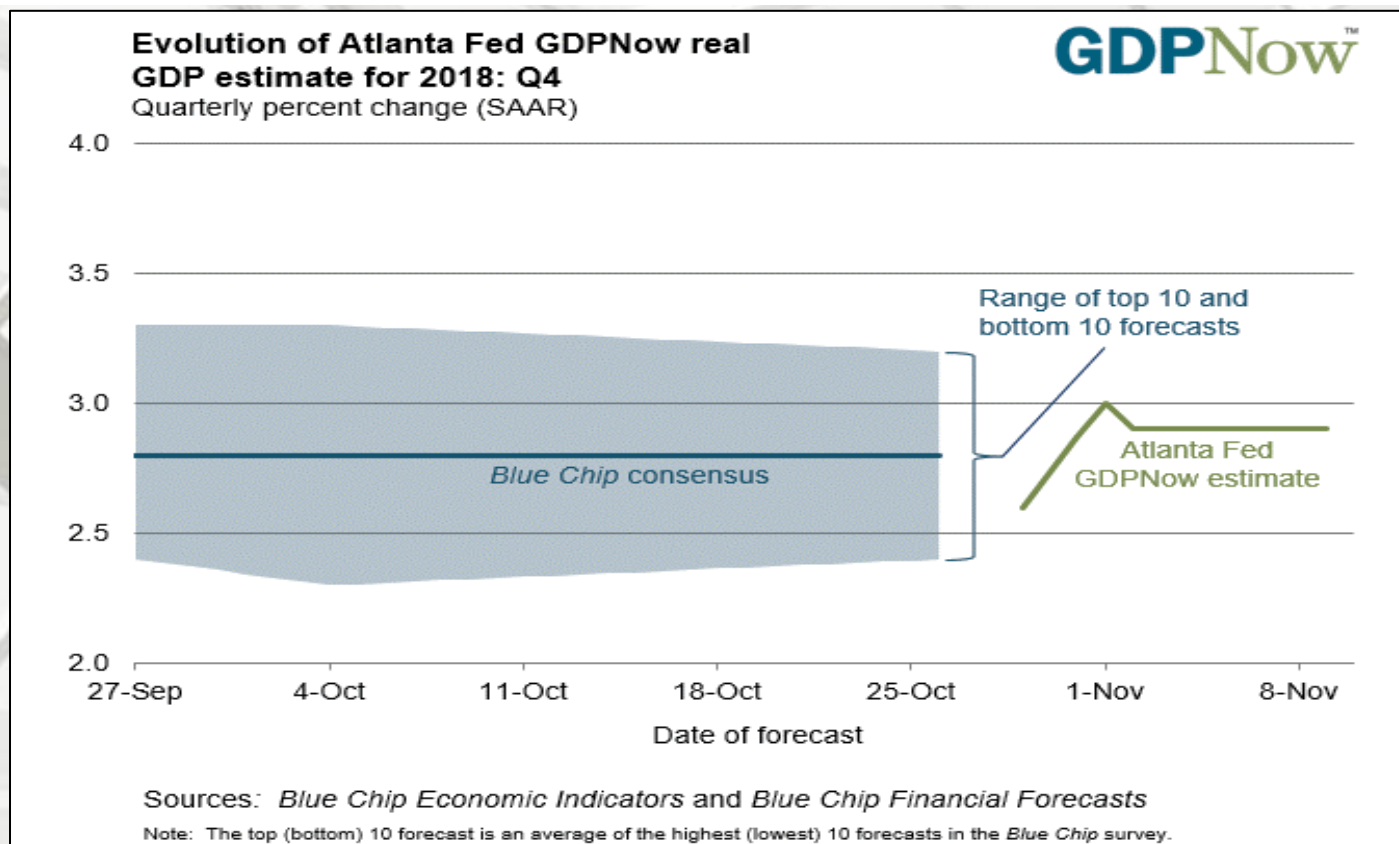
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U.S. Economic Indicators



Atlanta Fed GDPNow™

Latest forecast: 2.9 percent — November 9, 2018

“The GDPNow model estimate for real GDP growth (seasonally adjusted annual rate) in the fourth quarter of 2018 is **2.9 percent** on November 9, unchanged from November 2. The nowcast of the contribution of inventory investment to fourth-quarter real GDP growth inched down from -0.05 percentage points to -0.08 percentage points after this morning's Producer Price Index release from the U.S. Bureau of Labor Statistics and this morning's wholesale trade report from the U.S. Census Bureau.” – Pat Higgins, Economist, Federal Reserve Bank of Atlanta

U.S. Economic Indicators

The Federal Reserve Bank of Atlanta Beige Book: Firms Struggling to Find Hourly Workers

“As businesses in the Southeast struggle to fill low-skill jobs, some firms say they plan to move to places with larger pools of available workers, according to the Federal Reserve Bank of Atlanta's new Beige Book report Off-site link on regional economic conditions.

Atlanta Fed business contacts report that overall economic activity continued to expand moderately over the past month and a half. And the outlook among companies for the rest of the year remains positive, despite unease over trade policy.

Hiring challenges persist

As has been the case for about three years, firms report challenges in hiring. At first, companies mostly struggled to recruit and retain people in specialized technical fields. However, employers have more recently faced particular challenges in hiring for low-skill and hourly positions. In addition to considering relocations, firms say they are reducing their hiring standards and requirements or seeking ways to use automation instead of workers.

Meanwhile, some contacts continue to report growing pressure to raise wages. Nevertheless, according to the Beige Book, firms were offering raises greater than 2 to 3 percent only to certain groups of workers. Overall, firms continued to "approach compensation creatively," offering more worker flexibility and using bonuses, incentive pay, profit sharing, or other forms of temporary compensation.” – Charles Davidson, Staff writer, *Economy Matters*, The Federal Reserve Bank of Atlanta

U.S. Economic Indicators

The Federal Reserve Bank of Atlanta

“In other economic sectors, the Beige Book finds:

- The summer 2018 tourism season was better than that of 2017. In Florida, hotel occupancy and average rate charged per room topped expectations. However, a “red tide,” a toxic algae bloom that feeds on various pollutants near the coastline, killed hundreds of thousands of fish on the Florida Gulf Coast and diminished tourism during August. The tourism outlook across the Southeast is mixed for the rest of 2018, as some locales expect improved business while others do not.
- Residential real estate contacts report modest growth, but homebuilders continue to report that a lack of available lots has hindered their ability to meet demand.
- Demand for commercial real estate remained strong across the Southeast. At the same time, many commercial construction contacts say uncertainty about rising materials costs is making it harder to bid on and finish projects. On the whole, though, the outlook for nonresidential and apartment construction remains positive across the region.
- Air cargo contacts say domestic business is up because of increased e-commerce shipments. Their exports to Europe softened, and cargo volume from Latin America was robust.
- Among manufacturers, activity is strong but tariff concerns tempered the outlook. Slightly less than one-third of contacts expect higher production during the next six months.
- Tariffs are also a concern among some energy industry contacts, who worry that duties on steel and aluminum could affect the viability of plant expansion and construction projects in Louisiana.” – Charles Davidson, Staff writer, *Economy Matters*, The Federal Reserve Bank of Atlanta

U.S. Economic Indicators



Beige Book

August 2018



Businesses across the District continued to report some increases in nonlabor **input costs**.



Manufacturing activity was solid. Firms noted strength in new orders and production levels.



Labor market growth in select regions was being restrained by firms' inability to recruit staff.



District **tourism and hospitality** contacts reported a strong summer season compared to the same time last year.



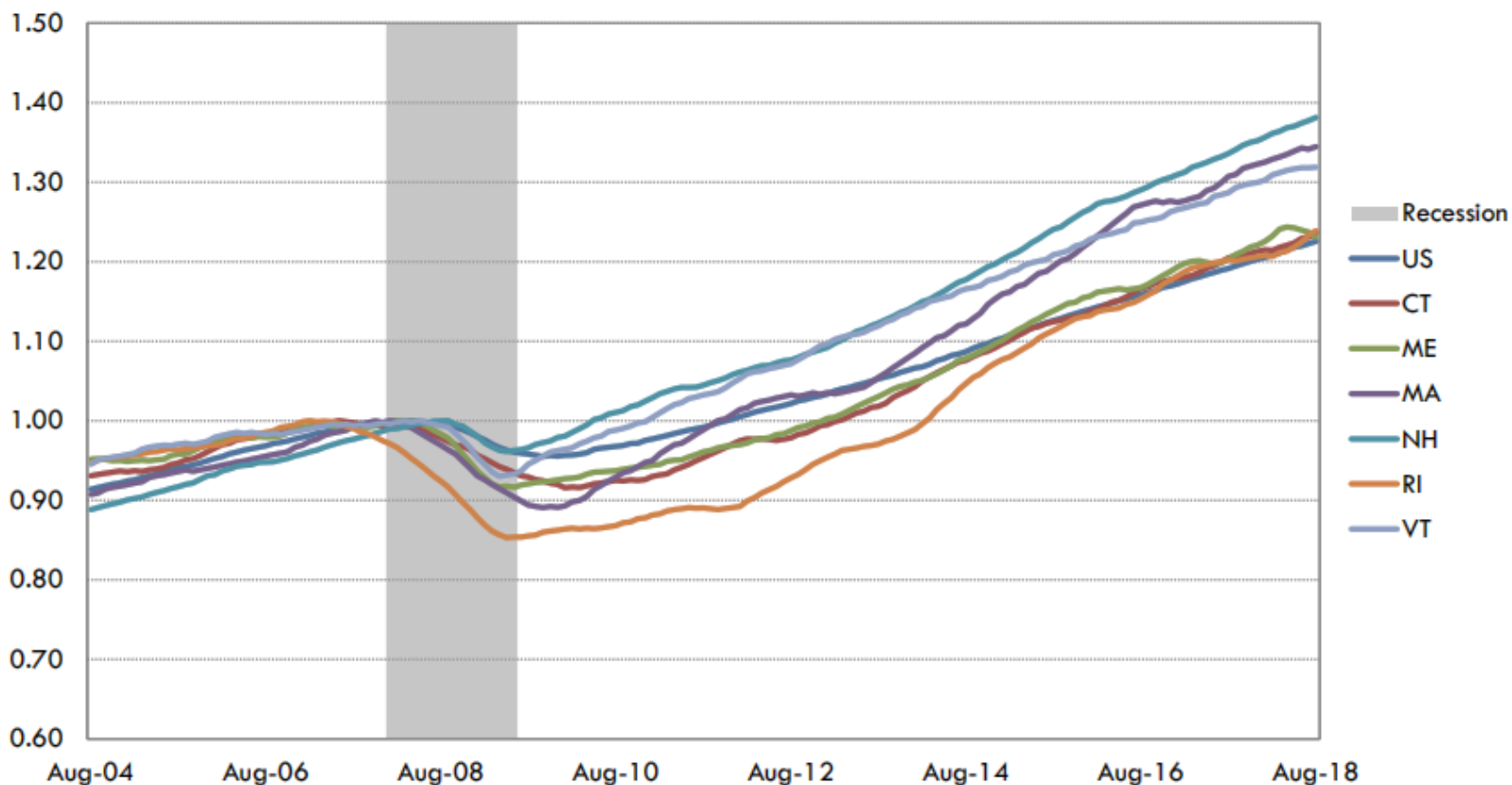
District **transportation** contacts noted increased activity during the reporting period.



On balance, reports from District residential **real estate** contacts indicated modest but ongoing growth.

The Federal Reserve Bank of Boston: New England Economic Update - October 2018

Economic Activity: Robust Net Growth From Pre-Recession Peak



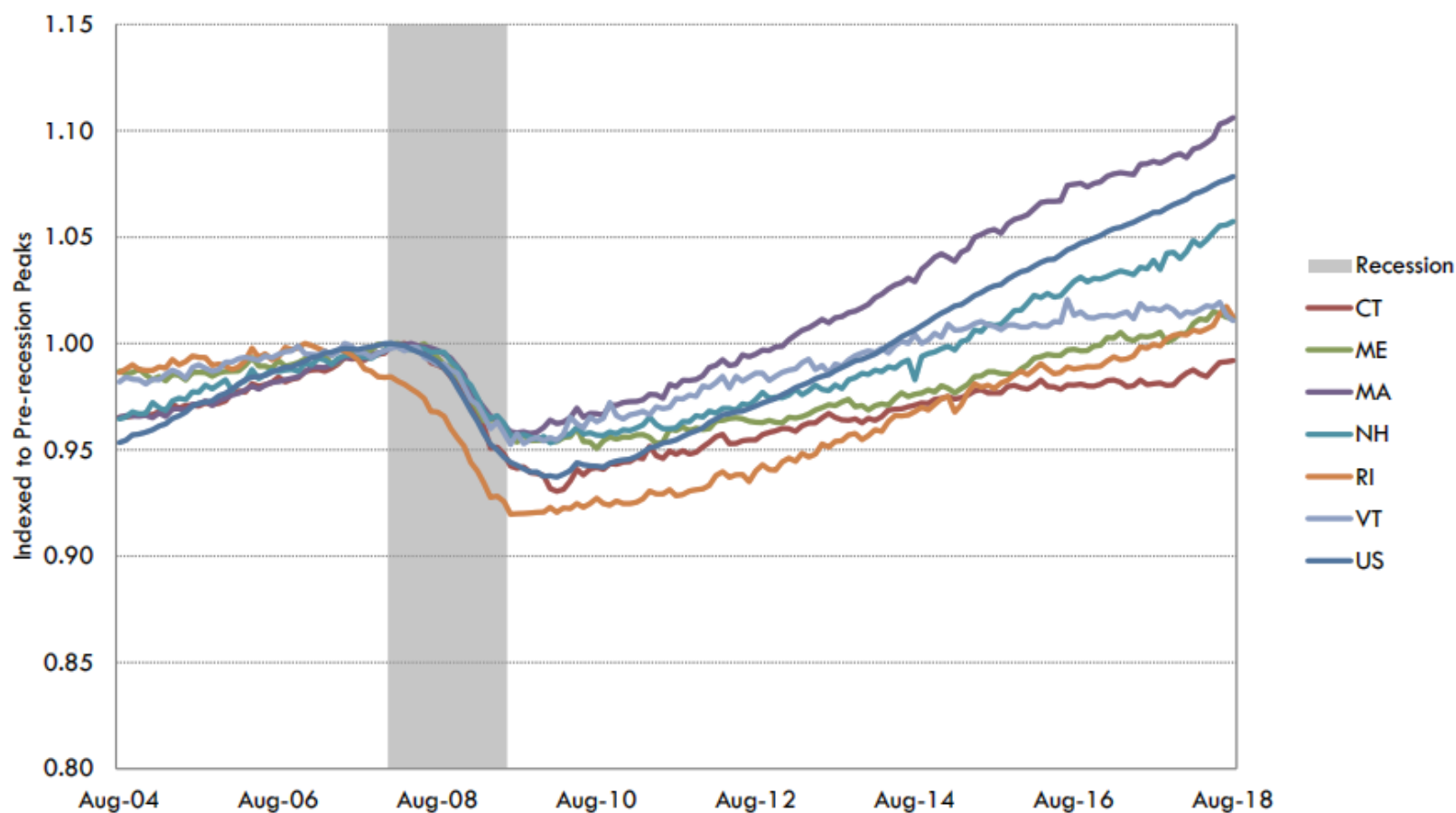
Sources: Federal Reserve Bank of Philadelphia, NBER, Haver Analytics

Source: <https://www.bostonfed.org/-/media/Documents/neppc/burke101818.pdf>; 10/18/18

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The Federal Reserve Bank of Boston: New England Economic Update - October 2018

MA Leads Region in Job Growth Since 2007; Outpaces U.S.



Sources: Bureau of Labor Statistics, NBER, Haver Analytics

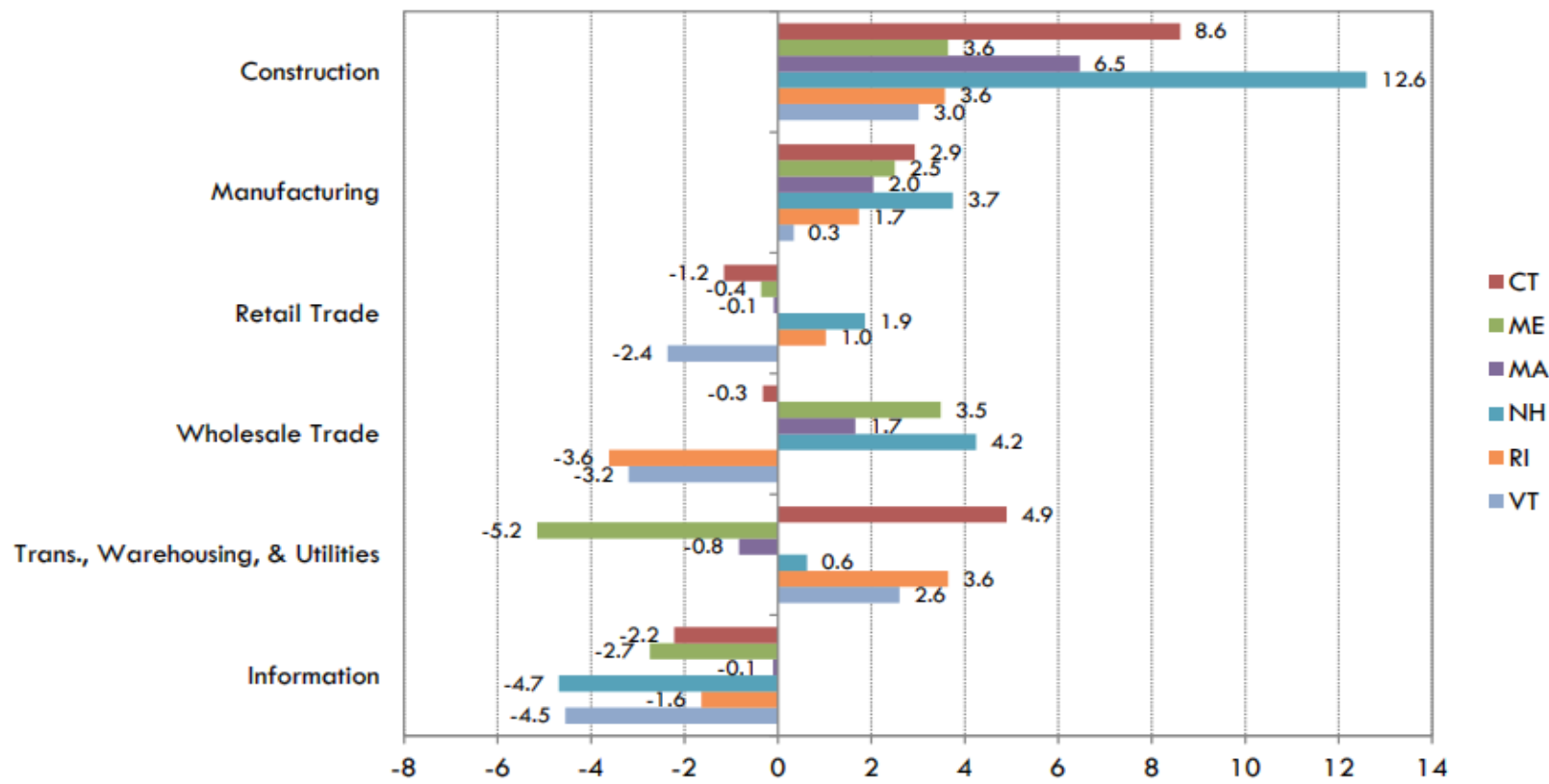
Source: <https://www.bostonfed.org/-/media/Documents/neppc/burke101818.pdf>; 10/18/18

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The Federal Reserve Bank of Boston: New England Economic Update - October 2018

Construction Jobs Booming, Information Receding...

Percent Change, August 2017 - August 2018



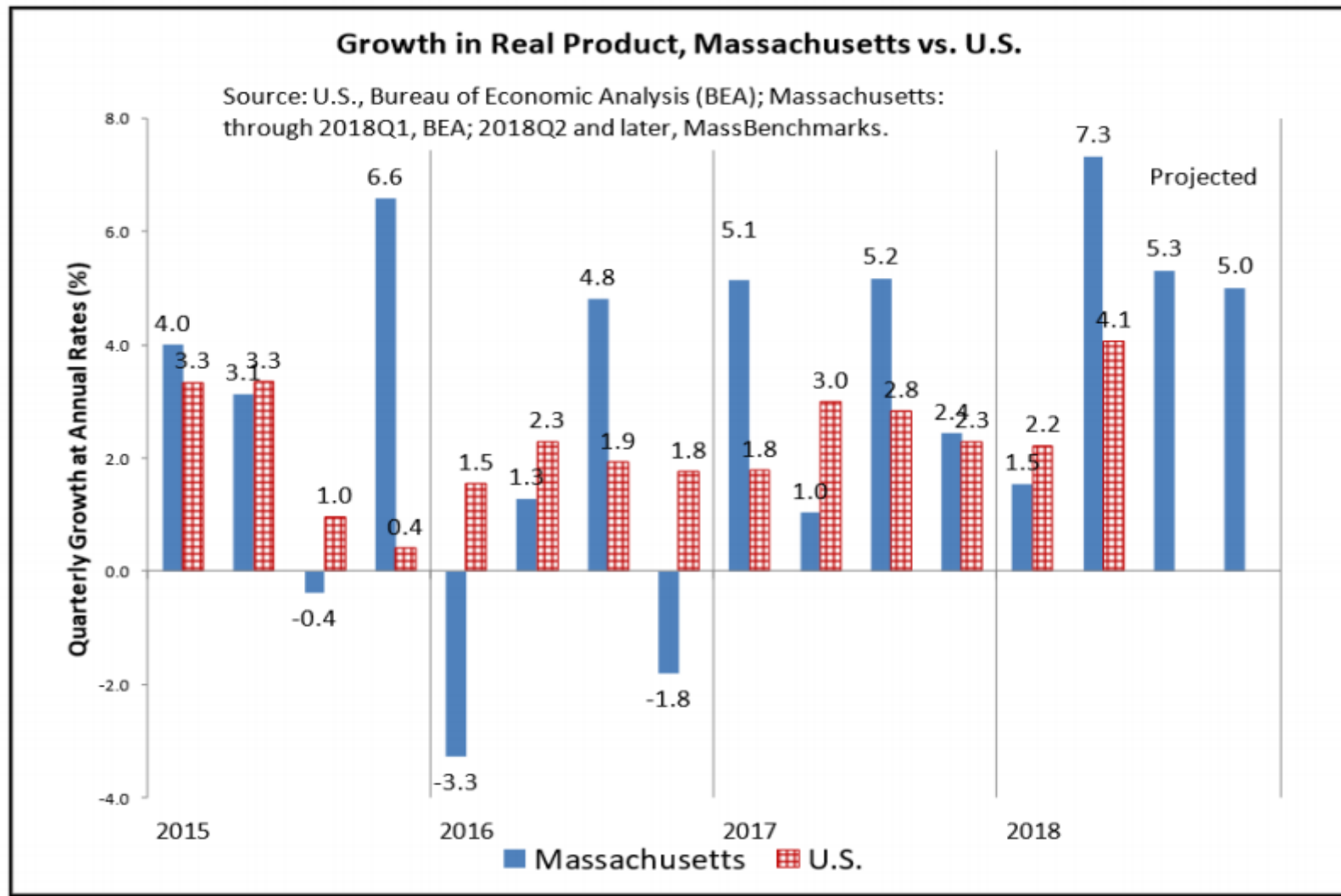
Sources: Bureau of Labor Statistics, NBER, Haver Analytics

Source: <https://www.bostonfed.org/-/media/Documents/neppc/burke101818.pdf>; 10/18/18

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The Federal Reserve Bank of Boston: New England Economic Update - October 2018

MA Econ. Growth Forecast Very Strong

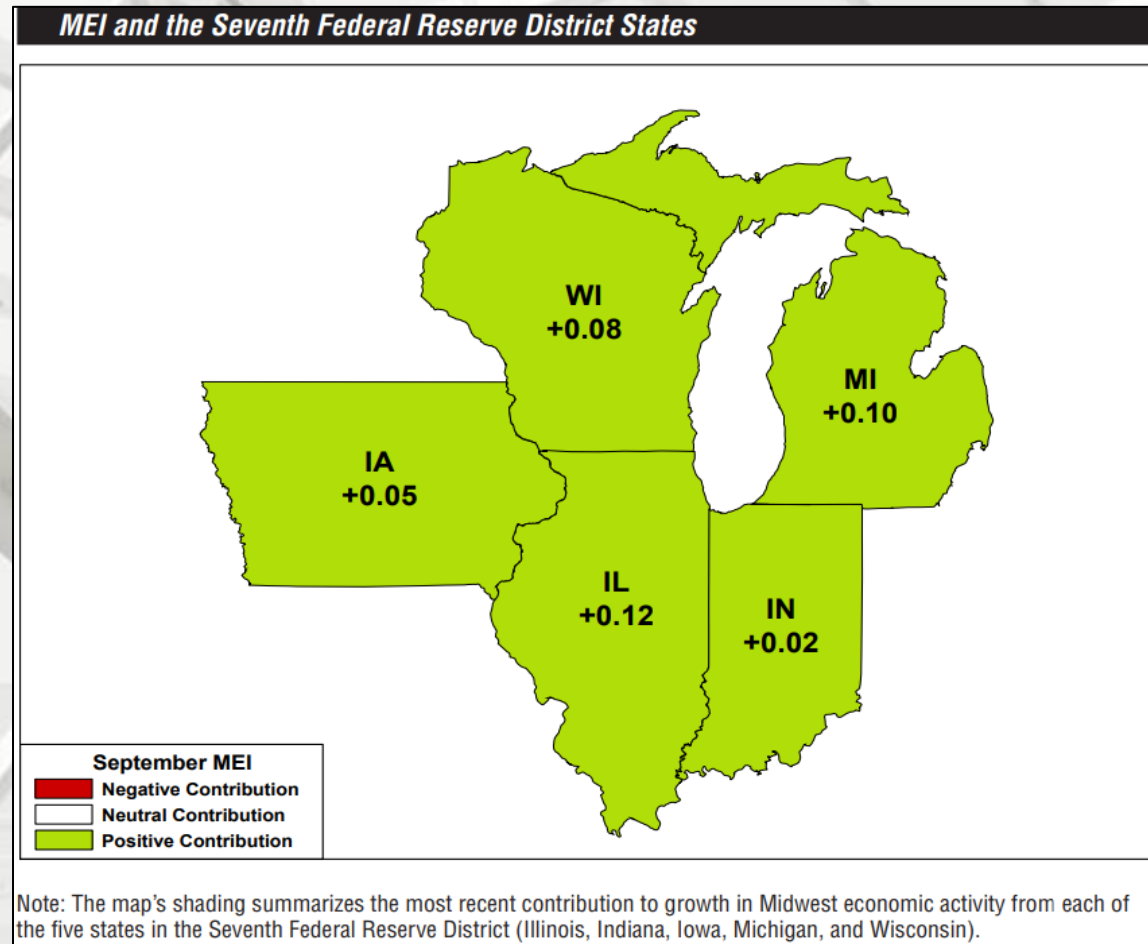


The Federal Reserve Bank of Boston: New England Economic Update - October 2018

Risks to the Outlook

- **“Risks for the region**
 - Restraints on labor force growth
 - Tighter immigration policy
 - Domestic out-migration, aging population
 - High rents
 - Aging infrastructure
 - Fiscal stress in most states
- **Macro risks**
 - Upside: tax cuts, consumer confidence
 - Downside: tariffs, rising interest rates” – Mary Burke, Senior Economist, New England Public Policy Center, The Federal Reserve Bank of Boston

The Federal Reserve Bank of Chicago : Midwest Economy Index



Index Points to steady Midwest economic growth in September

The Midwest Economy Index (MEI) was unchanged at +0.37 in September. Contributions to the September MEI from one of the four broad sectors of nonfarm business activity and one of the five Seventh Federal Reserve District states increased from August. The relative MEI fell to -0.06 in September from +0.35 in August. Contributions to the September relative MEI from all four sectors and four of the five states decreased from August.” – Laura LaBarbera, Media Relations, The Federal Reserve Bank of Chicago

The Federal Reserve Bank of Chicago: Midwest Economy Index

Index Points to Steady Midwest Economic Growth in September

“The manufacturing sector’s contribution to the MEI ticked down to +0.34 in September from +0.35 in August. The pace of manufacturing activity decreased in Wisconsin, but increased in Illinois and Michigan and was unchanged in Indiana and Iowa.

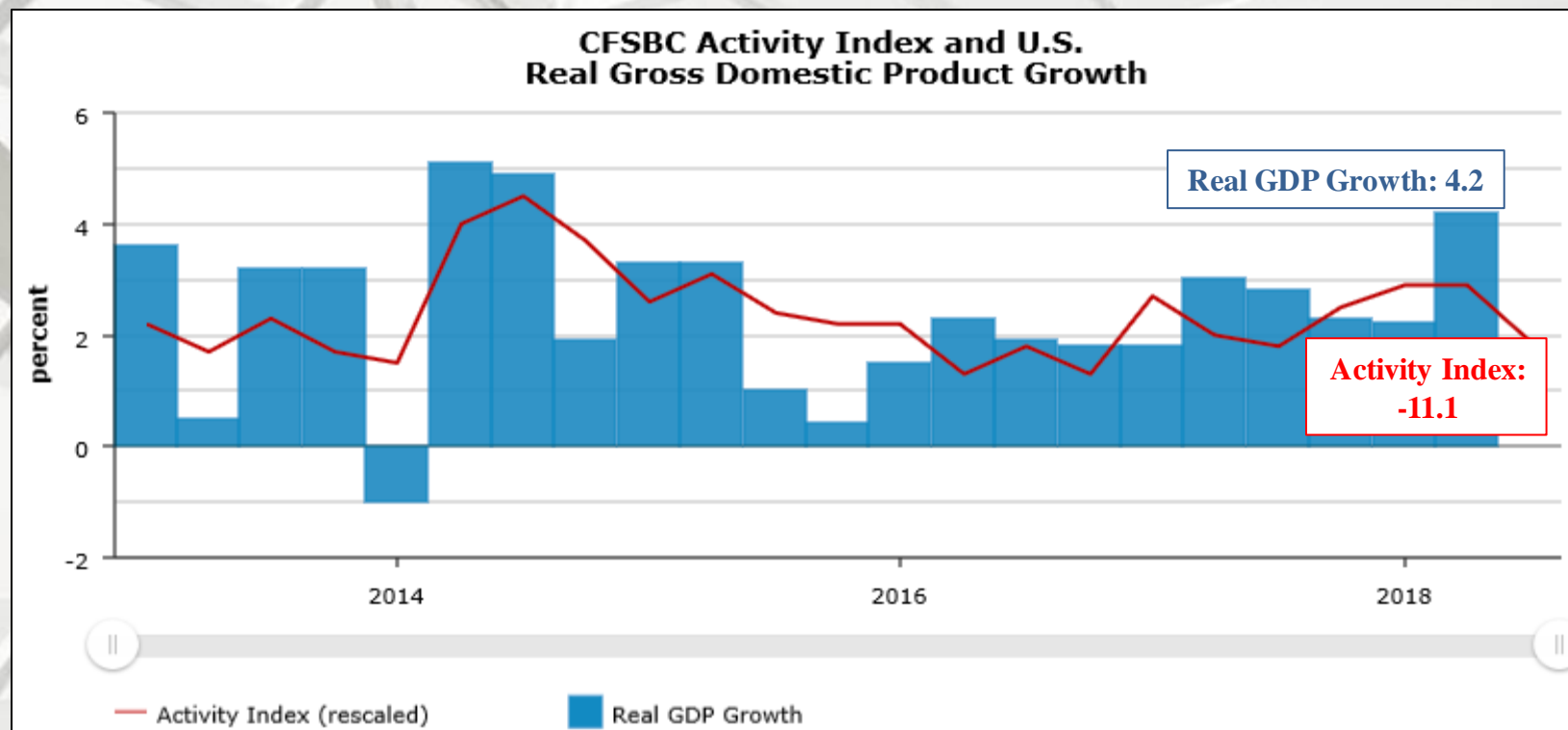
Manufacturing’s contribution to the relative MEI decreased to +0.19 in September from +0.40 in August.

The construction and mining sector contributed +0.03 to the MEI in September, up slightly from +0.02 in August. The pace of construction and mining activity was faster in Indiana, but slower in Iowa and Michigan and unchanged in Illinois and Wisconsin. The contribution from construction and mining to the relative MEI ticked down to +0.05 in September from +0.07 in August.

The service sector’s contribution to the MEI was unchanged at –0.06 in September. The pace of service sector activity was down in Illinois, Iowa, and Michigan, but up in Indiana and Wisconsin. The service sector’s contribution to the relative MEI moved down to –0.29 in September from –0.18 in August. The contribution from consumer spending indicators to the MEI was unchanged at +0.06 in September.

