

## Top Headline: Trade Deficit Balloons

On Wednesday the U.S. Commerce Department published international trade data for the month of July. The report showed a sharp month-over-month increase in the trade deficit, from \$45.7 billion to \$50.1 billion. This was due both to an increase in the goods deficit as well as a decrease in the surplus of services. In addition, the trade deficit for the first seven months of the year increased by \$22 billion year-on-year, reaching the highest level seen in a decade. This trend seems likely to continue moving forwards, as demand for imports is bolstered by the recent fiscal stimulus and tax reform, while export demand is hurt by a stronger dollar.

## Other News

Productivity of nonfarm workers, measured by total goods and services produced, increased by an annualized rate of 2.9%, the best result since the first quarter of 2015. This compares to a trend rate of 1.3% year-on-year from 2007 to 2017. The uptick in productivity growth may suggest that increased business investment is finally translating into production numbers. Alternatively, it may just be a one quarter blip in the data.

## On Tap This Week

This upcoming week is highlighted by industrial production and retail sales data for August.

## Past Week's Releases

Date	Indicator	Period	Prev.	Exp.	Act.	Comment
T 9/4/18	ISM Manufacturing	Aug	58.1	57.7	61.3	Strong manufacturing levels supported by increased orders and backlogs.
W 9/5/18	Trade Deficit	Jul	\$46.3B	\$50.2B	\$50.1B	The trade deficit increased quarter-on-quarter and may negatively impact third quarter GDP.
Th 9/6/18	Initial Jobless Claims♦	Sep 1 <sup>st</sup>	213K	213K	203K	Jobless claims remain at historic lows.
Th 9/6/18	Nonfarm Productivity	Q2 2 <sup>nd</sup>	2.9%	3.0%	2.9%	Characterized by increased production and decreased hours worked.
Th 9/6/18	Unit Labor Costs	Q2 2 <sup>nd</sup>	-0.9%	-1.0%	-1.0%	
Th 9/6/18	ISM Non-Manufacturing	Aug	55.7	56.8	58.5	Non-manufacturing increased due to increased orders, backlogs, and new export orders.
F 9/7/18	Nonfarm Payrolls	Aug	157K	195K	201K	Wages increased and unemployment remained low.
F 9/7/18	Unemployment Rate	Aug	3.9%	3.8%	3.9%	

Actual < Expected      Actual > Expected      ♦ Leading Indicator

## Market Activity

Indicator	Open	Close	ΔWeek	Δ3M
DJIA	25965	25917	-0.19%	2.67%
S&P 500	2901.5	2871.7	-1.03%	3.66%
USD*	95.14	95.37	0.24%	2.07%
10-Year Treasury*	2.86%	2.94%	0.08%	0.02%

