WEALTH MANAGEMENT INTERNATIONAL, LTD.
Proactive Investment Management & Financial Planning

Weekly Economic Recap & Comment

Week Ended September 21, 2018

In a light week for economic data, we thought the key report was the latest read on the re-sale home market. According to the National Association of Realtors, ***August existing home sales*** were unchanged at a seasonally-adjusted, annualized rate of 5.34 million units. From a certain perspective, the flat performance in August was a relief, as it came after four straight months of declines. On the other hand, sales were still down 1.5% from the same month one year earlier. One current problem for the housing market is that relatively few people are putting their homes up for sale, so buyers are bidding up the limited inventory and pushing prices higher. In August, the median price of an existing home stood at $264,800, up a full 4.6% year-over-year. Just as important, rising mortgage interest rates are also weighing on demand. That's consistent with our belief that although the economy is growing briskly again and retains plenty of momentum, it is also driving up inflation and interest rates in a way that could short-circuit the expansion at some point down the road. As long as the economy keeps growing, corporate profits should keep rising and company finances should keep improving, so we are maintaining a significant exposure to stocks for the time being (in our strategies that include them). However, we can't ignore the fact that demand is rising faster than supply in a wide range of industries, eating into available resources and encouraging producers to hike prices. We still think broad, long-standing factors such as population aging and new technologies will ultimately limit how bad inflation can get. All the same, excess demand is creating a risk that the Federal Reserve may start hiking interest rates even faster, or that rising costs will eventually start to weigh on supply and demand. There are also yellow flags in the government policy environment, such as risky posturing in national security and international trade disputes. Finally, stocks are trading at high valuations, making them vulnerable to selling. Because of those threats, we recently started to cut our exposure to stocks and other risky assets, especially in our strategies that aim to be more conservative. If the data keeps coming in like it has been, we expect to cut risk further in the coming months.

In data on the homebuilding industry, the Census Bureau this week said ***August housing starts*** jumped by a seasonally-adjusted 9.2% to an annualized rate of 1.282 million units. However, that wasn't enough to offset the revised declines of 0.3% in July and 11.4% in June. The August surge and the early-summer declines came mostly from the volatility in apartment construction, but the pattern was also visible in the dominant single-family segment. Groundbreaking for single-family homes rose 1.9% in August, after rising 1.1% in July, but that couldn't offset the June drop of 9.3%. Because of the big jump in multi-family groundbreaking, overall housing starts in August were up 10.5% from a year earlier, but single-family starts were up just 1.3%. The recent softness in homebuilding can be traced not only to rising interest rates, but also to surging costs for land, materials, and labor. In a sign that those problems may continue to weigh on activity, ***August building permits*** fell by a sharp 5.7%, erasing their revised 0.9% rise in July and marking their fourth drop in the last five months. Overall permits in August were down 6.0% on the year, while single-family permits were up just 1.6%.

Although rising interest rates have already started to weigh on housing (and auto sales), consumer demand continues to rise rapidly for products that are less dependent on financing. In turn, that reflects the strong labor market. In the latest data, ***initial jobless claims in the week ended September 15*** declined by a seasonally-adjusted 3,000 to just 201,000, and the four-week moving average of claims fell to a nearly 49-year low of 206,000. With initial applications for unemployment benefits so minimal, it's clear that layoffs remain low, and/or jobs are so plentiful that those who do get laid off rarely bother to apply for benefits. We think that should help keep consumers confident enough to continue boosting their spending, although the high demand for labor will probably also keep pushing up inflation.

In general, the policymakers at the Fed tend to ignore the volatile prices for food and energy commodities, since those prices are assumed to be more dependent on factors like weather and trade policies than interest rates. Nevertheless, food and energy prices have a real impact on the cost of living. In the latest data on the energy sector, ***commercial crude oil inventories in the week ended September 15*** fell by 2.057 million barrels, marking their fifth straight weekly decline and leaving stockpiles at a more than 3-1/2 year low of 394.137 million barrels. Crude inventories stood a dramatic 8.2% below their five-year moving average (an industry benchmark that suggests supply and demand are in balance). Just as important, the data suggested producers are no longer able to boost production like they did over the last few years. The data showed ***domestic crude oil production in the week ended September 15*** rose slightly to 11.000 million barrels per day, but that was within the range it's been in since early summer. Against a backdrop of continued economic growth and rising usage around the world, we think stagnating U.S. production should help keep inventories in check and put additional upward pressure on prices. We are therefore maintaining our exposure to broad commodity funds in our more aggressive portfolios.

Finally, the Conference Board this week announced that its ***August index of leading economic indicators*** rose by a seasonally-adjusted 0.4%, after revised increases of 0.7% in July and 0.5% in June. In our view, the recent string of increases is strong evidence that the economy is likely to keep growing well through the end of 2018 and into 2019. That helps explain why the U.S. stock market rose to a new record high this week. Nevertheless, we are keeping a close eye on the increasing risk of excess inflation and higher interest rates.

Patrick Fearon, CFA
Chief Investment Officer

Upcoming U.S. Data

Date	ET	Release	For	Consensus Forecast	Prior
25-Sep	9:00	FHFA Housing Price Index	Jul	NA	0.20%
25-Sep	9:00	S&P Case-Shiller Home Price Index	Jul	NA	6.30%
25-Sep	10:00	Consumer Confidence	Sep	NA	133.4
26-Sep	7:00	MBA Mortgage Applications Index	22-Sep	NA	1.60%
26-Sep	10:00	New Home Sales	Aug	NA	627K
26-Sep	10:30	Crude Inventories	22-Sep	NA	-2.1M
26-Sep	14:00	FOMC Rate Decision	Sep	NA	1.88%
27-Sep	8:30	Adv. International Trade in Goods	Aug	NA	-$72.2B
27-Sep	8:30	Adv. Retail Inventories	Aug	NA	0.40%
27-Sep	8:30	Adv. Wholesale Inventories	Aug	NA	0.70%
27-Sep	8:30	Continuing Claims	15-Sep	NA	1645K
27-Sep	8:30	Durable Goods –ex transportation	Aug	NA	0.20%
27-Sep	8:30	Durable Orders	Aug	NA	-1.70%
27-Sep	8:30	GDP - Third Estimate	Q2	NA	4.20%
27-Sep	8:30	GDP Deflator - Third Estimate	Q2	NA	3.00%
27-Sep	8:30	Initial Claims	22-Sep	NA	201K
27-Sep	10:00	Pending Home Sales	Aug	NA	-0.70%
27-Sep	10:30	Natural Gas Inventories	22-Sep	NA	+86 bcf
28-Sep	8:30	PCE Prices	Aug	NA	0.10%
28-Sep	8:30	PCE Prices - Core	Aug	NA	0.20%
28-Sep	8:30	Personal Income	Aug	NA	0.30%
28-Sep	8:30	Personal Spending	Aug	NA	0.40%
28-Sep	10:00	Univ. of Michigan Consumer Sentiment - Final	Sep	NA	NA

Source: Briefing.com