Consumer spending indicators were, on balance, up in Iowa, but down in Illinois and Wisconsin and steady in Indiana and Michigan. Consumer spending’s contribution to the relative MEI edged down to –0.01 in September from +0.05 in August.” – Laura LaBarbera, Media Relations, The Federal Reserve Bank of Chicago

The Federal Reserve Bank of Chicago: Survey of Business Conditions

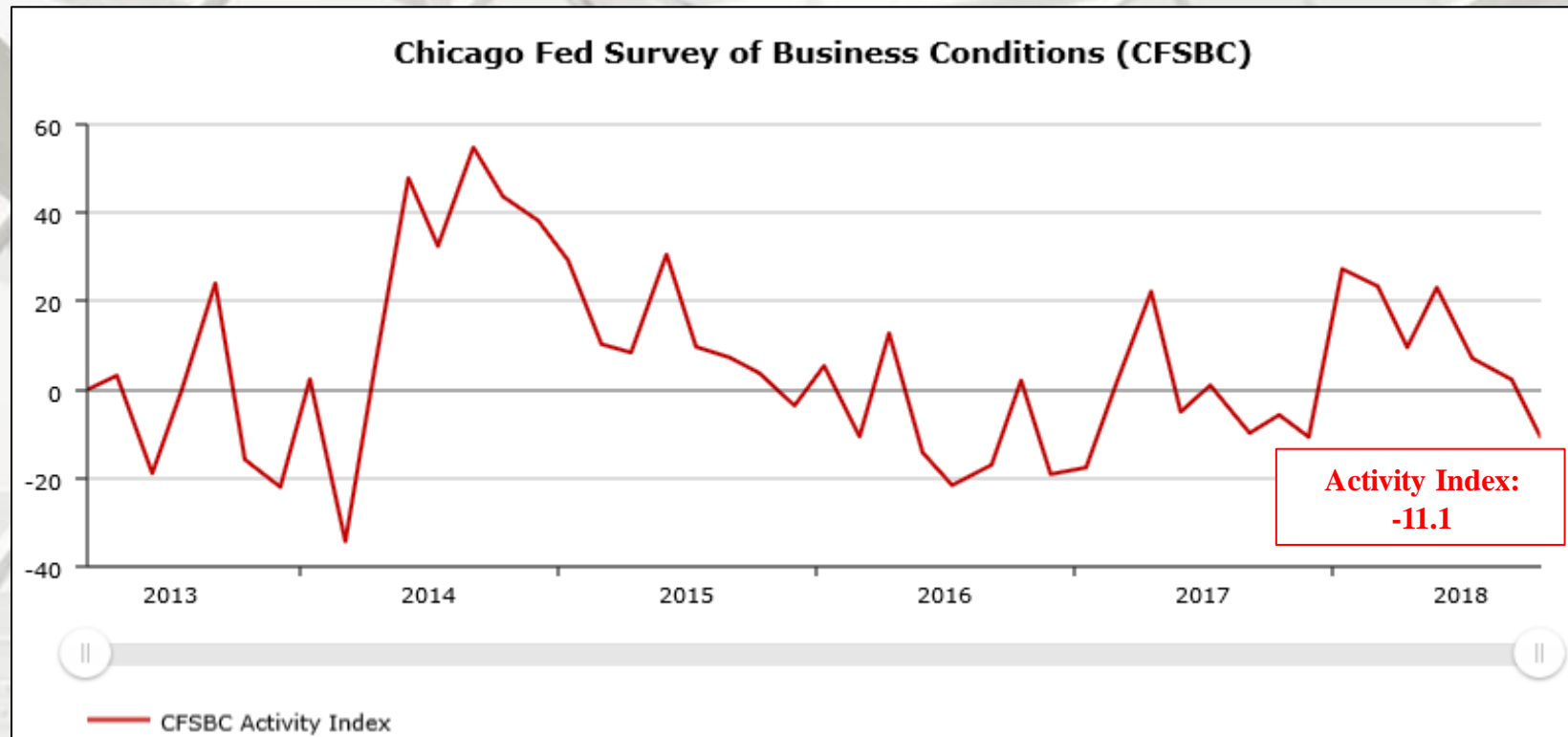


Notes: Real gross domestic product (GDP) growth is presented at an annualized quarterly rate. The CFSBC Activity Index is converted from a biquarterly to quarterly frequency by taking the quarterly average of the available data. After averaging, the CFSBC Activity Index values are rescaled by taking the fitted values from a regression of GDP growth on the CFSBC Activity Index.— The Federal Reserve Bank of Chicago

Survey shows growth slowed in late August and September

“The *Chicago Fed Survey of Business Conditions* (CFSBC) Activity Index moved down to -11 from $+2$, suggesting that growth in economic activity slowed to a modest pace in late August and September. The CFSBC Manufacturing Activity Index was unchanged at $+4$, while the CFSBC Nonmanufacturing Activity Index decreased to -17 from $+2$.” — Laura LaBarbera, Media Relations, Federal Reserve Bank of Chicago

The Federal Reserve Bank of Chicago: Survey of Business Conditions



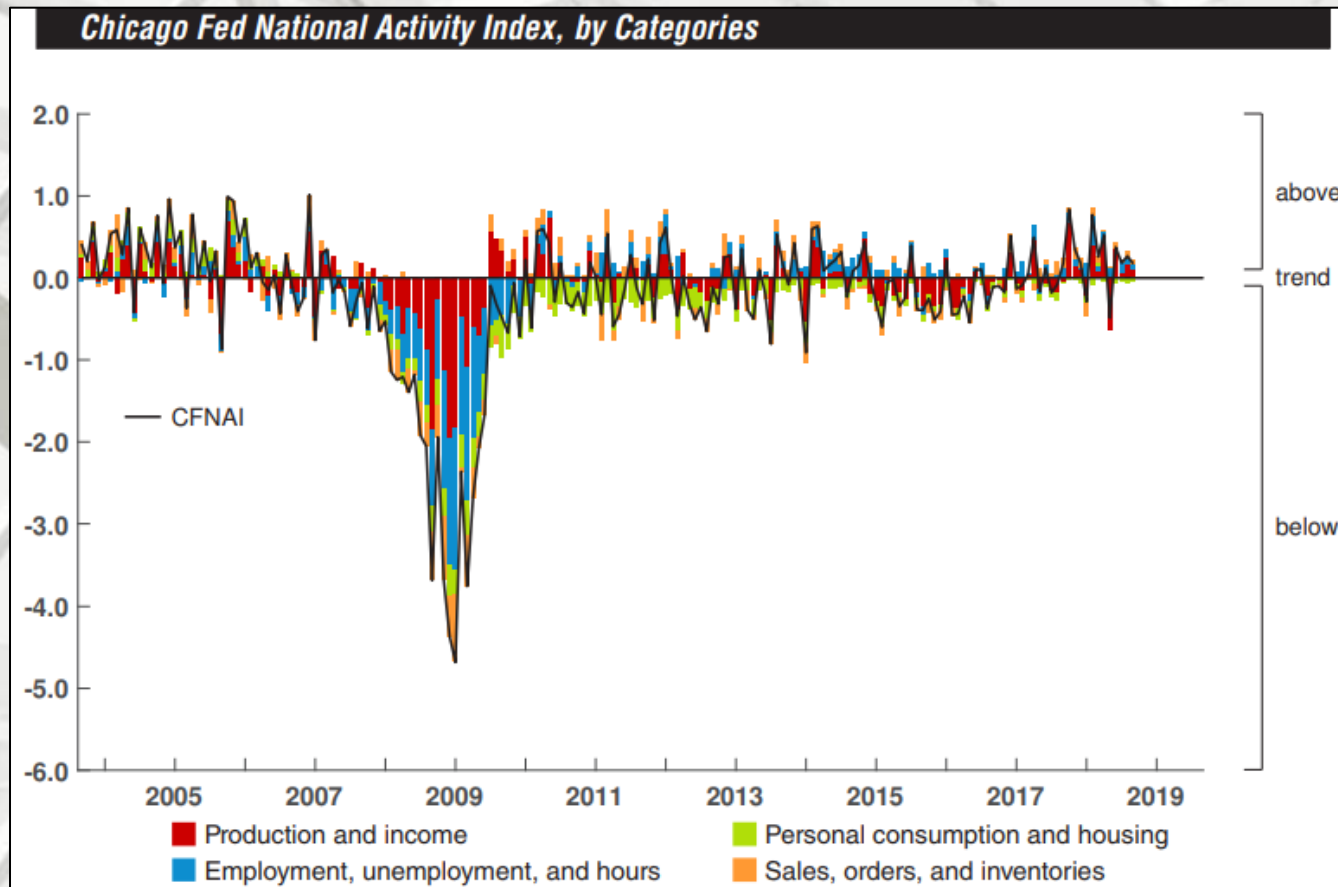
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The Federal Reserve Bank of Chicago: Survey of Business Conditions

Survey shows growth slowed in late August and September

- “Respondents’ outlooks for the U.S. economy for the next six to 12 months deteriorated, but remained optimistic on balance. Respondents with optimistic outlooks highlighted good economic data, growing demand for their firms’ products, and the federal tax reform. Respondents with pessimistic outlooks highlighted elevated policy uncertainty under the current U.S. presidential administration, particularly in regard to trade policy; rising interest rates; and concerns that the housing market was slowing.
- The pace of current hiring slowed, as did respondents’ expectations for the pace of hiring over the next six to 12 months. The hiring index moved into negative territory, while the hiring expectations index remained negative.
- The pace of current capital spending decreased, as did respondents’ expectations for the pace of capital spending over the next six to 12 months. Both capital spending indexes moved into negative territory.
- The wage and nonwage cost pressures indexes both decreased, but remained positive.” – Laura LaBarbera, Media Relations, The Federal Reserve Bank of Chicago

The Federal Reserve Bank of Chicago: National Activity Index



Index Points to a moderation in economic growth in September

“The Chicago Fed National Activity Index (CFNAI) decreased to +0.17 in September from +0.27 in August. Two of the four broad categories of indicators that make up the index decreased from August, but three of the four categories made positive contributions to the index in September. The index’s three-month moving average, CFNAI-MA3, moved down to +0.21 in September from +0.27 in August.” – Graham Justice, Media Relations, The Federal Reserve Bank of Chicago

The Federal Reserve Bank of Chicago: National Activity Index

Index Points to a moderation in economic growth in September

“The contribution from production-related indicators to the CFNAI moved down to +0.11 in September from +0.16 in August. Industrial production increased 0.3 percent in September after rising 0.4 percent in August. The sales, orders, and inventories category made a contribution of +0.05 to the CFNAI in September, down from +0.10 in August. The Institute for Supply Management’s Manufacturing New Orders Index decreased to 61.8 in September from 65.1 in August.

Employment-related indicators contributed +0.07 to the CFNAI in September, up slightly from +0.06 in August. The civilian unemployment rate decreased to 3.7 percent in September from 3.9 percent in August; however, nonfarm payrolls increased by 134,000 in September after rising by 270,000 in the previous month. The contribution of the personal consumption and housing category to the CFNAI edged up to –0.05 in September from –0.06 in August. On balance, consumption indicators improved slightly from August, pushing up the category’s overall contribution in September

The CFNAI was constructed using data available as of October 18, 2018. At that time, September data for 51 of the 85 indicators had been published. For all missing data, estimates were used in constructing the index. The August monthly index value was revised to +0.27 from an initial estimate of +0.18, and the July monthly index value was unchanged at +0.18 from last month’s estimate. Revisions to the monthly index can be attributed to two main factors: revisions in previously published data and differences between the estimates of previously unavailable data and subsequently published data. The revision to the August monthly index value was primarily due to the former.” – Graham Justice, Media Relations, The Federal Reserve Bank of Chicago

The Federal Reserve Bank of Cleveland: Fourth District Beige Book

Summary of Economic Activity

“Business activity in the Fourth District grew modestly during the survey period and firms reported customer demand was stable. Reports suggest that hiring continued at about the same moderate pace as in recent months. Contacts reported ongoing shortages of both the quantity and quality of available labor and firms increased wages modestly to reduce worker turnover. Upward pressure on input costs was strong, notably for metals, construction materials, and fuel. Final selling prices increased as manufacturers, builders, and transportation firms raised their prices to cover their increased input costs. Manufacturing capacity utilization rose to keep up with strong demand. Freight demand plateaued at a high level and firms are increasingly feeling the pinch from limited trucking capacity. Retail demand, excluding autos, was flat. Nonresidential construction activity picked back up after a lull during the prior period.

Manufacturing

Manufacturing demand remained strong, and contacts cited strong economic fundamentals as the cause. Industrial equipment manufacturers reported strong demand from the automotive, agriculture, and construction equipment industries. Some steel and heavy equipment manufacturers noted that demand was down slightly compared with demand two months earlier, but it was particularly strong in the early summer months as customers sped up purchases ahead of anticipated price increases. Several contacts reported increased capacity utilization to keep up with strong demand, while long lead times and tariff-related gaps in supply chains have caused mismatches in inventories. Contacts reported that they have increased their capital expenditures to keep up with customer demand and to fill supply chain gaps left by suppliers' capacity constraints.” – The Federal Reserve Bank of Cleveland

The Federal Reserve Bank of Cleveland: Fourth District Beige Book

Employment and Wages

“District employers reported hiring activity that was broad-based across sectors and momentum that was similar to that in recent survey periods. Contacts generally reported business conditions that were favorable and stable as supporting their overall demand for workers. However, worker shortages, in terms of both quantity and quality, were noted across many sectors. One retailer remarked that the firm's headcount was unintentionally lower because it was losing warehouse workers faster than it can replace them. One trucking contact reported that it had 10 empty trucks because of its inability to find enough drivers with Class A commercial driver's licenses. Some manufacturers reported increases in overtime hours worked. In addition to limited labor supply, contacts noted that overall gains in staff levels were limited by high worker turnover.

Overall wage trends were comparable to those of recent survey periods, with many contacts reporting wage increases that were slightly above the rate of inflation. In every industry, contacts noted that increased competition was requiring their firms to boost wages to retain workers. Yet a number of contacts speculated the raises were not likely sufficient to stem worker turnover. There were a few cases in which wage increases were much stronger than average. One retailer gave a 9 percent raise to new and current staff in the hope that the higher wage will reduce turnover. One construction contact reported taking a more targeted approach by giving 10 percent to 15 percent raises on a case-by-case basis; firm-wide, wages were raised by only about 2 percent. In professional services, contacts reported using bonuses and non-wage components to increase compensation.” – The Federal Reserve Bank of Cleveland

The Federal Reserve Bank of Cleveland

Real Estate and Construction

“Homebuilders reported that demand fell modestly, but they do not expect demand to fall further in the near future. Homebuilders point to a decrease in home affordability as the primary driver of this demand decrease. Lower-priced homes are selling better than more expensive homes. Builders are reducing the number of spec homes they are building. Real estate contacts reported an increase in homeowners relative to renters. These contacts also reported stable housing inventory and consistent demand from first-time homebuyers. Nonresidential builders reported a pickup in demand after a lull during the prior period. Demand growth was driven by private spending; demand from the public side was still low. Builders note that backlogs are still high and pointing to strength in the broader economy, and they expect growth to continue in the near term. Nonresidential construction prices are rising as builders pass through increasing materials costs, especially for metals, but builders are not increasing their margins.

Financial and Nonfinancial Services

Bankers reported that overall conditions held steady during the last two months. Some contacts reported that demand for commercial and industrial loans softened as businesses shifted to cash earned in the strong economy while another noted increased activity in commercial real estate and in mergers and acquisitions. Mortgage demand and core deposits were a bit stronger than the previous survey period, but contacts noted that this strengthening may be a seasonal trend. Delinquency rates remained low; one contact reported that the delinquency rate was at a record low, suggesting that financial conditions are strong.

Nonfinancial services firms reported stronger demand as the macro economy continued its ascent. Business advisory and IT firms attributed the favorable business conditions to their clients enjoying tax savings, higher revenues, strong business confidence, and increased budgets for digital transformation. Contacts reported that plans for capital investments held steady. In the transportation sector, demand plateaued at a high level. Contacts reported that limited freight capacity continues to hamstring growth in the industry. One trucking contact noticed growing discontent among members along the food supply chain, from grain producers all the way to restaurants, about the limited availability of trucks to transport their goods. This contact also noted that these firms were all planning to pass rising transportation costs through to their customers in a variety of ways.” – The Federal Reserve Bank of Cleveland

The Federal Reserve Bank of Dallas

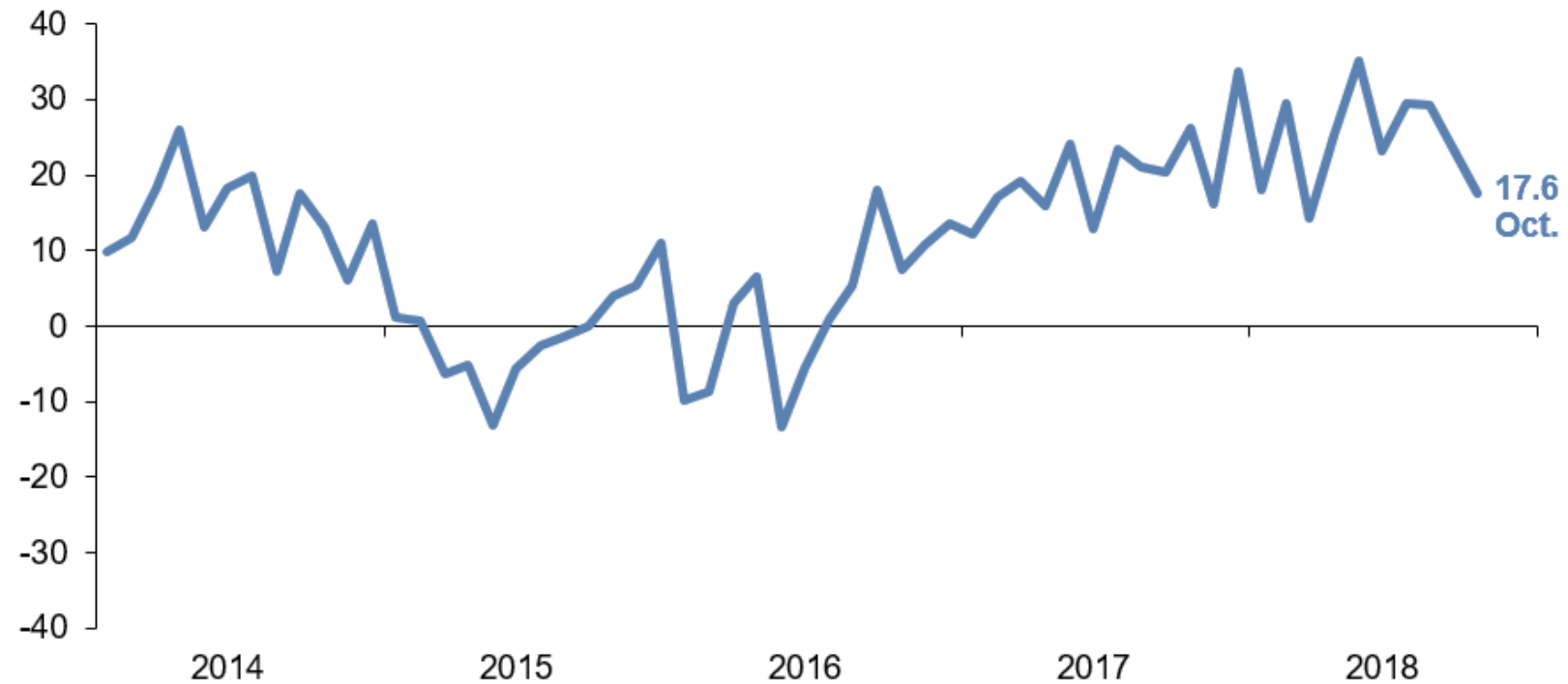
Texas Manufacturing Continues to Expand, but Pace Slows

- “Texas factory activity continued to expand in October, albeit at a slower pace, according to business executives responding to the *Texas Manufacturing Outlook Survey*. The production index, a key measure of state manufacturing conditions, was positive but declined another six points to 17.6, indicating output growth continued to abate.
- Some other indexes of manufacturing activity also suggested slower expansion in October. The capacity utilization index retreated six points to 15.4, while the shipments index fell four points to 16.6. Meanwhile, the new orders index rose — pushing up four points to 18.9 — and the growth rate of orders index held steady at 11.0.
- Perceptions of broader business conditions improved this month. The general business activity index inched up to 29.4, and the company outlook index climbed seven points to 25.0. Fewer than 3 percent of firms noted that their outlook worsened, the lowest share since 2004. The index measuring uncertainty regarding companies’ outlooks retreated 13 points to 6.9. ...
- Expectations regarding future business conditions remained positive in October. The indexes of future general business activity and future company outlook remained well above average and came in at 35.6 and 37.3, respectively. Other indexes for future manufacturing activity showed mixed movements this month but remained solidly in positive territory.” – Emily Kerr, Business Economist, The Federal Reserve Bank of Dallas

The Federal Reserve Bank of Dallas

Texas Manufacturing Outlook Survey Production Index

Index, seasonally adjusted



Federal Reserve Bank of Dallas

The Federal Reserve Bank of Dallas

Texas Service Sector Activity Expands at a Slower Pace

“Texas service sector activity continued to grow in October, according to business executives responding to the *Texas Service Sector Outlook Survey*. The revenue index, a key measure of state service sector conditions, fell from 26.9 in September to 19.4 in October.

Labor market indicators continued to reflect employment growth and longer workweeks this month. The employment index was mostly unchanged at 13.1, while the hours worked index also held steady at 6.2.

Perceptions of broader economic conditions reflected less optimism in October. The general business activity index plunged from 25.6 to 14.1, while the company outlook index declined 10 points to 11.2. Nevertheless, the outlook uncertainty index dipped slightly from 9.0 in September to 8.0 in October.

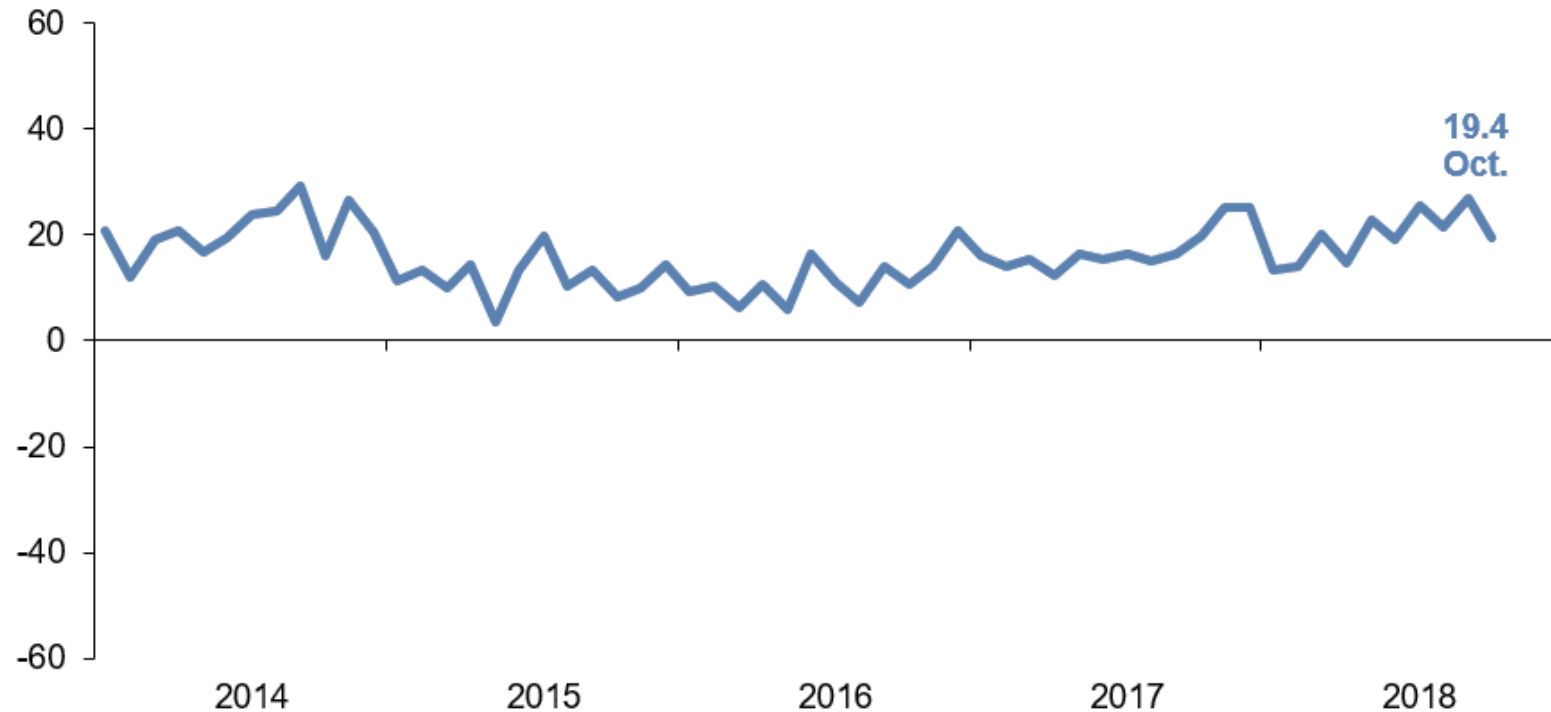
Price and wage pressures remained elevated this month. The wages and benefits index inched down from 21.6 to 20.2 in October. The selling price index was largely unchanged at 16.1.

Respondents’ expectations regarding future business conditions were positive but somewhat diminished compared with September. The future general business activity index fell seven points to 20.9, its lowest value in over a year, while the future company outlook index fell over five points to 22.8. Other indexes of future service sector activity, such as revenue and employment, continued to reflect optimism this month.” – Amy Jordan, Assistant Economist, The Federal Reserve Bank of Dallas

The Federal Reserve Bank of Dallas

Texas Service Sector Outlook Survey Revenue Index

Index, seasonally adjusted



Federal Reserve Bank of Dallas

The Federal Reserve Bank of Dallas

Retail Sales Increase at a Slower Pace

“Retail sales continued to grow in October but at a slower pace compared with September, according to business executives responding to the *Texas Retail Outlook Survey*. The sales index declined from 24.2 in September to 14.8 in October. Growth in inventories slowed significantly, with the inventories index plummeting over 16 points to 6.0.

Retail employment growth decelerated and workweeks continued to increase this month. The employment index declined sharply but remained positive at 5.6. The hours worked index was largely unchanged at 4.4.

Retailers’ perceptions of broader economic conditions reflected less optimism in October. The general business activity index plummeted from 21.2 to -1.1, while the company outlook index declined nearly 20 points to 2.8.

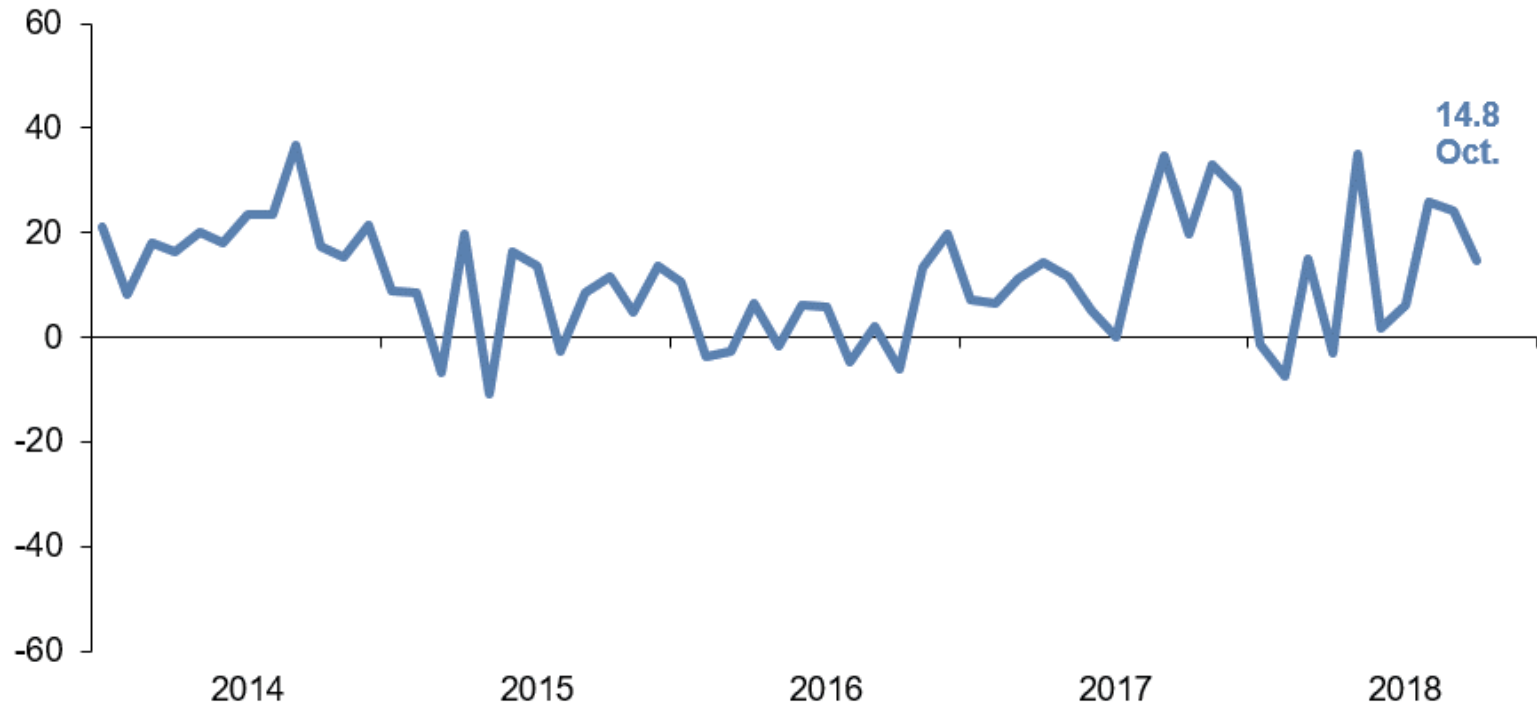
Retail price pressures eased but wage pressures increased in October. The selling prices index declined nearly 10 points but remained elevated at 19.7. The wages and benefits index increased from 15.0 to 17.5.

Retailers’ perceptions of future economic conditions softened considerably in October. The index of future general business activity declined 14 points to 6.8, its lowest reading in over a year. Future company outlooks were less optimistic, as the index declined nine points to 13.6. Other indexes of future retail sector activity, such as sales and employment, remained solidly in positive territory.” – Amy Jordan, Assistant Economist, The Federal Reserve Bank of Dallas

The Federal Reserve Bank of Dallas

Texas Retail Outlook Survey Sales Index

Index, seasonally adjusted



Federal Reserve Bank of Dallas

U.S. Economic Indicators

The Federal Reserve Bank of Kansas City

Tenth District Manufacturing activity expanded at a slower pace

“Tenth District manufacturing activity expanded at a slower pace in October compared with the rapid expansion earlier in the year. Expectations for future activity growth also eased slightly, but remained positive. Price indexes mostly declined from high levels in recent months.

The month-over-month composite index was 8 in October, down from 13 in September and 14 in August (Chart 1). The composite index is an average of the production, new orders, employment, supplier delivery time, and raw materials inventory indexes. The decline in factory growth was driven by slower expansion at durable goods plants, especially for machinery, computer and electronic products, and transportation equipment, while activity at nondurable goods plants increased. Month-over-month indexes were mixed in September, but positive overall. The production and new orders indexes declined slightly, while the order backlog and new orders for exports indexes inched up. The shipments and employment indexes both increased. The materials inventory index declined and the finished goods inventory index was unchanged from last month’s reading.

