WEEKLY
Economic Commentary

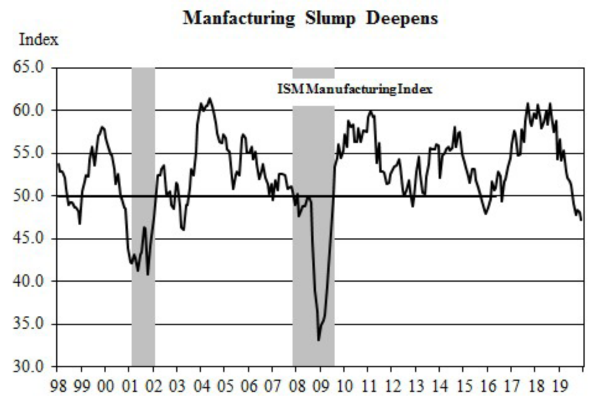
January 3, 2020

Millennium
CORPORATE CREDIT UNION

The new year got off to a rollicking start, as investors were whipsawed by positive and negative news. Initially, it looked like the stock market was ringing in 2020 on a strong note, building on the stellar gains posted last year. The first trading day of the year saw equity prices surge in response to favorable trade news (an official signing of the Phase 1 trade deal with China was set for January 15) and reports that China would be unleashing new monetary stimulus to jump start growth in its slowing economy. These developments raised hopes that the two major headwinds from last year - escalating trade tensions and slowing global growth - would abate and clear the way for the U.S. economy to extend its record-long expansion through the twelfth year.

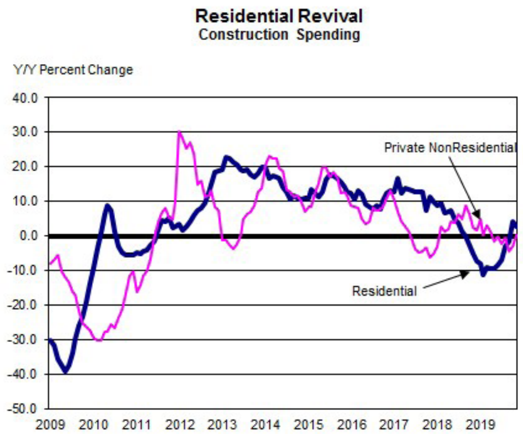
But investors received a rude awakening on Friday, as the deadly U.S. bombing in Iraq heightened fears of renewed geopolitical tensions in the Middle East that would ripple through the U.S. economy, stoking higher oil prices and more uncertainty in the financial markets. Stocks swiftly gave back a big chunk of the previous day's gains, as investors fled to the safety of bonds and gold. Oil and gold prices surged on Friday and bond yields tumbled, with the 10-year Treasury yield sliding below 1.80 percent from a five-month high of 1.94 percent at the start of trading on Thursday, a substantial move in less than two days.

It remains to be seen how the latest market-shattering events on the geopolitical front will play out. Barring an escalation of hostilities in coming days and weeks, investors will turn their attention back to the U.S. economy, where its weaknesses and strengths became more pronounced at the end of last year. Most notably, the manufacturing slump deepened in December as Friday's report by the Institute for Supply Management revealed that its index of manufacturing activity fell to the lowest level since June 2009 during the month. The overall index tumbled 0.9 points to 47.2, which was the fifth consecutive month it held below the 50 threshold that separates expansion from contraction. The low reading strongly suggest that manufacturers continue to struggle in the face of persistent challenges that include weak global growth, trade policy uncertainty and the strong dollar.



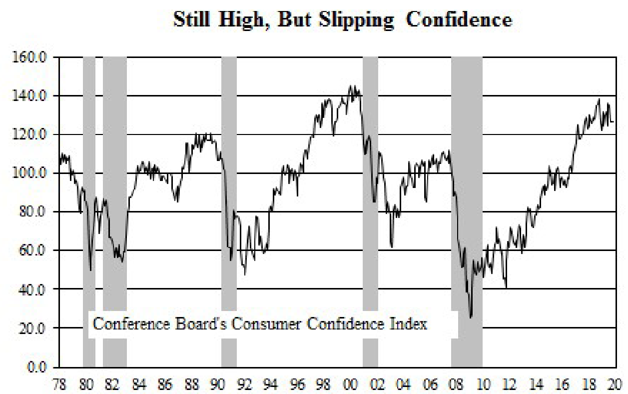
Ironically, the flare-up in Middle East tensions could actually give a boost to manufacturing activity if it spurs a sustained elevated level of oil prices. Following the deep slide that occurred in 2015, oil prices have remained at depressed levels and eviscerated oil-drilling activity in the U.S., sapping considerable strength from energy-related investment spending that rippled through the industrial sector. A sustained higher level of oil prices would spur oil companies to resume drilling activity and help reverse that trend. However, even with the latest increase, crude oil prices at $63 a barrel on Friday remain well below the near $100/barrel that prevailed for much of the time between 2011 and 2015, which stoked the energy-related spending boom of that period. So there is a ways to go before oil companies are motivated to resume drilling activity on a much larger scale.

