Weekly Economic Recap & Comment

Week Ended April 12, 2019

This week, we were especially impressed with the latest data on initial applications for unemployment benefits, which serve as a proxy for layoffs. According to the report, ***initial jobless claims in the week ended April 6*** fell by a seasonally-adjusted 8,000 to a nearly 50-year low of 196,000. The four-week moving average of claims dropped to a cycle low of 207,000. By either measure, it appears the worrying rebound in layoffs over the winter has run its course. With the pool of unemployed workers quite low, firms are again trying to hold on to their employees rather than lay them off. That's consistent with our view that the economy is continuing to grow and still retains significant momentum. The rate of growth has softened, 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 an uptrend 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 expect to eventually trim our exposure to stocks and other riskier assets further across our various strategies, although we're comfortable with the exposure we still have at present and believe it will allow us to take reasonable advantage of the ongoing recovery in stocks for as long as it lasts.

In spite of the continued job growth and minimal layoffs, consumer optimism still seems to have been dented a bit by factors such as the mid-winter government shutdown. The University of Michigan this week said its ***preliminary April consumer sentiment*** fell back to 96.9, compared with a final March reading of 98.4 and a recent high of 100.1 last September. All the same, we were encouraged that the slide in April stemmed entirely from a decline in the subindex on consumers' future expectations. Bucking recent trends, the subindex on their view of current conditions outperformed with a modest rise. That's important because our research shows that consumers' assessment of current conditions is a good indicator of near-term prospects for the economy and financial markets.

In spite of the continuing economic growth and the drop in layoffs, many inflation reports this week suggested the Fed can hold off on any further interest-rate hikes. It's true that the ***March consumer price index (CPI)*** rose somewhat strongly by a seasonally-adjusted 0.4%, after increasing 0.2% in February and being unchanged in each of the three months before that. However, the acceleration came largely from a rebound in energy prices. Excluding the volatile food and energy components, the ***March "core" CPI*** edged up just 0.1% for the second straight month. The overall CPI in March was up just 1.9% from the same month one year earlier. The core CPI was up 2.0% year-over-year, right on the Fed's target, but that was its weakest annual gain since February 2018.

In the realm of business-to-business prices, underlying inflation also seems to be cooling. A new report this week said the ***March producer price index (PPI)*** jumped by a seasonally-adjusted 0.6%, after rising just 0.1% in the previous month and falling in the three months before that. Again, however, the jump stemmed largely from the volatile food and energy categories that can mask underlying trends. Excluding those categories, the ***March "core" PPI*** rose 0.3%, after edging up 0.1% in February. The overall PPI in March was up 2.2% year-over-year, while the core PPI was up 2.4%. However, core PPI inflation has been sliding for some time, and its reading in March was the lowest since May 2018.

A final report on inflation showed prices for foreign goods are also well behaved. ***March import prices*** rose by a seasonally-adjusted 0.6%, after revisions showed a jump of 1.0% in February. However, most of those increases stemmed from the recent rebound in global oil prices. ***March nonfuel import prices*** actually declined 0.2%, almost erasing their 0.3% rise in the previous month and marking the fifth time in the last six months that nonfuel import prices have been flat or down. In the year through March, overall import prices were unchanged, but nonfuel prices were down 0.8%. The softening in

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core import prices appears to reflect factors like weak economic activity overseas and the strong dollar. In any case, we think less costly imports will help keep overall inflation contained and allow the Fed to refrain from further interest-rate hikes for the time being.

The week's data on industrial activity also had implications for inflation. For instance, ***commercial crude oil inventories in the week ended April 6*** jumped by 7.029 million barrels, bringing total stockpiles to a 15-month high of 456.550 million barrels. Inventories are now a significant 3.7% 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 April 6*** was unchanged at a 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, in a report on the nation's manufacturing sector, ***February factory orders*** fell by a seasonally-adjusted 0.5%, after revisions showed orders were unchanged in January and up 0.1% in December. The drop in February stemmed entirely from falling orders for durable goods, while orders for nondurables rose. Compared with February 2018, total factory orders were up a miniscule 0.9%, with durable orders up 1.0% and nondurable orders up 0.9%. The weakness reflects the broad softness in economic activity last winter. The question now is whether we'll continue to see signs of a rebound.

Patrick Fearon, CFA
Lead Portfolio Manager

Upcoming U.S. Data

Date	ET	Release	For	Consensus Forecast	Prior
15-Apr	8:30	Empire State Manufacturing	Apr	NA	3.7
15-Apr	16:00	Net Long-Term TIC Flows	Feb	NA	-$7.2B
16-Apr	9:15	Industrial Production	Mar	NA	0.10%
16-Apr	9:15	Capacity Utilization	Mar	NA	78.20%
16-Apr	10:00	NAHB Housing Market Index	Apr	NA	62
17-Apr	7:00	MBA Mortgage Applications Index	13-Apr	NA	-5.60%
17-Apr	8:30	Trade Balance	Feb	NA	-$51.1B
17-Apr	10:00	Wholesale Inventories	Feb	NA	1.40%
17-Apr	10:30	EIA Crude Oil Inventories	13-Apr	NA	+7.0M
17-Apr	14:00	Fed's Beige Book	Apr	NA	NA
18-Apr	8:30	Retail Sales	Mar	NA	-0.20%
18-Apr	8:30	Retail Sales ex-auto	Mar	NA	-0.40%
18-Apr	8:30	Initial Claims	13-Apr	NA	196K
18-Apr	8:30	Continuing Claims	6-Apr	NA	1713K
18-Apr	8:30	Philadelphia Fed Index	Apr	NA	13.7
18-Apr	10:00	Business Inventories	Feb	NA	0.80%
18-Apr	10:00	Leading Indicators	Mar	NA	0.20%
18-Apr	10:30	EIA Natural Gas Inventories	13-Apr	NA	+25 bcf
19-Apr	8:30	Housing Starts	Mar	NA	1162K
19-Apr	8:30	Building Permits	Mar	NA	1296K

Source: Briefing.com

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