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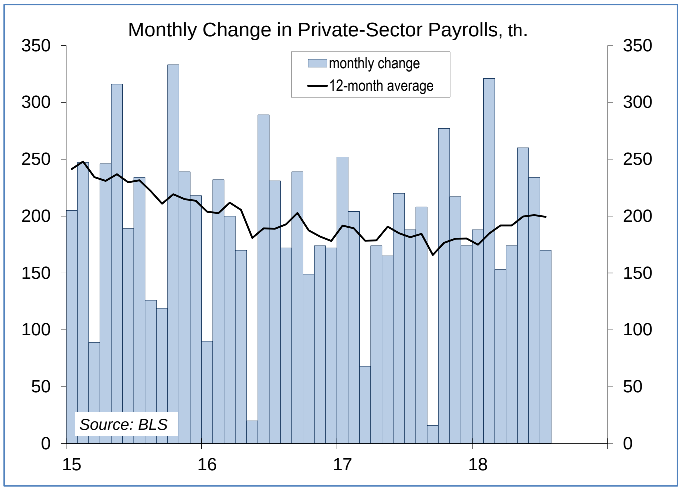
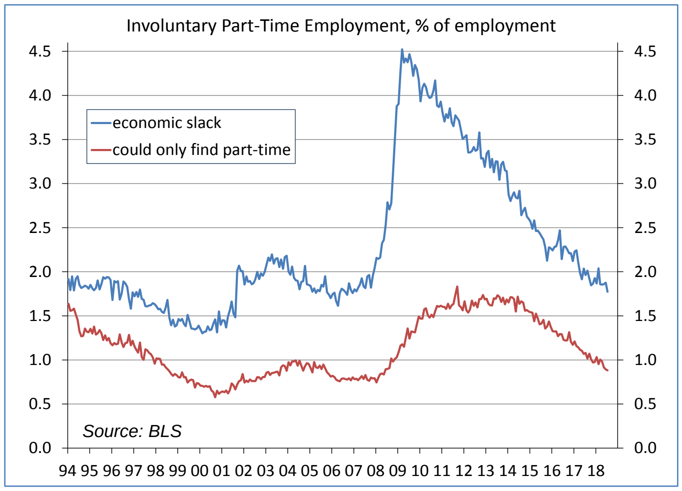
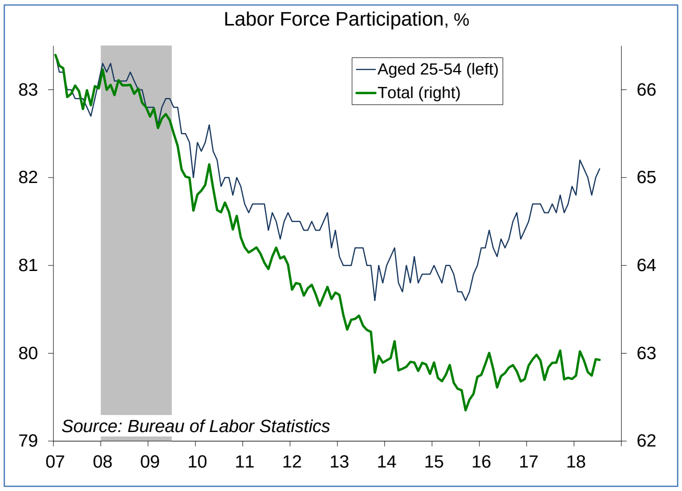
Weekly Economic Monitor

