

November 2017

Valentyn Povroznyuk, Edilberto L. Segura

- **The Bureau of Economic Analysis has revised upwards its estimate for real GDP growth in Q2 to 3.3% quarter-over-quarter (qoq).**
- **The national industrial production growth accelerated to 0.9% month-over-month (mom) in October.**
- **In October, the Texas economy returned to decent growth.**
- **Labor market conditions improved in terms of both employment and unemployment in the US in October.**
- **Improvements in Texas labor market conditions were even more significant.**
- **Consumer prices remained almost flat in October after two months of growth.**
- **Housing market conditions mostly deteriorated both in Texas and in the US in general in October.**

Executive Summary

According to the most recent data, real GDP grew a bit faster than previously estimated. The Bureau of Economic Analysis revised upwards its estimate to 3.3% qoq. This improvement was the result of significant changes in GDP components.

The US industrial production posted accelerated growth in October. Manufacturing and utilities were drivers of growth, while mining posted a decline. That decline was the result of contraction in all mining components. Manufacturing grew thanks to decent growth of both durables and nondurables.

Improvements in both present situation perception and expectations led to strengthening of consumer confidence at the country level in October. The Conference Board Consumer Confidence Index moved up by 5.3 basis points to 125.9.

Growth of the Texas economy accelerated in October. This was the result of faster growth in factory activity supported by further expansion of the service sector. Furthermore, both manufacturing and service sectors saw improvements in assessment of both present situation and short-term outlook. At the same time, there was a small decline in the Texas rig count and some softening in consumer confidence.

The labor market conditions posted notable improvements at both national and Texas level in October. Furthermore, improvements were registered in terms of employment and unemployment. However, improvements in Texas were more significant. Texas reported more newly created jobs in relative terms and more significant decline in unemployment.

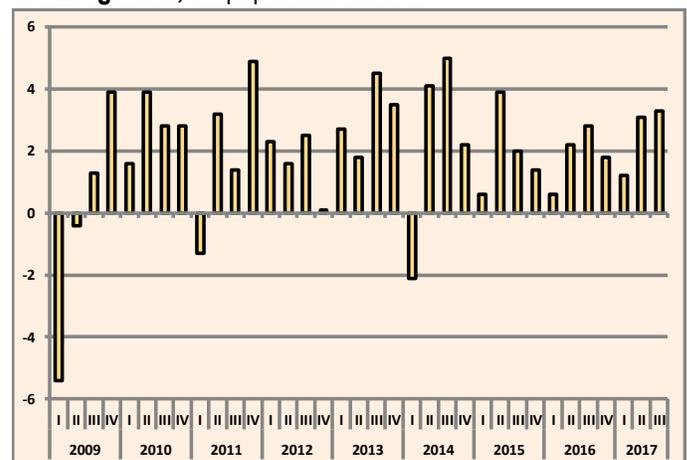
Consumer inflation saw deceleration in growth in October. The all items index remained almost flat because of trend reversal in the energy sector which was the main driver of price dynamics for most of the year. Housing market experienced mostly negative changes in the US in general and in Texas in particular.

Economic Growth

Real GDP growth was faster in Q3 than previously estimated. The Bureau of Economic Analysis has issued its second estimate of GDP growth showing growth at 3.3% qoq which is 0.3 percentage points faster than in the advanced estimate. The most notable changes of the second estimate were in dynamics of the nonresidential fixed investment (from 3.9% qoq to 4.7% qoq growth), residential fixed investment (from 6.0% qoq to 5.1% qoq decline), and state and local government spending (from 0.9% qoq to 0.1% qoq decline).

Growth of the national industrial production significantly accelerated in October. Industrial production increased by 0.9% mom. This growth was generated by a 1.3% mom increase in

1. GDP growth, % qoq at annual rates



Source: The U.S. Bureau of Economic Analysis

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manufacturing and a 2.0% mom increase in utilities, while a 1.3% mom decline in mining partially offset those increases. Manufacturing growth was the result of expansion in both durables and nondurables. Durables rose on the back of a 1.0% mom increase in motor vehicles and parts. Growth was widespread among nondurables producers but was mainly driven by return to normal operation of chemical and petroleum and coal industries which posted increases of 5.8% mom and 4.0% mom respectively. The decline in mining was the result of drops in all its major components. Positive changes in monthly dynamics led to acceleration of the over-year growth in industrial production. Total production rose by 2.9% yoy being stimulated by increases in all major components ranging from

0.9% yoy for utilities to 6.4% yoy for mining.

