Economic Outlook

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EST. 1838

FEBRUARY 2019

ECONOMIC OUTLOOK

- Federal Reserve Chairman Jay Powell indicated in early January that the central bank would consider altering its balance sheet policy based on economic conditions, a reversal of the position he had espoused in December. Speaking at the annual meeting of the American Economic Association, he confirmed that the Fed would be willing to adjust the pace at which it unwinds the balance sheet "should conditions warrant." The idea that the Fed would no longer be on "autopilot" with regard to shrinking its balance sheet triggered a sharp rally in the stock market. Also, at its policy meeting at the end of January, the Federal Reserve declined to raise interest rates. Given muted inflation figures, Powell indicated that the Fed could afford to be "patient" on future rate hikes.

- While we expect GDP growth to moderate in this year, we do not anticipate that the US will enter a recession in 2019. Yield spreads and credit conditions in general have eased over the past month and inflation remains low. The Atlanta Fed's GDPNow estimate is currently at 2.7%.

- President Trump agreed to end the partial government shutdown for three weeks while negotiations over the border wall continued. It was the longest U.S. government shutdown in history. The Congressional Budget Office estimated that the shutdown would reduce first quarter GDP by 0.4%.

- While it did create financial hardship for hundreds of thousands of federal employees and contractors, the government shutdown did not appear to take any steam out of the strong US labor market. Weekly unemployment claims declined to 199,000 in the week ended January 19th, below 200,000 for the first time in 50 years. All told, the US economy picked up 304,000 jobs in January. The unemployment rate is currently at 4%.

- The IMF reduced its global economic growth forecast for 2019 to 3.5% from 3.7%. Economic risks cited include the U.S.-China trade dispute, Brexit, and a slowdown in the Chinese economy. Of note, the growth outlook for the 19 countries that use the euro currency was lowered to 1.6% from 1.8%. Manufacturing continues to weaken in the euro region, as the IHS Markit Eurozone Manufacturing PMI was confirmed at 50.5 in January, down from 51.4 in December and the lowest level since November 2014.

- Oil prices have been broadly supported since the start of the year by the implementation of OPEC-led crude production cuts. Prices have risen roughly 20% from the 52-week low reached in the last week of December. OPEC and 10 allied countries plan to keep 1.2 million bpd off the market during the first six months of 2019. The supply cuts, along with Washington's sanctions against Venezuela, have bolstered prices.

Sources: Bloomberg LLC, US Commerce Dept., Bureau of Labor Statistics, EIA, Dow Jones Inc. MarketWatch, Standard & Poors, Federal Reserve Bank, Financial Times, FactSet