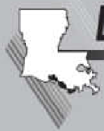
Louisiana Corporate Credit Union

ECONOMIC & FINANCIAL DIGEST

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The Good Place Is On Shaky Ground

Federal Reserve chair Jay Powell continues to insist that the economy is in a "good place", which, like the Goldilocks scenario, is neither too hot nor too cold – but just right. At least just right enough to keep the policy levers where they are for a while. After cutting interest rates for the third time this year in October, Powell is sending a strong signal that the rate-cutting cycle will be put on pause for the indefinite future. More specifically, the Fed chief believes that it would take a significant reassessment of the outlook for policymakers to pull the rate trigger again.

Investors seem to fully accept the Fed's assessment as well as the current policy stance. Since the October policy meeting, stocks have set new highs and bond yields have increased, fully normalizing a yield curve that a few months ago saw long-term yields fall below short-term rates, a time-honored recession signal. Not only have recession fears receded, but some positive news on the trade front has also contributed to a more upbeat mindset on Wall Street. But just as earlier recession fears were overblown, the current burst of optimism about the economy and trade policy may also be misplaced.

Yes, the economy is not falling off a cliff. But it is far from heading off to the races. For sure, it is not getting better. In its latest tally, the Commerce Department estimated that the economy grew at a 1.9 percent annual rate in the third quarter, well under the 2.6 percent average pace over the first half of the year. That slowdown is not particularly alarming, nor does it put the economy close to recession territory. But the slowing trend is set to continue, as the economy's main growth driver, consumer spending, sputtered in September and October. What's more, the biggest drag weighing on growth, weak investment spending, shows no sign of improving. That could change if the cloud dampening business sentiment, trade uncertainty, is lifted. The U.S. and China, appear to be moving towards a "phase 1" agreement, which underpins the better mood on Wall Street. But nothing is yet on paper and trade negotiations have had a nasty habit of coming up short of expectations. We suspect that even if an initial deal is consummated, it will be limited and fail to vanquish trade uncertainty or lift business spending incentives. The "good place" is not resting on a solid foundation.

Not a Festive Start

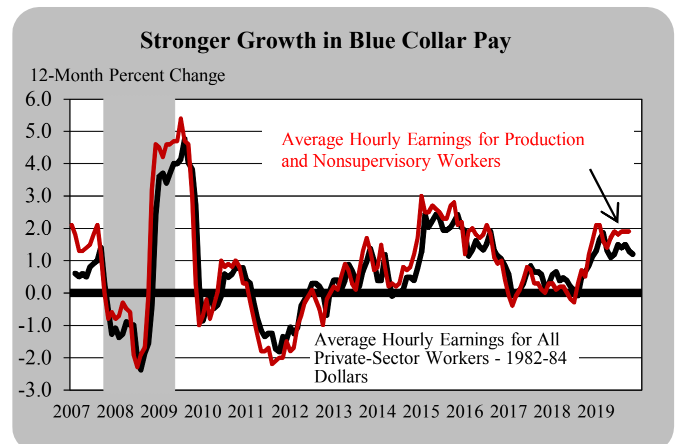
Following a robust spending spree during the spring and summer months, households have turned much more cautious as the fall season got underway. Retail sales fell in September and only partially recovered in October. Quite possibly, consumers may just be taking a temporary breather and girding up for a festive holiday shopping season. The retail industry, in fact, does expect holiday sales to grow about twice as fast this year than they did in 2018.

For sure, households have the firepower to regain their spending mojo, thanks to a still-solid job market that is boosting incomes. True, wage growth peaked early in the year, as the annual increase in average hourly earnings slowed from 3.4 percent in February to 3.0 percent in October. But that still comfortably exceeds the inflation rate, adding heft to worker purchasing power. Importantly, wages are rising faster for blue-collar workers than for those higher up the wage ladder. Indeed, real wage growth for non-management workers was 60 percent stronger than for all private sector workers over the past twelve months, the biggest disparity in more than a decade.

