

## Top Headline: Hurricane Harvey Weighs on U.S. Economy

Data released this past week offered insight into the impact of Hurricanes Harvey and Irma on economic activity. The direct damage from both is expected to exceed \$150 billion according to Moody's Analytics, putting them on par with Hurricane Katrina. However, secondary effects are likely to be far greater. Industrial production data for August provided the first hint, with output falling by nearly 1% due to outages at electrical utilities. In addition, the hurricanes had a negative impact on consumer spending, with vehicle sales falling by 1.6%. As a result, forecasts for third quarter GDP growth have been revised down sharply.

Apart from the hurricane, economic data remains relatively positive. High levels of consumer sentiment portend a recovery in consumer spending, and an easing of financial conditions has helped bolster lending and investment.

## Other News

At its most recent meeting last week, the Bank of England left its benchmark interest rate unchanged but set the groundwork for a possible rate rise later in the year. The MPC pointed to low unemployment and above-target inflation as evidence that the UK economy is strengthening. As such, the majority of the MPC agreed that "some withdrawal of monetary stimulus was likely to be appropriate over the coming months." Financial markets are currently pricing in a 42% chance of a UK rate hike in November, and 54% chance by the end of the year.

## On Tap This Week

This week is highlighted by September's FOMC meeting which could bring the initiation of the drawdown of the Fed's balance sheet.

## Past Week's Releases

| Date       | Indicator               | Period | Prev.    | Exp.  | Act.  | Comment   |
|------------|-------------------------|--------|----------|-------|-------|---|
| W 9/13/17  | PPI                     | Aug    | -0.1%    | 0.3%  | 0.2%  | Headline PPI rises to 2.4% year-over-year                             |
| W 9/13/17  | Core PPI                | Aug    | -0.1%    | 0.2%  | 0.1%  |   |
| Th 9/14/17 | CPI                     | Aug    | 0.1%     | 0.3%  | 0.4%  | Headline CPI propelled by energy prices; core remains subdued         |
| Th 9/14/17 | Core CPI                | Aug    | 0.1%     | 0.2%  | 0.2%  |   |
| Th 9/14/17 | Initial Jobless Claims♦ | Sep 9  | 298K     | 302K  | 284K  | Volatility in claims rises after Hurricanes Harvey and Irma           |
| F 9/15/17  | Advance Retail Sales    | Aug    | 0.3% r↓  | 0.1%  | -0.2% | Retail sales decline in August, largely due to drop in auto component |
| F 9/15/17  | Sales Less Autos        | Aug    | 0.4% r↓  | 0.5%  | 0.2%  |   |
| F 9/15/17  | Industrial Production   | Aug    | 0.2%     | 0.4%  | -0.9% | Manufacturing activity falls by 0.3% in August                        |
| F 9/15/17  | Capacity Utilization    | Aug    | 76.9% r↑ | 76.7% | 76.1% |   |

Actual < Expected

Actual > Expected

♦ Leading Indicator

## Market Activity

| Indicator         | Open   | Close  | ΔWeek | Δ3M    |
|-------------------|--------|--------|-------|--------|
| DJIA              | 21798  | 22268  | 2.16% | 4.25%  |
| S&P 500           | 2461.4 | 2500.2 | 1.58% | 2.79%  |
| USD*              | 91.35  | 91.87  | 0.57% | -5.71% |
| 10-Year Treasury* | 2.05%  | 2.20%  | 0.15% | 0.04%  |

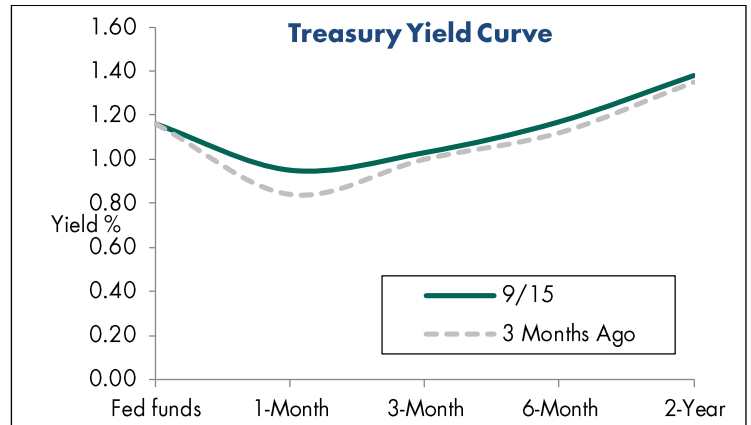
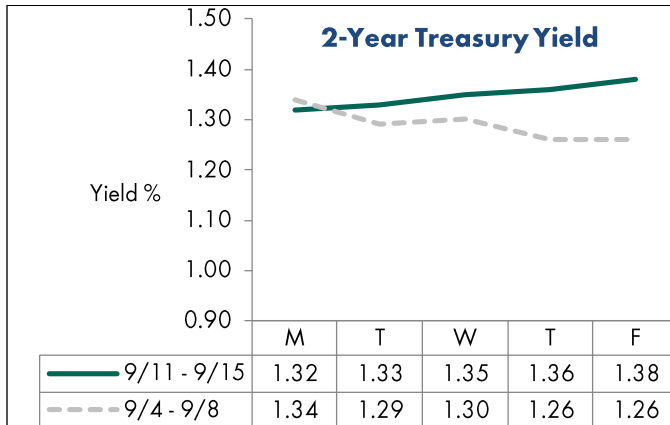
\*ICE U.S. Dollar Index Spot Price

