The Virginia Tech – U.S. Forest Service June 2017 Housing Commentary: Section II

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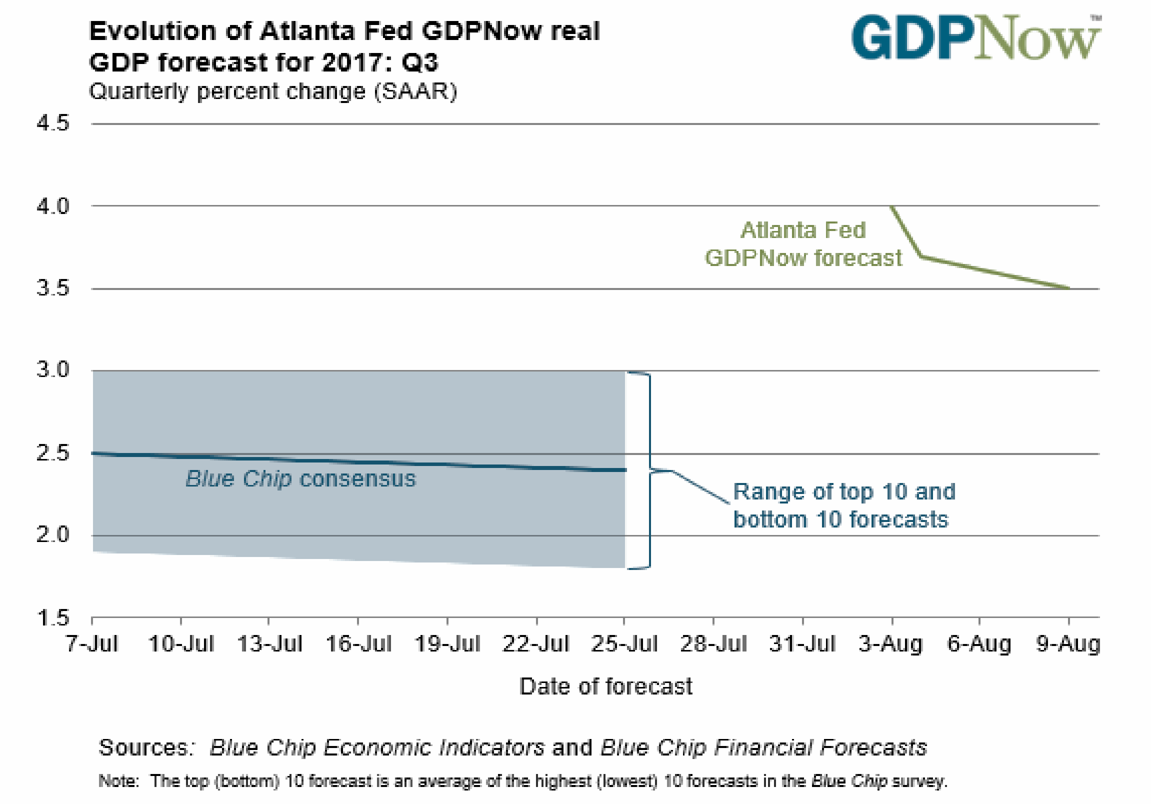
Table of Contents

Federal Reserve System and Private Indicators

Return to TOC

U.S. Economic Indicators



Atlanta Fed GDPNow™

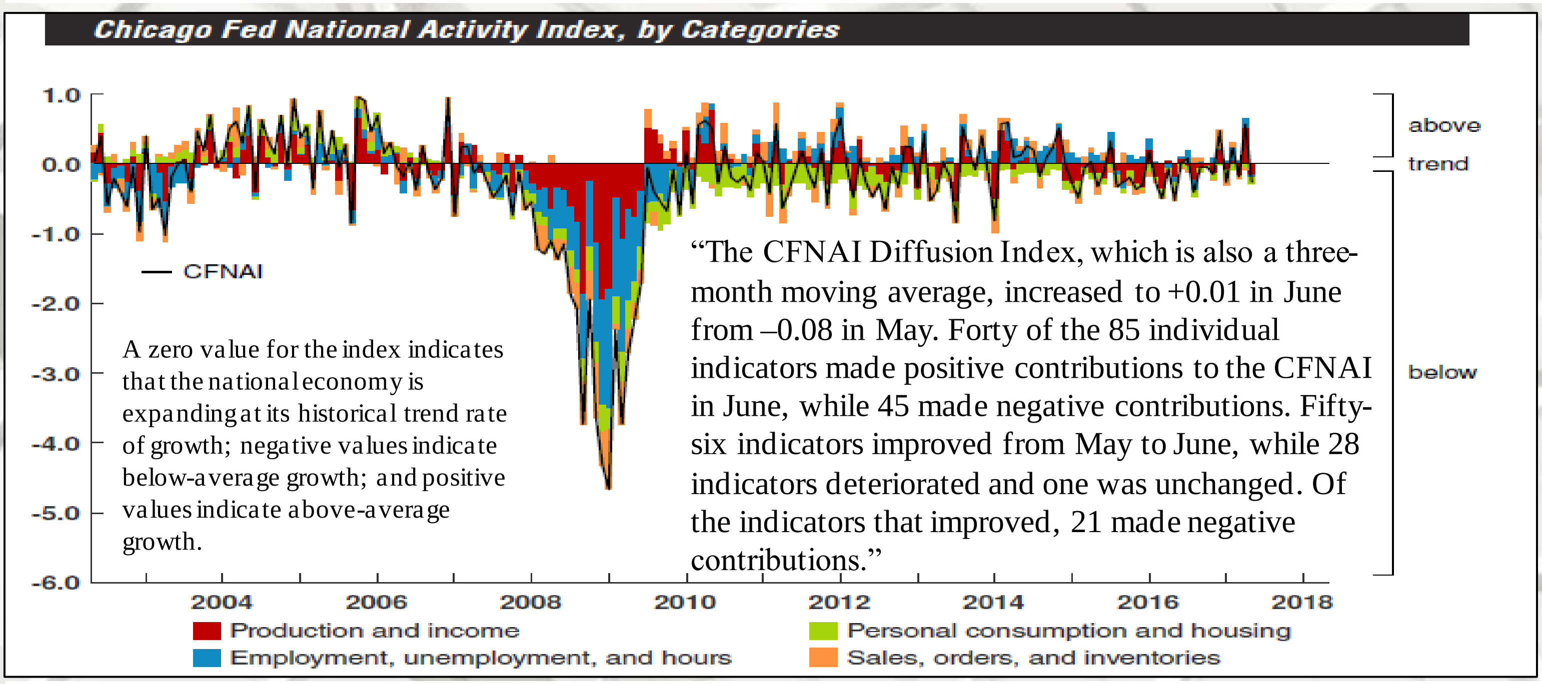
Latest forecast: 3.5 percent — August 9, 2017

"The GDPNow model forecast for real GDP growth (seasonally adjusted annual rate) in the third quarter of 2017 is **3.5** percent on August 9, down from 3.7 percent on August 4. The forecast of the contribution of inventory investment to third-quarter real GDP growth declined from 1.11 percentage points to 0.99 percentage points after this morning's wholesale trade report from the U.S. Census Bureau." – Pat Higgins, Economist, Federal Reserve Bank of Atlanta

Source: https://www.frbatlanta.org/economy-matters/regional-economics/data-digests; 8/9/17

Return to TOC

Chicago Fed: National Activity Index



Index Points to a Pickup in Economic Growth in June

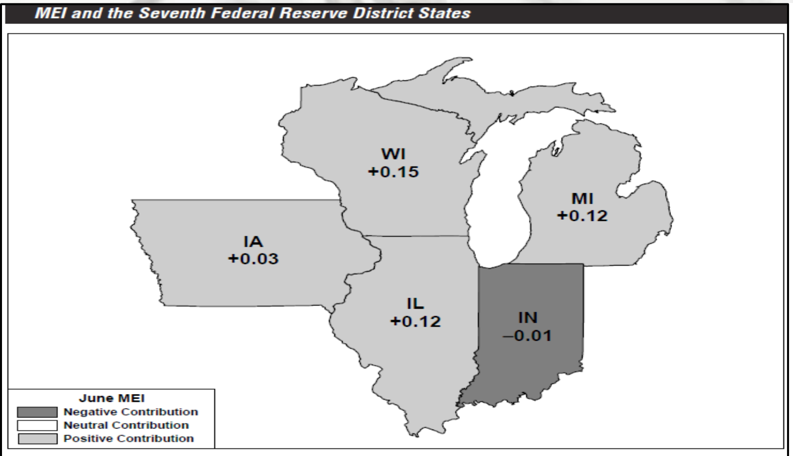
"Led by increases in production-related indicators, the Chicago Fed National Activity Index (CFNAI) moved up to +0.13 in June from –0.30 in May. All four broad categories of indicators that make up the index increased from May, and three of the four categories made positive contributions to the index in June. The index's three-month moving average, CFNAI-MA3, increased to +0.06 in June from –0.04 in May.

The contribution from production-related indicators to the CFNAI increased to +0.09 in June from –0.16 in May. Total industrial production increased 0.4 percent in June after moving up 0.1 percent in May, and the Institute for Supply Management's Manufacturing Purchasing Managers' Index increased to 57.8 in June from 54.9 in the previous month. The sales, orders, and inventories category made a contribution of +0.02 to the CFNAI in June, up slightly from a neutral contribution in May." – Laura LaBarbera, Media Relations, The Federal Reserve Bank of Chicago

Source: https://www.chicagofed.org/publications/cfnai/index; 7/27/17

Return to TOC

Chicago Fed: Midwest Economy Index



Note: The map's shading summarizes the most recent contribution to growth in Midwest economic activity from each of the five states in the Seventh Federal Reserve District (Illinois, Indiana, Iowa, Michigan, and Wisconsin).

Midwest Economy Index

"The Midwest Economy Index (MEI) decreased to +0.42 in June from +0.55 in May. Contributions to the June MEI from all four broad sectors of nonfarm business activity and all five Seventh Federal Reserve District states declined from May. The relative MEI moved up to +0.24 in June from +0.13 in May. Contributions to the June relative MEI from two of the four sectors and four of the five states improved from May." – Laura LaBarbera, Media Relations, Chicago Fed

Index Points to Slower Midwest Economic Growth in June

"The manufacturing sector's contribution to the MEI edged down to +0.35 in June from +0.37 in May. The pace of manufacturing activity decreased in Indiana, Wisconsin, and Michigan, but increased in Illinois and was unchanged in Iowa. Manufacturing's contribution to the relative MEI increased to +0.34 in June from +0.17 in May.

The construction and mining sector's contribution to the MEI decreased to –0.04 in June from +0.02 in May. The pace of construction and mining activity was lower in Iowa, Michigan, and Wisconsin and unchanged in Illinois and Indiana. Construction and mining made a contribution of –0.05 to the relative MEI in June, down from +0.03 in May.

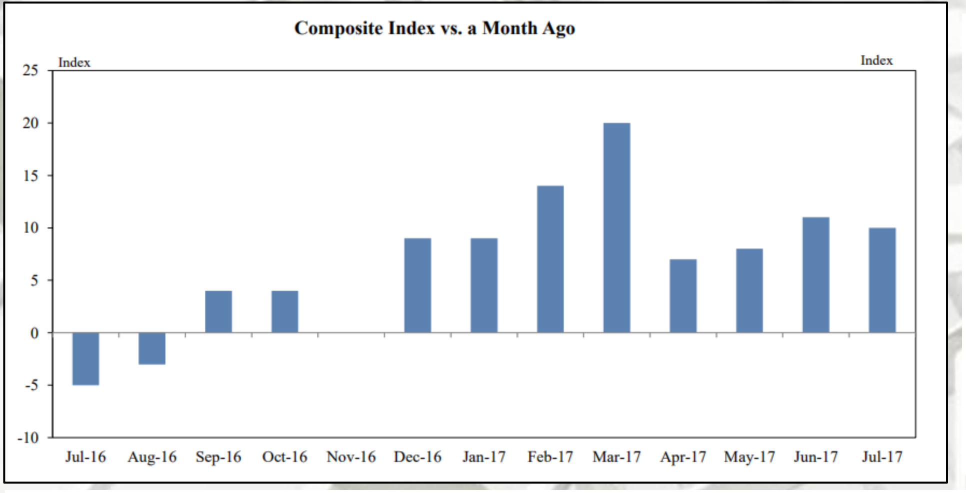
The service sector made a contribution of –0.07 to the MEI in June, slightly down from –0.05 in May. The pace of service sector activity was down in Iowa and Wisconsin, but up in Indiana and Michigan and unchanged in Illinois. The service sector's contribution to the relative MEI increased to –0.17 in June from –0.20 in May.

The contribution from consumer spending indicators to the MEI decreased to +0.17 in June from +0.22 in May. Consumer spending indicators were, on balance, down in Illinois, Iowa, and Wisconsin, but up in Indiana and steady in Michigan. Consumer spending's contribution to the relative MEI edged down to +0.11 in June from +0.13 in May." – Laura LaBarbera, Media Relations, Federal Reserve Bank of Chicago

Source: https://www.chicagofed.org/publications/mei/index; 7/31/17

Return to TOC

U.S. Economic Indicators



Tenth District Manufacturing Summary

"Tenth District manufacturing activity expanded moderately again, and expectations for future activity eased slightly but remained positive. Price indexes remained mixed, with modest increases in finished goods prices." – Pam Campbell, Federal Reserve Bank of Kansas City

The Federal Reserve Bank of Kansas City
Tenth District Manufacturing Expanded Moderately

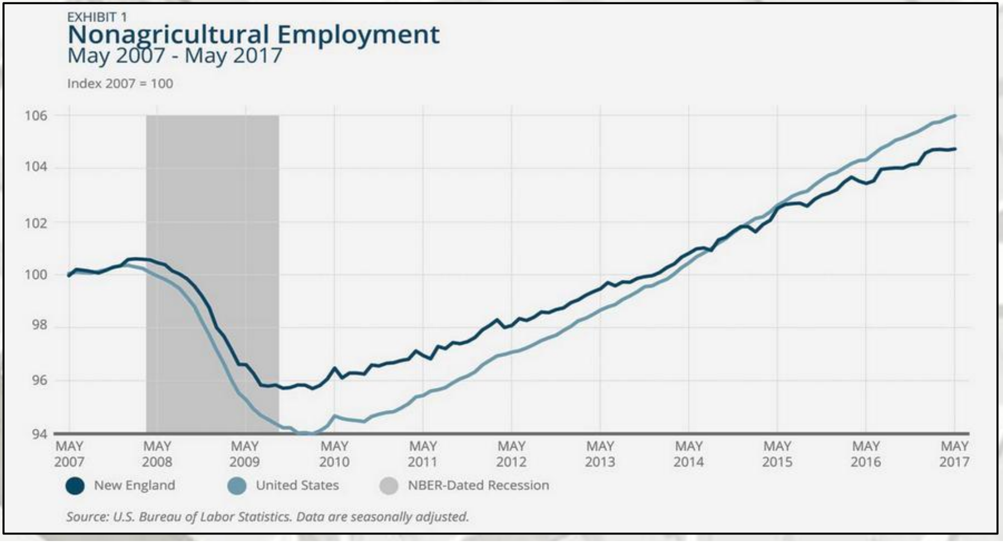
"We've now seen four months of steady gains following more rapid growth in factory activity earlier this year. Firms overall seem confident that moderate growth will continue." – Chad Wilkerson, Vice President and Economist, The Federal Reserve Bank of Kansas City

"The month-over-month composite index was 10 in July, down slightly from 11 in June but up from 8 in May. The composite index is an average of the production, new orders, employment, supplier delivery time, and raw materials inventory indexes. Factory activity increased moderately at non-durable goods plants, particularly for chemicals and plastics, while durable activity moderated somewhat. Month-over-month indexes were mixed." – Pam Campbell, Federal Reserve Bank of Kansas City

Source: https://www.kansascityfed.org; 7/27/17

Return to TOC

U.S. Economic Indicators



The Federal Reserve Bank of New England

Economic activity continued to improve into 2017

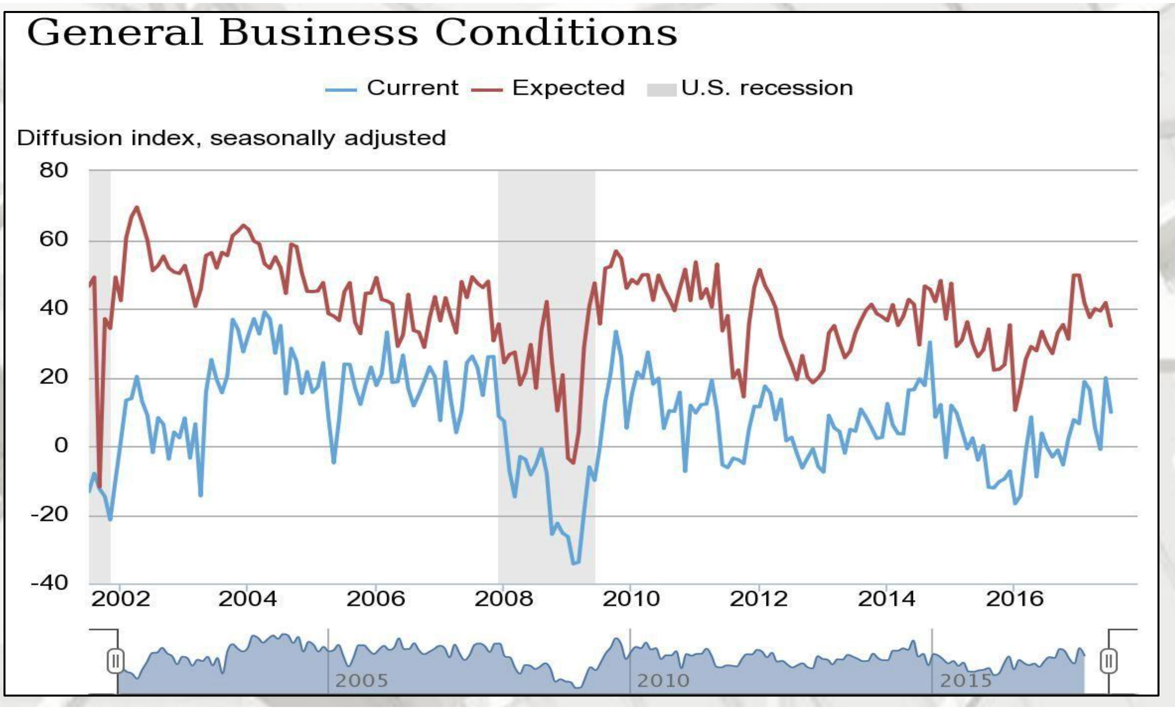
"In the first months of 2017, economic conditions continued to improve in both New England and the United States along several indicators. Payroll employment increased, home prices rose, and unemployment rates fell relative to one year prior, although the changes in economic conditions varied across the New England states. Over this period, consumer prices rose moderately in the Boston area as well as nationally.

From May 2016 to May 2017, Construction, Information, and Other Services in New England outpaced employment growth in those supersectors nationally (Exhibit 2). For that time period, Manufacturing employment shrank in the region by 0.6 percent despite modest growth nationally of 0.5 percent. Manufacturing employment decreased in four of six New England states, while both Rhode Island (up 1.5 percent) and New Hampshire (up 0.3 percent) experienced increases in manufacturing employment." – Riley Sullivan, Policy Analyst, Federal Reserve Bank of Boston

Source: https://www.bostonfed.org/publications/new-england-economic-indicators/2017/quarter-2.aspx; 6/19/17

Return to TOC

U.S. Economic Indicators



Empire State Manufacturing Survey

"Business activity grew modestly in New York State, according to firms responding to the *July 2017 Empire State Manufacturing Survey*. The headline general business conditions index fell ten points to 9.8. The new orders index moved down to 13.3, and the shipments index fell to 10.5, suggesting that orders and shipments continued to grow, though at a somewhat slower pace than in June. Delivery times continued to lengthen, and inventory levels were fairly steady. Labor market indicators pointed to a small increase in employment and no change in hours worked. Input prices and selling prices rose at about the same pace as last month. Indexes assessing the six-month outlook suggested that firms remained positive about future conditions, though they were less optimistic than in June." – The Federal Reserve Bank of New York

Source: https://www.newyorkfed.org/survey/empire/empiresurvey_overview.html#tabs-1; 7/17/17

Return to TOC

U.S. Economic Indicators

Empire State Manufacturing Survey

Growth Continues, Though Not Quite as Strongly

"Manufacturing firms in New York State reported that business activity continued to expand in July. After reaching its highest level in more than two years last month, the general business conditions index retreated ten points to 9.8, indicating that activity grew at a slower rate than in June. Thirty percent of respondents reported that conditions had improved over the month, while 20 percent reported that conditions had worsened. The new orders index edged down five points, but at 13.3, it still showed that orders increased at a fairly solid clip. The shipments index fell twelve points to 10.5, suggesting that shipments grew, but at a slower pace than last month. The unfilled orders index dropped below zero. The delivery time index was little changed at 4.7, pointing to somewhat longer deliver times, and the inventories index fell to 2.4."

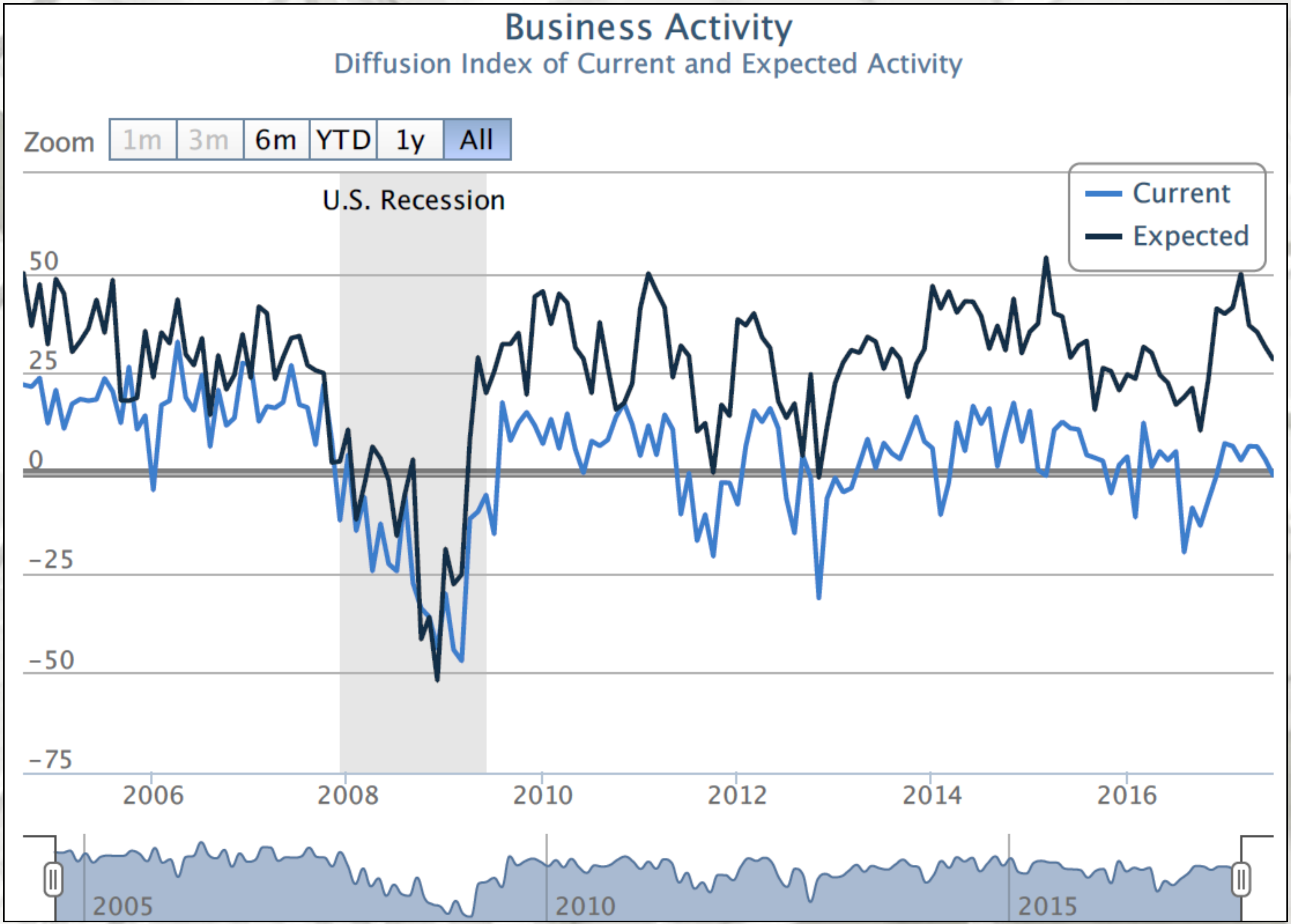
Optimism Declines Somewhat

"Indexes assessing the six-month outlook remained favorable, though firms were somewhat less optimistic about future conditions than in June. The index for future business conditions fell seven points to 34.9, and the index for future new orders fell nine points to 33.4. Employment was expected to increase modestly, though the average workweek was expected to decline slightly. The capital expenditures index slipped to 15.0, and the technology spending index was 11.8." – Federal Reserve Bank of New York

Source: https://www.newyorkfed.org/survey/empire/empiresurvey_overview.html#tabs-1; 7/17/17

Return to TOC

U.S. Economic Indicators



Source: https://www.newyorkfed.org/medialibrary/media/survey/business_leaders/2017/2017_07blsreport.pdf; 8/1/17

Return to TOC

U.S. Economic Indicators

Business Leaders Survey

"Activity in the region's service sector showed little change, according to firms responding to the Federal Reserve Bank of New York's July 2017 *Business Leaders Survey*. The survey's headline business activity index edged down four points to -0.7. The business climate index remained negative at -13.2, signaling that respondents continued to view the business climate as worse than normal. The employment index climbed seven points to 9.6, pointing to an increase in employment levels, and the wages index rose five points to 32.4, suggesting that wages rose at a faster pace than last month. Price indexes were positive and little changed, indicating that both input prices and selling prices increased at about the same pace as in June. Capital spending grew modestly. Indexes assessing the six-month outlook suggested that firms were somewhat less optimistic about future business conditions than they were last month.

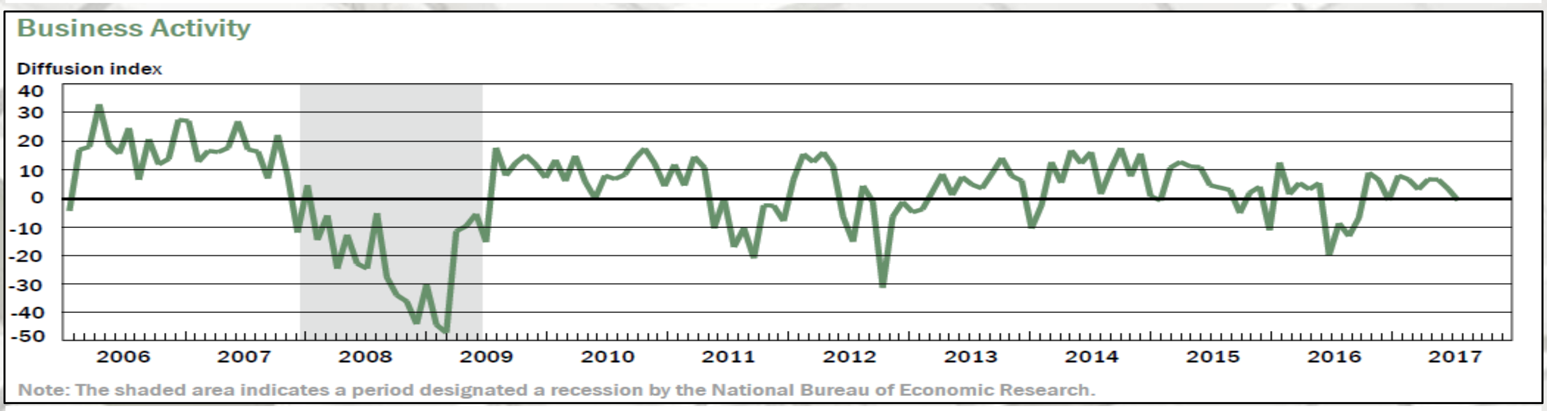
Activity Flat as Business Climate Remains Unfavorable

Business activity in the region's service sector was unchanged in July. The headline business activity index fell four points to -0.7. Twenty-seven percent of respondents reported that conditions had improved over the month, and 28 percent said that conditions had worsened. After dropping to its lowest level in several months in June, the business climate index was little changed at -13.2, suggesting that, on balance, firms continued to regard the business climate as worse than normal." – The Federal Reserve Bank of New York

Source: https://www.newyorkfed.org/medialibrary/media/survey/business_leaders/2017/2017_07blsreport.pdf; 8/1/17

Return to TOC

U.S. Economic Indicators



Business Leaders Survey

Employment Picks Up

"The employment index climbed seven points to 9.6, signaling that employment levels increased modestly. The wages index rose five points to 32.4 — evidence that wages increased at a faster pace than last month. Both price indexes were little changed: the prices paid index was 38.4, and the prices received index was 10.3, suggesting that prices increased at about the same pace as last month. The capital spending index edged down two points to 11.2.

