

September 2017

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- **Real GDP grew by 3.1% quarter-over-quarter (qoq) in Q2, according to the third estimate of the Bureau of Economic Analysis.**
- **In August, national industrial production declined after six months of growth.**
- **Growth of both manufacturing and service sectors decelerated in Texas in August.**
- **The Texas rig count further declined to 452.**
- **National labor market conditions slightly improved in August, while there were little changes in the field in Texas.**
- **Consumer prices grew by 0.4% mom in August.**
- **There were mostly negative developments of the housing market in the US in general and in Texas in particular.**

Executive Summary

According to the third estimate of the Bureau of Economic Analysis, national GDP expanded by 3.1% qoq in Q2. This is only 0.1 percentage points higher than in the previous estimate. The only notable difference with the second estimate was a bit faster growth of private inventory investment.

The US industrial output posted the first monthly decline over the last seven months in August. Contractions in all three major industrial production components were the reason of the decline. The largest decline was reported for utilities, while manufacturing saw the smallest one. Nevertheless, total industrial production expanded by 1.5% yoy as of August.

The national level consumer confidence remained on the upwards trend in August. Improved appraisal of the current business conditions and insignificant changes in short-term outlook led to strengthening of consumer confidence in general.

The Texas economy expanded again in August. Continued growth of both manufacturing and service activity was the major factor of the state's economic growth. However, the growth could be more significant, if not for setbacks in the energy sector. Good economic performance led to improvement in the consumer confidence which strengthened for the first time over the last five months.

The labor market conditions saw moderate improvements at the national level in August, while there were little changes labor situation in Texas. Total nonfarm employment expanded in the US in general but remained flat in Texas. The unemployment saw almost no changes at the national level but slightly decreased in Texas.

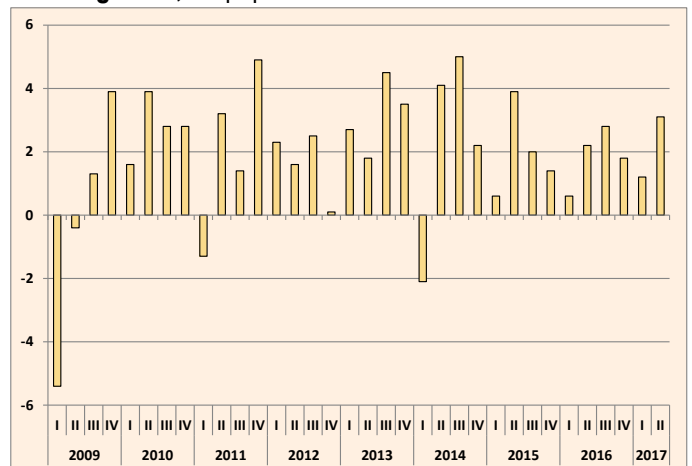
The Federal Open Market Committee left the policy rate unchanged at 1.0-1.25%. Consumer prices continued to grow in August. All the major price indexes posted growth but the energy price index expanded most on the back of growing prices of energy commodities. Both national and Texas housing markets sustained negative developments in August, mainly due to low inventory and continued price growth.

Economic Growth

The Bureau of Economic Analysis made little changes to its GDP growth data. The third estimate showed that real GDP expanded by 3.1% qoq in Q2 which is just 0.1 percentage points above the previous estimate. The general picture of economic growth remained the same as in the previous estimate with the only notable change being faster growth of private inventory investment.

National industrial production declined in August after six months of growth. A 0.9% mom decline was the result of decreases in all major industrial

1. GDP growth, % qoq at annual rates



Source: The U.S. Bureau of Economic Analysis

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production components. Utilities posted the largest decline of 5.5% mom due to lower demand for air conditioning caused by unseasonably mild temperatures. Mining declined by 0.8% mom as oil and gas extraction activities were temporarily curtailed because of Hurricane Harvey. Manufacturing dropped 0.3% mom because a 0.3% mom increase in durables was more than offset by a 0.9% mom decline in both nondurables and other manufacturing. Motor vehicles and parts posted the largest increase among durables at 2.2% mom, while the decline in nondurables was driven by drops in chemicals and petroleum and coal products which were related to Hurricane Harvey. Total industrial production was 1.5% higher than a year ago thanks to expansion of manufacturing (1.5% yoy) and

mining (9.7% yoy). The growth could be higher, if not for a 7.8% yoy decline in utilities.

