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

Weekly Economic Recap & Comment

Week Ended March 8, 2019

As usual, the monthly employment report was this week's key release. ***February nonfarm payrolls*** increased only weakly by a seasonally-adjusted 20,000, well short of the revised surge of 311,000 in January and the average monthly gain of 235,000 over the previous year. The ***February unemployment rate*** fell to an extraordinarily low 3.8%, but only because so many people left the labor force. Fortunately, on a much more positive note, ***February average hourly earnings*** rose to $27.66, up a healthy 3.5% from February 2018. Average wages are now growing significantly faster than consumer prices, and we think the resulting gain in purchasing power could lead to a rebound in consumer spending and help keep the economy growing in the very near term, even as some sectors are softening and risks are accumulating. Near-term prospects are also supported by the Federal Reserve's decision to stop or slow its campaign of interest-rate hikes. 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). The problem is that the Fed may have stopped hiking rates too late. 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.

In more recent data on the labor market, ***initial jobless claims in the week ended March 2*** fell by a seasonally-adjusted 3,000 to a level of 223,000. The four-week moving average of claims declined to 226,250. However, the four-week moving average was still 1.6% higher than one year earlier. With initial applications for unemployment benefits apparently on the rise again, it appears that layoffs are becoming more common, even if they remain historically quite low.

Another important aspect of the labor market is how it looks from the perspective of employers. Is worker productivity – i.e., the average value of output per hour worked – rising faster than wages? After stripping out price changes and seasonal impacts, data this week showed ***revised fourth-quarter productivity*** increased at an annualized rate of 1.9%, accelerating from the third-quarter rate of 1.8% and almost matching the average rate of 2.0% over the last two decades. ***Revised fourth-quarter unit labor costs*** rose at a similar rate of 2.0%, but that came after much weaker figures in the previous two quarters. Productivity in the fourth period was up 1.8% year-over-year, but unit labor costs were up just 1.0%. We think well-behaved unit labor costs are yet another reason to think inflation pressures will remain muted and the Fed can refrain from further rate hikes.

Stable interest rates might eventually help the housing market a lot, but the sector started to look a bit better even at the end of 2018. ***December new home sales*** rose by a seasonally-adjusted 3.7%, after a revised 9.1% jump in November. However, that wasn't enough to erase the weakness last autumn, and the annual selling rate was still relatively weak at 621,000 units. The median price of a newly-built home rose to $318,600, but that was still down 7.2% from one year earlier.

In related data, ***January housing starts*** jumped by a seasonally-adjusted 18.6% to an annualized rate of 1.230 million units. However, that wasn't enough to offset the declines in September through December. Overall housing starts in January were down 9.8% on the year, with groundbreaking for single-family homes up just 1.8% and groundbreaking for multi-family units down by double digits. ***January building permits*** rose a subdued 1.4%, after a gain of 0.3% in December. Permits in January were up just 0.2% on the year, with single-family permits down 7.1%.

Weak homebuilding continues to weigh on overall construction. ***December construction spending*** declined by a seasonally-adjusted 0.6%, with the decline coming mostly from a drop in outlays on private residential construction and a fall in public works spending, while outlays on commercial construction rose a bit. Overall construction spending in December was up a weak 0.8% year-over-year, with public works up 4.2%

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and commercial construction up 3.8%, but residential building down a significant 3.5%.

In data on the energy sector, ***commercial crude oil inventories in the week ended March 2*** jumped by 7.069 million barrels, almost reversing their big decline in the previous week. That left total stockpiles at 445.865 million barrels, or 3.4% 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 March 2*** held steady at a record high of 12.100 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 prices, discouraging energy investment and helping hold down inflation.

Despite the renaissance in U.S. oil output and rising U.S. exports, the trade balance continues to deteriorate amid rising domestic demand, faltering growth overseas, and a strong dollar. The ***December trade balance*** showed a seasonally-adjusted deficit of $59.8 billion, after a revised shortfall of $50.3 billion in November. As usual over the last year, U.S. exports declined in December, while imports rose. Compared with December 2017, exports were up a paltry 0.1%, while imports were up 3.1%.

Finally, the Institute for Supply Management provided the best news of the week when it announced that its ***February ISM nonmanufacturing index*** rebounded to a seasonally-adjusted 59.7 from 56.7 in January. The ISM indexes are designed so that readings over 50 point to expanding activity, so the figure suggests the dominant service sector of the economy is now growing quite broadly again after slowing sharply in December and January. We take that as reassurance that the economy will probably keep growing in the very near term and potentially allow the stock market to keep rising, though we remain cautious about the warning signs we're seeing in particular sectors.

Patrick Fearon, CFA
Lead Portfolio Manager

Upcoming U.S. Data

Date	ET	Release	For	Consensus Forecast	Prior
11-Mar	8:30	Retail Sales	Jan	NA	-1.20%
11-Mar	8:30	Retail Sales, Ex-Auto	Jan	NA	-1.80%
11-Mar	10:00	Business Inventories	Dec	NA	-0.10%
12-Mar	6:00	NFIB Small Business Optimism Index	Feb	NA	101.2
12-Mar	8:30	CPI	Feb	NA	0.00%
12-Mar	8:30	Core CPI	Feb	NA	0.20%
13-Mar	7:00	MBA Mortgage Applications Index	9-Mar	NA	-2.50%
13-Mar	8:30	PPI	Feb	NA	0.10%
13-Mar	8:30	Core PPI	Feb	NA	0.30%
13-Mar	8:30	Durable Orders	Jan	NA	1.20%
13-Mar	8:30	Durable Orders, Ex-Transportation	Jan	NA	0.10%
13-Mar	10:00	Construction Spending	Jan	NA	-0.60%
13-Mar	10:30	EIA Crude Oil Inventories	9-Mar	NA	+7.1M
14-Mar	8:30	Initial Claims	9-Mar	NA	223K
14-Mar	8:30	Continuing Claims	2-Mar	NA	1755K
14-Mar	8:30	Import Prices	Feb	NA	-0.50%
14-Mar	8:30	Export Prices	Feb	NA	-0.60%
14-Mar	8:30	Import Prices ex-oil	Feb	NA	-0.20%
14-Mar	8:30	Export Prices ex-ag.	Feb	NA	-0.30%
14-Mar	10:00	New Home Sales	Jan	NA	621K
14-Mar	10:30	EIA Natural Gas Inventories	9-Mar	NA	-149 bcf
15-Mar	8:30	Empire State Manufacturing	Mar	NA	8.8
15-Mar	9:15	Industrial Production	Feb	NA	-0.60%
15-Mar	9:15	Capacity Utilization	Feb	NA	78.20%
15-Mar	10:00	Univ. of Michigan Consumer Sentiment - Prelim	Mar	NA	93.8
15-Mar	10:00	JOLTS - Job Openings	Jan	NA	7.335M
15-Mar	16:00	Net Long-Term TIC Flows	Jan	NA	-$48.3B

Source: Briefing.com

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