

The week ended on a positive note as U.S. job growth for October came in stronger than expected.

U.S. payrolls expanded by 250,000 net new jobs in October. The unemployment rate stayed at 3.7 percent in October, as expected. Wage pressure was moderate. Average hourly earnings increased by 0.2 percent for the month and were up by 3.1 percent over the previous 12 months. The labor force participation rate ticked up to 62.9 percent, little changed over the last year.

The September income and spending data shows sluggish real income growth at the end of the third quarter. Nominal personal income was up by 0.2 percent in September. After adjusting for inflation and taxes, real disposable income was up by just 0.1 percent in September, the weakest gain there since last April. Undaunted, consumers increased their spending by more than their incomes increased. Real consumer spending was up by a moderate-to-strong 0.3 percent in September. The personal saving rate went down to 6.2 percent. It was as high as 7.4 percent in February of this year. That is not a bad number and the trend is unclear at this time. The Personal Consumption Expenditure (PCE) Price Index increased by just 0.1 percent for the fourth consecutive month. Over the previous 12 months, the PCE Price Index was up by 2.0 percent and the core PCE Price Index (less food and energy) was also up by 2.0 percent over the year.

The U.S. international trade gap widened in September to -\$54.0 billion. Imports increased by \$3.8 billion as exports expanded by \$3.1 billion. The strong dollar will keep pressure on the trade gap this fall.

The ISM Manufacturing Index slipped from a strong 59.8 in September to a still-good 57.7 in October.

Nine out of ten sub-indexes are still above the break-even 50 mark, including new orders, production and employment. Of the 18 reporting industries, 13 said that they expanded in October. The four contracting industries were wood products, primary metals, nonmetallic products and fabricated metal products. Tariffs are still a focus of the anecdotal comments in the October report.

Nonfarm business productivity increased at a 2.2 percent annual rate in Q3, below the 3.0 percent annualized gain of Q2. On a year-over-year basis, productivity was up by 1.3 percent in 2018Q3, about where productivity growth has been since the end of 2016. Unit labor costs increased at a 1.2 percent annualized rate in Q3 after declining at a 1.0 percent rate in Q2.

Total construction spending for September was unchanged from August. Private residential construction spending increased by 0.6 percent for the month, with help from multifamily projects. Private nonresidential spending was little changed, up by 0.1 percent in September. Public construction spending fell by 0.9 percent for the month. Over the previous 12 months overall construction spending is still up by 7.2 percent.

Initial claims for unemployment insurance were little changed, easing by 2,000 for the week ending October 27, to hit 214,000. Continuing claims fell by 7,000, to hit 1,631,000 for the week ending October 20.

Auto sales increased in October to a 17.5 million unit rate. Strong consumer conditions appear to be supporting sales. Higher materials, labor and capital costs are headwinds for the auto industry.

The Case-Shiller U.S. National House Price Index increased by 5.8 percent year-over-year in August.

Fed Funds Rate

Fed Funds Rate (Effective): After FOMC Meeting of 11/7-11/8

The Federal Reserve will keep the fed funds rate range unchanged at 2.00-2.25 percent at the upcoming FOMC meeting over November 7/8. We look for another 25 basis point increase on December 19.

The Week Ahead

October ISM Non-Manufacturing Index (11/5, Monday)

The ISM Non-MFG Index increased to 61.6 in September. The ISM Manufacturing Index fell in October. Down to 59.5 in October. Consensus: 59.0.

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The Week Ahead, Continued

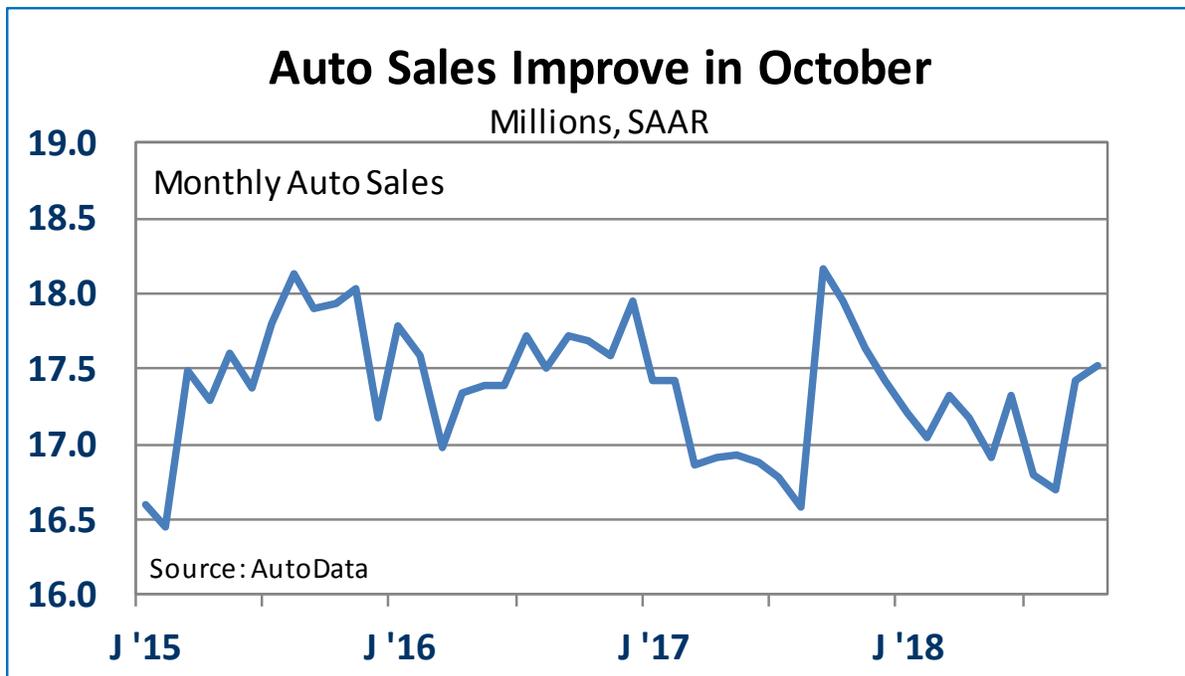
October Producer Price Index (11/9, Friday)

The PPI for Final Demand was up 0.2 percent in September. Up by 0.2 percent in October. Consensus: 0.2 percent. Despite anecdotal reports of price pressures in the U.S. economy, to date, headline price indexes have been sedate. We may see some pressure from energy prices in the October price data that could be reversed in November.

October PPI Ex. Food, Energy, & Trade (11/9, Friday)

Core PPI was up 0.2 percent in September. Up 0.2 percent in October. Consensus: 0.2 percent.

Chart of the Week



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