

# The Virginia Tech – U.S. Forest Service

## May 2018

### Housing Commentary: Section II



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2018

Virginia Polytechnic Institute and State University

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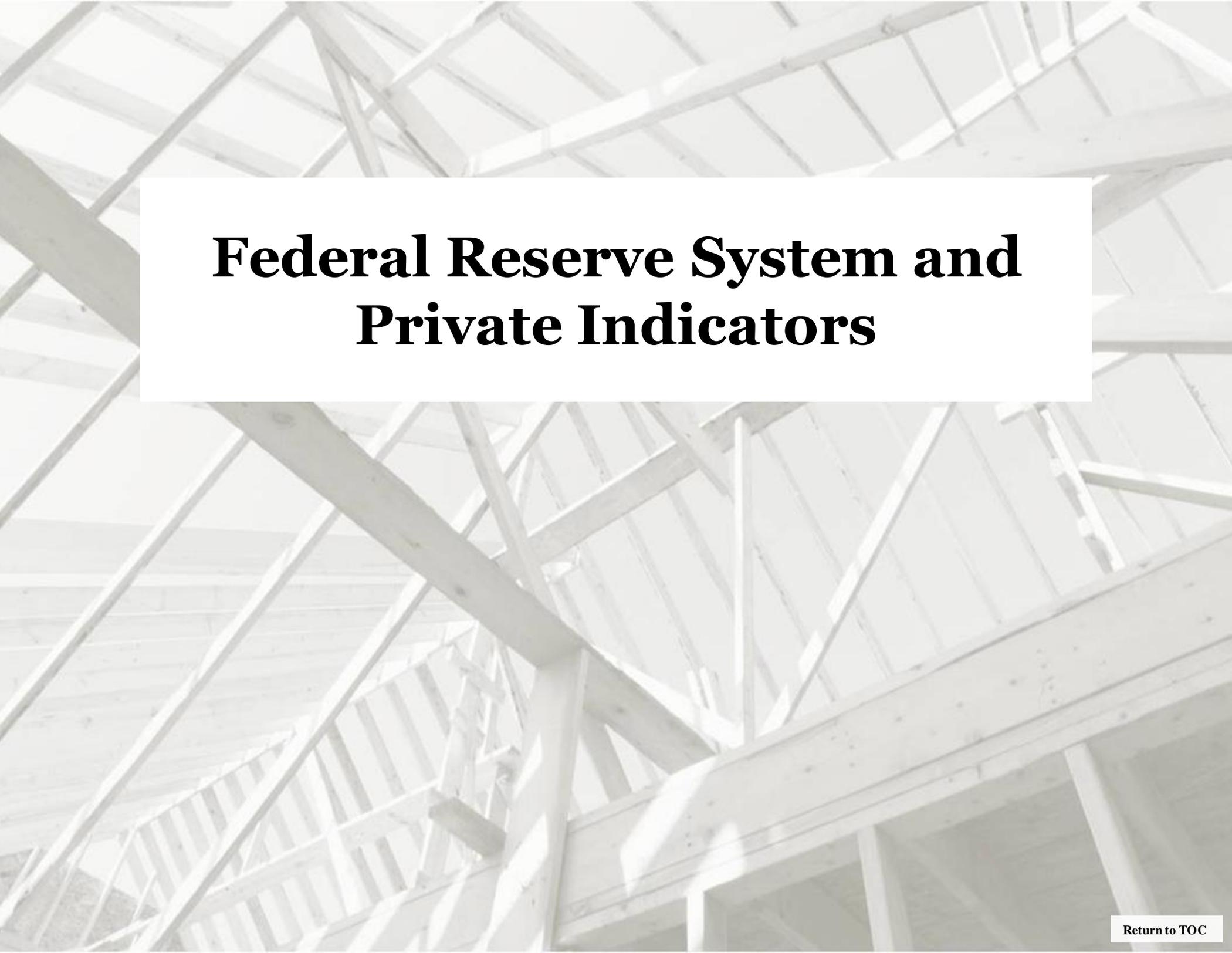
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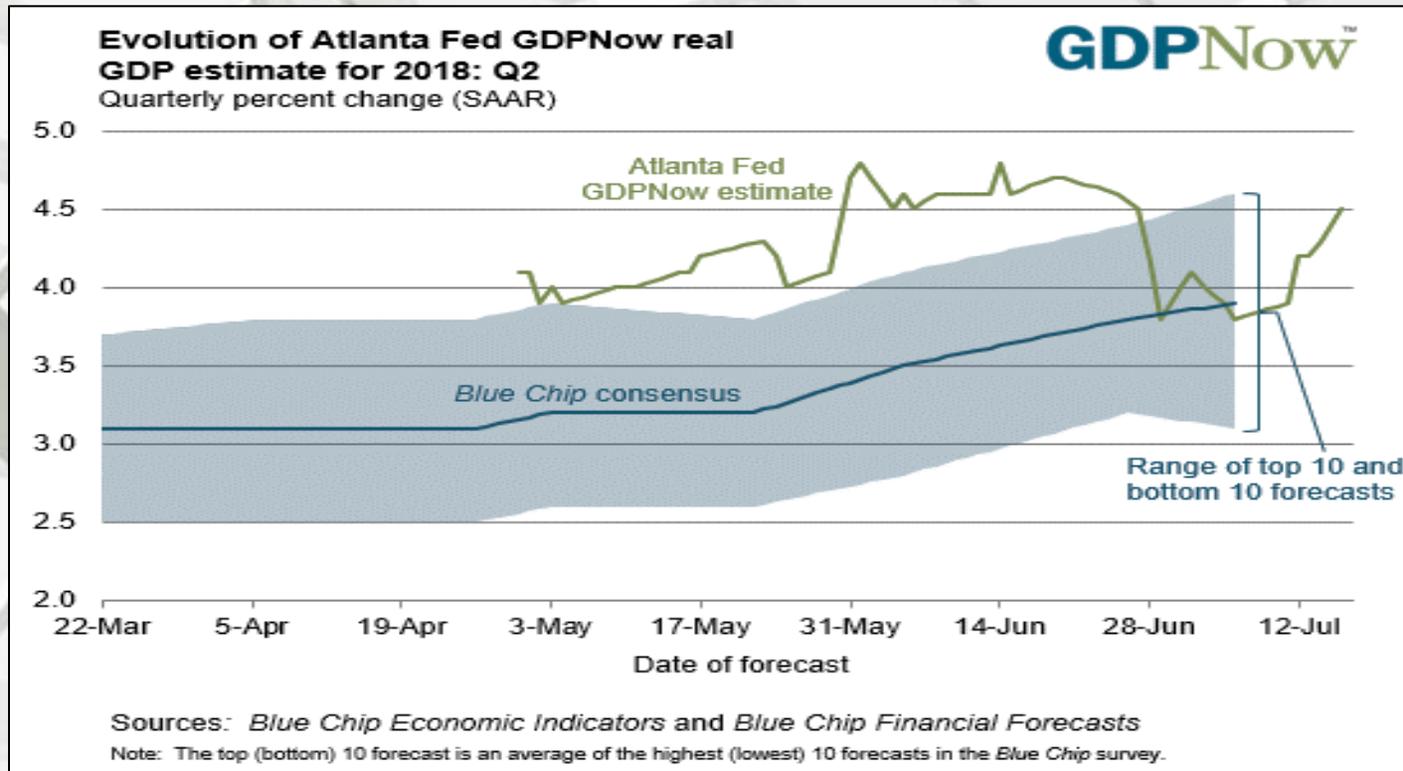
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# **Federal Reserve System and Private Indicators**

# U.S. Economic Indicators

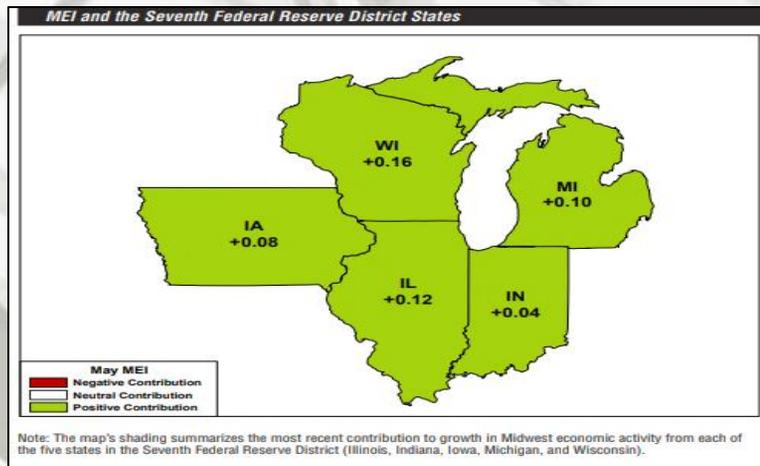


## Atlanta Fed GDPNow™

### Latest forecast: 4.5 percent – July 16, 2018

“The GDPNow model estimate for real GDP growth (seasonally adjusted annual rate) in the second quarter of 2018 is **4.5 percent** on July 16, up from 3.9 percent on July 11. The nowcast of second-quarter real consumer spending growth increased from 2.7 percent to 3.1 percent after this morning's retail sales report from the U.S. Census Bureau. The nowcast of second-quarter real federal government spending growth increased from 1.4 percent to 5.6 percent after the Monthly Treasury Statement release on Thursday, July 12, from the U.S. Department of the Treasury's Bureau of the Fiscal Service.” – Pat Higgins, Economist, Federal Reserve Bank of Atlanta

# Chicago Fed: Midwest Economy Index



“The Midwest Economy Index (MEI) edged down to +0.51 in May from +0.55 in April. Contributions to the May MEI from two of the four broad sectors of nonfarm business activity and two of the five Seventh Federal Reserve District states decreased from April. The relative MEI dropped to  $-0.31$  in May from  $+0.14$  in April. Contributions to the May relative MEI from all four sectors and all five states decreased from April.

## Index points to little change in Midwest economic growth in May

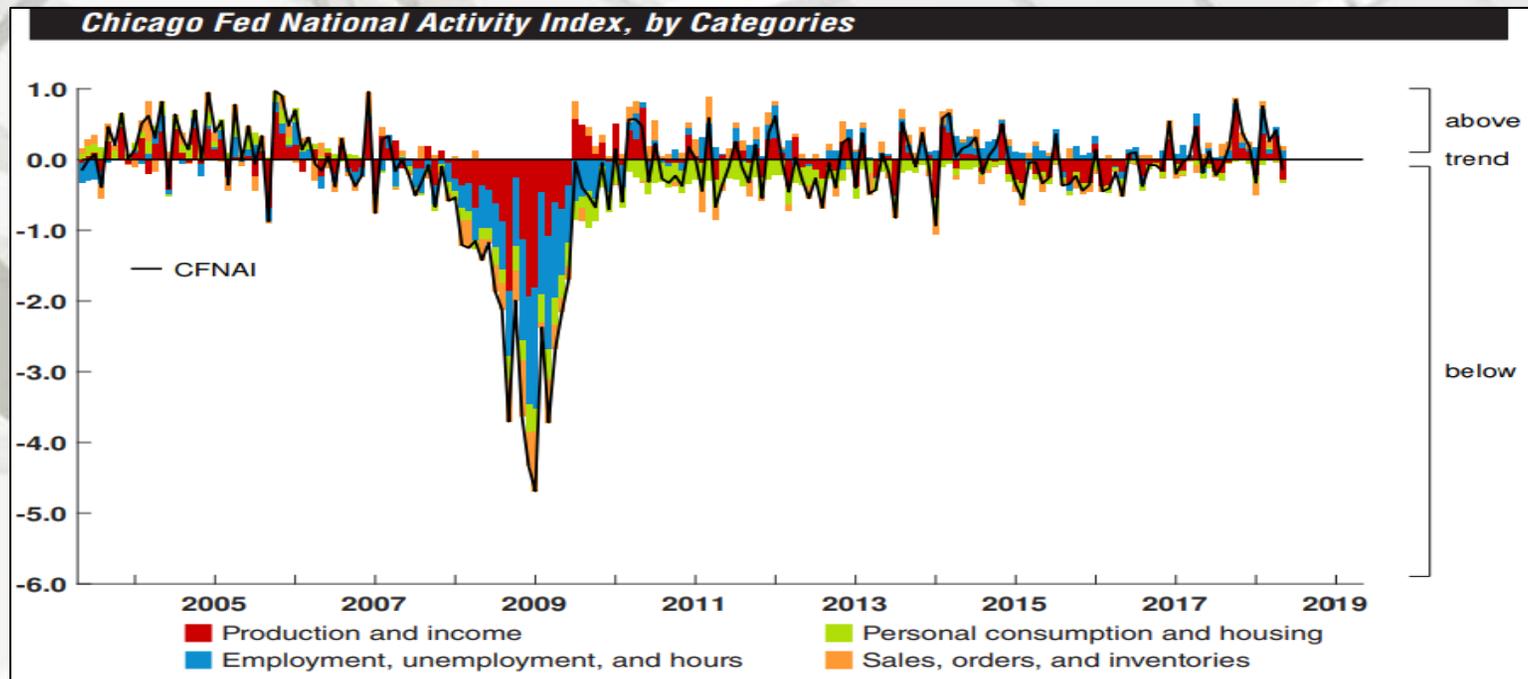
The manufacturing sector’s contribution to the MEI edged down to  $+0.39$  in May from  $+0.44$  in April. The pace of manufacturing activity decreased in Iowa, Michigan, and Wisconsin, but was unchanged in Illinois and Indiana. Manufacturing’s contribution to the relative MEI declined to  $+0.08$  in May from  $+0.27$  in April.

The construction and mining sector’s contribution to the MEI was unchanged at  $+0.08$  in May. The pace of construction and mining activity was weaker in Indiana, Michigan, and Wisconsin, but stronger in Iowa and unchanged in Illinois. Construction and mining made a contribution of  $+0.05$  to the relative MEI in May, down from  $+0.11$  in April.

The service sector contributed  $-0.05$  to the MEI in May, down slightly from  $-0.03$  in April. The pace of service sector activity was down in Michigan and Wisconsin, but up in Indiana and unchanged in Illinois and Iowa. The service sector’s contribution to the relative MEI decreased to  $-0.44$  in May from  $-0.27$  in April.

Consumer spending indicators made a contribution of  $+0.10$  to the MEI in May, up from  $+0.06$  in April. Consumer spending indicators were, on balance, up in Illinois, Indiana, Michigan, and Wisconsin, but steady in Iowa. Consumer spending made a neutral contribution to the relative MEI in May, down from  $+0.03$  in April.” – Laura LaBarbera, Media Relations, Federal Reserve Bank of Chicago

# Chicago Fed: National Activity Index



## Index Points to slower economic growth in May

“Led by declines in production-related indicators, the Chicago Fed National Activity Index (CFNAI) fell to  $-0.15$  in May from  $+0.42$  in April. Two of the four broad categories of indicators that make up the index decreased from April, and two of the four categories made negative contributions to the index in May. The index’s three-month moving average, CFNAI-MA3, decreased to  $+0.18$  in May from  $+0.48$  in April.

The CFNAI Diffusion Index, which is also a three-month moving average, moved down to  $+0.10$  in May from  $+0.23$  in April. Thirty-nine of the 85 individual indicators made positive contributions to the CFNAI in May, while 46 made negative contributions. Forty-three indicators improved from April to May, while 42 indicators deteriorated. Of the indicators that improved, 17 made negative contributions.” – Laura LaBarbera, Media Relations, Federal Reserve Bank of Chicago

# Chicago Fed: National Activity Index

## Index Points to a moderation in economic growth in May

“Production-related indicators contributed  $-0.29$  to the CFNAI in May, down from  $+0.33$  in April. Manufacturing industrial production decreased 0.7 percent in May after increasing 0.6 percent in April. In contrast, the sales, orders, and inventories category made a contribution of  $+0.05$  to the CFNAI in May, up from a neutral contribution in April. The Institute for Supply Management’s Manufacturing New Orders Index increased to 63.7 in May from 61.2 in April.

Employment-related indicators contributed  $+0.13$  to the CFNAI in May, up slightly from  $+0.12$  in April. Nonfarm payrolls rose by 223,000 in May after increasing by 159,000 in April. The contribution of the personal consumption and housing category to the CFNAI edged down to  $-0.04$  in May from  $-0.03$  in April. Housing permits decreased to 1,301,000 annualized units in May from 1,364,000 in April, but housing starts increased to 1,350,000 annualized units in May from 1,286,000 in the previous month.

The CFNAI was constructed using data available as of June 21, 2018. At that time, May data for 51 of the 85 indicators had been published. For all missing data, estimates were used in constructing the index. The April monthly index value was revised to  $+0.42$  from an initial estimate of  $+0.34$ , and the March monthly index value was revised to  $+0.26$  from last month’s estimate of  $+0.32$ . 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 April and March monthly index values were primarily due to the former.” – Laura LaBarbera, Media Relations, Federal Reserve Bank of Chicago

# U.S. Economic Indicators

## Texas Economy Continues to Advance

“The Texas economy is expanding at a solid pace. Employment has grown at a 3.6 percent annualized rate through May, driven by job gains in the goods-producing sector. Unemployment remains near its historical low, and labor markets are tight. The Dallas Fed’s [Texas Business Outlook Surveys](#) (TBOS) suggest economic activity accelerated in May. Texas’ rig count is on the rise as oil prices continue to recover.

Texas employment expanded at a 3.2 percent annualized rate in May, slower than April’s 4.1 percent increase. Job growth remained generally broad based across major Texas metros. Year to date through May, Houston leads in job growth among the major metros, supported by its robust energy sector and continued post hurricane rebuilding activity. Job gains through May remain solid in Austin and Dallas–Fort Worth, but have moderated in San Antonio when compared with 2017. El Paso is the only metro to post losses thus far in the second quarter, but job growth year to date remains faster than in 2017. The Texas Employment Forecast for 2018 was revised down slightly to 3.3 percent in June from 3.6 percent in May but remains well above 2017’s growth of 1.9 percent.

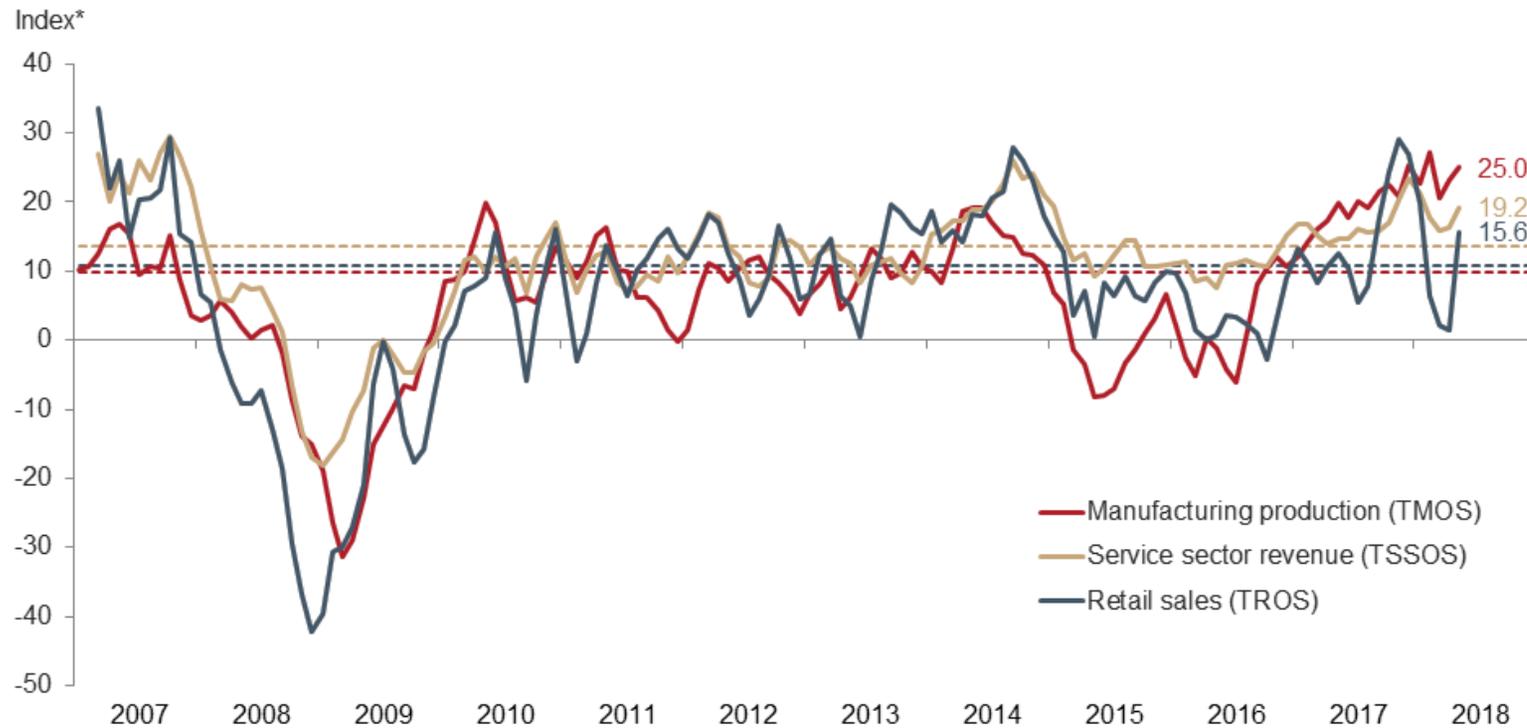
The Texas unemployment rate held steady at 4.1 percent in May, while the U.S. rate edged down to 3.8 percent. The jobless rate in Texas has crept up relative to the national rate since March primarily due to stronger labor force growth in the state — more workers sought jobs in an already tight labor market. Despite being slightly above the national rate, the Texas unemployment rate remains near historical lows. Broader measures of labor market slack — including discouraged and marginally attached workers and those working part-time for economic reasons—have also dropped well below their prerecession averages. The Dallas Fed’s Beige Book and TBOS contacts report widespread labor shortages.

TBOS wage indexes remained firmly above their post recession averages in May. On average, respondents to TBOS Special Questions last month expect wages to increase 4.4 percent and input prices to rise 4.8 percent this year compared with 2017. The share of respondents who said they are raising wages and/or benefits to recruit and retain employees also increased, rising from 49.4 percent in November 2017 to 61.6 percent in May.” – Anil Kumar, Senior Economist and Policy Advisor; Benjamin Meier, Research Assistant; and Dylan Szeto, Business Operations Analyst; ; The Federal Reserve Bank of Dallas

# U.S. Economic Indicators

**Chart 1**  
**TBOS Headline Indexes Suggest Activity Accelerated in May**

Federal Reserve Bank of Dallas



\*Three-month moving average, seasonally adjusted.

NOTES: Data are through May 2018. Dashed lines are postrecession averages beginning in January 2010.

SOURCES: Federal Reserve Bank of Dallas' Texas Business Outlook Surveys (TBOS); Texas Manufacturing Outlook Survey (TMOS), Texas Service Sector Outlook Survey (TSSOS) and Texas Retail Outlook Survey (TROS).

# U.S. Economic Indicators

## Texas Manufacturing Continues to Expand, Outlook Improves

“The expansion in Texas factory activity continued in June, albeit at a slower pace than in May, according to business executives responding to the *Texas Manufacturing Outlook Survey*. The production index, a key measure of state manufacturing conditions, declined 12 points to 23.3, signaling a deceleration in output growth. Some other indexes of manufacturing activity also indicated slower growth in June. The capacity utilization and shipments indexes posted double-digit declines, falling to 21.7 and 25.5, respectively. However, demand improved further in June as the new orders index edged up to 29.6, its highest level this year.

Perceptions of broader business conditions were even more positive in June than in May. The general business activity index rose 10 points to 36.5, and the company outlook index rose five points to 33.2, its highest reading since 2006. Expectations regarding future business conditions remained largely optimistic in June. The indexes of future general business activity and future company outlook moved up to 35.9 and 38.7, respectively, with both readings significantly above average. Other indexes of future manufacturing activity showed mixed movements but remained in solidly positive territory.

Labor market measures suggested robust growth in employment and longer work hours in June. The employment index stayed near last month’s six-year high at 23.9. Thirty-one percent of firms noted net hiring, compared with 7 percent noting net layoffs. The hours worked index remained highly positive but edged down to 20.2.

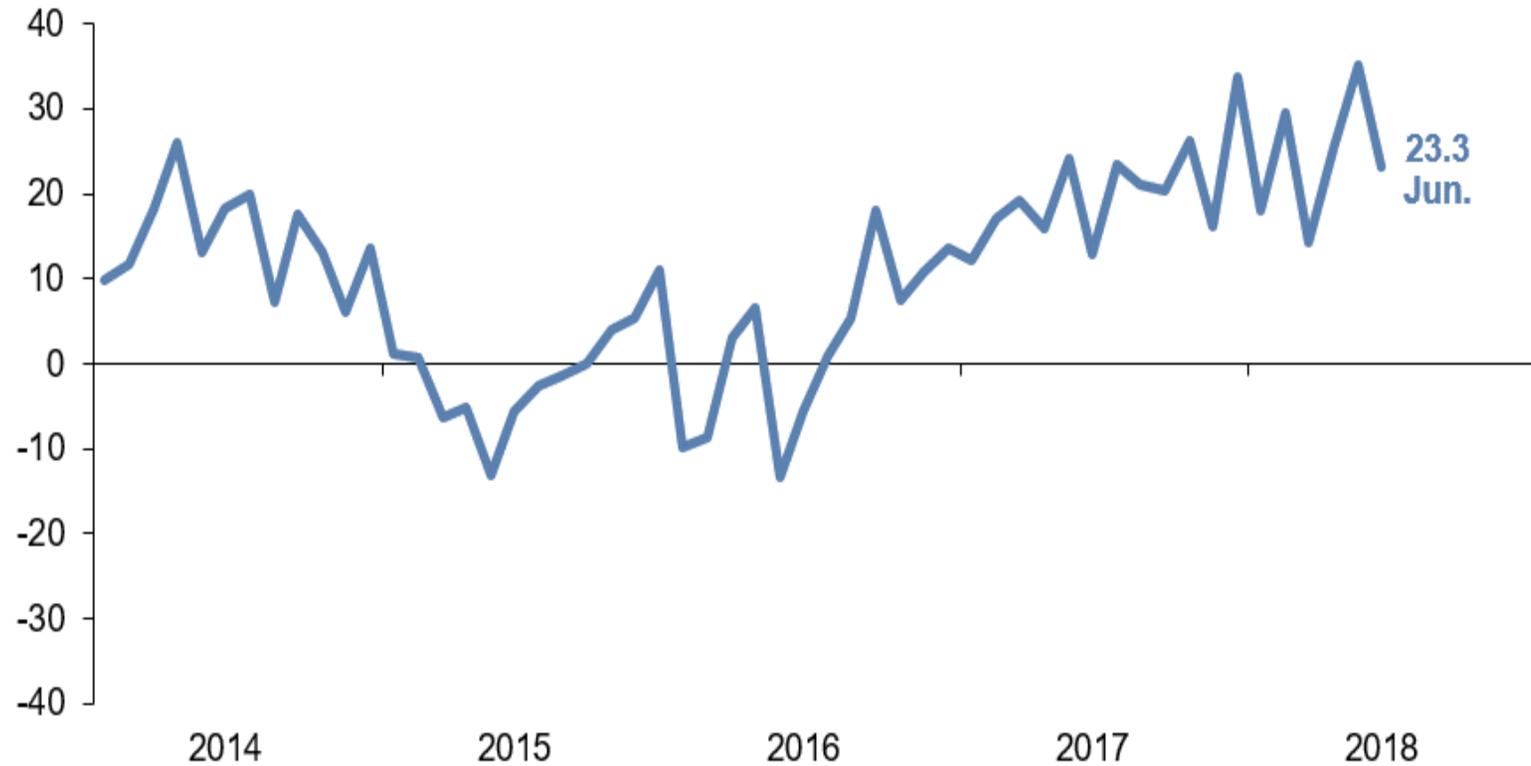
Price and wage pressures increased markedly in June. The raw materials prices index rose 10 points to 53.6, its highest reading since 2011. The finished goods prices index moved up to a 10-year high of 26.2. Compensation costs also accelerated, with the wages and benefits index rising seven points to 31.4.

