

U.S. economic data this week was mixed. The mood at the end of the second quarter remains tentative since the U.S./China trade talks stalled and the prospects for a meaningful infrastructure bill in Congress appear to be dwindling.

Nominal personal income increased by 0.5 percent in April. After adjusting for taxes and inflation, real disposable personal income was up just 0.1 percent for the month. Real personal spending was unchanged in April after climbing 0.9 percent in March. The headline personal consumption expenditure price index was up 1.5 percent and core PCE (less food and energy) increased 1.6 percent in the 12 months ending in April.

The second estimate of 2019Q1 real GDP growth was revised down slightly to 3.1 percent. Corporate profits appear to be under pressure. Corporate profits for domestic industries fell by \$54.6 billion in Q1, their second consecutive quarterly decline. It is not unusual, even in a healthy economy, to see corporate profits decline for 1 or 2 quarters. But a persistent decline in corporate profits can be a trip wire for the U.S. economy.

The estimate of international trade in goods shows a slight widening of the trade gap in April. This is consistent with our assumption that trade reverts to a small drag on the GDP in Q2.

The Conference Board's U.S. Consumer Confidence Index jumped by 4.9 points in May, to reach 134.1. This is near the peak levels from last fall. The index slumped through December and January during the federal government shutdown. Lower interest rates and improved confidence should be positives for housing, autos and other consumer spending.

Initial claims for unemployment insurance increased by 3,000 for the week ending May 25, to hit 215,000. This is still a very low number. Continuing claims fell by 26,000 for the week ending May 18, to hit 1,657,000.

The Case-Shiller U.S. National Home Price Index for March shows that house price appreciation is weakening. The U.S. index was up 3.7 percent in March. Most of the key 20 cities are still showing moderate year-over-year gains, but California markets have clearly cooled. Las Vegas is at the top of the list showing an 8.2 percent year-over-year gain. San Diego and Los Angeles are at the bottom of the list, showing 1.3 percent year-over-year gains.

Mortgage applications dipped by 3.3 percent for the week ending May 24. Purchase apps fell by 1.4 percent, their third consecutive weekly drop. Refi apps were off by 6.0 percent after gaining 8.3 percent the week before. On a four-week moving average basis, refi apps are still up 22.1 percent over the last year. Purchase apps are up 6.1 percent from a year ago. According to the Mortgage Bankers Association, the rate for a 30-year fixed rate mortgage remained at 4.33 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 83 percent. There is no expectation of a rate hike this year according to the fed funds futures market. Fed Governor Richard Clarida said on Thursday that the Fed would be open to cutting rates if the economy sours.

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 Construction Spending (6/3, Monday)

March Construction Spending declined 0.9 percent. Up by 0.5 percent in April. Consensus: 0.5 percent

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The Week Ahead, Continued

May ISM Manufacturing Index (6/3, Monday)

The ISM MFG Index eased to 52.8 in April. Steadying at 53.0 in May. Consensus: 53.0 percent

May Auto Sales (6/4, Tuesday)

April auto sales increased to a 16.4 million unit annual rate. Up to a 17.0 million unit rate in May, consistent with improved consumer confidence. Consensus: 16.8 million unit rate

May ISM Non-Manufacturing Index (6/5, Wednesday)

The April ISM Non-Manufacturing Index slowed to 55.5. Up to 56.0 after two monthly declines. Consensus: 55.7

April International Trade Gap (6/6, Thursday)

The U.S. trade balance widened in March to -\$50.0 billion. Widens to -\$50.5 billion in April. Consensus: -\$50.5 billion

May Nonfarm Payrolls (6/7, Friday)

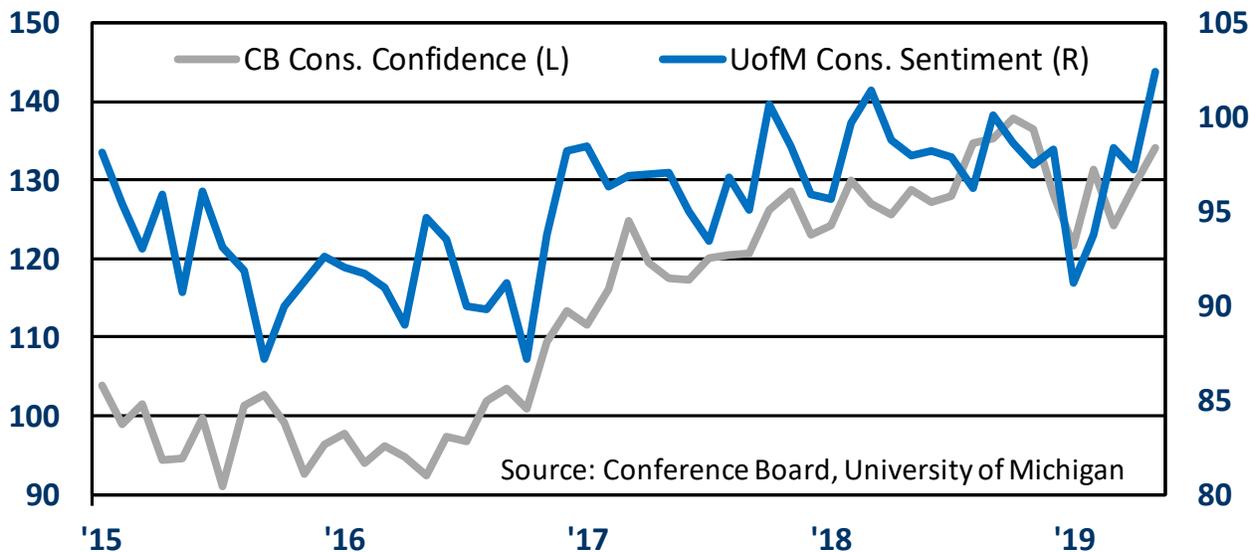
April nonfarm payrolls increased by 263k. Up by 185k in May. Consensus: 190k

May Unemployment Rate (6/7, Friday)

The unemployment rate fell to 3.6 percent in April. Up to 3.7 percent in May with a bounce back in the labor force. Consensus: 3.6 percent

Chart of the Week

Consumer Sentiment Is Rebounding



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