Comerica Economic Weekly

Comerica Bank

Robert A. Dye, Ph.D. · Daniel Sanabria · @Comerica_Econ

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U.S. economic data was generally soft this week. The pessimistic interpretation is that the U.S. federal government shut-down from late December through January coincided with reports of cooler global growth, hitting both current confidence and expectations of future demand at the same time. An optimistic view of the economy is that pent-up demand from December and January will get spent out in February and March, and breakthroughs with "The Wall" and with China trade negotiations will provide momentum heading into spring.

We will split the difference. We expect some, but not all, of the pent-up demand from the shutdown to be spent out later. We also think that the Trump Administration will emphasize positives in the weeks ahead. However, the freight train of global economic growth takes a long time to slow down, and a long time to speed up. We think that we are still in the slowing process.

China is unleashing more stimulus to counter the drag from weaker trade. Europe does not have the ability to respond as quickly or as forcefully to cooler growth there. In the U.S. monetary tightening is on hold, but the fiscal stimulus from tax reform is fading and a meaningful infrastructure spending package remains elusive.

U.S. retail sales were weaker than expected in December, falling by 1.2 percent. Lower gasoline prices were a factor, but sales fell in several other categories. Auto sales were a bright spot for the month, with the nominal value up by 1.0 percent. Excluding autos and service stations, monthly retail sales fell by 1.4 percent.

Industrial production fell by 0.6 percent in January as manufacturing output decreased by 0.9 percent. Light vehicle production fell from a 12.27 million unit rate in December, to 10.6 million in January. Weather may be partially to blame for lower vehicle production, but dealer inventories are reported to be too high.

Initial claims for unemployment insurance increased by 4,000 for the week ending February 9, to hit 239,000. The trend for initial claims has been choppy but up slightly since the September low. Continuing claims increased by 37,000 for the week ending February 2, to hit 1,773,000. The trend there is also up slightly.

The Producer Price Index for Final Demand fell marginally, by 0.1 percent, in January. Energy prices were down by 3.8 percent at the producer level. Wholesale food prices were down by 1.7 percent for the month. Excluding food, energy and trade, the core PPI for Final Demand was up by 0.2 percent in January, supported by gains in prices for services. Over the 12 months ending in January, the PPI for Final Demand was up by 2.0 percent, while core PPI was up by 2.5 percent.

The headline Consumer Price Index for January was unchanged from December.

OPEC announced crude oil production cuts that put some upward pressure on crude oil prices. However, tighter OPEC supply in 2019 could be countered by increased U.S. oil production and cooler global demand.

The National Federation of Independent Business's Small Business Optimism Index fell in January, to 101.2, the lowest reading since the fall of 2016. This is the fifth consecutive monthly decline in the NFIB index.

Fed Governor Lael Brainard said yesterday the she expected the Fed to conclude balance sheet runoff by the end of this year.

Job openings in December hit an all-time high.

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, and remain on hold until at least June, possibly longer.

The Week Ahead

January Existing Home Sales (2/21, *Thursday*)

December Existing Home Sales eased to a 4,990k unit annual rate. Up to a 5,100k unit rate in January. A reduced bounce-back, due to the government shutdown. Consensus: 5,050k.

(Analysis Continued on Page 2)

The Week Ahead, Continued

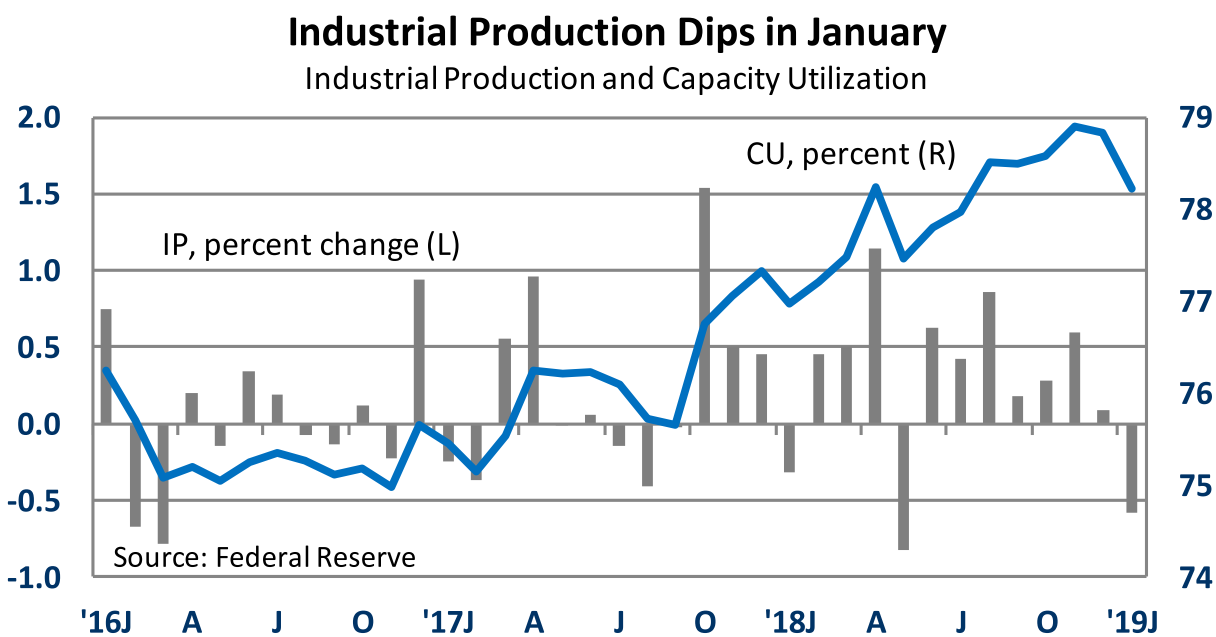
January Leading Indicators (2/21, *Thursday*)

The Conference Board's Leading Indicators decreased by 0.1 percent in December. Up by 0.1 percent in January. Consensus: 0.1 percent.

December Durable Goods (2/21, *Thursday*)

November Durable Goods orders were up 0.8 percent. Unchanged in December. Consensus: 0.8 percent.

Chart of the Week



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