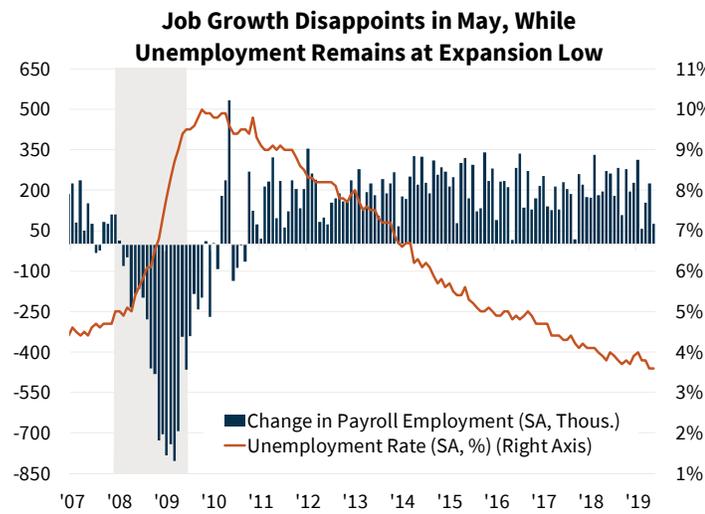


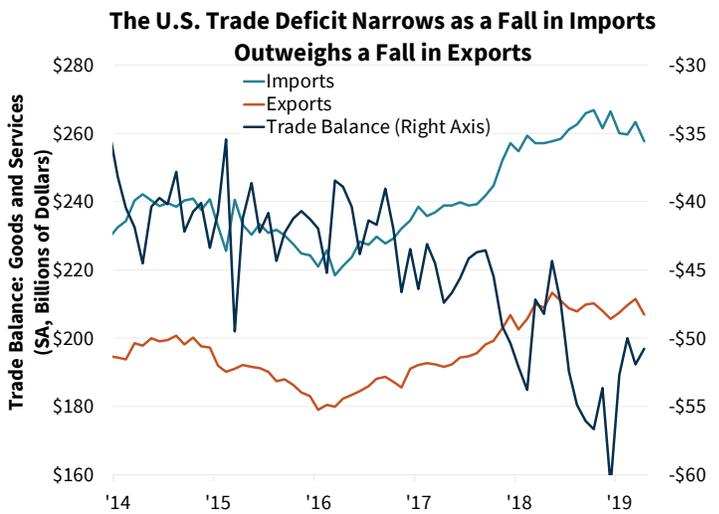
Economics: Job Growth Disappoints

In a busy week for economic releases, the employment situation took center stage. The May jobs report was consistent with an economy that is continuing to slow from expansion highs, with nonfarm payrolls increasing by only 75,000. This relatively weak number may reflect some risk aversion on the part of employers, stemming from trade tensions, global economic weakening, and uncertainty in the economy. Additionally, the previous two months were revised down by 75,000, indicating zero additional job growth, on net. On the other hand, the three-month moving average remained solid at 151,000, and wages continued to grow at a strong pace year-over-year. According to the household survey, the unemployment rate held steady at its historically low level, and the labor force participation rate was unchanged. Furthermore, construction employment increased by 5,200 this month, which should help to alleviate some of the supply constraints faced by homebuilders. This report is consistent with our forecast of a gradually slowing economy and will likely not alter the Federal Reserve’s “patient” stance toward rate changes, though we will learn more after the FOMC’s next meeting in two weeks. In other news, the Q1 estimates of nonfarm business productivity were revised down slightly, but still showed a healthy acceleration in the first quarter. The biggest development was a sharp downward revision in unit labor costs, which decreased more than previously thought. Factory orders fell for the second time in three months, driven by a sharp decline in durable goods orders, in particular transportation orders. The U.S. real goods trade deficit, an input into the net exports portion of GDP, narrowed in April, as a drop in imports outweighed a decline in exports. Manufacturing activity fell in May for the third time in four months, to the lowest level since October 2016. Finally, total light vehicle sales rose in May, driven by the largest rise in light truck/SUV sales since September 2017.

