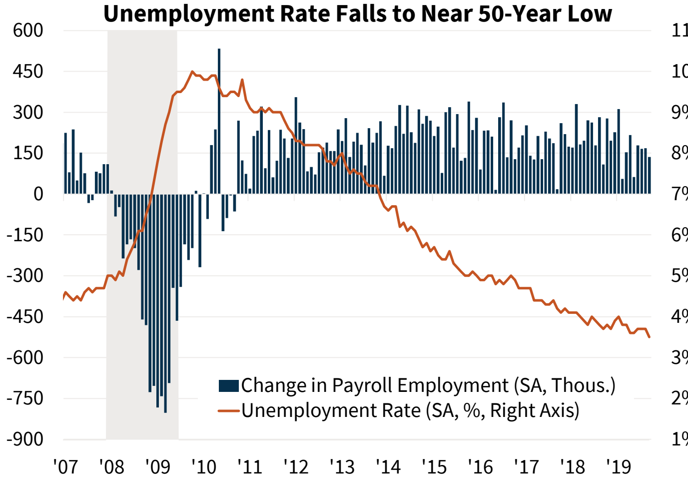
Economics: Payroll Gains Slow, Manufacturing Stumbles

This week featured the September jobs report, which was consistent with our outlook of a gradually slowing growth path. Nonfarm payrolls increased 136,000 in September, the lowest monthly increase since May. The household survey was generally positive, with the unemployment rate falling to the lowest level in nearly five decades and labor force participation holding steady. However, some of the underlying details painted a mixed picture. Manufacturing employment declined this month, and after the prior two months' weak gains, the third quarter posted the smallest manufacturing payroll gain in three years as firms seem to be exercising continuing caution in the face of global uncertainties. Additionally, while wages continued to grow at close to 3 percent year over year, September's number decelerated to the slowest pace of the year. The report does little to clarify divergent views among Federal Reserve officials and others as to whether the economy is slowing or not, but we continue to believe the Fed will cut rates this quarter due to trade uncertainties and weak manufacturing data. Surveys of purchasing managers from the Institute for Supply Management (ISM) showed that the manufacturing sector contracted in September for the second straight month, falling to the lowest level of the expansion. Additionally, while the ISM non-manufacturing index remained in its "expansion" range, it declined to the weakest level in three years. The August factory orders report showed factory shipments declining to the lowest level in more than a year and factory orders falling for the first time in three months. Both core shipments and core orders were revised lower from the advance estimates, supporting our forecast of weak business equipment investment growth. The trade deficit widened in August for the first time since May as imports rose more rapidly than exports. Vehicle sales increased for the second consecutive month in September, finally recovering from the sharp drop seen in July, but third quarter vehicle sales were flat from the prior quarter, supporting our view of a moderation of real consumer spending from the second quarter's 4.6 percent annualized pace.

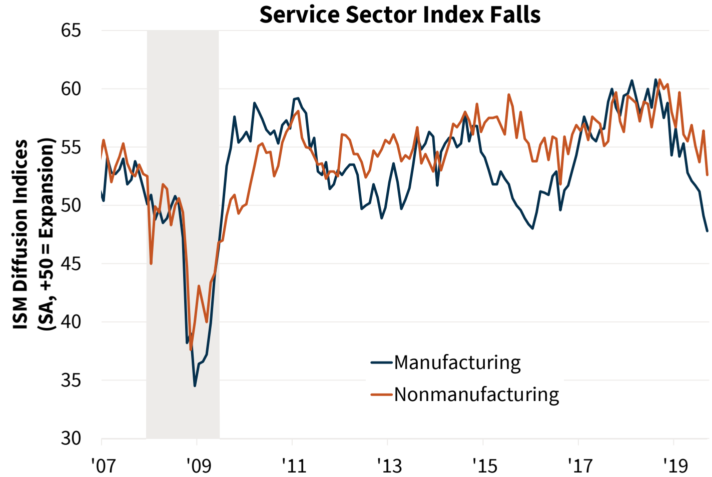
- **Nonfarm payroll employment** increased 136,000 in September, according to the Bureau of Labor Statistics. Payroll gains in the prior two months were revised higher by 45,000. Average hourly earnings were unchanged from August and 2.9 percent higher from a year ago. The average workweek was flat at 34.4 hours. The unemployment rate fell two-tenths to 3.5 percent. The broadest measure of labor underutilization, the U6 rate, declined three-tenths to 6.9 percent. The labor force participation rate was unchanged at 63.2 percent.
- **The Institute for Supply Management (ISM) Manufacturing Index** decreased 1.3 points to 47.8 in September (any reading below 50 indicates contraction). The decline was driven by a steep fall in the new export orders component to the lowest level since March 2009. **The ISM Nonmanufacturing Index**, a gauge of service sector activity, fell 3.8 points to 52.6 in September, driven by declines in the business activity, new orders, and employment components.
- **The U.S. trade deficit** widened $861 million in August to $54.9 billion, according to the Census Bureau. Exports and imports rose 0.2 percent and 0.5 percent, respectively. The real goods trade deficit, used as an input to estimate GDP, widened $305 million to $85.7 billion.
- **Factory orders** and shipments both edged down 0.1 percent in August, according to the Census Bureau. Nondurable goods orders declined 0.3 percent. Core (nondefense excluding aircrafts) orders were revised lower from a decrease of 0.2 percent in the advance estimate to a drop of 0.4 percent. Core capital goods shipments were revised down by one-tenth to 0.3 percent.
- **Light vehicle sales** edged up 0.9 percent to 17.2 million annualized units in September, according to Autodata.

