



# Economic Overview Q3 2019

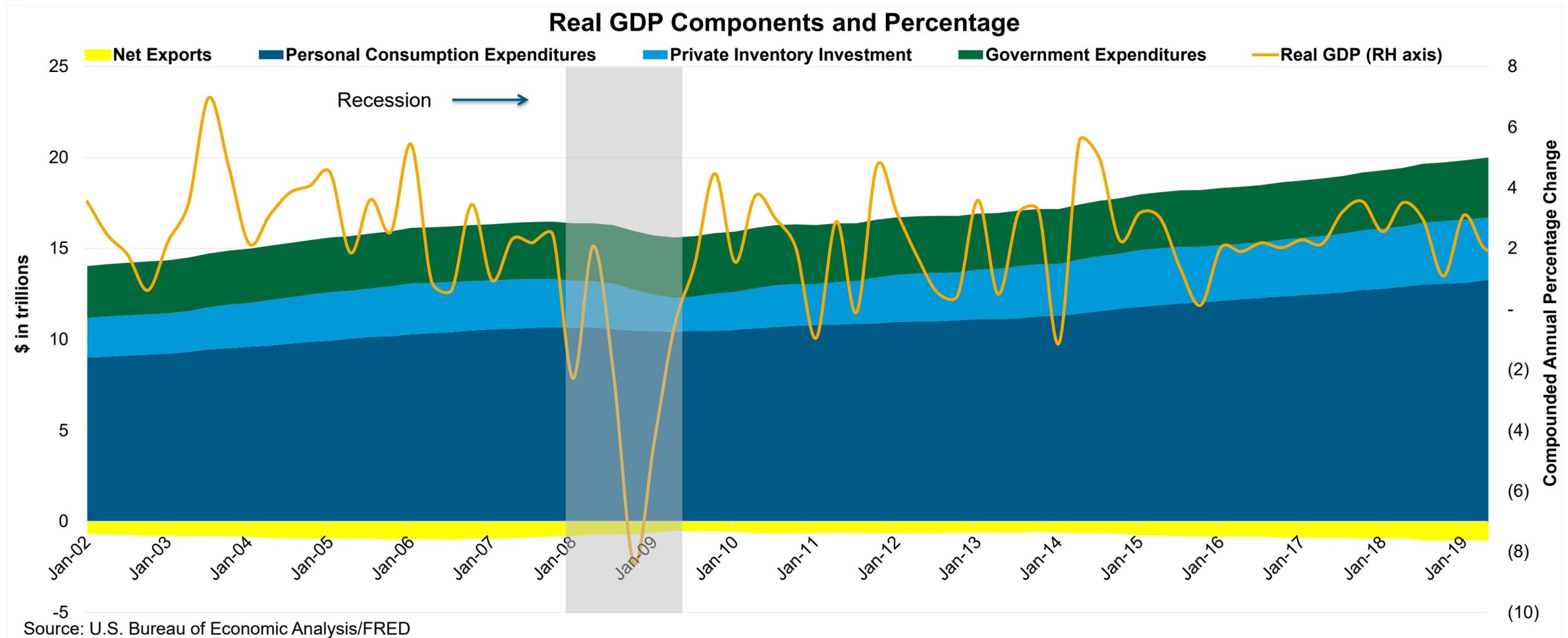
*Quarterly data is as of third quarter 2019*

*Monthly data as of September 30, 2019*

# Gross Domestic Product

# Economic Overview

US GDP CONTINUES SLOWER GROWTH IN THIRD QUARTER



## Second-quarter (third estimate) Real GDP

- The third estimate for first-quarter real GDP came in at 2.0%, unchanged from the previous estimation. Downward revisions for Personal Consumption Expenditures (PCE) and nonresidential and residential fixed investments were offset by upward revisions to federal and state government spending.

## Third-quarter (advance estimate) Real GDP

- The advance estimate for third-quarter real GDP was 1.9%, a 0.1% decrease compared to the second-quarter (third estimate). The increase reflected positive contributions from PCE, federal government spending, residential fixed investment, state and local government spending, and exports that were partly offset by negative contributions from nonresidential fixed investment and private inventory investment. Imports increased.
- The deceleration in real GDP during the third quarter reflected decelerations in PCE, federal government spending, and state and local government spending, and a larger decrease in nonresidential fixed investment which were partly offset by a smaller decrease in private inventory investment, and upturns in exports and in residential fixed investment.



# Prices

# Prices: Consumer Price Indices

INFLATION CONTINUES TO RUN BELOW FED TARGET

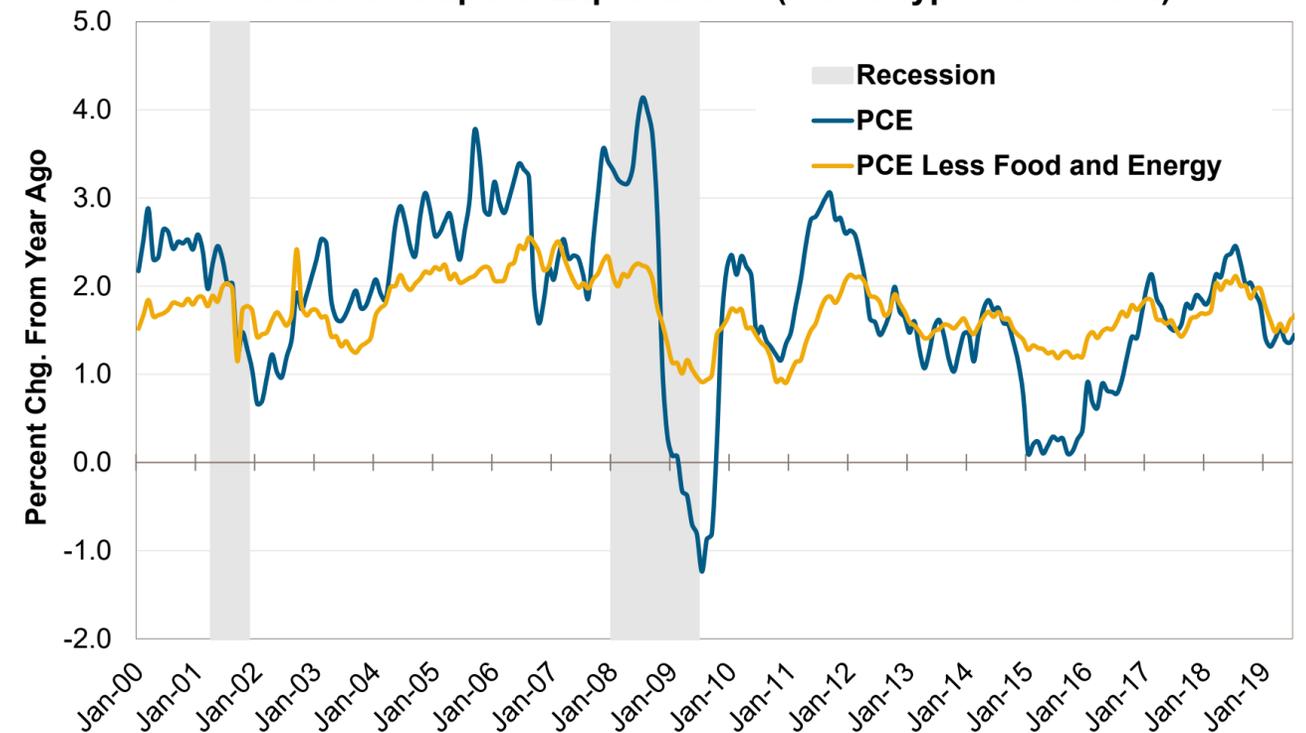
## Personal Consumption Expenditures (PCE)

- September's price index for PCE posted a year-over-year increase of 1.3%, the eleventh straight month below the Fed's goal of 2.0%. When backing out food and energy, Core PCE was 1.7%.
- On a month-over-month basis, September's real PCE increased \$22.8 billion. Breaking it down, goods increased \$18.4 billion, with new motor vehicles leading the charge, and services increased \$6.5 billion, with health care spending being the largest contributor.
- Personal income increased by \$50.2 billion and outlays increased by \$23.0 billion in September. Personal income increased primarily due to increases in personal income receipts on assets and government social benefits to persons.

