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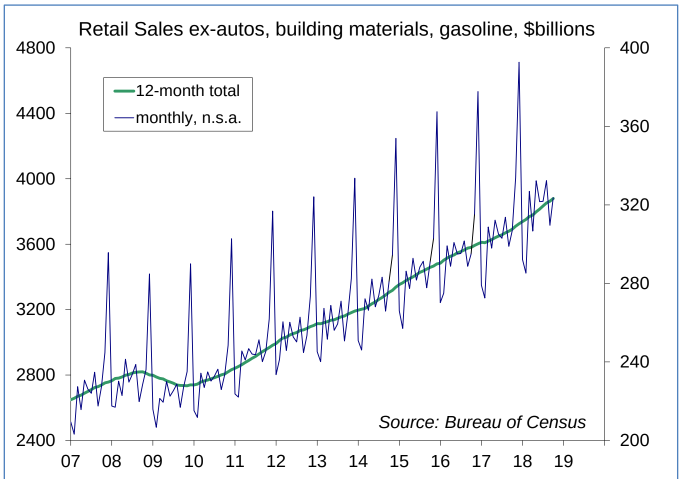
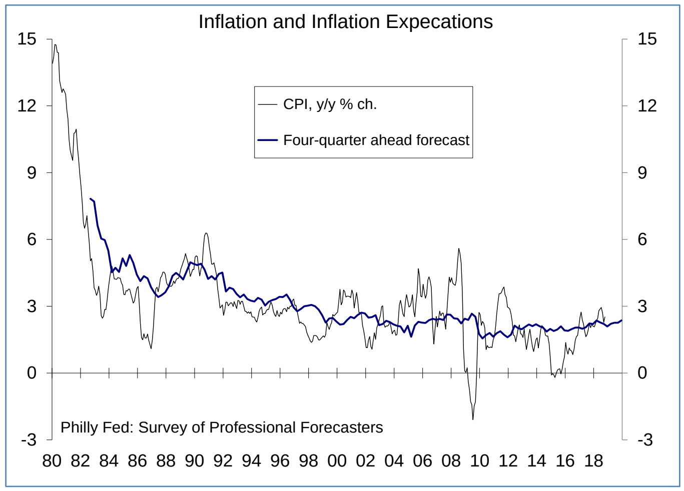
Weekly Economic Monitor

High Anxiety – The recent data releases continue to suggest moderately strong economic growth in the near term and little threat of higher inflation. However, investors remain anxious about a wide range of issues. In contrast, in his discussion last week, Fed Chairman Powell appeared confident that the economy is in good shape and can handle further rate increases.

Retail sale rose more than expected in October, but that news was accompanied by downward revisions to the two previous months. Sales were unusually strong in the spring and early summer, leading a bit of a lull in August and September. The underlying trend appears moderate. Job gains and rising wages should provide support in the holiday shopping season. We should see a continuation of the trends of recent years. That is, consumers are generally conditioned to buy stuff on sale. We should also see a further shift toward online sales (amplified by the demise of Toys R Us), partly at the expense of traditional department stores.

Early 2019 may be a bigger challenge for the consumer spending outlook. Bear in mind that there is further fiscal stimulus in the pipeline. Expansionary economic policy is, well, expansionary – and the federal budget deficit is projected to widen significantly further next year (with most of the boost showing up in the first half of the year). On the other hand, trade tensions, which have had little impact on the aggregate economy so far, are set to ramp up. The 10% tariff on $200 billion in Chinese goods (industrial inputs, capital equipment, and some consumer goods) is set to rise to 25% in 2019 and President Trump has threatened to impose tariffs on an additional $267 billion in Chinese goods (mostly consumer goods). This could be avoided if we reach a trade agreement with China, but it's unclear as to which of the opposing factions within the White House will prevail. January and February are not critical months for retailers, but a broadening of tariffs would boost consumer prices into the important spring selling season.





A tariff, we should note, is a tax, and taxes are not directly included on inflation measures. Of course, higher input costs may be passed along. Prices of raw materials generally picked up in the first half of the year, but have moderated in recent months. Still, excluding food and energy, goods account for a little less than 25% of the Consumer Price Index. Most of the CPI is services, which are driven more by labor costs. Growth in average hourly earnings has been trending higher (although offset largely by inflation over the last year) and we should see a further pickup in early 2019, reflecting annual cost of living increases and higher minimum wages at the state level. Firms will often try to raise prices at the start of the year, but they don't always stick. Much of this is incorporated into the seasonal adjustment, but it's likely that inflation will increase in the first half of 2019 and then moderate in the second half. Barring a substantial shock in oil prices, we aren't going to see a return of the great inflation of the 1970s and early 1980s. Importantly, inflation expectations remain well anchored.

