Economic Overview
Q2 2019

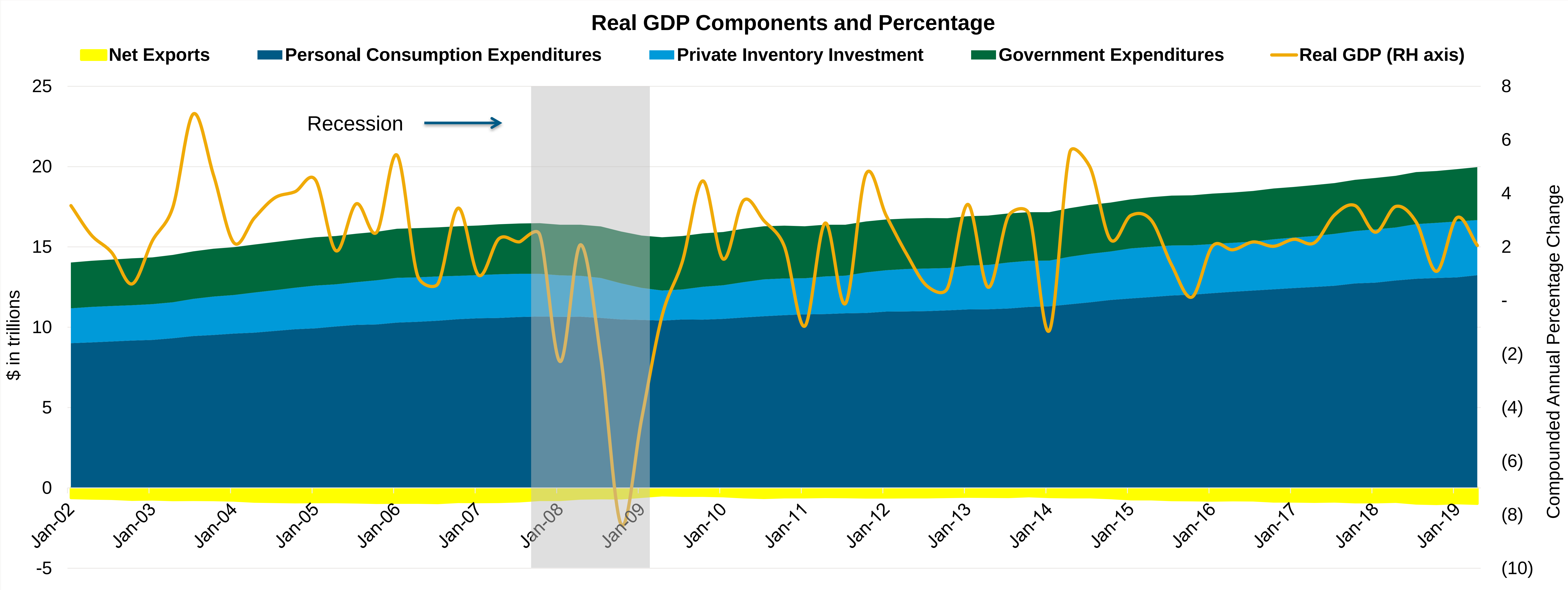
Quarterly data is as of second quarter 2019

Monthly data as of June 30, 2019

Gross Domestic Product

Economic Overview

US GDP GROWTH SLOWS DURING SECOND QUARTER



Source: U.S. Bureau of Economic Analysis/FRED

First-quarter (third estimate) Real GDP

- The third estimate for first-quarter real GDP came in at 3.1%, unchanged from the previous estimation. Downward revisions for exports, state and local government spending, and private inventory investment were offset by upward revisions to PCE and federal government.

Second-quarter (advance estimate) Real GDP

- The advance estimate for second-quarter real GDP was 2.1%, a 1.0% decrease compared to the first-quarter (third estimate). The increase reflected positive contributions from personal consumption expenditures (PCE), federal government spending and state and local government spending that were partly offset by negative contributions from private inventory investment, exports, nonresidential fixed investment and residential fixed investments. Imports increased.

- The deceleration in real GDP during the second quarter reflected a downturn in inventory investment, exports and nonresidential fixed investment, which were offset by accelerations in PCE and federal government spending.

Prices

Prices: Consumer Price Indices

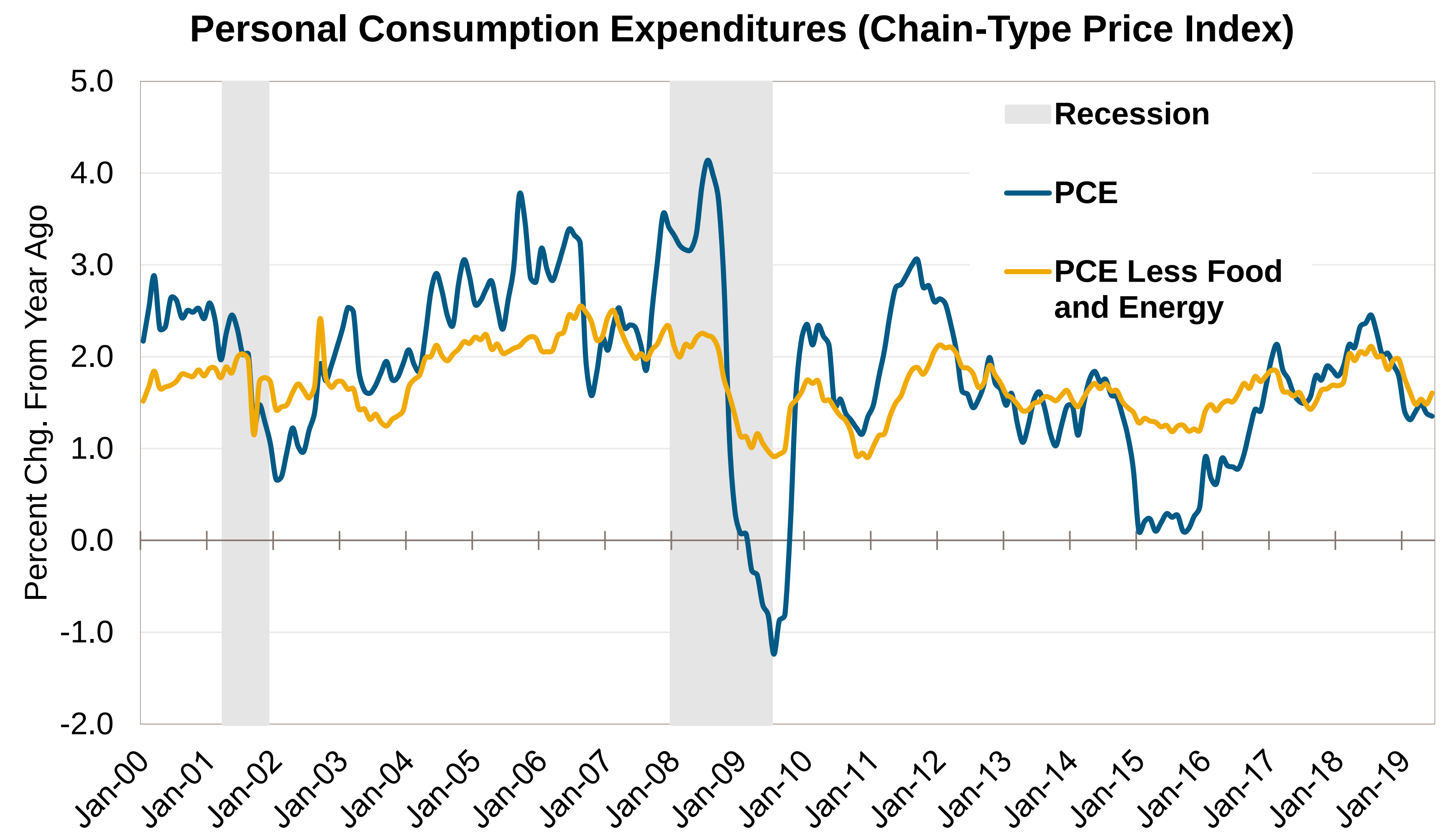
INFLATION CONTINUES TO RUN BELOW FEDS TARGET

Personal Consumption Expenditures (PCE)

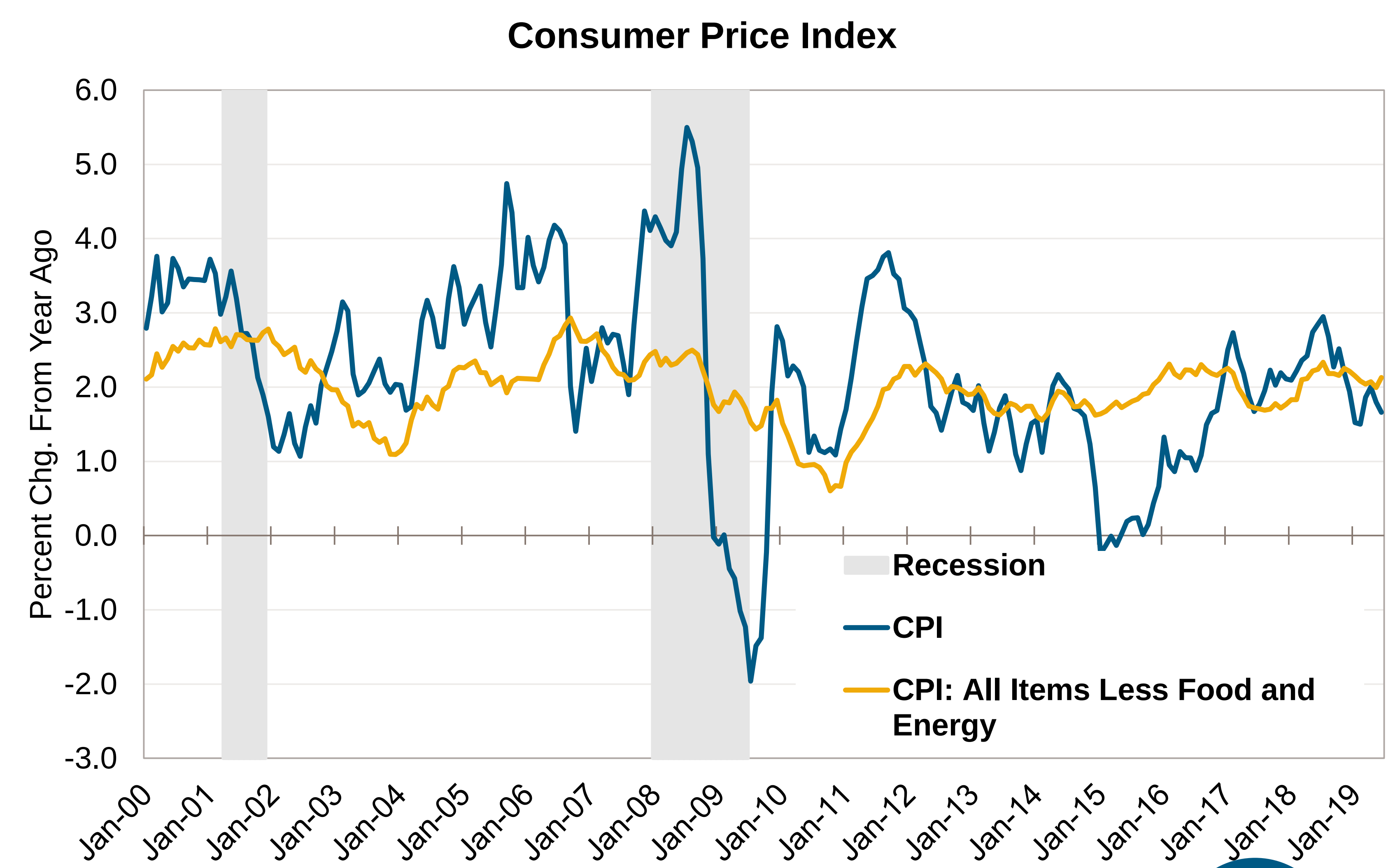
- June's price index for PCE posted a year-over-year increase of 1.4%, the eighth straight month below the Fed's goal of 2.0%. When backing out food and energy, Core PCE was 1.6%.
- On a month-over-month basis, June's real PCE increased $21.4 billion which was primarily due to spending on nondurable goods, which posted an increase of $19.5 billion, and spending on services, which increased $4.6 billion. Within nondurable goods, other nondurable goods (including pharmaceutical products) was the leading contributor.
- Personal income increased by $83.6 billion and outlays increased $44.2 billion in June. Personal income increased primarily due to increases in wages and salaries, government social benefits to persons and supplements to wages and salaries.

