RAYMOND JAMES®

Economic Research
Published by Raymond James & Associates

Scott J. Brown, Ph.D., (727) 567-2603, Scott.J.Brown@RaymondJames.com

March 27 - 31, 2017

Weekly Economic Monitor

Coming Into View

Upcoming data reports will help to fill in the near-term picture of the economy, while developments in Washington will lead to a reassessment of the intermediate outlook.

As the first quarter of 2017 comes to a close, we have an incomplete picture of the economy. However, we'll get some fresh information in the next two weeks that will allow us to get a more accurate reading. Note that the advance estimate of 1Q17 GDP growth isn't due until April 28.

Consumer spending accounts for nearly 70% of GDP. February figures will arrive on Friday. Retail sales were reported to have risen modestly in February. However, the 1Q17 spending total is likely to be moderately strong, but slower than in 4Q16. Job and wage growth has been supportive, but gasoline prices have risen over the last year. While nominal average hourly earnings rose 2.8% year-over-year, but 0.0% after adjusting for inflation. In addition to reduced purchasing power, the household sector has also experienced delayed tax refunds, higher rents, and a reset of health insurance deductibles. As it is, February is a transitional month for the household sector. Many will pay down debt incurred during the holiday shopping season. Weather and seasonal adjustment can also distort the picture. Still, the fundamentals remain sound. Job data over the next few months will be an important gauge.

Business fixed investment appears to be trending at a moderately strong level. Orders and shipments of capital goods are trending higher, although orders may not be as robust as was hoped for earlier. Last year's bottoming in energy exploration has had a positive impact. Job losses from the energy contraction were severe in some areas of the country, but small on a national level. The bigger impact was on business investment. There's a lot of capital equipment in energy exploration. The contraction had a big impact on business fixed investment and, in turn, GDP growth. There is an interesting aspect to the energy recovery. Technology changes have led to fewer jobs being added. One technician can monitor and adjust multiple rigs. This is expected to be a theme in much of the goods-producing sector. Those hoping that manufacturing jobs will return are almost certain to be disappointed.

Foreign trade has been an important component of U.S. growth and a possible misstep remains one of the biggest risks going forward. At the recent meeting of G-20 central bankers and finance ministers, the U.S. pressured to remove language from the communiqué indicating that countries would resist protectionist efforts. Needless to say, this is not encouraging. Trump administration officials are reported to be divided sharply on foreign trade policy. The Wall Street types understand the importance of global trade and finance. The populists buy into the anti-trade rhetoric. Peter Navarro, who (despite having a Harvard Ph.D.) has been widely criticized for not understanding the elementary basics of foreign trade, is reported to have the president's ear. Disagreements are not unusual in the early months of a new administration, but the trade policy outlook remains very uncertain and that uncertainty could end up being a negative for the economy.

The stock market rallied following the election, presumably on the belief that a rollback in regulations, a large infrastructure program, and tax cuts would propel the economy forward. The relatively few naysayers were more cautious on two fronts. One was that economic growth would likely be restrained due to labor market constraints – a simple story of the demographics. Indeed, this appears to be the view of the Fed, where the median forecast for GDP growth is 2.1% for 2017 and 2018.

The other reason to be cautious on the Trump rally is that his agenda will be difficult to achieve. A rollback in regulation is easy enough. Congress doesn't need to rewrite regulations. The administration can simply put less effort into enforcing them. The $1 trillion infrastructure spending program seemed far-fetched, largely because, while needed, legislation will be difficult to get through the House (Democrats might go along if it were funded through tax increases, but that's unlikely). Tax reform is more problematic. A tax reform bill would require 60 votes in the Senate, which would mean getting at least eight Democrats on board. That's possible, but the end result would surely be watered down. Republicans could try to achieve tax reform through budget reconciliation (where only 51 votes are needed in the Senate), but they only get one extra item per year through budget reconciliation and they're using that for the ACA repeal. Moreover, there are a number of tax issues embedded in the ACA, which means that Republicans will have to get the repeal done before work can begin on tax reform. Lowering business taxes will reduce revenues. A Border Tax Adjustment would offset about half of that, but the idea has received a lot of pushback, first from the European Union, which has indicated that it would file a complaint before the World Trade Organization, and second, from U.S. businesses that import supplies and materials from the rest of the world (the Senate has gotten an earful on this and it hasn't been pretty).