## Consumer Price Index (CPI)

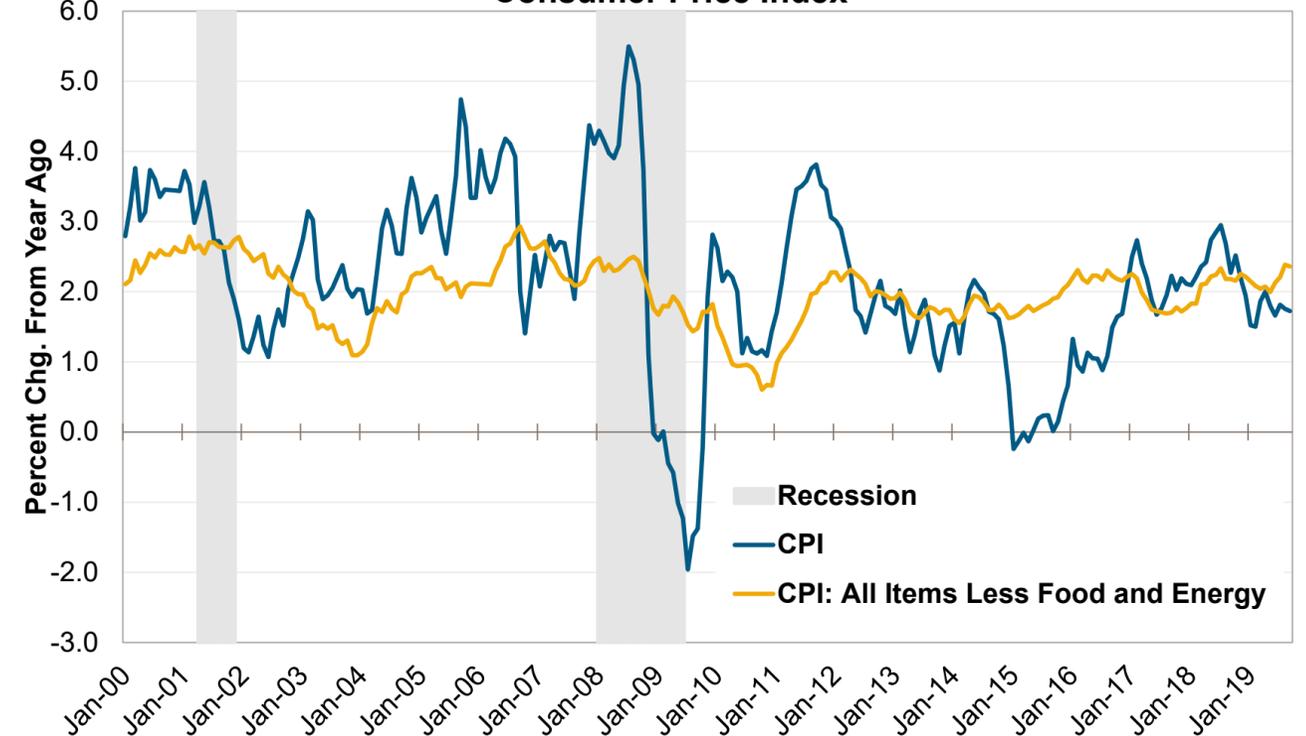
- The all items index rose 1.7% for the 12 months ending September, down 0.1% from the August reading. The energy index fell 4.8% over the past year, while the food index increased 1.8%.
- On a month-over-month basis, the all items index was unchanged in September. The index for energy fell 1.4% behind a 2.4% decline in gasoline. The food index increased 0.1% after being unchanged the prior three months.
- The index for all items less food and energy rose 2.4% for the 12 months ending September.
- Month-over-month, the index for all items less food and energy increased 0.1% in September after increasing 0.3% the prior three months. Along with the index for shelter, the indexes for medical care, household furnishings and operations, and motor vehicles insurance all rose in September. The indexes for used cars and trucks, apparel, new vehicles, and communication all declined in September.
- The Fed voted to cut rates three times (August, September, and October) in 2019 and is currently in a wait and see mode.

Personal Consumption Expenditures (Chain-Type Price Index)



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

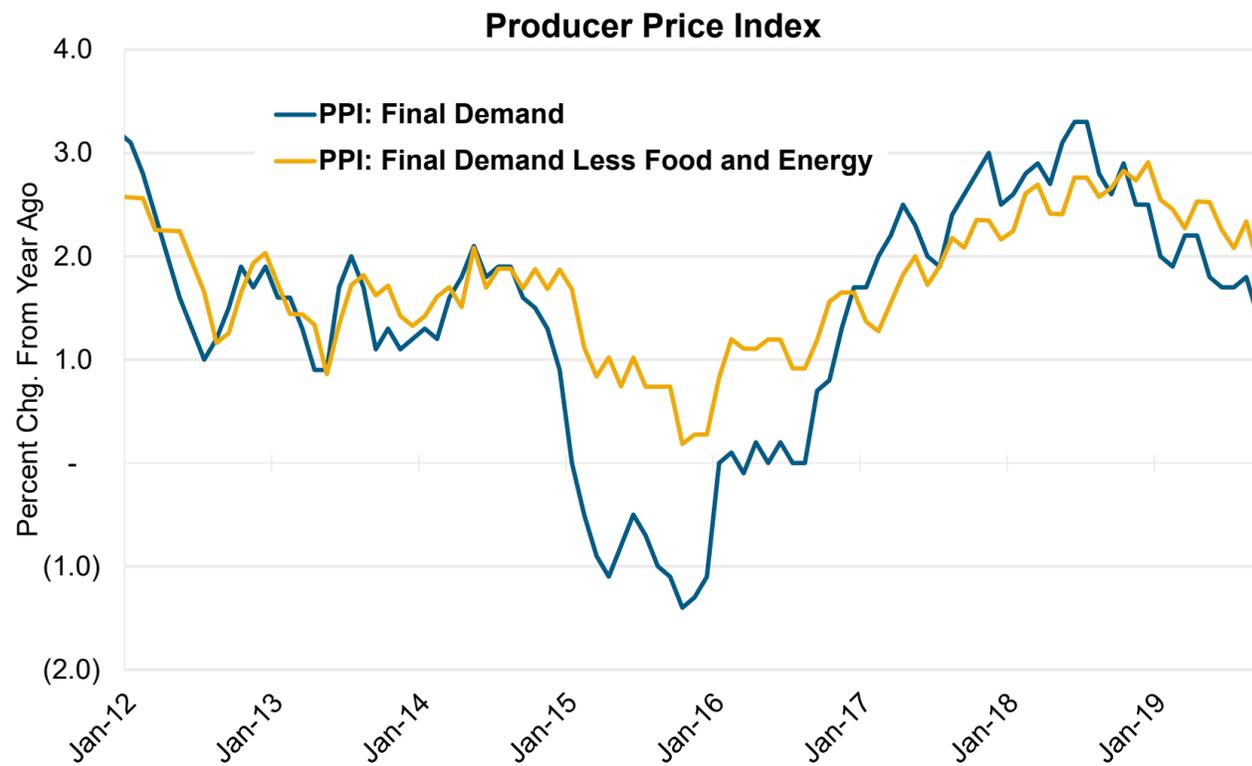
Consumer Price Index



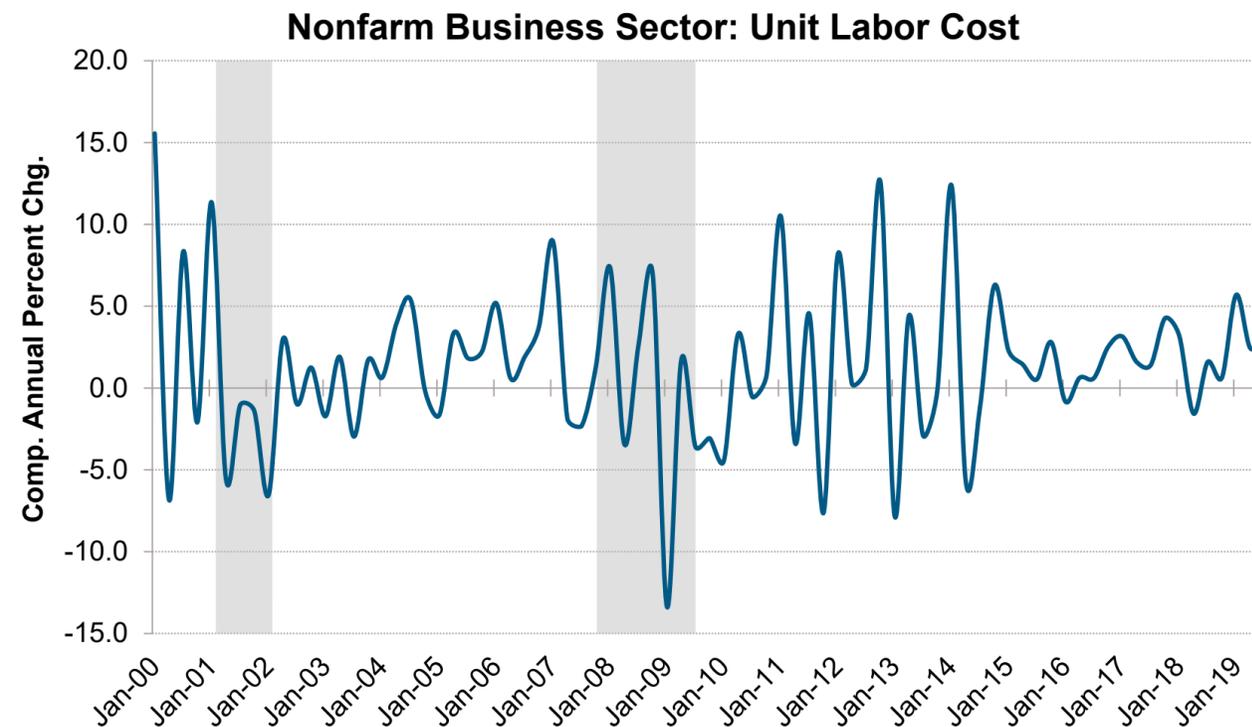
Source: U.S. Bureau of Economic Analysis/FRED

# Prices: Producer Price Indices

PRODUCER INFLATION CONTINUES TO DECELERATE



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 1.4% for the 12 months ending September (on an unadjusted basis), the lowest rate of increase since November 2016. The index for final demand less food, energy and trade services was unchanged in September and advanced 1.7% year-over-year.
- Month-over-month, the final demand index (seasonally adjusted) decreased 0.3% in September. The decrease in the final demand index is attributed to a 0.2% decline in final demand services and a 0.4% decrease in prices for final demand goods.
- Most of the September decrease for final demand services is attributable to margins for final demand trade services, which were down 1.0%. Final demand transportation and warehousing services were also down 1.0%.
- Nearly half of the September decline in prices for final demand services can be traced to the index for machinery and vehicle wholesaling, which fell 2.7 percent. The indexes for automotive fuels and lubricants retailing; apparel, jewelry, footwear, and accessories retailing; airline passenger services; gaming receipts (partial); and professional and commercial equipment wholesaling also moved lower. Conversely, prices for hospital outpatient care rose 1.1 percent. The indexes for bundled wired telecommunications access services and for food and alcohol wholesaling also advanced.
- Most of the September drop in final demand goods is attributable to prices for final demand energy, which fell 2.5%.
- Three-fourths of the September decrease in the index for final demand goods can be traced to prices for gasoline, which fell 7.2 percent. The indexes for electric power, iron and steel scrap, basic organic chemicals, fresh and dry vegetables, and light motor trucks also moved lower. Conversely, prices for meats rose 1.9 percent. The indexes for liquefied petroleum gas and pharmaceutical preparations also increased.

