THE PERSONAL WEALTH COACH®

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Jeffrey W McClure CFP® *Jacob A McClure* CIMA®

PO Box 1029 / 918 N. Main Street
Salado, TX 76571

(254) 947-1111
(800) 914-7526

Serving Investors Since 1982

www.tpwc.com

jeff@tpwc.com jake@tpwc.com

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TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index (SPX) eked out a mere 0.20% gain for the week ending May 3 at 2945.64 despite some very positive economic news on the employment situation. That lack of enthusiastic reaction may be a result of the Index being up a whopping 17.5% so far this year with traders being a little frightened of that number. From last year at this time, the SPX has risen a very respectable 10.6%. The word on the street continues to be that the continued good news on the U.S. – China trade talks is driving the gains, but they are tempered until the final deal is done and announced.

The ten-year U.S. Treasury Note yield continued its contrary signals, dropping a meager 4/100 to 2.524%, down nearly a quarter percent in the last three months and 44/100 from a year ago. The yield curve continued to signal a downturn ahead with yields from two to five years significantly below those of the 90-day T-Bill. West Texas Crude Oil was down about half a percent to $61.84 but remains over 30% higher than last May. The WSJ Dollar Index slipped about 0.35% but is still up about 5.3% from a year ago.

The Economy

This week's headline economic news was that the U.S. hiring boom is back in gear. Our economy produced a net 263,000 new jobs in April as the official unemployment rate dropped to 3.6%, the lowest level since December 1969. The caveat to that number is that the percentage of Americans considered being in the labor force dropped by a half-million to 62.8%. In the same report, wages were noted as rising 3.2% from a year ago.

Since the end of World War II, an unemployment rate below 5% has generally caused wage growth to accelerate and that growth of spendable money has led to inflation as people have more money to spend on a limited number of products and services. Consumer spending, which composes about 2/3 of the economy, rose 1.2% in the first quarter, which equates to about a 4.9% annualized rate. An interesting blip occurred in April that may be an anomaly or a marker of things to come as spending jumped 0.9% in a month, the biggest monthly rise since 2009. April's rise would equate to an over 10% annualized wage growth rate.

In an economic expansion, consumers tend to first work on paying down debt from the last recession, then they tend to restock savings. As the economic expansion matures, consumers tend to then increase spending at a faster rate than wages. As that happens, employers begin to compete for workers and wages soar. Classical economic theory would put us at about that point now, and if April's growth in spending continues, then we could see inflation, now running at a somnolent 1.6%, start to rise in a few months. If that happens then it would indicate that things aren't really different this time from other expansions. It will also start the Federal Reserve cranking up interest rates again to head off inflation and start the process that traditionally led to the next recession.

The absence of significant inflation in this recovery has economists puzzled, but many think the new factor is to be found in ubiquitous internet accessibility. Stores are being forced to compete with online suppliers and the consumer can check a price in the store against online prices instantly. That lack of pricing ability has led stores to hold wages down and forced suppliers to do the same. Compounding the issue, the rising dollar has effectively cut prices on imported consumer items and many parts on U.S. manufactured goods. Supporting that argument is the fact that local services prices for things like plumbing and home repairs have indeed inflated as expected in the face of increased demand and limited supply. Another indicator is that worker productivity has suddenly risen as well, suggesting that more automation is being used to meet increasing demand.

Data on economic growth potential continued to be conflicting. Construction spending fell nearly 1% in March according to the Commerce Department. That puts the important construction spending number down 3.6% from March 2018, and critically, residential construction spending down 8.4%. Ironically, construction companies are almost universally complaining that they are limited by a shortage of workers.

In another signal that the economy may be at or nearly at full capacity, the ISM Manufacturing Index peaked at about 61 last August and has fallen to 52.8 as of April. Numbers above 50 indicate growth while those below 50 signal a decline. Importantly, the new orders index fell to 51.7. Manufacturing is still growing but the rate of growth has now been declining for eight months.

In short, the data suggest we are in a mature economy approaching the end-game for this expansion.

Until next week we remain your vigilant observers and analysts of things economic and investment-related.

Jeffrey W. McClure CFP®
M.S. Personal Financial Planning

Jacob A. McClure, CIMA®