Most year-over-year factory indexes rose in October. The composite index grew from 41 to 45, and the production, shipments, new orders, and employment indexes all increased. In contrast, the new orders for exports index was unchanged, and the order backlog index inched lower. The capital expenditures index declined after a record posting last month. The finished goods and raw materials inventory indexes both came down somewhat, but remained high.” – Chad Wilkerson, Vice President and Oklahoma City Branch Executive, The Federal Reserve Bank of Kansas City

U.S. Economic Indicators

The Federal Reserve Bank of Kansas City

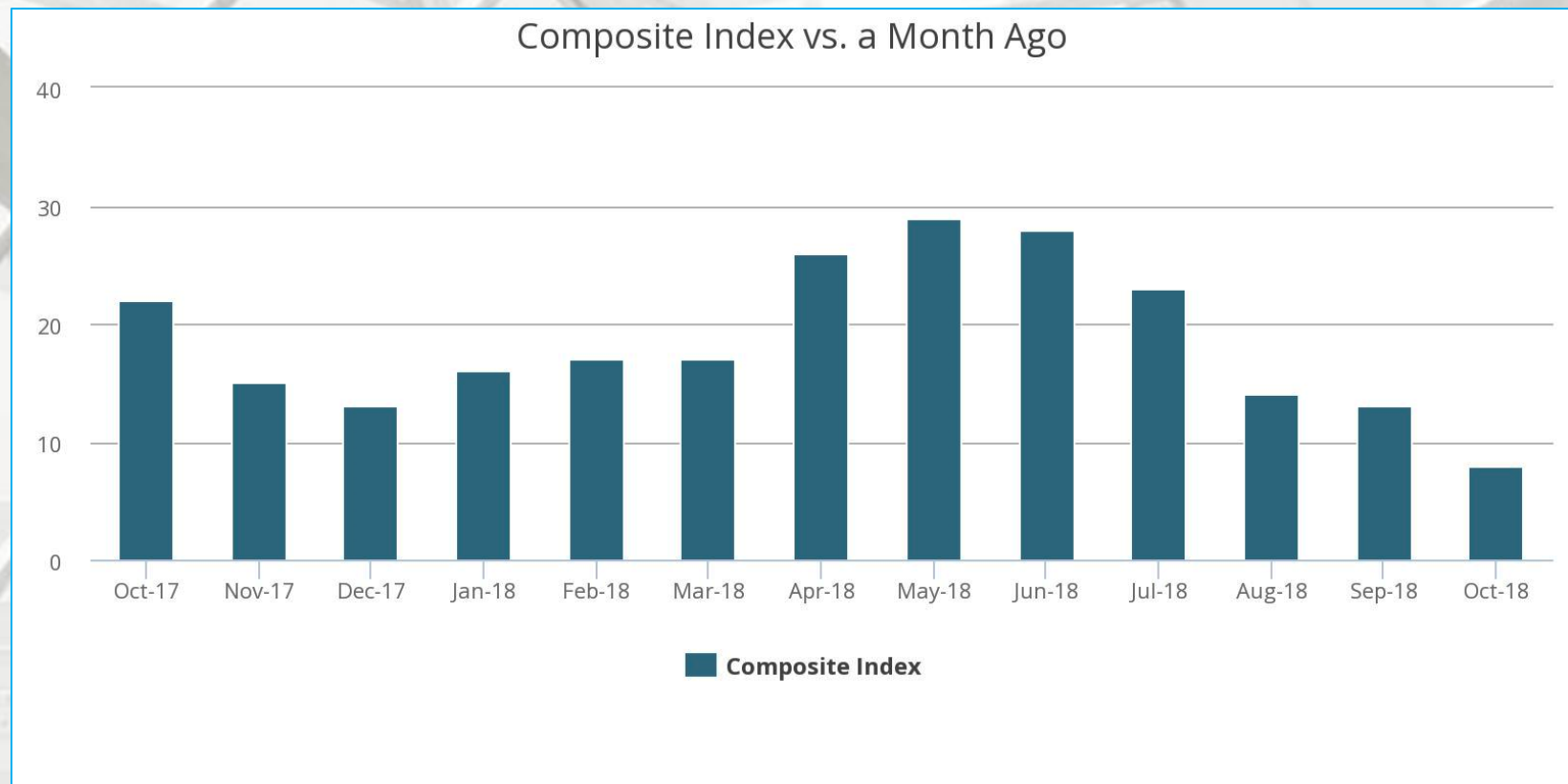
Tenth District Manufacturing activity expanded at a slower pace

“Future factory activity expectations eased somewhat. The future composite index edged down from 27 to 21, and the future employment, capital expenditures, and new orders for exports indexes also fell. The future production index moved lower, while the future shipments index was unchanged. On the other hand, the future new orders and order backlog indexes increased. The future raw materials inventory index decreased, and the future finished goods inventory index fell into negative territory for the first time since late 2016.

Most price indexes fell in October. The month-over-month finished goods price index dipped from 24 to 19, and the raw materials price index declined from 45 to 33. The year-over-year finished goods price index rose from 56 to 60 while the year-over-year raw materials price index inched down from 79 to 78. The future finished goods price index declined from 44 to 38, and the future raw materials price index fell from 57 to 37.

This month firms were asked special questions about investment in labor-saving technology and the impact of tariffs. Nearly 49 percent of respondents reported increasing investment in labor saving technology over the past year. On tariffs, more than 52 percent of respondents reported more input/output price pressures due to changes in tariffs, with many passing those increases through to the customer.” – Chad Wilkerson, Vice President and Oklahoma City Branch Executive, The Federal Reserve Bank of Kansas City

The Federal Reserve Bank of Kansas City



U.S. Economic Indicators

The Federal Reserve Bank of Kansas City

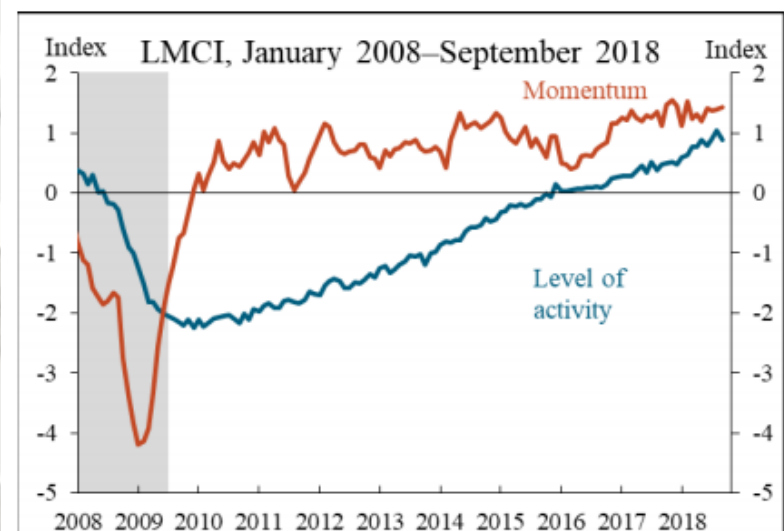
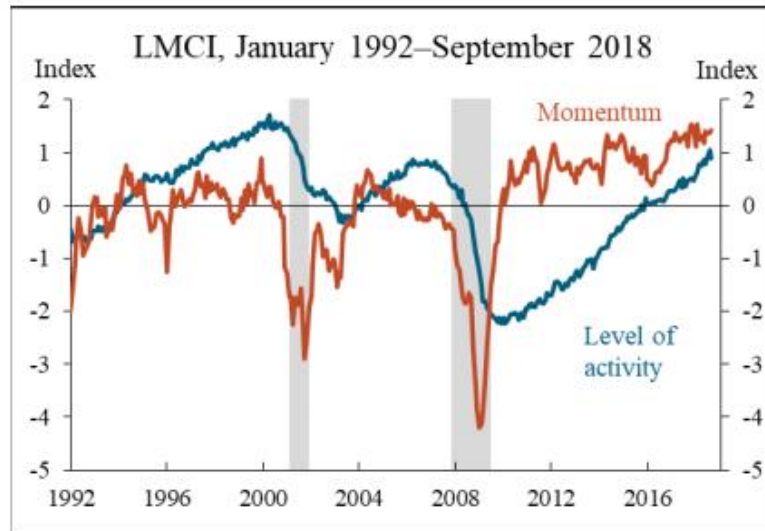
LMCI suggest the level of activity declined and momentum remained high in September

Activity declined and momentum remained high in September.

“The Kansas City Fed Labor Market Conditions Indicators (LMCI) suggest the level of activity declined and momentum remained high in September. The level of activity indicator decreased in September from 1.05 to 0.89, while the momentum indicator was little changed at 1.43.

The table shows the five labor market variables that made the largest contributions to the increase in the activity indicator over the last six months and the five variables that made the largest positive contributions to the momentum indicator in September 2018. The activity indicator increased 0.12 over the last six months. The largest contributor to the level of activity was the percent of firms planning to increase employment (NFIB). Fourteen variables made a positive contribution, one variable made no contribution, and nine variables made a negative contribution. The momentum indicator was 1.43 in September, where the largest contributor to momentum was initial claims. Seventeen variables made a positive contribution, and seven variables made a negative contribution.” – Bill Medley, Media Relations, The Federal Reserve Bank of Kansas City

U.S. Economic Indicators



Largest Contributions to the LMCI

Contributions to the increase in the <i>level of activity</i> indicator over the last six months	Positive contributions to the <i>momentum</i> indicator in September 2018
Percent of firms planning to increase employment (NFIB)	Initial claims
Average hourly earnings	Expected job availability (U of Michigan)
Percent of firms with positions not able to fill right now (NFIB)	Manufacturing employment index (ISM)
Job availability index (Conference Board)	Expected job availability (Conference Board)
Unemployment rate (U3)	Labor force participation rate

Note: Contributions are ordered from largest to smallest.

The Federal Reserve Bank of Minneapolis

Beige Book and more: It's not just labor quantity, but it's also labor quality

“The Minneapolis Fed’s most recent [Beige Book](#) report on current business conditions, released Oct. 24, found that demand for labor remained robust in the Ninth District, but actual hiring was restrained by tight labor supply. Several ad hoc surveys by the Minneapolis Fed from mid-September to early October generally found that a majority of respondents’ firms were hiring, with the exception of South Dakota retailers.

However, tight labor supply restrained overall hiring. In some district states, the number of job openings at workforce centers in August outnumbered those seeking work by a roughly two-to-one margin.

Prices appeared to increase moderately in the third quarter relative to a year ago, though pressures varied across sectors. South Dakota retailers indicated that customer prices rose by less than 2 percent but that wholesale price increases were larger. Numerous manufacturers reported that rising prices for certain raw material inputs due to trade conflicts were partially passing through to final output prices. Summer tourism in Minnesota was reported to be strong, though expectations for fourth quarter tourism were more modest.” – Ronald Wirtz, Director, Regional Outreach, The Federal Reserve Bank of Minneapolis

The Federal Reserve Bank of Minneapolis

Summary of Economic Activity

“The Ninth District economy grew moderately overall since the last report. Employment grew moderately, with strong hiring demand but tight labor supply. Wage and price pressures were both moderate. The District economy showed growth in manufacturing, real estate, residential construction, professional services, consumer spending, and tourism. But commercial construction and energy slowed, and agriculture remained weak.

Employment and Wages

Employment grew moderately since the last report despite continued labor constraints. Hiring demand was robust. Ad hoc surveys of human resources professionals in Minnesota and Montana, conducted by the Minneapolis Fed in mid-September, found that a large majority of respondents' firms were currently hiring; roughly 40 percent said their firms were hiring both to add headcount and to replace worker turnover. Data from state workforce centers showed that job postings were up 9 percent across Ninth District states. Job tracking by a Minnesota trade group also showed strong growth in STEM jobs in September compared with a year earlier. Seasonal hiring was also beginning, with several announcements of major hiring, including 1,700 workers across the Minneapolis-St. Paul metro for a transportation firm. However, tight labor supply restrained overall hiring. In Montana and Minnesota, the number of job openings at workforce centers in August outnumbered those seeking work by a roughly two-to-one margin. ...” – Ronald Wirtz, Director, Regional Outreach, The Federal Reserve Bank of Minneapolis

The Federal Reserve Bank of Minneapolis

Professional Services

“Activity in the professional services industry increased moderately since the last report. Several contacts in insurance and financial services indicated that demand was up moderately. A construction engineering firm was expanding in Minnesota and the Dakotas. Contacts in agricultural transportation reported that the year through September had been strong, but there was much more uncertainty heading into a new marketing year.

Manufacturing

District manufacturing activity increased slightly. An index of manufacturing conditions indicated increased activity in September compared with a month earlier in Minnesota and North Dakota; the index for South Dakota indicated flat activity. Numerous manufacturers across the District reported strong output demand and production so far this year, but their outlook for the remainder of this year and for next was flat due to rising input costs and uncertainty over trade policy. A producer of industrial and mechanical equipment said recent demand and production were up moderately. A solar panel plant opened in Minnesota, and a producer of composite structural members was expanding a plant.” – Ronald Wirtz, Director, Regional Outreach, The Federal Reserve Bank of Minneapolis

The Federal Reserve Bank of Minneapolis

Construction and Real Estate

“Commercial construction activity contracted slightly since the last report. Industry data suggested that commercial construction was down in August across much of the District compared with a year earlier. Other industry data showed that both new projects and total active construction projects near the end of September were modestly lower than at this time last year. Commercial permitting in September was mixed among the District's larger markets. Residential construction activity was moderately higher. September single-family permitting was higher in a majority of District metros compared with a year earlier, and some locations continued to see strong multifamily permitting, including Rochester, Minn.

Commercial real estate saw modest growth since the last report. In Minneapolis-St. Paul, demand for industrial space continued to show strength, with vacancy rates falling slightly from already low levels and despite significant new construction. Office vacancy rates and asking rents were generally stable there as well, while sales of office space have been trending upward and were expected to continue to rise in the fourth quarter. Despite a strong increase in new units, multifamily vacancy rates in Minneapolis-St. Paul remained low. Apartment occupancy rates were also strong in western North Dakota, thanks to increased activity in the Bakken oil region. Residential real estate activity fell. Closed sales in September were lower compared with a year earlier in many of the District's larger markets.” – Ronald Wirtz, Director, Regional Outreach, The Federal Reserve Bank of Minneapolis

The Federal Reserve Bank of Minneapolis

Agriculture, Energy, and Natural Resources

“District agricultural conditions remained weak overall. Persistent rain in early fall delayed or slowed harvests in some areas. Very strong harvests were expected around the District, including potential record yields in some cases. However, commodity prices remained weak, and greater production was not expected to completely offset the negative impact of low prices on farm incomes. International demand for crops, particularly soybeans, has fallen dramatically, according to contacts. A producer of dry beans reported that a large regular annual order from European Union countries was cancelled due to tariffs. A substantial number of dairy operations have exited the business since the beginning of the year. District oil and gas exploration activity as of early October decreased slightly from the previous report. District iron ore mines were operating at capacity. Contacts in nonferrous mining described activity as up slightly.” – Ronald Wirtz, Director, Regional Outreach, The Federal Reserve Bank of Minneapolis

The Federal Reserve Bank of New York

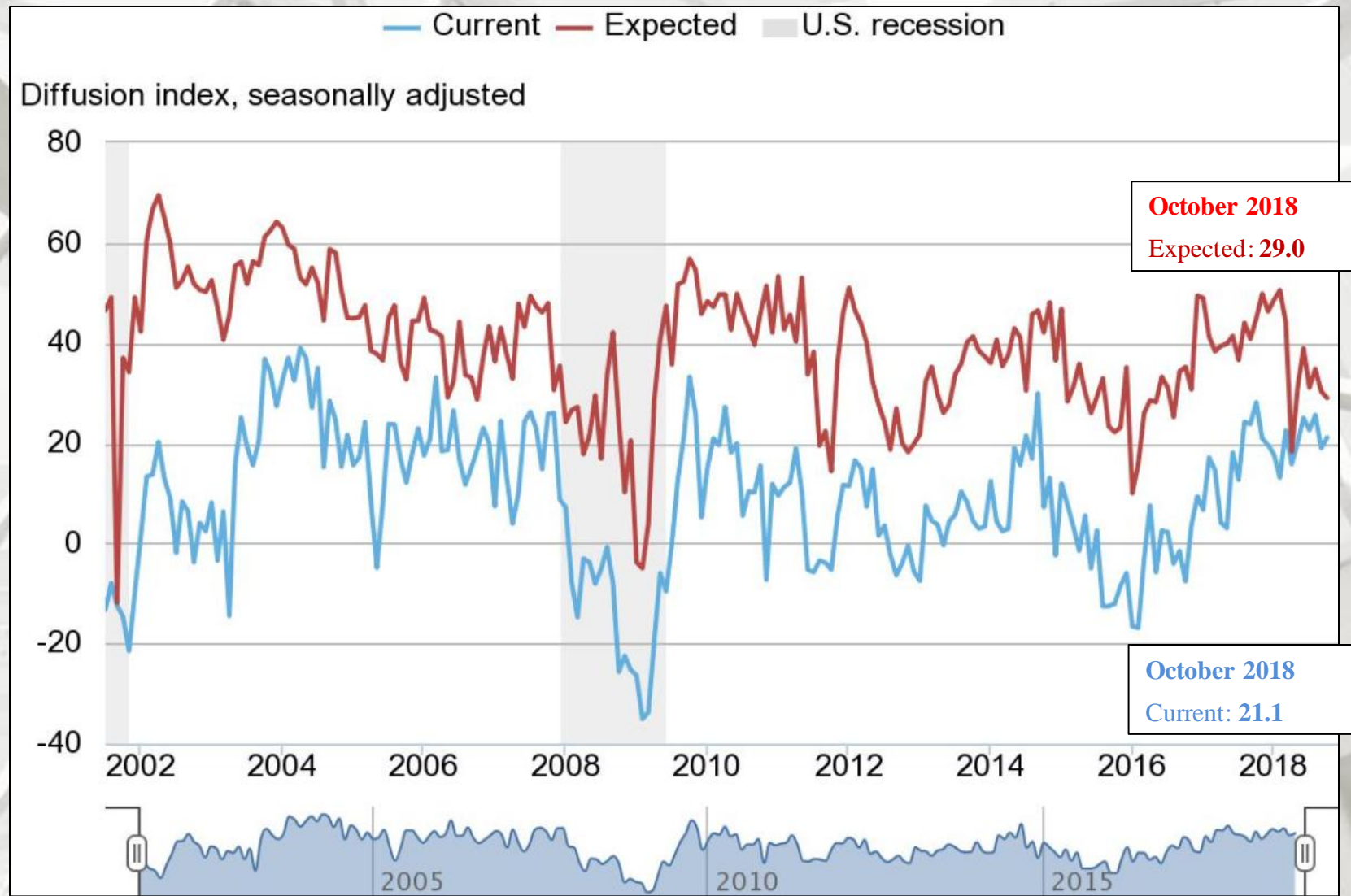
Empire State Manufacturing Survey

“Business activity continued to grow strongly in New York State, according to firms responding to the October 2018 *Empire State Manufacturing Survey*. The headline general business conditions index rose two points to 21.1, pointing to a slightly faster pace of growth than in September. New orders and shipments both picked up noticeably. Delivery times continued to lengthen, while inventories held steady. Labor market indicators pointed to a modest increase in employment levels and no change in hours worked. Price indexes edged down but remained elevated, suggesting ongoing significant increases in both input prices and selling prices. Looking ahead, firms generally remained optimistic about the six-month outlook.

Activity Continues To Expand

Manufacturing firms in New York State reported that business activity expanded in continued to expand in October. The general business conditions index moved up two points to 21.1, suggesting that the pace of growth picked up slightly this month. Roughly 36 percent of respondents reported that conditions had improved over the month, while only 15 percent reported that conditions had worsened. The new orders index and the shipments index both showed strong growth, with the first index moving up six points to 22.5 and the second climbing twelve points to 26.3. Unfilled orders decreased, inventories held steady, and delivery times continued to lengthen.” – Richard Deitz and Jason Bram, The Federal Reserve Bank of New York

The Federal Reserve Bank of New York



The Federal Reserve Bank of New York

Empire State Manufacturing Survey

Employment Continues To Increase

“The index for number of employees came in at 9.0 and the average workweek index fell to 0.2, indicating a modest increase in employment levels and no change in the length of the workweek. Price increases slowed somewhat but remained elevated. The prices paid index fell four points to 42.0, and the prices received index edged down to 14.3.

Firms Remain Optimistic

Firms remained moderately optimistic about the six-month outlook. The index for future business conditions was little changed at 29.0, and the indexes for future new orders and shipments pointed to continued solid growth. Employment was expected to increase in the months ahead, and the indexes for future prices remained elevated. The capital expenditures index came in at 16.0, and the technology spending index was 9.2.” – Richard Deitz and Jason Bram, The Federal Reserve Bank of New York

The Federal Reserve Bank of New York

Business Leaders Survey (Services)

Growth Slows Noticeably

“Activity in the region’s service sector grew modestly, according to firms responding to the Federal Reserve Bank of New York’s October 2018 *Business Leaders Survey*. After reaching its highest level in more than a decade, the survey’s headline business activity index fell thirteen points to 9.4. The business climate index edged down a point from last month’s record high to 22.2, a sign that firms, on balance, regarded the business climate as better than normal. Employment levels continued to increase steadily, and wage increases remained widespread. The prices paid and prices received indexes both increased sharply, indicating that price increases picked up this month. Indexes assessing the six-month outlook suggested that firms generally remained optimistic about future conditions.

Business activity grew modestly in the region’s service sector in October. The headline business activity index declined thirteen points to 9.4, indicating that growth slowed noticeably but remained positive. Thirty-eight percent of respondents reported that conditions improved over the month, while 29 percent said that conditions worsened. The business climate index edged down a point from its record high last month to 22.2, signaling that, on balance, firms continued to view the business climate as better than normal.” – Jason Bram and Richard Deitz, The Federal Reserve Bank of New York

The Federal Reserve Bank of New York

Business Leaders Survey (Services)

Price Increases Pick Up

“The employment index rose two points to 14.2, indicating that employment continued to grow at a steady clip. The wages index came in at 40.0, reflecting ongoing significant wage gains. Price increases picked up noticeably this month: the prices paid index jumped eleven points to 61.4 and the prices received index surged eight points to 28.1, indicating widespread input and selling price increases. Both price indexes were at or near multiyear highs. The capital spending index came in at 15.3, pointing to ongoing solid increases in capital spending.

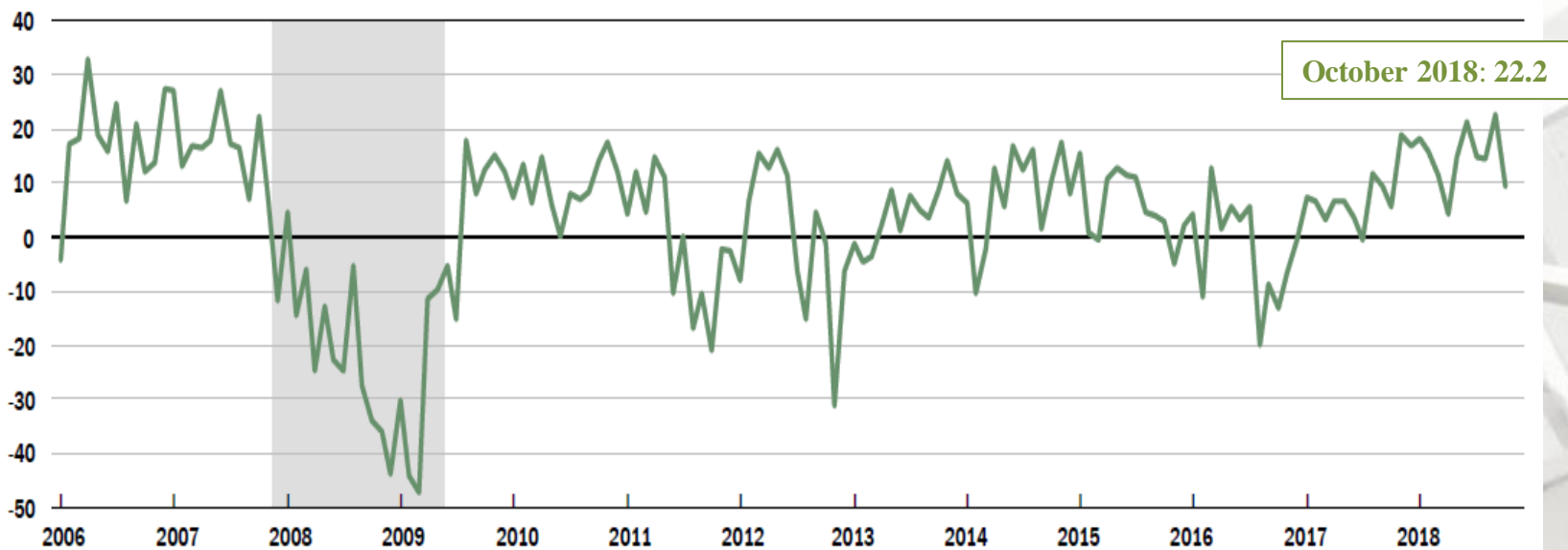
Firms Remain Optimistic

Firms remained fairly optimistic about the six-month outlook. The indexes for future business activity and future business climate both increased a few points but remained below the levels seen earlier this year. The index for future employment suggested that respondents expected employment to continue to increase, and the index for future wages pointed to more widespread wage growth. Indexes for future prices indicated that price increases are expected to pick up further in the months ahead. At 30.7, the index for planned capital spending was up six points.” – Jason Bram and Richard Deitz, The Federal Reserve Bank of New York

The Federal Reserve Bank of New York

Business Activity

Diffusion Index



Note: The shaded area indicates a period designated a recession by the National Bureau of Economic Research.

U.S. Economic Indicators

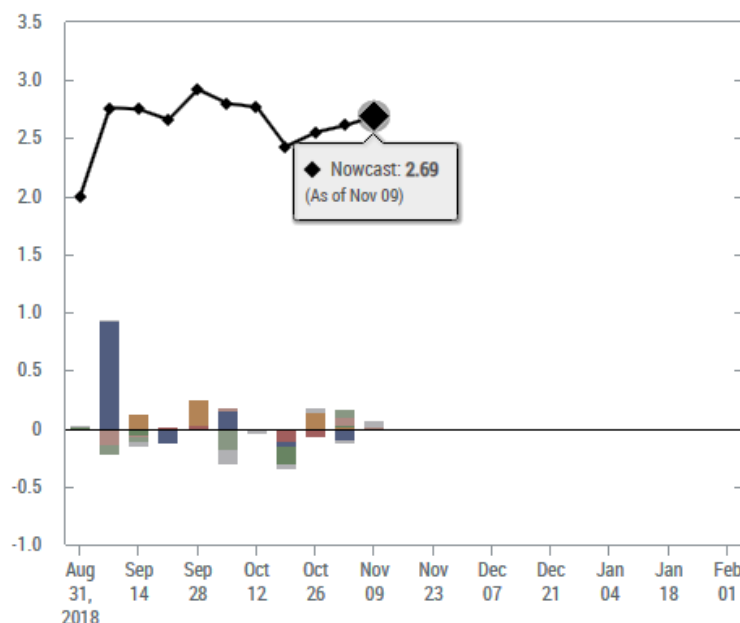
The Federal Reserve Bank of New York Nowcast

2018:Q4 | 2018:Q3 | 2018:Q2 | 2018:Q1

Last Release 11:15am EST Nov 09, 2018

◆ The New York Fed Staff Nowcast ○ Advance GDP estimate □ Latest GDP estimate
 ■ Housing and construction ■ Manufacturing ■ Surveys ■ Retail and consumption ■ Income ■ Labor ■ International trade ■ Others

Percent (annual rate)



Data Flow (Nov 09, 2018)

Model Update	Release Date	Data Series	Actual	Impact	Nowcast GDP Growth
Nov 09					2.69
	8:30AM Nov 09	PPI: Final demand	0.60	0.06	
	10:00AM Nov 06	JOLTS: Total job openings	-284.00	0.02	
	10:00AM Nov 05	ISM non-mfg.: NMI composite index	60.30	0.00	
		Data revisions		-0.01	
Nov 02					2.61

Notes: We start reporting the Nowcast for a reference quarter about one month before the quarter begins; we stop updating it about one month after the quarter closes. Colored bars reflect the impact of each broad category of data on the Nowcast; the impact of specific data releases is shown in the accompanying table.

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Source: Authors' calculations, based on data accessed through Haver Analytics.

November 9, 2018: Highlights

- “The New York Fed Staff Nowcast for 2018:Q4 stands at 2.7%.
- News from recent data releases increased the nowcast for 2018:Q4 by 0.1 percentage point.
- A positive surprise from producer prices data accounted for most of the increase.” – The Federal Reserve Bank of New York

The Federal Reserve Bank of New York

The New York Fed DSGE Model Forecast – October 2018

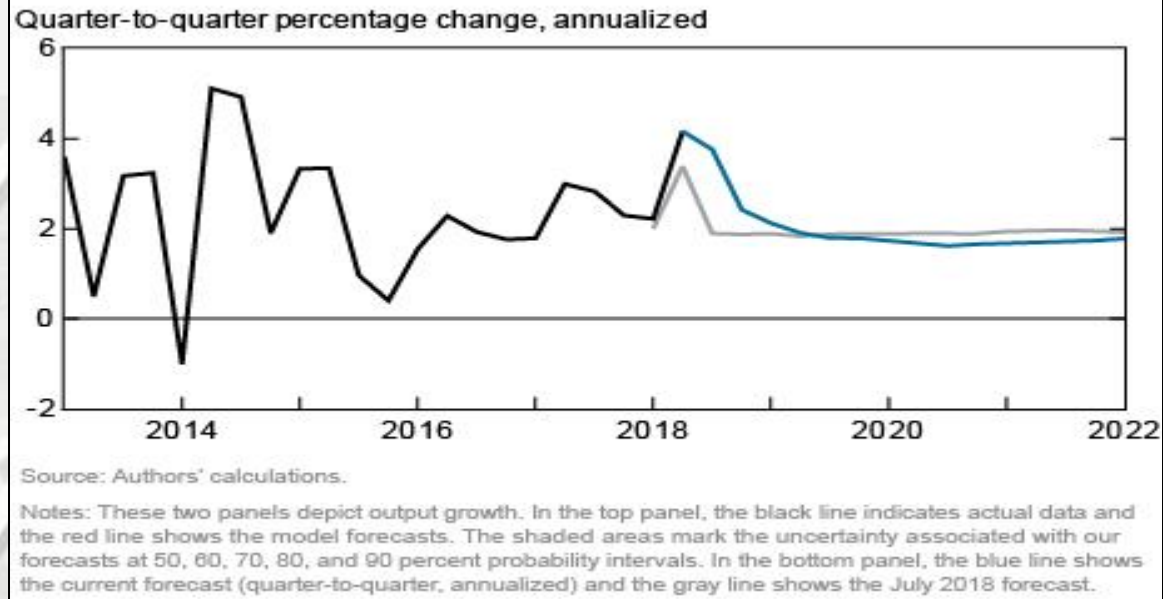
“The October model forecast for 2018-21 is summarized in the table below, alongside the July forecast, and in the following charts. The model uses quarterly macroeconomic data released through the second quarter of 2018 and available financial data and staff forecasts through October 1, 2018.

How do the latest forecasts compare with the July forecasts?

- The current Q4/Q4 GDP growth forecast for 2018 is significantly higher than the one of July (3.1 percent versus 2.3 percent), but it is similar for the remainder of the forecast horizon. The model attributes the stronger growth for 2018, relative to what was anticipated in July, to higher productivity growth and accommodative monetary policy, in spite of the federal funds rate increase in September. The inflation projections are largely unchanged.
- The estimate for the real natural rate of interest in 2018 and its projected path in the medium run are also higher than they were in July. This result is mainly due to higher than expected trend productivity growth. Longer-run projections for the real natural rate of interest are unchanged.” – Michael Cai, Marco Del Negro, Ethan Matlin, Reza Sarfaty, and Argia Sbordone; The Federal Reserve Bank of New York

The Federal Reserve Bank of New York

	2018		2019		2020		2021	
	Oct	Jul	Oct	Jul	Oct	Jul	Oct	Jul
GDP growth (Q4/Q4)	3.1	2.3	1.9	1.8	1.6	1.8	1.7	1.9
Core PCE inflation (Q4/Q4)	1.9	1.9	1.5	1.5	1.5	1.5	1.6	1.6
Real natural rate of interest (Q4)	1.2	1.0	1.4	1.3	1.4	1.4	1.4	1.4



U.S. Economic Indicators

The Federal Reserve Bank of Philadelphia

October 2018 Manufacturing Business Outlook Survey

Survey Indexes Suggest Steady Growth

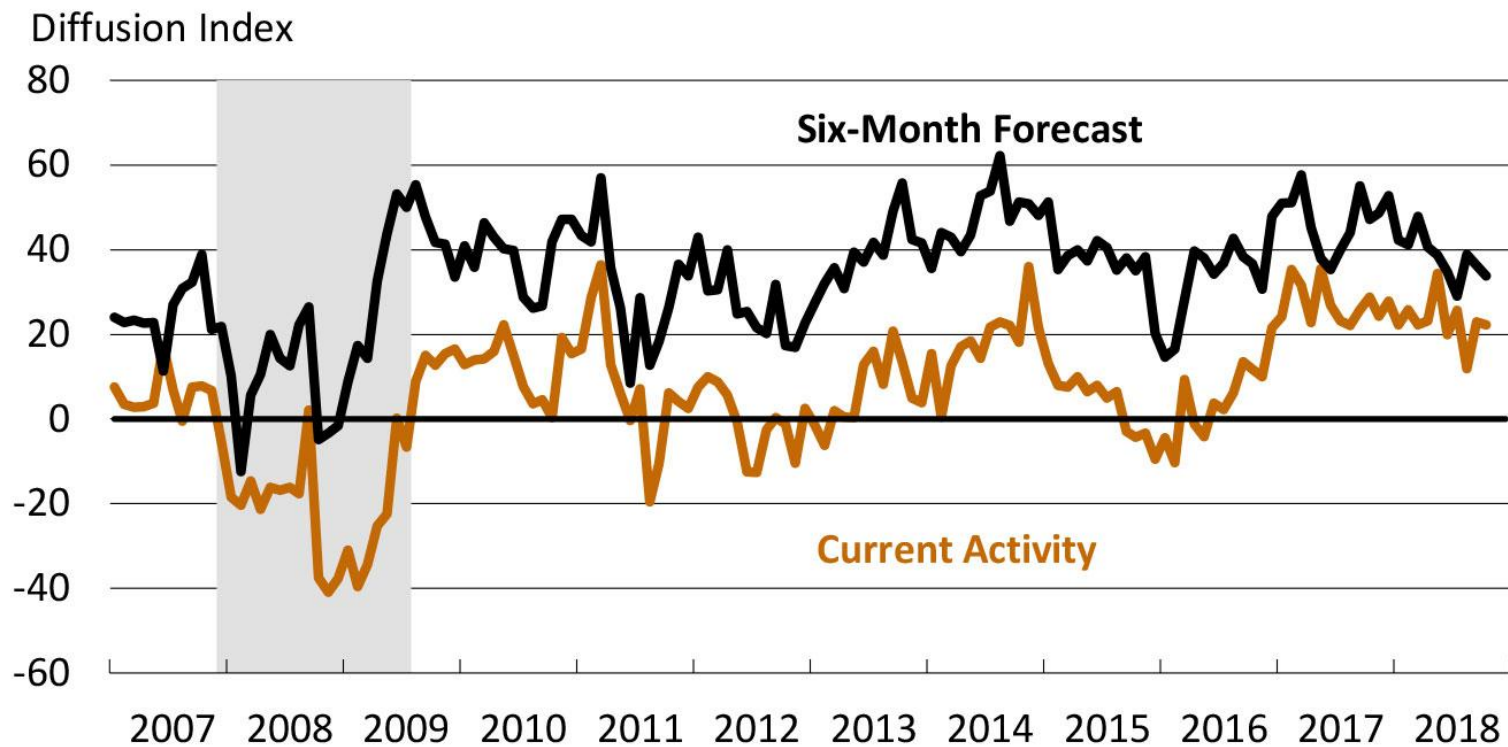
“Regional manufacturing activity continued to grow in October, according to results from this month’s *Manufacturing Business Outlook Survey*. The survey’s broad indicators for general activity, new orders, shipments, and employment remained positive and near their readings in September. The firms reported continued growth in employment and an increase in the average workweek this month. Expectations for the next six months remained optimistic.