## Nonfarm Unit Labor Cost

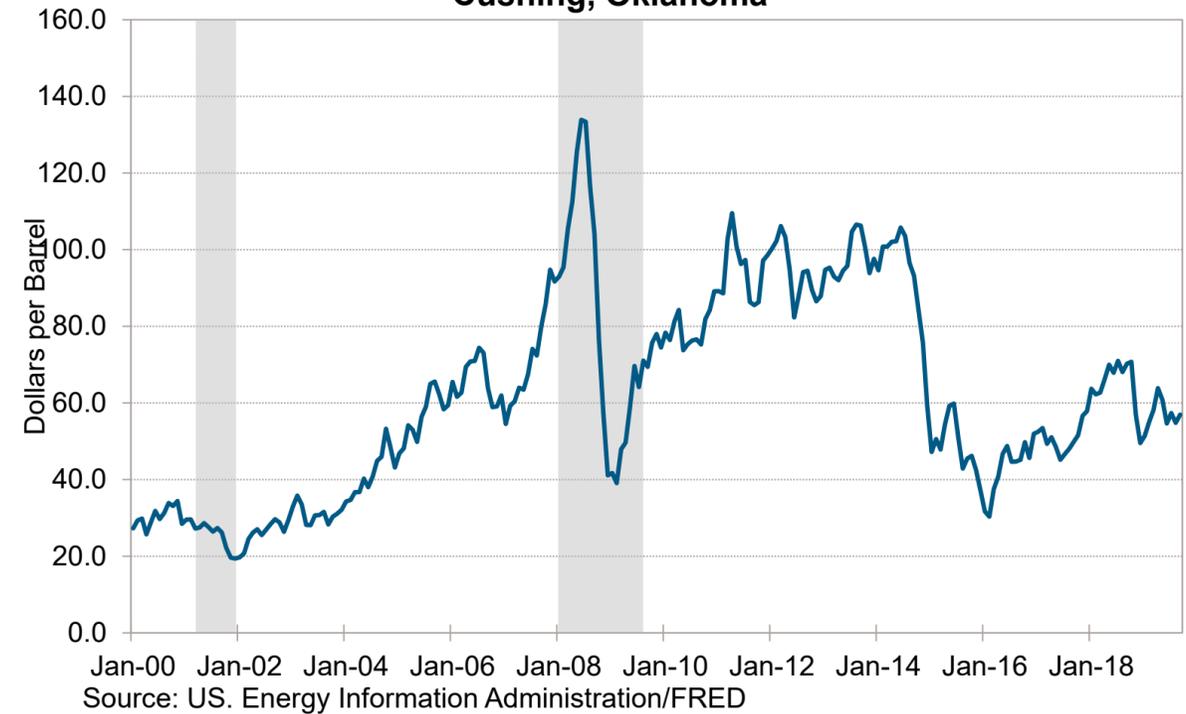
- Unit labor cost increased 3.6% (preliminary) in the third quarter of 2019, reflecting a 0.3% decrease in output and a 3.3% decrease in compensation per hour worked. Unit labor costs increased 3.1% over the last four quarters.
- The manufacturing sector labor productivity decreased 0.1% in the third quarter of 2019, as output increased 1.1% and hours worked increased 1.3%. Over the last four quarters, total manufacturing sector productivity decreased 0.1%.
- An overall unit labor cost of 3.0% and above is widely seen as feeding overall inflation.

# Prices: Oil & Gas

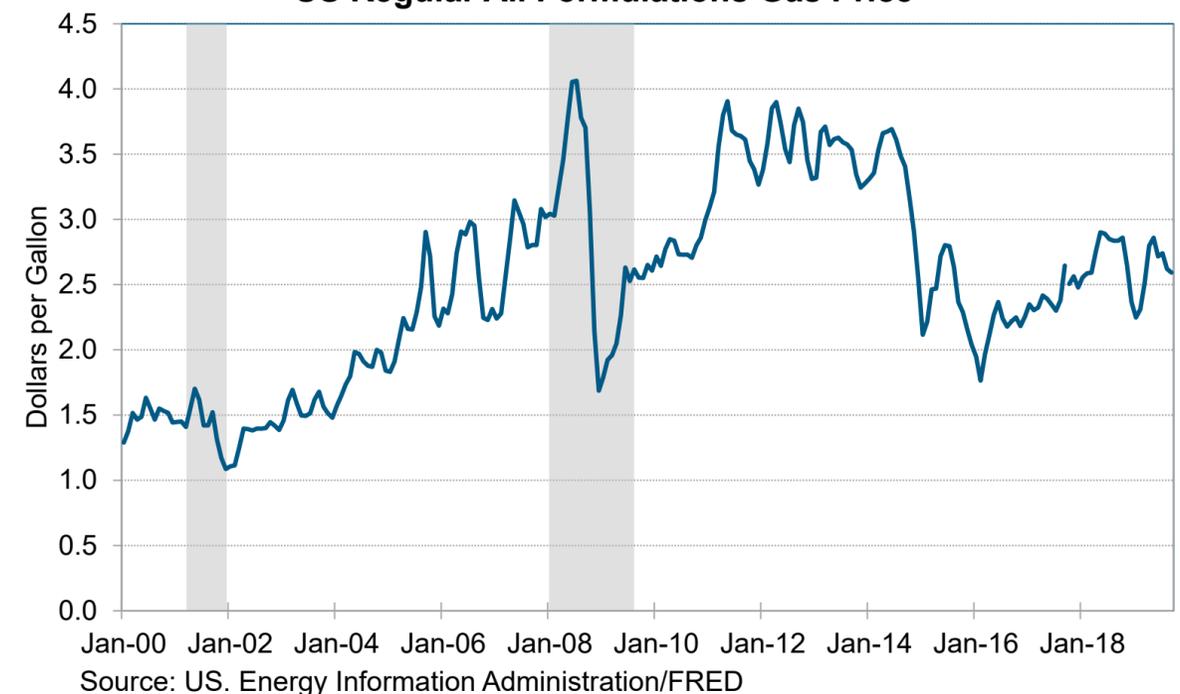
INCREASING DEMAND AND STABLE PRICES

- The U.S. Energy Information Administration (EIA) forecasts U.S. crude oil production will average 12.3 million b/d in 2019, up by 1.3 million from the 2018 level. Forecast crude oil production then rises by 0.9 million b/d in 2020 to an annual average of 13.2 million b/d.
- Brent crude oil spot prices averaged \$63 per barrel in September. EIA forecasts Brent spot prices will average about \$59 per barrel in the fourth quarter of 2019 and \$60 per barrel in 2020. West Texas Intermediate (WTI) crude oil prices are expected to average about \$56 per barrel in the second half of 2019 and \$54 per barrel in 2020.
- U.S. regular gasoline retail prices averaged \$2.59/gallon in September, down from \$2.62/gallon in August. For all of 2019, the EIA forecasts call for U.S. regular gasoline prices to average \$2.56/gallon in 2019 and \$2.57/gallon in 2020.

