# Weekly Economic Recap & Comment
## Week Ended May 3, 2019

The monthly employment report always gets our attention, and the report this week was no exception. The data showed ***April nonfarm payrolls*** increased by a seasonally-adjusted 263,000, accelerating nicely from their revised gains of 189,000 in March and just 56,000 in February. Total payrolls in April were up a healthy 1.8% from the same month one year earlier, handily beating their average annual increase of 0.8% over the last two decades. All the same, today's percentage growth is actually rather moderate from a longer perspective. Today's historically moderate job creation has been sufficiently steady and long-lasting to soak up most idle workers, so the ***April unemployment rate*** fell to a nearly 50-year low of 3.6%. On the other hand, the moderate nature of the job creation has kept a lid on wage growth. ***April average hourly earnings*** rose only modestly to $27.77, for a gain of just 2.5% year-over-year. In sum, we think the report was consistent with an economy that may be overcoming its mid-winter soft patch and could keep growing in the near term, with only moderate inflation, even though some headwinds remain. Continued economic 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 Federal Reserve may have stopped hiking interest rates too late. With the economy much less dynamic than in decades past, there's still some chance that the inflation and rate hikes to date may have already done their damage, and growth could now slow. 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 over time, but we think we've kept enough exposure at present to take reasonable advantage of the ongoing recovery in stocks.

In other data on the labor market, ***initial jobless claims in the week ended April 27*** came in at a seasonally-adjusted 230,000, equal to their level in the previous week. The four-week moving average of claims rose to 212,500, but that was still close to its lowest level in decades. With initial applications for unemployment benefits this low, it's clear that companies aren't just hiring a lot of new workers. They're also laying off very few of their current employees.

Naturally, the healthy labor market is keeping consumer spirits very high. The Conference Board this week said its ***April consumer confidence index*** rose to 129.2 from a revised 124.1 in March. The index is still a bit lower than the cycle high reached last year, but it remains historically elevated. In our view, that should encourage further growth in consumer spending and overall economic activity going forward.

In data focused more directly on the health of consumer demand, ***March personal income*** edged up by a seasonally-adjusted 0.1%, after a small rise of 0.2% in February and a drop of 0.1% in January. Those weak numbers probably reflect the economy's mid-winter soft patch, but it appears consumers were able to look past the weakness. ***March personal consumption expenditures (PCE)*** rose 0.9%, after rising 0.1% in February. Compared with March 2018, personal income was up a moderate 3.8%, but PCE was up a stronger 4.4%. The report also included the Fed's preferred gauge of inflation. Excluding the volatile food and energy components, the ***March "core" PCE deflator*** was up just 1.6%, meaning this inflation gauge has now been below the Fed's target of 2.0% for three straight months.

From the perspective of businesses, low unemployment and rising wage rates can present a challenge. For example, the ***first-quarter employment cost index*** rose somewhat briskly by a seasonally-adjusted 0.7%, just as it did in the previous quarter. As a result, employment costs in the period were up 2.8% year-over-year, almost matching the big annual rise of 2.9% in the last period of 2018. Wage and salary costs in the first quarter were up 2.9% on the year, while benefit costs were up 2.6%.

The question for businesses is whether the rise in labor costs can be offset by an increase in the value of output per hour worked, i.e., productivity. After stripping out price changes and normal seasonal fluctuations, ***preliminary first-quarter productivity*** rose strongly at an annualized rate of 3.6%. That was almost three times faster than the revised growth rate of 1.3% in the previous period. It also marked the best gain since 2014. Since productivity grew so much faster than wage rates, ***preliminary first-quarter unit labor costs*** actually fell at a rate of 0.9%. Compared with the same period one year earlier, productivity in the first quarter was up a healthy 2.4%, while unit labor costs were up just 0.1%.

In other key data on the producer side of the economy, the Institute for Supply Management announced that its ***April ISM manufacturing index*** fell back to a seasonally-adjusted 52.8 from 55.3 in March. The ISM indexes are designed so that readings over 50 point to expanding activity, so the April reading still suggested the factory sector is growing. However, the April number was the weakest since October 2016.

In a separate report covering the nation's service sector, the ***April ISM nonmanufacturing index*** declined to a seasonally-adjusted 55.5, compared with 56.1 in March and 59.7 in February. Even though the April figure was strong enough to suggest the service sector is still growing broadly, we think it's significant that the reading was the weakest since August 2017. Since the service sector accounts for the large majority of U.S. economic activity, we'll continue to look for any signs that it is slowing further.

The week also included some data on the building industry. ***March construction spending*** fell by a seasonally-adjusted 0.9%, breaking a string of three straight increases that had raised hopes for the sector. The decline in March came mostly from a drop in spending on private residential construction, although there was also a decline in outlays on public works. From a longer perspective, overall construction spending in March was down 0.5% year-over-year, led by a 6.7% drop in residential construction. The drop in residential spending was more than enough to offset the annual gains of 1.9% in the commercial sector and the jump of 8.1% in public works expenditures.

Finally, in the energy sector, ***commercial crude oil inventories in the week ended April 27*** jumped by 9.934 million barrels to an 19-month high of 470.567 million barrels. That left stockpiles an out-sized 6.6% 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 27*** rose to a new record high of 12.3 million barrels per day. Because of continually rising demand and reduced exports from some big producers (such as Iran and Venezuela), global oil prices still seem to be trending upward. However, we remain wary that historically high inventories and record-high U.S. output could eventually lead to excess supplies and falling prices. We therefore continue to avoid 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 |
|---|---|---|---|---|---|
| 7-May | 10:00 | JOLTS - Job Openings | Mar | NA | 7.087M |
| 7-May | 15:00 | Consumer Credit | Mar | $17.0B | $15.2B |
| 8-May | 7:00 | MBA Mortgage Applications Index | 4-May | NA | -4.30% |
| 8-May | 10:30 | EIA Crude Oil Inventories | 4-May | NA | 9.9M |
| 9-May | 8:30 | Initial Claims | 4-May | 220K | 230K |
| 9-May | 8:30 | Continuing Claims | 27-Apr | NA | 1671K |
| 9-May | 8:30 | PPI | Apr | 0.20% | 0.60% |
| 9-May | 8:30 | Core PPI | Apr | 0.20% | 0.30% |
| 9-May | 8:30 | Trade Balance | Mar | -$51.2B | -$49.4B |
| 9-May | 10:00 | Wholesale Inventories | Mar | 0.10% | 0.20% |
| 9-May | 10:30 | EIA Natural Gas Inventories | 4-May | NA | +123 bcf |
| 10-May | 8:30 | CPI | Apr | 0.40% | 0.40% |
| 10-May | 8:30 | Core CPI | Apr | 0.20% | 0.10% |
| 10-May | 14:00 | Treasury Budget | Apr | NA | $214.3B |

*Source: Briefing.com*