The US manufacturing further expanded in August. The PMI index of the Institute for Supply Management advanced by 2.5 percentage points to 58.8%. All the PMI components but the customers' inventories remained above the 50% threshold meaning that all of them posted growth. Furthermore, five out of ten components further expanded, including production, inventories, and backlog of orders, and two more remained almost unchanged (new orders and prices). Fourteen of the total eighteen manufacturing industries reported growth and only three industries reported the decline. Those three were: apparel, leather and allied products; primary metals; and furniture and related

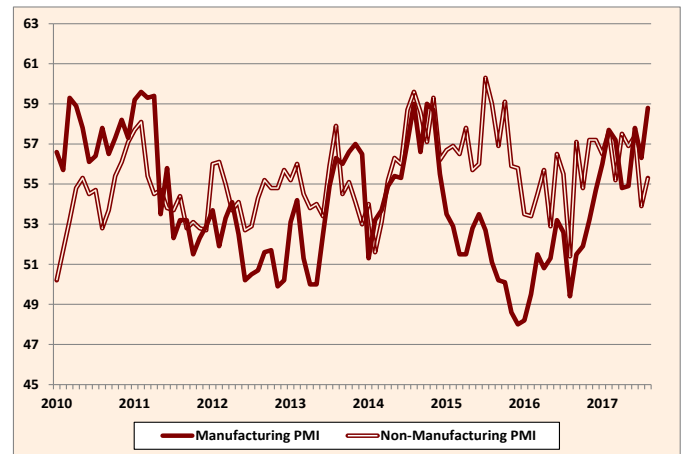
products.

The non-manufacturing sector expanded again in August. According to the Institute for Supply Management, the NMI index was 1.4 percentage points higher at 55.3% as compared to July. All the NMI components were above 50% but almost a half of them so their growth decelerating. Furthermore, supplier deliveries and imports saw their indexes falling to 50.5% level meaning they remained almost flat during the reporting month. At the same time, 15 non-manufacturing industries reported growth, while only two ones reported contraction. The decline was observed in agriculture, forestry, fishing and hunting and in transportation and warehousing.

Consumer confidence further strengthened in US in August. The Conference Board Consumer Confidence

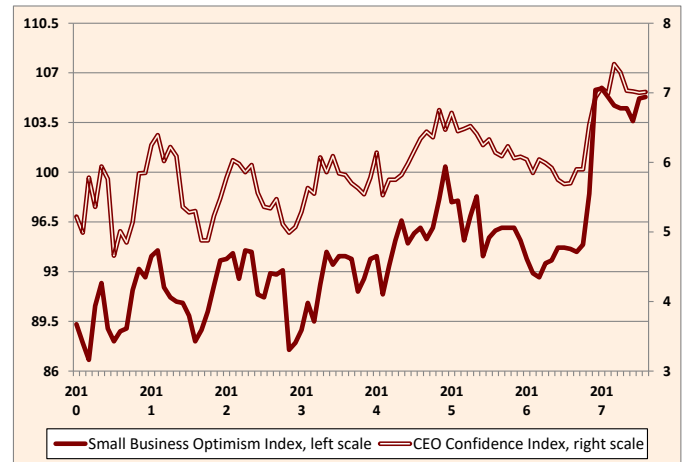
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2. PMI, indexes



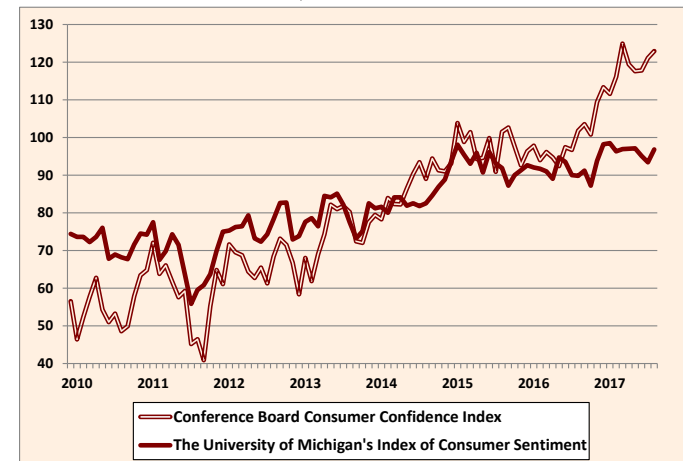
Source: Institute for Supply Management

3. Business confidence, indexes



Source: Chief Executive. National Federation of Independent Business

4. Consumer confidence, indexes



Source: Conference Board, The University of Michigan

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Index edged up to 122.9 thanks to improvements in both perceptions of the present situation and expectations which was reflected in growth of both the Present Situation Index and in the Expectations Index. Consumers' appraisal of current conditions improved again, while optimism regarding the short-term outlook remained relatively flat. Appraisal of current conditions improved on the back better perceptions of both business conditions and labor market situation. As for the short-term outlook, the number of those expecting improvements in business conditions declined but the same is true for the number of those expecting business conditions to worsen.

