

The Virginia Tech – U.S. Forest Service

July 2018

Housing Commentary: Section II



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Virginia Polytechnic Institute and State University

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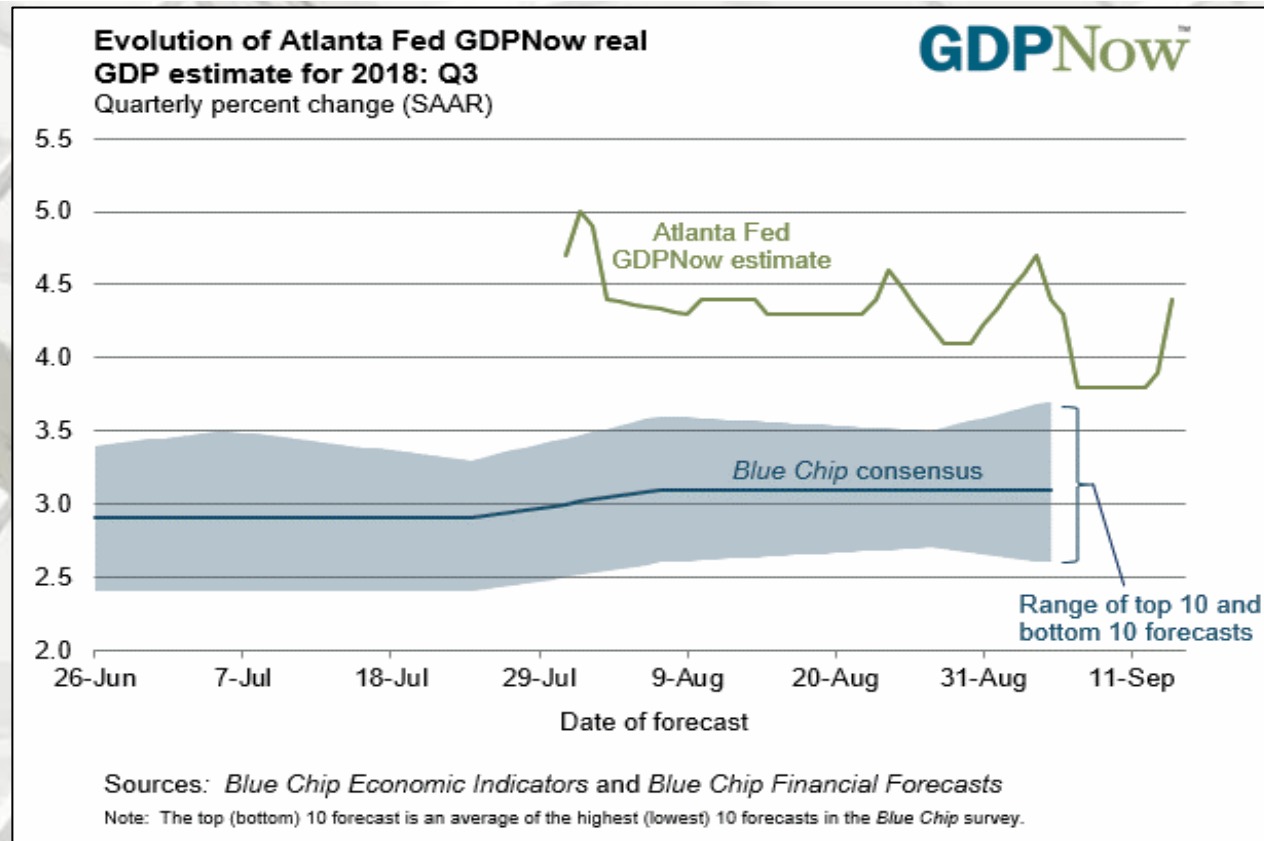
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Federal Reserve System and Private Indicators

U.S. Economic Indicators



Atlanta Fed GDPNow™

Latest forecast: 4.4 percent — September 14, 2018

“The GDPNow model estimate for real GDP growth (seasonally adjusted annual rate) in the third quarter of 2018 is **4.4** percent on September 14, up from 3.8 percent on September 11. The nowcast of third-quarter real personal consumption expenditures growth increased from 3.0 percent to 3.7 percent after this morning's retail sales report from the U.S. Census Bureau and this morning's industrial production release from the Federal Reserve Board of Governors.” – Pat Higgins, Economist, Federal Reserve Bank of Atlanta

The Federal Reserve Bank of Chicago: Midwest Economy Index

Index Points to Little Change in Midwest Economic Growth in July

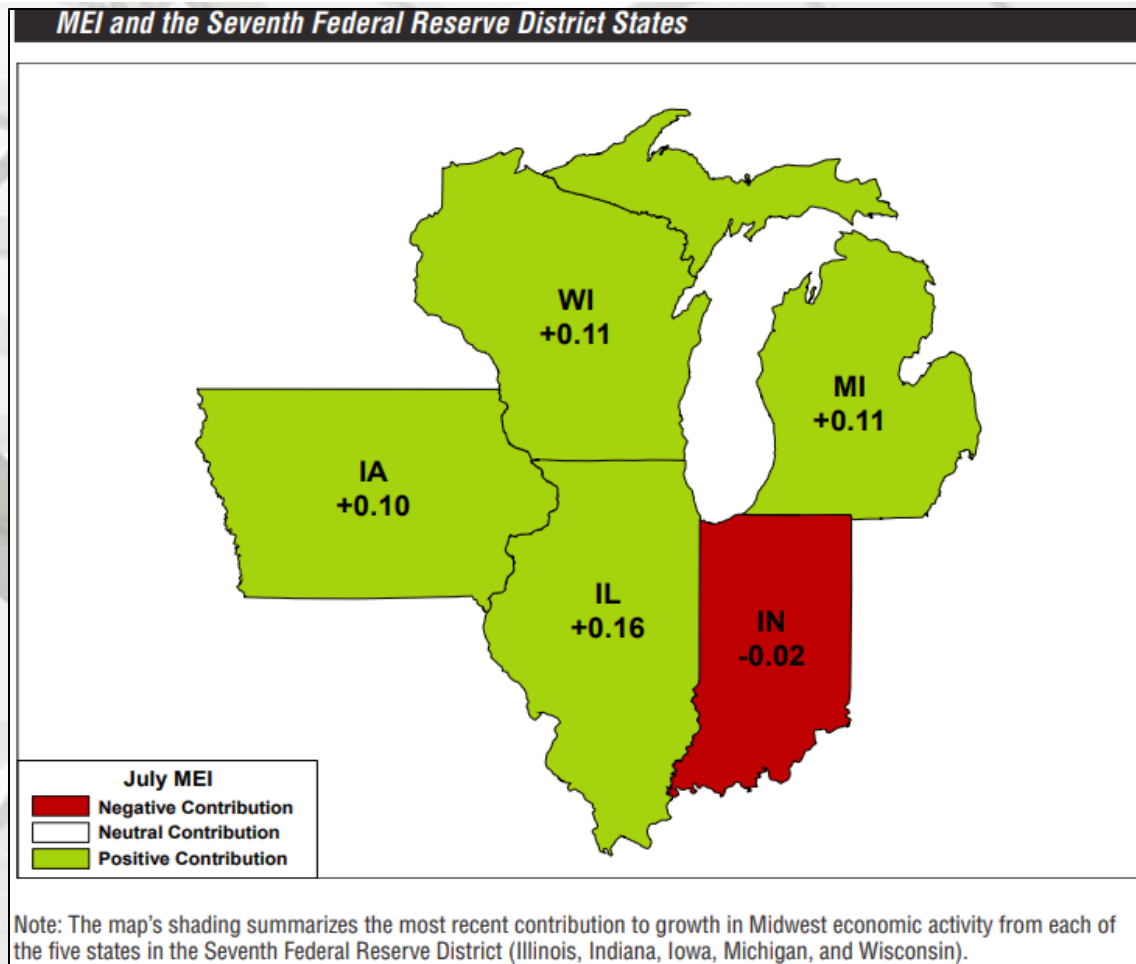
“The manufacturing sector’s contribution to the MEI moved up slightly to +0.41 in July from +0.38 in June. The pace of manufacturing activity increased in Illinois and Wisconsin, but was unchanged in Indiana, Iowa, and Michigan. Manufacturing’s contribution to the relative MEI edged up to +0.25 in July from +0.22 in June.

The construction and mining sector’s contribution to the MEI was unchanged at +0.02 in July. The pace of construction and mining activity was faster in Iowa and Wisconsin, but slower in Indiana and unchanged in Illinois and Michigan. The contribution from construction and mining to the relative MEI was unchanged at +0.03 in July.

The service sector contributed –0.06 to the MEI in July, up slightly from –0.07 in June. The pace of service sector activity was up in Michigan and Wisconsin, but down in Indiana and unchanged in Illinois and Iowa. The service sector’s contribution to the relative MEI ticked up to –0.30 in July from –0.31 in June.

Consumer spending indicators made a contribution of +0.10 to the MEI in July, up slightly from +0.09 in June. Consumer spending indicators were, on balance, up in Michigan, but down in Wisconsin and steady in Illinois, Indiana, and Iowa. Consumer spending’s contribution to the relative MEI edged down to +0.03 in July from +0.05 in June.” – Laura LaBarbera, Media Relations, The Federal Reserve Bank of Chicago

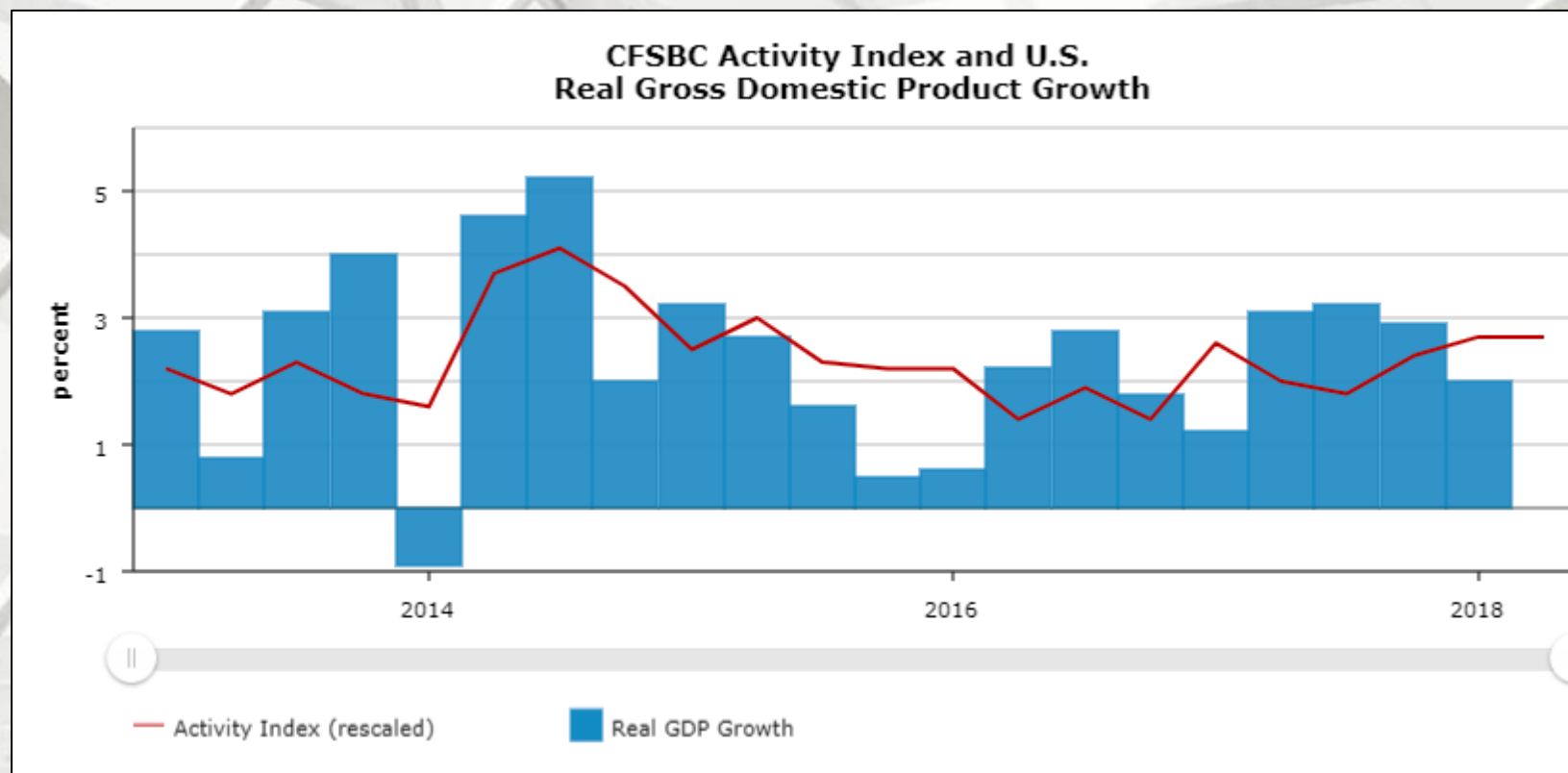
Chicago Fed: Midwest Economy Index



Index Points to Little Change in Midwest Economic Growth in July

“The Midwest Economy Index (MEI) ticked up to +0.46 in July from +0.42 in June. Contributions to the July MEI from three of the four broad sectors of nonfarm business activity and three of the five Seventh Federal Reserve District states increased from June. The relative MEI edged up to +0.02 in July from –0.01 in June. Contributions to the July relative MEI from two of the four sectors and three of the five states increased from June” – Laura LaBarbera, Media Relations, The Federal Reserve Bank of Chicago

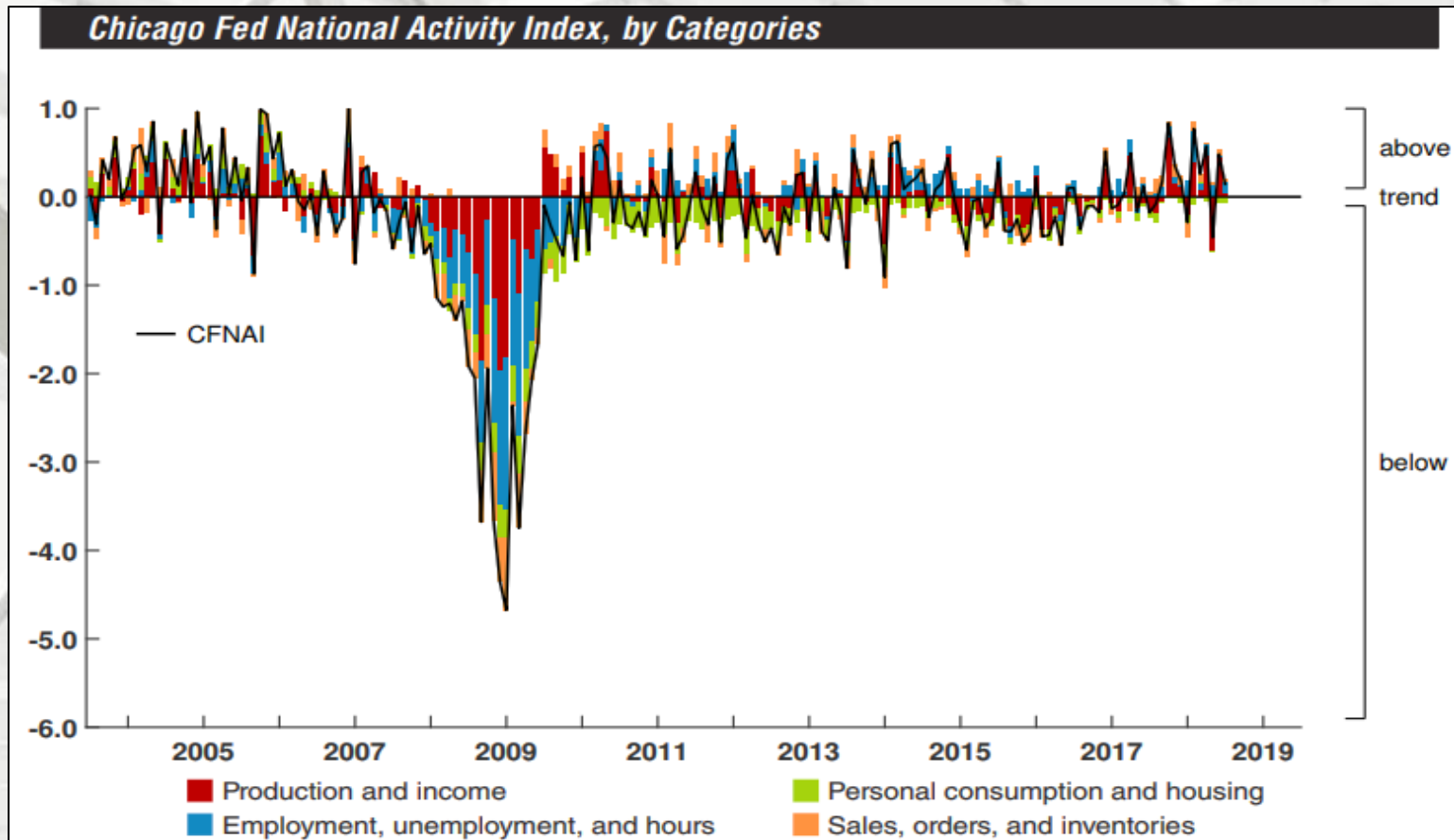
Chicago Fed: Survey of Business Conditions



Survey Shows Growth Slowed Some in Late May and June

“The Chicago Fed Survey of Business Conditions (CFSBC) Activity Index moved down to +7 from +20, suggesting that growth in economic activity remained at a moderate pace in late May and June.” – The Federal Reserve Bank of Chicago

Chicago Fed: National Activity Index



Index Points to a Moderation in Economic Growth in July

“Led by slower growth in production-related indicators, the Chicago Fed National Activity Index (CFNAI) declined to +0.13 in July from +0.48 in June. Three of the four broad categories of indicators that make up the index decreased from June, but three of the four categories made positive contributions to the index in July. The index’s three-month moving average, CFNAI-MA3, moved down to +0.05 in July from +0.20 in June.” – Laura LaBarbera, Media Relations, The Federal Reserve Bank of Chicago

Chicago Fed: National Activity Index

Index Points to a moderation in economic growth in July

“The contribution from production-related indicators to the CFNAI declined to +0.05 in July from +0.45 in June. Total industrial production edged up 0.1 percent in July after rising 1.0 percent in June. The sales, orders, and inventories category made a contribution of +0.03 to the CFNAI in July, down slightly from +0.06 in June. The Institute for Supply Management’s Manufacturing New Orders Index decreased to 60.2 in July from 63.5 in June.

Employment-related indicators contributed +0.12 to the CFNAI in July, up from +0.03 in June. The civilian unemployment rate decreased to 3.9 percent in July from 4.0 percent in June. The contribution of the personal consumption and housing category to the CFNAI ticked down to –0.07 in July from –0.06 in June. Consumption indicators deteriorated, on balance, pushing down the category’s overall contribution. However, housing indicators improved slightly.

The CFNAI was constructed using data available as of August 23, 2018. At that time, July data for 51 of the 85 indicators had been published. For all missing data, estimates were used in constructing the index. The June monthly index value was revised to +0.48 from an initial estimate of +0.43, and the May monthly index value was revised to –0.46 from last month’s estimate of –0.45. Revisions to the monthly index can be attributed to two main factors: revisions in previously published data and differences between the estimates of previously unavailable data and subsequently published data. The revisions to both the June and May monthly index values were primarily due to the former.” – Laura LaBarbera, Media Relations, The Federal Reserve Bank of Chicago

U.S. Economic Indicators

Robust Expansion in Texas Manufacturing Continues

“Texas factory activity maintained its strong momentum in August, according to business executives responding to the *Texas Manufacturing Outlook Survey*. The production index, a key measure of state manufacturing conditions, held steady at 29.3.

Other indexes of manufacturing activity also indicated continued solid expansion in August. The new orders index changed little at 23.9, while the growth rate of orders index moved up three points to 19.9. The capacity utilization index was unchanged at 25.2, and the shipments index slipped five points to 26.0.

Perceptions of broader business conditions remained highly positive this month, although uncertainty remained elevated. The general business activity index edged down to 30.9, while the company outlook index rose seven points to 27.3, with more than 30 percent of manufacturers saying their outlook had improved from July. The index measuring uncertainty regarding companies’ outlooks held fairly steady in August at 16.2, well above its readings in the first half of the year.

Labor market measures continued to suggest robust hiring and longer work hours. The employment index remained at a 13-year high of 28.9. Thirty-four percent of firms noted net hiring, compared with 5 percent noting net layoffs. The hours worked index edged down to 19.0.

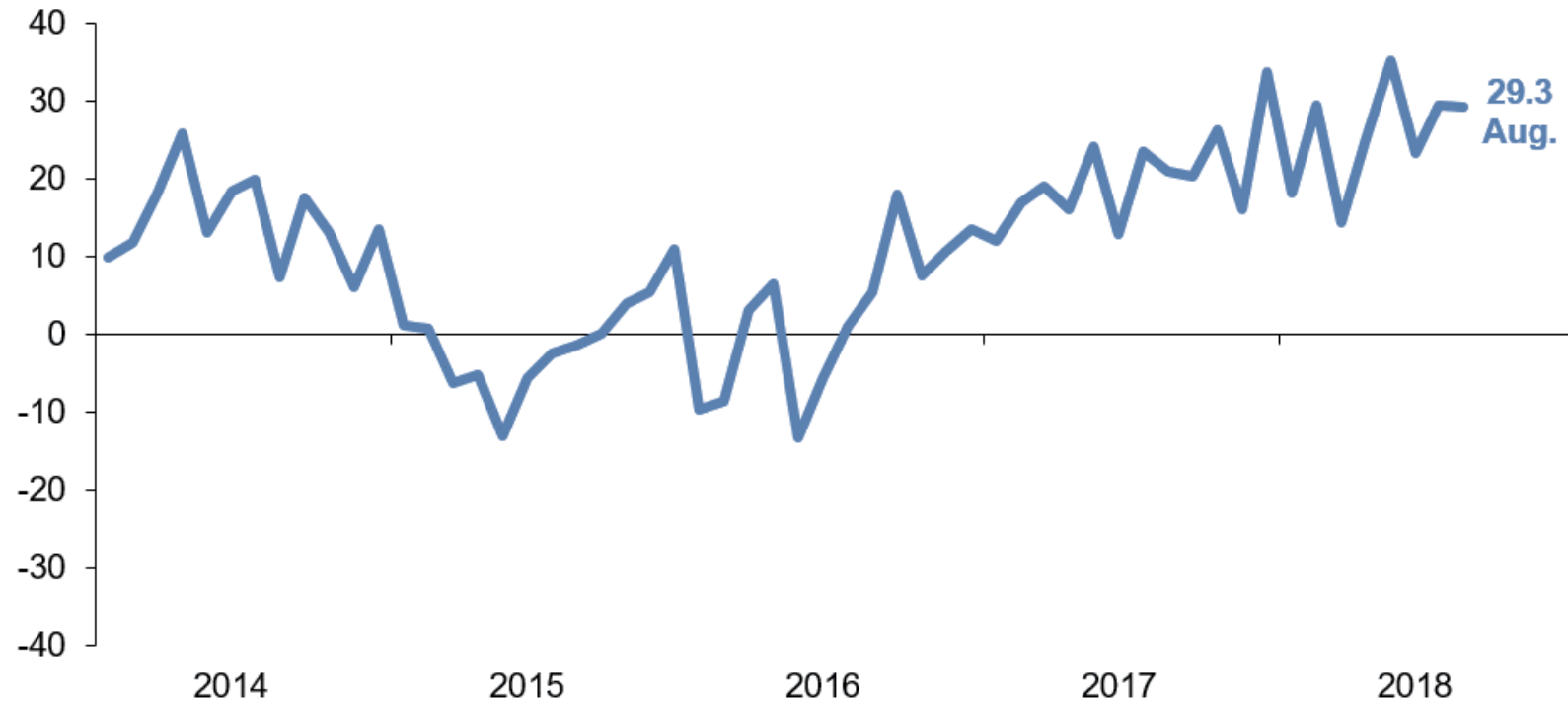
While price and wage pressures remained highly elevated, a slight deceleration was seen in price increases. The raw materials prices index moved down to 45.3, and the finished goods prices index fell eight points to 15.3. Compensation costs continued to rise at a faster clip than normal, with the wages and benefits index coming in at 33.4, just slightly above its July reading.

Expectations regarding future business conditions were slightly less optimistic in August. The indexes of future general business activity and future company outlook edged down to 34.7 and 34.3, respectively. Other indexes for future manufacturing activity showed mixed movements but remained in solidly positive territory.” – Emily Kerr, Business Economist, The Federal Reserve Bank of Dallas

U.S. Economic Indicators

Texas Manufacturing Outlook Survey Production Index

Index, seasonally adjusted



Federal Reserve Bank of Dallas

U.S. Economic Indicators

Texas Service Sector Activity Continues to Expand

“Texas service sector activity continued to increase in August, albeit at a slower pace than last month, according to business executives responding to the *Texas Service Sector Outlook Survey*. The revenue index, a key measure of state service sector conditions, fell from 25.4 in July to 21.5 in August.

Labor market indicators reflected continued employment growth and a notable lengthening of workweeks this month. The employment index remained largely unchanged at 11.5, and the part-time employment index rose to its highest level since mid-2014. The hours worked index rose from 9.1 in July to 11.8 in August, its highest value on record.

Perceptions of broader economic conditions continued to reflect optimism, despite elevated uncertainty. The general business activity index held flat at 21.5 in August. The company outlook index increased from 14.2 to 16.6. The capital expenditures index surged six points to a post recession high of 23.4. However, the outlook uncertainty index, which began in January 2018 and asks, “How has uncertainty regarding your company’s outlook changed in the current month vs. prior month?” was mostly unchanged at 11.3 and near its highest reading for the year.

Price and wage pressures remained elevated this month. The wages and benefits index rose to a new high of 25.5, with a record 28.8 percent of respondents reporting wage increases. The selling price index rose one point to 14.2.

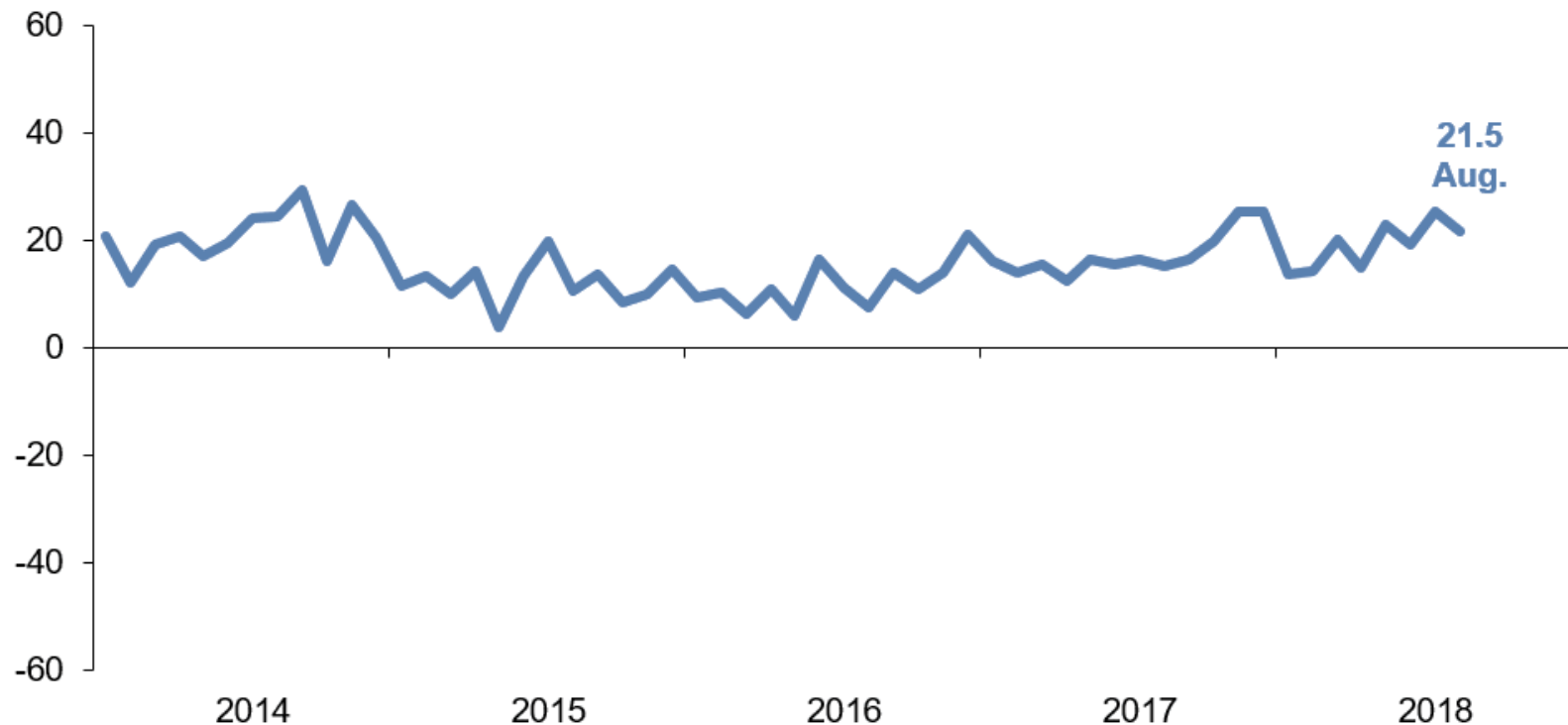
Respondents’ expectations regarding future business conditions reflected stronger optimism than last month. The future general business activity index increased from 25.5 to 27.4 in August, while the future company outlook index rose over three points to 29.8. Price and wage expectations remained elevated, with the future selling prices index rising to a five-month high. Indexes of future service sector activity, such as revenue and employment, also reflected higher expectations of future growth.”

– Amy Jordan, Assistant Economist, The Federal Reserve Bank of Dallas

U.S. Economic Indicators

Texas Service Sector Outlook Survey Revenue Index

Index, seasonally adjusted



Federal Reserve Bank of Dallas

U.S. Economic Indicators

Retail Sales Strengthen

“Retail sales accelerated in August, according to business executives responding to the *Texas Retail Outlook Survey*. The sales index jumped up from 6.0 in July to 25.8 in August. Inventories continued to rise, and the inventories index held steady at 18.4.

Retail employment accelerated and workweeks lengthened this month. The employment index picked up from 3.3 in July to 9.8 in August, with the part-time employment index jumping to a post recession high of 14.0. The hours worked index rose nearly 13 points to 13.4.

Retailers’ perceptions of broader economic conditions reflected further optimism in August, although uncertainty increased. The general business activity index rose over four points to 13.7, while the company outlook index increased from 3.2 to 7.0. The outlook uncertainty index rose to 14.0, the highest value to date.

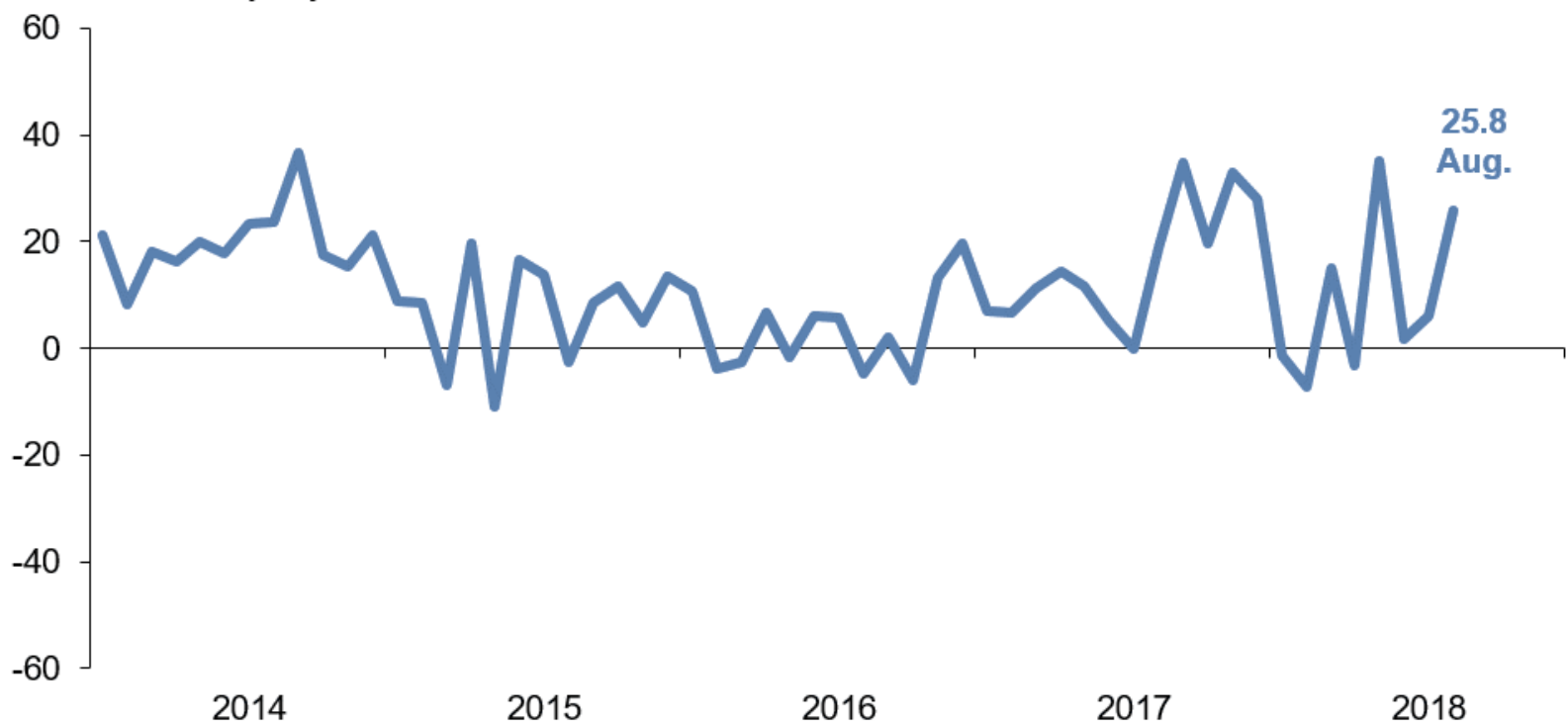
Retail price and wage pressures accelerated compared with July. The selling prices index picked up nearly eight points to 23.2. The wages and benefits index rose to a new high, surging from 21.1 in July to 37.5 in August.

