Weekly Economic Recap & Comment

Week Ended April 18, 2019

We thought this week's key release was the latest report on industrial activity. ***March industrial production*** edged down by a seasonally-adjusted 0.1%, essentially erasing its 0.1% rise in February and marking the third time in the last four months that output has been either flat or down. Most important, production in the dominant manufacturing sector was flat, after two straight months of declines. Overall production in March was up a modest 2.8% from March 2018, led by a 10.5% jump in mining output and a 4.1% rise in utility production, but factory output was only up 1.1%. The report also said ***March industrial capacity utilization*** declined to an eight-month low of 78.8%. In spite of some improved economic data recently, the report served as a reminder that there are still patches of soft activity and various signs of reduced inflation pressure in the economy. We believe the economy is continuing to grow and still retains significant momentum, but the rate of growth has softened, and economic headwinds are accumulating. Since the Federal Reserve has responded 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 recovery in stocks for as long as it lasts.

Falling industrial capacity utilization discourages firms from hiking prices, but so do excess inventories. In data this week, ***February business inventories*** rose by a seasonally-adjusted 0.3%, marking the sixth straight month that inventories rose faster than business sales. The ***February business inventory-to-sales ratio*** still came in at 1.39, as it was in January, but those figures are substantially higher than the recent low of 1.33 last summer. Besides discouraging firms from hiking prices, rising inventories could also discourage them from placing new orders with suppliers.

In data specific to the nation's energy sector, ***commercial crude oil inventories in the week ended April 13*** fell by 1.396 million barrels to a level of 455.154 million barrels. Nevertheless, that still left stockpiles some 3.3% 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 April 13*** fell a bit to 12.1 million barrels per day, but that was still close to a record high. Historically high inventories and near-record output might be expected to put downward pressure on oil prices, but the 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). Prices therefore 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.

In spite of continued job growth, minimal layoffs, and rising wages, retail demand remains somewhat choppy. In the latest data, ***March retail sales*** jumped by a seasonally-adjusted 1.6%, easily erasing their 0.2% fall in February and marking their strongest gain since September 2017. ***March retail sales excluding autos*** rose 1.2%, after falling a revised 0.2% in February and rising 1.4% in January. However, it's not yet clear whether retail demand has really changed course from its weakening trend since last summer. In March, overall retail sales and sales ex-autos were both up just 1.5% from the same month one year earlier. The rise was actually weaker than the increase in the consumer price index (CPI) over the same period. That suggests to us that the actual volume of sales declined from one year ago.

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In contrast to the soft or choppy reports this week, there were also some positive ones. For instance, new data showed ***initial jobless claims in the week ended April 13*** fell by a seasonally-adjusted 5,000 to reach a fresh 49-year low of just 192,000. The four-week moving average of claims declined to a new cycle low of 201,250. Initial applications for unemployment benefits had spiked during the winter, suggesting layoffs were on the rise again, but the recent pullback shows that was a false alarm. Hiring may not be particularly robust, but there are relatively few idle workers available, so it looks like companies are nearly desperate to retain their current workers.

Another of the week's more positive reports touched on international trade. The ***February trade balance*** showed a seasonally-adjusted deficit of $49.4 billion, compared with the revised deficits of $51.1 billion in January and $59.9 billion in December. The improvement in February came as exports rose strongly for a second straight month while imports rose only slightly. Compared with the same month one year earlier, exports were up 2.4% and imports were down 0.5%. However, because of companies trying to get ahead of the on-going trade negotiations with China, the recent figures have probably been distorted. It will take some time to be sure exactly how the underlying trade trends are really looking.

Finally, the week included an index designed to show how the economy will likely perform over the coming six months or so. The Conference Board announced that its ***March index of leading economic indicators*** rose by a seasonally-adjusted 0.4%, after a 0.1% rise in February and a flat reading in January. That marked the index's best three-month performance since last summer. We'd still like to see another month or two of increases in the index to be sure it's really pointing toward continued growth, but we do think it's starting to look better.

Patrick Fearon, CFA
Lead Portfolio Manager

Upcoming U.S. Data

Date	ET	Release	For	Consensus Forecast	Prior
22-Apr	10:00	Existing Home Sales	Mar	NA	5.51M
23-Apr	9:00	FHFA Housing Price Index	Feb	NA	0.60%
23-Apr	10:00	New Home Sales	Mar	NA	667K
24-Apr	7:00	MBA Mortgage Applications Index	20-Apr	NA	-3.50%
24-Apr	10:30	EIA Crude Oil Inventories	20-Apr	NA	-1.4M
25-Apr	8:30	Initial Claims	20-Apr	NA	192K
25-Apr	8:30	Continuing Claims	13-Apr	NA	1653K
25-Apr	8:30	Durable Goods Orders	Mar	NA	-1.60%
25-Apr	8:30	Durable Goods Orders –ex transportation	Mar	NA	0.10%
25-Apr	10:30	EIA Natural Gas Inventories	20-Apr	NA	+92 bcf
26-Apr	8:30	GDP - Advance Estimate	Q1	NA	2.20%
26-Apr	8:30	GDP Deflator - Advance Estimate	Q1	NA	1.70%
26-Apr	10:00	Univ. of Michigan Consumer Sentiment - Final	Apr	NA	96.9

Source: Briefing.com

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