Economic Update, October 19, 2018
Submitted by Bob Moreo and Dave Keiser

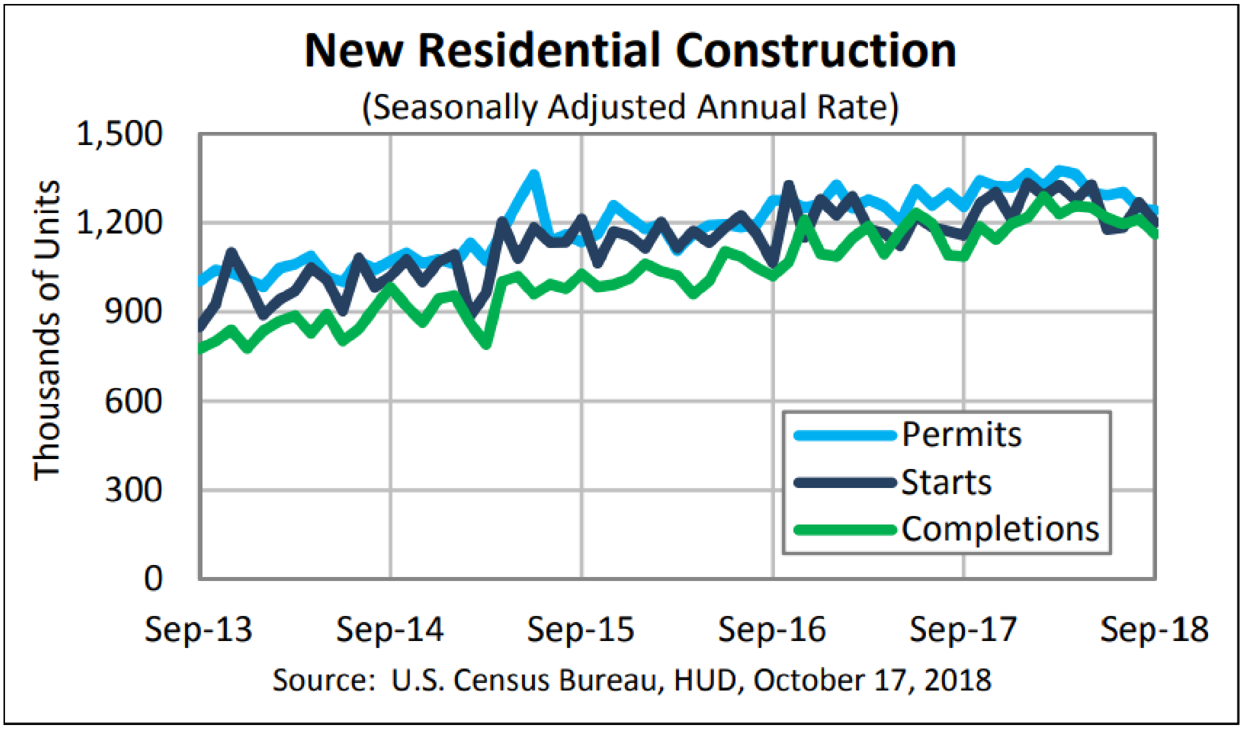
Summary: As was noted in last week's update, economists are concerned that rising interest rates will slow the economy. As reported by Marketwatch, "A majority of senior Federal Reserve officials believe that interest rates will have to continue to rise. . . . 'Several' Fed officials said they now expected inflation to 'modestly exceed' the Fed's 2% annual inflation target 'for a period of time.'" Statistically, unemployment is low, wages have increased, and job openings are at their highest levels. Confidence in the economy is strong but is not increasing as much as it had been. The threat of rising interest rates seems to be slowing momentum but not putting an end to growth.

Census Bureau

Monday, Manufacturing and Trade Inventories and Sales: "The combined value of distributive trade sales and manufacturers' shipments for August . . . was estimated at $1,461.9 billion, up 0.5 percent from July 2018 and was up 7.8 percent from August 2017. Manufacturers' and trade inventories . . . were estimated at an end-of-month level of $1,960.8 billion, up 0.5 percent from July 2018 and were up 4.2 percent from August 2017. The total business inventories/sales ratio based on seasonally adjusted data at the end of August was 1.34. The August 2017 ratio was 1.39."

