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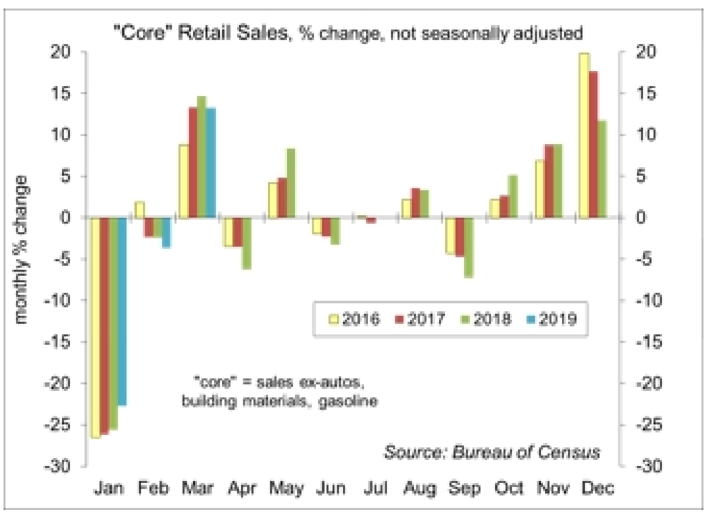
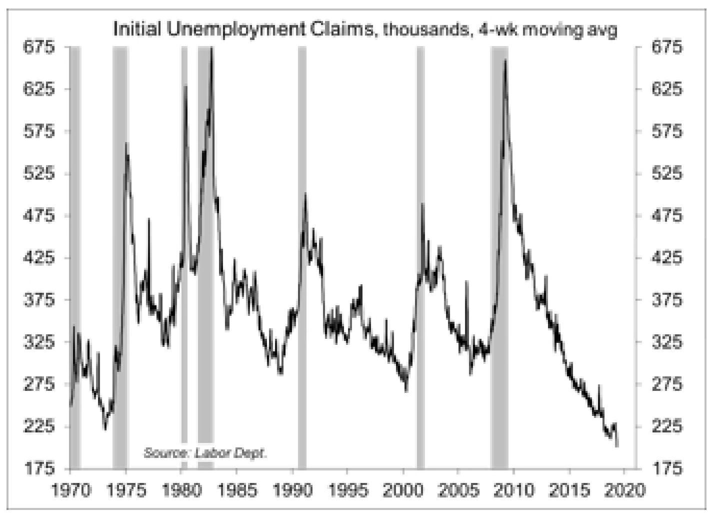
Weekly Economic Monitor -- Predicting the Past With Greater and Greater Accuracy

Predicting The Past With Greater And Greater Accuracy – The advance estimate of 1Q19 GDP growth will arrive on Friday (April 26). There's always a lot of uncertainty in the advance figure (we're missing a number of components) and that is especially so this time. The partial government shutdown and poor weather had an adverse impact. A narrower trade deficit should add to the growth estimate, but underlying domestic demand was likely moderate. The details of the report, and subsequent revisions, will help to gauge the underlying strength of the economy in 2Q19 and the rest of the year.

"If we could first know where we are, and whither we are tending, we could then better judge what to do, and how to do it." -- Abraham Lincoln