This was another strong report for the Texas manufacturing sector. Although output growth eased a bit this month, it remained solid, and forward-looking indicators like new orders and company outlooks rose. Cost increases picked up pace rather notably, with firms citing steel and aluminum tariffs as a key driver.”  
– Emily Kerr, Business Economist, The Federal Reserve Bank of Dallas

# U.S. Economic Indicators

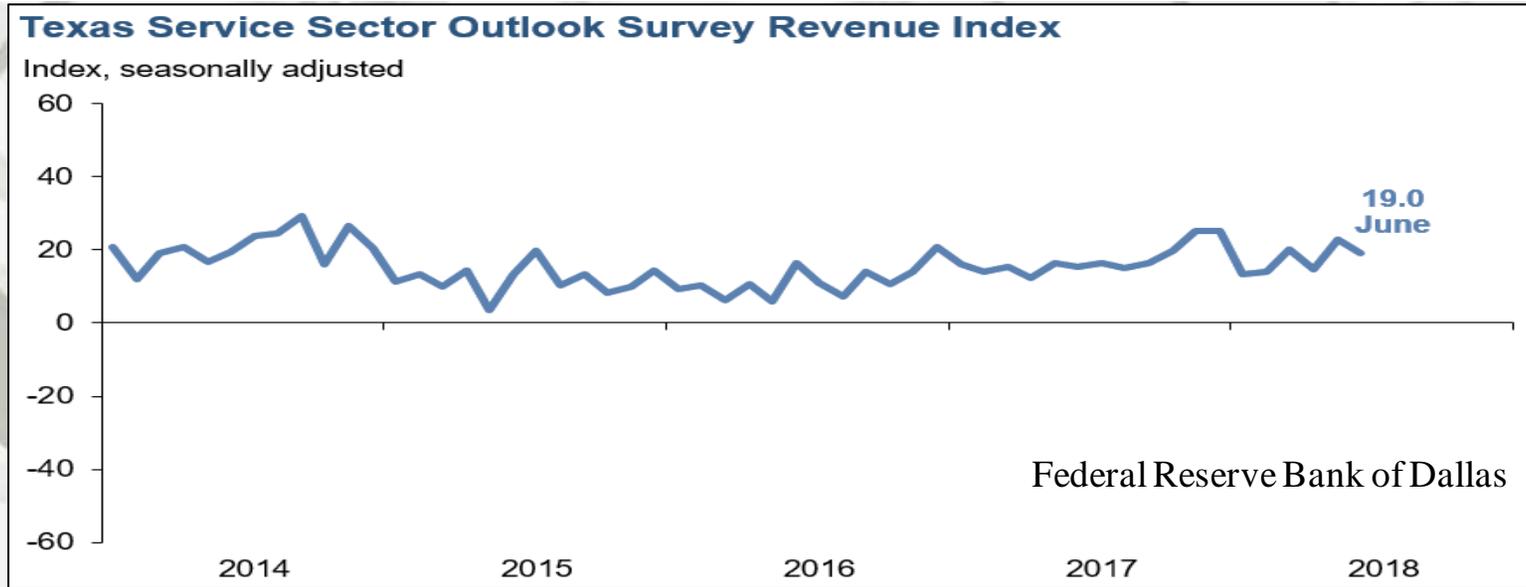
## Texas Manufacturing Outlook Survey Production Index

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 June, although at a slightly 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, slipped from 22.8 in May to 19.0 in June.

Labor market indicators reflected continued employment growth and longer workweeks this month. The employment index remained positive but fell slightly from 16.6 in May to 13.9 in June. The hours worked index remained largely unchanged at 10.7, its highest level since early 2012.

Perceptions of broader economic conditions continued to reflect optimism in June. The general business activity index advanced nearly four points to 22.4, its highest reading since the beginning of the year. The company outlook index held steady at 14.4.

Respondents’ expectations regarding future business conditions continued to reflect optimism. The future general business activity index advanced three points to 28.7, while the future company outlook index was unchanged at 27.6. Wage expectations remained elevated, as the future wage and benefits index held steady near an 11-year high. Indexes of future service sector activity, such as revenue and employment, also reflected continued optimism this month.” – Amy Jordan, Assistant Economist, The Federal Reserve Bank of Dallas

# U.S. Economic Indicators



## Retail Sales Rise Slightly in June but at Sharply Slower Pace

“Retail sales growth abated in June, according to business executives responding to the *Texas Retail Outlook Survey*. The sales index plunged from 35.1 in May to 1.6 in June, indicating retail sales rose slightly in June but at a sharply slower rate. Inventories rose significantly, with the index surging over 20 points to 12.7.

Labor market measures indicated faster growth in retail employment and longer workweeks this month. The employment index rose slightly to 10.7, above its 12-month average. The hours worked index advanced four and a half points to 9.1.

Retailers’ perceptions of broader economic conditions remained positive in June but fell from May levels. The general business activity index was largely unchanged at 13.0. The company outlook index declined from 13.2 to 6.1.

Retailers’ perceptions of future broader economic conditions indicated continued optimism in June. The index of future general business activity rose slightly to 23.2. The index of future company outlook fell but remained positive, declining from 23.7 in May to 13.9 in June. Indexes of future retail sector activity picked up, with the future sales index increasing to an eight-month high.” – Amy Jordan, Assistant Economist, The Federal Reserve Bank of Dallas

# U.S. Economic Indicators

## The Federal Reserve Bank of Kansas City

### Tenth District Manufacturing Activity Continued To Expand At A Rapid Pace

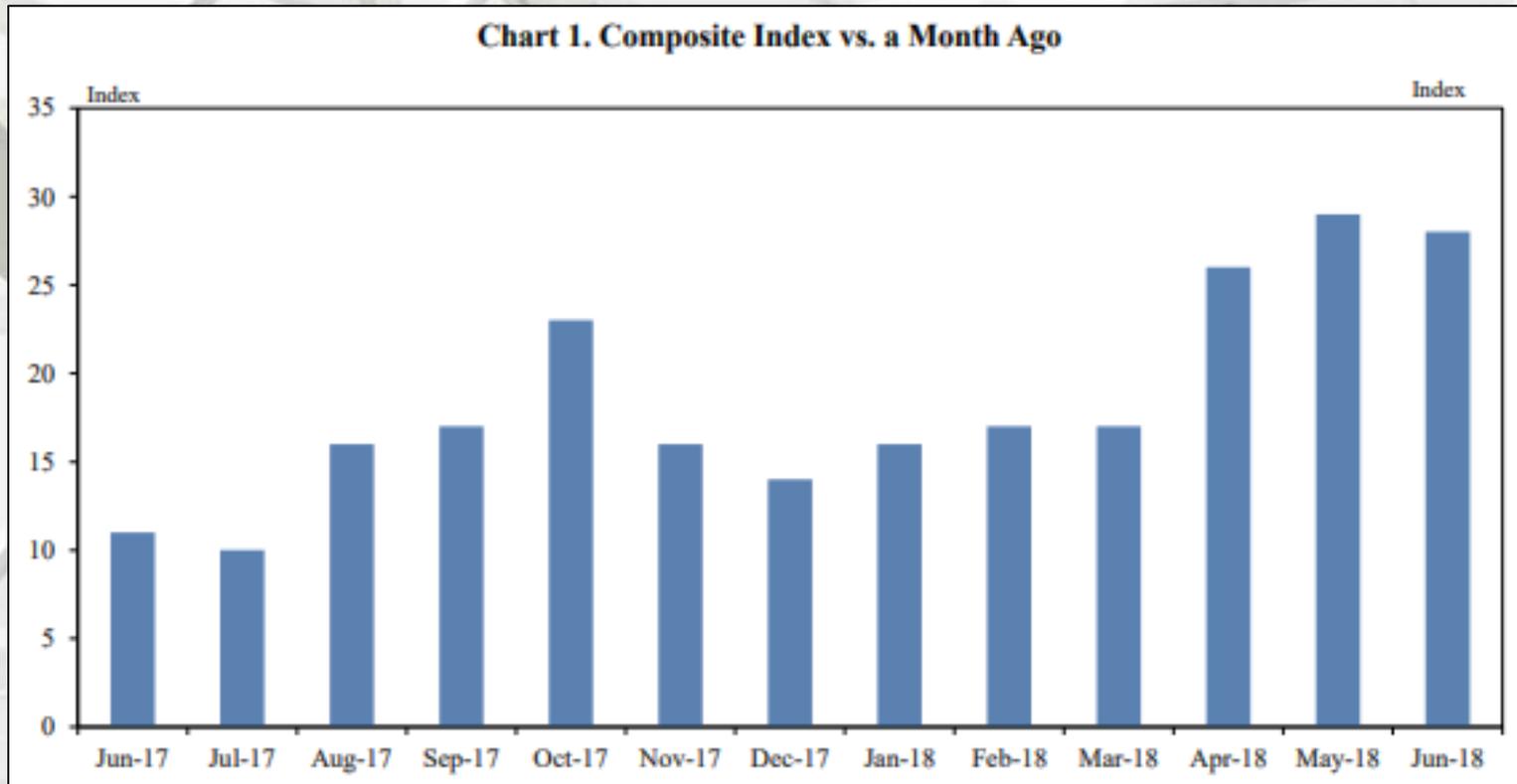
“Tenth District manufacturing activity continued to expand at a rapid pace in June, with the composite index similar to May’s record-high reading. Expectations for future growth increased moderately, and many firms reported difficulties finding qualified workers. Price indexes remained at high levels.

The composite index is an average of the production, new orders, employment, supplier delivery time, and raw materials inventory indexes. Factory activity increased at durable and nondurable goods plants, particularly for computer, electronics, and food products. Most month-over-month indexes were slightly lower than the previous month, but all indexes remained at high levels. The production index edged down from 41 to 38, and the volume of shipments and new orders for exports indexes eased slightly. The employment index was unchanged, while the new orders and order backlog indexes saw a modest decline. The raw materials inventory index improved from 19 to 27, and the finished goods inventory index also increased

Most year-over-year factory indexes decreased slightly, but remained favorable. The composite index edged lower from 45 to 43, and the production, shipments, and order backlog indexes declined modestly. In contrast, the new orders, employment, and capital expenditures indexes were little changed. The raw materials inventory index increased from 28 to 36, and the finished goods inventory index also moved slightly higher.

Most future factory activity indexes increased moderately. The future composite index rose from 26 to 36, and the future production, shipments, and new orders indexes jumped considerably. The future capital expenditures index edged up from 33 to 36, and the order backlog and employment indexes also inched higher. The future raw materials inventory index increased substantially from 7 to 30, and the future finished goods inventory index jumped from 3 to 23.” – 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**

### **Tenth District Manufacturing Activity Continued To Expand At A Rapid Pace**

“The composite index remained strong for the third consecutive month, and many firms reported difficulties finding qualified workers. Prices indexes remained at high levels.” – 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

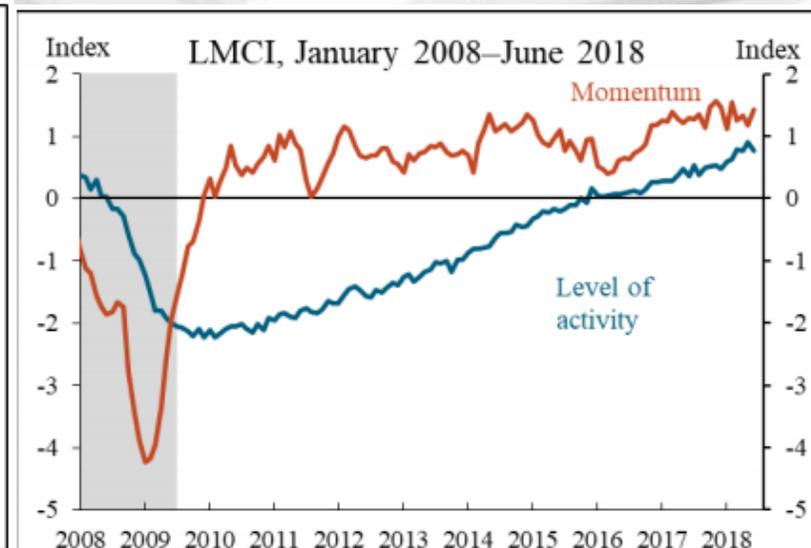
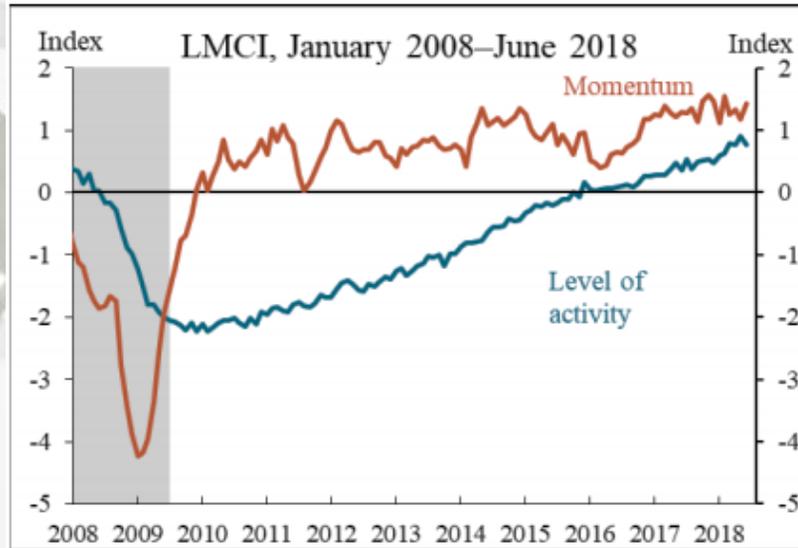
### Labor Market Conditions Indicators (LMCI)

#### *LMCI suggest the level of activity declined and momentum remained high in June*

“The Kansas City Fed Labor Market Conditions Indicators (LMCI) suggest the level of activity declined and momentum remained high in June. The level of activity indicator declined in June from 0.91 to 0.77, while the momentum indicator accelerated from 1.18 to 1.44.

The table in the current release 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 June 2018. The activity indicator increased 0.28 over the last six months. The largest contribution came from an increase in job leavers. Nineteen variables made a positive contribution, one variable made no contribution, and four variables made a negative contribution. The momentum indicator was 1.44 in June, 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 June 2018
Job leavers	Initial claims
Average hourly earnings	Expected job availability (U of Michigan)
Percent of firms with positions not able to fill right now (NFIB)	Labor force participation rate
Job losers	Expected job availability (Conference Board)
Quits rate	Manufacturing employment index (ISM)

*Note: Contributions are ordered from largest to smallest.*

# U.S. Economic Indicators

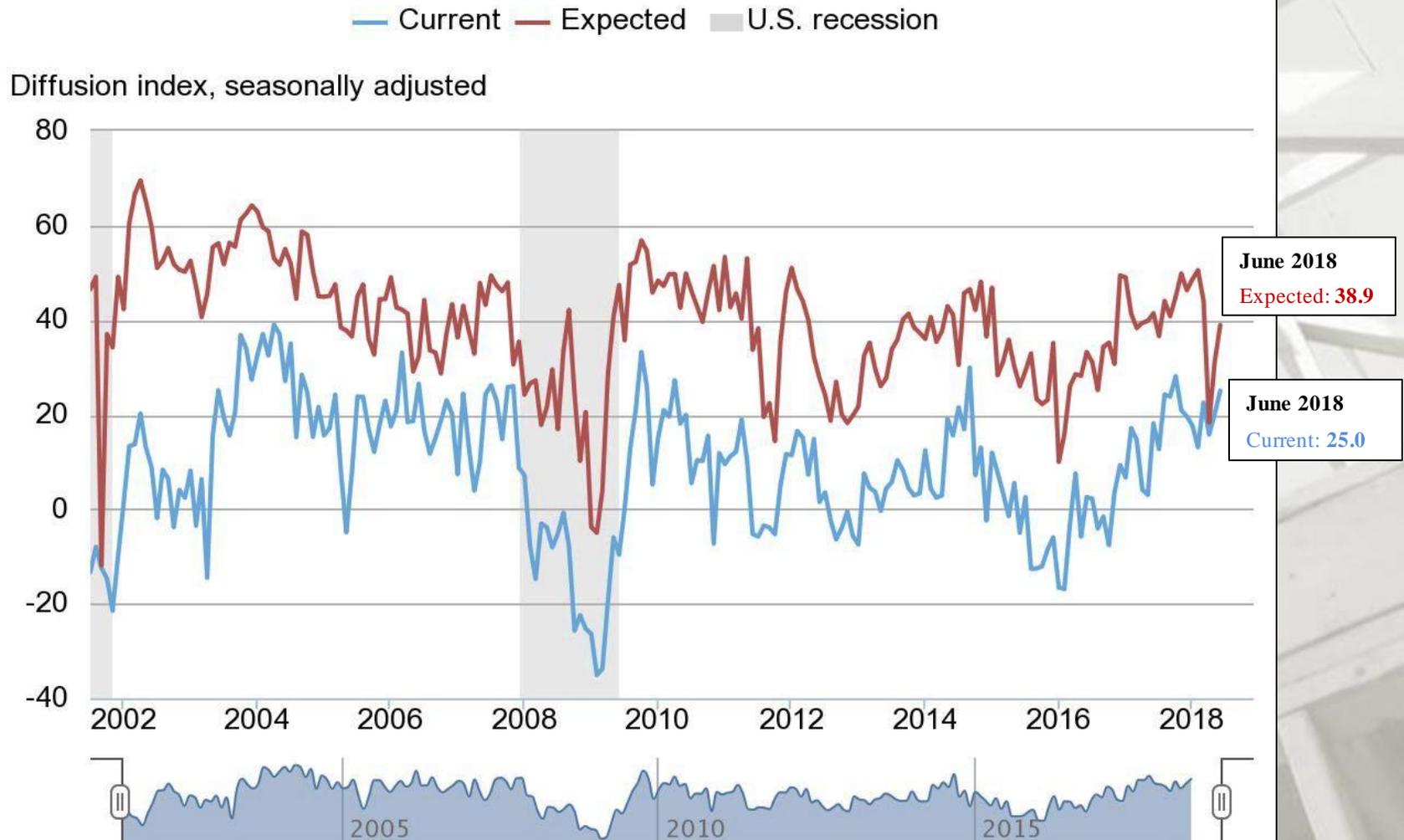
## Empire State Manufacturing Survey Business Activity Continues To Expand

“Business activity continued to grow strongly in New York State, according to firms responding to the **June 2018 Empire State Manufacturing Survey**. The headline general business conditions index climbed five points to 25.0, indicating a faster pace of growth than in May. Both the new orders index and the shipments index showed ongoing solid growth, with the former rising five points to 21.3 and the latter moving up four points to 23.5. Delivery times continued to lengthen, and inventories edged higher. Labor market indicators pointed to a substantial increase in employment and longer workweeks. The prices paid index remained close to last month’s multiyear high, indicating continued significant input price increases, and the prices received index remained elevated. Looking ahead, firms were more optimistic about the six-month outlook than they were last month.

Manufacturing firms in New York State reported that business activity expanded at a faster pace than in May. The general business conditions index rose five points to 25.0, its highest level in several months. Thirty-eight percent of respondents reported that conditions had improved over the month, while 13 percent reported that conditions had worsened. The new orders index advanced five points to 21.3 and the shipments index rose four points to 23.5 — readings that reflected strong growth. Unfilled orders increased, inventories edged higher, and delivery times continued to lengthen.” – Richard Deitz and Jason Bram, The Federal Reserve Bank of New York

# U.S. Economic Indicators

## General Business Conditions



# U.S. Economic Indicators

## Empire State Manufacturing Survey

### Hiring Picks Up

“The index for number of employees climbed ten points to 19.0, its highest level thus far in 2018, pointing to a pickup in employment levels. The average workweek index was little changed at 12.0, indicating an increase in hours worked. Price increases remained elevated. The prices paid index was little changed from last month’s multiyear high, and the prices received index held steady at 23.3, suggesting ongoing moderate selling price increases.

### Firms More Optimistic

After slipping in April, optimism about the six-month outlook increased for a second consecutive month. The index for future business conditions climbed eight points to 38.9. Employment was expected to increase in the months ahead, and the indexes for future prices remained elevated. The capital expenditures index edged down two points to 27.1, and the technology spending index fell six points to 17.1.” – Richard Deitz and Jason Bram, The Federal Reserve Bank of New York

# U.S. Economic Indicators

## **Business Leaders Survey (Services) Activity Expands at a Solid Clip**

“Activity in the region’s service sector expanded strongly, according to firms responding to the Federal Reserve Bank of New York’s *June 2018 Business Leaders Survey*. The survey’s headline business activity index climbed seven points to 21.4, its highest level in more than a decade. The business climate index increased nine points to 21.0, a sign that firms, on balance, regarded the business climate as better than normal. The employment index moved up five points to 17.7, indicating an increase in employment levels, and the wages index remained elevated. The prices paid index climbed ten points to 62.4, a multiyear high, suggesting ongoing widespread input price increases, and the selling price index held steady at 22.3. Indexes assessing the six-month outlook suggested that firms were fairly optimistic about future conditions, though less so than they had been early in the year.

Growth in business activity in the region’s service sector picked up in June. The headline business activity index climbed seven points to 21.4, its highest level since 2007. Forty-two percent of respondents reported that conditions improved over the month, while 21 percent said that conditions worsened. The business climate index was positive for a seventh consecutive month, rising nine points to 21.0, signaling that, on balance, firms continued to view the business climate as better than normal.

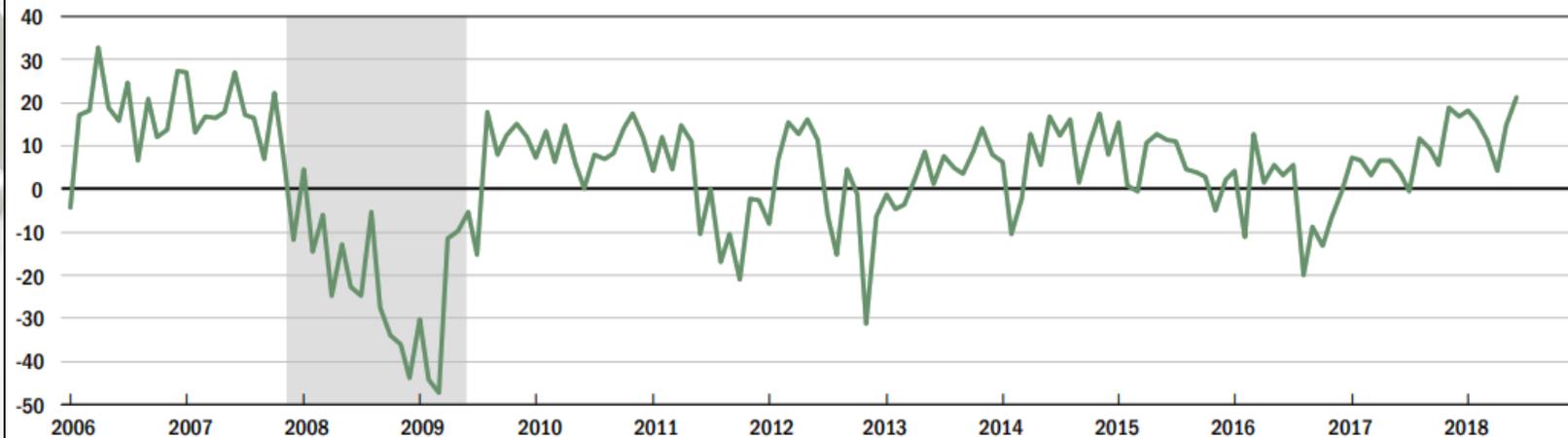
### **Firms Remain Fairly Upbeat**

Firms remained fairly optimistic about the six-month outlook, though they were less positive than they had been early this year. The indexes for future business activity and future business climate were both little changed, at 36.6 and 20.8, respectively. Indexes for future wages and prices also held steady, and the index for planned capital spending edged down for a second consecutive month, to 22.6.” – Jason Bram and Richard Deitz, The Federal Reserve Bank of New York

# U.S. Economic Indicators

## Business Activity

### Diffusion Index



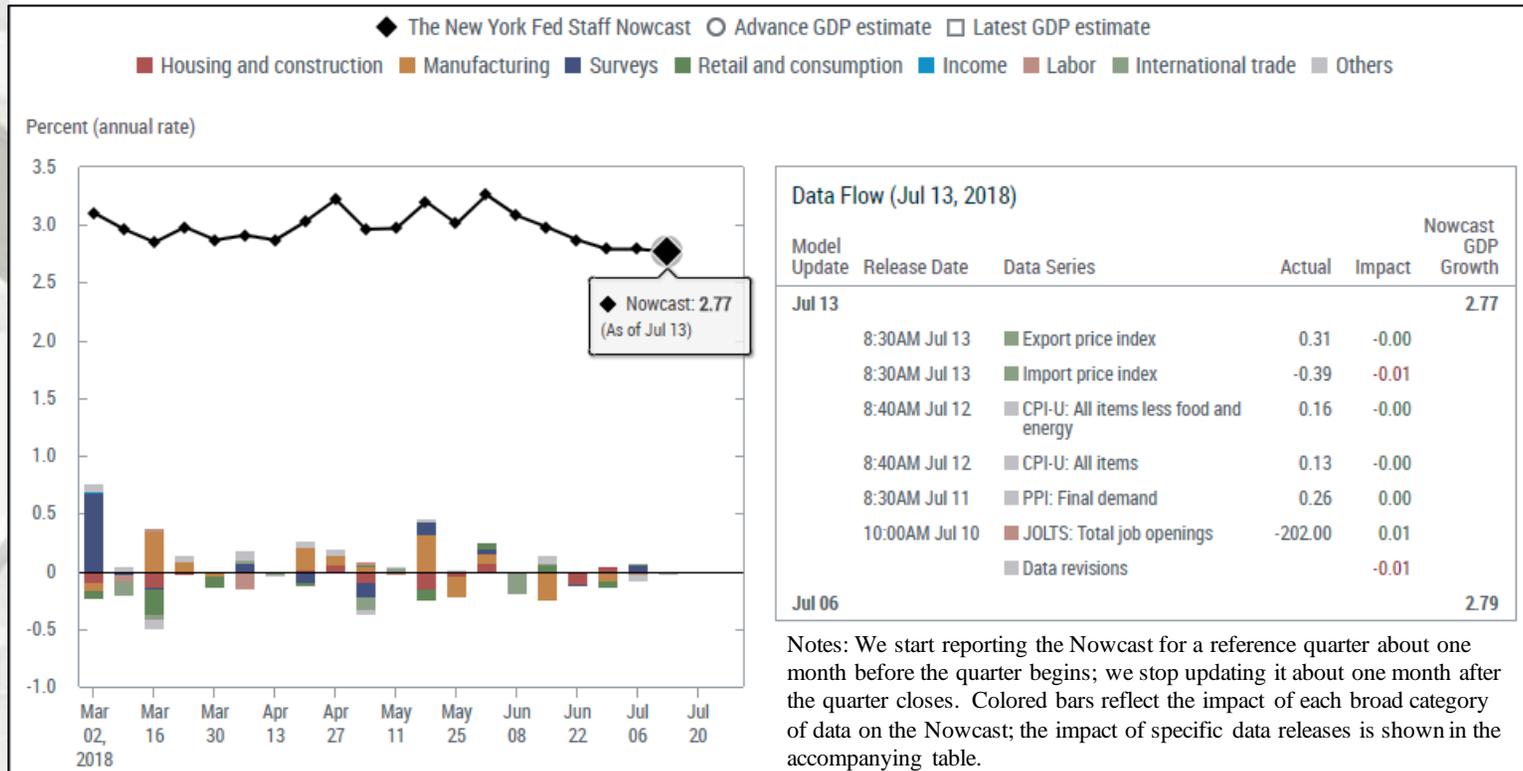
Note: The shaded area indicates a period designated a recession by the National Bureau of Economic Research.

## Business Leaders Survey (Services) Input Price Increases Continue to Pick Up

“The employment index moved up five points to 17.7, indicating a moderate increase in employment levels. The wages index, while down three points from last month, remained elevated at 41.1, reflecting ongoing wage growth. The prices paid index climbed ten points to 62.4, a multiyear high, signaling that input prices rose at a faster pace than last month. The prices received index held steady at 22.3, a level pointing to ongoing moderate increases in selling prices. The capital spending index was little changed at 12.7, suggesting that capital spending continued to increase moderately.” – Jason Bram and Richard Deitz, The Federal Reserve Bank of New York

# U.S. Economic Indicators

## The Federal Reserve Bank of New York Nowcast



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

### July 13, 2018: Highlights

- “The New York Fed Staff Nowcast stands at 2.8% for 2018:Q2 and 2.6% for 2018:Q3.
- News from this week's data releases left the nowcast for 2018:Q2 broadly unchanged and decreased the nowcast for 2018:Q3 by 0.1 percentage point.
- Negative surprises from export and import prices accounted for most of the decrease.” – The Federal Reserve Bank of New York

# U.S. Economic Indicators

Model Forecast								
	2018		2019		2020		2021	
	Jul	Mar	Jul	Mar	Jul	Mar	Jul	Mar
GDP growth (Q4/Q4)	2.3	2.1	1.8	1.9	1.8	2.1	1.9	2.1
Core PCE inflation (Q4/Q4)	1.9	1.8	1.5	1.5	1.5	1.6	1.6	1.7
Real natural rate of interest (Q4)	1.0	1.0	1.3	1.2	1.4	1.4	1.4	1.4

## The Federal Reserve Bank of New York DSGE Model Forecast – July 2018

“This post presents an update of the economic forecasts generated by the Federal Reserve Bank of New York’s dynamic stochastic general equilibrium (DSGE) model. We describe very briefly our forecast and its change since March 2018. As usual, we wish to remind our readers that the DSGE model forecast is not an official New York Fed forecast, but only an input to the Research staff’s overall forecasting process. For more information about the model and variables discussed here, see our [DSGE model Q & A](#).

