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Economic Review

Mr. Clark has been in investment banking since 1983. He is a Chartered Financial Analyst. He has been a fixed income strategist at Stephens Inc. since 1996, developing investment strategies, policies and procedures for institutions consistent with overall asset/liability management. Mr. Clark is the risk manager for Fixed Income Sales and Trading, monitoring inventories, product, transactions and counterparty risk. He is also a member of Stephens Fixed Income Management, providing discretionary management services for institutional customers. He is a member of the American Institute of Certified Public Accountants and the CFA Institute.

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- The Labor Department reported that **initial jobless claims** again edged up slightly last week, remaining near historically low levels that reflect a very solid labor market. Claims were 217,000 for the week ending August 31st. The four-week moving average, a less volatile measure than the weekly numbers, climbed 1,500 to 216,250. The total number of people continuing to receive jobless benefits, a report which is lagged one week, decreased 39,000 to 1.662 million for the week ending August 24th.
- The **Institute for Supply Management** reported its **manufacturing index** unexpectedly contracted for the first time since 2016. Although manufacturing only makes up about 11% of the economy, there are concerns that factory weakness could filter through to the rest of the economy and endanger the record long expansion. The ongoing trade war escalation is creating uncertainty with manufacturers becoming increasingly defensive. The manufacturing index recorded a 49.1 in August after a 51.2 reading in July. The new orders part of the index dropped to 47.2 in August from 50.8 and production recorded a 49.5, down from 50.8. A reading below 50 indicates contraction in the manufacturing sector.
- The Commerce Department reported that **construction spending** edged higher in July after two straight months of decline. Construction spending increased 0.1% in July after dropping 0.7% in June and May. Spending on residential gained 0.6% in July and non-residential fell 0.3%. Government spending increased 0.4% in July, while private spending fell 0.1%.
- The Commerce Department reported the **trade deficit** narrowed in July as exports climbed and imports decreased. The situation is expected to reverse in coming months as import growth is expected to jump in front of the imposition of new tariffs and as companies stockpile goods before the holiday season. The deficit decreased 2.7% to \$54.0 billion in July. **Exports** rose 0.6% to \$207.4 billion and **imports** fell 0.1% to \$261.4 billion.
- The Fed released the latest rendition of the **Beige Book** which described the economy as expanded at a modest pace through the end of August, which is almost identical to the description of growth from the previous Beige Book. The outlook for growth was generally positive for the coming months, with expectations for continued modest growth, despite widespread concerns about the possible negative impact of trade-related uncertainty.
- **ADP Employer Services** reported that August ADP payrolls rose a better than expected 195,000 after increasing a downwardly revised 142,000 in July. This is the highest reading in four months, suggesting the labor market remains healthy despite a slowdown in manufacturing and global weakness. Service provider's added 184,000 jobs in August, construction rose 6,000 and factories increased 8,000 jobs.
- The U.S. Bureau of Labor Statistics latest report on **worker's productivity** in the second quarter was left unchanged at 2.3%. Productivity growth has improved, but remains erratic and difficult to understand or interpret. The gain in productivity indicates inflation can be contained even with gains in economic growth and a tightening labor market. Productivity is up 1.8% from a year earlier. **Unit labor costs** in nonfarm businesses rose 2.6% versus an earlier estimate of 2.4% in the 2nd quarter.
- The Commerce Department reported that **factory orders** rose more than expected in July driven by a jump in aircraft orders and defense. The index gained 1.4% in July after gaining 0.5% the prior month. The much followed forward looking demand from businesses for nondefense capital goods, excluding aircraft rose 0.2% in July after gaining 0.9% in June. **Excluding transportation**, new orders rose 0.3% in July after falling 0.1% the prior month.



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- The **Institute for Supply Management** reported its **non-manufacturing** index, which covers services and construction, rebounded in August to its highest level in three months. The gain may help mitigate near-term recession concerns brought on by contraction in the manufacturing sector. This gauge of service providers accounts for 90% of the economy. The non-manufacturing index rose to 56.4 in August from a 53.7 reading in July. A reading greater than 50 indicates expansion in the services sector.
- The Labor Department reported that payroll growth increased at a slower pace in August and prior months were downwardly revised. On the other hand, it showed a rebound in the workweek and at least a temporary halt in the deceleration of aggregate income growth. **Nonfarm payrolls** rose by 130,000 in August after a downwardly revised 159,000 gain the prior month. The **unemployment rate** declined slightly to 3.687% versus 3.712% in July. The **labor force participation rate** increased to 63.2% in August from 63.0% the prior month. The average hourly earnings climbed to \$28.11 from \$28.00 the prior month and weekly hours climbed to 34.4 in August from 34.3 the prior month.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** declined 3.1% to 558.5 for the week ending August 30th after falling 6.2% the prior week. **Refinancing applications** decreased 7.0% to 2,367 from 2,546 the prior week. **Home purchase mortgage applications** gained 3.6% to 242.6. The **average contract rate** on a 30-year fixed-rate mortgage dropped to 3.87% from 3.94% the prior week..

BOND MARKET REVIEW

Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities were 1.54%, 1.43%, 1.56%, and 2.03%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -11, 13, 47, and 49 basis points respectively.

Source: Bloomberg Finance L.P.

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Economic/Events Calendar

| | | | |
|-----------|--------------|---|---------------|
| Monday | September 9 | Jul Consumer Credit (\$16.0b) | 14:00 Central |
| Tuesday | September 10 | Aug NFIB Small Business Optimism (103.5) | 5:00 Central |
| | | Jul JOLTS Job Openings (7,331k) | 9:00 Central |
| Wednesday | September 11 | Sep 6 th MBA Mortgage Applications | 6:00 Central |
| | | Aug Producer Price Index (0.0%) | 7:30 Central |
| | | Aug Producer Price Index-YOY (1.7%) | 7:30 Central |
| | | Aug PPI Ex Food & Energy (0.2%) | 7:30 Central |
| | | Aug PPI Ex Food & Energy-YOY (2.2%) | 7:30 Central |
| | | Jul Wholesale Inventories (0.2%) | 9:00 Central |
| | | Jul Wholesale Trade Sales (0.5%) | 9:00 Central |
| Thursday | September 12 | Sep 7 th Initial Jobless Claims (215k) | 7:30 Central |
| | | Aug Consumer Price Index (0.1%) | 7:30 Central |
| | | Aug Consumer Price Index-YOY (1.8%) | 7:30 Central |
| | | Aug CPI Ex Food & Energy (0.2%) | 7:30 Central |
| | | Aug CPI Ex Food & Energy-YOY (2.3%) | 7:30 Central |
| | | Aug Budget Statement (-\$195.0b) | 9:00 Central |
| Friday | September 13 | Aug Retail Sales (0.2%) | 7:30 Central |
| | | Aug Retail Sales Ex Auto & Gas (0.2%) | 7:30 Central |
| | | Aug Import Price Index (-0.5%) | 7:30 Central |
| | | Aug Import Price Index-YOY (-2.0%) | 7:30 Central |
| | | Aug Import Price Index ex Petroleum (-0.1%) | 7:30 Central |
| | | Sep University of Michigan Sentiment (90.8) | 9:00 Central |
| | | Jul Business Inventories (0.3%) | 9:00 Central |

Source: Bloomberg Finance L.P.

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