\*Absolute change in yield over specified time period

## Upcoming Releases

| Date       | Indicator                   | Period  | Prev.       | Exp.        |
|------------|-----------------------------|---------|-------------|-------------|
| T 9/19/17  | Housing Starts              | Aug     | 1155K       | 1174K       |
| T 9/19/17  | Building Permits♦           | Aug     | 1223K       | 1220K       |
| T 9/19/17  | Import Prices               | Aug     | 0.1%        | 0.4%        |
| W 9/20/17  | Existing Home Sales         | Aug     | 5.44M       | 5.46M       |
| W 9/20/17  | FOMC Meeting                | Sept    | 1.00%-1.25% | 1.00%-1.25% |
| Th 9/21/17 | Initial Jobless Claims♦     | Sept 16 | 284K        | 300K        |
| Th 9/21/17 | Leading Index♦              | Aug     | 0.3%        | 0.3%        |
| Th 9/21/17 | Phil. Fed Business Outlook♦ | Sept    | 18.9        | 18.0        |

## Yield Curve Highlights



## Detailed Economic Releases

| 9/13/2017 | Prev. | Exp. | Act. |
|-----------|-------|------|------|
| PPI       | -0.1% | 0.3% | 0.2% |
| Core PPI  | -0.1% | 0.2% | 0.1% |

August's producer price report supports concerns regarding low levels of inflation. PPI less food & energy finished at 0.1%, while the headline index rose by just 0.2%. Despite the poor monthly data, year-over-year headline PPI rose from 1.9% to 2.4%, core PPI rose from 1.8% to 2.0%, and PPI less food, energy, & trade services was unchanged at 1.9%.

**Summary: Monthly PPI numbers come in below expectations, however year-over-year inflation rises.**

| 9/14/2017 | Prev. | Exp. | Act. |
|-----------|-------|------|------|
| CPI       | 0.1%  | 0.3% | 0.4% |
| Core CPI  | 0.1%  | 0.2% | 0.2% |

Consumer prices increased by 0.4% in August after rising by 0.1% in the month before. Core CPI was slightly less positive, with prices rising by just 0.2% after a 0.1% increase in the prior month. Housing prices, which had been moderating in recent months, were once again a prime contributor, rising by 0.4%. On a more granular level, lodging away from home reversed its decline in July with a 4.4% price surge for the month. Energy prices also rose by 2.8% in August, partially reflecting the effects of Hurricane Harvey. Year-over-year headline CPI rose from 1.7% to 1.9%, while core CPI was unchanged at 1.7%.

**Summary: A rise in headline CPI was largely driven by a jump in energy prices, a trend which is likely to continue into September's report.**

| 9/14/2017              | Prev. | Exp. | Act. |
|------------------------|-------|------|------|
| Initial Jobless Claims | 298K  | 302K | 284K |

First time claims for jobless benefits decreased by 14,000 to 284,000 in the week ended September 9<sup>th</sup>. The higher level, as well as increased volatility, can be linked to the after-effects of Hurricanes Harvey and Irma. The four-week average of initial claims, which smoothes volatility inherent in the weekly number, rose to 263,250 from 250,250. Continuing claims for unemployment benefits fell to 1.94 million in the week ended September 2<sup>nd</sup>. The insured unemployment rate, which tends to track the overall jobless rate, was unchanged at 1.4%.

**Summary: Hurricanes Harvey and Irma lead to volatility in claim levels.**

| 9/15/2017            | Prev.  | Exp. | Act.  |
|----------------------|--------|------|-------|
| Advance Retail Sales | 0.3%r↓ | 0.1% | -0.2% |
| Sales Less Autos     | 0.4%r↓ | 0.5% | 0.2%  |

Retail sales fell by 0.2% in August, and sales from July were revised down from an initial 0.6% gain to just 0.3%. Weakness in auto sales, which fell by 1.6%, suggests that Hurricane Harvey has had a negative impact. Sales less autos were slightly better, rising by 0.2% following July's 0.4% increase. Restaurant sales climbed by 0.3% for the month, furniture sales were up 0.4%, and general merchandising rose 0.2%. Surprisingly, sales at non-store retailers fell back by 1.1% and sales of building materials fell by 0.5%.

**Summary: Retail sales declined in August, and July's positive numbers were revised down.**

| 9/15/2017             | Prev.    | Exp.  | Act.  |
|-----------------------|----------|-------|-------|
| Industrial Production | 0.4% r↑  | 0.1%  | -0.9% |
| Capacity Utilization  | 76.9% r↑ | 76.7% | 76.1% |

Industrial Production fell by 0.9% in August while manufacturing production decreased by 0.3%. The latter reflects declines in production of machinery and nondurables, which more than offset a rise in vehicle production. Mining activity fell by 0.8% for the month and utilities fell by 5.5% on force outages following Hurricane Harvey. August's weakness can also be seen in capacity utilization, which fell by 0.8% to 76.1%. Much like retail sales, the impact of the recent hurricanes will likely be seen in September's numbers as well.

**Summary: Industrial production negatively impacted by Hurricanes Harvey and Irma, as well as drop in manufacturing output.**

## About Us

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