Optimism Somewhat Lower

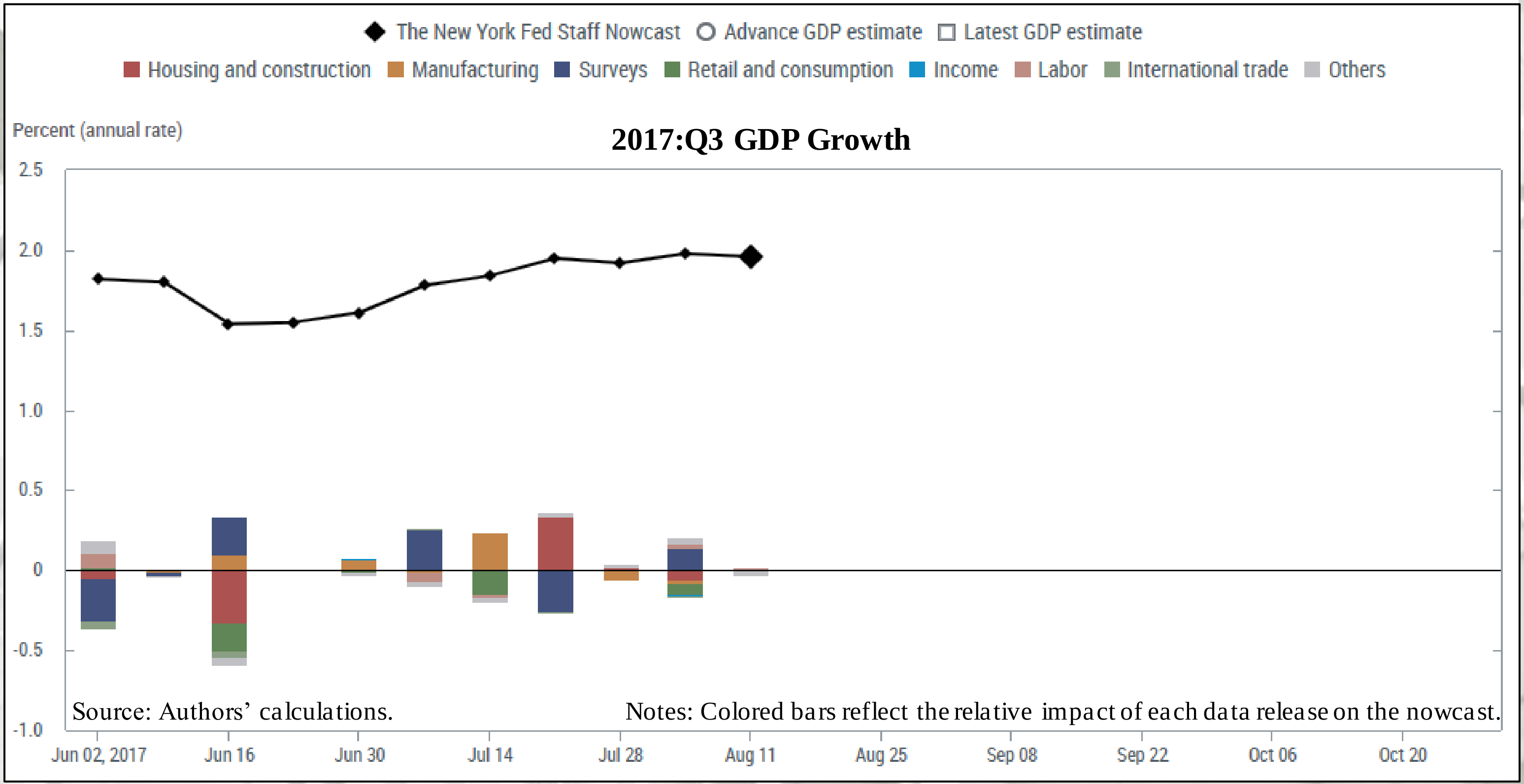
Indexes assessing the six-month outlook continued to convey optimism about future conditions, though to a somewhat lesser extent than in recent months. The index for future business activity fell three points to 28.4, its third consecutive monthly decline, and the index for future business climate was little changed at 16.1. The index for expected employment dropped fourteen points to 12.6, its lowest level in several months, and the index for planned capital spending fell six points to 14.6." – The Federal Reserve Bank of New York

Source: https://www.newyorkfed.org/medialibrary/media/survey/business_leaders/2017/2017_07blsreport.pdf; 8/1/17

Return to TOC

U.S. Economic Indicators

The Federal Reserve Bank of New York



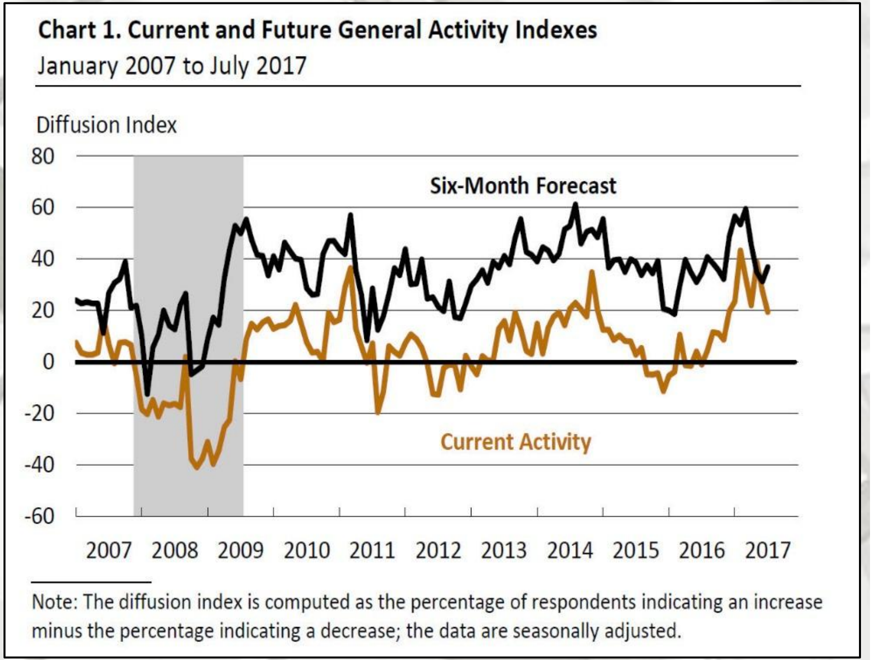
August 11, 2017: Highlights

- "The New York Fed Staff Nowcast stands at 2.0% for 2017:Q3.
- The effects of news from this week's data releases were small, leaving the Nowcast broadly unchanged." – The Federal Reserve Bank of New York

Source: https://www.newyorkfed.org/research/policy/nowcast; 8/9/17

Return to TOC

U.S. Economic Indicators



Introduction

"Manufacturing activity in the region continues to grow but at a slower pace, according to results from the July Manufacturing Business Outlook Survey. The diffusion indexes for general activity, new orders, shipments, employment, and work hours remained positive but fell from their readings in June. Respondents also reported a moderation of price pressures this month. Firms remained generally optimistic about future growth. More than one-third of the manufacturers expect to add to their payrolls over the next six months." – Philadelphia Fed

Manufacturing Activity Continued to Expand in June

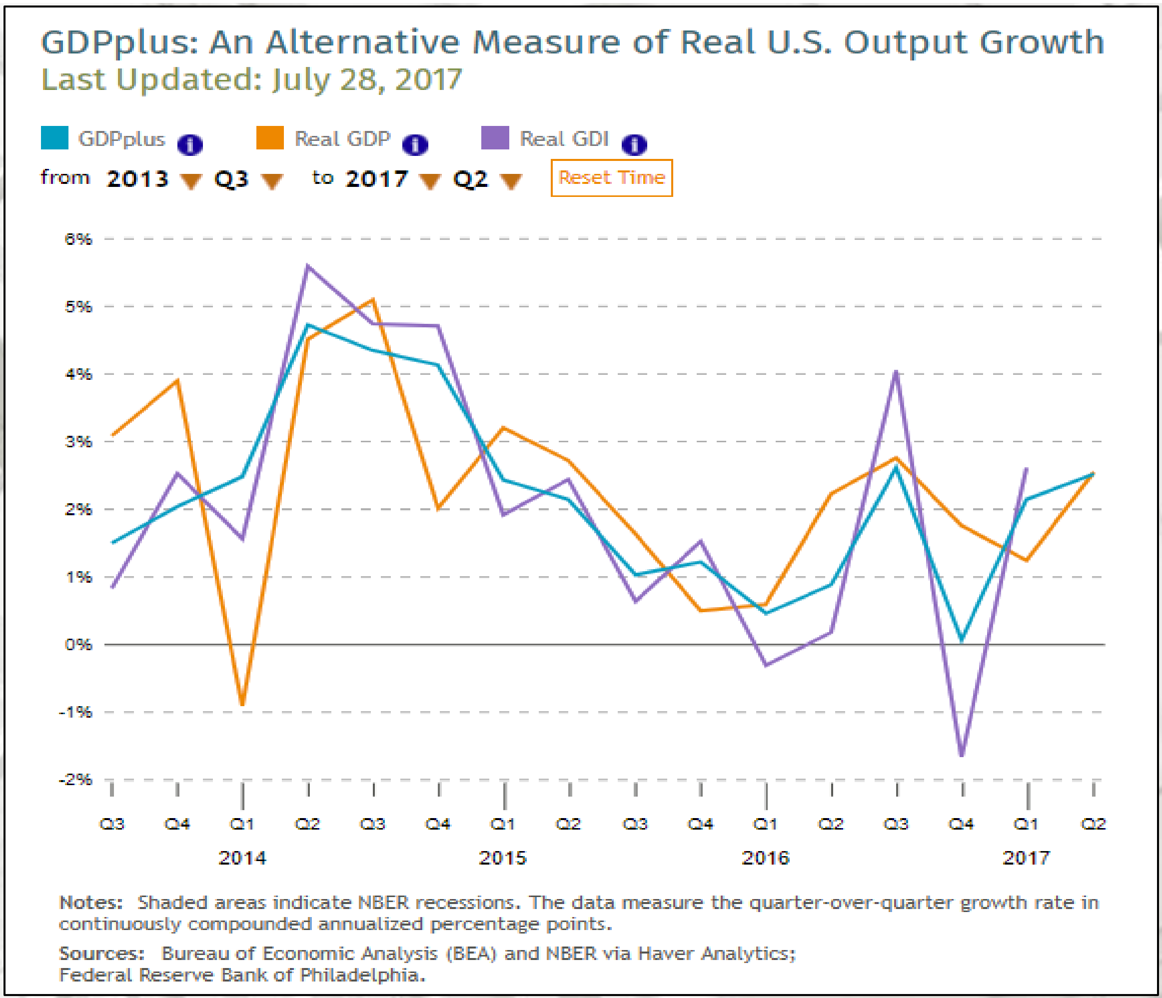
Current Indicators Suggest Positive but Weaker Growth

"The index for current manufacturing activity in the region decreased from a reading of 27.6 in June to 19.5 this month. The index has been positive for 12 consecutive months, but July's reading is the lowest since November. Thirty-seven percent of the firms indicated increases in activity in July, down from 42 percent last month. The shipments index decreased 16 points, while the new orders index fell 24 points. Nearly 31 percent of the respondents reported a rise in new orders this month, down from 45 percent in June. Both the delivery times and unfilled orders indexes were positive for the ninth consecutive month, suggesting longer delivery times and increases in unfilled orders." – Mike Trebing, Senior Economic Analyst, Federal Reserve Bank of Philadelphia

Source: https://www.philadelphiafed.org/research-and-data/regional-economy/business-outlook-survey/2017/bos0717; 7/20/17

Return to TOC

Philadelphia Fed: GDPplus

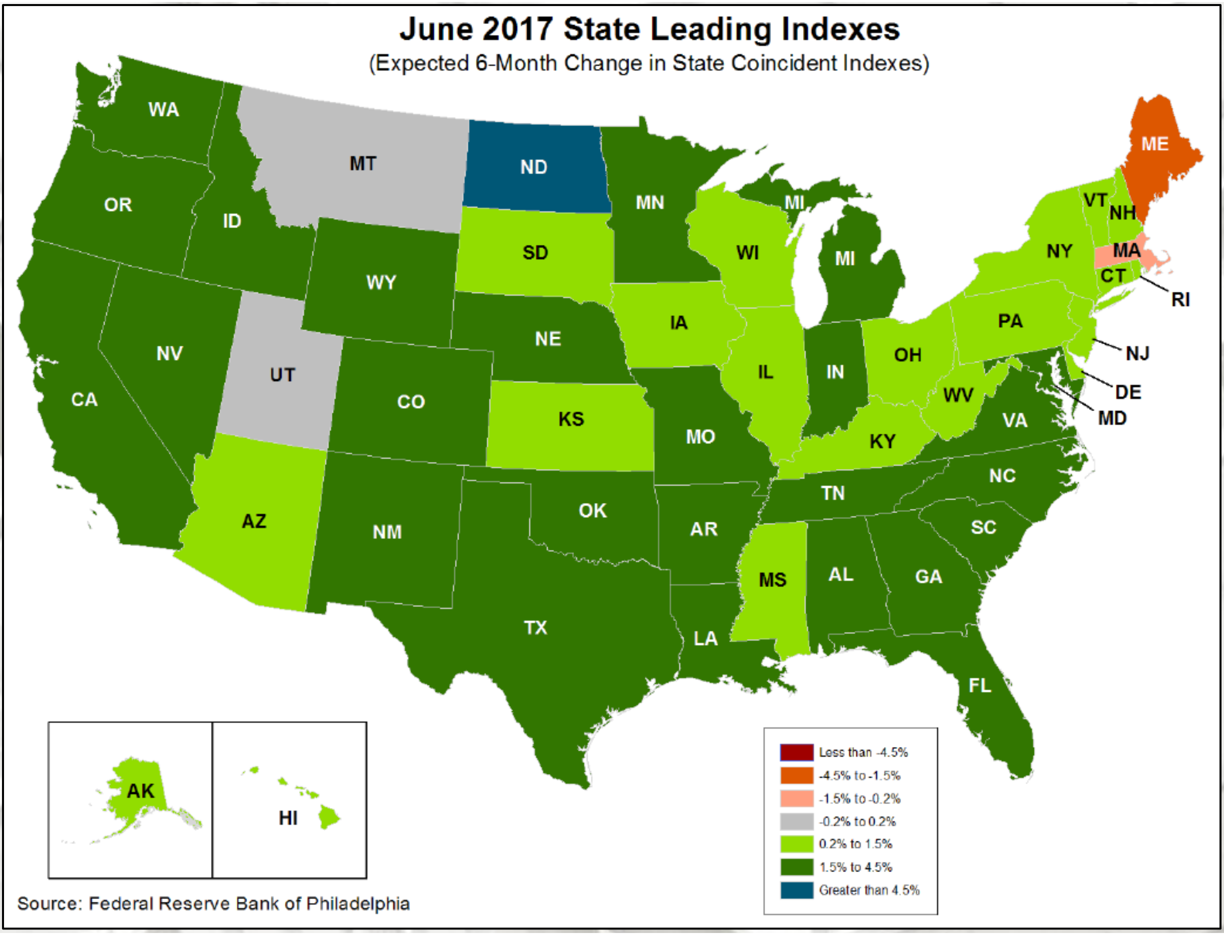


"GDPplus is a measure of the quarter-over-quarter rate of growth of real GDP in annualized percentage points. It improves on the BEA's expenditure- and income-side measures, GDP_E and GDP_I, respectively. GDP_E is the "standard" GDP measure used routinely, whereas GDP_I is little used, but each contains useful information." –The Federal Reserve Bank of Philadelphia

Source: https://philadelphiafed.org/research-and-data/real-time-center/gdpplus/; 7/28/17

Return to TOC

Philadelphia Fed



"The Federal Reserve Bank of Philadelphia has released the leading indexes for the 50 states for June 2017. The indexes are a six-month forecast of the state coincident indexes (also released by the Bank). Forty-eight state coincident indexes are projected to grow over the next six months and two (Maine and Massachusetts) are projected 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 1.4 percent over the next six months." – Daneil Mazone, The Federal Reserve Bank of Philadelphia

Source: https://www.philadelphiafed.org/-/media/research-and-data/regional-economy/indexes/leading/2017/LeadingIndexes0617.pdf; 8/1/17

U.S. Economic Indicators

The Federal Reserve Bank of Richmond

Manufacturing Firms in the Fifth District Remained Generally Upbeat in July

"Reports from Fifth District manufacturers improved some in July, according to the latest survey by the Federal Reserve Bank of Richmond. The composite index rose from 11 in June to 14 in July — the result of a slight increase in the measures of new orders and employment. The index for shipments remained at its June reading of 13. A larger share of firms reported higher wages and longer workweeks in July, as the wages index rose from 10 in June to 17 in July and the average workweek index rose from 1 to 9.

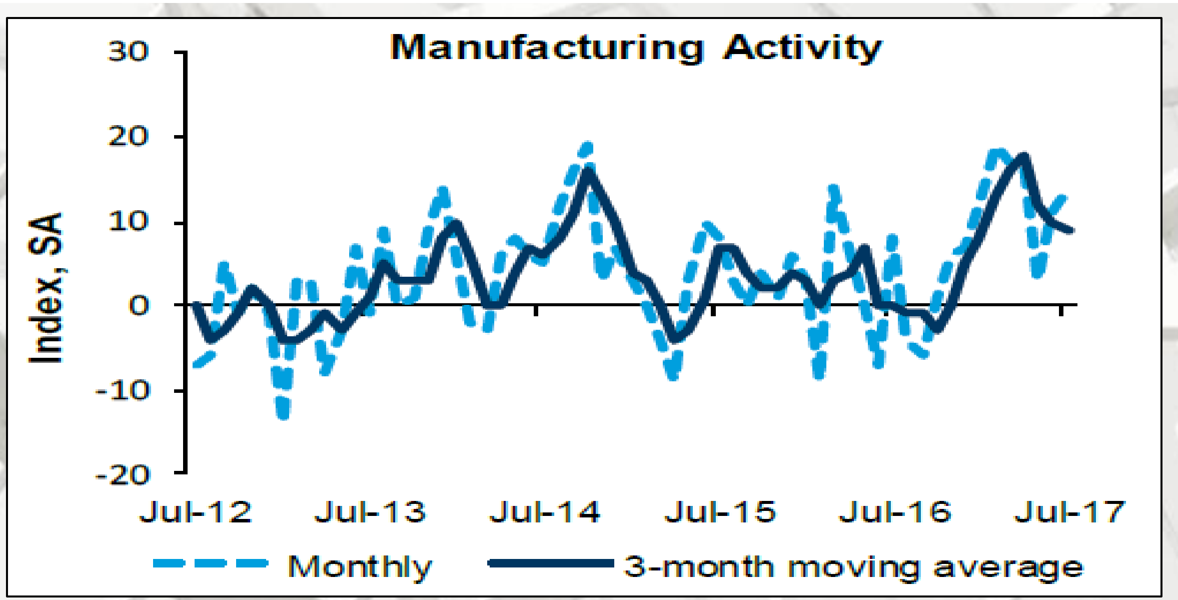
Manufacturing executives remained generally optimistic about activity six months ahead. Among the indexes for expected activity, almost every measure was well into positive territory and each increased, with the exception of the index for vendor lead time, which held steady at its June level of 7.

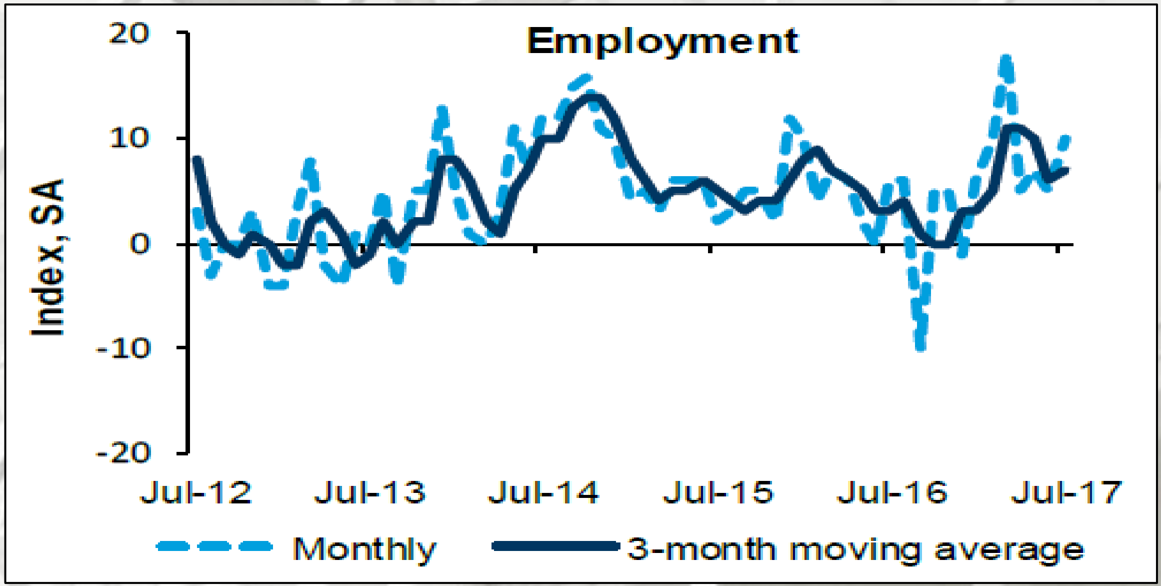
In terms of prices, survey respondents continued to report moderate growth in both prices paid and prices received. Meanwhile, expected growth in prices paid was slightly higher in July while expected growth in prices received was virtually unchanged." – Jeannette Plamp, Economic Analyst, The Federal Reserve Bank of Richmond

Source: https://www.richmondfed.org/research/regional_economy/surveys_of_business_conditions/manufacturing/2017/mfg_07_25_17; 7/25/17

Return to TOC

U.S. Economic Indicators

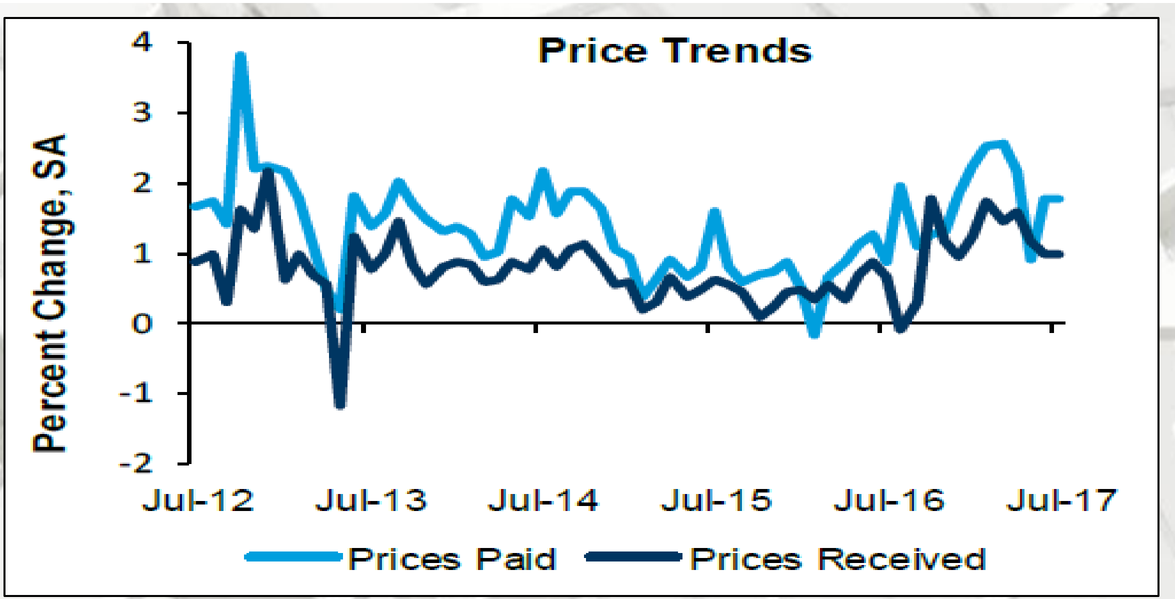


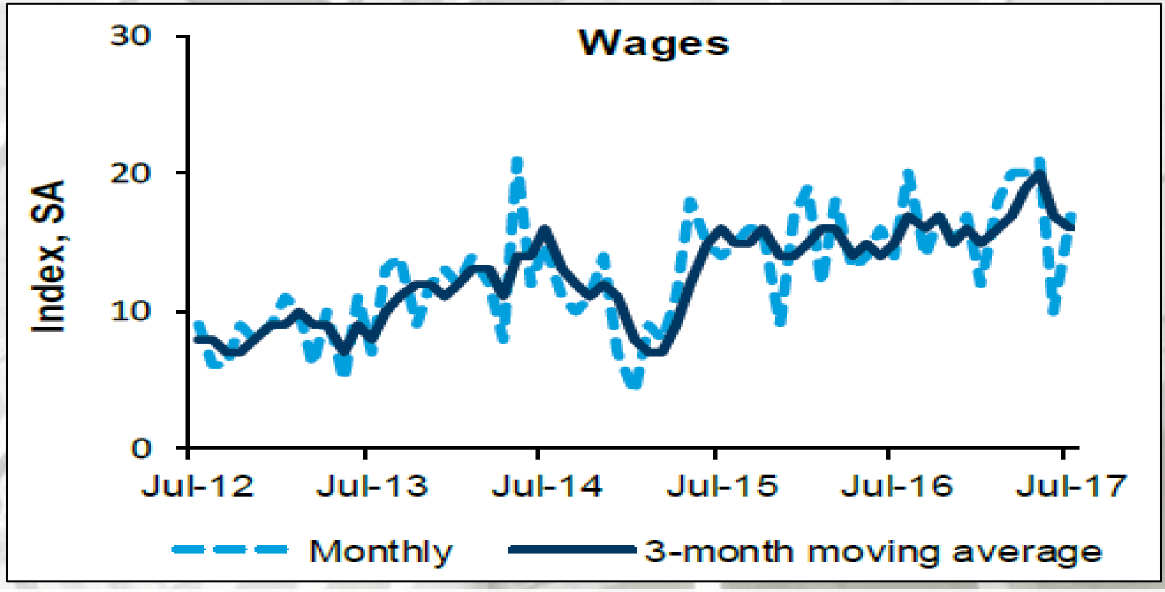


Source: https://www.richmondfed.org/research/regional_economy/surveys_of_business_conditions/manufacturing/2017/mfg_07_25_17; 7/25/17

Return to TOC

U.S. Economic Indicators





Source: https://www.richmondfed.org/research/regional_economy/surveys_of_business_conditions/manufacturing/2017/mfg_07_25_17; 7/25/17

Return to TOC

U.S. Economic Indicators

The Federal Reserve Bank of San Francisco

FRBSF FedViews

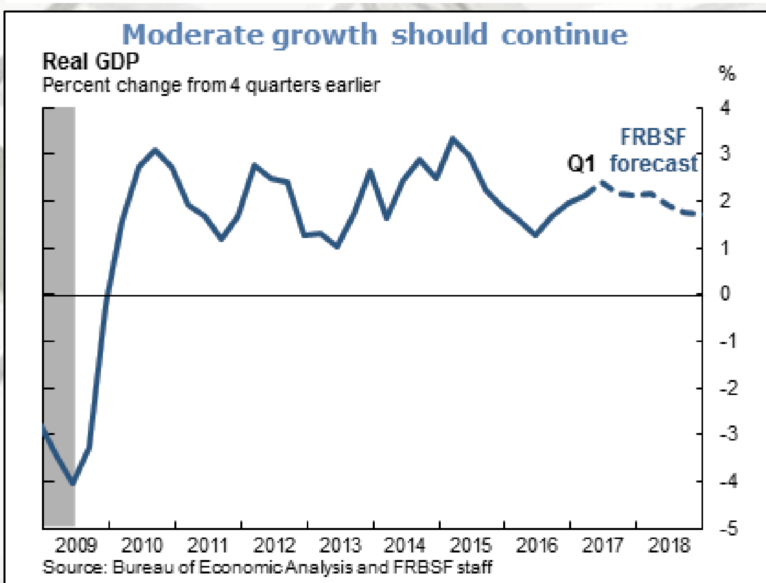
"Recent data indicate that the economy continues to grow at a moderate pace and should pick up from the relatively weak first quarter GDP growth rate of 1.4%. Stronger household spending, which had been weak earlier in the year, as well as improvements in business fixed investment and foreign economic conditions are all contributing to the economy's current strength. We expect annual GDP growth to average about 2% overall for 2017, before falling back to our estimate of potential output growth of around 1½ to 1¾%.

