Weekly Economic Recap & Comment
Week Ended April 26, 2019

This week's key report was the first estimate of U.S. economic activity in January through March. After stripping out price changes and seasonal impacts, ***initial first-quarter gross domestic product (GDP)*** expanded robustly at an annualized rate of 3.2%, accelerating from the moderate rate of 2.2% in the fourth quarter of 2018 and almost matching the strong 3.4% rate in the third quarter. GDP in the first quarter was up 3.2% from the same period one year earlier, mostly on higher personal consumption spending and private investment. In a broad measure of inflation, the ***initial first-quarter GDP deflator*** rose at a rate of just 0.9%, marking its third straight quarter of deceleration. We think the first-quarter growth data might have been a bit distorted, but we agree that the economy is continuing to grow and still retains significant momentum, even as economic headwinds are accumulating. Since the Federal Reserve has stopped 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 may keep trimming our exposure to stocks and other riskier assets across our various strategies, but we think we've kept enough exposure at present to take reasonable advantage of the ongoing recovery in stocks.

In data on the labor market, ***initial jobless claims in the week ended April 20*** surged by a seasonally-adjusted 37,000 to reach a ten-week high of 230,000. However, the four-week moving average of claims rose only modestly to 206,000, leaving it close to its lowest level in decades. With initial applications for unemployment benefits this low, it's clear that companies aren't laying off many workers.

Continued job creation, low unemployment, and limited layoffs have buoyed consumer spirits, but it now seems optimism has plateaued. The University of Michigan said its ***final April consumer sentiment index*** came in at 97.2, compared with 98.4 in March and 93.8 in February. Optimism remains historically high, but it's moderated from its cycle high in mid-2018.

Data on the housing market has become contradictory. For example, ***March existing home sales*** fell by a seasonally-adjusted 4.9% to an annualized rate of 5.21 million units. That reversed only part of the revised gain of 11.2% in February, but it still marked the fourth decline in the last five months. Re-sales in March were still down 5.4% from one year earlier. The median price of an existing home came in at $259,400 in March, up a moderate 3.8% year-over-year.

In contrast to the relative weakness in existing homes, ***March new home sales*** rose by a seasonally-adjusted 4.5% to an annualized rate of 692,000 units. That followed revised gains of 5.9% in February and 11.2% in January. As a result, sales of newly built homes in March were up 3.0% from one year earlier. However, some of the strength in new home sales apparently reflected discounting. In March, the median price of a new home came in at $302,700, down a full 9.7% from the median price one year earlier.

The data on manufacturing has also gotten contradictory. ***March durable goods orders*** jumped by a seasonally-adjusted 2.7%, erasing their revised 1.1% fall in February and posting their best increase since last summer. However, the rise in March stemmed mostly from the volatile transportation sector, where just a few airliner orders can have a big impact. ***March durable goods orders excluding transportation*** rose a more modest 0.4%, after declining in each of the previous two months. In a proxy for corporate capital investment, ***March nondefense capital goods orders excluding aircraft*** jumped 1.3%, after revised gains of 0.1% in February and 0.9% in January. Overall durable goods orders in March were up just 0.8% year-over-year, while durable orders ex-transport were up just 1.0%. Nondefense capital goods orders ex-aircraft were up a modest 2.7% on the year, compared with annual gains of 10% or more from mid-2017 to mid-2018.

Finally, in the energy sector, ***commercial crude oil inventories in the week ended April 20*** rose by 5.479 million barrels to an 18-month high of 460.633 million barrels. That left stockpiles a full 4.5% above their five-year moving average (an industry benchmark that suggests supply and demand are in balance). In addition, ***domestic crude oil production in the week ended April 20*** rose back up to its recent record high of 12.2 million barrels per day. Historically high inventories and record-high 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.

Patrick Fearon, CFA
Lead Portfolio Manager

Upcoming U.S. Data

Date	ET	Release	For	Consensus Forecast	Prior
29-Apr	8:30	Personal Spending	Feb	NA	0.10%
29-Apr	8:30	PCE Price Index	Feb	NA	-0.10%
29-Apr	8:30	Core PCE Price Index	Feb	NA	0.10%
29-Apr	8:30	Personal Income	Mar	0.40%	0.20%
29-Apr	8:30	Personal Spending	Mar	0.80%	NA
29-Apr	8:30	PCE Price Index	Mar	NA	NA
29-Apr	8:30	Core PCE Price Index	Mar	NA	NA
30-Apr	8:00	S&P Case-Shiller Home Price Index	Feb	3.10%	3.60%
30-Apr	8:30	Employment Cost Index	Q1	0.80%	0.70%
30-Apr	9:45	Chicago PMI	Apr	58.2	58.7
30-Apr	10:00	Consumer Confidence	Apr	127.3	124.1
30-Apr	10:00	Pending Home Sales	Mar	1.10%	-1.00%
1-May	7:00	MBA Mortgage Applications Index	27-Apr	NA	-7.30%
1-May	8:15	ADP Employment Change	Apr	170K	129K
1-May	10:00	Construction Spending	Mar	0.10%	1.00%
1-May	10:00	ISM Manufacturing Index	Apr	55	55.3
1-May	10:30	EIA Crude Oil Inventories	27-Apr	NA	5.5M
1-May	14:00	FOMC Rate Decision	May	2.38%	2.38%
2-May	8:30	Initial Claims	27-Apr	212K	230K
2-May	8:30	Continuing Claims	20-Apr	NA	1655K
2-May	8:30	Productivity-Prel	Q1	NA	1.90%
2-May	10:00	Factory Orders	Mar	1.60%	-0.50%
2-May	10:30	EIA Natural Gas Inventories	27-Apr	NA	+92 bcf
3-May	8:30	Nonfarm Payrolls	Apr	200K	196K
3-May	8:30	Nonfarm Private Payrolls	Apr	180K	182K
3-May	8:30	Avg. Hourly Earnings	Apr	0.30%	0.10%
3-May	8:30	Unemployment Rate	Apr	3.80%	3.80%
3-May	8:30	Average Workweek	Apr	34.5	34.5
3-May	8:30	Adv. Intl. Trade in Goods	Mar	NA	-$79.5B
3-May	8:30	Adv. Retail Inventories	Mar	NA	0.90%
3-May	8:30	Adv. Wholesale Inventories	Mar	NA	1.10%
3-May	10:00	ISM Non-Manufacturing Index	Apr	57.4	56.1

Source: Briefing.com