Job Growth Slows in September, While the Unemployment Rate Falls to Near 50-Year Low



Source: Bureau of Labor Statistics

Manufacturing Activity Contracts Again and Service Sector Index Falls



Source: Institute for Supply Management

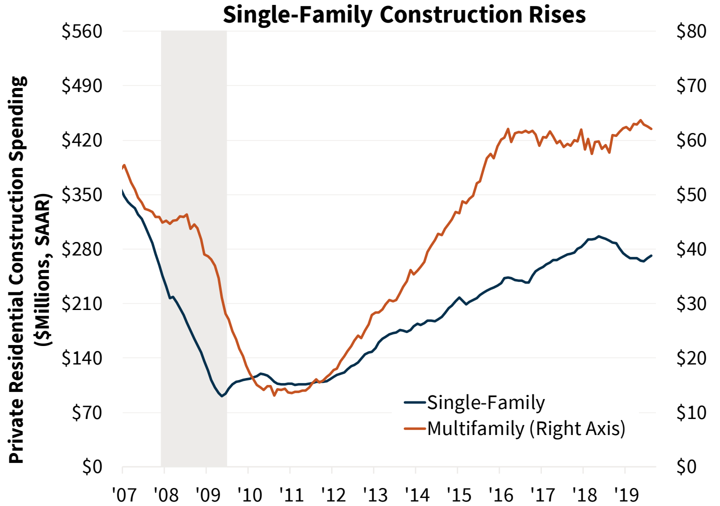
Housing: Single-Family Construction Spending Rises

Housing news this week continued to support our outlook of a rebound in residential fixed investment in the third quarter. Total private residential construction spending rose in August by the largest percentage this year, driven by the second straight gain in single-family construction spending along with a gain in improvement spending. The multifamily component of total residential construction spending fell in August for the third consecutive month, but this follows a period of robust growth and does not detract meaningfully from the overall outlook. As inventories of homes for sale remain limited, new single-family construction will have to increase to alleviate the supply constraints faced by prospective homebuyers. However, employment in residential construction (including specialty trade contractors) increased by only 3,400 in September, a relatively weak gain considering the positive housing data we have seen so far in the third quarter, suggesting that home builders continue to grapple with labor scarcity problems. The average rate on 30-year fixed-rate mortgages remains low, according to Freddie Mac, rising just one basis point this week to 3.65 percent and continuing to be more than a full percentage point below year-ago levels. While low mortgage rates aid affordability, the CoreLogic National House Price Index showed home price appreciation accelerating in August for the second month in a row, counteracting the affordability benefit of low interest rates; moreover, home prices increased most rapidly among houses in the lowest price tiers, exacerbating affordability issues. New construction should add to residential fixed investment in the third quarter, but the current shortage of homes for sale, accelerating home price appreciation, and general economic and trade uncertainty could limit the responsiveness of buyers over the next few months. Indeed, while mortgage applications jumped last week, the increase was driven by a surge in refinance applications. Purchase applications rose as well but were comparatively muted.

- **Private residential construction spending** rose 0.9 percent in August, according to the Census Bureau. Spending on single-family construction and improvements rose 1.4 percent and 0.8 percent, respectively, while spending on multifamily construction fell 0.9 percent. From a year ago, new single-family spending and improvement spending fell 6.4 percent and 5.6 percent, respectively, while multifamily spending rose 6.9 percent.

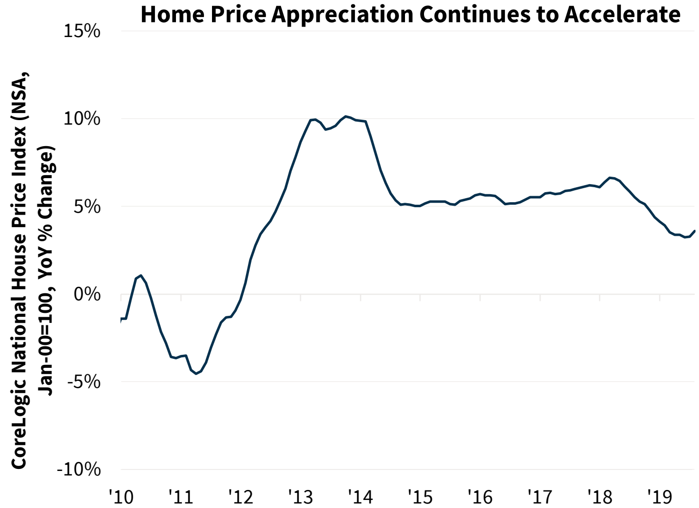
- **The CoreLogic National House Price Index**, a repeat sales measure, rose 0.4 percent in August (not seasonally adjusted) and 3.6 percent from a year ago. Prices in the lowest price tier (75 percent or less of the median) increased 5.5 percent on an annual basis, compared with 4.5 percent for the low-to-middle price tier (between 75 and 100 percent of the median), 3.9 percent in the middle-to-moderate price tier (between 100 and 125 percent of the median), and 3.2 percent for the high price tier (greater than 125 percent of the median).
- **Mortgage applications** jumped 8.1 percent in the week ending September 25, according to the Mortgage Bankers Association, driven by a 14.2 percent surge in refinance applications and a small 0.9 percent gain in purchase applications. For the month of September, refinance applications fell 11.6 percent while purchase applications rose 7.3 percent.

Single-Family Construction Rises



Source: Census Bureau

Home Price Appreciation Continues to Accelerate



Source: CoreLogic

Ricky Goyette and Rebecca Meeker
Economic and Strategic Research Group
October 4, 2019