RAYMOND JAMES

Economic Research
Published by Raymond James & Associates

Scott J. Brown, Ph.D., (727) 567-2603, Scott.J.Brown@RaymondJames.com

May 22, 2017

Weekly Economic Monitor

And if You Try Sometimes…

Following the election, stock market participants gained optimism on the view that the new administration would push through a reduction in regulations, sharply boost infrastructure spending, and achieve broad tax reform. Developments last week suggested that the Trump agenda was at risk. However, even with one-party control in Washington, it was always going to be an upward battle to get things done. Moreover, even if the full legislative agenda were to be achieved, economic growth would surely be restrained by the demographics.

Prior to his dismissal, FBI Director Comey was investigating ties between the Trump campaign and Russia. The day after his firing, Trump met with Russian officials in the oval office, where he has been accused of sharing "highly classified" information (that's not necessarily illegal, but it doesn't look good). While the administration put forth a number of reasons for Comey's firing, the president admitted a couple of days later (on TV) that Comey was let go due to "the Russia thing." President Trump has refuted the claim of Russian ties with his campaign and called the investigation "a witch hunt," which, coincidentally, is the same phrase Richard Nixon used at the start of the Watergate investigation (you can't make this stuff up). Critics of the president charge that Comey's firing was obstruction of justice, which Trump appeared to admit to on live TV.

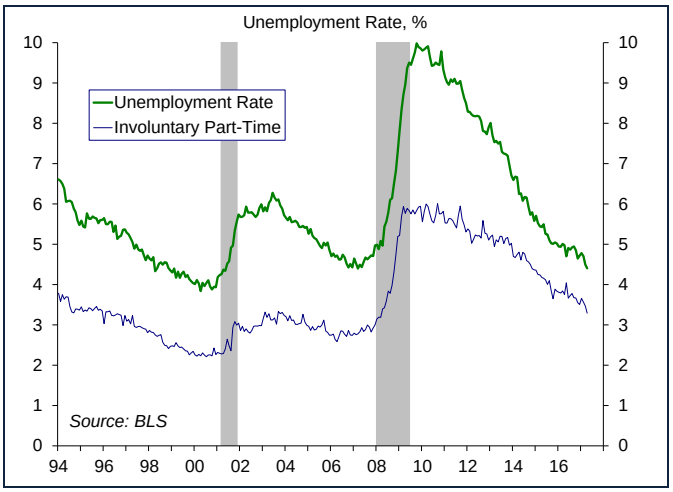
Is it too soon to talk about impeachment? That's a rhetorical question, as people have already been discussing the possibility. The proper question is whether impeachment is likely. Recall that the House of Representatives needs only a simple majority to impeach. That means he would be put on trial in the Senate, where a two-third majority would be needed to remove him from office. At present, this doesn't seem likely. Impeachment is essentially political, drawn along party lines. Andrew Johnson and Bill Clinton were both impeached. Neither was removed from office by the Senate (Johnson came close with a margin of a signal vote, 35-19, and Clinton was acquitted on two charges, 45-55 and 50-50). Nixon would have almost certainly been impeached, but resigned before that could happen.

While impeachment doesn't appear to be likely anytime soon, the investigation will consume much of the oxygen on Capitol Hill over the next several months. Robert Mueller, who was confirmed as FBI Director by a Senate vote of 98-0 and served 12 years, has only just been appointed as special counsel. He will have to hire a team, find a secure location to conduct the investigation, and so on. Hearings will come later, if at all.

Stock market participants were only briefly sidelined by last week's developments, still believing that the Trump agenda is intact. However, things are never easy in Washington.