Retailers’ perceptions of future broader economic conditions reflected optimism this month, although uncertainty increased notably compared with July. The index of future general business activity dipped to 17.6, while the index of future company outlook jumped nearly 16 points to 24.7. Other indexes of future retail sector activity, such as sales and employment, remained elevated.” – Amy Jordan, Assistant Economist, The Federal Reserve Bank of Dallas

U.S. Economic Indicators

Texas Retail Outlook Survey Sales Index

Index, seasonally adjusted



Federal Reserve Bank of Dallas

U.S. Economic Indicators

The Federal Reserve Bank of Kansas City

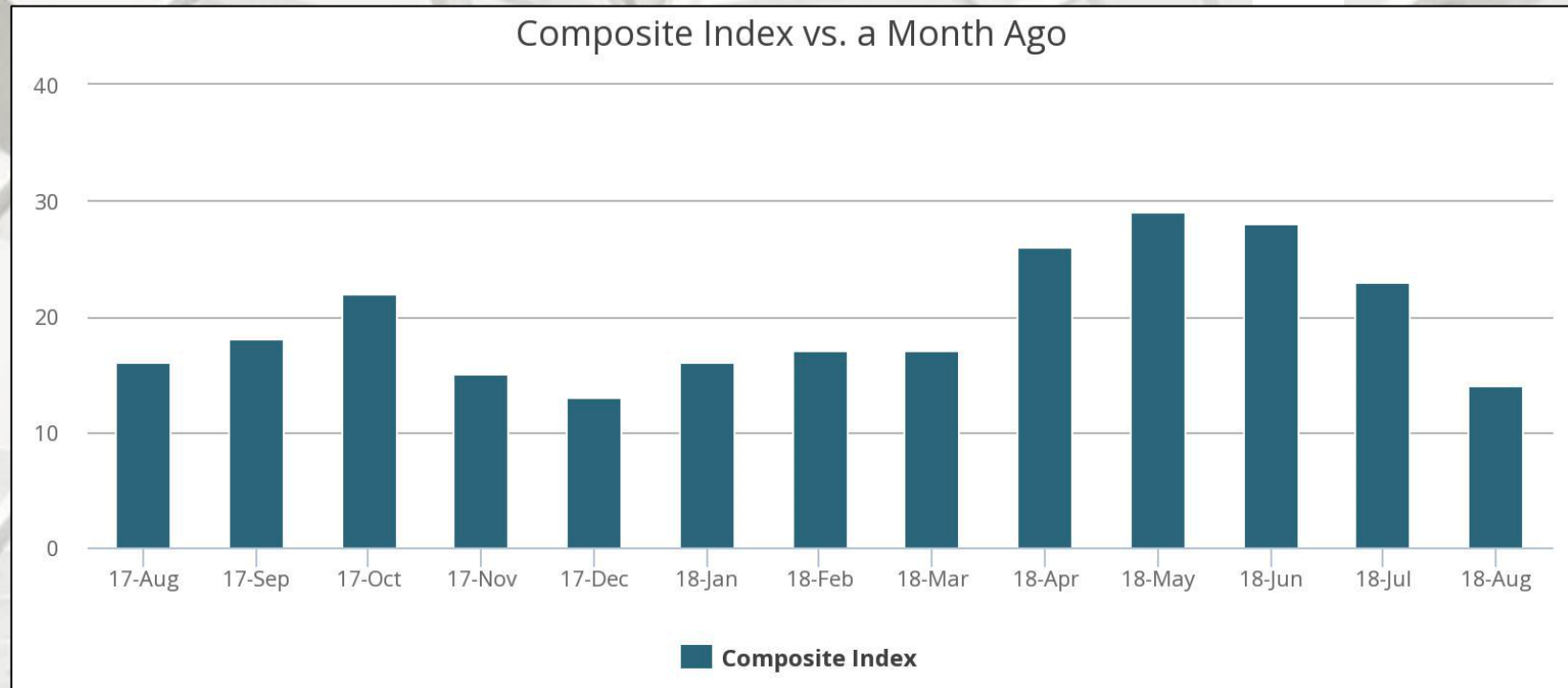
Tenth District Manufacturing Activity expanded at a Slightly Slower Pace

“Tenth District manufacturing activity expanded at a slightly slower pace in August, with the composite index dropping back to around the rates of growth that prevailed in late 2017 and early 2018. Expectations for future growth remained solid, despite continued concerns about trade and tariffs. Price indexes moderated somewhat.

The month-over-month composite index was 14 in August, down from readings of 23 in July and 28 in June (Chart 1). The composite index is an average of the production, new orders, employment, supplier delivery time and raw materials inventory indexes. Growth in factory activity remained relatively stable at nondurable goods plants, while durable goods activity slowed slightly, particularly for machinery, computers and electronics. Most month-over-month indexes moderated in August, but were still generally solid. The production, new orders, employment, and new orders for exports indexes all decreased modestly. In contrast, the shipments index rose from 12 to 18 after falling considerably last month. The finished goods inventory index dipped slightly, while the raw material inventory index was unchanged.

Most year-over-year factory indexes eased slightly in August. The composite index edged lower from 44 to 37, and the production, shipments, new orders, and order backlog indexes also fell. The employment index decreased from 47 to 33, and the new orders for exports index also moved lower. On the other hand, the capital expenditures index inched higher from 39 to 43. Both inventory indexes rose modestly.” – Chad Wilkerson, Vice President and Oklahoma City Branch Executive, The Federal Reserve Bank of Kansas City

U.S. Economic Indicators



U.S. Economic Indicators

The Federal Reserve Bank of Kansas City Tenth District Manufacturing Activity expanded at a Slightly Slower Pace

“Indexes for future factory activity were mostly lower, but still at high levels. The future composite index eased from 34 to 29, and the future production, shipments, and order backlog indexes also edged lower. The future employment index fell from 42 to 33, while the future new orders index was unchanged. The future capital expenditures index dipped from 38 to 28, its lowest level in eight months. The future raw materials index eased from 15 to 11, while the future finished goods inventory index inched higher.

Most price indexes moderated somewhat in August. The month-over-month raw materials price index fell from 52 to 44, while the finished goods price index was unchanged. The year-over-year finished goods price index edged lower from 60 to 50, and the year-over-year raw materials price index also decreased modestly. The future finished goods price index dropped from 43 to 28, and the future raw materials price index also fell moderately.” – Chad Wilkerson, Vice President and Oklahoma City Branch Executive, The Federal Reserve Bank of Kansas City

U.S. Economic Indicators

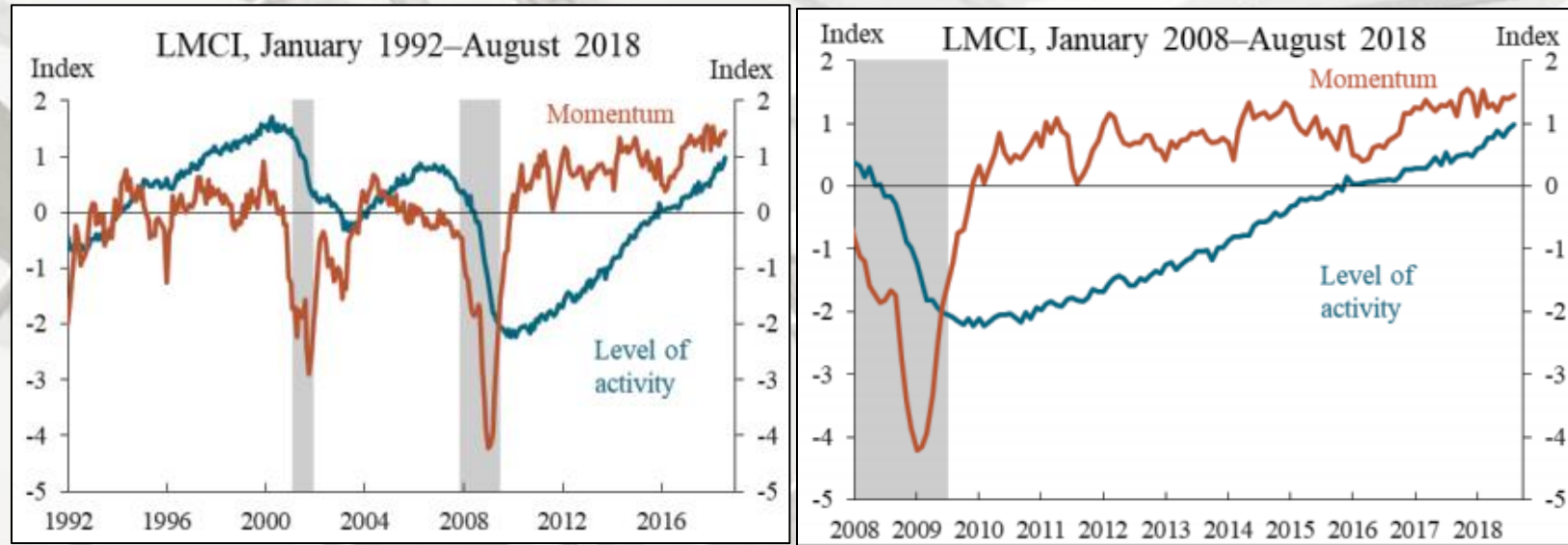
The Federal Reserve Bank of Kansas City Labor Market Conditions Indicators (LMCI)

The KC Fed LMCI suggest the level of activity increased modestly and momentum remained high in August.

“The Kansas City Fed Labor Market Conditions Indicators (LMCI) suggest the level of activity increased modestly and momentum remained high in August. The level of activity indicator increased in August from 0.90 to 0.99, while the momentum indicator was little changed at 1.45.

The table on the following page shows the five labor market variables that made the largest contributions to the increase in the activity indicator over the last six months and the five variables that made the largest positive contributions to the momentum indicator in August 2018. The activity indicator increased 0.36 over the last six months. The largest contribution came from an increase in job leavers. Eighteen variables made a positive contribution, and six variables made a negative contribution. The momentum indicator was 1.45 in August, where the largest contributor to momentum was initial claims. Seventeen variables made a positive contribution, and seven variables made a negative contribution.” – Bill Medley, Director, Public Affairs, The Federal Reserve Bank of Kansas City

U.S. Economic Indicators



Largest Contributions to the LMCI	
Contributions to the increase in the <i>level of activity</i> indicator over the last six months	Positive contributions to the <i>momentum</i> indicator in August 2018
Job leavers	Initial claims
Percent of firms planning to increase employment (NFIB)	Manufacturing employment index (ISM)
Quits rate	Expected job availability (U of Michigan)
Percent of firms with positions not able to fill right now (NFIB)	Labor force participation rate
Working part time for economic reasons	Expected job availability (Conference Board)
<i>Note: Contributions are ordered from largest to smallest.</i>	

U.S. Economic Indicators

Empire State Manufacturing Survey

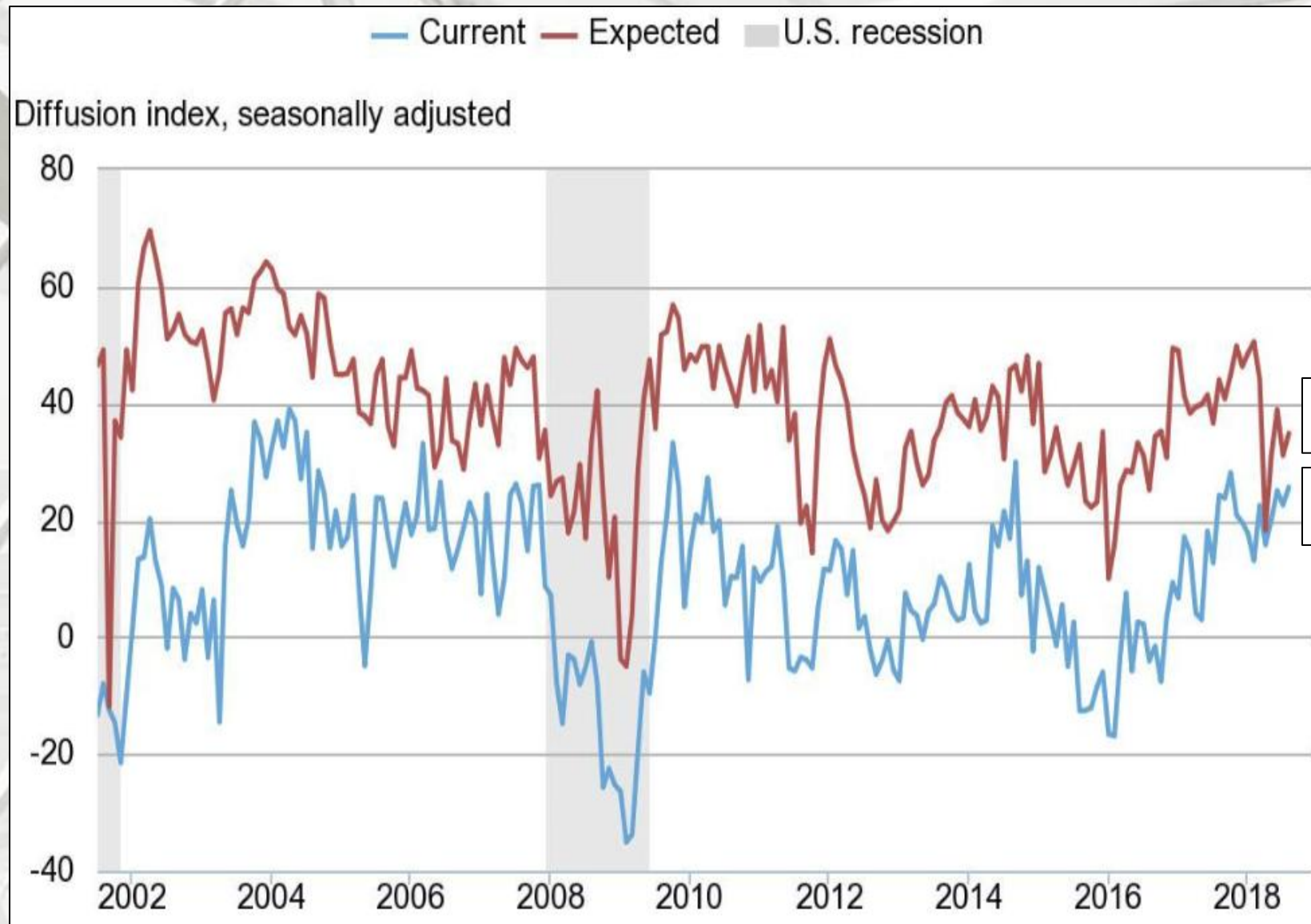
Business activity remained robust in New York State

“Business activity remained robust in New York State, according to firms responding to the August 2018 *Empire State Manufacturing Survey*. The headline general business conditions index climbed three points to 25.6. New orders and shipments grew strongly, and firms reported an increase in unfilled orders. Delivery times continued to lengthen, and inventories held steady. Labor market indicators pointed to solid gains in employment and longer workweeks. Price indexes were little changed and remained elevated, indicating ongoing significant price increases. Looking ahead, firms stepped up their capital spending plans and were fairly optimistic about the six-month outlook.

Growth Remains Strong

Manufacturing firms in New York State reported that business activity expanded strongly in August. The general business conditions index rose three points to 25.6. Forty-two percent of respondents reported that conditions had improved over the month, while 16 percent reported that conditions had worsened. The new orders index was little changed at 17.1, and the shipments index rose eleven points to 25.7 — readings that reflected strong growth. Unfilled orders increased, and inventories held steady. The delivery time index rose four points to 10.4, indicating that delivery times continued to lengthen.” – Richard Deitz and Jason Bram, The Federal Reserve Bank of New York

U.S. Economic Indicators



U.S. Economic Indicators

Empire State Manufacturing Survey

Price Indexes Remain Elevated

“The index for number of employees edged lower, but at 13.1, pointed to a pickup in employment levels. The average workweek index was 8.9, indicating a modest increase in hours worked. Price increases remained elevated. The prices paid index inched up to 45.2, and the prices received index came in at 20.0.

Firms Fairly Optimistic

Firms remained moderately optimistic about the six-month outlook, though less so than earlier this year. The index for future business conditions climbed four points to 34.8. The indexes for future unfilled orders and future delivery times both turned negative, suggesting that businesses expect fewer unfilled orders and shorter delivery times. Employment was expected to increase in the months ahead, and the indexes for future prices remained elevated. The capital expenditures index moved up ten points to 26.7, and the technology spending index rose three points to 12.6.” – Richard Deitz and Jason Bram, The Federal Reserve Bank of New York

U.S. Economic Indicators

Business Leaders Survey (Services)

“Growth in the region’s service sector moderated somewhat but was still fairly brisk, according to firms responding to the Federal Reserve Bank of New York’s July 2018 *Business Leaders Survey*. The survey’s headline business activity index retreated seven points to 14.8, after reaching its highest level in more than a decade in July. The business climate index fell eight points to 13.3 — still indicative of a fairly positive view of the business climate. The employment index slipped five points to 12.9, suggesting a modest slowing in hiring activity, and the wages index was little changed at a fairly elevated level. The prices paid index retreated from a multiyear high, edging down four points to 58.6, suggesting ongoing widespread input price increases. The prices received index edged up to 24.6. Indexes assessing the six-month outlook generally declined modestly, suggesting that firms have become somewhat less optimistic about future conditions than they had been earlier this year.

Activity Continues to Grow at a Solid Clip

Growth in business activity in the region’s service sector slowed slightly but was still fairly brisk. After reaching its highest level since 2007 in July, the headline business activity index retreated seven points to 14.8 in July — still a fairly high level consistent with moderate growth. Just under 40 percent of respondents reported that conditions improved over the month, while 25 percent said that conditions worsened. The business climate index slipped eight points to 13.3 in July, remaining positive for an eighth consecutive month, signaling that, on balance, firms continued to view the business climate as better than normal.” – Jason Bram and Richard Deitz, The Federal Reserve Bank of New York

U.S. Economic Indicators



Business Leaders Survey (Services)

Job Growth Slows; Input Price Pressures Persist

“The employment index declined five points to 12.9 in July, indicating a slight slowing in the pace of job growth. The wages index edged down two points but remained quite elevated at 39.1, reflecting ongoing wage growth. The prices paid index, which had climbed to a multi-year high in July, edged back four points to 58.6 in July, indicating that input prices continued to rise at a fairly brisk pace. The prices received index rose marginally to 24.6, a level consistent with a moderate escalation in selling prices. The capital spending index was virtually unchanged at 12.4, suggesting that capital spending continued to increase moderately.

Firms Slightly Less Optimistic

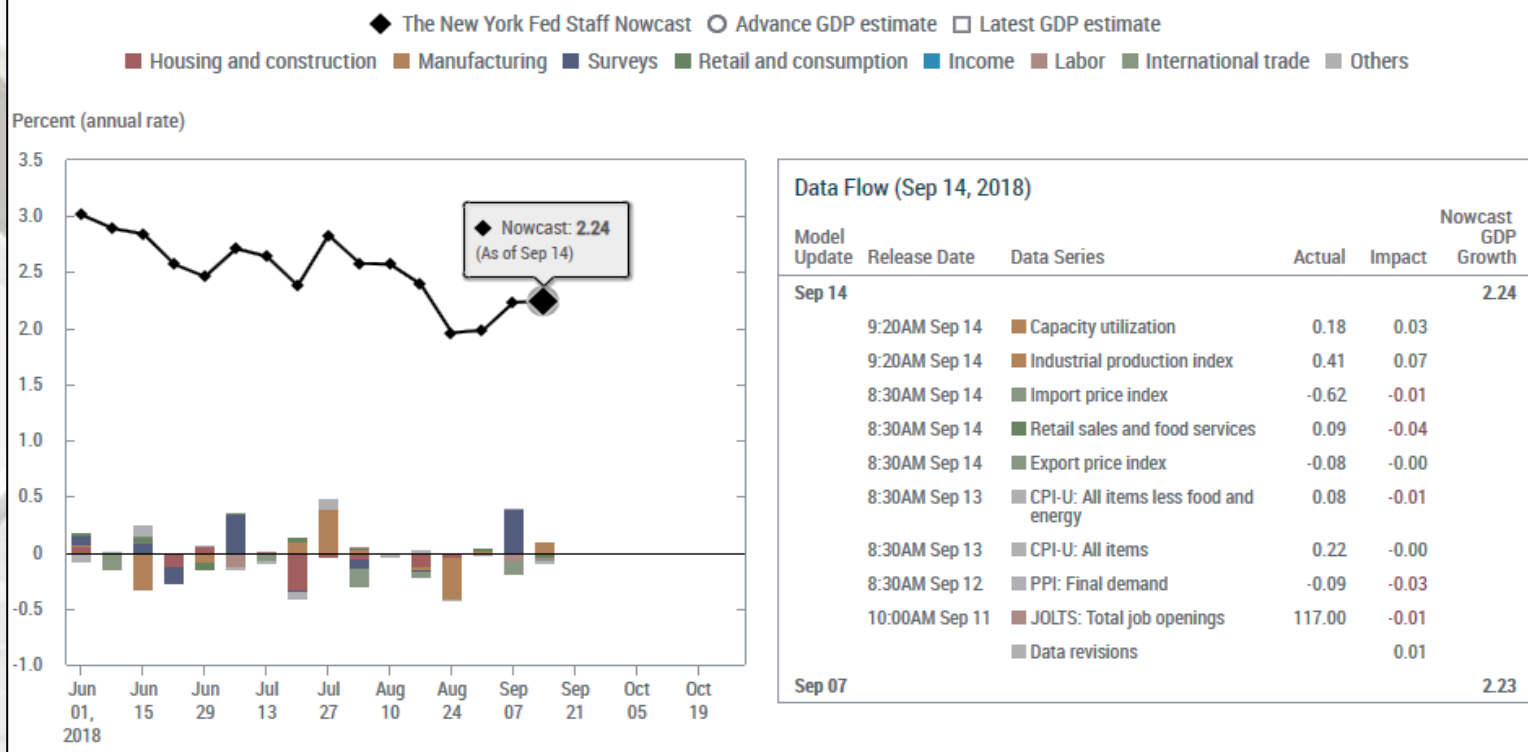
Firms became slightly less optimistic about the six-month outlook. The index for future business activity slipped four points to 32.4, and the index for future business climate fell seven points to 13.9. Indexes for future wages and prices paid were down slightly but still at high levels, while the index for planned capital spending slipped to its lowest level this year, suggesting a modest reduction in capital spending plans.” – Jason Bram and Richard Deitz, The Federal Reserve Bank of New York

U.S. Economic Indicators

The Federal Reserve Bank of New York Nowcast

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

Last Release 11:15am EST Sep 14, 2018



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

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

September 14, 2018: Highlights

- “The New York Fed Staff Nowcast stands at 2.2% for 2018:Q3 and 2.8% for 2018:Q4.” – The Federal Reserve Bank of New York

U.S. Economic Indicators

The Federal Reserve Bank of Philadelphia

August 2018 Manufacturing Business Outlook Survey

Current Indicators Still Positive but Weaken

“Growth in regional manufacturing activity slowed in August, according to results from this month’s *Manufacturing Business Outlook Survey*. All the broad indicators remained positive but fell from their readings in July. The survey’s respondents continued to indicate price increases for purchased inputs and their own manufactured products, but these price indexes moderated slightly this month. Expectations for the next six months remained optimistic, with most broad future indicators showing improvement.

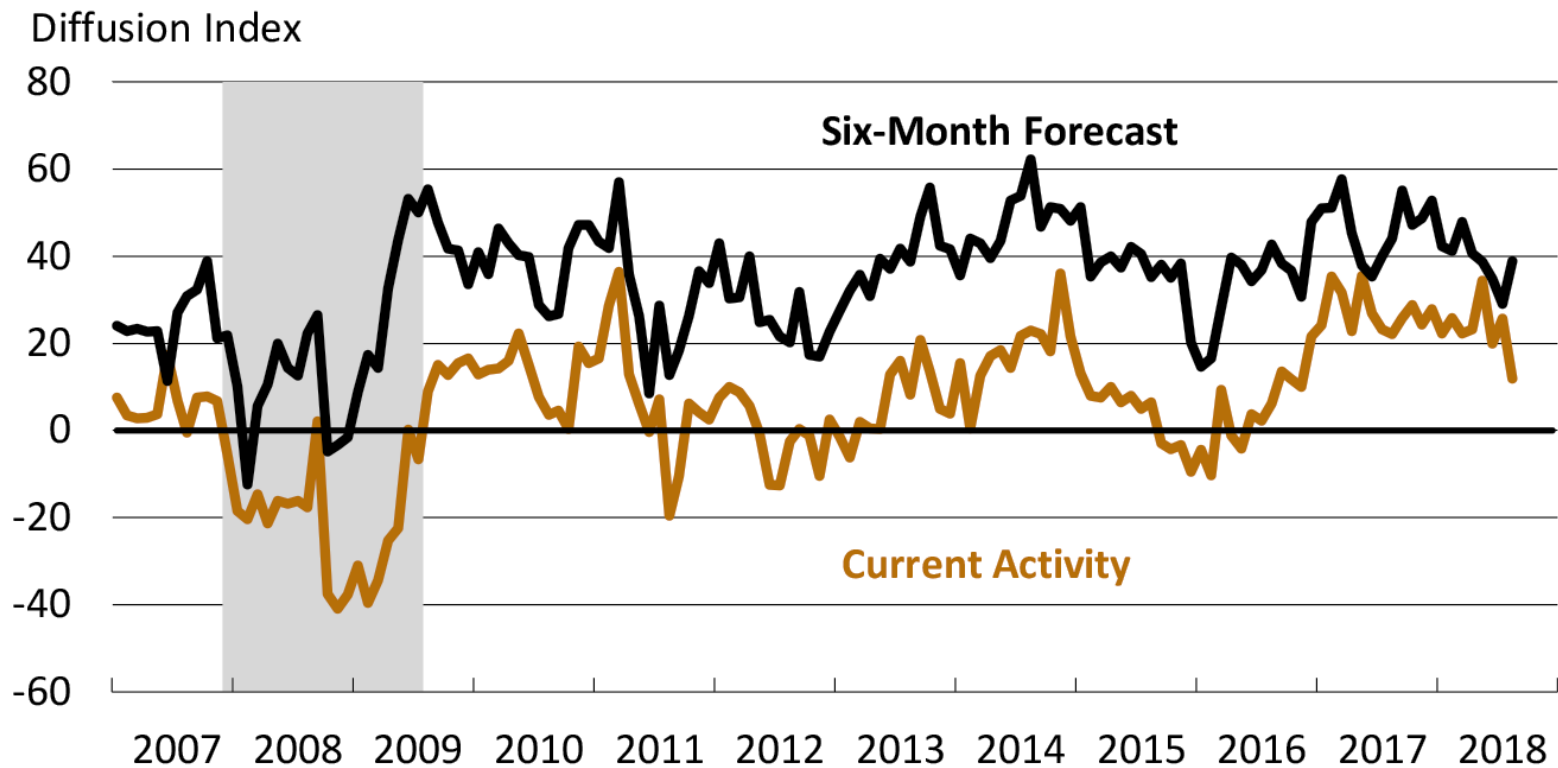
The diffusion index for current general activity decreased 14 points this month to 11.9, its lowest reading in 21 months (see Chart 1). Nearly 32 percent of the manufacturers reported increases in overall activity this month, while 20 percent reported decreases. The new orders index fell 22 points to 9.9. More than 34 percent of the firms reported an increase in new orders, while 24 percent reported a decrease.

The firms continued to report overall higher employment, but increases were less widespread this month. Just 18 percent of the responding firms reported increases in employment this month, down from 24 percent last month. Only 4 percent of the firms reported decreases in employment. The current employment index fell 3 points to 14.3. The current average workweek index declined 3 points.” – Mike Trebing, Senior Economic Analyst, The Federal Reserve Bank of Philadelphia

U.S. Economic Indicators

Chart 1. Current and Future General Activity Indexes

January 2007 to August 2018



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

U.S. Economic Indicators

Special Questions (August 2018)		
Over the next year (2018:Q3 to 2019:Q3), please list your expected annual percent change with respect to the following:		
	Current Forecast	Previous Forecast (May 2018)
1. For your firm:		
Prices your firm will receive (for its own goods and services sold).	3.0	3.0
Compensation your firm will pay per employee (for wages and benefits).	3.0	3.0
2. For your employees:		
Prices your employees will pay (for goods and services where they live).	3.0	2.0
3. For U.S. consumers:		
Prices U.S. consumers will pay (for goods and services).	3.0	2.5
For the next 10 years (2018 through 2027), what is your expected annual average percent change with respect to the following:		
4. For U.S. consumers:		
Prices U.S. consumers will pay (for goods and services).	3.0	2.0
The numbers represent medians of the individual forecasts (as percent changes). The forecasts are over the next year for questions 1 to 3 and an annual average for the next 10 years for question 4.		

August 2018 Manufacturing Business Outlook Survey Many Firms Continue to Report Price Increases

“The survey’s current price measures moderated slightly but remain elevated, indicating that price increases for both purchased inputs and the firms’ own manufactured goods remain widespread. The prices paid index fell 8 points. Price increases for purchased inputs were reported by 63 percent of the manufacturers this month. Nearly 35 percent of the firms reported higher prices for their own manufactured goods this month, although the prices received index fell 3 points.” – Mike Trebing, Senior Economic Analyst, The Federal Reserve Bank of Philadelphia

U.S. Economic Indicators

August 2018 Manufacturing Business Outlook Survey Six-Month Indicators Rebound

“The diffusion index for future general activity, after declining four consecutive months, increased from 29.0 in July to 38.8 this month (see Chart 1). Over 50 percent of the firms expect increases in activity over the next six months, while 12 percent expect declines. The future new orders and shipments indexes increased 10 points and 5 points, respectively. The future prices paid and received indexes edged higher, with 64 percent of the firms expecting price increases for purchased inputs over the next six months and 62 percent expecting higher prices for their own manufactured goods. The future employment index increased 5 points to a reading of 32.1, with almost 39 percent of the firms expecting to add workers over the next six months.