The July model forecast for 2018-21 is summarized in the table above, alongside the March forecast, and in the following charts. The model uses quarterly macroeconomic data released through the first quarter of 2018 and available financial data and staff forecasts through June 29, 2018.” – Sushant Acharya, Michael Cai, Marco Del Negro, Abhi Gupta, and Pearl Li; The Federal Reserve Bank of New York

# U.S. Economic Indicators

## The Federal Reserve Bank of New York DSGE Model Forecast – July 2018

### How do the latest forecasts compare with the March forecasts?

- “The current Q4/Q4 GDP growth and inflation forecasts for 2018 (2.3 percent and 1.9 percent, respectively) are slightly higher than in March (2.1 percent and 1.8 percent, respectively). These forecast revisions are largely due to the fact that the nowcasts for both output growth and inflation in Q2 are higher than what the model predicted in March. The model attributes the stronger growth in 2018 to a more buoyant environment for investment. The higher inflation is by and large attributed to price markup shocks.
- The growth and inflation projections for the remainder of the forecast horizon are essentially unchanged. The model still expects core PCE inflation to be below the Federal Open Market Committee’s long-run goal of 2 percent in the medium run.
- The projections for the real natural rate of interest are also unchanged. The natural rate of interest is estimated to be 1.0 percent in 2018, and is expected to rise gradually to 1.4 percent in 2020.” – Sushant Acharya, Michael Cai, Marco Del Negro, Abhi Gupta, and Pearl Li; The Federal Reserve Bank of New York

# U.S. Economic Indicators

## May 2018 Manufacturing Business Outlook Survey

### Current Indicators Suggest Continuing Growth

“Results from the June *Manufacturing Business Outlook Survey* suggest continued expansion of the region’s manufacturing sector. All the broad indicators remained positive, although the indicators for general activity and new orders fell notably. The firms continued to report higher prices for purchased inputs and their own manufactured goods. Expectations for the next six months continued to moderate but remain positive overall.

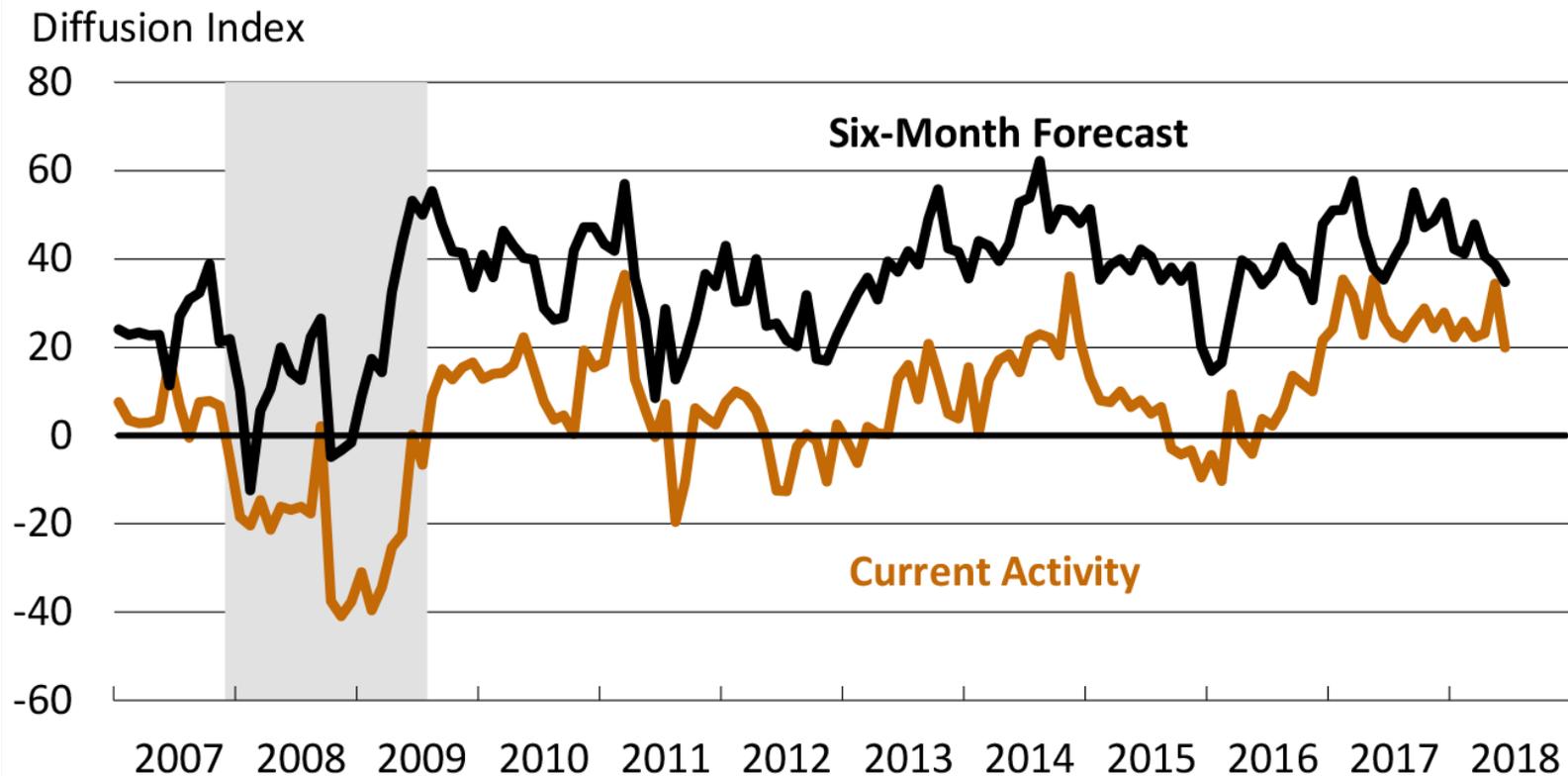
The diffusion index for current general activity remained positive but decreased 15 points this month (see Chart 1). Almost 37 percent of the manufacturers reported increases in overall activity this month, while 17 percent reported decreases. The new orders index fell nearly 23 points this month. While 38 percent of the firms reported an increase in orders, 20 percent reported declines. The current shipments index increased 3 points. The unfilled orders index suggested that firms’ backlogs diminished: The index fell 18 points and registered its first negative reading (-2.7) since January. The delivery times index remained positive but fell 9 points to its lowest reading in four months.

The firms continued to report overall increases in employment. Nearly 34 percent of the responding firms reported increases in employment this month, while 3 percent reported decreases. The current employment index, at 30.4, was virtually unchanged from May. The current average workweek index, however, decreased 10 points.” – Mike Trebing, Senior Economic Analyst, The Federal Reserve Bank of Philadelphia

# U.S. Economic Indicators

**Chart 1. Current and Future General Activity Indexes**

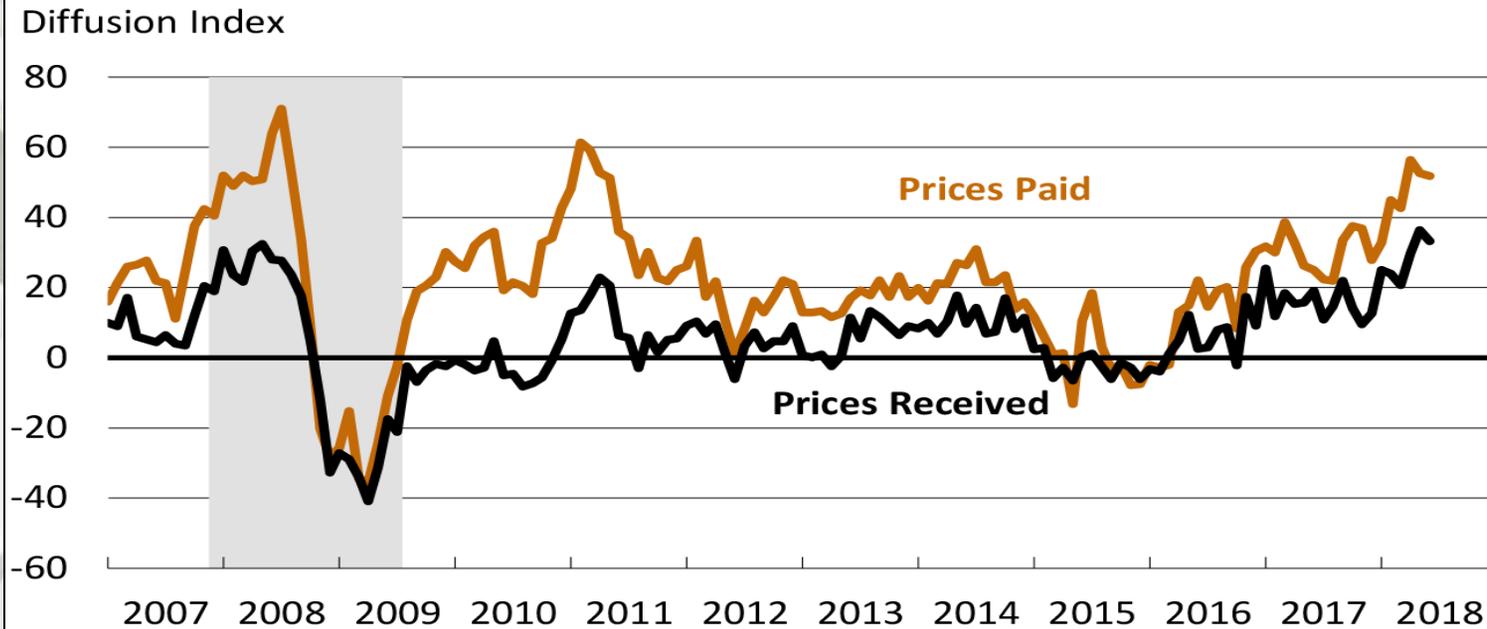
January 2007 to June 2018



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

**Chart 2. Current Prices Paid and Prices Received Indexes**  
January 2007 to June 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.

## **May 2018 Manufacturing Business Outlook Survey** **Price Increases Remain Widespread**

“The firms continued to report higher prices for both purchased inputs and their own manufactured goods, although the survey’s price indicators fell modestly from their May readings. Price increases for purchased inputs were reported by 54 percent of the manufacturers this month, but the prices paid diffusion index edged 1 point lower (see Chart 2). The current prices received index, reflecting the manufacturers’ own prices, decreased 3 points but remains at a high reading of 33.2. Nearly 34 percent of the firms reported higher prices for their manufactured goods.” – Mike Trebing, Senior Economic Analyst, The Federal Reserve Bank of Philadelphia

# U.S. Economic Indicators

## June 2018 Manufacturing Business Outlook Survey

### Firms Expect Production Increases to Continue

“In this month’s special questions (see [Special Questions](#)), firms were asked to estimate their total production growth for the second quarter ending this month along with expected growth for the third quarter. The share of firms reporting expected increases in third-quarter production (67 percent) was greater than the share reporting decreases (16 percent). Looking ahead to the third quarter, 58 percent of the firms expect acceleration in the rate of production, while 28 percent of the firms expect deceleration. For those firms expecting an increase in production, 39 percent expect to hire additional workers. The remaining firms indicated that they would increase the work hours of current workers (25 percent) or increase the productivity of current workers (27 percent) rather than increasing the number of workers.

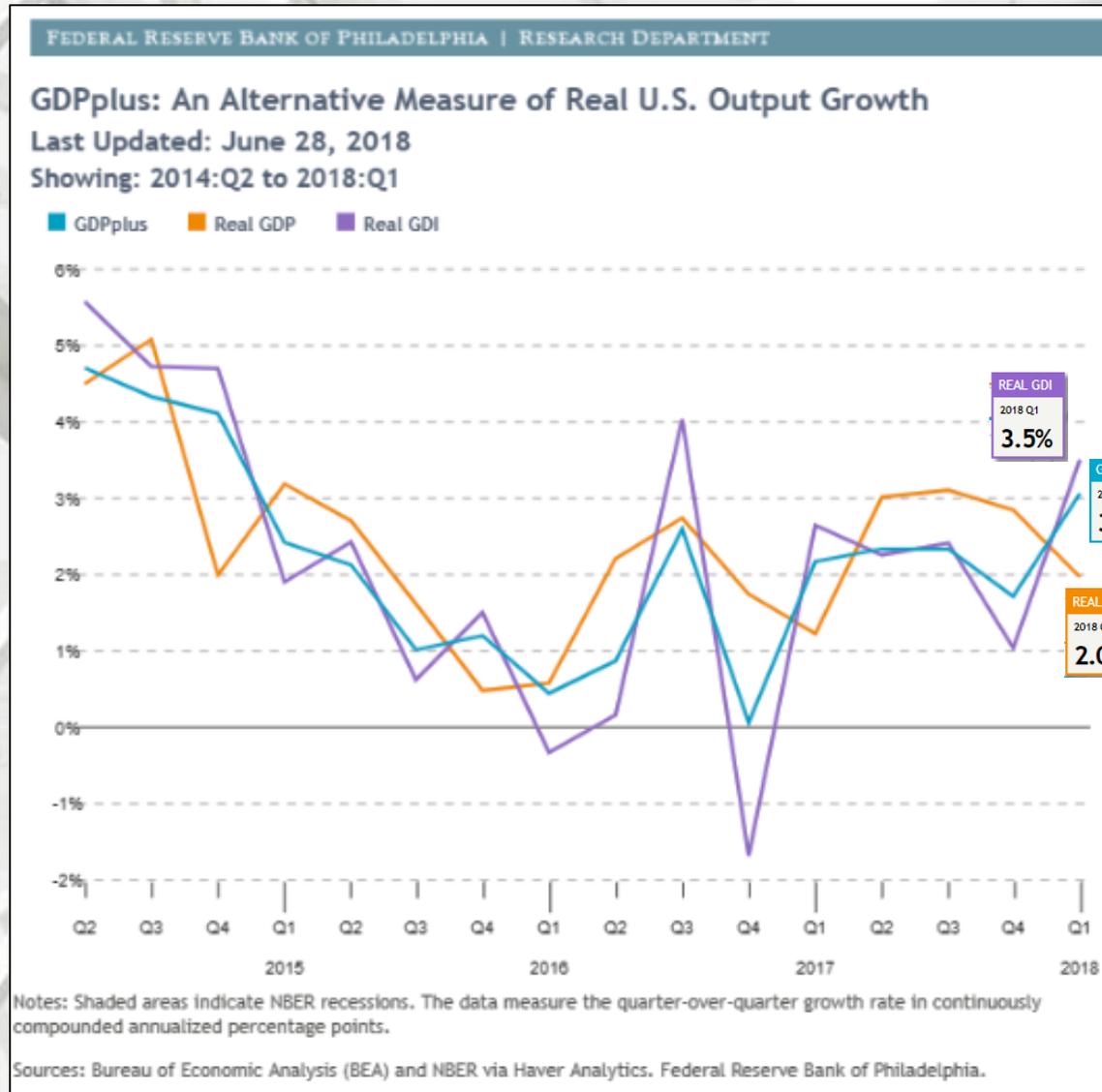
### Six-Month Indicators Continue to Moderate

The diffusion index for future general activity decreased for the third consecutive month, falling from 38.7 in May to 34.8 this month (see Chart 1). Nearly 48 percent of the firms expect increases in activity over the next six months, while 13 percent expect declines. The future new orders index decreased 2 points, and the future shipments index decreased 10 points. Nearly 67 percent of the firms expect price increases for purchased inputs over the next six months. Fifty-seven percent expect higher prices for their own manufactured goods, up from 36 percent last month. The future employment index decreased 9 points to a reading of 34.1, with more than 38 percent of the firms expecting to add workers over the next six months.

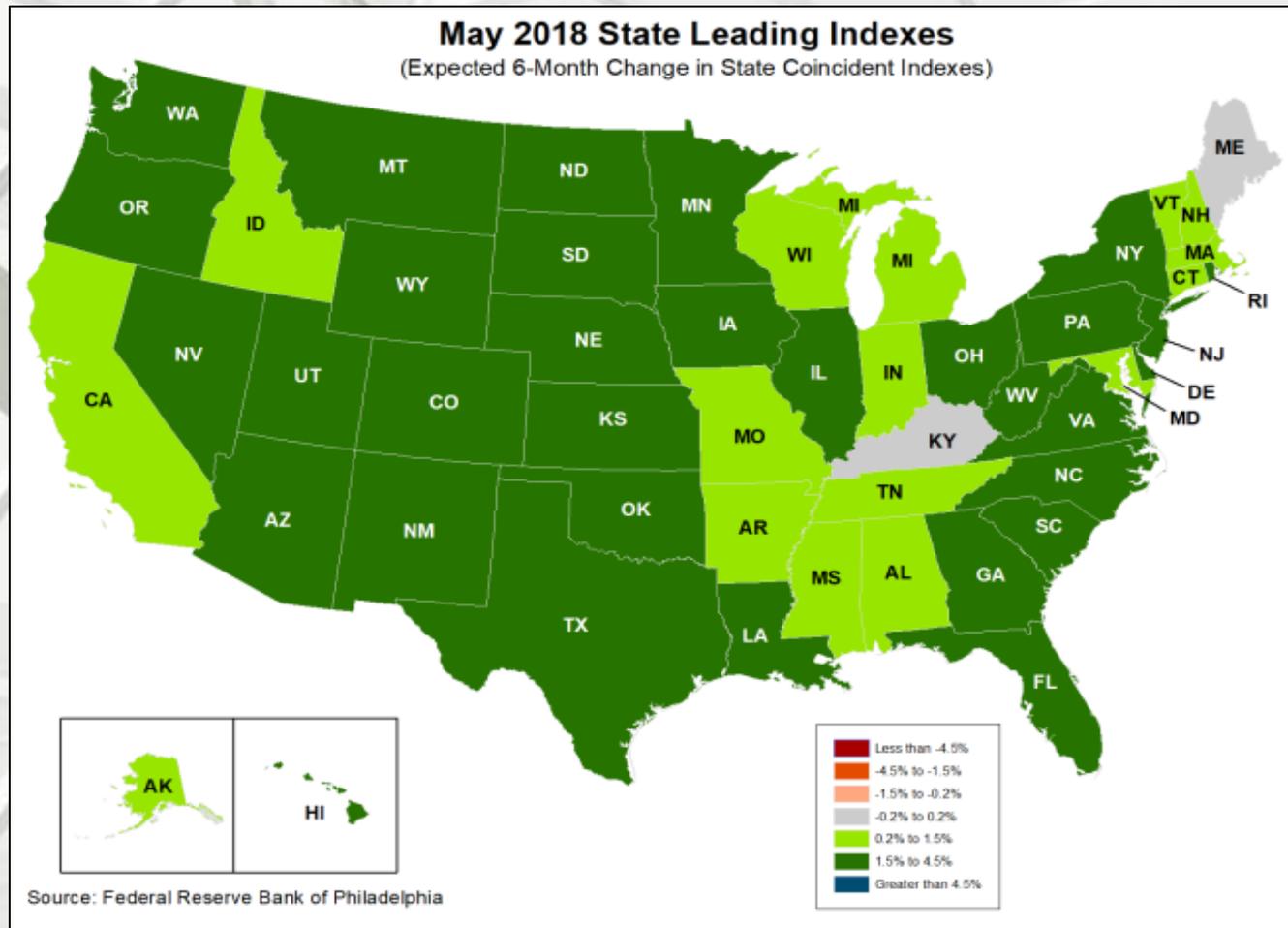
### Summary

Responses to the June Manufacturing Business Outlook Survey indicate continued expansion for the region’s manufacturing sector, although indicators for general activity and new orders fell notably from last month. The firms reported continued increases in employment, and the indexes for prices paid and received continued to reflect widespread price pressures. Looking ahead six months, the firms remain optimistic overall, but the survey’s future indicators continued to moderate.”—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 May 2018. The indexes are a six-month forecast of the state coincident indexes (also released by the Bank). Forty-eight state coincident indexes are projected to grow over the next six months, and two are projected to remain stable. For comparison purposes, the Philadelphia Fed has also developed a similar leading index for its U.S. coincident index, which is projected to grow 1.5 percent over the next six months.” – Daniel Mazone, Research Department, The Federal Reserve Bank of Philadelphia

# U.S. Economic Indicators

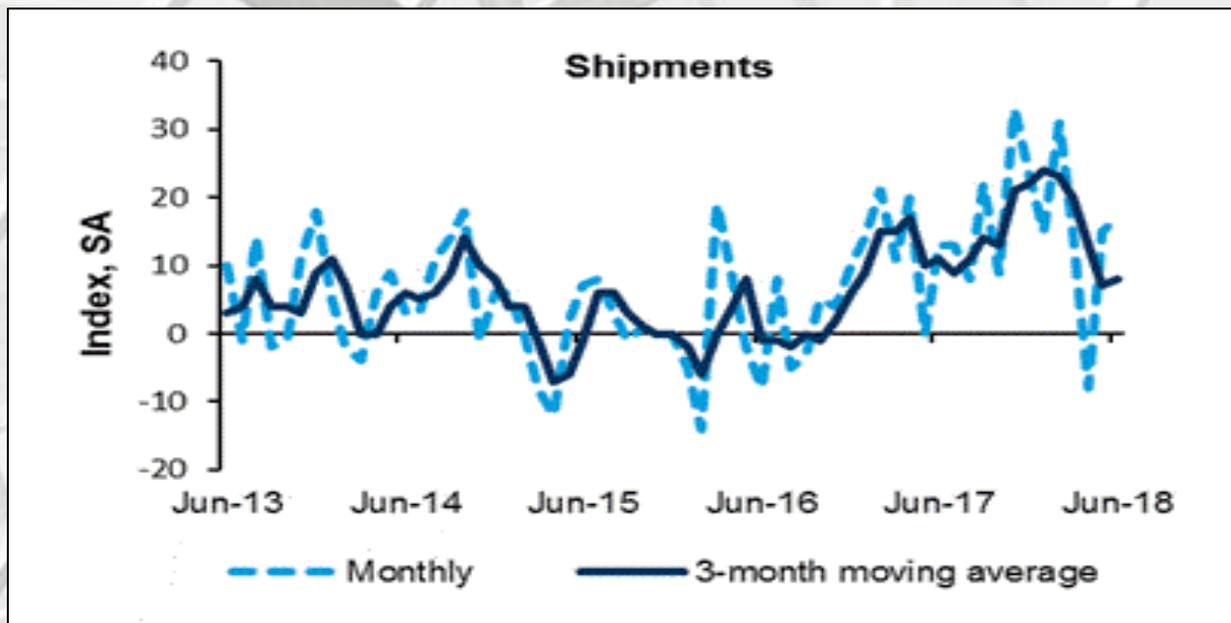
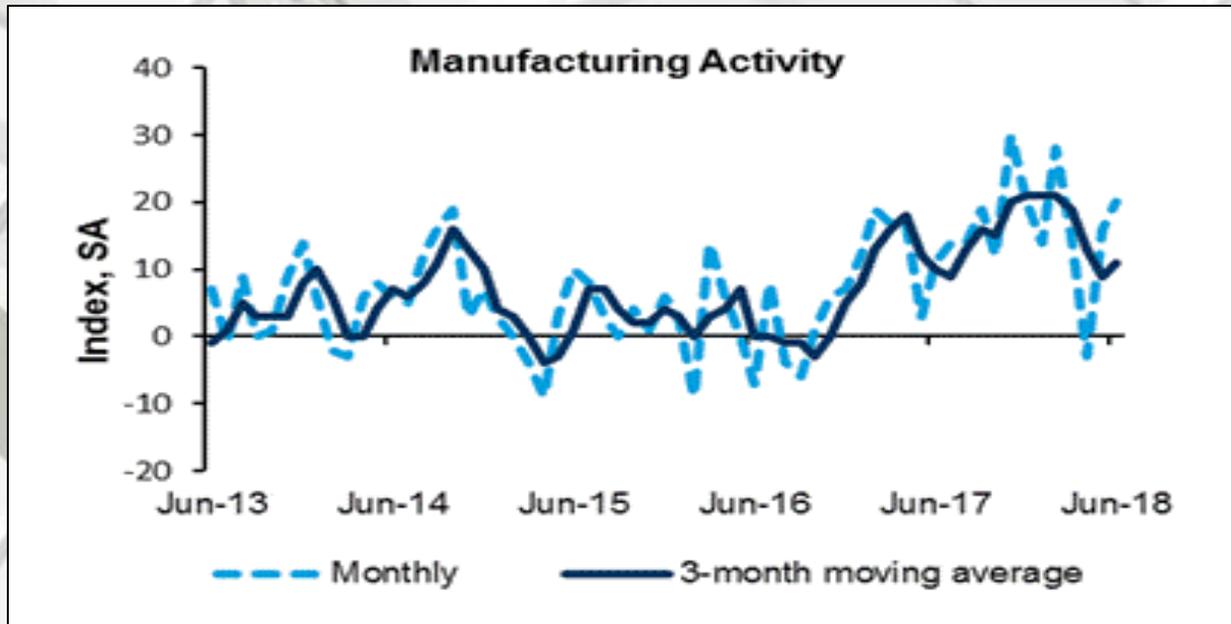
## The Federal Reserve Bank of Richmond Fifth District Manufacturing Firms Reported Continued Growth in June

“Fifth District manufacturing continued to expand in June, according to results of the most recent survey from the Richmond Fed. The composite manufacturing index rose from 16 in May to 20 in June, buoyed by an increase in all three components (shipments, new orders, and employment). Firms also saw an increase in backlog of orders, as the index rose to its highest value of this year. Respondents were optimistic in June, expecting growth to continue across most indicators.

While survey results suggest a rise in employment in June, firms continued to struggle to find employees with the skills they needed, as this indicator fell from -3 in May to -14 in June, indicating further contraction. In spite of expectations of continued shortages, manufacturers expect payrolls to expand further in coming months.

