

## Daily Notes on the **United States**

May 29, 2019. Worldwide Edition

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### Strong Job Market, Despite Weak Manufacturing

The manufacturing sector has weakened, but growth in the overall economy is still solid enough to keep the labor market strong. That has been the message from numerous indicators recently, with the economy-wide jobless claims series in particular contrasting with the weakness in manufacturing. It was the message again in the data released on Tuesday, with weakness in the Dallas Fed manufacturing survey but strength in the labor-market-sensitive Conference Board consumer confidence survey. The headline current activity index in the Dallas survey fell to -5.3 from 2.0, although the details in the report were generally stronger than the headline data—more on that below. The Conference Board confidence index rose to 134.1 from 129.2. Both reports were for May.

We believe manufacturing is being affected disproportionately by an inventory correction as well as a decline in foreign demand. The survey data for manufacturing are probably also being affected more than other survey data by worries about trade tensions. Indeed, some respondents to consumer confidence surveys may view the Trump administration's trade battle with China positively, although we suspect confidence is vulnerable if trade tensions lead to significant weakening in equity markets. For now, equity markets remain up strongly on a year-to-date basis. The overall labor market—a key determinant of consumer confidence—looks strong as well.

Within the Conference Board survey, the net percentage of respondents rating jobs as “plentiful”—those saying “plentiful” minus those saying “hard to get”—rose 3.1 points to 36.3 in May, the highest since 2000. Those data, which we plot inversely in the second chart on the right, have shown even more improvement than the unemployment rate. They are corroborating the strength in the labor market being signaled by claims.

#### HFE's Economic & Financial Forecasts

	Q/Q Annual Rate		Cal Avg Q4/Q4		
Real GDP (%ch)	2018 Q4*	2.2	2017 year*	2.2	2.5
	2019 Q1*	3.2	2018 year*	2.9	3.0
	2019 Q2	2.5	2019 year	2.7	2.4
	2019 Q3	2.0	2020 year	1.9	1.9
	<b>Latest</b>	<b>19Q2</b>	<b>19Q4</b>	<b>20Q4</b>	
CPI (%ch y/y)	2.0	1.7	2.1	2.6	
Core CPI	2.1	2.1	2.3	2.5	
Unemployment (% level)	3.6	3.6	3.4	3.4	
Interest Rates (% level, EOP)					
Fed Funds Target	2.25-2.5	2.375	2.375	2.375	
10-Year Treasury	2.266	2.6	2.8	2.8	
S&P 500 (EOP)	2807.2	2800	2632	2550	

\*Actual

#### Key Data Spotlight: May 29

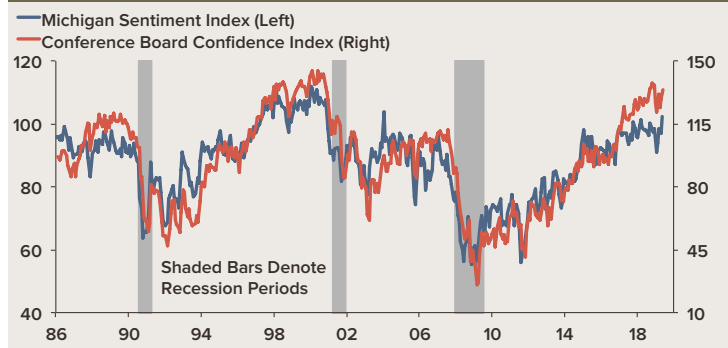
	Period	Previous (-2)	Previous (-1)	New Data Cons	New Data HFE
MBA Purchase Index	May 24	268.5	263.0		
MBA Refi Index	May 24	1232.6	1334.9		
Richmond Fed Index	May	10	3	7	

#### Survey Data Are Still Signaling Some Growth

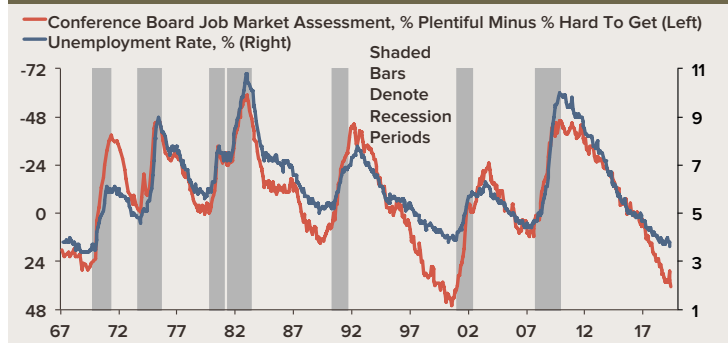
As noted above, the details of the Dallas Fed survey were stronger than the headline data in the report, opposite the pattern in the New York Fed survey two weeks ago. Indeed, our ISM-equivalent calculation for the Dallas survey rose slightly, to 52.3 from 52.2, although the level remains down significantly from 57.3, on average, last year.

Our ISM-equivalent calculation for the four regional manufacturing surveys already reported for May is 53.2, down from 53.4 in April and 57.4, on average, in 2018. Those data continue to signal a positive trend in manufacturing activity, in contrast to the manufacturing part of the industrial production report. They are a bit stronger than the Markit data as well. The Markit manufacturing PMI remains above 50, but it fell to 50.6 in the flash report for May from 52.6 in April. The Markit index is down from 55.4, on average, in 2018.

