Weekly Economic Recap & Comment
Week Ended February 22, 2019

This week's most notable data point was an index designed to show how the economy should perform over the next six months or so. The Conference Board said its ***January index of leading economic indicators*** fell by a seasonally-adjusted 0.1%, after a revised flat reading in December and a 0.1% gain in November. The decline in January came mostly from a recent jump in initial jobless claims (see below) and a decline in consumers' future expectations. The key thing is that the overall index has now been flat or down in three of the last four months. That's the weakest string of figures in years, and we think it helps confirm our view that even though activity is still growing at present, the economy is losing momentum. Continuing growth should help keep domestic corporate profits on the upswing in the near term, so we are maintaining a significant exposure to equities for the time being (in our strategies that include them). Near-term prospects are also supported by the recent slowdown in inflation and the Federal Reserve's decision to stop or slow its campaign of interest-rate hikes. The problem is that the Fed's move to take its foot off the brakes may not have been as perfectly timed as we all hope. With the economy much less dynamic than in decades past, there's a chance that the inflation and rate hikes to date may have already done their damage, and growth could now slow substantially further. Besides, foreign demand is still weakening, which will hurt both exporters and those U.S. firms that produce and sell abroad. There are also yellow flags in the government policy environment, such as risky posturing in national security and international trade disputes, and political risks are increasing as investigators make more progress in their examination of high-level scandals. Because of those risks, we continue to gradually trim our exposure to stocks and other riskier assets, although we think we've kept enough exposure at present to take reasonable advantage of the ongoing technical recovery in stocks.

The weekly data on initial jobless claims can be volatile, so we focus on the longer-term measures and trends. In the latest data, ***initial jobless claims in the week ended February 16*** fell by a seasonally-adjusted 23,000, down to a level of 239,000, but we focused on the fact that the four-week moving average of claims rose to 235,750. The four-week moving average is now at its highest in 13 months. With initial applications for unemployment benefits on the rise again, it appears that layoffs are becoming more common, even if they remain historically quite low. That comes on top of other evidence that the labor market may not be as strong as we previously thought. For instance, today's typical monthly job increases are big compared with historical experience, but they're not that impressive compared with today's bigger population. Recent job gains have been strong and consistent enough to cut unemployment to very low levels, but they haven't been strong enough to dramatically lift wage rates.

If the labor market hasn't been as strong as previously thought, and if layoffs are now on the rise again, the housing market is likely to face further headwinds. Indeed, the National Association of Realtors this week said ***January existing home sales*** declined by a seasonally-adjusted 1.2% to an annualized rate of just 4.94 million units. The decline in January came after sales dropped by a revised 4.0% in December and 0.2% in November. In fact, home re-sales have now fallen in five of the last seven months, and the sales rate in January was down 8.5% from one year earlier. The report said the median price of an existing home came in at $247,500 in January, for a relatively weak gain of just 2.8% over the last year. Moderating home prices and falling interest rates might soon help put a floor under the housing market or even spark a modest rebound, but we'll be watching closely to see if a softening labor market holds the sector back.

On the production side of the economy, we saw further signs of softening. ***December durable goods orders*** rose a seasonally-adjusted 1.2%, accelerating from their revised 1.0% gain in November and their 4.3% fall in October. However, the recent increases have come mostly from the volatile transportation sector, where just a few airliner orders can have a big impact. ***December durable goods orders excluding transportation*** were up just 0.1%, after falling 0.2% in the previous month. An important proxy for corporate capital investment was even less encouraging. ***December nondefense capital goods orders excluding aircraft*** declined 0.7%, after a revised 1.0% fall in November, meaning the measure has now decreased in four of the last five months. Overall durable goods orders in December were up a moderate 3.8% from one year earlier, and durable orders ex-transport were up 3.6%, but nondefense capital goods orders ex-aircraft were only up 2.6%. That suggests to us that the manufacturing sector is facing stronger and stronger headwinds as the impact of the 2018 tax cuts fades, the inflation and interest-rate hikes to date keep filtering through the economy, and foreign demand continues to weaken.

Finally, in a report touching on the balance between supply and demand in the nation's energy sector, ***commercial crude oil inventories in the week ended February 16*** rose by 3.672 million barrels, marking their fifth straight weekly increase. Total stockpiles rose to a 15-month high of 454.512 million barrels, or a full 4.0% above their five-year moving average (an industry benchmark that suggests supply and demand are in balance). The report also said ***domestic crude oil production in the week ended February 16*** rose to a new record high of 12.000 million barrels per day. In spite of continued U.S. economic growth, rising usage around the world, and reduced exports from big producers (such as Iran and Venezuela), the figures suggest excess inventories and high U.S. production could keep weighing on energy prices. Besides helping to hold down inflation, weak energy prices could also discourage new drilling and oil field development, so we think the data could point to a further moderation in economic growth and a continued stand-down on rate hikes by the Fed.

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Upcoming U.S. Data

Date	ET	Release	For	Consensus Forecast	Prior
25-Feb	10:00	Wholesale Inventories	Dec	NA	0.30%
26-Feb	8:00	S&P Case-Shiller Home Price Index	Dec	NA	4.70%
26-Feb	9:00	FHFA Housing Price Index	Dec	NA	0.40%
26-Feb	10:00	Consumer Confidence	Feb	NA	120.2
26-Feb	10:00	New Home Sales	Jan	NA	657K
27-Feb	7:00	MBA Mortgage Applications Index	23-Feb	NA	3.60%
27-Feb	8:30	Durable Goods –ex transportation	Jan	NA	NA
27-Feb	8:30	Durable Orders	Jan	NA	NA
27-Feb	10:00	Factory Orders	Dec	NA	-0.60%
27-Feb	10:00	Fed Chair Powell Semi-Annual Monetary Policy Testimony	Feb	NA	NA
27-Feb	10:00	Pending Home Sales	Jan	NA	-2.20%
27-Feb	10:30	EIA Crude Oil Inventories	23-Feb	NA	+3.7M
28-Feb	8:30	GDP - Adv.	Q4	NA	NA
28-Feb	8:30	GDP Deflator - Adv.	Q4	NA	NA
28-Feb	8:30	Adv. Intl. Trade in Goods	Jan	NA	NA
28-Feb	8:30	Adv. Retail Inventories	Jan	NA	NA
28-Feb	8:30	Adv. Wholesale Inventories	Jan	NA	NA
28-Feb	8:30	Chicago PMI	Feb	NA	56.7
28-Feb	8:30	Initial Claims	23-Feb	NA	216K
28-Feb	8:30	Continuing Claims	16-Feb	NA	1725K
28-Feb	10:30	EIA Natural Gas Inventories	23-Feb	NA	-177 bcf
1-Mar	8:30	Personal Income	Dec	NA	0.20%
1-Mar	8:30	Personal Spending	Dec	NA	0.40%
1-Mar	8:30	Personal Income	Jan	NA	NA
1-Mar	10:00	Construction Spending	Jan	NA	NA
1-Mar	10:00	ISM Manufacturing Index	Feb	NA	56.6
1-Mar	10:00	Univ. of Michigan Consumer Sentiment - Final	Feb	NA	NA

Source: Briefing.com