Consumer Price Index (CPI)

- The all items index rose 1.6% for the 12 months ending June, down from the 1.8% reading in May.
- On a month-over-month basis, the all items index increased 0.1% in June. The index for energy fell 2.3% as all major items and the food index was unchanged.
- The index for all items less food and energy rose 2.1% for the 12 months ending June. The energy index fell 3.4% over the past year and the food index increased 1.9%.
- Month-over-month, the index for all items less food and energy increased 0.3% in June, the largest monthly increase since January 2018. Along with the indexes for shelter, used cars and trucks, and apparel, the indexes for household furnishings and operations, medical care, and motor vehicle insurance were among the indexes that increased in June. The indexes for recreation, airline fares, and personal care all declined in June.
- The Fed elected to cut rates in July for the first time in over a decade and projections call for one or two more rate cuts by year end.



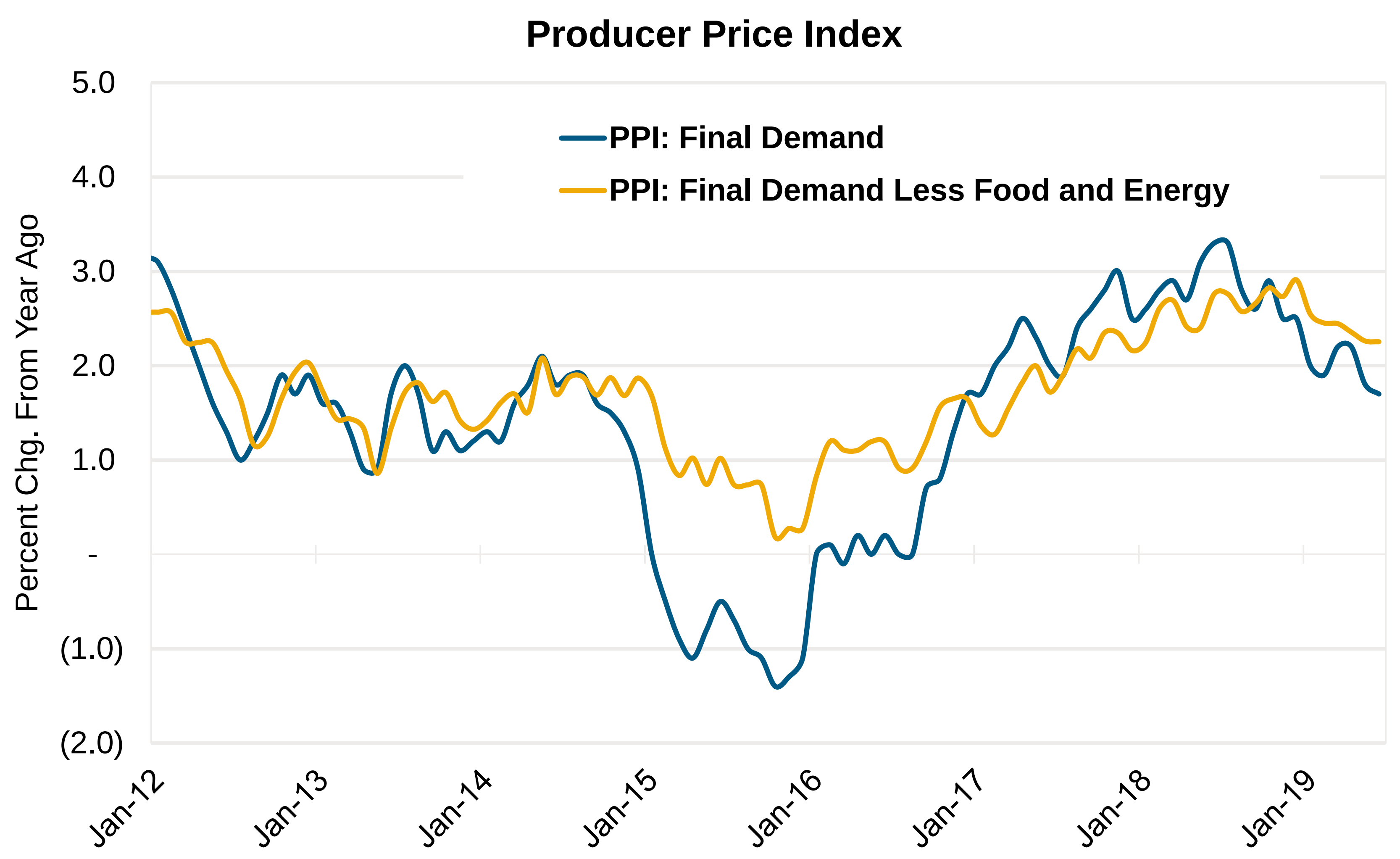
Source: U.S. Bureau of Economic Analysis/FRED



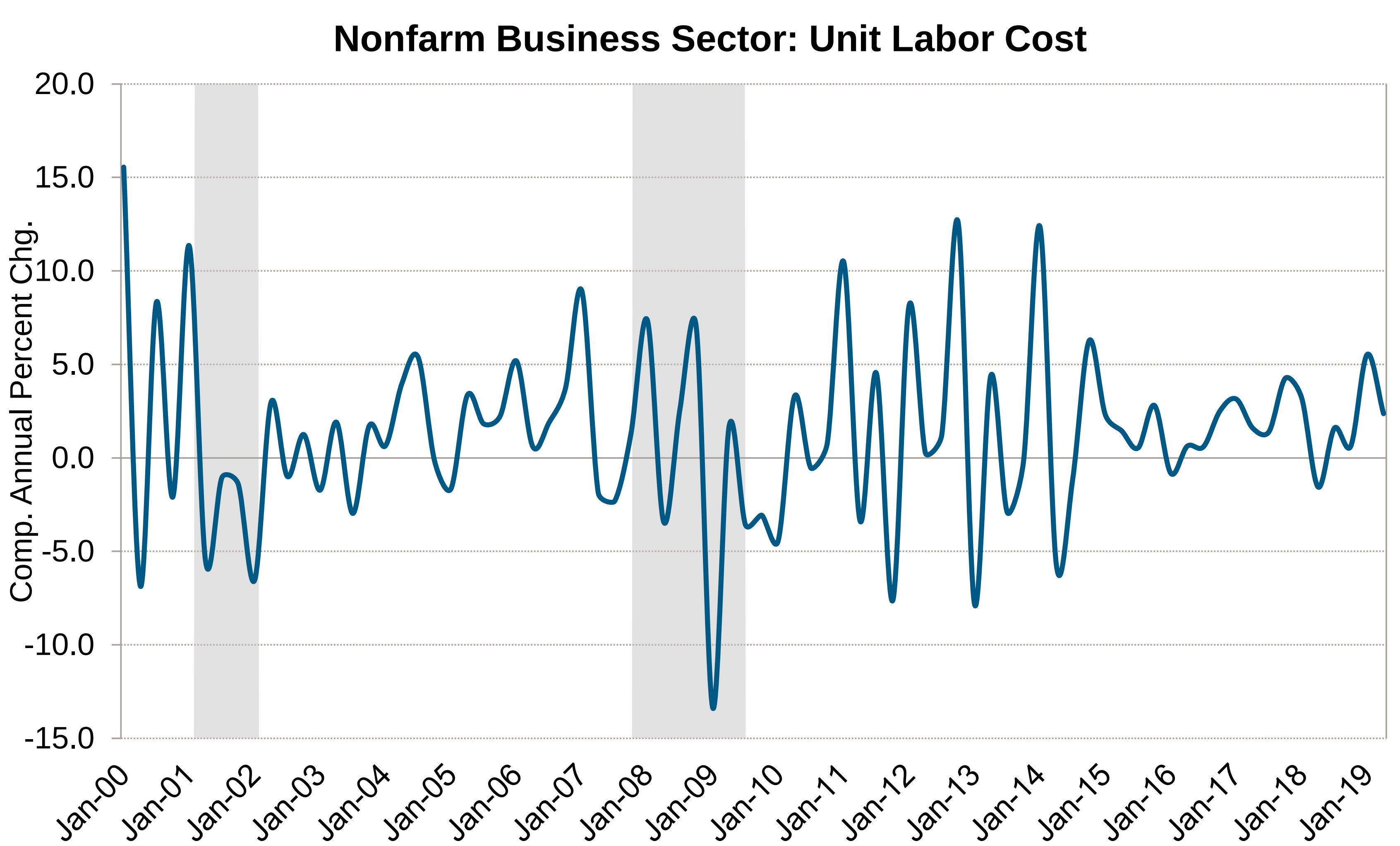
Source: U.S. Bureau of Economic Analysis/FRED

Prices: Producer Price Indices

PRODUCER INFLATION FALLS DURING SECOND QUARTER



Source: U.S. Bureau of Economic Analysis/FRED



Source: U.S. Bureau of Labor Statistics/FRED

Producer Price Index (PPI)

- The PPI for final demand increased 1.7% for the 12 months ending June (on an unadjusted basis), the lowest rate of increase since January 2017.
- Month-over-month, the final demand index (seasonally adjusted) increased 0.1% in June. The increase in the final demand index is mostly attributable to a 0.4% incline in prices for final demand services, while final demand goods decreased 0.4%.
- Prices for final demand services rose 0.4% in June, the largest increase since October 2018. Most of the June increase is attributable to margins for final demand trade services, which rose 1.3%.
- Over a quarter of the June increase in prices for final demand services can be traced to margins for fuels and lubricants retailing, which jumped 12.2 percent. The indexes for health, beauty, and optical goods retailing; apparel, footwear, and accessories retailing; machinery, equipment, parts, and supplies wholesaling; loan services (partial); and truck transportation of freight also moved higher. In contrast, prices for traveler accommodation services fell 4.0 percent. The indexes for jewelry retailing and airline passenger services also declined.
- The index for final demand goods moved down 0.4% in June, the biggest decrease since January. Final demand energy fell 3.1%, while final demand foods rose 0.6%.
- Over 60% of the decrease in the index for final demand goods is attributable to a 5% drop in gasoline prices. Indexes for diesel fuel, meats, liquefied petroleum gas, iron and steel scrap and residual fuels all moved lower. In contrast, corn prices were up 19.9%. The indexes for ethanol and residential electric power also increased.
- The PPI for final demand less food, energy and trade services increased 2.1% year-over-year, on an unadjusted basis.