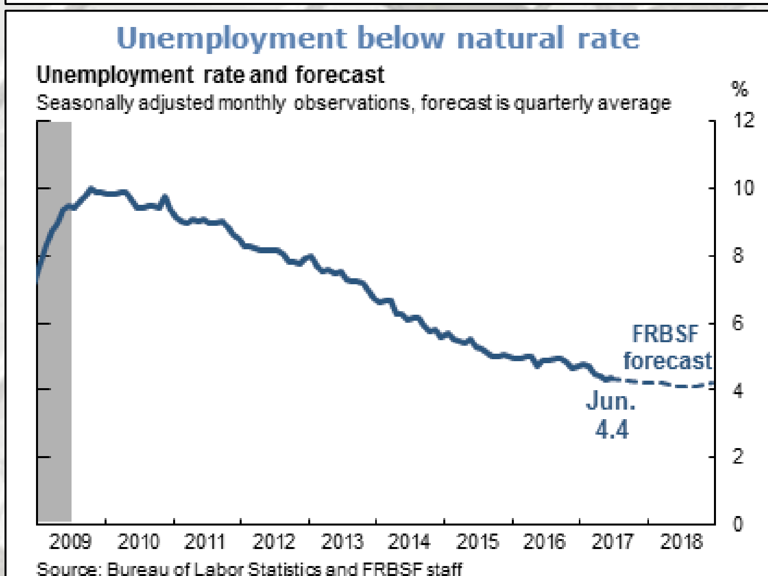
Inflation continues to run below the 2% rate targeted by the Federal Open Market Committee (FOMC). The headline and core price indexes for personal consumption expenditures both rose 1.4% for the year ending in May. These low readings are in part attributable to transitory factors, as well as exceptional one-time price reductions for some items. These factors are expected to hold down 12-month inflation figures going forward until they fall out of the calculation." – Mark Spiegel, Vice President, The Federal Reserve Bank of San Francisco

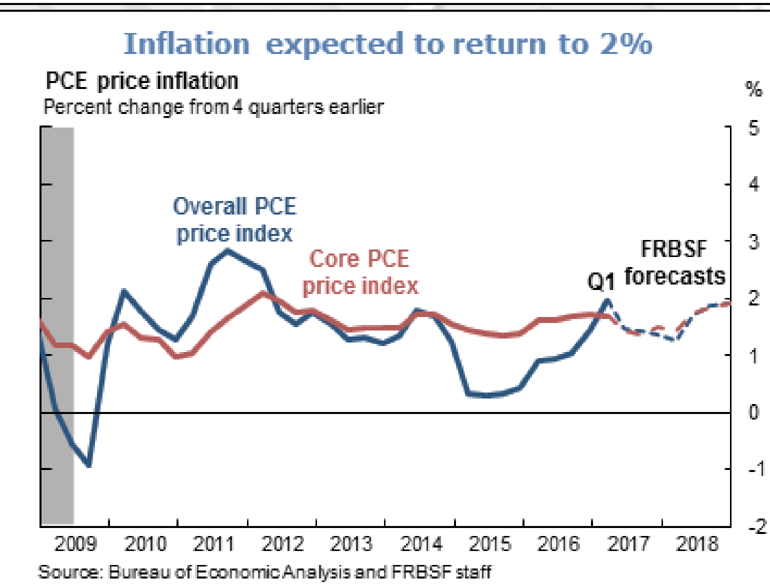
Source: http://www.frbsf.org/economic-research/publications/fedviews/2017/july/july-13-2017; 7/13/17

Return to TOC

U.S. Economic Indicators



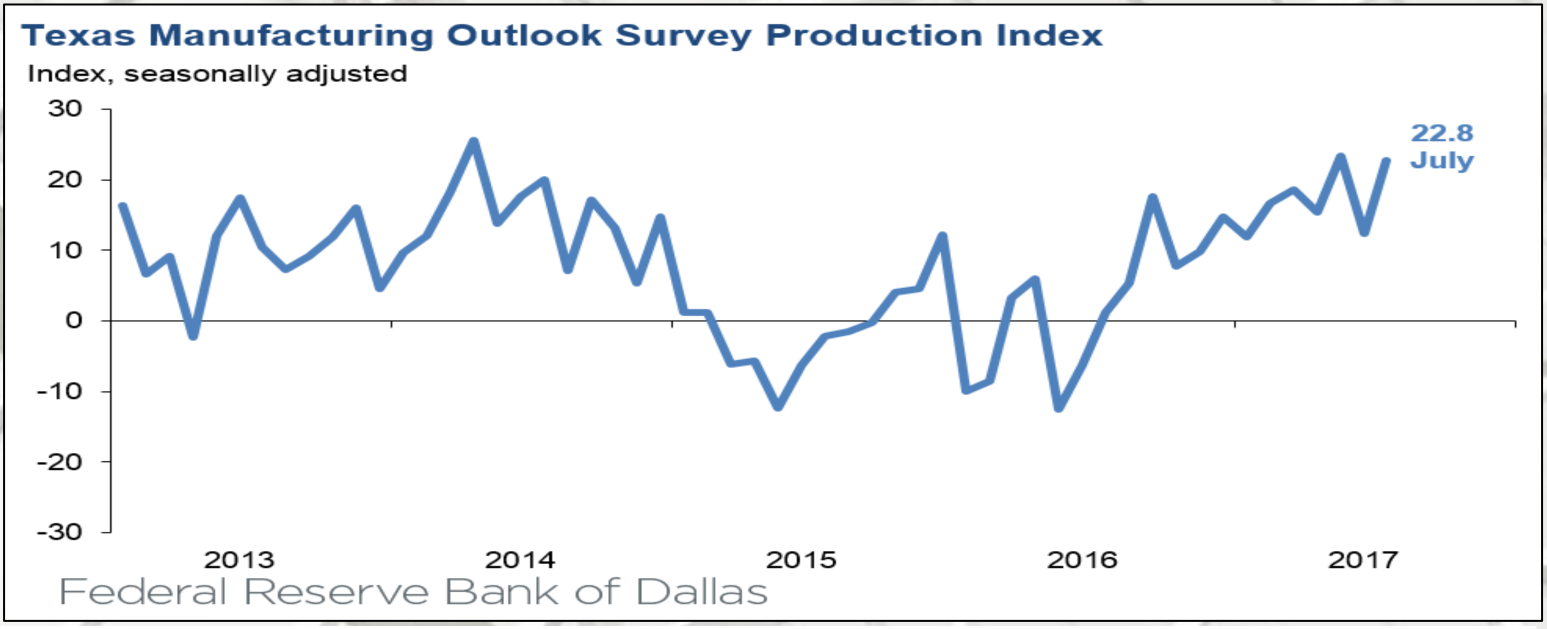




Source: http://www.frbsf.org/economic-research/publications/fedviews/2017/july/july-13-2017; 7/13/17

Return to TOC

U.S. Economic Indicators



Texas Manufacturing Activity Strengthens, Outlooks Improve

"Texas factory activity increased again in July, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, rose 11 points to 22.8, indicating output grew at a faster pace than in June.

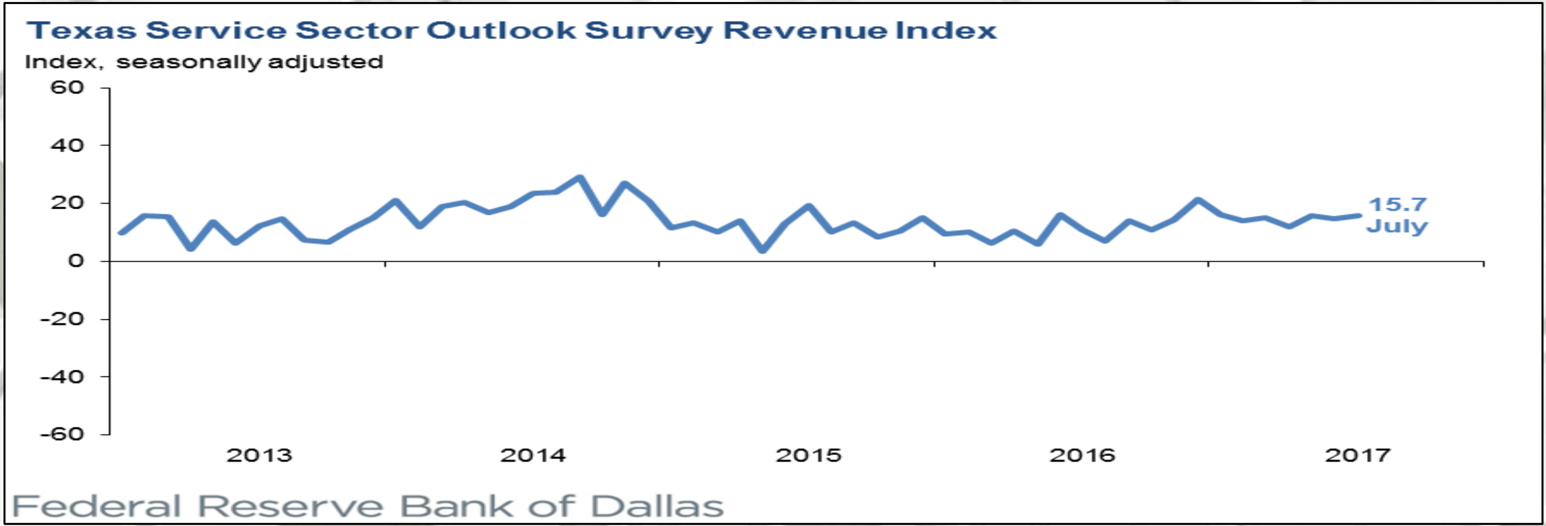
Other measures of current manufacturing activity also indicated a pickup in growth. The new orders and the growth rate of orders indexes rose several points each, coming in at 16.1 and 12.2, respectively. The capacity utilization index moved up to 18.1 and the shipments index increased three points to 11.6.

Perceptions of broader business conditions improved again in July, with a sharp pickup in outlooks. The general business activity index edged up to 16.8, marking a 10th consecutive positive reading. The company outlook index jumped 15 points to 25.9, reaching its highest level since 2010." – Emily Kerr, Business Economist, The Federal Reserve Bank of Dallas

Source: https://www.dallasfed.org/research/surveys/tmos/2017/1707; 7/31/17

Return to TOC

U.S. Economic Indicators



Texas Service Sector Activity Strengthens

"Texas service sector activity continued to reflect expansion in July, according to business executives responding to the *Texas Service Sector Outlook Survey*. The revenue index, a key measure of state service sector conditions, edged up one point to 15.7 in July.

Labor market indicators reflected slower employment growth and longer workweeks this month. The employment index moved down four points to 7.5. The hours worked index rose from 4.3 to 8.1.

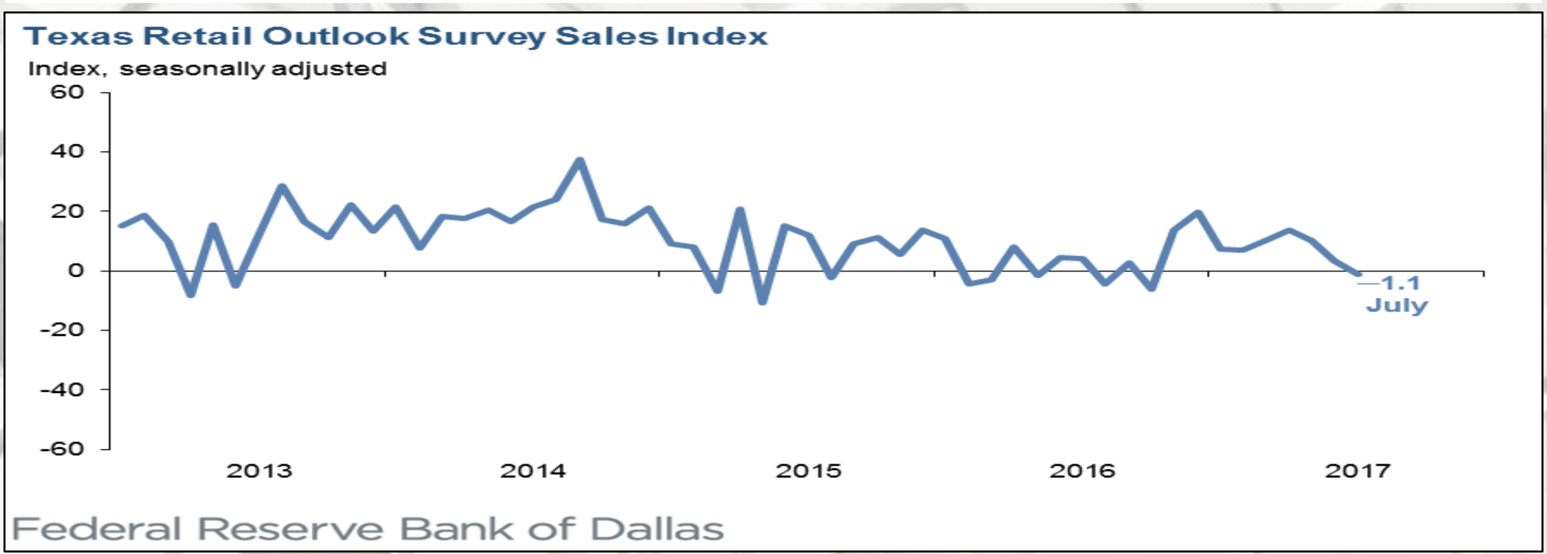
Perceptions of broader economic conditions continued to reflect optimism in July. The general business activity index held steady at 10.5. The company outlook index fell from 14.2 to 7.9, with 19 percent of respondents reporting that their outlook improved from last month and 12 percent noting it worsened.

Respondents' expectations regarding future business conditions continued to reflect optimism in July. The index of future general business activity rose slightly to 23.0. The index of future company outlook fell three points to 23.1. Indexes of future service sector activity, such as future revenue and employment, also continued to reflect optimism this month." – Amy Jordan, Assistant Economist, The Federal Reserve Bank of Dallas

Source: https://www.dallasfed.org/research/surveys/tssos/2017/1707; 8/1/17

Return to TOC

U.S. Economic Indicators



Retail Sales Decline

"Retail sales fell in July for the first time in nine months, according to business executives responding to the Texas Retail Outlook Survey. The sales index moved down five points to –1.1 in July. Inventories increased at a slower pace this month.

Labor market indicators were mixed this month. The employment index plunged 10 points to a reading near zero, suggesting retail employment was unchanged on net. The hours worked index rebounded to positive territory to a reading of 3.3, suggesting workweeks lengthened in July.

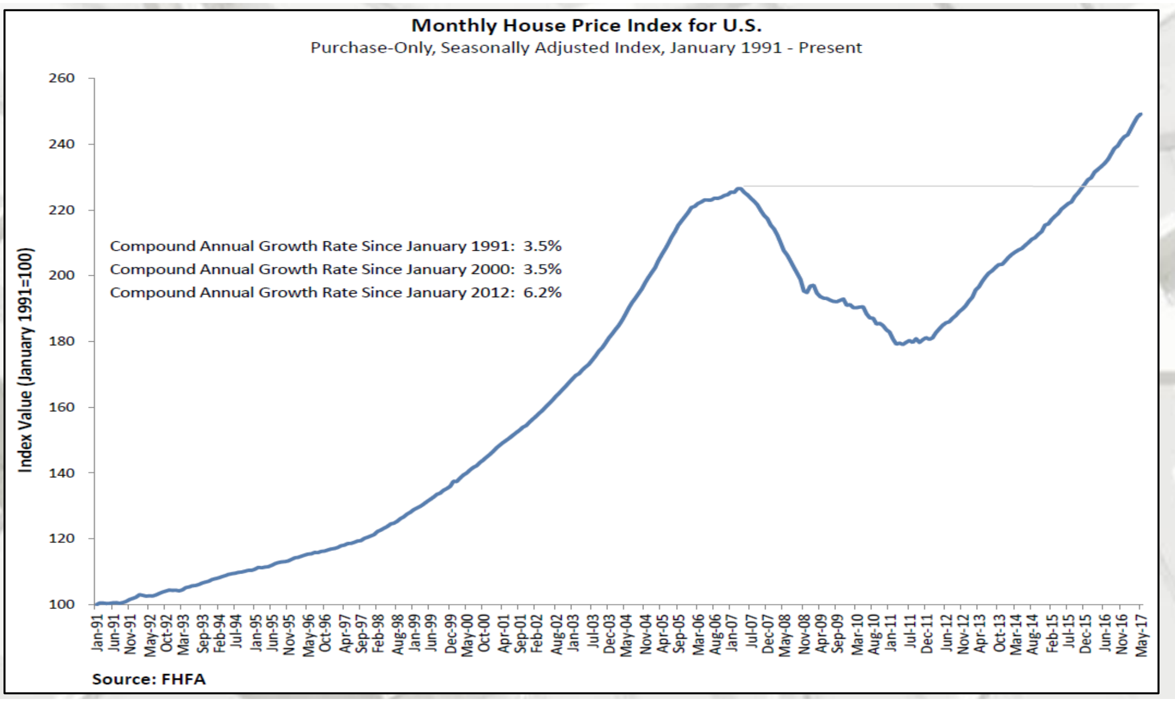
Retailers' perceptions of broader economic conditions reflected less optimism in July. The general business activity index fell from 9.6 to 4.3. The company outlook index retreated to a reading near zero, as the share of respondents reporting that their outlook improved from last month equaled the share noting that it worsened.

Retailers' perceptions of future broader economic conditions reflected less optimism in July. The index of future general business activity fell five points to 15.4. The index of future company outlook dropped 13 points to 9.9. Indexes of future retail sector activity mostly reflected less optimism this month." – Amy Jordan, Assistant Economist, The Federal Reserve Bank of Dallas

Source: https://www.dallasfed.org/research/surveys/tssos/2017/1705; 8/1/17

Return to TOC

U.S. Economic Indicators



FHFA House Price Index

FHFA House Price Index Up 0.4 Percent in May

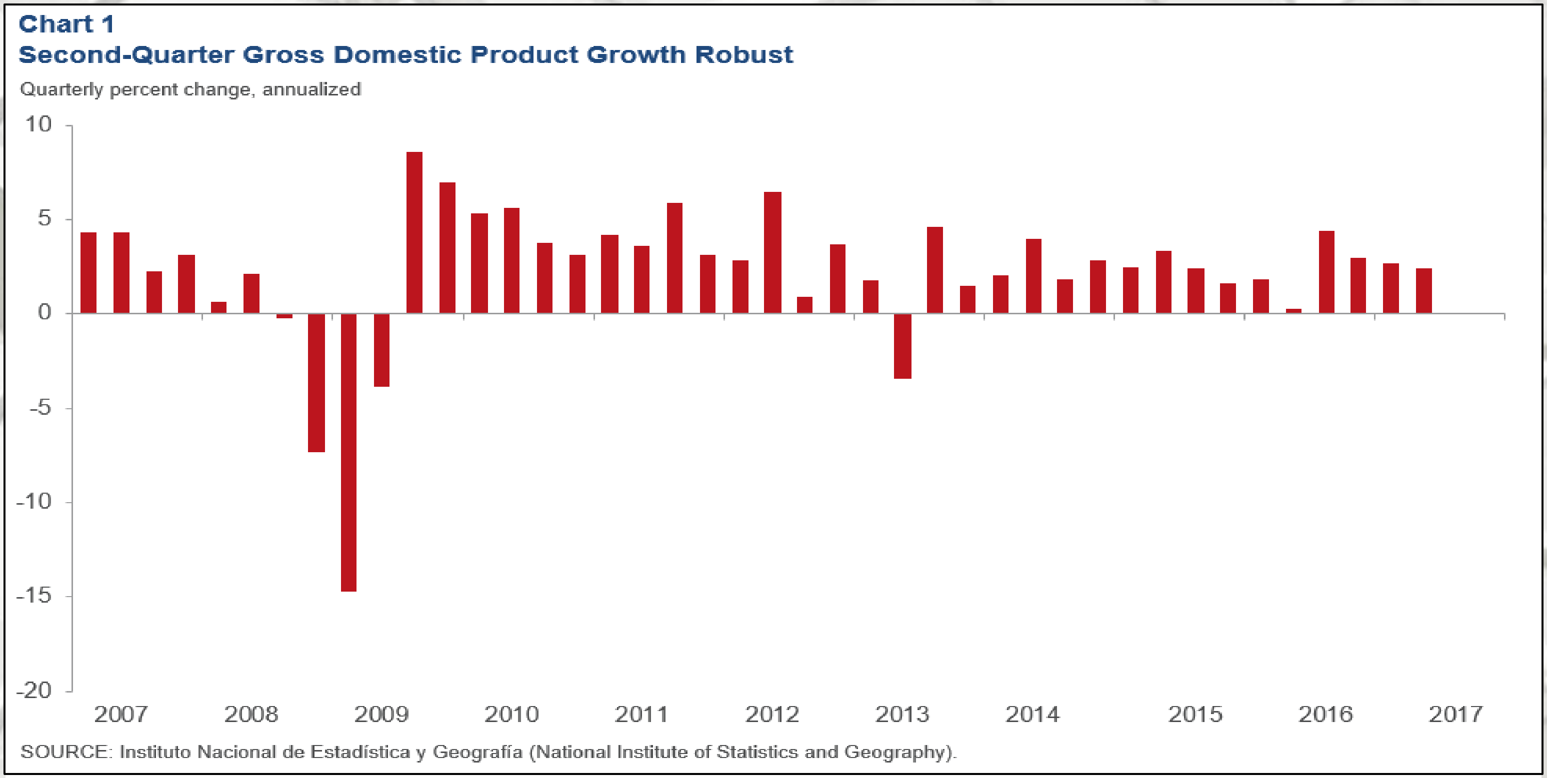
"U.S. house prices rose in May, up **0.4 percent** from the previous month, according to the Federal Housing Finance Agency (FHFA) seasonally adjusted monthly House Price Index (HPI). The previously reported 0.7 percent increase in April was revised downward to reflect a 0.6 percent increase.

For the nine census divisions, seasonally adjusted monthly price changes from April 2017 to May 2017 ranged from **-0.5 percent** in the Middle Atlantic division to **+1.0 percent** in the West South Central division. The 12-month changes were all positive, ranging from **+4.0 percent** in the Middle Atlantic division to **+8.7 percent** in the Pacific division." – Stefanie Johnson and Corinne Russell, FHFA

Source: https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/MonthlyHPIMay_72517.pdf; 7/25/17

Return to TOC

U.S. Economic Indicators: Global



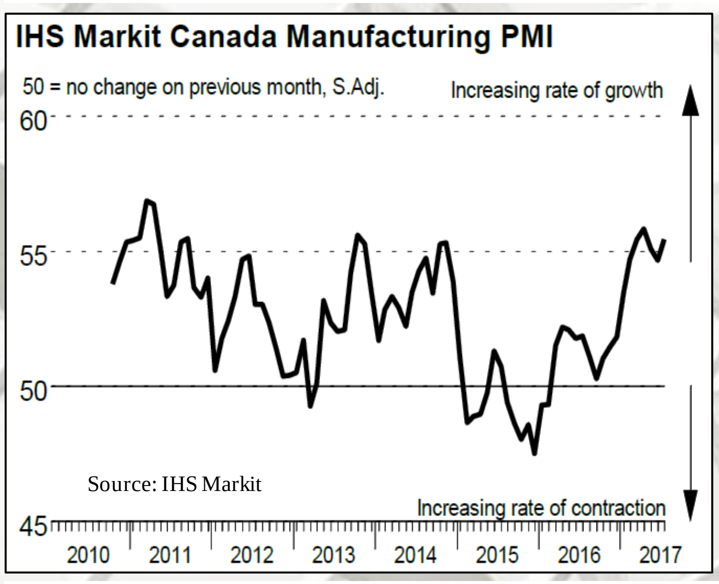
Mexico Economy Continues Expanding in Second Quarter

"Mexico's GDP grew 2.4 percent annualized in the second quarter, a slightly slower pace than the 2.7 percent in the first quarter (Chart 1). Mexico's economy posted solid growth in second quarter 2017, although gross domestic product (GDP) growth ticked down slightly from the first quarter, according to the government's advance estimate. Recent data on exports, industrial production and employment improved, but retail sales fell. Inflation held steady in June as the peso gained ground against the dollar for the fifth consecutive month. The consensus 2017 GDP growth forecast was unchanged at 2 percent." – Jesus Cañas, Senior Business Economist, and Alexander Abraham, Research Assistant; The Federal Reserve Bank of Dallas

Source: https://www.dallasfed.org/research/update/mex/2017/1705; 8/9/17

Return to TOC

Private Indicators: Global



Markit Canada Manufacturing PMI™

Production rises at fastest pace since March

"The headline seasonally adjusted IHS Markit Canada Manufacturing Purchasing Managers' Index® (PMI™) registered 55.5 in July, up from 54.7 in June, to remain above the neutral 50.0 threshold for the seventeenth month running. Moreover, the latest reading pointed to the strongest improvement in overall business conditions since April." – Markit Canada Manufacturing PMI™

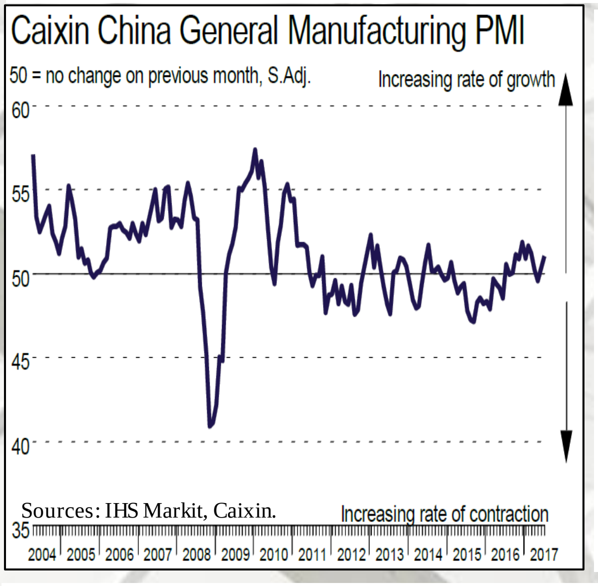
"Canadian manufacturers experienced a robust and accelerated improvement in overall business conditions in July. The latest survey revealed the fastest rate of production growth since March, driven by improved new order books and supported by a further solid rise in employment numbers. At the same time, input cost inflation moderated to a nine-month low, with manufacturers attributing this to a stronger exchange rate against the U.S. dollar. Demand for raw materials continued to strengthen, with the latest increase in purchasing activity the fastest since December 2014.

July data highlighted that Canada's manufacturing sector maintained an impressive growth rate, as production volumes rose to the second-largest extent since November 2014. Stronger domestic demand was the key factor boosting manufacturing growth in July, reflecting improving economic conditions and rising sales to energy sector clients. Manufacturers have become more confident that the rebound will be sustained during the next 12 months. The improving business outlook, alongside softer cost pressures, helped to support robust job creation and a renewed focus towards expanding production schedules." – Tim Moore, Senior Economist, HIS Markit

Source: https://www.markiteconomics.com/Survey/PressRelease.mvc/13ebb2814e724507b196e66b69ee5f37; 8//17

Return to TOC

Private Indicators: Global



Caixin China General Manufacturing PMI™

PMI edges up to four-month high in July

"The seasonally adjusted Purchasing Managers' Index™ (PMI™) – a composite indicator designed to provide a single-figure snapshot of operating conditions in the manufacturing economy – posted above the neutral 50.0 value at 51.1 in July, up from 50.4 in June. This signalled an improvement in the health of China's manufacturing sector for the second successive month, following a slight deterioration in May. Though marginal, the pace of improvement was the strongest seen for 4-months."