The Texas economy expanded in August. One of the reasons was further expansion of the Texas factory activity. The production index edged down to 20.3 meaning that there was some deceleration in manufacturing production growth compared to July. Other measures of current manufacturing activity remained on the upward trend although most of them also experienced some slowing of the growth pace. Expectations regarding future business conditions further improved.

Similarly to manufacturing sector, Texas service sector saw decelerated growth in August. The revenues index moved down from 15.7 to 14.2. Labor market indicators saw similar developments indicating slower growth in the reporting month. At the same time, perceptions of broader economic conditions improved, same as expectations regarding future business conditions.

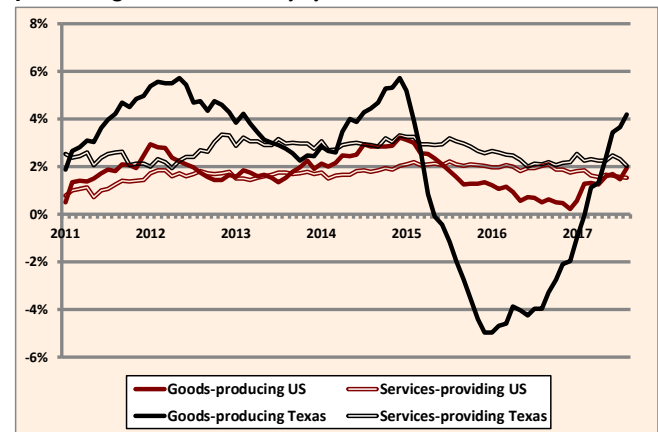
Consumer confidence strengthened in August after four months of softening. The Conference Board Consumer Confidence Index increased by 11.7 basis points to 145.4. As in the previous months of the year, consumer confidence in Texas remained stronger than the average in the country in general.

At the end of August, the Texas rig count inched down to 452.

Employment

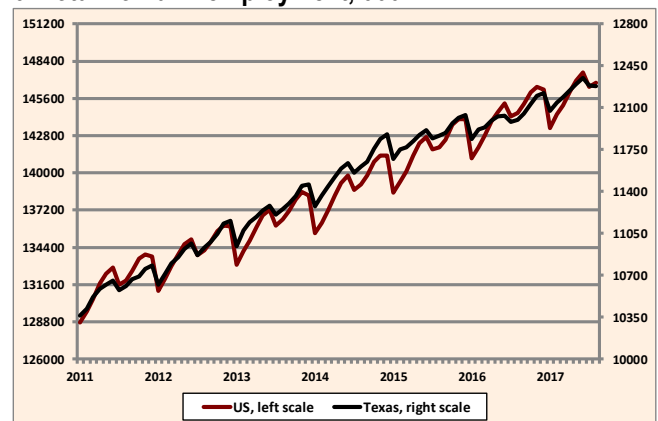
The US labor market conditions further moderately improved in August. The employment increased again and the unemployment sustained little changes. In particular, total nonfarm payroll employment expanded by 208,000 or 0.1% mom. Manufacturing generated 44,000 new jobs which is a 0.4% mom increase. Construction was the second best with 31,000 new jobs (a 0.4% mom increase). Then professional and technical services and health care followed with 59,000 and 17,100 job gains respectively (up by 0.3% and 0.1%). Mining with food services and drinking places also reported some employment increases. Other major industries showed little employment changes over the month. In over-year terms, total nonfarm employment expanded by 2.146 million or 1.5%. The number of unemployed sustained little changes staying at 7.1 million. Therefore, the unemployment rate remained unchanged at 4.4%.

5. Jobs growth in private goods-producing and service providing industries, % yoy



Source: Bureau of Labor Statistics

6. Total nonfarm employment, 000



Source: Bureau of Labor Statistics

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Texas labor market conditions saw little changes in terms of employment in August. Total nonfarm employment remained flat. The number of industries with gains in employment was almost equal to the number of industries with employment declines. Wholesale trade was the leader in employment growth with 3,700 new jobs (a 0.6% mom growth). Other best gainers were transportation, warehousing and utilities (3,400 new jobs or a 0.6% mom increase) and leisure and hospitality (3,200 jobs or a 0.2% mom increase). The largest employment drop was registered by the other services (6,000 jobs or a 1.3% mom decline). Professional and business activities also saw a significant employment drop of 5,400 jobs or 0.3% mom. In year-over-year terms, employment expanded by 280,800 or 2.3. The number of unemployed further decreased but at slower pace compared to July (by 17,495 or 3.0% mom). As a result, the unemployment rate posted another marginal decline to 4.2%.

