# Weekly Economic Recap & Comment
## Week Ended June 7, 2019

This week's key economic release was a weak report on the labor market. ***May nonfarm payrolls*** rose only tepidly by a seasonally-adjusted 75,000, falling well short of the revised gain of 224,000 in April and the average monthly gain of 195,800 over the last year. The increase in employment was actually a bit too small to absorb all the new entrants into the labor force last month, so the ***May unemployment rate*** was unchanged at 3.6%, although it's important to remember that such a rate is historically quite low. Finally, consistent with moderating labor demand, ***May average hourly earnings*** rose only slightly to $27.83, for a good-but-not-great gain of 3.1% from the same month one year earlier. In sum, the data was consistent with our view that while the economy is still growing, some sectors are facing headwinds, and inflation pressures are weakening. 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 Federal Reserve's recent pause on interest-rate hikes may have come too late. With the economy much less dynamic than in decades past, there's a chance that the inflation and rate hikes through 2018 may have already done their damage, and growth could now slow further, especially if the Fed is now slow to start cutting interest rates. Besides, a 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 threats, we recently implemented another modest reduction in our exposure to stocks and other riskier assets, just as we did in February and last August. Those earlier adjustments helped cushion our portfolios from the recent market turbulence, and we expect our latest moves to help even more. Our portfolios are now substantially "risk off," although we think our remaining exposure to stocks is still significant enough to take reasonable advantage of any rebound in the market.

Happily, the apparent softening in labor demand hasn't yet turned into dramatic layoffs. Separate data showed ***initial jobless claims in the week ended June 1*** were unchanged at a low 218,000, and the four-week moving average of claims edged down to 215,000. By either measure, initial applications for unemployment benefits remain near their lowest level in decades, which is strong evidence that layoffs remain quite limited.

From the viewpoint of businesses, a key issue is worker productivity, i.e., the average value of output per hour worked. After stripping out seasonal impacts and price changes, ***revised first-quarter nonfarm productivity*** rose strongly at an annualized rate of 3.4%. That was a big acceleration from the growth rate of just 1.3% in the fourth quarter of 2018, and it marked the best gain since summer 2014. In fact, the rise in output during the period was much faster than the rise in compensation, so ***revised first-quarter unit labor costs*** actually fell at an annual rate of 1.6%. Things don't look quite that good from a longer perspective, however. Compared with the first period of 2018, productivity was up 2.4%, only modestly beating its average annual growth rate over the last 20 years. Unit labor costs were down 0.8% on the year.

The week's business-sector data also included two key indexes from the Institute for Supply Management. The ***May ISM manufacturing index*** fell to a seasonally-adjusted 52.1, compared with 52.8 in April and 55.3 in March. Since the ISM indexes are designed so that readings over 50 point to expanding activity, the figures suggest the factory sector is still growing, but it's clear that the growth is narrowing. Some investors were cheered that the subindex on new orders rebounded a bit in May, but we note that the three-month moving average of that subindex has traditionally been the better gauge to focus on, and it continued to slide last month.

Happily, a report on the nation's service sector was more positive. The ***May ISM nonmanufacturing index*** rebounded to 56.9 from 55.5 in April. All the same, the index remains substantially lower than the readings above 60 that were common last year. In other words, the report suggested the service sector is also slowing noticeably, though not as much as the factory sector.

The week also included some reports farther back in time. Most important, ***April factory orders*** fell by a seasonally-adjusted 0.8%, after a revised 1.3% gain in March and a 1.0% fall in February. The data showed the drop in April stemmed entirely from another decline in


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orders for durable goods. Compared with the same month one year earlier, overall factory orders in April were up 1.6% year-over-year, but durable goods orders were flat. Orders for nondurable goods were up 3.1% on the year.

The week's data covering late spring also included a report on the building industry. After stripping out seasonal impacts, ***April construction spending*** came in unchanged, after a weak 0.1% rise in March. Much of the problem was the on-going slide in residential construction, but commercial construction also posted a sharp drop. Overall construction spending in April was down 0.5% year-over-year, as residential outlays fell 9.4% and commercial expenditures rose just 0.9%. Together, those weak performances were more than enough to offset the big 15.8% jump in public works spending over the last year.

Still other reporting this week showed a further deterioration in the fundamentals of the energy industry. The data showed ***commercial crude oil inventories in the week ended June 1*** jumped by 6.771 million barrels to a nearly two-year high of 483.264 million barrels. As a result, stockpiles remained extraordinarily bloated at a full 9.0% above their five-year moving average (an industry benchmark that suggests supply and demand are in balance). The report also indicated that ***domestic crude oil production in the week ended June 1*** rose to a new record high of 12.4 million barrels per day. In spite of continued demand growth and reduced exports from some big producers (such as Iran and Venezuela), we are worried that historically high inventories and strong U.S. output could keep supplies too high and result in further price declines. We therefore continue to avoid commodity funds in most of our strategies at present.

Finally, the week included some data on international trade. The ***April trade balance*** showed a seasonally-adjusted deficit of $50.8 billion, compared with a revised deficit of $51.9 billion in March. The data showed U.S. exports and imports both fell 2.2% in April, but from a longer perspective, exports continue to perform worse. Exports in April were down 1.0% year-over-year, reflecting such factors as the strong dollar, weakening demand overseas, and retaliatory tariffs in some countries. In contrast, imports were up a slight 0.2% on the year. Nevertheless, we think all these figures are being distorted by companies trying to game the trade negotiations with various countries. We suspect none of these figures present a true view of actual trade dynamics at present.

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## Upcoming U.S. Data

| Date | ET | Release | For | Consensus Forecast | Prior |
|---|---|---|---|---|---|
| 10-Jun | 10:00 | JOLTS - Job Openings | Apr | NA | 7.488M |
| 11-Jun | 8:30 | PPI | May | NA | 0.20% |
| 11-Jun | 8:30 | Core PPI | May | NA | 0.10% |
| 12-Jun | 7:00 | MBA Mortgage Index | 8-Jun | NA | 1.50% |
| 12-Jun | 8:30 | CPI | May | NA | 0.30% |
| 12-Jun | 8:30 | Core CPI | May | NA | 0.10% |
| 12-Jun | 10:30 | EIA Crude Oil Inventories | 8-Jun | NA | +6.8M |
| 12-Jun | 14:00 | Treasury Budget | May | NA | -$146.8B |
| 13-Jun | 8:30 | Initial Claims | 8-Jun | NA | 218K |
| 13-Jun | 8:30 | Continuing Claims | 1-Jun | NA | 1682K |
| 13-Jun | 8:30 | Export Prices | May | NA | 0.20% |
| 13-Jun | 8:30 | Import Prices | May | NA | 0.20% |
| 13-Jun | 8:30 | Export Prices ex-ag. | May | NA | 0.40% |
| 13-Jun | 8:30 | Import Prices ex-oil | May | NA | -0.10% |
| 13-Jun | 10:30 | EIA Natural Gas Inventories | 8-Jun | NA | +119 bcf |
| 14-Jun | 8:30 | Retail Sales | May | NA | -0.20% |
| 14-Jun | 8:30 | Retail Sales ex-auto | May | NA | 0.10% |
| 14-Jun | 9:15 | Industrial Production | May | NA | -0.50% |
| 14-Jun | 9:15 | Capacity Utilization | May | NA | 77.90% |
| 14-Jun | 10:00 | Univ. of Michigan Consumer Sentiment - Prelim | Jun | NA | 100 |
| 14-Jun | 10:00 | Business Inventories | Apr | NA | 0.00% |

*Source: Briefing.com*