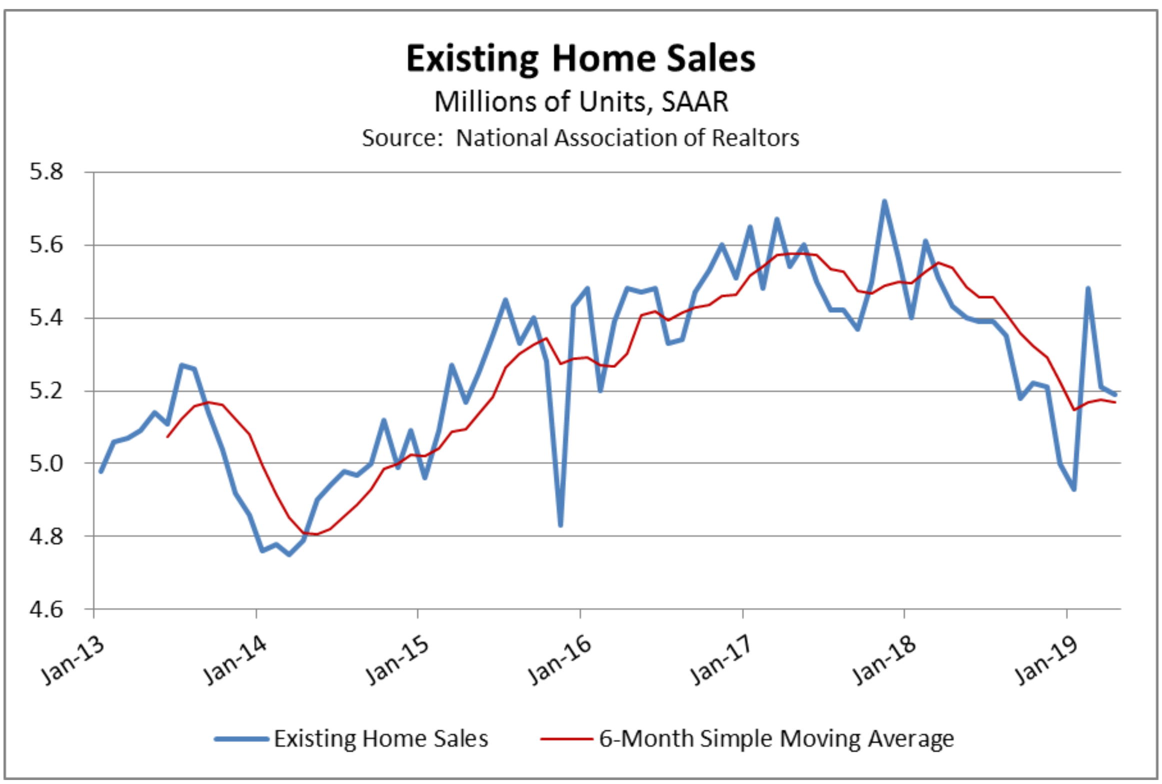
Economic Chart of the Week

May 22, 2019

We continue to see both signs of strength and signs of softening in the U.S. economy. The main sign of strength is still the healthy labor market and the way that it's encouraging every-increasing consumer spending. The signs of softening are much broader. They include a clear slowdown in manufacturing, cautious investment spending, and a flat-to-down auto market. As shown in this week's chart, the housing market also continues to weaken.

Data this week showed April existing home sales fell by a seasonally-adjusted 0.4% to an annualized rate of 5.19 million units. That followed a revised 4.9% drop in March, and it marked the fifth decline in the last six months. As a result, home re-sales in April were down 4.4% year-over-year. That's especially disappointing given the continued growth in payrolls and wage rates and the drop in mortgage rates since mid-2018, which should be buoying the market. Instead, this important sector of the economy is acting as a drag on economic activity, along with the drag from the other sectors mentioned above. The question is whether these issues could eventually offset the strength in the consumer sector. That risk is especially important when the economy is also facing headwinds from abroad, like weak foreign demand and disruptive trade tensions. All these reasons help explain why we continue to take a cautious approach to our investment strategies, and why we may continue to gradually reduce our exposure to stocks and other riskier assets in the near term.

Patrick Fearon, CFA
Lead Portfolio Manager



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