

U.S. economic data remains consistent with an ongoing moderate GDP expansion in the second quarter of 2019.

Inflation readings were well contained in April even with higher energy prices this spring. The Producer Price Index for final demand increased by a moderate 0.2 percent in April. Over the previous 12 months, PPI for final demand was up by 2.2 percent. The core index for PPI (less foods, energy and trade) was a little warmer in April, gaining 0.4 percent for the month. Over the previous 12 months, core PPI was also up by 2.2 percent.

The Consumer Price Index increased by 0.3 percent in April. The energy sub-index gained 2.9 percent for the month. Over the previous 12 months, CPI was up 2.0 percent. Core CPI (less food and energy) increased a modest 0.1 percent in April. Over the previous 12 months, Core CPI was up 2.1 percent.

Labor data continues to look good. The Job Openings and Labor Turnover Survey for March showed an increase in the job openings rate to 4.7 percent. The hiring rate was unchanged for the month at 3.8 percent. The quits rate remained high at 2.3 percent, where it has been since last November. A high quits rate is consistent with a strong labor market.

Initial claims for unemployment eased by 2,000 for the week ending May 4, to hit 228,000. We have seen some extra volatility in the initial claims data since the end of last November. The series looks like it is centered around 220,000-225,000, which is a very good level for the U.S. economy. Continuing claims increased by 13,000 for the week ending April 27, to hit 1,684,000, still a very low number.

The U.S. international trade deficit widened slight-

ly in March to -\$50.0 billion. March exports increased by \$2.1 billion, while imports increased by \$2.8 billion. The March trade data implies a slight negative revision to first quarter GDP if all else remains unchanged.

It appears that a rift is opening up in the U.S.-China trade talks. The uncertainties around the trade talks with China may reinforce volatility in the trade data. Volatile trade data may end up being a lever on GDP growth again this year. Even with the possibility of trade deals with China and others, U.S. exporters face the headwind of a strong dollar.

Total mortgage applications increased by 2.7 percent for the week ending May 3. Purchase apps rebounded by 4.2 percent after sliding the previous two weeks. Refi apps were up by 0.8 percent, ending a four-week slide. On a four-week moving average basis, refi activity is still up 15.9 percent from a year ago. Purchase apps are up 3.8 percent from a year ago. According to the Mortgage Bankers Association, the rate for a 30-year fixed rate mortgage ticked down to 4.41 percent in early May.

Railcar loadings were up by 0.5 percent for the week ending May 4, and are up by 1.0 percent over previous 12 months.

The Federal Reserve is showing no signs of losing “patience” as it prepares for the next Federal Open Market Committee meeting over June 18-19. We expect the Fed to leave the fed funds rate unchanged for the remainder of this year. According to the fed funds futures market, the implied probability of no change to the fed funds rate in June is 90 percent. The market still thinks that the odds of a rate cut by the end of this year are significant, at about 60 percent. For now, we will maintain our flat-line fed funds rate forecast.

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

April Industrial Production (5/15, Wednesday)

Industrial production declined 0.1 percent in March. Up by 0.1 percent in April. Consensus: 0.1 percent

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The Week Ahead, Continued

April Capacity Utilization (5/15, Wednesday)

Capacity utilization slowed to 78.8 percent in March. Unchanged in April. Consensus: 78.8 percent

April Retail Sales (5/15, Wednesday)

Retail sales increased by a strong 1.6 percent in March. Up by 0.4 percent. Consensus: 0.3 percent

April Retail Sales Ex. Autos (5/15, Wednesday)

Retail sales excluding autos were up by 1.2 percent in March. Up by 0.6 percent in April. Supported by higher gasoline prices. Consensus: 0.7 percent

April Housing Starts (5/16, Thursday)

Housing starts slowed to a 1,139k unit rate in March. Up to a 1,200k unit rate with a boost from single-family construction. Consensus: 1,228k unit rate

April Housing Permits (5/16, Thursday)

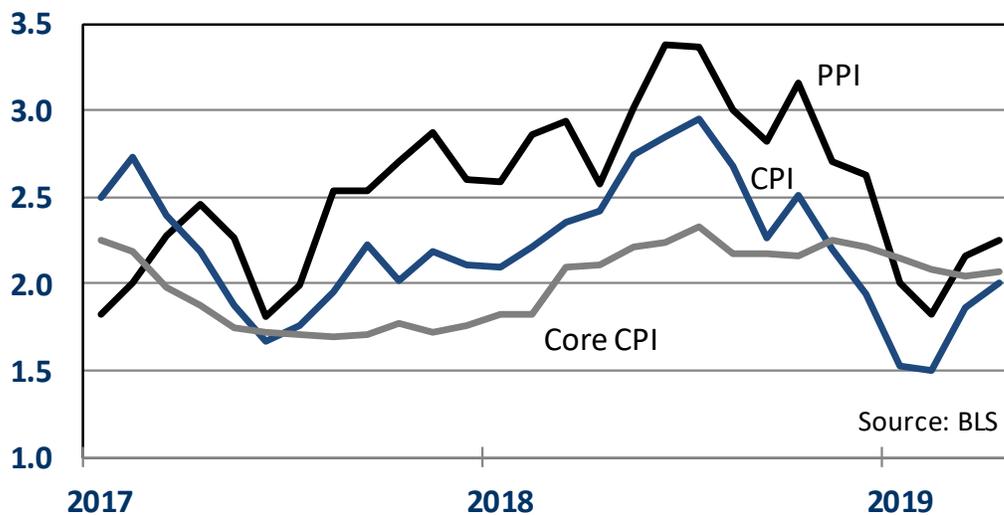
Housing permits slowed to a 1,269k unit rate in March. Unchanged in April. Consensus: 1,295k unit rate

April Leading Indicators (5/17, Friday)

The Conference Board's Leading Index was up 0.4 percent in March. Up by 0.2 percent in April. Boosted by an improving stock market. Consensus: 0.2 percent

Chart of the Week

Price Pressures Remain Modest



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