Crude Oil Prices: West Texas Intermediate (WTI) - Cushing, Oklahoma



US Regular All Formulations Gas Price



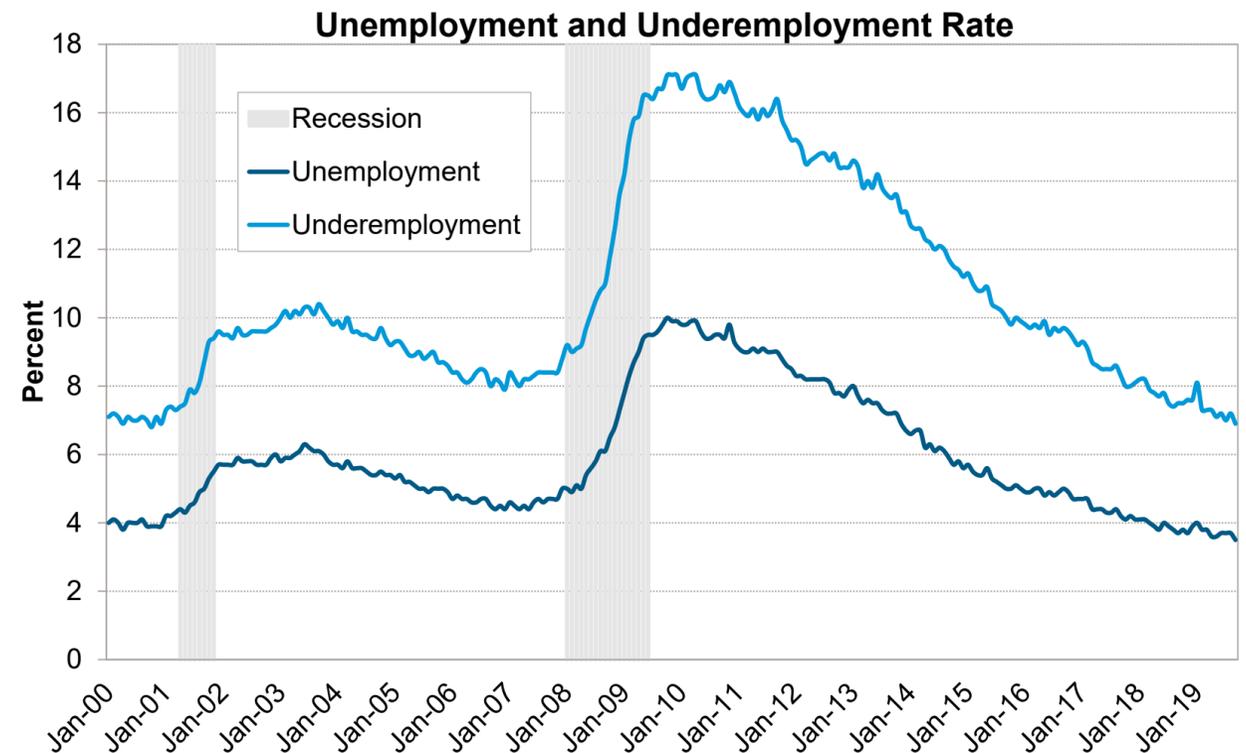


# Employment

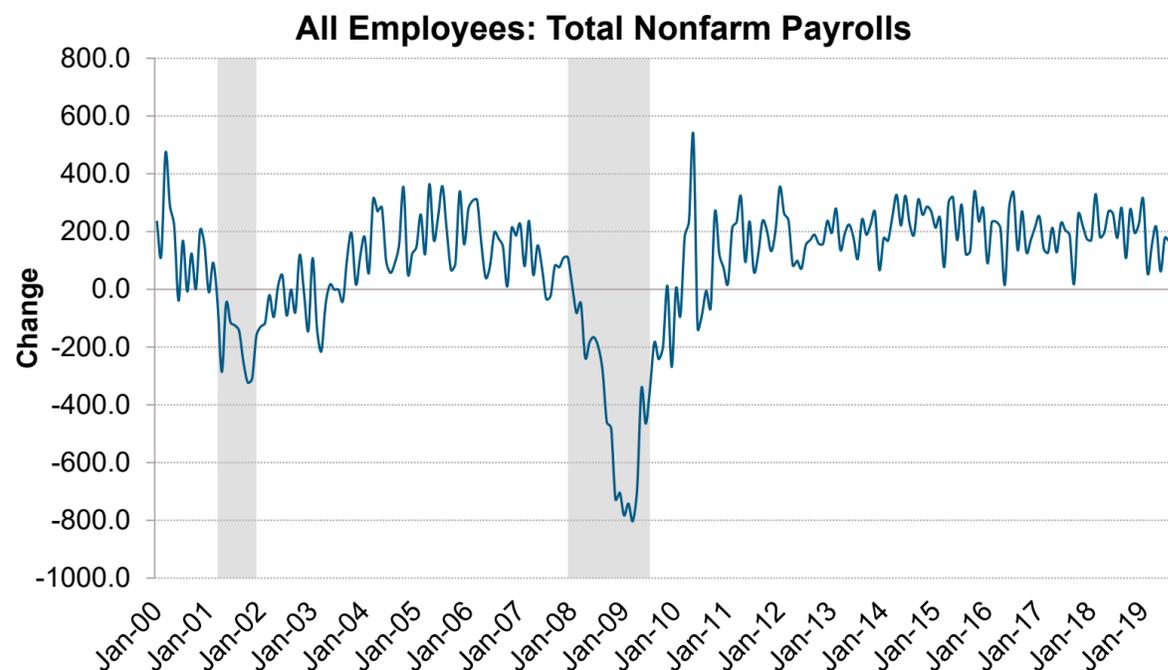
# Employment

EMPLOYMENT REMAINS STRONG

- The September unemployment rate declined to 3.5%, the lowest since December 1969, and the number of unemployed fell to 5.8 million, month-over-month.
- The number of long-term unemployed (those jobless for 27 weeks or more) was little changed at 1.3 million in September and accounted for 22.7% of the unemployed.
- The underemployed rate, or the U-6 rate, was three-tenths lower at 6.9% in September. 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

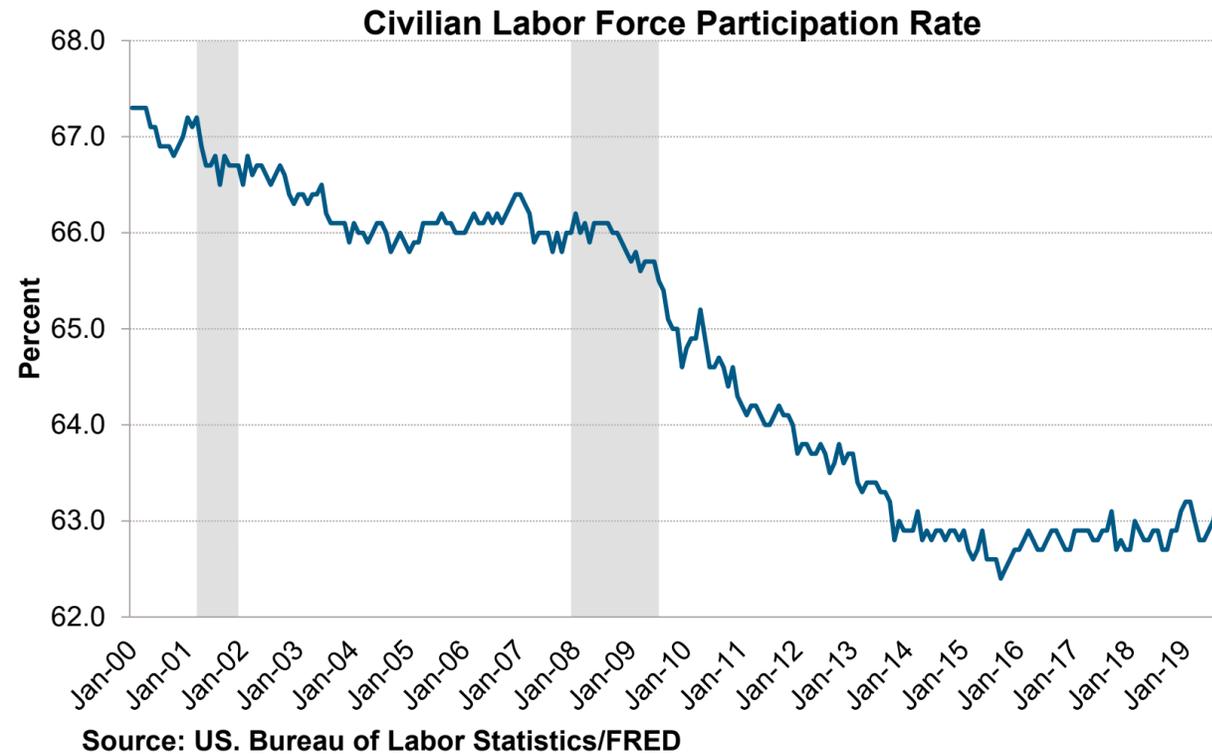


Source: US. Bureau of Labor Statistics/FRED

- The initial total nonfarm payroll employment for September increased by 136,000, compared with an average monthly gain of 161,000 through 2019 thus far and 223,000 per month in 2018.
- The primary drivers were in professional and business services and in health care. Professional and business services added 34,000 jobs. Health care increased by 39,000, led by ambulatory health care services and hospitals.
- Nonfarm employment in July was revised up from 159,000 to 166,000 and August was revised up from 130,000 to 168,000.