The diffusion index for current general activity edged down slightly, from 22.9 in September to 22.2 this month (see Chart 1). Nearly 36 percent of the manufacturers reported increases in overall activity this month, while 14 percent reported decreases. The new orders index decreased 2 points to 19.3, while the current shipments index increased 5 points to 24.5. The firms reported nearly no change in levels of inventories during October, as well as unfilled orders and delivery times (all of the indexes were near zero).” – Mike Trebing, Senior Economic Analyst, The Federal Reserve Bank of Philadelphia

The Federal Reserve Bank of Philadelphia

Chart 1. Current and Future General Activity Indexes

January 2007 to October 2018



Note: The diffusion index is computed as the percentage of respondents indicating an increase minus the percentage indicating a decrease; the data are seasonally adjusted.

The Federal Reserve Bank of Philadelphia

October 2018 Manufacturing Business Outlook Survey

“The firms continued to report overall higher employment. More than 30 percent of the responding firms reported increases in employment this month, while 11 percent of the firms reported decreases in employment. The current employment index increased 2 points to 19.5. The firms also reported a longer workweek this month, as the workweek index increased from 14.6 to 20.8.

Price Diffusion Indexes Less Than Earlier in the Year

The survey’s diffusion indexes for prices remained positive but lower than their readings for most of this year. On the cost side, 42 percent of the firms reported increases in the prices paid for inputs, and the prices paid index, which had fallen 15 points last month, decreased 1 point to 38.2. With respect to prices received for firms’ own manufactured goods, 27 percent of the firms reported higher prices compared with 3 percent that reported decreases. The prices received index increased 5 points.

Six-Month Indicators Remain Positive

The diffusion index for future general activity edged down from a reading of 36.3 in September to 33.8 this month (see Chart 1). Nearly 48 percent of the firms expect increases in activity over the next six months, while 14 percent expect declines. The future new orders and shipments indexes, however, increased 9 points and 1 point, respectively. The future employment index declined 2 points, but nearly 42 percent of the firms expect to add workers over the next six months.” – Mike Trebing, Senior Economic Analyst, The Federal Reserve Bank of Philadelphia

The Federal Reserve Bank of Philadelphia

October 2018 Manufacturing Business Outlook Survey

Total Capital Spending Expected to Increase Next Year

“For this month’s special questions, manufacturers were asked about current capacity utilization rates compared with the same time last year. The average capacity utilization rate reported among the responding firms was 79 percent, up by 1 percentage point from what was estimated for one year earlier. The firms were asked to forecast total capital spending for 2019 compared with levels in 2018, and more firms indicated that they would increase spending (41 percent) than decrease spending (14 percent). The firms were also asked about their plans for different categories of capital spending next year. For three categories of investment spending (software, computer and related hardware, and noncomputer equipment), the share of firms expecting to increase spending was higher than the share of firms expecting to decrease spending. Only the energy-saving investment and structure categories had more firms expecting decreases. The firms were also asked about the impact of tax reform and tariffs on their plans. On balance, the firms indicated net positive effects from the tax policy and modestly net negative effects from tariffs.

Summary

Manufacturing firms reported continued growth in regional manufacturing in October. The survey’s broad current indicators remained at high readings and were near their readings last month. Looking ahead six months, the firms remain optimistic, and the survey’s future indicators remained at relatively high levels. On balance, the firms also expect higher capital spending next year.” – Mike Trebing, Senior Economic Analyst, The Federal Reserve Bank of Philadelphia

The Federal Reserve Bank of Philadelphia

The Federal Reserve Bank of Philadelphia

October 2018 Nonmanufacturing Business Outlook Survey

Firms Reported Continued Expansion

“Responses to the October *Nonmanufacturing Business Outlook Survey* suggest continued expansion of nonmanufacturing activity in the region. The indicators for firm-level general activity, new orders, and full-time employment remained positive but fell, while the sales/revenues index remained relatively stable. The respondents continued to report overall increases in prices of both their own goods and their inputs, although at lower levels than in recent months. The firms anticipate growth for their own firms and the region over the next six months.

The diffusion index for current general activity at the firm level fell from 46.8 in September to 37.2 in October (see Chart 1). More than 53 percent of the firms reported increases in activity, compared with 16 percent that reported decreases. The new orders index fell nearly 20 points to 7.8, its lowest level since July 2015. The share of firms reporting increases in new orders (25 percent) exceeded the share reporting decreases (17 percent). The sales/revenues index edged down from 42.8 in September to 41.3 in October. Nearly 56 percent of the responding firms reported increases in sales/revenues, while 14 percent reported decreases. The regional activity index remained stable at 37.6.” – Research Department, The Federal Reserve Bank of Philadelphia

The Federal Reserve Bank of Philadelphia

October 2018 Nonmanufacturing Business Outlook Survey

Employment Indicators Weakened

“The survey’s labor market indicators fell in October. The fulltime employment index decreased from 36.7 in September to 16.6 in October, coming down from last month’s all-time high for the series. Although most firms (62 percent) continue to report steady full-time employment levels, the share of firms reporting increases (26 percent) was higher than the share reporting decreases (9 percent). The part-time employment index fell 6 points to 15.0, while the wages and benefits indicator fell from 48.1 to 41.9. The average workweek index edged up from 25.1 to 25.5.

Price Indicators Moderated

Both price indicators moderated from last month’s readings but still suggest overall increases in prices for inputs and for firms’ own goods and services. The prices paid index fell 11 points to 15.0 (see Chart 2). While the majority of firms reported stable input prices (63 percent), the share of firms reporting increases in input prices fell from 28 percent to 18 percent. Regarding the prices for firms’ own goods and services, the prices received index fell from 24.3 in September to 18.6 in October. While 24 percent of the firms reported increases in prices received, nearly 6 percent reported decreases. More than 53 percent of the firms reported no change in their own prices.” – Research Department, The Federal Reserve Bank of Philadelphia

The Federal Reserve Bank of Philadelphia

October 2018 Nonmanufacturing Business Outlook Survey

Expectations for Growth Tempered Somewhat

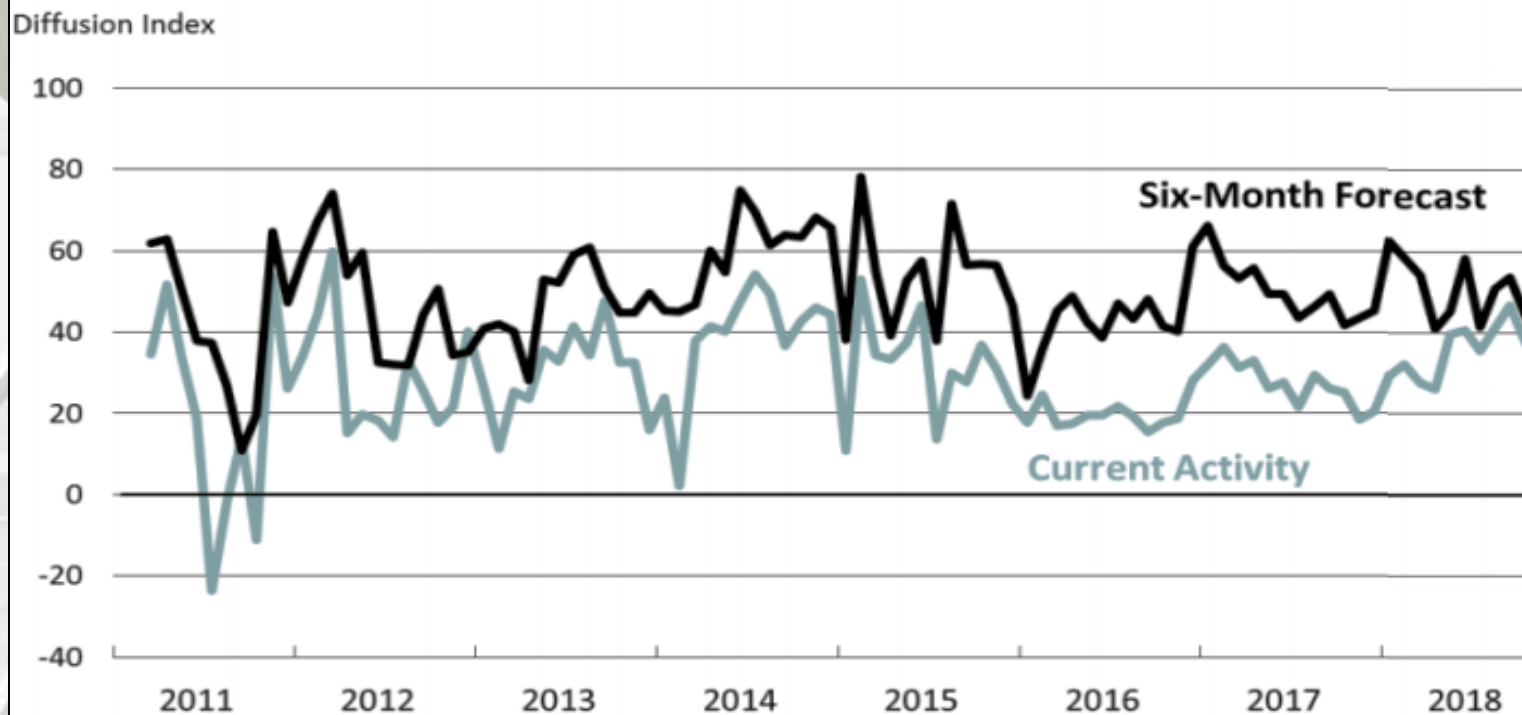
“Both future activity indexes suggest that firms expect growth to continue over the next six months, although a higher share of firms expect decreases this month than did last month. The diffusion index for future activity at the firm level fell from 53.6 to 43.9 (see Chart 1). More than 59 percent of the firms expect an increase in activity at their firms over the next six months, compared with 15 percent that expect a decline. The future regional activity index fell 15 points to 30.3.

Summary

Responses to October’s *Nonmanufacturing Business Outlook Survey* indicate continued expansion of nonmanufacturing activity in the region, although indicators for firm-level general activity and new orders fell, while the indicator for sales/revenues remained stable. Despite lower readings in the respective indexes compared with last month, responding firms continued to report overall increases in fulltime employment and remain optimistic about growth over the next six months.” – Research Department, The Federal Reserve Bank of Philadelphia

The Federal Reserve Bank of Philadelphia

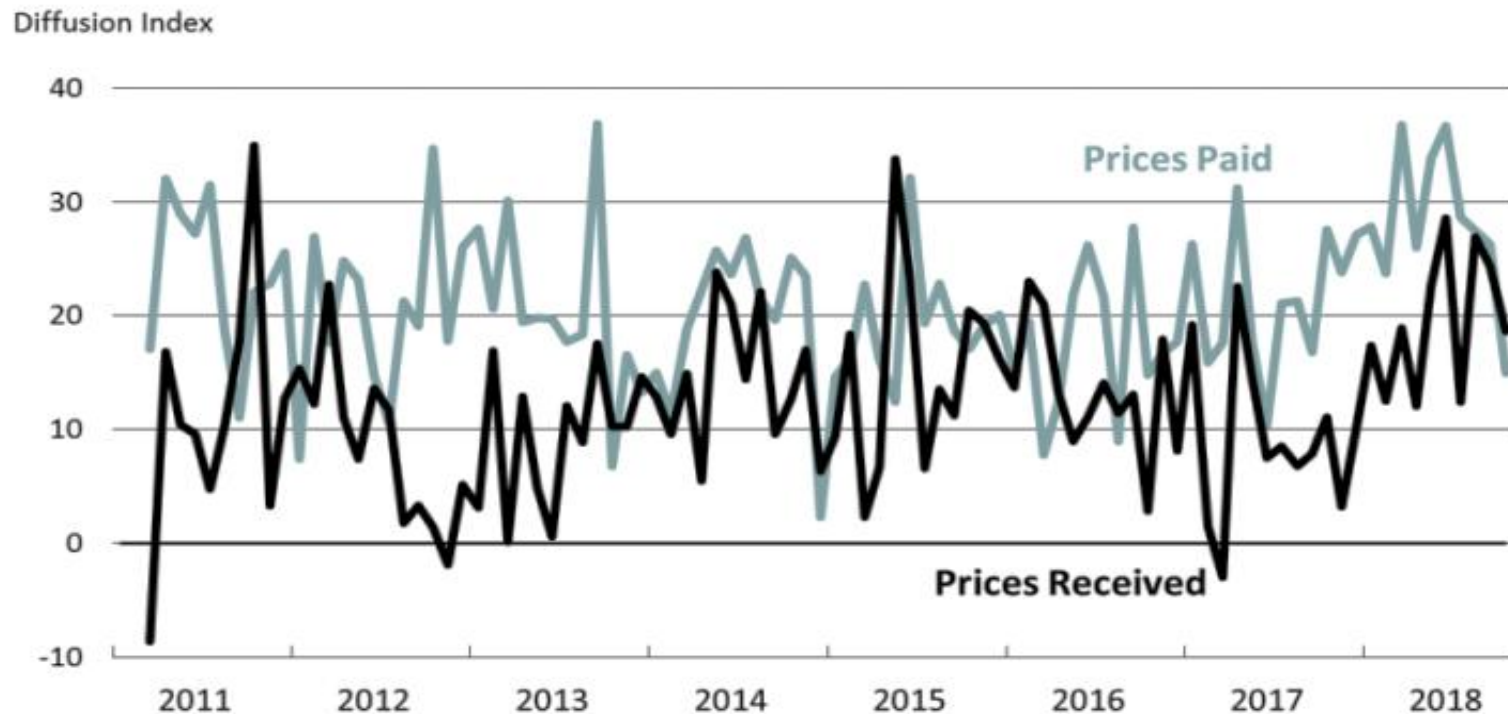
Chart 1. Current and Future General Activity Indexes for Firms
March 2011 to October 2018



Note: The diffusion index is computed as the percentage of respondents indicating an increase minus the percentage indicating a decrease; the data are seasonally adjusted.

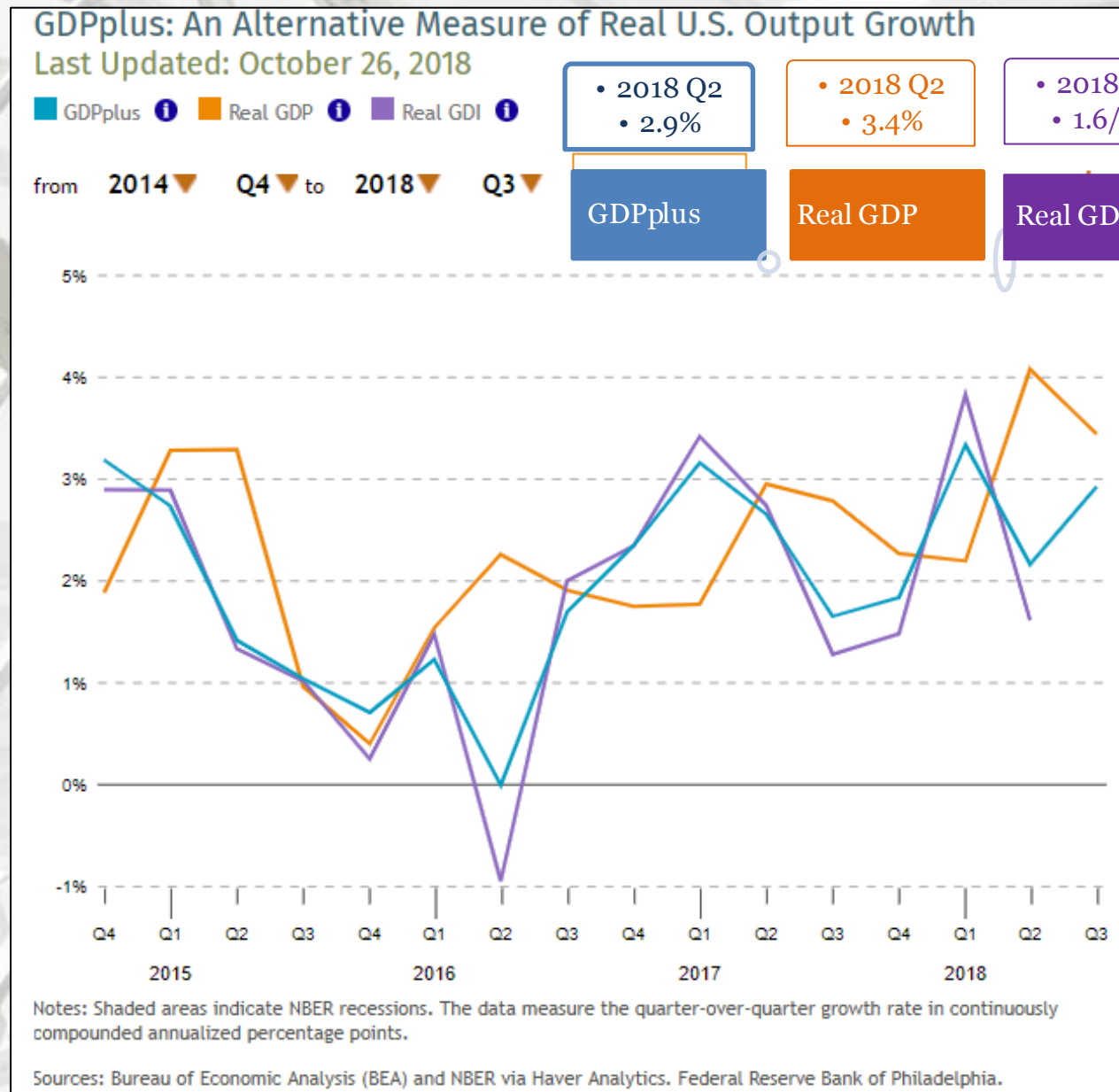
The Federal Reserve Bank of Philadelphia

Chart 2. Prices Paid and Prices Received Indexes
March 2011 to October 2018

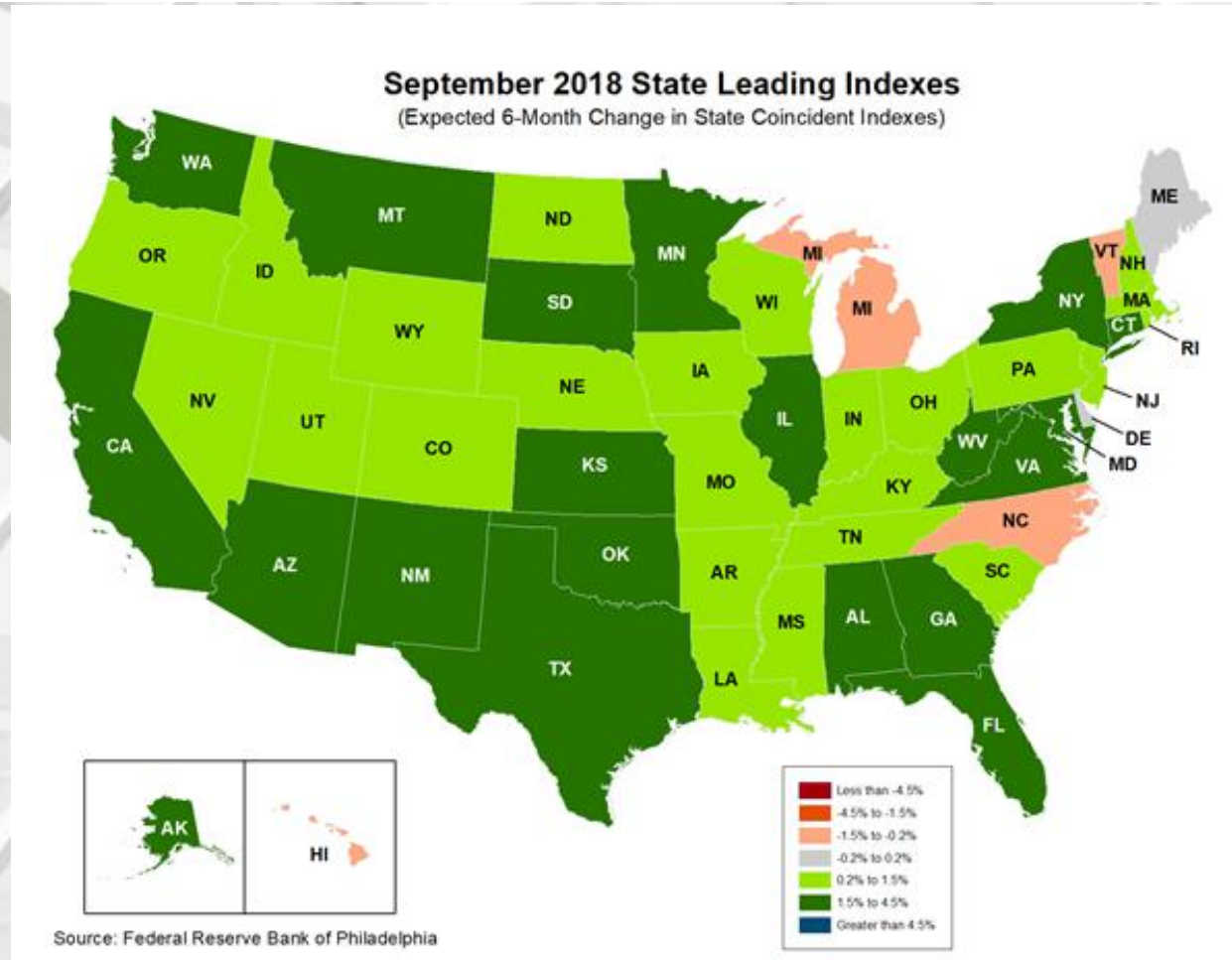


Note: The diffusion index is computed as the percentage of respondents indicating an increase minus the percentage indicating a decrease; the data are seasonally adjusted.

The Federal Reserve Bank of Philadelphia: GDPplus



The Federal Reserve Bank of Philadelphia



“The Federal Reserve Bank of Philadelphia has released the leading indexes for the 50 states for September 2018. The indexes are a six-month forecast of the state coincident indexes (also released by the Bank). Forty-five state coincident indexes are projected to grow over the next six months, and five are expected to decrease. For comparison purposes, the Philadelphia Fed has also developed a similar leading index for its U.S. coincident index, which is projected to grow 1.3 percent over the next six months.” – Daniel Mazone, Research Department, The Federal Reserve Bank of Philadelphia

U.S. Economic Indicators

The Federal Reserve Bank of Richmond

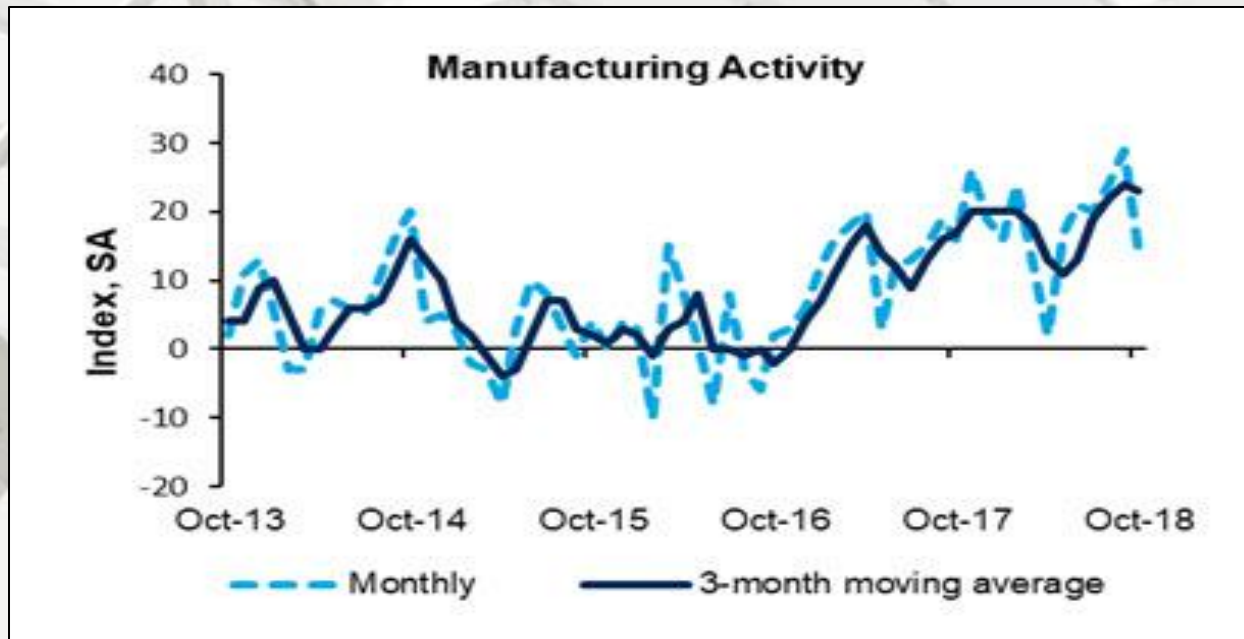
Fifth District Manufacturing Activity Expanded Moderately in October

“Fifth District manufacturing activity expanded moderately in October, according to the results from the most recent survey by the Federal Reserve Bank of Richmond. The composite index fell from 29 in September to 15 in August, as indexes for shipments and new orders dropped, while the third component, employment, rose. However, survey respondents were optimistic, expecting to see positive growth across most measures in the coming months.

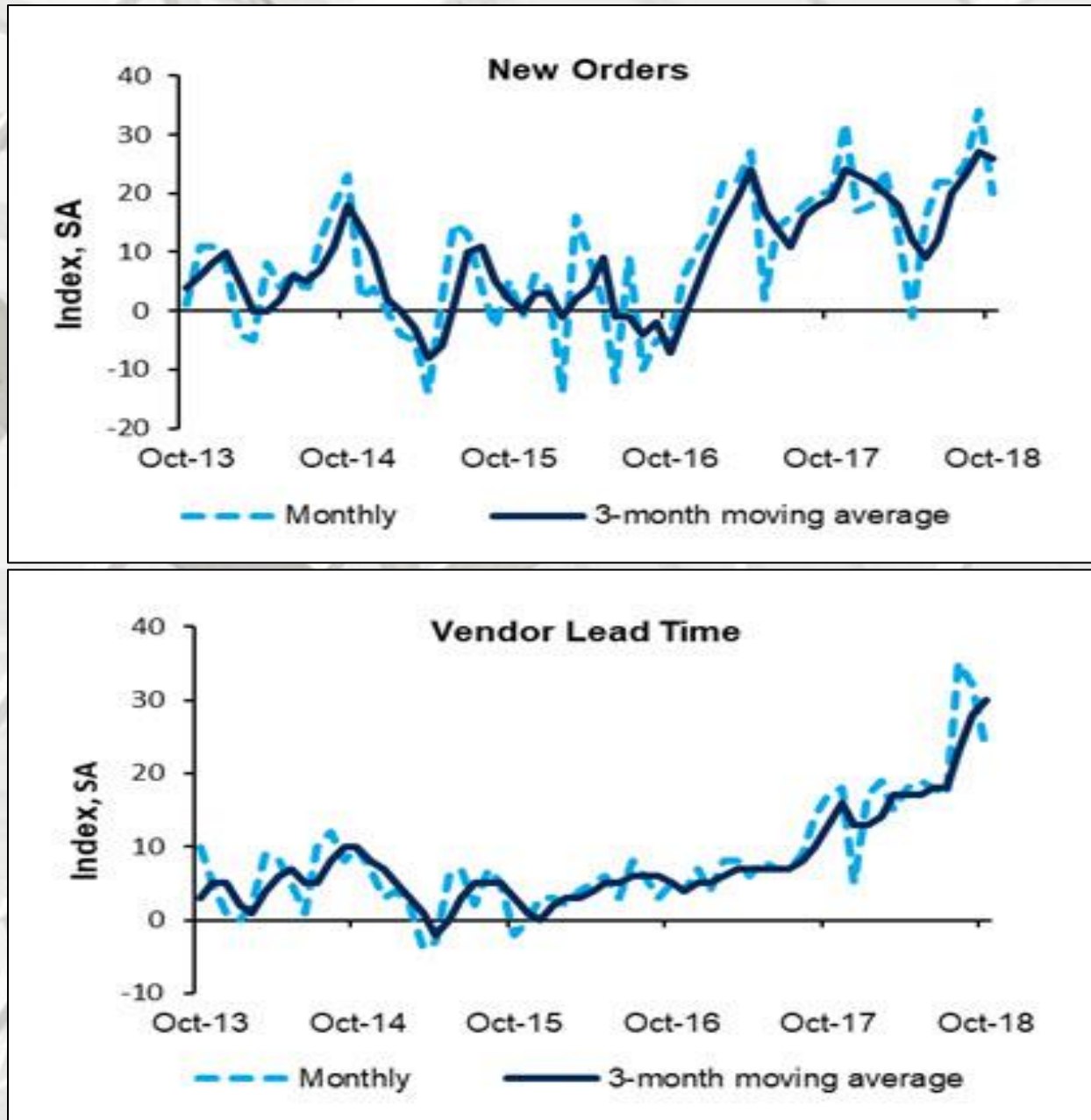
While the employment index rose in October, the indexes for wages and workweek dropped but remained positive, indicating continued but weaker growth. Firms were unable to find workers with skills they needed, as the skills index dropped to an all-time low of -22. Respondents expect this struggle to continue in the next six months.

