THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

Despite the exceptionally good news on the employment front, the S&P 500 Stock Index (SPX) limited its gain for the week ending December 6 to 0.16%. Early in the week, the index dropped substantially as the President indicated that there may not be a trade agreement of any kind until after the election, then bumped up as both the U.S. and Chinese trade offices announced that talks were on track. The final gain on Friday morning was with the Labor Department's announcement of an unexpectedly good jobs report.

The employment report buoyed the yield on the U.S. Treasury ten-year note to 1.844%, a rise of 4% from last week. The same tweets that dropped the stock market on Tuesday drove the note's yield down to 1.7% before it recovered late in the week on the employment news. West Texas Intermediate oil (WTI) joined in the surge of optimism as it rose 1.69% for the week to close at $59.11.

The Economy

The week's big news was that the U.S. economy added 266,000 jobs in November. About 41,000 of those new jobs were a result of the end of the General Motors strike, but the other 225,000 was a pretty impressive number. All those new jobs resulted in the unemployment rate dropping to 3.5% from last month's 3.6%, tying a record and the best we have seen in half a century. Job growth in 2019 has averaged 180,000 per month, compared with 223,000 in 2018, so the growth is slowing, but it is still good growth. The biggest non-strike related gains were in health care, professional and technical jobs, and in leisure and hospitality. The new employees appear to have come from previously discouraged and marginal workers who were either working part-time or sidelined for some reason. Wages, on an annualized basis, rose at a 3.1% rate.

One of the great economic mysteries we face is why we are not seeing wages rising faster. Inflation is running just under 2% per year, which means that real wages are only growing at about 1.3%. In every post-WWII expansion, as unemployment dropped to the low single digits a wage war cranked up with employers competing for employees and bidding wages up at ever-increasing rates. Those rising wages, in turn, drove inflation as there was more money to spend on the same number of products. In this expansion, neither wages nor inflation has risen in response to a shortage of employees.

Even as the good news from the labor market sends the signal that the U.S. economy is on firm footing, at the same time other signals suggest that there is an underlying weakness. About one-third of the companies in the S&P 500 stock index are reporting shrinking profits (earnings). That contraction has now been going on for most of 2019 and it matches the earnings pattern we saw in the one or two years prior to previous recessions. At least part of that contraction appears to be from corporations absorbing the extra cost of tariffs without raising consumer prices.

The Institute for Supply Management reported that the manufacturing sector of the economy scored a 48.1 on its Purchasing Managers Index. Anything below 50 means the business flow is shrinking. Construction spending, while still at a 1.1% higher level than this time last year, has declined for the past two months 0.3% and 0.8% respectively. Despite tariffs that were intended to help the metals industry, steel and aluminum foundries are laying off employees

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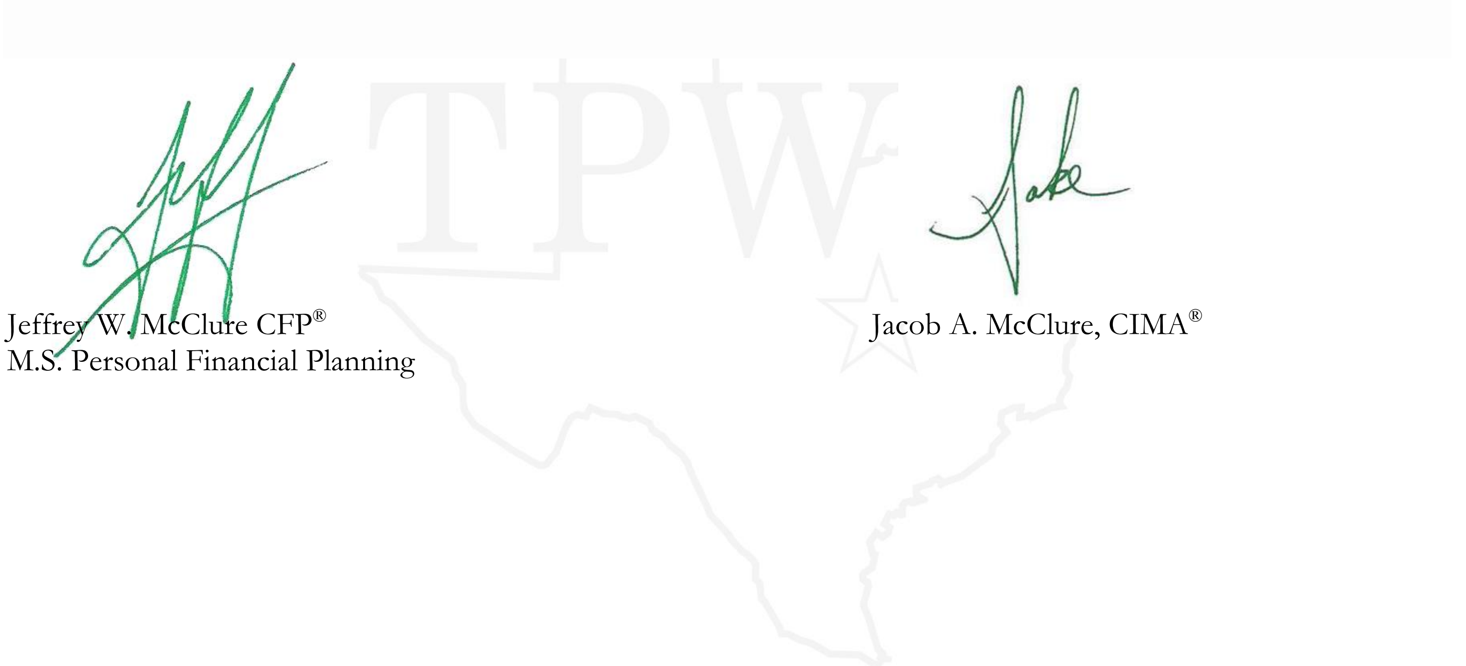
and some are being shut down. What is clear is that the American consumer is leading the economy and driving this economic expansion. The question is how long the consumer can be the only driving factor while the rest of the system is shrinking.

The tariffs may be working. American companies bought fewer Chinese made consumer goods in October than in recent months, but the drop may be caused by the heightened purchases made by U.S. firms in the months leading up to the current level of tariffs. Still, China remains by far the largest source of imported goods to the United States at 18.2% of imports. That activity has shown in the trucking industry where a year ago we had a critical shortage of trucks to move goods across the country while today there is excess capacity and a shrinking volume.

The signals in the economy remain conflicted with manufacturing, mining, and industries that make or grow things contracting while consumer spending continues to rise. In our experience, such a dichotomy is unlikely to persist, and something will need to change. Optimists are hoping for a new surge in growth while the more conservative analysts cannot see where the continued growth will come from.

Until next week, we remain at our posts, vigilantly watching the tea leaves of the economic data for signs of the future.



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