- **Nonfarm payroll employment** grew by 75,000 in May, according to the Bureau of Labor Statistics. The average workweek fell a tick to 34.4 hours for private nonfarm employees. The unemployment rate and the labor force participation rate were both unchanged at 3.6 percent and 62.8 percent, respectively. Average hourly earnings rose 0.2 percent over the month and 3.1 percent from the prior year.
- **Nonfarm business productivity** rose 3.4 percent annualized in Q1 2019, according to revised estimates by the Bureau of Labor Statistics, down two-tenths from the original estimate. Nonfarm real output rose 3.9 percent annualized, lower than the 4.1 percent original estimate. From a year ago, nonfarm business productivity rose 2.4 percent. The decline in unit labor costs was revised from 0.9 percent to 1.6 percent, a larger decline. From a year ago, unit labor costs fell 0.8 percent.
- **Factory orders** fell 0.8 percent in April, according to the Census Bureau, while factory shipments fell 0.5 percent. Total inventories rose 0.3 percent. Orders for core capital goods fell 1.0 percent. Both new orders and shipments for nondurable goods rose 0.5 percent, while inventories of nondurable goods rose 0.1 percent.
- **The U.S. trade deficit** narrowed by \$1.1 billion to \$50.8 billion in April, according to the Census Bureau. Both exports and imports fell 2.2 percent. The real goods trade deficit also narrowed by \$1.1 billion to \$81.9 billion, with real good exports falling 3.4 percent and real good imports falling 2.6 percent.
- **The ISM Manufacturing Index** fell 0.7 points in May to 52.1. Any reading above 50 indicates expansion. While both the new orders and employment indices increased, the production, supplier deliveries, and inventories indices all fell. **The ISM Nonmanufacturing Index**, a gauge of service sector activity, rose 1.4 points to 56.9 in May.
- **Light vehicle sales** rose 6.2 percent in May to a seasonally-adjusted annual rate of 17.4 million units, according to Autodata.



Source: Bureau of Labor Statistics



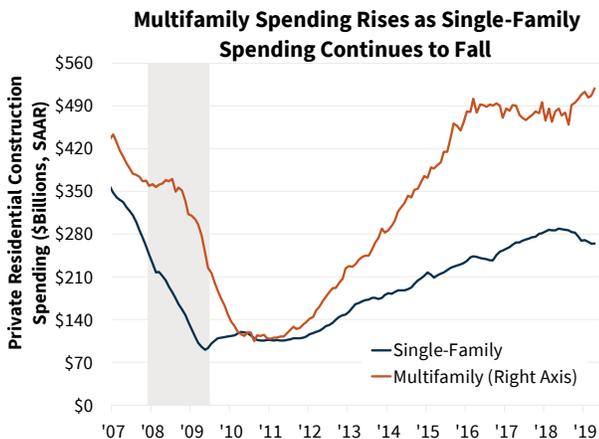
Source: Census Bureau



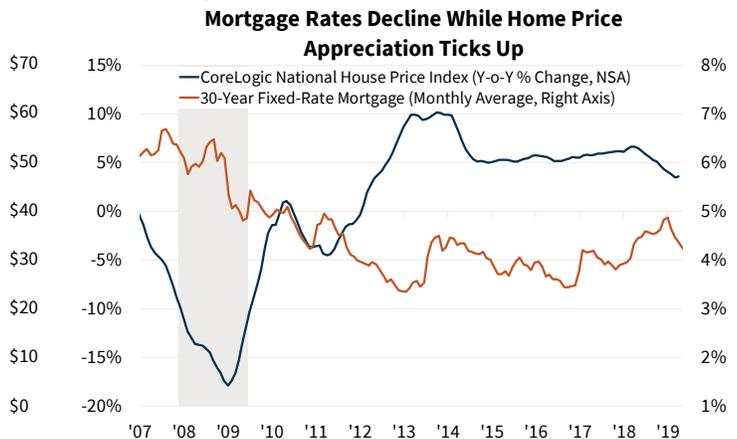
Housing: Construction Spending Falls as Home Prices Rise