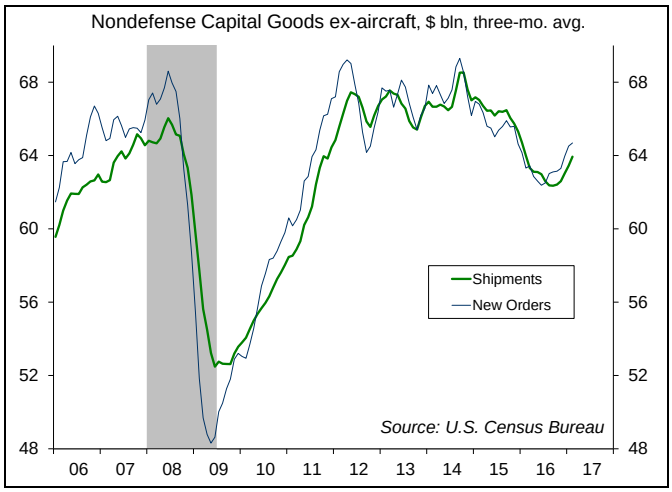
If the post-election rally has been based on the full Trump agenda eventually coming to pass, there will be disappointment. The failure of the ACA repeal casts even more doubt about the ability to get things done in Washington. If the stock market rally is based on other factors, we may not see much of an unwinding. Still, there is a lot of uncertainty in the outlook as one gazes ahead to the next several months.

© 2017 Raymond James & Associates, Inc., member New York Stock Exchange/SIPC. All rights reserved.
All expressions of opinion reflect the judgment of the Research Department of Raymond James & Associates, Inc. (RJA) as of the date stated above and are subject to change. Information has been obtained from third-party sources we consider reliable, but we do not guarantee that the facts cited in the foregoing report are accurate or complete. Other departments of RJA may have information that is not available to the Research Department about companies mentioned in this report. RJA or its affiliates may execute transactions in the securities mentioned in this report that may not be consistent with the report's conclusions.

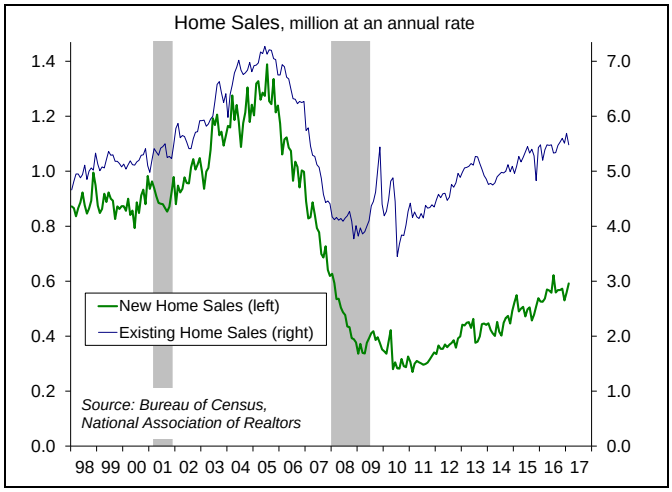
	Treasury Yields								Dollar				Equities		
	13-wk	26-wk	52-wk	2-yr	3-yr	5-yr	10-yr	30-yr	$/Euro	$/BP	JY/$	CD/$	NASD	SPX	DJIA
2/24/17	0.52	0.65	0.80	1.12	1.38	1.80	2.31	2.95	1.058	1.250	112.26	1.311	5845.31	2367.34	20821.76
3/17/17	0.73	0.87	1.00	1.33	1.60	2.03	2.50	3.11	1.074	1.237	112.67	1.337	5901.00	2378.25	20914.62
3/24/17	0.77	0.89	0.98	1.26	1.53	1.94	2.41	3.01	1.079	1.249	111.23	1.337	5832.86	2343.98	20596.72

Recent Economic Data and Outlook

The economic data were largely inconsequential. Home sales figures were mixed, but February is not a critical month anyway. Durable goods orders were largely in line with expectations. Investors were more concerned about what's happening in Washington. Failure to repeal/replace the Affordable Care Act would put the rest of the Trump agenda at risk.



