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Week in Review

January 31, 2020

GDP

U.S. GDP rose at a 2.1% rate in the fourth quarter, as expected. The economy grew 2.3% in 2019. Foreign trade accounted for about 1.5 percentage points of Q4 GDP growth, as exports rose and imports fell sharply. Government consumption rose 2.7%, also adding to GDP. Private consumption rose 1.8%, less than expected. Declines in business investment and inventories reduced Q4 GDP growth.

Our Take: On the surface, the pace of growth in Q4 is consistent with the rest of 2019. However, when looking at the composition of Q4 growth some concerns arise. First and foremost is consumption. The U.S. consumer has been the primary driver of GDP growth as the manufacturing sector continues to be mired in recession. The 1.8% increase in consumption in Q4 was less than expected, and far less than the 4.2% pace in Q2 or the 3.2% growth in Q3. If the consumer falters, the odds of recession in the U.S. will increase dramatically.

The Fed

This week the Federal Reserve Open Market committee (FOMC) announced its decision to maintain the federal funds rate at the current range of 1.5% to 1.75%. In the unanimous vote, the committee judged that its current monetary policy stance is appropriate to support sustained expansion of economic activity. According to the Fed statement, the labor market remains "strong" and economic activity is "rising at a moderate rate." Job gains have been solid and unemployment has remained low. The committee noted that household spending is rising moderately, while business investment remains soft. Overall inflation remains below the 2% target.

Our Take: The Fed's description of the economy is basically unchanged from the previous meeting. Unless there is a change in the current trends, the Fed is likely to remain on hold in the near term.

Brexit

Today is Brexit Day. The UK officially leaves the EU, meaning Britain will no longer pay dues to the EU, have seats in the European Parliament, or be subject to EU regulations. However, as part of the Brexit deal the UK and the EU will continue to allow the free flow of goods, services, capital and labor and the UK will align its regulations with those of the EU until at least December 31 of this year while negotiations proceed on the future trading relationship.

Our Take: While today is technically and legally an historic milestone, as a practical matter nothing much changes until the UK and the EU implement a new trade deal. If the two sides cannot agree on a trade deal or to extend negotiations on one, then an effective no-deal Brexit will happen at the end of this year.

Personal Income and Spending

Personal income rose 0.2% in December, while spending increased 0.3%.

Our Take: Personal income fell slightly short of expectations for 0.3% growth and November's growth was revised down from 0.5% to 0.4%. As mentioned above, the consumer has been the essential to continued GDP growth. A slowdown in income growth, if sustained, could trigger reduced spending in future months.

Municipals

Democrats in the House of Representatives released details of a $760 billion plan designed to improve infrastructure over the next five years. The proposal includes investment in roads, airports, and rail systems. Details about funding for the infrastructure projects were not released.

Our Take: Lawmakers from both parties will continue to discuss and address infrastructure needs before a formal bill is presented to Congress. Once a plan is solidified, state and local governments would likely tap the municipal bond market to help pay for the proposed infrastructure improvements.

Christopher Hodges
Northeast
443-326-1875
chodges@reinhart-partnersinc.com

Christopher Rhyne, CIMA®
Southeast + PR
336-817-8206
crhyne@reinhart-partnersinc.com

Joel Dykman
West + AK, HI
608-609-4141
jdykman@reinhart-partnersinc.com

Internal Support
262-241-7065