Both prices paid and prices received grew at an accelerated rate in October. Growth of prices paid continued to outpace growth of prices received and hit its highest rate since May 2011. Firms expect price growth to continue in the near future.” – Jeannette Plamp, Economic Analyst, The Federal Reserve Bank of Richmond

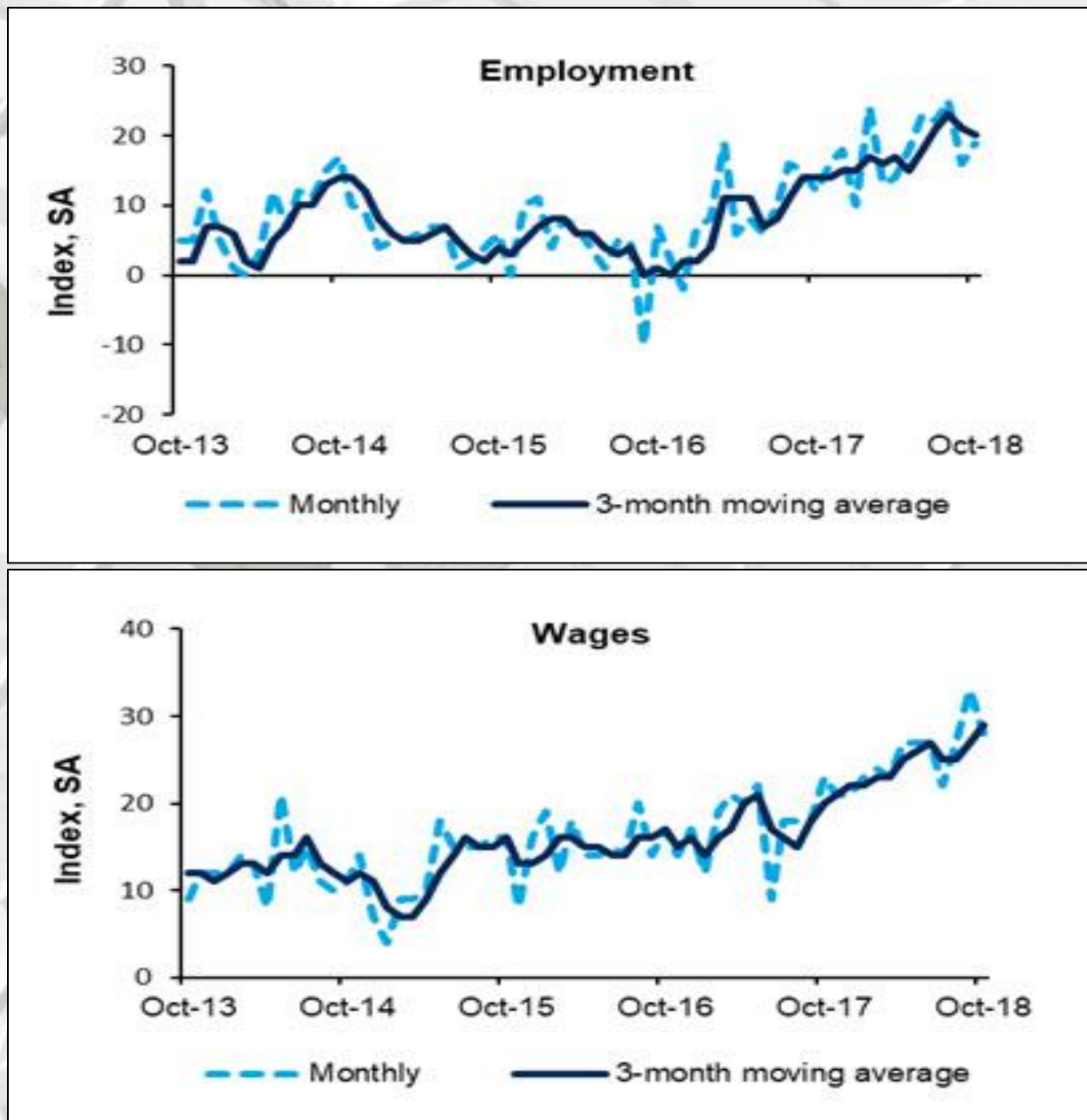
U.S. Economic Indicators



U.S. Economic Indicators



U.S. Economic Indicators

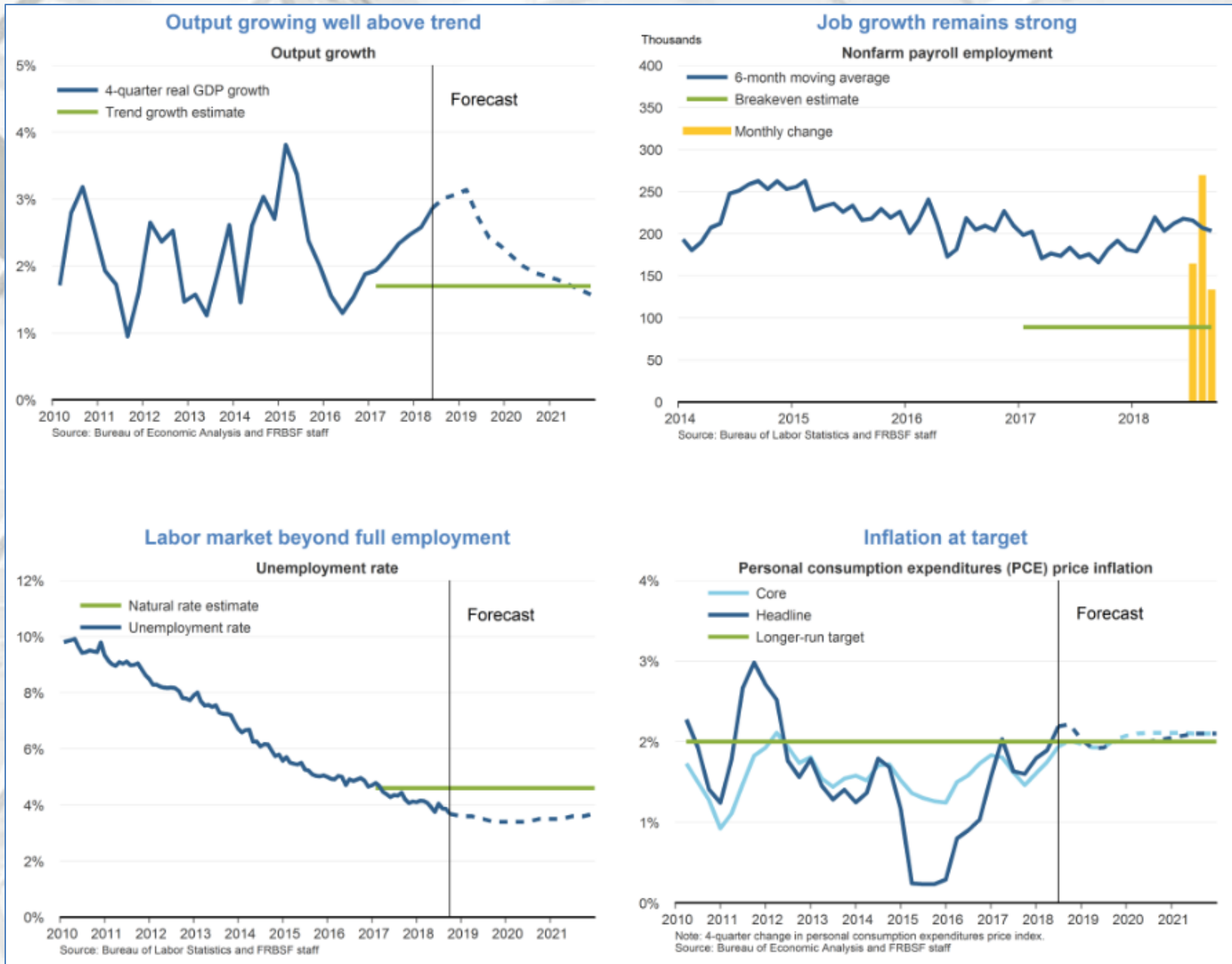


The Federal Reserve Bank of San Francisco

FRBSF FedViews

- “The economy looks very strong. Real GDP will likely grow around 3% this year, well above our estimated trend growth of 1.7%. Growth is being supported by strength in household income, elevated equity prices, and high consumer confidence, as well as fiscal stimulus.
- We expect growth to slow towards trend over the next several years, as fiscal stimulus effects wane and monetary policy accommodation is gradually removed. The risks to the outlook appeared to be balanced. On the upside, there is risk that underlying momentum and inflationary pressures in the economy are stronger than expected. On the downside, there is risk that trade tensions and financial market vulnerabilities may slow the economy down.
- The labor market data were solid in September. Payrolls rose by 134,000 jobs, somewhat below expectations, but most probably attributable to the effects of Hurricane Florence. For the past six months the economy has been adding about 200,000 jobs per month, well above the level regarded as necessary to absorb new workers entering the labor force and keep unemployment constant.” – Reuven Glick, Group Vice President, The Federal Reserve Bank of San Francisco

U.S. Economic Indicators



The Federal Reserve Bank of St. Louis

Eighth District Beige Book Summary of Economic Activity

“Economic conditions in the District have improved slightly since our previous report. Firms reported slight increases in employment and modest growth in wages. Price pressures have increased modestly primarily due to higher transportation costs. Reports from consumer spending contacts remained mixed. Manufacturers reported modest growth with increases in production and new orders. Residential real estate activity improved slightly while construction activity declined slightly. Commercial real estate markets were somewhat weaker than in previous reports. District bankers reported that loan volumes remain healthy but the rate of growth continues to slow. Agriculture and natural resources conditions have improved slightly since the previous report.

Employment and Wages

Employment has increased slightly since the previous report. Manufacturing employment grew modestly. Contacts in Arkansas reported slight growth while contacts in Missouri reported modest growth. Transportation employment also increased, as multiple distribution centers announced expansions. However, firms continued to report challenges attracting workers. Contacts in Memphis and Arkansas in particular noted difficulties filling high-wage, technical positions. Firms continued to use a variety of strategies, such as business partnerships and non-wage benefits, to recruit employees. One contact reported the launch of programs that teach foreign-born workers English to prepare them for jobs in the medical field and in manufacturing. Wages have increased modestly since the previous report. Multiple contacts reported wage increases for entry-level workers. Furthermore, wages grew in manufacturing and trucking sectors and were generally flat in the hospitality sector. Wages for small businesses in St. Louis rose slightly.” – The Federal Reserve Bank of St. Louis

The Federal Reserve Bank of St. Louis

Eighth District Beige Book

Manufacturing

“Manufacturing activity has increased modestly since our previous report. Survey-based indexes indicate that Arkansas and Missouri manufacturing activity continued to expand from August to September but at a slower pace than in the prior month. New orders and production also increased in both states. Several firms across a variety of industries reported facility expansion and hiring plans, including manufacturers of paper products, automotive parts, and primary metals.

Banking, Finance, and Nonfinancial Services

Activity in the service sector has improved modestly since the previous report. The number of posted vacancies for nonfinancial services occupations increased in September in Louisville, Memphis, and St. Louis. The transportation sector continues to exhibit strong growth with higher demand for rail traffic and increased investment in delivery and fulfillment centers. However, growth is somewhat constrained by increased freight and fuel costs. The trucking industry's shortage in drivers is further compounded by limitations on driving hours for current drivers. Firms in the healthcare industry are reporting higher demand for services and increased investment in hospitals.

Banking conditions in the District have improved moderately since the previous report. According to a survey of small and mid-sized banks, outstanding loan volumes grew by 6 percent in the third quarter relative to a year ago, which is a slight decrease from the growth rate reported in the prior quarter. District loan growth has now slowed in seven straight quarters but remains above the national rate. Commercial and industrial lending continued to be robust, growing by 11 percent from one year ago. In contrast, residential real estate lending remained slow and lagged behind that of the nation for the third consecutive quarter. Bankers continued to report slow growth in deposits growth.” – The Federal Reserve Bank of St. Louis

The Federal Reserve Bank of St. Louis

Eighth District Beige Book Real Estate and Construction

“Residential real estate activity has improved slightly since the previous report. Seasonally adjusted home sales for August were mixed across the District's four largest MSAs but were relatively flat overall. Inventory levels remained low. Residential construction activity has declined slightly since the previous report. August permit activity decreased modestly across the District's MSAs. However, St. Louis builders reported an optimistic outlook for the rest of the year because of robust demand for single-family homes.

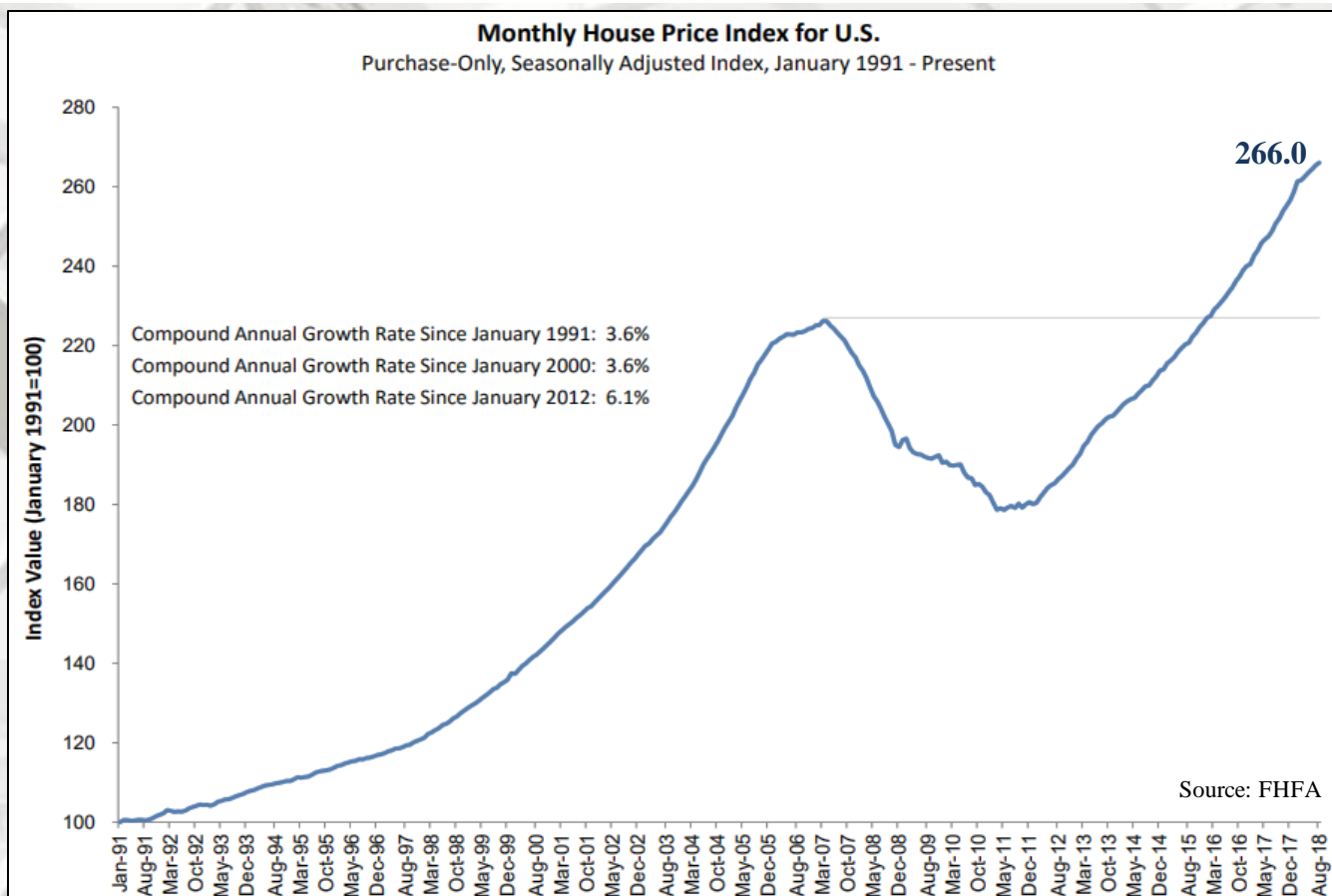
Commercial real estate activity has declined slightly since the previous report. Louisville contacts reported decreased activity in office and retail property markets, and they noted that demand for office space has been relatively stagnant. Commercial construction activity has decreased slightly since the previous report. August multifamily permits were unchanged relative to the previous month in most of the District's MSAs. However, Louisville contacts reported a robust level of new construction underway for multifamily property types. They also indicated that there is a lack of new construction projects for warehouses.

Agriculture and Natural Resources

District agriculture conditions improved slightly compared with previous reports. Production and yield forecasts increased from August to September for corn and soybeans. Expected production levels also improved for cotton and rice during the same period, but yield forecasts decreased. Relative to 2017, District corn, cotton, and soybean yields are expected to increase, but rice yields are projected to decline. Production levels of all four crops are expected to be greater than those from last year.

Natural resource extraction conditions declined slightly from July to August, with seasonally adjusted coal production decreasing 0.6 percent. August coal production was 1.4 percent higher than a year ago.” – The Federal Reserve Bank of St. Louis

U.S. Economic Indicators

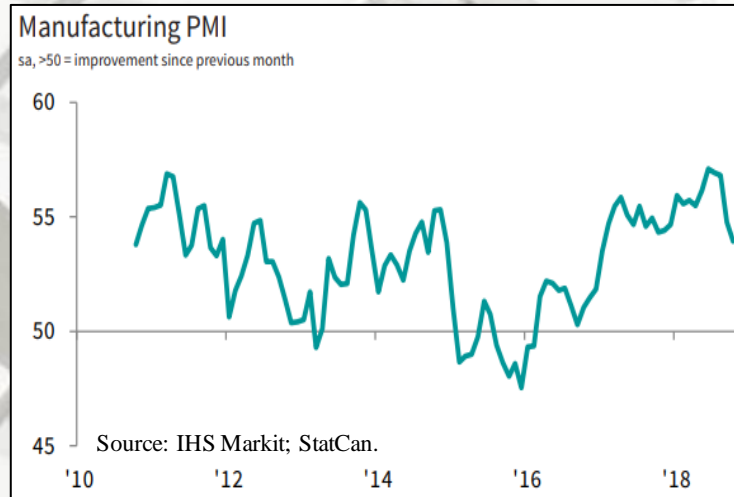


U.S. FHFA House Price Index

FHFA House Price Index Up 0.2 Percent in July

“The FHFA House Price Index (HPI) reported a 0.3 percent increase in U.S. house prices in August from the previous month. From August 2017 to August 2018, house prices were up 6.1 percent. For the nine census divisions, seasonally adjusted monthly price changes from July 2018 to August 2018 ranged from -0.7 percent in the Middle Atlantic division to +0.8 percent in the Pacific division. The 12-month changes were all positive, ranging from +4.0 percent in the Middle Atlantic division to +8.4 percent in the Mountain division.” – Stefanie Johnson and Corinne Russell, FHFA

Private Indicators: Global



Markit Canada Manufacturing PMI™

“Canadian manufacturers reported a sustained upturn in overall business conditions in October, but the rate of improvement slowed for the fourth month running. This was highlighted by a fall in the seasonally adjusted IHS Markit Canada Manufacturing Purchasing Managers’ Index® (PMI®) to 53.9, from 54.8 in September. The latest reading signalled the weakest improvement in manufacturing conditions since January 2017. Softer rates of output and new business growth were the main factors weighing on the headline index in October.

Production growth eases to 22-month low in October

Production volumes expanded at the slowest pace since December 2016. Survey respondents cited subdued demand from both domestic and export markets. The latest overall upturn in new work was the slowest for just under two years.

In contrast to the weaker trend reported for new business growth, latest data revealed another robust increase in manufacturing payroll numbers. Higher staffing levels were attributed to long-term business expansion plans and associated efforts to boost operating capacity. ...

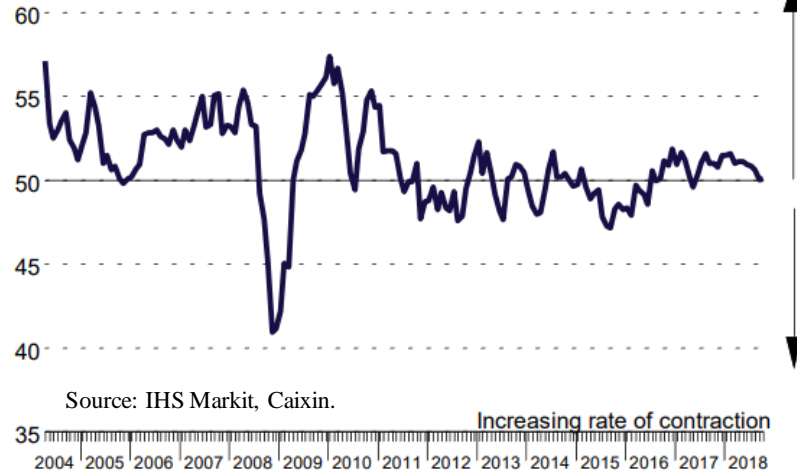
October data suggest that manufacturing production growth continued to ease from the elevated rates seen over the summer. More subdued demand in both domestic and export markets contributed to the weakest rise in new order volumes since November 2016. At the same time, input cost inflation remained sharp and delivery times for materials lengthened amid stretched international supply chains. Regional data indicated that rising spending across the energy sector has helped to moderate the slowdown in manufacturing growth, with firms in Alberta & British Columbia reporting the steepest rises in output and employment. Quebec appears to have felt the soft patch for global trade most keenly, with manufacturers reporting that new export work fell for the second month running in October.” – Christian Buhagiar, President and CEO, SCMA

Private Indicators: Global

Caixin China General Manufacturing PMI

50 = no change on previous month, S.Adj.

Increasing rate of growth



Caixin China General Manufacturing PMI™

Production stagnates in October

“The headline seasonally adjusted *Purchasing Managers’ Index*™ (*PMI*™) – a composite indicator designed to provide a single-figure snapshot of operating conditions in the manufacturing economy – rose only slightly from 50.0 in September to 50.1 in October. This signaled that operating conditions were broadly unchanged at the start of the fourth quarter, after stagnating in the previous month. Prior to September, the health of the sector had improved for 15 consecutive months

Operating conditions in China’s manufacturing sector were little-changed from the previous month in October. Production was broadly unchanged, as total new business rose only slightly. Subdued sales were partly linked to weaker foreign demand, with export sales declining for the seventh month in a row. Relatively soft market conditions contributed to a further drop in workforce numbers, albeit modest, while buying activity rose only slightly. Furthermore, confidence regarding the business outlook for output dipped to an 11-month low.

After rising in the preceding 27 months, manufacturing production in China was little-changed in October. According to panellists, output schedules were largely unchanged due to relatively subdued market demand. After stagnating in September, total new orders expanded slightly in October. According to panellists, sluggish market conditions had dampened client demand, with some firms also citing reduced foreign demand. The amount of new export business fell for the seventh month running in October, though the rate of decline softened from September. Employment fell again in October, thereby extending the current sequence of job shedding to five years. That said, the rate of reduction was the slowest seen since May. Lower workforce numbers were often linked to company down-sizing plans and staff retirements. However, a combination of payroll cuts and insufficient production led to a further modest rise in backlogs of work. ...

Although firms were generally optimistic that output would increase over the next year, sentiment dipped to an 11-month low amid concerns over current subdued market conditions and the impact of the ongoing China-US trade dispute.” – Dr. Zhengsheng Zhong, Director of Macroeconomic Analysis, CEBM Group

Private Indicators: Global

Caixin China General Manufacturing PMI™

“The Caixin China General Manufacturing PMI edged up to 50.1 in October from the month before. The subindexes for new orders and employment both edged higher, with the former remaining in expansionary territory and the latter in contractionary territory. The subindex for new export orders also recovered despite staying in negative territory, just off a more than two-year low in September.

However, the output subindex dropped for the second straight month despite remaining in positive territory, which was in line with the recent significant drop in value-added industrial output despite the rise in manufacturing investment. This may indicate that investment was largely driven by demand related to environmental protection or technological transformation which reflects manufacturers’ production outlook over the next 12 months, stayed in positive territory but dipped further, suggesting ongoing low business confidence.

The subindexes for output charges and input costs both stayed in positive territory, with the former falling and the latter climbing, indicating that upward pressure on the prices of industrial products remained. The subindexes for stocks of finished items and those of purchased items both rose marginally, with the former in negative territory and the latter in positive territory, pointing to a stable demand for manufactured goods. The subindex for suppliers’ delivery times fell in October following a rise in the previous month and stayed in negative territory, implying ongoing pressure on capital turnover among goods producers.

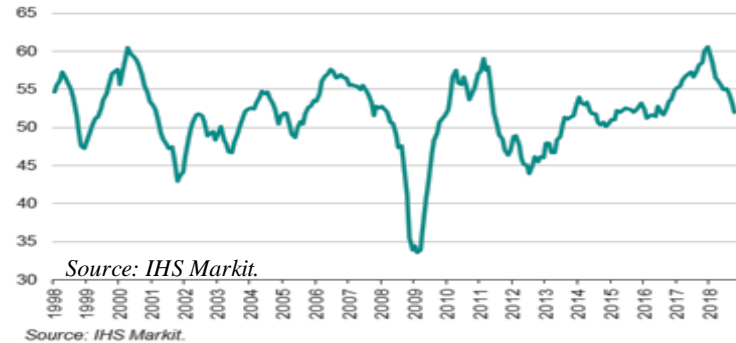
Overall, expansion across the manufacturing sector was still weak. Production and business confidence continued to cool despite stable demand. The pressure on production costs didn’t ease. China’s economy has not seen obvious improvement.” – Dr. Zhengsheng Zhong, Director of Macroeconomic Analysis, CEBM Group

Private Indicators: Global

Data collected October 11-24

IHS Markit Eurozone Manufacturing PMI

Eurozone Manufacturing PMI, sa, 50 = no change



Markit Eurozone Manufacturing PMI®

“The ongoing growth slowdown of the eurozone manufacturing economy continued at the start of the fourth quarter. Falling for a third month in succession and remaining well down on the record highs seen around the turn of the year, the IHS Markit Eurozone Manufacturing PMI declined to a level of 52.0 in October. That compared to 53.2 in September and was broadly unchanged on the earlier flash reading of 52.1.

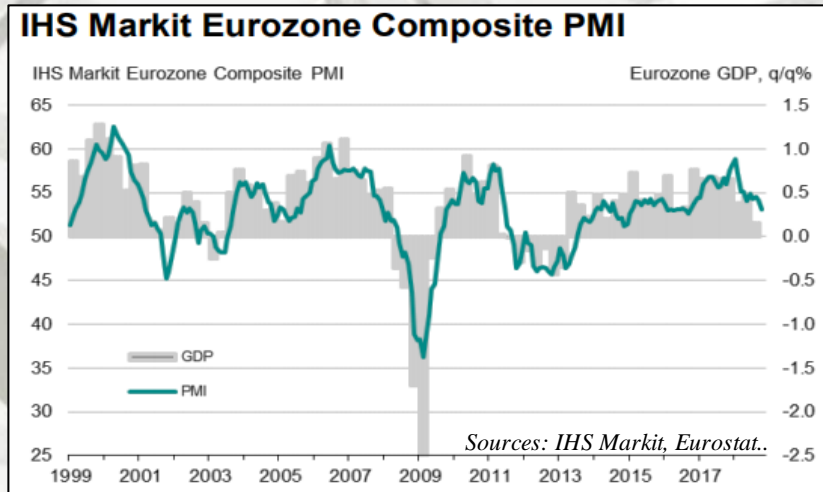
Manufacturing growth falls to 26-month low in October

Market groups data showed that the slowdown in growth was broad-based. Intermediate goods producers fared worst recording concurrent falls in output, new orders and exports. Consumer goods showed some resilience, registering solid rises in both output and new work. Slower manufacturing growth was recorded across much of the single currency area in October. Most notably, Italy slipped into contraction territory, registering its lowest PMI reading in just short of four years. Growth in Germany was the weakest in nearly two-and-a-half years, whilst France and Spain registered only modest gains in manufacturing activity.

Concerns about the Eurozone manufacturing sector intensified at the start of the fourth quarter. The headline PMI fell to its lowest since August 2016, signalling a further slowing in the rate of expansion. New orders fell into decline for the first time in almost four years as trade woes escalated. Export sales fell for the first time in over five years. Moreover, the survey suggests that the manufacturing sector could contract in the fourth quarter unless the data revive in coming months. However, with backlogs of work falling for a second successive month, and business expectations sliding to the lowest for nearly six years, risks seem firmly tilted towards the downside heading towards the end of the year.

While there was some evidence that the autos sector acted as a drag again in October, with car makers struggling with new emission regulations, the manufacturing sector's problems look broad-based. Growing risk aversion, linked in turn to worries about the global economic environment, trade war worries, political uncertainty and rising prices, appears to be hitting demand for a wide variety of goods. The steepest drop in output and orders was seen in the intermediate goods sector, which comprises suppliers of inputs to other manufacturers. The combination of destocking, deteriorating order books and drop in business optimism will add to concerns that growth risks are shifting to the downside rather than being “broadly balanced”, as indicated by the ECB.” – Chris Williamson, Chief Business Economist, Markit®

Private Indicators: Global



Markit Eurozone Composite PMI®

“October saw the euro area economy expand at its slowest rate for more than two years, according to the final **IHS Markit Eurozone PMI® Composite Output Index**. Despite coming in higher than the earlier flash estimate of 52.7, October’s final reading of 53.1 was down from the previous month’s 54.1 to the lowest since September 2016.

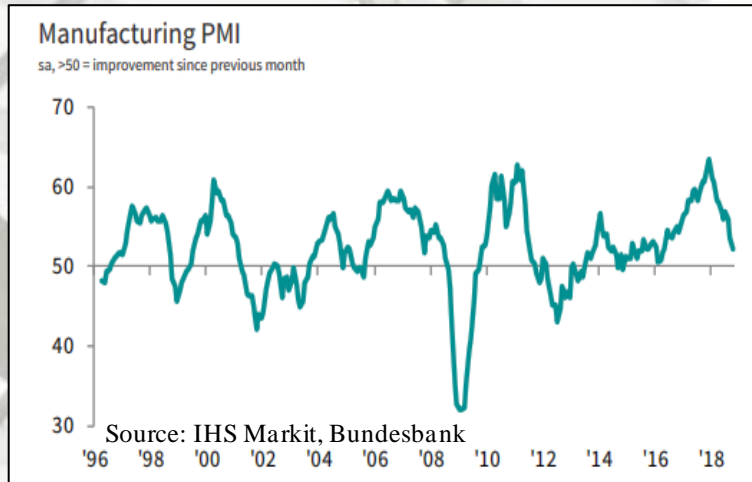
Eurozone growth weakens to lowest in over two years

Both the manufacturing and service sectors recorded slower rates of growth during October. Following on from September, manufacturing registered the weaker increase in output, posting its lowest growth in nearly four years. Despite remaining at a solid level, the service sector saw its slowest expansion since the start of 2017.

Eurozone companies reported a disappointing start to the fourth quarter. Business activity is growing at its slowest rate for over two years and expectations have slumped to the bleakest since the end of 2014. An export-led slowdown, linked to growing trade tensions and tariffs, has been exacerbated by rising political uncertainty, growing risk aversion and tightening financial conditions. The slowdown has consequently become more broad-based to increasingly envelop the services economy.

While the PMI numbers hint at an upward revision to the 0.2% flash estimate of third quarter GDP growth, it’s clear that the economy has slowed and that the weakness has intensified into the fourth quarter. Italy has recorded an especially noticeable slowdown, slipping into decline during October, whilst Germany has also seen a worrying easing of growth, with both countries affected by rising political uncertainty. France and Spain, in contrast, have seen more resilient business conditions, though both are registering much slower growth than earlier in the year.” – Chris Williamson, Chief Business Economist, Markit®

Private Indicators: Global



IHS Markit/BME Germany Manufacturing PMI®

“The headline IHS Markit/BME Germany Manufacturing PMI – a single-figure snapshot of the performance of the manufacturing economy – fell for the third month running in October, from 53.7 in September to a 29-month low of 52.2. The Index remained above the 50.0 no-change mark thanks in part to increases in output and employment, though growth slowed on both fronts.

Manufacturing PMI slide extends into fourth quarter as order books move into contraction

New orders placed with German manufacturers decreased in October, causing overall growth in the sector to slow to its weakest in nearly two-and-a-half years, latest PMI® survey data from IHS Markit showed. Order books fell for the first time since late-2014 to end a record sequence of growth. Firms linked the slowdown to troubles in the automotive sector and hesitancy among foreign clients, reporting slower increases in output and employment as a result. Moreover, production is expected to fall in the next 12 months, the first sign of pessimism among manufacturers for four years. ...

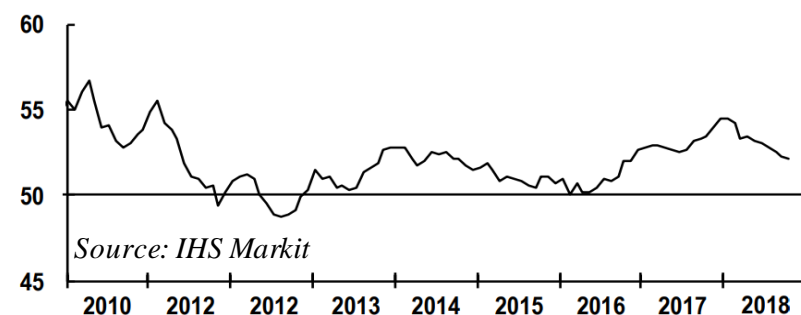
A second consecutive monthly decline in export orders poured more cold water on the manufacturing sector in October, with PMI data indicating the worst overall growth performance for almost two-and-a-half years. Output barely rose compared with the month before, and the odds appear to be in favour of production falling in coming months rather than regaining momentum. New orders were down for the first time in four years in October and backlogs fell again. But perhaps most telling is the view of manufacturers that output levels are expected to be lower 12 months from now.

Employment growth remained more resilient but, being a lagging indicator, it's more than likely that the pace of hiring will continue to slow as we move through the fourth quarter. Whether the sector does enter a phase of contraction remains to be seen, but it's nonetheless been a while since the outlook has looked so bleak.” – Phil Smith, Principal Economist, IHSMarkit®

Private Indicators: Global

JPMorgan Global Manufacturing PMI

DI, sa



JP Morgan Global Manufacturing PMI™

“At 52.1 in October, down from 52.2 in September, the J.P. Morgan Global Manufacturing PMI™ – a composite index produced by J.P. Morgan and IHS Markit in association with ISM and IFPSM – fell to its lowest level in almost two years, as rates of growth in output and new orders weakened.

Global manufacturing slowdown continues in October

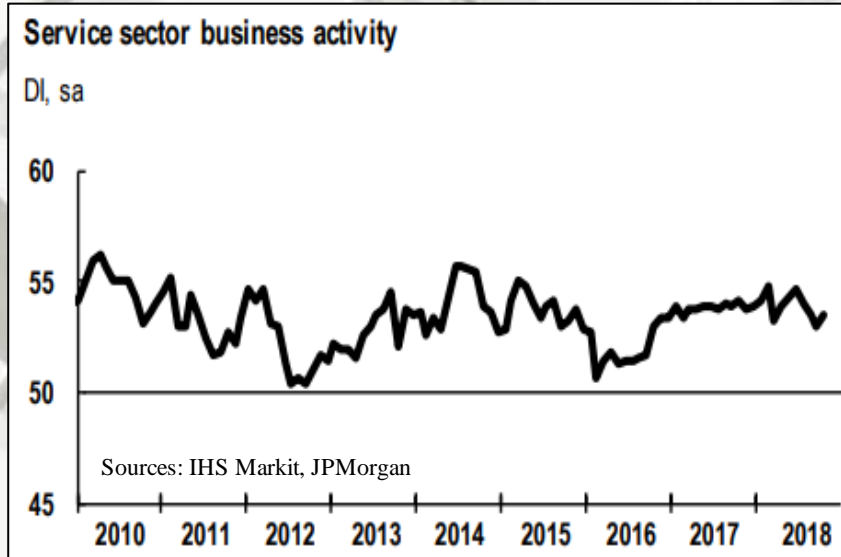
All three of the sub-sectors covered by the survey continued to expand in October. The bright spot was consumer goods, which saw its PMI rise to a four-month high. This contrasted with the trends in the intermediate and investment goods industries, which registered their lowest PMI readings since November 2016 and September 2016 respectively.