On balance, manufacturers reported that price increases accelerated in June. In fact, the average increase in current prices paid reached its highest level since November 2012. However firms expect growth in both prices paid and prices received to slow in the next six months.” – Jeannette Plamp, Economic Analyst, The Federal Reserve Bank of Richmond

# U.S. Economic Indicators



# U.S. Economic Indicators



# U.S. Economic Indicators



# U.S. Economic Indicators

## The Federal Reserve Bank of San Francisco

### FRBSF FedViews

- “The U.S. economy remains on a solid growth path. Sustained strengthening of employment opportunities and consequent gains in household income have been fueling consistent growth in consumer spending. This in turn is supporting business expansion plans and further employment gains, creating a virtuous cycle of economic growth.
- The pace of real GDP growth has been on an upward trajectory in recent quarters. The economy grew 2.8% between the first quarters of 2017 and 2018, well above the 2.2% average pace of growth since the expansion began in mid-2009. We expect this pace to continue in 2018.
- The key tailwind propelling growth is federal fiscal stimulus. With the waning effects of this stimulus over the next few years and the expected tightening of financial conditions, we project that growth will slow to our estimated sustainable pace of just under 2% by 2020.
- If the current expansion continues past June 2019, it will be the longest in business cycle records dating back to the mid-1800s. The risks of stiffening headwinds remain, notably from rising tensions over international trade, but they are unlikely to be severe enough to push the expansion off course.
- Recent payroll employment gains have been uneven but strong on balance, averaging a touch over 200,000 jobs per month for the past six months. This is somewhat below the very rapid pace seen in 2014 and 2015 but approximately double the pace needed to maintain a vibrant labor market.
- Employment gains have continued to push the unemployment rate down toward historical lows. May’s rate of 3.8% equals the low recorded at the end of the strong expansion in the 1990s. We expect unemployment to drop to 3.5% next year and stay there through 2020. This is well below our estimate of 4.6% for its sustainable level over the long term and essentially matches lows not seen since the late 1960s.” – Rob Valletta, Vice President, The Federal Reserve Bank

# U.S. Economic Indicators

## The Federal Reserve Bank of San Francisco

### FRBSF FedViews

- “Price inflation has taken a decided turn back toward the Fed’s 2% objective over the past two quarters. With continued above-trend growth and tightening constraints on labor and other resources, we expect inflation to rise further and slightly overshoot the 2% target in 2020.
- Although the low unemployment rate and other indicators portray a labor market that is very strong relative to previous expansions, longer-term changes in the labor market have been contributing to an evolving mix of challenges and opportunities for workers.
- One notable trend in recent years is the rising number of involuntary part-time (IPT) workers, defined as individuals who prefer full-time jobs but are only able to obtain jobs with part-time hours. In May 2018, there were nearly 5 million IPT workers, compared with 3.2 million the last time the unemployment rate was 3.8%, in April 2000. A small portion of the increase simply reflects the growth in overall employment. However, recent research indicates that most of the rise in IPT work is attributable to persistent structural changes in the labor market, mainly the shift toward service industries such as restaurants and hotels, where part-time work is common.
- The rise in IPT work has been accompanied by a perceived increase in the incidence of nontraditional paid work arrangements, focusing on independent work with flexible or uneven hours, broadly referred to as the “gig economy.” This includes relatively new modes of work that rely on computer applications, such as for ride-hailing and online task assignments, as well as more traditional informal paid positions, such as childcare and housecleaning.” – Rob Valletta, Vice President, The Federal Reserve Bank of San Francisco

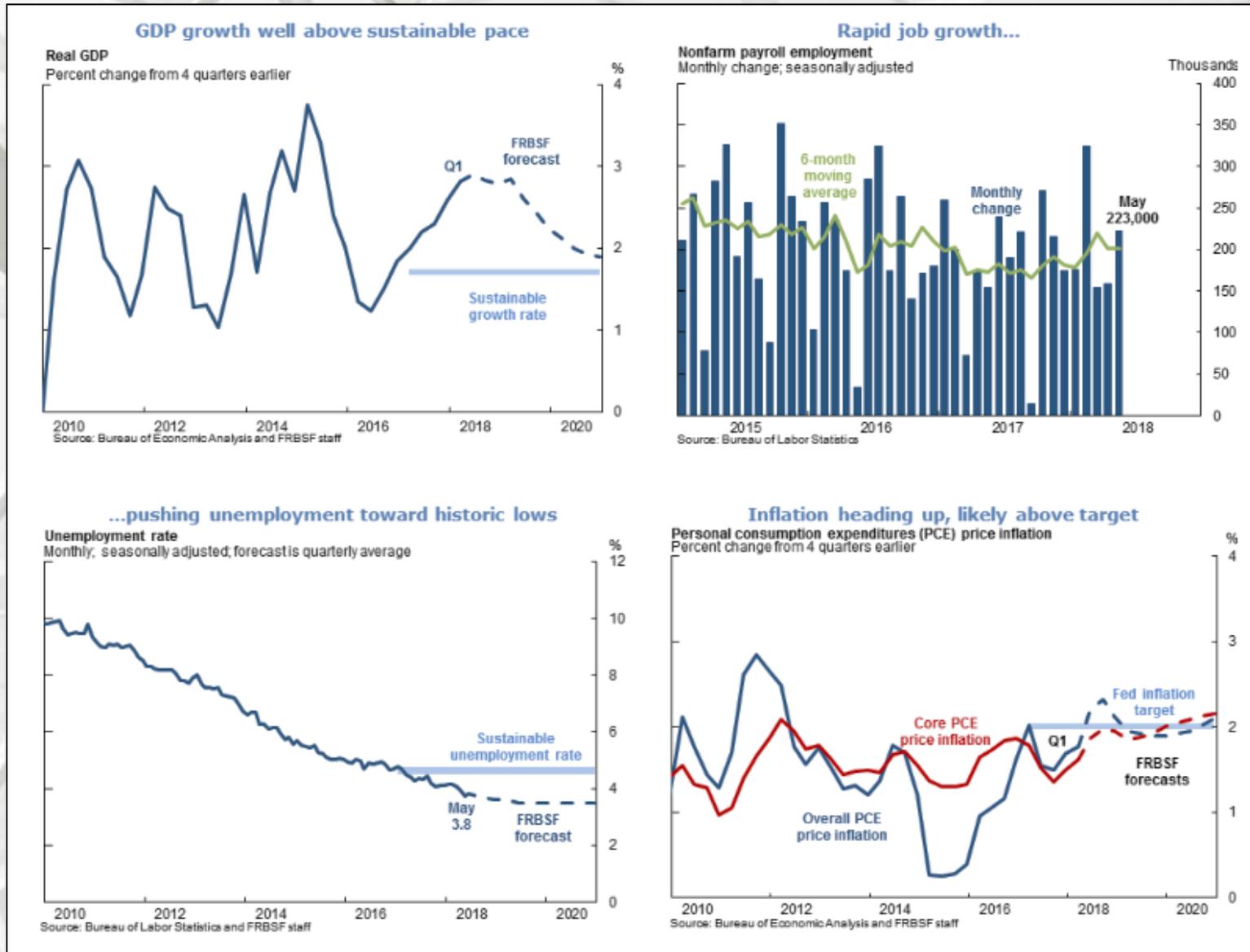
# U.S. Economic Indicators

## The Federal Reserve Bank of San Francisco

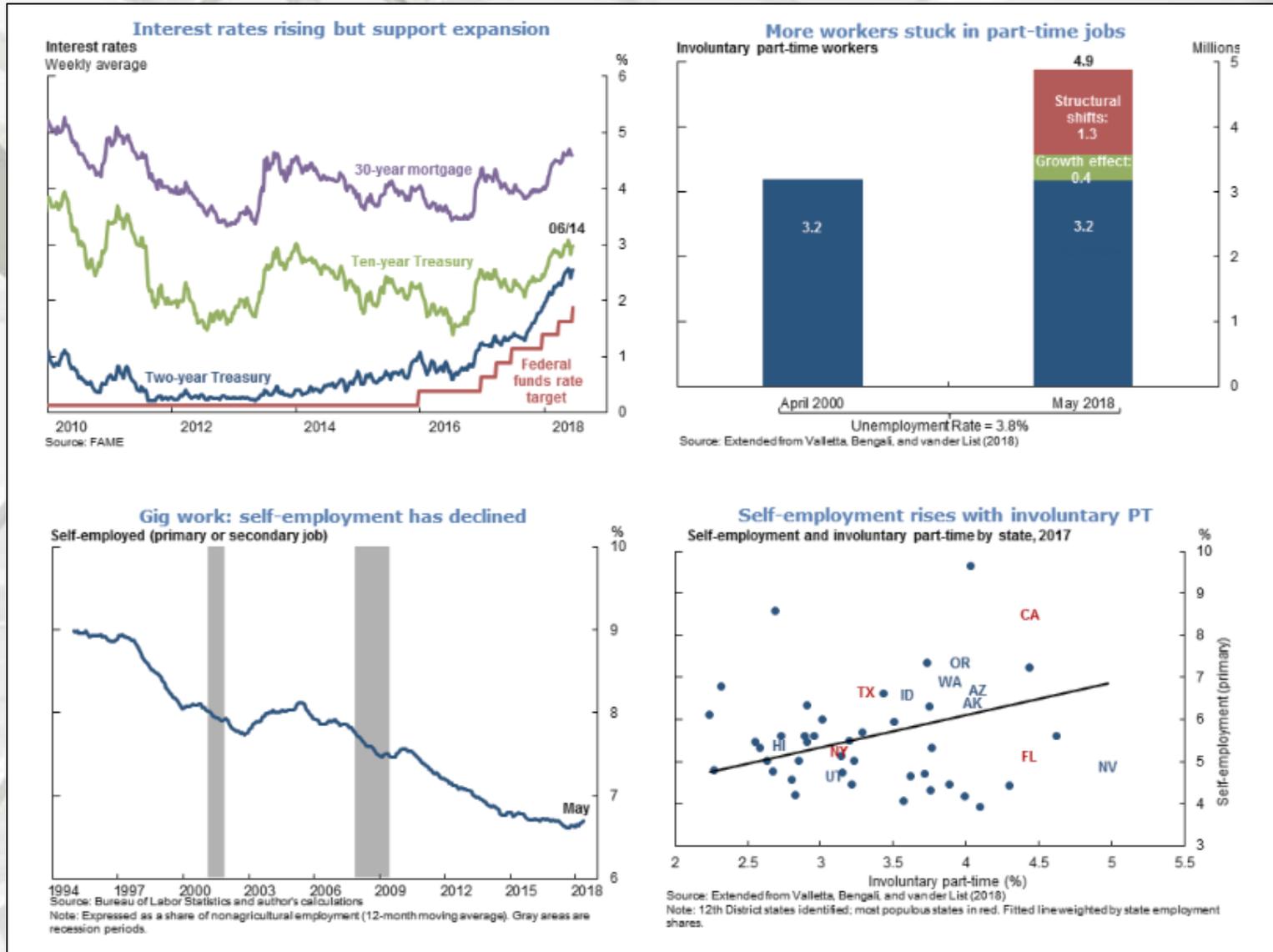
### FRBSF FedViews

- “Consistent with its informal underpinnings, the rise of the gig economy does not show up in traditional measures of labor market activity. Gig work is a form of irregular self-employment. However, the incidence of self-employment in primary or secondary jobs has been declining rather than rising, calculated using data from the Bureau of Labor Statistics’ (BLS) monthly household survey.
- Recent survey results further identify the size and contours of the gig economy. The sources include a revived BLS survey of alternative and contingent employment and a recent Federal Reserve Board survey of household well-being. These surveys suggest less expansion in the overall incidence of gig work than is commonly believed, with very limited hours and earnings derived from gig jobs. This pattern of limited and sporadic gig work has been confirmed by other studies that rely on tax records, online transactions, and banking records.
- Despite its small scope, gig work appears to be connected to the rise in IPT work. States with higher IPT rates tend to have higher rates of self-employment as well, suggesting that gig work may in part be a response to structural shifts in the types of jobs and work schedules that are available or desired.” – Rob Valletta, Vice President, The Federal Reserve Bank of San Francisco

# U.S. Economic Indicators



# U.S. Economic Indicators



# Global Economic Indicators

## **The Federal Reserve Bank of Dallas Mexico's First-Quarter Output Revised Up, but Growth Stalls in April**

“Mexico’s economy grew slightly faster in first quarter 2018 than previously estimated. First-quarter gross domestic product (GDP) was revised to 4.6 percent, up from the prior estimate of 4.5 percent. April’s monthly GDP measure declined. Nevertheless, the consensus 2018 GDP growth forecast has been revised higher to 2.3 percent in May from 2.2 percent in April.

More recent data are mixed. Exports and industrial production fell, while retail sales and employment continued growing. Inflation declined, but the peso weakened slightly against the dollar in May.

### **Monthly Economic Activity Index Falls in April**

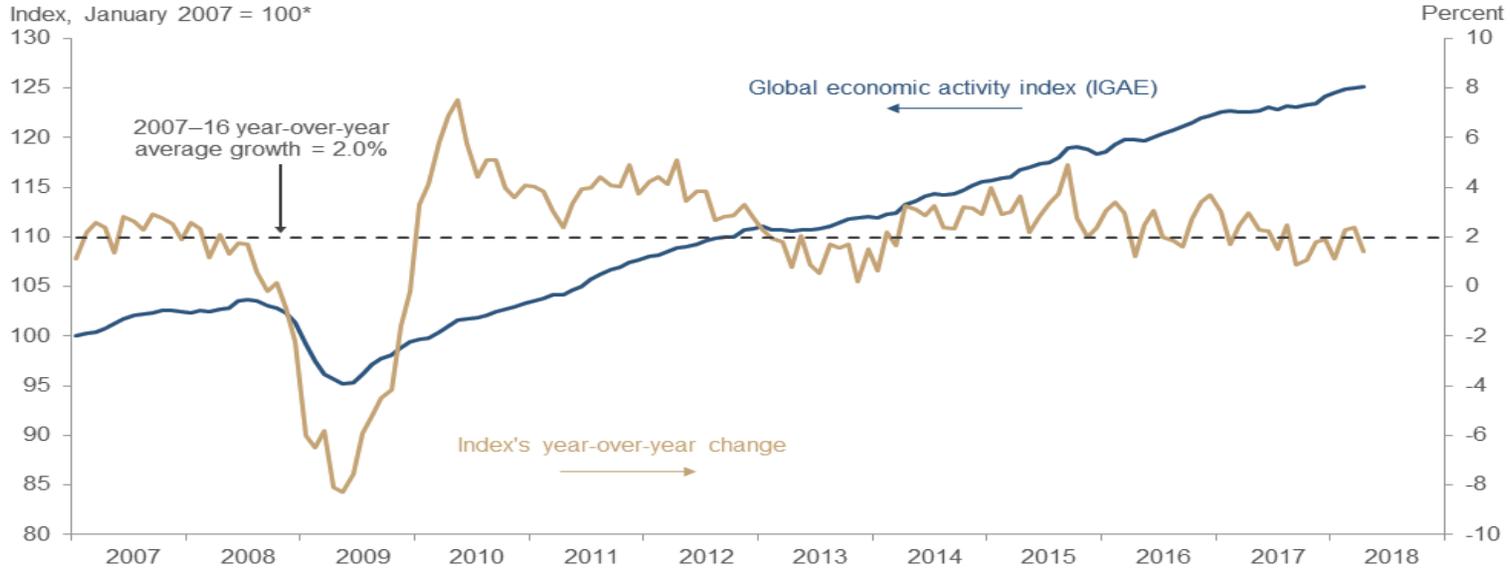
Mexico’s global economic activity index, the monthly proxy for GDP, fell 0.6 percent in April after growing 0.2 percent in March. However, the measure’s three-month moving average continues on an upward trend (Chart 1). Service-related activities (including trade and transportation) slipped 0.5 percent in April. Goods-producing industries (including manufacturing, construction and utilities) declined 0.4 percent, and agricultural output dropped 1.7 percent.

### **Exports Fall in April but Are Up Year to Date**

Total exports fell 2.5 percent in April after rising 2.6 percent in March. Manufactured-goods exports declined 3.1 percent, while oil exports increased 4.4 percent. Three-month moving averages of total and manufacturing exports still show consistent growth since late 2017, although oil exports flattened in early 2018 (Chart 2). Year to date through April, total exports have increased 9.6 percent, with manufacturing exports up 7.6 percent and oil exports up 35.8 percent.” – Jesus Cañas, Senior Business Economist and Alexander Abraham, Economic Programmer; Research Department, The Federal Reserve Bank of Dallas

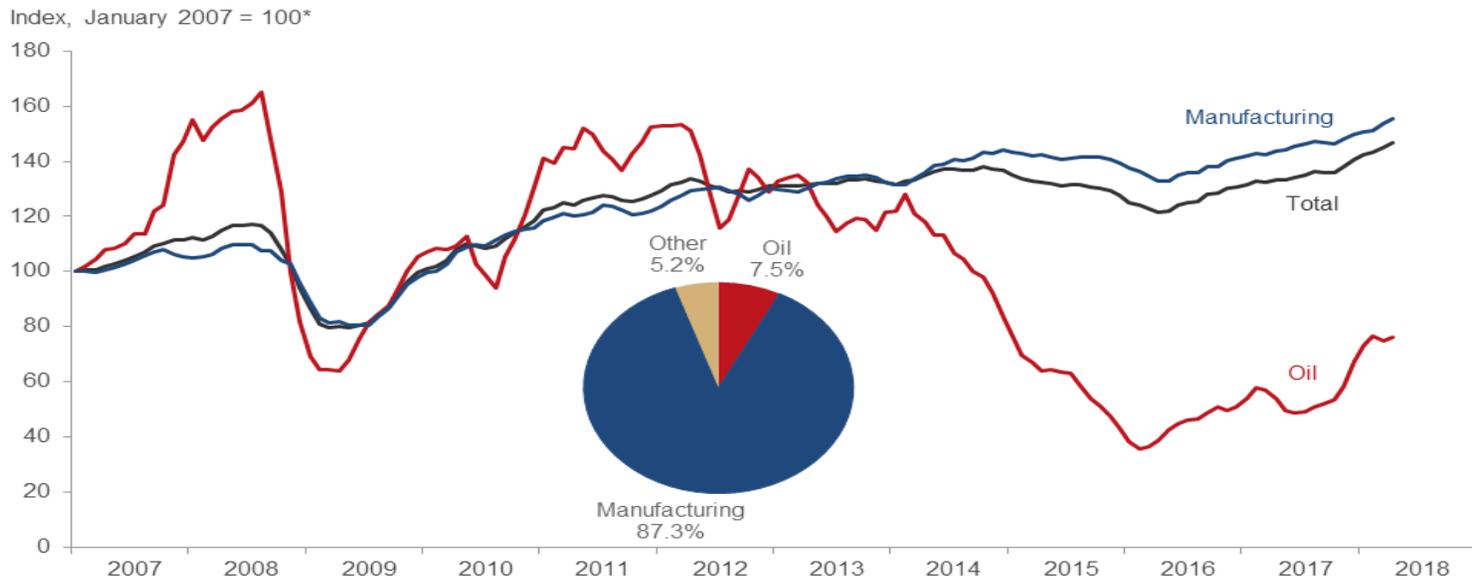
# Global Economic Indicators

**Chart 1**  
Economic Activity Index Trends Upward Despite April Decline



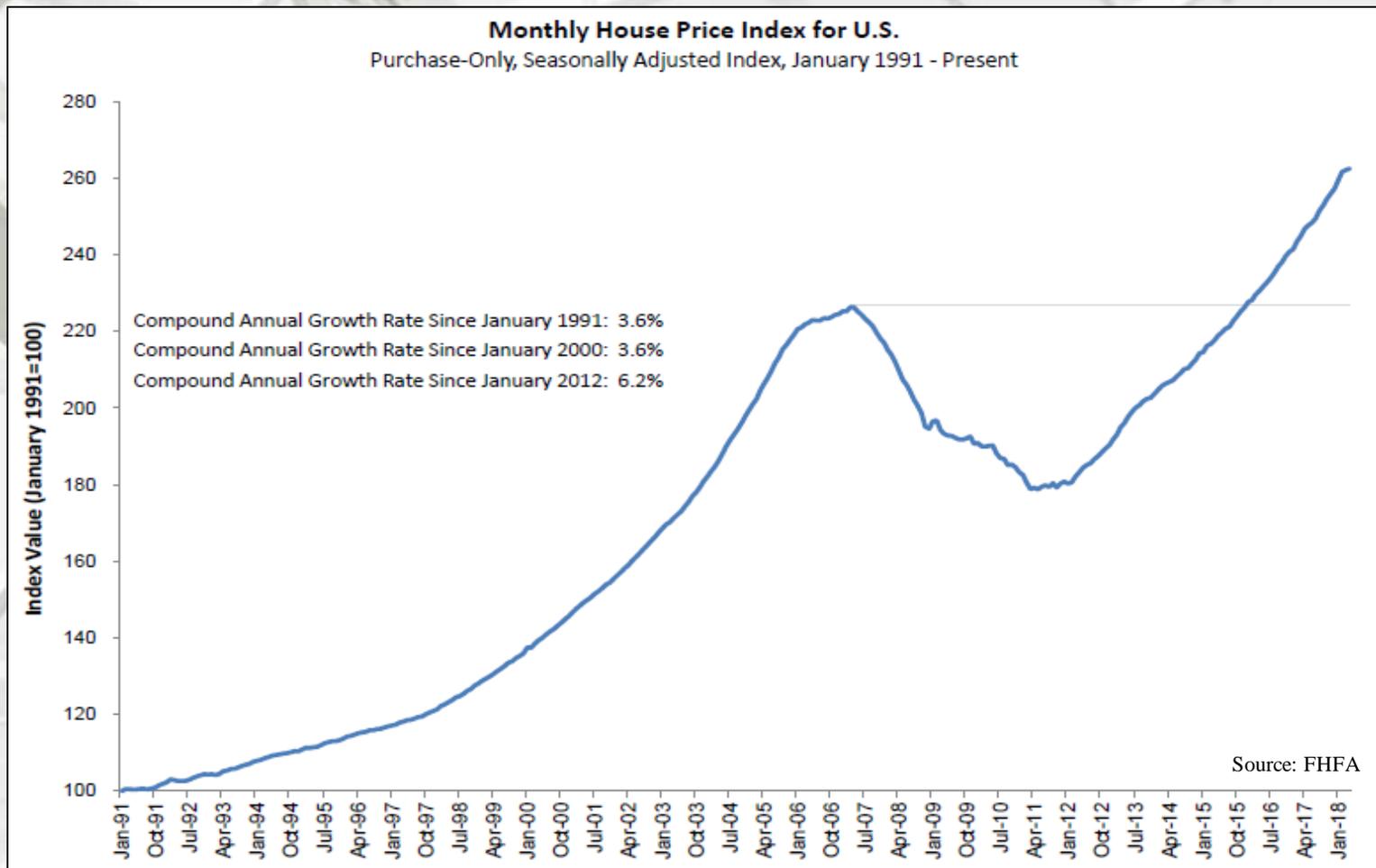
\*Seasonally adjusted, three-month moving average; real pesos.  
NOTE: Data are through April 2018.  
SOURCE: Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography).

**Chart 2**  
Exports Continue to Climb in 2018 Even as April Readings Fall



\*Seasonally adjusted, three-month moving average; real dollars.  
NOTES: All data are through April 2018. The pie chart reflects the share of total exports.  
SOURCE: Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography).

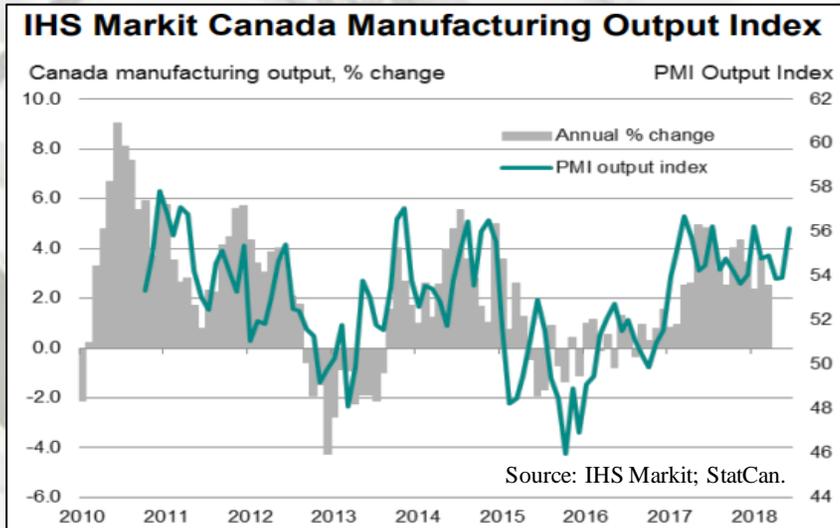
# U.S. Economic Indicators



## FHFA House Price Index House Price Index - April 2018

“U.S. house prices rose in April, up **0.1 percent** from the previous month, according to the Federal Housing Finance Agency (FHFA) seasonally adjusted monthly House Price Index (HPI). The previously reported 0.1 percent increase in March was revised upward to 0.2 percent.” – Stefanie Johnson and Corinne Russell, FHFA

# Private Indicators: Global



## Markit Canada Manufacturing PMI™

“The seasonally adjusted **IHS Markit Canada Manufacturing Purchasing Managers’ Index® (PMI™)** registered 57.1 in June, up from 56.2 in May and the highest reading in over seven-and-a-half years of data collection. Stronger output growth, improved sales volumes and a survey-record pace of inventory building were key factors behind the elevated PMI reading in June.

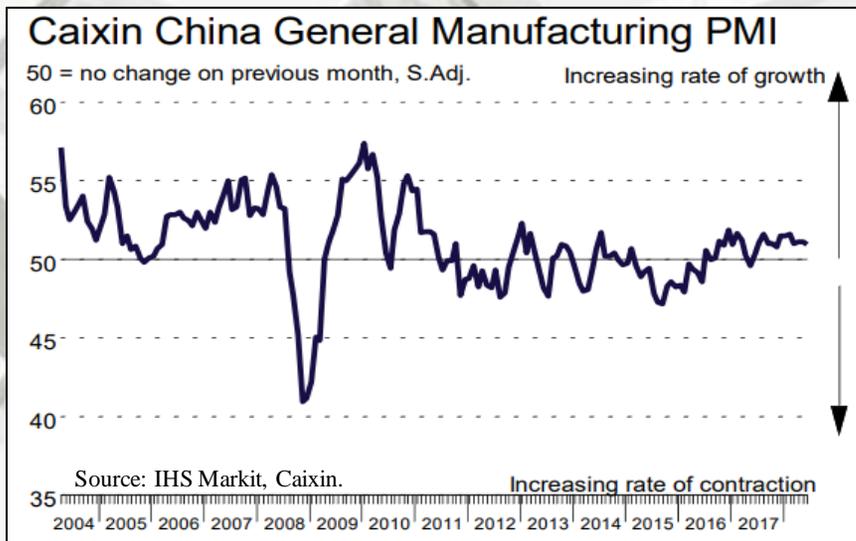
### Manufacturing PMI hits survey-record high in June

June data signalled a robust and accelerated improvement in overall business conditions across the Canadian manufacturing sector. Another strong rise in new work helped to boost production volumes and stimulate additional staff hiring in June. However, intense supply chain pressures continued, which contributed to the greatest accumulation of unfinished work since the survey began in October 2010. Rising demand for inputs and higher prices for metals also led to the fastest increase in average cost burdens for over seven years.

Canadian manufacturers achieved their strongest expansion of sales volumes for over four-and-a-half years in June. Improved domestic orders helped to offset a slight slowdown in export growth from its recent peak. Survey respondents commented on a general upswing in customer demand and ongoing efforts to boost production capacity. Manufacturers also suggested that part of the rise in new work reflected efforts by clients to complete orders and boost their inventories in advance of surcharges on steel and aluminum.

Another robust influx of new work, alongside intense supply chain pressures, led to the sharpest accumulation of unfinished business for at least seven-and-a-half years. Manufacturers continued to build up safety stocks of inputs in response to worsening raw material availability, with the latest data pointing to a survey-record upturn in warehouse inventories.” – Tim Moore, Associate Director at Survey Compilers, IHS Markit

# Private Indicators: Global



## Caixin China General Manufacturing PMI™

### Output rises at quickest rate for four months in June

“China’s manufacturing sector expanded further in June, with companies registering sustained increases in output and new orders. That said, demand from overseas remained subdued, as new export sales fell for the third month running. At the same time, optimism towards the year ahead fell to a six-month low, while employment declined at the quickest pace since July 2017.

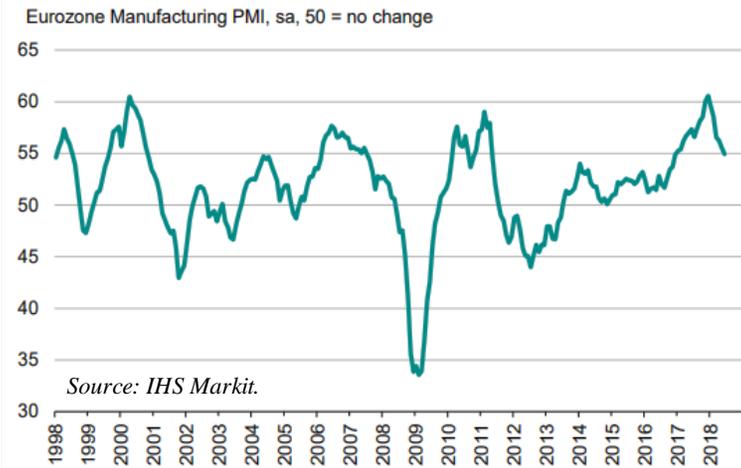
“The Caixin China General Manufacturing PMI stood at 51.0 in June, dropping slightly from a month earlier but remaining in expansion territory. The output index continued to rise, suggesting that manufacturing supply was relatively strong. The new order index dropped marginally, and the employment index dropped for the second consecutive month, indicating worsening layoffs. The index for new export orders fell to a low for the year so far and remained in contraction territory, pointing to a grim export situation amid escalating trade disputes between China and the U.S., which led to weak demand across the manufacturing sector.

The indices for output charges and input prices both rose, with the latter jumping sharply, continuing to drive the output index upward and suggesting that the year-on-year growth of the producer price index probably continued to rise significantly in June. Corporate profits could have been squeezed due to the rapid rise in input prices, leading to a dip in the future output index. The two indices measuring stocks of finished goods and purchases both dropped, with the latter falling into contraction territory for the first time this year, reflecting that the manufacturing sector is stepping into a destocking phase amid weak demand. The suppliers' delivery times index remained in contraction territory, indicating delivery delays and poor capital turnover among manufacturing suppliers.

