September 2015

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- US Real GDP growth was revised upwards from 3.7% qoq to 3.9% qoq.
- US industrial output growth returned to negative numbers in August.
- National exports contracted by 2.0% mom in August.
- The Texas rig count increased for the second consecutive month.
- In August, both national and Texas unemployment rates were at their lowest since early 2008, but they were still above their target levels.
- Decreasing oil prices pushed consumer prices down.
- Housing sales declined on a seasonal trend in Texas and in the US in general.
- Due to low inflation and the potential for unemployment reduction, the Fed decided to retain its policy interest rate target at 0% to 0.25%.

Executive Summary

The trend of moderate economic expansion continued at both the national and Texas levels in August. Growth in the second quarter was faster than previously estimated. Improvements in all major components of US GDP led to an upwards revision of the growth rate from 3.7% qoq to 3.9% qoq. The most significant positive revisions were made for gross private domestic investments and government consumption expenditures and investments.

Nevertheless, industrial production posted a decline at the national level in August, fueled by declines in manufacturing and mining. On the other hand, the utilities sector expanded. The sluggish performance of manufacturing was caused by output declines in both durables and nondurables, but the former fell faster. Because of negative monthly developments, industrial output saw some deceleration of growth in year-over-year terms.

In September, consumers remained optimistic about the US economy. Moreover, their optimism even strengthened, which was reflected by further moderate increase in the Conference Board Consumer Confidence Index. Assessment of the present business conditions continued to improve, pushing the Present Situation Index up to 121.1. At the same time, expectations related to future business conditions slightly deteriorated, which may be seen from the slightly lower Expectation Index.

The US construction sector reported mixed developments in August, some of which were conditioned by seasonal trends. A minor monthly increase in the value of construction put-in-place ensured faster year-over-year growth. Residential construction, especially private residential construction, was the driving force of growth. Building permits, on the contrary, posted a decline in monthly terms in both the number and valuation. This affected the year-over-year growth of the number of permits.

National exports returned to negative territory in terms of growth in August. Significant decline in exports of industrial supplies and materials led to a decrease in exports of goods and a 2% mom decline in exports in general. Exports of services continued to expand moderately in August.

Texas observed some deceleration of growth in August. Factory activity remained almost flat, while the services sector enjoyed further expansion, though at a decelerated pace. The expansion of services explains the strengthened consumer confidence. The Texas construction sector developed at a pace similar to national construction on a month-over-month basis, but much better from a year-over-year perspective. This is because rig count increased for the second month in a row in August. The agricultural sector continued to enjoy favorable conditions for crops and cattle.

Labor market conditions improved at both the national and Texas level in August. At the same time, Texas outperformed the US in terms of job creation. Growth in national level employment was almost fully due to the service sector, with the largest contribution from the healthcare sector. On the other hand, mining and manufacturing posted declines in employment. Similar developments were observed in Texas. As for the level of unemployment, both the US in general and Texas reported declines in the number of unemployed to the lowest levels since the first half of 2008. At the same time, the unemployment level in Texas remained 1.0 percentage point lower than the national unemployment rate. At the metropolitan level, Texas posted some improvements in terms of both employment and unemployment.

Due to the fact that the labor market is still below its long term potential, and that inflation remains below its target level, the Federal Reserve decided not to raise the policy rate yet. Continued decline in world oil prices led to a small monthly...
decline in consumer prices in August. Growth in food prices and in prices of all items less food and energy was not sharp enough to offset the decline in prices of energy commodities. Because of seasonal developments and lower inventories, US existing home sales posted a sharper monthly decline than expected. At the same time, Texas observed a decline in housing sales despite a decrease in prices.

**Economic Growth**

The third revision of the Bureau of Economic Analysis shows that national real GDP grew by 3.9% qoq in the second quarter of 2015, compared to an earlier estimate of 3.7% yoy. The higher than expected growth rate was the result of improved foreign trade and higher consumption expenditures of both household and government. Compared to previous estimates, the upward revisions were applied to personal consumption expenditures (by 0.7 percentage points to 3.6% qoq), gross private domestic investments (by 4.7 percentage points to 5.0% qoq), and government consumption expenditures and investments (by 1.9 percentage points to 2.6% qoq). At the same time, the foreign trade indicators were revised downwards (growth of exports lost 0.2 percentage points to 5.1% qoq, while imports growth was decreased by 0.5 percentage points to 3.0% qoq).