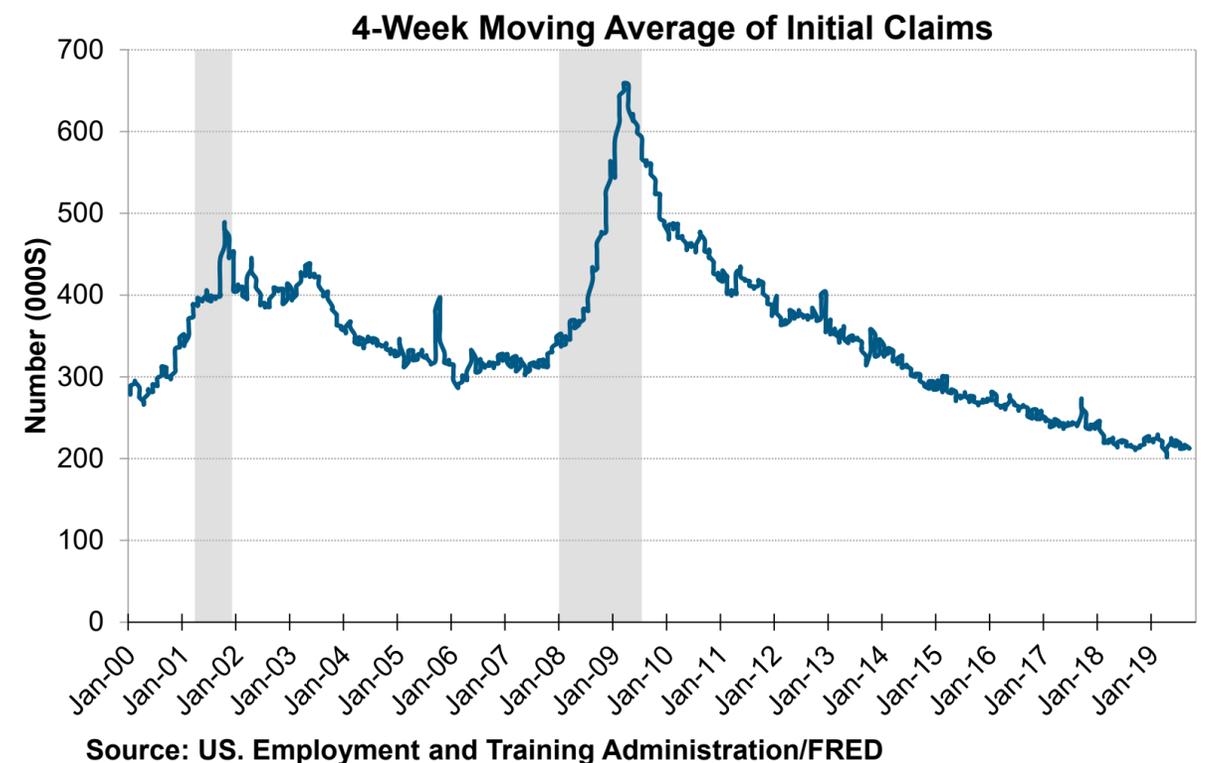
# Employment

EMPLOYMENT REMAINS STRONG



- The labor force participation rate, at 63.2%, was unchanged month-over-month. The employment-population ratio (not shown in graphs), was 61.0%, little changed for the month, but up 0.6% over the year.
- At the current participation rate and population growth rate, maintaining an unemployment rate of 3.5% suggests the economy needs to add 106.5k jobs on average each month. (Source: Federal Reserve Bank of Atlanta/Jobs Calculator)

- The 4-week moving average for initial claims was 212,750 as of the week ending September 28, 250 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 September 28, was 220,000, a increase of 5,000 from the previous week's revised level.



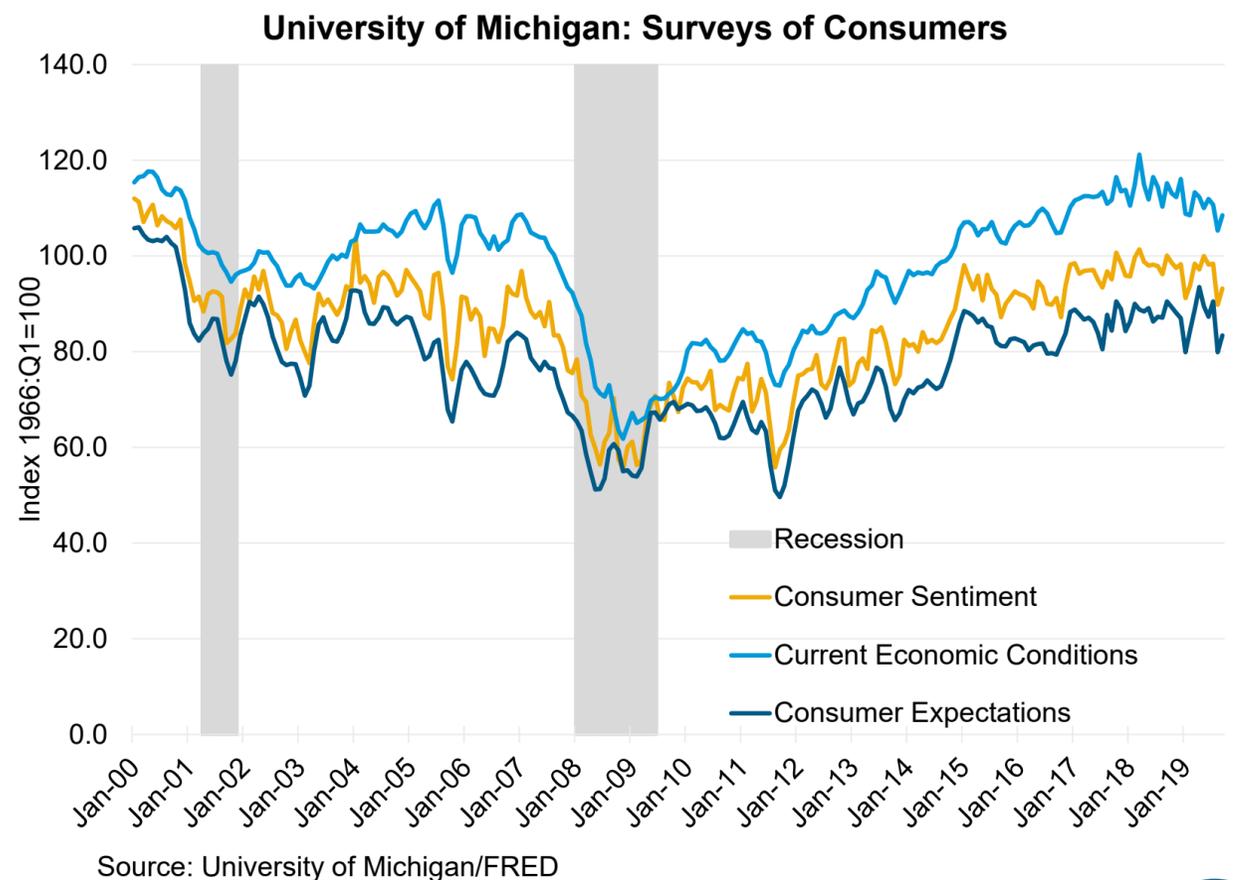
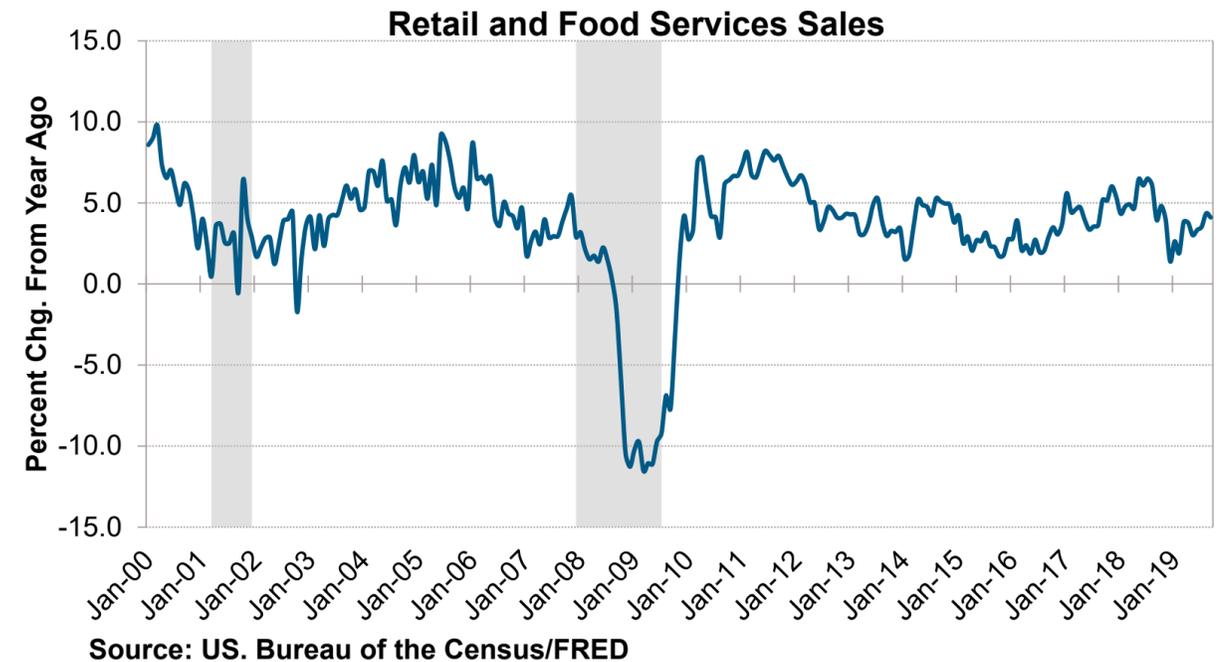