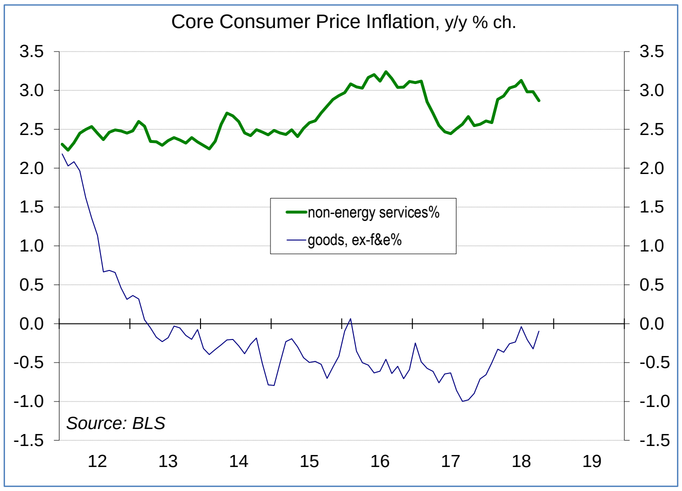
In his recent comments, Fed Chairman Powell seemed content with the economic outlook. He and other senior Fed officials aren't worried much about the impact of trade policy or the recent stock market volatility. Powell noted a broad consensus among policymakers that further rate hikes will be appropriate. A December 19 rate hike is likely, but is not fully factored into the financial markets at this point. There will be a press conference after every Federal Open Market Committee beginning in January. That change will reinforce the idea that every policy meeting is a "live" meeting (where the Fed may raise rates). The Fed generally does not like to surprise the financial markets, so decisions should be well telegraphed ahead of each FOMC meeting. Officials are well aware of the lagged effect of previous interest rate increases and the risks of moving too rapidly.

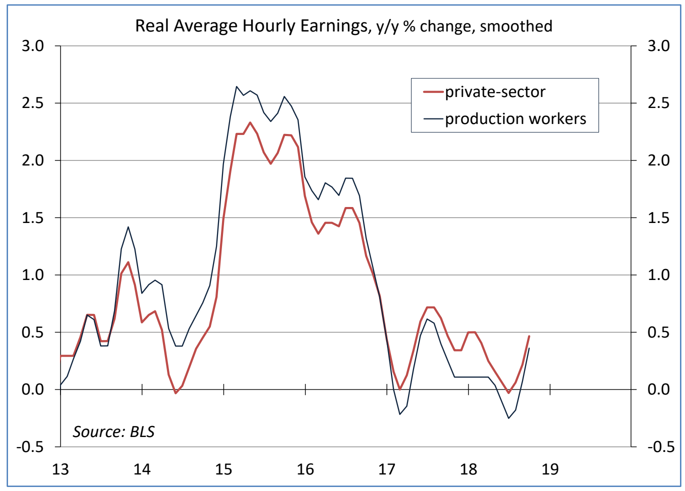
	Treasury Yields								Dollar				Equities		
	13-wk	26-wk	52-wk	2-yr	3-yr	5-yr	10-yr	30-yr	$/Euro	$/BP	JY/$	CD/$	NASD	SPX	DJIA
10/19/18	2.31	2.48	2.67	2.92	2.99	3.05	3.20	3.38	1.151	1.305	112.52	1.310	7449.03	2767.78	25444.34
11/09/18	2.36	2.52	2.73	2.94	3.01	3.05	3.19	3.40	1.133	1.298	113.77	1.323	7406.90	2781.01	25989.30
11/16/18	2.36	2.50	2.67	2.81	2.85	2.89	3.07	3.33	1.141	1.282	112.77	1.315	7259.85	2736.14	25413.22

Data Recap – Geopolitical concerns (Brexit, trade policy) kept intraday stock market volatility high and overshadowed the economic data releases, which remained consistent with moderate growth in the near term.

Fed Chairman Powell said *"the economy is doing really well,"* downplaying concerns about trade policy and stock market volatility.