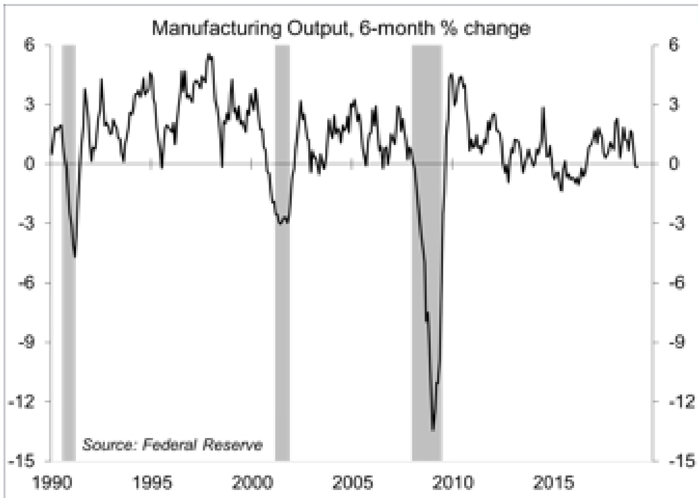
The partial government shutdown led to the delay of a number of economic data releases. At this point, we only have January consumer spending data, which is subject to revision (consumer spending accounts for 68% of Gross Domestic Product). Retail sales results, which make up about a quarter of overall consumer spending, may give us a good idea about spending in February and March, but are an imperfect indicator. The March retail sales figures surprised to the upside, but still haven't made up for the unexpected weakness in December. These data are adjusted for floating holidays, such as Easter, but it's difficult to get that right. Looking through the noise, the weather, and the government shutdown, the underlying trend appears moderate – not particularly strong, but not terribly weak either.





A strong job market is expected to support consumer spending growth in the near term. Weekly jobless claims have fallen to nearly a 50-year low. That could reflect seasonal adjustment issues (the late Easter) or eligibility issues (which vary by state). Corporate layoff announcements have been trending somewhat higher. However, those totals do not measure actual layoffs. Moreover, in a strong labor market, someone newly laid off is more likely to find another job more quickly – and therefore, is less likely to file a claim for unemployment insurance. Job growth should remain strong in the near term. However, the Fed's most recent Beige Book, the anecdotal summary of economic conditions from around the country, showed that the tight job market was *"restraining the rate of growth"* in some areas. Wage growth has picked up, but it remains relatively moderate compared to past periods of low unemployment. Firms continue to pull out all the stops to attract new workers, including offering signing bonuses, increased vacation, and other perks – but generally remain reluctant to lift wages for their existing employees. Gasoline prices have risen (much more than usual for this time of year), reducing consumer purchasing power in the near term.

Meanwhile, factory output has been soft in recent months. Some of that likely reflects a pullback from strength in manufacturing activity in previous months. However, the slowdown is also consistent with a softer global economy, a lackluster trend in capital goods orders, and trade policy disruptions. Weakness in manufacturing production has traditionally been an indicator of recession, but an imperfect one, often giving false signals in the past. The factory sector has accounted for a decreasing share of the U.S. economy – a trend that goes back decades. The recent soft patch is nothing to worry about, but is consistent with a slower trend rate of growth in the overall economy in the near term.



One of the big surprises in last week's economic data releases was the unexpected narrowing in the trade deficit. Trade policy has been disruptive. Imports of supplies and materials picked up in the second half of 2018 ahead of expected increases in tariffs. In turn, imports softened in 1Q19. We only have figures for January and February, so there is some uncertainty. Imports have a negative sign in the GDP calculation. When the U.S. economy is strong, we consume more domestic goods and we consume more imported goods. The increase in imports subtracts from headline GDP growth. Exports increased in January and February. Adjusted for inflation, net exports ought to make a sizable contribution to 1Q19 GDP growth, perhaps a full percentage point or more (note that net exports added 2.0 percentage points to 3Q18 GDP growth).