National manufacturing continued to grow in October but at slower pace compared to September. The PMI index of the Institute for Supply Management dropped 2.1 percentage points to 58.7 almost returning to its reading in August. The decline was the result of negative dynamics in most of the PMI components. Only customers' inventories index expanded in October and imports index remained flat. All the rest of the PMI components posted declines. Furthermore, the inventories index joined customers' inventories in a group of indexes below 50% after a 4.5 percentage point drop. Falling below 50% means that the index reversed its development trend from growth to decline. At the same time, sixteen manufacturing industries reported growth and the remaining two reported the same level of activity as September.

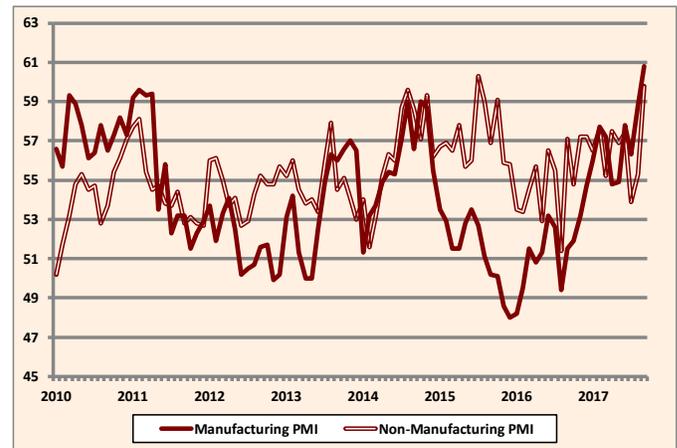
Unlike the manufacturing sector, the non-manufacturing sector further accelerated its growth in October. The NMI index inched up by 0.3 percentage points to 60.1%. All the NMI components remained above the 50% threshold but three of them posted declines meaning that their growth decelerated. Two more indexes remained unchanged from September. Sixteen non-manufacturing industries reported growth and only two reported declines. Those were educational services and arts, entertainment and recreation.

Consumer confidence improved again in October. The Conference Board Consumer Confidence Index moved to 125.9 from upwardly revised 120.6 in September. Both present situation perceptions and

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2. PMI, indexes



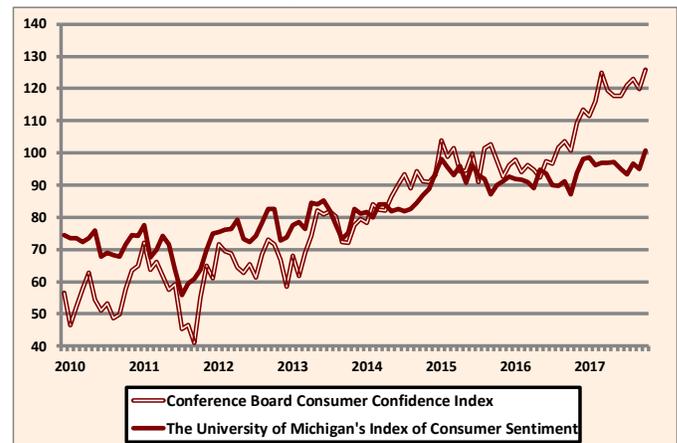
Source: Institute for Supply Management

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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expectations saw significant improvements reflected by notable growth of the respective indexes. Consumers' assessment of the current conditions improved in terms of both business conditions and labor market. At the same time, short-term outlook saw improvements in terms of business conditions, while consumers were somewhat less optimistic about labor market conditions.

The Texas economy returned to solid growth in October. Growth of the factory activity accelerated during the month. The production index rose by six points to 25.6 which is the highest reading since April 2014. Similarly, there was a pickup in growth in other measures of current manufacturing, same as in perceptions of broader business conditions, and labor market measures. Expectations regarding future business conditions remained highly optimistic.

Texas service activity further expanded in October. The revenue index posted a 3.3 basis points increase to 19.2. Labor market indicators, same as perceptions of broader economic conditions, improved after one month of deterioration in September. Expectations regarding future business conditions continued to improve and reflected more optimism in October.

Consumer confidence softened a bit again in October. The Conference Board Consumer Confidence Index edged down from 126.5 to 125.5. As a result, Texas consumer confidence was weaker than that at the country level for the first time in more than four years.

