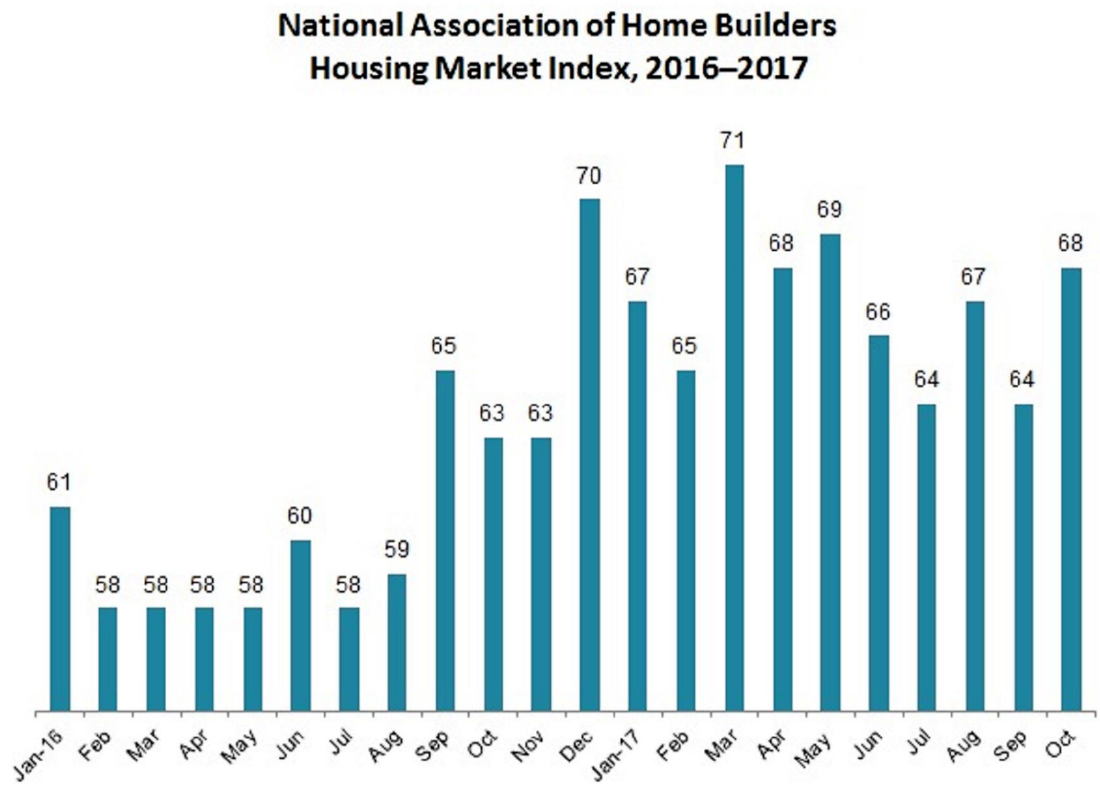

In the most recent Beige Book, the 12 Federal Reserve banks noted modest growth in all of its districts, but businesses in several regions cited disruptions in activity from recent hurricanes. Along those lines, the Federal Reserve estimates that those storms subtracted 0.25 percentage points from industrial productiongrowth in September. Even with that drag, manufacturing production edged up 0.1 percent in September, bouncing back ever so slightly from declines across the past two months. Beyond weather, we have seen a lot of volatility in the output data for the manufacturing sector since March, essentially seesawing from month to month. This has meant that production has grown less than desired or expected, especially given the more robust outlook in other data sources.

Encouragingly, manufacturing leaders in both the New York and Philadelphia Federal Reserve Bank districts were more upbeat in the latest surveys. The Empire State Manufacturing Survey's composite index of general business conditions increased to a three-year high, with the similar measure in the Philadelphia region rising to a five-month high. The strengthening labor market was a bright spot in both reports, and new orders, shipments and capital expenditures continued to expand at healthy rates as well. Moreover, manufacturers remain optimistic in their outlook for the next six months. On the other hand, those completing these surveys also see pricing pressures for raw materials accelerating robustly over the coming months.

Meanwhile, there was mixed news on the housing market. On the negative side, new housing starts fell for the sixth time in the past seven months, down 4.7 percent in September and continuing a disappointing trend in the overall data. A fair share of the decline stemmed from the impacts of recent hurricanes, but the Midwest and the Northeast saw decreases in activity, suggesting some broader softness in the market, especially for multifamily construction. Indeed, housing starts have been weaker than desired year to date, drifting lower since February. With that said, starts have risen 6.1 percent over the past 12 months. As such, the residential segment-especially for single-family activity-has had a more favorable trend over the past year than the headline numbers might suggest.