Nonfarm Unit Labor Cost

- Unit labor cost increased 2.3% (preliminary) in the second quarter of 2019, reflecting a 1.9% increase in output and a 0.4% decrease in hours worked. Unit labor costs increased 2.4% over the last four quarters.
- The manufacturing sector labor productivity decreased 1.6% in the second quarter of 2019, as output decreased 2.1% and hours worked decreased 0.5%. Over the last four quarters, total manufacturing sector productivity increased 0.2%.
- An overall unit labor cost of 3.0% and above is widely seen as feeding overall inflation.

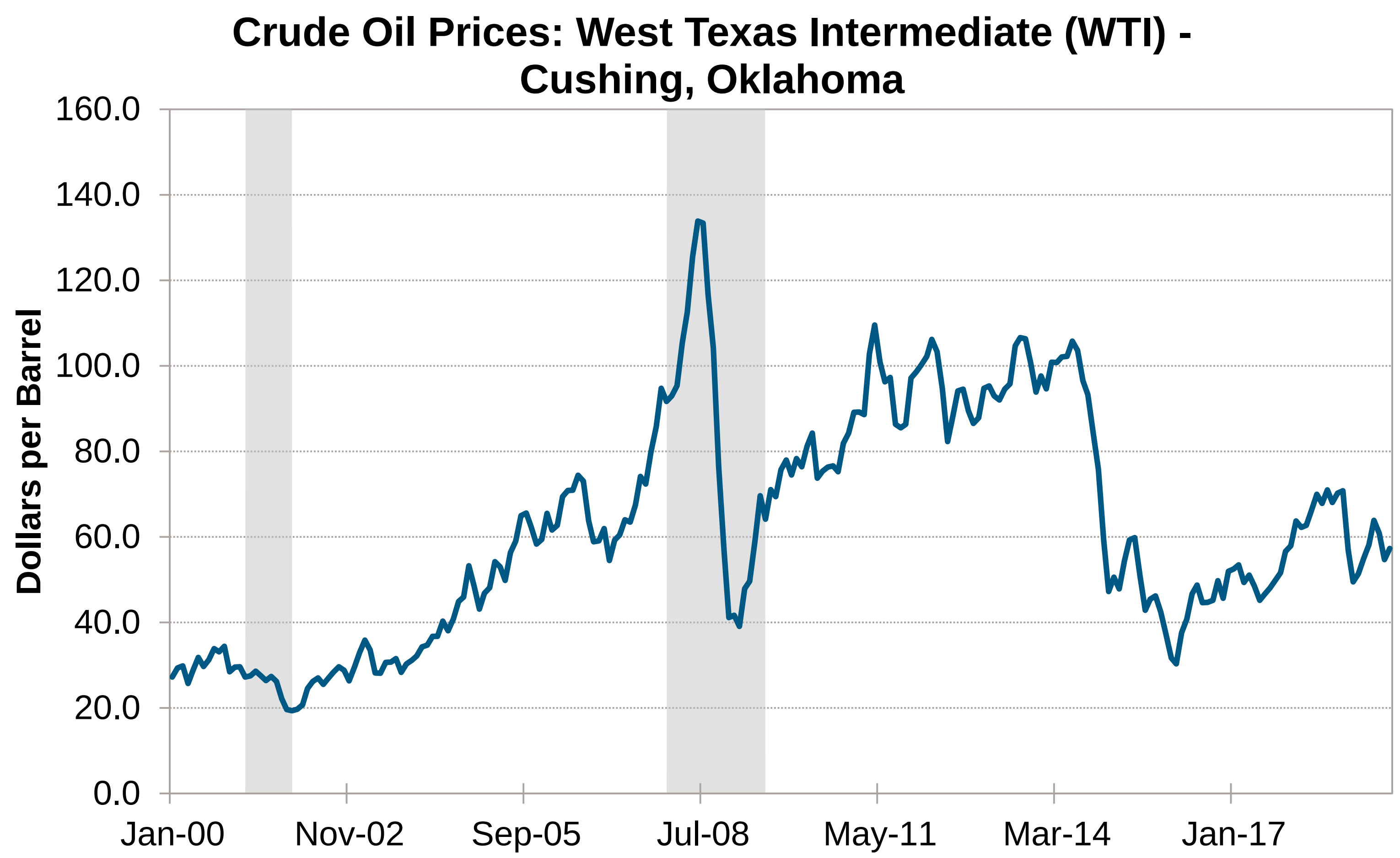
Prices: Oil & Gas

INCREASING DEMAND AND FALLING PRICES

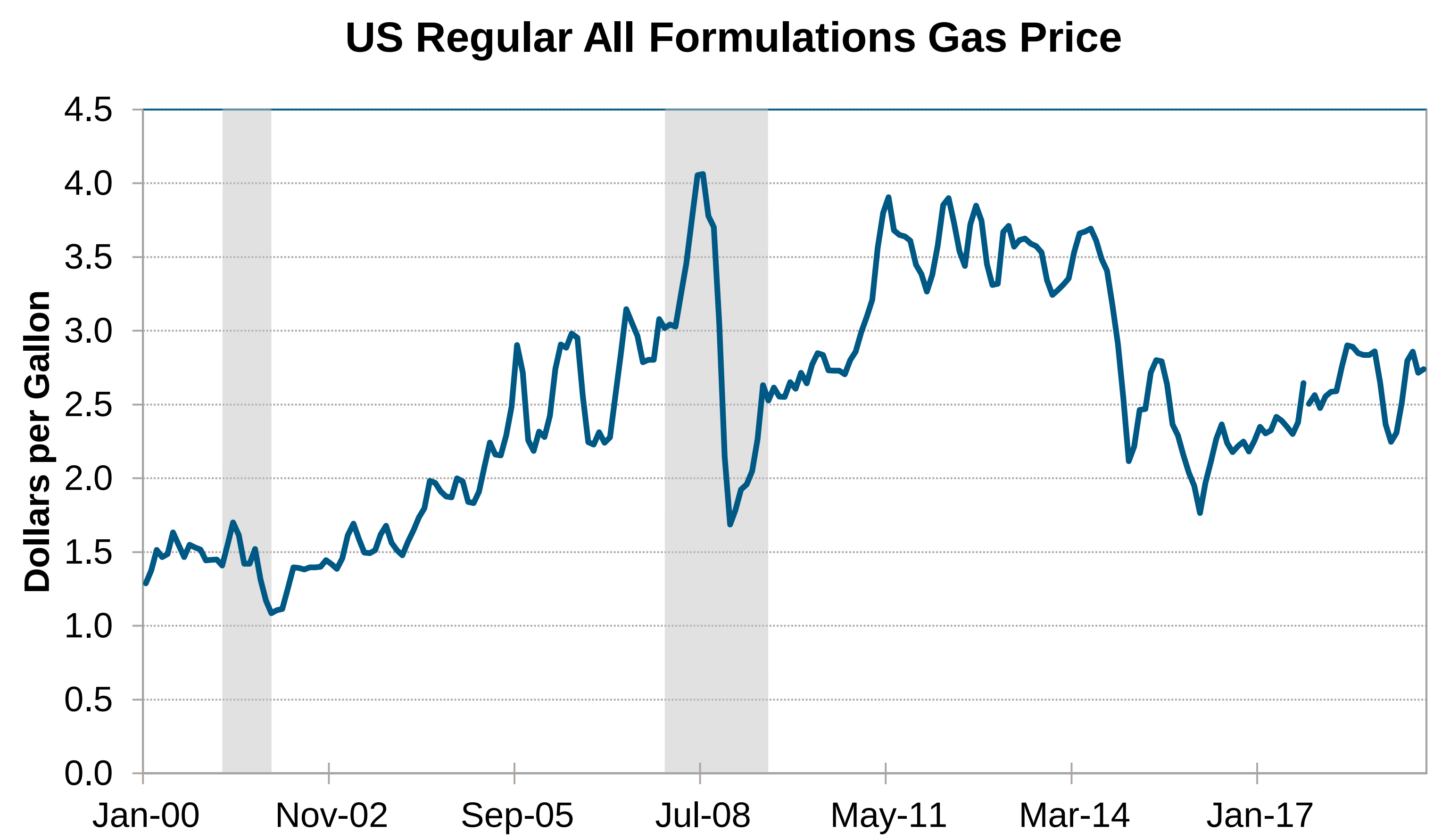
- The U.S. Energy Information Administration (EIA) reported that U.S. crude oil production averaged 11.0 million barrels per day (b/d) in in 2018. The EIA projects that U.S. crude oil production will average 12.4 million b/d in 2019 and 13.3 million b/d in 2020.

- Brent crude oil spot prices averaged $64 per barrel in June. EIA forecasts Brent spot prices will average about $67 per barrel in the second half of 2019 and $67 per barrel in 2020. West Texas Intermediate (WTI) crude oil prices are expected to average about $62 per barrel in the second half of 2019 and $63 per barrel in 2020.

- U.S. regular gasoline retail prices averaged $2.72/gallon in June, down from $2.86/gallon in May. For all of 2019, the EIA forecasts call for U.S. regular gasoline prices to average $2.65/gallon in 2019 and $2.76/gallon in 2020.



Source: US. Energy Information Administration/FRED



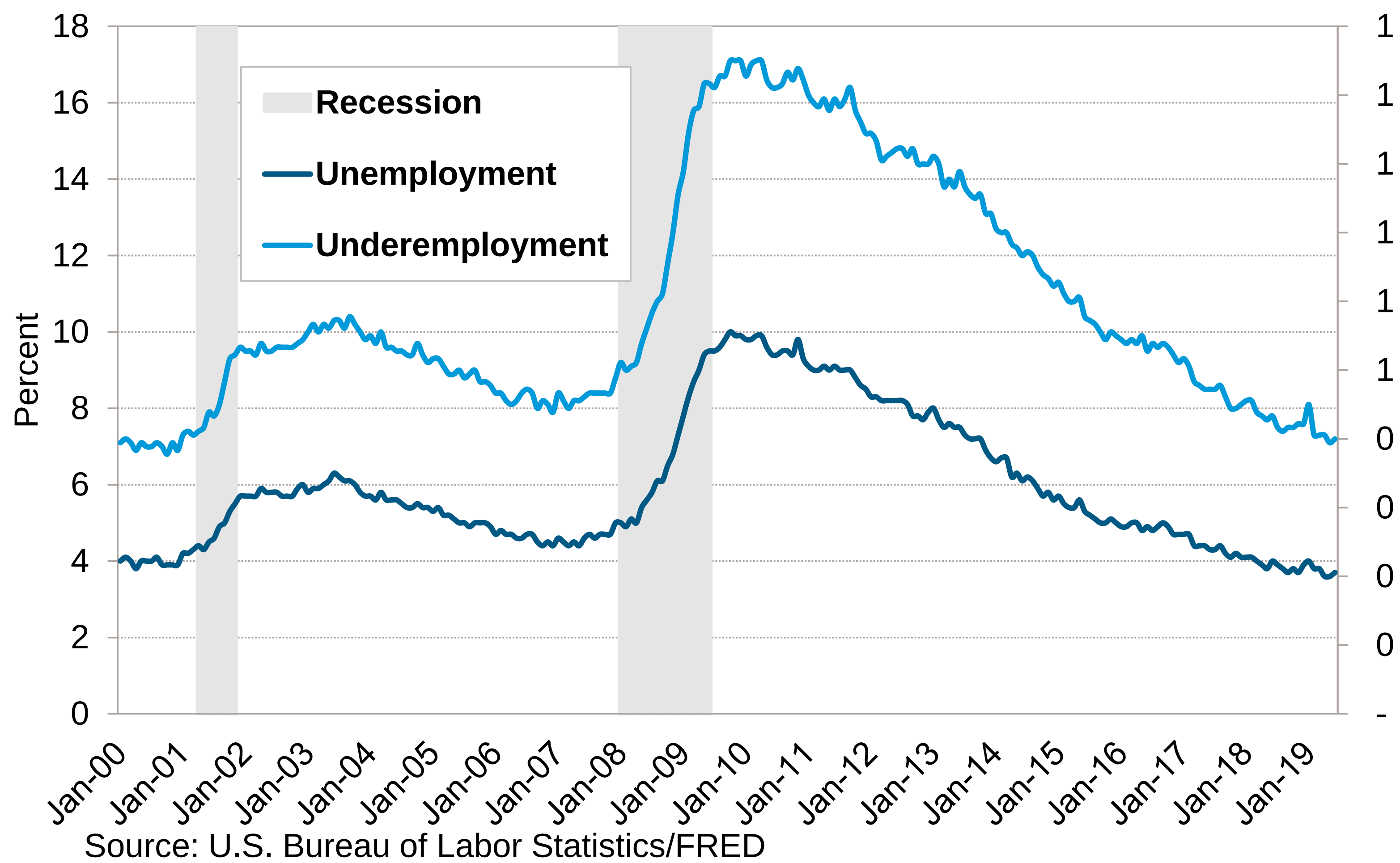
Source: US. Energy Information Administration/FRED