US industrial production contracted in August after two months of growth. The total industrial output index saw a 0.4% mom decline driven by declines in manufacturing and mining. Nevertheless, a 0.6% mom growth in utilities slightly compensated for declines in two other major sectors. The 0.5% mom contraction in manufacturing was mainly the result of negative developments in the production of durables. The decline in output of motor vehicles and parts was the major reason of a 0.9% mom contraction in durables output as other durables industries had posted a combined 0.1% mom increase. Some industrial subsectors experienced high monthly growth rates (i.e. machinery and nonmetallic mineral products with growth above 1%), while other industries saw significant losses (i.e., fabricated metal products and aerospace and miscellaneous transportation equipment had declines above 1%).

Nondurables showed more stability in August with growth rates ranging from -0.5% mom for petroleum and coal products and chemicals to 0.5% mom for food, beverage, and tobacco products and plastics and rubber products. The year-over-year growth of industrial output further decelerated to 0.9% due to manufacturing growth edging down by 0.1 percentage point to 1.4% yoy and accelerated decline in mining at 3.2% yoy. A 1.4 percentage point acceleration in growth of utilities to 4.6% yoy was too little to compensate for the mentioned negative developments.

Despite the reported decline in industrial output in August, according to the Purchasing Managers’ Index (PMI) surveys of the Institute for Supply Management, both the national manufacturing and non-manufacturing sectors expanded, but at lower pace. The manufacturing
sector saw expansion for the 32nd consecutive month ensuring together with other sectors the 75th consecutive month of expansion in the overall economy. However, growth may slow down soon as indexes for new orders, employment, and supply deliveries are very close to the no growth threshold of 50%. Furthermore, the inventories index contracted for the second month in a row in August. Despite a 1.6 percentage point decline, PMI remained above the 50% threshold at 51.1%. Ten of eighteen manufacturing sectors reported growth, including chemical products, fabricated metal products and machinery, among others. Six industries reported contraction, including primary metals, petroleum and coal products and transportation equipment. The non-manufacturing sector also experienced deceleration in expansion in August. However, its growth remained significantly higher than in manufacturing. The NMI Index contracted by 1.3 percentage points to 59.0%. Other major indexes except for the Supplier Deliveries Index remained far from the no growth threshold despite observed declines. Fifteen non-manufacturing industries reported growth in August, while only mining reported contraction.

Consumer confidence continued to strengthen at the national level in September, though at a slower pace. The Conference Board Consumer Confidence Index improved moderately to 103.0 from 101.3 observed in August. Growth in the Index was fueled by further improvements in the Present Situation Index, while the Expectation Index had an opposite effect. Driven by more positive appraisal of current business conditions, the Present Situation Index reached its 8-year maximum at 121.1. On the other hand, the Expectation Index lost 0.6 bps to 91.0 on deterioration of consumers’ outlook for the labor market and few changes in the business conditions outlook.

US construction activities saw mixed developments in August. The value of construction put-in-place posted just a minor increase of 0.7% mom thanks to almost identical increases in private and public construction. Residential construction was the driving force of growth in both the private and public construction segments, ensuring total residential construction growth of 1.3% mom. Nonresidential construction grew insignificantly in the private segment at 0.2% mom. Growth of nonresidential construction in the public segment was a bit higher at 0.4% mom, ensuring total nonresidential construction growth of 0.3% mom. Despite sluggish monthly performance, the value of construction put-in-place still observed high year-over-year growth at 13.7%. Growth in the private construction segment was significantly higher than that in public construction as both residential and nonresidential construction ensured growth above 15% yoy. At the same time, nonresidential construction posted much slower growth at 6.8% yoy, while the share of residential construction is very low (less than 2%) and its growth of more than 30% yoy did not have any effect on total construction growth. As for construction permits, they experienced declines in terms of both quantity and valuation at quite similar rates around 4.5% mom. In year-over-year terms, the number of issued construction permits increased by 7.6% yoy, while their valuation saw twice as high growth at 15.5% yoy. The difference in growth rates is partially
explained by the fact that the number of construction permits for single-unit houses, which have higher unit cost compared to multi-unit houses, grew faster.