As noted previously on these pages, infrastructure spending costs money and House members are unlikely to want to add to the budget deficit (except where tax cuts are concerned). Broad tax reform is virtually impossible, as nobody wants to get rid of their tax deductions. If you can't pay for tax cuts by eliminated deductions, how about a border tax? That is dead on arrival, as it would prove extremely disruptive to supply chains. Lower tax rates are still possible (and likely), but on a much smaller scale than was hoped for previously. A tax holiday on foreign earnings is also possible, but studies show that when this was done during the Bush administration, the vast majority went to dividends or stock buybacks, and not to capital investment.

Still, even if the full Trump agenda were to be enacted, the economy is facing increased constraints in the labor market. Labor force growth is currently less than a third of what it was a few decades ago. So, unless we increase immigration or are able to sustain an unprecedented increase in productivity growth, the underlying trend growth in GDP will be limited. Granted, there may be greater slack in the job market than there appears. If that's the case, GDP growth could pick up over a few quarters, but limits will eventually be reached, leaving growth near its long-term trend (1.5-2.0%, depending on the underlying pace of productivity growth).



For the Fed, the tighter job market is the main factor in moving toward a more neutral policy. The inflation outlook, the other key factor, remains moderate, with mixed pressures.

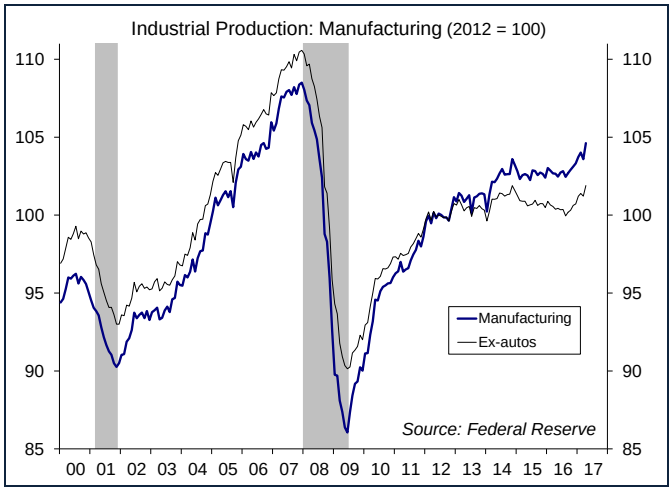
Investors who expect that the full Trump agenda will be enacted, lifting the pace of growth, will be disappointed. Yet, while slower than in previous decades, GDP growth is still expected to remain positive. Without any sense of irony, Trump campaign events (before and after the election) ended with the Rolling Stone's "You Can't Always Get What You Want." And, indeed, if you try sometimes, you get what you need.

International Headquarters: The Raymond James Financial Center | 880 Carillon Parkway | St. Petersburg, Florida 33716 | 800-248-8863

	Treasury Yields								Dollar				Equities		
	13-wk	26-wk	52-wk	2-yr	3-yr	5-yr	10-yr	30-yr	$/Euro	$/BP	JY/$	CD/$	NASD	SPX	DJIA
4/21/17	0.81	0.98	1.06	1.25	1.44	1.81	2.30	2.96	1.069	1.278	109.08	1.350	5910.52	2348.69	20547.76
5/12/17	0.88	1.03	1.11	1.29	1.49	1.85	2.33	2.98	1.093	1.288	113.30	1.372	6121.23	2390.90	20896.61
5/19/17	0.91	1.02	1.09	1.27	1.45	1.78	2.24	2.89	1.120	1.303	111.24	1.351	6084.51	2381.73	20804.84

Recent Economic Data and Outlook

The financial markets finally showed interest in the White House / Russian scandal, but reaction (lower share prices, reduced Fed rate hike odds) lasted for only one session.



President Trump was reported to have asked then-FBI Director Comey to abandon the investigation of ties between General Flynn, the National Security Advisor, and Russia (President Trump denies that this happened, calling the investigation "a witch hunt"). The Department of Justice appointed former FBI Director Robert Mueller as special counsel to investigate.