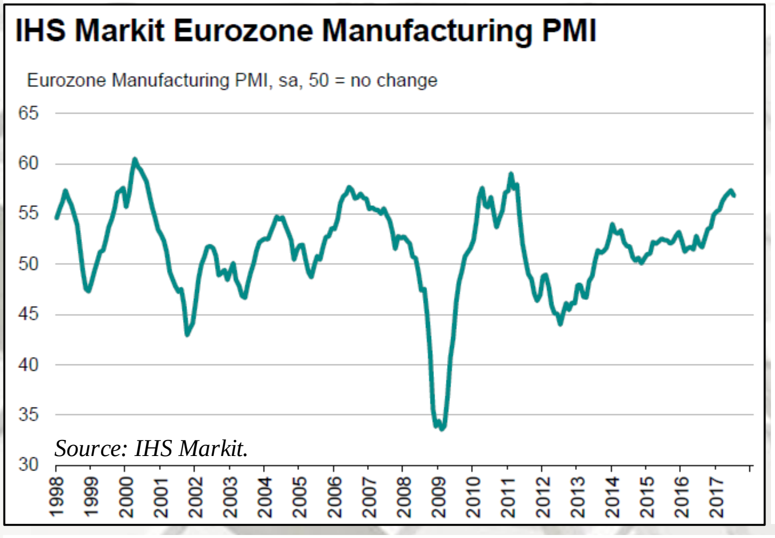
"Operating conditions faced by Chinese manufacturers improved at a slightly quicker pace in July. Companies indicated that output and new orders rose at the fastest rates for five months, helped by a solid upturn in new export sales. At the same time, inflationary pressures ticked up, with both input prices and output charges rising at faster rates than in June. However, companies maintained a relatively cautious stance towards employment, with staff numbers falling again in July. This coincided with a subdued level of confidence towards the business outlook, with optimism towards the year ahead dipping to an 11-month low.

The Caixin China General Manufacturing PMI rose 0.7 points to 51.1 in July, the highest reading in four months. The sub-indices of output and new orders both rebounded further from May's recent lows. The sub-indices of input costs and output prices both continued to rise to hit four-month highs. Although the sub-index measuring stocks of finished goods remained in contraction territory and slid further, the sub-index showing quantity of purchases indicated the strongest rise in buying activity for five months, pointing to moderate growth in manufacturing production going forward. Operating conditions in the manufacturing sector improved further in July, suggesting the economy's growth momentum will be sustained. That said, it's unlikely that financial regulatory tightening will be relaxed." – Dr. Zhengsheng Zhong, Director of Macroeconomic Analysis, CEBM Group

Source: https://www.markiteconomics.com/Survey/PressRelease.mvc/6d85656c03274a8884edbe3a4205eaf5; 8/1/17

Return to TOC

Private Indicators: Global



Markit Eurozone Manufacturing PMI®

"The start of the third quarter saw a slight moderation in the recent strong rate of expansion of the eurozone manufacturing sector. This was signalled by the final IHS Markit Eurozone Manufacturing PMI® posting 56.6 in July, down from June's 74-month high of 57.4 and below the earlier flash estimate of 56.8. The PMI has remained above the no-change mark of 50.0 for 49 successive months."

Eurozone manufacturing growth slows slightly at start of third quarter

"National surveys pointed to broad-based growth, with PMI readings for all eight of the countries monitored signalling expansion. The strongest improvements in operating conditions were registered in Austria, the Netherlands and Germany, although of these nations only the Netherlands saw a faster rate of expansion (75-month high).

Eurozone factories were buzzing with activity again in July. The PMI came in slightly below the earlier flash estimate, slipping to a four-month low, but this is still an encouragingly buoyant reading. The survey indicates that manufacturing output was growing at an annual rate of approximately 4% at the start of the third quarter, sustaining the best growth spell that the region has seen for six years. …

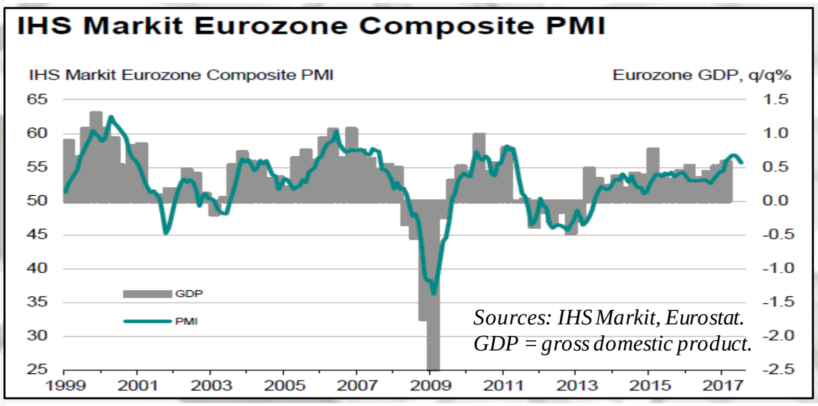
Employment growth meanwhile continued to run at one of the highest rates seen for at least 20 years, with the hiring boom underscoring the current ebullient mood within euro area factories.

Despite the near-record rise in employment, companies continued to struggle to meet order book growth, with capacity constraints both at factories and their suppliers becoming increasingly widespread in recent months. While price pressures eased in July, inflationary pressures could pick up again if demand continues to outstrip supply." – Chris Williamson, Chief Business Economist, Markit®

Source: https://www.markiteconomics.com/Survey/PressRelease.mvc/31851d9bffbd49f5baabe90d4d74fbde; 8//17

Return to TOC

Private Indicators: Global



Markit Eurozone Composite PMI®

"The final **IHS Markit Eurozone PMI® Composite Output Index** posted a six-month low of 55.7 in July, down from 56.3 in June and the earlier flash estimate of 55.8. The headline index has signalled expansion throughout the past 49 months." – IHS Markit

Eurozone economic growth slows at start of third quarter

"The eurozone economy made a solid start to the third quarter. Although July saw rates of expansion in business activity and new work moderate, growth in both remained among the best registered over the past six years. The expansion was once again broad-based by both sector and nation. July was the second successive month that all of the national manufacturing and service sector surveys covered registered higher levels of output.

The surveys indicated a slight cooling in the pace of growth in July, but this is still an encouragingly upbeat picture of business conditions. …

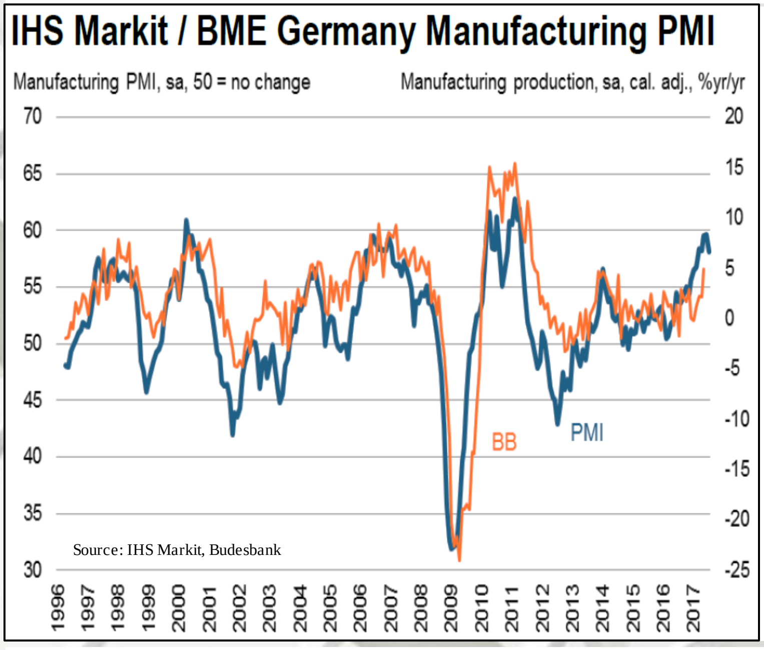
Of the four largest euro members, only Italy recorded faster growth in July, pushing the PMI into territory consistent with 0.5% quarterly GDP growth. Spain nevertheless continued to record the strongest overall expansion, with the PMI indicative of 0.9% growth.

While all countries continued to see ongoing robust growth as we move into the second half of 2017, the overall slowing in the rate of expansion will add a note of caution to ECB policymaking, though the underlying message is likely to be one of guarded optimism about the outlook." – Chris Williamson, Chief Business Economist, Markit®

Source: https://www.markiteconomics.com/Survey/PressRelease.mvc/a1527aaa2afc4dcaa5b6198797a4006d; 8/3/17

Return to TOC

Private Indicators: Global



Markit/BME Germany Manufacturing PMI®

Manufacturing growth eases in July but remains strong

"The PMI remained well above 50.0 in July at 58.1, down from 59.6 in June. This signalled a marked overall improvement in manufacturing business conditions, albeit the weakest since February. The downward movement in the PMI reflected softer increases in output, new orders and jobs, countered partially by higher input stocks and a greater lengthening in suppliers' delivery times. The current 32-month period of overall growth is the second-longest in the 21-year survey history."

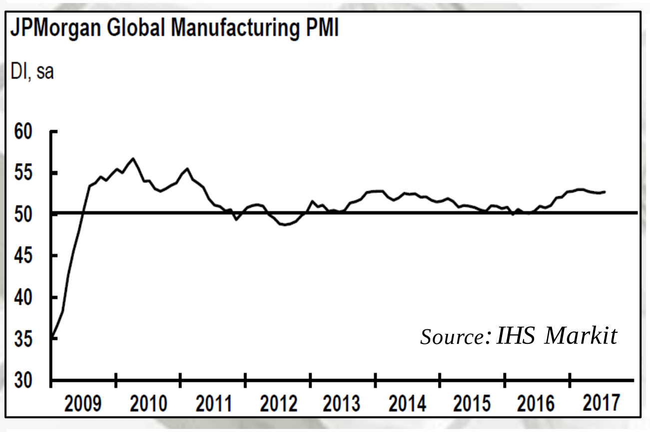
"German manufacturing remained in a strong expansionary phase at the start of the second half of 2017, according to the July PMI® survey data from IHS Markit and BME. Overall operating conditions improved at the softest pace in five months, albeit one that was still stronger than in any other period since April 2011. Output, new orders and employment all rose more slowly than in June, but at rates that were nonetheless strong. Suppliers remained under pressure, with lead times lengthening to the greatest extent since April 2011.

The German manufacturing sector finally gave up some momentum in July, with the PMI easing to a five-month low of 58.1. This was still indicative of marked overall growth, however, with rates of expansion for output, new orders and jobs remaining historically sharp. Supply chains in particular were kept under intense pressure at the start of the second half of 2017. The recent strength of the PMI was corroborated by official data in May which saw manufacturing output growth accelerate to 4.9% yr/yr. IHS Markit is currently forecasting overall industrial output to rise by 3.5% in 2017." – Trevor Balchin, Senior Economist, IHSMarkit®

Source: https://www.markiteconomics.com/Survey/PressRelease.mvc/7cf9dee4ee35426d966f9c325d8e4429; 8/1/17

Return to TOC

Private Indicators: Global



JP Morgan Global Manufacturing PMI™

"At 52.7 in July, up from 52.6 in June, the J.P. Morgan Global Manufacturing PMI™ – a composite index … – signalled an improvement in operating performance for the seventeenth month in a row. The rate of expansion picked up to the fastest since April, but remained milder than at the start of the year." – J.P. Morgan

Global Manufacturing PMI at three-month high in July

"European nations tended to benefit from strong inflows of new export business. The fastest rates of increase in foreign demand were seen in Germany, the UK, the Netherlands, Austria, Spain and France. Global manufacturing employment increased for the eleventh successive month in July, with the rate of jobs growth slightly above the average for this sequence.

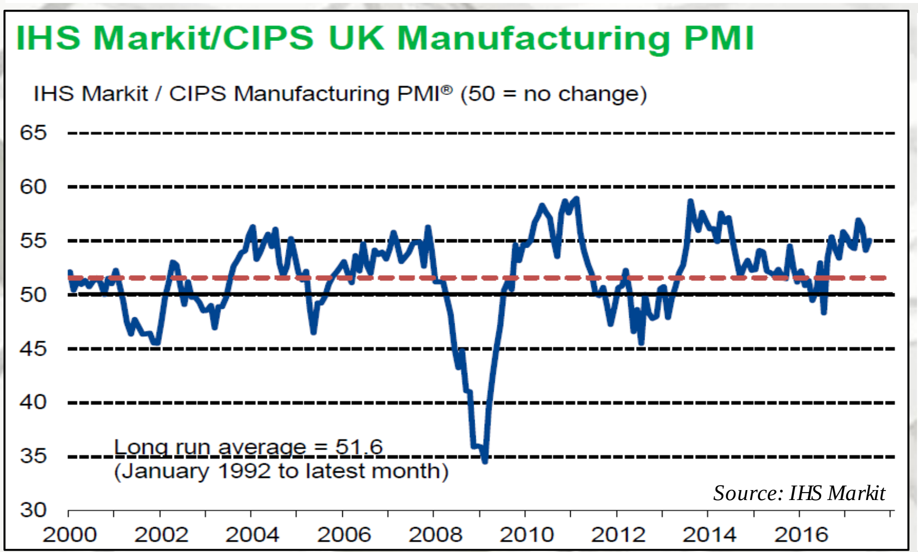
Around half of the Asian nations covered by the survey registered a contraction in July, including India, South Korea, Indonesia, Malaysia, Thailand and Myanmar. Growth gathered pace in China (despite remaining marginal), but slowed in Japan, Vietnam and the Philippines. Only Taiwan registered both a solid and accelerated rate of expansion in this region. The US was in fourteenth position, despite seeing its PMI rise to a four-month high to signal a solid manufacturing sector upturn. Meanwhile, Brazil stagnated following three consecutive months of expansion.

The global manufacturing sector achieved further solid and steady growth during July. Although the rate of output expansion eased slightly, stronger inflows of new business and rising workforce numbers suggest that the current pace of increase should be broadly sustained going forward. Cost pressures saw a slight move higher though, as sustained growth stretched global supply chains and led to increased raw material prices." – David Hensley, Global Economist, J.P. Morgan

Source: https://www.markiteconomics.com/Survey/PressRelease.mvc/5f1ec485989d4169956c18e1129c0f27; 8/3/17

Return to TOC

Private Indicators: Global



Markit/CIPS UK Manufacturing PMI™

"The rate of improvement in UK manufacturing operating conditions accelerated for the first time in three months at the start of the third quarter. This was highlighted by the seasonally adjusted IHS Markit/CIPS Purchasing Managers' Index® (PMI®) rising to 55.1 in July, up from 54.2 in June." – IHS Markit

UK manufacturing boosted by near survey-record growth of new export orders

"The headline PMI was boosted by stronger inflows of new work, higher levels of production, improved job creation, longer supplier delivery times and a slight increase in inventory holdings.

UK manufacturing started the third quarter on a solid footing. The headline PMI signalled a growth acceleration for the first time in three months during July, as new order intakes were boosted by a near survey-record increase in new export business. Although the exchange rate remains a key driver of export growth, manufacturers also benefitted from stronger economic growth in key markets in the euro area, North America and Asia-Pacific regions.

Continued expansion is also still filtering through to the labour market, with the latest round of manufacturing job creation among the best seen over the past three years. … ." – Rob Dobson, Director & Senior Economist, IHS Markit

Source: https://www.markiteconomics.com/Survey/PressRelease.mvc/cd005c55d65b44fb91f3a3f8d14fcbdc; 8/1/17

Return to TOC

Private Indicators
American Institute of Architects (AIA)

June Architecture Billings Index

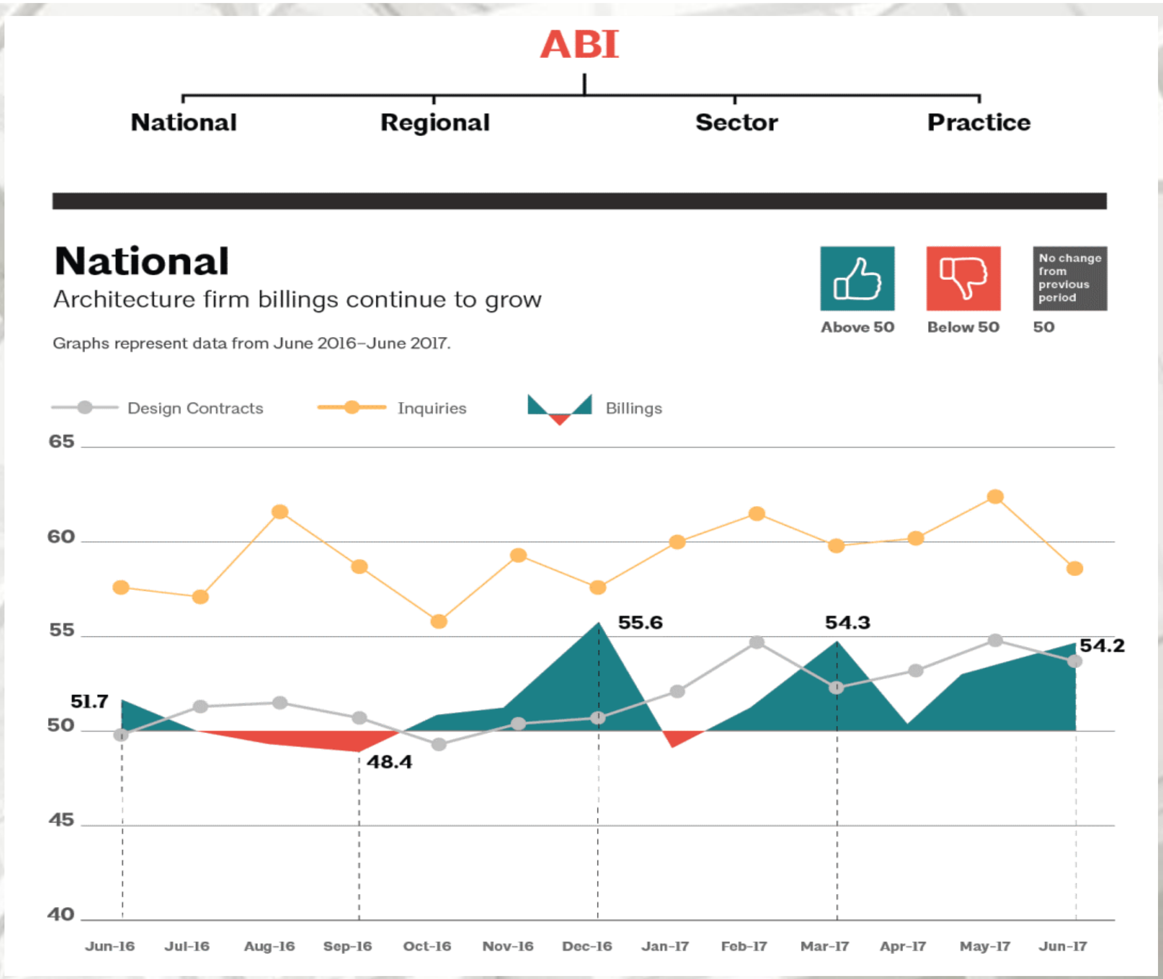
ABI June 2017: Firm billings start summer on a strong note

"Architecture firms continued to report strong business conditions to start the summer, with AIA's Architecture Billings Index (ABI) climbing by more than a point from May to a score of 54.2 in June (any score over 50 indicates billings growth). While billings have trended slightly up and down over the last year, they have been on a positive trajectory for the last several months. Despite growth in inquiries into new projects and the value of new design contracts dipping slightly in June, firms continue to report robust backlogs averaging 5.9 months and indicate a steady supply of work in the pipeline." – Kermit Baker, Hon. AIA, Chief Economist, AIA

Source: https://www.aia.org/pages/139321-abi-june-2017-firm-billings-start-summer-on; 7/19/17

Return to TOC

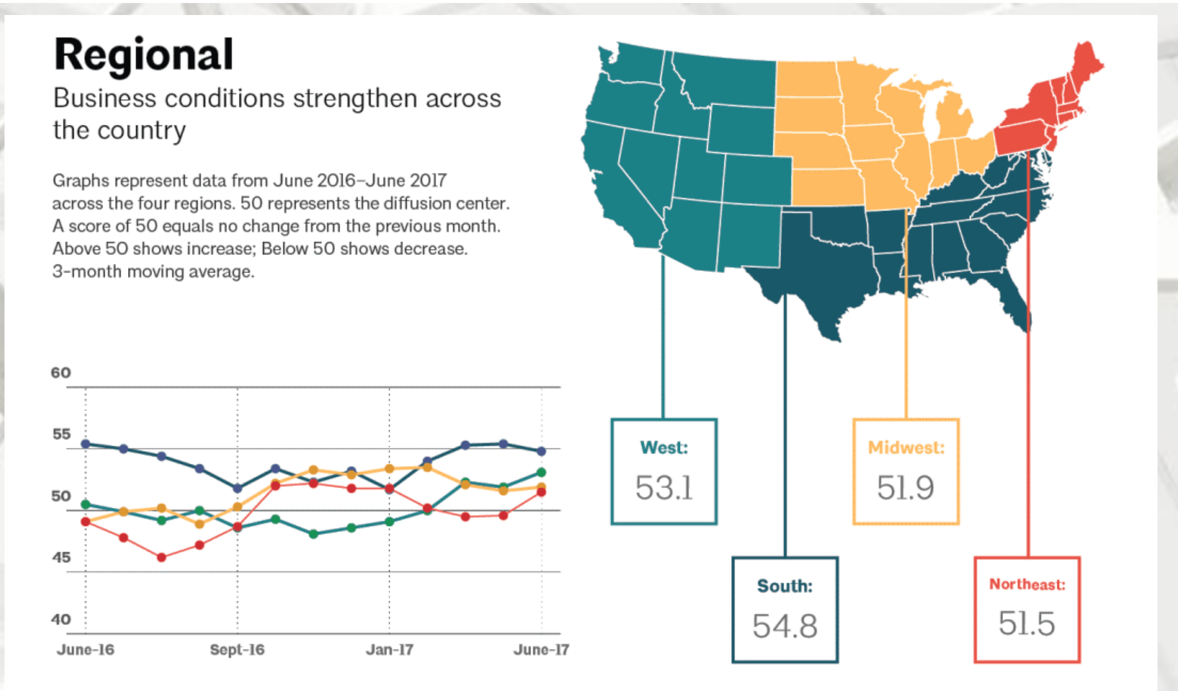
Private Indicators
American Institute of Architects (AIA)



Source: https://www.aia.org/pages/139321-abi-june-2017-firm-billings-start-summer-on; 7/19/17

Return to TOC

Private Indicators: AIA



Region

"Business conditions were strong in all regions of the country in June. Architecture firms located in the Northeast reported billings growth for the first time in three months, and billings remained strong for firms located in the South, which has seen the largest share of firms reporting growth for the last five months." – Kermit Baker, Hon. AIA, Chief Economist, AIA

Source: https://www.aia.org/pages/139321-abi-june-2017-firm-billings-start-summer-on; 7/19/17

Return to TOC

Private Indicators: AIA

Sector

"Firms with a residential specialization saw robust billings in June, while business conditions also remained positive at firms with an institutional specialization as well as those with a commercial/industrial specialization." – Kermit Baker, Hon. AIA, Chief Economist, AIA

Source: https://www.aia.org/pages/139321-abi-june-2017-firm-billings-start-summer-on; 7/19/17

Return to TOC

Private Indicators: AIA

Moderating economic growth triggers construction forecast downgrade for 2017 and 2018

“Entering 2017, construction forecasters were quite optimistic about the near-term outlook for the industry. Not only was 2016 ending up with strong construction spending numbers — 6 percent across the entire nonresidential building sector, paced by more than 10 percent in the commercial categories — but 2017 was expected to be the year that federal fiscal policy would provide even more momentum for this market. Tax reform and financial deregulation were going to unleash investment capital, and the repeal and replacement of the Affordable Care Act was going to reduce financial burdens on small businesses. To top it off, a trillion-dollar infrastructure program over the coming decade would directly undergird strong construction growth for the foreseeable future.

Construction spending so far in 2017 has been fairly disappointing. Commercial / industrial construction spending has increased just under 7 percent through the first five months of the year relative to the same period in 2016, as compared to over 10 percent growth for 2016 overall. While some slowdown was anticipated for 2017, it was expected to be offset by acceleration in the institutional sector. However, year-to date growth in spending for institutional buildings is at only 3 percent, up from the 1.6 percent of 2016 but well below expectations when the year began.” – Kermit Baker, Hon. AIA, Chief Economist, AIA

Source: https://www.aia.org/articles/139741-moderating-economic-growth-triggers-constru; 7/18/17

Return to TOC

Private Indicators: AIA

- Consensus ▶
- Dodge Data & Analytics ▶
- IHS Economics ▶
- Moody's Economy.com ▶
- FMI ▶
- ConstructConnect ▶
- Associated Builders and Contractors ▶
- Wells Fargo Securities, LLC ▶

	Actual	Forecast	
	$	% Change	
	2016	2017	2018
Nonresidential Total	–	3.8	3.6
Commercial Total	–	8.8	4.0
Office	–	8.9	4.0
Retail & Other Commercial	–	10.0	4.6
Hotel	–	6.1	2.4
Industrial Total	–	-6.6	1.1
Institutional Total	–	3.5	4.1
Health	–	0.9	3.5
Education	–	4.9	4.8
Religious	–	-9.2	-1.0
Public Safety	–	1.4	3.7
Amusement & Recreation	–	7.1	3.0

Source: https://www.aia.org/articles/139741-moderating-economic-growth-triggers-constru; 7/18/17

Return to TOC

Private Indicators: AIA

Moderating economic growth triggers construction forecast downgrade for 2017 and 2018

“As a result, the AIA Consensus Construction Forecast panel is predicting slower growth for the construction industry for the remainder of 2017 and through 2018. Overall spending for nonresidential buildings in 2017 is projected at just under 4 percent, compared to the 5.6 percent forecast at the end of 2016. The commercial market is expected to perform largely as anticipated, with growth now forecast at 8.8 percent for the year, up from a projection of 8.3 percent entering 2017. However, both the industrial and institutional sectors have been marked down considerably. Industrial construction is currently projected to decline almost 7 percent, compared to a projected modest increase six months ago. Institutional construction now is seen as increasing 3.5 percent, compared to the 5.7 percent figure entering 2017..

The slower estimated growth for 2017 is expected to continue through 2018. Overall spending growth is currently projected by the Consensus Forecast panel at 3.6 percent for next year, down modestly from the 4.9 percent forecast entering this year. Commercial construction is expected to perform closest to prior expectations, with the 4.0 percent expected growth in spending for 2018 down less than 0.5 percentage points from the late-2016 forecast. Industrial construction is now likely to see very modest 1.1 percent growth next year, down from the prior expectations of 3.3 percent, while the institutional outlook has dropped from the 5.8 percent forecast of six months ago to 4.1 percent with the current projections.” – Kermit Baker, Hon. AIA, Chief Economist, AIA

Source: https://www.aia.org/articles/139741-moderating-economic-growth-triggers-constru; 7/18/17

Return to TOC

Private Indicators: AIA

Moderating economic growth triggers construction forecast downgrade for 2017 and 2018

Factors affecting the construction outlook

"The recent slowdown in construction spending activity, and the scaled-back forecasts for the next 18 months, are the result of a combination several factors, some dealing with the broader U.S. economy, some dealing with general construction industry fundamentals, and some dealing with weakness in specific construction sectors.

1. Slowdown in the US economy: While few analysts feel that there is much of a risk of an economy-wide recession anytime soon, likewise few see much likelihood of a significant acceleration in growth. The consensus is that our economy will grow in the 2.0 percent to 2.5 percent range through the end of 2018. The Federal Reserve Board is in the midst of an interest-rate tightening cycle, which will serve to limit economic growth. The national unemployment rate is very low, indicating that businesses will continue to have trouble recruiting new workers. The stock market is at record levels, generally signifying healthy profits at US companies. While true, a significant share are these profits are coming from foreign activity, so stock prices are not a simple reflection of the health of the domestic US economy." – Kermit Baker, Hon. AIA, Chief Economist, AIA

Source: https://www.aia.org/articles/139741-moderating-economic-growth-triggers-constru; 7/18/17

Return to TOC

Private Indicators: AIA

Factors affecting the construction outlook

"**2. Construction industry concerns**: While rising interest rates will have a longer-term dampening effect on construction, rising materials costs are a more immediate concern. After years of overcapacity and weak demand for many construction commodities, there has been a reversal of this trend recently. Over the past year, oil-related products (diesel fuel, asphalt) have been rising at a 20 percent pace, metals (steel, copper, aluminum) at a 10 percent pace, and other basic building commodities (cement, gypsum board, lumber and plywood) at a high single-digit pace. This past June, an AIA survey asked architecture firms if higher material costs were affecting their practice. Most firms indicated that they have seen noticeable changes in material costs. Of these firms, a third indicated that these increases were a serious problem, and an additional 45 percent reported that they were somewhat serious. In response to this situation, architecture firms and their clients have resorted to a variety of measures, including scaling back the scope or size of projects, redesigning projects, or even putting projects on hold or dropping them entirely.

