Economic Update, May 10, 2019
Submitted by Bob Moreo

Summary: The week began with the Federal Reserve issuing its second [*Financial Stability Report*], which generated discussion that "Risky new loans are being made to already debt-laden companies at a solid pace in the first quarter and credit standards have deteriorated further," [MarketWatch reported]. The report "presents the Federal Reserve Board's current assessment of the resilience of the U.S. financial system." The Federal Reserve last week kept interest rates unchanged and signaled little desire to adjust monetary policy anytime soon, as [reported by Reuters on Friday]. Chairman Jerome Powell said inflation had been "somewhat weaker," but believed the softer readings "may wind up being transient." This month's update of the Consumer Price Index showed a slight increase as expected, and the index's 12-month change has remained in the range of 1.6 percent to 2.4 percent [since June 2011.] U.S. producer prices rose moderately in April, but "underlying inflation pressures at the factory gate appeared to be picking up," [one report said]. "Price pressures have remained moderate despite a strong economy and tightening labor market."

The U.S. Small Business Administration promoted ["National Small Business Week"] this week. According to the SBA, "More than half of Americans either own or work for a small business, and they create about two out of every three new jobs in the U.S. each year." Bank of America also released its own [*Spring 2019 Small Business Owner Report*], which revealed "diminished confidence in the economy and growing concern for a variety of key economic issues, including health care costs, interest rates and the stock market." That said, the report says two-thirds of small business owners plan to expand their businesses over the next 12 months, about one quarter plan to hire more employees, and a majority anticipate continued revenue growth. And on Tuesday, a ["near-record" job openings report] may show that "companies are still ready and willing to hire even though the economy is not growing as rapidly as it was a year earlier."

Bureau of Labor Statistics

Tuesday, [Job Openings and Labor Turnover]: "The number of job openings rose to 7.5 million on the last business day of March. Over the month, hires and separations were little changed at 5.7 million and 5.4 million, respectively. Job openings increased in a number of industries, with the largest increases in transportation, warehousing, and utilities (+87,000), construction (+73,000), and real estate and rental and leasing (+57,000)."

Thursday, [Producer Price Index]: "The Producer Price Index for final demand rose 0.2 percent in April, seasonally adjusted. Final demand prices advanced 0.6 percent in March and 0.1 percent in February. On an unadjusted basis, the final demand index increased 2.2 percent for the 12 months ended in April."

Friday, [Consumer Price Index]: "The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.3 percent in April on a seasonally adjusted basis after rising 0.4 percent in March. Over the last 12 months, the all items index increased 2.0 percent before seasonal adjustment. . . .The gasoline index continued to increase, rising 5.7 percent and accounting for over two-thirds of the . . . monthly increase. The food index fell in April, its first monthly decline since June 2017."

Friday, [Real Earnings]: "Real average hourly earnings for all employees decreased 0.1 percent from March to April, seasonally adjusted . . . [and the result of] a 0.2-percent increase in average hourly earnings combined with a 0.3-percent increase in the Consumer Price Index. Real average hourly earnings increased 1.2 percent, seasonally adjusted, from April 2018 to April 2019."

Department of Labor

Thursday, Initial Claims: "In the week ending May 4, the advance figure for seasonally adjusted initial claims was 228,000, a decrease of 2,000 from the previous week's unrevised level of 230,000. The 4-week moving average was 220,250, an increase of 7,750 from the previous week's unrevised average of 212,500."

US Census

Thursday, Monthly U.S. International Trade in Goods and Services: The nation's goods and services trade deficit "was $50.0 billion in March, up $0.7 billion from $49.3 billion in February (revised). March exports were $212.0 billion, $2.1 billion more than February exports. March imports were $262.0 billion, $2.8 billion more than February imports."

Thursday, Monthly Wholesale Trade Sales and Inventories: "March 2019 sales of merchant wholesalers . . . were $507.4 billion, up 2.3 percent from the revised February level and were up 3.9 percent from the March 2018 level. Total inventories . . . were $669.8 billion at the end of March, down 0.1 percent from the revised February level. Total inventories were up 6.7 percent from the revised March 2018 level."

Federal Reserve

Wednesday, Community Listening Session, Richmond, Virginia: As the Federal Reserve considers its ability to respond to future recessions in an era of low short-term interest rates, Federal

Reserve Governor Lael Brainard said she “would like to hear more” about targeting long-term rates. “Once the short-term interest rates we traditionally target have hit zero, we might turn to targeting slightly longer-term interest rates—initially one-year interest rates, for example, and if more stimulus is needed, perhaps moving out the curve to two-year rates.” MarketWatch reporter Greg Robb notes, “The last time the Fed conducted such a policy was during World War II to keep down the costs of funding the war.” He adds that Fed Vice Chairman Richard Clarida “floated the idea in a speech earlier this year, and has done research on its use in Japan.”

Friday, Survey of Professional Forecasters: Forecasters surveyed by the Federal Reserve Bank of Philadelphia predict “real GDP will grow at an annual rate of 1.9 percent this quarter and 2.1 percent next quarter, down from the previous estimates of 2.4 percent and 2.2 percent, respectively. On an annual-average over annual-average basis, the panel predicts real GDP will grow between 1.9 percent and 2.6 percent from 2019 to 2022.”