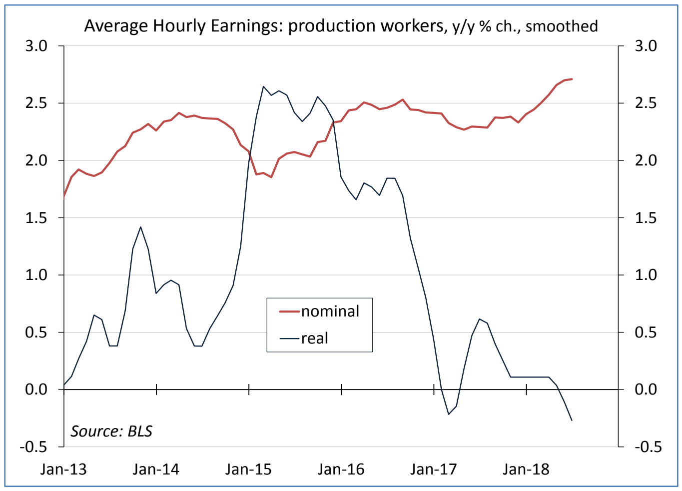
The July Employment Report – Nonfarm payrolls rose less than anticipated in the initial estimate for July, but figures for May and June were revised higher. The unemployment rate edged down, but the trend has been relatively flat this year – at odds with the strong trend in nonfarm payrolls. Measures of underemployment are falling. Wage growth remains moderate, more than offset by inflation, but that reflects higher gasoline prices, which are likely to moderate in the near term. For Federal Reserve policymakers, the report was consistent with further gradual increases in short-term interest rates.





There's a fair amount of noise in the monthly payroll figures and seasonal adjustment adds more than the usual uncertainty in July. Prior to seasonal adjustment, we lost 1.156 million jobs in July (vs. 1.092 million in July 2017), reflecting the end of the school year. For the private sector, the three-month average gain was 221,000 – more than twice the pace needed to absorb new entrants into the workforce. Labor force participation is trending about flat, but that's a sign of strength given the demographics (an aging population implies that the participation rate would trend naturally lower). Participation has been trending higher for the key age cohort (those between 25 and 54 years). While there may still be some slack in the job market, it is fading fast.





Despite the tight job market, wage growth remains moderate year-over-year, more than offset by inflation over the last 12 months. That reflects higher gasoline. Core inflation is trending lower than overall inflation. Hence, some stabilization or retreat in gasoline prices should lead to moderate growth in inflation-adjusted wages in the near term.

For the Fed, the job market data indicate that the economy is on an unsustainable long-term trajectory. However, the moderate wage growth figures suggest that the central bank can be gradual in its policy tightening. Still, in their June projections, most Fed officials saw the unemployment rate eventually moving back up to 4.5%. That won't happen without the economy slowing.

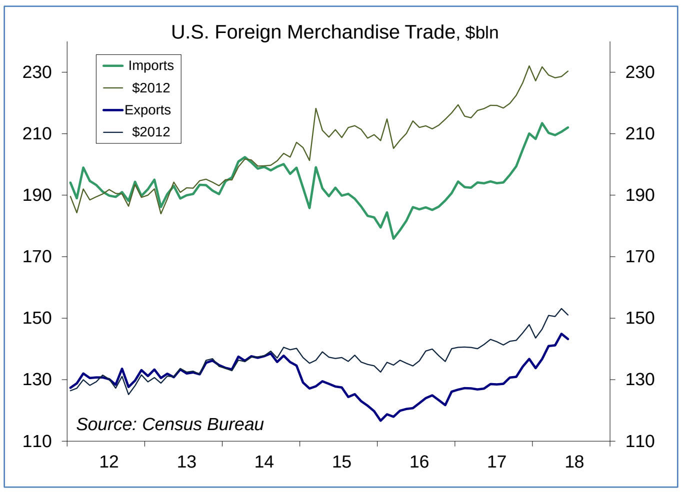
	Treasury Yields								Dollar				Equities		
	13-wk	26-wk	52-wk	2-yr	3-yr	5-yr	10-yr	30-yr	$/Euro	$/BP	JY/$	CD/$	NASD	SPX	DJIA
7/06/18	1.97	2.13	2.34	2.53	2.64	2.71	2.82	2.94	1.174	1.326	110.48	1.309	7688.39	2759.82	24456.48
7/27/18	2.00	2.20	2.43	2.67	2.76	2.84	2.96	3.09	1.166	1.312	110.94	1.306	7737.42	2818.82	25451.06
8/03/18	2.01	2.21	2.42	2.65	2.73	2.82	2.95	3.09	1.157	1.300	111.22	1.298	7805.91	2840.35	25462.65

