WEALTH MANAGEMENT INTERNATIONAL, LTD.

Proactive Investment Management & Financial Planning

Weekly Economic Recap & Comment

Week Ended March 15, 2019

We thought this week's most important economic release was the latest report on consumer inflation. The ***February consumer price index (CPI)*** rose by a seasonally-adjusted 0.2%, after being flat in each of the previous three months. Excluding the volatile food and energy categories, the ***February "core" CPI*** was up just 0.1%, decelerating from its gains of 0.2% in each of the previous five months. From a longer perspective, the headline CPI for February was up just 1.5% from February 2018, while the core CPI was up 2.1%. That means neither measure is now appreciably above the Federal Reserve's target of 2.0%, as they both were last summer. We think the Fed could therefore refrain from further interest-rate hikes for the time being, which should help keep the overall economy growing in the near term, even as some sectors are softening and risks are accumulating. Continuing growth should help keep domestic corporate profits on the upswing for now, 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 a report focused on business-to-business prices, the ***February producer price index (PPI)*** rose by a seasonally-adjusted 0.1%, but that couldn't reverse the small declines in each of the previous three months. Excluding the volatile food and energy categories, the ***February "core" PPI*** was also up 0.1%, after rising 0.3% in January and being unchanged in December. The overall PPI in February was up 1.9% year-over-year, while the core PPI was up 2.5%. Those increases were much calmer than the annual gains of about 3.0% last summer, so the report helped bolster our belief that inflation pressures are now waning. However, since businesses' costs are still rising faster than the prices they can charge to consumers, we can't say domestic inflation pressure has been totally eliminated.

The only place inflation seems totally gone is in the international sector. ***February import prices*** rose by a seasonally-adjusted 0.6%, after revisions showed a 0.1% gain in January and a 1.4% fall in December. However, those figures mostly reflect the volatility in energy prices. ***February nonfuel import prices*** were unchanged, after a revised 0.3% fall in the previous month. Nonfuel import prices have now been flat or down in eight of the last nine months. Overall import prices in February were 1.3% lower than one year ago, while nonfuel import prices were 0.6% lower. With the dollar still quite strong and foreign demand weakening, we suspect import prices will remain under wraps for the time being.

We think the cooling in domestic inflation mostly reflects weaker demand and less pressure on productive resources. Although ***February industrial production*** edged up by a seasonally-adjusted 0.1%, that wasn't nearly enough to reverse its revised decline of 0.4% in January. Besides, the rise came mostly from a jump in utility output, which tends to reflect the weather. Manufacturing output actually fell in February for the third time in the last five months. Overall industrial production in February was up a moderate 3.9% year-over-year, mostly because mining output was up 12.7% and utility output was up 10.6%. Manufacturing production was only up 1.1% from a year earlier. ***February industrial capacity utilization*** also showed weakness, as it declined to 78.2%. Capacity usage is now only modestly above its 20-year average of 77.3%, and as it softens, we think firms will be less tempted to boost prices. In other words, softer production and decreased capacity use should further diminish inflationary pressure in the economy.

In data on an important subsector of manufacturing, ***January durable goods orders*** rose by a seasonally-adjusted 0.4%, after a revised 1.3% gain in December. However, that mostly reflected the volatile transportation category, where just a few airliner orders can skew the figures. ***January durable goods orders excluding transport*** fell 0.1%, after a rise of 0.3% in the previous month. In a key category that serves as a proxy for corporate investment, ***January nondefense capital goods orders excluding aircraft*** rose 0.8%, although that wasn't enough to offset the declines of 0.9% in December and 1.1% in November. Total January durable orders were up a 7.8% year-over-year, but durable orders ex-transport were only up 3.7%, and nondefense durable orders ex-aircraft were up just 3.1%.

In another sign weaker demand is putting less pressure on resources, ***December business inventories*** rose by a seasonally-adjusted 0.6%, after revisions showed a flat performance in November and a rise of 0.6% in October. With stockpiles rising while sales have been weakening, the ***December business inventory-to-sales ratio*** rose to a 16-month high of 1.38. That's important because plentiful inventories are likely to discourage new orders and encourage promotional pricing, all of which points to muted inflation pressure going forward.

In data specific to the energy sector, ***commercial crude oil inventories in the week ended March 9*** fell by 3.862 million barrels to a total of 449.072 million barrels. However, that was only the second decline in the last eight weeks, and total inventories were still 2.4% above their five-year moving average (an industry benchmark that suggests supply and demand are in balance). The report said ***domestic crude oil production in the week ended March 9*** fell slightly to 12.000 million barrels per day, but that was still the second-highest output level on record. Despite 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.

Another key report from the business side of the economy showed ***January retail sales*** inched up by a seasonally-adjusted 0.2%, although that wasn't enough to offset the revised decline of 1.6% in December. ***January retail sales excluding autos*** rose a stronger 0.9%, but that also failed to reverse the previous month's fall of 2.1%. Total retail sales in January were up a modest 2.6% from one year earlier, while non-auto sales were up a slightly better 3.2%. Both annual gains were much weaker than the figures seen last summer.

Finally, in data on the labor market, ***initial jobless claims in the week ended March 9*** rose by a seasonally-adjusted 6,000 to a level of 229,000. The four-week moving average of claims fell to 223,750, but that was still significantly higher than the cycle low last September. 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.

Patrick Fearon, CFA
Lead Portfolio Manager

Upcoming U.S. Data

Date	ET	Release	For	Consensus Forecast	Prior
18-Mar	9:00	NAHB Housing Market Index	Mar	NA	62
19-Mar	10:00	Factory Orders	Jan	NA	0.10%
20-Mar	7:00	MBA Mortgage Applications Index	16-Mar	NA	2.30%
20-Mar	10:30	EIA Crude Oil Inventories	16-Mar	NA	-3.9M
20-Mar	14:00	FOMC Rate Decision	Mar	NA	2.38%
20-Mar	14:30	Fed Chair Press Conference	Mar	NA	NA
21-Mar	8:30	Initial Claims	16-Mar	NA	229K
21-Mar	8:30	Continuing Claims	9-Mar	NA	1776K
21-Mar	8:30	Philadelphia Fed Index	Mar	NA	-4.1
21-Mar	8:30	Current Account Balance	Q4	NA	-$124.8B
21-Mar	10:00	Leading Indicators	Feb	NA	-0.10%
21-Mar	10:30	EIA Natural Gas Inventories	16-Mar	NA	-204 bcf
22-Mar	10:00	Existing Home Sales	Feb	NA	4.94M
22-Mar	10:00	Wholesale Inventories	Jan	NA	1.10%
22-Mar	14:00	Treasury Budget	Feb	NA	-$215.2B

Source: Briefing.com