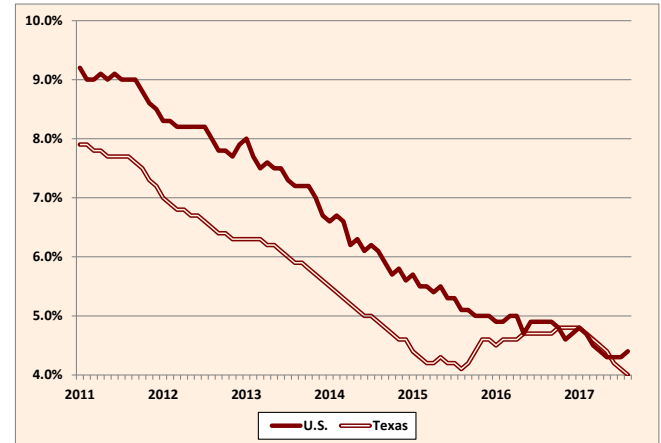
Monetary Policy and Asset Prices

After rigorous analysis of the most recent economic data available, the Federal Open Market Committee have found no grounds to change the target range for the policy rate leaving it at 1.0-1.25%. Monetary policy remained accommodative.

Consumer prices continued to grow in August. A 0.4% mom increase of the all items price index was the result of increases in all the major indexes but the main driver of growth was expanding energy index. Energy prices saw a 2.8% mom increase in the reporting month thanks to a 6.1% mom expansion of energy commodity prices. Food index and all items less food and energy index experienced insignificant gains of 0.1% mom and 0.2% mom respectively. In over year terms, there were little changes in consumer price dynamics in August. The all items index growth remained unchanged at 1.9% yoy which was the result mainly of a 6.4% yoy expansion in the energy index which was supported by 1.1% yoy and 1.7% yoy increases in the food index and all items less food and energy index respectively.

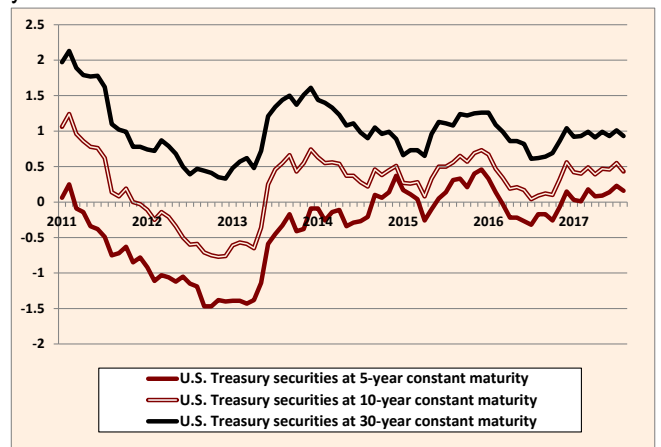
Both national and Texas housing markets saw mostly negative developments in August. The existing-home sales further declined in August. The 1.7% mom decrease to a seasonally adjusted annual rate of 5.35 million due to inadequate level of available inventory and growth in prices which together restrain sales despite

7. Jobless rate, %



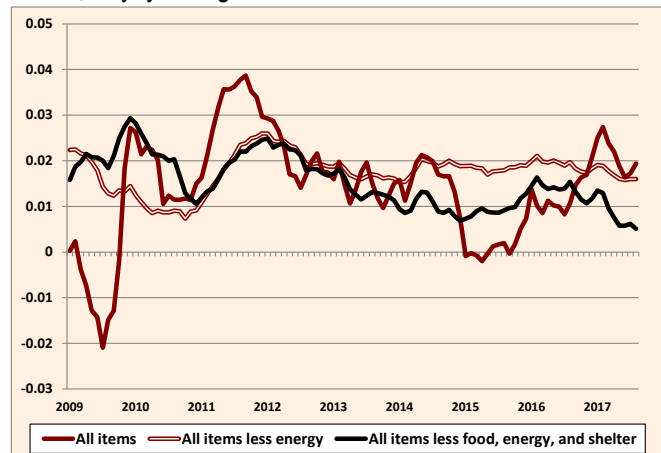
Source: Bureau of Labor Statistics

8. Borrowing rates (quoted on investment basis), % per year inflation indexed



Source: Federal Reserve System

9. CPI, % yoy change



Source: Bureau of Labor Statistics

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sustained buyer interest. In over-year terms, existing-home sales inched down by 0.2%. The median existing-home price posted another solid growth of 5.6% yoy to USD 253,500. At the same time, total housing inventory dropped 2.1% mom to 1.88 million existing homes available for sale. This level is 6.5% below that observed in August 2016. Unsold inventory remained unchanged at 4.2-month supply at the current sales pace. Texas actual existing-home sales declined again in August. They dropped 1.7% mom to 31,098. This led to over-year sales trend reversal to a 5.2% decline. The median existing-home price continued to grow. It expanded by 5.9% yoy. The unsold inventory remained unchanged at 4.1-month supply at the current sales pace.

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