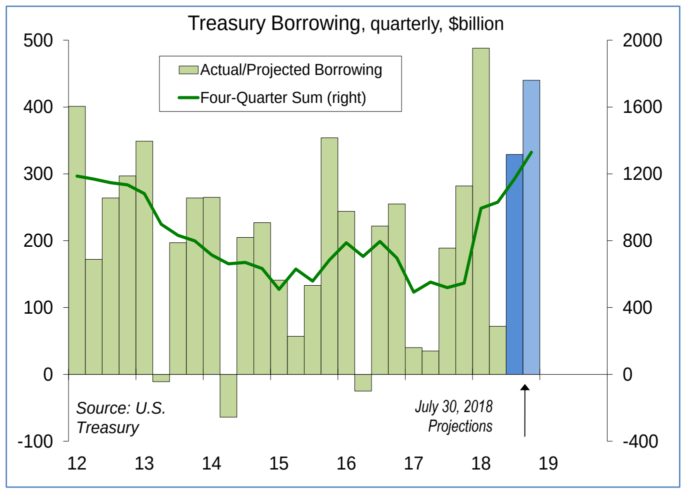
Data Recap – No surprises from the Fed. Nonfarm payrolls rose less than anticipated in the initial estimate for July – still strong, and May and June were revised higher (about a wash relative to expectations). Investors were encouraged by the prospect of China returning to the bargaining table, but the White House doubled down on proposed tariffs against Chinese goods.

The **Federal Open Market Committee** left short-term interest rates unchanged following its July 31 - August 1 policy meeting. In its policy statement, the FOMC noted that "economic activity has been rising at a strong rate" (vs. "a solid rate" in the June 13 policy statement). The FOMC repeated that it expects that "further gradual increases in the target range for the federal funds rate will be consistent with sustained expansion of economic activity, strong labor market conditions, and inflation near the committee's symmetric 2 percent objective over the medium term," and that "risks to the economic outlook appear roughly balanced."

U.S. Trade Representative Robert Lighthizer stated that "this week, the president has directed that I consider increasing the proposed level of the additional duty (on $200 billion of Chinese goods) from 10 percent to 25 percent."

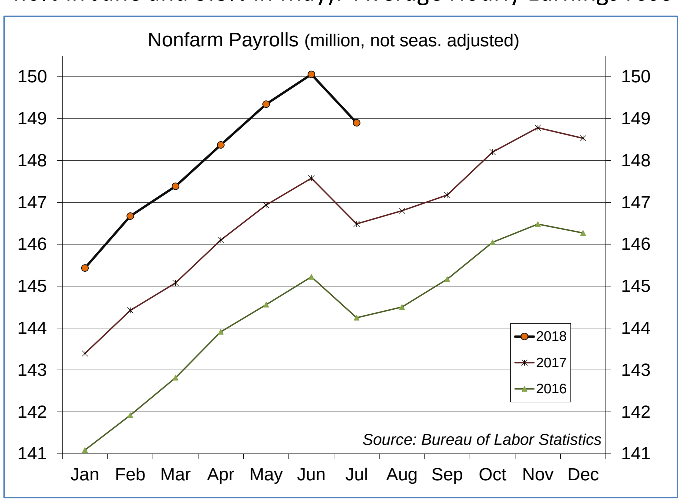
The U.S. **Trade Deficit** rose to $46.3 billion in June, about as expected, vs. $43.2 billion in May. Merchandise exports fell 1.2% (+11.4% y/y), while imports rose 0.7% (+9.0% y/y). The surplus in services held steady at $22.5 billion.