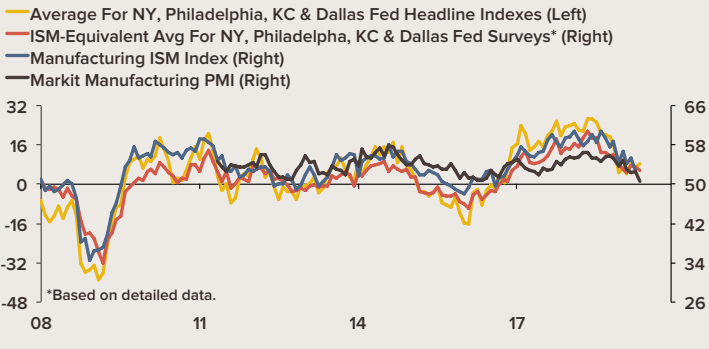
#### Consumer Confidence Remains High



#### ...Helped By A Strong Labor Market



**Regional Manufacturing Surveys Have Held Up Thus Far In May**

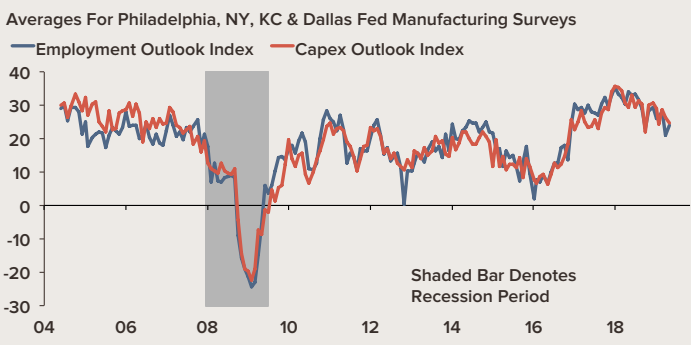


The capex and hiring plans parts of the regional manufacturing surveys are also signaling moderate rather than dramatic weakening. We summarize those data in the chart below.

**Lots Of Data On Thursday And Friday**

As of now, the regional surveys are signaling little change in the manufacturing ISM index in next week's report for May, but we want to see the Richmond Fed survey on Wednesday and the Chicago purchasing managers survey on Friday before we make a forecast. Other data of note this week will be for GDP, claims, foreign trade and the pending home sales index on Thursday, and consumer spending, core PCE prices and inflation expectations—in the Michigan survey—on Friday. We expect Q1 GDP growth to be revised down slightly, claims to remain low, the trade deficit to be fairly stable, the pending home sales index to rise solidly, consumer spending to rise modestly, core PCE prices to pick up and inflation expectations to show little change.

**Capex & Hiring Plans Index Have Declined To Still-High Levels**



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**This Week's Funding**

<b>Tue</b>	Announcement—4-week, 8-week bills (May 30) Auction—3-month, 6-month bills Auction—2-year notes Auction—5-year notes
<b>Wed</b>	Auction—2-year FRN Auction—7-year notes
<b>Thu</b>	Announcement—3-month, 6-month bills (June 3) Auction—4-week, 8-week bills

**This Week In Brief**

Note: "SS" prefix denotes Snapshot for these data.

**Monday, May 27**

- **Memorial Day Holiday**

**Tuesday, May 28**

- **SS: Case-Shiller Home Prices (3)/9:00 EDT**  
The seasonally adjusted index rose **0.1%**, below the 0.5% consensus. The 12-month change fell to 2.7% from 3.0%.
- **FHFA House Price Index (3)/9:00 EDT**  
The index rose **0.1%**, below the 0.2% consensus. The 12-month change fell to 5.0% from 5.1%.
- **SS: Conference Board Consumer Confidence (5)/10:00 EDT**  
The index rose 4.9 points to **134.1**, above the 130.0 consensus.
- **Dallas Fed Manufacturing Index (5)/10:30 EDT**  
The headline current general business activity index fell to **-5.3** from 2.0, below the 6.2 consensus. The details in the report showed little net change, however. See main text.

**Wednesday, May 29**

- **MBA Mortgage Applications (5/24)/7:00 EDT**
- **Richmond Fed Manufacturing Index (5)/10:00 EDT**  
**Consensus: 7, following 3.**

**Thursday, May 30**

- **SS: GDP (Q1 second estimate)/8:30 EDT**  
**Consensus: GDP 3.0%, versus 3.2% initially, GDP price index 0.9%, core PCE prices 1.3%. HFE: 3.0%, 1.0%, 1.4%.** Growth will probably be revised down slightly.
- **SS: Initial Jobless Claims (5/25)/8:30 EDT**  
**Consensus: 215K, following 211K. HFE: 215K.** Claims continue to signal strength in the labor market.
- **SS: Advance Economic Indicators (4)/8:30 EDT**  
**Consensus: Merchandise trade balance -\$72.5B, vs -\$71.4, wholesale inventories 0.1%, retail inventories 0.2%. HFE: -\$71.5B, NA, NA.** The data will be important for Q2 GDP tracking estimates.

- **SS: Pending Home Sales (4)/10:00 EDT**  
**Consensus: 0.5%. HFE: 1.5%.** Mortgage applications rose.

**Friday, May 31**

- **SS: Personal Income And Spending (4)/8:30 EDT**  
**Consensus: Income 0.3%, spending 0.2%, core PCE 0.2%. HFE: 0.1%, 0.3%, 0.3%.** Core PCE prices were likely boosted by a rebound in the portfolio management component; our precise estimate is 0.26%. The 12-month change likely either rose 0.1 point to 1.7% or remained at 1.6% after rounding. We think 1.7% is slightly more likely than 1.6%, but we will review that call after revised Q1 data are reported on Thursday.
- **SS: Chicago PMI (5)/9:45 EDT**  
**Consensus: 54.0, following 52.6. HFE: 53.5.**
- **University of Michigan Sentiment (5r)/10:00 EDT**  
**Consensus: 101.0, after 102.4. HFE: 101.5.** The 102.4 preliminary reading was up from 97.2 in April; it was a cycle high. The longer-term inflation expectations series rose to 2.6% from 2.3%; it is now up slightly from last year's 2.5% average.