Industrial Production rose 1.0% in April (+2.2% y/y). Manufacturing output rose 1.0% (vs. -0.4% in March, +1.9% y/y), reflecting a 5.0% rebound in auto production (-3.6% in March, +4.0% y/y). Ex-autos, factory output rose 0.7% (-0.2% in March, +1.5% y/y). Results were mixed across sectors.

Building Permits fell 2.5% (±1.1%) in April, to a 1.229 million seasonally adjusted annual rate (+5.7% y/y). Single-family permits, the key figure in the report, fell 4.5% (+6.2% y/y), mixed across regions (-1.9% in the Northeast, -3.1% in the Midwest, -7.9% in the South, +2.1% in the West). Unadjusted permits for February-April rose 4.2% from the same period a year ago (single-family +7.3%, multi-family -1.6%). **Housing Starts** fell 2.6% (±8.8%), to a 1.172 million pace (+0.7% y/y).

Homebuilder Sentiment edged up to 70 in May, vs. 68 in April and 71 in March.

The New York Fed's **Empire State Manufacturing Index** fell below the breakeven level, to -1.0 in May, vs. 5.2 in April and 16.4 in March. The **Philadelphia Fed Index** jumped to 38.8 in May, vs. 22.0 in April and 32.8 in March.

Jobless Claims edged down to 232,000 in the latest week, with the four-week average at 240,750 (vs. 275,000 a year ago).

The Conference Board's Index of **Leading Economic Indicators** rose 0.3% in April. Positive contributions were led by the yield curve, a drop in jobless claims, improved consumer expectations, and a longer factory workweek. The only significant drag was from a decline in building permits.

Retail Sales rose 0.4% in April (+4.5% y/y), a little less than anticipated (median forecast: +0.6%), but March figures were revised higher (making it about a wash relative to expectations, but also seen boosting the 1Q17 GDP estimate). Ex-autos, sales rose 0.3% (also with an upward revision to March). Core sales, which exclude autos, building materials, and gasoline, rose 0.2%, (+3.1% y/y), vs. +0.6% in March (revised from +0.4%).

The **Consumer Price Index** rose 0.2% in April (+2.2% y/y), up 0.1% (+1.9% y/y) ex-food & energy. Ex-food, energy, and shelter, the CPI fell 0.1% in April (+0.8% y/y). Ex-food & energy, consumer goods fell 0.2% (-0.6% y/y), while non-energy services rose 0.1% (+2.7% y/y). Owners' Equivalent Rent (24.5% of the CPI) rose 0.2% (+3.4% y/y), while rent (7.9% of the CPI) rose 0.3% (+3.8% y/y). Wireless telecom services (1.6% of the CPI) fell 1.7% (following a 7.0% plunge in March, down 12.9% y/y).

Real Hourly Earnings edged up 0.1% in April (+0.4% y/y). For production workers, real earnings were flat (+0.1% y/y).

The **Producer Price Index** rose 0.5% in April (+2.5% y/y), up 0.4% (+1.9% y/y) ex-food & energy. Ex-food, energy, and trade services, the PPI rose 0.7% (+2.1% y/y). Intermediate gauges showed mixed inflation pressures within the pipeline.

Economic Outlook (2Q17): 3.0-3.5% GDP growth, partly reflecting a rebound in inventory growth.

Employment: Job growth has remained relatively strong, although the pace should slow as the job market tightens.

Consumers: Job gains and wage growth are supportive, but purchasing power has decreased (gasoline prices). Debt levels are manageable, with few signs of strain in the aggregate.

Manufacturing: Improving in the near term, reflecting good weather, strengthening capital goods orders, and an improved global economic outlook.

Housing/Construction: Job growth has remained supportive, but higher home prices and higher mortgage rates remain restraints for first-time buyers.

Prices: Ex-food & energy, the PCE Price Index has continued to trend below the Fed's 2% target. There is little inflation in consumer goods. Inflation in services has been boosted by higher rents. Wage growth has been moderate.