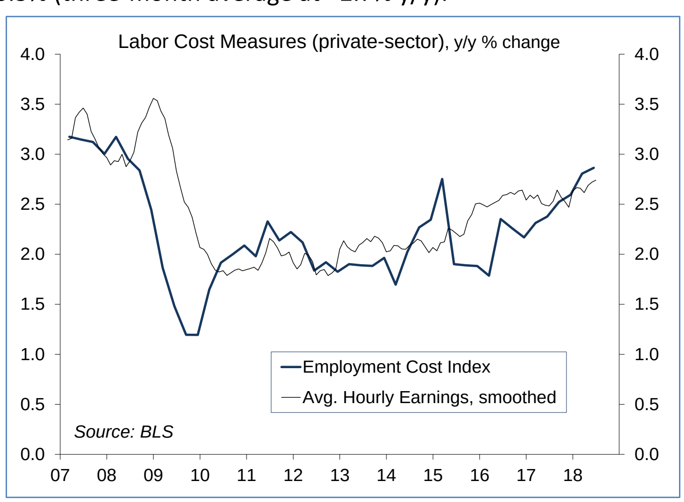




Treasury said it expects to borrow $329 billion in the Jul-Sep quarter ($56 billion higher than the April estimate) and $40 billion in the Oct-Dec quarter. Treasury said it would increase the sizes of its monthly auctions.

The July **Employment Report** was mixed. Nonfarm payrolls rose by 157,000 in the initial estimate for July, less than the median forecast of 190,000, but figures for May and June were revised a net 59,000 higher. The unemployment rate edged down to 3.9% (vs. 4.0% in June and 3.8% in May). Average Hourly Earnings rose 0.3% (three-month average at +2.7% y/y).

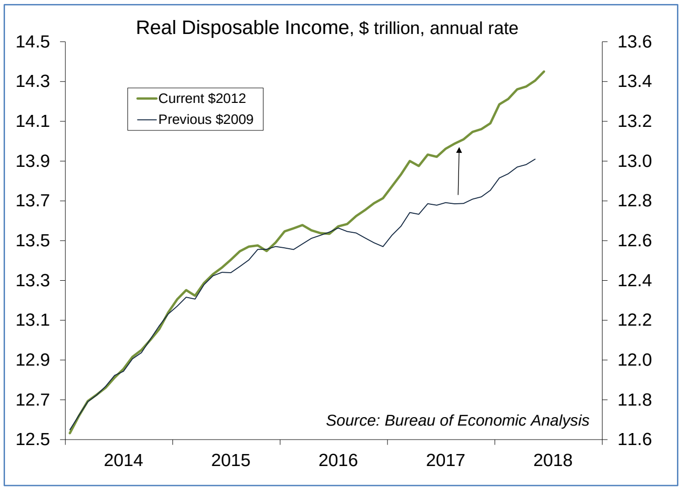


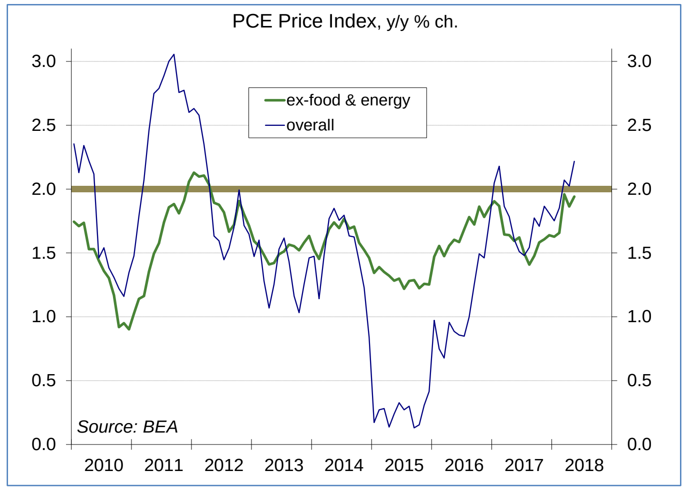


The **Employment Cost Index** rose 0.6% over the three months ending in June (+2.8% y/y). Wages and Salaries rose 0.5% (+2.8% y/y), while benefit costs rose 0.9% (+2.9% y/y). For private industry, the ECI rose 0.6% (+2.9% y/y).

Motor Vehicle Sales fell to a 16.7 million seasonally adjusted annual rate in July, vs. 17.2 million in June. Sales of domestically built vehicles, which count toward consumer spending, slipped to a 12.9 million pace, vs. 13.1 million in June. Sales of imported vehicles (imports have a negative sign in the GDP calculation) fell to a 3.8 million pace, vs. 4.1 million in June.