Employment

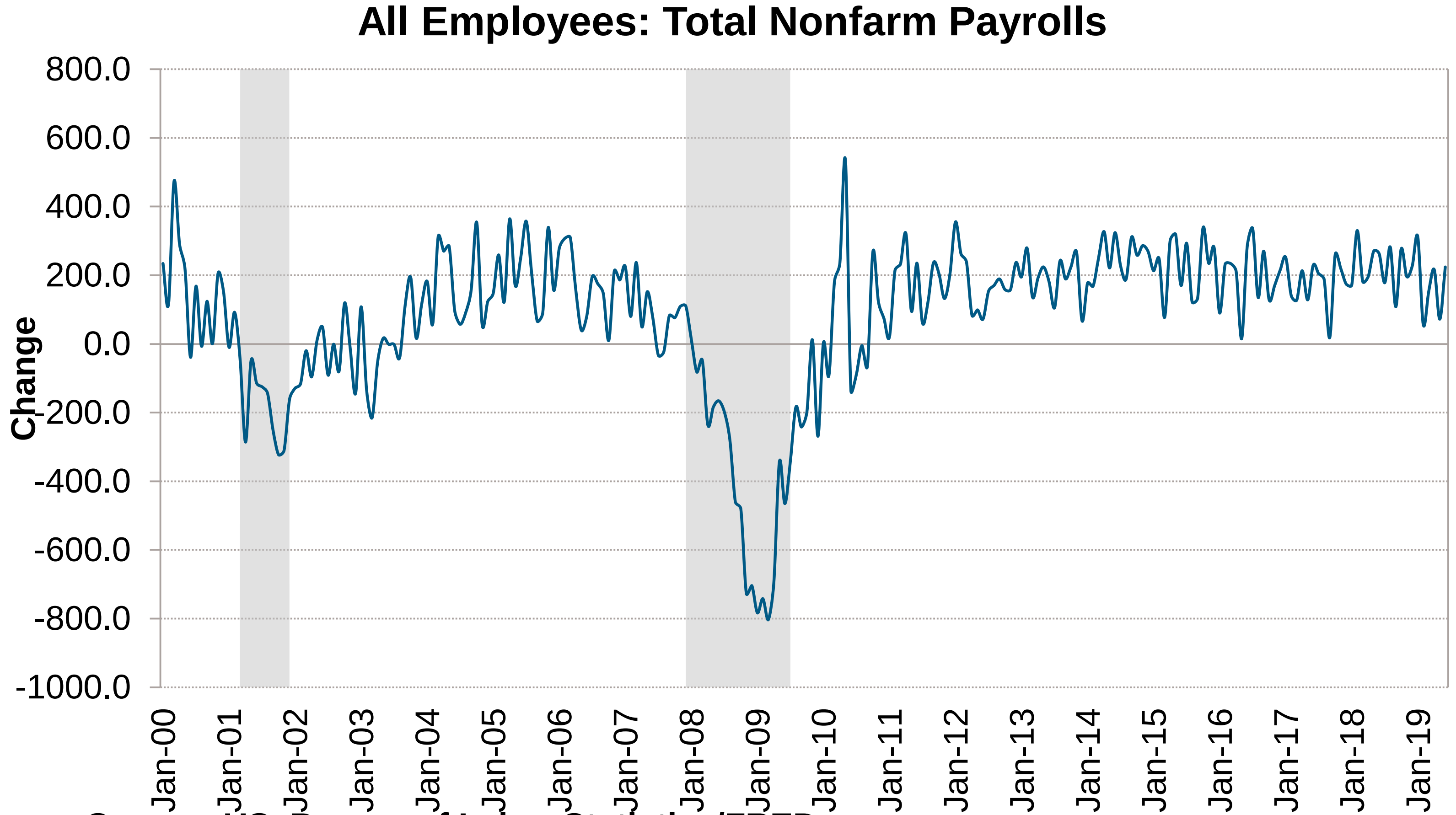
Employment

EMPLOYMENT REMAINS STRONG DESPITE JOB GROWTH BEING SLIGHTLY DOWN IN 2019

- The June unemployment rate remained at 3.7% and the number of unemployed was largely unchanged at 6.0 million, month-over-month.
- The number of long-term unemployed (those jobless for 27 weeks or more) was slightly higher at 1.4 million in June and accounted for 23.7% of the unemployed.
- The underemployed rate, or the U-6 rate, was one-tenth higher at 7.2% in June. It remains at pre-recession levels and well below the historical median level of 9.7%; recording began in January 1994.



Source: U.S. Bureau of Labor Statistics/FRED



Source: US. Bureau of Labor Statistics/FRED

- The initial total nonfarm payroll employment for June increased by 224,000, compared with an average monthly gain of 172,000 through 2019 thus far and 223,000 per month in 2018.
- The primary drivers were in professional and business services, in health care and in transportation and warehousing. Professional and business services added 51,000 jobs. Health care increased by 35,000, led by ambulatory health care services and hospitals. Transportation and warehousing added 24,000 jobs.
- Nonfarm employment in April was revised down from 224,000 to 216,000 and May was revised down from 75,000 to 72,000.

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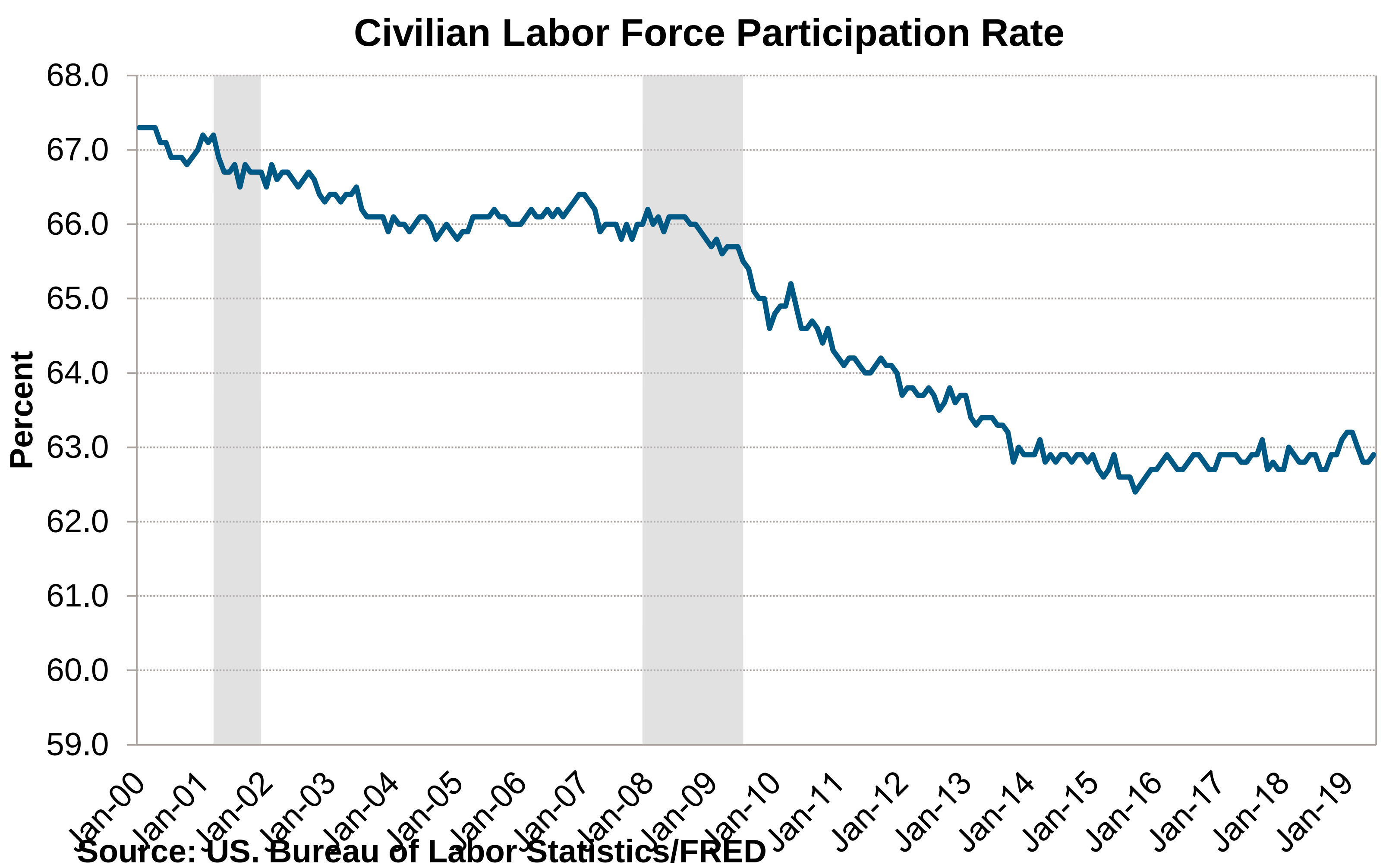


