

U.S. economic data was mixed this week. Weaker-than-expected retail sales for April is a concern, but consumer sentiment for May appears to be improving.

Nominal retail sales decreased by 0.2 percent in April. Motor vehicle and parts sales declined by 1.1 percent for the month. Estimated unit auto sales fell noticeably from a 17.5 million unit rate in March, to 16.4 million in April. Retail sales ex-auto inched up by 0.1 percent in April. Higher gasoline prices in April helped, boosting service station sales by 1.8 percent for the month. Other categories were mixed. Building materials sales dropped by 1.9 percent.

According to the University of Michigan, consumer sentiment surged in early May. Also importantly, inflation expectations picked up. This bolsters the case for the Federal Reserve leaving the fed funds rates unchanged instead of making a pre-emptive rate cut.

The Conference Board's Leading Economic Index increased by 0.2 percent in April, its third consecutive monthly gain. Seven of the ten components were positive, led by stock prices. The Coincident Index increased by just 0.1 percent in April, while the Lagging Index declined by 0.1 percent.

The National Federation of Independent Business's Small Business Optimism Index increased in April to the highest level this year at 103.5. This is still well below the recent high from last August which was 108.8.

Housing starts improved by more than expected in April, increasing by 5.7 percent to a 1,235,000 unit annual rate. Single-family starts improved, gaining 6.2 percent to an 854,000 unit rate. Multifamily starts improved for the third consecutive month, up by 4.7 percent in April to a 381,000 unit rate. Both series look like they are

past their peaks for this cycle. Total permits for new residential construction were little changed in April, inching up by 0.6 percent to a 1,296,000 unit rate.

U.S. industrial production declined by 0.5 percent in April. The biggest component, manufacturing, was also down by 0.5 percent. Manufacturing output has now been flat to down for the last four months. Total vehicle assemblies eased to a 10.58 million unit annual rate in April, the lowest rate since May 2018. Overall capacity utilization eased to 77.9 percent in April. Capacity utilization looks like it is past its peak for this cycle, which may prove to be the 79.6 percent from last November.

Initial claims for unemployment insurance fell by 16,000 for the week ending May 11 to hit 212,000. This is near the low average for the last 12 months. Continuing claims fell by 28,000 for the week ending May 4 to hit a very low 1,660,000.

Total mortgage applications eased by 0.6 percent for the week ending May 10. Purchase apps decreased by 0.6 percent after a stronger gain the week before. Refi apps fell by 0.5 percent after a moderate gain the week before. On a four-week moving average basis, refi apps are still up 13.3 percent over the past 12 months. Purchase apps are up 3.6 percent over the year. According to the Mortgage Bankers Association, the rate for a 30-year fixed rate mortgage ticked down to 4.40 percent.

We expect the Federal Reserve to leave the fed funds rate range unchanged at 2.25-2.50 percent at the next FOMC meeting over June 18/19. According to the fed funds futures market, the implied odds of a rate cut before the end of this year have increased to about 78 percent. We still think that the risk is weighted toward a rate cut, but a 78 percent probability is too high.

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.

The Week Ahead

April Existing-Home Sales (5/21, Tuesday)

March Existing Home Sales decreased to a 5,210k unit annual rate. We expect to see a small bounce back after sales declined in April. Up to a 5,300k unit annual rate. Consensus: 5,340k unit annual rate

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The Week Ahead, Continued

April New-Home Sales (5/23, Thursday)

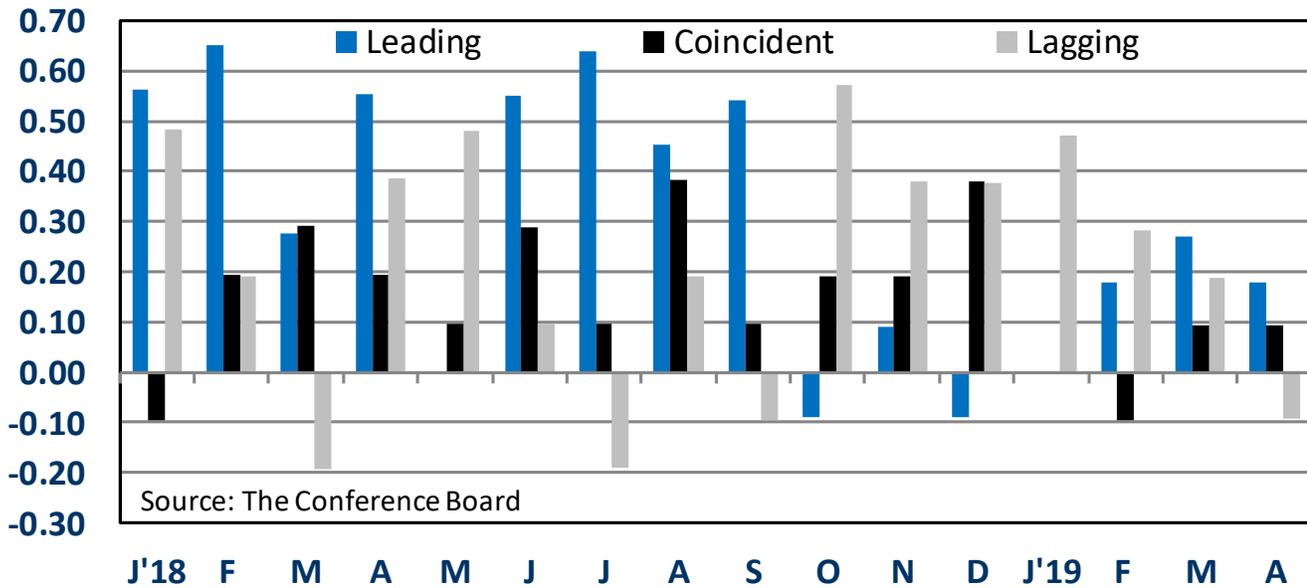
New Home Sales increased to a 692k unit annual rate in March. Finding its level after a surge in March. Down to a 660k unit annual rate. Consensus: 673k unit annual rate

April Durable Goods (5/24, Friday)

Durable Goods were up by 2.6 percent in March. Down by 2.0 percent. Commercial aircraft orders are a downside risk factor. Consensus: -1.8 Percent

Chart of the Week

Third Consecutive Gain For Leading Index
 Leading, Coincident and Lagging Indicators, percent change



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