October saw developed nations (on average) outperform emerging markets. This was mainly due to the ongoing strength of the US, which saw its PMI rise to a five-month high. The rate of expansion hit a four-month high in Japan, which (like the US) saw above global-average growth. Rates of increase slowed to the lowest since August 2016 in the euro area and to its weakest during the current 27-month sequence of expansion in the UK.

Global manufacturing production rose at the slowest pace in 28 months in October. Output growth was constrained by a weaker increase in new business, including a second successive month-on-month decrease in new export orders. The euro area, China, South Korea, the UK, Taiwan, Brazil, Turkey, Indonesia, Poland and Thailand all saw new export work contract. The US fared little-better, with its rate of increase in new export business easing to near-stagnation. Global manufacturing employment rose at the quickest pace in six months.

Among the larger nations covered, job creation was signalled in the US, the eurozone and Japan, whereas cuts were seen in China. Input cost inflation accelerated slightly, in contrast to an easing in the rate of increase in selling prices to a seven-month low.” – David Hensley, Global Economist, J.P. Morgan

Private Indicators: Global



JP Morgan Global Services PMI™

“October saw the rate of expansion in global services business activity accelerate for the first time in four months. At 53.4, the J.P. Morgan Global Services Business Activity Index – a composite index produced by J.P. Morgan and IHS Markit in association with ISM and IFPSM – was up from September’s two-year low of 52.9 and has now signalled growth for 111 straight months.

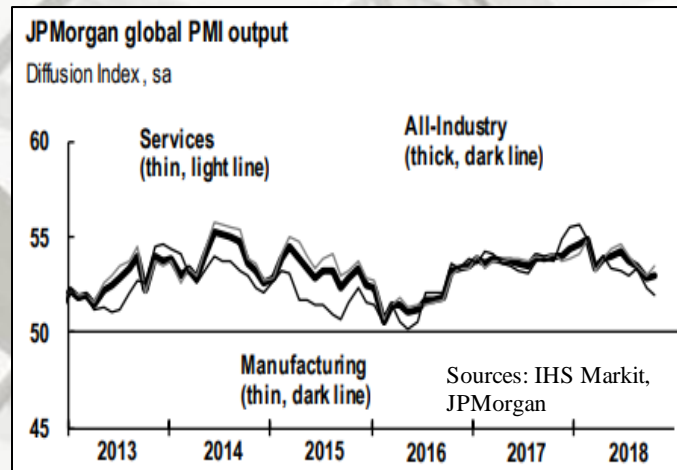
World service sector growth strengthens in October

The upturn remained broad-based by sub-industry, as business activity rose across the business, consumer and financial services sectors. Rates of expansion improved in the first two, but slowed to a five-month low in the latter. Despite the acceleration, the consumer services category saw the slowest growth for the fifth month running. ...

Global service sector new business increased at a solid pace in October. New order growth was unchanged from September’s three-month high, but still modest compared to the first half of the year. Backlogs of work continued to rise, encouraging firms to take on additional staff.

The October PMI surveys signalled the first improvement in global service sector growth for four months. With the trend in new business also holding up well, backlogs of work rising and business optimism strengthening, the outlook for the sector remains positive for the coming months.” – David Hensley, Global Economist, J.P. Morgan

Private Indicators: Global



JP Morgan Composite PMI™

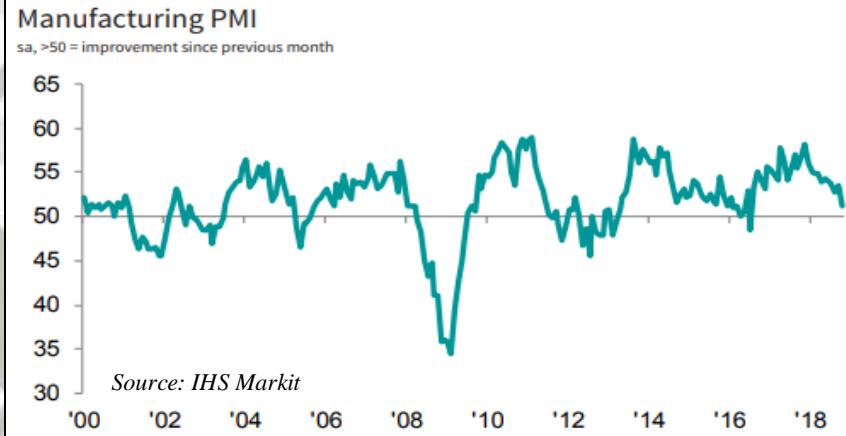
“October saw a mild uptick in the rate of expansion of global economic output. The J.P. Morgan Global Composite Output Index – which is produced by J.P. Morgan and IHS Markit in association with ISM and IFPSM – rose to 53.0, up from September’s two-year low of 52.8, but still recorded its second-lowest reading since September 2016. Output growth accelerated at service providers, but eased slightly at manufacturers.

Global economic growth ticks higher at start of Q4

The upturn remained broad-based by sub-industry in October, with business activity rising across the six sectors covered by the survey. Growth accelerated in the business services, consumer goods and consumer services categories, but slowed in the financial services, intermediate goods and investment goods industries. The US remained the prime driver of the expansion in global economic output. US growth improved to a three-month high, with rates of expansion solid at both manufacturers and service providers. Germany, Ireland, France, Spain and Russia were the other nations to register a rate of expansion above the global average (with the latter three also seeing growth accelerate).

The start of the final quarter saw a modest improvement in the rate of expansion of global economic output, as a stronger performing service sector offset the ongoing slowdown at manufacturers. With inflows of new work and jobs growth still solid, and business confidence rising, the current trend in global GDP growth is likely to be sustained at, or close to, its current pace during the remainder of the year.” – David Hensley, Global Economist, J.P. Morgan

Private Indicators: Global



Markit/CIPS UK Manufacturing PMI™

“The seasonally adjusted IHS Markit/CIPS Purchasing Managers’ Index® (PMI®) fell to a 27-month low of 51.1, down from September's revised reading of 53.6 (originally published as 53.8). Data collection was undertaken between 12-26 October, closing before the Chancellor's Budget announcement on Monday 29th.

UK manufacturing new orders and employment fall for first time since mid-2016

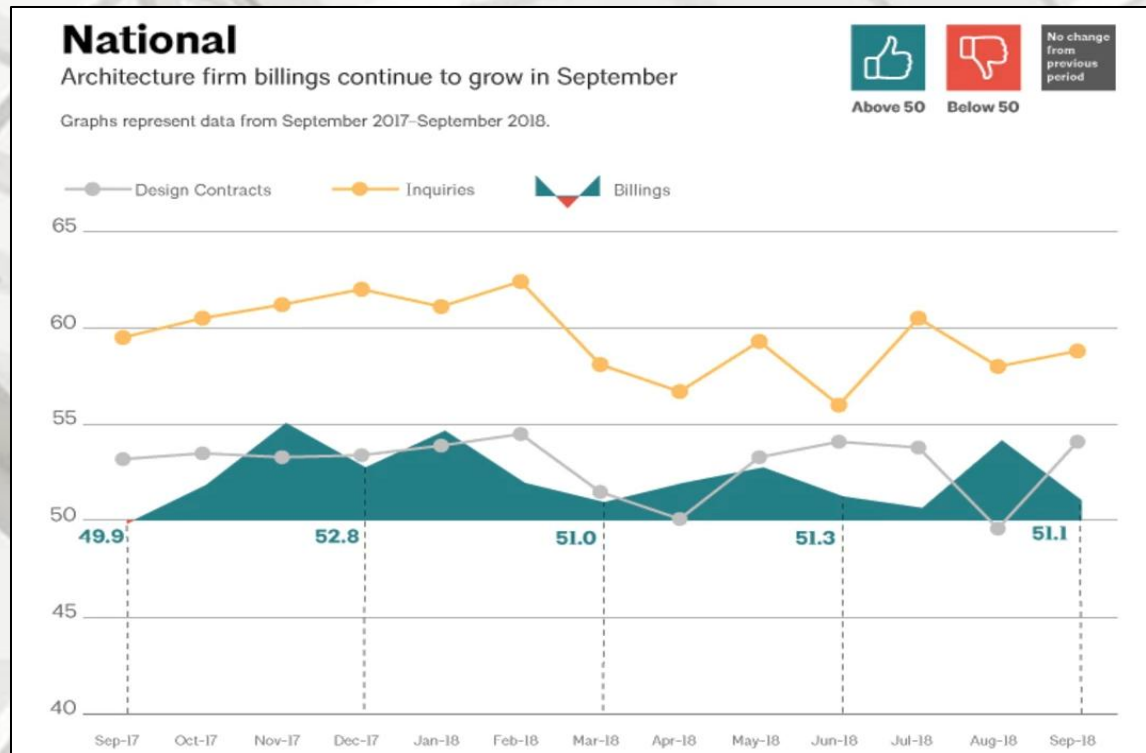
Conditions in the UK manufacturing sector slowed sharply during October. Output growth weakened, while new order inflows and employment both declined for the first time since July 2016 (the PMI survey directly following the EU referendum). The drop in new business was partly driven by rising global trade tensions and Brexit uncertainties.

October saw a worrying turnaround in the performance of the UK manufacturing sector. At current levels, the survey indicates that factory output could contract in the fourth quarter, dropping by 0.2%. New orders and employment both fell for the first time since the Brexit vote as domestic and overseas demand were hit by a combination of Brexit uncertainties, rising global trade tensions and especially weak demand for autos. Alongside the halt in hiring, the increasingly defensive position of UK manufacturers was also reflected in the slight decreases in purchasing activity and inventory holdings, which firms linked to protecting cash flow and cost-cutting. There was some better news on the prices front, however, with input cost inflation dipping to its lowest for over two years as many global commodity prices fell.

Looking ahead, manufacturers still maintain a positive outlook for production over the coming year, with 48% forecasting expansion. That said, the second half of the year so far has also seen confidence remain low compared to its long-run average, with views on prospects darkening again in October amid rising Brexit-related uncertainties and escalating global trade tensions.” – Rob Dobson, Director & Senior Economist, IHS Markit

Private Indicators

American Institute of Architects (AIA)

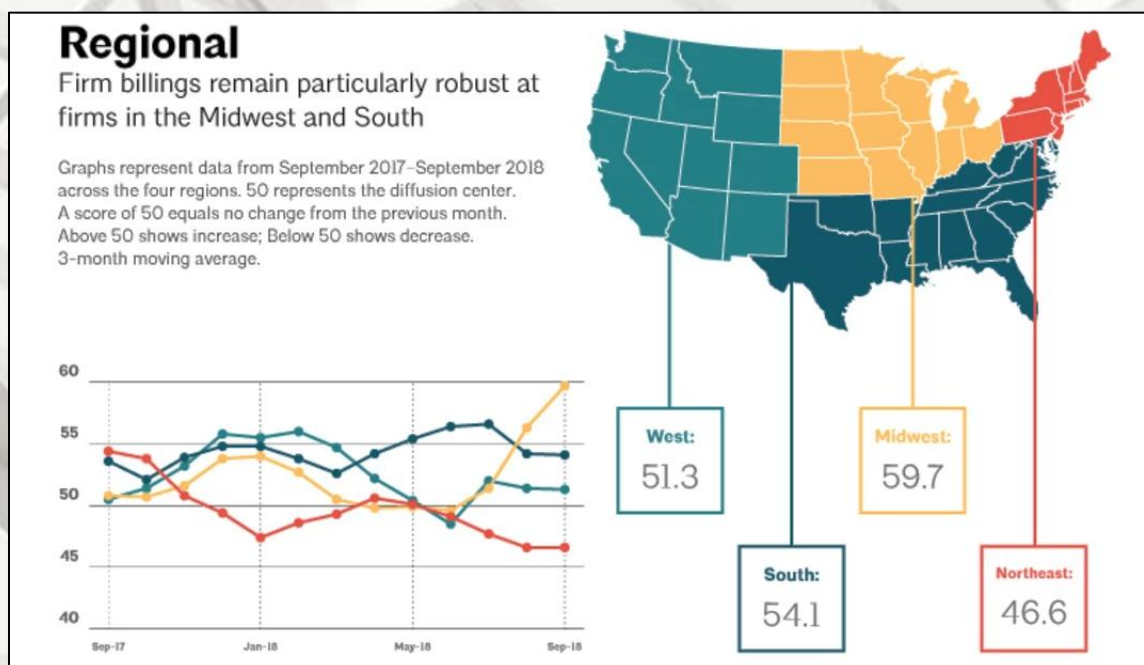


September Architecture Billings Index

Business Conditions Strong Heading Into Fall Billings Remain Positive for the 12th Consecutive Month

“The AIA's monthly Architecture Billings Index (ABI) came in at a score of 51.1 in September, marking the 12th consecutive month of gains. Although the pace of billings growth slowed somewhat from August, billings have remained positive for the entire year so far, indicative of generally strong conditions at firms. The value of new signed design contracts increased in September as well, after a modest decline in August, and inquiries into new projects remained strong. Firms also continued to report very strong project backlogs, currently averaging just over six months.” – The American Institute of Architects

Private Indicators: AIA



Region

“The scores for regional billings – which, unlike the national score, are calculated as a three-month moving averages – decreased in three regions in September. The billings score for the West dropped 1.1 points to a score of 53.1. Demand for design services in the South decreased by 2.9 points to a score of 54.1. Billings also decreased in the Northeast by 0.3 points, to a score of 46.6. Demand for design services increased significantly by 7.2 points to a score of 59.7 in the Midwest. Similar to the strong conditions we’ve seen nationally, architecture firms located in the Midwest and Southern regions of the country continued to report very strong billings in September. Business conditions have also been strengthening at firms located in the West over the last few months. On the other hand, billings remained very soft at firms located in the Northeast, where they have declined or been flat for the entire year so far” – The American Institute of Architects

Source: <https://www.aia.org/pages/219446-abi-september-2018-business-conditions-stro>; 10/24/18

Private Indicators: AIA



Sector

“Architecture firms of all specializations reported increasing firm billings in September, with those with a residential or institutional specialization reporting particularly strong billings. Business conditions have softened somewhat in recent months at firms with a commercial/industrial specialization but remain positive overall. Billings decreased in two of the four individual industry sectors in September, but all posted a score above 50, indicating growth. The multifamily residential score dropped by 0.7 point to a score of 54.9 and the commercial/industrial sector's score decreased by 2.8 points to a score of 50.8. The institutional sector grew 2.8 points to a score of 55.1. And the mixed-use sector posted a score of 53.4, a 1.7-point increase from August's score of 51.7. (Results of sectors are also calculated as three-month moving averages.)” – The American Institute of Architects

Private Indicators

Dodge Data & Analytics

September Construction Starts Settle Back 5 Percent

“New construction starts in September fell 5% from the previous month to a seasonally adjusted annual rate of \$709.6 billion, according to Dodge Data & Analytics. The September downturn followed 9% declines in both July and August, as the pace of construction starts has now pulled back for the third month in a row after reaching the current year’s high in June. By major sector, nonresidential building weakened further in September, sliding 6%. Nonbuilding construction dropped 13% in September, due to sharp retrenchment for the electric utility/gas plant category while public works held basically steady. Residential building was the one major sector posting a gain in September, rising 2%. Through the first nine months of 2018, total construction starts on an unadjusted basis were \$599.9 billion, down 1% from the same period a year ago. The year-to-date volume for total construction starts was dampened by a 49% plunge for the electric utility/gas plant category. If the electric utility/gas plant category is excluded, total construction starts during the first nine months of 2018 would be up 1% compared to the same period last year.

September’s data produced a reading of 150 for the Dodge Index (2000=100), after the 157 reported for August.” – Benjamin Gorelick, Spector & Associates

Private Indicators

Dodge Data & Analytics

“The pace of construction starts has clearly slowed over the past three months, following what was unsustainably high levels during May and June. Since construction starts on a monthly basis are often subject to wide swings, it’s useful to look at the recent pattern of activity on a quarterly basis. After sliding 7% in the fourth quarter of 2017, total construction starts strengthened 3% in this year’s first quarter and then advanced another 4% in the second quarter. The loss of momentum in July, August, and now September produced a 7% decline for the third quarter, in effect returning the pace of construction starts to the level reported at the end of last year.

It’s true that the rate of growth for construction starts has decelerated more in 2018, but it’s still too early to say that the construction industry has rounded the peak and is now in decline. There are of course mounting headwinds affecting construction, namely rising interest rates and higher material costs, but for now these have been balanced by stronger economic growth, some easing of bank lending standards, still healthy market fundamentals for commercial real estate, and greater state financing for school construction and enhanced federal funding for public works.” – Robert A. Murray, Chief Economist, Dodge Data & Analytics

Private Indicators

Dodge Data & Analytics

“**Residential building** in September was \$316.6 billion (annual rate), up 2%. Single family housing rose 2%, rebounding slightly from a 5% drop in August which had followed what was essentially an extended plateau from late 2017 through July. By geography, September showed this pattern for single family housing relative to August – the Northeast, up 13%; the West and South Atlantic, each up 3%; the South Central, down 1%; and the Midwest, down 2%. Through the first nine months of 2018 single family housing showed this pattern compared to last year – the West, up 12%; the South Atlantic and the South Central, each up 6%; the Midwest, up 2%; and the Northeast, up 1%.

Multifamily housing in September grew 1%, although it was 18% below the strong volume reported in this year’s first quarter. There were six multifamily projects each with a construction start cost of \$100 million or more that reached groundbreaking in September, compared to eight such projects in August. The large multifamily projects in September were led by the \$132 million multifamily portion of a \$150 million mixed-use project in Chicago IL (which is a conversion of the Chicago Tribune tower), the \$125 million multifamily portion of a \$160 million mixed-use building in Brooklyn NY, and a \$125 million townhouse complex in Cedar Grove NJ. Through the first nine months of 2018, the top five metropolitan areas ranked by the dollar amount of multifamily starts were – New York NY, Washington DC, Miami FL, Boston MA, and Seattle WA. Metropolitan areas ranked 6 through 10 were – San Francisco CA, Los Angeles CA, Dallas-Ft. Worth TX, Chicago IL, and Atlanta GA.” – Robert A. Murray, Chief Economist, Dodge Data & Analytics

Private Indicators

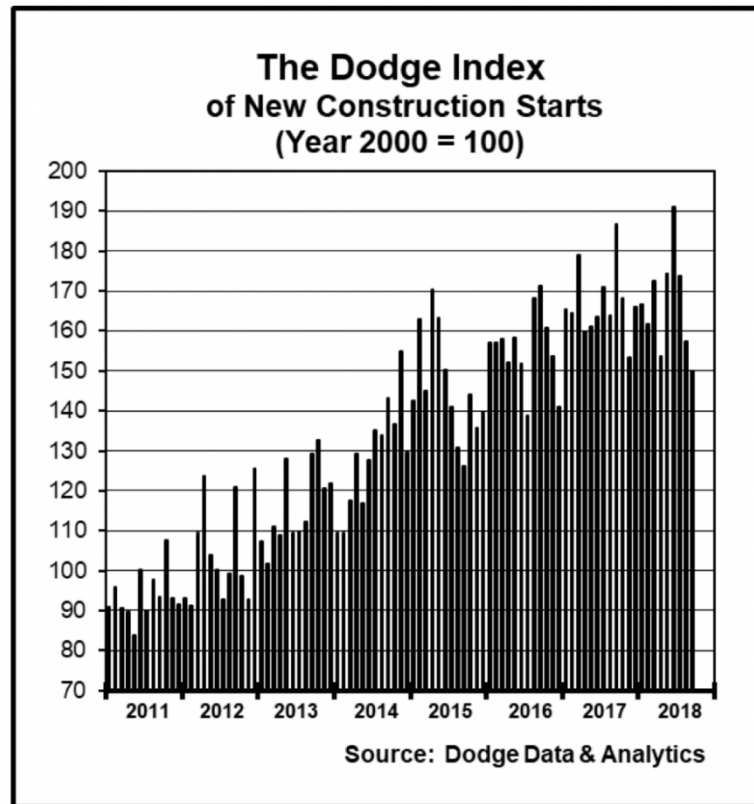
Dodge Data & Analytics

“The 1% decline for total construction starts on an unadjusted basis during the January - September period of 2018 was the result of a varied pattern by major sector. Nonresidential building year-to-date dropped 7%, as a 15% increase for manufacturing plant construction was outweighed by declines of 6% for commercial building and 11% for institutional building. (The year-to-date performance for nonresidential building weakened compared to what was reported with the August 2018 construction starts report since the comparison now includes very strong activity in September 2017, which was boosted by a \$6.0 billion ethane cracker plant in Pennsylvania, the \$4.0 billion Delta Airlines terminal at LaGuardia Airport in New York NY, and the \$1.7 billion 50 Hudson Yards office tower in New York NY. The year-to-date performance for nonresidential building is expected to strengthen during this year’s closing months.)

Nonbuilding construction year-to-date slipped 4%, as a 7% increase for public works was countered by a 49% slide for electric utilities/gas plants. **Residential building** was the one major sector to see a year-to-date increase, rising 6% with **single family housing** up 7% and **multifamily housing** up 5%. By geography, total construction starts during the first nine months of 2018 showed this behavior relative to a year ago – the Northeast, down 19%; the West, down 4%, the Midwest, up 1%; the South Atlantic, up 6%; and the South Central, up 12%.” – Robert A. Murray, Chief Economist, Dodge Data & Analytics

Private Indicators

September 2018 Construction Starts



September 2018 Construction Starts

Monthly Summary of Construction Starts

Prepared by Dodge Data & Analytics

Monthly Construction Starts

Seasonally Adjusted Annual Rates, in Millions of Dollars

	<u>September 2018</u>	<u>August 2018</u>	<u>% Change</u>
Nonresidential Building	\$236,377	\$251,394	-6
Residential Building	316,635	311,580	+2
Nonbuilding Construction	<u>156,544</u>	<u>180,422</u>	<u>-13</u>
Total Construction	\$709,556	\$743,396	-5

The Dodge Index

Year 2000=100, Seasonally Adjusted

September 2018 ...150

August 2018.....157

Year-to-Date Construction Starts

Unadjusted Totals, in Millions of Dollars

	<u>9 Mos. 2018</u>	<u>9 Mos. 2017</u>	<u>% Change</u>
Nonresidential Building	\$209,348	\$224,627	-7
Residential Building	249,750	235,230	+6
Nonbuilding Construction	<u>140,828</u>	<u>146,038</u>	<u>-4</u>
Total Construction	\$599,926	\$605,895	-1
Total Construction, excluding electric utilities/gas plants	\$586,376	\$579,146	+1

Private Indicators

Dodge Data & Analytics

New Construction Starts in 2019 to Hold Steady with 2018 Amount, According to Dodge Data & Analytics

Dodge Outlook Report Predicts Deceleration in Total Construction Growth Will Continue, Reflecting a Mixed Pattern by Project Type

“Dodge Data & Analytics (<https://www.construction.com>) today released its 2019 Dodge Construction Outlook, a mainstay in construction industry forecasting and business planning. The report predicts that total U.S. construction starts for 2019 will be \$808 billion, staying essentially even with the \$807 billion estimated for 2018.

The pattern of construction starts by more specific segments is the following:

- Single family housing will be unchanged in dollar terms, alongside a modest 3% drop in housing starts to 815,000 (Dodge basis). There will be a slight decline in homebuyer demand as the result of higher mortgage rates, diminished affordability, and reduced tax advantages for home ownership as the result of tax reform.
- Multifamily housing will slide 6% in dollars and 8% in units to 465,000 (Dodge basis). Market fundamentals such as occupancies and rent growth had shown modest erosion prior to 2018, which then paused this year due to the stronger U.S. economy. However, that erosion in market fundamentals is expected to resume in 2019.” – Nicole Sullivan, Public Relations & Social Media, AFFECT

Private Indicators

Dodge Data & Analytics

- “Commercial building will retreat 3%, following 2% gains in 2017 and 2018, as well as the substantial percentage increases that took place earlier. While 2018 market fundamentals for offices and warehouses are healthy, next year vacancy rates are expected to rise as the economy slows, slightly dampening construction. Hotel construction will ease back from recent strength, and store construction will experience further weakness.
- Institutional building will advance 3%, picking up the pace slightly from its 1% gain in 2018 which itself followed an 18% hike in 2017. Educational facilities should see continued growth in 2019, supported by funding coming from numerous school construction bond measures. Healthcare projects will make a partial rebound after pulling back in 2018. Airport terminal and amusement-related projects are expected to stay close to the elevated levels of construction starts reported in 2017 and 2018.
- Manufacturing plant construction will rise 2% following the 18% jump that’s estimated for 2018. The recent pickup in petrochemical plant projects should continue, and cuts in the corporate tax rate from tax reform should encourage firms to invest more in new plant capacity.
- Public works construction will increase 4%, reflecting growth by most of the project types. The omnibus federal appropriations bill passed in March provided greater funding for transportation projects that will carry over into 2019, and environmental-related projects are getting a lift from recently passed legislation.
- Electric utilities/gas plants will drop 3%, continuing to retreat after the exceptional amount reported back in 2015. New generating capacity continues to come on line, dampening capacity utilization rates for power generation” – Nicole Sullivan, Public Relations & Social Media, AFFECT

Private Indicators

Dodge Data & Analytics

New Construction Starts in 2019 to Hold Steady with 2018 Amount, According to Dodge Data & Analytics

Dodge Outlook Report Predicts Deceleration in Total Construction Growth Will Continue, Reflecting a Mixed Pattern by Project Type

“Over the past three years, the expansion for the U.S. construction industry has shown deceleration in its rate of growth, a pattern that typically takes place as an expansion matures. After advancing 11% to 14% each year from 2012 through 2015, total construction starts climbed 7% in both 2016 and 2017, and a 3% increase is estimated for 2018. There are, of course, mounting headwinds affecting construction, namely rising interest rates and higher material costs, but for now these have been balanced by the stronger growth for the U.S. economy, some easing of bank lending standards, still healthy market fundamentals for commercial real estate, and greater state financing for school construction and enhanced federal funding for public works.” – Robert A. Murray, Chief Economist, Dodge Data & Analytics

Private Indicators

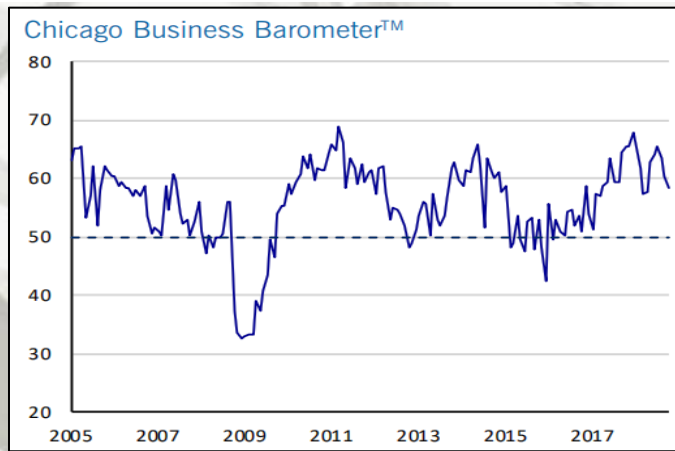
Dodge Data & Analytics

New Construction Starts in 2019 to Hold Steady with 2018 Amount, According to Dodge Data & Analytics

“An important question going into 2019 is whether deceleration is followed by a period of high level stability or a period of decline. For 2019, it’s expected that growth for the U.S. economy won’t be quite as strong as what’s taking place in 2018, as the benefits of tax cuts begin to wane. Short term interest rates will rise, as the Federal Reserve continues to move monetary policy towards a more neutral stance. Long-term interest rates will also rise, reflecting higher inflationary expectations by the financial markets. At the same time, any erosion in market fundamentals for commercial real estate will stay modest. In addition, the greater funding from state and local bond measures passed in recent years will still be present, and it’s likely that federal spending for construction programs will increase once all the federal appropriations bills for fiscal 2019 are finalized. In this environment, it’s forecast that growth for construction starts will decelerate further, but not yet make the transition to the point where the overall volume of activity declines.

For 2019, total construction starts are forecast to hold basically steady at \$808 billion. By major sector in dollar terms, **residential building will be down 2%**, nonresidential building will match its 2018 amount, and nonbuilding construction will increase 3%.” – Robert A. Murray, Chief Economist, Dodge Data & Analytics

Private Indicators



MNI Chicago Business Barometer Declines to 58.4 in October

“The MNI Chicago Business Barometer declined to 58.4 in October, the lowest reading since April, down 2.0 points from 60.4 in September.

Barometer Starts Q4 Pace on a Softer Footing as New Orders, Backlogs Ease

Business activity continued to expand at a healthy rate this month, despite the pace of activity decelerating for the third month in a row. A decline in order book growth and unfinished orders more than offset a rise in output, delivery times and employment, sending the Barometer to its lowest reading in six months. On the year, the Barometer was down 10.7%, the biggest year-over-year fall since December 2015.

Despite beginning the final quarter on a softer footing, activity remains robust relative to recent years. The headline index still sits above its five-year average, with the latest moderations possibly reflecting a reversion to more familiar levels after a series of strong performances over the past 12 months. Partly responsible for the Barometer’s decline this month was an easing in order book growth. New Orders fell for the sixth time this year, settling at its lowest level since January 2017. Output, on the other hand, did strengthen, albeit marginally. Together, the two indicators account for 60% of the headline index.

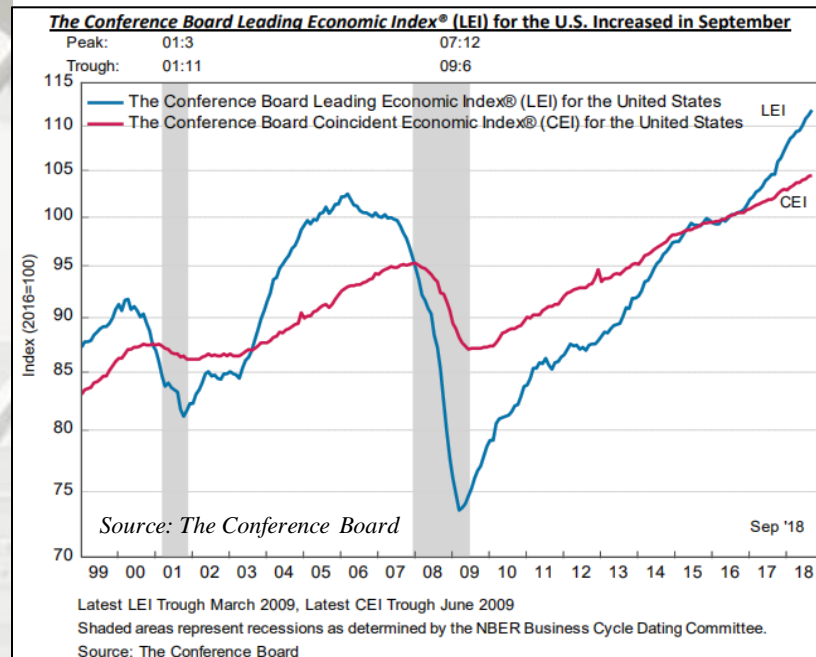
The MNI Chicago Business Barometer continued to revert back towards trend-levels in October, cooling off after a hot and unsustainable run last year. Production continues to be restrained by issues between firms and their suppliers, reflected by Supplier Deliveries at a 14-year high, while the latest raft of tariffs on Chinese goods appears to be exacerbating uncertainty across firms.” – Jamie Satchi, Economist, MNI Indicators

Private Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. Increased in September

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.5 percent in September to 111.8 (2016 = 100), following a 0.4 percent increase in August, and a 0.7 percent increase in July.

U.S. Composite Economic Indexes (2016 = 100)



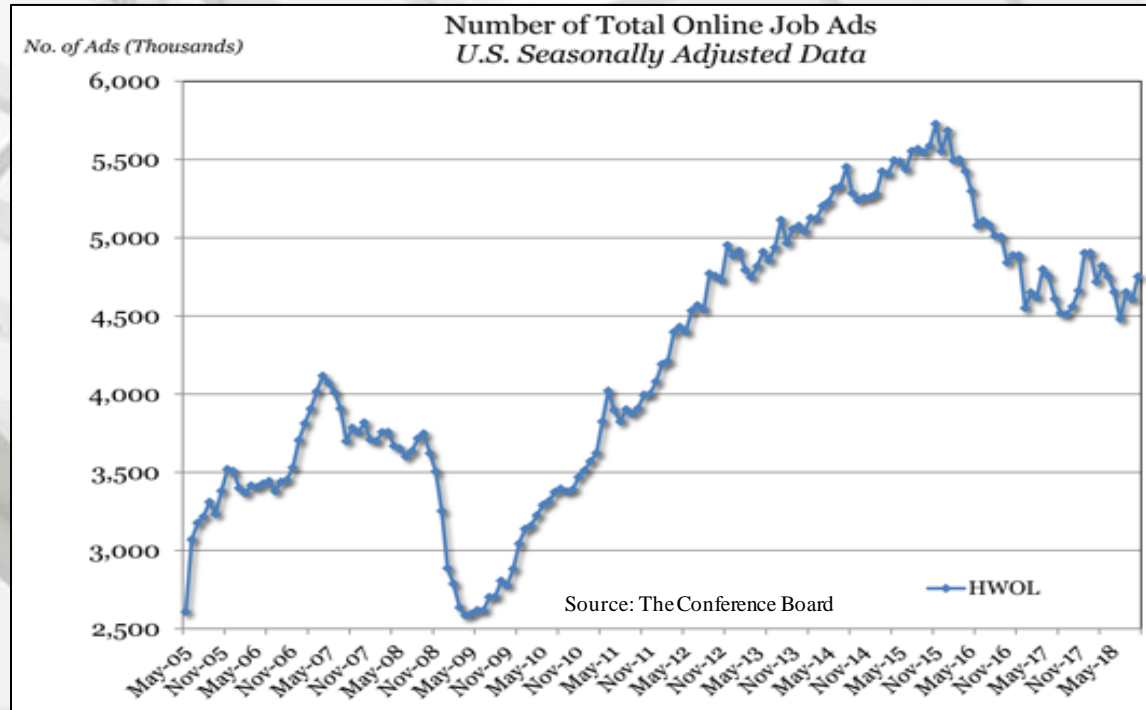
Economy Remains on Strong Growth Trajectory Heading into 2019

“The US LEI improved further in September, suggesting the US business cycle remains on a strong growth trajectory heading into 2019. However, the LEI’s growth has slowed somewhat in recent months, suggesting the economy may be facing capacity constraints and increasingly tight labor markets. Economic growth could exceed 3.5 percent in the second half of 2018, but, unless the momentum in housing, orders and stock prices accelerates, that pace is unlikely to be sustained in 2019.” – Ataman Ozyildirim, Director of Business Cycles and Growth Research, The Conference Board

“**The Conference Board Coincident Economic Index® (CEI)** for the U.S. increased 0.1 percent in September to 104.4 (2016 = 100), following a 0.3 percent increase in August, and a 0.1 percent increase in July.