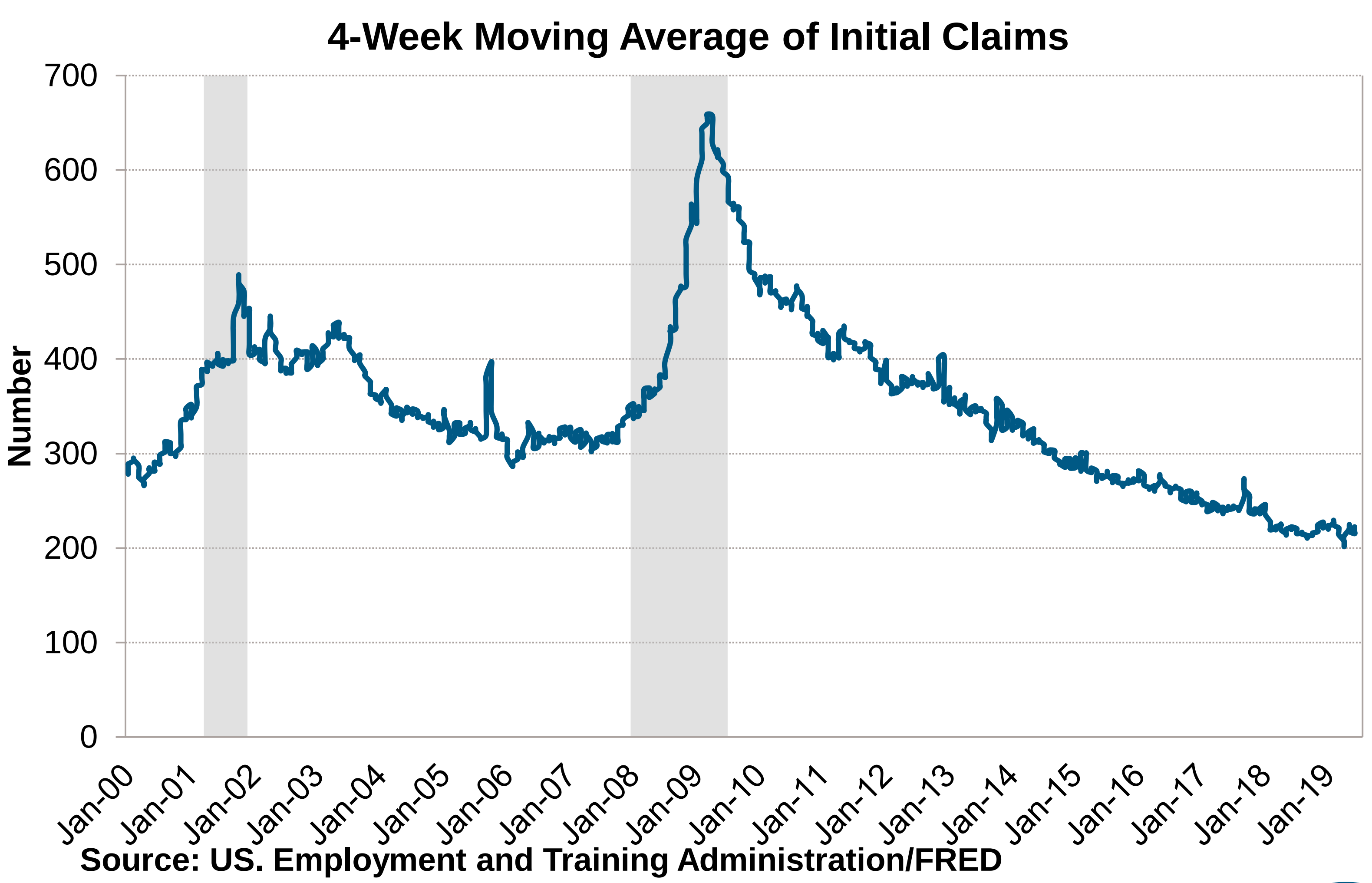
Source: US. Bureau of Labor Statistics/FRED

- The labor force participation rate, at 62.9%, was little changed month-over-month and unchanged from 12-months ago. The employment-population ratio (not shown in graphs), was 60.6% for the fourth straight month.

- At the current participation rate and population growth rate, maintaining an unemployment rate of 3.7% suggests the economy needs to add 108.5k jobs on average each month. (Source: Federal Reserve Bank of Atlanta/Jobs Calculator)

- The 4-week moving average for initial claims was 221,750 as of the week ending June 28, 2,750 higher than the previous week's revised level. The historic low was set in October 2018, when the reading was 206,000.

- The weekly initial claims for the week ending June 28, was 229,000, a increase of 12,000 from the previous week's revised level.



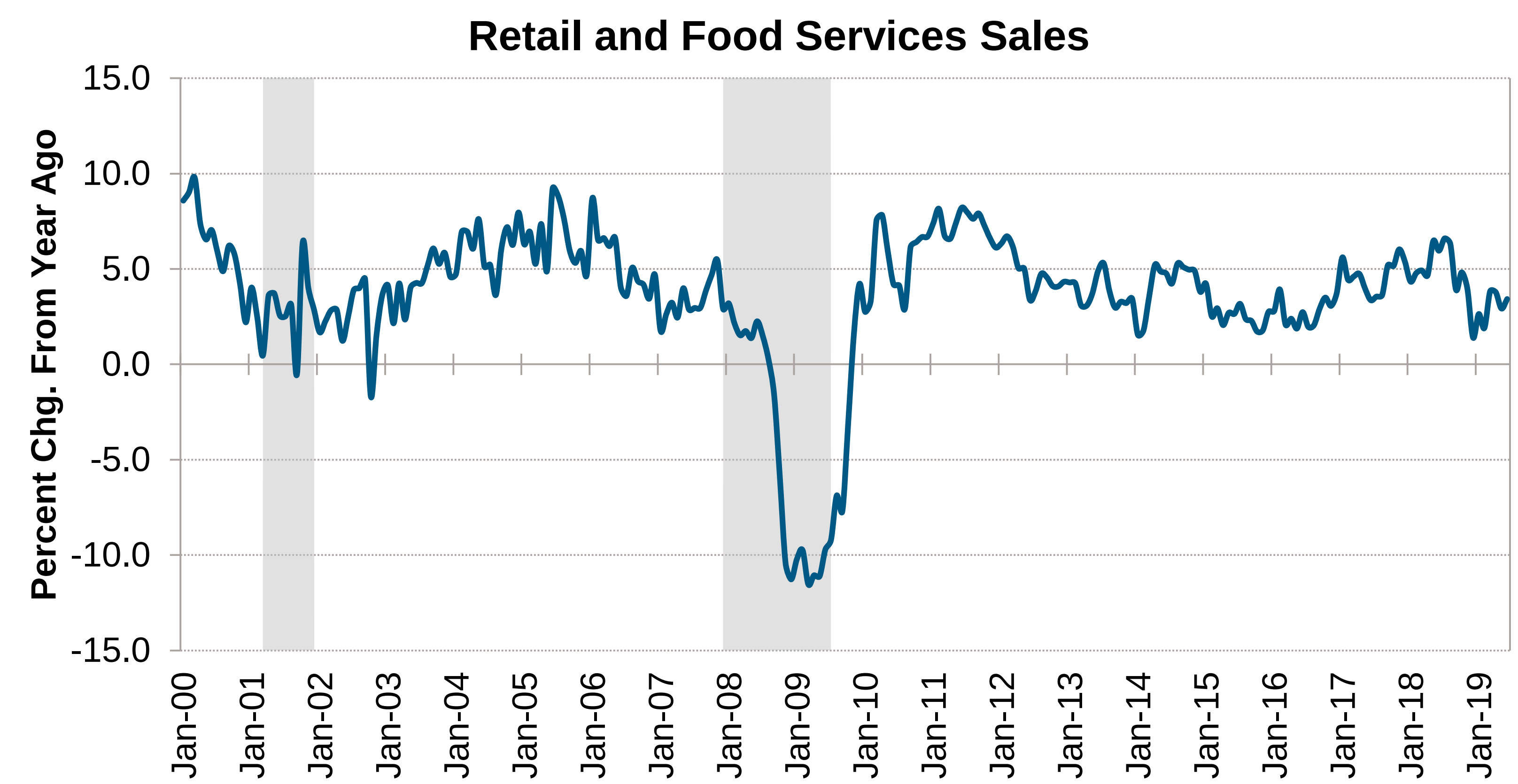
Source: US. Employment and Training Administration/FRED

Consumer

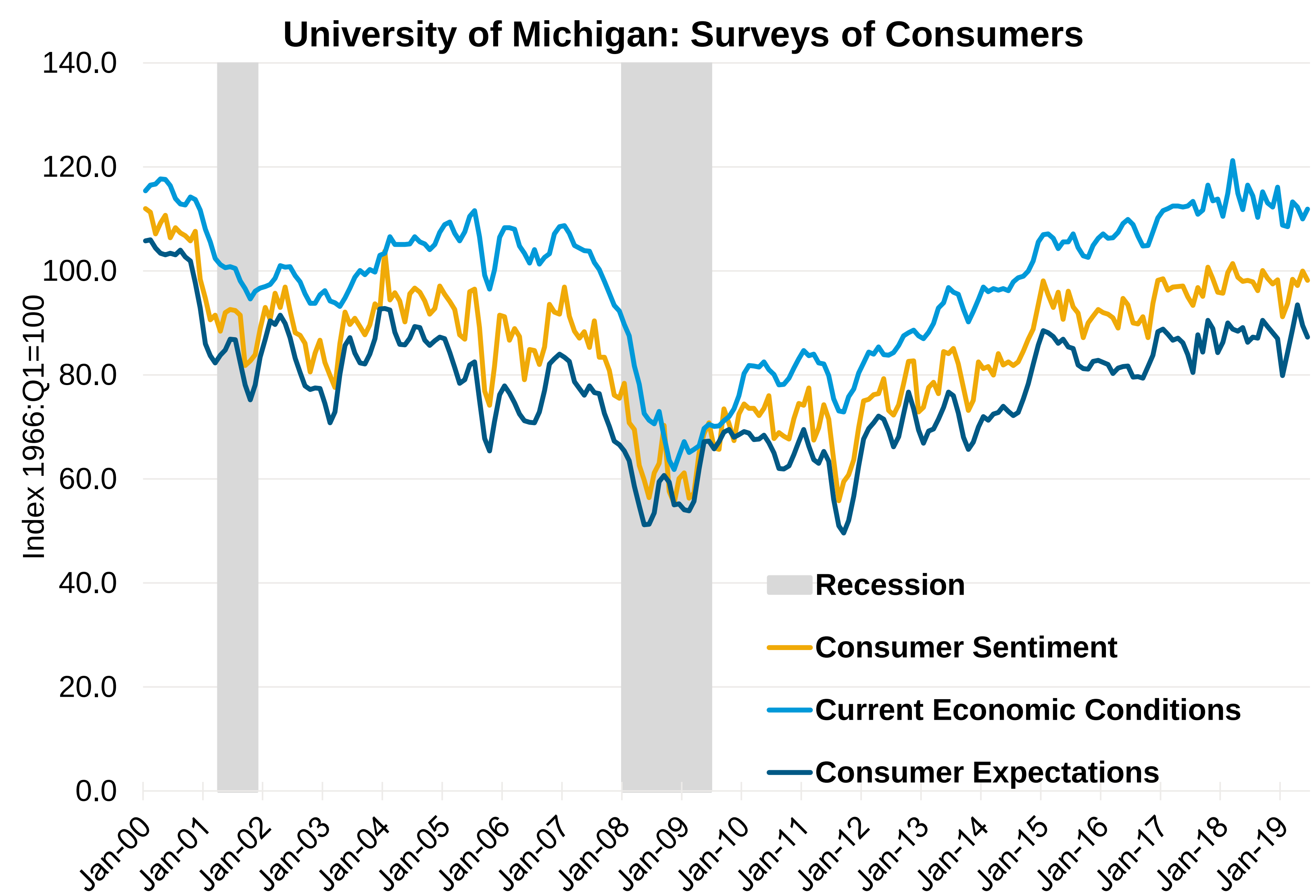
Consumer

RETAIL SALES DOWN DURING SECOND QUARTER, CONFIDENCE REMAINS HIGH

- Advance estimates of U.S. retail and food services sales, which is adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, for June posted an increase of 0.4% month-over-month and a 3.4% increase year-over-year.
- The University of Michigan's Surveys of Consumers small decline to a reading of 98.2 was due entirely to households with incomes in the top third of distribution, which fell 8.6 points. Households with incomes in the bottom two-thirds rose by 2.0 points. Most of the June decline was attributed to prospects for the national economy.
- The U.S. expansion is on the verge of setting a new record. The ten-year expansion from June 2009 to June 2019 has now tied the prior record from March 1991 to March 2001. Next month it will become the longest expansion since the mid-1850s. In the latter stages of both ten-year expansions, consumer sentiment reached very positive levels and showed only small monthly variations.
- The expected year-ahead inflation was 2.7% in June, down from 2.9% in May and 3.0% last June. The annual long term inflation rate was expected to be 2.3% in June. Interest rates were expected to increase by 46% of consumers, the lowest proportion in six years.