Housing data released this week featured good news for households' net worth in the first quarter and sluggish residential construction spending. The Federal Reserve's Financial Accounts of the United States reported household net worth rebounded in the first quarter from a sharp decline the prior quarter, as financial markets recovered from the stock market correction in December. Owners' equity in real estate grew by the largest amount in a year, while equity in real estate as a percentage of household real estate reached its highest level in seventeen years. Single-family mortgage debt outstanding climbed to the highest level since the end of 2009, but the quarterly increase was the smallest in three years. Private residential construction spending fell in April, the fourth straight month of decline, as flat single-family construction spending and falling improvement spending outweighed a gain in multifamily spending. On an annual basis, this was the seventh consecutive decline for overall residential spending and the sixth straight decline for single-family construction spending. Regarding home prices, the CoreLogic National Home Price Index showed a slight acceleration in the annual pace of home price growth in April, ending 11 straight months of deceleration. Home price increases are being slightly offset by continued declines in mortgage rates, and this week the trend continued. The average yield on 30-year, fixed-rate mortgages fell 17 basis points to 3.82 percent this week according to Freddie Mac. This is the sixth straight week of declines, leaving mortgage rates at the lowest level since September 2017. Mortgage applications rose last week, driven by an increase in refinance applications in response to the steep decline in mortgage rates. However, purchase applications fell for the fourth straight week, ending the month of May down over three percent. While lower mortgage rates benefit homebuyers, the decline in interest rates more generally is driven by increased uncertainty over trade and weaker economic data. These downsides, combined with continued limited supply of homes for sale, may curb homebuying sentiment and limit the responsiveness of buyers to the lower mortgage rates.

- **U.S. household and nonprofit organization net worth**—the value of assets minus liabilities—rose \$4.7 trillion in the first quarter to \$108.6 trillion (not seasonally adjusted), according to the Federal Reserve. Owners' equity in real estate increased \$264 billion to \$15.8 trillion. Owners' equity in real estate as a percentage of household real estate value improved 0.4 percentage points to 60.4 percent. Single-family mortgage debt outstanding rose 1.0 percent annualized.
- **Private residential construction spending** fell 0.6 percent in April, according to the Census Bureau. Single-family construction spending was unchanged, while multifamily spending rose 2.3 percent. Spending on improvements fell 2.5 percent. On a year-ago basis, total private residential construction spending fell 9.4 percent. Multifamily spending rose 8.4 percent, while single-family and improvement spending fell 7.9 percent and 16.3 percent, respectively.
- **The CoreLogic National Home Price Index**, a repeat sales measure, increased 1.0 percent in April (not seasonally adjusted). From a year ago, the index rose 3.6 percent, a one-tenth acceleration from March's annual growth. Prices in the lowest price tier (75 percent or less of the median) grew 5.2 percent annually, while prices in the low-to-middle price tier (between 75 and 100 percent of the median) grew 4.4 percent. The middle-to-moderate price tier (between 100 and 125 percent of the median) increased 3.9 percent, and the high price tier (greater than 125 percent of the median) increased 2.8 percent.
- **Mortgage applications** increased 1.5 percent for the week ending May 31, according to the Mortgage Bankers Association. Refinance applications rose 6.4 percent, while purchase applications fell 2.4 percent. On a monthly basis, total applications fell 5.5 percent in May, with purchase and refinance applications dropping 3.3 percent and 7.9 percent, respectively.



Source: Census Bureau



Source: CoreLogic, Freddie Mac

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