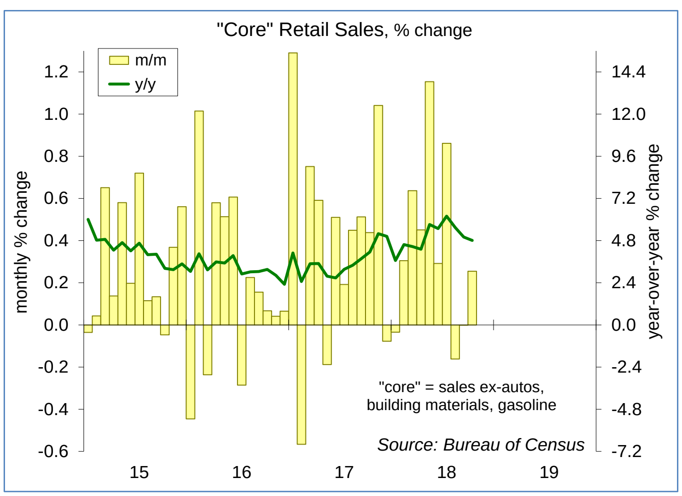
The **Consumer Price Index** rose 0.3% in October (+2.5% y/y), up 0.2% ex-food & energy (+2.1% y/y). Food edged down 0.1% (+1.2% y/y), with a continued split between food at home (+0.1% y/y) and food away from home (+2.5% y/y). Gasoline rose 3.0% (+0.6% before seasonal adjustment, and +16.1% y/y). Prices of used vehicles rebounded 2.6%, after falling 3.0% in September.

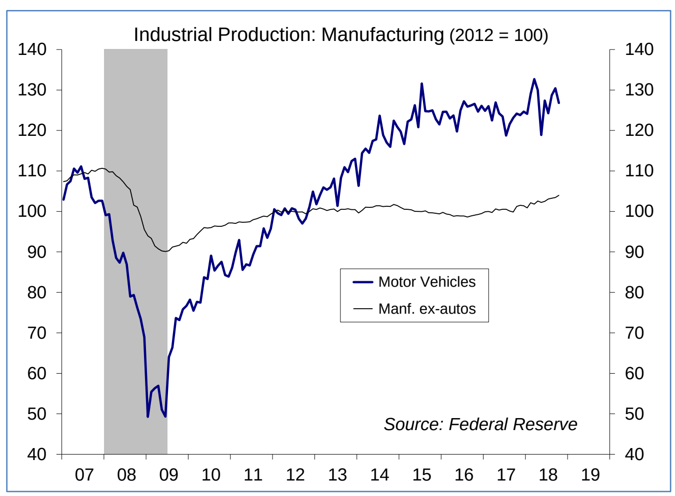




Real Average Hourly Earnings fell 0.1% in October (+0.7% y/y), also down 0.1% for production workers (+0.5% y/y).

Retail Sales rose 0.8% in the initial estimate for October (+4.6% y/y), but figures for August and September were revised lower. Ex-autos, sales rose 0.7% (also with downward revisions to the two previous months). Gasoline sales rose 3.5% (+16.5% y/y), reflecting higher prices. Ex-autos, gasoline, and building permits, sales rose 0.3%, vs. -0.2% in August and +0.0% in September (+4.8% y/y).





Industrial Production edged up 0.1% in October (+4.1%), held back by a 0.5% drop in the output of utilities and a 0.3% decline in mining output. Production of motor vehicles, which has been choppy, fell 2.8% (+2.1% y/y). Ex-autos, manufacturing output rose 0.5% (+2.7% y/y), mixed but generally moderate across industries.

Import Prices rose 0.5% in October (+3.5% y/y), reflecting a 2.8% increase in petroleum (+31.4% y/y) and a 24.6% jump in natural gas (+24.6% y/y). Ex-food & fuels, import prices slipped 0.1% (+0.7% y/y). Ex-fuels, prices of industrial supplies and materials edged down 0.1% (down 2.5% in the last four months, vs. +5.4% in the first half of 2018) – tariffs are a tax and are not included in the price. Prices of U.S. agricultural exports fell 0.3%, down 7.4% since May.

This Week – The economic data releases are likely to be mixed, but generally consistent with moderate growth in the near term. Investors have mostly ignored recent economic data, looking ahead and worrying about the prospects for growth in 2019 and 2020.

Durable goods orders are expected to have fallen sharply in October, reflecting a drop in civilian aircraft orders (Boeing reported a decline) and an unwinding of September's spike in defense aircraft orders. The Conference Board's Index of Leading Economic Indicators for October should be roughly flat, with drags from the uptick in jobless claims and the drop in the stock market (neither of which is much of a negative for the overall economic outlook). Happy Thanksgiving!