Source: US. Bureau of the Census/FRED



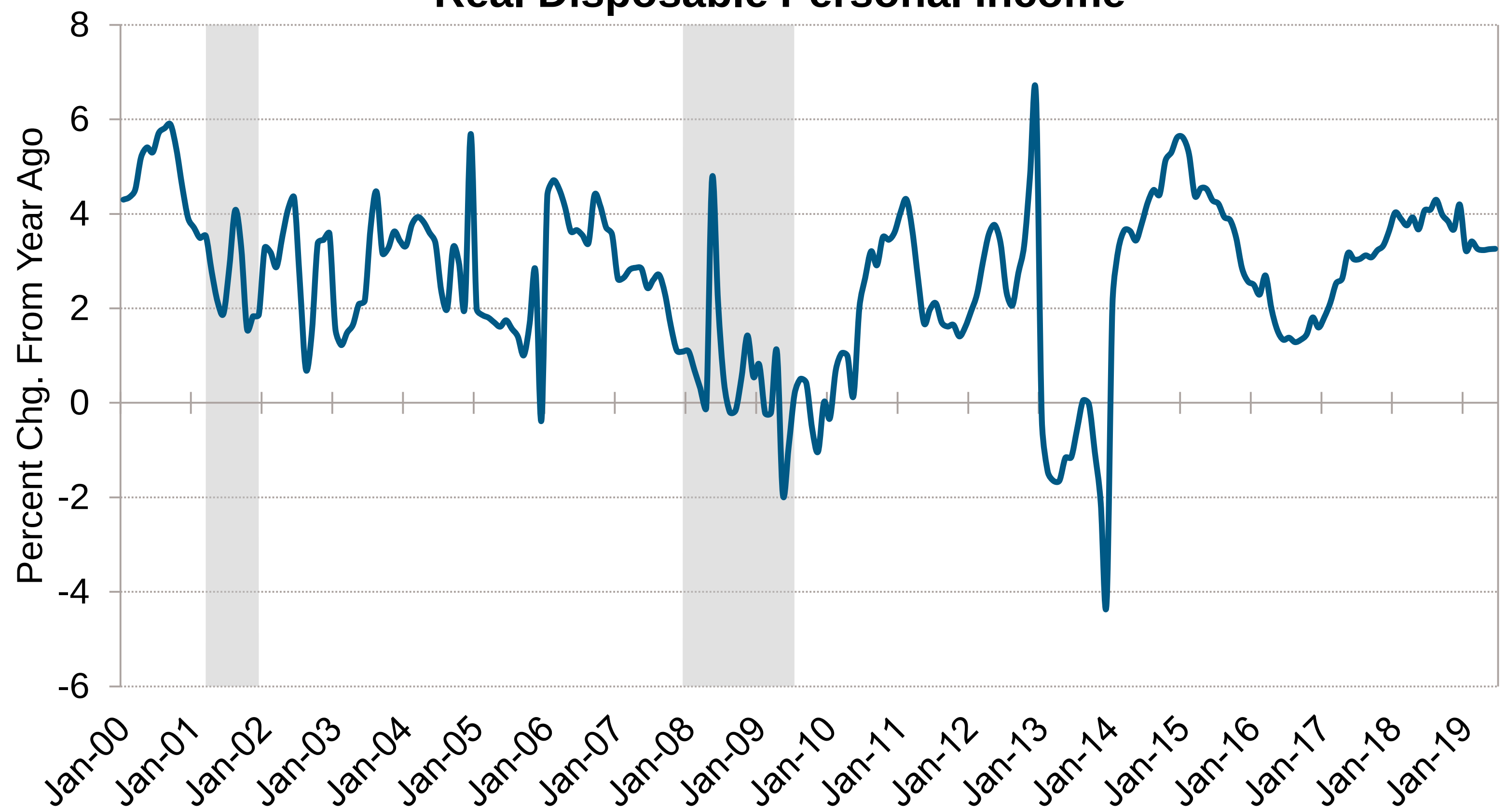
Source: University of Michigan/FRED

Consumer

INCOME GROWTH REMAINS STEADY, SAVINGS CONTINUES ABOVE LONG RUN AVERAGE

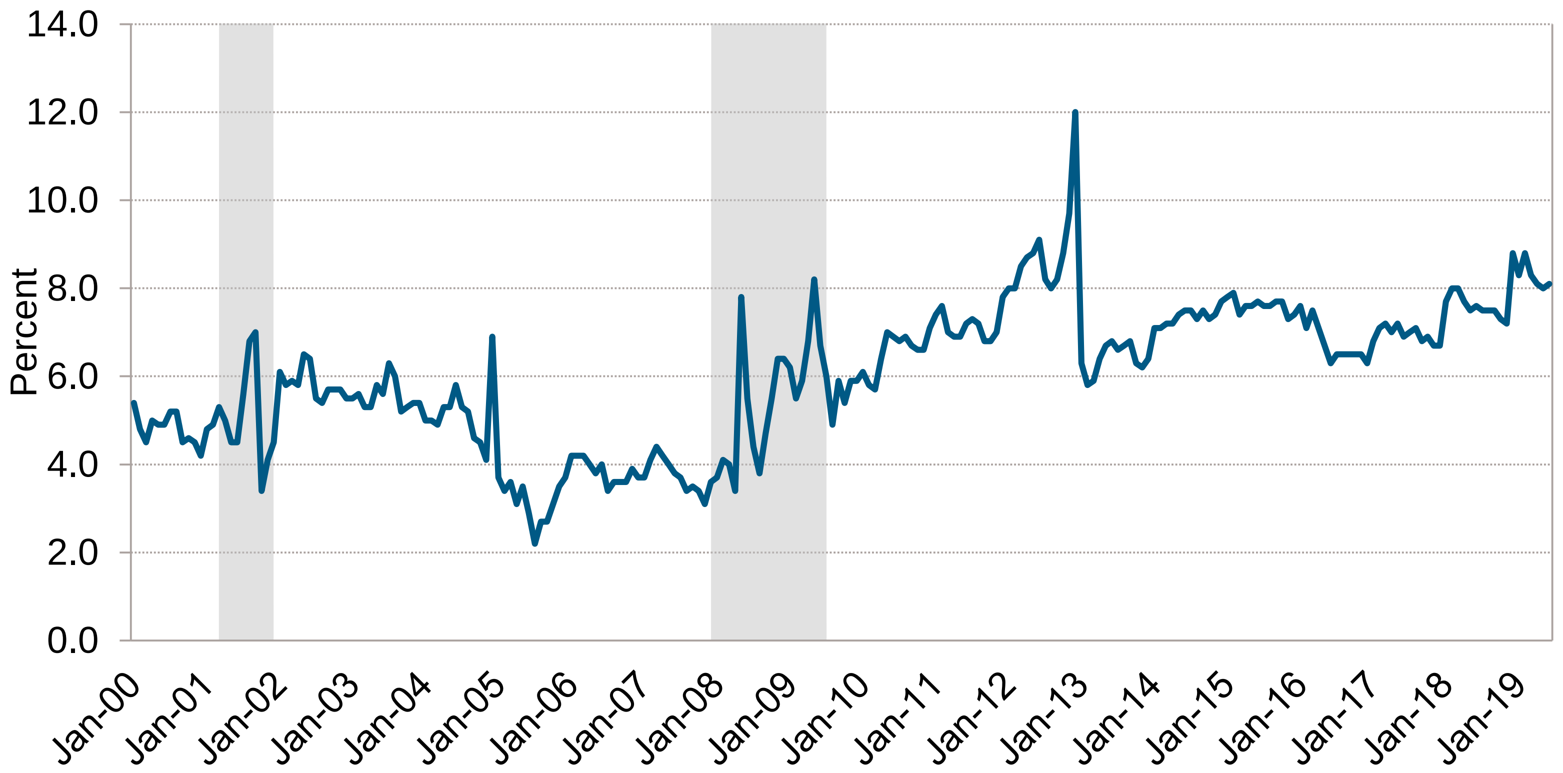
- Real disposable personal income decreased 0.4% in June and is up 3.3% year-over-year.

Real Disposable Personal Income



Source: U.S. Bureau of Economic Analysis/FRED

Personal Saving Rate



Source: US. Bureau of Economic Analysis/FRED

- Personal savings was $1.34 trillion in June, up $3.0 billion month-over-month. The personal savings rate was 8.1%, up 0.1% month-over-month.

Housing

Housing

SALES CONTINUE TO STAGNATE WHILE PRICES EDGE HIGHER

- Building permits, which lead housing starts by 1-3 months and are subject to less volatility, in June were at a seasonally adjusted annual rate of 1,220,000, 6.1% below the revised May rate and 6.6% below the June 2018 level. Single-family building permits were at a rate of 813,000, 0.4% above the revised May rate. Building permits for 5+ units were at a rate of 360,000 in June.

- Housing starts in June were at a seasonally adjusted annual rate of 1,253,000, 0.9% below the revised May rate, but 6.2% above the June 2018 rate. Single-family housing starts in June were at a rate of 847,000, 3.5% below the revised May rate. Housing Starts for 5+ units was 396,000 in June.

- New home sales in June 2019 were at a seasonally adjusted rate of 656,000, 7.0% above the revised May rate and 4.5% above the June 2018 rate. The median sales price of new houses sold in June 2019 was $310,400. The average sales price was $368,600. The seasonally adjusted estimate of new houses for sale at the end of June was 338,000, which represents a supply of 6.3 months at the current sales rate.