Consumer

# Consumer

## RETAIL SALES DOWN IN SEPTEMBER, CONFIDENCE FALLING BUT REMAINS HIGH

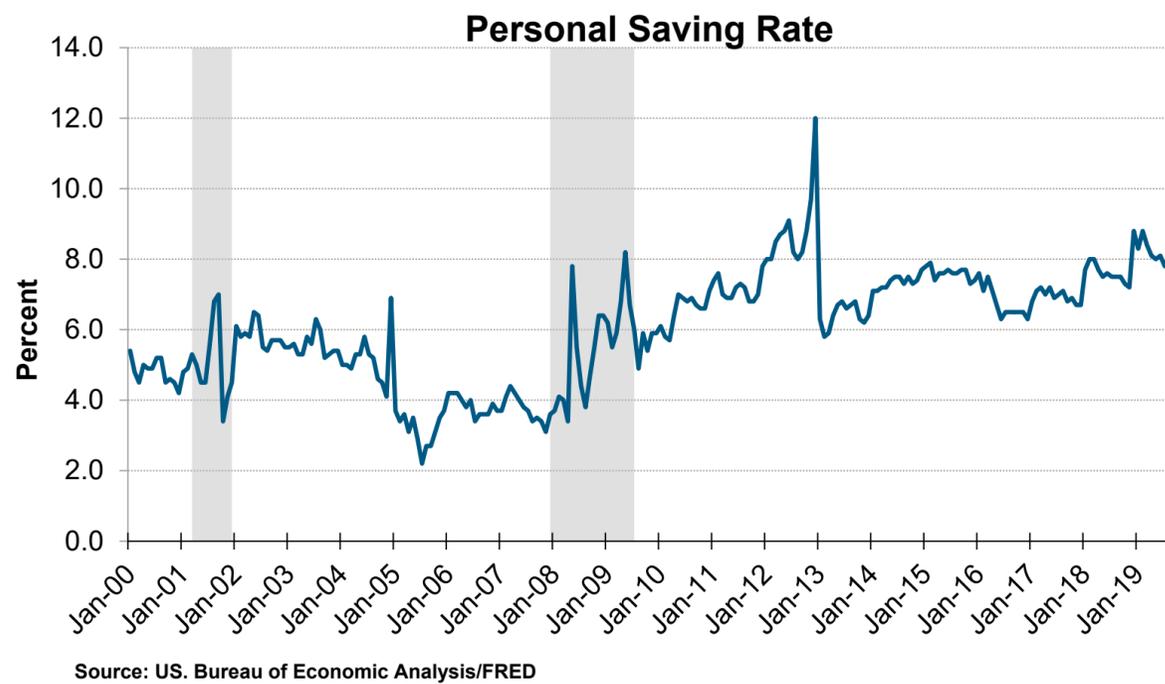
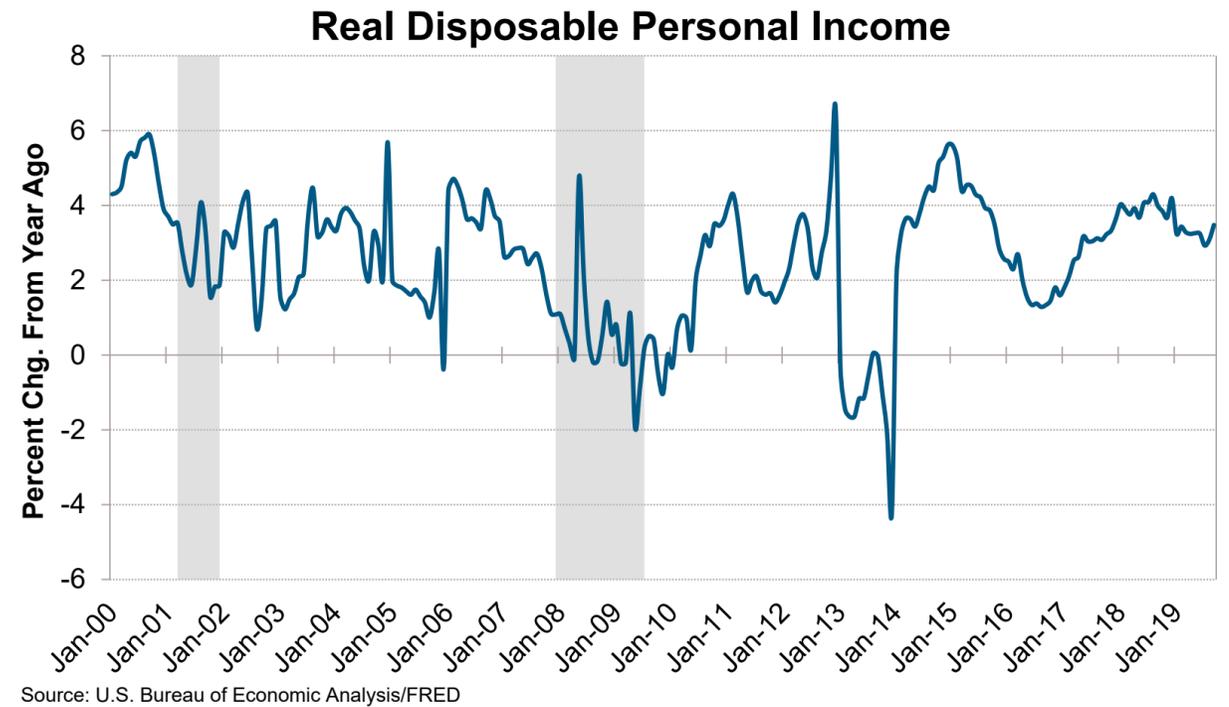
- Advance estimates of U.S. retail and food services sales, which is adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, for September posted a decrease of 0.3% month-over-month and a 4.1% increase year-over-year.
- The University of Michigan's Surveys of Consumers rebounded to a reading of 93.2 in September from the lowest reading since August 2018. The rebound was not widespread across age and income subgroups as it fell for individuals under 45 and households in the top third of income. The decline in these groups does not suggest a stronger pace of spending in the coming months.
- The U.S. expansion is expected to slow, but positive growth is still expected for another year.
- The expected year-ahead inflation was 2.8% in early September, up from 2.7% in both August and last September. The annual long term inflation rate was expected to be 2.3% in September. Interest rates were expected to increase by 33% of consumers, down from 75% a year ago.



# Consumer

INCOME GROWTH REMAINS STEADY, SAVINGS CONTINUES ABOVE LONG RUN AVERAGE

- Real disposable personal income increased 0.3% in September and is up 3.5% year-over-year.



- Personal savings was \$1.38 trillion in September, up \$0.03 trillion month-over-month. The personal savings rate was 8.1%, up 0.2% month-over-month.