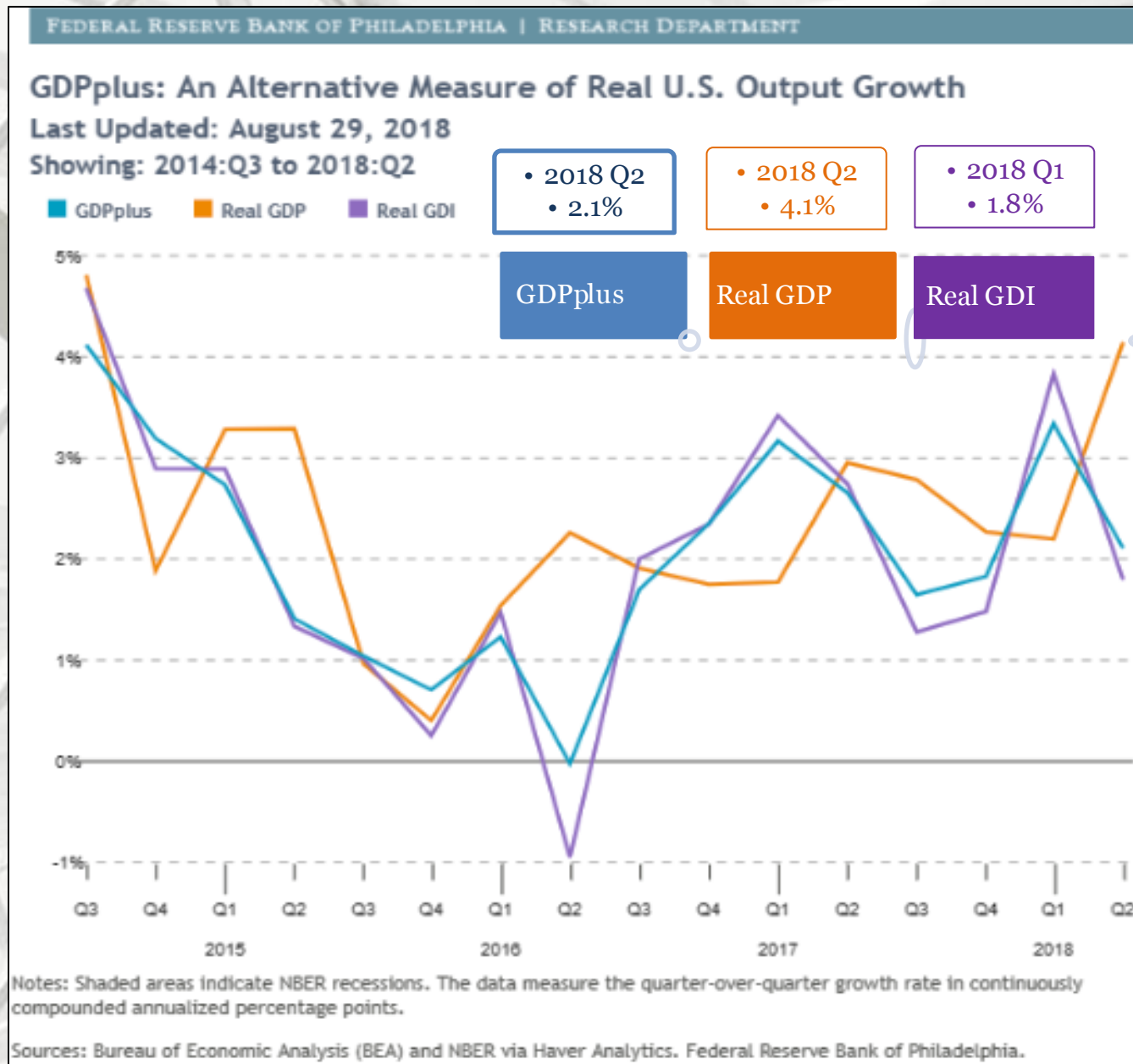
Firms’ Own Prices Expected to Match Rate of Inflation

In this month’s special questions, the firms were asked to forecast the changes in the prices of their own products and for U.S. consumers over the next four quarters. Regarding their own prices, the firms’ median forecast was for an increase of 3.0 percent, the same as when the same question was last asked in May. The firms expect their employee compensation costs (wages plus benefits on a per employee basis) to rise 3.0 percent over the next four quarters, the same as the previous forecast. When asked about the rate of inflation for U.S. consumers over the next year, the firms’ median forecast was 3.0 percent, slightly higher than the 2.5 percent projected in the previous survey. The firms’ forecast for the long-run (10-year average) inflation rate was also 3.0 percent.

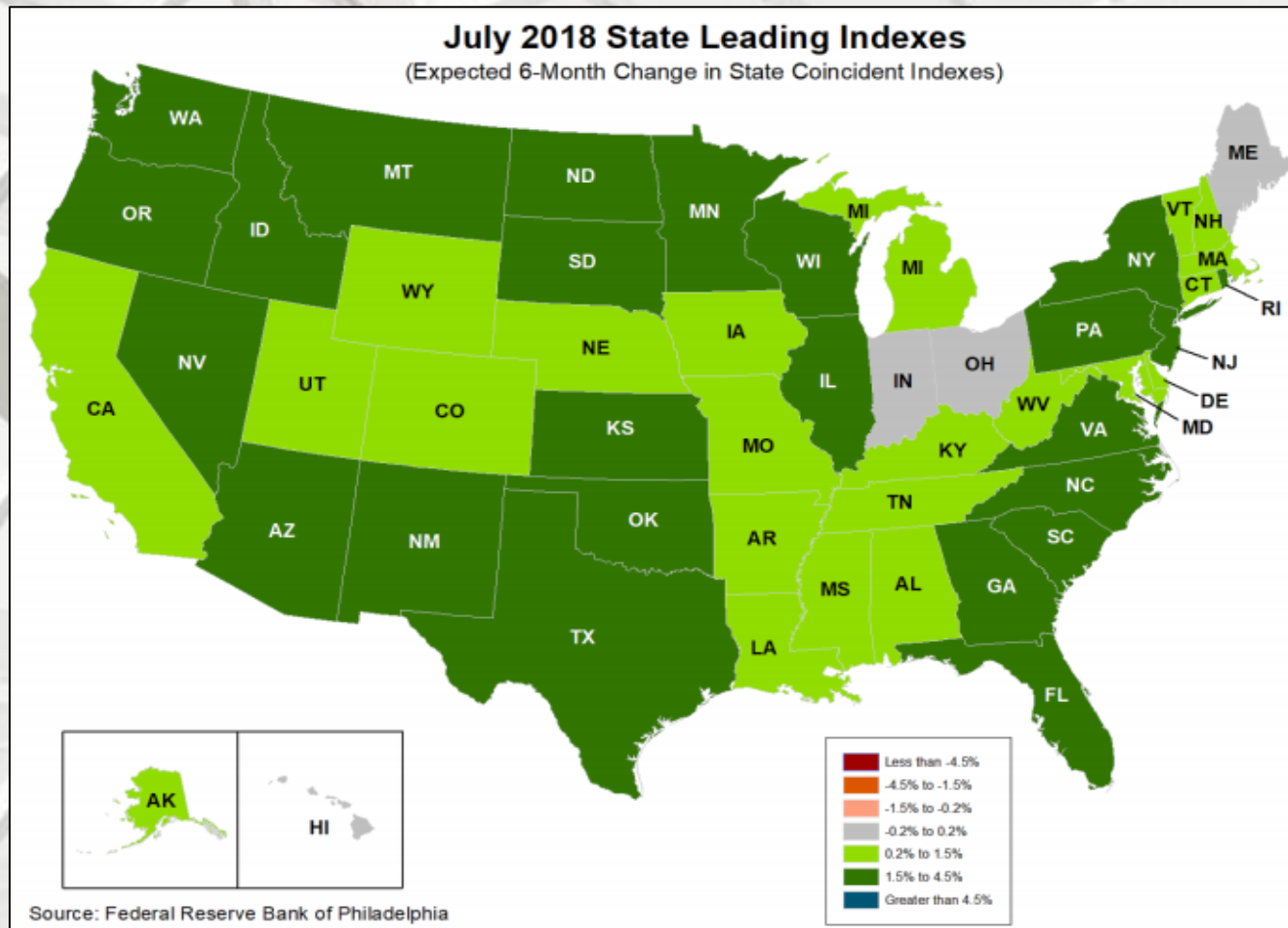
Summary

Responses to the *Manufacturing Business Outlook Survey* indicated slower growth for the region’s manufacturing sector in August. The survey’s broad current indicators declined from their readings last month but remained positive. Looking ahead six months, however, the firms remain optimistic, and most of the future indicators showed improvement.” – Mike Trebing, Senior Economic Analyst, The Federal Reserve Bank of Philadelphia

The Federal Reserve Bank of Philadelphia: GDPplus



The Federal Reserve Bank of Philadelphia



“The Federal Reserve Bank of Philadelphia has released the leading indexes for the 50 states for July 2018. The indexes are a six-month forecast of the state coincident indexes (also released by the Bank). Forty-nine state coincident indexes are projected to increase over the next six months, and one is expected to decrease. For comparison purposes, the Philadelphia Fed has also developed a similar leading index for its U.S. coincident index, which is projected to grow 1.2 percent over the next six months.” – Daniel Mazone, Research Department, The Federal Reserve Bank of Philadelphia

U.S. Economic Indicators

The Federal Reserve Bank of Richmond

Fifth District Manufacturing Firms Reported Strong Growth in August

“Fifth District manufacturing activity expanded in August, according to results of the most recent survey from the Federal Reserve Bank of Richmond. The composite index rose from 20 in July to 24 in August, as all three components (shipments, new orders, and employment) increased. Respondents remained optimistic in August, expecting growth to continue in the coming months.

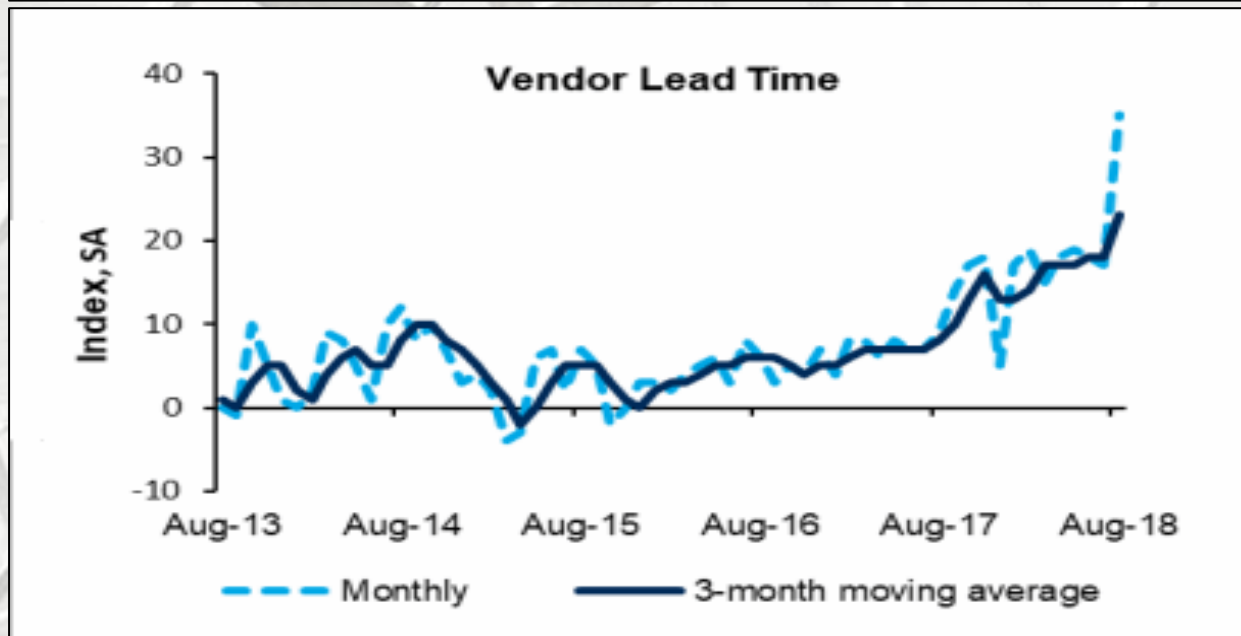
Employment and wages continued to rise, yet manufacturing firms continued to struggle to find workers with the skills they needed, as this indicator dropped to -17, its lowest value on record. Firms expect this struggle to continue in the next six months but anticipate sustained employment growth as well.

Respondents reported slower growth in both prices paid and prices received in August as the rise in prices paid continued to outpace growth of prices received. However, firms expect this gap to narrow in coming months, anticipating further slowing of growth in prices paid but accelerated growth of prices received.” – Jeannette Plamp, Economic Analyst, The Federal Reserve Bank of Richmond

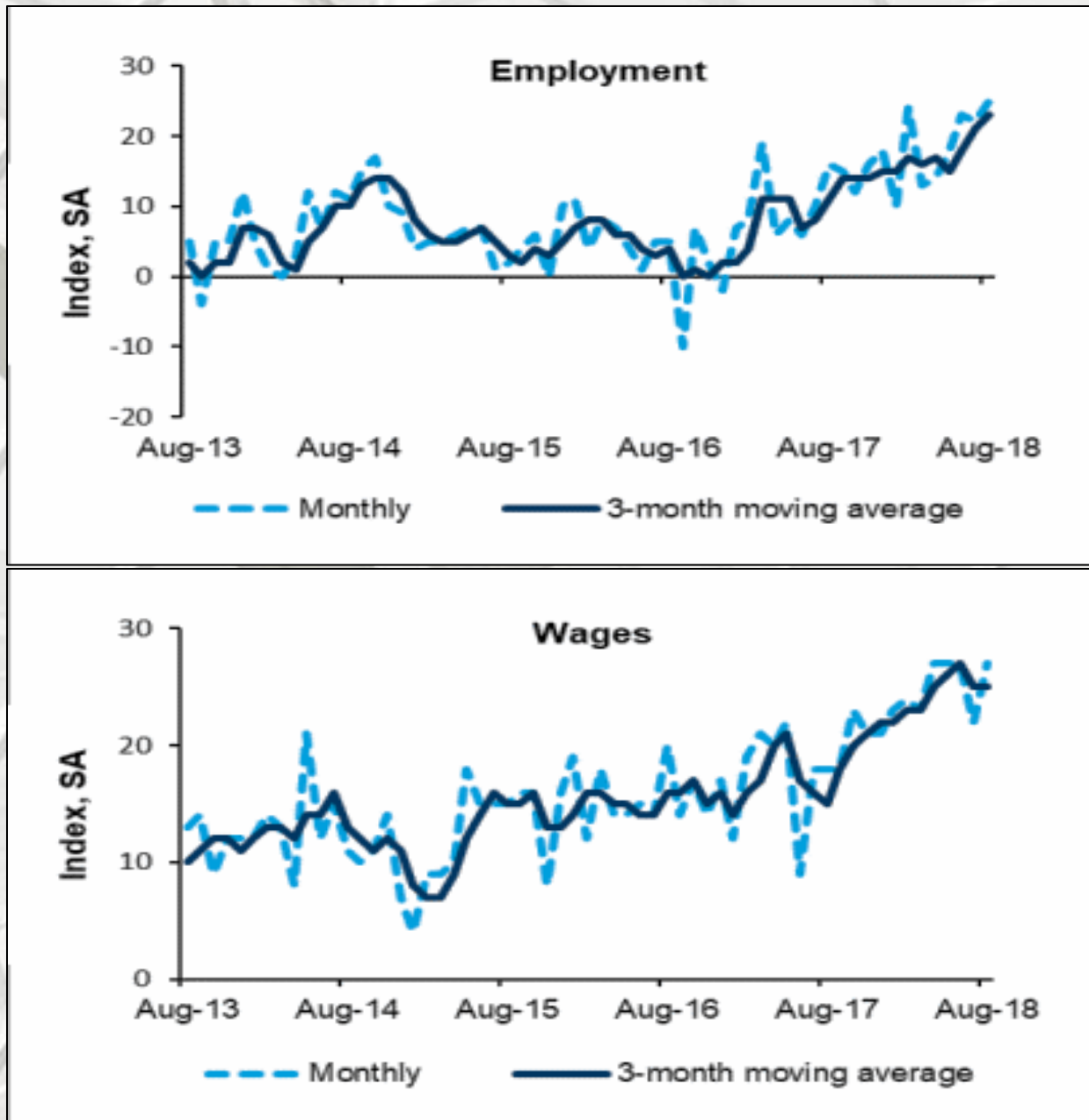
U.S. Economic Indicators



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The Federal Reserve Bank of St. Louis

Forecasters See Solid U.S. GDP Growth during Rest of 2018

- “Strong corporate profits, healthy financial market conditions, and accommodative monetary and fiscal policies fueled brisk U.S. economic growth in the second quarter.
- Forecasters expect U.S. real economic growth to average close to 3 percent in the second half of 2018.
- The St. Louis Fed’s inflation forecasting model predicts that increases in the personal consumption expenditures (PCE) price index will slow over the next 12 months.

The U.S. economy roared ahead in the second quarter of 2018 after increasing at a modest rate in the first quarter. Economic conditions have been fueled by strong corporate profits, healthy financial market conditions, and accommodative monetary and fiscal policies. If these trends persist, buoyant economic and labor market conditions are likely over the second half of the year. By contrast, headline inflation moderated in the second quarter, though the year-over-year gain remained slightly above the 2 percent target rate of the Federal Open Market Committee (FOMC). In response to strengthening economic conditions and rising price pressures, the FOMC indicated that further gradual increases in its policy rate are likely. However, policymakers and economists are carefully monitoring recent international developments.” – Kevin Kliesen, Business Economist and Research Officer, The Federal Reserve Bank of St. Louis

U.S. Economic Indicators

The Federal Reserve Bank of St. Louis

Strong Economic Conditions

“After increasing at a 2.2 percent annual rate in the first quarter, real gross domestic product (GDP) increased at a brisk 4.1 percent annual rate in the second quarter. The second-quarter increase was modestly stronger than both the consensus of Blue Chip forecasters (3.9 percent) and the St. Louis Fed’s Economic News Index (3.4 percent).

The near doubling of real GDP growth from the first to the second quarter reflected solid gains in consumption by households, capital spending by firms, and sales of goods and services to the rest of the world (exports). Government expenditures also advanced at a modestly faster rate in the second quarter compared with the previous quarter. By contrast, residential fixed investment declined for the fourth quarter in the past five. Still, if not for a decline in inventory investment in the second quarter, real GDP growth would have been much stronger at 5.1 percent. In the statement issued after the Aug. 1 meeting, the FOMC said that “economic activity has been rising at a strong rate.”

The strength in product markets (production and sales of goods and services) has bolstered labor markets. In July, nonfarm payroll employment rose by 157,000. Although this gain was well below its average over the previous three months (about 230,000), the average gain per month thus far in 2018 is running about 30,000 more than the first seven months of 2017.” – Kevin Kliesen, Business Economist and Research Officer, The Federal Reserve Bank of St. Louis

U.S. Economic Indicators

The Federal Reserve Bank of St. Louis

Strong Economic Conditions

“With the unemployment rate falling below 4 percent, many firms continue to report that they are having a difficult time filling open positions despite faster labor force growth. In fact, the Bureau of Labor Statistics reported that in the second quarter of 2018, unfilled job openings exceeded the number of those unemployed and actively seeking a job for the first time on record. (Job openings data only go back to late 2000.)

Strong demand for labor has fueled a modest acceleration in labor compensation. The year-to-year growth in the employment cost index, a broad measure of compensation that includes wages and salaries and benefits, has increased from 1.8 percent in the first quarter of 2016 to 2.9 percent in the second quarter of 2018 – a 10-year high.

Has Inflation Peaked?

Spurred by a sharp slowing in the growth of energy prices, headline inflation moderated in the second quarter. After increasing at a 2.5 percent annual rate in the first quarter, the all-items personal consumption expenditures price index (PCEPI) rose at a 1.8 percent rate in the second quarter. However, input price pressures remain intense in some industries, such as construction and transportation. At the same time, nonenergy commodity price pressures moderated in June and July. In this vein, the U.S. Energy Information Administration projects that crude oil prices will fall slightly over the second half of 2018 and into the first half of 2019.” – Kevin Kliesen, Business Economist and Research Officer, The Federal Reserve Bank of St. Louis

U.S. Economic Indicators

The Federal Reserve Bank of St. Louis Has Inflation Peaked?

“The St. Louis Fed’s inflation forecasting model employs a broad array of prices, both domestic and foreign, to predict headline PCEPI inflation over the next 12 months. The latest forecast projects that inflation will slow from 2.2 percent in July 2018 to about 1.75 percent in July 2019. This forecast is consistent with recent developments: a strengthening U.S. dollar, some softening in the global economy, weaker oil and commodity prices, and stable inflation expectations. The model continues to indicate a small probability that headline inflation will accelerate past 2.5 percent over the next 12 months.

The Near-term Outlook Looks Bright

As seen in the accompanying table, the consensus of professional forecasters is that U.S. real GDP growth will average close to 3 percent over the second half of 2018.” – Kevin Kliesen, Business Economist and Research Officer, The Federal Reserve Bank of St. Louis

U.S. Economic Indicators

Current Forecasts from the Survey of Professional Forecasters

	Actual 2018:H1	Forecast 2018:H2
National Income and Product Account Components		
Percent, SAAR		
Real Gross Domestic Product	3.2	2.9
Real Personal Consumption Expenditures (PCE)	2.3	2.6
Nonresidential Fixed Investment	9.4	5.3
Real Residential Fixed Investment	-2.3	1.9
Government Spending	1.8	1.8
Billions of 2012 dollars, SAAR		
Change in Net Exports	24.7	-19.0
Change in Private Inventories	-22.0	28.5
Inflation		
Percent, SAAR		
PCE Price Index	2.2	2.1

SOURCES: Federal Reserve Bank of Philadelphia and Haver Analytics.

NOTES: Actuals and forecasts are two-quarter averages. SAAR is seasonally adjusted annual rate.

U.S. Economic Indicators

The Federal Reserve Bank of San Francisco

FRBSF FedViews

- “The initial estimate of real GDP growth in the second quarter of 2018 came in at 4.1% at an annual rate, resulting in a growth rate of 2.8% over the past four quarters. For 2018 as a whole, we expect growth to come in just under 3%, well above our estimate of the economy’s long-run sustainable growth rate. Given the diminishing effects of federal fiscal stimulus over the next few years and the expected tightening of financial conditions, we project that growth will slow to just under 2% by 2020.
- The Bureau of Labor Statistics reported that payroll employment increased by 157,000 jobs in July. Data for the previous two months were revised upward, resulting in an average job gain over the past three months of 224,000. Over the past year, the average monthly gain was 203,000 jobs. The unemployment rate edged down to 3.9% from 4% in June. We expect monthly job gains to remain above the breakeven level needed to keep pace with the growth rate of the labor force. Consequently, we expect the unemployment rate to decline further below our 4.6% estimate of the natural rate of unemployment.
- Inflation over the past year is close to the Federal Open Market Committee’s (FOMC’s) 2% target. With unemployment below the natural rate and real GDP growth above its long-run sustainable pace, we expect some upward pressure on inflation over the medium term, causing the four-quarter inflation rate to slightly overshoot the 2% target in 2020.%.” – Kevin Lansing, Research Advisor, The Federal Reserve Bank of San Francisco

U.S. Economic Indicators

The Federal Reserve Bank of San Francisco

FRBSF FedViews

- “Following the conclusion of its latest meeting on August 1, the FOMC announced its decision to maintain the target range for the federal funds rate at 1¾ to 2%. The Committee noted that recent economic activity has been strong and that risks to the economic outlook appear roughly balanced. The Committee expects further gradual increases in the target range for the federal funds rate.
- Interest rates have continued to increase with the ongoing monetary policy normalization. Nevertheless, the current level of the federal funds rate remains accommodative as it stands about 50 basis points below our estimate of the “neutral” federal funds rate.
- Few, if any, past recessions have been successfully predicted either by the Federal Reserve or professional forecasters. Forecasting recessions is difficult because each one tends to differ in important ways from previous episodes. Past recessions have been triggered by upward spiking oil prices, increases in policy interest rates designed to bring down high inflation, and bursting asset price bubbles.
- Despite the varied triggers, recessions are typically preceded by some characteristic interest rate configurations. These include an inverted Treasury yield curve, an elevated real short-term interest rate, and a compressed credit spread (as measured by the yield difference between Baa corporate bonds and 10-year Treasury bonds).” – Kevin Lansing, Research Advisor, The Federal Reserve Bank of San Francisco

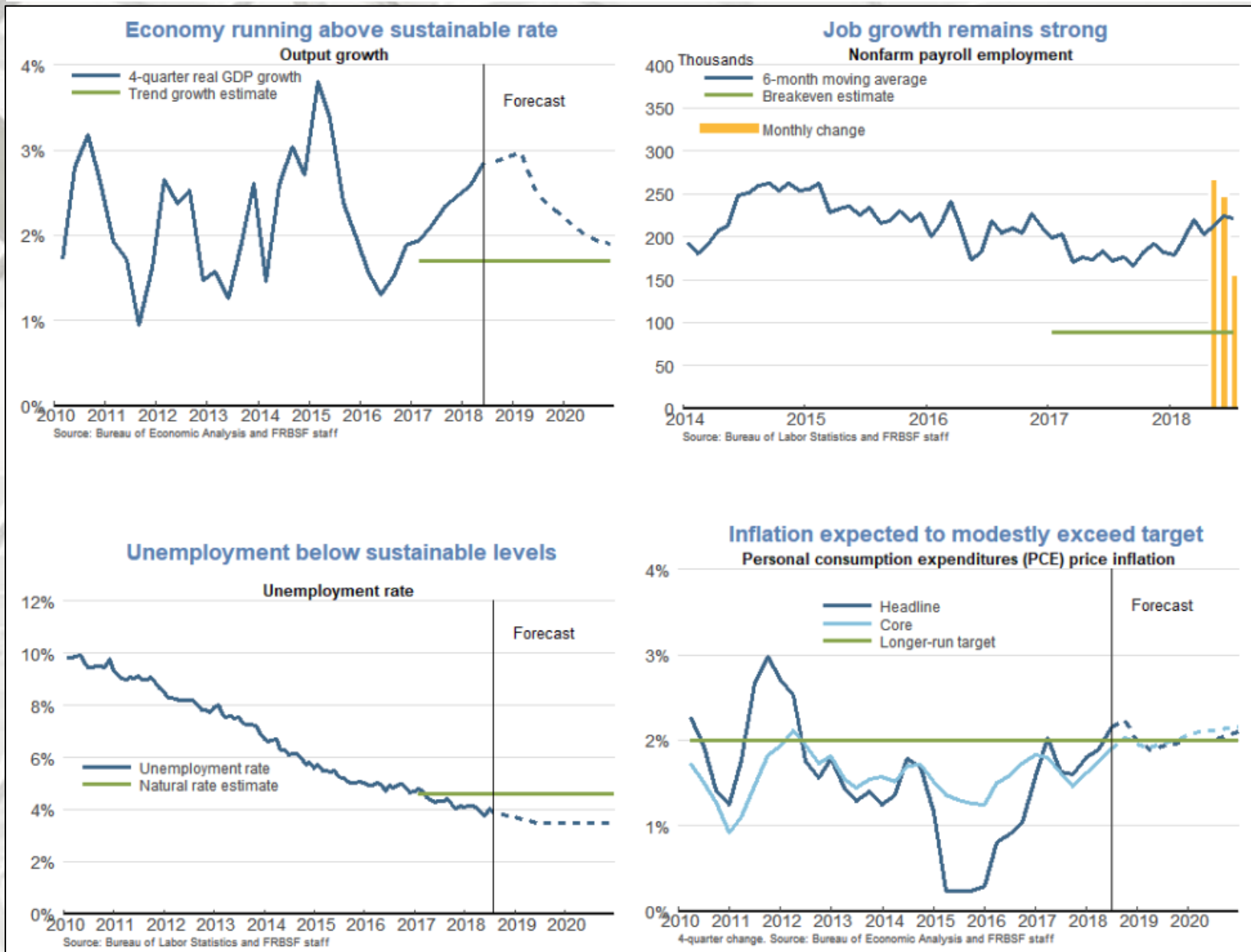
U.S. Economic Indicators

The Federal Reserve Bank of San Francisco

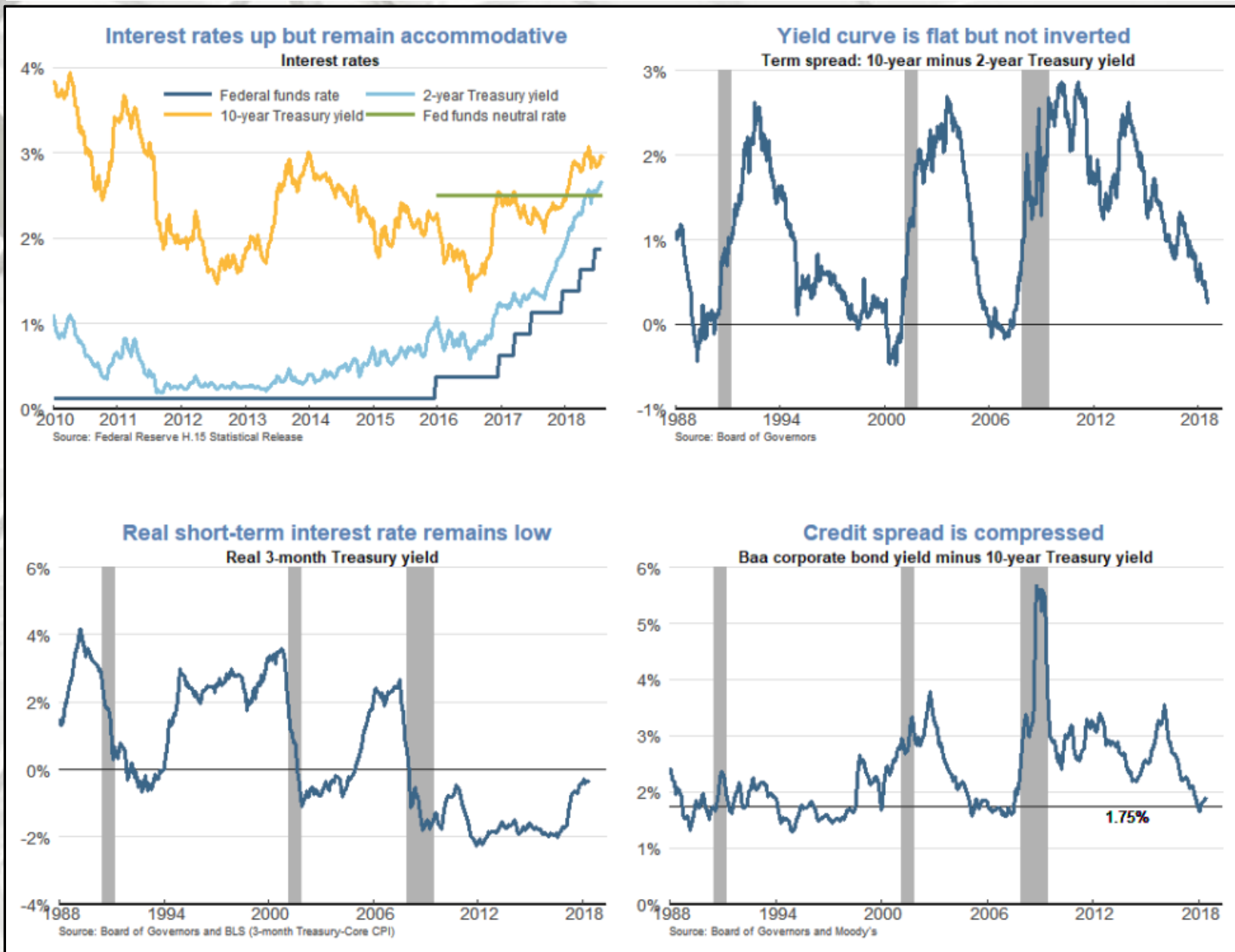
FRBSF FedViews

- “An inverted yield curve is often observed after a sustained series of monetary policy tightening actions that serve to raise real short-term Treasury yields. Long-term Treasury yields, which reflect expectations of future economic conditions, tend to move up with short-term yields during the early phases of an economic expansion, but may stop doing so (resulting in a flat or inverted yield curve) if investors’ economic outlook becomes more pessimistic.
- Corporate bond yields are typically higher than Treasury bond yields because corporate yields must compensate investors for the risk of default. During an economic expansion, default risk declines which causes the credit spread to compress. But a sustained expansion may cause investors to underestimate the risk of default, contributing to weak lending standards, excessive borrowing, and a credit spread that is too low. The onset of an economic slowdown or a recession would trigger the unwinding of such conditions. Research shows that optimistic credit market sentiment, as measured in part by a compressed credit spread, tends to predict slower economic activity at a two-year horizon.
- The current interest rate configuration can be described as follows: (1) The Treasury yield curve is relatively flat but not inverted, (2) the real short-term interest rate has been increasing but is still low by historical standards, and (3) the credit spread is compressed. This configuration can be described as providing mixed signals about the future. While the first two observations suggest that the risk of a recession remains relatively low, factoring in the third observation would suggest a somewhat higher risk of a recession than otherwise.” – Kevin Lansing, Research Advisor, The Federal Reserve Bank of San Francisco

U.S. Economic Indicators



U.S. Economic Indicators



U.S. Economic Indicators

The Federal Reserve Bank of San Francisco

The Financial Crisis at 10: Will We Ever Recover?

FRBSF FedViews

“A decade after the last financial crisis and recession, the U.S. economy remains significantly smaller than it should be based on its pre-crisis growth trend. One possible reason lies in the large losses in the economy’s productive capacity following the financial crisis. The size of those losses suggests that the level of output is unlikely to revert to its pre-crisis trend level. This represents a lifetime present-value income loss of about \$70,000 for every American.

