

Recent U.S. economic data for February and March has been more positive following a soft patch that extended from the fourth quarter of 2018 into the first quarter of 2019. Because of the improved data we now believe that Q1 real GDP growth will still be weak, but likely not as weak as our April forecast where we show just 0.6 percent real GDP growth. We could add about 0.5 -1.0 percent to Q1 real GDP growth based on improved data. Conversely, with a slightly stronger Q1, we would shave off about the same amount from the rebound we show in Q2.

In addition to marginally stronger Q1 GDP growth, we believe that the likelihood of a U.S. recession in the next 12 months has declined, but remains elevated above a baseline level of about 15 percent. We currently place the odds of a U.S. recession within the next 12 months at about 30 percent.

The Conference Board's Leading Economic Index for March increased by 0.4 percent. This is the strongest reading for the Leading Index since last September. Eight out of ten factors were positive for the Leading Index in March. The biggest positives were unemployment insurance claims (inverted), consumer expectations for business conditions and the Leading Credit Index.

Retail sales were strong in March, increasing by 1.6 percent for the month after a soft February, when sales declined by 0.2 percent. A rebound in vehicle sales and higher gasoline prices both helped in March.

Housing starts for March eased by 0.3 percent, to a 1,139,000 annual unit rate. Both single and multifamily starts dipped for the month. Permits for new construction decreased by 1.7 percent, to a 1,269,000 annual unit rate. We expect lower mortgage rates to stimulate sales this spring, adding motivation for builders.

Initial claims for unemployment insurance fell by 5,000 for the week ending April 13, to hit an ultra-low 192,000, extending the declining trend that started in mid-March. This is the lowest initial claims level since September 1969. Continuing claims fell by 63,000 for the week ending April 6, to hit 1,653,000. The continuing claims data is now back on par with the ultra-low levels from last October.

The U.S. trade gap narrowed to -\$49.4 billion in February. Exports of goods increased by \$2.1 billion in February, while exports of services gained \$0.2 billion. Imports of goods increased by \$0.9 billion, while imports of services dropped by \$0.3 billion. The average of the real trade balance of goods in January and February is below the average for the fourth quarter of 2018, implying that trade will be a positive for first quarter GDP.

Mortgage applications dropped for the second week in mid-April after a strong run through March. The Mortgage Bankers Association's Composite Index declined by 3.5 percent for the week ending April 12. Purchase apps gained 0.9 percent, extending their winning streak to six consecutive weeks. Refis fell by 8.2 percent, their second consecutive loss. On a four-week moving average basis, refis are up 33.5 percent over year-ago levels. Purchase apps are up 8.2 percent over the last 12 months. According to the MBA, the rate for a 30-year fixed-rate mortgage notched up to 4.44 percent.

Total rail traffic was well down in Q1 on a year-ago basis (see chart next page). Data in early April is looking more positive.

We expect the Federal Reserve to remain "patient" at the April 30/May 1 meeting and keep the fed funds rate unchanged from the current 2.25-2.50 percent.

Fed Funds Rate

Fed Funds Rate (Effective): After FOMC Meeting of 4/30-5/1

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 April 30/May 1, and stay on hold for the remainder of this year.

The Week Ahead

March Existing Home Sales (4/22, Monday)

February existing home sales increased to a 5,510k annual unit rate. Moderating to a 5,350K annual unit rate after the February surge. Consensus: 5,300k annual unit rate

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The Week Ahead, Continued

March New Home Sales (4/23, Tuesday)

February new home sales increased to a 667k annual unit rate. Moderating to a 645K annual unit rate after surging in January and February. Consensus: 650k annual unit rate

March Durable Goods Orders (4/25, Thursday)

February new orders for durable goods declined 1.6 percent. Up by 0.6 percent. There is downside risk from commercial aircraft. Consensus: 0.8 percent

2019Q1 GDP, 1st Estimate (4/26, Friday)

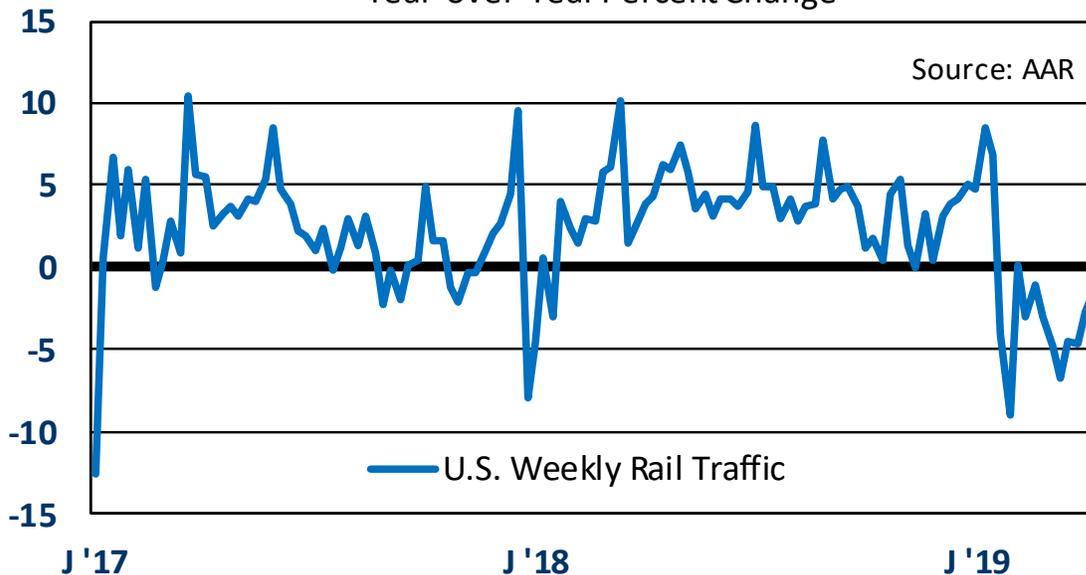
Real GDP growth moderated to a 2.2 percent annualized rate in 2018Q4. Up at a 1.4 percent annualized rate. Consensus: 2.0 percent

2019Q1 GDP Price Index, 1st Estimate (4/26, Friday)

The GDP price index grew at a 1.7 percent annualized rate. Up at a 1.2 percent annualized rate. Consensus: 1.3 percent

Chart of the Week

Total Railroad Traffic Cooled in Q1
Year-over-Year Percent Change



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