Monday, Advance Estimates of U.S. Retail and Food Services: "Advance estimates of U.S. retail and food services sales for September 2018 . . . were $509.0 billion, an increase of 0.1 percent from the previous month, and 4.7 percent above September 2017. Total sales for the July 2018 through September 2018 period were up 5.9 percent from the same period a year ago. The July 2018 to August 2018 percent change was unrevised from up 0.1 percent. Retail trade sales were up 0.4 percent from August 2018, and 4.4 percent above last year. Gasoline Stations were up 11.4 percent from September 2017, while Nonstore Retailers were also up 11.4 percent from last year."

Wednesday, New Residential Construction: "Privately-owned housing units authorized by building permits in September were at a seasonally adjusted annual rate of 1,241,000. This is 0.6 percent below the revised August rate of 1,249,000 and is 1.0 percent below the September 2017 rate of 1,254,000. Single-family authorizations in September were at a rate of 851,000; this is 2.9 percent above the revised August figure of 827,000. . . . Privately-owned housing starts in September were at a seasonally adjusted annual rate of 1,201,000. This is 5.3 percent below the revised August estimate of 1,268,000, but is 3.7 percent above the September 2017 rate of 1,158,000. Single-family housing starts in September were at a rate of 871,000; this is 0.9 percent below the revised August figure of 879,000. . . . Privately-owned housing completions in September were at a seasonally adjusted annual rate of 1,162,000. This is 4.1 percent below the revised August estimate of 1,212,000, but is 7.0 percent above the September 2017 rate of 1,086,000. Single-family housing completions in September were at a rate of 844,000; this is 8.7 percent below the revised August rate of 924,000."



Department of Labor

Thursday, Initial Claims: "In the week ending October 13, the advance figure for seasonally adjusted initial claims was 210,000, a decrease of 5,000 from the previous week . . . [which] was revised up by 1,000 from 214,000 to 215,000. The 4-week moving average was 211,750."

Bureau of Labor Statistics

Tuesday, Usual Weekly Earnings of Wage and Salary Workers: "Median weekly earnings of the nation's 117.2 million full-time wage and salary workers were $887 in the third quarter of 2018 (not seasonally adjusted). . . . This was 3.3 percent higher than a year earlier, compared with a gain of 2.6 percent in the Consumer Price Index for All Urban Consumers (CPI-U) over the same period."