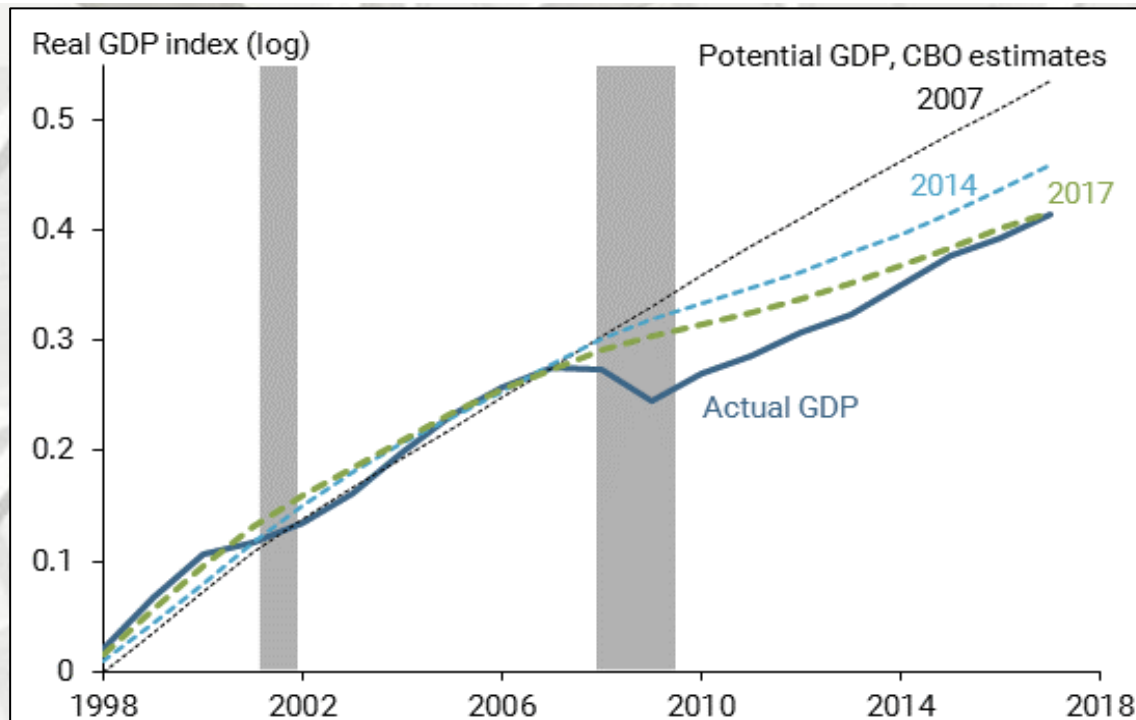
The size of the U.S. economy, as measured by GDP adjusted for inflation, is well below the level implied by the growth rates that prevailed before the financial crisis and Great Recession a decade ago. The United States is not alone; the United Kingdom and European economies also remain far below the levels implied by their pre-crisis trends (Barnichon, Matthes, and Ziegenbein 2018). Studies of previous episodes of financial stress around the globe point to similarly large and persistent output losses. For instance, Romer and Romer (2017) study a panel of countries in the Organisation for Economic Co-operation and Development and find that gross domestic product is typically about 9 percentage points lower five years after an extreme financial crisis.” – Regis Barnichon, The Federal Reserve Bank of San Francisco; Christian Matthes, The Federal Reserve Bank of Richmond; and Alexander Ziegenbein, University of Vienna

U.S. Economic Indicators

The Federal Reserve Bank of San Francisco

The Financial Crisis at 10: Will We Ever Recover?

“If history is a reliable guide, academics and policymakers are rightfully worried that output might not revert to the level implied by its pre-crisis trend (black dashed line in Figure 1). The magnitude of the shortfall is evident in the figure. It displays the series of downward revisions that the Congressional Budget Office (CBO) made to its estimate of potential output – the long-run level of output that is expected to prevail once the transitory effects of cyclical factors have dissipated. The revisions over the past 10 years imply that actual U.S. GDP (solid blue line) in 2017 converged on a new potential level (dashed green line) that was about 12 percentage points below the level implied by its pre-crisis trend (based on GDP data released prior to the Bureau of Economic Analysis’ comprehensive update in July 2018). Revisions to potential GDP by other forecasters, including the San Francisco Fed, yield similar shortfalls in potential output.” – Regis Barnichon; Christian Matthes; and Alexander Ziegenbein



U.S. Economic Indicators

The Federal Reserve Bank of San Francisco

The Financial Crisis at 10: Will We Ever Recover?

“The CBO attributes a large fraction of the shortfall to its reassessment of trends that were under way before the recession (CBO 2014). By contrast, this Letter describes our findings in a recent paper (Barnichon, Matthes, and Ziegenbein 2018) that explores to what extent the financial crisis caused some of the shortfall in potential output. We find that a large fraction of the gap between current GDP and its pre-crisis trend level is associated with the 2007–08 financial crisis, and conclude that GDP is unlikely to revert to the level implied by its trend before the crisis.

Financial conditions and the economy: Pain but no gain?

Many studies have investigated the impact of financial market disruptions on economic activity, but the evidence is mixed. On the one hand, studies of earlier financial crises find that financial market disruptions are generally followed by a large and persistent decline in output (for example, Romer and Romer 2017). On the other hand, studies that use surprise movements in financial conditions to explore whether the cause can be traced back to financial disruptions report mild and transitory effects on economic activity (for example, Gilchrist and Zakrajsek 2012).

One way to reconcile these conflicting views of the effects of financial markets on the economy is to acknowledge the possibility that the relationship is asymmetric. When the economy is doing well, an adverse financial shock – a disturbance that limits the ability of the financial sector to handle risk – is likely to restrain economic activity by preventing some firms from financing profitable investment opportunities. But the converse is not necessarily true: When the economy is doing poorly or in a recession, favorable financial conditions may not necessarily stimulate economic activity if there are no investment opportunities. As such, financial conditions may cool a hot economy but might not heat up a cool one.” – Regis Barnichon; Christian Matthes; and Alexander Ziegenbein

U.S. Economic Indicators

The Federal Reserve Bank of San Francisco The Financial Crisis at 10: Will We Ever Recover?

“To accommodate both views of the link between financial markets and the economy, we construct a statistical model that is flexible enough to capture these asymmetries. Although such asymmetries are often discussed in theoretical work (for example, Brunnermeier and Sannikov 2014), previous empirical studies have not explicitly accounted for them. By contrast, our empirical model allows for the possibility that financial market shocks have asymmetric effects. Consistent with theory, we find that an easing of financial conditions has little effect on economic activity. However, an adverse financial shock has large effects on economic activity. Because such losses are very persistent, they can have dramatic effects on societal welfare and important implications for policy.

U.S. GDP since the financial crisis

Our model combines information on economic conditions, notably GDP, with information on financial market conditions. This is measured with the excess bond premium (EBP), which Gilchrist and Zakrajsek (2012) proposed as a quantitative measure of the risk-bearing capacity of the financial sector. The EBP measures how much more corporations have to pay to borrow in the bond market relative to the government, net of compensation for the risk that the corporation will default on its obligations. This variable is therefore a good measure of private credit availability.

Using history as a guide, our model captures how financial conditions and GDP typically interact over the business cycle (see Barnichon et al. 2018 for complete details). Since the U.S. economy has experienced many episodes of mild financial market disruptions, the model can use these episodes to calculate how future changes in financing conditions are likely to affect the economy. Based on this idea, we then use our model to assess how much of the gap between current GDP and its pre-crisis trend level is explained by the financial crisis. To do this, we develop a scenario to calculate how GDP would have fared without the large financial market disruptions of 2007–08. Figure 2 presents our results.” – Regis Barnichon; Christian Matthes; and Alexander Ziegenbein

U.S. Economic Indicators

The Federal Reserve Bank of San Francisco

The Financial Crisis at 10: Will We Ever Recover?

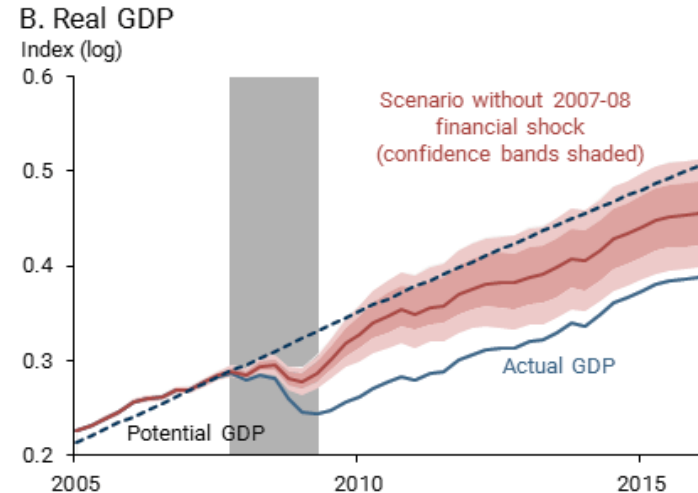
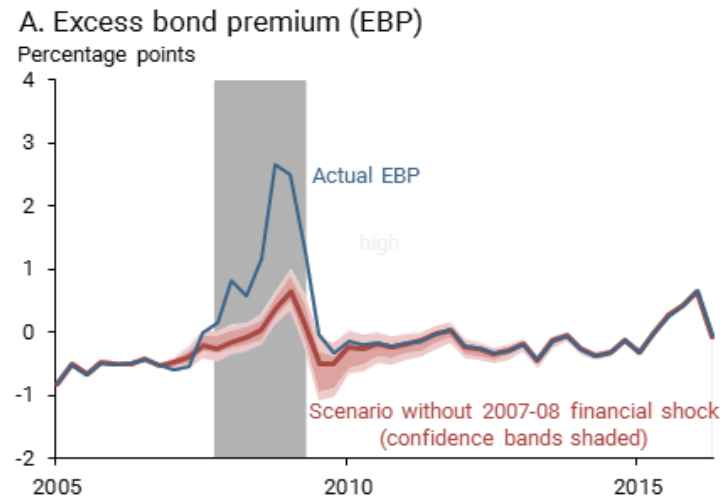
“Panel A of Figure 2 shows the actual path (blue line) and the path from our scenario (red line) for the EBP, our measure of credit conditions. In our scenario without major financial stresses in 2007–08, the EBP increases only mildly, driven by its normal response to a deterioration in economic conditions. Indeed, during recessions, the overall appetite for risk normally decreases as the financial sector becomes more risk-averse or simply has fewer funds available to lend.

Panel B of Figure 2 shows how U.S. real GDP behaves in the actual data (blue line) and in our scenario with no financial disruptions in 2007–08 (red line). The dark red and light red bands around the red line correspond to the 68% and 90% confidence intervals around our estimates, that is, two different ranges of their statistical reliability. Importantly, for this exercise we estimate our statistical model using data from 1973 up to 2006 only, thereby excluding any information from the most recent financial crisis that could contaminate our estimates. As a result, the predicted path of GDP is explained only by the typical path of output following financial market disruptions in the pre-crisis 1973–2006 period.

Without the large adverse financial shocks experienced in 2007 and 2008, the behavior of GDP would have been very different. It would most likely resemble the less severe 1991 recession, with GDP declining by only 1.5% and reverting to close to its pre-crisis trend level in a few years. This behavior is in stark contrast to actual GDP, which has not reverted to its pre-crisis trend level.

In our statistical experiment, the mild recession would imply that, by the end of 2017, the gap between output and potential output from the 2007 CBO estimate (dashed black line) would only be about 5 percentage points instead of the 12 percentage points observed today. This means that, according to our estimates, the 2007–08 financial crisis persistently lowered output by roughly 7 percentage points. This is a large number: In dollar terms, it represents a lifetime income loss in present-discounted value terms of about \$70,000 for every American. This simple calculation takes the reading of GDP per person in 2007 (approximately \$50,000) and assumes an annual discount rate of 5%. would have fared without the large financial market disruptions of 2007–08. Figure 2 presents our results.” – Regis Barnichon; Christian Matthes; and Alexander Ziegenbein

U.S. Economic Indicators



Note: Potential GDP in panel B represents 2007 estimate from Congressional Budget Office. GDP is measured on a log scale so that changes in GDP can be read as percent changes in GDP. EBP estimate is from Gilchrist and Zakrajsek (2012).

U.S. Economic Indicators

The Federal Reserve Bank of San Francisco

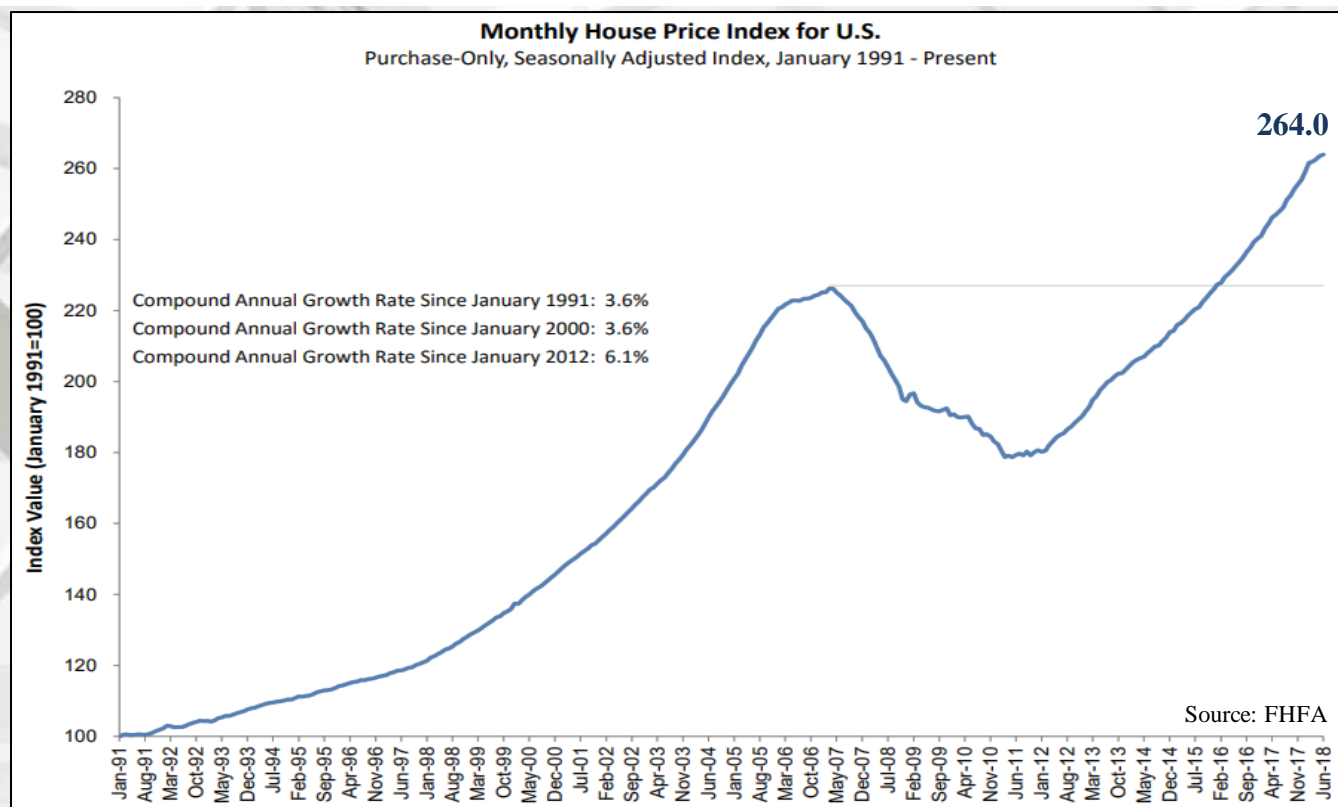
The Financial Crisis at 10: Will We Ever Recover?

“We do not yet have a good grasp on the mechanisms through which financial market disruptions can have such persistent effects on output. One possibility is simply the highly peculiar behavior of economies with financial frictions. As shown by Brunnermeier and Sannikov (2014), with financial frictions, a large adverse shock can take the economy away from its normal growth path for a very long but finite time. Another possibility is that episodes of financial distress could force businesses to cut research expenditures or could prevent high-growth potential start-ups from emerging (see, for example, Sedlacek and Sterk 2017), which could permanently affect the economy’s future productive capacity.

Conclusion

In this Letter, we evaluate the effect of the 2007–08 financial crisis on U.S. output 10 years later. We find that a large fraction of the gap between current output and its pre-crisis trend is associated with the large 2007–08 financial shocks. Our estimates suggest that the economy is unlikely to regain this large output loss and GDP is unlikely to revert to its previous trend level. Financial market disruptions can have large costs in terms of societal welfare by causing persistent losses in the level of GDP. This suggests that finding ways to prevent or contain future financial crises is an important research and policy priority.” – Regis Barnichon; Christian Matthes; and Alexander Ziegenbein

U.S. Economic Indicators



FHFA House Price Index

U.S. House Prices Rise 1.1 Percent in Second Quarter

“U.S. house prices rose 1.1 percent in the second quarter of 2018 according to the Federal Housing Finance Agency (FHFA) House Price Index (HPI). House prices rose 6.5 percent from the second quarter of 2017 to the second quarter of 2018. FHFA’s seasonally adjusted monthly index for June was up 0.2 percent from May.” – Stefanie Johnson and Corinne Russell, FHFA

”Home prices rose in the second quarter but at a slower pace than we have seen for the past four years. Mortgage rates have increased by more than half a percentage point over the first six months of the year. Rates are still inexpensive from a historical standpoint, but their bump-up appears to have gently pressed the brakes on house price increases.” – Dr. William Doerner, Supervisory Economist, FHFA

U.S. Economic Indicators

FHFA House Price Index

Significant Findings

“Home prices rose in all 50 states and the District of Columbia between the second quarter of 2017 and the second quarter of 2018. The top five areas in annual appreciation were: 1) **Nevada** 17.0 percent; 2) **Idaho** 13.0 percent; 3) **District of Columbia** 11.8 percent; 4) **Utah** 11.3 percent; and 5) **Washington** 11.0 percent. The states showing the smallest annual appreciation were: 1) **North Dakota** 2.1 percent; 2) **Louisiana** 2.3 percent; 3) **West Virginia** 2.3 percent; 4) **Connecticut** 2.4 percent; and 5) **Alaska** 2.6 percent.

Home prices rose in 99 of the 100 largest metropolitan areas in the U.S. over the last four quarters. Annual price increases were greatest in **Las Vegas-Henderson-Paradise, NV**, where prices increased by 18.8 percent. Prices were weakest in **El Paso, TX**, where they fell by 0.03 percent.

Of the nine census divisions, the **Mountain** division experienced the strongest four-quarter appreciation, posting a 9.5 percent gain between the second quarters of 2017 and 2018 and a 1.9 percent increase in the second quarter of 2018. The **Pacific** division, which often records the strongest numbers in the country, only had a quarterly appreciation of 0.6 percent, its slowest quarterly increase since 2011. Annual house price appreciation was weakest in the **West South Central** division, where prices rose 5.0 percent between the second quarters of 2017 and 2018.” – Dr. William Doerner, Supervisory Economist, FHFA

U.S. International Economic Indicators

The Federal Reserve Bank of Dallas

Mexico Posts Negative Growth in Second Quarter but Outlook Stable

“Mexico’s economy contracted an annualized 0.4 percent in the second quarter. Nevertheless, the consensus growth forecast for 2018 held steady in June at 2.3 percent. Recent data were mostly weak. Formal employment fell in June for the first time in nine years. Exports and industrial production also declined, and inflation continued to rise. However, retail sales surged, and the peso strengthened against the dollar in July.

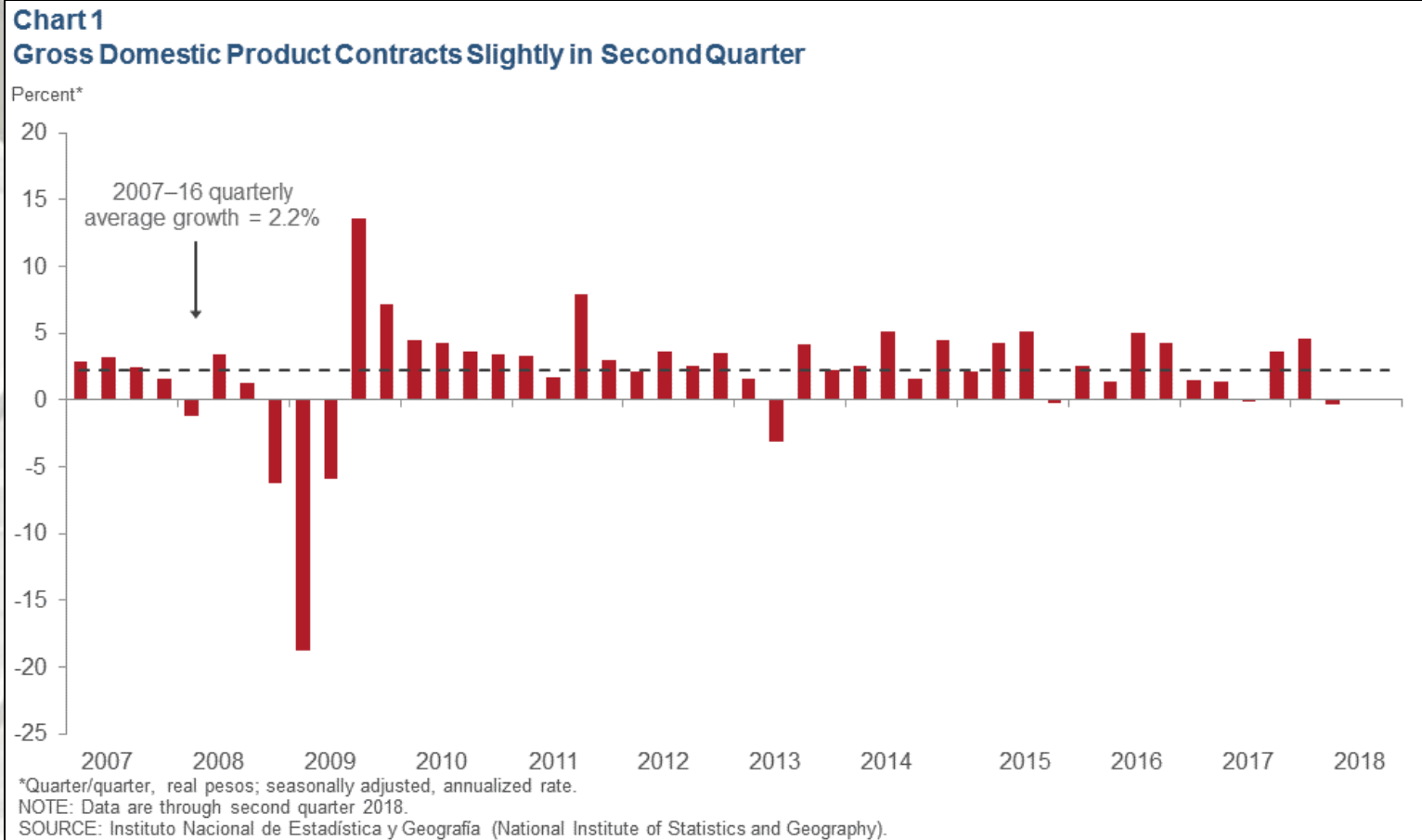
Output Falls in Second Quarter

Mexico’s second-quarter gross domestic product (GDP) dipped 0.4 percent (annualized) following the first quarter’s strong growth of 4.6 percent (Chart 1). Goods-producing industries (manufacturing, construction, utilities and mining) fell 1.2 percent. Service-related activities (wholesale and retail trade, transportation and business services) grew 1.2 percent. Agricultural output dropped 8.4 percent; it accounted for about 4 percent of GDP in 2017.

Industrial Production Overall Declines, but Manufacturing Picks Up

Mexico’s industrial production (IP) index, which includes manufacturing, construction, oil and gas extraction, and utilities, fell 0.1 percent in May following a 0.4 percent drop in April. The manufacturing index rose 2.0 percent in May after falling 2.6 percent in April, and its three-month moving average advanced despite April’s negative contribution (Chart 3). U.S. IP rose 0.6 percent in June after falling 0.5 percent in May. The correlation between Mexico’s IP and U.S. IP has increased considerably since the implementation of the North American Free Trade Agreement due to increased intra-industry trade.” – Jesus Cañas, Senior Business Economist, and Benjamin Meier; Research Assistant; The Federal Reserve Bank of Dallas

U.S. International Economic Indicators

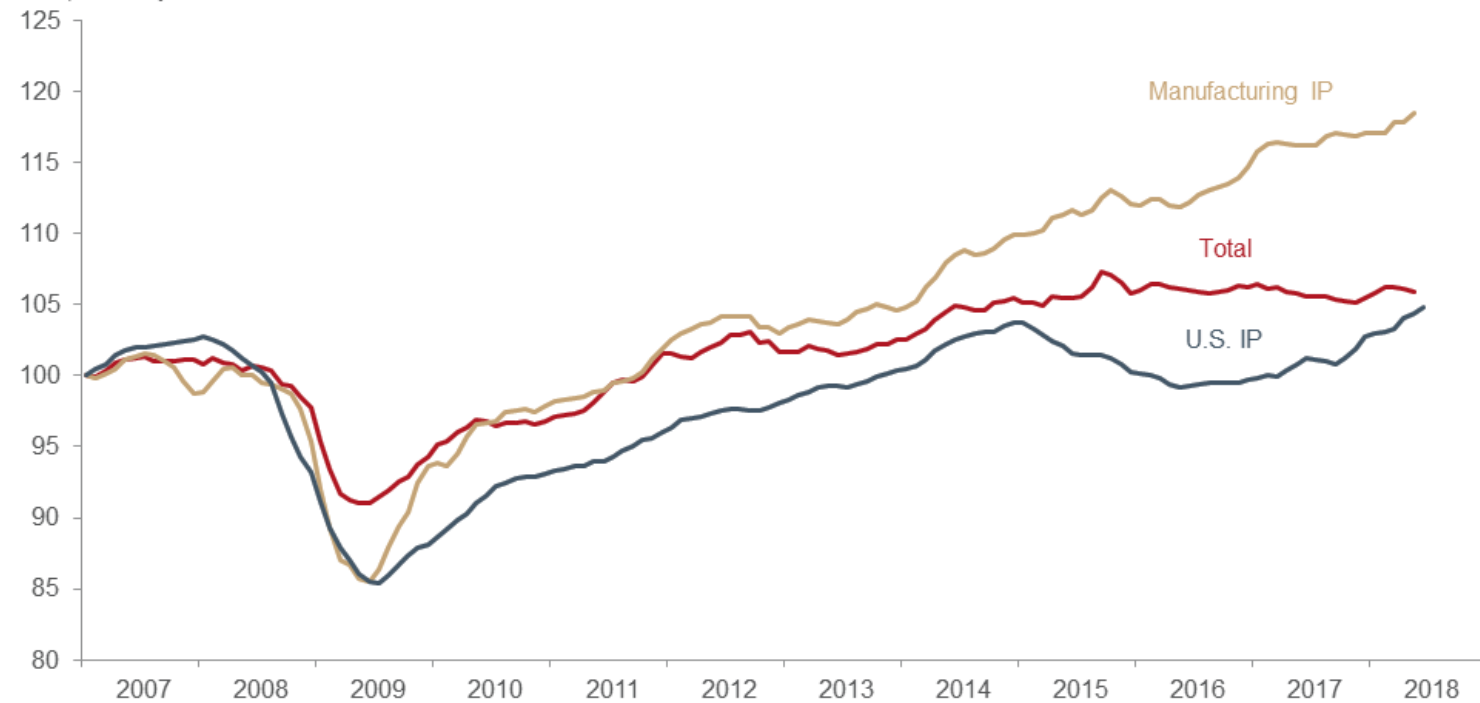


U.S. International Economic Indicators

Chart 3

Total Industrial Production Slows in Recent Months, but Manufacturing Moves Up

Index, January 2007 = 100*

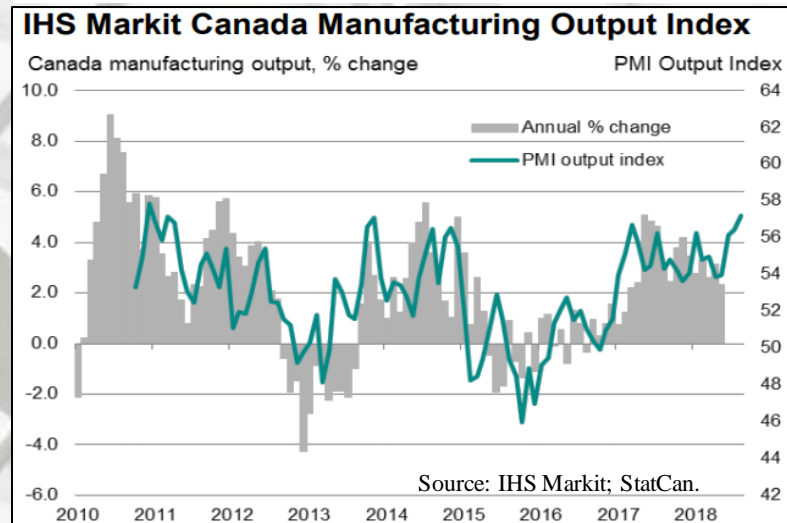


*Seasonally adjusted, three-month moving average.

NOTES: Data for Mexico's manufacturing and total industrial production (IP) are through May 2018. Data for U.S. IP are through June 2018.

SOURCES: Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography); Federal Reserve Board.

Private Indicators: Global



Markit Canada Manufacturing PMI™

“The seasonally adjusted **IHS Markit Canada Manufacturing Purchasing Managers’ Index® (PMI™)** dropped fractionally to 56.8 in August, from 56.9 in July, to signal the weakest overall improvement in business conditions since May. Slower new business growth was the main factor weighing on the headline index in August. Nonetheless, the latest reading remained well above the long-run survey average (53.0).

Sharpest rise in manufacturing output since December 2010

August data pointed to a sharp and accelerated upturn in Canadian manufacturing output, but the latest survey also revealed a loss of momentum for new business growth. Anecdotal evidence suggested that some clients had adopted a wait-and-see approach to spending in response to heightened business uncertainty and ongoing global trade tensions.

Production volumes increased at a robust pace in August, with the rate of expansion the sharpest since December 2010. Manufacturers commented on increased workloads and successful efforts to boost operating capacity at their plants. New order growth eased to a four-month low, despite a slightly stronger contribution from export sales. The latest rise in new work from abroad was the greatest since May, partly driven by rising demand from clients operating in the energy sector. However, there were also reports that U.S. trade tariffs had dented competitiveness during the latest survey period.

Canadian manufacturers continued to boost their production volumes in August, with the latest upturn the fastest since the end of 2010. However, a slowdown in new business growth meant that the headline PMI dipped to a three-month low.

The latest survey highlighted that steel and aluminum tariffs pushed up input costs and acted as a headwind to export sales in U.S. markets. The rate of input price inflation was the steepest for almost seven-and-a-half years, which underpinned another strong increase in average prices charged by manufacturing companies.” – Christian Buhagiar, President and CEO, SCMA

Private Indicators: Global



Caixin China General Manufacturing PMI™ PMI edges down to 14-month low in August

“The headline seasonally adjusted *Purchasing Managers’ Index*™ (*PMI*™) – a composite indicator designed to provide a single-figure snapshot of operating conditions in the manufacturing economy – posted above the neutral 50.0 level at 50.6 in August. However, this was down from 50.8 in July and signalled the weakest improvement in the health of the sector since June 2017.

August survey data signalled a further improvement in Chinese manufacturing operating conditions. Output continued to expand, and at a quicker pace than in July. However, new orders rose at the slowest rate since May 2017, while export sales declined for the fifth month in a row. At the same time, employment remained on a downward trend which, in turn, contributed to an increase in outstanding workloads. Inflationary pressures meanwhile picked up, with firms noting steeper increases in both input costs and output charges. ...

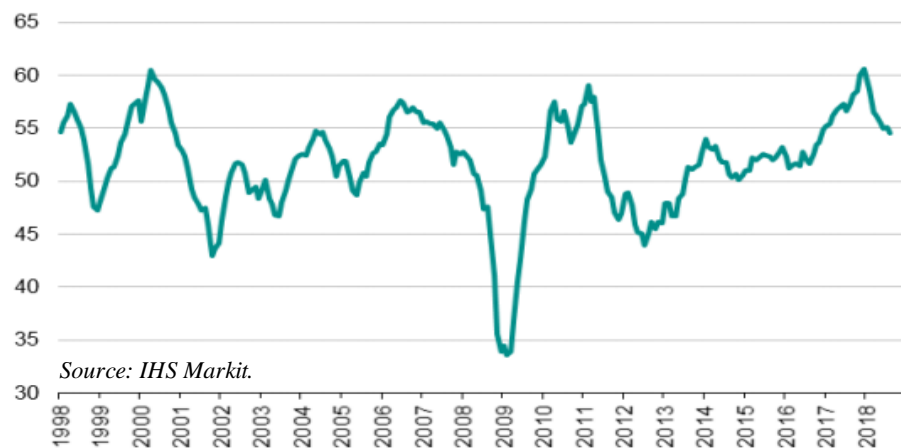
The subindex for new export orders inched up despite remaining in contractionary territory, implying a still-grim export situation. Stocks of finished items contracted at a steeper rate, while stocks of purchased items expanded further. The subindex for suppliers’ delivery times rose, even though it failed to make it into positive territory, which implied a slightly improved capital turnover among goods producers.

Generally speaking, the manufacturing sector continued to weaken amid soft demand, even though the supply side was still stable. Prices of industrial products were underpinned by a proactive fiscal policy, and environmental protection policies that had limited some factory production. I don’t think that stable supply can be sustained amid weak demand. In addition, the worsening employment situation is likely to have an impact on consumption growth. China’s economy is now facing relatively obvious downward pressure.” – Dr. Zhengsheng Zhong, Director of Macroeconomic Analysis, CEBM Group

Private Indicators: Global

IHS Markit Eurozone Manufacturing PMI

Eurozone Manufacturing PMI, sa, 50 = no change



Markit Eurozone Manufacturing PMI®

“Manufacturing operating conditions in the Eurozone continued to strengthen during August, maintaining a run of expansion that now stretches to 62 months. However, posting 54.6, unchanged from the earlier flash-estimate, but down from July’s 55.1, the final IHS Markit Eurozone PMI pointed to the slowest growth since November 2016.