US exports posted a significant monthly decline in August. Total exports contracted by almost 2% mom to USD 185.1 billion due to a decline in exports of goods. The US exported goods worth USD 124.5 billion in August, which is USD 4.1 billion (3.2% mom) less than a month ago. Exports of goods on a census basis decreased by USD 4.0 billion. More than half of the decrease (USD 2.2 billion) was the result of lower exports of industrial supplies and materials (fuel oil, crude oil, and plastic materials). Net balance of payments adjustments decreased by USD 0.1 billion. Exports of services expanded by USD 0.4 billion (0.7% mom) to USD 60.6 billion. Half of the increase was ensured by exports of financial services and travel, which increased by USD 0.1 billion each.

The Texas economy saw further deceleration of growth in August. The growth rate of Texas factory activity was almost flat after five consecutive months of decline. The key measure of state manufacturing conditions, the Production Index of the Texas Manufacturing Outlook Survey, was close to zero (-0.8). At the same time, other measures of current manufacturing activity showed mixed developments, while perceptions of broader business conditions deteriorated markedly.

Indexes of both future general business activity and future company outlook posted double-digit declines, reflecting notable deterioration of expectations regarding future business conditions. Nevertheless, these indexes remained in positive territory, same as the future manufacturing activity index, which fell slightly. The service sector continued to expand in August, but at a significantly decelerated pace.

Both perceptions of broader economic conditions and expectations regarding future business conditions reflected less optimism. In particular, the general business activity index and the company outlook index dropped around 6 bps to 2.1 and 2.8 respectively, while indexes of future general business activity and future company outlook dropped sharply (by around 10 bps) to 9.7 and 12.

Texas construction followed the same monthly trends as the national construction in terms of building permits. Similarly to the national level, the number of building permits dropped 4.8% mom due to declines in both single-unit and multi-unit segments. In year-over-year terms, however, the number of permits also declined contrary to the trend observed in the US in general. The decline was equal to 3.3% yoy as a decrease in the number of multi-unit permits more than offset the growth in the number of single-unit permits. As the monthly decline in the number of permits for single-unit houses was slower than that for multi-unit houses, the valuation of building permits saw slower decline at 4.0% mom. Growth of the building permits valuation in year-over-year terms is related to different dynamics of the number of permits for single- and multi-unit houses. The Texas rig count increased for the second month in a row in August. It grew to 385 from 369 observed in July but remained 57.2% lower than a year ago.

The recently reported exports data shows that Texas exports were almost flat in monthly terms in July after a 1.2% increase in June. In year-over-year terms, exports decreased by 7.7%. The obvious reasons for sluggish performance in exports were lower world oil prices, weaker global demand and a strong dollar.

Even though parts of the Texas have become dry again, overall conditions remained favorable for agricultural production. Yields harvested already in some areas have been good overall but varied depending on moisture conditions when crops were planted. The cattle sector continued to benefit from favorable conditions, namely good pasture conditions, low feed costs, and high selling prices.

**Employment**

National labor market conditions continued to improve in August. Positive changes were observed in both employment and unemployment. Total nonfarm payroll employment increased by 136,000, which is significantly lower than the average for 11 previous months (247,700). Employment grew almost exclusively in the services sector. In particular, the healthcare sector observed the highest volume of new jobs in absolute terms at 39,200, which is 0.3% mom growth. The second best in terms of job creation was the professional and business services
sector with 27,000 (0.1% mom) newly employed. Food services and drinking places were not far behind with their 23,200 (0.1% mom) new jobs. Construction, wholesale trade, retail trade, transportation and warehousing, and government saw little or no changes in employment in August. At the same time, both manufacturing and mining observed declines in employment. Manufacturing dropped 18,000 jobs, which is the highest volume since January 2010. The decrease in the number of employed in mining was almost the same as in July at 8,700 jobs (1.1% mom). Year-over-year growth of total nonfarm payroll employment remained almost intact at 2.0%. The number of unemployed continued the downward trend dropping by 237,000 to slightly above 8 million. As a result, the unemployment rate edged down to 5.1%, which is the lowest level since January 2008.