Durable Goods Orders rose 1.7% in February, boosted by a 48% rise in civilian aircraft orders. Ex-transportation, orders rose 0.4%, mixed across industries (primary metals +2.3%, fabricated metals -0.4%, machinery +0.1%, computers and electronics -0.2%, electrical equipment and appliances +2.2%). Orders for nondefense capital goods excluding aircraft edged down 0.1%, following +0.1% in January – a +4.7% annual rate in the first two months of 1Q17, vs. +5.5% in 4Q16 and +4.8% in 3Q16. Shipments for this category rose 1.0% – a 6.1% annual rate in 1Q17, vs. +4.4% in 4Q16 and -3.9% in 3Q16. These data suggest that business fixed investment may make a moderately strong contribution to 1Q17 GDP growth, but the pace may be slowing.



Existing Home Sales fell 3.7% in February, to a 5.48 million seasonally adjusted annual rate (+5.4% y/y). Results were mixed across regions (-1.3% in the Northeast, -9.5% in the Midwest, -1.5% in the South, and +5.3% in the West). Unadjusted sales for the last three months were up 1.8% relative to the same months a year ago (single-family sales up 2.4% y/y).

New Home Sales rose 6.1% (reported ±17.3%) in February to a 592,000 seasonally adjusted annual rate (+12.8% ±18.0%y/y). Results were mixed across regions (-21.4% in the Northeast, +30.9% in the Midwest, +3.6% in the South, and +7.5% in the West). Unadjusted sales for the last three months were up 4.9% relative to the same period last year.

The **Current Account Deficit** decreased to $112.4 billion (2.4% of GDP) in 4Q16, vs. $116.0 billion (2.5% of GDP) in 3Q16. The trade deficit in goods widened to $132.3 billion (vs. $116.2 billion), while the trade surplus in services rose to $63.8 billion (vs. $62.4 billion). The surplus in investment income jumped to $61.5 billion (vs. $41.6 billion).

The **Chicago Fed National Activity Index**, a composite of 85 economic indicators (scaled to have a mean of zero and a standard deviation of one), rose to +0.34 in February, vs. -0.02 in January. The three-month average rose to +0.25, consistent with growth "somewhat above its historical trend," according to the Chicago Fed. A three-month average below -0.70 is consistent with a greater chance of having entered a recession – we are a long way from that currently.

Economic Outlook (2Q17): 2.0-2.5% GDP growth, following 1.0-1.5% growth in 1Q17 (reflecting a wider trade deficit and slower growth in inventories, but many pieces are still missing).

Employment: Job growth has remained relatively strong, although the pace should slow as the job market tightens.

Consumers: Job gains and wage growth are supportive, but purchasing power has decreased (gasoline prices). Debt levels are manageable, with few signs of strain in the aggregate.

Manufacturing: Improving in the near term, reflecting good weather, strengthening capital goods orders, and an improved global economic outlook.

Housing/Construction: Job growth has remained supportive, but higher home prices and higher mortgage rates are a restraint for first-time buyers. Tax cuts are expected to help fuel the demand for vacation homes and second homes.

Prices: Ex-food & energy, the PCE Price Index has continued to trend below the Fed's 2% target, but not by a lot. There is little inflation in consumer goods. Inflation in services has been boosted by higher rents. Wage gains are moderate, but rising.

Interest Rates: The Fed remains in tightening mode, and is expected to be more aggressive in raising rates in 2017 than in 2016 and 2015, but policy will remain data-dependent.

© 2017 Raymond James & Associates, Inc., member New York Stock Exchange/SIPC. All rights reserved.