Overall, the manufacturing PMI survey pointed to strengthening price pressures in June. Deteriorating exports and weak employment, along with companies' destocking and poor capital turnover, put pressure on the manufacturing sector.” – Dr. Zhengsheng Zhong, Director of Macroeconomic Analysis, CEBM Group

# Private Indicators: Global

## IHS Markit Eurozone Manufacturing PMI



## Markit Eurozone Manufacturing PMI®

“The euro area manufacturing upturn slowed further at the end of the second quarter. The final IHS Markit Eurozone Manufacturing PMI® posted an 18-month low of 54.9 in June, down from 55.5 in May and the earlier flash estimate of 55.0. The PMI has signalled a weakening in the pace of expansion in each month since the turn of the year, as manufacturers have experienced a synchronised easing in growth of both production and new order volumes.

### Eurozone Manufacturing PMI falls to 18-month low in June

Output and new order growth have both eased sharply since the end of 2017. In June, the rates of expansion in production and new business were the weakest since November 2016 and August 2016 respectively. This in turn had an impact on business optimism, which slumped to its lowest level in over two-and-a-half years.

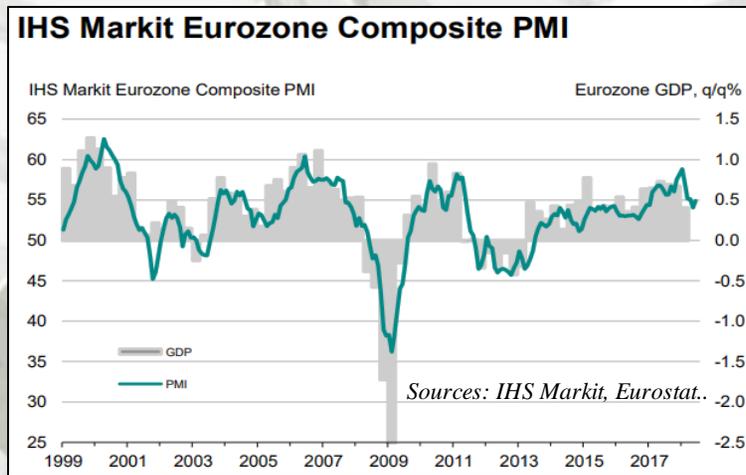
Eurozone manufacturing reported its weakest expansion for one-and-a-half years in June, with risks clearly tilted towards output growth waning further in coming months. Production growth has weakened markedly since the end of last year, and new order inflows have slowed even more. Manufacturers may therefore need to rein-in their production further to adjust to the recent downturn in order book growth unless demand revives.

The biggest concern is the extent to which export order book growth has cooled since the start of the year, and could soon go into decline. The survey reveals mounting worries from companies relating to the impact of tariffs and trade wars, suggesting firms are bracing themselves for the potential for further export losses. Not surprisingly, business expectations for future production deteriorated in June to the lowest November 2015.

At the same time there are signs that political uncertainty is also dampening business spirits, most evidently in Italy, which was consequently the second-worst performer of all countries surveyed in June ahead of France.”

– Chris Williamson, Chief Business Economist, Markit®

# Private Indicators: Global



## Markit Eurozone Composite PMI®

“The final **IHS Markit Eurozone PMI® Composite Output Index** posted 54.9 in June, up from 54.1 in May and the earlier flash estimate of 54.8. However, the average reading over the second quarter as a whole (54.7) was the weakest registered since the final quarter of 2016.

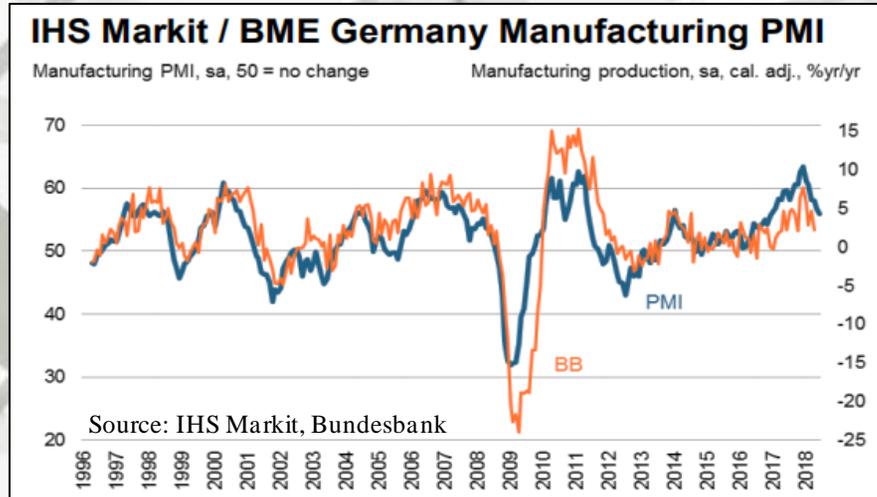
## Euro area output and new orders expand at faster rates in June

The eurozone economy regained some traction at the end of the second quarter. Rates of expansion in output and new business accelerated, although failed to fully recover the momentum lost earlier in the year. The main impetus was provided by the services economy, which saw growth accelerate to a four-month high, offsetting a further waning in the pace of increase in manufacturing production.

Eurozone growth regained momentum in June, rounding off a respectable second quarter performance, for which the survey data point to GDP rising by just over 0.5%. June also saw new orders and employment growth perk up, suggesting rising demand continues to motivate companies to expand capacity. Firms’ costs and average selling prices for goods and services are meanwhile rising at rates close to seven-year highs, which will likely feed through to higher consumer price inflation in coming months.

The upturn in the pace of economic growth and resurgent price pressures adds support to the ECB’s view that stimulus should be tapered later this year, but the details of the survey also justify the central bank’s cautious approach to policy. In particular, a weakening in business optimism to the lowest for over one-and-a-half years reflects intensifying nervousness about the outlook for the economy, notably in manufacturing, as trade-war talk escalates. Service sector companies – generally less affected by international trade – are more upbeat about the year ahead, though less so than earlier in the year as domestic political issues once again add to uncertainty about the outlook. ...” – 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 to 55.9 in June from 56.9 in May. The index has now declined in each of the past six months from a survey-record high last December, with the latest reading the lowest seen for one-and-a-half years.

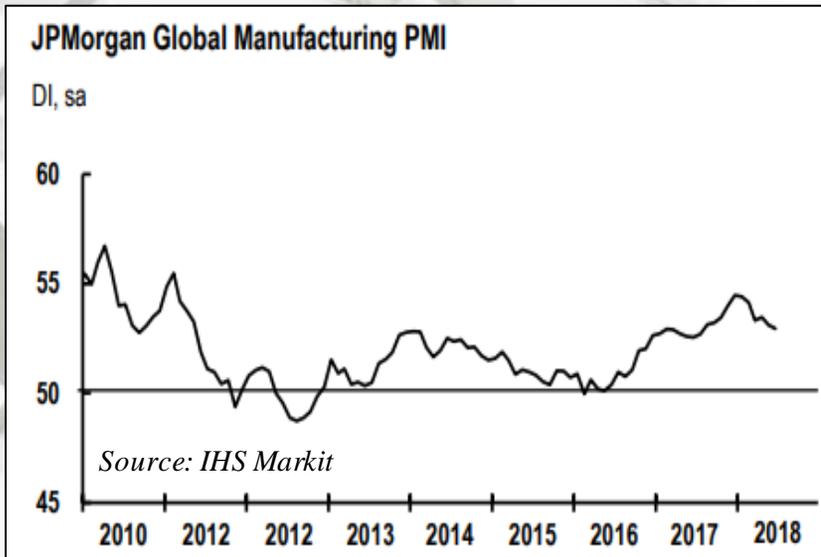
### Manufacturing PMI at 18-month low in June as new order growth weakens

The rate of growth of Germany’s manufacturing sector shifted down another gear in June, dampened by a further slowdown in the pace of expansion in new orders to the slowest for over two years. Expansion in output remained solid but likewise eased at the end of the second quarter, with goods producers also becoming less optimistic about production in the year ahead. More positively, the rate of job creation in the sector picked up to a four-month high as efforts continued to be made to enhance capacity.

The rate of growth of Germany’s manufacturing sector has consistently slowed throughout the first half of 2018, with June’s final headline PMI reading the lowest seen for one-and-a-half years. The question is whether there is worse still to come. Order book growth has consistently been below that of output in recent months, and in June the gap widened as the former slowed to the weakest seen for over two years, suggesting some underlying downward pressure on output levels. Firms have indeed become less optimistic in their expectations towards output, with tariffs seen as an added headwind to growth in the months ahead.

The sector’s overall pace of growth may have shifted down another gear, but that hasn’t stopped manufacturers from creating more and more jobs, with a pick-up in the rate of employment growth the one bright spot from June’s survey. A strengthening domestic market will go some way towards offsetting the loss of exports.” – Phil Smith, Principal Economist, IHSMarkit®

# Private Indicators: Global



## JP Morgan Global Manufacturing PMI™

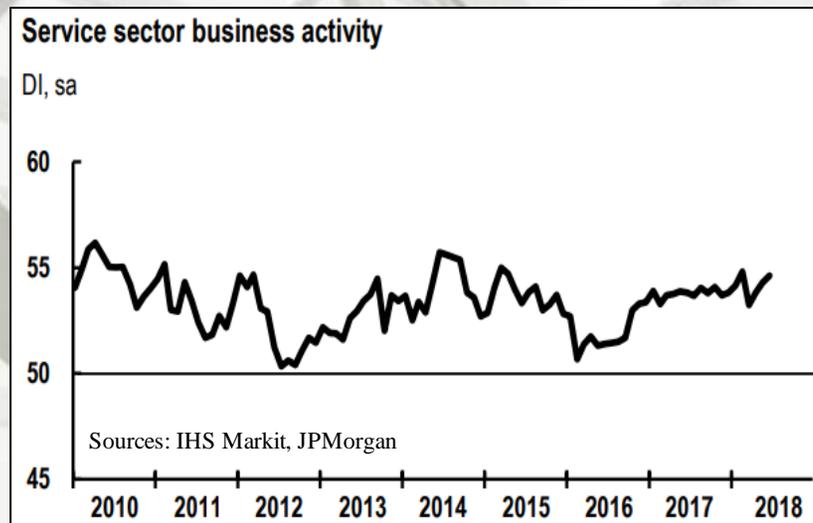
“The J.P. Morgan Global Manufacturing PMI™ – a composite index produced by J.P. Morgan and IHS Markit in association with ISM and IFPSM – fell to an 11-month low of 53.0 in June, down from 53.1 in May. The rate of expansion was steepest in the investment goods sector, followed by consumer goods, despite both industries seeing growth slow. The pace of improvement accelerated in the intermediate goods category, but remained below the global average.

### Global Manufacturing growth at 11-month low in June

The upturn in the global manufacturing sector lost further momentum in June, as output and new order growth slowed and the rate of increase in new export business slipped closer to stagnation. Concerns about international trade were also a factor underlying a drop-off in business optimism to a 19-month low. World manufacturing production rose at the slowest pace since July last year, as growth of new order inflows eased to a 19-month low. This was partly the result of subdued international trade flows, as new export orders rose only slightly and to the weakest extent during the current 23-month sequence of expansion. Developed markets saw (on average) a modest increase in new export business, whereas emerging nations registered a decline for the third straight month. Global manufacturing employment increased for the twenty-second successive month in June.

The rate of jobs growth also improved for the first time in the year-so-far. Staffing levels were increased in the majority of the nations covered, the exceptions being Brazil, China, the Philippines, Russia, South Korea, Thailand and Turkey. Price pressures increased again in June, with both input costs and output charges rising at faster rates. Purchase price inflation was the joint-highest in the past seven years, while the increase in charges was the steepest since May 2011. For both measures, rates of inflation remained (on average) sharper in developed nations compared to emerging markets.” – David Hensley, Global Economist, J.P. Morgan

# Private Indicators: Global



## JP Morgan Global Services PMI™

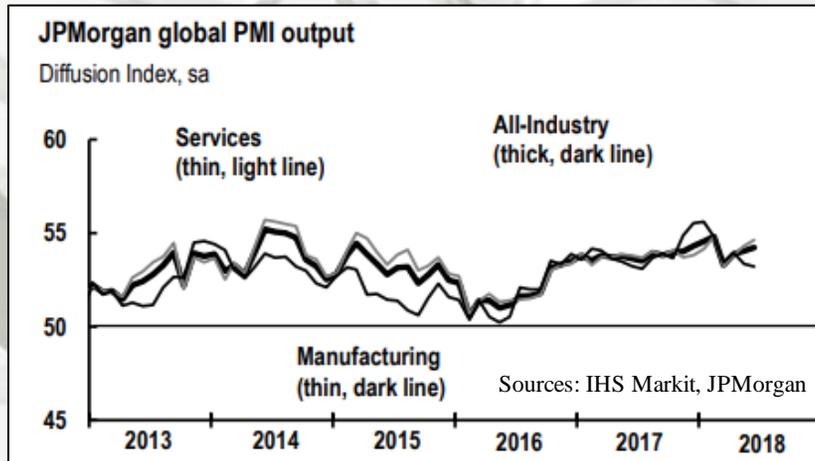
“The end of the second quarter saw the upturn in the global service sector gather pace. Business activity rose at one of the fastest rates in over three years during June, as inflows of new work strengthened. The J.P. Morgan Global Services Business Activity Index – a composite index produced by J.P. Morgan and IHS Markit in association with ISM and IFPSM – posted 54.6, up from 54.3 in May.

### Global service sector upturn gathers pace in June

The sharpest expansions in output were seen in the business and financial services sectors, which were also the only categories to see growth accelerate. The pace of increase in consumer services activity eased to an eight month low. Output expansion remained broad-based by nation, with only one of all countries covered by the worldwide services PMI survey (Brazil) seeing a contraction. The US remained the principal growth engine, despite seeing its pace of increase ease slightly from May’s recent high. The euro area and the UK were also both robust contributors to the expansion, with services activity rising at the fastest rates in four- and eight-months respectively.

Global services new business increased a solid and slightly quicker pace in June. The expansion in new order inflows was also sufficient to test capacity, as highlighted by the steepest growth in backlogs or work since November 2013. Companies reacted by raising employment, with the pace of job creation accelerating to its joint-fastest in the past ten-and-a-half years. ... .” – David Hensley, Global Economist, J.P. Morgan

# Private Indicators: Global



## JP Morgan Global Composite PMI™

“The J.P. Morgan Global All-Industry Output Index 1,2 – which is produced by J.P. Morgan and IHS Markit in association with ISM and IFPSM – rose to 54.2 in June, up from 54.0 in May. The headline index has signalled expansion for 69 consecutive months.

### Stronger services growth takes Global PMI to four-month high

The end of the second quarter saw a mild improvement in the rate of global economic expansion. Output growth accelerated to a four-month high and was among the best over the past three-and-a-half years. The solid trend in job creation was also sustained, with the rates of increase achieved since August 2017 better than those registered throughout much of the prior decade.

The latest survey further highlighted a divergence in the performances of the manufacturing and service sectors. Manufacturing output growth slowed for the second successive month to its lowest since last July, partly due to the pace of increase in new export business easing to near-stagnation. In contrast, the rate of expansion in service sector activity accelerated to one of the best seen in over three years.

Business optimism fell to a six-month low in June. Confidence remained positive in developed and emerging nations, but eased (on average) in both. Germany, the UK, Brazil, Russia and Australia were the only nations to report improved sentiment. ...” – David Hensley, Global Economist, J.P. Morgan

# Private Indicators: Global

## IHS Markit/CIPS UK Manufacturing PMI



## Markit/CIPS UK Manufacturing PMI™

“At 54.4 in June, the seasonally adjusted IHS Markit/CIPS Purchasing Managers’ Index® (PMI®) was a tick above May’s downwardly revised reading of 54.3 (originally 54.4) and stands almost four points below the 51-month high reached in November last year. The average reading over quarter two as a whole (54.2) is the weakest outcome since the final quarter of 2016.

### Manufacturing sector remains subdued at end of second quarter

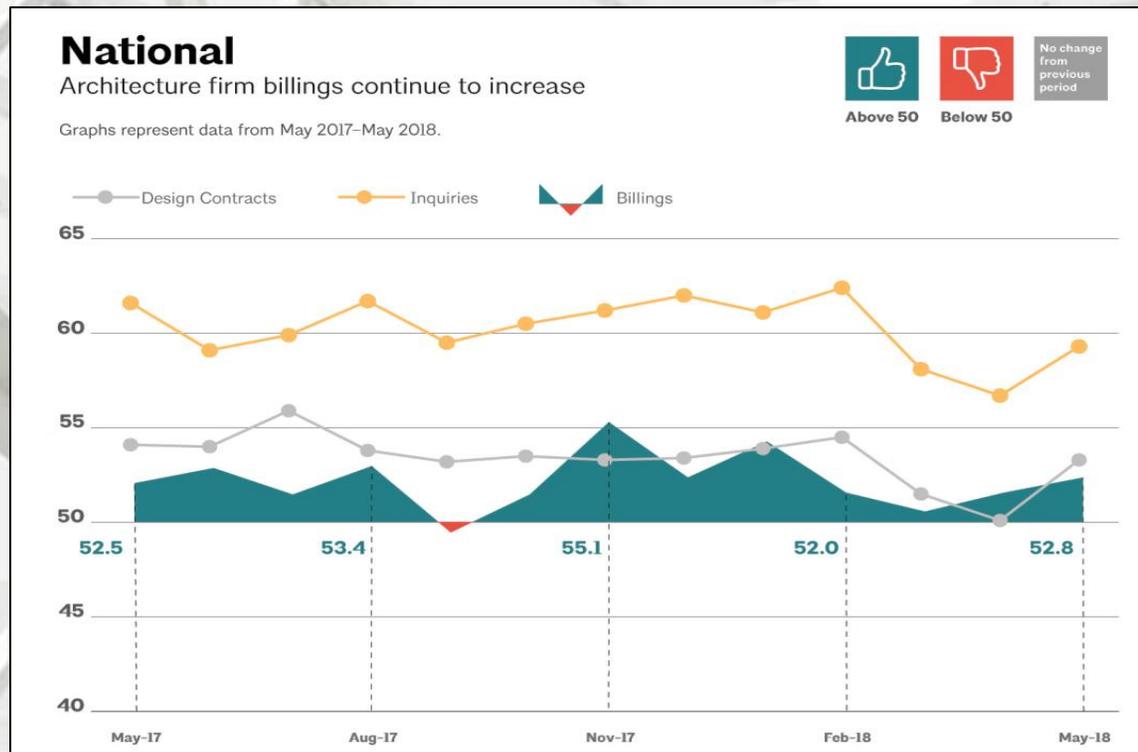
The performance of the UK manufacturing sector remained relatively subdued in June, especially when compared to the marked pace of growth seen before the turn of the year. Output growth moderated, to largely offset a mild acceleration in new order growth and improved job creation. The survey was conducted between 12-26 June.

The UK manufacturing sector ended the second quarter on a subdued footing. The turnaround in performance since the start the year has been remarkable, with impressive growth rates late last year turning into some of the weakest rates of expansion seen over the past two years in recent months. The slowdown in new order growth since earlier in the year has also left manufacturers increasingly reliant on backlogs of work and inventory building to maintain higher output. This is a position that cannot be sustained far beyond the immediate horizon. The trend in demand will need to stage a much firmer rebound if a further slowdown in output growth is to be avoided.

How likely such a revival is remains in some doubt, with the June survey also seeing business optimism drop to a seven-month low amid rising concerns about possible trade tariffs, the exchange rate and Brexit uncertainty. Ongoing supply-chain disruptions, including raw material shortages, and signs of a renewed upswing in input price inflation may also jeopardise stronger manufacturing growth. With industry potentially stuck in the doldrums, the UK economy will need to look to other sectors if GDP growth is to match expectations in the latter half of the year.” – Rob Dobson, Director & Senior Economist, IHS Markit

# Private Indicators

## American Institute of Architects (AIA)



## May Architecture Billings Index

### Firm billings continue to grow

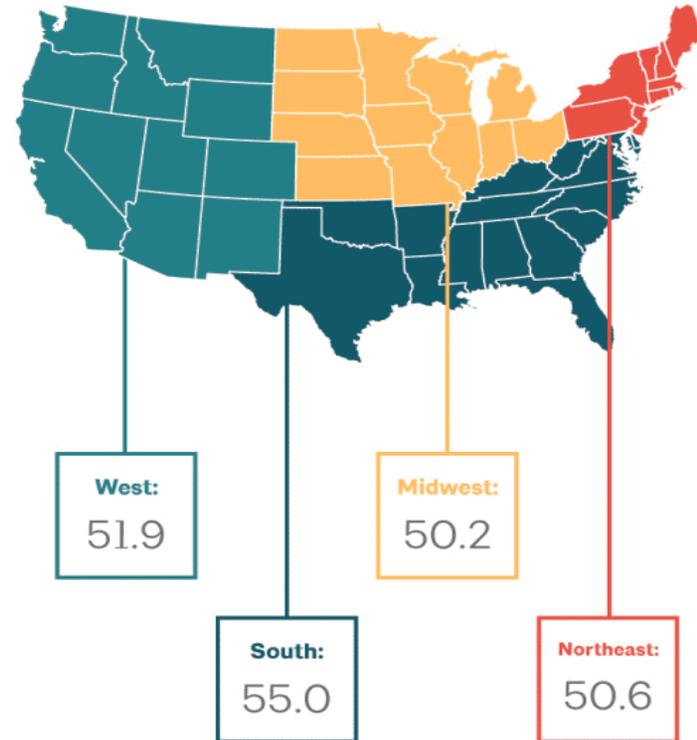
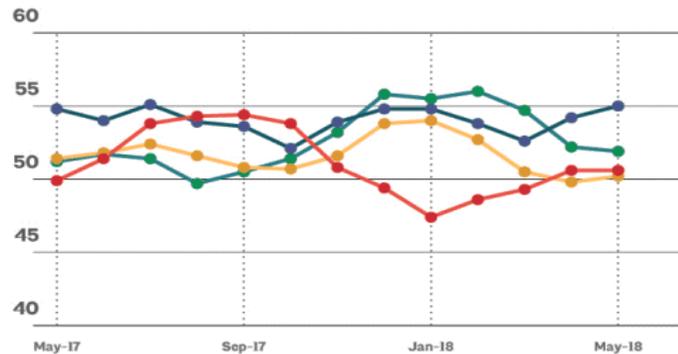
“Business conditions at architecture firms remained strong in May, with an Architecture Billings Index (ABI) score of 52.8 (any score over 50 indicates billings growth). Slightly more firms reported an increase in firm billings than in April, and May also marked the eighth consecutive month of billings growth. Inquiries into new projects and value of new design contracts also continued to grow at a steady pace, indicating ongoing interest from clients in starting new projects. In addition, architecture firms in all regions of the country reported an increase in billings in May.” – The American Institute of Architects

# Private Indicators: AIA

## Regional

Business conditions remain strongest at firms located in the South

Graphs represent data from May 2017–May 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

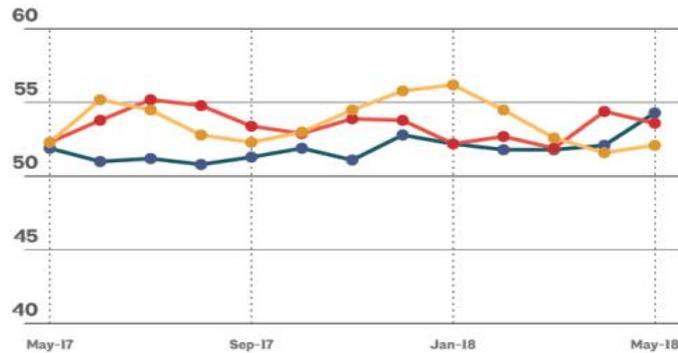
“Firms located in the Northeast reported modest growth for the second month in a row, following four months of declining billings, while firms located in the South continued to report particularly robust growth.” – The American Institute of Architects

# Private Indicators: AIA

## Sector

Billings strongest at institutional and commercial/industrial firms

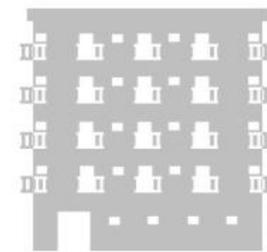
Graphs represent data from May 2017–May 2018 across the three sectors. 50 represents the diffusion center. A score of 50 equals no change from the previous month. Above 50 shows increase; Below 50 shows decrease. 3-month moving average.



**Commercial/Industrial: 53.6**



**Institutional: 54.3**



**Residential: 52.1**

## Sector

“Business conditions also remained strong at firms of all specializations, but particularly at those with an institutional or commercial/industrial specialization.” – The American Institute of Architects

# Private Indicators

## Dodge Data & Analytics

### May Construction Starts Climb 15 Percent

#### *Public Works and Nonresidential Building Register Sharp Gains*

“At a seasonally adjusted annual rate of \$783.6 billion, new construction starts in May advanced 15% from April, according to Dodge Data & Analytics. The increase follows a 12% decline in April, and shows total construction activity reaching the highest level reported over the past eight months. The lift in May came from substantial gains for nonbuilding construction, up 39%; and nonresidential building, up 18%; as both sectors benefitted from the start of several very large projects. Nonbuilding construction, and specifically its public works segment, was boosted by the start of three large natural gas pipelines with a combined construction start cost of \$4.6 billion, plus \$1.4 billion related to the start of an environmental cleanup project at the Los Alamos National Laboratory in New Mexico, a \$1.4 billion rail transit project in Los Angeles CA, and a \$1.1 billion rail transit project in the Boston MA area. Nonresidential building was aided by the start of a \$1.0 billion Facebook data center in Nebraska, the \$764 million expansion to the Washington State Convention Center in Seattle WA, and a \$740 million airport terminal project at Salt Lake City International Airport. Meanwhile, residential building in May held steady with its April pace. Through the first five months of 2018, total construction starts on an unadjusted basis were \$299.9 billion, down 3% from the same period a year ago. On a twelve-month moving total basis, total construction starts for the twelve months ending May 2018 were up 1% from the amount reported for the twelve months ending May 2017.

The May statistics raised the Dodge Index to 166 (2000=100), compared to April’s reading of 144 (upwardly revised from the initially reported 143).” – Benjamin Gorelick, Spector & Associates

# Private Indicators

## Dodge Data & Analytics

### May Construction Starts Climb 15 Percent

“Much of the volatility in early 2018 has come from the public works sector, affected by the presence of unusually large project starts during a given month such as what took place in May. In addition, the nonresidential building sector showed resilience in May, bouncing back after a lackluster performance in April.

On balance, the pace of total construction starts is staying close to the levels achieved over the past year, when activity grew 5%. It’s true that the construction industry is facing increased headwinds, such as higher material prices and the recent pickup in interest rates, but to this point they have not yet produced a discernible negative impact on the overall level of construction starts. On the plus side, the public works and institutional building sectors continue to benefit from the state and local bond measures passed in recent years. The public works sector should also benefit from the increased federal funding for transportation projects included in the March 2018 federal appropriations bill. While market fundamentals such as rents and vacancies have weakened for multifamily housing, they still remain relatively healthy for warehouses and offices. Bank lending standards for nonresidential building projects have eased slightly, and the recent rollback of Dodd-Frank regulatory constraints on mid-size regional banks may lead to more funding for construction projects in the near term.” – Robert A. Murray, Chief Economist, Dodge Data & Analytics

# Private Indicators

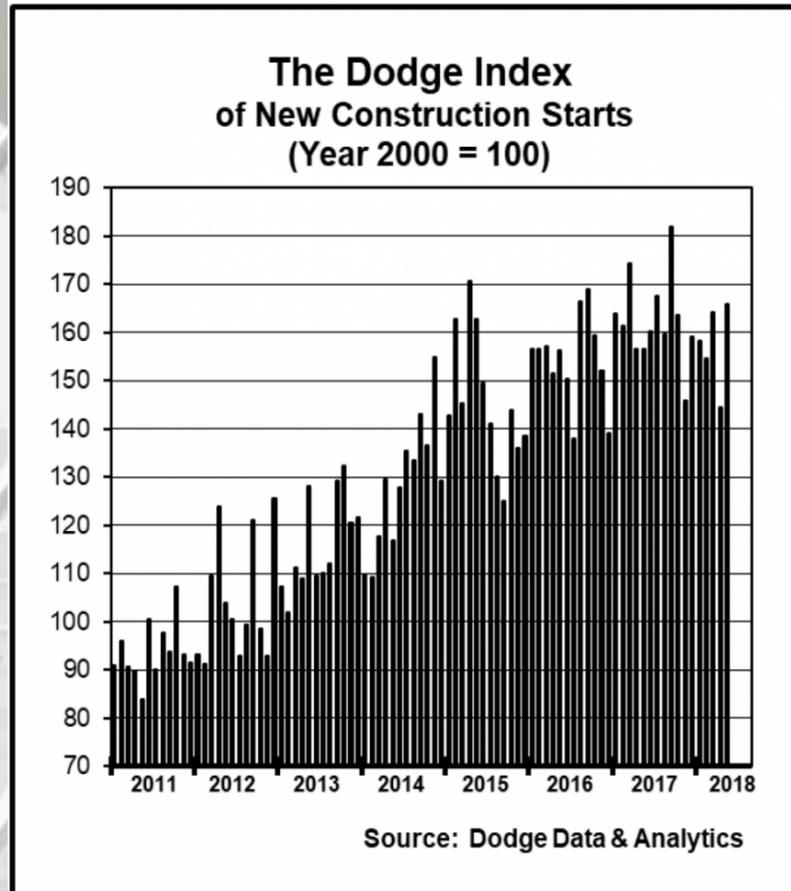
## Dodge Data & Analytics

“**Residential building** in May was \$312.8 billion (annual rate), essentially unchanged from its April amount. Multifamily housing in May made a partial 13% rebound after a 20% decline in April. There were six multifamily projects valued each at \$100 million or more that reached groundbreaking in May, compared to four such projects in April. Leading the way was the \$173 million multifamily portion of a \$200 million mixed-use high-rise in Oakland CA, \$162 million for two residential towers in Bethesda MD, and \$155 million for the multifamily portion of a \$190 million mixed-use complex in the San Jose CA area. In May, the top five metropolitan areas ranked by the dollar amount of multifamily starts were – New York NY, Washington DC, San Francisco CA, Miami FL, and Dallas-Ft. Worth TX. Metropolitan areas ranked 6 through 10 were – Boston MA, Seattle WA, Orlando FL, Los Angeles CA, and Atlanta GA. **Single family housing** in May retreated 4% from the previous month, as the continued expansion for this project type struggles to take hold in early 2018. By geography, single family housing showed this pattern in May relative to April – the South Central, down 8%; the West and South Atlantic, each down 6%; and the Midwest and Northeast, each up 5%.

