Economic Outlook

WELCH & FORBES LLC
EST. 1838

SEPTEMBER 2019

ECONOMIC OUTLOOK

- Economic growth appears to be moderating as data from services and manufacturing diverge. The Conference Board Leading Economic Index (LEI) for the U.S. improved 0.5 percent in July to 112.2 (2016 = 100), reversing the decline in June. Housing permits, unemployment insurance claims, stock prices and the Leading Credit Index, drove the improvement. The manufacturing sector continued to exhibit signs of weakness and the spread between long and short bond rates was negative for a second consecutive month. The mixed bag of underlying data suggests the U.S. economy will continue to expand in the second half of 2019, but likely at a moderate pace. We expect full year 2019 real GDP of 2 percent, a decline from 3 percent last year.

- Manufacturing activity has slowed in each of the last five months. A preliminary estimate from IHS Markit showed U.S. Manufacturing Purchasing Manager's Index (PMI) dropped to 49.9 in August 2019 from 50.4 in the previous month and below market expectations of 50.5. The decline in the U.S. marked the first manufacturing contraction since September 2009 as new orders fell the most in ten years led by the largest decline in exports since August 2009. Escalating trade tariffs have purchasing managers more cautious globally, too. PMI Purchasing Manager's Composite Indices also showed declines in Japan, Germany and the Eurozone. Trade tariffs will continue to dominate business sentiment in the near-term.

- Consumer spending continues to provide strong support to the U.S. economy. Accounting for more than two-thirds of U.S. GDP, consumer spending is a closely watched indicator of economic growth. Retail sales climbed 0.7 percent in July from a month earlier according to a report from the Commerce Department. The gain was the strongest since March and marked the fifth consecutive month of sales growth. Retail sales include items purchased at stores, restaurants, and online. Even as other areas of the economy are wavering, the U.S. consumer remains a reservoir of strength for the U.S. economy.

- Monetary policy was in focus at the annual Jackson Hole economic symposium attended by central bankers from around the world. Fed Chair Jerome H. Powell framed a stable U.S. economy in the context of growing risks. Powell noted that the U.S. economy continues to perform well, but faces significant headwinds due to ongoing trade tensions, a global economic slowdown, and geopolitical uncertainty. The Federal Reserve restated its mandate to act as appropriate to sustain the expansion with a strong labor market and inflation below its 2 percent objective. There are growing concerns that central banks, including the U.S. Federal Reserve, may lack sufficient tools to stimulate economic growth during a future recession.

- Housing sales have been uneven across categories due to imbalances of supply and demand. Low unemployment and attractive financing have not been sufficient to motivate potential buyers as a lack of housing stock has reduced affordability in some areas. Pending home contracts for existing properties become sales one-to-two months later and are considered a forward-looking indicator of the health of the real estate market. The National Realtors Association pending home sales index declined 2.5 percent in July. Year-to-date, the index is down 0.3 percent despite falling mortgage rates. A resurgence in new home sales in July indicates affordability is a key differentiator. Another favorable indicator, the Fannie Mae Home Purchase Sentiment Index, increased 2.2 percent to a new survey high in July driven primarily by two factors: forward-looking job confidence and mortgage rates.