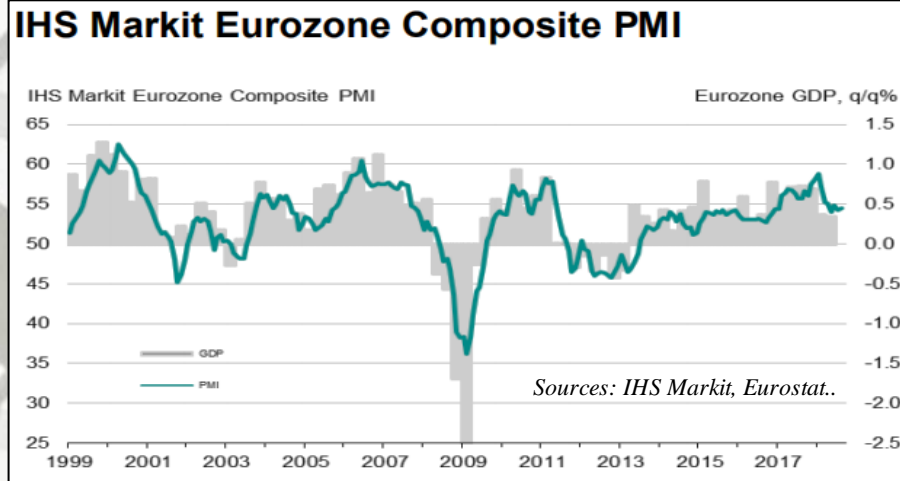
Eurozone manufacturing sector growth softens in August

Reflective of the loss of momentum experienced by the sector in 2018 to date, the headline PMI is now six points lower than December 2017’s record high. Similar trends were observed at the market group level, with business conditions improving at slower rates across the consumer, intermediate and investment goods categories in August. Investment goods continued to perform the strongest, followed by intermediate goods.

There remained a notable divergence between the strongest and weakest performing manufacturing sectors at the country level. The Netherlands and Ireland led the way, with growth rates both ticking up since July. Austria and Germany continued to enjoy robust rates of expansion, whilst Greece, France and Spain all turned in solid growth performances. In contrast, Italy registered its worst manufacturing PMI reading for two years, with operating conditions little changed since July.

Eurozone factories reported a further solid production gain in August, but prospects dimmed further as growth of new orders hit a two-year low and worries about the outlook deepened. The slowdown in demand compared to the surging pace of expansion seen earlier in the year is being driven primarily by export orders rising at the slowest rate for nearly two years. Some of the slowdown in exports can be attributed to the appreciation of the euro since earlier in the year, but companies are also reporting signs of demand cooling and risk aversion intensifying. ...” – Chris Williamson, Chief Business Economist, Markit®

Private Indicators: Global



Markit Eurozone Composite PMI®

“Euro area economic growth moved broadly sideways during August. The final **IHS Markit Eurozone PMI® Composite Output Index** came in at 54.5, up slightly from the earlier flash estimate but only a marginal improvement on July’s 54.3.

Output growth broadly steady in August but expectations weaken

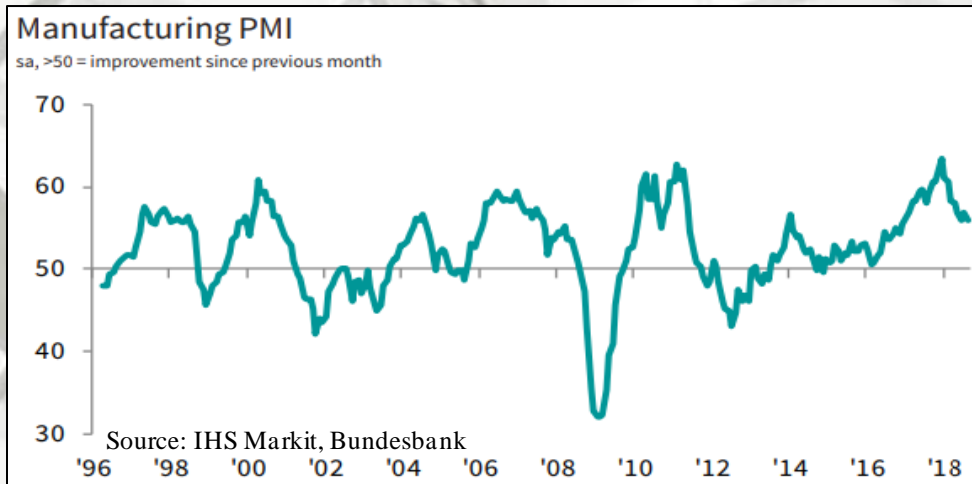
Rising activity has now been registered continuously for over five years, although growth in August remained well down on the rapid rates seen around the turn of the year. Both manufacturing production and service sector activity rose at similar and slightly faster rates.

The Eurozone PMI shows the recent run of robust growth of business activity, new orders and employment extending into August. However, the expansion is looking increasingly uneven and the business mood has become more unsettled during the summer. ...

Business expectations about activity levels in the year ahead dropped to the lowest for almost two years amid growing concerns about the impact of trade wars and heightened political uncertainty. Growth also looks worryingly unbalanced. Although all of the largest euro countries have seen growth moderate so far this year, solid expansion is still being signalled for Germany and, to a lesser extent, France. But Italy saw growth slow sharply in August to suggest the region’s third largest economy on course for its weakest expansion for nearly two years, while in Spain the third quarter could be the worst for almost five years, barring a noticeable pick of business activity during September.

Price trends are also varied across the region, ranging from near-record inflation in Germany to falling prices in Italy, serving as a reminder that deflationary pressures, it appears, have not completely disappeared from the euro area” – Chris Williamson, Chief Business Economist, Markit®

Private Indicators: Global



Markit/BME Germany Manufacturing PMI®

“The headline IHS Markit/BME Germany Manufacturing PMI – a single-figure snapshot of the performance of the manufacturing economy – fell back to 55.9 in August, down from 56.9 in July and its joint-lowest reading in the past year-and-a-half (alongside that seen in June)

PMI rises amid faster output and new order growth

The German manufacturing sector saw robust increases in both output and employment in August, though signs of weakness in new orders and concerns towards global geopolitics weighed on firms' expectations towards growth in the year ahead, according to the latest PMI® survey data from IHS Markit. Notably, new export orders showed the weakest rise for over two years.

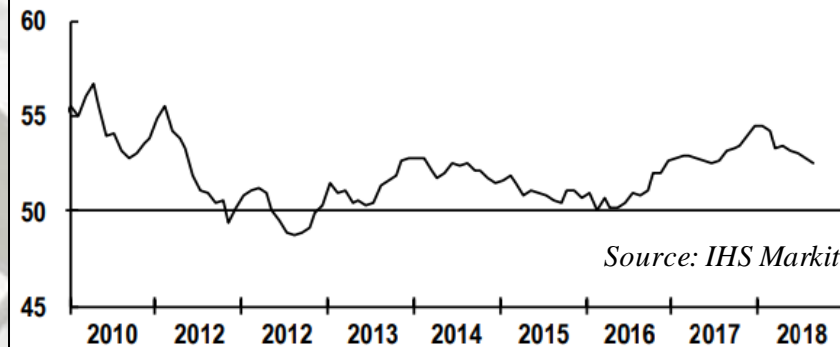
Production growth remained strong at the midway point of the third quarter, with the rate of increase in output little changed from that seen in July. New orders, however, rose at a much weaker rate by comparison, which partly reflected the slowdown in export sales growth to the weakest since May 2016. Accordingly, stocks of finished goods increased for the first time in eight months, while the rate of backlog accumulation slowed to the weakest for over two years.

... New order growth in August was substantially slower than that of output and employment, which translated into a rise in stocks of finished goods and the slowest increase in backlogs for over two years. Unless demand revives, the current pace of output growth simply cannot be sustained. And firms aren't overly optimistic about the outlook either, with worries about the global economic and political backdrop continuing to weigh on their confidence. In the here and now, at least, the manufacturing sector looks to have made a positive contribution to overall economic growth so far in the third quarter, thanks to sustained strong growth in goods production.” – Phil Smith, Principal Economist, IHSMarkit®

Private Indicators: Global

JPMorgan Global Manufacturing PMI

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JP Morgan Global Manufacturing PMI™

“The J.P. Morgan Global Manufacturing PMI™ – a composite index¹ produced by J.P. Morgan and IHS Markit in association with ISM and IFPSM – posted a 21-month low of 52.5 in August, down from 52.8 in July. The headline PMI has stayed above the neutral 50.0 mark for 30 consecutive months and is currently still above its long-run average (51.5).

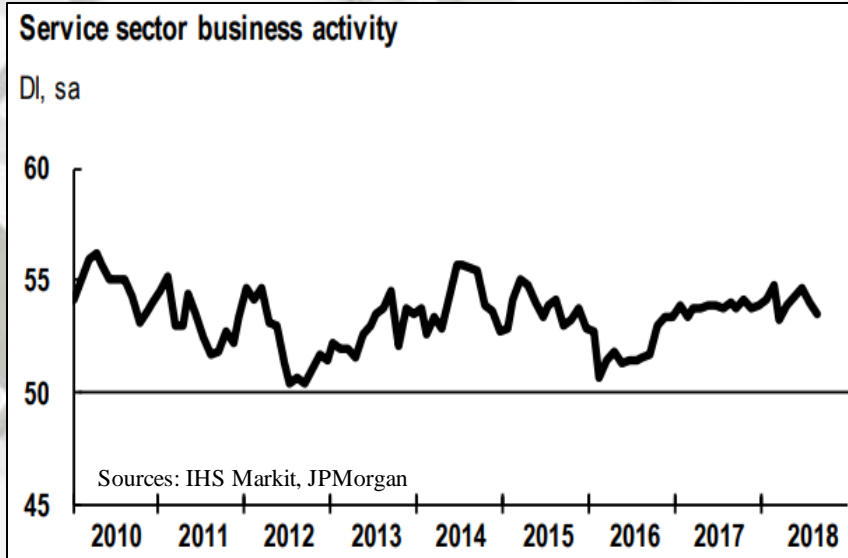
Global Manufacturing PMI at 21-month low in August

The performance of the global manufacturing economy remained relatively subdued in August. Although output growth ticked higher, rates of expansion in new orders and employment slowed, while confidence regarding the outlook for one year's time dipped to a near two-year low. August saw further growth across the consumer, intermediate and investment goods industries. PMI readings improved slightly in the consumer and investment goods categories, but slipped to a three-month low for the intermediate goods category (which also registered the lowest reading overall). Growth was fastest at investment goods producers.

The rate of expansion in incoming new orders eased to a near two-year low in August, with the trend in new export business remaining at near-stagnation. A further modest increase of backlogs of work, alongside a mild pick-up in output growth, encouraged firms to take on additional staff. Employment has risen for 24 months, with job creation seen in (among others) the US, Japan and the euro area. Cuts were seen in China and Brazil. Input cost inflation remained elevated in August, despite easing to a three-month low. Part of the rise in purchase prices was passed on to clients, leading to a further solid increase in average output charges.

August PMI data signaled a slight firming in global manufacturing output growth to a solid pace at near 3% annualized. The survey suggests that the recent inventory drag has reached an end. However, we were disappointed to see the further decline in the new orders PMI.” – David Hensley, Global Economist, J.P. Morgan

Private Indicators: Global



JP Morgan Global Services PMI™

“The J.P. Morgan Global Services Business Activity Index – a composite index produced by J.P. Morgan and IHS Markit in association with ISM and IFPSM – slipped to 53.5 in August, down from 54.0 in July, to post below its long-run average (54.2) for the second straight month. The headline index has signalled expansion in each of the past 109 months.

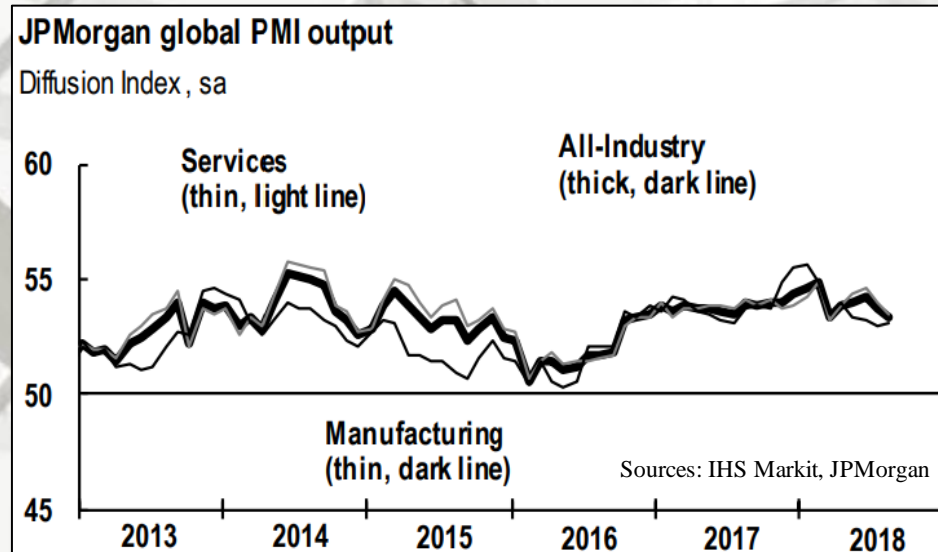
Global services business activity growth slows in August

The rate of expansion of global service sector activity eased to a five-month low in August. The slowdown was broad-based, with weaker increases in output recorded across the business, consumer and financial services categories. Price inflationary pressures remained elevated.

Output expanded in almost all of the national service economies for which August data were available. The sole exception was Brazil, where activity contracted at the sharpest pace in one-and-a-half years. Developed nations, on average, registered a faster rate of expansion than their emerging market counterparts. ...

August PMI data signalled a further growth slowdown in the global service sector, with rates of expansion in output and new orders losing traction. However, with optimism about the future strengthening, backlogs of work increasing and job creation steady, there remains some scope for output growth to improve later in the year.” – David Hensley, Global Economist, J.P. Morgan

Private Indicators: Global



JP Morgan Global Composite PMI™

“The rate of global economic expansion slowed again in August. The J.P. Morgan Global Composite Output Index – which is produced by J.P. Morgan and IHS Markit in association with ISM and IFPSM – posted 53.4, down from 53.7 in July to its lowest reading since March.

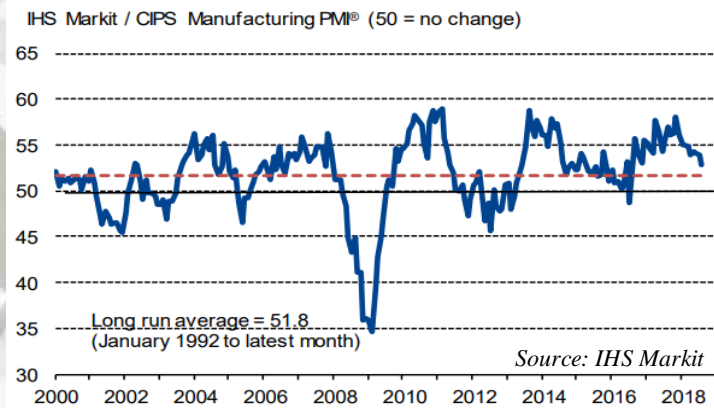
Global PMI slips to five-month low in August

Service sector business activity increased at the weakest pace in five months, as rates of expansion moderated across the business, consumer and financial services categories. In contrast, growth of manufacturing output improved slightly, as faster increases at consumer and investment goods producers more than offset slower expansion in the intermediate goods category. Economic activity rose in almost all of the nations for which all-industry PMI data are compiled. The sole exception was a contraction in Brazil, where a solid decrease in services activity contrasted with stronger growth at manufacturers.

August PMI data signalled a further softening in the rates of expansion of global economic activity, new orders and employment. The August decline was focused in the service sector, with decelerations seen in all three of the services categories covered. Signs of renewed vigour at consumer and investment goods producers are positive steps, however, and the latest PMI readings still point to a pace of economic expansion that is substantially abovetrend.” – David Hensley, Global Economist, J.P. Morgan

Private Indicators: Global

IHS Markit/CIPS UK Manufacturing PMI



Markit/CIPS UK Manufacturing PMI™

“The seasonally adjusted IHS Markit/CIPS Purchasing Managers’ Index® (PMI®) posted 52.8 in August, down from a revised reading of 53.8 in July (originally reported as 54.0). The PMI has posted above the neutral 50.0 mark for 25 successive months, although the latest reading is the lowest registered during that sequence.

UK manufacturing upturn slows as new export orders contract for first time since April 2016

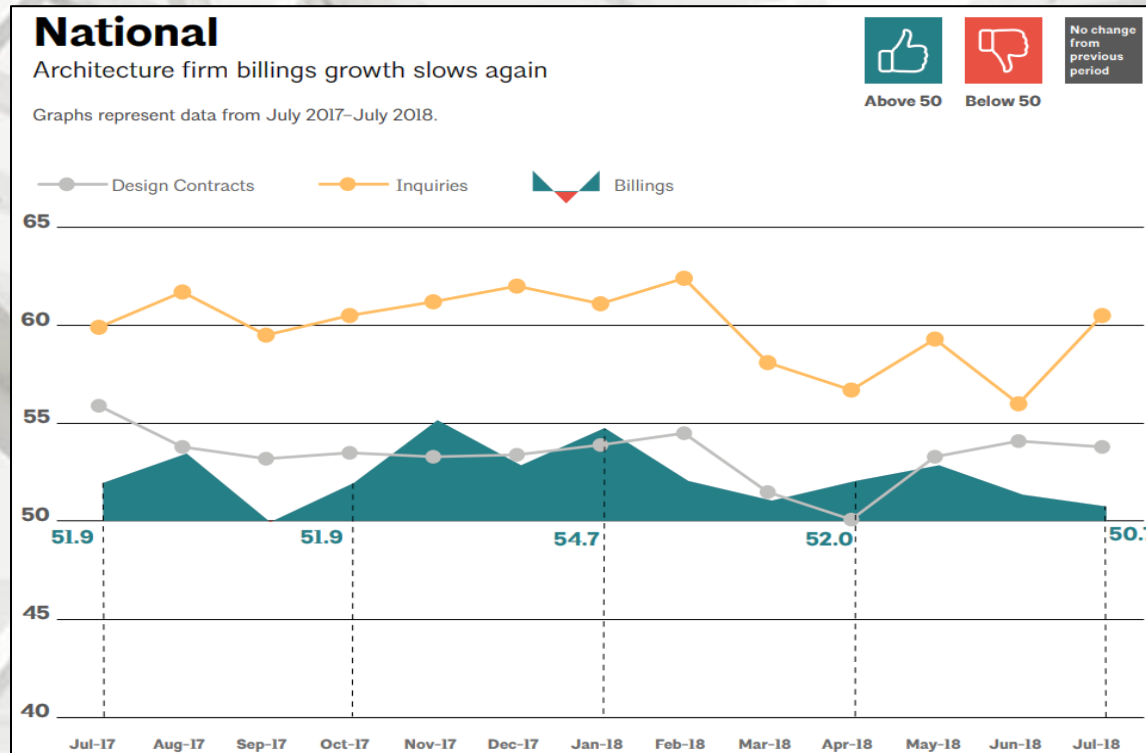
August saw further signs of slowdown in the UK manufacturing sector. Rates of expansion in output and new orders eased following the first contraction in new export business for over two years. The subdued performance of the sector also transmitted itself to the labour market, with the pace of manufacturing job creation slumping to near-stagnation.

The performance of the UK manufacturing sector looked increasingly lacklustre in August. The headline PMI fell to its lowest level for over two years, as growth of output and new orders slowed and the pace of job creation slumped to nearstagnation. Based on its historical relationship with official ONS data, the latest PMI report is broadly consistent with zero growth in manufacturing production, meaning the sector will likely fail to provide any support to the wider UK economy in the third quarter. ...

Looking ahead, manufacturers’ optimism about the outlook for the year ahead has been receding in recent months and is now at a 22-month low. While a hoped-for improvement in new export order growth and new product launches are forecast to stimulate future expansion, manufacturers are also expressing rising concerns about the uncertain backdrop of Brexit.” – Rob Dobson, Director & Senior Economist, IHS Markit

Private Indicators

American Institute of Architects (AIA)



July Architecture Billings Index

Billings grow at slower pace for second straight month

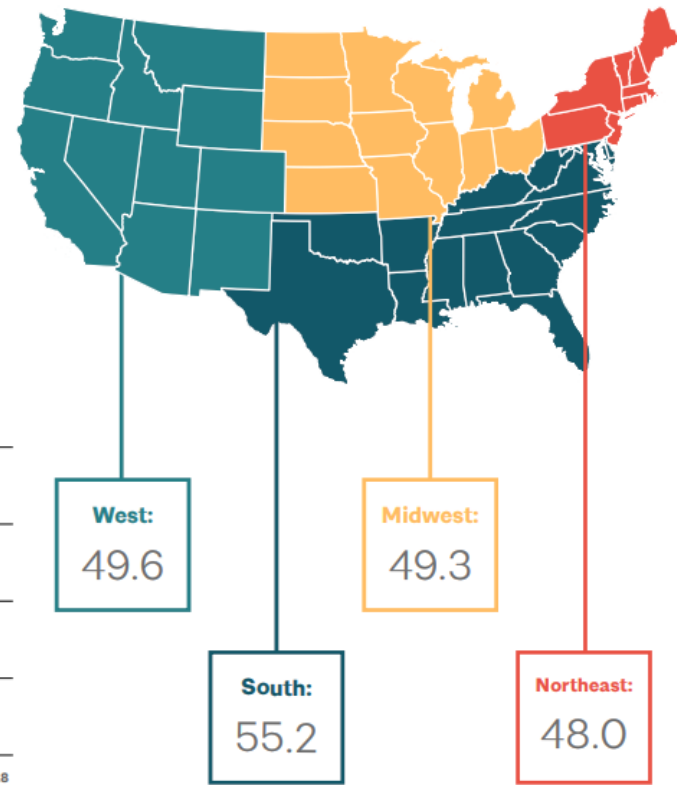
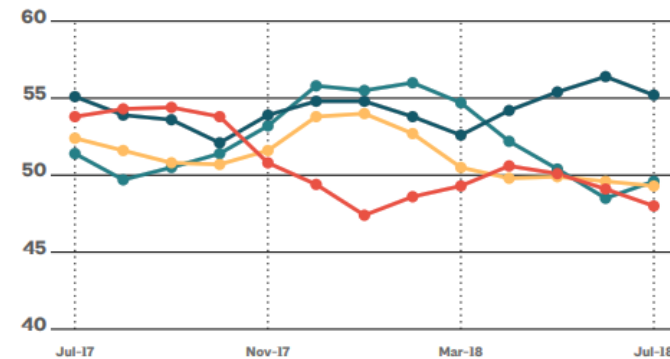
“Architecture firms reported that firm billings continued to grow in July, but the pace of growth slowed for the second month in a row. While any Architecture Billings Index (ABI) score over 50 indicates that firm billings are increasing, the July score of 50.7 indicates that growth is nearly flat. However, this is not yet cause for concern because indicators of new work in the pipeline — measured by inquiries into new work and the value of new signed design contracts at firms — both remained strong in July.” – The American Institute of Architects

Private Indicators: AIA

Regional

Billings decline in all regions except the South

Graphs represent data from July 2017–July 2018 across the four regions. 50 represents the diffusion center. A score of 50 equals no change from the previous month. Above 50 shows increase; Below 50 shows decrease. 3-month moving average.



Region

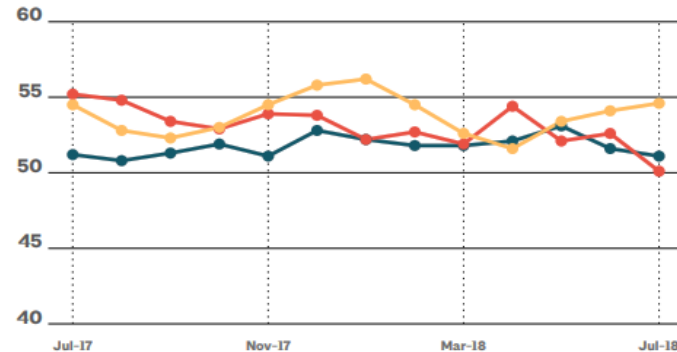
“However, softness in firm billings was pervasive across the country, with firms in all regions except the South reporting decreasing billings for the month. Billings have been soft at firms in the Northeast for the entire year, while firms located in the Midwest saw billings start to weaken in the second quarter. But billings have been particularly robust at firms located in the South this year, continuing the trend of the last several years.” – The American Institute of Architects

Private Indicators: AIA

Sector

Business conditions remain strong at firms with multifamily residential and institutional specializations

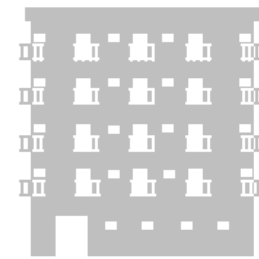
Graphs represent data from July 2017–July 2018 across the three sectors. 50 represents the diffusion center. A score of 50 equals no change from the previous month. Above 50 shows increase; Below 50 shows decrease. 3-month moving average.



Commercial/Industrial: 50.1



Institutional: 51.1



Residential: 54.6

Sector

“Billings also remain strong at firms with a multifamily residential specialization, while the pace of growth in firm billings at firms with both a commercial/industrial and institutional specialization has slowed in recent months.” – The American Institute of Architects

Private Indicators

Dodge Data & Analytics

New Construction Starts in July Slide 9 Percent

Nonresidential Building Pulls Back After Its June Surge

“At a seasonally adjusted annual rate of \$817.4 billion, new construction starts in July fell 9% from the elevated pace reported in June, according to Dodge Data & Analytics. The latest month’s decline followed strong gains for total construction starts during the previous two months, with May up 14% and June up 11%. By major sector, nonresidential building dropped 22% after soaring 59% in June, which had been lifted by the start of two massive manufacturing plants and two massive office buildings. While July did see several large manufacturing and office projects reach groundbreaking, they were not the same magnitude as what took place in June. The other two major sectors in July held close to their June amounts, with residential building up 2% and nonbuilding construction unchanged. During the first seven months of 2018, total construction starts on an unadjusted basis were \$471.4 billion, up 2% from the same period a year ago. If the volatile electric utility/gas plant category is excluded, total construction starts during the January-July period of 2018 would be up 5% compared to last year.

The July statistics produced a reading of 173 for the Dodge Index (2000=100), down from the 190 for June which was the highest level so far during 2018. Looking at the first six months of 2018 on a quarterly basis, which eases some of the swings present in the monthly data, the Dodge Index averaged 165 during the first quarter and 170 during the second quarter. July’s 173 shows that at least the initial month of the third quarter is continuing the gradual upward trend shown by the first two quarters of this year.” – Benjamin Gorelick, Spector & Associates

Private Indicators

Dodge Data & Analytics

“The pattern of construction starts on a monthly basis is often affected by the presence or absence of very large projects, and several exceptionally large projects boosted activity in June to an unsustainably high amount. These June projects included a \$6.5 billion uranium processing plant in Tennessee and a \$1.7 billion petrochemical plant in Texas, as well as the \$1.8 billion Spiral office tower in New York NY and a \$665 million office tower in Chicago IL. While July also featured the start of several large projects, such as a \$2.4 billion petrochemical plant in Texas and a \$750 million data center in Alabama, the lift from very large projects in July was less than what took place in June. Still, the pace of construction starts in July came in 2% above the average for the second quarter, which is consistent with the sense that overall construction starts continue to trend upward, notwithstanding July’s steep decline compared to June. The current year has seen the mounting headwinds of higher material prices and higher interest rates, but it’s also seen the tailwinds of healthy economic growth, some easing of bank lending standards, and the increased funding for public works programs coming from the federal appropriations legislation passed in March. Amidst the monthly ups-and-downs, the broad trend for construction starts during 2018 remains one of modest expansion.

The 2% gain for total construction starts on an unadjusted basis during the January-July period of 2018 reflected a varied pattern by major sector. **Residential building** year-to-date increased 7%, with single family housing up 7% and multifamily housing up 6%. Nonresidential building year-to-date grew 1%, as a 52% jump for manufacturing plant construction offset slightly weaker activity for commercial building, down 3%; and institutional building, down 5%. Nonbuilding construction year-to-date dropped 4%, with a 52% plunge for electric utilities/gas plants outweighing a 7% rise for public works. By geography, total construction starts during the first seven months of 2018 revealed this performance – the South Central, up 11%; the South Atlantic, up 6%; the Midwest, unchanged from the same period a year ago, the Northeast, down 3%; and the West, down 4%.” – Robert A. Murray, Chief Economist, Dodge Data & Analytics

Private Indicators

Dodge Data & Analytics

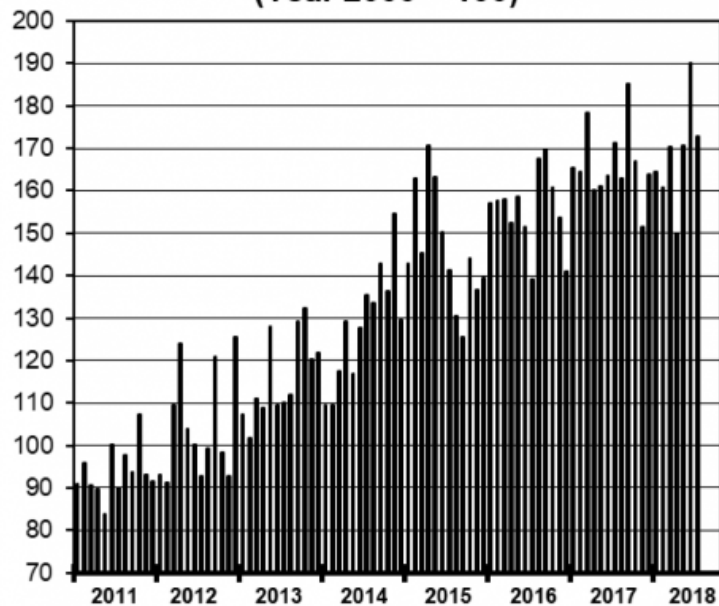
“Residential building in July was \$326.5 billion (annual rate), advancing 2%. **Single family housing** registered a modest 3% gain, although in a broad sense this project type continues to hover around the level of activity established at the end of 2017. By geography, single family housing showed this performance for July – the South Central and West, each up 5%; the South Atlantic, up 2%; and the Midwest and Northeast, each unchanged from the previous month. Multifamily housing in July receded 1%, after the 8% gain reported for June.

There were seven multifamily projects with a construction start cost of \$100 million or more that reached groundbreaking in July, matching the seven such projects that were reported for June. The large multifamily entries in July were led by the two projects in Brooklyn NY – the \$524 million multifamily portion of a \$600 million mixed-use building and the \$375 million redevelopment of what had previously been a Macy’s garage. Other large multifamily projects that reached groundbreaking in July were a \$200 million multifamily tower in Houston TX and the \$174 million multifamily portion of a \$255 million mixed-use building in Los Angeles CA. In July, the top five metropolitan areas ranked by the dollar amount of multifamily starts were – New York NY, Washington DC, San Francisco CA, Chicago IL, and Los Angeles CA. Metropolitan areas ranked 6 through 10 were – Houston TX, Dallas-Ft. Worth TX, Baltimore MD, Boston MA, and Denver CO.” – Robert A. Murray, Chief Economist, Dodge Data & Analytics

Private Indicators

July 2018 Construction Starts

**The Dodge Index
of New Construction Starts
(Year 2000 = 100)**



Source: Dodge Data & Analytics

July 2018 Construction Starts

Monthly Summary of Construction Starts

Prepared by Dodge Data & Analytics

Monthly Construction Starts

Seasonally Adjusted Annual Rates, in Millions of Dollars

	<u>July 2018</u>	<u>June 2018</u>	<u>% Change</u>
Nonresidential Building	\$318,002	\$406,471	-22
Residential Building	326,544	320,742	+2
Nonbuilding Construction	<u>172,808</u>	<u>172,026</u>	<u>-0-</u>
Total Construction	\$817,354	\$899,239	-9

The Dodge Index

Year 2000=100, Seasonally Adjusted

July 2018173

June 2018.....190

Year-to-Date Construction Starts

Unadjusted Totals, in Millions of Dollars

	<u>7 Mos. 2018</u>	<u>7 Mos. 2017</u>	<u>% Change</u>
Nonresidential Building	\$166,144	\$165,264	+1
Residential Building	194,514	181,891	+7
Nonbuilding Construction	<u>110,764</u>	<u>115,126</u>	<u>-4</u>
Total Construction	\$471,422	\$462,281	+2
Total Construction, excluding electric utilities/gas plants	\$461,401	\$441,370	+5

Private Indicators

Dodge Data & Analytics

First Half 2018 Commercial and Multifamily Construction Starts Show Mixed Performance Across Top Metropolitan Areas

“During the first half of 2018, five of the top ten metropolitan markets for commercial and multifamily construction starts ranked by dollar volume showed increased activity compared to a year ago, according to Dodge Data & Analytics. Of the top twenty markets, eleven were able to register gains. At the national level, the volume of commercial and multifamily construction starts during the first half of 2018 was \$101.4 billion, down 1% from last year’s first half, although still 2% above what was reported during the first half of 2016.