Indeed, housing permits have remained elevated, albeit also with some deceleration in the latest figures. Residential permits decreased somewhat in September but have now exceeded 1.2 million units in 12 of the past 13 months. Permits are a proxy of future activity, so the data suggest strong growth moving forward. In fact, single-family permitting has risen from 800,000 to 819,000, a six-month high. Single-family residential permits have increased by a rather healthy 9.3 percent over the past 12 months. In contrast, multifamily permits have seesawed wildly from report to report for much of this year, down 4.3 percent since September 2016. For their part, homebuilders felt more upbeat in October about future sales, with the Housing Market Index up to its highest level in five months.

At the same time, existing home sales rose 0.7 percent in September, increasing for the first time since May. Sales of existing homes edged up from 5.35 million at the annual rate in August to 5.39 million in September. After peaking at 5.70 million units in February, existing home sales activity has drifted lower since then. Along those lines, National Association of Realtors Chief Economist Lawrence Yun said, "Home sales in recent months remain at their lowest level of the year and are unable to break through, despite considerable buyer interest in most parts of the country." He also noted that sales in September might have been stronger if not for Hurricanes Harvey and Irma, with existing home sales off 0.9 percent in the South.

This Friday will bring the first look at third quarter GDP; the consensus estimate of growth is around 2.5 percent. While this reflects modest growth overall, the data will also likely show some of the negative impacts from the recent hurricanes, as seen in other releases. New information will also be released this week on the current level of manufacturing activity, including an advance reading of durable goods orders and shipments and new surveys from IHS Markit and the Kansas City and Richmond Federal Reserve Banks. There will also be updates on consumer sentiment, international trade in goods and new home sales.

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Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, October 16
New York Fed Manufacturing Survey

Tuesday, October 17
Industrial Production
NAHB Housing Market Index

Wednesday, October 18
Housing Starts and Permits

Thursday, October 19
Conference Board Leading Indicators
Philadelphia Fed Manufacturing Survey

Friday, October 20
Existing Home Sales
State Employment Report

This Week's Indicators:

Monday, October 23
Chicago Fed National Activity Index

Tuesday, October 24
IHS Markit Flash Manufacturing PMIs for the United States and Eurozone
Richmond Fed Manufacturing Survey

Wednesday, October 25
Durable Goods Orders and Shipments
New Home Sales

Thursday, October 26
International Trade in Goods (Preliminary)
Kansas City Fed Manufacturing Survey

Friday, October 27
Gross Domestic Product
University of Michigan Consumer Sentiment (Revision)

Summaries for Last Week`s Economic Indicators

Conference Board Leading Indicators

The Conference Board's Leading Economic Index (LEI) decreased 0.2 percent in September, largely on negative impacts from recent hurricanes. It was the first decline in the past year, putting a halt to rather robust growth in recent months. Manufacturing had a mixed contribution, with strength in new orders being offset somewhat by a reduced average workweek for production workers. Other notable drags on the latest LEI came from building permits and initial unemployment claims. In contrast, consumer confidence, the interest rate spread, overall lending conditions and stock prices were all favorable indicators to the LEI in September. Despite the lower headline figure in this report, the LEI continues to indicate modest growth in the coming months, with the LEI up 1.7 percent since March.

Meanwhile, the Coincident Economic Index (CEI), which assesses current conditions, edged up 0.1 percent in September, bouncing back a little after being unchanged in August. Nonfarm payrolls were the lone negative in this month's LEI, pulled lower by the hurricanes. Each of the other components of the CEI-industrial production, personal income and manufacturing and trade sales-contributed positively to the index for the month.

Existing Home Sales

The National Association of Realtors (NAR) reported that existing home sales rose 0.7 percent in September, increasing for the first time since May. Sales of existing homes edged up from 5.35 million at the annual rate in August to 5.39 million in September. After peaking at 5.70 million units in February, existing home sales activity has drifted lower since then. Along those lines, NAR Chief Economist Lawrence Yun said, "Home sales in recent months remain at their lowest level of the year and are unable to break through, despite considerable buyer interest in most parts of the country." He also noted that sales in September might have been stronger if not for Hurricanes Harvey and Irma, with existing home sales off 0.9 percent in the South.

In the latest release, single-family sales increased in September, up from 4.74 million to 4.79 million, but co-op and condominium sales inched lower, down from 610,000 to 600,000. Over the past 12 months, existing home sales declined 1.5 percent from 5.47 million in September 2016. The median sales price in August was $253,500, up 5.6 percent over the past 12 months from $240,000 in August 2016. On the other hand, the median sales price of $245,100 in September increased 4.2 percent from its level one year ago.

