Economic highlights from the week ending on September 13, 2019

Treasury yields trended higher this week on more favorable trade developments and economic data. Consumer spending trends have remained resilient despite economic headwinds. In August, retail sales were stronger than expected, up 0.4% month-over-month versus the consensus forecast of 0.2%. On a year-over-year basis, retail sales were up 4.1% in August, versus 3.6% in July. According to the consumer credit report, revolving credit (credit card debt) rose $10.0 billion on July after falling $0.2 in June. Overall, consumer credit rose $23.3 billion in July, well above expectations of $16.1 billion. Consumer sentiment also picked up in the latest report for September, rising 2.2 points to 92.0. We believe a strong labor market and modest gas prices (average regular retail gas prices are down 10% year-over-year) have been a tailwind for consumer discretionary spending. Given that US GDP growth is largely fueled by consumer expenditures, this data bodes well for the overall economy.

Nevertheless, we continue to expect a rate cut at next week’s Federal Open Market Committee (FOMC) meeting. Inflationary pressures remain relatively benign despite an uptick in Core CPI to 2.4% year-over-year in August, versus 2.2% in July. Market-based measures of inflation remain low. The Fed’s 5-year forward break-even inflation rate is currently about 1.62%, down from 2.08% at this time last year. Although we anticipate that policymakers will debate the need for a cut, we believe the majority of voting FOMC members will support adding further monetary policy accommodation in an effort to sustain the economic expansion, particularly as inflation expectations remain muted. Notably, the European Central Bank (ECB) announced yesterday that they will restart quantitative easing by purchasing 20 billion euros’ worth of bonds, or $22 billion, every month starting in November. They also lowered the deposit rate by 10 basis points to a new low of -0.50%. The ECB is committed to keep interest rates low until the inflation outlook begins to approach their 2.0% target.

Next Week

Empire State Manufacturing, Industrial Production, Housing Market Index, Housing Starts, FOMC Meeting, Philly Fed, Existing Home Sales, Leading Indicators