Useful perspective comes from looking at twelve-month moving totals, in this case the twelve months ending May 2018 versus the twelve months ending May 2017. On this basis, total construction starts were up 1%. By major sector, nonresidential building fell 4%, with commercial building down 9%, institutional building down 3%, and manufacturing building up 15%. Nonbuilding construction advanced 8%, with public works up 11% while electric utilities/gas plants dropped 7%. Residential building increased 3%, with single family housing up 7% while multifamily housing fell 6%.” – Robert A. Murray, Chief Economist, Dodge Data & Analytics

# Private Indicators

## May 2018 Construction Starts



## May 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>May 2018</u>	<u>April 2018</u>	<u>% Change</u>
Nonresidential Building	\$248,634	\$210,128	+18
Residential Building	312,837	312,952	-0-
Nonbuilding Construction	<u>222,084</u>	<u>159,242</u>	<u>+39</u>
<b>Total Construction</b>	<b>\$783,555</b>	<b>\$682,322</b>	<b>+15</b>

#### The Dodge Index

Year 2000=100, Seasonally Adjusted

May 2018 ....166

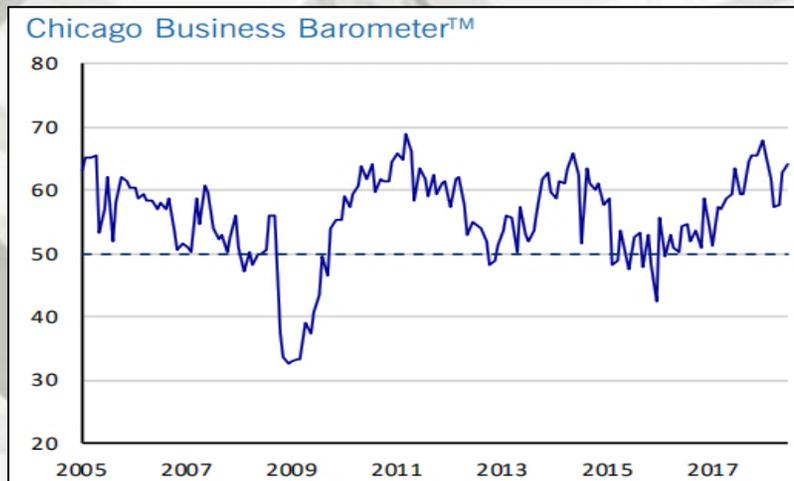
April 2018 .....144

#### Year-to-Date Construction Starts

Unadjusted Totals, in Millions of Dollars

	<u>5 Mos. 2018</u>	<u>5 Mos. 2017</u>	<u>% Change</u>
Nonresidential Building	\$93,459	\$110,743	-16
Residential Building	134,429	127,970	+5
Nonbuilding Construction	<u>72,033</u>	<u>71,766</u>	<u>-0-</u>
<b>Total Construction</b>	<b>\$299,921</b>	<b>\$310,479</b>	<b>-3</b>
<b>Total Construction, excluding electric utilities/gas plants</b>	<b>\$293,951</b>	<b>\$300,115</b>	<b>-2</b>

# Private Indicators



## MNI Chicago MNI Chicago Business Barometer Rises to 64.1 in June

“The MNI Chicago Business Barometer rose 5.1 points to 62.7 in May, up from 57.6 in May, hitting the highest level since January

### New Orders, Order Backlogs Drive Barometer to Five-Month High

Business activity expanded at a faster pace in June, with firms’ operations up for a third consecutive month. Four of the five Barometer components strengthened on the month, leaving the Barometer up 0.8% on the year.

Partially spurring the Barometer’s rise was a pick up in orders, up for a second straight month to a five-month high. Offsetting this was a slight fall in output growth. Production lost ground for the fourth time since peaking in December, with firms stifled by issues higher up in the supply chain.

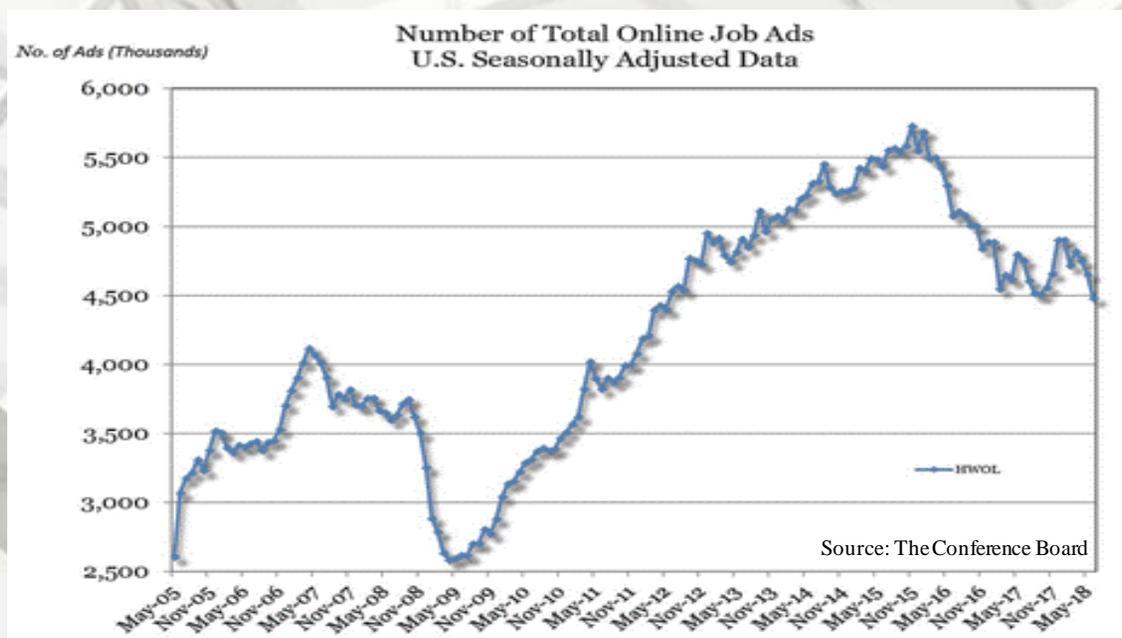
With demand growth recapturing some lost momentum, firms’ unfulfilled orders continued to grow. The Order Backlogs indicator built on last month’s sizeable gain with another in June, to sit 11.4% higher versus June 2017 and 10.8% higher in the three months to June versus its Q1 average.

Firms were more willing to add to their workforce. The Employment indicator rose for the second month in a row in June, although hiring sentiment did dip on the quarter. ...

Stronger outturns in May and June left the MNI Chicago Business Barometer broadly unchanged in Q2, running at a pace similar to that seen throughout 2017. While impressive, supply-side frustrations are undermining firms’ productive capacity. Confusion surrounding the trade landscape continues to breed uncertainty among businesses and their suppliers and has led to many firms’ altering their immediate purchasing decisions.” – Jamie Satchi, Economist, MNI Indicators



# Private Indicators



## The Conference Board Help Wanted OnLine® (HWOL) Online Job Ads Decreased 171,600 in June

- “Losses widespread across virtually all States and MSAs
- All occupations showed losses over the month
- Note: Revisions occurred in the May 2018 data for Illinois, resulting in revisions to the Midwest Region, Occupational and National data. The revision did not have a significant impact on the National figure.

Online advertised vacancies decreased 171,600 to 4,480,700 in June, according to *The Conference Board Help Wanted OnLine® (HWOL) Data Series*, released today. The May Supply/Demand rate stands at 1.30 unemployed for each advertised vacancy, with a total of 1.4 million more unemployed workers than the number of advertised vacancies. The number of unemployed was approximately 6.07 million in May.

The Professional occupational category saw changes in Healthcare practitioners (-26.8), Business (-16.4) and Management (-13.0). The Services/Production occupational category saw changes in Transportation (-29.2), Sales (-24.5), and Office and admin (-13.9).” – Carol Courter, The Conference Board

# Private Indicators

## Equipment Leasing and Finance Association

### Equipment Leasing and Finance Industry Confidence Up in June

“The [Equipment Leasing & Finance Foundation](#) (the Foundation) releases the June 2018 [Monthly Confidence Index for the Equipment Finance Industry](#) (MCI-EFI) today. 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 is 66.2 in June, up from the May index of 64.6.” – Anneliese DeDiemar, Author, Equipment Leasing & Finance Association

“We are still experiencing strong demand. Current and almost certain future interest rate hikes seem to be driving the marketplace. We keep hearing from our customers that they need to get projects moving before financing costs rise. We see strong expansion of many small businesses with many current customers coming back for additional approvals. All signs are ‘go’ at the midpoint of this year!” – Valerie Hayes Jester, President, Brandywine Capital Associates

“With business confidence and employment growth high we are expecting demand for equipment to grow. Portfolio performance is stable as are approval rates on new application.” – David T. Schaefer, CEO, Mintaka Financial, LLC

“Continuing strong relationship building throughout the world will continue to increase confidence in the market and drive optimism.” – David Normandin, CLFP, Managing Director, Commercial Finance Group, Hanmi Bank

Year to date, the industry has experienced solid growth. However, I don't believe the industry has yet to realize the full benefit of the 2017 tax legislation. Many companies are still adjusting to the new tax structure and the increased cash on their balance sheet. In some cases this cash surplus has reduced the propensity to finance. I expect the full effect of the tax package will benefit the industry in the second half of 2018 and 2019.” – Thomas Jaschik, President, BB&T Equipment Finance

# Private Indicators

## Equipment Leasing and Finance Association

### June 2018 Survey Results:

“66.2 in June, an increase from 64.6 in May.

- When asked to assess their business conditions over the next four months, 33.3% of executives responding said they believe business conditions will improve over the next four months, an increase from 22.2% in May. 63.6% of respondents believe business conditions will remain the same over the next four months, a decrease from 74.1% the previous month. 3.0% believe business conditions will worsen, down slightly from 3.7% who believed so the previous month.
- 24.2% of survey respondents believe demand for leases and loans to fund capital expenditures (capex) will increase over the next four months, a decrease from 29.6% in May. 75.8% believe demand will “remain the same” during the same four-month time period, an increase from 70.4% the previous month. None believe demand will decline, unchanged from May.
- 15.2% of the respondents expect more access to capital to fund equipment acquisitions over the next four months, down from 25.9% in May. 84.9% of executives indicate they expect the “same” access to capital to fund business, an increase from 74.1% 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

### June 2018 Survey Results:

“The overall MCI-EFI is 68.3 in 64.6 in May, a decrease from 68.3 in May.

- When asked, 57.6% of the executives report they expect to hire more employees over the next four months, an increase from 44.4% in May. 42.4% expect no change in headcount over the next four months, a decrease from 55.6% last month. None expect to hire fewer employees, unchanged from May.
- 39.4% of the leadership evaluate the current U.S. economy as “excellent,” up from 22.2% last month. 60.6% of the leadership evaluate the current U.S. economy as “fair,” down from 77.8% in May. None evaluate it as “poor,” unchanged from last month.
- 24.2% of the survey respondents believe that U.S. economic conditions will get “better” over the next six months, a decrease from 25.9% in May. 69.7% of survey respondents indicate they believe the U.S. economy will “stay the same” over the next six months, a slight decrease from 70.4% the previous month. 6.1% believe economic conditions in the U.S. will worsen over the next six months, an increase from 3.7% in May.
- In June, 42.4% of respondents indicate they believe their company will increase spending on business development activities during the next six months, an increase from 37% in May. 57.6% believe there will be “no change” in business development spending, a decrease from 63% 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

## Equipment Leasing and Finance Association

### May 2018 Survey Results:

- “22.2% of the leadership evaluate the current U.S. economy as “excellent,” down from 30% last month. 77.8% of the leadership evaluate the current U.S. economy as “fair,” up from 70% in May. None evaluate it as “poor,” unchanged from last month.
- 25.9% of the survey respondents believe that U.S. economic conditions will get “better” over the next six months, a decrease from 30% in May. 70.4% of survey respondents indicate they believe the U.S. economy will “stay the same” over the next six months, an increase from 63.3% the previous month. 3.7% believe economic conditions in the U.S. will worsen over the next six months, a decrease from 6.7% in May.
- In May, 37% of respondents indicate they believe their company will increase spending on business development activities during the next six months, a decrease from 53.3% in May. 63% believe there will be “no change” in business development spending, an increase from 43.3% the previous month. None believe there will be a decrease in spending, down from 3.3% who believed so last month.” – Anneliese DeDiemar, Author, Equipment Leasing & Finance Association

# Private Indicators

## Equipment Leasing and Finance Association Monthly Leasing and Finance Index

**May New Business Volume Flat Year-over-year,  
Down 3 Percent Month-to-Month, Up 7 Percent Year-to-date**

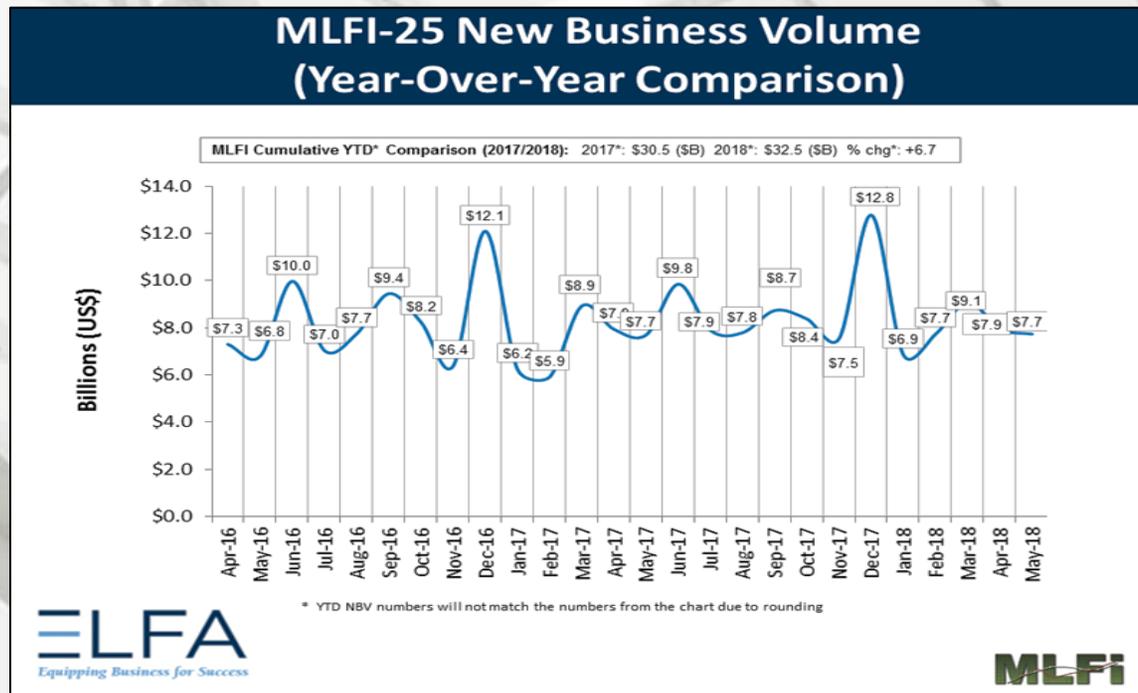
“The [Equipment Leasing and Finance Association’s](#) (ELFA) [Monthly Leasing and Finance Index \(MLFI-25\)](#), which reports economic activity from 25 companies representing a cross section of the \$1 trillion equipment finance sector, showed their overall new business volume for May was \$7.7 billion, unchanged year-over-year from new business volume in May 2017. Volume was down 3 percent month-to-month from \$7.9 billion in April. Year to date, cumulative new business volume was **up 7 percent** compared to 2017.

Receivables over 30 days were 1.60 percent, down from 2.40 percent the previous month (which included an unusually high data point from one outlier respondent) and up from 1.40 percent the same period in 2017. Charge-offs were 0.31 percent, up slightly from 0.30 percent the previous month, and down from 0.47 percent in the year-earlier period.

Credit approvals totaled 76.8 percent in May, up from 76.2 percent in April. Total headcount for equipment finance companies was flat 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 June is 66.2, up from the May index of 64.6.” – Amy Vogt, Vice President, Communications and Marketing, ELFA

# Private Indicators



## Equipment Leasing and Finance Association Monthly Leasing & Finance Index: May 2018

“Business confidence and slowly rising interest rates appear to be serving as stimulus to increased demand for equipment. So long as fundamentals in the U.S. economy remain strong, we expect this demand cycle to continue into and beyond the summer months this year. The one wild card that could derail this benign scenario is tariff frictions with our trading partners across our contiguous borders, the EU and China.” – Ralph Petta, President and CEO, ELFA

“The U.S. economy continues to be strong, and business investment could be one of its bright spots. We continue to see growth in our equipment finance verticals during the first half of 2018, due partially to the impact of lighter regulatory touch. Despite the increasing interest rate environment, companies continue to take advantage of tax benefits for equipment acquisitions. Lenders should remain optimistic and expect steady conditions to encourage a relatively strong pace of capex spending throughout 2018.” – Martha Ahlers, President, United Leasing, Inc

# June 2018 Manufacturing ISM® Report On Business®

## June PMI® at 60.2%

**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 June, and the **overall economy** grew for the 110th consecutive month, say the nation's supply executives in the latest **Manufacturing ISM® Report On Business®**. The June PMI® registered 60.2 percent, an increase of 1.5 percentage points from the May reading of 58.7 percent.

The New Orders Index registered 63.5 percent, a decrease of 0.2 percentage point from the May reading of 63.7 percent.

The Production Index registered 62.3 percent, a 0.8 percentage point increase compared to the May reading of 61.5 percent.

The Employment Index registered 56 percent, a decrease of 0.3 percentage point from the May reading of 56.3 percent.

The Supplier Deliveries Index registered 68.2 percent, a 6.2 percentage point increase from the May reading of 62 percent.

The Inventories Index registered 50.8 percent, an increase of 0.6 percentage point from the May reading of 50.2 percent.

The Prices Index registered 76.8 percent in June, a 2.7 percentage point decrease from the May reading of 79.5 percent, indicating higher raw materials prices for the 28th consecutive month.” – Timothy R. Fiore, CPSM, CPSD, Chair of the ISM® Manufacturing Business Survey Committee

# **June 2018 Manufacturing ISM® Report On Business®**

## **June PMI® at 60.2%**

“Comments from the panel reflect continued expanding business strength. Demand remains strong, with the New Orders Index at 60 percent or above for the 14th straight month, and the Customers’ Inventories Index remaining low. The Backlog of Orders Index continued to expand, reading at 60 percent of higher for the third consecutive month. Consumption, described as production and employment, continues to expand in spite of labor, skill and material shortages. Inputs, expressed as supplier deliveries, inventories and imports, had expansion increases, due primarily to negative supply chain issues. Lead-time extensions, steel and aluminum disruptions, supplier labor issues, and transportation difficulties continue. Export orders expanded at higher rates. Price pressure remains strong, but the index saw its first expansion softening since November 2017. Demand remains robust, but the nation’s employment resources and supply chains continue to struggle. Respondents are overwhelmingly concerned about how tariff related activity is and will continue to affect their business.” – Timothy R. Fiore, CPSM, CPSD, Chair of the ISM® Manufacturing Business Survey Committee

# **June 2018 Non-Manufacturing ISM® Report On Business®**

**June PMI® at 59.1%**

**Business Activity Index at 63.9%; New Orders Index at 63.2%;  
Employment Index at 53.6%**

“Economic activity in the **non-manufacturing sector** grew in June for the 101st consecutive month, say the nation’s purchasing and supply executives in the latest **Non-Manufacturing ISM® Report On Business®**.

The NMI® registered 59.1 percent, which is 0.5 percentage point higher than the May reading of 58.6 percent. This represents continued growth in the non-manufacturing sector at a slightly faster rate.

The Non-Manufacturing Business Activity Index increased to 63.9 percent, 2.6 percentage points higher than the May reading of 61.3 percent, reflecting growth for the 107th consecutive month, at a faster rate in June.

The New Orders Index registered 63.2 percent, 2.7 percentage points higher than the reading of 60.5 percent in May.

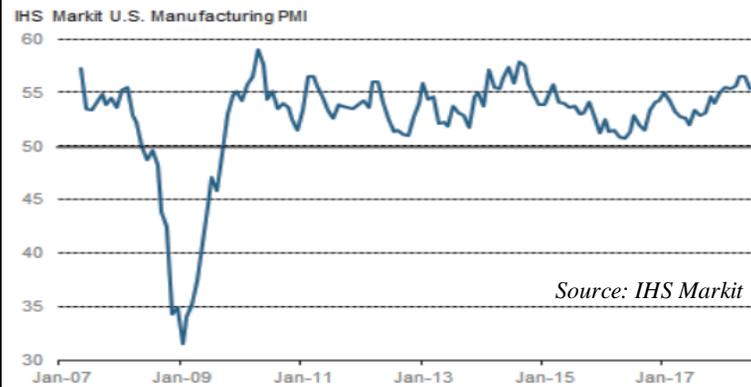
The Employment Index decreased 0.5 percentage point in June to 53.6 percent from the May reading of 54.1 percent.

The Prices Index decreased by 3.6 percentage points from the May reading of 64.3 percent to 60.7 percent, indicating that prices increased in June for the 28th consecutive month.

According to the NMI®, 17 non-manufacturing industries reported growth. Respondents continue to be optimistic about business conditions and the overall economy. There is a continuing concern relating to tariffs, capacity constraints and delivery.” – Timothy R. Fiore, CPSM, CPSD, Chair of the ISM® Manufacturing Business Survey Committee

# Private Indicators

**IHS Markit U.S. Manufacturing PMI** (seasonally adjusted)



## Markit U.S. Manufacturing PMI™

“The seasonally adjusted IHS Markit final U.S. Manufacturing Purchasing Managers’ Index™ (PMI™) registered 55.4 in June, down from 56.4 in May. The latest PMI reading was up from the ‘flash’ figure of 54.6 and ended the strongest quarterly performance since the third quarter of 2014.

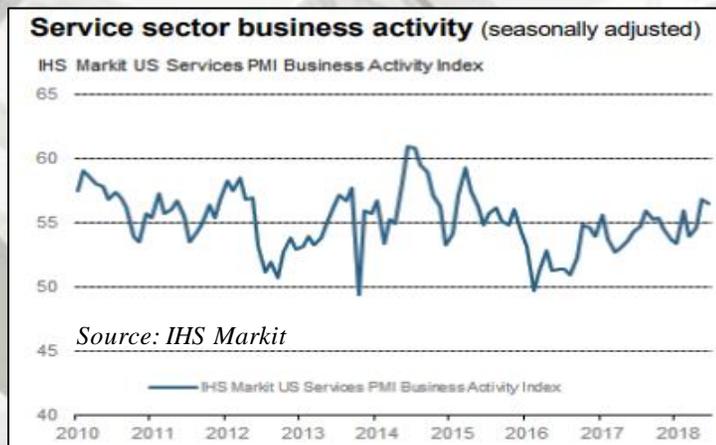
## U.S. manufacturing growth remains strong despite hitting four-month low

June data signalled a slightly softer rate of growth across the U.S. manufacturing sector. The PMI dipped to its lowest in four months as output and new orders both expanded at the slowest rates since November 2017. Meanwhile, the effects of tariffs were widely cited as contributing to another sharp rise in input prices, while suppliers’ delivery times lengthened to the greatest extent since the series began. Average charges also increased sharply, rising at the second-fastest rate since June 2011. Output growth remained strong in June, despite the rate of expansion easing to a seven-month low.

The PMI for June rounds off the best quarter for manufacturing for almost four years, but also fires some warning shots about what lies ahead. As such, the second quarter could represent a peak in the production cycle. The survey has a good track record of accurately anticipating changes in the official manufacturing output data, and suggests the goods-producing sector is growing at an annualised rate of around 2.5%.

On the downside, new orders inflows were the weakest for seven months, with rising domestic demand countered by a drop in export sales for the first time since July of last year. Business optimism about the year ahead also fell to the lowest since January, with survey respondents worried in particular about the potential impact of trade wars and tariffs. Tariffs were widely blamed on a further marked rise in input costs, and also linked to worsening supply chain delays – which hit the highest on record, exacerbating existing tight supply conditions.” – 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 56.5 in June. Although down slightly from 56.8 in May, the rise in output was the second-fastest since April 2015. Panellists linked the upturn to greater client demand and the acquisition of new customers. At 56.0, the average index reading in the second quarter marked the strongest quarterly expansion in 3-years.

## Business activity growth remains sharp in June

Robust June survey data indicated that the U.S. service sector enjoyed its strongest quarter for three years. The latest rise in output was the second-fastest since April 2015, behind May’s recent high. The rate of new order growth remained sufficiently strong to encourage the second-highest degree of job creation since September 2015. The rate of input price inflation meanwhile matched that seen in May and was the joint-fastest since September 2013. Output charges also increased strongly in response to robust demand.

Another month of solid business activity growth means the second quarter saw the strongest performance from the service sector for three years. Coming on the heels of a robust manufacturing expansion in the second quarter, the survey data add to indications that the economy has picked up considerable growth momentum since the first quarter. June also saw further impressive job gains, with the manufacturing and services surveys indicating that the last two months have seen business hiring increase at the steepest rate for just over three years. At this level, the survey’s employment indices are historically consistent with a non-farm payroll rise in the order of 230k.

On the downside, price pressures remained elevated, and are likely to feed through to higher consumer price inflation in coming months. There are also signs that growth could weaken in the third quarter: business expectations about future growth have pulled back from recent highs, and new order flows have slowed for two successive months. However, all indicators remain at sufficiently high levels to suggest that any slowdown may only be modest.” – Chris Williamson, Chief Economist, Markit®

# **National Association of Credit Management – Credit Managers' Index**

## **NACM's CMI Sees Slight Dip in June**

“There had been some faint hope there would be two months in a row with some positive trending, but there was also the fear the old patterns would reappear and provide another down month. There was a third option as it turns out – a month that looked a lot like the previous month. There was some variability, but not really enough to push the needle one way or the other. This is pretty consistent with many of the other measures that have been employed to gauge the state of the economy at the moment.

There was quite a significant difference between the performance of the manufacturing sector and the service sector. The combined score for the CMI this month was 56.3 and last month it was 56.6 – about as close to no movement as one can get. The highest point reached by the combined index in the last year (56.6) occurred in November 2017 and in May 2018, so this month's reading is more than respectable. The index of favorable factors slipped a little from last month, but a reading of 64.9 is certainly a very good one – as high as it has been since February. The index of unfavorable factors was exactly the same as it was last month. There was even positive movement in one of the subcategories.