Personal Income rose 0.4% (as expected) in the initial estimate for June (+4.9% y/y). Private-sector wages and salaries rose 0.4% (+5.3% y/y). Comprehensive benchmark revisions boosted the level of income for the last couple of years, but had a limited impact on spending figures. Estimates of the savings rate (a really lousy economic statistic) rose sharply (May 2018 went from 3.2% to 6.8%). **Personal Spending** rose 0.4% (also as expected) in June (+5.1%), up 0.3% adjusting for inflation (+2.8% y/y). The **PCE Price Index** rose 0.1% (+2.2% y/y), up 0.1% ex-food & energy (+1.9% y/y, vs. the Fed's goal of 2%).





The Conference Board **Consumer Confidence Index** was essentially unchanged at 127.4 in the advance estimate for July (based on information collected on or before July 19), vs. 127.1 in June (revised from 126.4). Evaluations of current conditions improved, partly reflecting greater optimism about current job availability. However, expectations fell for the second consecutive month.

Factory Orders rose 0.7% in June (+6.1% y/y). Durable goods orders were revised to +0.8% (vs. +1.0% in the advance estimate). Orders for nondurables rose 0.5%. Results were mixed across industries. Orders for nondefense capital goods ex-aircraft rose 0.2% (vs. +0.6% in the advance estimate) – a +10.2% annual rate in 2Q18 (vs. +1.5% in 1Q18 and +3.5% in 4Q17). Shipments (for this category) rose 0.7% (revised from +1.0%) – a 3.8% annual rate in 2Q18 (vs. +2.9% in 1Q18, +11.3% in 4Q17).

The **ISM Manufacturing Index** edged down to 58.1 in July, vs. 60.2 in June and 58.7 in May. Growth in new orders and production were strong, but a bit slower than in June. Job growth was moderately strong. Input price pressures remained elevated. Comments from supply managers were upbeat, but showed continued concerns about tariffs, labor shortages, and capacity constraints.

The **Chicago Business Barometer** rose to 65.5 in July, vs. 64.1 in June and 62.7 in May. New orders and production reached 6-month highs. Employment improved, but there were still reports of "firms struggling to source ideal candidates, which continues to hamper recruitment plans." Input price pressure increased (highest level since September 2008). The report noted higher prices widespread across a range of key inputs with firms attributing the rise to recently implemented tariffs on imported goods.

The **ISM Non-Manufacturing Index** slipped to 55.7 in July, vs. 59.1 in June and 58.6 in May. Growth in business activity and new orders slowed (still relatively strong). Employment growth picked up. Input price pressures remained elevated. Comments from supply managers were generally upbeat, but showed further concerns about tariffs, input price increases, and transportation.

The **Bank of England**'s Monetary Policy Committee raised the Bank Rate 25 basis points to 0.75%, citing "a very limited degree of slack" in the U.K. economy. The MPC continued to recognize that "the economic outlook could be influenced significantly by the response of households, businesses and financial markets to developments related to the process of EU withdrawal." The MPC indicated that, if the economy evolves as anticipated, "an ongoing tightening of monetary policy over the forecast period would be appropriate." However, future rate increases "are likely to be at a gradual pace and to a limited extent."

This Week – The July inflation figures arrive at the end of the week. The Consumer Price Index is expected to have risen moderately, with little impact from gasoline prices. The Producer Price Index may show a little pressure in gasoline prices, which should dip in August. Pipeline inflationary pressures within the PPI report are expected to remain elevated. However, there has been no sign that higher prices in goods at the wholesale level are generally feeding through to higher prices at the consumer level. Most of the CPI is services, partly reflecting wage pressures and partly reflecting rents. Will increased Treasury supply, reflecting a more rapid worsening in the federal budget deficit, push bond yields higher? Perhaps eventually.