Meanwhile, even as the slump in manufacturing activity depressed nonresidential construction spending last year, low mortgage rates and a solid job market breathed new life into residential activity. Following five consecutive quarters of decline, residential spending finally perked up in the third quarter, as builders responded to mounting demand for new and existing homes. The latest data on construction activity indicate that the rebound extended into the fourth quarter; indeed, residential outlays should make an even larger contribution to GDP this quarter than in the third. On Friday, the Commerce Department reported that residential construction spending increased by a solid 1.6 percent in November, lifting the total about 3.0 percent above its year-earlier level. Earlier this year, these outlays were in a sharp decline, plunging at more than a 10 percent annual pace.



Conversely, private nonresidential construction spending is languishing, falling by 1.2 percent in November. Outlays in most of the largest categories are contracting, including a 2.4 percent fall in spending on manufacturing buildings. This divergence in construction activity should continue this year, with the residential market remaining on an upward trend and nonresidential activity continuing to struggle. One bright spot for the industry, aside from the improving housing metrics, is coming from the public sector, as both the Federal and state and local governments are spending more on structures. In November, total public construction spending increased by a sturdy 0.9 percent, with Federal outlays up 1.7 percent and state and local outlays, which account for the bulk of public construction spending, up by 0.8 percent.

The scant batch of data on manufacturing and construction this week mirrors broader trends in the economy over the past year that should continue in 2020. Simply put, the economy has been riding the coat tails of consumers, which are expected to be the main driving force this year. Thanks to a robust job market, rising incomes and muscular wealth gains, underpinned by appreciating stock and home values, consumer confidence remains elevated, which is a good sign that households will keep their wallets and purses open for at least the foreseeable future. That said, confidence levels, as measured by the Conference Board, did slip a bit in December, dragged down by eroding expectations about job market conditions six months from now. While we expect that consumers will continue to drive the economy forward this year, the growth rate in personal consumption should slow from last year, reflecting weaker employment and income gains. The government's jobs report next Friday will provide some clue as to whether reduced household expectations regarding labor market conditions received any validation from activity in December. Stay tuned.



KEY FINANCIAL & ECONOMIC INDICATORS

FINANCIAL INDICATORS

INTEREST RATES	January 3	Week Ago	Month Ago	Year Ago
3-month Treasury bill	1.53%	1.56%	1.52%	2.42%
6-month Treasury bill	1.55	1.59	1.55	2.51
3-month LIBOR	1.90	1.96	1.89	2.8
2-year Treasury note	1.53	1.58	1.63	2.5
5-year Treasury note	1.59	1.68	1.67	2.5
10-year Treasury note	1.79	1.88	1.84	2.67
30-year Treasury bond	2.25	2.32	2.28	3.0
30-year fixed mortgage rate	3.72	3.74	3.68	4.51
15-year fixed mortgage rate	3.16	3.19	3.14	3.99
5/1-year adjustable rate	3.46	3.45	3.39	3.98
STOCK MARKET				
Dow Jones Industrial Average	28634.88	28645.26	28015.06	23433.16
S&P 500	3234.85	3240.02	3145.91	2531.94
NASDAQ	9020.77	9006.62	8656.53	6738.86
Commodities				
Gold ($ per troy ounce)	1551.50	1515.60	1464.60	1286.20
Oil ($ per barrel) - Crude Futures (WTI)	62.99	61.72	59.13	48.30

ECONOMIC INDICATORS

	Latest Month/Quarter	Previous Month/Quarter	Two-Months/ Quarters Ago	Average-Past 6 Months or Quarters
Consumer Confidence Index (December)	126.5	126.8	126.1	129.3
ISM Manufacturing Index (December)	47.2	48.1	48.3	48.6

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