Labor is another ongoing problem affecting the industry. With the unemployment rate in the construction industry falling from around 20 percent in 2010 to much closer to the overall unemployment rate in our economy at present, there are limited options for attracting labor into the industry. A particular concern is that immigrant labor accounts for close to 30 percent of the construction labor force, with most of these being Hispanics, and the recent focus on immigration could limit the availability of this labor pool." – Kermit Baker, Hon. AIA, Chief Economist, AIA

Source: https://www.aia.org/articles/139741-moderating-economic-growth-triggers-constru; 7/18/17

Return to TOC

Private Indicators: AIA

Factors affecting the construction outlook

"**3. Vulnerable construction sectors**: All major construction sectors currently face a range of challenges, but the outlook for construction spending over the next several quarters relies heavily on the performance of four key sectors: retail; industrial; education, and healthcare.

Retail: E-commerce is typically blamed for the weakness in brick-and-mortar retail facilities. There have been numerous store closings in recent years, particularly among major department store chains. However, closer analysis points to much of the weakness being concentrated in exurban and rural locations that have seen population losses recently. Additionally, many traditional e-commerce companies (for example Amazon and Apple) are pursuing an omnichannel strategy for retailing, creating more demand for retail space. Retail facilities will no doubt face a challenging future, but the seriousness of this challenge at present may be overstated.

Industrial: the manufacturing sector in our economy has suffered greatly from foreign competition, but somewhat ironically the challenges to retail facilities may offer opportunities for manufacturing. The rise of e-commerce means that production needs to be closer to the ultimate consumer, and that the logistic systems need to be much more efficient. This is beginning to show up in increased demand for shorter-cycle domestic production facilities, as well as more sophisticated decentralized warehousing and distribution centers."
– Kermit Baker, Hon. AIA, Chief Economist, AIA

Source: https://www.aia.org/articles/139741-moderating-economic-growth-triggers-constru; 7/18/17

Return to TOC

Private Indicators: AIA

Factors affecting the construction outlook

"**Education:** The construction of education facilities has faced challenges of local government's fiscal situation, often resulting from the decline of property values during the last recession, and therefore declining property taxes to fund these new facilities. Now that property values have recovered in many markets across the country, issues around basic demographics are at the forefront. The peak year for births for the large millennial generation was 1990, and since the leading edge of this generation has largely completed its formal education, demand for facilities at all education levels nationally has been declining. For example, there were 120,000 fewer births nationally in 2000 than there were in 1990; 180,000 fewer in 2010, and 200,000 fewer in 2015. Education will continue to be a healthy construction market, but growth opportunities are hampered by demographic trends.

Healthcare: Like education, healthcare demand is heavily influenced by demographics. In this instance, it is the other end of the demographic spectrum, namely the over age 65 population. Demographics for this age group are extremely strong. What isn't strong is the political environment supporting health care policy. Until current health care policy is settled, there will be continued hesitancy in investing in this sector." – Kermit Baker, Hon. AIA, Chief Economist, AIA

Source: https://www.aia.org/articles/139741-moderating-economic-growth-triggers-constru; 7/18/17

Return to TOC

Private Indicators: AIA

The outlook for construction

"Prospects for the construction industry have weakened just a bit with developments over the first half of the year. The AIA Consensus Forecast projects annual growth in the 3.5 percent to 4.0 percent range for the remainder of 2017 as well as for 2018, with a slower growing commercial/industrial market, and an institutional sector facing several challenges..

However, a somewhat more optimistic view is coming from architecture firms. Average Architecture Billings Index (ABI) scores for the first half of 2017 exceeded average scores for both 2015 and 2016. While this could be viewed as architecture firms merely working down their backlog from a few stronger years, that doesn't appear to be the case. Index scores for both new project inquiries and new design contracts were stronger on average in the first half of 2017 than in 2015 and 2016, and as a result firm backlogs have been growing, not shrinking. By sector, the strongest ABI numbers through the first half of the year have been coming from institutional firms, so we may finally see some progress in coming quarters in the institutional construction sector." – Kermit Baker, Hon. AIA, Chief Economist, AIA

Source: https://www.aia.org/articles/139741-moderating-economic-growth-triggers-constru; 7/18/17

Return to TOC

Private Indicators

Dodge Data & Analytics

June Construction Starts Climb 4 Percent

"New construction starts in June grew 4% from the previous month to a seasonally adjusted annual rate of $679.9 billion, according to Dodge Data & Analytics. Nonresidential building increased 13% in June, strengthening after two months of lackluster activity, and the nonbuilding construction sector rose 8% with the help of elevated activity for electric utilities. However, residential building slipped 4% in June, as both sides of the housing market (single family and multifamily) retreated. Through the first six months of 2017, total construction starts on an unadjusted basis were $342.7 billion, down 4% from the same period a year ago. If the manufacturing plant and electric/utility gas plant categories are excluded, total construction starts during the first half of 2017 would be up 1% from last year. June's data lifted the Dodge Index to 144 (2000=100), compared to 138 for May. Even with June's improved activity, the Dodge Index averaged 139 for the second quarter, down 10% from the first quarter's 154 average. Since last year, total construction starts have shown an up-and-down pattern on a quarterly basis, including a 6% decline in the fourth quarter of 2016 which was then followed by a 7% increase in this year's first quarter and now a 10% decline in the second quarter.

A maturing construction expansion is characterized by deceleration in the overall rate of growth, that's often accompanied by up-and-down behavior on a quarterly or monthly basis. The 11% to 12% yearly increases for total construction starts during the 2012-2015 period were followed by a 4% gain in 2016, and several factors suggest that 2017 should still see modest growth for the year as a whole. These factors include commercial vacancy rates that remain low as well as greater construction funding coming from the state and local bond measures passed in recent years. At the same time, it's become apparent that any impact from a new federal infrastructure program, should one get passed during the latter half of 2017, would benefit construction more in 2018 and 2019." – Robert Murray, Chief Economist, McGraw Hill Construction

Sourcehttps://www.construction.com/news/june-construction-starts-climb-4-percent-july-2017; 7/25/17

Return to TOC

Private Indicators

Dodge Data & Analytics

"The first half of 2017 has seen nonresidential building advance, reflecting further growth for office buildings and warehouses, combined with the boost coming from the start of several massive airport terminal projects such as the $3.4 billion Central Terminal Building at LaGuardia Airport in New York City. **Residential building** so far in 2017 has been mixed, with some growth for single family housing earlier this year, while multifamily housing appears now to be trending downward after peaking in 2016. Public works construction has been sluggish so far in 2017, although on the plus side it's received support from the start of several huge pipeline projects, including the $4.2 billion Rover natural gas pipeline located in Michigan, Ohio, West Virginia, and Pennsylvania. On balance, the volume of construction starts so far in 2017 is slightly ahead of last year, if one excludes the often volatile manufacturing building and electric utility/gas plant project types.

The 4% decline for total construction starts on an unadjusted basis during the January-June period of 2017 was due to reduced activity for nonbuilding construction, while residential building was flat and nonresidential building experienced moderate growth. Nonbuilding construction year-to-date fell 22%, with electric utilities/gas plants down 60% and public works down 4%. The "no change" for **residential building** year-to-date was the result of an 8% increase by single family housing offsetting an 18% slide by multifamily housing. Nonresidential building year-to-date advanced 6%, with institutional building up 11% while commercial building held steady, combined with a 13% increase for manufacturing building that marks a change from this category's steep retrenchment during 2015 and 2016. By major region, total construction starts during the first six months of 2017 showed this pattern – the South Atlantic, up 11%; the West, unchanged; the Northeast, down 5%; the South Central, down 13%; and the Midwest, down 16%. The 13% year-to-date decline in the South Central reflected in part the comparison to the first half of 2016 that included $6.2 billion for two liquefied natural gas terminals, while the 16% year-to-date decline in the Midwest reflected in part the comparison to the first half of 2016 that included the $3.8 billion Dakota Access pipeline."
– Robert Murray, Chief Economist, McGraw Hill Construction

Sourcehttps://www.construction.com/news/june-construction-starts-climb-4-percent-july-2017; 7/25/17

Return to TOC

Private Indicators

"**Residential building** was $274.9 billion (annual rate) in June, down 4%. Single family housing slipped 4%, continuing to settle back in June from the strengthening that took place during the first two months of 2017. June's pace for single family housing was still 3% above the average monthly amount reported during 2016. By region, the first half of 2017 showed this performance for single family housing compared to last year – the South Atlantic, up 13%; the South Central, up 8%; the Midwest, up 7%; the West, up 5%; and the Northeast, up 1%.

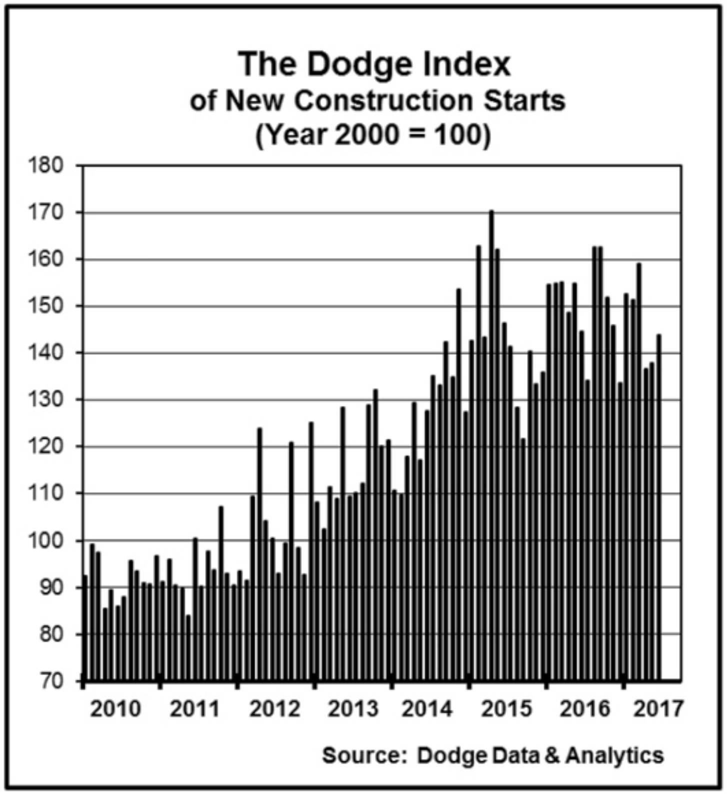
Multifamily housing in June dropped 7%, sliding back for the third month in a row. Large multifamily projects that reached groundbreaking in June were led by a $287 million apartment complex in Anaheim CA, a $185 million apartment building in New York NY, and a $164 million condominium complex in Pompano Beach FL. Through the first half of 2017, the top five metropolitan areas ranked by the dollar amount of multifamily starts were – New York NY, Los Angeles CA, Chicago IL, San Francisco CA, and Washington DC. Metropolitan areas ranked 6 through 10 were – Atlanta GA, Miami FL, Philadelphia PA, Boston MA, and Seattle WA. The New York NY metropolitan area, while still the largest multifamily construction market in the nation, dropped 23% during the first half of 2017 compared to last year, which follows the 29% decline reported for all of 2016. Other metropolitan areas in the top 10 with reduced multifamily construction in the first half of 2017 relative to last year were Chicago IL, Miami FL, Boston MA, and Seattle WA." – Robert Murray, Chief Economist, McGraw Hill Construction

Sourcehttps://www.construction.com/news/june-construction-starts-climb-4-percent-july-2017; 7/25/17

Return to TOC

Private Indicators

June 2017 Construction Starts



June 2017 Construction Starts

Monthly Summary of Construction Starts
Prepared by Dodge Data & Analytics

Monthly Construction Starts
Seasonally Adjusted Annual Rates, in Millions of Dollar

	June 2017	May 2017	% Change
Nonresidential Building	$249,565	$219,982	+13
Residential Building	274,885	287,539	-4
Nonbuilding Construction	155,415	143,864	+8
Total Construction	$679,865	$651,385	+4

The Dodge Index
Year 2000=100, Seasonally Adjusted
June 2017 144
May 2017 138

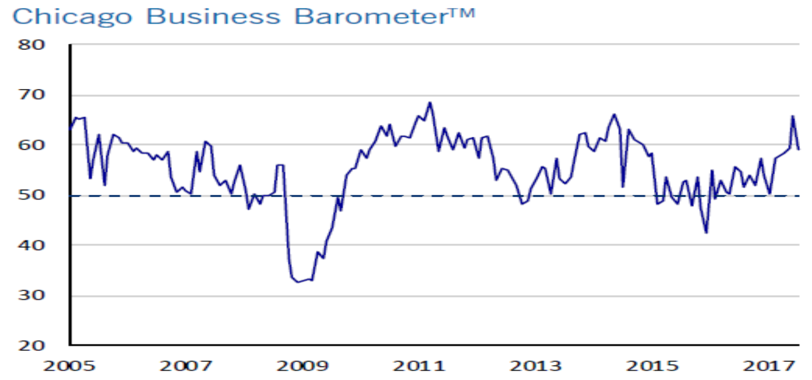
Year-to-Date Construction Starts
Unadjusted Totals, in Millions of Dollars

	6 Mos. 2017	6 Mos. 2016	% Change
Nonresidential Building	$118,365	$111,675	+6
Residential Building	148,742	148,874	-0-
Nonbuilding Construction	75,624	97,378	-22
Total Construction	$342,731	$357,927	-4
Total Construction, excluding manufacturing buildings and electric utilities/gas plants	$320,911	$317,687	+1

Sourcehttps://www.construction.com/news/june-construction-starts-climb-4-percent-july-2017; 7/25/17

Return to TOC

Private Indicators



MNI Chicago Business Barometer Down 6.8 Points to 58.9 in July

"The MNI Chicago Business Barometer fell to 58.9 in July from 65.7 in June, the lowest level in three months." – Jamie Satchi, Economist, MNI Indicators

Barometer Returns to Trend After June Surge

"While marking the seventeenth above-50 reading, July's fall snapped a run of five straight monthly increases in business optimism. Each of the five Barometer components receded from last month but remained above their respective 12-month averages. This, therefore, points towards a return to trend after June's stellar showing. The Barometer had risen 6.3 points in June, to the highest level since May 2014. July's result means sentiment must average 62.2 in August and September for Q3 to come in flat on Q2.

The fall in sentiment was broad-based in July, though particularly concentrated across both demand and output. New orders fell by 11.6 points to 60.3, the lowest level since February, while Production fell 6.9 points to 60.8, the lowest since April. Firms also saw the level of backlogs slip in July. The Order Backlogs indicator fell 4.9 points from June's 23-year high to 57.9 in July. Suppliers took slightly less time to deliver key inputs, with the respective indicator down to 61.5 from 62.8 in June, falling for the first time in five months.

MNI's July Chicago Business Barometer should be viewed in the context of the underlying, upward trend in business sentiment witnessed since early 2016. Key indicators, despite reversing their June reading, remain above their respective averages set over the last twelve months, and point towards robust confidence among U.S firms." – Jamie Satchi, Economist, MNI Indicators

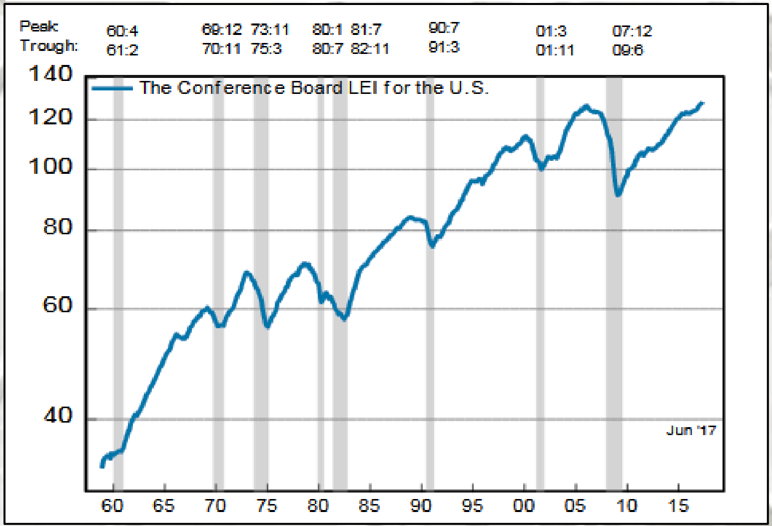
Source: https://www.ism-chicago.org/index.cfm; 7/30/17

Return to TOC

Private Indicators

The Conference Board Leading Economic Index® (LEI)
for the U.S. increased 0.6 percent in June to **127.8** (2010 = 100),
following a 0.2 percent increase in May, and a 0.2 percent increase in April.

U.S. Composite Economic Indexes (2010 = 100)



Index Points to Continued Growth Through 2017

"The U.S. LEI rose sharply in June, pointing to continued growth in the U.S. economy and perhaps even a moderate improvement in GDP growth in the second half of the year. The broad-based gain in the U.S. LEI was led by a large contribution from housing permits, which improved after several months of weakness." – Ataman Ozyildirim, Director of Business Cycles and Growth Research, The Conference Board

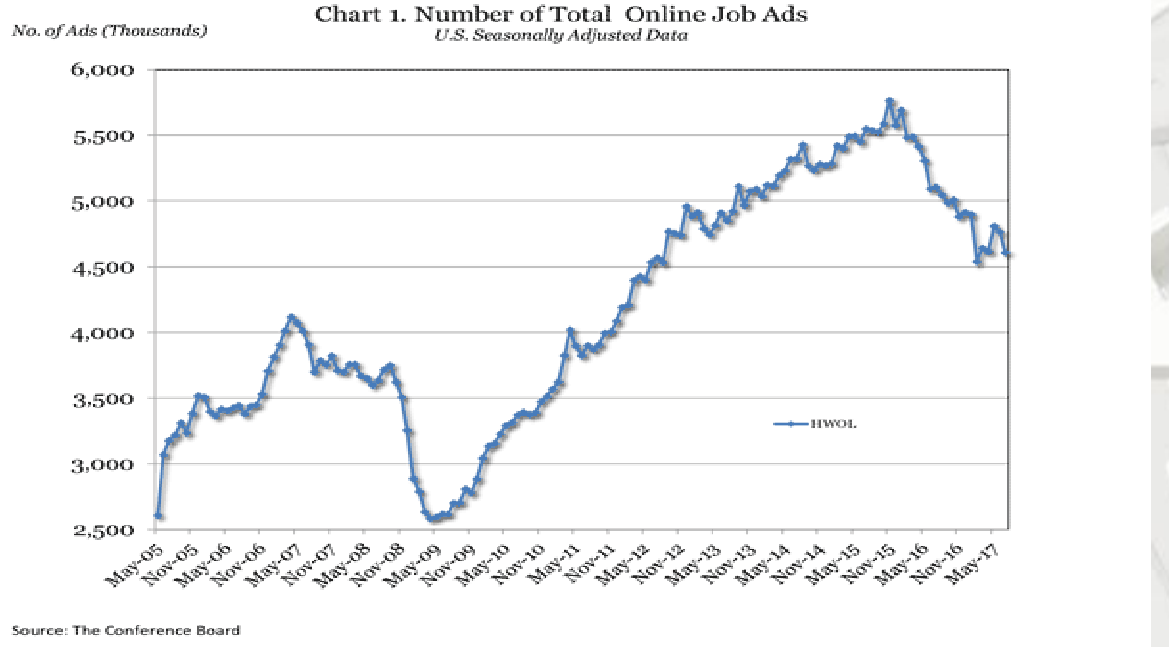
"**The Conference Board Coincident Economic Index®** (CEI) for the U.S. increased 0.2 percent in June to 115.5 (2010 = 100), following a 0.3 percent increase in May, and a 0.2 percent increase in April.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.2 percent in June to 124.4 (2010 = 100), following a 0.1 percent increase in May and a 0.3 percent increase in April."

Source: https://www.conference-board.org/data/bcicountry.cfm?cid=1; 8/20/17

Return to TOC

Private Indicators



The Conference Board Help Wanted OnLine® (HWOL) Online Job Ads Decreased 157,700 in July

- “The June and July losses offset the May gain
- Loss widespread across virtually all States and MSAs
- Most occupations showed losses over the month

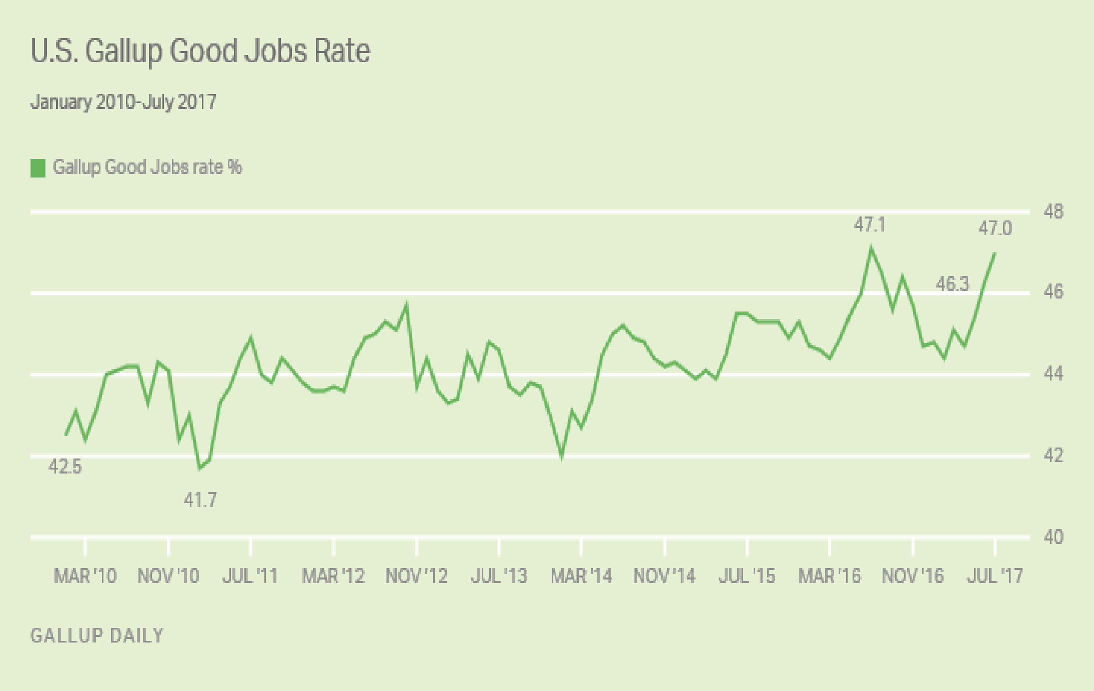
Online advertised vacancies decreased 157,700 to 4,605,700 in July, according to ***The Conference Board Help Wanted OnLine*® (HWOL) Data Series**. The June Supply/Demand rate stands at 1.46 unemployed for each advertised vacancy, with a total of 2.2 million more unemployed workers than the number of advertised vacancies. The number of unemployed was approximately 7.0 million in June.

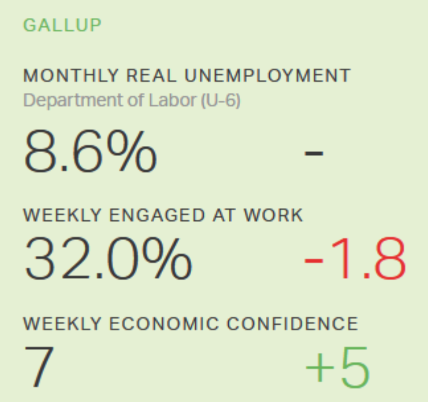
The Professional occupational category saw losses in Computer and Math (-20.7) and Management (-6.0). The Services/Production occupational category saw losses in Sales (-27.3), Office and Administrative Support (-16,5), and Food Preparation (-7.7).” – Carol Courter, The Conference Board

Source: https://www.conference-board.org/data/helpwantedonline.cfm; 8/1/17

Return to TOC

Private Indicators





US Gallup Good Jobs Rate Continues to Rise

- “GGJ rises to 47.0% in July, up from 46.3% in June
- Unemployment fell to 4.8% in July, a record low
- Underemployment also fell to 12.5%, another record low

The Gallup Good Jobs (GGJ) rate rose nearly a percentage point to 47.0% in July, from 46.3% in June. The GGJ rate now ties the highest point for the measure since 2010, 47.1% in July of last year.” – RJ Reinhart, Consulting Associate, Gallup

Source: http://www.gallup.com/poll/215039/gallup-good-jobs-rate-continues-rise.aspx; 8/3/17

Return to TOC

June 2017 Manufacturing ISM® Report On Business®

June NMI® at 56.3%

New Orders, Production, Backlog of Orders and Employment Continue Growing, Supplier Deliveries Slowing, Inventories Unchanged, Prices Increasing at Faster Rate

“Economic activity in the **manufacturing sector** expanded in June, and the overall economy grew for the 98th consecutive month, say the nation’s supply executives in the latest **Manufacturing ISM®** ***Report On Business®***.

“The July PMI® registered 56.3 percent, a decrease of 1.5 percentage points from the June reading of 57.8 percent.

The New Orders Index registered 60.4 percent, a decrease of 3.1 percentage points from the June reading of 63.5 percent.

The Production Index registered 60.6 percent, a 1.8 percentage point decrease compared to the June reading of 62.4 percent.

The Employment Index registered 55.2 percent, a decrease of 2 percentage points from the June reading of 57.2 percent.

The Supplier Deliveries Index registered 55.4 percent, a 1.6 percentage point decrease from the June reading of 57 percent.

The Inventories Index registered 50 percent, an increase of 1 percentage point from the June reading of 49 percent.

The Prices Index registered 62 percent in July, an increase of 7 percentage points from the June reading of 55 percent, indicating higher raw materials prices for the 17th consecutive month, with a faster rate of increase in July compared with June.

Comments from the panel generally reflect expanding business conditions, with new orders, production, employment, backlog and exports all growing in July compared to June, as well as supplier deliveries slowing (improving) and inventories unchanged during the period.” – Timothy R. Fiore, CPSM, CPSD, Chair of the ISM® Manufacturing Business Survey Committee

Source: https://www.instituteforsupplymanagement.org/ISMReport/MfgROB.cfm; 8/1/17

Return to TOC

Private Indicators

July 2017 Non-Manufacturing ISM® Report On Business®

July NMI® at 53.9 %

Business Activity Index at 55.9%, New Orders Index at 55.1%, Employment Index at 53.6%

“Economic activity in the non-manufacturing sector grew in June for the 91st consecutive month, say the nation's purchasing and supply executives in the latest **Non-Manufacturing ISM® Report On Business®**.

“The NMI® registered 53.9 percent, which is 3.5 percentage points lower than the June reading of 57.4 percent. This represents continued growth in the non-manufacturing sector at a slower rate.

The Non-Manufacturing Business Activity Index decreased to 55.9 percent, 4.9 percentage points lower than the June reading of 60.8 percent, reflecting growth for the 96th consecutive month, at a slower rate in July.

The New Orders Index registered 55.1 percent, 5.4 percentage points lower than the reading of 60.5 percent in June.

The Employment Index decreased 2.2 percentage points in July to 53.6 percent from the June reading of 55.8 percent.

The Prices Index increased 3.6 percentage points from the June reading of 52.1 percent to 55.7 percent, indicating prices increased in July for the second consecutive month.

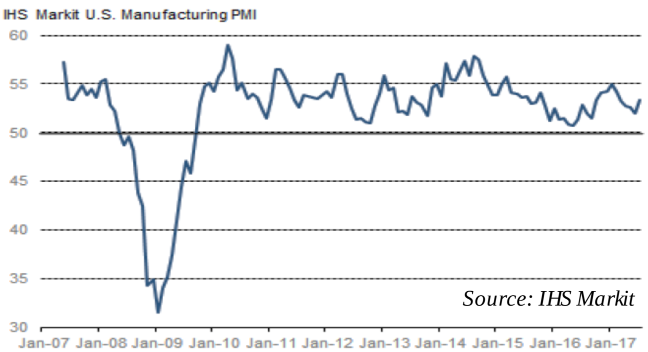
According to the NMI®, 15 non-manufacturing industries reported growth. The non-manufacturing sector did not sustain the previous rate of growth and cooled-off in July. The majority of respondents’ comments were mostly positive about business conditions and the state of the economy."”’ – Anthony Nieves, CPSM, C.P.M., CFPM, Chair of the Institute for Supply Management® (ISM®) Non-Manufacturing Business Survey Committee

Source: https://www.instituteforsupplymanagement.org/ISMReport/NonMfgROB.cfm; 8/3/17

Return to TOC

Private Indicators

IHS Markit U.S. Manufacturing PMI (s. adjusted)



Markit U.S. Manufacturing PMI™

"The seasonally adjusted IHS Markit final **US Manufacturing Purchasing Managers' Index™ (PMI™)** registered 53.3 in July, up from 52.0 in June to signal a further improvement in the health of the sector. Notably, the latest improvement in operating conditions was solid and the strongest in four months."