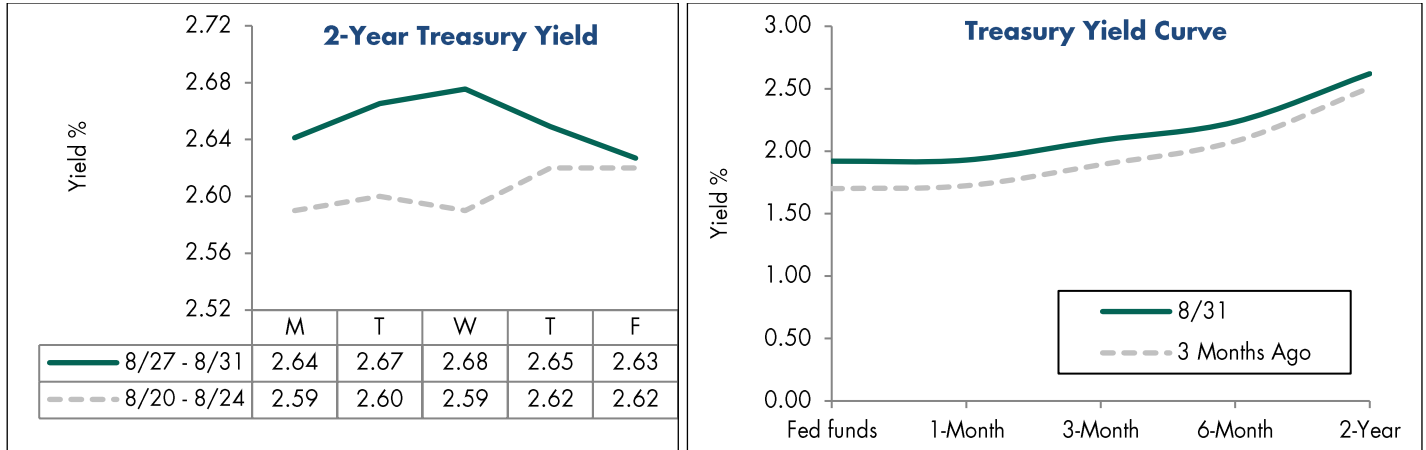
\*ICE U.S. Dollar Index Spot Price

\*Absolute change in yield over specified period

## Upcoming Releases

Date	Indicator	Period	Prev.	Exp.
M 9/10	Consumer Credit	Jul	\$10.2B	\$14.0B
W 9/12	PPI	Aug	0.0%	0.2%
W 9/12	Core PPI	Aug	0.1%	0.2%
Th 9/13	CPI	Aug	0.2%	0.3%
Th 9/13	Core CPI	Aug	0.2%	0.2%
Th 9/13	Initial Jobless Claims♦	9/8	203K	210K
F 9/14	Industrial Production	Aug	0.1%	0.3%
F 9/14	Capacity Utilization	Aug	78.1%	78.2%
F 9/14	Retail Sales	Aug	0.5%	0.4%
F 9/14	Sales Less Autos & Gas	Aug	0.6%	0.5%

## Yield Curve Highlights



## Detailed Economic Releases

9/4/2018	Prev.	Exp.	Act.
ISM Manufacturing	58.1	57.7	61.3

ISM Manufacturing came in above the consensus, supported by new orders up almost 5 points, and backlogs up from 54.7 to 57.5. Production increased, though there was stress on capacity reflected by higher delivery times and input costs. Despite these drawbacks, inventories of raw materials and finished goods both increased.

**Summary: ISM Manufacturing was strong in August, though indicators such as delivery times and input costs increased.**

9/5/2018	Prev.	Exp.	Act.
Trade Deficit	\$46.3B	\$50.2B	\$50.1B

The trade deficit increased to \$50.1B for August from \$46.3B in July. The goods deficit increased to \$73.1B, and the services surplus fell to \$23.1B. Exports of capital goods, foods & feeds, and consumer goods all fell by \$1.0B, \$1.6B, and \$0.9B respectively. Imports of consumer goods fell by \$0.8B, while capital goods increased by \$0.7B and autos increased by \$0.5B. The deficit with China increased to \$36.8B, while the EU deficit was at \$17.6B, and the Canadian deficit was \$3.2B.

**Summary: July's trade deficit was significantly larger than in June, and points to negative effects on third-quarter GDP.**

9/6/2018	Prev.	Exp.	Act.
Initial Jobless Claims	213K	213K	203K

Jobless claims again came in below expectations, with initial claims for the week down by 10,000 and the four-week average down 2,750. Both results are the lowest seen since 1969. Continuing claims decreased by 3,000 with the four-week average down 2,750, also to the lowest level seen since 1973. Results from five states had to be estimated, though the report clearly demonstrates strong demand for labor.

**Summary: Jobless claims continue to fall reflecting strong demand for labor and employee retention.**

9/6/2018	Prev.	Exp.	Act.
Nonfarm Productivity	2.9%	3.0%	2.9%
Unit Labor Costs	-0.9%	-1.0%	-1.0%

Output increased by 5.0% in the second quarter compared to a 2.6% increase in the first quarter, while hours worked decreased from 2.3% to 2.0% quarter-on-quarter. Real compensation also slowed, rising by 0.2% compared to a year-on-year rate of 0.5%.

**Summary: Increasing production paired with decreasing hours worked reflects the impact of stronger business investment.**

9/6/2018	Prev.	Exp.	Act.
ISM Non-Manufacturing	55.7	56.8	58.5

ISM Non-Manufacturing grew significantly from 55.7 in July to 58.5 in August. This growth was supported by increases in new orders and backlog orders, as well as an increase in new export orders. Output and employment also expanded, though input costs continue to rise and delivery times continue to lengthen. The latter suggests that there may be some supply-side pressures coming into play.

**Summary: This report reflects growth over the month, exemplified by increases in new orders and backlog orders as well as long delivery times.**

9/7/2018	Prev.	Exp.	Act.
Nonfarm Payrolls	157,000	195,000	201,000
Unemployment Rate	3.9%	3.8%	3.9%

Hourly wages increased by 0.4% in August, with the year-on-year rate also up by 0.2% to 2.9%. Nonfarm payroll growth also came in above expectations at 201,000. There was a 3,000 decrease in manufacturing jobs, ending a strong run, though construction and mining are still growing. Additionally, trade & transportation and professional services both increased. The household survey reported an unemployment rate consistent at 3.9%, but a decrease in the labor participation by 0.2% to 62.7%.

***Summary: Increasing wages and full employment levels leave open the possibility of an acceleration in wage growth, which could cause the Fed to speed up rate hikes in order to keep inflation from materially overshooting its 2% target.***

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## About Us

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