Interest Rates: The Fed remains in tightening mode, and is expected to be more aggressive in raising rates in 2017 than in 2016 and 2015, but policy will remain data-dependent.

This Week:					*forecast*	last	last –1	comments
Monday	5/22		no significant data					
Tuesday	5/23	10:00	**New Home Sales, th.**	Apr	***610***	621	587	these data are choppy
			% change		***-1.8***	+5.8	+0.3	trend is higher
		1:00	Treasury Note Auction					$26 billion in 2-year notes
Wednesday	5/24	10:00	**Existing Home Sales, mln.**	Apr	***5.65***	5.71	5.47	still strong
			% change		***-1.1***	+4.4	-3.9	late Easter may distort
		11:30	FRN Auction					$13 billion in re-opened 2-year FRNs
		1:00	Treasury Note Auctions					$34 billion in 5-year notes
		2:00	**FOMC Minutes**	5/03				any new clues?
Thursday	5/25	8:30	Jobless Claims, th.	5/20	***242***	232	236	a continued low trend
		8:30	Advance Econ Indicators	Apr				whsale/retail inventories, merch. trade
		1:00	Treasury Note Auction					$28 billion in 7-year notes
Friday	5/26	8:30	**Real GDP (2nd estimate)**	1Q17	***+0.9%***	+2.1%	+3.5%	+0.7% in the advance estimate
			Private Dom Final Purchases		***+2.3%***	+3.4%	+2.4%	+2.2% in the advance estimate
		8:30	**Durable Goods Orders**	Apr	***-1.8%***	+0.9%	+2.4%	Boeing reported fewer orders
			ex-transportation		***+0.5%***	-0.0%	+0.8%	moderate
			nondef cap gds ex-aircraft		***+0.4%***	+0.5%	+0.1%	moderate
		10:00	UM Consumer Sentiment		***97.3***	97.0	96.9	97.7 at mid-month
		2:00	SIFMA: early bond close					NYSE open for the full session
Next Week:								
Monday	5/29		Memorial Day					markets closed
Tuesday	5/30	8:30	Personal Income	Apr	***+0.5%***	+0.2%	+0.3%	led by a rebound in wage income
			Personal Spending		***+0.3%***	0.0%	0.0%	some pick up (March likely revised up)
			PCE Price Index ex-f&e		***+0.1%***	-0.1%	+0.2%	core CPI rose 0.071%
		10:00	CB Consumer Confidence	May	***117.4***	120.3	124.9	losing some luster, still high
Wednesday	5/31	9:45	Chicago Business Barometer	May	***NF***	58.3	57.7	relatively strong
		10:00	Pending Home Sales Index	Apr	***NF***	-0.8%	+5.5%	choppy, trend is higher
		2:00	**Fed Beige Book**					job market getting tighter
Thursday	6/01	8:15	**ADP Payroll Estimate, th.**	May	***+170***	+177	+255	moderate
		8:30	Jobless Claims, th.	5/27	***240***	***242***	232	still a low trend
		10:00	Construction Spending	Apr	***NF***	-0.2%	+1.8%	residential lower
		10:00	**ISM Manf. Index**	May	***54.5***	54.8	57.2	moderate
		tbd	Motor Vehicle Sales, mln	May	***NF***	16.8	16.5	depends on final weekend
			domestically built		***NF***	13.1	13.0	trend has softened
Friday	6/02	8:30	**Nonfarm Payrolls, th.**	May	***+175***	+211	+79	subject to some seasonal noise
			3-month average			+174	+176	a moderately strong trend
			private-sector		***+170***	+194	+77	uneven in March and April
			3-month average			+164	+168	a moderately strong trend
			Unemployment Rate		***4.4%***	4.4%	4.5	seen steady
			employment/population		***60.3%***	60.2%	60.1%	trending gradually higher
			Avg. Weekly Hours		***34.4***	34.4	34.3	steady
			Avg. Hourly Earnings		***+0.2%***	+0.3%	+0.1%	moderate
		8:30	Trade Balance, $bln	Apr	***NF***	-43.7	-43.8	seen a bit wider
			goods only		***NF***	-65.5	-65.2	seen a bit wider