This Week:					***forecast***	last	last –1	comments
Monday	8/06		no significant data					
Tuesday	8/07	10:00	JOLTS: hiring rate	Jun	***NF***	3.9%	3.8%	relatively high
			JOLTS: quit rate		***NF***	2.4%	2.3%	trending gradually higher
		1:00	Treasury Note Auction					$34 billion in 3-year notes
Wednesday	8/08	1:00	Treasury Note Auction					$26 billion in 10-year notes
Thursday	8/09	8:30	Jobless Claims, th.	8/04	***220***	218	217	a low trend
		8:30	**Producer Price Index**	Jul	***+0.4%***	+0.3%	+0.5%	energy prices were uneven
			ex-food & energy		***+0.2%***	+0.3%	+0.3%	moderate
			ex-f, e, trade services		***+0.2%***	+0.3%	+0.1%	moderate
		1:00	Treasury Bond Auction					$18 billion in 30-year bonds
Friday	8/10	8:30	**Consumer Price Index**	Jul	***+0.2%***	+0.1%	+0.2%	little impact from gasoline
			year-over-year		***+3.0%***	+2.9%	2.8%	ticking a bit higher
			ex-food & energy		***+0.2%***	+0.2%	+0.2%	moderate core inflation
			year-over-year		***+2.3%***	+2.3%	2.2%	steady
		8:30	Real Hourly Earnings	Jul	***+0.1%***	+0.1%	+0.1%	nominal earnings rose 0.3%
			year-over-year		***0.0%***	0.0%	0.0%	flat
Next Week:								
Monday	8/13		no significant data					
Tuesday	8/14	6:00	Small Business Optimism	Jul	***NF***	107.2	107.8	likely to remain elevated
		8:30	Import Prices	Jul	***NF***	-0.4%	+0.9%	a limited impact from tariffs
			ex-food & fuels		***NF***	-0.1%	+0.2%	no inflation in finished goods
		11:00	Household Debt and Credit	2Q				updated snapshot from the NY Fed
Wednesday	8/15	8:30	NF Productivity (prelim.)	2Q18	***+2.5%***	+0.4%	+0.3%	uneven in recent quarters, strong in 2Q
			Unit Labor Costs		***0.0%***	+2.9%	+2.5%	mild, but following two elevated quarters
		8:30	**Retail Sales**	Jul	***+0.2%***	+0.5%	+1.3%	unit auto sales fell
			ex-autos		***+0.4%***	+0.4%	+1.4%	moderate
			ex-autos, bld. mat., gas		***+0.4%***	+0.2%	+1.1%	moderate
		9:15	**Industrial Production**	Jul	***+0.6%***	+0.6%	-0.5%	seasonal adjustment adds uncertainty
			manufacturing output		***+0.4%***	+0.8%	-1.0%	aggregate hours rose 0.3%
			Capacity Utilization		***78.4%***	78.0%	77.7%	trending higher
		10:00	Business Inventories	Jun	***+0.1%***	+0.3%	+0.3%	mild
		10:00	Homebuilder Sentiment	Aug	***67***	68	68	seen flat or slightly lower
Thursday	8/16	8:30	Jobless Claims, th.	8/11	***220***	***220***	218	a low trend
		8:30	**Building Permits, th.**	Jul	***1305***	1292	1301	seen mixed, but generally higher
			% change		***+1.0***	-0.7	-4.6	moderate strength year-over-year
			Housing Starts		***1245***	1173	1337	these data are erratic
			% change		***+6.1***	-12.3	+4.8	watch for revisions
Friday	8/17	10:00	Adv. Services Report	2Q18				some implications for GDP revisions
		10:00	Leading Econ Indicators	Jul	***+0.5%***	+0.5%	0.0%	broad-based gains across components
		10:00	UM Consumer Sentiment	m-Aug	***97.8***	97.9	98.2	range-bound

Coming Events and Data Releases

August 22	FOMC Minutes (August 1)
August 23	Fed Jackson Hole Conference
August 24	Durable Goods Orders (July)
August 29	Real GDP (2Q18, 2nd estimate)
September 3	Labor Day (markets closed)
September 7	Employment Report (August)
September 26	FOMC Policy Decision, press conf.
November 6	Election Day
November 8	FOMC Policy Decision (no press conf.)
December 19	FOMC Policy Decision, press conf.
January 30	FOMC Policy Decision, press conf.
March 20	FOMC Policy Decision, press conf.