ADVISOR NET FINANCIAL PARTNERS

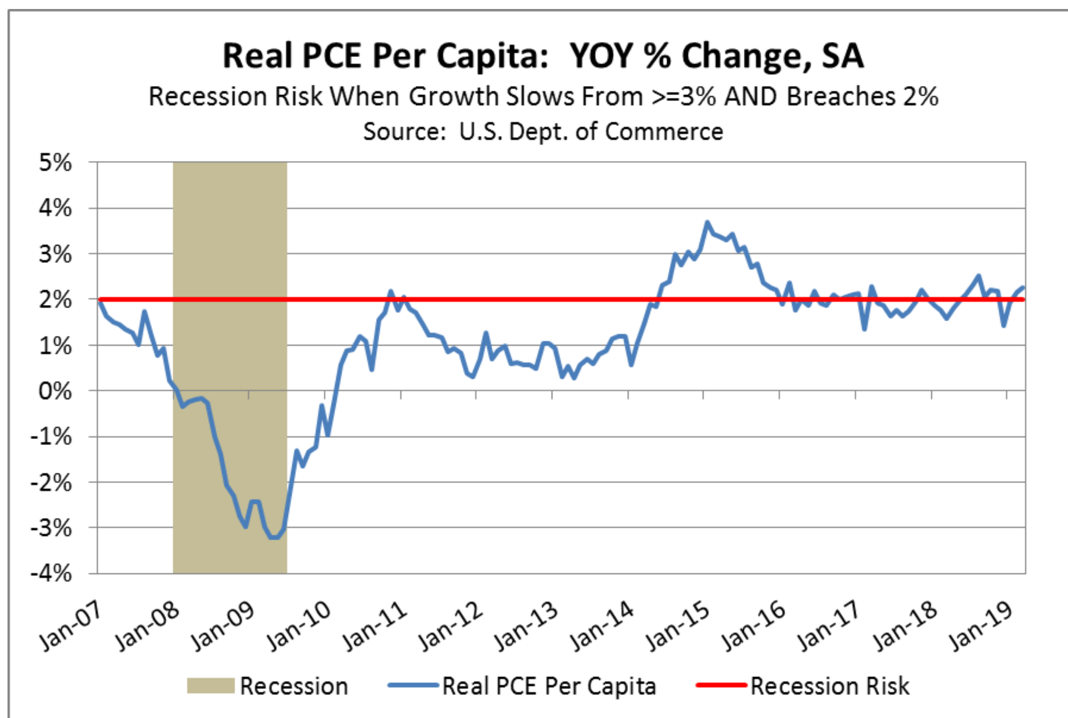
Economic Chart of the Week

May 29, 2019

The U.S. economy is driven mostly by consumer spending, so it may be tempting to think that today's good job creation, low unemployment, and rising wage rates will guarantee continued economic growth. The problem with that idea is that a key measure of consumer spending isn't rising as fast as people might think. Indeed, it's rising so moderately that we worry spending could potentially be overwhelmed by the gathering problems in international trade, manufacturing, housing, and other sectors.

One indicator that we watch closely is the annual growth in per-capita personal consumption expenditures (PCE), after subtracting inflation. Historically, "real" per-capita PCE growth has reached at least 3% and then fallen substantially below 2% before a recession and bear market in stocks. As shown in this week's chart, real per-capita PCE growth rose above 3% back in 2015, so the first criterion for a recession has been met. Since then, however, the annual growth in this indicator has merely fallen back to the 2% level. It hasn't fallen substantially below 2% for any significant amount of time, so the second criterion for a recession hasn't been met. Those who tend to see the glass as "half full" will likely find solace in that, but sometimes prudence requires you to take a "half empty" viewpoint. What we worry about is that the growth rate in personal spending wouldn't have to slow very much to fall significantly below the critical 2% level. Consumer spending may be more fragile than people realize, and it may not take much for the problems in trade and other sectors to drive it down to the point where the economy loses too much momentum and starts to falter. That should help explain why we took another moderate step toward reducing our exposure to stocks and other riskier assets across our various strategies last week – a move that has really helped protect our portfolios from the market volatility this week.

Patrick Fearon, CFA
Lead Portfolio Manager



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