This Week…

Monthly home sales figures are choppy, but the underlying trends should remain consistent with gradual improvement in the housing sector. Note that mild weather in February and March may have pulled forward some seasonal activity which otherwise would have occurred in April. The FOMC minutes are likely to provide few new clues, but the markets could easily react to any quotes taken out of context. The estimate of first quarter GDP growth should be revised higher, but there's a lot of uncertainty (figures will be revised again next month). The durable goods report should help in gauging whether the first quarter pickup in business fixed investment will continue into 2Q17. The bond market will close early on Friday.

Monday

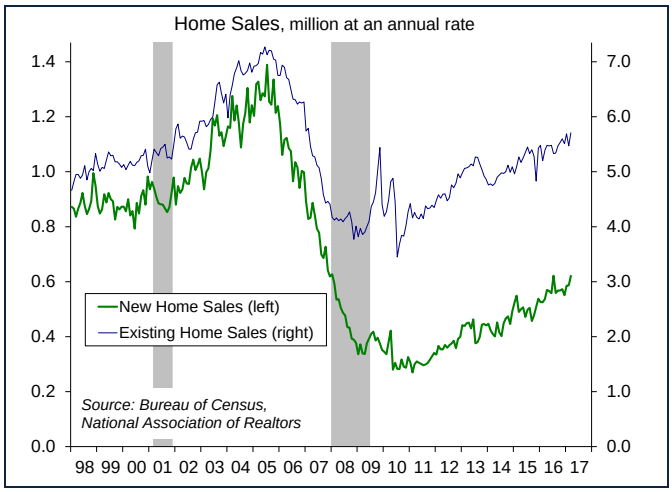
No significant data.

Tuesday

New Home Sales (April) – Sales (which measure initial transactions) were reported to have risen by "5.8% ±15.5%" in March. For those who slept through their statistics class, that means we can be 90% certain that the true monthly change was between -9.7% and +21.3%. Hence, one should take the headline number with a grain of salt. To reduce the impact of statistical noise, look at the three-month average, which should show an improving trend. Note that the data are adjusted for the late Easter, but it's hard to get that right.

Wednesday

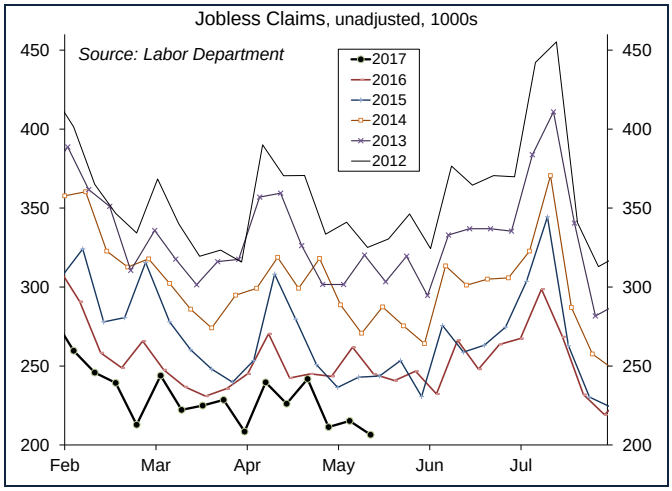
Existing Home Sales (April) – Existing home sales, which measure closings, are less volatile than new home sales, but seasonal adjustment difficulties can generate noise. The fundamentals (good job growth, low mortgage rates) remain favorable.