Housing Starts and Permits

The Census Bureau and the Department of Housing and Urban Development reported that new housing starts fell for the sixth time in the past seven months, down 4.7 percent in September and continuing a disappointing trend in the overall data. New residential construction declined from 1,183,000 units at the annual rate in August to 1,127,000 units in September. A fair share of the decline stemmed from the impacts of recent hurricanes, but the Midwest and the Northeast saw decreases in activity, suggesting some broader softness in the market, especially for multifamily construction. Indeed, housing starts have been weaker than desired year to date, drifting lower since peaking at 1,288,000 units in February. With that said, starts have risen 6.1 percent over the past 12 months, up from 1,062,000 units in September 2016.

Much of the weakness-and month-to-month volatility-in the data have come from the multifamily segment. Indeed, multifamily housing starts decreased from 314,000 units in August to 298,000 units in September, its slowest pace in one year. Single-family starts have been more encouraging, up 5.9 percent year-over-year and generally trending in the right direction. Nonetheless, new single-family construction starts also fell in September for the third consecutive month, down from 869,000 units in August to 829,000 in September. The declines in single-family activity in September occurred entirely in the South, however, down 15.3 percent and highlighting significant negative effects from Hurricanes Harvey and Irma.

On the positive side, housing permits have remained more elevated, albeit also with some deceleration in the latest figures. Residential permits decreased from 1,272,000 units in August to 1,215,000 units in September but have now exceeded 1.2 million units in 12 of the past 13 months. Permits are a proxy of future activity, so the data suggest strong growth moving forward. In fact, single-family permitting has risen from 800,000 to 819,000, a six-month high. In contrast, multifamily permits declined sharply from

472,000 to 396,000, with the data seesawing wildly from report to report for much of this year. The drop in multifamily permits helped to push the headline permits figure below the level in September 2016, with a year-over-year decline now of 4.3 percent. Single-family residential permits have increased a healthier 9.3 percent over the past 12 months, up from 749,000 units one year ago. As such, the permits data appeared perhaps more promising than at first glance.

Industrial Production

The Federal Reserve reported that manufacturing production edged up 0.1 percent in September, bouncing back ever so slightly from declines across the past two months. With that said, the data continue to reflect softness due to the hurricane-related reductions in activity from Hurricanes Harvey and Irma, and the Federal Reserve estimates that this subtracted 0.25 percentage points from growth in the month.

Beyond weather, we have seen a lot of volatility in the output data for the manufacturing sector since March, essentially seesawing from month to month. This has meant that production has grown less than desired or expected, especially given the more robust outlook in other data sources. As a result, manufacturing production has risen 1.0 percent over the past 12 months. While this is better than last year-when the year-over-year rate registered -0.1 percent-a faster pace of growth is preferable. Indeed, the year-over-year pace has drifted lower since April's 1.8 percent rate.

Manufacturing capacity utilization remained the same at 75.1 percent in September. Utilization rates have trended down since peaking at 76.0 percent in April, but capacity continues to be slightly higher than the 74.9 percent rate seen at this time last year.

The underlying data were mixed. Durable goods manufacturing production increased a relatively healthy 1.0 percent in September, but nondurable goods output fell 0.9 percent, declining for the second straight month. The largest gains included nonmetallic mineral products (up 3.1 percent), machinery (up 3.0 percent), wood products (up 1.6 percent), plastics and rubber products (up 1.1 percent), computer and electronic products (up 0.9 percent) and fabricated metal products (up 0.7 percent), among others. In contrast, chemicals (down 2.6 percent), petroleum and coal products (down 1.7 percent), apparel and leather (down 1.0 percent), printing and support (down 1.0 percent) and paper (down 0.9 percent) led the declines in September.

Meanwhile, total industrial production also rebounded, up 0.3 percent in September after falling in both July and August. In addition to manufacturing, mining (up 0.4 percent) and utilities (up 1.5 percent) activity improved in September.

Over the past 12 months, industrial production has risen 1.6 percent. This was notably better than the 1.2 percent year-over-year decline in September 2016, but down from the 2.2 percent year-over-year pace in May. Mining production rose 9.8 percent year-over-year, with utilities production off 4.1 percent over the past 12 months. In addition, capacity utilization rose from 75.8 percent to 76.0 percent in this release. This was off from 76.6 percent in April but better than the 75.6 percent reading one year ago.

