

Where's the Recession?

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Whatever happened to the recession calls?

Seems like just a few weeks ago that the correction in the stock market as well as the partial government shutdown had convinced many analysts and investors the US was about to enter a recession.

Fortunately, the data haven't cooperated. Ten days ago we got the employment report for January, which showed a payroll increase of 304,000 and the highest share of adults working since 2008. Yes, February has seen both initial and continuing unemployment claims average higher than in January, but only slightly. In other words, job growth looks set to continue shutting down economic naysayers.

Meanwhile, the ISM Manufacturing index, which had moved down to a still-solid 54.3 in December, rebounded to a robust 56.6 for January. Traditionally, this measure needs to fall to 45.0, or below, to signal a US recession, and we're not even close. The ISM Non-Manufacturing (services sector) index fell to 56.7 in January, which is still robust relative to historical standards. And that index, compared to the one for manufacturing, tends to be more sensitive to temporary shifts in sentiment rather than changes in underlying business activity.

Last week we started clearing out some of the major backlog of government economic data created by the partial shutdown, including the report on international trade which showed a much smaller trade deficit than anticipated. This further strengthens our expectation that the economy grew at a 2.5% annual rate in the fourth quarter of last year and will

continue to grow at around that pace in the first quarter of 2019.

This week, we'll get several reports to keep an eye on. In particular, we'll finally find out about retail sales in December and also get industrial production in January, both of which play key roles in estimating real GDP growth.

Superficially, we're not optimistic about retail sales, estimating that they were unchanged for the month. But that was back in December when gas prices were plummeting. Excluding gas, retail sales were likely OK. Industrial production comes out Friday and we expect a modest increase of 0.2%. If we're right, that'll mean production is up about 4.5% from a year ago, another sign we're nowhere close to recession.

And in the meantime, we continue to get reports on corporate profits as well as forward guidance. Profits compared to a year ago are doing well; estimates for the future, not so much. But those estimates for the future appear excessively pessimistic. The recession many anticipated isn't happening and consumers and businesses have plenty of purchasing power, which means top-line growth should offset any pressure on margins.

In addition, the power of improved incentives has only begun to play out. Dropping the corporate tax rate to 21% from 35% means companies have more reason to shift operations to the US. But these shifts take time and it's only been a year.

Those predicting the next recession are going to be waiting for a while before they finally get one "right."

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
2-13 / 7:30 am	CPI – Jan	+0.1%	+0.1%		0.0%
7:30 am	“Core” CPI – Jan	+0.2%	+0.2%		+0.2%
2-14 / 7:30 am	Initial Claims – Feb 9	225K	224K		234K
7:30 am	PPI – Jan	+0.1%	+0.1%		-0.2%
7:30 am	“Core” PPI – Jan	+0.2%	+0.1%		-0.1%
7:30 am	Retail Sales – Dec	+0.1%	0.0%		+0.2%
7:30 am	Retail Sales Ex-Auto – Dec	0.0%	-0.2%		+0.2%
9:00 am	Business Inventories	+0.2%	+0.2%		+0.6%
2-15 / 7:30 am	Export Prices – Jan	-0.1%	-0.1%		-0.6%
7:30 am	Import Prices – Jan	-0.1%	-0.2%		-1.0%
7:30 am	Empire State Mfg Survey – Feb	7.0	16.7		3.9
8:15 am	Industrial Production – Jan	+0.1%	+0.2%		+0.3%
8:15 am	Capacity Utilization – Jan	78.7%	78.8%		78.7%
9:00 am	U. Mich Consumer Sentiment- Feb	93.5	92.0		91.2