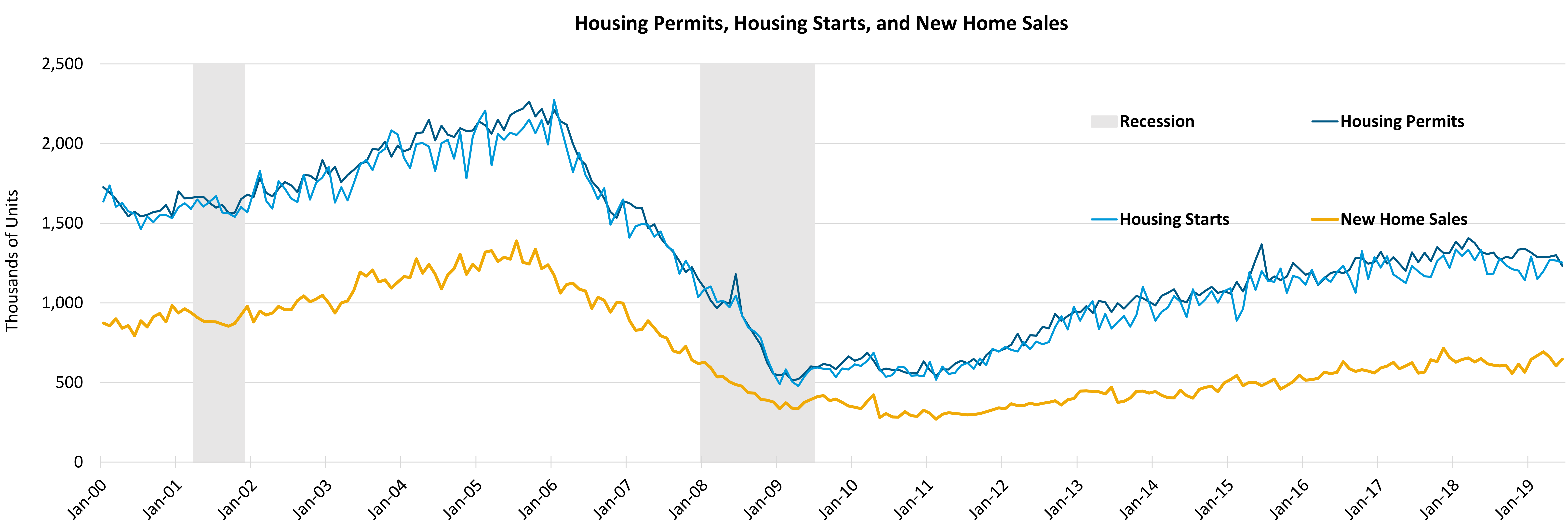
- Existing-home sales (not graphed), as reported by the National Association of Realtors, fell 1.7% in June, or a seasonally adjusted annual rate of 5.27 million. Sales are down 2.2% from a year ago.

- The median price for existing-home sales was $285,750, up 4.3% from a year ago. June's price increase marks the 88th straight month of year-over-year gains.

- Supply increased to 1.93 million from 1.91 million in June and unchanged from one year ago. Relative to sales, supply is at 4.4 months vs. 4.3 months a year ago.

- According to Freddie Mac, the average commitment rate for a 30-year, conventional, fixed-rate mortgage decreased to 3.80% in June from 4.07% in May. The average commitment rate for all of 2018 was 4.54%.

- Existing-home sales in the Midwest were up 1.6% in June and are down 1.6% year-over-year. The median price was $230,400, up 6.7% from a year ago. Sales in the West declined 3.5% in June and is 5.2% lower year-over-year. The median price was $410,400, up 2.3% year-over-year.



Source: US. Bureau of the Census/FRED

Market Indices

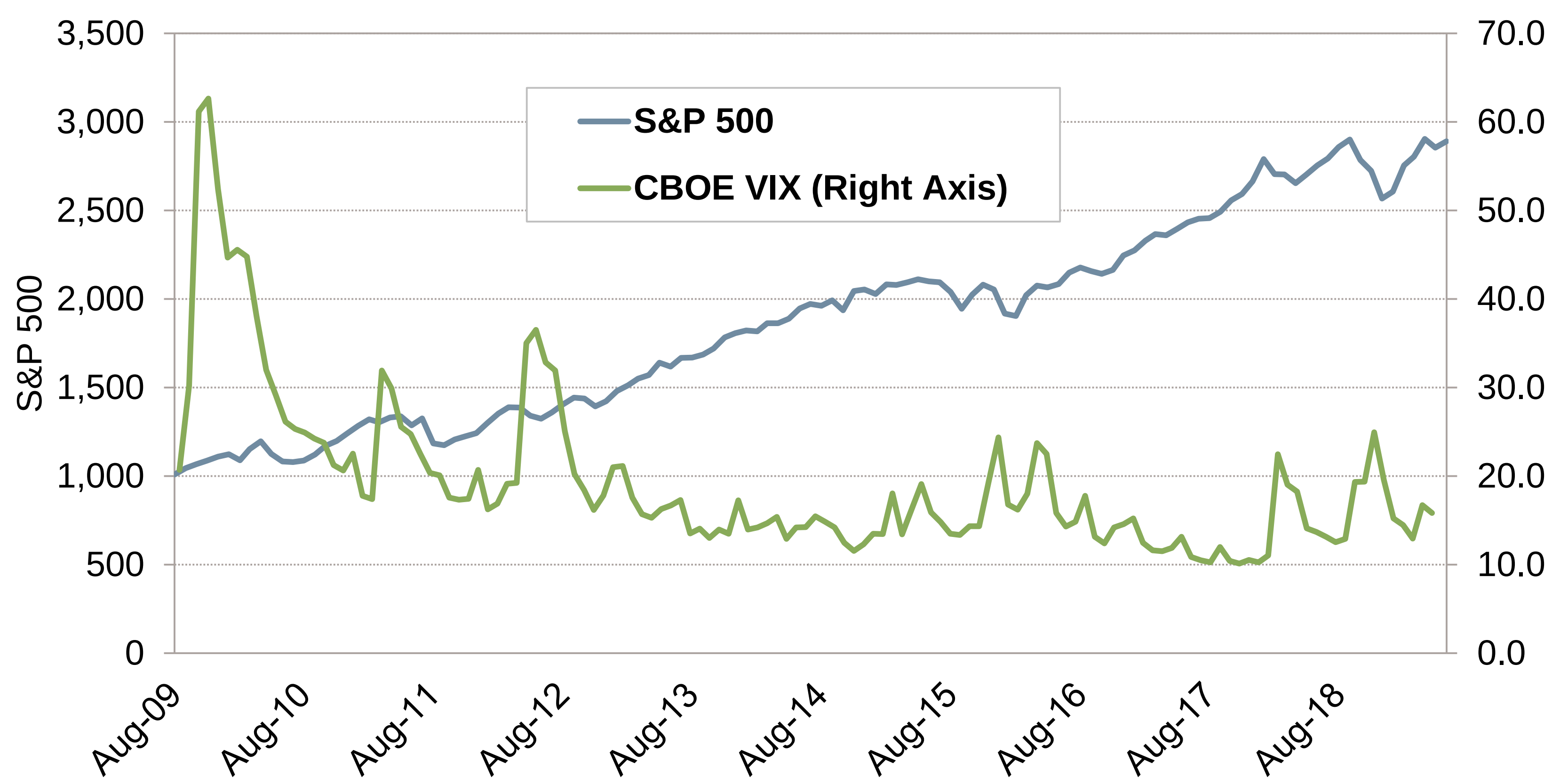
Market Indices

STOCK MARKET CONTINUES ITS VOLATILE TREND, YIELD CURVE FLATTENS AND INVERTS

- S&P 500 closed June at 2,942, 8.2% higher than 12-months prior. The CBOE Volatility Index, a measure representing the market's expectation of stock market volatility, indicates that the market expects the range of movement, up or down, in the S&P 500 index over the next year to be just above 15.0%. 3-Month LIBOR (not graphed) ended June at 2.32%.

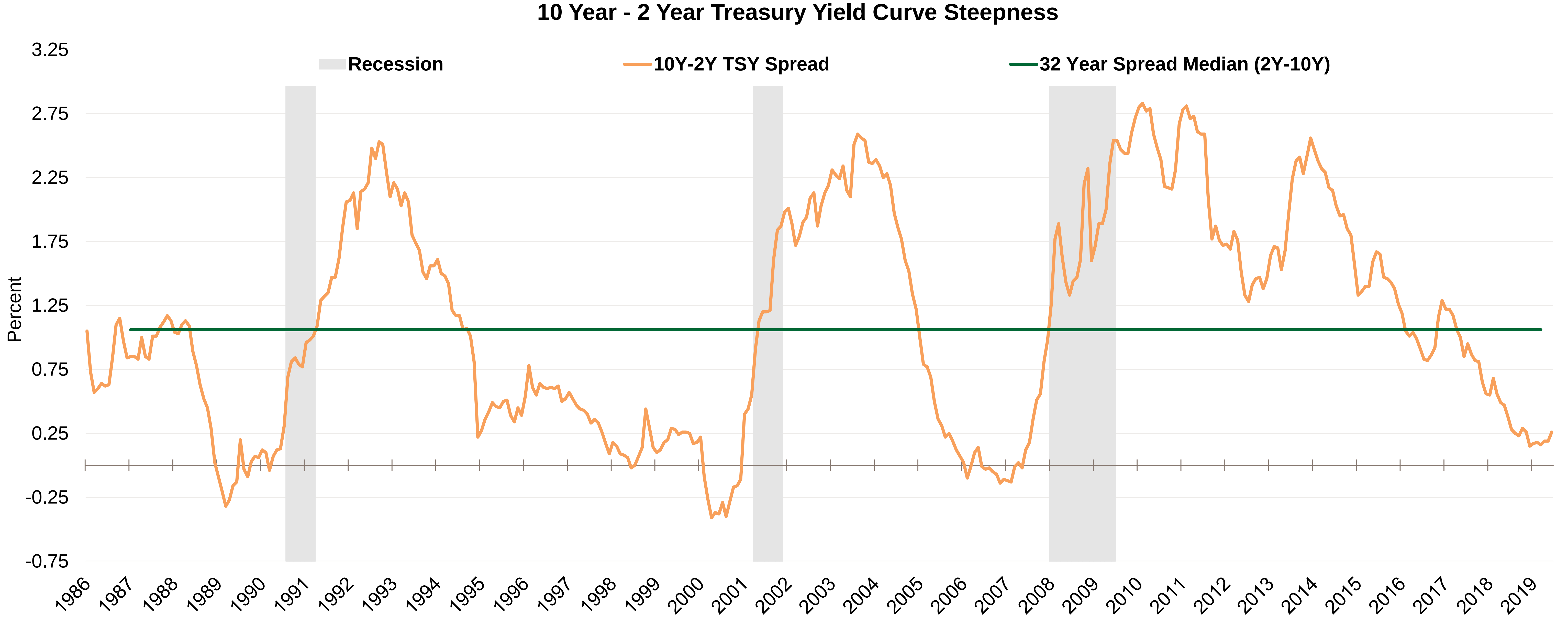
- Short-term rates are on the rise and long-term rates remain relatively low as the yield curve continues to flatten and invert. The 10-year Treasury Note minus 2-year Treasury Note spread continues to trend towards zero and remains below the 32 year median of 1.06%.