PMI signals solid improvement in operating conditions

"July survey data signalled a solid improvement in operating conditions in the US manufacturing sector. The upturn in business conditions was largely driven by marked and accelerated expansions in both output and new orders. Meanwhile, firms added to their payrolls and raised purchasing activity at the quickest rates since February. Business confidence reached a six-month high, as firms became more optimistic regarding future output. Inflationary pressures remained relatively muted, despite a pick up in the rate of input cost inflation.

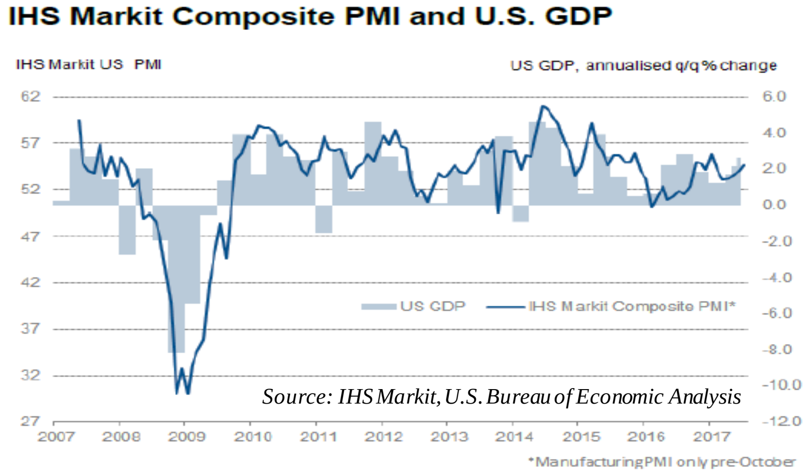
The second half of the year got off to a good start for US manufacturers, with the health of the sector improving at the fastest rate for four months. Output, new orders, employment and buying activity all grew at increased rates. The only real blot on the copybook was a decline in exports for the first time since last September.

However, although rising, the survey indices remain consistent with only very modest increases in comparable official data such as manufacturing output, durable goods orders and payroll numbers. Clearly the manufacturing sector remains stuck in a low gear, though is at least gaining momentum and will hopefully shift up a gear as we move through the second half of the year if demand continues to improve. IHS Markit expects GDP growth to accelerate to a near 3% annualised rate in the third quarter, fueled by gains in consumer spending and business investment, which should benefit manufacturing." – Chris Williamson, Chief Economist, Markit®

Source: https://www.markiteconomics.com/Survey/PressRelease.mvc/cd005c55d65b44fb91f3a3f8d14fcbdc; 8/1/17

Return to TOC

Private Indicators



Markit U.S. Services PMI™

"The seasonally adjusted **IHS Markit U.S. Services Business Activity Index** registered 54.7 in July, up from 54.2 in June. The latest reading signalled the largest expansion of business activity since January and the fourth consecutive month of accelerated growth. Despite being marginally below the long-run series average, the latest upturn in activity was solid overall." – IHS Markit®

Business activity growth accelerates to six-month high in July

"July survey data signalled a solid expansion in business activity among US service providers. New orders received by firms increased at the fastest pace for two years, which in turn contributed to a stronger rise in backlogs of work. As a result, firms increased their staff numbers at the quickest pace since last December. At the same time, inflationary pressures remained relatively strong, and business confidence suggestive of ongoing expansion in coming months.

Increased business activity at service sector firms was supported by a further expansion in new business. July data indicated that the pace of new order growth was the strongest in two years. A number of panel members noted that new marketing strategies were effective in securing new clients.

The PMI surveys have now shown growth accelerating for four consecutive months, meaning the economy started the third quarter with the strongest momentum since January. This is also a broad-based improvement, with the upturn in service sector activity coming on the heels of news of faster manufacturing growth." – Chris Williamson, Chief Economist, Markit®

Source: https://www.markiteconomics.com/Survey/PressRelease.mvc/f32cc03ea19e4960a9cda3e0ef2d0d4d; 8/3/17

Return to TOC

Private Indicators

National Association of Credit Management – Credit Managers' Index

CMI Continues to Signal an Up-and-Down Year

"Here we go again. It had been hoped that there would be some consistency with the readings this month, but now we are back in the dumps again. This is probably overstating the trend, as the readings are still solidly in the mid- 50s, but this back and forth pattern has been more than a little vexing.

The overall reading for the index is not that bad at 54.6, but it is down from the month before when it was 56.1. The important note is that this month's reading is the fourth-best in the last 12 months. It would have been considered really encouraging a year ago when the reading was at 53.5. The overall score for the favorable factors also dipped a little (63.9 to 61.7). It is hard to get too upset over a reading in the 60s, but it was higher in February, April and June. It had been assumed there would be more growth as the year progressed. As has been the case for the last several months, the majority of the distress has been seen in the unfavorable categories with an overall reading of 49.9 – just slightly under the 50.9 that was registered last month. The good news is that this reading didn't weaken any more than it did, but the bad news is that this reading has been sitting very close to the contraction zone for the better part of two years.

There is more information to be gleaned from the specific readings. The sales category slipped from 66.5 to 62.8, but is pretty consistent with the numbers that have been posted all year. The new credit applications reading barely moved as it went 59.8 to 59.7. Nationally these are close to normal rates at around 77%. The ideal is said to be between 80% and 85%. In the last few months, there has been a great deal of variability as far as dollar collections, but there was not that much difference this month as it shifted from 62.5 to 60.2. There was a bit more movement as far as amount of credit extended is concerned with a reading of 64.1 compared to 66.8 in June." – National Association of Credit Management

Source: http://web.nacm.org/CMI/PDF/CMIcurrent.pdf; 7/31/17

Return to TOC

Private Indicators

National Association of Credit Management – Credit Managers' Index

CMI Continues to Signal an Up-and-Down Year

"The fact is that much of the country's economic data has been like this for the past few months with lots of contradictions. The CMI has been right in there with data that shifts from upbeat to downbeat as one month yields to another. This is consistent with what has been observed for durable goods and factory goods orders as well as for capacity utilization.

It looks like companies are catching up with their creditors one month and falling back the next. This is another month where they are losing ground. The durable goods data of late has been very strong, but only because of the aerospace activity. The industrial production numbers have looked better, but mostly due to the oil and gas sector, which is not likely to last. Automotive seems to have lost much of its momentum, but is still not in full retreat.

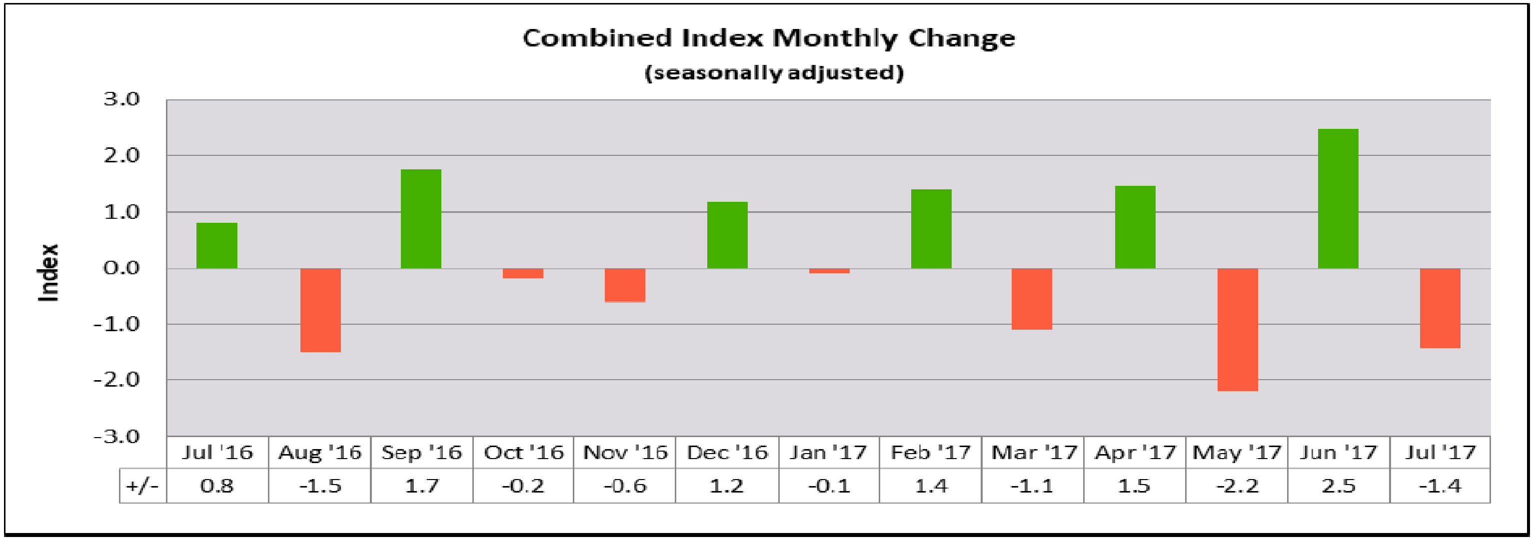
The service economy remains the engine of U.S. growth, but it is worth pointing out that a great deal of the service sector is in support of manufacturing. Think just of transportation and the role it plays in carrying raw materials, finished goods and commodities. It looks like retailers are planning another inventory-light year.

It has been that kind of year — ups followed by downs. Now we have another down, but this time for some different reasons than the last several months." – Dr. Chris Kuehl, Economist, NACM

Source: http://web.nacm.org/CMI/PDF/CMIcurrent.pdf; 7/31/17

Return to TOC

Private Indicators

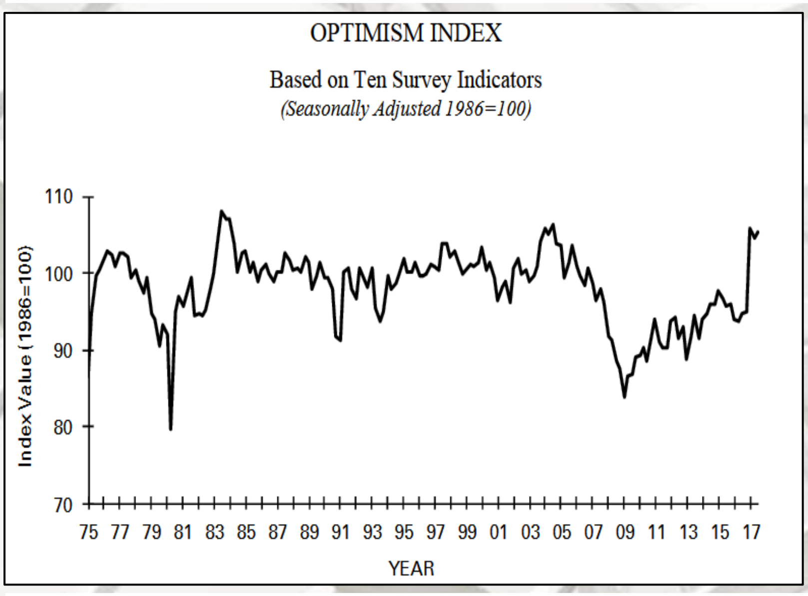


Combined Manufacturing and Service Sectors (seasonally adjusted)	Jul '16	Aug '16	Sep '16	Oct '16	Nov '16	Dec '16	Jan '17	Feb '17	Mar '17	Apr '17	May '17	Jun '17	Jul 17
Sales	60.0	53.7	57.9	56.9	61.8	58.6	60.1	62.6	61.2	63.8	60.6	66.5	62.8
New credit applications	57.8	56.7	58.6	58.0	54.5	57.0	60.8	62.0	60.5	62.0	59.3	59.8	59.7
Dollar collections	59.5	55.5	59.5	57.0	63.5	59.5	58.2	63.0	56.4	61.2	56.7	62.5	60.2
Amount of credit extended	62.8	59.7	61.9	61.5	61.4	61.4	64.1	66.8	64.4	67.2	63.6	66.8	64.1
Index of favorable factors	**60.0**	**56.4**	**59.5**	**58.4**	**60.3**	**59.1**	**60.8**	**63.6**	**60.6**	**63.6**	**60.0**	**63.9**	**61.7**
Rejections of credit applications	50.7	51.6	51.3	51.8	48.9	51.3	50.6	51.4	51.6	52.1	52.4	52.6	51.9
Accounts placed for collection	48.2	47.7	47.9	48.1	45.8	49.7	49.4	48.2	49.8	49.0	48.5	49.3	48.9
Disputes	47.6	47.8	48.8	49.9	47.7	49.8	46.0	48.7	48.5	49.1	47.9	50.4	48.8
Dollar amount beyond terms	48.8	46.3	48.2	49.0	44.9	49.3	48.4	51.0	47.4	51.0	45.9	50.4	48.3
Dollar amount of customer deductions	49.0	48.1	50.4	49.5	47.9	49.8	48.7	47.6	49.8	49.2	48.7	49.1	48.1
Filings for bankruptcies	50.7	52.8	52.7	53.8	53.0	55.0	53.9	53.2	53.8	53.5	52.7	53.4	53.6
Index of unfavorable factors	**49.2**	**49.1**	**49.9**	**50.3**	**48.0**	**50.8**	**49.5**	**50.0**	**50.2**	**50.6**	**49.3**	**50.9**	**49.9**
NACM Combined CMI	**53.5**	**52.0**	**53.7**	**53.5**	**52.9**	**54.1**	**54.0**	**55.4**	**54.3**	**55.8**	**53.6**	**56.1**	**54.6**

Source: http://web.nacm.org/CMI/PDF/CMIcurrent.pdf; 7/31/17

Return to TOC

Private Indicators



July 2017 Report: Small Business Optimism Regains Momentum in July

"Apparently economic activity in the second quarter was good enough to divert owner attention from the impotence of Washington lawmakers. There's nothing like more customers to make owners happy, and optimism held up as did important measures of spending and hiring plans. Congress still holds the key to faster growth, so let's hope they open the door." – Holly Wade, NFIB

Job openings and plans to create new jobs lead monthly NFIB Index of Small Business Optimism

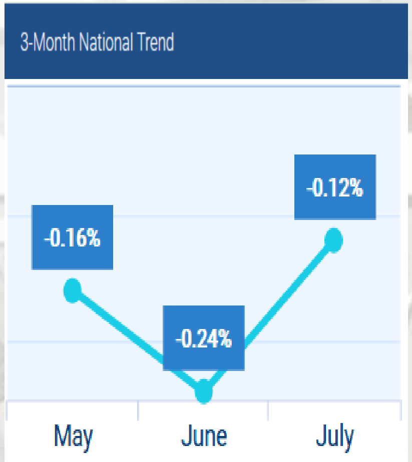
"The Index of Small Business Optimism rose 1.6 points to 105.2, preserving the surge in optimism that started the day after the election. Seven of the 10 Index components posted a gain, two declined, and one was unchanged. Since the recession, the Index peaked at 105.9 in January, just 0.7 points above the July reading. Main Street was buoyed by stronger customer demand despite the dysfunction in Washington, D.C.…" – National Federation of Independent Business (NFIB) Index of Small Business Optimism."

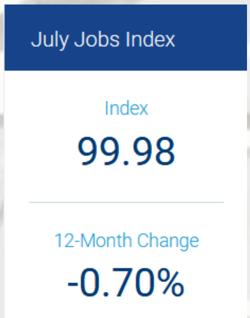
"The number of owners trying to fill positions and create new jobs is very high. That's good news for workers, because they can command higher wages and better benefits. The bad news is that small business employers are finding it very hard to hire and keep their workers" – William C. Dunkelberg, Chief Economist, NFIB

Source: http://www.nfib.com/assets/SBET-July-2017.pdf; 8/18/17

Return to TOC

Private Indicators





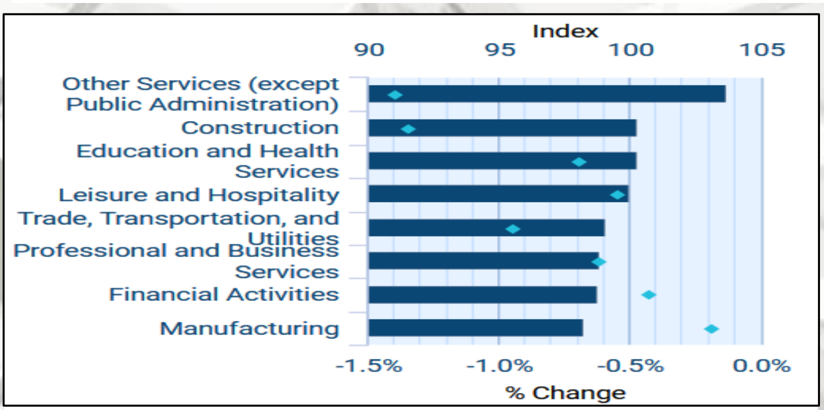
The Paychex | IHS Small Business Jobs Index
National Jobs Index

- "The Small Business Jobs Index dropped to 99.98 in July, 0.70 percent lower than in July 2016. An index level of 100 equates to moderate job gains, represented by the employment growth levels seen during the 2004 base year.
- The pace of small business growth is 0.70 percent slower this July compared to last, mirroring June's year-over-year result.
- The Small Business Jobs Index declined 0.52 percent during the past quarter." – James Diffley, Chief Regional Economist, IHS Markit

Source: https://www.paychex.com/employment-watch/#!/jobs-index//; 8/31/17

Return to TOC

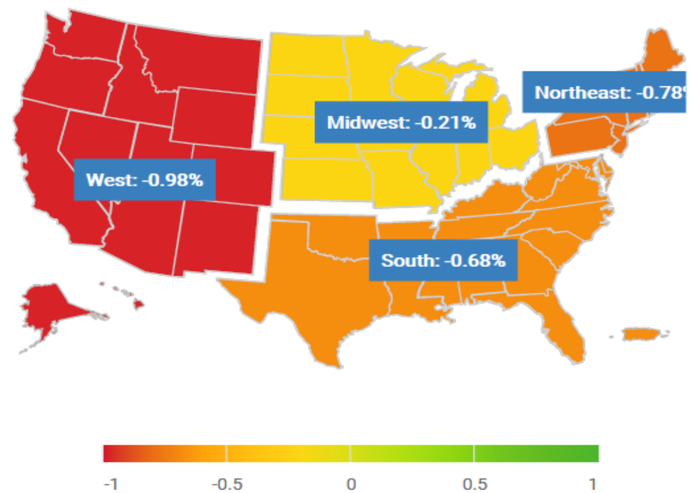
Private Indicators



Industry

- "Leisure and Hospitality had the worst one-month and three-month growth rates among industries. Yet, at 100.02, it remains well ahead of its base-year index level.
- At 100.29, Construction edged Education and Health Services (100.28) for second place among metros." – James Diffley, Chief Regional Economist, IHS Markit

Regional Performance



Region	Index	Change
South	100.66	-0.68%
West	99.86	-0.98%
Midwest	99.86	-0.21%
Northeast	99.62	-0.78%

The Paychex | IHS Small Business Jobs Index

Regional Highlights

- "At 100.66, the South remains the strongest region for small business employment growth, but has decreased 0.94 percent during the past four months.
- Down 0.21 percent year-over-year, the Midwest has the best growth rate among regions. The Midwest also has the only positive growth over its base year, up 0.89 percent." – James Diffley, Chief Regional Economist, IHS Markit

Source: https://www.paychex.com/employment-watch/#!/jobs-index//; 8/3/17

Return to TOC

Private Indicators

July Jobs Index	July Wage Data
Index 99.98	Hourly Earnings $25.90
12-Month Change -0.70%	12-Month Growth +2.94% (+$0.74)

The Paychex | IHS Small Business Jobs Index

“The latest Paychex | IHS Markit Small Business Employment Watch shows another monthly slowdown in small business jobs growth, while wages continue to rise at a steady pace. The Small Business Jobs Index dropped to 99.98 in July, 0.70 percent lower than in July 2016. An index level of 100 equates to moderate job gains, represented by the employment growth levels seen during the 2004 base year. National hourly earnings in July were $25.90, an increase of 2.94 percent ($0.74) year-over-year.

At 99.98, the Small Business Jobs Index slowed for the fifth consecutive month, falling below the national baseline for the first time since 2011.” – James Diffley, Chief Regional Economist, IHS Markit

“Though job growth has continued to moderate following last year’s post-election upswing, wage growth is accelerating at a decent pace. We’re keeping a close eye on the potential impact of minimum wage increases on job growth and hours worked, as well as monitoring the effects of a tightening labor market.” – Martin Mucci, President and CEO, Paychex

Source: http://news.ihsmarkit.com/press-release/economics-media/paychex-ihs-markit-small-business-employment-watch-small-business-em-1/; 8/3/17

Return to TOC

Private Indicators

"The S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index, covering all nine U.S. census divisions, reported a 5.6% annual gain in May, the same as the prior month. The 10-City Composite annual increase came in at 4.9%, down from 5.0% the previous month. The 20-City Composite posted a 5.7% year-over-year gain, down from 5.8% in April." – S&P Dow Jones Indices and CoreLogic." – David Blitzer, S&P Dow Jones

The S&P Corelogic Case-Shiller National Home Price NSA Index Sets All Time High For Sixth Consecutive Months

"Home prices continue to climb and outpace both inflation and wages. Housing is not repeating the bubble period of 2000-2006: price increases vary across the country unlike the earlier period when rising prices were almost universal; the number of homes sold annually is 20% less today than in the earlier period and the months' supply is declining, not surging. The small supply of homes for sale, at only about four months' worth, is one cause of rising prices. New home construction, higher than during the recession but still low, is another factor in rising prices.

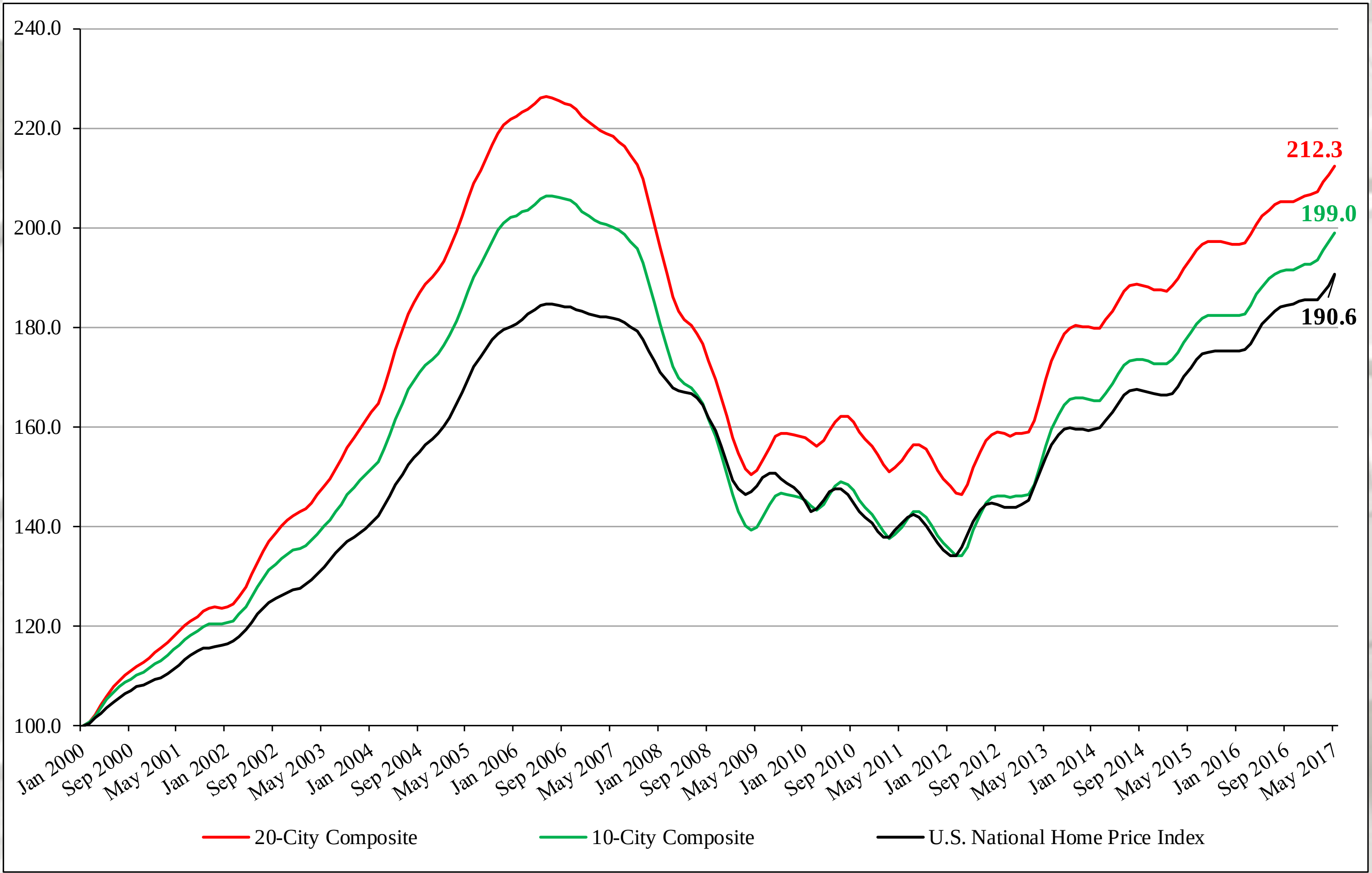
For the last 19 months, either Seattle or Portland OR was the city with fastest rising home prices based on 12-month gains. Since the national index bottomed in February 2012, San Francisco has the largest gain. Using Census Bureau data for 2011 to 2015, it is possible to compare these three cities to national averages. The proportion of owner-occupied homes is lower than the national average in all three cities with San Francisco being the lowest at 36%, Seattle at 46%, and Portland at 52%. Nationally, the figure is 64%. The key factor for the rise in home prices is population growth from 2010 to 2016: the national increase is 4.7%, but for these cities, it is 8.2% in San Francisco, 9.6% in Portland and 15.7% in Seattle. A larger population combined with more people working leads to higher home prices." – David Blitzer, Managing Director and Chairman of the Index Committee, S&P Dow Jones

Source: https://www.spice-indices.com/idpfiles/spice-assets/resources/public/documents/557549_cshomeprice-release-0725.pdf; 7/26/17

Return to TOC

Private Indicators

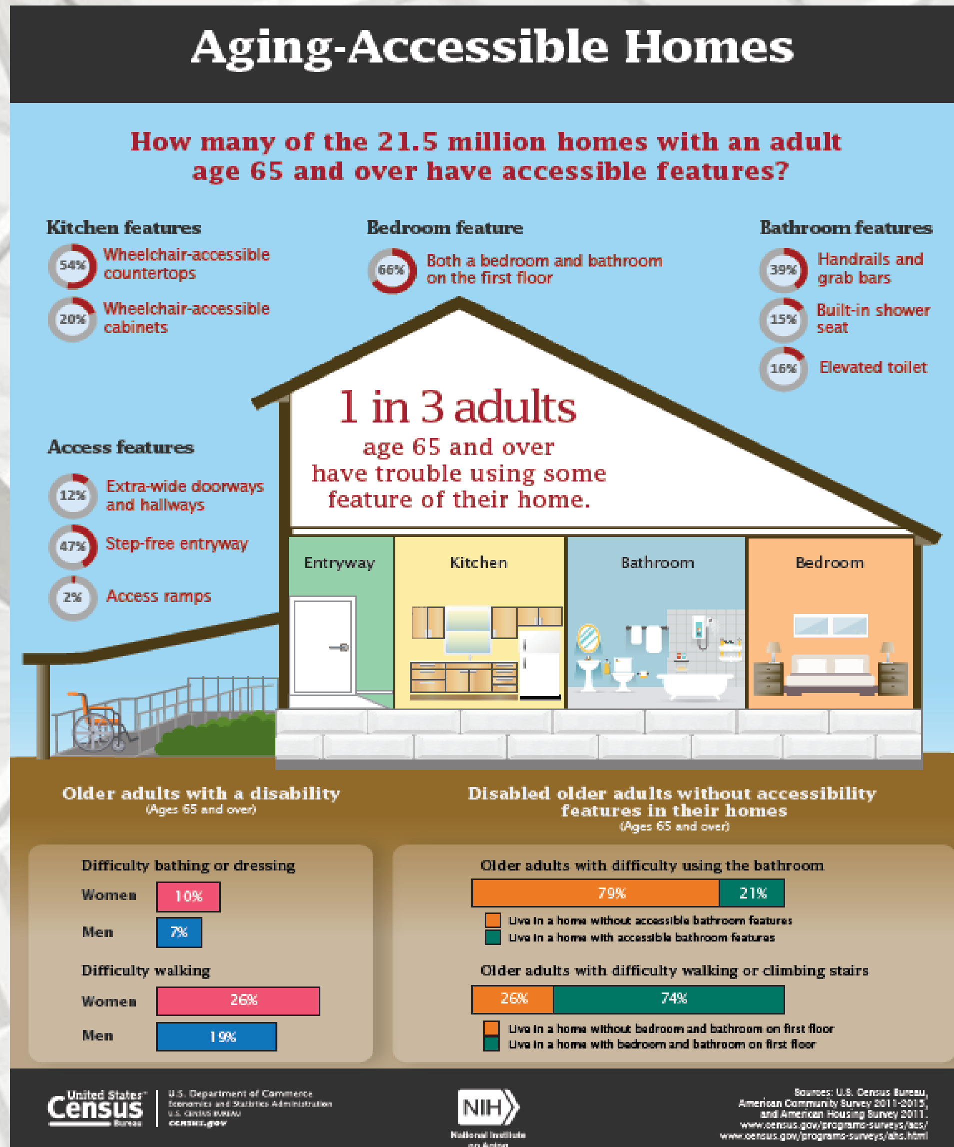
S&P/Case-Shiller Home Price Indices



Source: https://www.spice-indices.com/idpfiles/spice-assets/resources/public/documents/557549_cshomeprice-release-0725.pdf; 7/26/17

Return to TOC

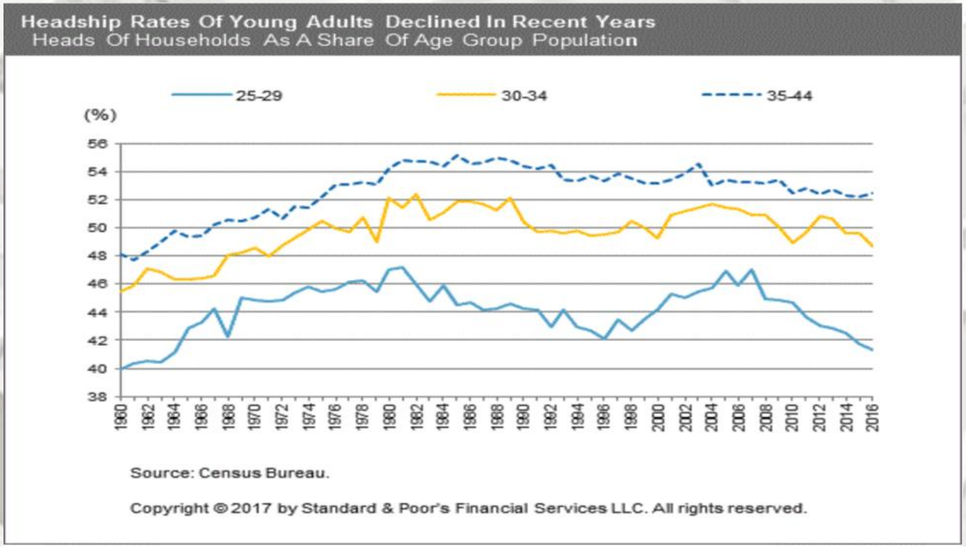
Demographics



Source: https://www.census.gov/content/dam/Census/library/visualizations/2017/comm/aging-in-place.pdf; 6/27/17

Return TOC

Demographics



Are Millennials Ready To Buy Little Pink Houses?

