Weekly Economic Review: October 29th – November 2nd, 2018

Top Headline: Wages Grow at Strongest Rate Since 2008

Wages and salaries rose at the highest rate since the second quarter of 2008, at a rate of 3.1% year-on-year. As the labor market continues to tighten and with current unemployment levels at a strong 3.7%, this indicator suggests that wages are increasing and are being paid out to more and more workers. Other indicators support these numbers, with nonfarm payrolls increasing by 250K. Assuming this progress holds it bolsters the Fed's case to continue its path of monetary tightening.

Other News

After almost twenty years in the position, Angela Merkel announced that she is stepping down as chairwoman of the German Christian Democratic Union. The announcement came following poor results in a local election last weekend. Merkel stated that she will not run for chancellor at the next scheduled elections in 2021, though some are calling for her to step down immediately. Given the amount of time Merkel has been in the leadership position, her announcement may cause political instability at a time of economic and social challenges for Europe.

On Tap This Week

U.S. midterm elections on Tuesday are expected to result in democrats winning the House and republicans maintaining their majority in the Senate.

Past Week's Releases

	Date	Indicator	Period	Prev.	Exp.	Act.	Comment
M	10/29	Personal Income	Sept	0.3%	0.2%	0.2%	Spending was healthy, supported by strong spending on durables
M	10/29	Consumer Spending	Sept	0.3%	0.4%	0.4%	
T	10/30	Consumer Confidence	Oct	138.4	135.9	137.9	Confidence rose to an 18-year high
Th	11/1	Jobless Claims	10/27	215K	213K	214K	Claims remain at record lows
Th	11/1	ISM Mfg Index	Oct	59.8	59.0	57.7	New orders fell due to a decrease in export sales, but levels remain strong
F	11/2	Nonfarm Payrolls	Oct	134K	193K	250K	Payrolls rose while unemployment was steady, supporting continued rate hikes
F	11/2	Unemployment Rate	Oct	3.7%	3.7%	3.7%	
F	11/2	Trade Deficit	Sep	$53.2B	$53.2B	$54.0B	Increased exports were offset by increased imports, resulting in a widening deficit

Actual < Expected   Actual > Expected   ♦Leading Indicator

Market Activity

Indicator	Open	Close	ΔWeek	Δ3M
DJIA	24688	25270	2.36%	3.33%
S&P 500	2658.7	2723.1	2.42%	-1.33%
USD*	96.36	96.54	0.19%	2.74%
10-Year Treasury⁺	3.08%	3.21%	0.14%	0.39%

*ICE U.S. Dollar Index Spot Price
⁺Absolute change in yield over specified period

Upcoming Releases

	Date	Indicator	Period	Prev.	Exp.
M	11/5	ISM Non-Mfg Index	Oct	61.6	59
Th	11/8	Jobless Claims	Nov 3	214K	213K
W	11/7	FOMC Meeting	Nov	2.0%-2.25%	2.0%-2.25%
F	11/9	PPI	Oct	0.2%	0.2%
F	11/9	Core PPI	Oct	0.2%	0.2%
F	11/9	Consumer Sentiment	Nov	98.6	98.0

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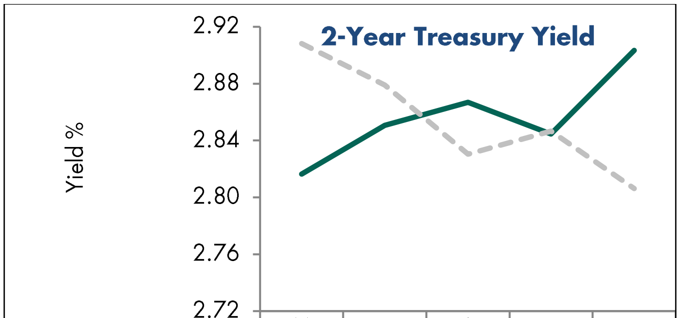
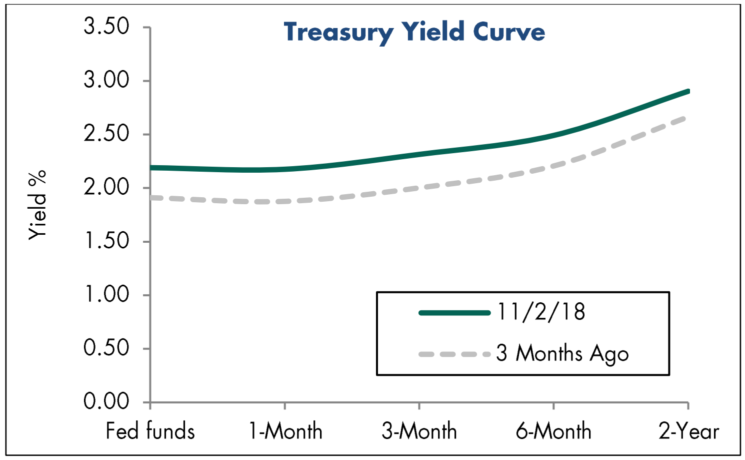
Yield Curve Highlights



	M	T	W	T	F
10/29-11/02	2.82	2.85	2.87	2.84	2.90
10/22-10/26	2.91	2.88	2.83	2.85	2.81



Detailed Economic Releases

10/29/2018	Prev.	Exp.	Act.
Personal Income	0.4%	0.4%	0.2%
Consumer Spending	0.5%	0.4%	0.4%

Personal income growth was limited to 0.2% for the month and fell below expectations of 0.4% growth, while inflation remained moderate and in line with the Federal Reserve's target. The savings rate fell 0.2% to 6.2%, but spending remained strong at 0.4% in September, while August spending was revised higher to 0.5%. Spending on durables increased by 1.4%, lifted by strong vehicle sales, while spending on nondurables and services grew by 0.3%.