The forecasters predict unemployment “will average between 3.6 percent and 3.9 percent from 2019 to 2022. Notably, the projections for 2021 and 2022 are both 0.3 percentage point below those from the last survey.” Regarding employment, the forecasters have revised upward their estimates for job gains in 2019 and 2020 . . . [predicting] job gains at a monthly rate of 200,100 in 2019, up from the previous estimate of 191,800, and 142,300 in 2020, up from 123,200 estimated in the last survey.”

The Conference Board

Monday, Employment Trends Index: The index increased slightly to 110.79, up from a downward-revised 110.73 in March, and marking a 2.3 percent gain over the past 12 months. “The Employment Trends Index increased slightly in April, but has been moving mostly sideways in recent months,” said Gad Levanon, Chief Economist, North America, at The Conference Board. “The behavior of the ETI in recent months suggests that employment will grow more slowly in the coming quarters than it did in the past year.”

Mortgage Bankers Association

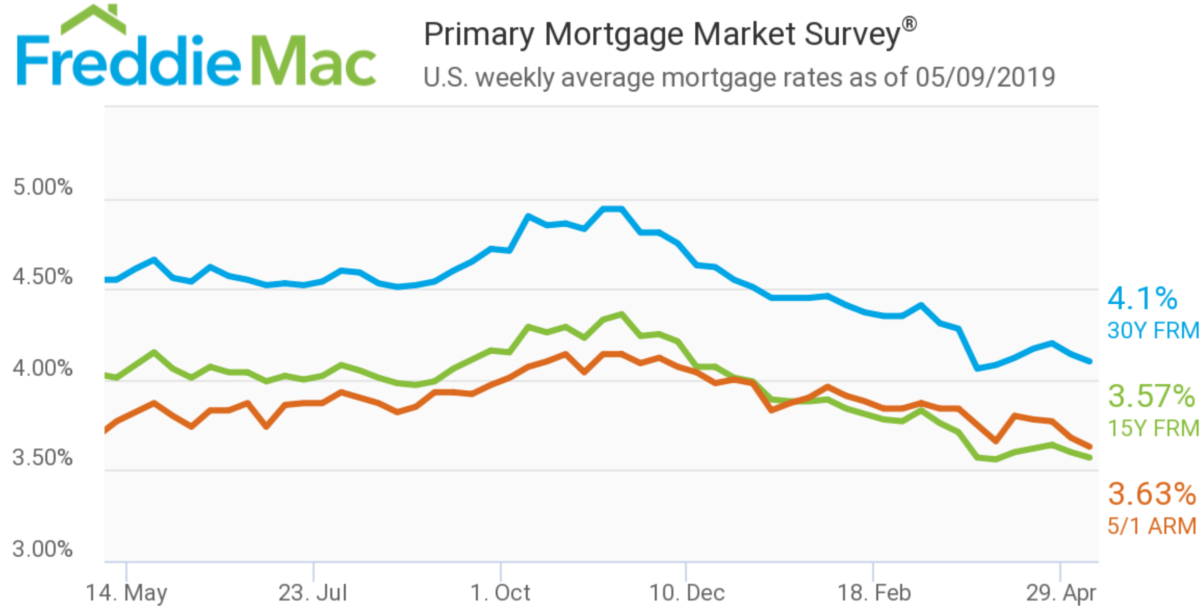
Wednesday, Mortgage Applications: “Mortgage applications increased 2.7 percent from one week earlier” according to the association’s survey for the week ending May 3, 2019. “The average contract interest rate for 30-year fixed-rate mortgages with conforming loan balances ($484,350 or less) decreased to 4.41 percent from 4.42 percent . . . [and] the average contract interest rate for 30-year fixed-rate mortgages with jumbo loan balances (greater than $484,350) decreased to 4.27 percent from 4.31 percent.”

"We saw a good week for the spring home-buying season, as a 5 percent increase in purchase applications—both weekly and year-over-year—drove the results," said Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting.

Thursday, Mortgage Credit Availability: “Mortgage credit availability increased in April. The Mortgage Credit Availability Index rose 2.1 percent to 186.0 in April.”

Freddie Mac

Thursday, Primary Mortgage Market Survey: Mortgage rates dropped slightly this week in Freddie Mac’s survey of lenders. “Investors wary of the current economic situation due to ongoing trade disputes resorted to the bond market, causing the 10-year treasury yield to decrease. A combination of low mortgage rates, a strong job market and modest wage growth should spur homebuyer interest and also serve as an incentive for homeowners looking to refinance.”



Institute for Supply Management

Wednesday, [Spring 2019 Semiannual Economic Forecast]: Purchasing and supply executives expect economic growth to continue throughout 2019 in both the manufacturing and non-manufacturing sectors. According to the forecast, "With operating rate at 84.2 percent, an expected capital expenditure increase of 5.9 percent, an increase of 1.5 percent for prices paid for raw materials, and employment expected to increase by 2 percent by the end of 2019, manufacturing is positioned to grow revenues while managing costs through the remainder of the year." However, Timothy Fiore, chair of the ISM Manufacturing Business Survey Committee, cautions, "finding and onboarding qualified labor and being able to pass on raw material price increases will ultimately define manufacturing revenues and profitability."

Anthony Nieves, chair of the ISM Non-Manufacturing Business Survey Committee, said that, "Non-manufacturing will continue to grow for the balance of 2019. Non-manufacturing companies continue to operate with extreme efficiency, which is echoed by the high percentage of capacity utilization. Supply managers have indicated that prices are projected to increase 1.5 percent over the year reflecting minimal inflation. Employment is projected to grow 1.3 percent. Seventeen out of 18 industries are forecasting increased revenues."