The Conference Board Lagging Economic Index® (LAG) for the U.S. declined 0.1 percent in September to 105.3 (2016 = 100), following a 0.2 percent increase in August and a 0.2 percent decline in July.” – The Conference Board

Private Indicators



The Conference Board Help Wanted OnLine® (HWOL) Online Job Ads Increased 145,100 in October

- “Most states showed small gains
- Widespread gains across most occupational categories

Online advertised vacancies increased 145,100 to 4,750,300 in October, according to *The Conference Board Help Wanted OnLine® (HWOL) Data Series.*” – Carol Courter, The Conference Board

Private Indicators

Equipment Leasing and Finance Association

New Foundation Study Reports Equipment Finance Industry on Sound Footing For the Future After Healthy Growth in 2017

“The equipment finance industry posted a solid year of growth in 2017, and recent data on business investment and confidence suggest that the industry is likely to repeat or improve on that trend in 2018, according to a new study, [2018 Equipment Leasing & Finance Industry Horizon Report](#) released by the [Equipment Leasing & Finance Foundation](#) (Foundation). The study, commissioned by the Foundation and prepared by Keybridge, reveals that approximately 60 percent of the \$1.7 trillion in total private and public equipment and software investment in 2017 was financed, resulting in an industry sizing estimate of \$1.01 trillion.

The report draws on the results of a new end-user survey the Foundation conducted in August 2018 of over 400 businesses, of which 255 acquired equipment in 2017. Respondents reflect a diverse mix of small, medium, and large firms across a range of industries with varying equipment needs, providing a reliable snapshot of overall equipment acquisition trends. The end-user survey was intended to allow for an interim update of the Foundation’s industry sizing estimate, along with select vertical- and industry-specific breakdowns. The Foundation intends to commission a full-scale market-sizing study with additional detail in 2019.” – Anneliese DeDiemar, Author, Equipment Leasing & Finance Association

“The Horizon Report provides the best elements of prior State of the Equipment Finance Industry (SEFI) reports and the Foundation’s market sizing study. In addition to summarizing key industry performance data, this new format offers invaluable forward-looking economic and market insights from industry leaders and Foundation researchers.” – Jeffry D. Elliott, Foundation Chairman and Senior Managing Director of Huntington Equipment Finance

Private Indicators

Equipment Leasing and Finance Association

Key Findings:

“Highlights from the 2018 Equipment Leasing & Finance Horizon Report include:

- **Leasing leads the pack.** According to the end-user survey (which focused only on private sector investment), the most common payment method used by businesses to acquire equipment and software in 2017 was leasing (48%), followed by lines of credit (9%) and secured loans (8%). Among non-financed acquisitions, cash (23%) was the most prevalent payment method, followed by paid-in-full credit card purchases (10%) and “other” (2%).
- **Nearly 6 in 10 businesses use financing for acquisitions.** The end-user survey also revealed that 58% of respondents who acquired equipment or software in 2017 used at least one form of financing to do so (i.e., lease, secure loan, or line of credit). While this result is lower than the Foundation’s 2016 estimate (78%), the decline may be a result of the rise in interest rates that has increased the cost of borrowing. It may also stem from the substantial improvement in small business confidence that occurred in 2017, which triggered greater equipment investment activity among smaller firms that may be less likely to use financing methods.
- **Propensity to finance remains stable.** More than twice as many respondents expect their equipment and software acquisitions to increase vs. decrease over the next 12 months (26% increase; 12% decrease), though the majority of respondents expect equipment and software acquisition to stay the same (59%). Of the respondents who expect acquisitions to increase, most (67%) anticipate paying for at least a portion of that cost in cash, but 59% of respondents expect to use a financing method — suggesting that the propensity to finance is relatively stable.” – Anneliese DeDiemar, Author, Equipment Leasing & Finance Association

Private Indicators

Equipment Leasing and Finance Association

“Highlights from the 2018 Equipment Leasing & Finance Horizon Report include:

- **New business volume expanded in 2017.** New business volume expanded by a healthy 6.9% for the overall equipment finance industry in 2017 according to the annual Survey of Equipment Finance Activity (SEFA), a significant improvement over 2016’s 2.5% increase. Similarly, ELFA’s Monthly Leasing and Finance Index (MLFI-25), which is based on a separate monthly survey, recorded a 4.6% increase in new business volume in 2017.
- **Portfolio performance healthy despite pressure.** Based on SEFA data, both yield and cost of funds rose in 2017, while average spreads compressed for the fourth consecutive year. Although there is evidence of compression across business types, the effect was most pronounced for independents and captives, for whom spreads fell by 29 basis points and 21 basis points, respectively, on a weighted-average basis. Meanwhile, the industry continues to demonstrate discipline with respect to risky lending and deal structures, as portfolio performance remained healthy in 2017 across various metrics and types of lenders.
- **Economic expansion has “room to run.”** Although the U.S. business cycle is nearly a decade old and the economy is approaching the longest period of growth on record, most economic indicators that have historically provided an early warning sign of a downturn suggest that the current expansion likely still has some room to run. As such, there is reason to be optimistic about the U.S. economy over the next 6-12 months.
- **Challenges from the future of work.** Advances in computing technology, including artificial intelligence and machine learning, will pose challenges for the equipment finance industry, particularly for management. To successfully deploy new systems, they will need to overcome resistance to changing previous mindsets, as well as recruit and develop talent who are adept at critical thinking, communication and working with technology, among other skill sets.” – Anneliese DeDiemar, Author, Equipment Leasing & Finance Association

Private Indicators

Top Five Take-Aways from the Equipment Leasing & Finance Industry Horizon Report



Total private and public equipment and software investment rebounded in 2017, expanding by 5.9% to \$1.7 trillion. Approximately 60% of this investment was financed, resulting in an industry sizing estimate of \$1 trillion.



The majority of respondents (58%) who acquired equipment or software in 2017 used at least one form of financing to do so (i.e., lease, secure loan, or line of credit).



More than twice as many respondents expect their equipment and software acquisitions to increase vs. decrease over the next 12 months.



The most common payment method used by businesses to acquire equipment and software in 2017 was leasing (48%), followed by lines of credit (9%) and secured loans (8%).



Most economic indicators that have historically provided an early warning sign of a downturn suggest there is reason to be optimistic about the U.S. economy over the next 6-12 months.

Private Indicators

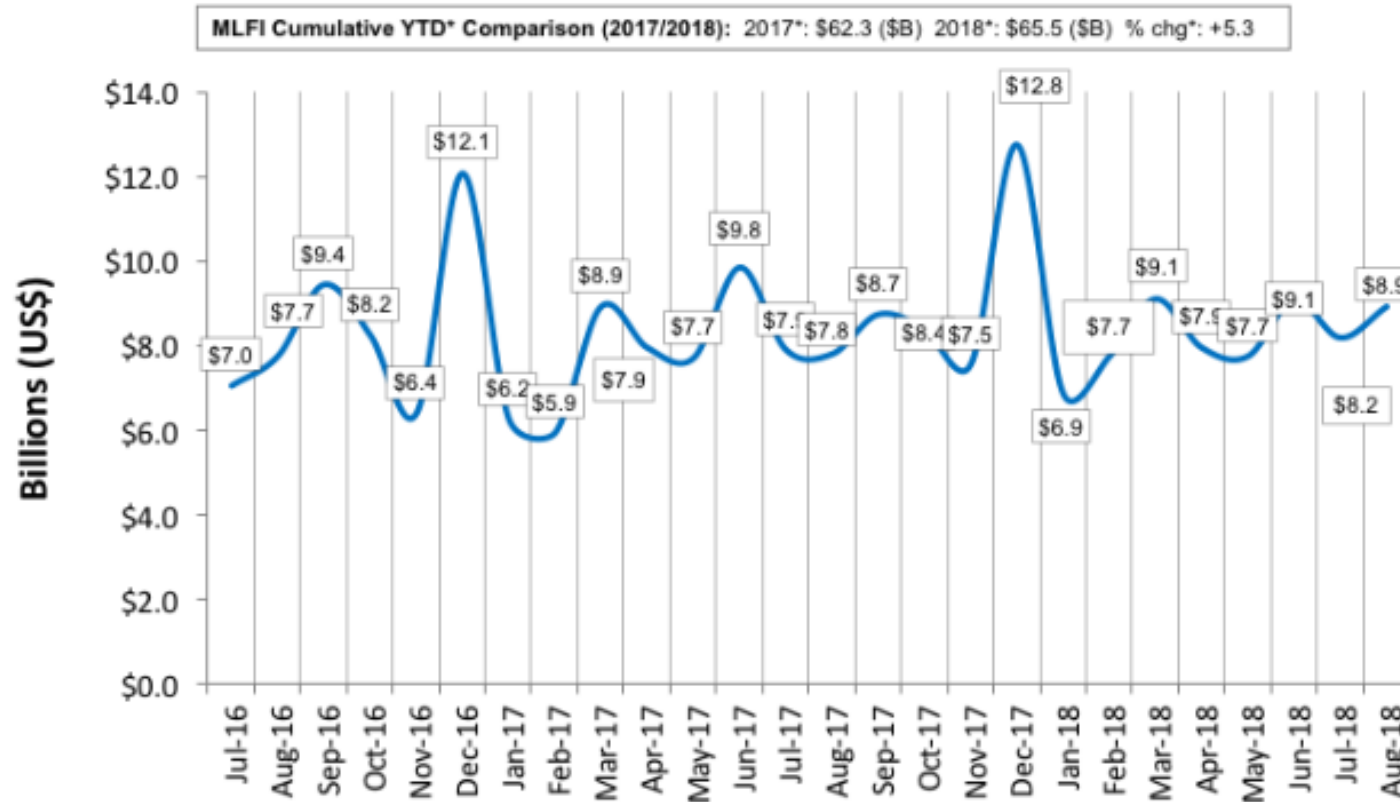
Equipment Leasing and Finance Association Monthly Leasing & Finance Index: September 2018

“Members report continued strong origination volume as the summer comes to a close. Fundamentals in the U.S. economy are favorable for capex investment by both large and small borrowers, and a number of asset classes and equipment verticals are benefiting. Steadily rising interest rates, a spate of disagreements with our trading partners and a powerful hurricane have seemingly little, to no, effect on the U.S. economy and its continued vitality.” – Ralph Petta, President and CEO, ELFA

“The September MLFI shows continued broad-based volume growth. However, economic headwinds may be appearing on the horizon; we expect these to impact specific sectors uniquely and not necessarily in the same timeframe. Accordingly, at Hitachi Capital America, along with many other ELFA members, we are executing a diversified strategy and continue monitoring our clients’ underlying fundamentals closely. It is our hope that the market works its way through any potential turbulence with minimal impact on both our clients and our industry.” – Mark Duncan, Executive Vice President and General Manager, Commercial Finance and Corporate Development, Hitachi Capital America Corp.

Private Indicators

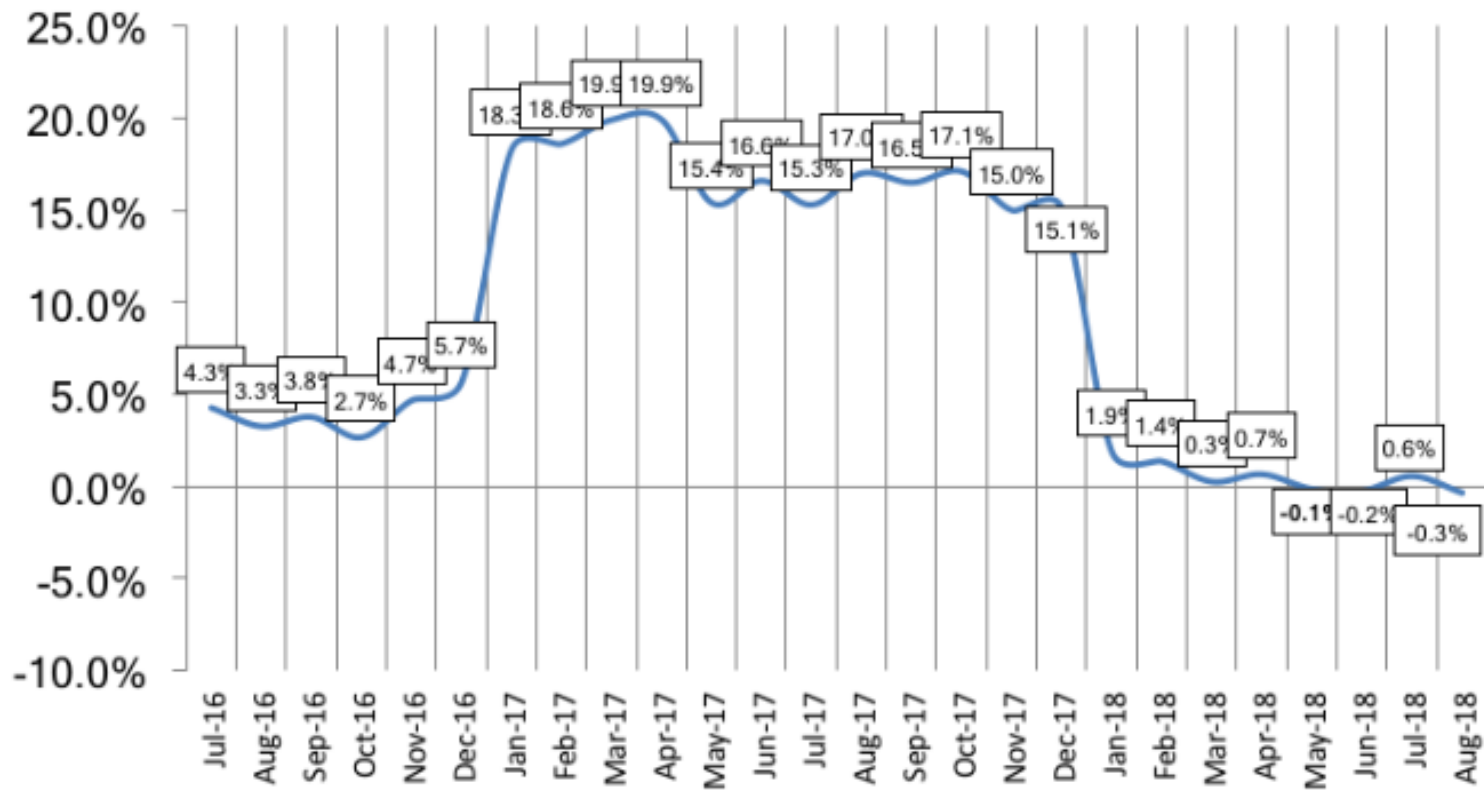
MLFI-25 New Business Volume (Year-Over-Year Comparison)



* YTD NBV numbers will not match the numbers from the chart due to rounding

Private Indicators

Total Number of Employees % CHG YOY



Note: During 2017, headcount was elevated due to acquisition activity at several MLFI reporting company



October 2018 Manufacturing ISM® Report On Business®

October PMI® at 57.7%

New Orders, Production, and Employment Growing

Supplier Deliveries Slowing at Faster Rate; Backlog Growing

Raw Materials Inventories Growing; Customers' Inventories Too Low

Prices Increasing at Faster Rate; Exports and Imports Growing

“Economic activity in the **manufacturing sector** expanded in October, and the **overall economy** grew for the 114th consecutive month, say the nation's supply executives in the latest **Manufacturing ISM® Report On Business®**. The October PMI® registered 57.7 percent, a decrease of 2.1 percentage points from the September reading of 59.8 percent.

The New Orders Index registered 57.4 percent, a decrease of 4.4 percentage points from the September reading of 61.8 percent.

The Production Index registered 59.9 percent, a 4 -percentage point decrease compared to the September reading of 63.9 percent.

The Employment Index registered 56.8 percent, a decrease of 2 percentage points from the September reading of 58.8 percent.

The Supplier Deliveries Index registered 63.8 percent, a 2.7-percentage point increase from the September reading of 61.1 percent.

The Inventories Index registered 50.7 percent, a decrease of 2.6 percentage points from the September reading of 53.3 percent.

The Prices Index registered 71.6 percent, a 4.7-percentage point increase from the September reading of 66.9 percent, indicating higher raw materials prices for the 32nd consecutive month.” – Timothy R. Fiore, CPSM, CPSD, Chair of the ISM® Manufacturing Business Survey Committee

October 2018 Manufacturing ISM® Report On Business®

“Comments from the panel reflect continued expanding business strength. **Demand** remains moderately strong, with the New Orders Index easing to below 60 percent for the first time since April 2017, the Customers’ Inventories Index remaining low but improving, and the Backlog of Orders Index remaining steady. **Consumption** softened, with production and employment continuing to expand, but at lower levels compared to September. **Inputs** – expressed as supplier deliveries (increased), inventories and imports – retained September’s levels. Continued supply chain delivery difficulties led to an increased consumption of inventory, and import expansion was stable. Lead-time extensions continue, while steel and aluminum prices are stabilizing. Supplier labor issues and transportation difficulties continue to disrupt production, but at more manageable levels.

The expansion of new export orders softened, but five of six major industries contributed, up from two in September. Prices pressure continues, with the index returning above 70 percent. Overall, the manufacturing community continues to expand, but at the lowest level since April 2018.” – Timothy R. Fiore, CPSM, CPSD, Chair of the ISM® Manufacturing Business Survey Committee

October 2018 Non-Manufacturing ISM® Report On Business®

October PMI® at 60.3%

Business Activity Index at 62.5%; New Orders Index at 61.5%; Employment Index at 59.7%

“Economic activity in the **non-manufacturing sector** grew in October for the 105th consecutive month, say the nation’s purchasing and supply executives in the latest **Non-Manufacturing ISM® Report On Business®**.

The NMI® registered 60.3 percent, which is 1.3 percentage points lower than the September reading of 61.6 percent. This represents continued growth in the non-manufacturing sector at a slower rate.

The Non-Manufacturing Business Activity Index decreased to 62.5 percent, 2.7 percentage points lower than the September reading of 65.2 percent, reflecting growth for the 111th consecutive month, at a slower rate in October.

The New Orders Index registered 61.5 percent, 0.1 percentage point lower than the reading of 61.6 percent in September.

The Employment Index decreased 2.7 percentage points in October to 59.7 percent from the September reading of 62.4 percent.

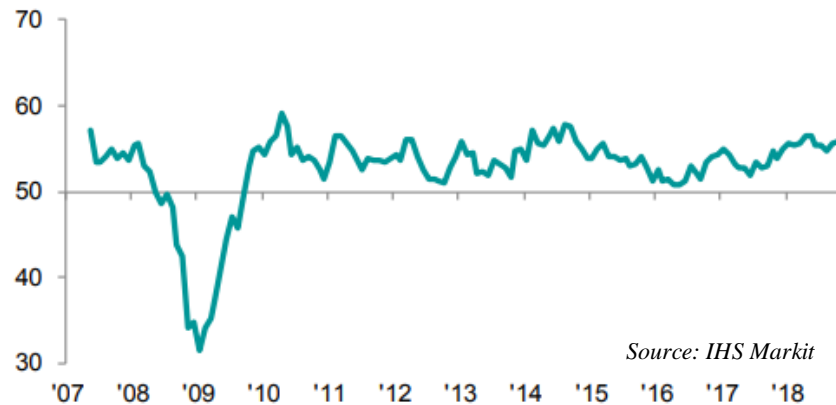
The Prices Index decreased 2.5 percentage points from the September reading of 64.2 percent to 61.7 percent, indicating that prices increased in October for the 32nd consecutive month.

According to the NMI®, 17 non-manufacturing industries reported growth. The non-manufacturing sector has again reflected strong growth despite a slight cooling off after a record month in September. There are continued concerns about capacity, logistics and tariffs. The respondents are positive about current business conditions and the economy.” – Anthony Nieves, CPSM, C.P.M., A.P.P., CFPM, Chair of the Institute for Supply Management® (ISM®) Non-Manufacturing Business Survey Committee

Private Indicators

Manufacturing PMI

sa, >50 = improvement since previous month



Markit U.S. Manufacturing PMI™

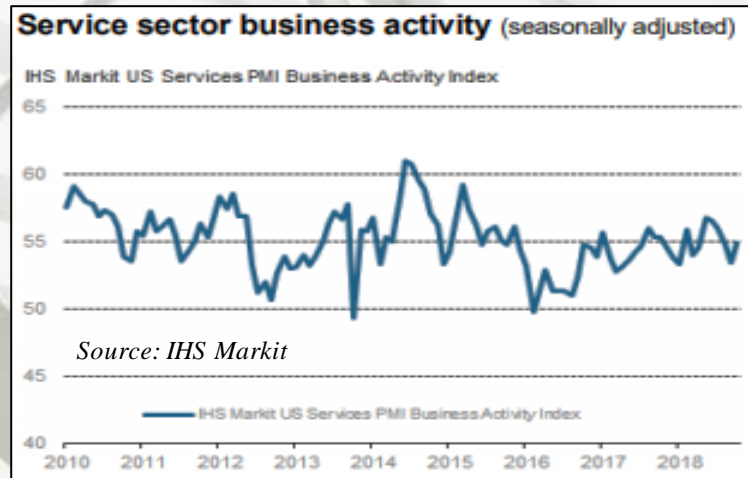
“The seasonally adjusted IHS Markit final U.S. Manufacturing Purchasing Managers’ Index™ (PMI™) posted 55.7 in October, broadly in line with September’s reading of 55.6. The latest figure signalled a further pick up in growth momentum and a strong improvement in the health of the manufacturing sector. Moreover, October’s reading reached a five-month high.

New order growth accelerates to five-month high

U.S. manufacturing firms signalled a strong start to the final quarter of 2018, with operating conditions improving at a faster pace in October. Driving the latest development in the health of the sector was a sharp increase in new business. The upturn in total new work reached a five-month high, though only a fractional rise in new export orders was registered. Greater production requirements and efforts to clear backlogs meanwhile led to a quicker monthly rise in hiring, the fastest for ten months. Price pressures remained intense, however, with rates of input price and output charge inflation accelerating. At the same time, business confidence picked up from September’s 12-month low. ...

The manufacturing sector saw a strong start to the closing quarter of 2018, with new order inflows rising sharply and business optimism spiking higher in an encouraging sign that firms expect the good times to continue into 2019. The increasingly bullish mood was also reflected in one of the largest monthly increases in factory payroll numbers seen over the past seven years as firms grew capacity to meet rising workloads. The key area of concern remained tariffs, which were widely reported to have contributed to another month of stalled export sales and a steep rise in prices for many inputs. Average input prices rose at one of the sharpest rates seen over the past six years in October. In a clear sign that inflationary pressures are continuing to build, strong customer demand meant firms were often able to push cost increases through to selling prices. Average prices charged for goods leaving the factory gate consequently jumped to one of the greatest extents seen since mid-2011.” – Chris Williamson, Chief Economist, Markit®

Private Indicators



Markit U.S. Services PMI™

“The seasonally adjusted final **IHS Markit U.S. Services Business Activity Index** registered 54.8 in October, up from September’s recent low of 53.5 and broadly in line with the earlier ‘flash’ reading of 54.7. Output growth regained momentum to run just below the average for 2018 so far. Service providers commonly linked the rise in business activity to increased new business and a pick up in demand after inclement weather in September.

Business activity growth regains momentum in October

The U.S. service sector reported a strong expansion in business activity in October. The rate of growth rebounded from September’s weather related weakness, but was also buoyed by a sharp rise in new business. Capacity was often reported to have come under some strain, however, and difficulties finding suitable candidates were partly to blame for the rate of job creation easing to a nine month low. Meanwhile, price pressures intensified, with rates of both input cost and output charge inflation accelerating. ...

A rebound from a weather-torn September and strong demand propelled service sector growth in October. Combined with the steady output growth being recorded in the manufacturing sector, the survey data suggest the economy grew at its fastest rate since July. Comparisons with GDP indicate that the latest survey data translate into an annualised rate of economic growth of around 2.5%, representing a solid start to the fourth quarter.

Expectations of future business growth spiked higher, suggesting companies are expecting a strong end to the year for the economy. Average selling prices for goods and services rose at a rate only marginally below September’s ten year survey record high, however, indicating that intensifying inflationary pressures remain a key concern.

Price rises often reflected the need to pass higher costs on to customers, in turn often linked to tariffs, upward wage growth and higher interest rates. Consumer price inflation therefore looks set to remain elevated.” – Chris Williamson, Chief Economist, Markit®

Private Indicators

National Association of Credit Management – Credit Managers' Index

Somber Credit Managers' Index Starts 4Q

“After a string of solid results in NACM's Credit Managers' Index (CMI) starting this past spring, the predictive index is at its worst output since April. The overall score fell from 56.4 to 54.5, as low as it has been since April. This is not an emergency situation to be sure as these numbers are still solidly in the mid-50s, but it isn't the trend hoped for at this point in the year. The index of favorable factors remained comfortably in the 60s with a reading of 61.6, but that contrasts with the 65.2 notched in September. This is also the lowest point seen since April of this year. The index of unfavorable factors slipped below 50 and now sits in contraction territory (anything below 50) for the first time since April. At 49.7, it is not far off the expansion pace, but a dip like this is not welcomed.

The details in both the favorable and unfavorable sectors are instructive. The sales reading fell hard – from 68.8 to 62.7. This reading has not been this low since December of last year (even April was only down to 65.8). The new credit applications reading stayed about where it had been the month before as it slipped from 61.9 to 61.7. The data for dollar collections dropped into the 50s (62.8 to 57.5) for the first time since April when it fell to 46.7. The amount of credit extended also fell quite a bit from 67.1 to 64.5, a low point that goes back to January of this year.” – Adam Fusco, Associate Editor, NACM

National Association of Credit Management – Credit Managers' Index

Somber Credit Managers' Index Starts 4Q

“The unfavorable factors dropped from 50.6 into contraction to 49.7. Kuehl noted this is concerning as it suggests there are some companies in trouble as they head for one of the more robust times of the year. The rejections of credit applications stayed very close to what it had been the month before – moving from 51.8 to 51.4. This coordinates well with the stability in the applications for new credit. The reading for accounts placed for collection slipped back into the contraction zone with a reading of 48.8 after getting as high as 50.2 last month. The latest reading is about where it has been for the last three months. The disputes reading actually improved a little from 47.6 to 48.9. The dollar amount beyond terms fell fairly dramatically from 49.9 to 47.7. This is one of the readings that need to be watched as it can be the first step toward bigger issues. The dollar amount of customer deductions improved a little from 48.6 to 49.5, while the filings for bankruptcies fell by quite a bit. That causes more concern as this factor has traditionally been more stable than this. It had been at 55.6 and now stands at 52.1, the lowest point since 2016.

Manufacturing Sector

At the start of the year, Kuehl said the best news was coming from the manufacturing sector for a variety of reasons. The tax cuts at the beginning of the year actually did more good for the smaller manufacturers than they did for the larger companies. This led to some aggressive spending for a while. Much of that spending has now tapered off. There was also some expectation of relief from some of the global competition U.S. makers have been facing, but that has proven to be ephemeral to this point. The consumer has started to get engaged as the holidays come closer; however, the manufacturer has been watching improvements in everything from durable goods to general factory goods. The decline as of late may not be a permanent thing, but some of the factors that pushed the economy earlier in the year have been fading.” – Adam Fusco, Associate Editor, NACM

National Association of Credit Management – Credit Managers' Index

“The overall manufacturing score slipped from 56.4 to 54.4 – a number that has not been this low since the April slump. The favorable factors stayed in the 60s with a reading of 61.5 after hitting 64.4 in September. The unfavorable factors slipped into the contraction zone with a reading of 49.6 as compared to 51.1 the month before. These numbers closely paralleled the readings for the overall CMI. The differences are found in the details.

The sales data slipped quite a bit from 68.2 to 62.3, which was unexpected given the drop in both durable goods orders as well as factory orders. The new credit applications reading moved only slightly (61.8 to 61.5), while the all-important dollar collections numbers remained very close to what they had been, but slid further down into the 50s – going from 59 to 58.5. Again, this is certainly no sign of a crisis by any stretch, but it is a trend worth watching. The amount of credit extended dipped a bit from 68.5 to 63.7, suggesting some additional caution on the part of those issuing credit.

Service Sector

As with the manufacturing sector, the service sector has ridden the ups and downs of the recently volatile economy. The overall service CMI slipped to 54.6 from 56.4, the lowest reading seen since April (again). The good news is that even with this decline, the numbers are thoroughly in expansion territory. The readings for the favorable factors went from 65.9 to 61.7. It was a fairly precipitous decline, but the important part is the category as a whole remains in the 60s. The news was not quite as good for the nonfavorable factors as this sector slipped into the contraction zone with a reading of 49.8 after hitting 50.1 the month prior.” – Adam Fusco, Associate Editor, NACM

National Association of Credit Management – Credit Managers' Index

Somber Credit Managers' Index Starts 4Q

“There has been a several-month-long deterioration of the housing sector with significant decline in everything from starts to permits. The tax cuts are now far enough in the past to have lost their influence as well. The industrial sector is still growing, but at a far slower pace. Now, it seems the Credit Managers' Index (CMI) has joined the parade of party poopers with a decline that is not insignificant – both in the favorable and unfavorable categories

This is not an emergency situation to be sure as these numbers are still solidly in the mid-50s, but it isn't the trend that had been hoped for at this point in the year. This was a fairly profound slide which comes at an awkward time. This is the time of year services should be carrying the load, but it isn't at the moment, while manufacturing generally slides until the first of the year.

Up to this point, the various challenges companies have faced have not been as serious as all this; now that may be changing. This would mean many companies are not very resilient and will need some good luck to survive any kind of a slowdown by the economy as a whole.

There has been a pattern as far as slowdowns are concerned. The first phase is that some of the motivation for a growing economy begins to erode. That appears to be what has been seen with the weaker favorable factors and trouble for the unfavorables as well. The next step is the unfavorable readings begin to falter, suggesting companies are starting to face a real crisis from which they may not be able to easily recover. The sense right now is that some of the artificial stimulation has been wearing off, causing some sectors to falter.” – Dr. Chris Kuehl, Economist, NACM

Private Indicators

National Association of Credit Management – Credit Managers' Index

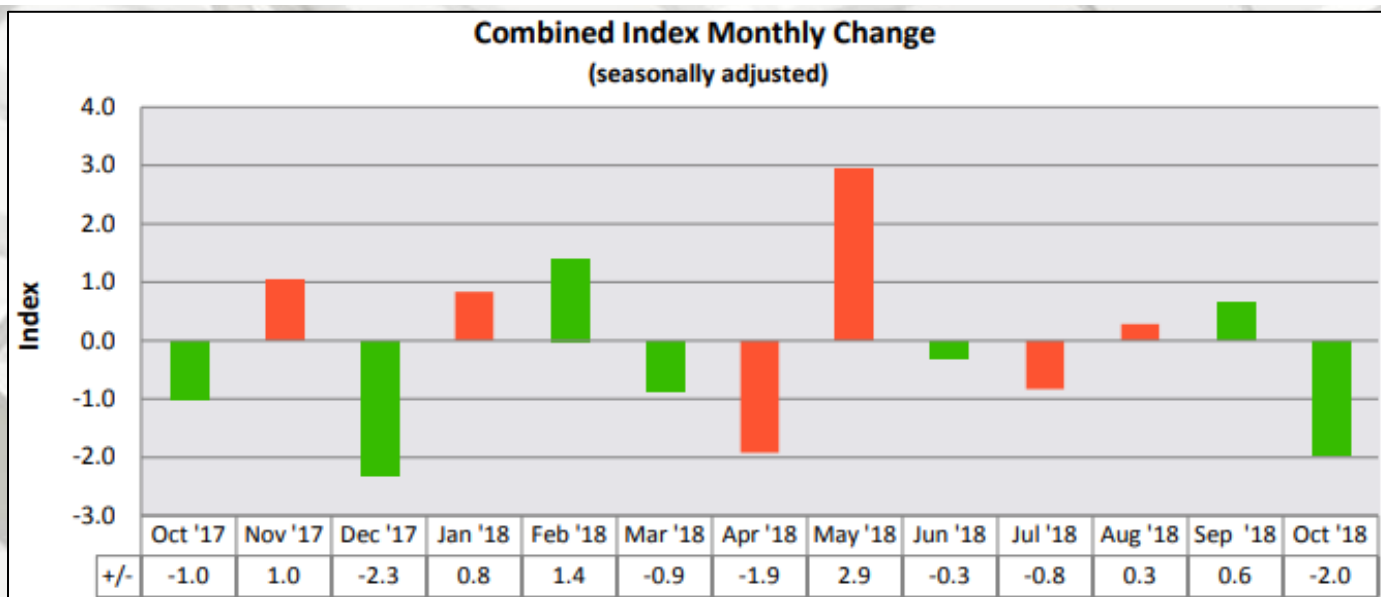
“In general, the news for the manufacturing sector has been decent, but the troubles predicted earlier in the year are starting to manifest. It is hard to pin down exactly what the issue is as manufacturing covers a pretty wide variety of industries, but the boost from the tax cut has faded. Now the worry is over an impending trade war with China as well as arguments over tariffs with once-close trading partners in Europe as well as Canada.

