



WEALTH MANAGEMENT INTERNATIONAL, LTD.

Proactive Investment Management & Financial Planning

Weekly Economic Recap & Comment Week Ended April 5, 2019

Naturally, the main economic data this week came in the latest employment report. **March nonfarm payrolls** rose by a seasonally-adjusted 196,000, posting a reassuring rebound after their revised gain of just 33,000 in February. The **March unemployment rate** was unchanged at 3.8%, but that was still close to the lowest level in decades. Finally, in the report's only real disappointment, **March average hourly earnings** rose only slightly to \$27.70. Average earnings were up 3.2% from the same month one year earlier, compared with annual gains of as much as 4.1% late last year. Still, since the consumer price index (CPI) has only risen about 1.5% over the last year, it seems certain that workers are enjoying a substantial rise in their purchasing power. In sum, we thought the report was consistent with our view that the economy is continuing to grow and still retains significant momentum. The rate of growth is softening, and economic headwinds are accumulating, but since the Federal Reserve has responded to those developments by pausing its long campaign of interest-rate hikes, we don't think a recession or bear market in stocks is imminent quite yet. 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 over time. 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.

In some data that helped confirm the labor market's apparent rebound last month, **initial jobless claims in the week ended March 30** dropped by a seasonally-adjusted 10,000 to reach a 49-year low of just 202,000. The four-week moving average of claims declined to 213,500, almost back down to the cycle low reached in late September. Initial applications for unemployment

benefits had spiked during the winter, suggesting layoffs were on the rise again, but the recent pullback shows that was probably a false alarm. Hiring may not be particularly robust, but it looks like companies are still intent on retaining their current workers.

Even though initial claims have fallen again, the layoff spike in mid-winter may have made consumers more reluctant to spend. **February retail sales** fell by a seasonally-adjusted 0.2%, after a revised 0.7% rise in January and a 1.6% plunge in December. Even after excluding the volatile automobile category, the numbers looked soft. **February retail sales excluding autos** fell 0.4%, after a 1.4% rise in the previous month and a steep 2.1% dive in the month before that. In February, both overall retail sales and retail sales excluding autos were up just 2.2% year-over-year, illustrating the loss of momentum that could cause problems in the future.

In the corporate sector, the Institute for Supply Management said its **March ISM manufacturing index** rebounded to a seasonally-adjusted 55.3 from 54.2 in February. The ISM indexes are designed so that readings over 50 point to expanding activity, so the figures suggest the factory sector is still growing broadly. However, the recent figures have been significantly weaker than the frequent readings above 60 over the last two years. Manufacturing has clearly slowed, and even though it's still growing for now, the loss of momentum means there is greater risk of an outright decline ahead.

The ISM also released its latest data on the service sector. The **March ISM nonmanufacturing index** fell to a seasonally-adjusted 56.1, reaching its lowest level since December 2017. The drop was especially surprising given that the February reading, at 59.7, had almost matched the recent cycle highs above 60.0. The figures suggest the service sector also may be slowing significantly.

In a report on manufacturing farther back in time, **February durable goods orders** fell by a seasonally-adjusted 1.6%, wiping out their revised gains of 0.1% in January and 1.3% in December. However, the decline came largely from the volatile transportation category, where just a few airliner orders can have a big impact. **February durable goods orders excluding transportation** edged up 0.1%, reversing their 0.1%

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decline in the previous month. The report also included an important proxy for corporate capital investment. **February nondefense capital goods orders excluding aircraft** edged down 0.1%, erasing part of their 0.9% rise in January and marking their fifth fall in the last seven months. Overall durable goods orders in February were up a weak 1.0% year-over-year, while durable orders ex-transport were up a better 2.6%. February nondefense capital goods orders ex-aircraft were up a modest 1.9% on the year.

The impact of the economic slowdown at the turn of the year could also be seen in the latest data on inventories. **January business inventories** jumped by a seasonally-adjusted 0.8%, matching their revised rise in December and marking the strongest two months of gains since 2011. The problem was that the rise far outstripped the increase in sales over the period. The **January business inventory-to-sales ratio** therefore rose to a 17-month high of 1.39. If the inventory ratio rises too much further, it would suggest excess inventories are becoming a problem and firms might be forced to hold back on future factory orders.

In data specific to the energy sector, **commercial crude oil inventories in the week ended March 30** rose by 7.238 million barrels, bringing total stockpiles up to 449.521 million barrels and leaving inventories 2.2% 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 30** rose to a new record high of 12.200 million barrels per day. The broader market seems to be more focused on continued U.S. economic growth, rising usage around the world, and reduced exports from big producers (such as Iran and Venezuela), so oil prices continue to trend up for now. However, the data makes us wary of the potential for excess supplies and falling prices, so we're avoiding commodity funds in most of our strategies at present.

Finally, some of the best news this week came from the building industry. **February construction spending** rose by a seasonally-adjusted 1.0%, after revised increases of 2.5% in January and 0.2% in December. That marked the longest string of increases in more than a year. Because of the relative weakness through much of 2018, overall construction spending in February was only up 1.0% on the year, mostly because outlays on residential projects were down 2.7% and outlays on commercial projects were up just 0.3%. In a sign that the long economic expansion has finally boosted local government finances, February spending on public works construction was up a robust 10.2% on the year.

Patrick Fearon, CFA
Lead Portfolio Manager

Upcoming U.S. Data

| Date | ET | Release | For | Consensus Forecast | Prior |
|--------|-------|---|--------|--------------------|-----------|
| 8-Apr | 10:00 | Factory Orders | Feb | NA | 0.10% |
| 9-Apr | 6:00 | NFIB Small Business Optimism Index | Mar | NA | 101.7 |
| 9-Apr | 10:00 | JOLTS - Job Openings | Feb | NA | 7.581M |
| 10-Apr | 7:00 | MBA Mortgage Applications Index | 6-Apr | NA | 18.60% |
| 10-Apr | 8:30 | CPI | Mar | NA | 0.20% |
| 10-Apr | 8:30 | Core CPI | Mar | NA | 0.10% |
| 10-Apr | 10:00 | Wholesale Inventories | Feb | NA | 1.20% |
| 10-Apr | 10:30 | EIA Crude Oil Inventories | 6-Apr | NA | +7.2M |
| 10-Apr | 14:00 | FOMC Minutes | Mar | NA | |
| 10-Apr | 14:00 | Treasury Budget | Mar | NA | -\$208.7B |
| 11-Apr | 8:30 | Initial Claims | 6-Apr | NA | 202K |
| 11-Apr | 8:30 | Continuing Claims | 30-Mar | NA | 1717K |
| 11-Apr | 8:30 | PPI | Mar | NA | 0.10% |
| 11-Apr | 8:30 | Core PPI | Mar | NA | 0.10% |
| 11-Apr | 10:30 | EIA Natural Gas Inventories | 6-Apr | NA | +23 bcf |
| 12-Apr | 8:30 | Import Prices | Mar | NA | 0.60% |
| 12-Apr | 8:30 | Export Prices | Mar | NA | 0.60% |
| 12-Apr | 8:30 | Import Prices ex-oil | Mar | NA | 0.00% |
| 12-Apr | 8:30 | Export Prices ex-ag. | Mar | NA | 0.70% |
| 12-Apr | 10:00 | Univ. of Michigan Consumer Sentiment - Prelim | Apr | NA | 98.4 |

Source: *Briefing.com*

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