This Week:					*forecast*	last	last –1	comments
Monday	3/27	1:00	Treasury Auction					$26 billion in 2-year notes
Tuesday	3/28	8:30	**Advance Econ Indicators**	Feb				filling in 1Q17 GDP picture
			Merch. Trade Balance, $bln		***NF***	-69.2	-64.4	sharply wider in January
			Wholesale Inventories		***NF***	-0.2%	+1.0%	auto inventories fell in Jan
			Retail Inventories		***NF***	+0.8%	0.0%	auto inventories jumped in Jan
		10:00	**CB Consumer Confidence**	Mar	***113.4***	114.8	111.6	moderating? (still strong)
		12:50	Yellen Speech					workforce development challenges
		1:00	Treasury Note Auction					$34 billion in 5-year notes
Wednesday	3/29	10:00	Pending Home Sales Index	Feb	***+2.8%***	-2.8%	+0.8%	likely to rebound
		11:30	FRN Auction					$13 billion in re-opened 2-year FRNs
		1:00	Treasury Note Auction					$28 billion in 7-year notes
Thursday	3/30	8:30	Jobless Claims, th.	3/25	***245***	261	246	some noise recently (likely weather)
		8:30	Real GDP (3rd estimate)	4Q16	***+1.9%***	+3.5%	+1.4%	+1.9% in advance and 2nd estimates
			Priv Domestic Final Purch		***+2.6%***	+2.1%	+2.4%	+2.6% in the advance estimate
Friday	3/31	8:30	Personal Income	Feb	***+0.5%***	+0.4%	+0.3%	good growth in wages and salaries
			Personal Spending		***+0.2%***	+0.2%	+0.5%	retail sales were soft
			PCE Price Index ex-f&e		***+0.2%***	+0.3%	+0.1%	core CPI rose 0.206%
		9:45	Chicago PM Index	Mar	***56.8***	57.4	50.3	choppy, but likely strong in February
		10:00	UM Consumer Sentiment	Mar	***97.2***	96.3	98.5	97.6 at mid-month
		12:00	Industrial Production					annual benchmark revisions
Next Week:								
Monday	4/03	10:00	Construction Spending	Feb	***NF***	-1.0%	+0.1%	should be higher
		10:00	**ISM Manf. Index**	Mar	***56.2***	57.7	56.0	moderately strong
		tba	Motor Vehicle Sales, mln	Mar	***NF***	17.5	17.5	depends on final weekend
			domestically built		***NF***	13.6	13.6	trend is flattening
Tuesday	4/04	8:30	Trade Balance, $bln	Feb	***NF***	-48.5	-44.3	seen wider in 1Q17
			goods only		***NF***	-69.7	-65.7	imports have been rising
		10:00	Factory Orders	Feb	***+0.9%***	+1.4%	+1.3%	durable goods orders reported up +1.7%
Wednesday	4/05	8:15	**ADP Payroll Estimate, th.**	Mar	***+180***	+298	+261	were Mar gains pulled into Feb?
		10:00	**ISM Non-Manf. Index**	Mar	***56.5***	57.6	56.5	moderately strong
		2:00	**FOMC Minutes**	3/15				looking for clues on possible June hike
Thursday	4/06	8:30	Jobless Claims, th.	4/01	***245***	***245***	261	still a low trend
Friday	4/07	8:30	**Nonfarm Payrolls, th.**	Mar	***+185***	+235	+238	seen somewhat slower
			private-sector		***+185***	+227	+221	still relatively strong
			Unemployment Rate		***4.7%***	4.7%	4.8%	seen steady or slightly lower
			employment/population		***60.0%***	60.0%	59.9%	trending gradually higher
			Avg. Weekly Hours		***34.3***	34.4	34.4	there may be some weather impact
			Avg. Hourly Earnings		***+0.3%***	+0.2%	+0.2%	moderate wage pressures