Summary: Though income growth was weak, consumer spending remained strong.

10/30/2018	Prev.	Exp.	Act.
Consumer Confidence	135.3	136.3	137.9

Consumer confidence of 137.9 remains at an 18-year high and comes close to the all-time high of 144.7 reached in 2000. Those who believe jobs are hard to get dropped by roughly 1% to 13.2%, while those who believe jobs are plentiful rose by 1.8% to 45.9%. The job outlook also improved, with those saying more jobs will be available increasing by 0.2% to 22.1%, and with those saying there will be fewer jobs decreasing by 0.9% to 11.4%. Additionally, those who see their income rising increased by 2.2% to 24.7%. Inflation expectations were relatively muted for the month but were still up 0.1% to 4.8%. Likely because of the Federal Reserve's plans to continue increasing rates, those who see interest rates increasing in the next year rose by 4.7% to 72.8%.

Summary: The report is strong and reflects solid employment levels and consumer spending.

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11/1/2018	Prev.	Exp.	Act.
Jobless Claims	215K	212K	214K

Jobless claims fell month-on-month to 214K, slightly above expectations but at a very healthy level, with minimal effects from Hurricane Michael. Claims in Florida and Georgia, the states most affected by the hurricane, fell by 4,500, reversing the increase of 7,000 in the previous week. Continuing claims and the four-week average fell again to new 45-year lows. Challenger's report showed a spike in layoff announcements, suggesting initial claims may increase next week. For now, however, the employment report is strong.

Summary: Another strong report characterized by new record lows.

11/1/2018	Prev.	Exp.	Act.
ISM Mfg Index	59.8	59.0	57.7

The manufacturing index fell slightly from last month's very strong report and just below expectations to 57.7. New orders fell by 4.4 points to 57.4, marking the first time the indicator has fallen below 60 since April of last year. This was driven especially by export sales which fell by 3.8 points to 52.2. Production also slowed by 4 points to 59.9 and employment slowed by 2 points to 56.8. Despite the slowing growth, the manufacturing index is still at a very healthy level overall.

Summary: The index slowed but remains characterized by strong levels of growth.

11/2/2018	Prev.	Exp.	Act.
Nonfarm Payrolls	134K	190K	250K
Unemployment Rate	3.7%	3.7%	3.7%

Nonfarm payrolls easily surpassed expectations at 250K, with the increase primarily stemming from manufacturing with an increase in payrolls of 32K and an increase in payrolls in professional & business services of 35K. Payrolls in construction rose by 30K, suggesting scarcity in available labor. Average hourly earnings also rose by 0.3% to 3.1%. The unemployment rate was flat at 3.7%, and labor participation rose by 0.2% to 62.9%. Average hourly earnings grew in line with expectations at 0.2%, down from a rate of 0.3% last month. The growth in earnings is an indicator that the Federal Reserve will continue with its strategy of achieving neutral rates with another rate hike in December.

Summary: Nonfarm payrolls were far above expectations, while the unemployment remained at a healthy 3.7%.

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11/2/2018	Prev.	Exp.	Act.
Trade Deficit	$53.3B	$53.5B	$54.0B

The trade deficit continued to widen, from $53.3 billion in August and $50.0 billion in July, to $54.0 billion in September. Exports increased by 1.5% to $212.6 billion, while imports also increased by 1.5% to $266.6 billion. Aircraft exports increased capital goods by $1.1 billion to $47.5 billion, with exports of industrial supplies also up $2.8 billion to $46.9 billion. These pluses offset a $1.0 billion decrease in food exports likely due to tariff effects. While exports rose, imports also rose. Consumer goods increased by $2.0 billion to $55.4 billion, and capital goods rose by $2.4 billion to $60.1 billion. While increases in consumer goods reflect the trade controversy, increases in capital goods reflect increased business investment, a positive for the country's economy. The trade deficit with China increased from $38.6 billion in August to $40.2 billion in September, while the country's deficits with most other trading partners narrowed.

Summary: The trade deficit increased due to increased imports, despite increased exports. The increase in the imports' subcomponent of consumer goods reflects the current trade controversy. Upcoming trade talks between the U.S. and China may have an impact on the trade deficit going forward.

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About Us

Capital Advisors Group, Inc. is an independent SEC-registered investment advisor specializing in institutional cash investments, risk management, and debt finance consulting. Our clients range from venture capital-funded startups and emerging growth companies to Fortune 100 companies.

Drawing upon more than a quarter of a century of experience through varied interest rate cycles, the firm has built its reputation upon deep, research-driven investment strategies and solutions for its clientele.

Capital Advisors Group manages customized separately managed accounts (SMAs) that seek to protect principal and maximize risk-adjusted returns within the context of each client's investment guidelines and specific liquidity needs. Capital Advisors Group also provides FundIQ® money market fund research; CounterpartyIQ® aggregation and credit analysis of counterparty exposures; risk assessment on short-term fixed income securities and portfolios; and independent debt finance consulting services.

Headquartered in metropolitan Boston, Capital Advisors Group maintains multiple U.S. regional offices.

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