Monthly Economic Update

June 2019

THE MONTH IN BRIEF

Hopes for a quick resolution to the U.S.-China trade dispute faded in May as discussions broke down and rhetoric from both sides turned tough again. The disappointment lingered on Wall Street: the month saw losses for stocks. On Main Street, consumer confidence was strong and inflation tame. Mortgage rates reached year-to-date lows, but the latest data on home sales showed weak spring buying. The price of crude oil fell significantly, and so did the yield on the 10-year Treasury.[1]

DOMESTIC ECONOMIC HEALTH

Last month, trade was the story, and tariffs were on the minds of market participants. On May 5, President Trump announced that U.S. import taxes levied on $200 billion of Chinese products would soon rise from 10% to 25% and that virtually all other goods arriving from China would “shortly” face a 25% tariff. China retaliated, declaring that it would hike tariffs already imposed on $60 billion worth of American products, effective June 1. More tariff developments followed. On May 17, President Trump opted to delay levies planned for imported autos until later in 2019, and he removed tariffs on metals arriving from Canada and Mexico.[2,3]

Late May brought more attention-getting headlines. On May 29, China’s state media suggested that its government might consider banning rare-earth mineral exports to America. (China mines or produces about 80% of the world’s rare earths.) On May 30, President Trump announced that all of Mexico’s exports to the U.S. would face 5% tariffs starting on June 10; these taxes could rise to as high as 25% by October.[4,5]

Households, meanwhile, felt good about the economy and their financial prospects in May. The Conference Board’s monthly consumer confidence index rose nearly five points to 134.1; that was its best reading since November. (Confidence about the present economic situation reached its highest level since December 2000.) The University of Michigan’s consumer sentiment index jumped to a 15-year peak of 102.4 at mid-month, and it ended May at 100.0.[6,7]

Consumer spending rose another 0.3% in April, by the calculation of the Department of Commerce. Overall retail sales declined 0.2% in April, but core retail sales (minus auto and gas purchases) improved 0.1%.[6]

Inflation advanced at a mild 2.0% in the year ending in April, according to the latest Consumer Price Index. The CPI rose 0.3% in the fourth month of the year.[6]

The Department of Labor released its April employment report at the start of May, and the latest news on hiring was certainly impressive. April saw a net gain of 263,000 jobs, trouncing a Bloomberg consensus forecast of 190,000. The jobless rate fell 0.2% to 3.6%, nearly a 50-year low. The U-6 rate, which counts the unemployed, the underemployed, and those who have stopped looking for work, stayed at 7.3% for the third straight month. Wages were growing at a 3.2% annualized pace.[8]

On May 1, the Federal Reserve left interest rates unchanged. While the Fed was not expected to make a move, some investors wondered if it was considering the possibility of a rate cut at some point before the end of the year. In fact, at the end of May, the market expectation was for the Fed to make two rate cuts by next January, with the first coming in September. At the central bank's May 1 press conference, Fed chair Jerome Powell did not refer to any kind of reconsideration of monetary policy, simply telling reporters that "we don't see a strong reason for moving in one direction or the other."[9,10]

There was another yield curve inversion in the bond market: in the second half of May, the yield on the 3-month U.S. Treasury note exceeded the yield on the 10-year U.S. Treasury note. On May 29, the 3-month yield topped the 10-year yield by the greatest margin since the financial crisis. Economists pay close attention to these yield curve inversions; some believe they presage recessions. Yields on Treasuries decline when their prices rise, and vice versa; demand for Treasuries increased during May, as stocks retreated here and overseas.[11]

As for other economic indicators arriving during May, the April Institute for Supply Management manufacturing index (based on a monthly survey of purchasing managers at large firms) fell 2.5 points to a decent 52.8 reading; ISM's April service-sector PMI lost

0.6 points, descending to 55.5. Industrial output fell 0.5% in April; durable goods orders, 2.1%.[6,12]

GLOBAL ECONOMIC HEALTH

U.S. tariffs did seem to be affecting China's factory sector, and by extension, its economy. China's official manufacturing purchasing managers index displayed a May reading of 49.4, indicating contraction instead of expansion.[5]

India was no longer home to the world's fastest-growing economy. Last month, its government stated first-quarter gross domestic product of 5.8%, below that of China (which reported an official Q1 GDP of 6.4%). A June interest rate cut by India's central bank is widely expected.[13]

A change in leadership was ahead for the United Kingdom. Prime Minister Theresa May announced she would presently resign; her successor will likely take office in July. Boris Johnson, a fellow conservative, is widely considered to be the favorite in the forthcoming parliamentary elections. Johnson has stated that the U.K. must make its Brexit from the European Union by the current October 31 deadline, deal in place or not. Some analysts now see a stronger possibility of a no-deal Brexit.[14]

WORLD MARKETS

Aside from a few outliers, most foreign stock markets went the way of our stock market in May. Five notable benchmarks recorded monthly gains: Argentina's often-volatile Merval rose 15.79%, Russia's Micex added 4.14%, India's Sensex and Nifty 50 respectively rose 1.75% and 1.49%, and Australia's All Ordinaries improved 1.14%.[15]

May losses were widespread. The MSCI World index fell 6.08%; the MSCI Emerging Markets index, 7.53%. China's Shanghai Composite declined 5.84%; Japan's Nikkei 225, 7.45%; Hong Kong's Hang Seng, 9.42%. Mexico's Bolsa lost 4.14% for the month; Canada's TSX Composite, 3.28%. Germany's DAX slipped 5.00%; France's CAC 40, 6.78%. The regional FTSEurofirst 300 lost 5.50%.[15,16]