Why is that important? Simply put, workers with smaller paychecks spend more of their income than higher-earning workers, who tend to sock more of their wage gains into savings. Hence, while overall wage growth may be slowing, it is delivering a bigger bang for the buck because more of it is accruing to lower-paid workers. That said, even blue-collar workers have seen their wage increases level off, and their willingness to spend is hardly set in stone. Should worries about job security or other matters that threaten living standards escalate, their spending behavior would clearly suffer.

Biding Time?

Late last year, consumers briefly zippered up their wallets and purses despite a job market that churned out more new paychecks than it is now. Back then, the stifling catalyst was the record-long government shutdown, which temporarily furloughed 800 thousand government workers and dealt a severe blow to



consumer confidence. The shutdown lasted 35 days and crushed consumer spending, which tumbled to a 1.1 percent growth rate in the first quarter, the weakest in six years.

When the government reopened in late January, so did household wallets; consumer spending surged to a 4.6 percent growth rate in the second quarter, matching the strongest pace since late 2014. It turns out that households were merely biding time and unleashed their pent-up demand when confidence was restored following the end of the shutdown. That sturdy spending behavior persisted through the third quarter, as personal consumption advanced by a still robust, although modestly slower pace of just under 3.0 percent. Over the course of the expansion, now in its eleventh year, the quarterly growth rate of personal consumption has averaged 2.4 percent.

But, as noted, consumer spending started the fourth quarter on a downbeat note. Unless there's an eye-opening rebound in November and December, consumers will be providing much less muscle to the economy's growth rate during the period. Are they biding time again, setting the stage for another spending binge around the holidays? Time will tell. But the backdrop is less conducive to a repeat performance of the boomerang that occurred over the second and third quarters.

Borrowing Restraints

For one, the pent-up demand that contributed to the spending surge over the summer does not exist this time. It's doubtful that the spending softness in September and October represented postponed purchases that would spur make-up shopping. More likely, households are reining in spending in response to several impediments that should remain a place for a while.

One restraining factor is the less favorable borrowing environment despite the three rate cuts by the Fed this year. The reductions have not fully offset the four increases put in place last year, and, more concerning, consumer borrowing costs have not fallen in lockstep with the Fed's cut in its policy rate. In fact, the 15.10 percent average interest rate on credit card plans charged by banks in the third quarter was unchanged from the first quarter and nearly a full percentage point higher than last year. Rates on auto loans have followed the same pattern. Not surprisingly, households have cut back on both types of borrowing as well as the spending usually financed with these loans, most notably on cars and SUVs. In September, credit card debt contracted for the second consecutive month, the first back-to-back setback since 2012.

Importantly, the cutback in consumer borrowing does not entirely reflect voluntary decisions by households. Banks are tightening credit standards and are less willing to make new loans to consumers. That's particularly the case for smaller banks, which have seen a sharp rise in delinquency rates on credit cards and have become much less willing to extend consumer installment loans. In fact, the fraction of all banks willing to make such loans has fallen to the lowest level since the Great Recession.