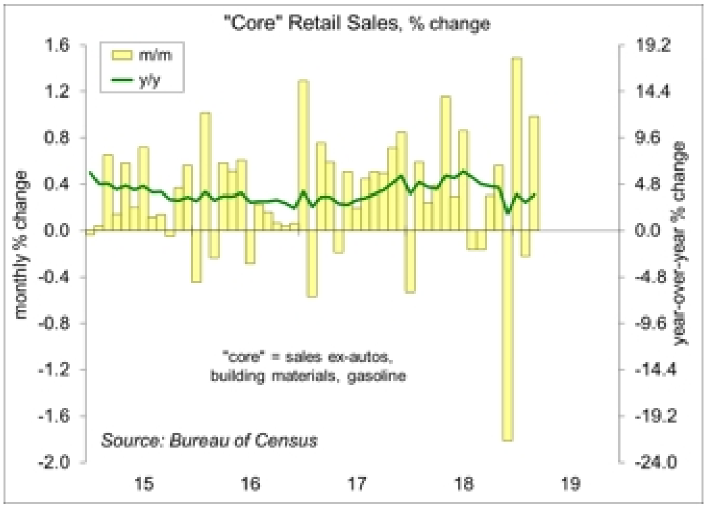
Foreign trade and the change in inventories are relatively small components of GDP, but they account for more than their fair share of volatility in the quarterly figures. Swings in defense spending can also add volatility. Financial market participants typically concentrate on the headline GDP figure, but if we are interested in the economy's underlying strength, we should focus on Private Domestic Final Purchases (PDFP). PDFP can be thought of as GDP less government, the change in inventories, and foreign trade. It's also consumer spending, business fixed investment, and residential fixed investment (mostly homebuilding) – the real meat and potatoes of the economy and is much less volatile from quarter to quarter. PDFP is likely to have risen at a lackluster-to-moderate pace in 1Q19, but should pick up in the second quarter.

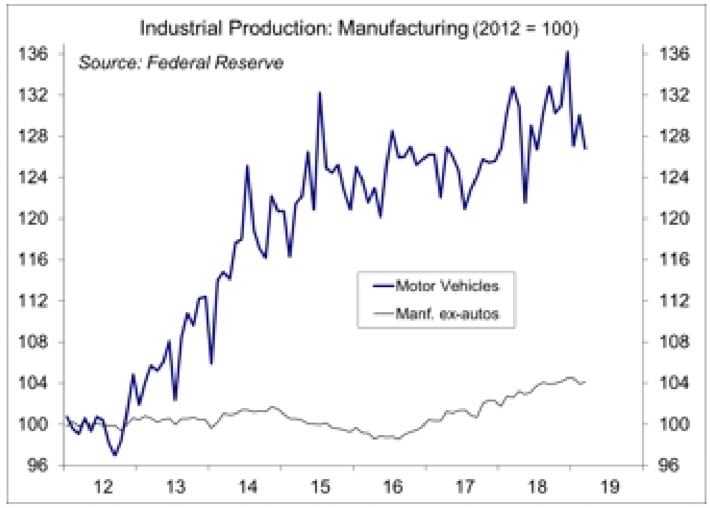
	Treasury Yields								Dollar				Equities		
	13-wk	26-wk	52-wk	2-yr	3-yr	5-yr	10-yr	30-yr	$/Euro	$/BP	JY/$	CD/$	NASD	SPX	DJIA
3/22/19	2.46	2.48	2.45	2.31	2.24	2.24	2.44	2.88	1.128	1.322	109.76	1.341	7642.67	2800.71	25502.32
4/12/19	2.44	2.47	2.44	2.40	2.36	2.38	2.56	2.97	1.130	1.309	112.00	1.333	7984.16	2907.41	26412.30
4/18/19	2.42	2.47	2.44	2.38	2.36	2.38	2.57	2.96	1.123	1.298	111.93	1.338	7996.57	2905.03	26559.54

Data Recap – The economic data reports were mixed, but consistent with moderately strong growth in the near term.

The Fed's **Beige Book** noted that economic activity expanded at a *"slight-to-moderate"* pace in March and early April, although *"a few Fed districts reported some strengthening."* Reports on consumer spending were mixed but suggested *"sluggish sales for both general retailers and auto dealers."* Reports on manufacturing activity were *"favorable,"* although *"contacts in many districts noted trade-related uncertainty."* Job growth was modest to moderate across most regions, with increases *"most highly concentrated in high-skilled jobs."* Labor markets *"remained tight, restraining the rate of growth."* The tight job market *"also led to continued wage pressures,"* while *"firms have offered perks such as bonuses and expanded benefits packages in order to attract and retain employees."* Still, *"most Districts reported moderate wage growth"* and *"wages for both skilled and unskilled positions generally grew at about the same pace as earlier this year."* On balance, *"prices have risen modestly."* Tariffs, freight costs, and rising wages added to input costs. However, *"the ability of firms to pass increased input costs on to consumers was mixed."*