Texas labor market conditions also improved in August. However, the increase in employment of the state was above the 11-month average of 21,000 at 25,800. A quarter of this amount was generated in the leisure and hospitality sector (a 0.5% mom increase). Professional and business services and construction were not far behind. Mining joined manufacturing among the industries with decreased employment in August after two months of growth. Mining lost 4,700 jobs (1.6% mom), while manufacturing lost even more jobs at 5,600 (0.7% mom). At the same time, the number of unemployed also decreased by 3,100 in August to the lowest level since May 2008. Therefore, the unemployment rate declined to one of the lowest readings in the history of observation, which is 1.0 percentage point lower than the unemployment rate in the US in general.

In Texas metropolitan areas, the labor market saw some improvements in monthly terms. However, this was not enough to reverse the annual negative trends for some metros. The pace of monthly declines in employment decelerated in most of the metros. Furthermore, a couple of metros even reversed the trend to growth. At the same time, the decline in employment in year-over-year terms was registered in almost half of all Texas metros. As for unemployment, all the metros posted monthly declines in the number of unemployed. Despite this, most of the metros saw deceleration in the decrease of unemployment in year-over-year terms. Four of the Texas metros observed increases in unemployment. Two of the four, Midland and Odessa, were previously best performers in terms
of labor market developments, but now observe fast growth of unemployment (14.3% yoy and 31.0% yoy respectively). Both metros are heavily dependent on the petroleum industry, which is now seeing challenges due to continued decline of world oil prices. At the same time, Midland was among the metros with the lowest unemployment rate (3.2%) with the leader being Amarillo (3.1%).

Monetary Policy and Asset Prices

The Federal Open Market Committee (FOMC) held its regular meeting on September 17th. Members of the Committee voted 9 to 1 to leave the policy rate unchanged at the target rate of 0% to 0.25%. Taking into account the lower unemployment rate (the lowest since 2008), some experts expected an increase in the policy rate. However, inflation remained significantly below the planned 2% level and the labor market still has potential for improvements. Furthermore, negative economic developments in China (weaker growth and stock market turmoil) may potentially affect economic growth in the US. All in all, the FOMC decided that recent progress in the economy in general and in the labor market in particular was not enough to raise the policy rate.

Consumer prices reversed the trend in August. According to the US Bureau of Labor Statistics, the all items index inched down by 0.1% mom compared to the analogous increase in July. The major reason of changes in price dynamics was a significant decline in the energy index at 2.0% mom fueled by fast declines in fuel oil (8.1% mom) and gasoline (4.1% mom) indexes. Prices of energy services, on the contrary, continued to increase in monthly terms. The food index increased by 0.2% mom thanks to almost identical increases in the food at home and food away from home indexes. As for all items less food and energy index, it edged up by 0.1% mom in August. This small increase was driven by identical growth of services prices, which more than offset a 0.1% mom decline in prices of commodities fueled by a 0.4% mom decline in prices of used cars and trucks. In year-over-year terms, the all items index saw a tiny 0.2% increase in August, which is identical to that in July. The decline in the energy index accelerated back to 15% yoy because of faster declines in gasoline and fuel oil prices. At the same time, growth rates of both food and all items less food and energy indexes remained unchanged at 1.6% yoy and 1.8% yoy respectively.

In August, the national and Texas housing markets both followed seasonal trends observed over a couple of years. Total US existing home sales fell 4.8% mom to a seasonally adjusted annual rate of 5.31 million. This still ensures positive year-over-year growth of sales at 6.2%. The median existing home price posted a 4.7% mom increase. The decline in existing home sales ensured build up of total housing inventory by 1.3% mom to 2.29 million existing homes available for sale, or a 5.2-month supply of housing at

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**8. Borrowing rates, % per year**

![Borrowing rates chart](chart1.png)

*Source: Federal Reserve System*

**9. CPI, % yoy change**

![CPI chart](chart2.png)

*Source: Bureau of Labor Statistics*
the current sales pace (an improvement over the 4.9-month supply in July). The lackluster performance of Texas in the housing sector was a more pronounced result of a seasonal trend as home sales declined on the back of decreasing prices and unchanged inventory. In particular, the volume of actual existing home sales declined by almost 5% mom. This is faster than in the same month last year, but not by much (around 4% mom). The decline in the median price is also a common thing in August. It was almost identical to the decline observed in August 2014 (0.8% mom versus 0.9% mom). In year over year terms, the median price still remained on an upward trend, increasing by 7.3%. Unsold inventory was equal to 3.7 months of supply under current sales dynamics, which is the same as in July and slightly below the level observed a year ago.