FOMC Minutes (May 2-3) – Not much seemed to happen at the May policy meeting. We had no revised economic projections, no new dot plot, and no Yellen press conference. In the policy statement, the FOMC recognized that growth slowed in 1Q17, but viewed that as "likely to be transitory." The minutes may show a further discussion of the Fed's portfolio reinvestment policy, which is widely expected to end later this year.

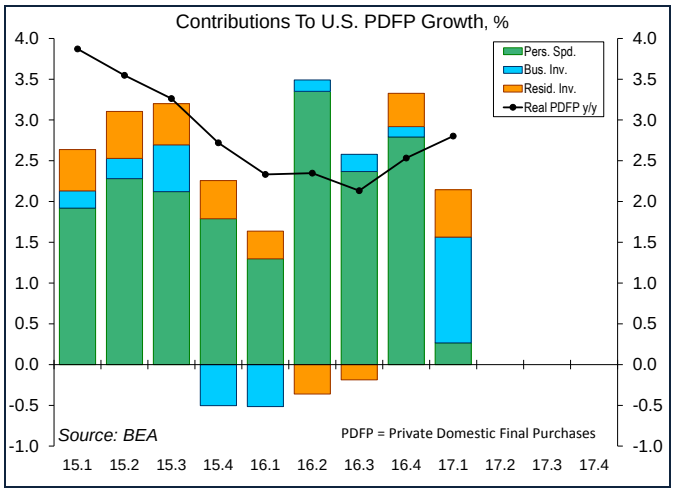
Thursday

Jobless Claims (week ending May 20) – Claims may be subject to additional noise as the school year ends. However, unadjusted figures have been trending well below year-ago levels, consistent with a further tightening in labor market conditions.

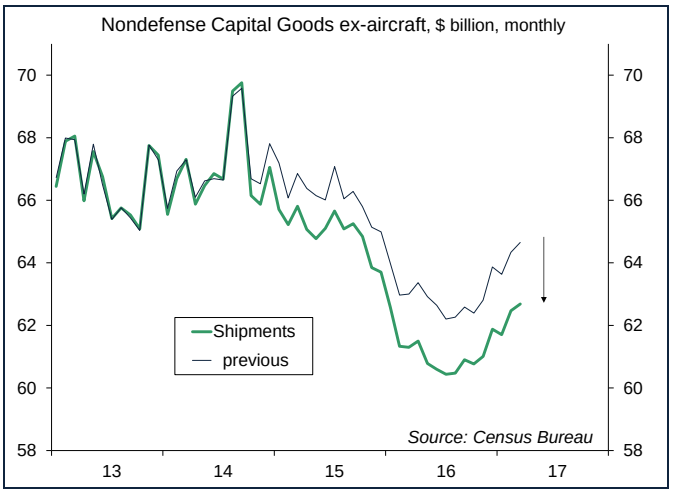


Friday

Real GDP (1Q17, revised) – Component revisions, while mixed, suggest that the estimate of first quarter growth will be revised higher. The story isn't expected to change much. Consumer spending growth should be a little higher. Business fixed investment rose sharply in the initial estimate, so it wouldn't be unusual to see a downward revision there.



Durable Goods (April) – The annual benchmark revision (May 18) showed a sharper decrease in capital goods orders and shipments into 2016, but recent improvement remained intact (albeit at a lower level than estimated previously). Boeing reported lower orders for April.



Next Week …

Monday's a holiday. Fed officials are not going to put much weight on any one piece of data, but the May Employment Report is seen as a key factor in the June 14 policy decision.

Coming Events and Data Releases

June 5	ISM Non-Manufacturing Index (May)
June 14	Retail Sales (May) Consumer Price Index (May) FOMC Policy Decision, Yellen press conf.
June 15	Industrial Production (May)
July 4	Independence Day (markets closed)
July 26	FOMC Policy Decision (no press conf.)
September 20	FOMC Policy Decision, Yellen press conf.
November 1	FOMC Policy Decision (no press conf.)
December 13	FOMC Policy Decision, Yellen press conf.