THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index (SPX) gained a respectable 1.79% for the week ending September 6 to close at 2978.71. From this time last year that puts the market up 3.71%. Subtracting the last 12 month's inflation of 1.8% from the SPX return results in a real return of only 1.91%. The good news that appeared to send the market upward with a bang toward the end of the week was a combination of an announcement that the U.S. and China would resume trade negotiations and, in the reverse-logic so common in the stock market, an impressively underwhelming jobs report.

West Texas Intermediate oil (WTI) jumped upward with the stock market, rising 2.8% to close at $56.52 on hopes that the Federal Reserve will continue to cut interest rates for the rest of 2019. The surge of trade optimism even communicated itself to the bond market resulting in an end of week yield of 1.565%, up a tiny bit, for the U.S. ten-year Treasury note. Unfortunately, with the 90-day T-bill still yielding 1.971%, the historically prophetic Treasury yield curve was still severely inverted. Since we have had yield curves to measure, no inversion of this length and depth has failed to be accurate in predicting a recession 12-18 months later. Again, it is good to remember that in October of last year, the U.S. 10-year Treasury note yielded a healthy 3.263% and that yield has declined more than 50% since then. The bond market traders seem to be unanimous that the cause of the inverted curve and the severe drop in forecast loan demand has been the real and threatened trade war actions.

The Economy

As always, the monthly jobs report from the Labor Department was the headline grabber this week but the headlines were potentially misleading. The official news was that the U.S. economy added a reasonable, but not spectacular 130,000 jobs. The news behind the news was that about 27,000 of those new jobs were probably hiring by the Census Bureau as it spins up for next year's, constitutionally required count of the residents of these United States. "Real" employment growth of 100,000 would indicate that we have gone from a net employment growth to barely holding our own.

In another bit of good news, the Institute for Supply Management (ISM) reported that the service side of our economy increased its index reading to 56.4 for August, up from 53.7 in July. In an oddity that bears watching, while the ISM non-manufacturing survey results were extremely positive, the service-employment index declined from 56.2 to 53.1 while inventories grew from a reading of 50.0 (neutral) to 55.0. In all the readings, 50 is the delineation between growth and contraction. The underlying readings suggest that even in the services sector, inventory buildup may be driving the positive returns. That impression was compounded by the report that the backlog of orders index reading declined to 49. The distinct possibility exists that even the services side of the economy is surging in anticipation of increasing tariff cost for materials while companies involved are seeing a slowdown in future activity.

The same ISM organization reported on Thursday that America's manufacturing sector is likely in a recession. The ISM Manufacturing Index came in at 49.1, officially signaling a contraction. Inside the report, one of the more worrisome details was that manufacturers appear to be reducing employment, a reading of 47.4. As we have seen elsewhere, the respondents blamed the trade war. To put that reading in perspective, just before the threatened trade war with China became a real conflict, the Manufacturing Index stood just below 60, an indication of very healthy growth. The anecdotal comments from the respondents last September indicated nothing but good times for the next year or more.

In a separate report, the Bureau of Labor Statistics reported that manufacturing productivity *decreased* 2.2% in the second quarter as output slowed while the cost of labor increased. The shortage of skilled workers revealed itself in an increase of 2.6% in second-quarter labor costs across the economy. Another significant indicator surfaced as the four largest truck manufactures in the U.S. reported an 80% decline in new truck orders in July from a year earlier.

The bottom line appears to be that the U.S. economy is still growing but the growth rate is decelerating with each passing month and that deceleration started with the imposition of tariffs on Chinese goods. The Federal Reserve announced this week that the existing tariffs will subtract at least 1% per year from our GDP and if the promised future tariffs set to go into effect later this year, the subtraction will be greater. Barring a significant change in policy, the likelihood of a recession in late 2020 or early 2021 remains significant.

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