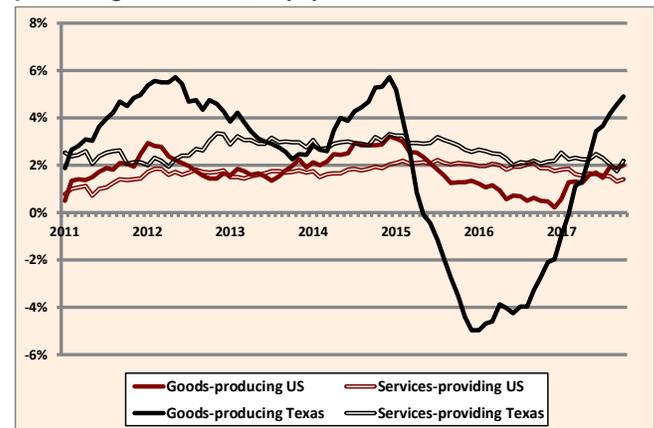
Despite a 4.2% monthly increase in September, Texas exports saw their over-year growth slightly decelerated to 8.3%. Furthermore, exports declined by 1.9% in Q3 despite a 14.2% growth of exports to China and a 0.9% growth of exports to Mexico. The reason for the decline was decline in exports to other world regions. Leading export merchandise groups – computers and electronics, on the one hand, and petroleum and coal, on the other – posted declines (10.8% and 2.8% respectively).

The Texas rig count posted another small decline reaching 449 by the end of October.

Employment

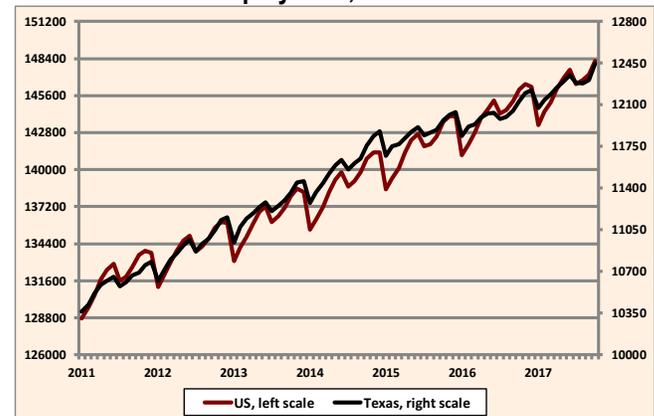
In October, the national labor market conditions improved in terms of both employment and unemployment. Total nonfarm payroll employment grew by 211,000 or 0.1% mom. Compensating for the previous month's decline, food services and drinking places posted the sharpest growth in employment of 77,900 new jobs or 0.7% mom. Professional and business services also reported large employment gains of 186,000 or 0.9% mom. Manufacturing and health care reported significantly smaller but still large increases in employment (23,000 or 0.2% mom and 61,700 or 0.4% mom respectively). Other major industries saw little changes in employment. In over-year terms, total nonfarm payroll employment increased by 1.983 million or 1.4%. The unemployment rate edged down to 4.1% as the number of unemployed decreased by 281,000 to 6.5 million.

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 posted notable improvements in both employment and unemployment in October. Total nonfarm employment added 67,300 new jobs (a 0.5% mom increase). This growth was driven by large job gains in leisure and hospitality and in retail trade. Employment in leisure and hospitality expanded by 29,600 or 2.3% mom more than offsetting a large decline a month ago. Retail trade generated 10,600 new jobs (a 0.8% mom growth). Many other industries also reported employment increases, although those increases were less significant. Only four industries posted employment declines with the largest one in information services (1,400 jobs or 0.7% mom). Positive monthly dynamics led to some acceleration in over-year employment growth. Total nonfarm employment expanded by 311,900 or 2.6%. The decline in the number of unemployed accelerated to 23,870 or 4.4% mom in October. These developments led to further decline in the unemployment rate (to 3.9%).