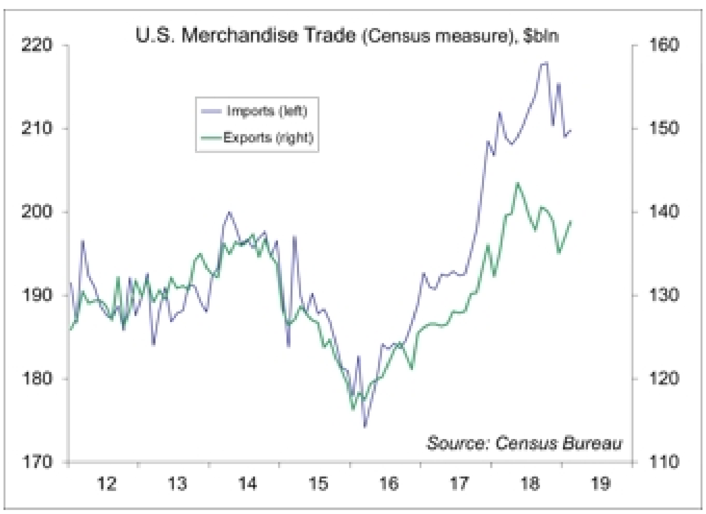
Retail Sales jumped 1.6% in March (+3.6% y/y), reflecting a rebound from the partial government shutdown and poor weather. The 1Q19 pace was up at a 0.2% annual rate (vs. +1.0% in 4Q18). Auto dealership sales rose 1.2% (+3.6% y/y), consistent with the gain in unit auto sales figures reported by the various automakers (reflecting clearance promotions). Ex-autos, sales rose 1.2% (+3.6% y/y).

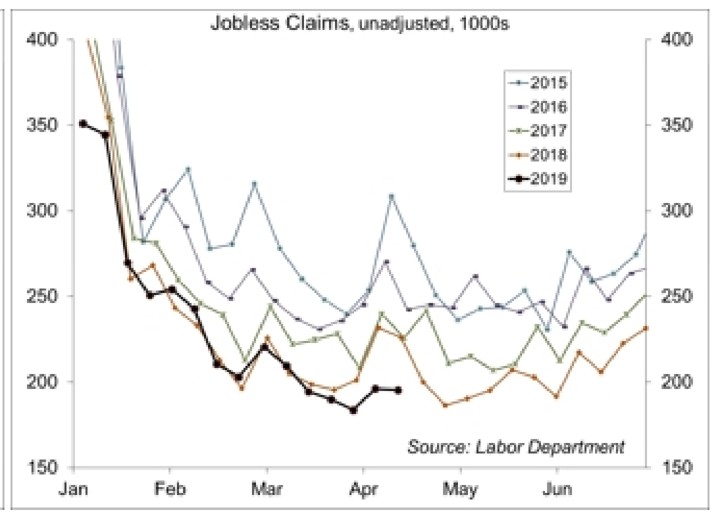




Industrial Production edged down 0.1% in the initial estimate for March (+2.8% y/y). Manufacturing output was flat, down at a 1.0% annual rate in 1Q19 (+2.6% y/y). Production of motor vehicles and parts fell 2.5%, down at a 12.8% annual rate in 1Q19 (although 5.5% above 1Q18). Ex-autos, factory output rose 0.2%, a -0.1% annual rate in 1Q19 (2.0% above 1Q18). Results were mixed across sectors.