"Household formation – which is a function of changes in population and "headship" rates, or the share of the population identified as heads of households – averaged about 600,000 annually in 2007-2012 (and averaged near 1.5 million from 2001-2006) before reviving to above the 1 million mark in 2013-2016. (Formation rates vary with the survey, and here we rely on the government's housing vacancy survey.) Much of the swing reflects the changes in household formation rate among the so-called Millennial generation (which Pew Research defines as Americans born from 1982-2000, and called Generation Y by some), which in turn can be traced to the declines in headship rates. The patterns in headship rates over the housing cycle differ considerably across age groups. Specifically, in recent years, most of the changes were among young adults (see chart 4). For two groups – ages 18 to 24 and ages 25 to 29 – headship rates have declined appreciably in recent years. Headship rates among older age groups have been more stable." – Satyam Panday and Beth Ann Bovino, U.S. Economists, S&P Global Ratings

Source: https://www.capitaliq.com/CIQDotNet/CreditResearch/RenderArticle.aspx; 7/25/17

Return TOC

Demographics

Are Millennials Ready To Buy Little Pink Houses?

"Because changes in headship rates generally tend to reflect fluctuations in the economy, the fall-off in the household formation rate reflected a broader economic malaise, and the increase in the household formation rate in the last three years likely reflects the strengthening economic picture. That said, the share of adults ages 18-34 still living with parents or grandparents was at an all-time high of 35.6% in 2015, according to latest American Community Survey (ACS). And, according to the New York Federal Reserve, nearly 45% of people in their early 20s live with their parents, up from 33.5% in 2004.

The slow recovery in the U.S. labor market heightened financial problems among would-be first-time homebuyers. In the past 15 years or so, the median age of entrants into the real estate market has been around 33, closer to the front end of the Millennial cohort (which has a median age of 27). Now, various surveys report that younger would-be buyers are delaying household formation and first home purchases. Some of this has to do with this generation's moving to expensive cities, where there are growing job markets (and hence multifamily growth outpacing single-family construction). Low incomes combined with high housing cost in many metro markets have also prevented Millennials from living independently. Household headship rates for both the 18-24 and 25-34 age groups are especially low in the nation's least affordable markets, according to the Joint Center for Housing Studies of Harvard University (JCHS)." – Satyam Panday and Beth Ann Bovino, U.S. Economists, S&P Global Ratings

Source: https://www.capitaliq.com/CIQDotNet/CreditResearch/RenderArticle.aspx; 7/25/17

Return TOC

Demographics

Are Millennials Ready To Buy Little Pink Houses?

"Add to that the relationship between education, student loan debt, and housing. Home ownership is positively correlated with educational attainment, and educational attainment is becoming more and more possible for the average American – only with the burden of student loans. The New York Federal Reserve found that as much as 35% of the recent dramatic decline in home ownership can be explained by the rising student debt among Millennials. Student loans now average about $37,000 for graduates of the class of 2016, with monthly payments hindering their ability to save for down payments (or to make monthly mortgage payments), effectively freezing them out of the housing market and forcing them to rent for longer.

The New York Fed has found that, for any level of education, Americans with student debt "are less likely to own a home in their early thirties than those who completed their education without taking on as much – or any – debt." And because home ownership is an important avenue toward wealth accumulation, "with housing equity being the principal form of wealth for most households … changes in the way we finance higher education, with an increased reliance on student debt, may have important implications for the housing market and the distribution of wealth." – Satyam Panday and Beth Ann Bovino, U.S. Economists, S&P Global Ratings

Source: https://www.capitaliq.com/CIQDotNet/CreditResearch/RenderArticle.aspx; 7/25/17

Demographics

Missing the Millennial Mark

It's easy to pin Gen Y's lag in household formation on a lack of affordable inventory and student loan debt, but their lofty expectations of what a first home should be play a role as well.

"The American dream of buying a home is alive and well for millennials, but the generation of 18-36 year-olds must overcome hurdles to home ownership that older cohorts didn't face when buying their first home. The challenges of home ownership for older segments of Gen Y are rooted in economic circumstance, but are bolstered by the cultural influence of consumerism they witnessed during their formative years.

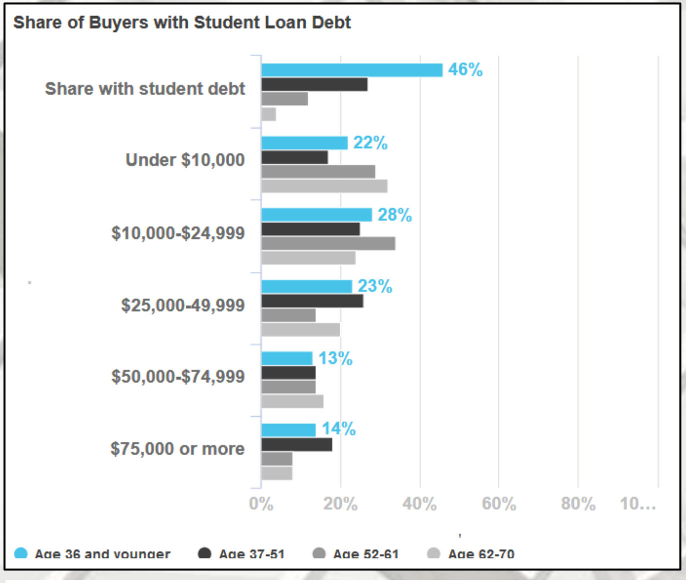
… According to the National Association of Realtors' (NAR) 2017 Home Buyer and Generational Trends Report, the vast majority of millennial buyers reported that student loan debt was the biggest impediment to saving enough money for a down payment on a home. Among home buyers aged 36 and younger, 46% had student loan debt with a median loan balance of $25,000.

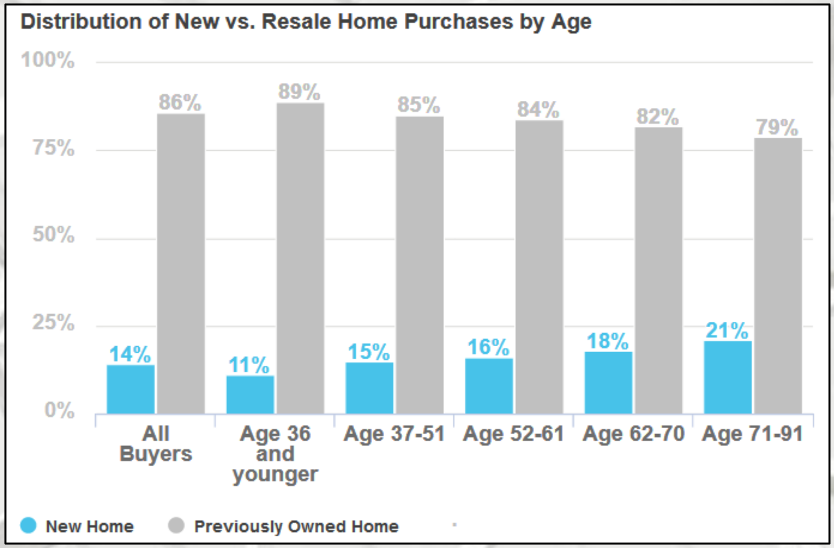
In the past year, the most significant compromises buyers age 36 and younger made during a home purchase involved home price (24%), home size (24%) and home condition (20%). These three factors highly influence one another, and underscore the generation's preference to buy a new home over resale. For the majority of Millennial buyers surveyed by NAR (48%), the reasoning behind this preference is to avoid expenses in the future via the need for renovations or problems with plumbing and electricity. Despite the impression that Millennials will happily empty their pockets for avocado toast at Sunday brunch, this is a practical and fiscally responsible reason to purchase a new home. However, the second most common reason – the ability to choose and customize design features – once again points to the underlying importance Millennials place on having the "latest and greatest." There is a subtext in that sentiment that deserves consideration however, as many Millennials are waiting until their 30s to buy homes due to unprecedented price growth (the latest S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index hit yet another all-time high) and the burden of debt, while prior generations were able to start building equity at a much younger age." – Hanley Wood Data Studio

Source: http://www.builderonline.com/money/economics/missing-the-millennial-mark_o; 7/28/17

Return to TOC

Demographics





Missing the Millennial Mark

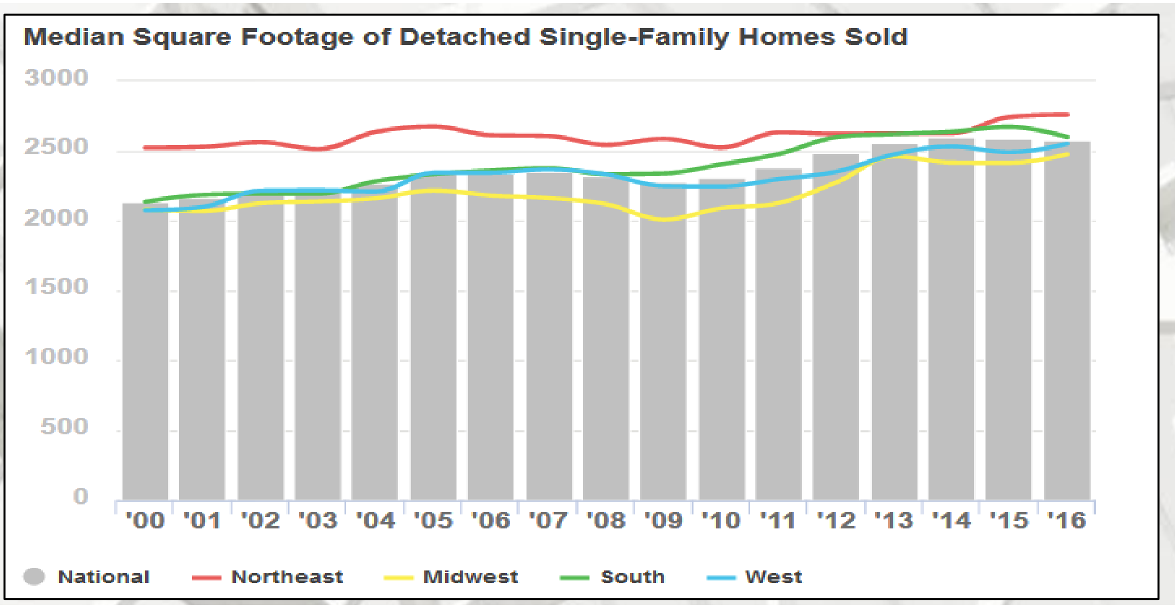
"New detached home inventory that falls within the budget of millennials is next to non existent in many major markets, and the tight squeeze on resale inventory has made prices more competitive for all buyer segments. Despite the preference for a new home, 89% of Gen Y purchased a previously owned home last year. The majority (27%) of homes they purchased were built between 1961 and 1968, which, although good news for remodelers, is skewing older than previous years.

Detached single-family homes continue to be the most popular product type among prospective home buyers across all generations. Not surprisingly, the share of buyers purchasing new homes increases with age, as they're more capable of affording the investment. However, as detached resale inventory tightens, it could become more difficult for Millennials willing to compromise and buy previously owned homes to compete with older buyers." – Hanley Wood Data Studio

Source: http://www.builderonline.com/money/economics/missing-the-millennial-mark_o; 7/28/17

Return to TOC

Demographics



Missing the Millennial Mark

"Low supply is making it easy for older buyers to outbid younger buyers in the resale market (if younger buyers aren't already priced out, that is), and that can be seen in median year built data by generation. Across all generations, resale homes sold last year were older than previous years, with the typical home being built in 1991. The median home purchased by Millennials was built in 1984, for buyers age 37-51 the median was 1994, for buyers age 62-70 the median was 1998, and for buyers over age 71 the median was 1999.

Millennial demand for new homes is there, but builders have been unable to capture this highly opportune demographic. High land development costs, a lack of affordable labor, and regulatory burden (which according to testimony from the National Association of Home Builders' in Congress last Spring can add 25 percent to the cost of building a home) are making it nearly impossible to build entry-level product and still turn a profit." – Hanley Wood Data Studio

Source: http://www.builderonline.com/money/economics/missing-the-millennial-mark_o; 7/28/17

Return to TOC

Demographics

Missing the Millennial Mark

It's easy to pin Gen Y's lag in household formation on a lack of affordable inventory and student loan debt, but their lofty expectations of what a first home should be plays a role as well.

“In 2016, Millennials surpassed Baby Boomers as the nation's largest living generation, and within the next five years, 66% of Gen Y'ers plan to purchase a new home. Affordability is at the heart of the problem, but it's also possible that Millennial household formation is lagging due to an unwillingness to compromise their idealized version of a new home. Builders should feel pressure to devise ways to provide affordable, detached single-family homes as resale inventory tightens and Millennials are priced out of both markets, despite their willingness to not compromise. Although home builders face the onerous task of finding a cost-effective solution to capture the demographic, Millennials should be feeling pressure to enter the market as well.

The reality of our current economic climate indicates that there could be more danger for prospective Millennial homebuyers to play the waiting game while builders devise ways to check most of the items on their wish list. Current mortgage interest rates remain favorable for home buyers but are expected to rise, and as the supply of previously-owned detached homes for sale tightens, Millennials risk having to wait even longer if they delay until builders bring a version of their ideal home to market at a price they can afford.” – Hanley Wood Data Studio

Source: http://www.builderonline.com/money/economics/missing-the-millennial-mark_o; 7/28/17

Return to TOC

Demographics

One Reason Young Men Aren't Working?
They Can't Stop Playing Video Games

Despite stagnant wages, young men are happier than ever

"Before young American men get back to work, they should switch off the video console.

Younger men's working hours have declined more than those of older men over the last 15 years, according to a working paper by researchers at Princeton University, the University of Chicago and the University of Rochester and distributed by the National Bureau of Economic Research, a Cambridge, MA.-based research group. The researchers analyzed how people spend their time when they are not working.

Older men are more likely to be employed than those who are younger. Some 66% of men looking for jobs aged 20 to 24 were employed in 2016, compared to 82% of those 25 to 29, 86.5% of those 30 to 34, 87% of those 35 to 39 and 87% of those 40 to 44, according to the Bureau of Labor Statistics.

There are obviously other, bigger forces at play too. Globalization and technological advancement have restrained growth in U.S.-based manufacturing jobs, many of which are dominated by men. At the same time, the technology sector has continued to surge. J.P. Morgan Chase CEO Jamie Dimon said last month the share of men ages 25 to 54 who are considered part of the labor force fell around 88% from 97% a half-century ago. More young men attending college and retraining after being burned by the 2008 downturn in the property market and the Great Recession amid a fall in demand for less-skilled workers." – Maria LaMagna, Reporter, CBS MarketWatch

Source: http://www.marketwatch.com/story/heres-one-really-weird-theory-why-so-many-young-men-arent-working-2017-07-03; 7/15/17

Return to TOC

Demographics

One Reason Young Men Aren't Working? They Can't Stop Playing Video Games

"To figure out why young men's hours dropped so much, the researchers studied the Bureau of Labor Statistics annual time use survey, which reports how Americans spend their time through the years, between 2012 and 2015, compared to 2004 to 2007. Between those two periods, young men increased their leisure hours about the same amount they dropped their working hours, the researchers found.

But how they filled that leisure time was more surprising. The time spent playing video and computer games makes up about 75% of that increased leisure time for men in that age demographic. Younger men actually increased their recreational computer use and video gaming by nearly 50% between 2004 to 2007 and 2012 to 2015, they found. Young men who are unemployed on average spend 520 hours per year on recreational computer or video game time, more than they spend on non-computer related socializing with friends.

Working hours also dropped because there was less demand for work and, as the Pew Research Institute previously found, male workers fared worse during the Great Recession — accounting for 5.4 million of the 71%, of the 7.5 million jobs that disappeared from the U.S. economy from December 2007 through June 2009. But it's historically unusual for younger men's hours to decrease much more than older men's. (The researchers did not analyze trends in women's working hours in depth for this report.)" – Maria LaMagna, Reporter, CBS MarketWatch

Source: http://www.marketwatch.com/story/heres-one-really-weird-theory-why-so-many-young-men-arent-working-2017-07-03; 7/15/17

Return to TOC

Demographics

One Reason Young Men Aren't Working? They Can't Stop Playing Video Games

"Gaming, meanwhile, is not exactly an inexpensive hobby. Americans collectively spent about $5.6 billion on video console games and $1.3 billion on computer games in 2002, which rose to about $9.3 billion on video console games and $2.7 billion on computer games in 2016, according to the market-research firm Euromonitor International. That does not even include the additional billions of dollars spent on online and mobile games.

The researchers in the latest study also compared young men's leisure time across states, which saw different impacts of the recession; Nevada saw a higher increase in unemployment than Texas did, said Erik Hurst, a researcher from the University of Chicago who was one of the report's authors. But even taking regional differences into account, young men have shown "a preference shift" for computer and video games, he said, spending about five times as much time on that activity as the researchers would have predicted.

One reason: Once young men purchase the console and game, they can spend many additional hours playing it at no extra cost, unlike visiting a restaurant or movie theater, which costs money each time, he said.

Young men also reported increased amounts of happiness during the 2000s, despite problems including stagnant wages, declining job opportunities and increased likelihood of living with parents and other relatives, the researchers said. They attributed that to men's increased satisfaction with their leisure time, video and computer games included. "When you like leisure more, that has some effects on how much you're willing to work," Hurst said. … " – Maria LaMagna, Reporter, CBS MarketWatch

Source: http://www.marketwatch.com/story/heres-one-really-weird-theory-why-so-many-young-men-arent-working-2017-07-03; 7/15/17

Return to TOC

Demographics

More U.S. Households are Renting than at any Point in 50 years

"A decade after the housing bust upended the lives of millions of Americans, more U.S. households are headed by renters than at any point since at least 1965, according to a Pew Research Center analysis of Census Bureau housing data.

The total number of households in the United States grew by 7.6 million between 2006 and 2016. But over the same period, the number of households headed by owners remained relatively flat, in part because of the lingering effects of the housing crisis.

Meanwhile, the number of households renting their home increased significantly during that span, as did the share, which rose from 31.2% of households in 2006 to 36.6% in 2016. The current renting level exceeds the recent high of 36.2% set in 1986 and 1988 and approaches the rate of 37.0% in 1965.

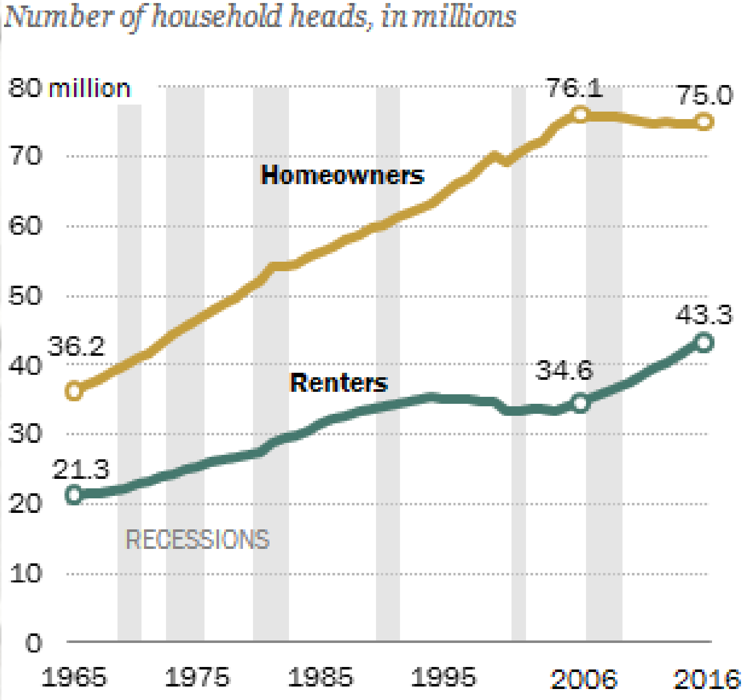
Certain demographic groups – such as young adults, nonwhites and the lesser educated – have historically been more likely to rent than others, and rental rates have increased among these groups over the past decade. However, rental rates have also increased among some groups that have traditionally been *less* likely to rent, including whites and middle-aged adults.

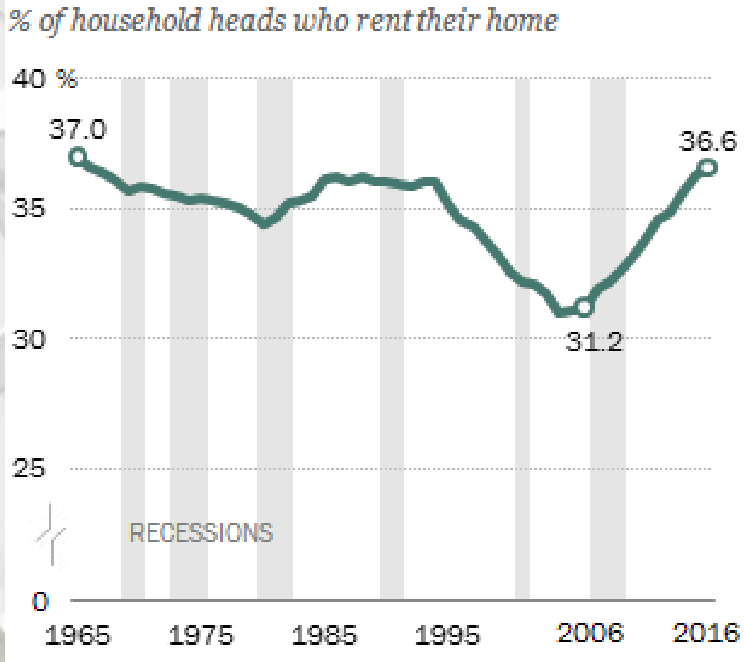
Young adults – those younger than 35 – continue to be the most likely of all age groups to rent. In 2016, 65% of households headed by people younger than 35 were renting, up from 57% in 2006. Rental rates have also risen notably among those ages 35 to 44. In 2016, about four-in-ten (41%) households headed by someone in this age range were renting, up from 31% in 2006." – Anthony Cilluffo, Abigail Geiger, and Richard Fry; Pew Research Center

Source: http://www.pewresearch.org/fact-tank/2017/07/19/more-u-s-households-are-renting-than-at-any-point-in-50-years/; 7/19/17

Return to TOC

Demographics





Note: Data labels are for 1965, 2006 and 2016. Figures for 1979, 1981, 1989, 1993 and 2000-2016 reflect revised estimates.
Source: Pew Research Center analysis of U.S. Census Bureau estimates of housing inventory.

PEW RESEARCH CENTER

Source: http://www.pewresearch.org/fact-tank/2017/07/19/more-u-s-households-are-renting-than-at-any-point-in-50-years/; 7/19/17

Return to TOC

Demographics

More U.S. Households are Renting than at any Point in 50 years

"Rental rates also went up among households headed by someone ages 45 to 64, rising from 22% of households in 2006 to 28% in 2016. But among the oldest Americans – those 65 or older – the rental rate remained steady at around 20%.

Black and Hispanic households continue to be about twice as likely as white households to rent their homes. In 2016, 58% of black household heads and 54% of Hispanic household heads were renting their homes, compared with 28% of whites. But all major racial and ethnic groups were more likely to rent in 2016 than a decade earlier.

The movement toward renting has also occurred across all levels of educational attainment. From 2006 to 2016, rental rates increased among households headed by someone with less than a high school degree, as well as among those headed by a college graduate.

Even so, college graduates are the least likely group to be renters. In 2016, 29% of college-educated household heads were renters, compared with 38% of household heads with a high school degree only or some college experience and 52% of household heads who did not finish high school.

The increase in U.S. renters over the past decade does not necessarily mean that homeownership is undesirable to today's renters. Indeed, in a 2016 Pew Research Center survey, 72% of renters said they would like to buy a house at some point. About two-thirds of renters in the same survey (65%) said they currently rent as a result of circumstances, compared with 32% who said they rent as a matter of choice. When asked about the specific reasons why they rent, a majority of renters, especially nonwhites, cited financial reasons." – Anthony Cilluffo, Abigail Geiger, and Richard Fry; Pew Research Center

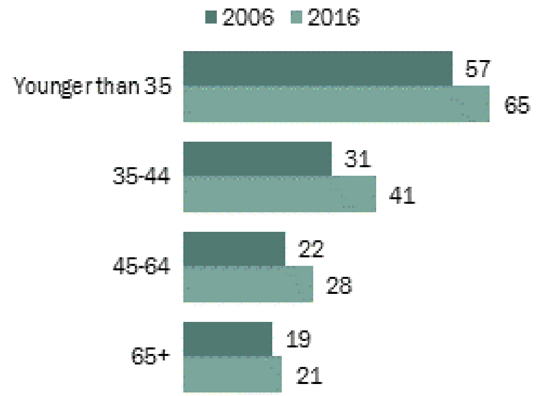
Source: http://www.pewresearch.org/fact-tank/2017/07/19/more-u-s-households-are-renting-than-at-any-point-in-50-years/; 7/19/17

Return to TOC

Demographics

About two-thirds of households headed by young adults are rentals

% of household heads who rent their home, by householder's age

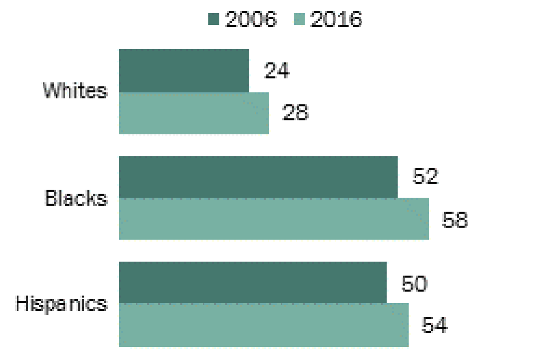


Note: Based on revised estimates.
Source: Pew Research Center analysis of Census Bureau estimates of housing inventory.