This Week…

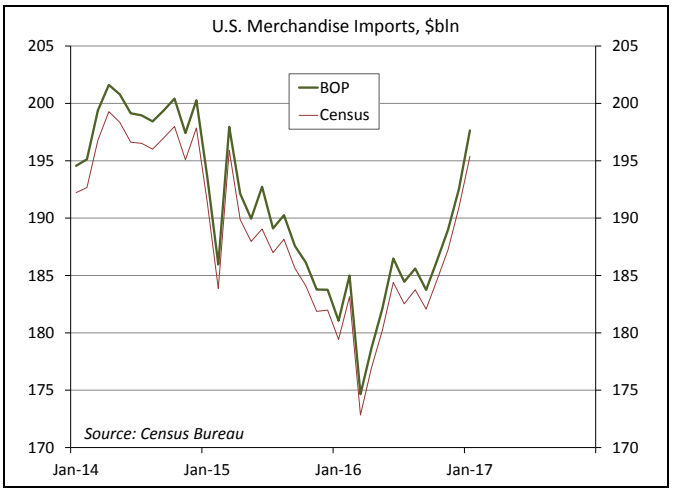
The third estimate of fourth quarter GDP arrives on Thursday, but that's "ancient history" as far as the markets are concerned. Some of this week's data (advance economic indicators, personal spending) will add detail to the first quarter GDP picture. Financial market participants are likely to reevaluate the prospects for the Trump fiscal policy agenda.

Monday

No significant data.

Tuesday

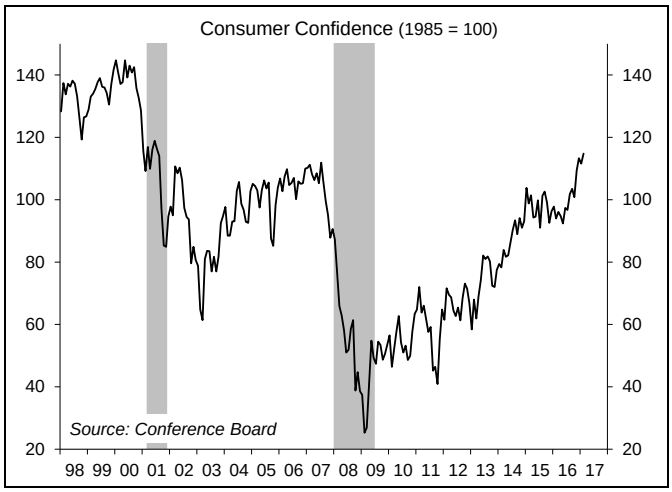
Advance Economic Indicators (February) – This report gets little attention from the financial markets, but it helps economic forecasters to fine-tune their GDP growth outlooks. The report includes advance estimates of merchandise trade and wholesale and retail inventories. January data showed a sharp rise in imports, which have a negative sign in the GDP calculation (that doesn't mean that imports are a drag on growth).



Consumer Confidence Index (March) – The Conference Board's measure has improved since the election, hitting a 15-year high. Job market perceptions have improved, with the percentage describing jobs as "hard-to-get" at the lowest level since 2007.

© 2017 Raymond James & Associates, Inc., member New York Stock Exchange/SIPC. All rights reserved.

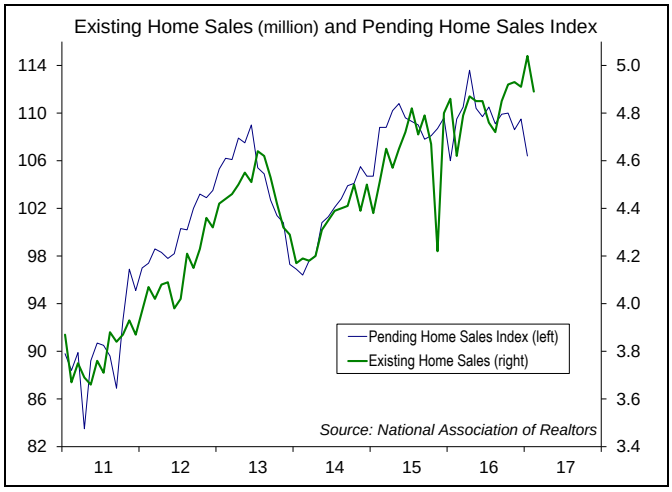
RAYMOND JAMES®



Yellen Speech (to National Community Reinvestment Coalition Annual Conference) – According to the Fed's website, the topic is "Addressing Workforce Development Challenges in Low-Income Communities." This should not be market-moving.