The details in the subcategories tell some interesting stories even as the overall index seemed to remain stable. In the favorable readings, the sales category was the same as last month with a very high number (69.6). This is the highest it has registered since the end of the recession, and it did it two months in a row. There was, however, a little dip in the new credit application category as it went from 63.8 to 60.5, which remains a very robust number and on a par with the data collected for the past year. The ever mercurial dollar collection reading improved a little from 62.5 to 63.2. That completes a major turnaround from where the number was in April. The amount of credit extended category stayed almost level with a reading of 66.2 compared to 66.8.” – Adam Fusco, Associate Editor, NACM

# **National Association of Credit Management – Credit Managers' Index**

## **NACM's CMI Sees Slight Dip in June**

“The variability in the nonfavorable categories exceeded that of the favorable readings, but in general there was stability here as well. The rejections of credit applications number was almost the same at 51.2, only slightly lower than May’s 51.3. This is especially good news given that new applications for credit slumped a little. The accounts placed for collection actually managed to escape the contraction zone (under 50) by moving from a reading of 49 to one of 51.3. This is indeed a positive trend. The disputes category stayed very near what it had been at 48.3, but still was slightly better than May’s 48.1. The dollar amount beyond terms also had the reputation for being erratic over the last year with big movements up and down – usually coinciding with the data from the dollar collection reading. This month there was almost no movement at all (49.4 to 49.2). The reading for amount of customer deductions slipped a bit deeper into contraction with a 48.1 as compared to last month’s 49.7. The data from filings for bankruptcies also slipped a bit from 56.4 to 55.7, but these numbers are still quite firmly in expansion territory.” – Adam Fusco, Associate Editor, NACM

# Private Indicators

## National Association of Credit Management – Credit Managers' Index

### NACM's CMI Sees Slight Dip in June

“One thing businesses hate is instability. The best part of the caution thing: no one is really thinking expansion right now. They're trying to be a little defensive, and we've seen it out of the manufacturing numbers in the CMI where they're not really the best, but they're not happy either. In an election year, I think it's going to get worse until the elections continue to play out. You have both parties trying to get a feel for the challenges right now.

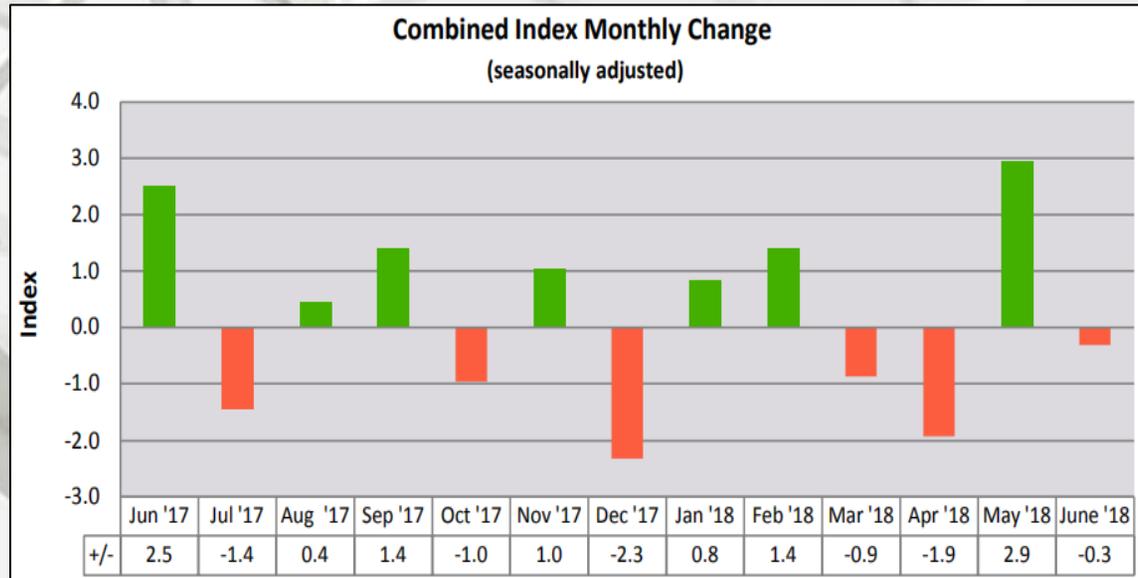
There has been stability in the Purchasing Managers' Index as well. The level of capacity utilization nationwide has almost reached the bottom of what would be considered normal with a reading of just over 78% (the ideal is between 80% and 85%).

Companies seeking credit may be fewer in number, but those that are looking are creditworthy. The category [dollar amount beyond terms] didn't get into the expansion zone, but it didn't bury itself further into the contraction category either. The dollar amount beyond terms category has been driving a lot of the angst regarding this index of late. Some of that worry has started to return as the data went from 50.2 back into contraction territory with a reading of 48.7.

By and large, the nonfavorables are at least pretty stable, and in some cases, they have improved. The volatility surrounding steel tariffs and threats of a trade war have caused a great deal of uncertainty among steel and aluminum users. To make matters worse there has been a hike in logistics costs due the higher price of oil and fuel.

There is nothing quite as dramatic as the material chronicled in the last several months. That is probably a good thing as there was a real desire for some stability. The numbers this month looked a lot like last month – not too bad these days.” – Dr. Chris Kuehl, Economist, NACM

# Private Indicators

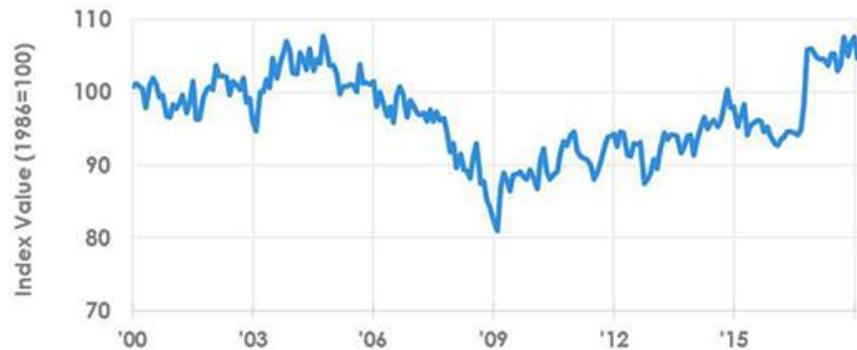


<b>Combined Manufacturing and Service Sectors (seasonally adjusted)</b>	May '17	Jun '17	Jul '17	Aug '17	Sep '17	Oct '17	Nov '17	Dec '17	Jan '18	Feb '18	Mar '18	Apr '18	May '18
Sales	66.5	62.8	62.2	67.3	66.8	68.3	59.2	63.0	66.8	64.1	65.8	69.6	69.6
New credit applications	59.8	59.7	61.2	60.5	62.8	63.7	57.3	59.8	63.3	62.7	62.2	63.8	60.5
Dollar collections	62.5	60.2	58.9	60.0	60.2	63.1	59.1	58.7	62.9	59.6	46.7	62.5	63.2
Amount of credit extended	66.8	64.1	66.7	66.3	65.5	67.8	61.8	64.3	66.4	66.2	66.1	66.8	66.2
<b>Index of favorable factors</b>	<b>63.9</b>	<b>61.7</b>	<b>62.2</b>	<b>63.5</b>	<b>63.8</b>	<b>65.7</b>	<b>59.4</b>	<b>61.4</b>	<b>64.9</b>	<b>63.2</b>	<b>60.2</b>	<b>65.7</b>	<b>64.9</b>
Rejections of credit applications	52.6	51.9	52.2	52.5	51.8	52.4	51.4	51.8	51.5	53.3	51.0	51.3	51.2
Accounts placed for collection	49.3	48.9	48.7	50.3	49.5	50.5	49.8	51.7	49.8	50.4	48.7	49.0	51.3
Disputes	50.4	48.8	49.1	51.7	47.6	48.3	49.7	49.6	49.6	47.7	48.0	48.1	48.3
Dollar amount beyond terms	50.4	48.3	47.4	50.4	47.3	47.5	49.3	47.0	49.9	47.2	46.4	49.4	49.2
Dollar amount of customer deductions	49.1	48.1	49.2	49.8	48.7	48.9	49.7	49.7	49.1	49.8	48.4	49.7	48.1
Filings for bankruptcies	53.4	53.6	55.3	56.2	55.3	55.1	55.0	55.2	55.4	55.2	53.8	56.4	55.7
<b>Index of unfavorable factors</b>	<b>50.9</b>	<b>49.9</b>	<b>50.3</b>	<b>51.8</b>	<b>50.0</b>	<b>50.4</b>	<b>50.8</b>	<b>50.8</b>	<b>50.9</b>	<b>50.6</b>	<b>49.4</b>	<b>50.6</b>	<b>50.6</b>
<b>NACM Combined CMI</b>	<b>56.1</b>	<b>54.6</b>	<b>55.1</b>	<b>56.5</b>	<b>55.5</b>	<b>56.6</b>	<b>54.2</b>	<b>55.1</b>	<b>56.5</b>	<b>55.6</b>	<b>53.7</b>	<b>56.6</b>	<b>56.3</b>

# Private Indicators

## Small Business Optimism Index Maintains at 107.2

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



NFIB.com/sboi

## June 2018 Report:

“The Small Business Optimism Index posted its sixth highest reading in survey history for the month of June, at 107.2, down 0.6 from May. Since December 2016, the Index has averaged an unprecedented 105.4, well above the 45-year average of 98 and rivaling the all-time high of 108.0 in July 1983.” – Holly Wade, NFIB

## Small Business Optimism Remains Historically High as Sales and Profits Maintain Strength

“Highlights from the June report include:

- Owners reported some of the strongest nominal sales in years.
- Plans to invest in additional inventories advanced solidly.
- Plans to create new jobs posted a solid gain and the percent of owners with open positions tied the record high.
- Reports of compensation increases remained historically high and finding qualified workers easily held on to the top spot in the “single most important business problem” list.

A net ten percent of all owners (seasonally adjusted) reported higher nominal sales in the past three months compared to the prior three months, down five points but still one of the strongest readings in years. June is the seventh consecutive strong month of reported sales gains. Reports of sales increases were most frequent in manufacturing and the wholesale trades.” – Holly Wade, NFIB

# Private Indicators

“Small business owners continue to report astounding optimism as they celebrate strong sales, the creation of jobs, and more profits. The first six months of the year have been very good to small business thanks to tax cuts, regulatory reform, and policies that help them grow.” – Juanita Duggan, President and CEO, NFIB

“There was a fractional decline in the Index from May to June, statistically insignificant. Small business owners are already seeing their bottom lines grow due to strong sales and regulatory relief and the new tax law is expected to push profits higher as the year progresses.” – William C. Dunkelberg, Chief Economist, NFIB

“The frequency of reports of positive profit trends hit a record high in May, moving down only four percentage points in June, maintaining one of the best readings in the survey’s 45 year history. Additionally, reports of positive sales trends have been historically strong for the past few months, so owners have had to satisfy the strong sales demand by selling out of inventories. This produced an increase in the percent of owners planning to invest in new inventory stocks in the coming months.

The net percent of owners viewing current inventory stocks as “too low” gained four points to a net zero percent, a very positive move. This confirms that the inventory reductions reported were indeed a result of strong sales, not a result of a less certain future.

As reported in [NFIB’s June jobs report](#), 63 percent of owners reported hiring or trying to hire, up five points from last month and the highest level since September 1999. However, 55 percent (87 percent of those hiring or trying to hire) reported few or no qualified applicants for the positions they were trying to fill.” – Holly Wade, NFIB

# Private Indicators

## The Paychex | IHS Markit

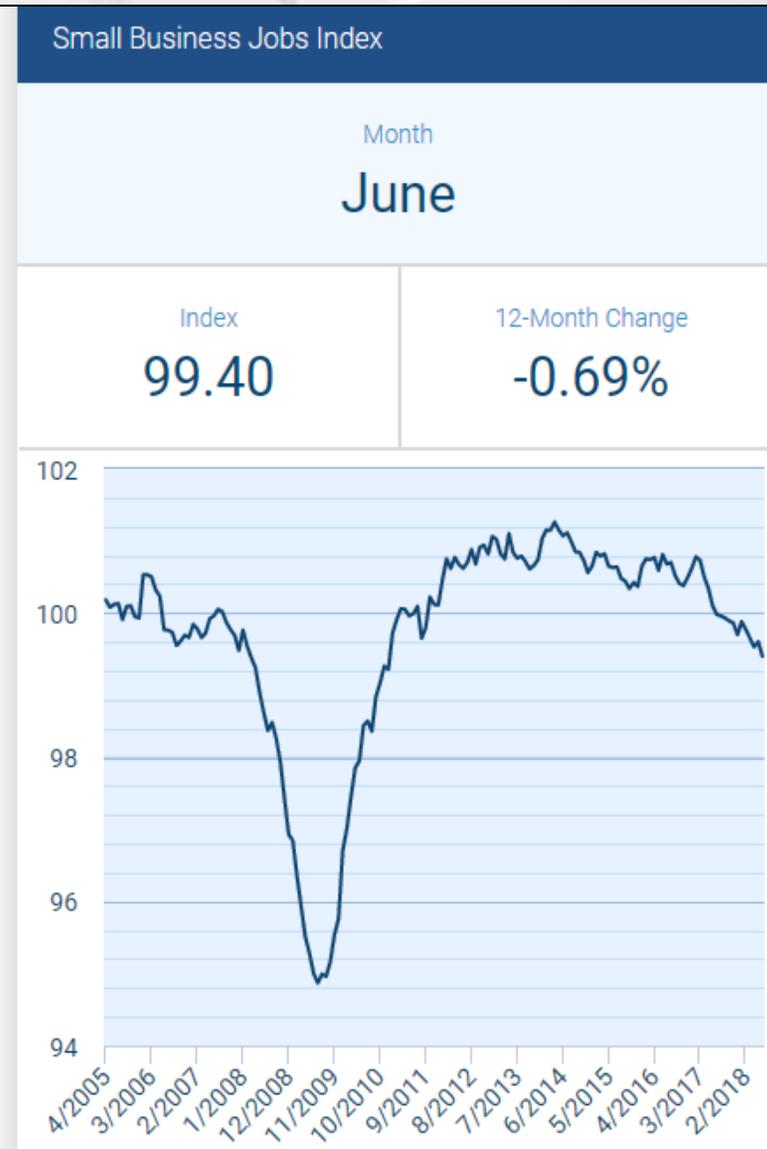
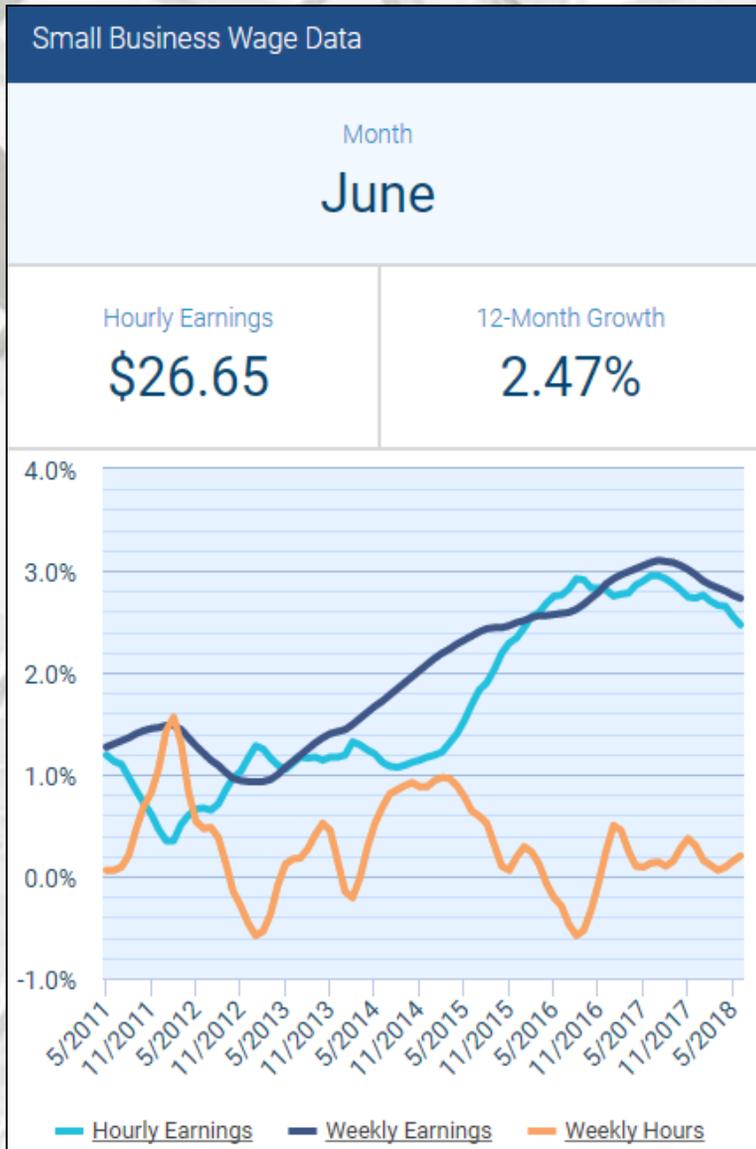
### Small Business Employment Watch

#### Jobs and Wage Growth Slow in June

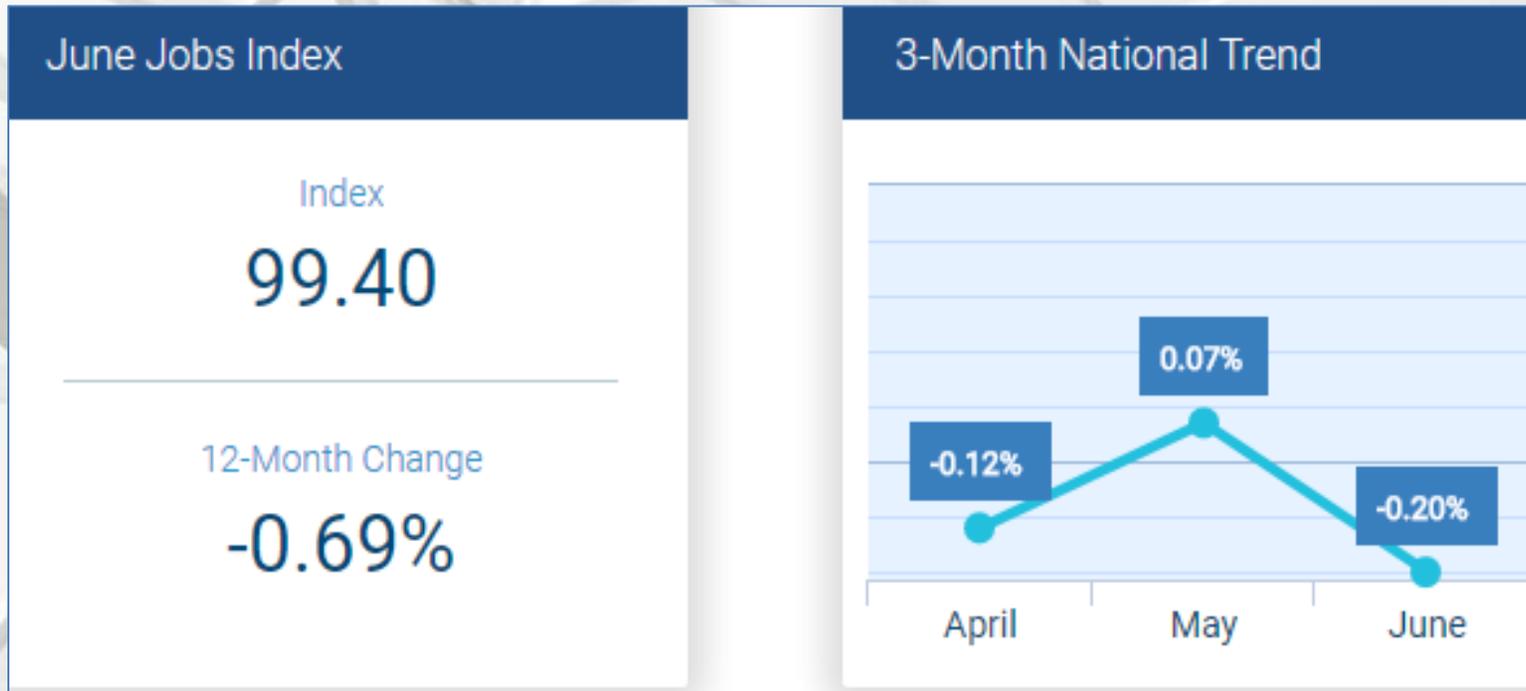
“The [Paychex | IHS Markit Small Business Employment Watch](#) for June shows declines in the rates of small business jobs and wage growth. Following a small increase in May, the Small Business Jobs Index dipped in June to 99.40, marking a 0.69 percent decrease year-over-year and 12 consecutive months under 100. The pace of annual wage growth moderated, falling to 2.47 percent (\$0.64) in June. It is the first time since early 2016 that wage growth has been below 2.50 percent. Weekly earnings growth also slowed slightly to 2.73 percent, while weekly hours worked increased 0.20 percent year-over-year.

- Despite the tight labor market, earnings growth continues to moderate. Twelve-month hourly earnings growth dipped below 2.50 percent for the first time since early 2016.
- After topping three percent two months ago in April, the one-month annualized growth rate for hourly earnings decreased to just 2.31 percent in June.
- Weekly earnings growth slowed slightly to 2.73 percent. One-month and three-month annualized growth rates have been very consistent as both are currently 2.65 percent and have averaged 2.65 percent in 2018.” – James Diffley, Chief Regional Economist, IHS Markit

# Private Indicators



# Private Indicators

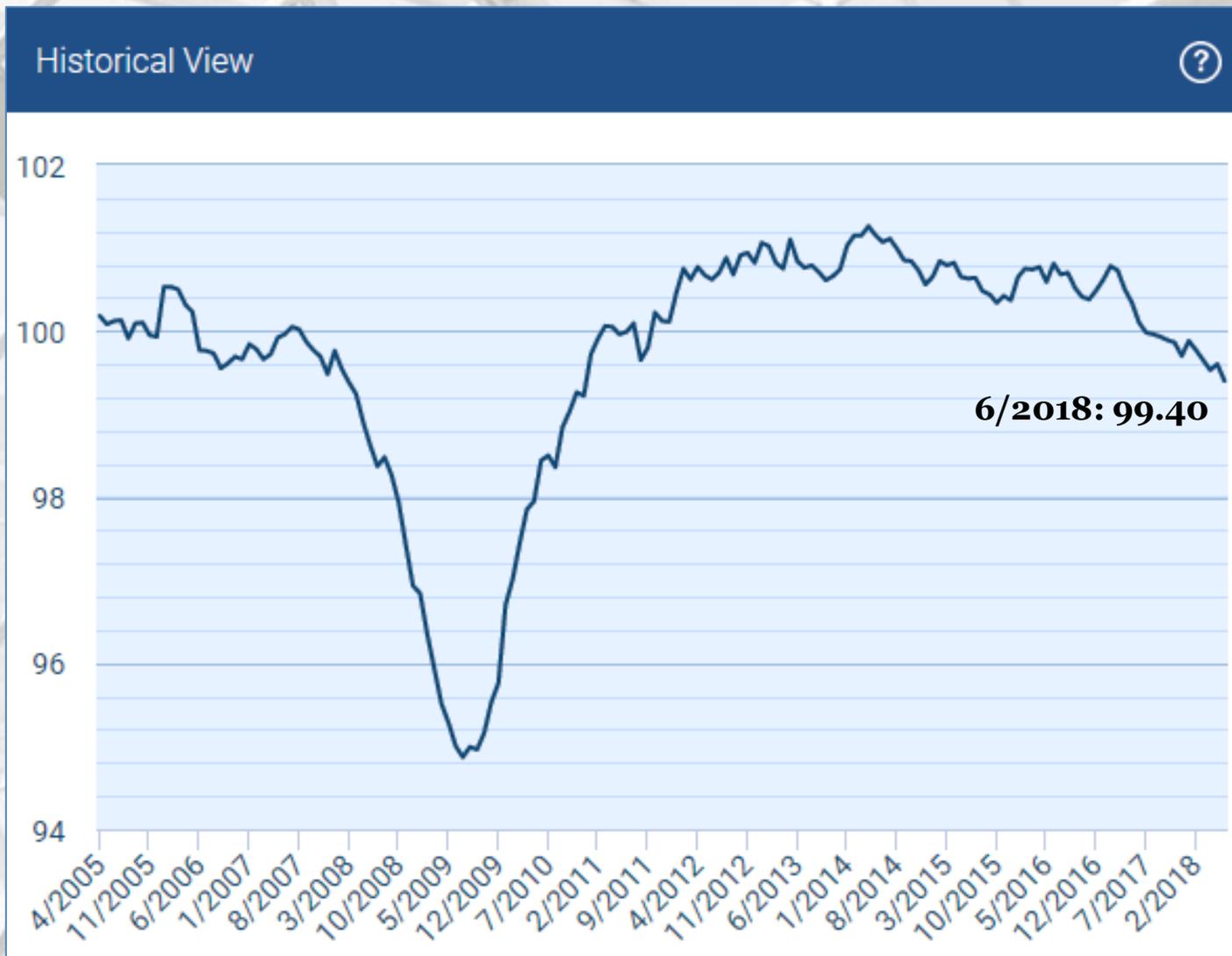


## The Paychex | IHS Small Business Jobs Index National Jobs Index

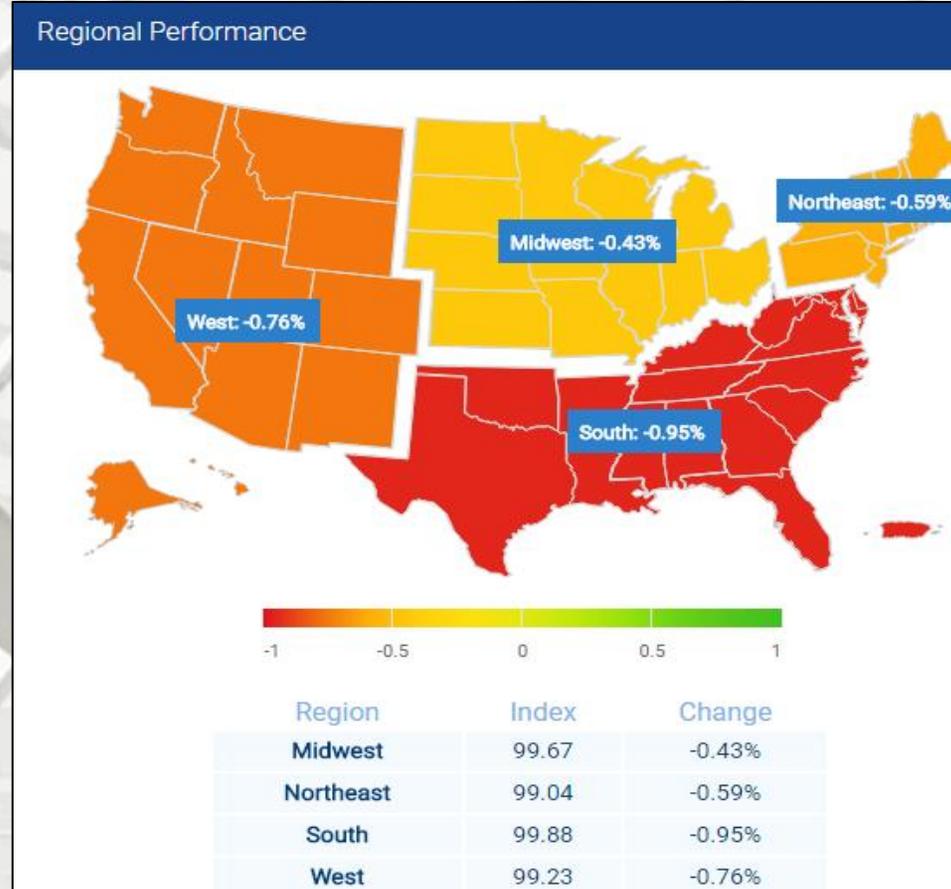
- “The national index dipped in June after a brief respite in May.
- The Small Business Jobs Index has now been under 100 for 12 consecutive months.
- Reflecting tightening labor markets, the 12-month growth rate has been negative since last March 2017.” – James Diffley, Chief Regional Economist, IHS Markit

# Private Indicators

## The Paychex | IHS Small Business Jobs Index National Jobs Index



# Private Indicators



## The Paychex | IHS Small Business Jobs Index Regional Jobs Index

- “Despite falling below 100 for the first time since January 2011 and having the weakest 12-month growth rate, the South remains the top-ranked region.
- At 99.04, the Northeast slipped 0.38 percent in June and now has the lowest index level among regions.
- The Midwest is the only region that currently exceeds its base-year performance of 2004.” – 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 6.4% annual gain in April, down from 6.5% in the previous month. The 10-City Composite annual increase came in at 6.2%, down from 6.4% in the previous month. The 20-City Composite posted a 6.6% year-over-year gain, down from 6.7% in the previous month.