S&P 500 and CBOE VIX



Source: S&P Dow Jones Indices LLC/Chicago Board Options Exchange/FRED

10 Year - 2 Year Treasury Yield Curve Steepness



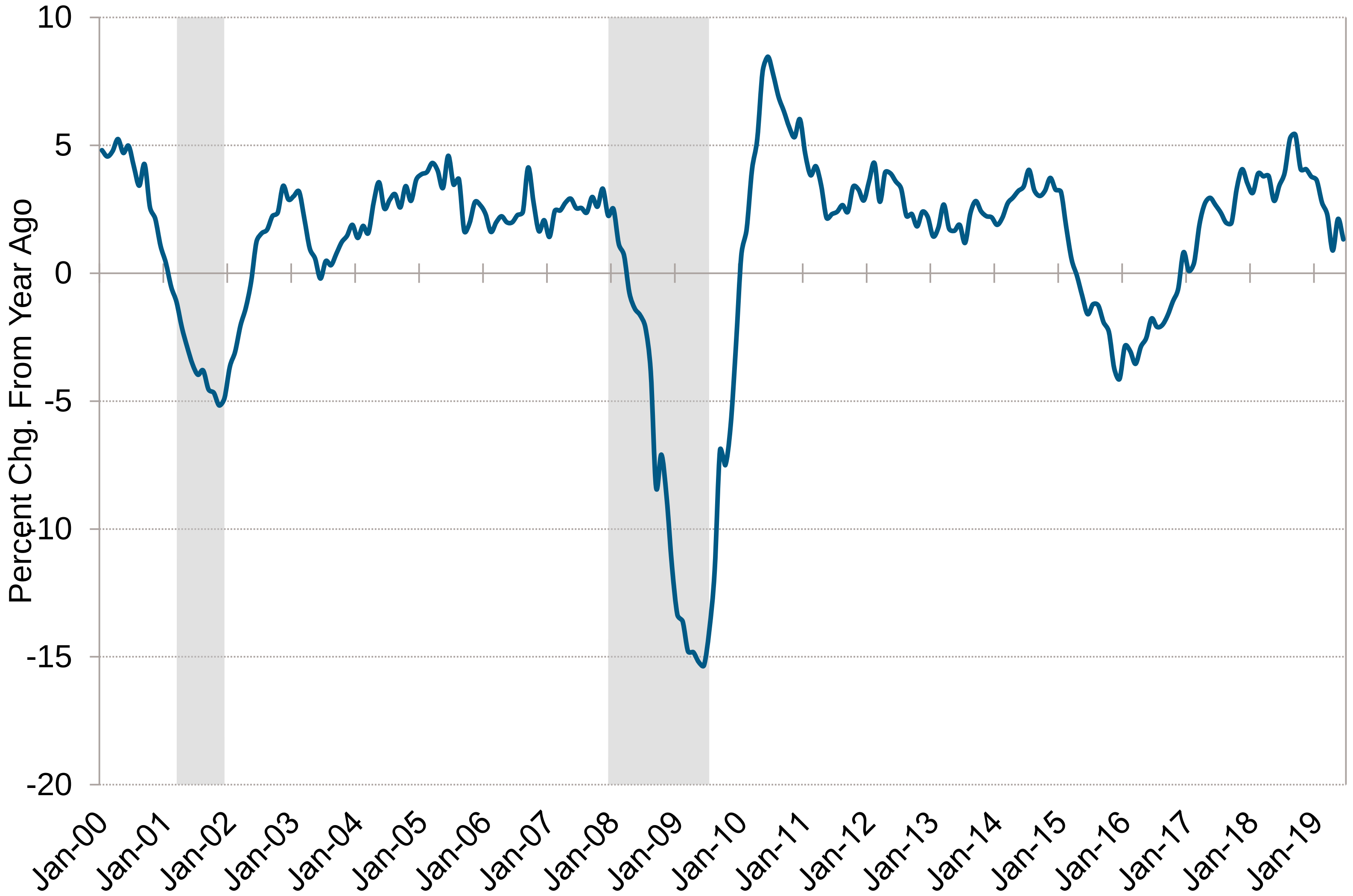
Economic Activity

Economic Activity

INDUSTRIAL PRODUCTION REMAINS MUTED IN 2019

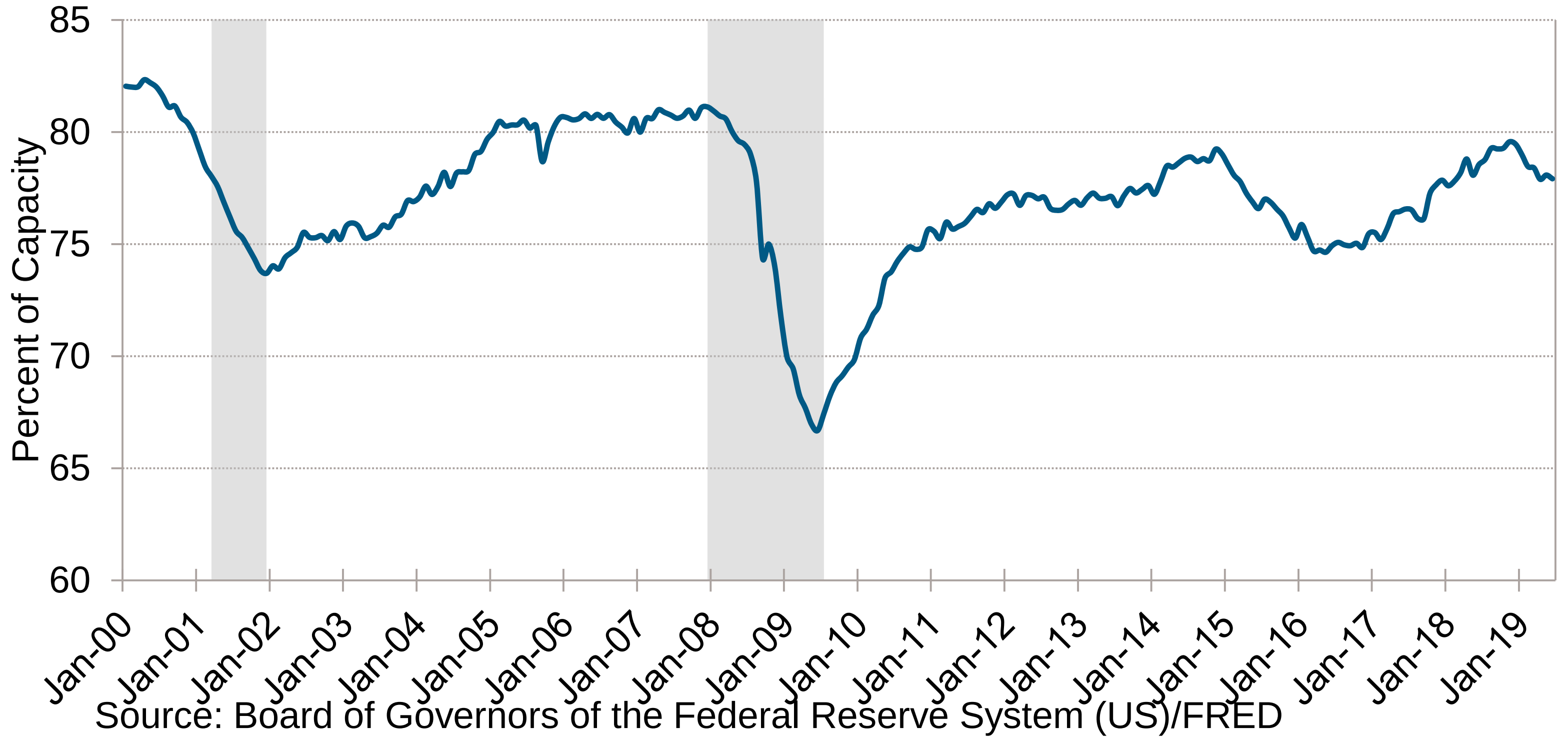
- Industrial production unchanged in June after increasing 0.4% in May, and posted a 1.3% increase year-over-year. Output growth in June for manufacturing, mining, and utilities, posted month-over-month changes of 0.4%, 0.2%, and -3.6%, respectively. Year-over-year, manufacturing, mining, and utilities changed by 0.4%, 8.7%, and -2.6%, respectively.
- Manufacturing makes up the bulk of the industrial sector and posted consecutive gains in May and June.
- Mining increased for the third straight month.
- The utilities index fell for the second time in thee months.

Industrial Production Index



Source: Board of Governors of the Federal Reserve System (US)/FRED

Capacity Utilization: Total Industry



Source: Board of Governors of the Federal Reserve System (US)/FRED

- Capacity utilization was 77.9% in June, a rate that is 1.9% below its long run average.
- The manufacturing component was at 75.9% in June, a rate that is 2.4% below its long-run average.
- Utilization for mining fell to 91.5% in June, above its long-run average of 87.5%.
- The operating rate for utilities was at 74.6%, below its long-run average of 85.4%.

Money Supply and Velocity

Money Supply & Velocity

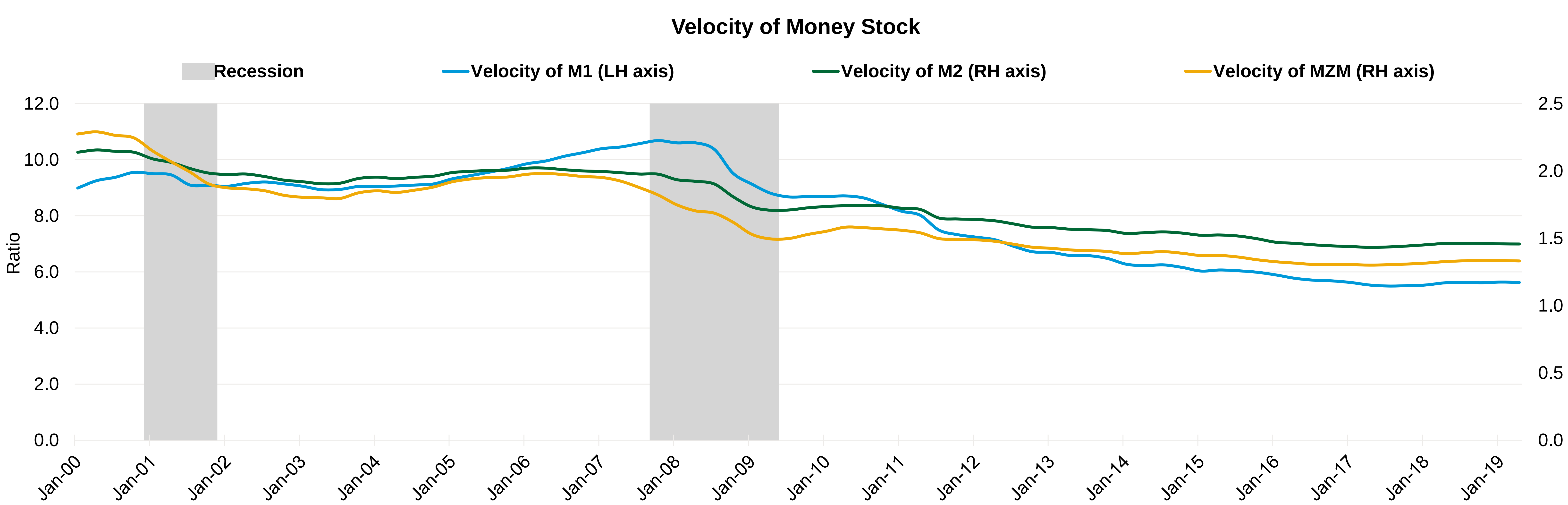
2nd QUARTER VELOCITY OF MONEY REMAINS NEAR ALL-TIME LOWS

- The velocity of M2, which includes M1 and savings deposits, CDs, and money market deposits, is the most common measurement referenced for the velocity of money and provides some insight into how quickly the economy is spending versus saving when compared to the velocity of M1.

- The velocity of M2 is unchanged and remains near an all-time low at 1.46, indicating that money isn't changing hands and consumers continue to save.

- The velocity of M1, which is the money supply of currency in circulation and represents everyday short-term consumption transactions, is 5.62 versus the peak reading of 10.68 in the 4th quarter 2007. The latest reading is little changed and approaching the lowest reading since 3rd quarter 1973.

- The velocity of MZM, which is the broadest money supply and helps determine how often financial assets are changing hands, is 1.33 and remains near the lowest reading in the history of this measurement which started in January 1959.



Source: Federal Reserve Bank of St. Louis/FRED

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