PEW RESEARCH CENTER

Share of renting households increased for whites, blacks and Hispanics since 2006

% of household heads who rent their home, by householder's race/ethnicity

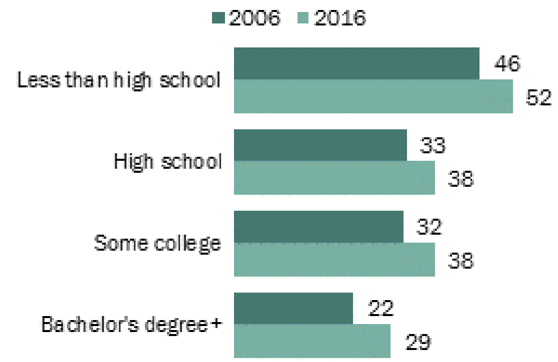


Note: Whites include only single-race non-Hispanics. Blacks include both the Hispanic and non-Hispanic components of the single-race black population. Hispanics are of any race. Annual rates calculated based on an average of quarterly rates.
Source: Pew Research Center analysis of Census Bureau estimates of homeownership rates.

PEW RESEARCH CENTER

Households of all education levels are now more likely to rent their home

% of household heads who rent their home, by householder's educational attainment



Note: "High school" refers to those who have attained a high school diploma or its equivalent, such as a General Education Development (GED) certificate. "Some college" refers to those with an associate degree and those who attended college but did not earn a degree. Based only on those not living in group quarters.
Source: Pew Research Center analysis of 2006 and 2016 Current Population Survey Annual Social and Economic Supplement (IPUMS).

PEW RESEARCH CENTER

Source: http://www.pewresearch.org/fact-tank/2017/07/19/more-u-s-households-are-renting-than-at-any-point-in-50-years/; 7/19/17

Return to TOC

Demographics

Major matters in the job market for college graduates

"A recently updated **dataset** from the New York Fed highlights a troubling fact about college graduates: around one-third of them do not work in jobs that require a college degree. Being "underemployed" in this way, however, is not synonymous with holding a "bad" job; 43% of underemployed graduates earn more than $45,000 per year.

As I argued in a post yesterday, these figures suggest that in some cases a college degree functions as a signal – a credential that gives college-educated job applicants an edge over the competition – instead of something that confers skills that are valuable in their own right.

One interesting feature of underemployment, though, is that it is not uniform across all fields of study. Nor do college majors with low rates of underemployment necessarily guarantee high salaries to their graduates. In the following graph, I plot the share of recent college graduates holding jobs requiring a college degree against the median wage those graduates can expect to earn early on in their careers for each of 73 majors analyzed by the New York Fed.

This framework allows us to divide college majors into four groups along two dimensions: whether the major provides high or low earnings, and whether the major has a high or low share of graduates working in jobs that require a college degree (hereafter referred to as "full" employment).

A few caveats apply to this analysis. First, the major-level underemployment data released by the New York Fed only cover recent college graduates, not all graduates. Second, the earnings data covered in the chart refer to early-career earnings; earnings for college graduates usually rise significantly throughout careers. Third, we don't know if non-underemployed graduates are using skills relating to their major on the job; we only know whether or not the job requires a generic college degree or higher." – Preston Cooper, Education Data Analyst, Forbes

Source: http://www.aei.org/publication/major-matters-in-the-job-market-for-college-graduates; 7/14/17

Return to TOC

Demographics

Major matters in the job market for college graduates

“Thirty-one majors have both low earnings and low rates of “full” employment. This group includes the lowest-paid college major, theology, which has an early-career salary of just $27,000. It also includes the major with the highest rate of underemployment, criminal justice. Only 20% of recent graduates with criminal justice majors end up in jobs requiring a college degree. Humanities majors dominate this category; performing arts, English literature, history, and philosophy all combine low earnings with high underemployment.

At the other end of both spectra, 22 majors have both high earnings and high rates of full employment. The top-earning major is chemical engineering, which carries an early-career median wage of $70,000. The major with the lowest rate of underemployment, nursing, also falls into this category. Nursing majors have among the most useful credentials in the job market, with nearly 85% working in jobs that require a college degree. Other majors in this category include economics, accounting, and most majors in the STEM fields.

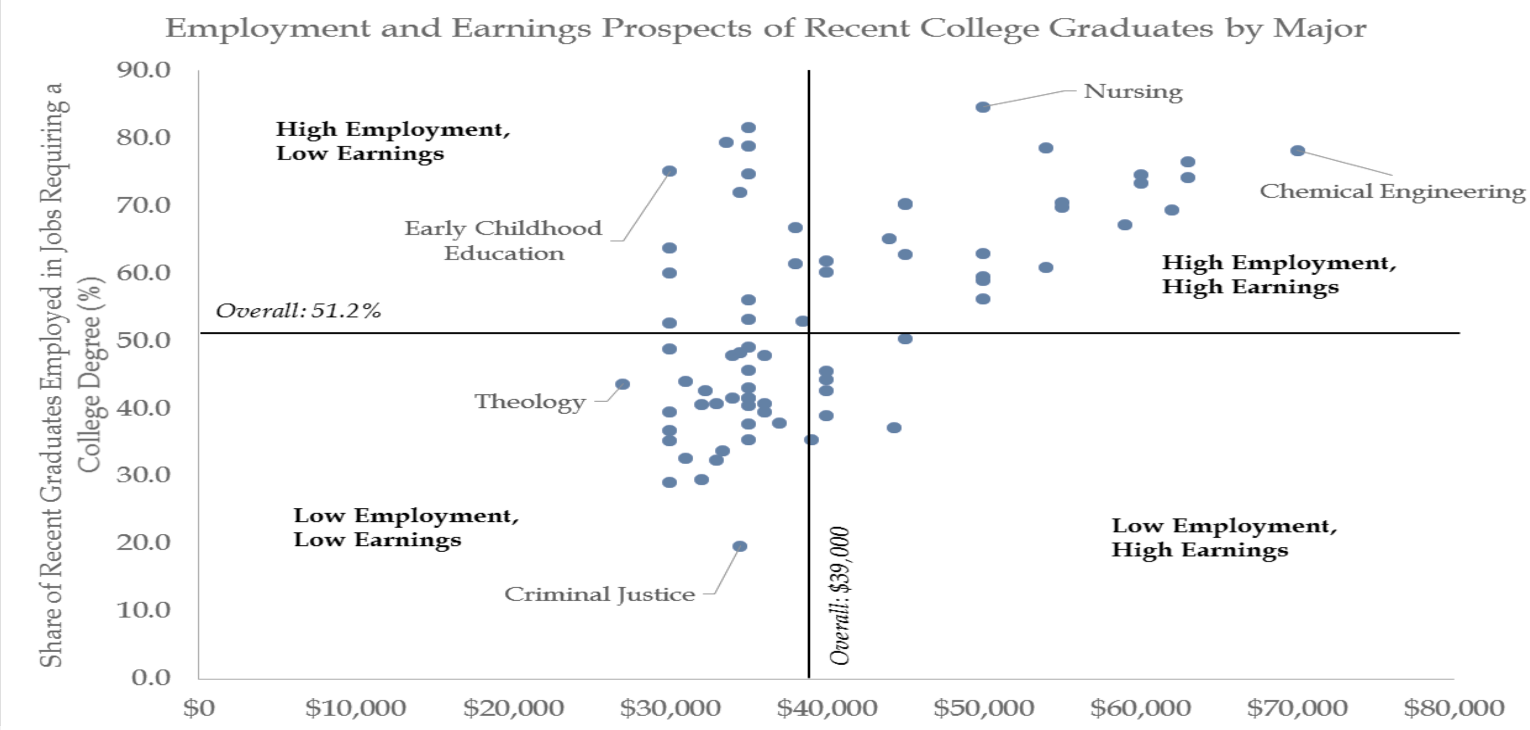
Very few majors combine low rates of full employment with high earnings. This group includes majors in the social sciences, such as political science, marketing, and international affairs.

Perhaps the most interesting category consists of majors with high rates of full employment but low earnings. Education majors dominate this category, suggesting that teachers need college degrees to do their jobs but also earn less than many of their college-educated peers. Early childhood education is the perfect example: 75% of graduates with this major need a college degree to do their jobs, but they also earn just $30,000 in their early careers.” – Preston Cooper, Education Data Analyst, Forbes

Source: http://www.aei.org/publication/major-matters-in-the-job-market-for-college-graduates; 7/14/17

Return to TOC

Demographics



Source: The Federal Reserve Bank of New York

Major matters in the job market for college graduates

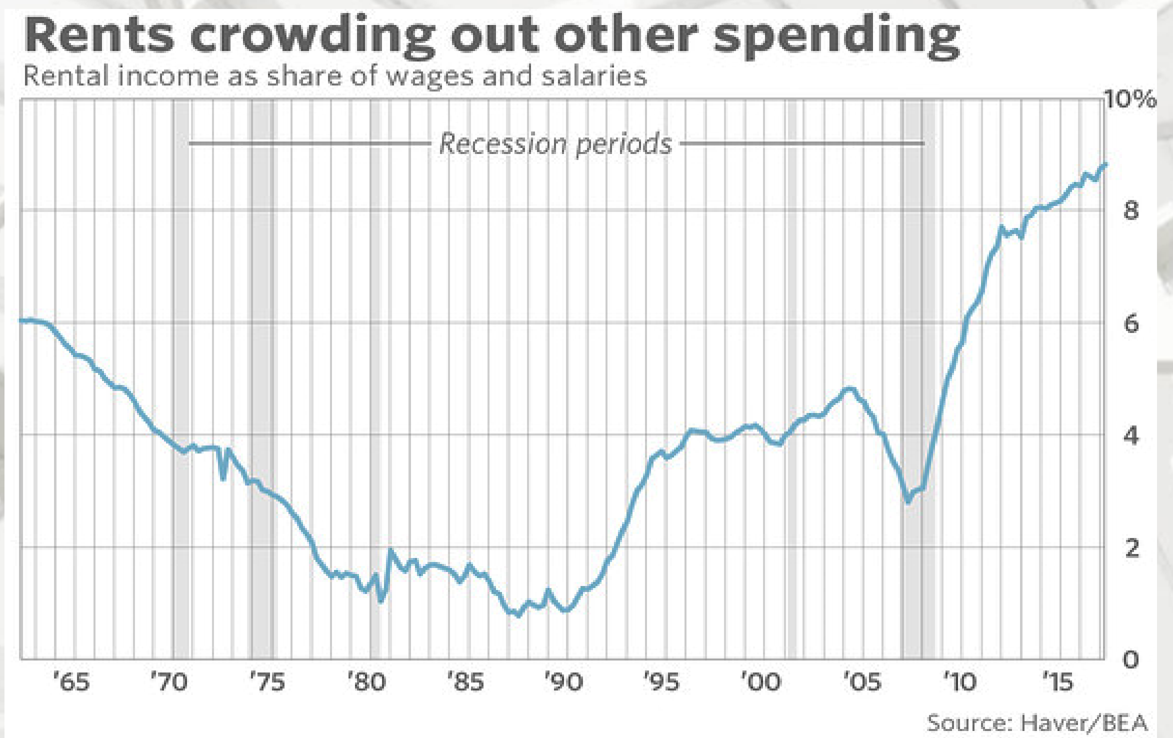
"The sum of these categories is a triangle-shaped region on the graph: majors with high rates of underemployment almost always have low earnings, but majors with low rates of underemployment have a wide range of earnings. One possible explanation for the variance is differences in supply: if education majors are more common than engineering majors relative to the number of jobs on offer, education majors might command lower salaries even if both majors are equally "useful" to the labor market (i.e., have similar rates of underemployment).

The bottom line? Your college major matters. But it matters in more ways than one." – Preston Cooper, Education Data Analyst, Forbes

Source: http://www.aei.org/publication/major-matters-in-the-job-market-for-college-graduates; 7/14/17

Return to TOC

Demographics



Consumers aren't spending, and surging rent might be to blame

It's only gotten worse since 'the rent is too damn high' was a trendy new saying

"The cost of rent is on the rise again, pressuring Americans' pocketbooks and crimping growth throughout the economy. Rent rose 3.9% compared to a year ago in June, the Labor Department said Friday. While that's only a slight uptick from 3.8% annual gains in the past couple of months, the average annual increase in each month so far in 2017 put it on track to show the biggest gains since 2007.

That's a tough spot for U.S. consumers to be in, given that wages are growing less than half as quickly as rental costs. In fact, adjusted for inflation, wages were up a scant 0.8% in June." – Andrea Riquier, Reporter, CBS MarketWatch

Source: http://www.marketwatch.com/story/rising-rents-may-be-crimping-consumer-spending-2017-07-14; 7/15/17

Return to TOC

Demographics

Consumers aren't spending, and surging rent might be to blame

"A chart from Steve Blitz, chief U.S. economist for TS Lombard, shows that as of early 2017, wage income as a share of rent is at an all-time high. The chart below illustrates that point by taking the amount of rental income in the economy compared to the amount of wages.

As Blitz noted, "Consumers do consequently have a tight budget, medical care (up 0.4% M/M in June and 2.7% Y/Y) joins rent as 'taxes' on consumer income. When gasoline prices rise, the hit on budgets tends to push people to shop online and when gas prices drop, people return to the malls." Sure enough, retail sales slid in June for the second straight month – and consumer sentiment also ticked down.

Despite the lofty expectations for strong growth that soared after the November election, the economy seems to be stuck in the same head-fake pattern that's characterized every year since the end of the recession.

"We still believe the Fed tightens in December and starts reducing its balance sheet in October, but (its) 2% inflation objective is illusory at best," Blitz added." – Andrea Riquier, Reporter, CBS MarketWatch

Source: http://www.marketwatch.com/story/rising-rents-may-be-crimping-consumer-spending-2017-07-14; 7/15/17

Return to TOC

Economics

The U.S. Consumer Probably Can't Do Much More

It is time for other sectors of the U.S. economy to contribute more to GDP growth. U.S. consumers already contribute so much to topline growth and it could be problematic to ask for more.

Economy Highly Dependent on Consumers

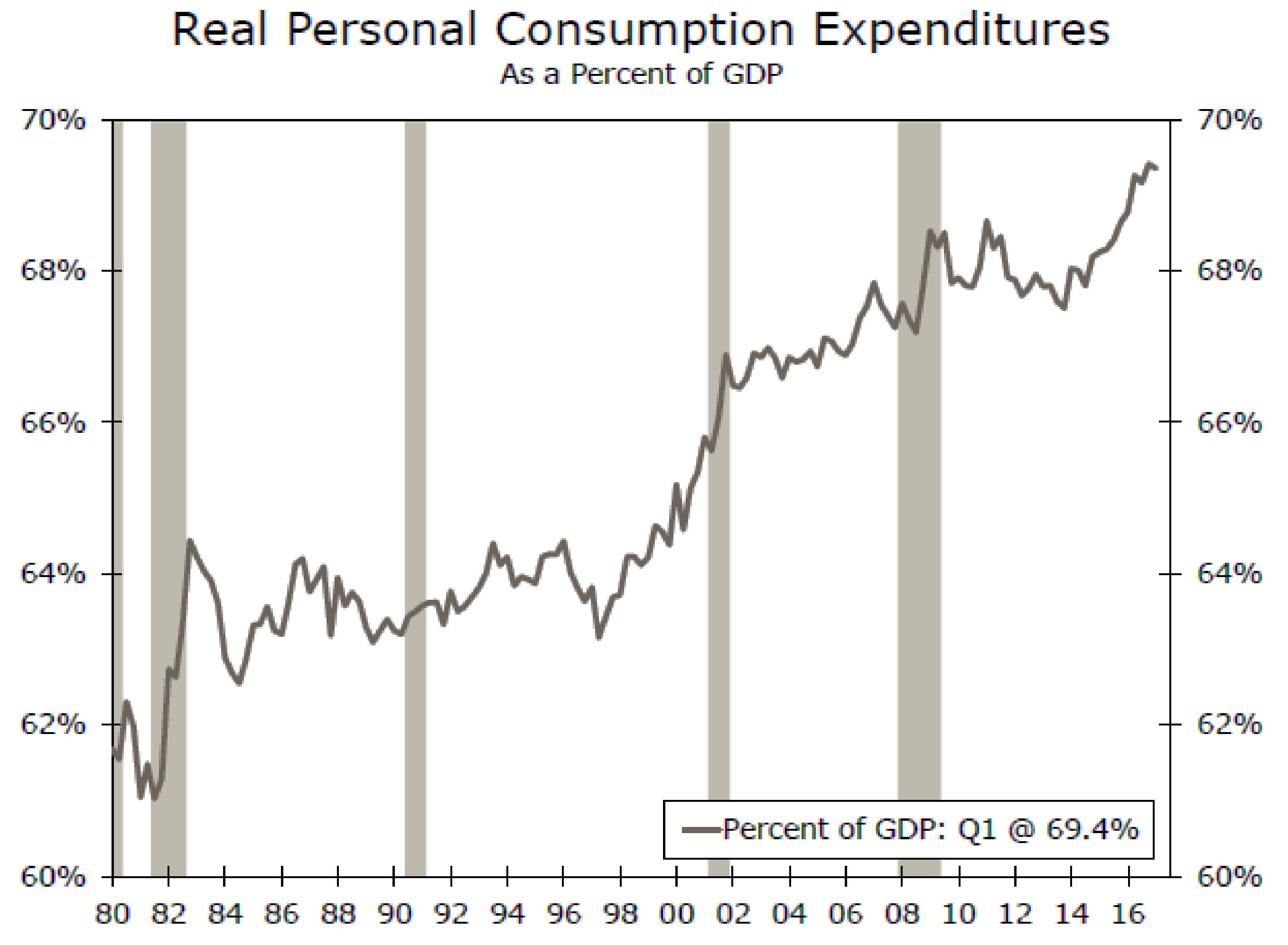
"Back in the 1980's, real U.S. personal consumption expenditures (PCE) represented about 63 to 64 percent of the U.S. economy. Today, PCE is close to 69.5 percent of real gross domestic product (GDP), up from about 67 to 68 percent since the turn of the century. The latest push by the U.S. consumer has occurred since 2014 and represents a historical peak for the U.S. consumer (chart 1). Still, PCE's contribution to GDP growth is not higher today than its historical norm, quite the opposite; today's contribution of PCE to GDP growth is actually relatively weak compared to historical standards (chart 2). So, how is it that PCE is, today, about 69.5 percent of GDP, if the contribution to GDP growth is so small? The answer is that the U.S. consumer is basically the only, or one of the few, components of GDP that is actually contributing positively to growth. That is, real government consumption, real gross fixed investment and net exports are not contributing much to the rate of GDP growth. This is the reason why PCE as a percentage of GDP has continued to increase in the face of declining contributions to GDP growth.

Investment in the energy sector during the high oil price period helped push gross fixed investment's contribution to GDP higher. However, that process has reversed since the collapse in oil prices. Meanwhile, the contribution from net exports has been almost consistently negative. Meanwhile, the contribution from government expenditures has also been weak to non-existent." – Eugenio Alemán, Senior Economist, Economics Group, Wells Fargo LLC

Source: http://image.mail1.wf.com/lib/fe8d13727664027a7c/m/2/consumer-risks-opportutnities-20171907.pdf; 7/21/17

Return to TOC

Economics

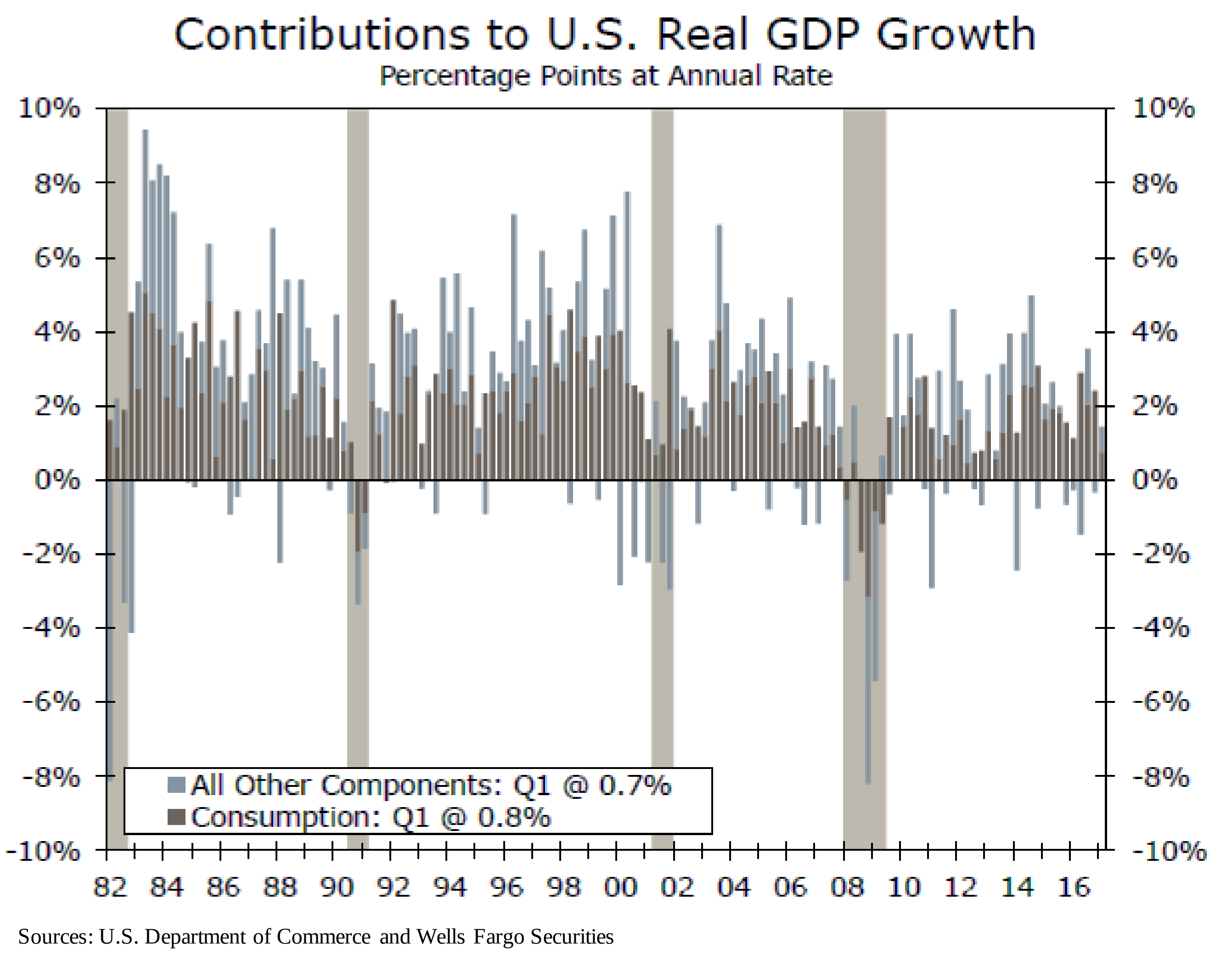


Sources: U.S. Department of Commerce and Wells Fargo Securities

Source: http://image.mail1.wf.com/lib/fe8d13727664027a7c/m/2/consumer-risks-opportutnities-20171907.pdf; 7/21/17

Return to TOC

Economics



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Return to TOC

Economics

The U.S. Consumer Probably Can't Do Much More

Real Disposable Income Growth Could Potentially Improve

"After a relatively strong comeback by real disposable income after the Great Recession, the growth rate of this important determinant of real PCE growth has weakened considerably, even though it has slightly improved over the last several quarters. In fact, PCE growth has outpaced real disposable income growth since late 2016, which means, over this period of time, PCE has been punching above its weight (chart 3). Therefore, unless we see a stronger rate of growth in real disposable income, we may not see further strengthening in PCE growth

The good news is that real disposable income growth during the last several years has been driven by low petroleum and gasoline prices, which have continued to remain low and should help the growth of real disposable income in the coming quarters, even if salary and wage growth remain contained. Furthermore, the prospect of lower taxes in President Trump's tax reform plan could boost real disposable income growth and thus help improve the rate of growth of PCE. However, there is probably little more punch left in the consumer today, so other sectors will need to pitch-in if we want to see an improvement in overall economic growth." – Eugenio Alemán, Senior Economist, Economics Group, Wells Fargo LLC

Source: http://image.mail1.wf.com/lib/fe8d13727664027a7c/m/2/consumer-risks-opportutnities-20171907.pdf; 7/21/17

Return to TOC

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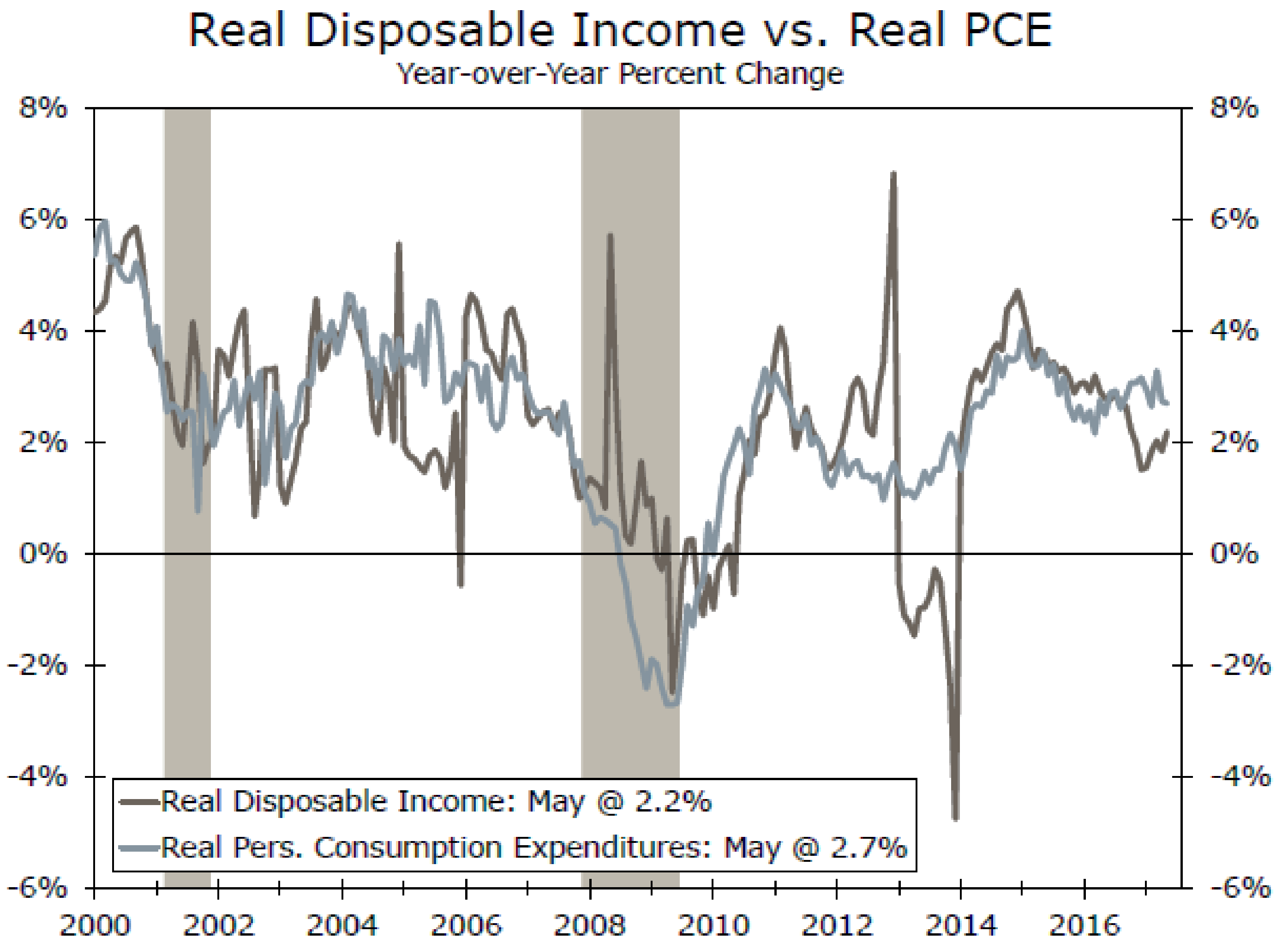

Sources: U.S. Department of Commerce and Wells Fargo Securities

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Return to TOC

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Return to TOC

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