The New York NY metropolitan area, at \$16.1 billion during the first half of 2018, held onto its number one ranking and comprised 16% of the U.S. commercial and multifamily total, helped by a 44% jump compared to a year ago. During the previous two years, the New York NY share of the U.S. total had slipped to 14% in 2016 and 13% in 2017, after seeing its share reach a peak at 19% back in 2015. Other markets in the top ten showing growth during the first half of 2018 were Washington DC (\$5.0 billion), up 23%; Miami FL (\$4.9 billion), up 34%; Boston MA (\$3.7 billion), up 56%; and Seattle WA (\$3.2 billion), up 7%. Of these markets, the top four (New York, Washington DC, Miami, and Boston) showed renewed growth after the decreased activity reported for the full year 2017, while Seattle was able to maintain the upward track present last year. Metropolitan areas showing decreased activity for commercial and multifamily construction starts during the first half of 2018 were Dallas-Ft. Worth TX (\$3.4 billion), down 23%; Los Angeles CA (\$2.9 billion), down 38%; San Francisco CA (\$2.8 billion), down 38%; Chicago IL (\$2.7 billion), down 37%; and Atlanta GA (\$2.0 billion), down 43%.” – Ryan Chin, Public Relations & Social Media, AFFECT, Dodge Data & Analytics

Private Indicators

Dodge Data & Analytics

First Half 2018 Commercial and Multifamily Construction Starts Show Mixed Performance Across Top Metropolitan Areas

“For those markets ranked 11 through 20, the six that registered first half 2018 gains were Austin TX (\$1.8 billion), up 15%; Kansas City MO (\$1.7 billion), up 52%; Orlando FL (\$1.6 billion), up 4%; Phoenix AZ (\$1.6 billion), up 19%; Minneapolis-St. Paul MN (\$1.3 billion), up 34%; and Portland OR (\$1.1 billion), up 15%. The four posting declines were Houston TX (\$1.9 billion), down 13%; Philadelphia PA (\$1.7 billion), down 13%; Denver CO (\$1.6 billion), down 25%; and San Jose CA (\$1.1 billion), down 37%.

The commercial and multifamily total is comprised of office buildings, stores, hotels, warehouses, commercial garages, and multifamily housing. At the U.S. level, the 1% drop for the commercial and multifamily total during the first half of 2018 reflected an 8% retreat for commercial building that was essentially balanced by an 8% increase for multifamily housing.” – Ryan Chin, Public Relations & Social Media, AFFECT, Dodge Data & Analytics

Private Indicators

Dodge Data & Analytics

First Half 2018 Commercial and Multifamily Construction Starts Show Mixed Performance Across Top Metropolitan Areas

“Multifamily housing has proven to be surprisingly resilient so far during 2018, following its 8% decline in dollar terms at the U.S. level that was reported for the full year 2017. With apartment vacancy rates beginning to edge upward on a year-over-year basis, banks had been taking a more cautious stance towards lending for multifamily projects. Yet, after some loss of momentum during 2017, several factors appear to be providing near-term support for multifamily housing. The U.S. economy is currently moving at a healthy clip, with steady job growth bringing new workers into the labor force. The demand for multifamily housing by millennials remains strong, given their desire to live in downtown areas while the increasing price of a single family home and diminished tax benefits may be dissuading some from making the transition to single family home ownership. As shown by this year’s surveys of bank lending officers conducted by the Federal Reserve, the extent of bank tightening for multifamily construction loans is not as widespread as a year ago.

On a broader level for commercial building, lending standards for nonresidential building loans have eased slightly over the past two quarters. And, the rollback of some of the Dodd-Frank restraints on the banking sector may encourage mid-size banks to increase lending for commercial real estate. While the expansion for commercial building and multifamily construction starts has clearly decelerated, the near-term shift appears to be one towards a plateau as opposed to a decline. This is consistent with the recent pattern for commercial and multifamily construction starts by major metropolitan areas, which reveals a fairly equal balance between those markets still showing gains and those markets showing decreased activity.” – Robert A. Murray, Chief Economist, Dodge Data & Analytics

Private Indicators

Top 20 Metropolitan Areas - First Half 2018

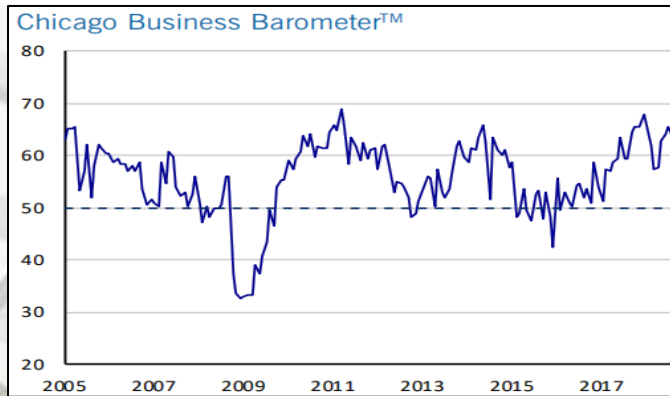
Commercial Building and Multifamily Housing Construction Starts

Millions of Dollars, January-June Totals

	2016	2017	2018	Percent Change 2018/2017
1. New York-Northern New Jersey-Long Island, NY-NJ-PA	13,417	11,189	16,144	+44
2. Washington-Arlington-Alexandria, DC-VA-MD-WV	3,734	4,044	4,982	+23
3. Miami-Fort Lauderdale-Miami Beach, FL	3,879	3,687	4,932	+34
4. Boston-Cambridge-Quincy, MA-NH	3,368	2,376	3,701	+56
5. Dallas-Fort Worth-Arlington, TX	4,628	4,426	3,414	-23
6. Seattle-Tacoma-Bellevue, WA	2,547	2,972	3,168	+7
7. Los Angeles-Long Beach-Santa Ana, CA	5,203	4,731	2,921	-38
8. San Francisco-Oakland-Fremont, CA	3,102	4,569	2,837	-38
9. Chicago-Naperville-Joliet, IL-IN-WI	3,977	4,228	2,665	-37
10. Atlanta-Sandy Springs-Marietta, GA	2,905	3,480	1,984	-43
11. Houston-Baytown-Sugar Land, TX	1,792	2,176	1,890	-13
12. Austin-Round Rock, TX	1,319	1,605	1,847	+15
13. Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	1,564	1,990	1,739	-13
14. Kansas City, MO-KS	1,109	1,140	1,730	+52
15. Orlando, FL	1,144	1,563	1,624	+4
16. Denver-Aurora, CO	2,216	2,086	1,557	-25
17. Phoenix-Mesa-Scottsdale, AZ	1,366	1,311	1,556	+19
18. Minneapolis-St. Paul-Bloomington, MN-WI	881	951	1,276	+34
19. Portland-Vancouver-Beaverton, OR-WA	904	983	1,132	+15
20. San Jose-Sunnyvale-Santa Clara, CA	1,360	1,691	1,059	-37
Total U.S.	99,836	102,925	101,413	-1

Source: Dodge Data & Analytics

Private Indicators



MNI Chicago MNI Chicago Business Chicago Business Barometer Eases to 63.6 in August

“The MNI Chicago Business Barometer slipped to a three-month low of 63.6 in August, down 1.9 points from July’s 65.5.

Output & Demand Hold Up Despite Barometer Easing for First Time in Five Months

Firms’ operations continued to grow at a healthy pace in August, despite decelerating for the first time in five months. A softening in Supplier Deliveries, Order Backlogs and Employment offset gains in Production and New Orders, driving the decline in the Barometer. However, it still sits 6.9% higher on the year and continues to signal robust business conditions. August saw both demand and output inch higher, though broadly unchanged from their already-elevated July levels. Despite registering only minor changes on the month, the New Orders indicator is up 6.4% on the year while the Production indicator posted a 9.1% y/y rise. ...

Firms continued to expand their workforce in August, despite the Employment indicator easing from July’s four-month high. The indicator has remained above the neutral-50 threshold for 10 consecutive months, the longest stretch since April 2015. Firms’ productive capacity continues to be restrained by elevated input prices. While the Prices Paid indicator eased in August, it remained above the 80-mark for just the second time since late 2008. Firms continued to report elevated prices across a wide range of materials, from steel to resin, with many citing allocation issues stemming from ongoing trade disruptions as a key reason.

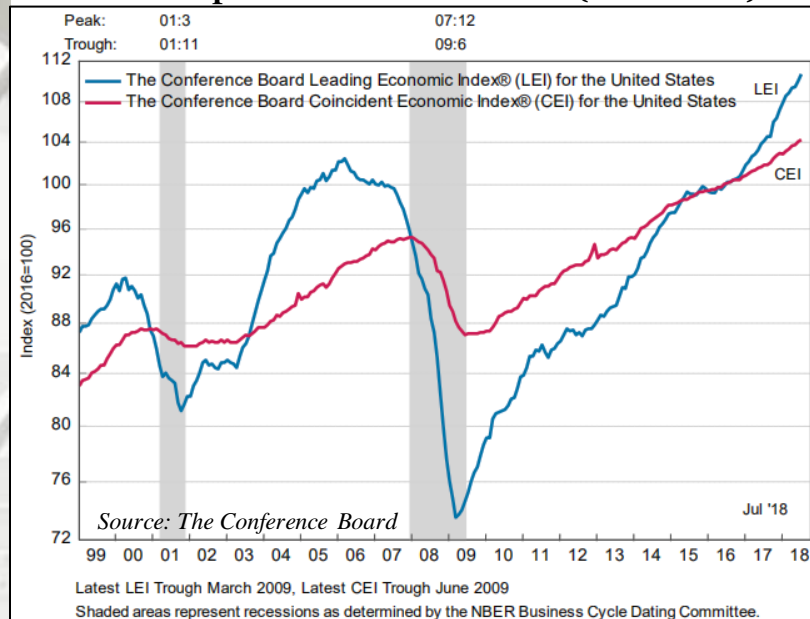
The MNI Chicago Business Barometer continues to signal solid business sentiment, despite easing for the first time in five months, with growth in output and demand holding up well. Inflationary pressures look set to continue, potentially bleeding into consumer prices, with over 60% of firms reporting that they have passed on higher input costs to customers in recent months, and others foreseeing doing so in the near future.” – Jamie Satchi, Economist, MNI Indicators

Private Indicators

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

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.6 % in July to 110.7 (2016 = 100), following a 0.5 % increase in June, and a 0.1 % increase in May.

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



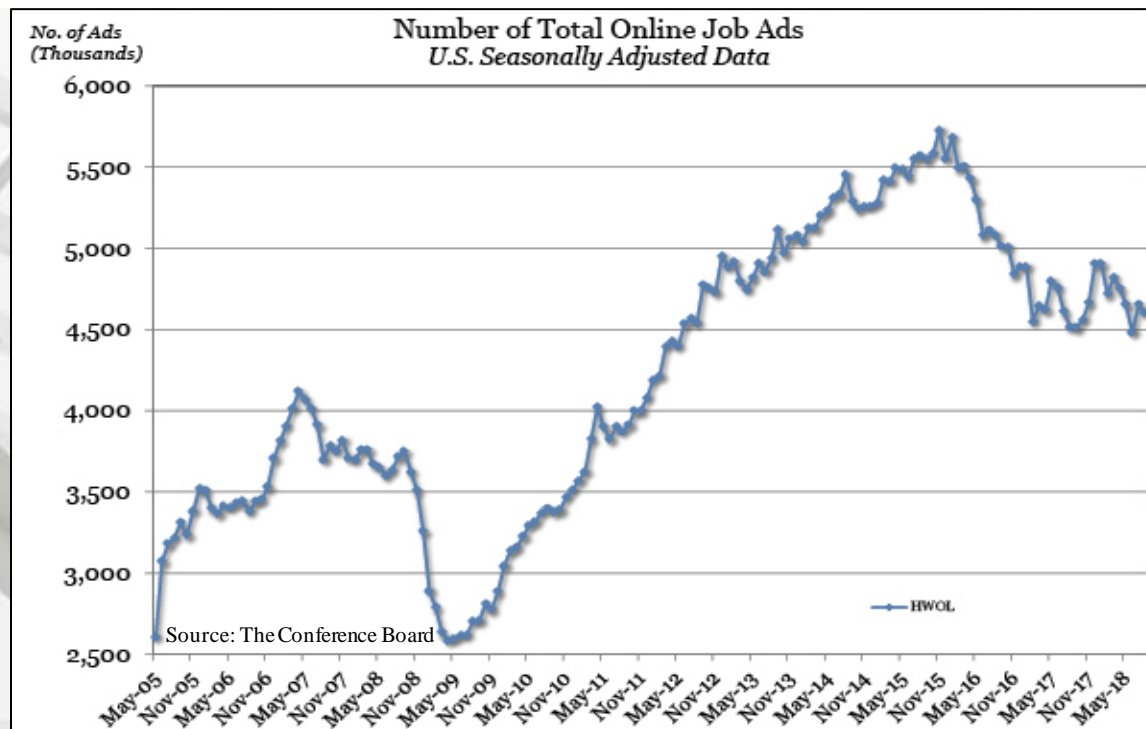
“The U.S. LEI increased in July, suggesting the US economy will continue expanding at a solid pace for the remainder of this year. The strengths among the components of the leading index were very widespread, with unemployment claims, the financial components, and the ISM® New Orders Index making the largest positive contributions.” – Ataman Ozyildirim, Director of Business Cycles and Growth Research, The Conference Board

Indicators Point to Continuing Economic Growth

“The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.2 percent in July to 104.2 (2016 = 100), following a 0.3 percent increase in June, and a 0.1 percent increase in May. .

The Conference Board Lagging Economic Index® (LAG) for the U.S. declined 0.2 percent in July to 105.2 (2016 = 100), following a 0.2 percent increase in June and a 0.5 percent increase in May.” – The Conference Board

Private Indicators



The Conference Board Help Wanted OnLine® (HWOL) Online Job Ads Decreased 46,300 in August

- “Most states showed small losses
- Most occupations showed losses over the month

Online advertised vacancies decreased 46,300 to 4,605,200 in August, according to ***The Conference Board Help Wanted OnLine® (HWOL) Data Series***. The July Supply/Demand rate stands at 1.35 unemployed workers for each advertised vacancy, with a total of 1.6 million more unemployed workers than the number of advertised vacancies. The number of unemployed workers was approximately 6.3 million in July.

In the Professional occupational category, Healthcare practitioner ads decreased by 15,400, Education, training, and library ads decreased 14,500, and Business ads decreased 9,700. In the Services/Production occupational category, Transportation ads decreased 24,700, Production ads decreased 2,900, and Food preparation ads increased 3,300.” – Carol Courter, The Conference Board

Private Indicators

Equipment Leasing and Finance Association Equipment Leasing and Finance Industry Confidence Eases Further in August

“The [Equipment Leasing & Finance Foundation](#) (the Foundation) releases the July 2018 [Monthly Confidence Index for the Equipment Finance Industry](#) (MCI-EFI). Designed to collect leadership data, the index reports a qualitative assessment of both the prevailing business conditions and expectations for the future as reported by key executives from the \$1 trillion equipment finance sector. Overall, confidence in the equipment finance market eased again in August to 60.7, down from the July index of 62.8.” – Anneliese DeDiemar, Author, Equipment Leasing & Finance Association

“"Uncertainty" is the theme in the economy for the balance of 2018. Between the Administration's trade strategy, the mid-term elections, and the President's political challenges, decision makers are taking a wait-and-see approach to business investment.” – Paul Menzel, CLFP, President and CEO, Financial Pacific Leasing, Inc., an Umpqua Bank Company

“I think there remains pent-up demand for capital equipment, and strong economic activity bodes well for portfolio performance. My concerns are about the impact of trade wars on equipment manufacturers' prices, and the politicization of Fed interest rate moves, which would lead to overheating and inflation.” – Quentin Cote, CLFP, President, Mintaka Financial, LLC

“Our application rate and quality have remained steady over the typically slower summer months signaling a strong fourth quarter. Interest rates continue to be attractive even after earlier rate hikes. Businesses continue to expand at a strong rate and equipment finance continues to be a substantial component of that trend.” – Valerie Hayes Jester, President, Brandywine Capital Associates

“Trade tariffs are having an impact on capital investment by customers. Some are continuing to move forward, others are delaying investment. Overall, we are seeing business activity slightly behind levels from a year ago.” – Michael Romanowski, President, Farm Credit Leasing Services Corporation

Private Indicators

Equipment Leasing and Finance Association

August 2018 Survey Results:

“The overall MCI-EFI is 60.7, a decrease from 62.8 in July.

- When asked to assess their business conditions over the next four months, 13.3% of executives responding said they believe business conditions will improve over the next four months, a decrease from 19.4% in July. 80% of respondents believe business conditions will remain the same over the next four months, an increase from 77.4% the previous month. 6.7% believe business conditions will worsen, an increase from 3.2% who believed so the previous month.
- 16.7% of survey respondents believe demand for leases and loans to fund capital expenditures (capex) will increase over the next four months, a decrease from 19.4% in July. 83.3% believe demand will “remain the same” during the same four-month time period, an increase from 77.4% the previous month. None believe demand will decline, down from 3.2% who believed so in July.
- 16.7% of the respondents expect more access to capital to fund equipment acquisitions over the next four months, up slightly from 16.1% in July. 83.3% of executives indicate they expect the “same” access to capital to fund business, a slight decrease from 83.9% last month. None expect “less” access to capital, unchanged from last month..” – Anneliese DeDiemar, Author, Equipment Leasing & Finance Association

Private Indicators

Equipment Leasing and Finance Association

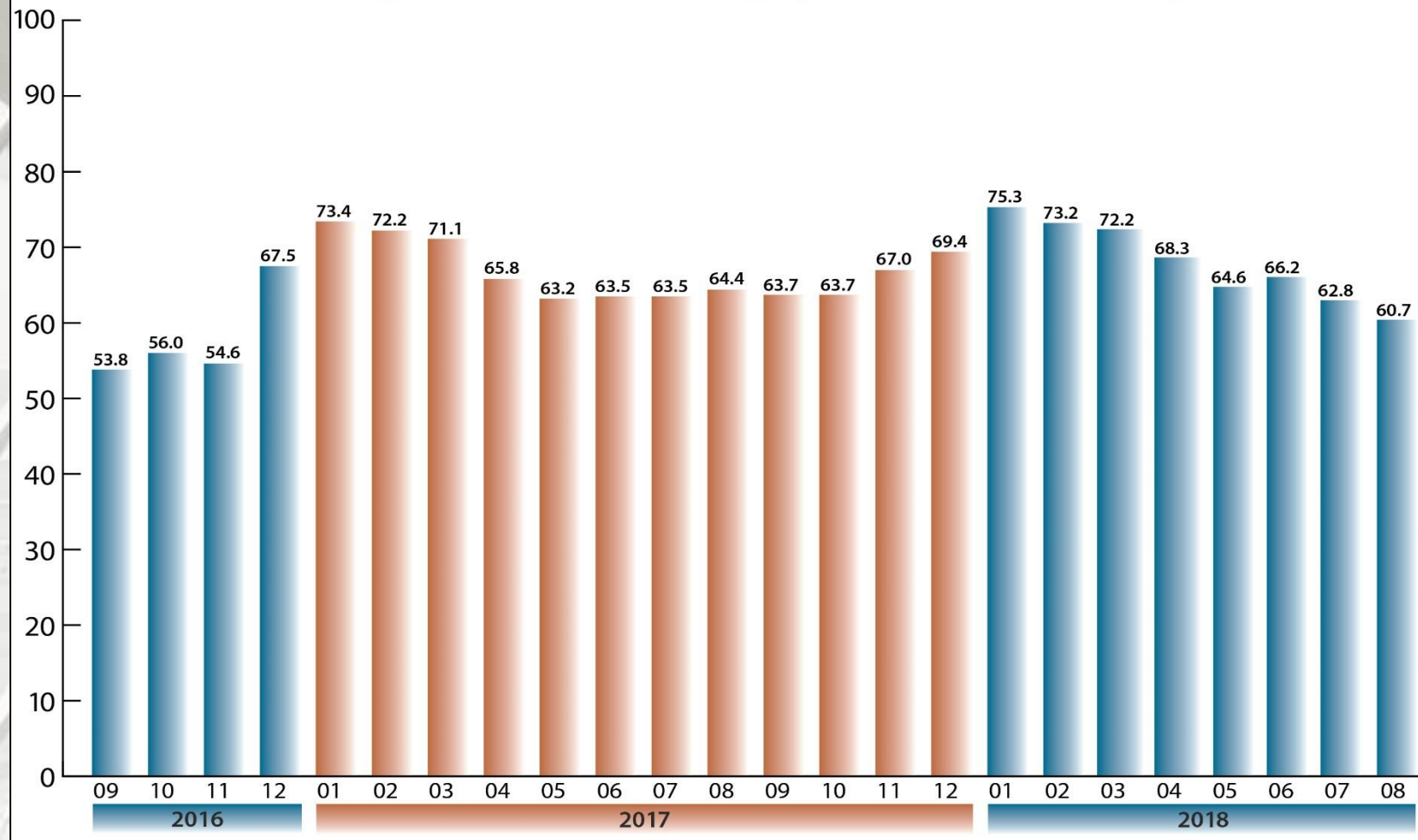
August 2018 Survey Results:

- “When asked, 36.7% of the executives report they expect to hire more employees over the next four months, a decrease from 45.2% in July. 63.3% expect no change in headcount over the next four months, an increase from 51.6% last month. None expect to hire fewer employees, a decrease from 3.2% in July.
- 40% of the leadership evaluate the current U.S. economy as “excellent,” down from 41.9% last month. 60% of the leadership evaluate the current U.S. economy as “fair,” up from 58.1% in July. None evaluate it as “poor,” unchanged from last month.
- 13.3% of the survey respondents believe that U.S. economic conditions will get “better” over the next six months, a slight increase from 12.9% in July. 73.3% of survey respondents indicate they believe the U.S. economy will “stay the same” over the next six months, a decrease from 77.4% the previous month. 13.3% believe economic conditions in the U.S. will worsen over the next six months, an increase from 9.7% in July.
- In August, 33.3% of respondents indicate they believe their company will increase spending on business development activities during the next six months, a decrease from 45.2% in July. 66.7% believe there will be “no change” in business development spending, an increase from 54.8% the previous month. None believe there will be a decrease in spending, unchanged from last month.” – Anneliese DeDiemar, Author, Equipment Leasing & Finance Association

Private Indicators



24-Month Monthly Confidence Index - Equipment Finance Industry (MCI-EFI)



“...Overall, confidence in the equipment finance market eased again in August to 60.7, down from the July index of 62.8.” – Anneliese DeDiemar, Author, Equipment Leasing & Finance Association

Private Indicators

Equipment Leasing and Finance Association

Monthly Leasing and Finance Index: July 2018

**July New Business Volume Up 4 Percent Year-over-year,
Down 10 Percent Month-to-Month, Up 4 Percent Year-to-date**

“The [Equipment Leasing and Finance Association’s](#) (ELFA) [Monthly Leasing and Finance Index \(MLFI-25\)](#), which reports economic activity from 25 companies representing a cross section of the \$1 trillion equipment finance sector, showed their overall new business volume for July was \$8.2 billion, up 4 percent year-over-year from new business volume in July 2017.

Volume was down 10 percent month-to-month from \$9.1 billion in June. Year to date, cumulative new business volume was **up 4 percent** compared to 2017.

Receivables over 30 days were 1.90 percent, up from 1.40 percent the previous month and up from 1.40 percent the same period in 2017. Charge-offs were 0.31 percent, down from 0.33 percent the previous month, and down from 0.35 percent in the year-earlier period.

Credit approvals totaled 76.2 percent in July, up from 75.8 percent in June. Total headcount for equipment finance companies was up 0.6 percent year over year. During 2017, headcount was elevated due to acquisition activity at an MLFI reporting company.

Separately, the Equipment Leasing & Finance Foundation’s Monthly Confidence Index (MCI-EFI) in August is 60.7, easing from the July index of 62.8.” – Amy Vogt, Vice President, Communications and Marketing, ELFA

Private Indicators

Equipment Leasing and Finance Association

Monthly Leasing & Finance Index: July 2018

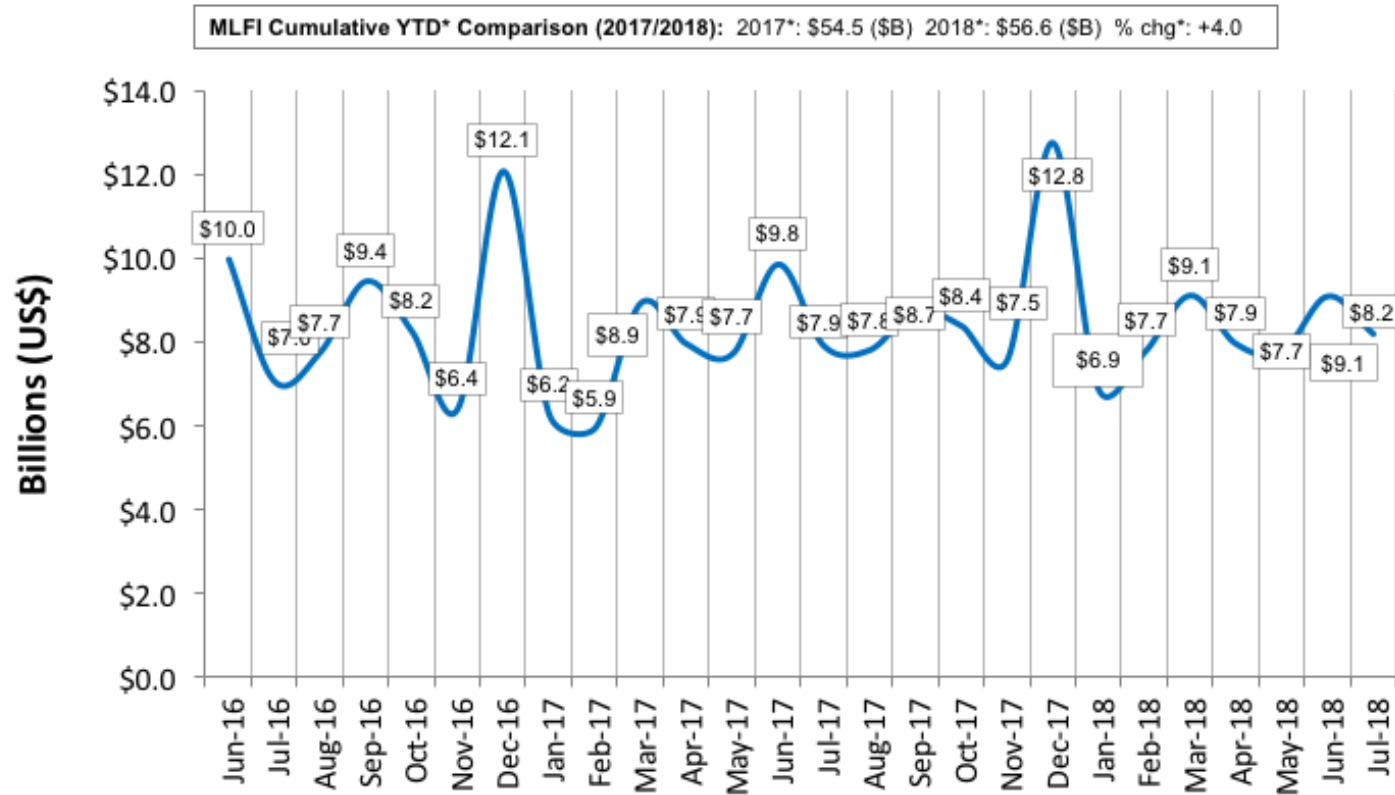
**July New Business Volume Up 4 Percent Year-over-year,
Down 10 Percent Month-to-Month, Up 4 Percent Year-to-date**

“End-of-summer volume remains steady in the face of slowly rising interest rates and trade and tariff concerns in some pockets of the economy. Fundamentals in the economy also remain steady, featuring solid second quarter growth, low unemployment, a gravity-defying equities market and continued optimism in much of the business community borne out of tax legislation enacted last year. As we enter the late summer months, industry observers will be keeping a close eye on changes in credit markets as well as a flattening of the yield curve in the broader bond market, either of which could have implications for the economy in general, and the equipment finance space in particular.” – Ralph Petta, President and CEO, ELFA

“Over the past five months SunTrust has seen new originations pick up across our lines of business, as companies broadly have adjusted for changes resulting from tax reform. Some companies have expressed concern regarding the impact trade tariffs may have. However, we remain optimistic as the outlook for capital expenditure plans over the next 12 months appears robust and new projects are coming online in our markets regularly.” – Joe Hines, Managing Director – Head of Direct Originations, SunTrust Equipment Finance & Leasing Corporation

Private Indicators

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



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



Private Indicators

FreightWaves

Freight demand keeps rising as retail, manufacturing activity push higher

“A pair of releases this morning show that retail spending and industrial output expanded in August, signaling that some key components of freight demand continue to grow at a healthy pace in the 3rd quarter. ...

Taken in tandem, this morning's reports serve as a sign that some of the key drivers of freight demand remain healthy in the 3rd quarter. On the retail side, the softness in August numbers was offset by the revisions in July. Some of this is probably the result of changing seasonality, as consumers have pushed more spending into July in recent years to take advantage of Prime Day and all of the related deals that occur during that time. The year-over-year growth still looks impressive, even once you consider that rising gas prices and higher inflation in general is driving some of the high headline numbers. Things are shaping up nicely for the peak holiday shopping season, and sales are likely to be very strong this year.

The industrial production results were also good, but the number of areas of weakness is a bit troubling. Mining and oil exploration is expanding rapidly in the economy, and is dominating some much of the industrial activity. Even outside of the strong mining production numbers, much of the production in machinery and primary metals is for things supporting the mining sector. Demand seems strong for most sectors, but the inability to meet demand is becoming an issue for more and more industries within the sector.

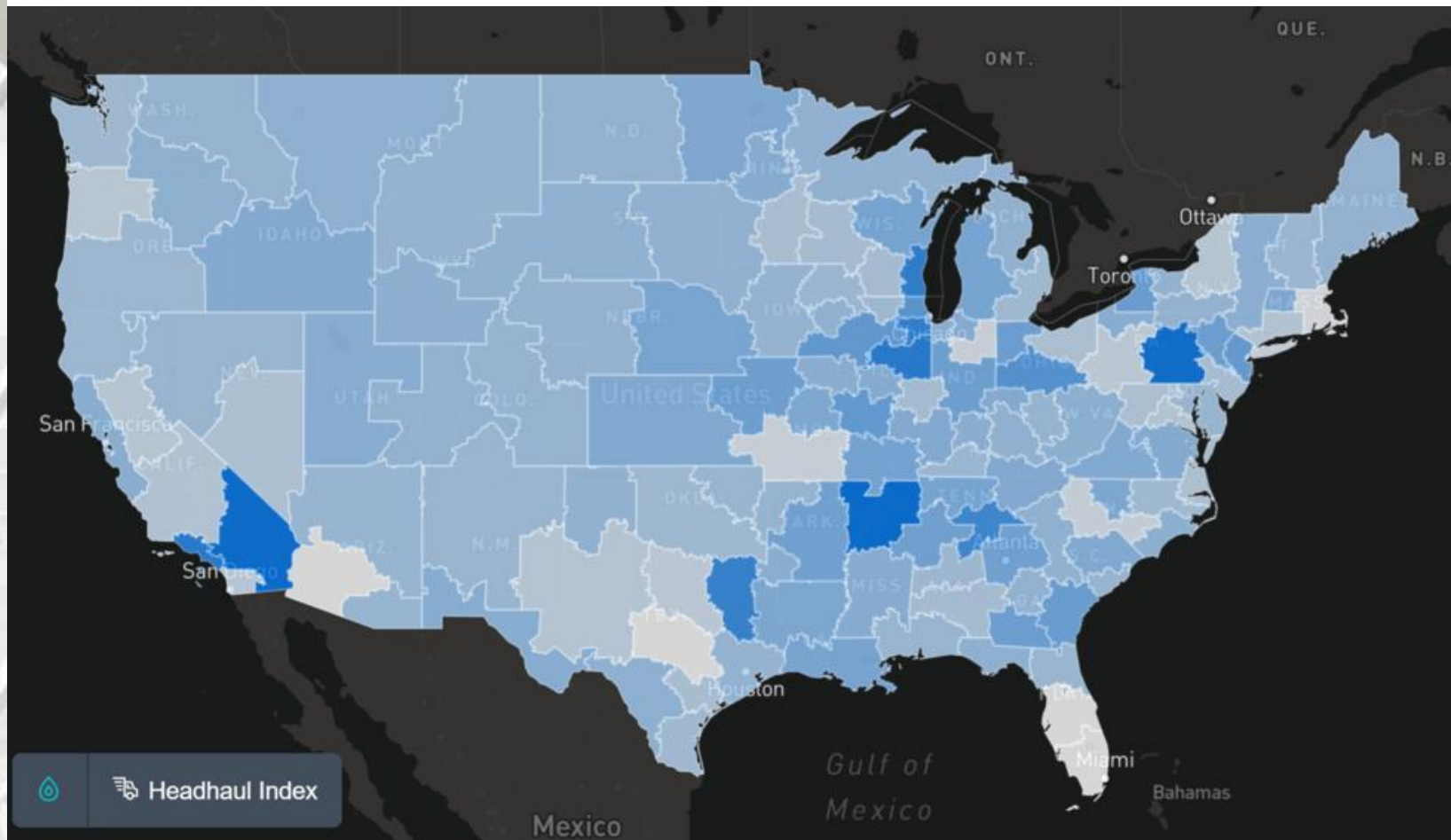
Still, from a freight demand perspective things look healthy in the 3rd quarter. The August numbers may be the last clean look we get at economic results for a while, as the hurricane could derail September results and subsequent months may be boosted by rebuilding efforts.” – Ibrahiim Bayaan, Chief Economist, FreightWaves

Private Indicators

FreightWaves SONAR

No walking in Memphis: the city is the #1 headhaul market in the U.S.