The economic calendar for the week after Thanksgiving is more eventful. Revisions to foreign trade and inventories may lead to a relatively large revisions to the 3Q18 GDP growth estimate. October personal income and spending figures, along with advance inventory and merchandise trade data, will help to refine forecasts of 4Q18 GDP growth. FOMC minutes should point to a December 19 rate hike. The Fed will also begin releasing its semi-annual Financial Stability Report.

This Week:					*forecast*	last	last –1	comments
Monday	11/19	10:00	Homebuilder Sentiment	Nov	***67***	68	67	seen edging a bit lower
Tuesday	11/20	8:30	**Building Permits, mln**	Oct	***1.250***	1.270	1.249	single-family still strong
			% change		***-1.6***	+1.7	-4.1	multi-family noise
			Housing Starts		***1.220***	1.201	1.268	expected to pick up
			% change		***+1.6***	-5.3	+7.1	watch for revisions
Wednesday	11/21	8:30	Jobless Claims, th.	11/17	***215***	216	214	still a low trend
		8:30	**Durable Goods Orders**	Sep	***-2.6%***	+0.7%	+4.7%	Boeing reported lower orders
			ex-transportation		***+0.2%***	0.0%	+0.3%	a lackluster trend
			nondef cap gds ex-aircraft		***+0.1%***	-0.1%	-0.2%	soft in recent months
		10:00	Existing Home Sales, mln	Sep	***5.10***	5.15	5.34	somewhat restrained
			% change		***-1.0***	-3.4	-0.2	tight supplies, affordability issues
		10:00	Leading Econ Indicators	Oct	***0.0%***	+0.5%	+0.4%	drags from jobless claims and stocks
		10:00	UM Consumer Sentiment	Nov	***98.2***	98.6	100.1	98.3 at mid-month
Thursday	11/22		Thanksgiving Day					market closed
Friday	11/23		Black Friday					early market close
Next Week:								
Monday	11/26		no significant data					
Tuesday	11/27	10:00	**CB Consumer Confidence**	Nov	***135.0***	137.9	135.3	likely lower (still relatively strong)
Wednesday	11/28	8:30	**Real GDP (2nd estimate)**	3Q18	***+3.2%***	+4.2%	+2.2%	+3.5% in the advance estimate
			Priv Dom Final Purchases		***+2.9%***	+4.3%	+2.0%	+3.1% in the advance estimate
		8:30	Advance Econ Indicators	Oct				filling in a little of the 4Q picture
			wholesale inventories		***NF***	+0.4	+0.9	seen somewhat slower in 4Q
			retail inventories		***NF***	+0.1	+0.6	seen somewhat slower in 4Q
			merch trade balance, $bln		***NF***	-76.3	-75.4	uncertain tariff impact
		10:00	New Home Sales, th.	Oct	***560***	553	585	these data are erratic
			% change		***+1.3***	-5.5	-3.0	but the trend has been soft
		2:00	**FOMC Minutes**	11/08				consistent with a December 19 hike
		tbd	**Financial Stability Report**					new semi-annual release from the Fed
Thursday	11/29	8:30	Jobless Claims, th.	11/24	***215***	***215***	216	still a low trend
		8:30	Personal Income	Oct	***+0.4%***	+0.2%	+0.4%	lead by pickup in wages and salaries
			Personal Spending		***+0.5%***	+0.4%	+0.5%	a moderately strong pace
			PCE Price Index ex-f&e		***+0.2%***	+0.1%	+0.1%	the core CPI rose 0.193%
			year-over-year		***+2.1%***	+2.0%	+2.2%	still at or near the Fed's goal
		10:00	Pending Home Sales Index	Oct	***NF***	+0.5%	-1.9%	choppy, but a lackluster trend
Friday	11/30	9:45	Chicago Business Barometer	Nov	***58.0***	58.4	60.4	moderately strong

Coming Events and Data Releases

December 3	ISM Manufacturing Index (November)
December 7	Employment Report (November)
December 12	Consumer Price Index (November)
December 14	Retail Sales (November)
December 19	FOMC Policy Decision, press conf.
December 25	Christmas Day (markets closed)
January 1	New Year's Day (markets closed)
January 30	FOMC Policy Decision, press conf.
March 20	FOMC Policy Decision, press conf.
May 1	FOMC Policy Decision, press conf.