The U.S. **Trade Deficit** narrowed unexpectedly, to $49.4 billion in February, vs. $51.1 billion in January (unrevised) and $59.9 billion in December. Merchandise imports rose 0.4% (-1.0% y/y), boosted by a 4.9% gain in petroleum imports (reflecting higher prices, the quantity of petroleum imports fell 4.9%). Ex-petroleum, imports edged up 0.1% (+0.6% y/y). There is some evidence of stockpiling ahead of expected tariff increases. Imports of industrial supplies and materials fell 9.8% y/y, vs. +23.8% y/y in July. Merchandise exports rose 1.5% (+2.6% y/y). Adjusted for inflation, the trade deficit narrowed sharply in the first two months of 1Q19, vs. a sharp widening over the two previous quarters. As a consequence, net exports are likely to add to 1Q19 GDP growth, after subtracting in 3Q18 and 4Q18.





Jobless Claims fell further in the week ending April 13, to 192,000 – the lowest level since September 6, 1969. The four-week average edged down to 201,250 – the lowest level since November 1, 1969. Recent figures may be artificially low due to seasonal adjustment issues (the late Easter). Note that announced corporate layoffs, while still low, have been trending higher. The low level of weekly claims could signal eligibility issues, but in a strong job market it's more likely that someone laid off will transition to a new job (than file a claim).

Business Inventories rose 0.3% in the initial estimate for February, up 4.3% y/y. Retail inventories, the only new information in this report, rose 0.3% (autos +0.3%, ex-autos +0.4%). Manufacturing inventories rose 0.3% and wholesale inventories rose 0.2%. These figures are not adjusted for price changes (for example, petroleum prices). Through the first two months of 1Q19, the pace of inventory growth appears faster than in 4Q18, but part of that is higher petroleum prices. Business sales (factory shipments plus wholesale and retail sales) rose 0.1% in February, up 2.4% y/y.

The Index of **Leading Economic Indicators** rose 0.4% in March, as expected, following a flat trend over the previous five months. Positive contributions were led by lower jobless claims, increased consumer expectations, the stock market, and credit. There were no negative contributions. The Index of Coincident Economic Indicators edged up 0.1%. The report noted that "taken together, the current behavior of the composite indexes and their components suggest that the expansion in economic activity should continue, but the pace of growth is likely to decelerate by year end."

Homebuilder Sentiment edged up to 63 in April, vs. 62 in both February and March (up from 58 in January and 56 in December). The release indicated that "builders report solid demand for new single-family homes, but they are also grappling with affordability concerns stemming from a chronic shortage of construction workers and buildable lots."

This Week – We may see financial markets react to a surprise in the headline GDP figure. A narrower trade deficit should make growth appear stronger than it really is.

We're missing a number of components for 1Q19, including February and March consumer spending. Net exports are likely to add, offsetting softness in Private Domestic Final Purchases (GDP less government, net exports, and the change in inventories).

