WEALTH MANAGEMENT INTERNATIONAL, LTD.

Proactive Investment Management & Financial Planning

Weekly Economic Recap & Comment

Week Ended March 29, 2019

This week's key report was the final estimate of U.S. economic output in October through December. After stripping out price changes and seasonal impacts, ***final fourth-quarter gross domestic product (GDP)*** rose only moderately at an annualized rate of 2.2%, compared with the previous estimate of 2.6% and the third-quarter growth rate of 3.4%. Still, because of the good growth earlier in 2018, GDP in the fourth quarter was up a healthy 3.0% from the same period one year earlier, beating the average annual increase of 2.1% over the last two decades. Most of the growth over the last year came from increased consumer spending, with only modest contributions from higher private investment and government spending. Finally, in a broad measure of inflation, the ***final fourth-quarter GDP deflator*** rose at a rate of just 1.7%, down from 1.8% in the third period and a worrisome 3.0% in the second. In sum, the data showed the economy continues to grow, even if the growth rate is softening and economic headwinds are accumulating. Continued 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 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. Because of those risks, we continue to gradually trim our exposure to stocks and other riskier assets across our various strategies, although we think we've kept enough exposure at present to take reasonable advantage of the ongoing technical recovery in stocks for as long as it lasts.

Although consumer spending continued to rise in the fourth quarter, the rate of increase slowed and pulled down overall growth. In data on the consumer sector in the first quarter of 2019, ***February personal income*** rose by a seasonally-adjusted 0.2%, after a 0.1% decline in the previous month. Perhaps more important, ***January personal consumption expenditures (PCE)*** edged up just 0.1%, after falling a revised 0.5% in December. Income in January was up a modest 4.3% year-over-year, but PCE was up just 3.7%. The report also included the Fed's preferred gauge of inflation. Excluding the volatile food and energy components, the ***January "core" PCE deflator*** was up just 1.8% year-over-year, compared with the Fed's target of 2.0%.

Naturally, the trends in personal income and spending depend heavily on the labor market. In the latest data, ***initial jobless claims in the week ended March 23*** fell by a seasonally-adjusted 5,000 to a level of 211,000, while the four-week moving average of claims declined to 217,250. Initial applications for unemployment benefits are still significantly higher than they were just a few months ago, which suggests layoffs have recently rebounded a bit, but it's encouraging that they don't seem to be rising any further.

One big issue for the consumer sector is whether people remain optimistic enough to keep boosting their spending. On that question, the Conference Board said its ***March consumer confidence index*** pulled back to 124.1 from 131.4 in February, for its fifth decline in the last six months. In contrast, the University of Michigan said its ***final March consumer sentiment index*** jumped to 98.4, reaching its highest level since last September. In spite of those mixed figures, however, each report's subindex on consumer views of current conditions was considerably weaker than the subindex on their future expectations. That's a concern, since our analysis shows the current conditions subindexes are among the best indicators of where the economy is going in the near term.

One of the biggest reasons for the moderation in economic growth late last year was falling residential investment, and that trend seems to be continuing in 2019. ***February housing starts*** fell by a seasonally-adjusted 8.7%, erasing most of the revised 11.7% jump in January and marking their fifth decrease in the last six months. Starts in February were down a sharp 9.4% year-over-year, led by a 10.7% drop in groundbreakings for single-family homes. In a bad sign for the future, ***February housing permits*** fell 1.6%, after a drop of 0.7% in the previous month. February permits were down 2.1% on the year, with permits for multi-family projects up but permits for single-family homes down a discouraging 7.2%.

Fortunately, the recent pullback in mortgage interest rates and continued income growth could spark a rebound in the housing. In fact, a separate report this week showed ***February new home sales*** jumped by a seasonally-adjusted 4.9% to an annualized rate of 667,000 units. That left sales of newly built homes a slight 0.6% higher than in February 2018. However, it appears homebuilders have had to increase discounts in order to notch those sales. In February, the median price of a new home came in at $315,300, for a decline of 3.6% year-over year.

In data on the energy sector, ***commercial crude oil inventories in the week ended March 23*** rose by 2.800 million barrels, but that came after two straight weekly declines. With total stockpiles at 442.283 million barrels, inventories are now just 0.7% above their five-year moving average (an industry benchmark that suggests supply and demand are in balance). As a whole, we think the recent inventory data has been supportive for oil prices and energy investment, but the report also said ***domestic crude oil production in the week ended March 23*** remained at a record high of 12.100 million barrels per day. Despite continued U.S. economic growth, rising usage around the world, and reduced exports from big producers (such as Iran and Venezuela), that suggests high U.S. production is still a risk for prices and investment in the sector. For now, we think the outlook is quite cloudy for oil prices.

Finally, the week also included some data on international trade. The ***January trade balance*** showed a seasonally-adjusted deficit of $51.1 billion, marking a significant improvement from the deficit of $59.9 billion in December. The narrowing reflected a modest rise in exports during January, while imports dropped sharply. Because of similar dynamics in recent months, exports in January were up 3.0% year-over-year, while imports were up just 1.6%. However, the recent trade figures have been extremely "noisy," as firms try to game the on-going trade negotiations and get ahead of changing tariffs. The relatively stronger growth in U.S. demand and the strength of the dollar suggest the deficit could start expanding again in future months.

Patrick Fearon, CFA
Lead Portfolio Manager

Upcoming U.S. Data

Date	ET	Release	For	Consensus Forecast	Prior
1-Apr	8:30	Retail Sales	Feb	0.20%	0.20%
1-Apr	8:30	Retail Sales, Ex-Auto	Feb	0.30%	0.90%
1-Apr	10:00	Business Inventories	Jan	0.50%	0.60%
1-Apr	10:00	ISM Manufacturing Index	Mar	54.1	54.2
1-Apr	10:00	Construction Spending	Feb	-0.30%	1.30%
1-Apr	14:00	Auto Sales	Mar	NA	3.75M
1-Apr	14:00	Truck Sales	Mar	NA	8.91M
2-Apr	8:30	Durable Orders	Feb	-0.90%	0.40%
2-Apr	8:30	Durable Orders, Ex-Transportation	Feb	0.20%	-0.10%
3-Apr	7:00	MBA Mortgage Applications Index	30-Mar	NA	8.90%
3-Apr	8:15	ADP Employment Change	Mar	178K	183K
3-Apr	10:00	ISM Non-Manufacturing Index	Mar	57.9	59.7
3-Apr	10:30	EIA Crude Oil Inventories	30-Mar	NA	+2.8M
4-Apr	8:30	Initial Claims	30-Mar	217K	211K
4-Apr	8:30	Continuing Claims	23-Mar	NA	1756K
4-Apr	10:30	EIA Natural Gas Inventories	30-Mar	NA	-36 bcf
5-Apr	8:30	Nonfarm Payrolls	Mar	170K	20K
5-Apr	8:30	Nonfarm Private Payrolls	Mar	160K	25K
5-Apr	8:30	Avg. Hourly Earnings	Mar	0.20%	0.40%
5-Apr	8:30	Unemployment Rate	Mar	3.80%	3.80%
5-Apr	8:30	Average Workweek	Mar	34.5	34.4
5-Apr	15:00	Consumer Credit	Feb	$18.0B	$17.0B

Source: Briefing.com

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