COMMODITIES MARKETS

Softs and energy futures saw some big ups and downs in May. Unleaded gasoline fell 16.63% on the New York Mercantile Exchange, and crude oil (the West Texas Intermediate variety) slipped 15.93%. Crude finished May at $53.36 per barrel. May losses also came for heating oil (11.73%) and natural gas (4.16%). Three crops soared: coffee improved 14.42%; wheat, 20.61%; corn, 20.85%. Soybeans rose 4.40%. Among notable crops, the biggest loser was cotton, down 9.69%.[17]

Gold outperformed other key metals, with a 1.75% rise to a $1,350.50 May 31 close on the NYMEX. Silver wrapped up May at $14.56, losing 2.31%. Copper fell 9.14% for the month; platinum, 10.71%.[17]

REAL ESTATE

New and existing home sales numbers from April arrived in May, and there were declines in both categories. The National Association of Realtors said that the pace of residential resales weakened 0.4%, on the heels of a 4.9% retreat in March; the April NAR pending home sales index also dipped 1.5%. New home buying, according to the Census Bureau, slowed 6.9% in the fourth month of the year, following a (revised) 8.1% March gain. The latest 20-city S&P/Case-Shiller home price index showed 2.7% annual appreciation in the year ending in March, down from 3.0% in the prior edition.[6]

Residential construction activity picked up in April: the Census Bureau recorded a 5.7% advance for housing starts. Building permits rose 0.6%.[6]

Mortgage rates dipped in May. A 30-year, fixed-rate loan bore an average interest rate of just 3.99% in the week ending May 30, according to Freddie Mac's Primary Mortgage Market Survey. In the last April edition of the PMMS (April 25), the interest rate on the 30-year FRM averaged 4.20%. Average interest on the 15-year, fixed-rate mortgage also declined in this timeframe, from 3.64% to 3.46%.[18]

30-year and 15-year, fixed-rate mortgages are conventional home loans generally featuring a limit of $484,350 ($726,525 in high-cost areas) that meet the lending requirements of Fannie Mae and Freddie Mac, but they are not mortgages guaranteed or insured by any government agency. Private mortgage insurance, or PMI, is required for any conventional loan with less than a 20% down payment.

LOOKING BACK, LOOKING FORWARD

Things did not go well on Wall Street in May, but the year-to-date advances of the three major U.S. equity benchmarks were still impressive, five months into the year. The Chicago Board Options Volatility Index, or CBOE VIX, a leading measure of stock market volatility, rose 42.61% in May, but remained down 26.40% YTD when the month wrapped up. The S&P 500's real estate sector was the only one of its eleven industry groups to advance last month, and it had gained more than any other sector YTD (17.01%) when May ended.[1]

MARKET INDEX	Y-T-D CHANGE	1-MO CHANGE	2018
DJIA	+6.38	-6.69	-5.63
NASDAQ	+12.33	-8.07	-3.88
S&P 500	+9.78	-6.58	-6.24

BOND YIELD	5/31 RATE	1 MO AGO	1 YR AGO
10 YR TREASURY	2.14	2.51	2.83

Sources: barchart.com, wsj.com, treasury.gov - 5/31/19[1,19,20,21]

Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends. 10-year Treasury real yield = projected return on investment, expressed as a percentage, on the U.S. government's 10-year bond.

So, what will it take to change the market's mood, and how soon can such a change happen? Short of a quickly forged bilateral agreement between the U.S. and China, it may take quite a diversion to take Wall Street's collective mind off trade. Throw in a recently inverted yield curve and assorted concerns about the business cycle slowing, and stocks may be in for a challenge in June. Perhaps the May jobs report, the June Federal Reserve policy meeting, or the G-20 summit at the end of this month (which could feature a meeting between President Trump and China's President Xi) may have an influence. For the record, the S&P 500 has only had 14 negative Mays in the past 40 years, and June gains followed eight of them. Past performance is not indicative of future results. Equities may face more turbulence this month as the markets attempt to sort out the many uncertainties.[22]

UPCOMING RELEASES

Here is what is ahead in terms of major economic news in June… the May ADP payrolls report, the Institute for Supply Management's May service sector PMI, and a new Beige Book from the Federal Reserve (6/5), the Department of Labor's May employment snapshot (6/7), May wholesale inflation (6/11), May consumer inflation (6/12), the University of Michigan's initial June consumer sentiment index and May retail sales (6/14), May housing starts and building permits (6/18), a Federal Reserve announcement following the conclusion of a 2-day monetary policy meeting (6/19), May existing home sales (6/21), the Conference Board's latest consumer confidence index and May new home sales (6/25), May hard goods orders (6/26), May pending home sales and the "final" estimate of Q1 economic expansion from the Bureau of Economic Analysis (6/27), and then May consumer spending and the final June University of Michigan consumer sentiment index (6/28).

watched index of Asian stocks. The Hang Seng Index is a free float-adjusted market capitalization-weighted stock market index that is the main indicator of the overall market performance in Hong Kong. The Mexican Stock Exchange, commonly known as Mexican Bolsa, Mexbol, or BMV, is the only stock exchange in Mexico. The S&P/TSX Composite Index is an index of the stock (equity) prices of the largest companies on the Toronto Stock Exchange (TSX) as measured by market capitalization. The DAX 30 is a Blue-Chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The CAC-40 Index is a narrow-based, modified capitalization-weighted index of 40 companies listed on the Paris Bourse. The FTSEurofirst 300 Index comprises the 300 largest companies ranked by market capitalisation in the FTSE Developed Europe Index. The U.S. Dollar Index measures the performance of the U.S. dollar against a basket of six currencies. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability and differences in accounting standards. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. MarketingPro, Inc. is not affiliated with any person or firm that may be providing this information to you. The publisher is not engaged in rendering legal, accounting or other professional services. If assistance is needed, the reader is advised to engage the services of a competent professional.

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