- | | | |
|---------------------------|---------------------------|--------------------------|
| 1. Memphis: 80.32 | 2. Ontario, CA: 79.07 | 3. Harrisburg, PA: 76.02 |
| 4. Bloomington, IL: 62.50 | 5. Los Angeles, CA: 61.32 | |



Headhaul Index presented on sonar maps (Sonar:Haul). The darker the blue, the higher the headhaul conditions for the market. The whiter the market, the more of a backhaul condition for the market.

Private Indicators

FreightWaves

Class 8 Truck Orders — August 2018



Both FTR Research and ACT reported all-time record high monthly numbers in August for class 8 truck orders.

FTR reported
52,400
orders their numbers
are up

153%
year-on-year.



“The supply chain remains tight, and fleets and dealers continue to place large orders to lock down build slots in 2019.”

— Don Ake, FTR's Vice President of Commercial Vehicles

ACT reported
53,100
orders their numbers
are up

150%
year-on-year.



“Preliminary data indicates that during the month of August, NA Class 8 orders rose **0.9%** month-over-month and **150%** from August 2017.”

— Kenny Vieth, ACT's President and Senior Analyst

FREIGHTWAVES | Sources:

Research from the ACT & FTR

WWW.FREIGHTWAVES.COM

August 2018 Manufacturing ISM® Report On Business®

August PMI® at 61.3%

New Orders, Production, and Employment Growing

Supplier Deliveries Slowing at Faster Rate; Backlog Growing

Raw Materials Inventories Growing; Customers' Inventories Too Low

Prices Increasing at Slower Rate; Exports and Imports Growing

“Economic activity in the **manufacturing sector** expanded in August, and the **overall economy** grew for the 112th consecutive month, say the nation's supply executives in the latest **Manufacturing ISM® Report On Business®**. The August PMI® registered 61.3 percent, an increase of 3.2 percentage points from the July reading of 58.1 percent.

The New Orders Index registered 65.1 percent, an increase of 4.9 percentage points from the July reading of 60.2 percent.

The Production Index registered 63.3 percent, a 4.8-percentage point increase compared to the July reading of 58.5 percent.

The Employment Index registered 58.5 percent, an increase of 2 percentage points from the July reading of 56.5 percent.

The Supplier Deliveries Index registered 64.5 percent, a 2.4-percentage point increase from the July reading of 62.1 percent.

The Inventories Index registered 55.4 percent, an increase of 2.1 percentage points from the July reading of 53.3 percent.

The Prices Index registered 72.1 percent in August, a 1.1-percentage point decrease from the July reading of 73.2 percent, indicating higher raw materials prices for the 30th consecutive month.” – Timothy R. Fiore, CPSM, CPSD, Chair of the ISM® Manufacturing Business Survey Committee

August 2018 Manufacturing ISM® Report On Business®

August PMI® at 61.3%

“Comments from the panel reflect continued expanding business strength. **Demand** remains strong, with the New Orders Index at 60 percent or above for the 16th straight month, and the Customers’ Inventories Index remaining low. The Backlog of Orders Index continued to expand, at higher levels compared to the previous month. **Consumption** improved, with production and employment continuing to expand, at higher levels compared to July, despite shortages in labor and materials. **Inputs** (expressed as supplier deliveries, inventories and imports) expanded strongly due to continuing supply chain inefficiencies, positive increases in inventory levels and a slight easing of imports. Lead-time extensions, steel and aluminum disruptions, supplier labor issues, and transportation difficulties continue, but at more manageable levels.

Export orders expanded at stable levels. Prices pressure continues, but the index softened for the third straight month and remains above 70. Demand is still robust, but the nation’s employment resources and supply chains continue to struggle. Respondents are again overwhelmingly concerned about tariff-related activity, including how reciprocal tariffs will impact company revenue and current manufacturing locations. Panelists are actively evaluating how to respond to these business changes, given the uncertainty,” – Timothy R. Fiore, CPSM, CPSD, Chair of the ISM® Manufacturing Business Survey Committee

August 2018 Non-Manufacturing ISM® Report On Business®

August PMI® at 58.5%

**Business Activity Index at 60.7%; New Orders Index at 60.4%;
Employment Index at 56.7%**

“Economic activity in the **non-manufacturing sector** grew in August for the 103rd consecutive month, say the nation’s purchasing and supply executives in the latest **Non-Manufacturing ISM® Report On Business®**.

The NMI® registered 58.5 percent, which is 2.8 percentage points higher than the July reading of 55.7 percent. This represents continued growth in the non-manufacturing sector at a faster rate.

The Non-Manufacturing Business Activity Index increased to 60.7 percent, 4.2 percentage points higher than the July reading of 56.5 percent, reflecting growth for the 109th consecutive month, at a faster rate in August.

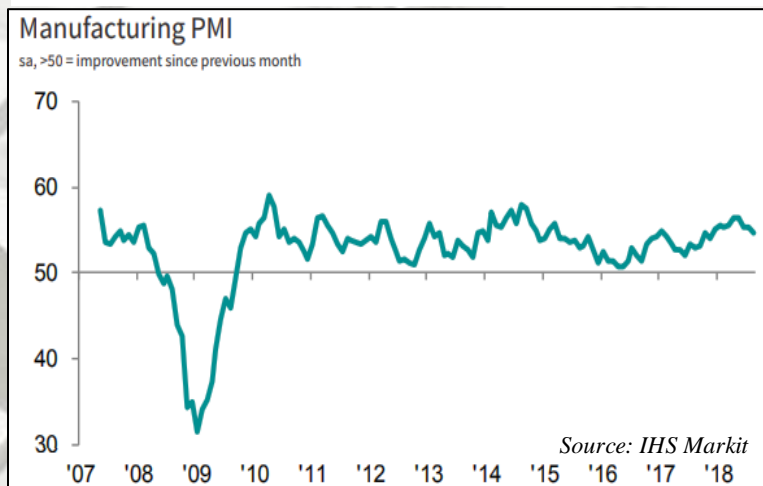
The New Orders Index registered 60.4 percent, 3.4 percentage points higher than the reading of 57 percent in July.

The Employment Index increased 0.6 percentage point in August to 56.7 percent from the July reading of 56.1 percent.

The Prices Index decreased by 0.6 percentage point from the July reading of 63.4 percent to 62.8 percent, indicating that prices increased in August for the 30th consecutive month.

According to the NMI®, 16 non-manufacturing industries reported growth. There was a strong rebound for the non-manufacturing sector in August after growth ‘cooled off’ in July. Logistics, tariffs and employment resources continue to have an impact on many of the respective industries. Overall, the respondents remain positive about business conditions and the economy.” – Timothy R. Fiore, CPSM, CPSD, Chair of the ISM® Manufacturing Business Survey Committee

Private Indicators



Markit U.S. Manufacturing PMI™

“The seasonally adjusted IHS Markit final U.S. Manufacturing Purchasing Managers’ Index™ (PMI™) registered 54.7 in August, down from 55.3 in July. Although signalling the weakest improvement in operating conditions since last November, the PMI indicated a strong overall manufacturing performance. Moreover, the latest figure remained well above the long-run series average.

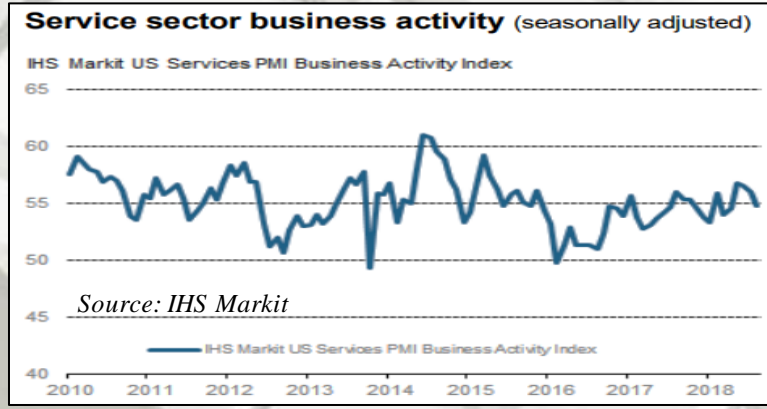
August PMI signals strong growth despite dipping to nine-month low

August data indicated a strong overall improvement in the health of the U.S. manufacturing sector. The upturn was supported by further rises in output and new orders, and a renewed increase in export sales. That said, production rose at the weakest rate for almost a year. The latest upturn in new business drove solid increases in employment and backlogs. Meanwhile, rates of both input price and output charge inflation softened to six- and five-month lows, respectively. On a positive note, business confidence improved and reached a three-month high.

Manufacturers reported the smallest output rise for almost a year in August, suggesting production growth could be as weak as 0.2% in the third quarter. Exports remain the key source of weakness for producers, with foreign orders barely rising in August after two months of modest declines. The strongest growth is being seen in consumer-facing companies, reflecting robust domestic demand, in turn linked to the strong labour market and buoyant consumer confidence, though even here growth has slowed. ...

Tariffs and trade wars were also commonly cited as factors behind companies building safety stocks of inputs to ensure supply or lock-in lower prices, exacerbating supply shortages and also driving prices even higher. Looking at the survey responses, almost two-thirds (64%) of companies reporting higher input prices explicitly blamed tariffs as the cause of increased costs. Almost one-in-three went on to cite tariffs as the cause of having to hike prices to customers. Overall price pressures eased somewhat, however, which if sustained could take some heat off consumer price inflation in coming months” – Chris Williamson, Chief Economist, Markit®

Private Indicators



Markit U.S. Services PMI™

“The seasonally adjusted final **IHS Markit U.S. Services Business Activity Index** registered 54.8 in August, down from 56.0 in July. Output growth was largely attributed by panellists to greater client demand and the opening of new facilities. However, the overall rate of growth eased to the softest since April..

Service sector activity growth eases, amid weaker new business upturn

The latest survey data signalled a weaker rise in business activity across the U.S. service sector. Output growth softened to a four-month low and dipped below the long-run series trend. The rate of new business growth softened to an eight-month low, despite remaining strong overall. Subsequently, firms showed evidence of spare capacity with backlogs falling further and employment growth slowing to a seven-month low. Meanwhile, increases in input prices and output charges eased, despite the rate of charge inflation remaining well above the series trend.

The weaker PMI numbers indicate that the third quarter is unlikely to see the pace of economic growth match the 4.2% clip seen in the second quarter, though it's clear that domestic demand remains strong, helping companies raise prices at a near-record rate. The survey data so far for the third quarter signal annualised GDP growth of just under 3.0%. However, further momentum was lost in August, and the weakest rise in new orders for goods and services for eight months suggests growth could wane further in September.

Similarly, while the survey employment readings remain roughly consistent with a non-farm payroll gain of just under 200,000, the rate of job creation may likewise start to slow. Backlogs of work barely rose for a second successive month in August, indicating that existing operating capacity levels are broadly sufficient to cope with current demand growth. However, despite the signs of slower growth, companies continued to report strong pricing power, underscoring the on-going buoyancy of domestic demand in particular. Average prices charged for goods and services rose at a rate only slightly below July's nine-year survey record high.” – Chris Williamson, Chief Economist, Markit®

Private Indicators



MetLife & U.S. Chamber of Commerce Small Business Index

Local Economic Outlook Pushes Optimism To Record High

“The MetLife & U.S. Chamber of Commerce Small Business Index climbed to 69.7 in Q3 of 2018. The record high score reflects a rebound in national economic outlook, matching the highest levels in the history of the survey. The trend line for business owners rating the overall health of their business as good has moved upward after five consecutive quarters of unchanged results. Despite such optimism, revenue expectations for the year ahead were down for small business of all sizes.” – Bridgett Hebert, U.S. Chamber of Commerce and David Hammarstrom, Metlife

Private Indicators

MetLife & U.S. Chamber of Commerce Small Business Index Q2 Index Highlights

Credit where credit is due.

“One-fifth of small businesses have applied for a loan or line of credit in the past year. Those applying for financing were equally split between seeking a loan or securing a line of credit. Of those applying, about two-thirds received the full amount, while 10% noted only receiving a partial amount. Fifteen percent were rejected outright.

Timing influences perception.

About one in five small business owners seeking financing report that it is hard to obtain. Recent experience colors perception, with those who have sought financing in the last year almost twice as likely (41%) to report getting access to credit is hard, versus those who have ever applied (24%).

The Small Business Index score rose for the sixth quarter in a row.

Strong sentiment is driven by resurgence in the national economic outlook.” – Bridgett Hebert, U.S. Chamber of Commerce and David Hammarstrom, Metlife

Private Indicators

MetLife & U.S. Chamber of Commerce Small Business Index Q2 Index Highlights

National economic outlook rebounds from Q2 drop.

“Small business owners’ perception of the national economy regained its footing to Index record setting levels at 55%, after having dropped eight percentage points in Q2.

Perception of local economic conditions rises.

The health of the local economy continues to drive the optimistic perceptions of small business owners. In Q3 2018, the number rating their local economic health as good increased to 51%, the highest mark in the history of the Index.

Small business revenue outlook dims for coming year.

Increased revenue expectations for the coming year declined by six points in Q3 (56%). This broke a string of four consecutive quarters of stable revenue expectations.” – Bridgett Hebert, U.S. Chamber of Commerce and David Hammarstrom, Metlife

Private Indicators

National Association of Credit Management – Credit Managers' Index

End of Summer Brings CMI Out of Decline

“NACM’s Credit Managers’ Index (CMI) turned around as the summer comes to a close, showing positive readings for the first time in two months. These higher readings show signs of stability for the near future, though the stability may not last with the threat of inflation and on-going trade wars.

The combined CMI score for August went up by 0.3 points, with the most increase seen in the favorable sectors. The unfavourables, however, began to approach a score less than 50 – falling dangerously close to contraction territory.

Much like last month’s reading, this month saw the most positive readings in the manufacturing sector. Credit managers reported an increase in the amount of credit extended and also sales, along with more credit applications and dollar collections.

The service sector only gained a tenth of a point this month, with dollar collections and new credit applications the only factors that saw an increase from July. Sales saw the least improvement and extending credit did not see much improvement either.” – Christie Citrango, Editorial Associate, NACM

National Association of Credit Management – Credit Managers' Index

End of Summer Brings CMI Out of Decline

“Steady as she goes. Right at the moment, it feels good to have a month without a lot of drama. There has been quite a lot taking place affecting the progress of the economy now and in the future. As far as the data from the Credit Managers' Index (CMI), there has been some stability with August readings looking a lot like last month. Where there has been change, it has been in a positive direction.

The combined score for the CMI this month was 55.8, nearly identical to the 55.5 notched last month. There was significant similarity between last month and this month in the index of non-favorable factors as well. This month fell slightly to 50.1 after a reading of 50.5 in July. There was more variation in the index of favorable factors with improvement in all four categories. It was at 63.1 in July and is now at 64.3 – just below May and June of this year. The real news, as always, is in the details and the sub-index readings.

The sales category perked back up. That is always good news as it is the sale that starts the whole process in motion for a credit manager. Last month, the reading was down to 63.9, the lowest mark since the 63 set in January. It is now back to 65, but not yet in the exalted territory reached in May and June when the levels were over 69. It always seems a little picky to look at readings in the 60s as troublesome – these have been spectacular numbers for a few years. What matters now is the trend, Dr. Chris Kuehl, NACM economist, explained. It is always good to see these readings improve. The new credit applications numbers also improved a little, increasing from 61.2 to 62.5. The often volatile dollar collections data improved as well (61 to 62.6). This reading is one of the best this year with only February and June exceeding this month. The amount of credit extended also saw a small improvement from 66.1 to 66.9.” – Adam Fusco, Associate Editor, NACM

National Association of Credit Management – Credit Managers' Index

End of Summer Brings CMI Out of Decline

“There was not quite as much drama as far as the non-favorable factors. There was a slight dip in the rejections of credit applications (52.5 to 52.2), but this was a minor shift and comes at the same time that overall applications have been up. There was also a slip in the accounts placed for collection category as it went from 49.9 to 49. It had been hoped that it would break past the 50 barrier (anything above 50 is expansion) this month, but there are obviously still distressed creditors. Likewise, there was a dip in the disputes category from 47.7 to 46.4. The dollar amount beyond terms saw an improvement – good news although the reading is still in the contraction zone at 48.5. However, this is better than the previous month’s reading of 47.4. The dollar amount of customer deductions also saw some better numbers (47.9 to 48.7). Finally, there are the numbers for filings for bankruptcies. They looked a bit weaker, falling from 57.4 to 55.9. Dr. Chris Kuehl, NACM economist noted that readings in the mid-50s are good and this category is firmly in the expansion zone, but the trend is not where anyone would want it to be.

The sales category shifted up from 62.4 and hit 66.5 this month, bringing the reading back to what had been seen as normal over the last year. This year, the reading has been below 63 only twice; in May and June the numbers were over 69. The new credit applications category also saw an improvement when the numbers jumped back into the 60s after a reading of 59.5 last month. It is now sitting at 61.4. The dollar collections data improved from 61.5 to 62.4. According to Kuehl, this has been a vexing area for the last year and seems to move in tandem with the non-favorable category of dollar amount beyond terms. The fewer slow pays, the better the dollar collection. There was also an improvement in the amount of credit extended (65.1 to 67.1).” – Adam Fusco, Associate Editor, NACM

National Association of Credit Management – Credit Managers' Index

End of Summer Brings CMI Out of Decline

“As with the manufacturing data, there was not a lot of change in the service sector readings. That likely shows the diversity of this category as much as it suggests the activity within the sector. The service area is vast and diverse as there are contributions from retail, construction, health care, finance, entertainment and more. It is not likely that all these sectors will be moving in lock step, so growth in one area can temper lack of growth in another. For example, the retail sector is looking awfully robust these days, but the same can't be said for construction as it starts to enter a slump.

The combined score for services was very close to what it was last month, shifting from 55.6 to 55.7. The index of favorable factors improved but very slightly (64 to 64.2). The non-favorable index also showed some minor movement from 50.1 to 50. Kuehl noted this was the month for stability in services, but on closer examination, it resembled water acrobatics with calm above the water hiding the chaos underneath.

The sales category slipped a little as it fell from 65.3 to 63.4. This month's reading is the lowest since January. The new credit applications reading improved very slightly from 63 to 63.5. Likewise, there was an improvement in the dollar collection category – 62.9 after last month's 60.5. The amount of credit extended moved down just a bit, but dipping from 67.2 to 66.7 is hardly a crisis.” – Adam Fusco, Associate Editor, NACM

“The real significance of this is all the readings have been above 60 since April of this year.” – Dr. Chris Kuehl, Economist, NACM

Private Indicators

National Association of Credit Management – Credit Managers' Index

End of Summer Brings CMI Out of Decline

“Given all the turmoil surrounding trade issues and the mercurial behavior of the president, it might be expected this drama would be affecting the overall performance of the economy. The assessment is that the economic drivers are mostly shrugging off these issues and have been reacting to more traditional motivators. This state of calm is not likely to last, however, given the appearance of some inflation indicators and the potential impact of various trade deals, which have been on-again and off-again.

The amount of credit extended also saw a small improvement from 66.1 to 66.9. The good news for this sector is it has been above 66 for seven months in a row. That means good customers are asking for some considerable amounts of credit.

There has been a lot of drama surrounding the manufacturing sector over the last several months. Some of that volatility has been seen in the data. Not as much variability as one would expect though. The volatility seems to signal that most manufacturers are reacting to solid consumer demand from within the U.S. and outside. The worry stems from the near constant threat of new tariffs and trade disputes. The steel and aluminum tariffs are still biting hard. Then, there is the roller coaster strategy that has tariffs imposed on cars and other products one day and those restrictions being lifted the next day. In the midst of that storm, there has been some manufacturing stability. This category has been hugging the border between contraction and expansion for the past year. There is nothing to suggest this will alter any time soon.” – Dr. Chris Kuehl, Economist, NACM

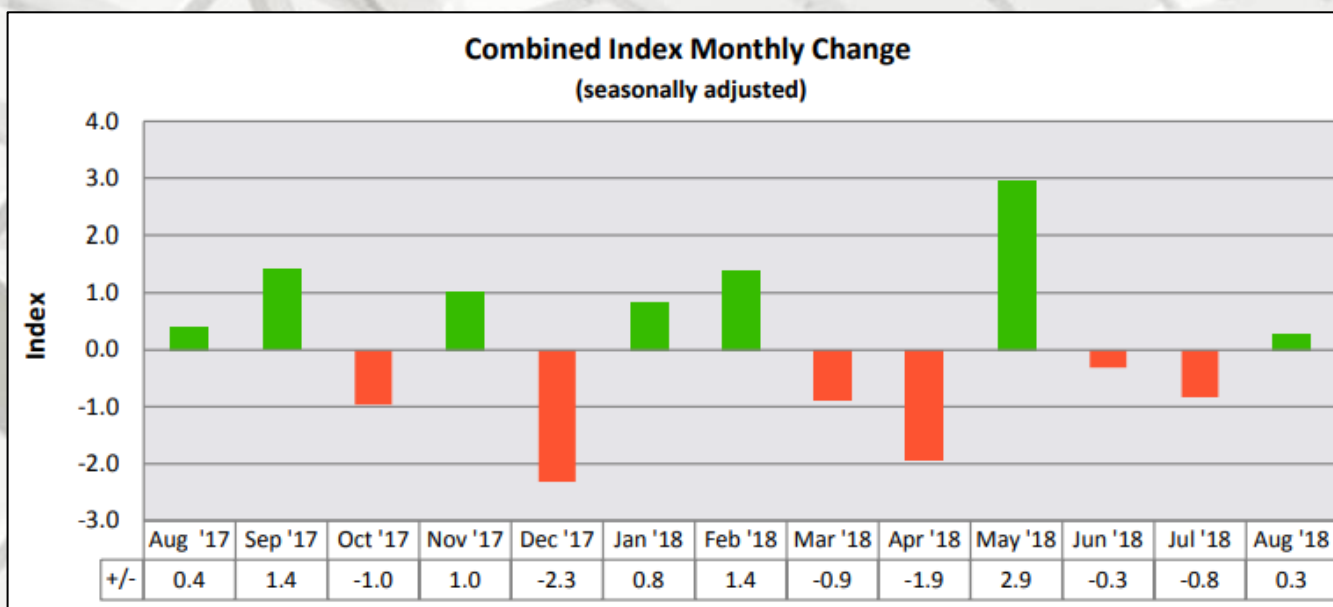
Private Indicators

National Association of Credit Management – Credit Managers' Index

End of Summer Brings CMI Out of Decline

“The rejections of credit applications stayed very close to previous readings (53.5 to 53.7). That is good news given that new applications went up. ...those who are applying for credit are getting approved. The accounts placed for collection reading fell a bit and is now in contraction territory. It was at 50.6 and now sits at 49.6. The last time this was in contraction territory was April when it hit 49.8. The disputes category fell deeper into contraction with a reading of 45.8 compared to last month's 47. This is not a good sign as disputes nearly always lead to more serious issues, like collection and even bankruptcy. The dollar amount beyond terms stayed close to what it had been, with a reading of 48.4 compared to 48.1 in July, but at least it was an improvement. The dollar amount of customer deductions improved by quite a bit, but is still mired in the contraction zone. It was 46.9 and is now 48.1. The filings for bankruptcies category fell back quite a bit from what it had been, moving from 59.1 to 56. These are still very good numbers and suggest that most companies are finding a way to survive. ” – Dr. Chris Kuehl, Economist, NACM

Private Indicators

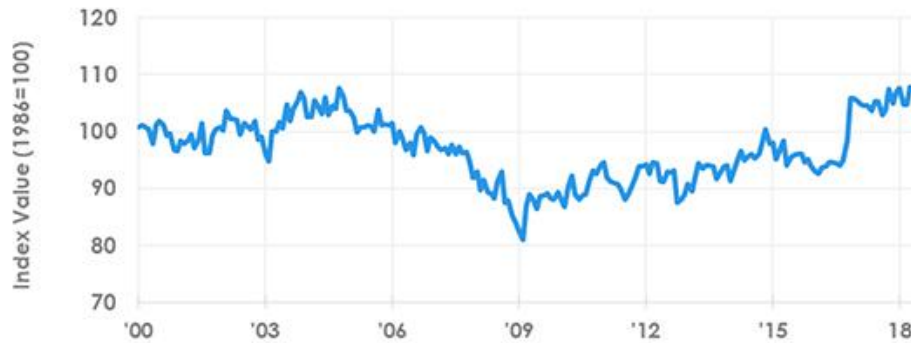


Combined Manufacturing and Service Sectors (seasonally adjusted)	Aug '17	Sep '17	Oct '17	Nov '17	Dec '17	Jan '18	Feb '18	Mar '18	Apr '18	May '18	Jun '18	Jul '18	Aug '18
Sales	62.2	67.3	66.8	68.3	59.2	63.0	66.8	64.1	65.8	69.6	69.6	63.9	65.0
New credit applications	61.2	60.5	62.8	63.7	57.3	59.8	63.3	62.7	62.2	63.8	60.5	61.2	62.5
Dollar collections	58.9	60.0	60.2	63.1	59.1	58.7	62.9	59.6	46.7	62.5	63.2	61.0	62.6
Amount of credit extended	66.7	66.3	65.5	67.8	61.8	64.3	66.4	66.2	66.1	66.8	66.2	66.1	66.9
Index of favorable factors	62.2	63.5	63.8	65.7	59.4	61.4	64.9	63.2	60.2	65.7	64.9	63.1	64.3
Rejections of credit applications	52.2	52.5	51.8	52.4	51.4	51.8	51.5	53.3	51.0	51.3	51.2	52.5	52.2
Accounts placed for collection	48.7	50.3	49.5	50.5	49.8	51.7	49.8	50.4	48.7	49.0	51.3	49.9	49.0
Disputes	49.1	51.7	47.6	48.3	49.7	49.6	49.6	47.7	48.0	48.1	48.3	47.7	46.4
Dollar amount beyond terms	47.4	50.4	47.3	47.5	49.3	47.0	49.9	47.2	46.4	49.4	49.2	47.4	48.5
Dollar amount of customer deductions	49.2	49.8	48.7	48.9	49.7	49.7	49.1	49.8	48.4	49.7	48.1	47.9	48.7
Filings for bankruptcies	55.3	56.2	55.3	55.1	55.0	55.2	55.4	55.2	53.8	56.4	55.7	57.4	55.9
Index of unfavorable factors	50.3	51.8	50.0	50.4	50.8	50.8	50.9	50.6	49.4	50.6	50.6	50.5	50.1
NACM Combined CMI	55.1	56.5	55.5	56.6	54.2	55.1	56.5	55.6	53.7	56.6	56.3	55.5	55.8

Private Indicators

Small Business Optimism Index Reaches Record High at 108.8

Based on 10 survey indicators, seasonally adjusted, Jan. '00 – Aug. '18



NFIB.com/sboi

August 2018 Report:

“The NFIB Small Business Optimism Index soared to 108.8 in August, a new record in the survey’s 45-year history, topping the July 1983 high-water mark of 108. The record-breaking figure is driven by small business owners executing on the plans they’ve put in place due to dramatic changes in the nation’s economic policy.

Small Business Optimism Shatters Record Previously Set 35 Years Ago

The August survey showed:

- Job creation plans and unfilled job openings both set new records.
- The percentage of small business owners saying it is a good time to expand tied the May 2018 all-time high.
- Inventory investment plans were the strongest since 2005 and capital spending plans the highest since 2007.

A net 10 percent of all owners (seasonally adjusted) reported higher nominal sales in the past three months compared to the prior three months, up two points. August is the ninth consecutive strong month of reported sales gains after years of low or negative numbers. The net percent of owners planning to build inventories rose six points to a record net 10 percent, the 14th positive reading in the past 22 months. The frequency of reports of positive profit trends rose two points to a net one percent reporting quarter on quarter profit improvements, the second highest reading in the survey’s 45-year history.” – Holly Wade, NFIB

Private Indicators

“Today’s groundbreaking numbers are demonstrative of what I’m hearing everyday from small business owners – that business is booming. As the tax and regulatory landscape changed, so did small business expectations and plans. We’re now seeing the tangible results of those plans as small businesses report historically high, some record breaking, levels of increased sales, investment, earnings, and hiring.” – Juanita Duggan, President and CEO, NFIB

“At the beginning of this historic run, Index gains were dominated by expectations: good time to expand, expected real sales, inventory satisfaction, expected credit conditions, and expected business conditions. Now the Index is dominated by real business activity that makes GDP grow: job creation plans, job openings, strong capital spending plans, record inventory investment plans, and earnings. Small business is clearly helping to drive that four percent growth in the domestic economy.” – William C. Dunkelberg, Chief Economist, NFIB

“As reported in last week’s NFIB’s monthly jobs report, a seasonally adjusted net 26 percent of owners plan to create new jobs and 38 percent of owners reported job openings they could not fill in the current period, both survey highs. Sixty-two percent of owners reported trying to hire, with 89 percent of those owners reporting few or no qualified applications for their open positions. A record 25 percent of owners cited the difficulty of finding qualified workers as their *Single Most Important Business Problem*, up two points from last month. As a leading indicator of economic activity, the Index turned up sharply late in November 2016 and headed to readings in the top 5 percent of the Index history in December, never looking back. Three months later, economic activity soared, rising from 1.5 percent GDP growth to over 3 percent. Profits are driving the stock indices for ‘small’ firms to record levels, mirroring the record levels of profit gains for NFIB firms.” – Holly Wade, NFIB