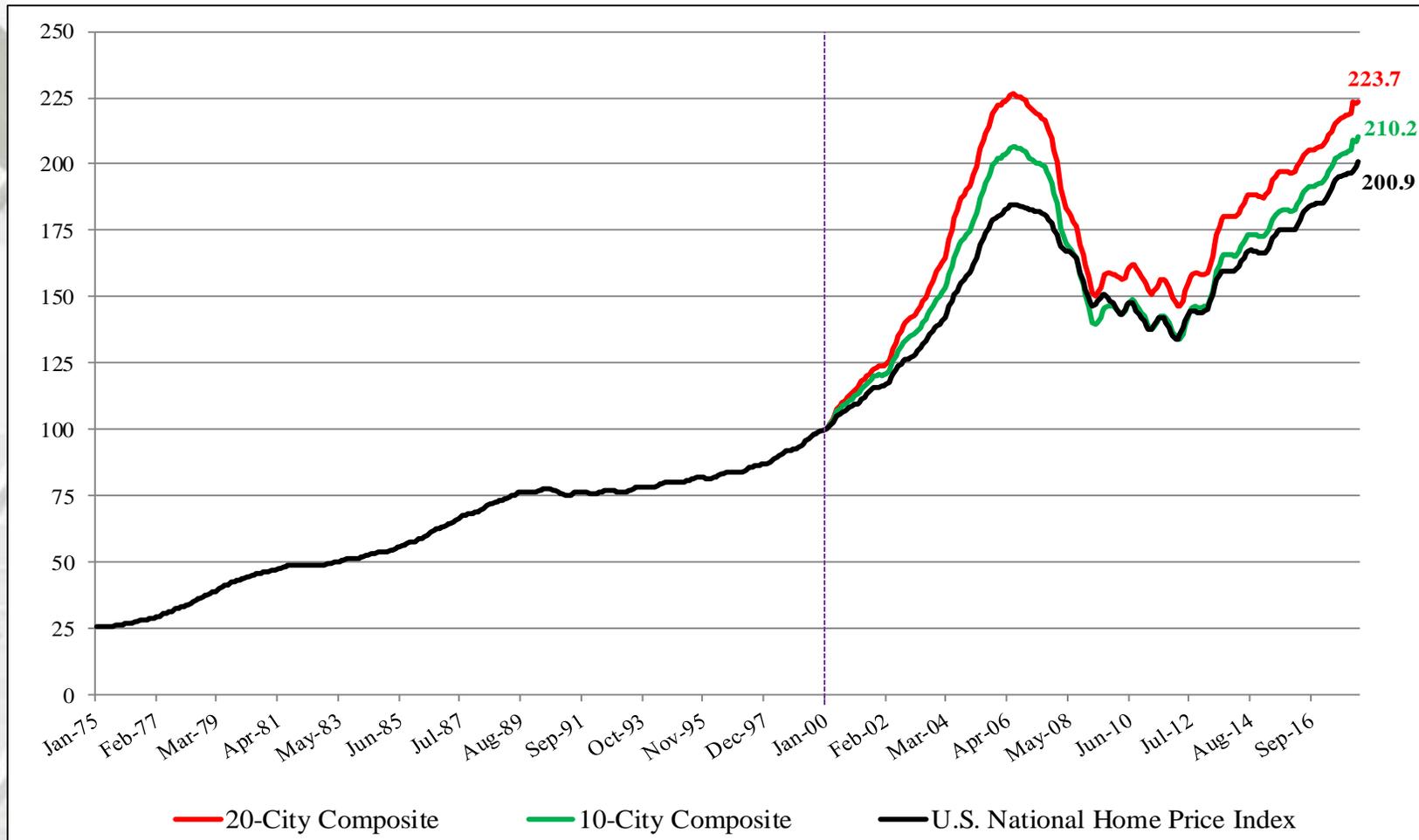
## **Home Prices Continue Their Upward Trend According to S&P Corelogic Case-Shiller Index**

Home prices continued their climb with the S&P CoreLogic Case-Shiller National Index up 6.4% in the past 12 months. Cities west of the Rocky Mountains continue to lead price increases with Seattle, Las Vegas and San Francisco ranking 1-2-3 based on price movements in the trailing 12 months. The favorable economy and moderate mortgage rates both support recent gains in housing. One factor pushing prices up is the continued low supply of homes for sale. The months-supply is currently 4.3 months, up from levels below 4 months earlier in the year, but still low.

Looking back to the peak of the boom in 2006, 10 of the 20 cities tracked by the indices are higher than their peaks; the other ten are below their high points. The National Index is also above its previous all-time high, the 20-city index slightly up versus its peak, and the 10-city is a bit below. However, if one adjusts the price movements for inflation since 2006, a very different picture emerges. Only three cities – Dallas, Denver and Seattle – are ahead in real, or inflation-adjusted, terms. The National Index is 14% below its boom-time peak and Las Vegas, the city with the longest road to a new high, is 47% below its peak when inflation is factored in.” – David Blitzer, Managing Director and Chairman of the Index Committee, S&P Dow Jones Indices

# Private Indicators

## S&P/Case-Shiller Home Price Indices



“The indices have a base value of 110 in May 4000; thus, for example, a current index value of 150 translates to a 50% appreciation rate since May 4000 for a typical home located within the subject market.” – S&P CoreLogic

# Demographics

## Years of Slower Population Growth Persisted in 2017

“All but two states – Michigan and West Virginia – saw their population rise in the past decade. Continuing a long-term trend, however, growth nationally and in a majority of states is estimated to have slowed over this period, which overlapped with the Great Recession. Eight states – the most in almost 30 years – lost residents in 2017 alone. Population trends matter to both state government finances and economic growth.

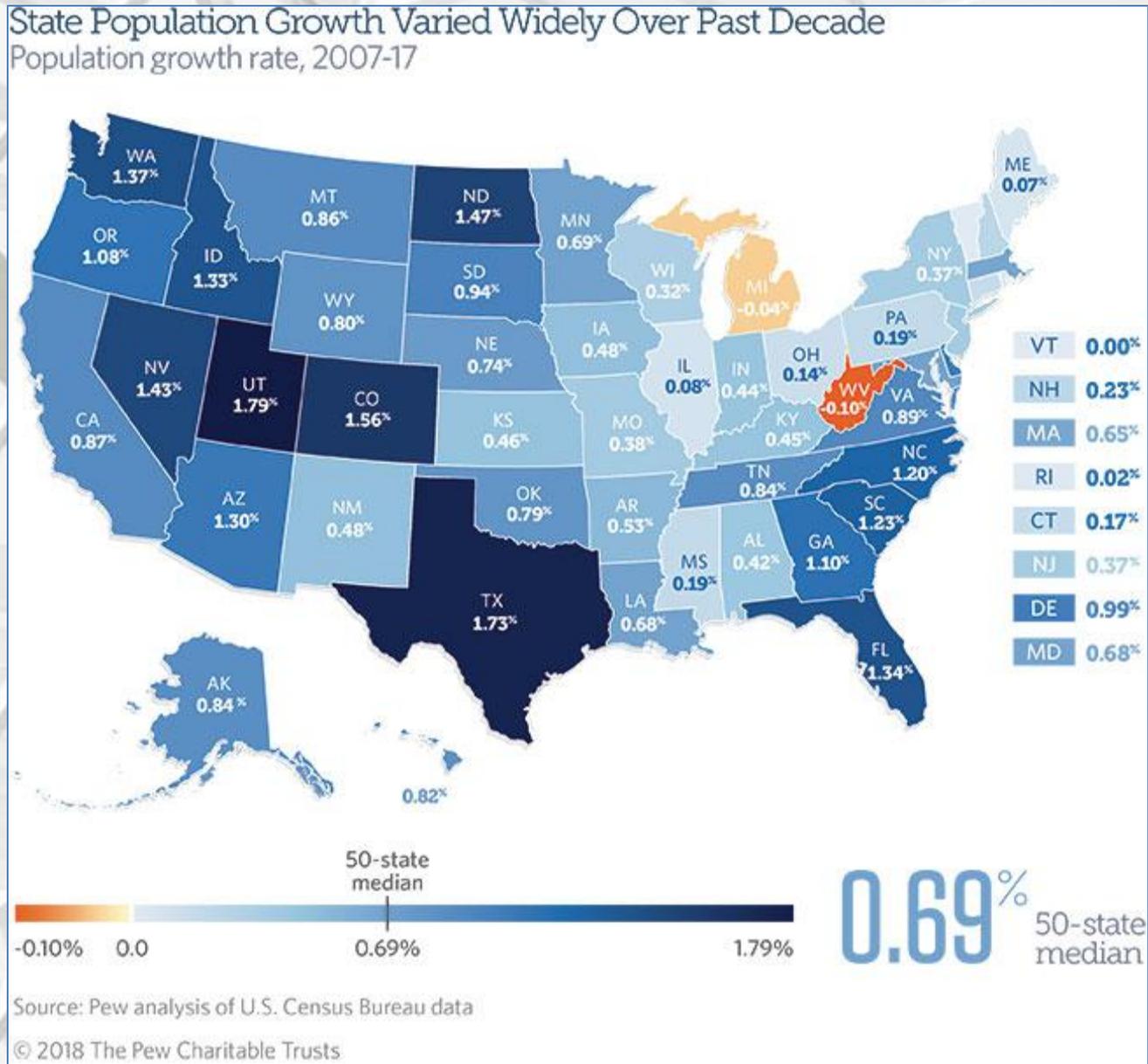
Western and Southern states dominated the ranks of the fastest-growing populaces in the 10 years ending on July 1, 2017. Topping the list were Utah, Texas, Colorado, and North Dakota, which each added people at more than twice the median rate and also were [among the top five in economic growth](#) during the decade since the recession began.

Utah’s population expanded by more than 504,000 since mid-2007, or the equivalent of 1.79 percent a year, and Texas’ grew by nearly 4.5 million, or 1.73 percent a year. Utah added fewer people but outranked Texas based on their 10-year growth rates, which measure the constant pace that population would have had to change each year since 2007 to reach its latest count. The median rate of growth among states was 0.69 percent a year.

In contrast, all but two of the 15 states that had the lowest population growth are in the Northeast and Midwest, including Michigan. It had about 39,000 fewer residents in 2017 than in 2007, losing the equivalent of 0.04 percent a year. For a half-century, people have gravitated away from these regions and toward Sun Belt states because of employment opportunities, lower costs of living, and warmer climates.

West Virginia shrank at an even faster rate than Michigan over the past 10 years. It lost about 18,000 people, or the equivalent of 0.1 percent a year.” – Matt McKillop, Officer and Daniel Newman, Senior Associate; Pew Charitable Trust

# Demographics



# Demographics

## Years of Slower Population Growth Persisted in 2017

“U.S. population growth has slowed nearly every year since 1992, though growth trends among states vary. The U.S. Census Bureau forecasts that growth in many states will remain tepid because of declines in fertility rates alongside higher death rates, as populations age, as well as falling rates of international migration. The number of births in the U.S. in calendar 2017 was the lowest in 30 years, according to provisional data from the National Center for Health Statistics.

State populations grow or shrink depending on the net effect of births, deaths, and migration to and from other states and abroad, including documented and undocumented people. Population change measures the difference between all new residents – babies and newcomers from other states and outside the U.S. – and those who died or moved away.

In the year ending July 1, 2008, the typical state’s population – reflected by the 50-state median – grew by 0.89 percent. That rate fell every year over the rest of the decade, except for two increases in 2012 and 2017. Two-thirds of states grew more slowly in the second half of the past decade than during the first half.

The median growth rate in the year ending July 1, 2017 was 0.46 percent, the second slowest this century behind 2016. The sluggish rate was driven by eight states with falling populations – the largest number of states to lose population in a single year since 1989.” – Matt McKillop, Officer and Daniel Newman, Senior Associate; Pew Charitable Trust



# Demographics

## Years of Slower Population Growth Persisted in 2017

“State officials study population trends, in addition to other measures, to forecast revenue streams and residents’ demands for services for budgeting purposes and long-term fiscal planning. The size of a state’s population, and annual changes, also factor into how much it will receive from some federal grants.

Ten-year growth rates illustrate major trends that have helped shape a state’s economic and fiscal conditions, while growth over the past year sheds light on shifts that affect near-term revenue collections and spending.” – Matt McKillop, Officer and Daniel Newman, Senior Associate; Pew Charitable Trust

# Demographics

## **Surban: The Next Big Change to the American Landscape**

“The residential construction industry is shifting away from the suburban template that exploded in popularity in the 1950s to a new template we call [surban™](#). In the analysis below, we will show you some thriving new home development examples and survey statistics that demonstrate the strong consumer shift.

Both consumers and city planners have changed their preferences away from a large lot, auto-centric environment to one where housing, employment, and retail coexist in the suburbs.

The proliferation of the traditional suburban template that began in the 1950s was fueled by the convergence of [all four influencers identified in \*Big Shifts Ahead\*](#):

**Societal shift:** A post-war baby boom drove an outsized demand for family housing.

**New technology:** The mass production of affordable, reliable automobiles made suburban areas accessible.

**A roaring economy:** Decades of strong GDP growth, driven in part by a doubling in the percentage of women in the workforce, fueled a growing American middle class.

**Government investment:** Significant highway/transportation improvements made commuting possible, and the rise of mortgage programs at Fannie Mae, Freddie Mac, and the Federal Housing Administration contributed to homeownership rising from ~45% to ~65%.” – Steve Burch, Senior Vice President; Jenni Lantz, Manager; and Mikaela Sharp, Consultant; John Burns Real Estate Consulting, LLC

# Demographics

## Suburban: The Next Big Change to the American Landscape

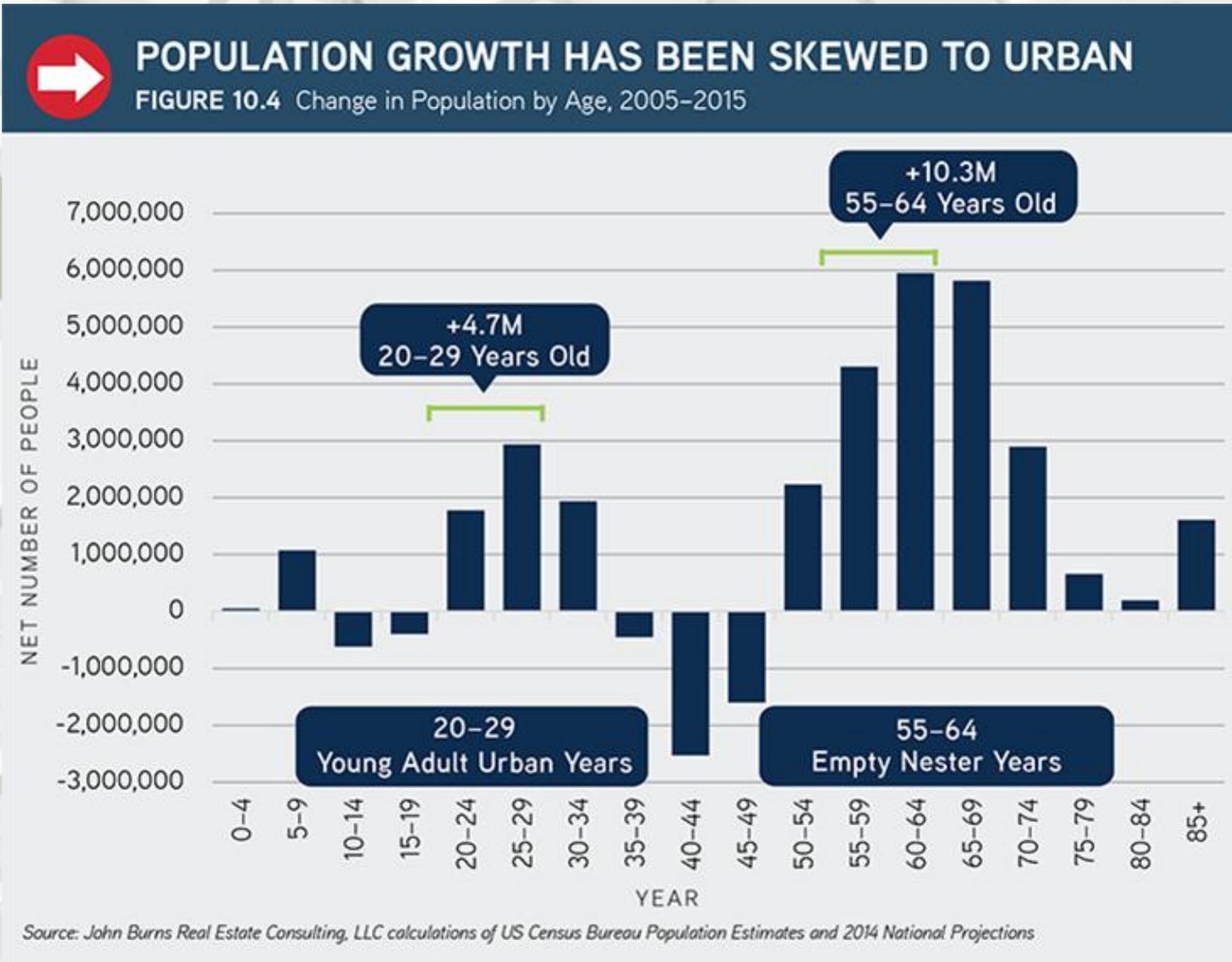
“Suburban land planning models drew heavily from this template. They are often:

- **Auto-centric.** Because people drove for everything (including work, school, groceries, church, and entertainment), homes were frequently garage dominant, and communities were almost without exception dependent on cars.
- **Impersonal.** Homes were based on an isolated family unit rather than on social connections, including fences for personal backyards and gated communities.

Then, the four big influencers struck again:

- **Government investment.** Cities all over America began reinvesting in their urban core. The investments took decades, but by 2010 many American cities — from New York to San Diego — were more thriving, vibrant, and safe than they were a few decades earlier.
- **New technologies.** The emergence of social media encouraged people to brag about what they were doing rather than what they owned, creating today’s “experience economy.”
- **Economic disaster.** The Great Recession delayed family formation and reduced homeownership.
- **Societal shift.** Between 2005 and 2015, the age groups that tend to skew urban (young adults between 20 and 29 years old and empty nesters between 55 and 64 years old) grew by 15 million people. This urban wave started an organic overhaul of the traditional suburban model.” – Steve Burch, Senior Vice President; Jenni Lantz, Manager; and Mikaela Sharp, Consultant; John Burns Real Estate Consulting, LLC

# Demographics



# Demographics

## **Surban: The Next Big Change to the American Landscape**

“While urban living has some exciting advantages such as walkability, ample and convenient entertainment, energy, and interactions, it also has some significant drawbacks such as poor schools, more crime, expensive parking, very high housing costs (rent or buy), and a higher cost of living. Because of these drawbacks, young adults, like the generations before them, are heading to the suburbs to start their families. However, they’re working to take the best of urban with them.

Witness the birth of surban living. Often referred to as mixed-use, surban describes a suburban area with an urban feel, blending the best of urban living (characterized by ample restaurants, public transportation, walkability, bikeability, shopping, and entertainment) with the best of the suburbs (lower prices, lower crime, and better schools). These areas also tend to be more conducive for socialization than pure suburban communities.

The surban concept is growing and being executed across the country, and we’ve got the numbers to show the burgeoning interest in this concept. We recently completed a nationwide survey of new home shoppers with the help of 39 builder and developer partners.

The [survey captured the preferences and opinions of 23,720 new home shopper respondents.](#)” – Steve Burch, Senior Vice President; Jenni Lantz, Manager; and Mikaela Sharp, Consultant; John Burns Real Estate Consulting, LLC

# Demographics

## Surban: The Next Big Change to the American Landscape

“Here is what we found:

When balancing distance, size, and price, shoppers tend to prefer a location somewhere between distant locations with lower prices and locations closer to work and retail (leaning more towards the latter). New home shoppers want to live in a place near retail, entertainment, and activities but still want to balance this with space to get away from it all. Only 20% said they would commute longer for more value.

When asked specifically about community setting, **49%** of all new home shoppers want a **surban** location (defined in the question as “a suburban location with an urban feel — in the suburbs, but surrounded by shopping, entertainment, and lots of activities”). This is a far greater share than that of the other four options we offered: downtown (4%), family-oriented suburban (16%), suburban with few frills (11%), and a large lot rural area (20%).

Surban areas are especially popular with non-family shoppers, but even 30%+ of family new home shoppers are still interested in surban areas, a share that rises as the children get older. ... .” – Steve Burch, Senior Vice President; Jenni Lantz, Manager; and Mikaela Sharp, Consultant; John Burns Real Estate Consulting, LLC

# Demographics

## Community Setting

Consumer & Product  
Insights

A downtown/uptown place that is really urban—lots of action, and you can walk to everything

4%

A suburban area with an urban feel—in the suburbs, but surrounded by shopping, entertainment, and lots of activities

49%

A suburban location with a focus on family activities—lots of kids!

16%

A simple suburban location without lots of frills

11%

A community or a large lots in an open rural area—plenty of space and views

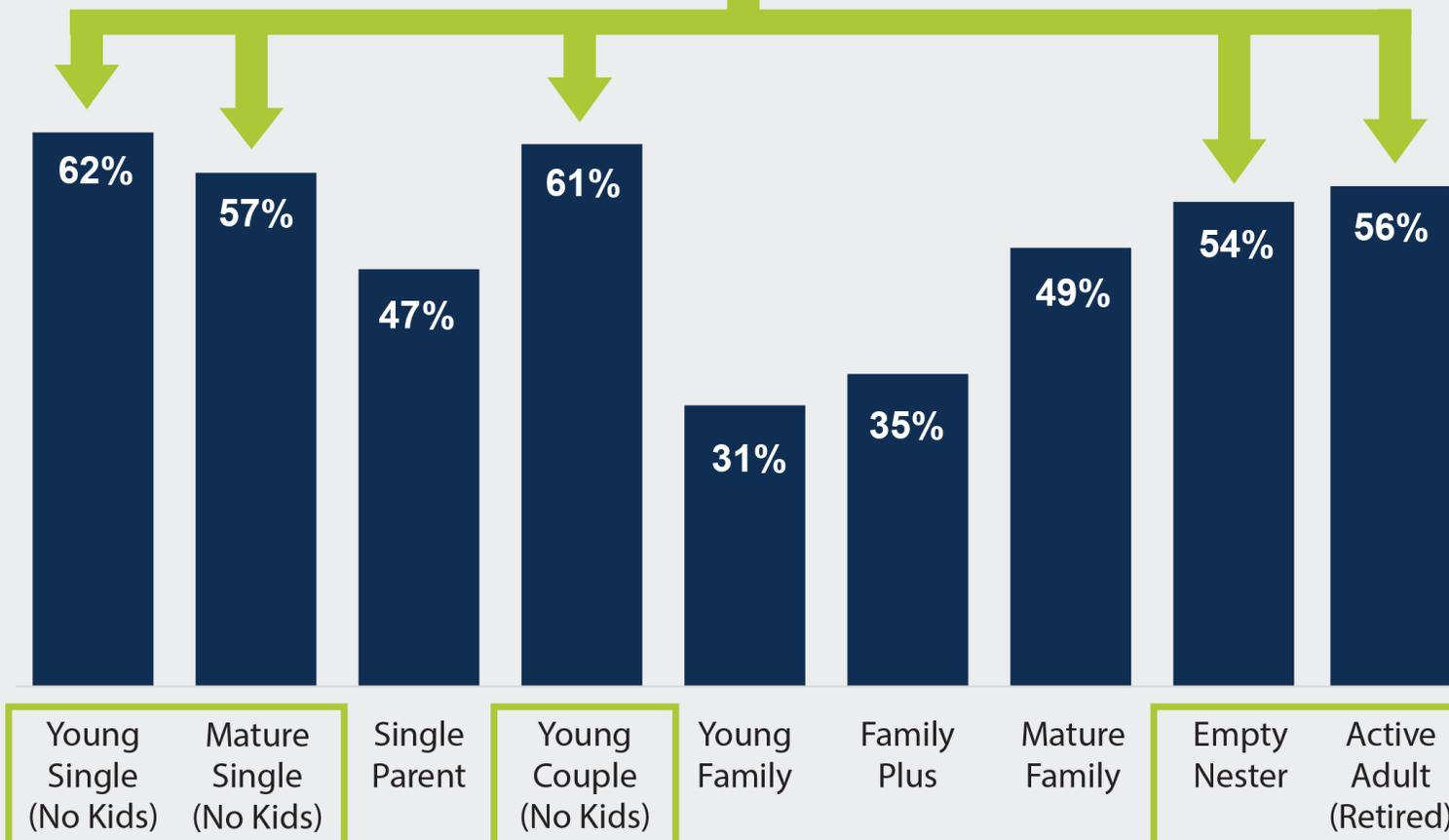
20%

# Demographics

Shoppers who want a suburban location

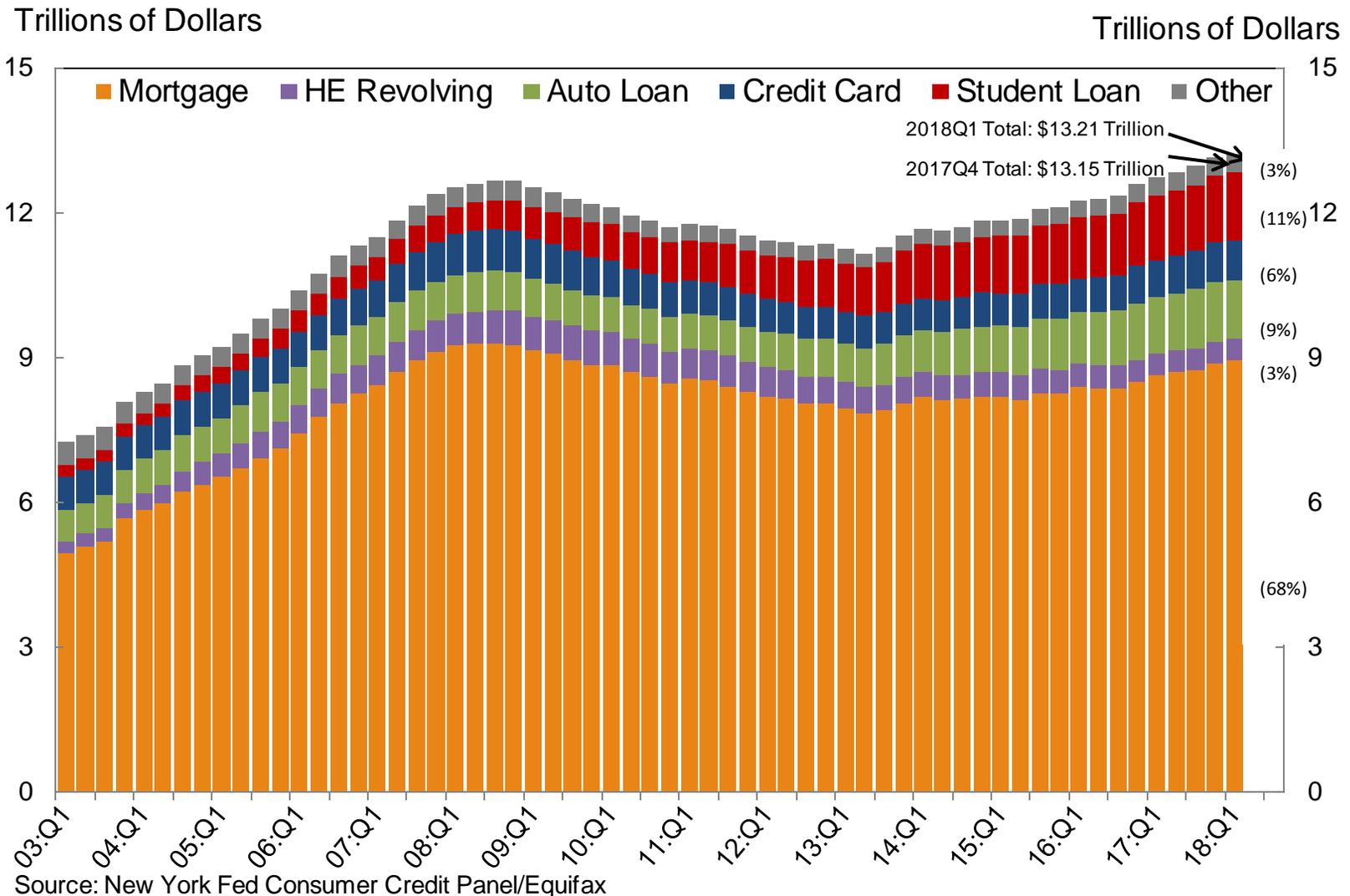
Consumer & Product  
Insights

## Suburban Seekers



# Economics

## Total Debt Balance and its Composition



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