This is the largest part of the U.S. economy [service] – accounting for nearly 80% of the national GDP and a similar amount of employment for the population. There are many sectors that move seasonally. That can affect the overall readings on the economy – including the CMI from time to time. The responses received from participants tend to be heaviest with retail and to some degree construction. Health care plays a role, but there is very little impact from the higher-paid service sectors such as law, accounting or finance.

October 2018 versus October 2017

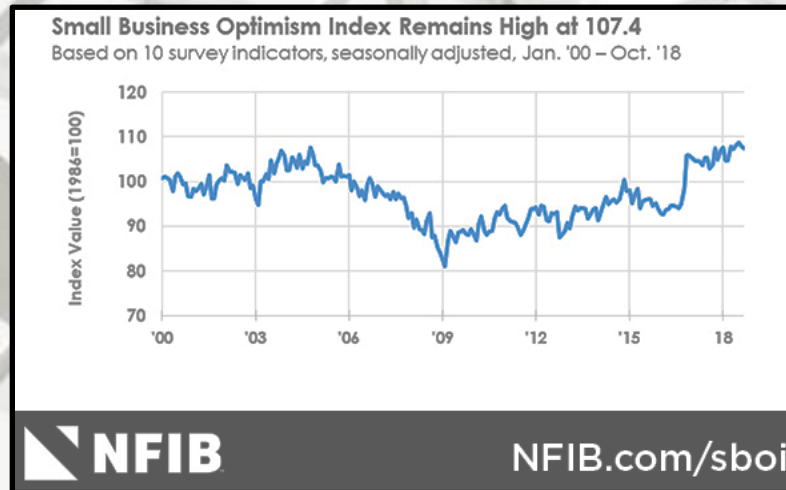
This was a fairly profound slide which comes at an awkward time. This is the time of year services should be carrying the load, but it isn't at the moment, while manufacturing generally slides until the first of the year.” – Dr. Chris Kuehl, Economist, NACM

Private Indicators



Combined Manufacturing and Service Sectors (seasonally adjusted)	Oct '17	Nov '17	Dec '17	Jan '18	Feb '18	Mar '18	Apr '18	May '18	Jun '18	Jul '18	Aug '18	Sep '18	Oct '18
Sales	66.8	68.3	59.2	63.0	66.8	64.1	65.8	69.6	69.6	63.9	65.0	68.8	62.7
New credit applications	62.8	63.7	57.3	59.8	63.3	62.7	62.2	63.8	60.5	61.2	62.5	61.9	61.7
Dollar collections	60.2	63.1	59.1	58.7	62.9	59.6	46.7	62.5	63.2	61.0	62.6	62.8	57.5
Amount of credit extended	65.5	67.8	61.8	64.3	66.4	66.2	66.1	66.8	66.2	66.1	66.9	67.1	64.5
Index of favorable factors	63.8	65.7	59.4	61.4	64.9	63.2	60.2	65.7	64.9	63.1	64.3	65.2	61.6
Rejections of credit applications	51.8	52.4	51.4	51.8	51.5	53.3	51.0	51.3	51.2	52.5	52.2	51.8	51.4
Accounts placed for collection	49.5	50.5	49.8	51.7	49.8	50.4	48.7	49.0	51.3	49.9	49.0	50.2	48.8
Disputes	47.6	48.3	49.7	49.6	49.6	47.7	48.0	48.1	48.3	47.7	46.4	47.6	48.9
Dollar amount beyond terms	47.3	47.5	49.3	47.0	49.9	47.2	46.4	49.4	49.2	47.4	48.5	49.9	47.7
Dollar amount of customer deductions	48.7	48.9	49.7	49.7	49.1	49.8	48.4	49.7	48.1	47.9	48.7	48.6	49.5
Filings for bankruptcies	55.3	55.1	55.0	55.2	55.4	55.2	53.8	56.4	55.7	57.4	55.9	55.6	52.1
Index of unfavorable factors	50.0	50.4	50.8	50.8	50.9	50.6	49.4	50.6	50.6	50.5	50.1	50.6	49.7
NACM Combined CMI	55.5	56.6	54.2	55.1	56.5	55.6	53.7	56.6	56.3	55.5	55.8	56.4	54.5

Private Indicators



October 2018 Report:

“Small business optimism continued its two-year streak of record highs, according to the NFIB Small Business Optimism Index October reading of 107.4. Overall, small businesses continue to support the three percent-plus growth of the economy and add significant numbers of new workers to the employment pool. Owners believe the current period is a good time to expand substantially, are planning to invest in more inventory, and are reporting high sales figures.

Small Business Optimism Marks Two Years of Continued Historic Readings

“Seasonally adjusted, 30 percent of owners think the current period is a good time to expand substantially, citing the economy (72 percent) and strong sales (14 percent). Nine percent of those who believe it is a good time to expand cited the political climate with 17 percent who believe it is a “bad time” to expand blaming politics. Although politics matter, the index indicates that economic factors, good or bad, are the main drivers of expansion decisions.

The net percent of owners planning to invest in more inventory rose two points to a net five percent, the 21st positive month since January 2017. This is due to the owners viewing current inventory stocks as “too low” falling to a net negative two percent, historically a very “tight” condition. A net eight percent of all owners (seasonally adjusted) reported higher nominal sales in the past three months, unchanged from September.” – Holly Wade, NFIB

Private Indicators

Small Business Optimism Marks Two Years of Continued Historic Readings

“For two years, small business owners have expressed record levels of optimism and are proving to be a driving force in this rapidly growing economy. The October optimism index further validates that when small businesses get tax relief and are freed from regulatory shackles, they thrive and the whole economy prospers.” – Juanita Duggan, President and CEO, NFIB

“Thanks to a number of factors, including the federal government’s loosening grip on the private sector, the U.S. regained the top spot in the World Economic Forum’s ranking as the most competitive country during the month of October. An unburdened small business sector is truly great for employment and the general economy. October’s report sets the stage for solid economic and employment growth in the fourth quarter, while inflation and interest rates remain historically tame. Small businesses are moving the economy forward.” – William C. Dunkelberg, Chief Economist, NFIB

“Job creation remained solid in October for small businesses at a net addition of 0.15 workers per firm, as reported in last week’s [NFIB monthly jobs report](#). However, 38 percent of all owners reported job openings they could not fill in the current period, equaling September’s record high. Sixty percent of owners reported hiring or trying to hire with 88 percent of them reporting few or no qualified applicants for the positions they were trying to fill. Thirty-four percent reported raising overall compensation in hopes of hiring and retaining needed employees, only three points off from September’s record high.” – Holly Wade, NFIB

Private Indicators

“The S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index, covering all nine U.S. census divisions, reported a 5.8% annual gain in August, down from 6.0% in the previous month. The 10-City Composite annual increase came in at 5.1%, down from 5.5% in the previous month. The 20-City Composite posted a 5.5% year-over-year gain, down from 5.9% in the previous month.

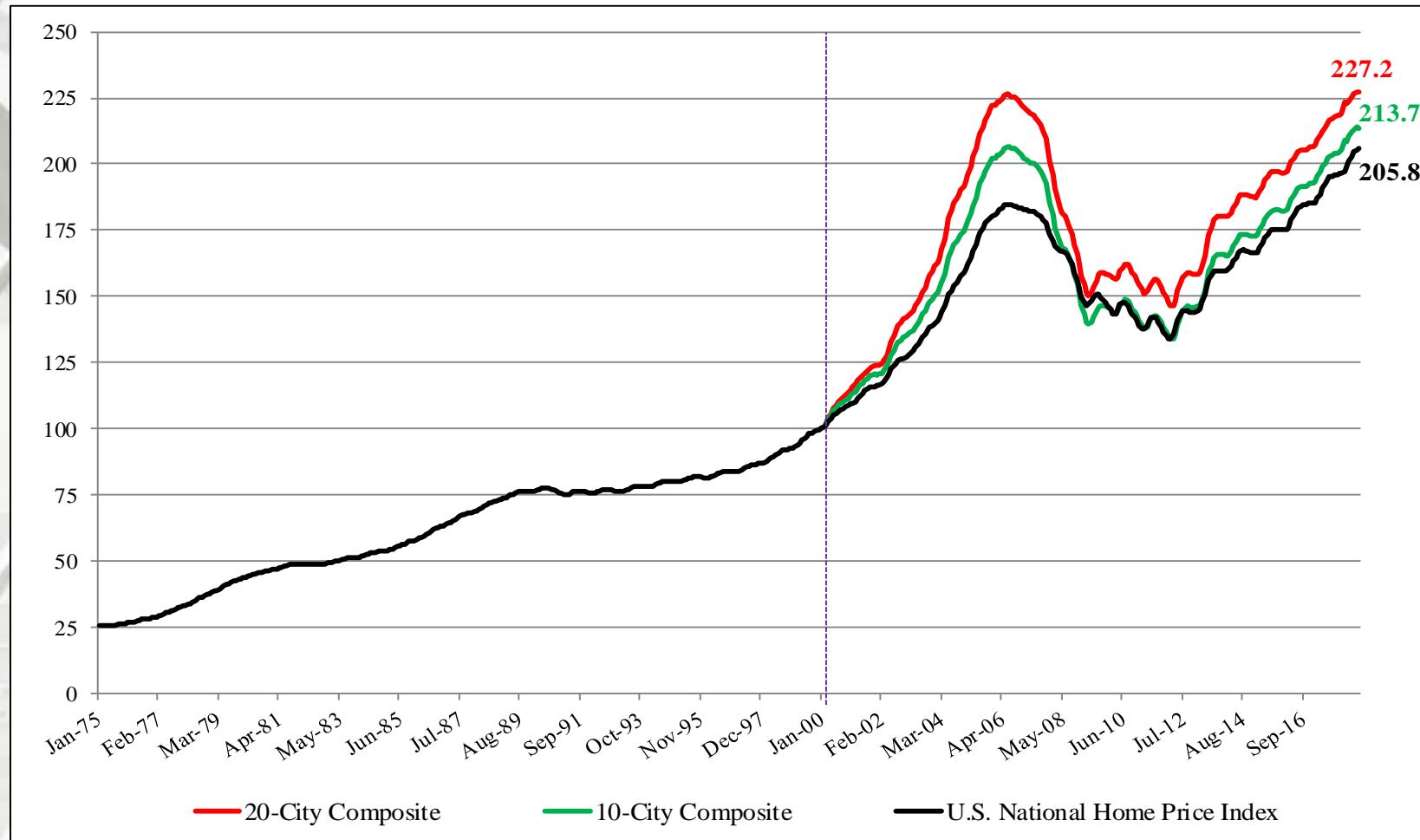
Annual Gains Fall Below 6% for the First Time in 12 Months According To S&P CoreLogic Case-Shiller Index

Following reports that home sales are flat to down, price gains are beginning to moderate. Comparing prices to their levels a year earlier, 14 of the 20 cities, the National Index plus the 10-city and 20-city Composite Indices all show slower price growth. The seasonally adjusted monthly data show that 10 cities experienced declining prices. Other housing data tell a similar story: prices and sales of new single family homes are weakening, housing starts are mixed and residential fixed investment is down in the last three quarters. Rising prices may be pricing some potential home buyers out of the market, especially when combined with mortgage rates approaching 5% for 30-year fixed rate loans.

There are no signs that the current weakness will become a repeat of the crisis, however. In 2006, when home prices peaked and then tumbled, mortgage default rates bottomed out and started a three year surge. Today, the mortgage default rates reported by the S&P/Experian Consumer Credit Default Indices are stable. Without a collapse in housing finance like the one seen 12 years ago, a crash in home prices is unlikely.” – David Blitzer, Managing Director and Chairman of the Index Committee, S&P Dow Jones Indices

Private Indicators

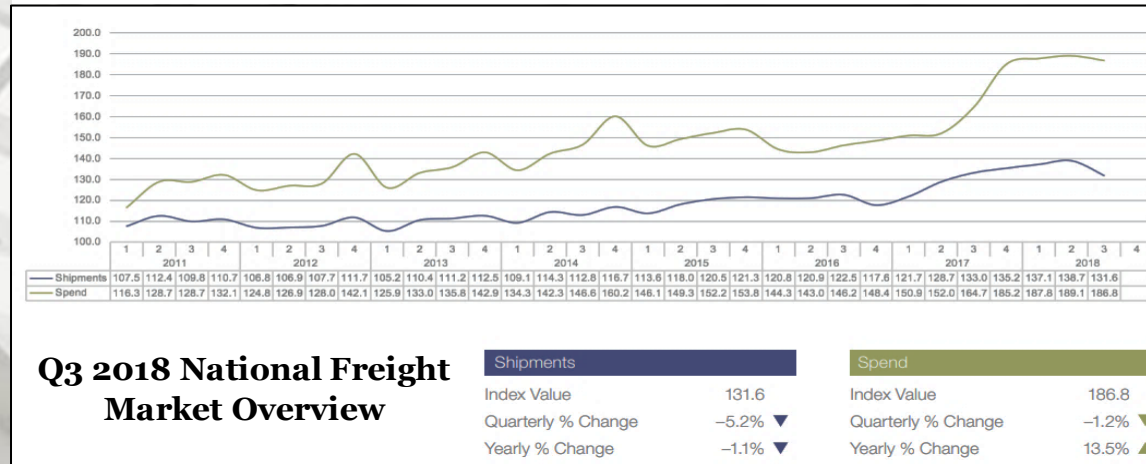
S&P/Case-Shiller Home Price Indices



“Las Vegas, San Francisco and Seattle reported the highest year-over-year gains among the 20 cities. In August, Las Vegas led the way with a 13.9% year-over-year price increase, followed by San Francisco with a 10.6% increase and Seattle with a 9.6% increase. Four of the 20 cities reported greater price increases in the year ending August 2018 versus the year ending July 2018.” – Soogyung Jordan, Global Head of Communications, S&P CoreLogic

Private Indicators

U.S. Bank Freight Payment Index™



“In a sign that the U.S. economy moderated from the torrid pace in the second quarter, the U.S. Bank National Shipment and Spend Indexes fell sequentially in the third quarter. Declines in both indexes are in line with the expected deceleration in third-quarter gross domestic product growth. As trucking often leads the broader economy, the decreases in the indexes suggest economic growth has hit peak and will decelerate in the fourth quarter and beyond. With that said, economic output will be good enough to support growing truck freight volumes.

Hurricane Florence negatively impacted the U.S. Bank Freight Payment Index as well in the third quarter, especially in the Southeast region. It is very difficult to determine the exact impact the hurricane had on the indexes, but it is safe to assume the declines would not have been quite as large without the storm. Additionally, while still very early in implementation, U.S. tariffs on some foreign products, as well as retaliatory tariffs on some U.S. goods, likely had at least a slight negative impact on the quarter.

Despite softness in the National Shipment Index and a sequential drop in the National Spend Index, the underlying economy is on solid footing and trucking capacity remains constrained. There are only two factors moving forward that will alter the tight capacity situation – either the industry attracts a significant number of new truck drivers in a short period of time, which is highly unlikely, or volumes have a prolonged reduction. It will be the latter that ultimately breaks this cycle, but at this point, that looks more like a 2020 event.” – Bob Costello, Senior Vice President and Chief Economist, ATA

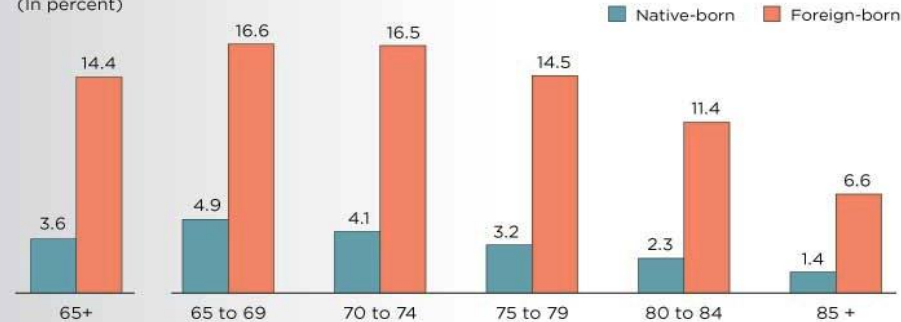
Demographics

MEASURING AMERICA

Older People Living With Grandchildren: 2012–2016

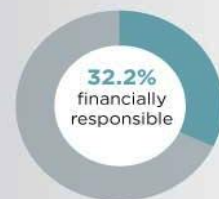
Among older people, the foreign-born are more likely than the native-born to live with their grandchildren under the age of 18.

(In percent)

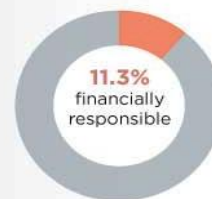


However, the native-born grandparents living with their grandchildren under 18 are more likely to be financially responsible for them.

Native-born grandparents living with grandchildren



Foreign-born grandparents living with grandchildren



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Source: 2012–2016 American Community Survey,
<www.census.gov/acs/>.

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Economics

Wells Fargo

The Animal Spirits Index Is at the Highest Level of 2018

The recent jump in the Animal Spirits Index suggests that economic agents are ‘happy’ with developments in the financial markets and economic world. Equity prices and consumer confidence are likely behind the surge.

The Animal Spirits Index: Spotting the Invisible

“In our past work, we have introduced an index to quantify Keynes’ “animal spirits.” Our Animal Spirits Index (ASI) is constructed from five variables: (1) the S&P 500 index, (2) the Conference Board’s consumer confidence index, (3) the yield spread, (4) the VIX index and (5) the economic policy uncertainty index. These variables were selected to capture actions of major economic agents, while representing major sectors of the economy, and have the ability to shed light on economic agents’ expectations about the near-term economic outlook. We utilize a dynamic factor modeling approach in constructing our index.

An ASI index value above zero, or positive animal spirits, indicates optimism, while a value below zero, or negative animal spirits, suggests pessimism. Our ASI goes back to January 1967, giving us the opportunity to analyze the index’s behavior during different business cycles and political environments. In analyzing our index, we note key observations that not only set this business cycle apart from prior cycles, but also confirm the severity of the Great Recession and the slow recovery that has followed.” – Azhar Iqbal, Econometrician, Economics Group, Wells Fargo Securities LLC

Economics

Wells Fargo

The Animal Spirits Index Is at the Highest Level of 2018

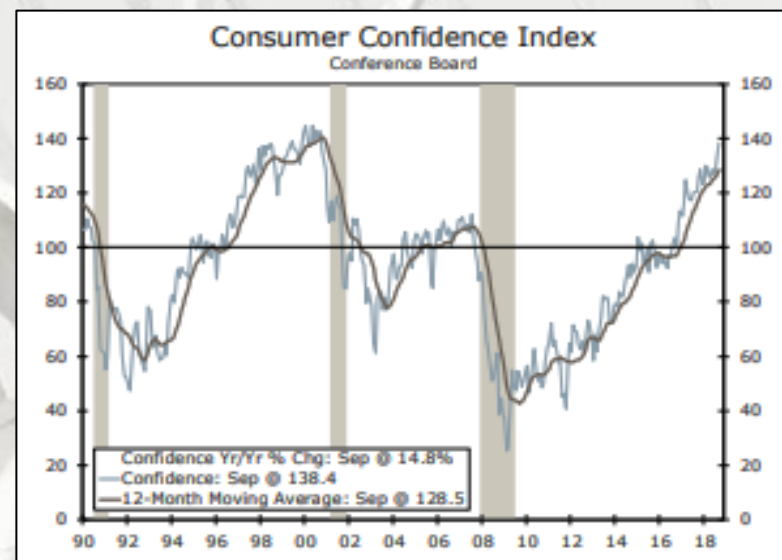
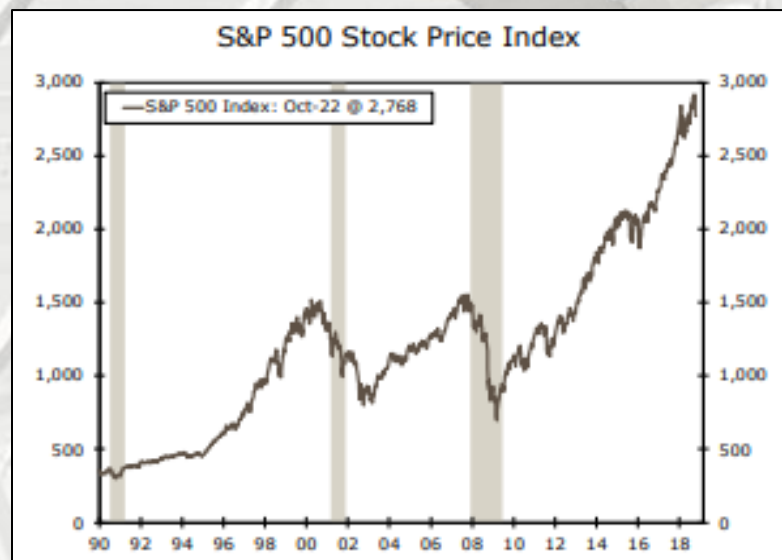
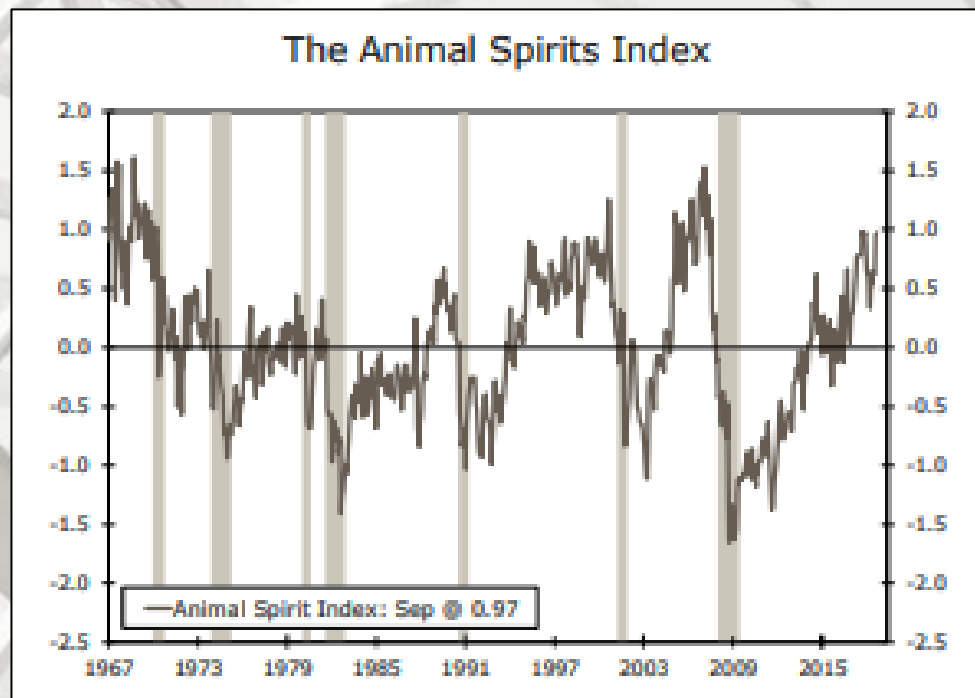
“The lowest value of the ASI (-1.65) was during the Great Recession, in October 2008 (top chart). The ASI stayed in negative territory until January 2014, which is consistent with the slow recovery from the Great Recession. However, the index has remained above the zero line for the majority of the time since February 2014, as the economic expansion gained steam and optimism (positive animal spirits) returned.

What Factors Are Behind the Recent Surge in the ASI?

The September 2018 ASI has ticked up to 0.97, the highest level of 2018. The September increase followed a jump in August (the August ASI jumped to 0.95 from 0.63), which suggests that economic agents are comfortable with the current economic environment. The S&P 500 index hit a historic high, of 2,900, in September (middle chart) and the Conference Board’s consumer confidence index is at 138.4, the highest level in the post Great Recession era (bottom chart). Both of these indices have shown an upward trend in the past three months, which indicates positive momentum in financial markets and household expectations. However, recent swings in the economic policy uncertainty index suggest that the uncertain political environment may be a potential risk for the upward trending ASI.

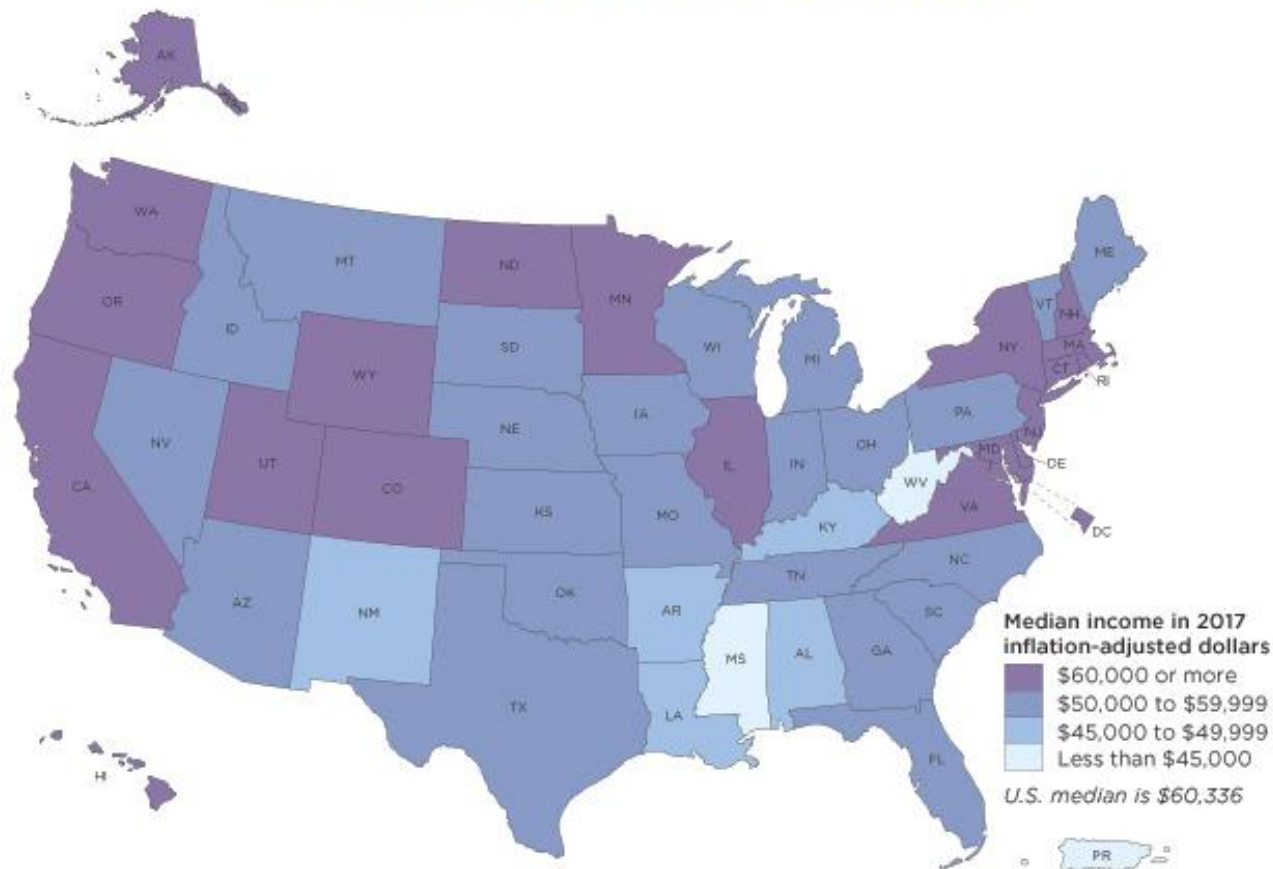
The recent jump in the ASI, along with the fact that the ASI has remained positive since July 2016, indicates that economic fundamentals are solid, at least in the short-run. We will continue to update and monitor our ASI and report any significant changes in the index.” – Azhar Iqbal, Econometrician, Economics Group, Wells Fargo Securities LLC

Economics



Economics

2017 Median Household Income in the United States



Note: U.S. median does not include data for Puerto Rico.

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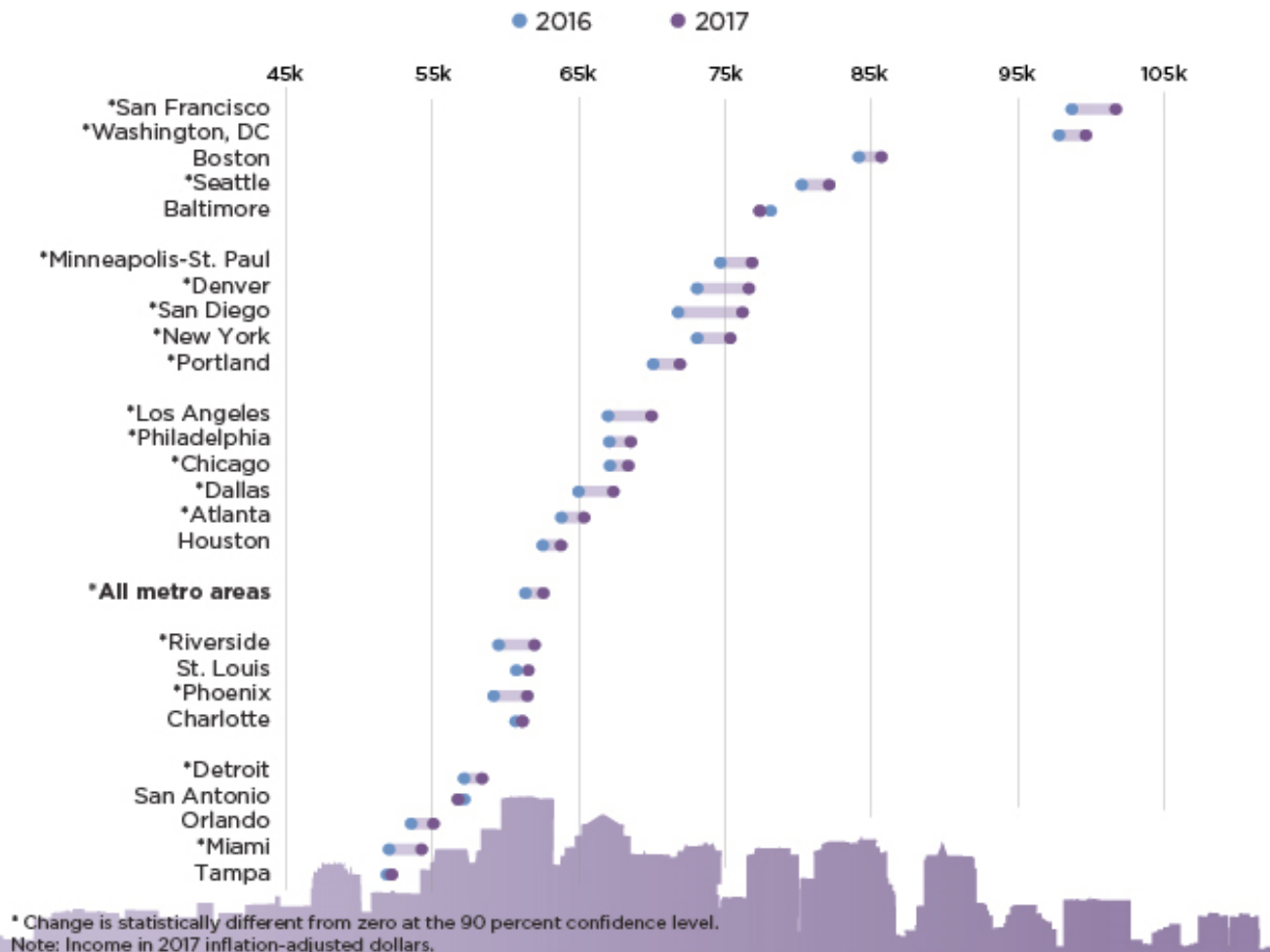
U.S. Department of Commerce
Economics and Statistics Administration
U.S. CENSUS BUREAU
[census.gov](https://www.census.gov)

Source: 2017 American Community Survey,
2017 Puerto Rico Community Survey
www.census.gov/acs

Economics

Median Household Income

The 25 Most Populous Metro Areas



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U.S. CENSUS BUREAU
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Source: 2016 and 2017 American Community Survey
www.census.gov/acs

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