Economic Outlook

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ECONOMIC OUTLOOK

- The Conference Board Leading Economic Index (LEI) for the U.S. declined 0.3% in June to 111.5 (2016 = 100), following no change in May, and a 0.1 percent increase in April. This is the first decline since last December. This LEI reading suggests growth is likely to remain slow in the second half of the year.

- Real Gross Domestic Product (GDP) increased at an annual rate of 2.1% in the second quarter of 2019, according to the "advance" estimate released by the Bureau of Economic Analysis. In the first quarter, real GDP increased 3.1%. The most significant factor leading to slower growth in the second quarter was likely businesses returning to a more sustainable pace of inventory accumulation following the rapid pace of inventory building in the second half of 2018 and first quarter of this year. We see slow but steady economic growth for the balance of the year.

- The Institute for Supply Management (ISM) Manufacturing Report On Business is considered a reliable economic indicator, as is the manufacturing sector in general. According to this report, economic activity in the manufacturing sector expanded in July for the 123th consecutive month. The closely watched Purchasing Managers Index (PMI) registered 51.2% in July, a decrease of 0.5% from the June reading of 51.7%. A reading of greater than 50.0% indicates expansion, less than 50% indicates contraction. Comments from the survey panel participants reflect continued expanding business strength, but at soft levels. July was the fourth straight month of slowing PMI expansion. Manufacturing products demand expansion resumed, with the New Orders Index recording marginal growth.

- The unemployment rate continues to hover around 3.7%. According to the most recent report from the Bureau of Labor Statistics, the number of unemployed persons per job opening remains historically low at 0.8. The total number of nonfarm job openings exceeds 7.3 million.

- The Conference Board Consumer Confidence Index rebounded in July, following a decrease in June. The Index now stands at 135.7 (1985=100), the highest level this year, up from 124.3 in June. This index reflects prevailing business conditions and likely developments for the months ahead. The monthly reading details consumer attitudes and buying intentions, from data collected by age, income, and region.

- Corporate earnings are proving to be more resilient than expected in the second quarter with 80% of the companies reporting so far exceeding expectations. Better than expected earnings tend to reduce market anxieties about seesaw trade negotiations and economic growth.

- For the first time since 2008, the Federal Reserve cut short term interest rates by a quarter point on July 31st. Fed officials cited weak global growth, below target inflation, slumping trade and a chill in business investment to explain the rate cut. The strengthening dollar (since early 2018) and higher US interest rates (compared to other countries) might also have influenced the Fed's decision. We question how much a 0.25% drop in short term borrowing costs will help cushion a broader slowdown likely driven by factors outside the Fed's control. The central bank's policy may be an ineffectual instrument if investment is being held back chiefly by concerns over trade uncertainty.