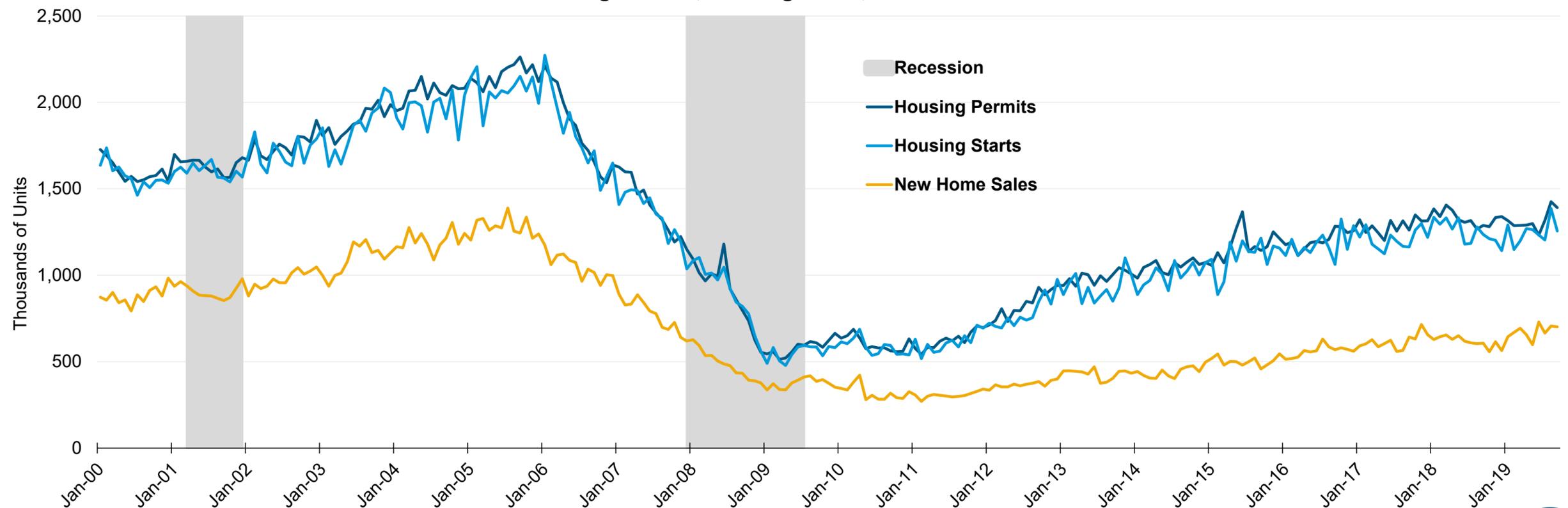
# Housing

# Housing

## HOUSING CONTEMPLATES A SABBATICAL, PRICES CONTINUE TO MARCH HIGHER

- Building permits, which lead housing starts by 1-3 months and are subject to less volatility, in September were at a seasonally adjusted annual rate of 1,387,000, 2.7% below the revised August rate, but 7.7% above the September 2018 level. Single-family building permits were at a rate of 882,000, 0.8% above the revised August rate. Building permits for 5+ units were at a rate of 470,000 in September.
- Housing starts in September were at a seasonally adjusted annual rate of 1,256,000, 9.4% below the revised August rate, but 1.6% above the September 2018 rate. Single-family housing starts in September were at a rate of 918,000, 0.3% above the revised August rate. Housing Starts for 5+ units was 327,000 in September.
- New home sales in September 2019 were at a seasonally adjusted rate of 701,000, 0.7% below the revised August rate and 15.5% above the September 2018 rate. The median sales price of new houses sold in September 2019 was \$310,400. The average sales price was \$362,700. The seasonally adjusted estimate of new houses for sale at the end of September was 321,000, which represents a supply of 5.5 months at the current sales rate.
- Existing-home sales (not graphed), as reported by the National Association of Realtors, fell 2.2% in September, or a seasonally adjusted annual rate of 5.38 million. Sales are up 3.9% from a year ago.
- The median price for existing-home sales was \$272,100, up 5.9% from a year ago. September's price increase marks the 91<sup>st</sup> straight month of year-over-year gains.
- Supply was largely unchanged at 1.83 million in September, but down 2.7% from 1.88 million one year ago. Relative to sales, supply is at 4.0 months vs. 4.4 months a year ago.
- According to Freddie Mac, the average commitment rate for a 30-year, conventional, fixed-rate mortgage decreased to 3.61% in September from 3.62% in August. The average commitment rate for all of 2018 was 4.54%.
- Existing-home sales in the Midwest were down 3.1% in September and are down 3.1% year-over-year. The median price was \$237,300, up 6.3% from a year ago. Sales in the West declined 0.9% in September and are 5.6% lower year-over-year. The median price was \$403,600, up 4.5% year-over-year.

**Housing Permits, Housing Starts, and New Home Sales**



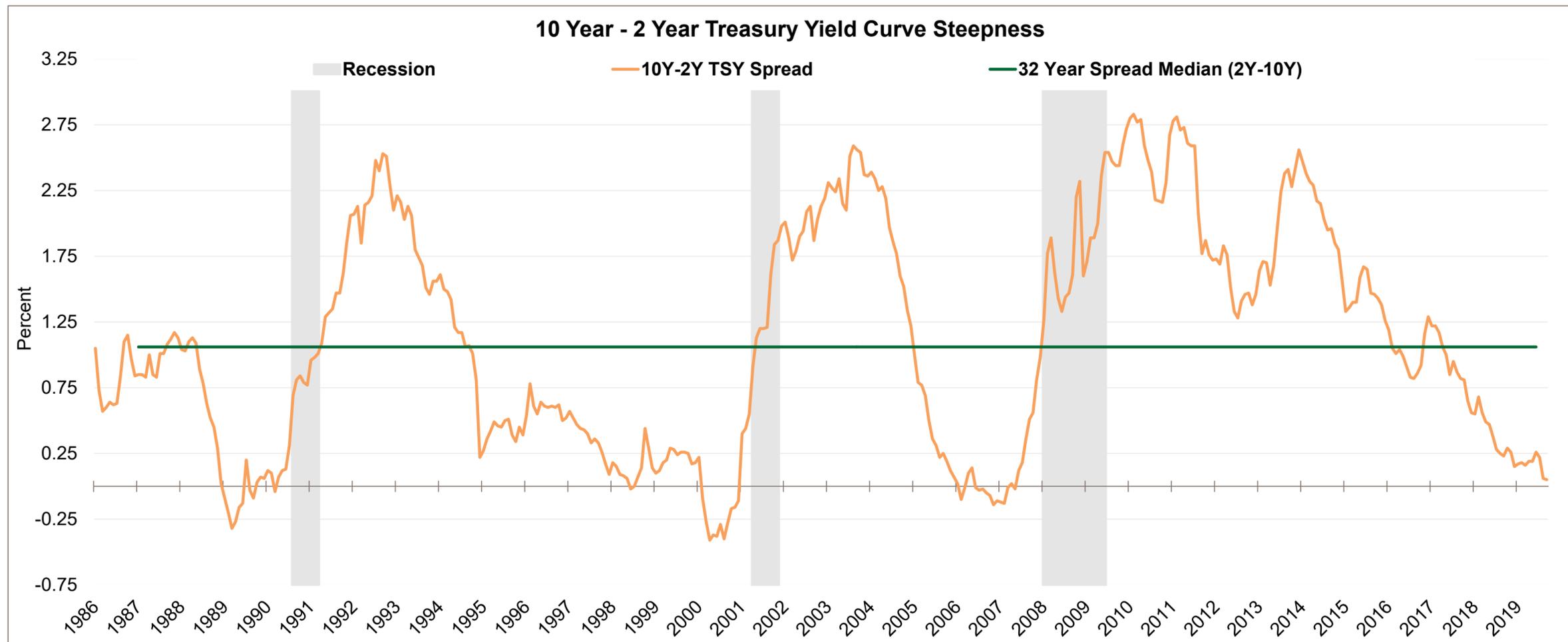
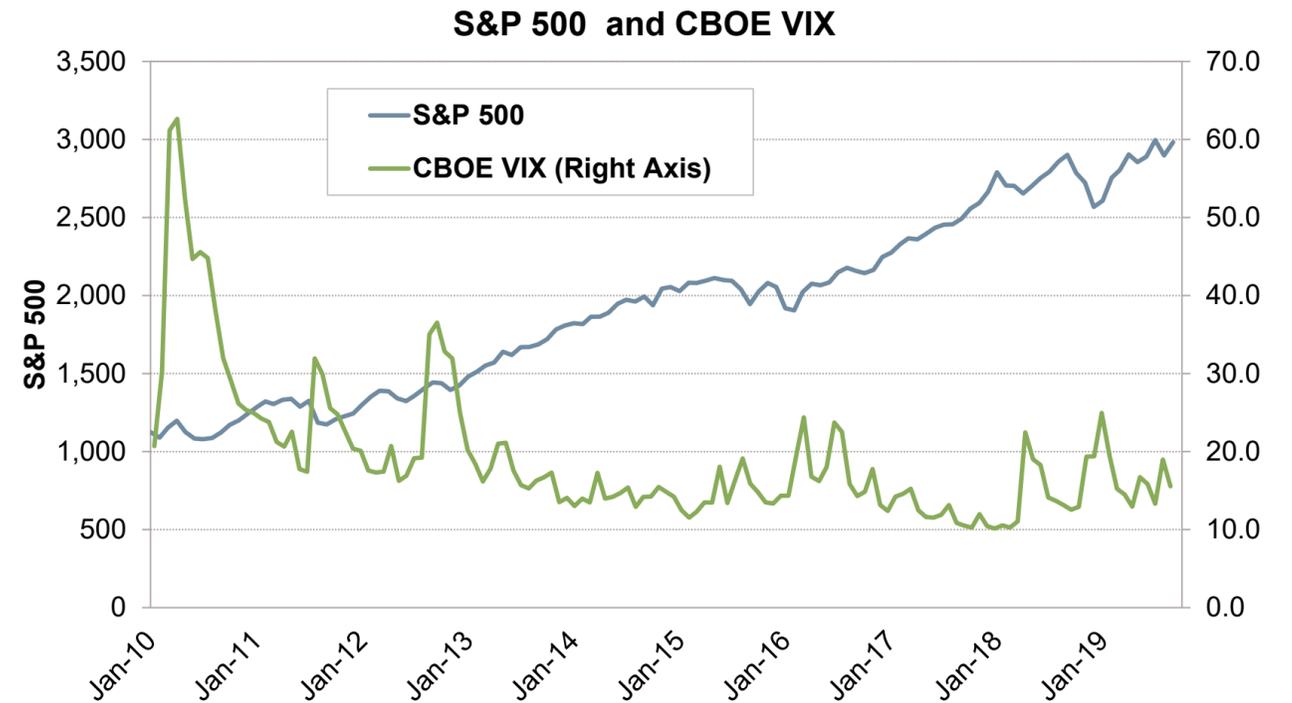
Source: US. Bureau of the Census/FRED

# Market Indices

# Market Indices

STOCK MARKET CONTINUES ITS VOLATILE TREND, YIELD CURVE FLAT TO INVERTED

- S&P 500 closed September at 2,977, 2.1% 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 15.6%. 3-Month LIBOR (not graphed) ended September at 2.09%.
- Short-term rates are on the rise and long-term rates remain relatively low as the yield curve continues to be in flat to inverted territory. The 10-year Treasury Note minus 2-year Treasury Note spread continues to trend towards zero, ending September at 0.05%, and remains below the 32 year median of 1.05%.