Wednesday

Pending Home Sales Index (February) – The PHSI (which measures initial transactions, such as a down payment or signed contract) fell sharply in January, and existing home sales (which measures closings) slipped in February. Housing figures are often choppy, especially in the early part of the year when seasonal adjustment can exaggerate weather effects. The PHSI should rebound in February, but constraints in the number of homes for sale and affordability issues may be dampening the pace as we head into the critical spring housing season.



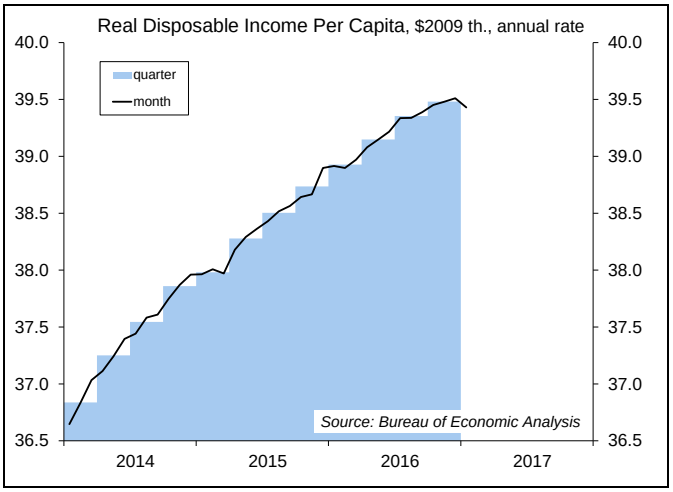
Thursday

Jobless Claims (week ending March 15) – Unadjusted claims have continued to trend below year-ago levels. Snowstorms may depress the total for the latest week.

Real GDP (4Q16, 3rd estimate) – This latest estimate of fourth quarter growth should be about the same as in the previous estimate (which also matched the advance estimate). The story beyond the numbers isn't going to change. It was a good quarter for consumer spending growth. Faster inventory growth added to 4Q16 GDP, while net exports subtracted.

Friday

Personal Income and Spending (February) – Personal income is expected to have picked up last month, led by gains in wages and salaries. The increase in gasoline prices (relative to a year ago) has reduced purchasing power. Retail sales were soft. Unit auto sales were flat (on a seasonally adjusted basis). Hence, consumer spending is expected to have risen modestly. It's only one month, and we should never put much weight on February figures (which are subject to weather effects and seasonal noise), but it appears likely that inflation-adjusted consumer spending (nearly 70% of GDP) will be a lot slower in 1Q17 (but still positive). Ex-food and energy, the PCE Price Index is expected to have risen moderately, consistent with inflation moving gradually toward the Fed's official 2% goal.



Next Week …

March economic figures will begin to roll in. The focus will be on the employment report. Note that mild weather may have pulled forward seasonal job gains that normally would have showed up in March (if so, the March payroll gain ought to be lower than it would be otherwise). Snowstorms may also have an impact on the headline payroll number. Yet, the broad range of labor market indicators continue to suggest strength.

Coming Events and Data Releases

April 14	Good Friday Holiday (markets closed) Consumer Price Index (March) Retail Sales (March)
April 28	Real GDP (1Q17, advance)
May 3	FOMC Policy Decision (no press conference)
May 5	Employment Report (April)
June 14	FOMC Policy Decision, Yellen press conference
July 26	FOMC Policy Decision (no press conference)
September 20	FOMC Policy Decision, Yellen press conference
November 1	FOMC Policy Decision (no press conference)
December 13	FOMC Policy Decision, Yellen press conference

© 2017 Raymond James & Associates, Inc., member New York Stock Exchange/SIPC. All rights reserved.