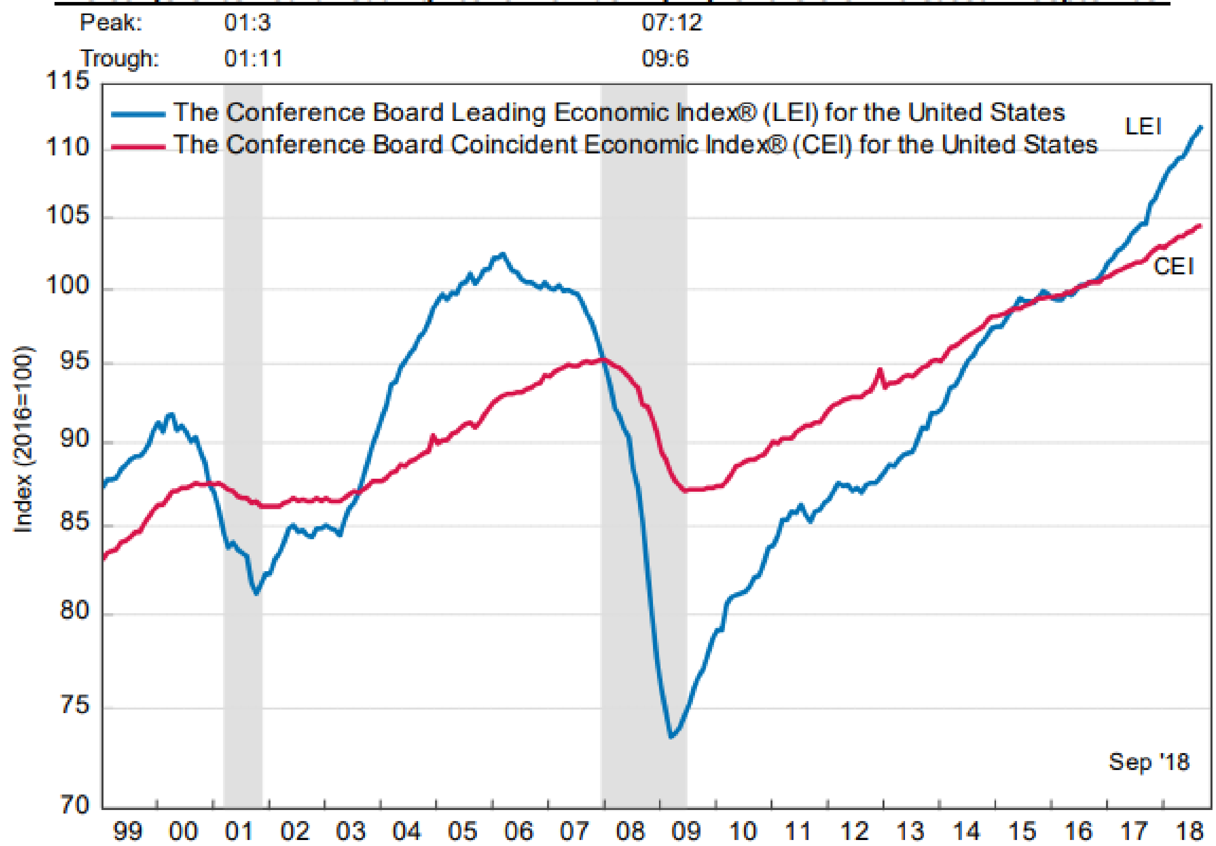
Tuesday, Job Openings and Labor Turnover: "The number of job openings reached a series high of 7.1 million on the last business day of August. . . . Over the month, hires and separations were little changed at 5.8 million and 5.7 million, respectively. . . . The job openings rate was 4.6 percent. The number of job openings was little changed for total nonfarm, total private, and government. [But] job openings increased in federal government (+15,000). . . . Over the 12 months ending in August, hires totaled 67.0 million and separations totaled 64.7 million, yielding a net employment gain of 2.4 million."

Friday, State Employment and Unemployment Summary: "Unemployment rates were lower in September in 9 states, higher in 4 states, and stable in 37 states and the District of Columbia. . . . Sixteen states had jobless rate decreases from a year earlier and 34 states and the District had little or no change. The national unemployment rate declined by 0.2 percentage point from August to 3.7 percent and was 0.5 percentage point lower than in September 2017." According to the release, the number of people with jobs in Tennessee grew by 2.1 percent from September 2017 to 2018.

The Conference Board

Thursday, Leading Economic Indicators (LEI): The index "for the U.S. increased 0.5 percent in September to 111.8 (2016 = 100), following a 0.4 percent increase in August, and a 0.7 percent increase in July. 'The US LEI improved further in September, suggesting the US business cycle remains on a strong growth trajectory heading into 2019. However, the LEI's growth has slowed somewhat in recent months, suggesting the economy may be facing capacity constraints and increasingly tight labor markets,' said Ataman Ozyildirim, Director and Global Research Chair at The Conference Board. 'Economic growth could exceed 3.5 percent in the second half of 2018, but, unless the momentum in housing, orders and stock prices accelerates, that pace is unlikely to be sustained in 2019.'"