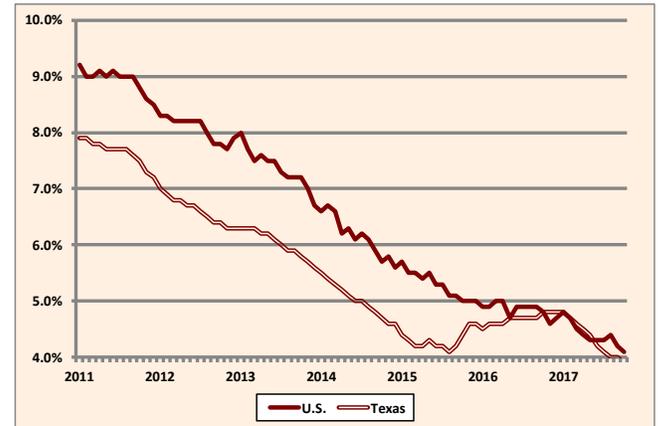
Monetary Policy and Asset Prices

After two months of acceleration, growth of consumer prices decelerated in October. It decelerated from 0.5% mom to a tiny 0.1% mom. Changes in consumer prices dynamics were the result of trend reversal in the energy price index. After a 6.1% mom increase in September, energy prices dropped 1.0% mom in September due to decline in gasoline prices and significant deceleration in growth of fuel oil prices. Food prices were flat in the reporting month, while all items less food and energy inched up by 0.2% mom. Changes in monthly dynamics of consumer prices led to some deceleration of their year-over-year growth. Growth of the all items price index decelerated to 2.0% mainly due to slower growth of energy prices (6.5% yoy) and of food prices (1.3% yoy). Growth of prices of all items less food and energy prices remained almost unchanged at 1.8% yoy.

The housing market saw mostly negative developments at both national level and in Texas in October. The national existing-home sales posted the strongest growth since summer but other housing indicators saw rather negative developments. Total existing-home sales expanded by 2.0% mom to a seasonally adjusted annual rate of 5.48 million. At the same time, they remained below a year ago level by 0.9%. The median existing-home price increased again reaching USD 247,000

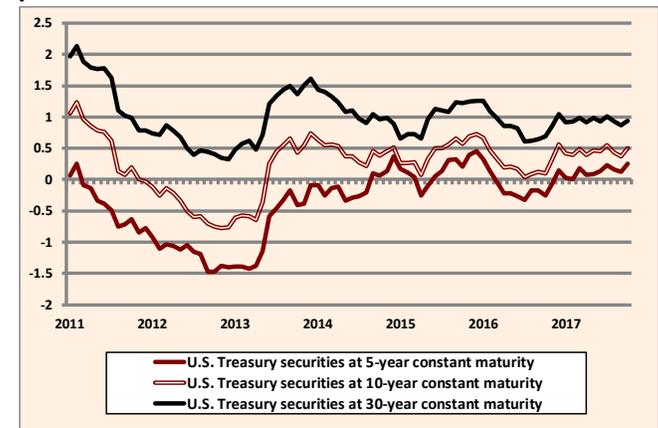
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7. Jobless rate, %



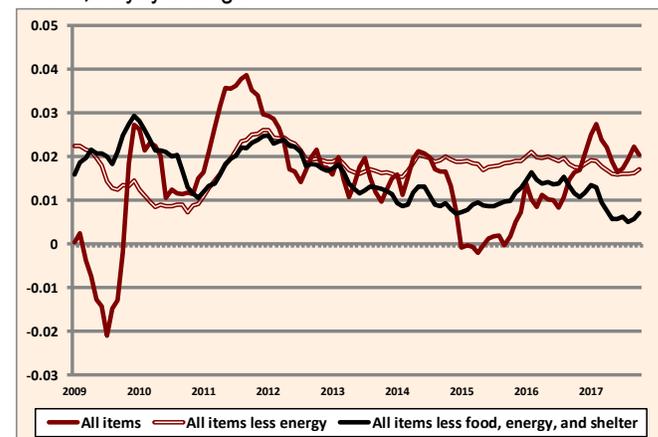
Source: Bureau of Labor Statistics

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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(5.5% yoy gain). Total housing inventory continued to decline in October marking the 29th consecutive monthly decrease. They dropped 3.2% mom to 1.8 million existing homes available for sale which is 10.4% lower than a year ago. Unsold inventory remained at edged down from 4.2- to 3.9-month supply at the current sales pace. Texas actual existing-home sales decreased again in October. They dropped 4.9% mom to 27,068 actual sales which was, however, 5.9% above the year ago level. At the same time, the upwards trend of the median existing-home price continued. The price posted a 5.2% yoy growth to USD 219,900. The unsold inventory posted another small decline to 3.8-month supply at the current sales pace.

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