This Week:					*forecast*	last	last –1	comments
Monday	4/22	8:30	Chi Fed Nat Activity Index	Mar	***NF***	-0.29	-0.25	likely to pick up
			three-month average		***NF***	-0.18	0.00	growth a bit below trend
		10:00	Existing Home Sales, mln.	Mar	***5.30***	5.51	4.93	some pullback after Feb surge
			% change		***-3.8***	+11.8	-1.4	fundamentals still sound
Tuesday	4/23	10:00	New Home Sales, th.	Mar	***650***	667	636	some moderation, still strong
			% change		***-2.5***	+4.9	+8.2	these figures are erratic
Wednesday	4/24	10:00	BOC Policy Decision					still on hold
Thursday	4/25	8:30	Jobless Claims, th.	4/20	***230***	192	197	Easter-related noise
		8:30	**Durable Goods Orders**	Mar	***+1.1%***	-1.6%	+0.1%	aircraft orders rebounding
			ex-transportation		***+0.1%***	-0.1%	-0.1%	a soft trend
			nondef cap gds ex-aircraft		***+0.1%***	-0.1%	+0.9%	hoping for a spring pickup
Friday	4/26	8:30	**Real GDP (advance est.)**	1Q19	***+2.9%***	+2.2%	+3.4%	narrower trade deficit adds
			Priv Dom Final Purchases		***+1.7%***	+2.6%	+3.0%	domestic demand should be slower
		10:00	UM Consumer Sentiment	Apr	***96.6***	98.4	93.8	96.9 at mid-month
Next Week:								
Monday	4/29	8:30	Personal Income	Mar	***+0.5%***	+0.2%	-0.1%	led by a gain in aggregate wage income
			Personal Spending		***+0.6%***	***+0.2%***	+0.1%	seen soft in February, stronger in March
			PCE Price Index ex-f&e		***+0.1%***	***+0.1%***	+0.1%	mild core inflation
			year-over year		***+1.7%***	***+1.7%***	+1.8%	trending below the Fed's 2% target
Tuesday	4/30	8:30	Employment Cost Index	1Q19	***+0.6%***	+0.7%	+0.8%	moderate
			year-over-year		***+2.8%***	+2.9%	+2.8%	not rising sharply
		9:45	Chicago Business Barometer	Apr	***59.0***	58.7	64.7	choppy in recent months
		10:00	**CB Consumer Confidence**	Apr	***125.0***	124.1	131.4	little change is anticipated
		10:00	Pending Home Sales Index	Mar	***NF***	-1.0%	+4.3%	should pick up
Wednesday	5/01	8:15	**ADP Payroll Estimate**	Apr	***+165***	+129	+197	should pick up (watch for revisions)
		10:00	Construction Spending	Mar	***NF***	+1.0%	+2.5%	higher in 1Q19
		10:00	**ISM Manf. Index**	Apr	***54.5***	55.3	54.2	moderate
		2:00	**FOMC Policy Decision**					no change in rates, no new dot plot
		2:30	**Powell Press Conference**					likely to cover no new ground
		tbd	Motor Vehicle Sales, mln	Apr	***17.0***	17.5	16.5	pulling back from March spurt
			domestically built		***13.2***	13.7	12.7	trend is flat to gradually lower
Thursday	5/02	7:00	BOE Policy Decision					on hold
		7:30	**Challenger Layoffs, th.**	Apr	***NF***	60.6	76.8	trending higher
		8:30	Jobless Claims, th.	4/27	***220***	***230***	197	Easter-related noise
		8:30	NF Productivity	1Q19	***NF***	+1.9%	+1.8%	likely weaker
			Unit Labor Costs		***NF***	+2.0%	+1.6%	implying some inflationary pressure
		10:00	Factory Orders	Mar	***+0.6***	-0.5	0.0	aircraft and oil prices
Friday	5/03	8:30	**Nonfarm Payrolls, th.**	Apr	***+160***	+196	+33	moderately strong
			private-sector		***+165***	+182	+28	a somewhat slower trend in 2019
			Avg. Weekly Hours		***34.5***	34.5	34.4	seen steady
			Avg. Hourly Earnings		***+0.3%***	+0.1%	+0.4%	moderate wage growth
			year-over-year		***+3.3%***	+3.2%	+3.4%	not rising sharply
			Unemployment Rate		***3.8%***	3.8%	3.8%	about steady
			employment/ population		***60.7%***	60.6%	60.7%	trending flat
		8:30	Advance Econ Indicators	Mar				wholesale/retail inventories, merch trade
		10:00	**ISM Non-Manf. Index**		***57.0***	56.1	59.7	moderately strong

Coming Events and Data Releases |

May 10	Consumer Price Index (April)	June 19	FOMC Policy Decision
May 15	Retail Sales (April)	Mid-July	Powell monetary Policy Testimony
May 27	Memorial Day Holiday (markets closed)	July 31	FOMC Policy Decision
June 4-5	Fed Monetary Policy Conference (Chicago)	September 18	FOMC Policy Decision

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