Weekly Economic Recap & Comment
Week Ended May 10, 2019

In an extremely light week for economic data, we focused on the latest international trade figures. According to the report, the ***March trade balance*** worsened to a seasonally-adjusted deficit of $50.0 billion, after a revised deficit of $49.3 billion in February. Continuing recent trends, the widening in the deficit stemmed in part from relatively weak exports, as might be expected given the strong dollar and slowing economic growth in several key foreign countries. Just as important, the strong dollar and resilient U.S. demand continued to boost imports. Compared with March 2018, overall exports were up 1.3%, but imports were up an even stronger 2.1%. Even though the trade data is probably distorted these days by companies trying to game the continuing U.S.-China trade negotiations, we thought the report was consistent with our view that the economy 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, the continued weakening in foreign demand could 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 the administration's 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, although we think we've kept enough exposure at present to take reasonable advantage of any further recovery in stocks.

As mentioned above, the rise in U.S. imports reflects both the strong dollar and increasing demand. In turn, the increase in demand is coming in large part from stronger consumer spending, which is the natural result of today's healthy demand for labor. In the latest labor market data, ***initial jobless claims in the week ended May 4*** fell by a seasonally-adjusted 2,000 to a level of 228,000. The four-week moving average of claims, which strips out some of the volatility in the series, rose to 220,250. However, 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, which we think will keep consumers confident and help spur even more spending increases in the coming months.

All the other major reports this week touched on prices and inflation. For example, in the latest data on energy supplies, ***commercial crude oil inventories in the week ended May 4*** fell by 3.963 million barrels to a level of 466.604 million barrels. However, that was only the second decline in the last seven weeks, so stockpiles remained relatively bloated at 5.7% above their five-year moving average (an industry benchmark that suggests supply and demand are in balance). Likewise, the report said ***domestic crude oil production in the week ended May 4*** fell back to 12.2 million barrels per day, but that was only slightly below the record high reached in the previous week. Because of continually rising demand and reduced exports from some big producers (such as Iran and Venezuela), global oil prices had been trending upward until quite recently. All the same, 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.

In a report on price inflation at the producer level, the ***April producer price index (PPI)*** rose by a seasonally-adjusted 0.2%, decelerating from its increase of 0.6% in March. However, those increases came in large part from rising oil prices. Excluding the volatile food and energy components, the ***April "core" PPI*** was up just 0.1%, after rising 0.3% in the previous month. The overall PPI in April was up 2.2% year-over-year, while the core PPI was up 2.4%. In each case, the annual rise in business-to-business prices was much more muted than last summer. That suggests to us that price pressures higher up in the production chain have weakened considerably, probably because of moderating demand and the stronger dollar. In turn, that should help hold down inflation at the consumer level in the coming months.

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In data touching on consumer inflation this spring, the ***April consumer price index (CPI)*** rose by a seasonally-adjusted 0.3%, compared with increases of 0.4% in March and 0.2% in February. Excluding food and energy, the ***April "core" CPI*** was up a mild 0.1%, just as it was in each of the two months before that. The overall CPI in April was up 2.2% on the year, while the core CPI was up 2.4%. As with the PPI, both those figures are substantially weaker than last summer, probably on account of moderating demand and the stronger dollar. Nevertheless, consumer inflation by this measure remains slightly above the Fed's target of 2.0%. Granted, the CPI isn't the preferred gauge of inflation for the monetary policymakers. Nevertheless, we think they'll take the CPI as evidence that inflation may not be so weak as to require any cut in interest rates in the near term. We still think the Fed will hold rates steady for the foreseeable future, which we would consider positive for both stocks and bonds.

Patrick Fearon, CFA
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Upcoming U.S. Data

Date	ET	Release	For	Consensus Forecast	Prior
14-May	6:00	NFIB Small Business Optimism Index	Apr	NA	101.8
14-May	8:30	Import Prices	Apr	NA	0.60%
14-May	8:30	Export Prices	Apr	NA	0.70%
14-May	8:30	Import Prices ex-oil	Apr	NA	-0.20%
14-May	8:30	Export Prices ex-ag.	Apr	NA	0.70%
15-May	7:00	MBA Mortgage Applications Index	11-May	NA	2.70%
15-May	8:30	Retail Sales	Apr	NA	1.60%
15-May	8:30	Retail Sales ex-auto	Apr	NA	1.20%
15-May	8:30	Empire State Manufacturing	May	NA	10.1
15-May	9:15	Industrial Production	Apr	NA	-0.10%
15-May	9:15	Capacity Utilization	Apr	NA	78.80%
15-May	10:00	Business Inventories	Mar	NA	0.30%
15-May	10:30	EIA Crude Oil Inventories	11-May	NA	-4.0M
15-May	16:00	Net Long-Term TIC Flows	Mar	NA	$51.9B
16-May	8:30	Initial Claims	11-May	NA	228K
16-May	8:30	Continuing Claims	4-May	NA	1684K
16-May	8:30	Housing Starts	Apr	NA	NA
16-May	8:30	Building Permits	Apr	NA	NA
16-May	8:30	Philadelphia Fed Index	May	NA	8.5
16-May	10:30	EIA Natural Gas Inventories	11-May	NA	+85 bcf
17-May	10:00	Leading Indicators	Apr	NA	0.40%
17-May	10:00	Univ. of Mich. Consumer Sentiment - Prelim	May	NA	NA

Source: Briefing.com