

U.S. economic data at the beginning of May was generally positive, but mixed. Labor data continues to shine after a weak February, but both ISM indexes eased to still-positive levels.

Payroll job growth in April was stronger than expected, with a net gain of 263,000 jobs. The unemployment rate fell to 3.6 percent due to a large 490,000 worker drop in the labor force. The April unemployment rate is the lowest since December 1969. Average hourly earnings were up 6 cents, or 0.2 percent for the month. Over the last year, average hourly earnings were up by 3.2 percent.

The ISM Non-Manufacturing Index for April declined to 55.5, down from 56.1 in March. All 10 sub-indexes remained in positive territory, consistent with a moderate economic expansion in early Q2. All 15 industries reported growth in April including professional, scientific and technical services, health care, mining and educational services. Anecdotal comments included concerns about labor shortages in the health care industry, price pressures coming from rising minimum wages and price pressures on some food products.

The ISM Manufacturing Index eased in April to a still-positive 52.8 percent, down from 55.3 in March. Seven out of ten sub-indexes were positive in April, including new orders, production and employment, but all three of those categories saw slowing activity. New orders fell from a strong 57.4 in March to 51.7 in April, still positive but close to the break-even 50 mark. The sub-indexes for customers inventories, new export orders and imports were all below 50. Thirteen out of eighteen industries reported expansion in April. The five industries reporting contraction were apparel, leather and allied products, primary metals, wood products, petroleum and transpor-

tation equipment. Anecdotal comments were mostly positive, some cited concerns about the U.S.-Mexico border situation.

Nonfarm business productivity increased at a strong 3.6 percent annual rate in the first quarter of 2019. This is the strongest gain in output per hour per employee since 2014Q3. Productivity growth has been weak by historical standards through the current economic expansion. Weak productivity growth means that wage increases have more inflationary potential, and this has kept the Fed focused on wage gains and the potential for inflation.

Total construction spending in March fell by 0.9 percent, weighed down by a 1.8 percent monthly decline in spending on private residential projects. Spending on private nonresidential projects increased by 0.5 percent. Total public construction was off by 1.3 percent despite a reported surge in state and local government spending in the first quarter GDP data.

Total mortgage applications fell for the fourth consecutive time in the week ending April 26, following a strong run through March. Purchase apps were down by 3.7 percent for the week, after losing 4.1 percent the week before. Refi apps were down by 5.0 percent for the week, their fourth consecutive weekly decline. On a four-week moving-average basis, refi apps are still up by 23.2 percent from a year ago. Purchase apps are up 5.6 percent from a year ago. According to the Mortgage Bankers Association, the rate for a 30-year fixed-rate mortgage eased to 4.42 percent at the end of April, still above the late-March low of 4.36 percent.

The S&P CoreLogic Case-Shiller U.S. National Home Price Index increased by 4.0 percent in February over the previous 12 months.

Fed Funds Rate

Fed Funds Rate (Effective): After FOMC Meeting of 6/18-6/19

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 June 18-19, and stay on hold for the remainder of this year.

The Week Ahead

March International Trade Gap (5/9, Thursday)

The February international trade gap narrowed to -\$49.4 billion. Widens in March to -\$49.9 billion based on a \$0.5 billion increase in the trade gap for goods shown in the Advance Indicators Report. We assume zero net push from services. Consensus: -\$52.0 billion

(Analysis Continued on Page 2)

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The Week Ahead, Continued

April Producer Price Index (5/9, Thursday)

Headline PPI was up 0.6 percent in March, pushed up by higher energy prices. Up by 0.1 percent in April. Consensus: 0.2 percent

April Producer Price Index Ex. Food, Energy and Trade (5/9, Thursday)

Core PPI was unchanged in March. Up by 0.2 percent in April. Consensus: 0.2 percent

April Consumer Price Index (5/10, Friday)

Headline CPI was up 0.4 percent in March, boosted by higher energy prices. Up by 0.3 percent in April. Consensus: 0.4 percent

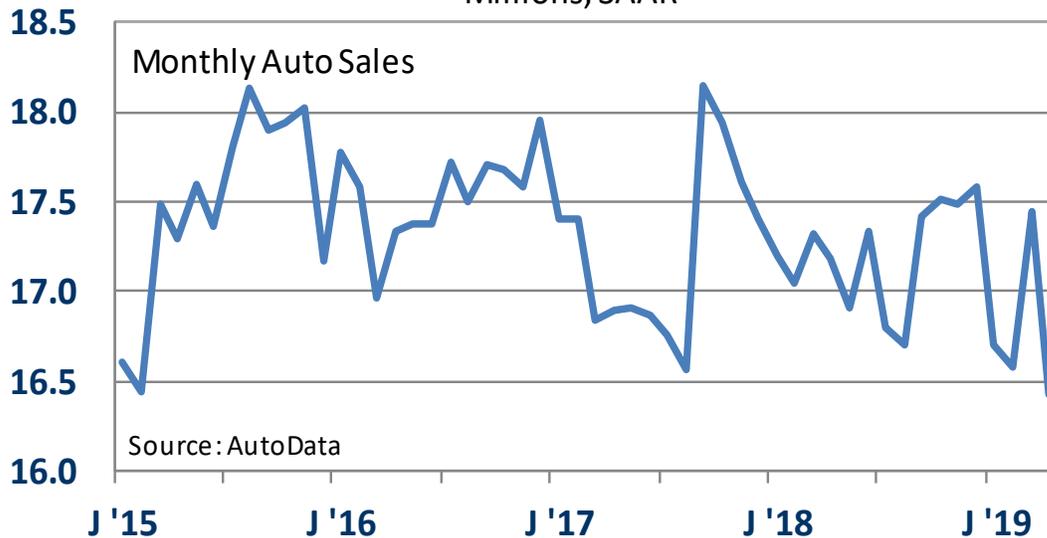
April Consumer Price Index Ex. Food and Energy (5/10, Friday)

Core CPI was up 0.1 percent in March. Up by 0.2 percent in April. Consensus: 0.2 percent

Chart of the Week

Auto Sales Slow in April

Millions, SAAR



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