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



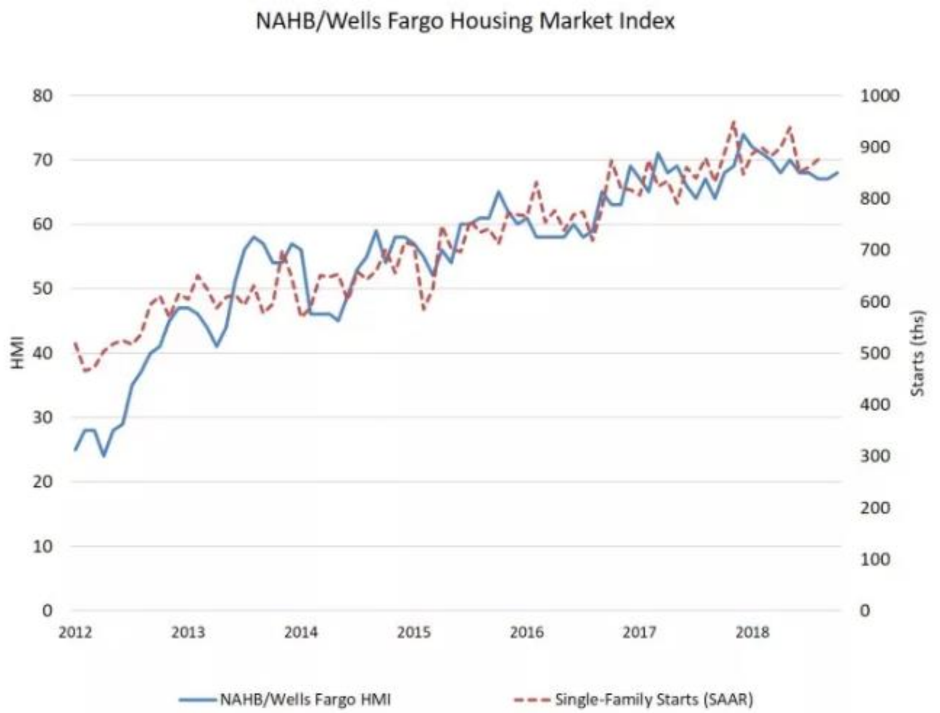
Latest LEI Trough March 2009, Latest CEI Trough June 2009

Shaded areas represent recessions as determined by the NBER Business Cycle Dating Committee.

Source: The Conference Board

National Association of Home Builders

Tuesday, [Housing Market Index](): "Builder confidence in the market for newly-built single-family homes rose one point to 68 in October. . . . Builder confidence levels have held in the high 60s since June. Builders continue to view solid housing demand, fueled by a growing economy and a nearly 50-year low for unemployment. Lumber price declines for three straight months from elevated levels earlier this summer have also helped to reduce some cost pressures, but builders will need to manage supply-side costs to keep home prices affordable."



Wednesday, [Housing Starts, Permits](): "Total housing starts posted a decline in September due to flat conditions for single-family construction and a pullback for apartment development. Total starts declined 5.3% in September but are 6.4% higher for 2018 on a year-to-date basis, according to the joint data release from the Census Bureau and HUD."

Thursday, Remodeling Market Index (RMI): The index "posted a reading of 58 in the third quarter of 2018, remaining stable from the previous quarter. The RMI has been consistently above 50—indicating that more remodelers report market activity is higher compared to the prior quarter than report it is lower—since the second quarter of 2013. The overall RMI averages current remodeling activity and future indicators. 'Remodelers across the country are seeing home owner demand remain strong through the midpoint of the year,' said NAHB Remodelers Chair Joanne Theunissen, CGP, CGR, a remodeler from Mt. Pleasant, Mich. 'Both positive home price growth—albeit at a slightly slower rate—and good consumer confidence are supporting the steady remodeling market.'"

National Association of Realtors

Friday, Existing Home Sales: "Existing-home sales declined in September after a month of stagnation in August. . . . All four major regions saw no gain in sales activity last month. Total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, fell 3.4 percent from August to a seasonally adjusted rate of 5.15 million in September. Sales are now down 4.1 percent from a year ago (5.37 million in September 2017)."

University of Michigan

Friday, Consumer Sentiment: "Consumer sentiment slipped in early October, although it remained at quite favorable levels and just above the average reading during 2018 (98.5). The small decline was due to less favorable assessments by consumers of their personal finances. Unfortunately, the downward revisions in the rate of growth in household incomes were accompanied by upward revisions in the year-ahead expected inflation rate, weakening real income expectations. It should be noted that the sharp selloff in equities overlapped interviewing by only one evening, having virtually no influence on the early October data. . . . Indeed, confidence in the government's economic policies rose in October to its highest level in the past fifteen years, reflecting the strong performance of the national economy."