

This week we saw further confirmation of a global economic slowdown. U.S. data was mixed. Federal agencies scrambled to get their data release calendars back on track. The Bureau of Economic Analysis announced that we will get an estimate of 2018Q4 U.S. GDP on February 28. Because of the delay caused by the government shutdown the BEA will not issue a first estimate of Q4 GDP. The GDP data released on February 28 will effectively be the second estimate of Q4 GDP.

Conditions are changing for durable goods manufacturers worldwide. GM reported that their profits have been hurt by weaker-than-expected auto sales in China. U.S. retail automobile inventories are building again, up 3 percent at year end over the previous 12 months. New orders for German manufacturing were down in December. The European Union reduced their forecast for economic growth in 2019.

For now, evidence for a cooler global economy is concentrated in the manufacturing sector. However, there is some early indication that the service sector is feeling the drag. The IHS Markit Global Services PMI for January eased again, to a still positive 52.6 in January, a 28-month low for that index.

The Census Bureau released U.S. international trade data for November. Trade numbers remain volatile, in part due to new U.S. imports tariffs and countermeasures by trading partners. Beyond the trade wars, the strong dollar and changing global demand are swinging the numbers. In November, U.S. exports decreased by \$1.3 billion while imports fell by \$7.7 billion. This caused the trade gap to narrow to -\$49.3 billion. For now, it looks like trade will be a net positive for Q4 GDP, but that could

change if December trade data takes a U-turn.

The ISM Non-Manufacturing Index for January eased from a strong 58.0 in December, to a more moderate 56.7. The production, new orders and employment sub-indexes all remained comfortably above the neutral 50 mark. The employment sub-index increased from 56.6 in December to 57.8 in January, consistent with the robust payroll jobs numbers for January. Several businesses commented that the government shutdown was a cause for concern, if not an outright drag.

Initial claims for unemployment insurance were volatile through the government shutdown. For the week ending February 2, initial claims fell by 19,000 to hit 234,000. The four-week moving average for initial claims remains slightly elevated from the September 2018 lows. Continuing claims for the week ending January 25 fell by 42,000 to hit 1,736,000.

The January 2019 Senior Loan Officer Opinion Survey by the Federal Reserve shows a tightening of bank lending standards for commercial real estate. Standards for commercial and industrial loans were unchanged, as were standards for consumer loans and residential real estate loans. Demand for most types of loans was expected to weaken, with the exception of credit card loans.

The Federal Reserve announced that Chairman Jay Powell will deliver his semi-annual congressional testimony beginning on February 27. For now, the fed is in “pause” mode. Former Fed Chair Janet Yellen said this week that the Fed’s next interest rate move could be down. We expect the March dot plot to shift down, showing reduced expectations for further rate hikes.

Fed Funds Rate

Fed Funds Rate (Effective): After FOMC Meeting of 3/19-3/20

We expect the Fed to keep the fed funds rate range unchanged at 2.25-2.50 percent at the next Federal Open Market Committee meeting over March 19/20.

The Week Ahead

January Consumer Price Index (2/13, Wednesday)

Headline CPI slipped by 0.1 percent in December. Unchanged in January, held down by lower gasoline prices. Consensus: -0.1 percent.

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The Week Ahead, Continued

January CPI Ex. Food & Energy (2/13, Wednesday)

Core CPI increased by 0.2 percent in December. Up by 0.2 percent again in January. Consensus: 0.2 percent.

January Producer Price Index (2/14, Thursday)

The PPI for Final Demand was down 0.2 percent in December. Up by 0.1 percent in January. Held down by lower energy prices. Consensus: 0.1 percent.

January PPI Ex. Food, Energy, & Trade (2/14, Thursday)

Core PPI was unchanged in December. Up by 0.2 percent in January. Consensus: 0.2 percent.

December Retail Sales (2/14, Thursday)

Retail sales grew by 0.2 percent in November. Up by 0.1 percent in December. Consensus: 0.1 percent.

December Retail Sales Ex-Auto (2/14, Thursday)

Retail sales excluding autos were up by 0.5 percent in November. Unchanged in December due to lower energy prices. Consensus: 0.0 percent.

January Industrial Production (2/15, Friday)

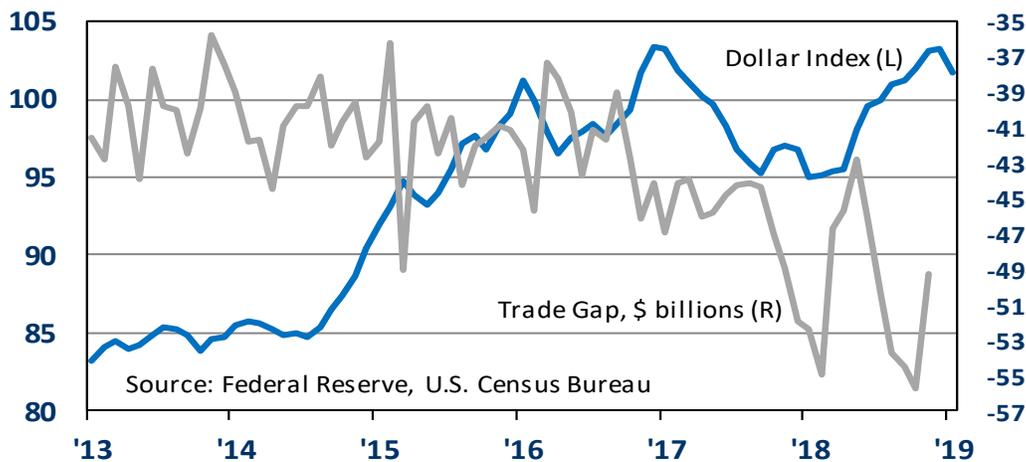
Industrial Production increased by 0.3 percent in December. Up by 0.4 percent in January. Consensus: 0.3 percent.

January Capacity Utilization (2/15, Friday)

Capacity Utilization ticked up to 78.7 percent in December. Up to 78.8 percent in January. Consensus: 78.7 percent.

Chart of the Week

U.S. Trade Deficit Narrowed in November



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