NAHB Housing Market Index

The National Association of Home Builders (NAHB) and Wells Fargo reported that the Housing Market Index(HMI) increased from 64 in September to 68 in October, its highest level since May. Sentiment declined in the prior survey largely on hurricane effects. Even with some improvement in this release, NAHB Chairman Granger MacDonald warned that "... builders need to be mindful of long-term repercussions from the storms, such as intensified material price increases and labor shortages." Overall, homebuilders remain very upbeat about the housing market, with index readings greater than 50 indicating favorable conditions in the overall outlook for the sector. The headline index has now exceeded 60 for 14 straight months, averaging 66.4 over that time frame.

In October, homebuilders felt slightly more upbeat in their perceptions about activity in the Midwest and South, but confidence edged down in the West, albeit at highly elevated levels. The index for future single-family sales jumped from 73 to 78, a five-month high, suggesting that builders are still optimistic about sales over the next six months.

New York Fed Manufacturing Survey

The Empire State Manufacturing Survey expanded strongly in October, growing at a three-year high. The composite index of general business conditions jumped from 24.4 in September to 30.2 in October, a pace not seen since September 2014. Activity in the New York Federal Reserve Bank's district was buoyed by healthy monthly improvements in shipments (up from 16.2 to 27.5) and employment (up from

10.6 to 15.6), with hiring expanding at its fastest rate in eight years. At the same time, both new orders (down from 24.9 to 18.0) and the average workweek (down from 5.7 to 0.0) eased. Demand remained relatively robust, however, with 32.3 percent of respondents saying that orders had increased in this report.

Meanwhile, manufacturers in the New York region remained very upbeat about the next six months. The expectations composite index rose from 39.3 to 44.8, averaging 41.2 over the past 12 months. In the 12 months prior to that, the average was 27.2, illustrating the acceleration in optimism seen for much of this year. Along those lines, growth in new orders (up from 43.7 to 44.8), shipments (up from 37.0 to 43.4) and employment (up from 13.8 to 17.2) strengthened in October to decent levels, with 55.4 percent of respondents anticipating more sales in the months ahead. Pricing pressures (down from 42.3 to 41.4), capital expenditures (down from 24.4 to 21.9) and technology spending (down from 17.1 to 16.4) were also expected to grow strongly over the next six months, even with each decelerating slightly in this release.

Philadelphia Fed Manufacturing Survey

The Federal Reserve Bank of Philadelphia reported that manufacturing activity continued to expand strongly in October. The composite index of general business activity increased from 23.8 in September to 27.9 in October, a five-month high. The tightening labor market continued to be one of the bright spots, with accelerations in both hiring (up from 6.6 to 30.6) and the average workweek (up from 11.9 to 19.4). More than 30 percent of respondents said their employment had increased in October, up from 18.4 percent in the September report, with none citing declining employment. With that said, growth for new orders (down from 29.5 to 19.6) and shipments (down from 37.8 to 24.4) pulled back in the latest survey, albeit at rates that still reflected robust growth.

Meanwhile, manufacturers in the Philadelphia Federal Reserve region remained quite optimistic about the next six months, even with some easing in many of the key measures. The forward-looking composite index decreased from 55.2 to 46.4 but continued to be highly elevated. More than half of respondents felt that new orders and shipments would rise in the coming months, with 42.9 percent and 37.7 percent seeing more hiring and capital spending, respectively. The expectations measure for employment was the highest since February 1984. The average expected capacity utilization rate in 2018, based on a special question in this month's release, was 76.9 percent, up from 75.0 percent in a similar question last year. Business leaders in the Philadelphia Federal Reserve district see pricing pressures for raw materials accelerating strongly in the next six months (up from 46.2 to 60.2).

State Employment Report

Ohio created the most net new manufacturing jobs in September, according to the Bureau of Labor Statistics, adding 2,600 workers in the month. Kansas (up 2,500), North Carolina (up 1,600), Alabama (up 1,500), Arkansas (up 1,300) and South Carolina (up 1,300) also topped the list of manufacturing employment gains in September. In addition, Texas saw the greatest job gains over the past 12 months, with manufacturing employment in the state up 37,200 since September 2016. Other states with the fastest manufacturing job growth year-over-year included Wisconsin (up 12,600), Florida (up 10,400), South Carolina (up 9,900) and Indiana (up 7,500).

The national unemployment rate fell to 4.2 percent in September, its lowest level since February 2001. North Dakota (2.4 percent) had the lowest unemployment rate in the country. A number of states were not far behind, including Colorado (2.5 percent), Hawaii (2.5 percent), New Hampshire (2.7 percent), Idaho (2.8 percent), Nebraska (2.8 percent) and Vermont (2.9 percent). In contrast, Alaska (7.2 percent), the District of Columbia (6.5 percent) and New Mexico (6.2 percent) had the highest unemployment rates.

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