Economic Outlook

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ECONOMIC OUTLOOK

- The Bureau of Labor Statistics (BLS) reported a much lower than expected non-farm payroll employment gain of 20,000 in February, the fewest monthly additions since September 2017. The low monthly gain was below the consensus estimate of a gain of 180,000 and well below January's gain of 304,000. The unemployment rate dropped to 3.8%. Monthly payroll data tend to be volatile and often revised. So, the low February print may merely be signaling a deceleration in jobs gains rather than a definitive reversal of trend. This is important because every recession since World War II has been preceded by or coincided with a trough in the unemployment rate.

- In January, existing home sales fell 1.2%, the third consecutive monthly drop, according to the National Association of Realtors. Housing starts rebounded 18.6% in January to a 1.23 million unit pace. Building permits were 1.345 million in January, suggesting further gains in starts to come, and fueling expectations that new home sales will accelerate in 2019. According to the Federal Housing Finance Agency (FHFA) the average rate on all mortgage loans was 4.65% in January, down 0.17% from December. U.S. housing prices rose 0.3% in December and 5.7% in 2018. Longer term, the recent uptick in household formation may portend accelerating housing sales going forward.

- The median GDP Nowcast (an average of regional Federal Reserve banks and private forecasters) for first quarter 2019 real gross domestic product (GDP) growth is 1.4%. This seems to confirm a trend of decelerating economic activity beginning in the second quarter of 2018. The Atlanta Fed's GDP Now forecast for the first quarter is 0.5%, down from 2.7% a month ago. This may paint an overly gloomy picture, however. IHS Markit reported the US Composite PMI index rose in February to 55.5, (a level above 50 indicates growth), as strength in the service sector more than made up for weakness in the manufacturing sector. According to IHS Markit's Chief Business Economist Chris Williamson, the Composite PMI reading is indicative of GDP growth of 2.6%.

- Average hourly earnings (AHE) rose 0.4% in the month of February putting the year-over-year gain at 3.4%, the fastest pace since 2009 and a new cyclical high. This was an increase over the prior month's gain of 3.2% and better than expectations of a 3.3% gain. According to Evercore ISI, in the past three economic cycles, AHEs accelerated to 4.0% before peaking. In addition, previous recessions haven't started until after gains in AHEs reached 4.0%. In the near term, a continuation in the growth of AHEs is a tailwind for the U.S. consumer oriented economy.

- The European Central Bank (ECB) cut its 2019 growth forecast from 1.7% to 1.1% and cut its 2019 inflation forecast from 1.6% to 1.2%. ECB president Mario Draghi said that borrowing conditions remained favorable; however, it is clear that rate hikes are off the table this year.

- Investors' attentions in March will likely focus on further clarity on if not resolution to Brexit, a U.S.-China trade deal, and the release of the Mueller report.

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