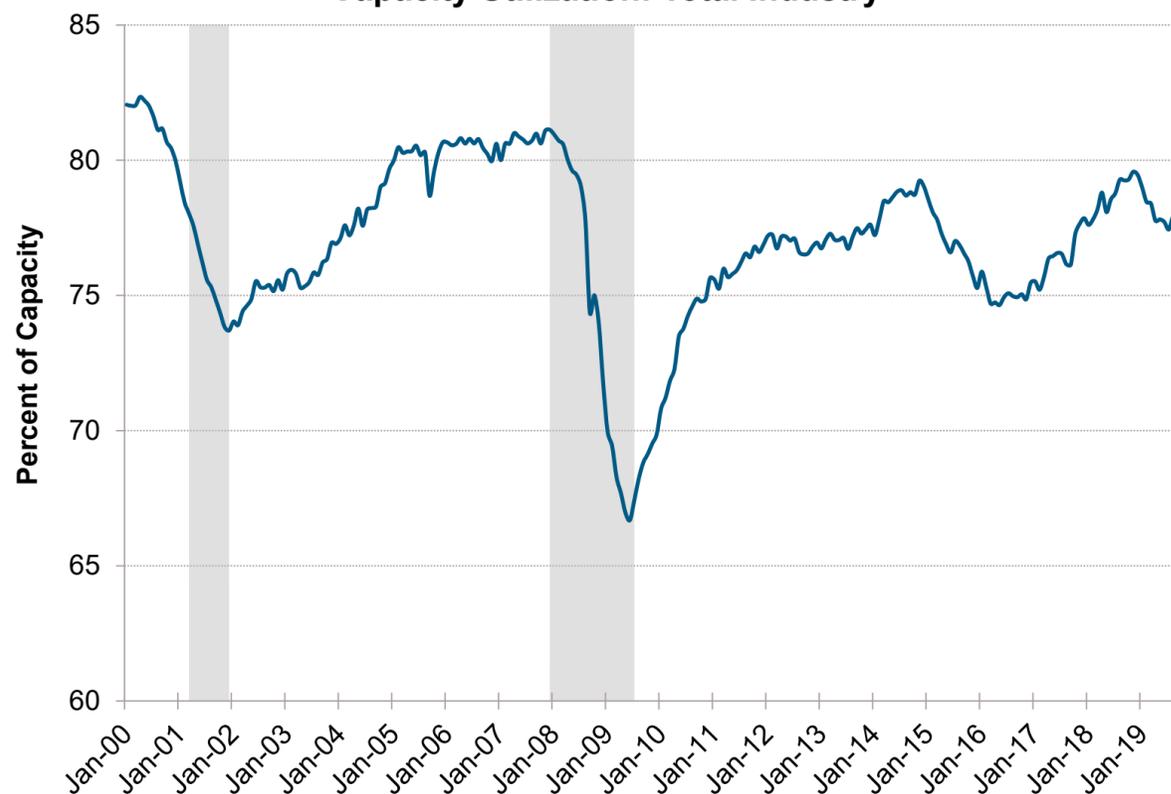
# Economic Activity

# Economic Activity

## INDUSTRIAL PRODUCTION FLATLINING

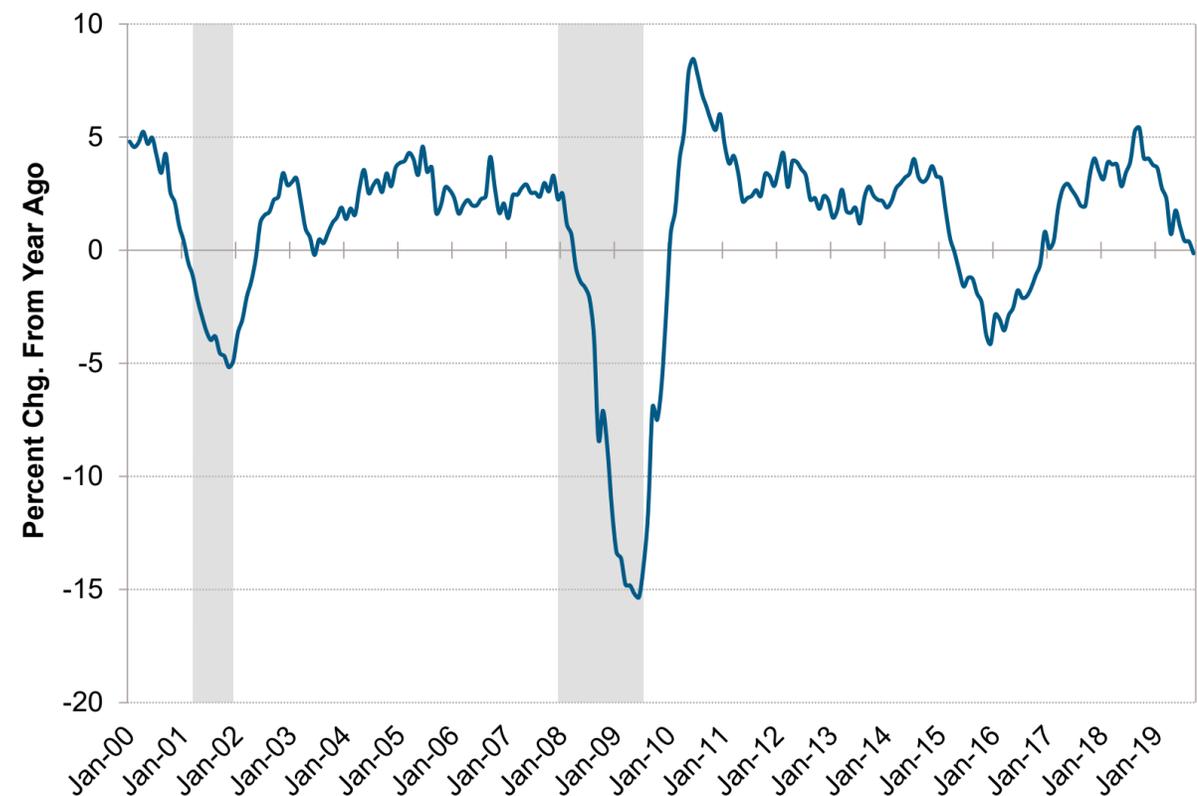
- Industrial production fell 0.4% in September after increasing 0.8% in August, and posted a 0.1% decrease year-over-year. Output growth in September for manufacturing, mining, and utilities, posted month-over-month changes of -0.5%, -1.3%, and 1.4%, respectively. Year-over-year, manufacturing, mining, and utilities changed by -0.9%, 2.6%, and 1.2%, respectively.
- Manufacturing makes up the bulk of the industrial sector and posted monthly losses in two of the last three months.
- Mining fell for the second time in three months.
- The utilities index increased for the third straight month.

**Capacity Utilization: Total Industry**



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

**Industrial Production Index**



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

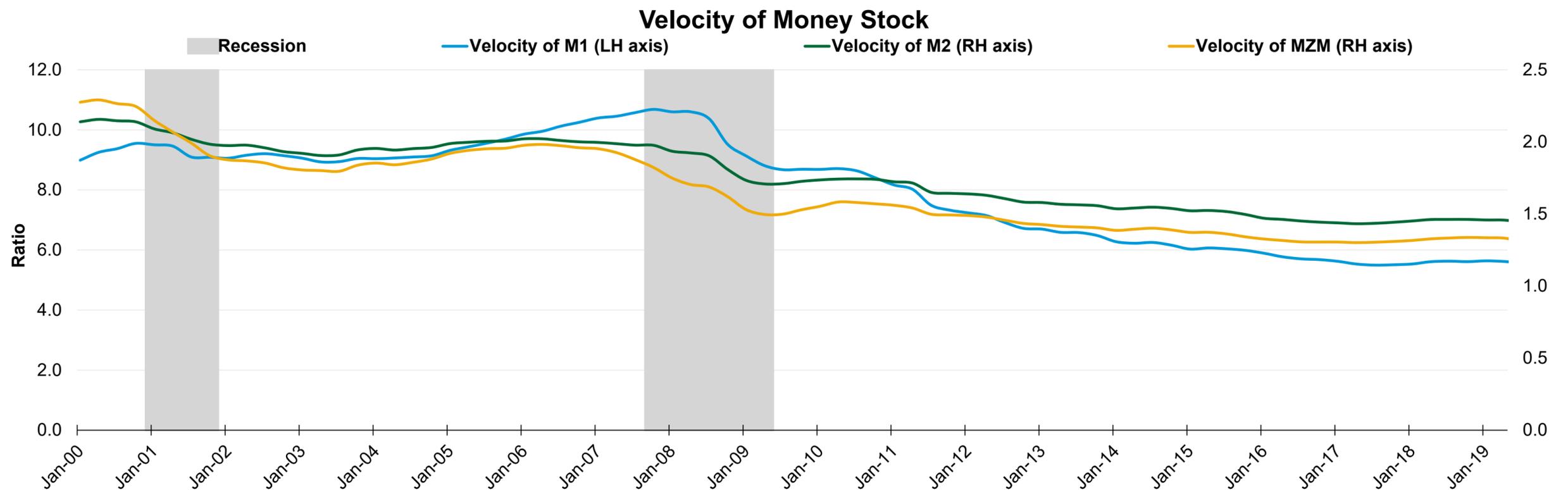
- Capacity utilization was 77.5% in September, a rate that is 2.4% below its long run average.
- The manufacturing component was at 75.3% in September, a rate that is 3.0% below its long-run average.
- Utilization for mining fell to 88.9% in September, above its long-run average of 87.1%.
- The operating rate for utilities was at 77.7%, below its long-run average of 85.4%.

# ➤ Money Supply and Velocity

# Money Supply & Velocity

3<sup>RD</sup> 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 dropped slightly and remains near an all-time low at 1.44, 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 5.57 versus the peak reading of 10.68 in the 4<sup>th</sup> quarter 2007. The latest reading is little changed and remains close to the lowest reading since 3<sup>rd</sup> quarter 1973.
- The velocity of MZM, which is the broadest money supply and helps determine how often financial assets are changing hands, is 1.31 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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