Private Indicators

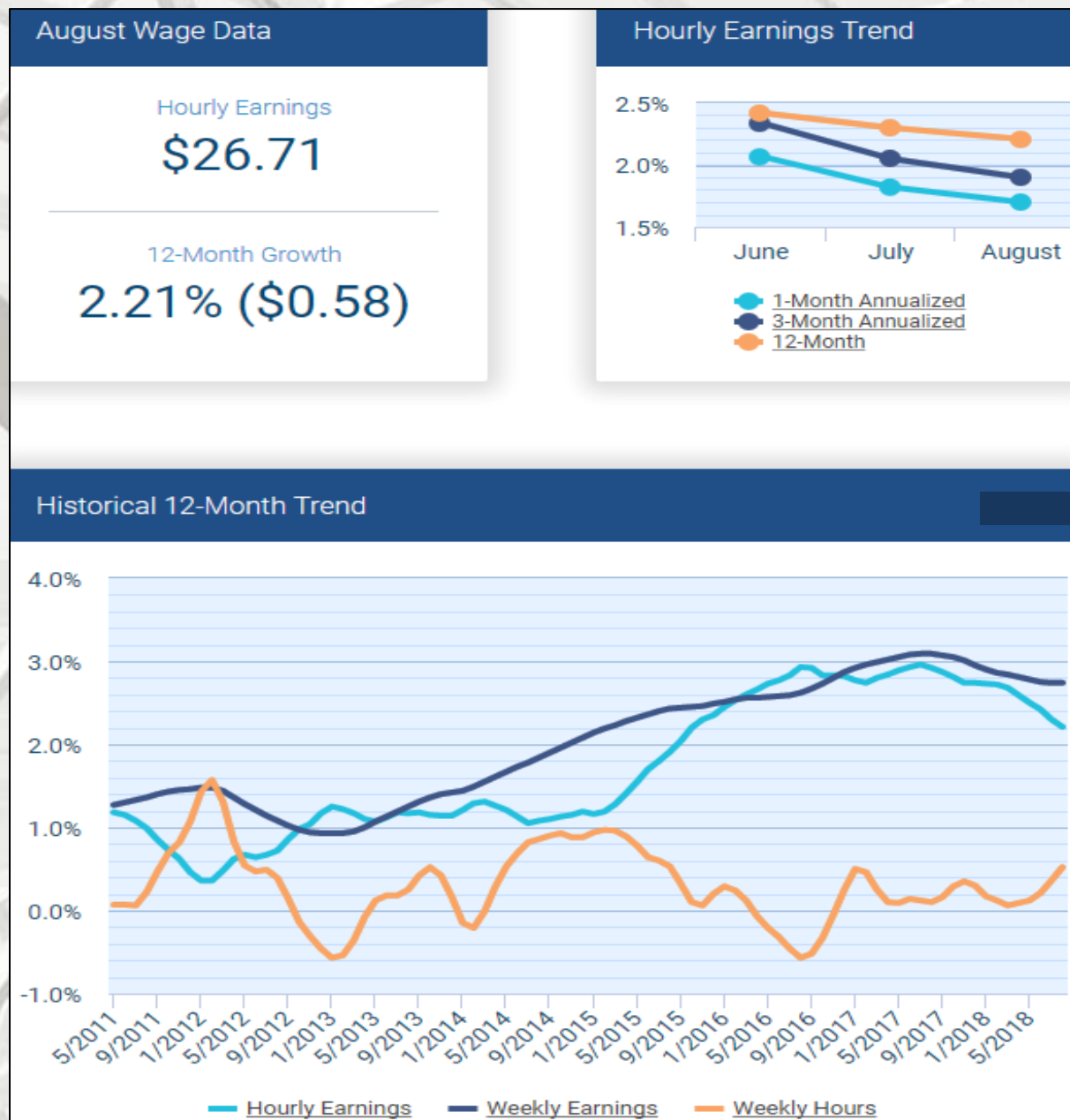
The Paychex | IHS Markit

Small Business Employment Watch

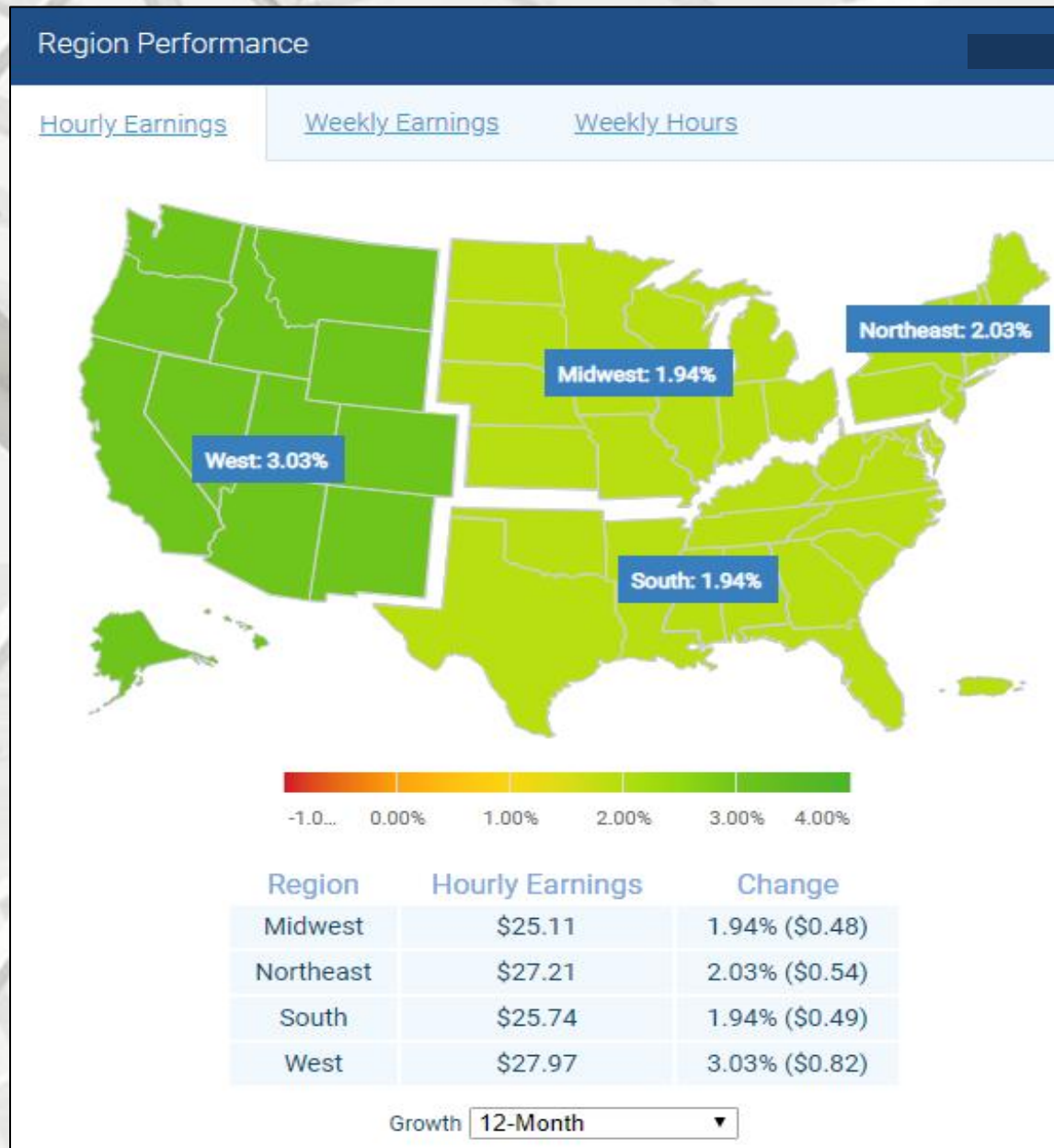
Weekly Hours Worked Up Among Small Businesses

- “Weekly hours worked continue to increase and have been accelerating since March. Possibly associated with the slowdown in small business job growth, current employees are working more hours as the year-over-year growth rate has been positive for the past 21 months.
- Earnings growth rates have decelerated for a full year now, with the hourly earnings rate now at 2.21 percent. One-month and three-month annualized growth rates are both below two percent in August.
- At \$27.97 and up 3.03 percent year-over-year, hourly earnings are highest and growing the fastest in the West, a full percentage point faster than the other regions.
- With positive hours worked growth in all regions, weekly earnings growth is well above hourly earnings growth.” – Martin Mucci, President and CEO, Paychex

Private Indicators



Private Indicators



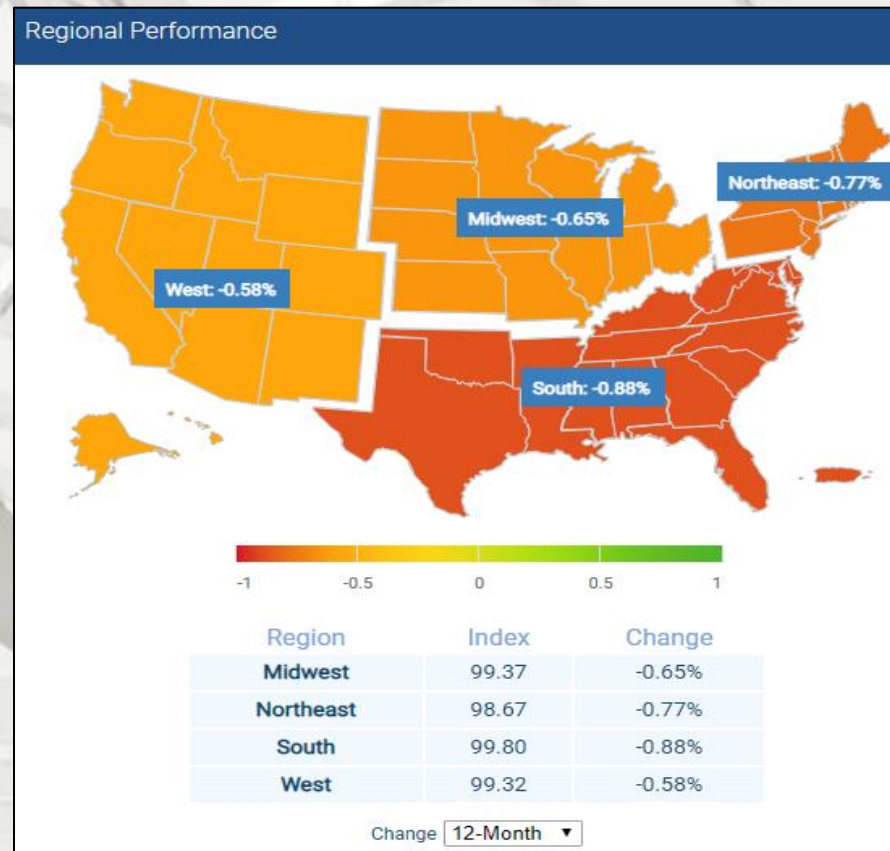
Private Indicators



The Paychex | IHS Small Business Jobs Index National Jobs Index

- “Small business job growth has steadily declined; the national index is down 0.73 percent year-over-year, compounding a similar decline of 0.74 percent in the prior year.
- Slowing for the third consecutive month, the national index is down 0.38 percent during the past three months.” – James Diffley, Chief Regional Economist, IHS Markit

Private Indicators



Note: Percentages displayed in the regional heat map reflect 1-month changes.

The Paychex | IHS Small Business Jobs Index Regional Jobs Index

- “Despite the weakest 12-month growth rate, the South remains the top-ranked region for small business job growth for the 28th consecutive month, with an index level of 99.80.
- While all other regions declined, the West remained flat at 99.32.”— James Diffley, Chief Regional Economist, IHS Markit

Private Indicators

“The S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index, covering all nine U.S. census divisions, reported a 6.2% annual gain in June, down from 6.4% in the previous month. The 10-City Composite annual increase came in at 6.0%, down from 6.2% in the previous month. The 20-City Composite posted a 6.3% year-over-year gain, down from 6.5% in the previous month.

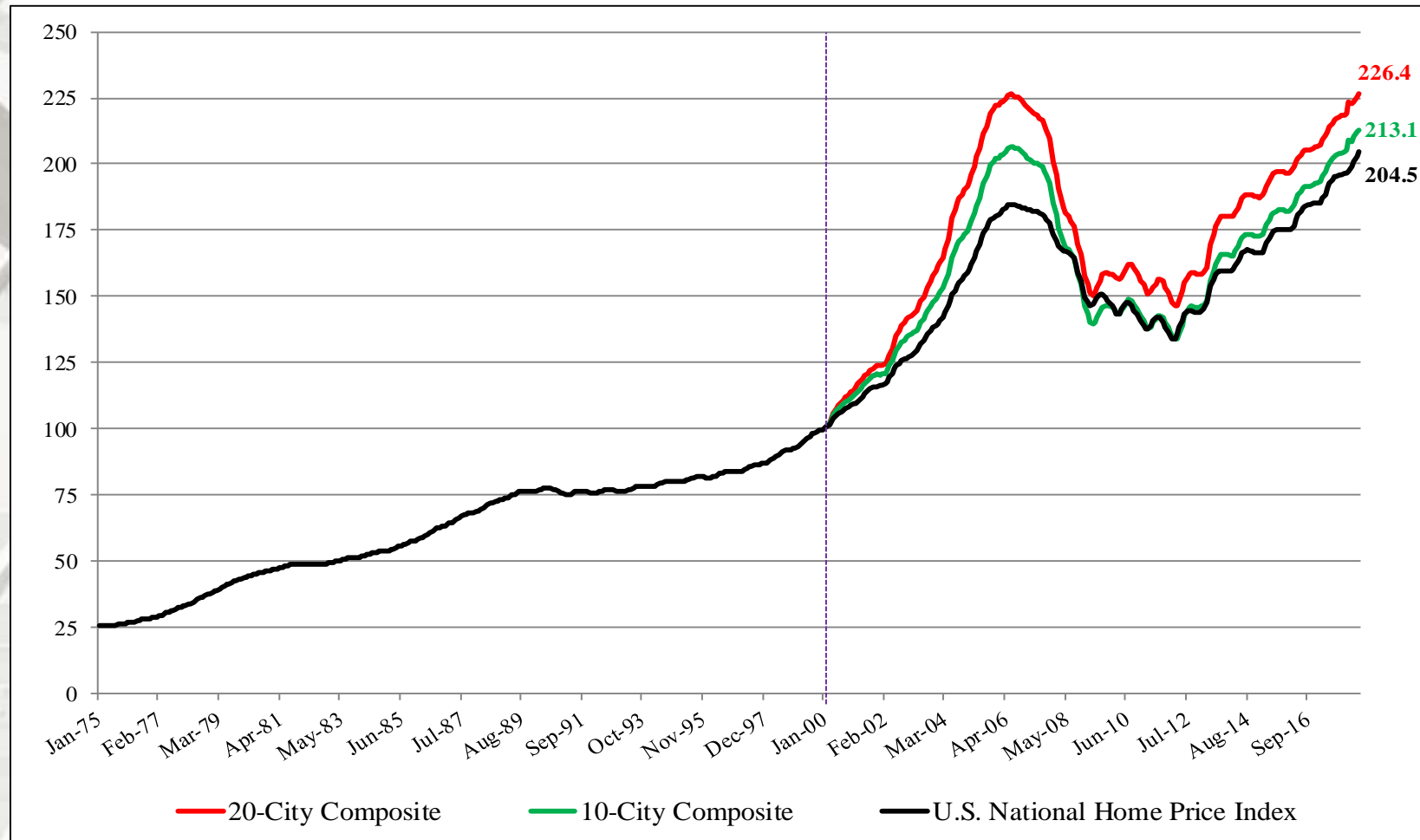
Las Vegas Leads Price Gains in June According to S&P CoreLogic Case-Shiller Index

Home prices continue to rise across the U.S. However, even as home prices keep climbing, we are seeing signs that growth is easing in the housing market. Sales of both new and existing homes are roughly flat over the last six months amidst news stories of an increase in the number of homes for sale in some markets. Rising mortgage rates – 30 year fixed rate mortgages rose from 4% to 4.5% since January – and the rise in home prices are affecting housing affordability.

The west still leads the rise in home prices with Las Vegas displacing Seattle as the market with the fastest price increase. Population and employment growth often drive homes prices. Las Vegas is among the fastest growing U.S. cities based on both employment and population, with its unemployment rate dropping below the national average in the last year. The northeast and mid-west are seeing smaller home price increases. Washington, Chicago and New York City showed the three slowest annual price gains among the 20 cities covered.” – David Blitzer, Managing Director and Chairman of the Index Committee, S&P Dow Jones Indices

Private Indicators

S&P/Case-Shiller Home Price Indices



“Las Vegas, Seattle and San Francisco continued to report the highest year-over-year gains among the 20 cities. In June, Las Vegas led the way with a 13.0% year-over-year price increase, followed by Seattle with a 12.8% increase and San Francisco with a 10.7% increase. Six of the 20 cities reported greater price increases in the year ending June 2018 versus the year ending May 2018.” – S&P CoreLogic

Demographics

One In 20 New Single-Family Starts Is Built-To-Rent: Here's Why

It's American households' way of saying they want more housing choices, and innovating to make it so.

“We think of innovation as problem-solving. The result of it is often the ability to produce more value with fewer costs in money, time, talent, or some other precious resource. Doing more with less, in other words.

Pursuit of solutions to the problems of construction costs, economic uncertainty, and regulatory burden is the locus of a great deal of innovative effort and investment, among companies large and tiny. Firms look to solve operational problems that keep them from being more efficient, from saving money on construction costs, and from being more productive -- able to generate more value per worker hour.

That's where the lion's share of innovation focus is, improving -- sometimes by quantum leaps -- processes that unleash greater productivity. This is our obsession these days, and why we feel our business community needs [Hive, where focus is on action](#), investment, and outcomes related to innovation at the strategic and tactical-operational level.

What may not occur to us, though, is that innovation is not limited to the business world. Housing's problem right now -- which is that there's not enough of it at all levels of the economic spectrum -- is both business and society's problem. And, society has every bit the motivation to innovate as it tries to solve for the fact that America's cities, towns, and communities are under-built, as the business community that makes up the housing sector does.” – John McManus, Editorial and Digital Content Director, *Builder*, Hanley Wood

Demographics

One In 20 New Single-Family Starts Is Built-To-Rent: Here's Why

“And one way that society has innovated -- in the form of housing preferences and choices -- is to create a small but fast-growing in-between category of housing options -- the newly-built single-family for-rent neighborhood.

The model -- building new homes for people who would rent at least initially -- has been around for decades, especially when home builders could count on being able to access cheap labor, acquire cheap lots, and achieve scale and efficiency by acquiring materials and products on an even-flow basis.

But [now it's a strategic play](#) -- partly by virtue of young adults' more arduous personal financial pathway early in their work lives, partly by virtue of the rent-by-choice phenomenon that grew out of disenchantments of the homeownership insanity that blew up into the Great Recession, and partly because Big Data and construction operational processes now make the build-to-rent single-family business model more viable. [AHV Communities](#) and [BB Living](#) are slowly gaining traction and establishing an operational template for new single-family rental neighborhoods.

Among the financial and operational focal points the [LGI Homes](#) executive team spotlighted during its [Aug. 7, second-quarter earnings](#) call with investment analysts was an almost brand new segment of the Houston-based entry-level juggernaut's business: single-family for-rent new construction.” – John McManus, Editorial and Digital Content Director, *Builder*, Hanley Wood

Demographics

One In 20 New Single-Family Starts Is Built-To-Rent: Here's Why

“LGI CEO Eric Lipar's commentary, from a [Seeking Alpha transcript](#), notes:

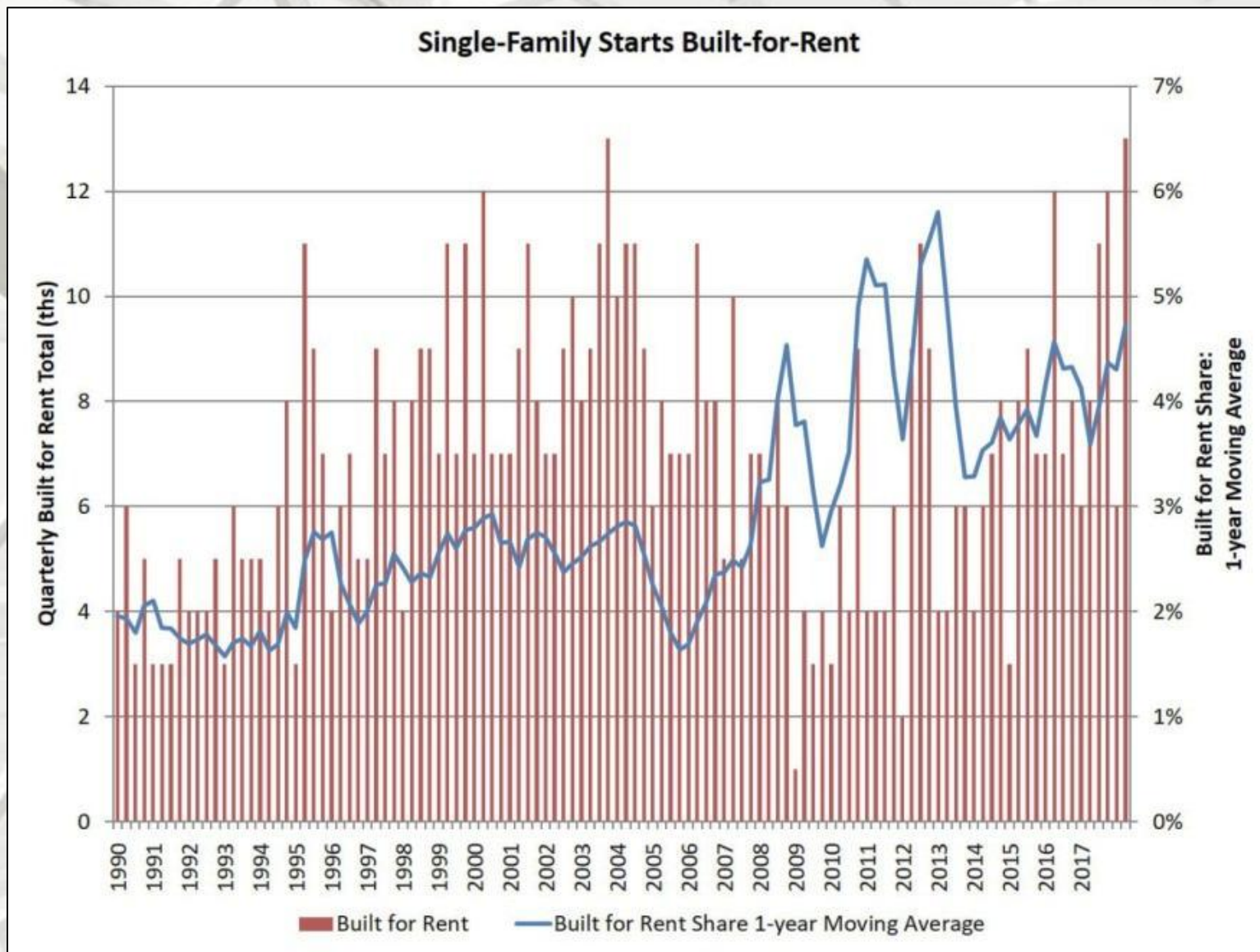
Another highlight of our record-breaking second quarter was the strength of our wholesale business. We closed the 103 homes this quarter with three different investment groups at an average sales price over \$260,000.

This included 30 of the 47 homes that make up our first community located in the [Seattle](#) market that was sold exclusively through our wholesale channel. We believe opportunities like this are accretive to our business and offer us an avenue for potential growth.

That potential for growth reflects itself in the flow of national data from the [NAHBs analysis](#) of Census Bureau Quarterly Starts and Completions by Purpose and Design, zeroing in on single-family built-for-rent starts in 2Q 2018. Here, a note from NAHB chief economist Robert Dietz would seem to affirm Lipar's view of a growing opportunity for new home construction specifically for rent:

*The number of single-family homes built-for-rent increased over the last four quarters. During this time period, construction starts of this type of housing totaled 42,000 homes, compared to 29,000 for the prior four quarters. There were 13,000 single-family built-for-rent starts for the second quarter of 2018. [emphasis added]” – John McManus, Editorial and Digital Content Director, *Builder*, Hanley Wood*

Demographics



Demographics

One In 20 New Single-Family Starts Is Built-To-Rent: Here's Why

“At less than one of every 20 new homes started, the market share of new single-family rental homes may not call much attention to itself, but remember that 4.7% share is of a much higher absolute number of housing starts than when it hit its peak in early 2013, at 5.8% of total single-family housing starts.

The fact that LGI and other big national builders regard the single-family rental construction market -- and the fact that 35% of for-rent households are in single-family units nationally -- as a core strategic opportunity now reflects a fundamental shift in how housing preference and household formations now occur in the U.S. market.

In our minds, this strategic focus is coming about because of a societal innovation, not the other way around. People are making choices, and voting with their feet and their pocketbooks how they want to live, and if the range of housing typologies already out there does not offer something they want or need, they'll cause it to surface by finding a disrupter.

As a result, today there's an investment asset class, a data model, a business model, an infrastructure of key players in different markets, an operations model, and a construction model for single-family rental. Twenty years ago, the practice was a random, ad hoc activity that some firms did and many did not need to do.

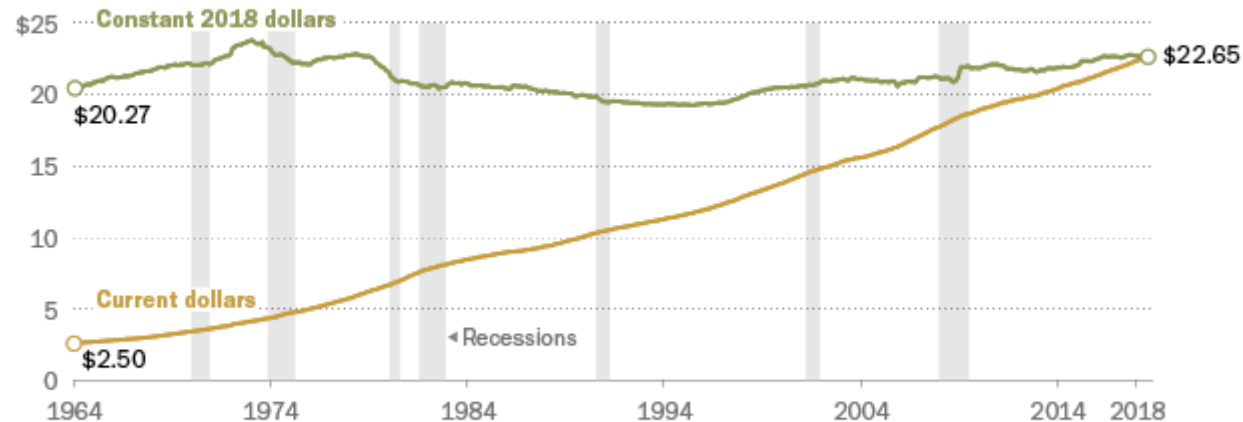
Society's got a housing problem -- too many bidders, renters, would-be households for too few houses, apartments, communities -- and single-family for-rent now figures in for good as one of the ways society is innovating to solve that problem.

As LGI CEO Eric Lipar notes from a business standpoint, “...it's an avenue for potential growth.”” – John McManus, Editorial and Digital Content Director, *Builder*, Hanley Wood

Economics

Americans' paychecks are bigger than 40 years ago, but their purchasing power has hardly budged

Average hourly wages in the U.S., seasonally adjusted



Note: Data for wages of production and non-supervisory employees on private non-farm payrolls. "Constant 2018 dollars" describes wages adjusted for inflation. "Current dollars" describes wages reported in the value of the currency when received. "Purchasing power" refers to the amount of goods or services that can be bought per unit of currency. Source: U.S. Bureau of Labor Statistics.

Pew Research Center

For most U.S. workers, real wages have barely budged in decades

"On the face of it, these should be heady times for American workers. U.S. unemployment is as low as it's been in nearly two decades (3.9% as of July) and the nation's private-sector employers have been adding jobs for 101 straight months – 19.5 million since the Great Recession-related cuts finally abated in early 2010, and 1.5 million just since the beginning of the year.

But despite the strong labor market, [wage growth](#) has [lagged economists' expectations](#). In fact, despite some ups and downs over the past several decades, today's real average wage (that is, the wage after accounting for inflation) has about the same purchasing power it did 40 years ago. And what wage gains there have been have mostly flowed to the highest-paid tier of workers." – Drew Desilver, Senior Writer, Pew Research Center

Economics

Pew Research Center

“The disconnect between the job market and workers’ paychecks has fueled much of the recent activism in states and cities around [raising minimum wages](#), and it also has become a factor in at least [some of this year’s congressional campaigns](#).

Average hourly earnings for non-management private-sector workers in July were \$22.65, up 3 cents from June and 2.7% above the average wage from a year earlier, according to data from the federal Bureau of Labor Statistics. That’s in line with average wage growth over the past five years: Year-over-year growth has mostly ranged between 2% and 3% since the beginning of 2013. But in the years just before the 2007-08 financial collapse, average hourly earnings often increased by around 4% year-over-year. And during the high-inflation years of the 1970s and early 1980s, average wages commonly jumped 7%, 8% or even 9% year-over-year.

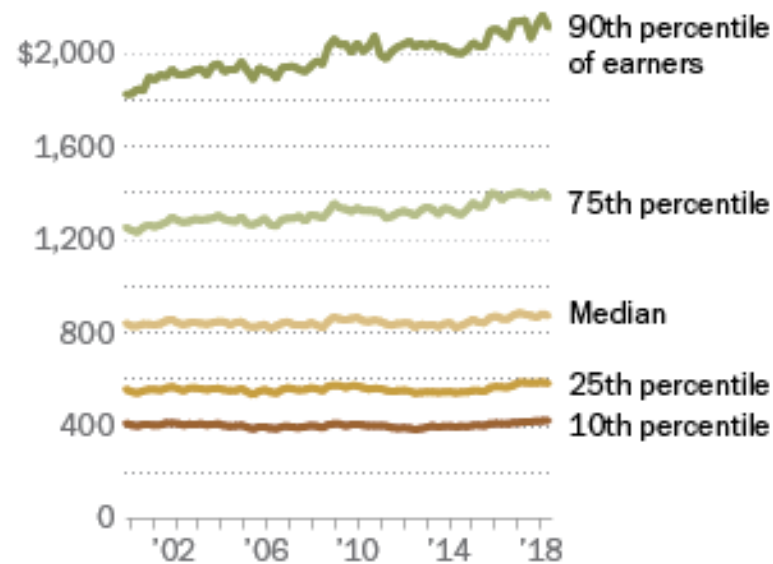
After adjusting for inflation, however, today’s average hourly wage has just about the same purchasing power it did in 1978, following a long slide in the 1980s and early 1990s and bumpy, inconsistent growth since then. In fact, in real terms average hourly earnings peaked more than 45 years ago: The \$4.03-an-hour rate recorded in January 1973 had the same purchasing power that \$23.68 would today.

A similar measure – the “[usual weekly earnings](#)” of employed, full-time wage and salary workers – tells much the same story, albeit over a shorter time period. In seasonally adjusted current dollars, median usual weekly earnings rose from \$232 in the first quarter of 1979 (when the data series began) to \$879 in the second quarter of this year, which might sound like a lot. But in real, inflation-adjusted terms, the median has barely budged over that period: That \$232 in 1979 had the same purchasing power as \$840 in today’s dollars.” – Drew Desilver, Senior Writer, Pew Research Center

Economics

Wage increases in the U.S. rise to the top earners

Usual weekly earnings of employed, full-time wage and salary workers, not seasonally adjusted, in constant 2018 dollars



Source: U.S. Bureau of Labor Statistics.

Pew Research Center

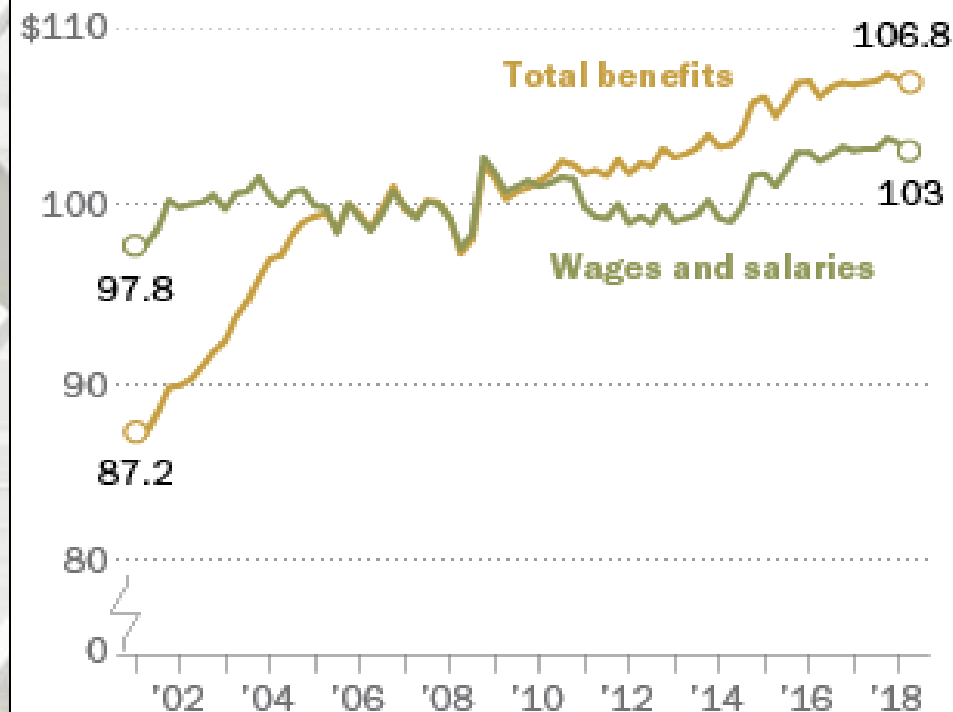
“Meanwhile, wage gains have gone largely to the highest earners. Since 2000, usual weekly wages have risen 3% (in real terms) among workers in the lowest tenth of the earnings distribution and 4.3% among the lowest quarter. But among people in the top tenth of the distribution, real wages have risen a cumulative 15.7%, to \$2,112 a week – nearly five times the usual weekly earnings of the bottom tenth (\$426).

Cash money isn’t the only way workers are compensated, of course – health insurance, retirement-account contributions, tuition reimbursement, transit subsidies and other benefits all can be part of the package. But wages and salaries are the biggest ([about 70%](#), according to the Bureau of Labor Statistics) and most visible component of employee compensation.” – Drew Desilver, Senior Writer, Pew Research Center

Economics

Benefit costs have risen faster than wages in recent years

Employment-cost index for all civilian workers in the U.S. in constant dollars, not seasonally adjusted



Note: The employment-cost index is a measure of the change in price of labor, defined as compensation per employee hour worked. "Total benefits" includes overtime payments, paid leave, insurance premiums, retirement contributions and other benefits.

Source: U.S. Bureau of Labor Statistics.

Economics

Pew Research Center

For most U.S. workers, real wages have barely budged in decades

“Wage stagnation has been a subject of much [economic analysis and commentary](#), though perhaps predictably there’s little agreement about what’s causing it (or, indeed, whether the BLS data [adequately capture](#) what’s going on). One theory is that rising benefit costs – particularly employer-provided [health insurance](#) – may be constraining employers’ ability or willingness to raise cash wages. According to BLS-generated [compensation cost indices](#), total benefit costs for all civilian workers have risen an inflation-adjusted 22.5% since 2001 (when the data series began), versus 5.3% for wage and salary costs.

Other factors that have been suggested include the continuing [decline of labor unions](#); lagging [educational attainment](#) relative to other countries; [noncompete clauses](#) and other restrictions on job-switching; a large pool of potential workers who are [outside the formally defined labor force](#), neither employed nor seeking work; and broad employment declines in manufacturing and production sectors and a consequent shift toward job growth in low-wage industries.

Sluggish and uneven wage growth has been cited as a key factor behind [widening income inequality](#) in the United States. A recent [Pew Research Center report](#), based on an analysis of household income data from the Census Bureau, found that in 2016 Americans in the top tenth of the income distribution earned 8.7 times as much as Americans in the bottom tenth (\$109,578 versus \$12,523). In 1970, when the analysis period began, the top tenth earned 6.9 times as much as the bottom tenth (\$63,512 versus \$9,212).” – Drew Desilver, Senior Writer, Pew Research Center

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