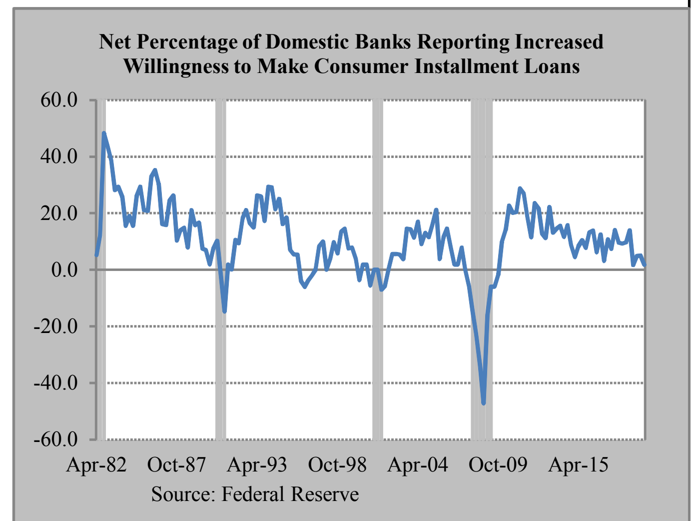
Slowdown But No Recession

With consumer outlays slowing heading into the fourth quarter, the economy's growth engine is getting less power from a major cylinder, as personal consumption accounts for about 70 percent of GDP. Indeed, the disappointing sales figures over the past two months have prompted forecasters to drastically lower their growth estimates for the fourth quarter. The Federal Reserve Bank of Atlanta's GDPNow model is tracking a growth rate of 0.4 percent as of November 19. That model swings widely, up and down, as each new data point is released. But should the outcome turn out as weak as the model currently estimates, it would certainly give the Fed reason to reassess its outlook.

We are not as pessimistic as the Atlanta Fed, but recognize the myriad downside risks that could damage prospects more than is generally expected. Chief among them of course is the uncertainty regarding trade policy, which most agree is the wildcard in the outlook. Tariffs and other barriers erected on both sides of the ocean over the past 18 months have severely crimped trade flows and contributed importantly to the slowdown in global growth. The U.S. economy is less dependant on trade than most advanced nations and has weathered the storm better than others. But it has not emerged unscathed. Exports have tumbled and manufacturing activity, which is most exposed to trade, has sunk into recession territory. Capital spending has also suffered, as business leaders are hesitant to commit to expensive projects whose revenue prospects are contingent on trade developments.

The risk that primarily concerns the Fed is that the weakness in trade-related sectors will spill over into the broader economy and knock the economy out of the "good place." So far, the gloomy sentiment among business leaders has not infiltrated the mindset of households, who still remain relatively upbeat about jobs and their financial condition. As long as that's the case, the recent setback in consumer spending should not morph into a sustained retrenchment, which would almost certainly heighten the recession threat.

We expect households to gradually rein in spending in response to a gradual slowing in job creation and wage growth, pointing to a weaker economy in 2020 than this year but not a recession. Importantly, against the backdrop of restrained wage increases and limited corporate pricing power, inflation is likely to remain subdued, continuing to languish below the Fed's 2 percent target. That, in turn, is not a recipe that would allow the Fed to stay on the sidelines throughout the year, particularly given the myriad external shocks that could easily short-circuit the record-long expansion. Hence, after an extended pause, the central bank may well pull the rate-cutting trigger again next spring to cushion the economy against recessionary forces.



KEY ECONOMIC AND FINANCIAL INDICATORS

FINANCIAL INDICATORS*

								12-Month Range	
	October	September	August	July	June	May	April	High	Low
Prime Rate	4.99	5.15	5.25	5.50	5.50	5.50	5.50	5.50	4.99
3-Month Treasury Bill Rate	1.65	1.89	1.95	2.10	2.17	2.35	2.38	2.40	1.65
5-Year Treasury Note Rate	1.53	1.57	1.49	1.83	1.83	2.19	2.33	2.95	1.49
10-Year Treasury Note Rate	1.71	1.70	1.63	2.06	2.07	2.40	2.53	3.12	1.63
30-Year Treasury Bond Rate	2.19	2.16	2.12	2.57	2.57	2.82	2.94	3.36	2.12
Tax-Exempt Bond Yield	2.71	2.78	3.09	3.45	3.50	3.57	3.82	4.30	2.71
Corporate Bond Yield (AAA)	3.01	3.03	2.98	3.29	3.42	3.67	3.69	4.22	2.98
Conventional 30-Year Mortgage Rate	3.69	3.61	3.62	3.77	3.80	4.07	4.14	4.87	3.61
Dow Jones Industrial average	26737	26900	26058	27089	26160	25745	26402	27089	23806
S&P 500 Index	2978	2982	2898	2996	2890	2855	2904	2996	2567
Dividend Yield (S&P)	1.95	1.98	2.00	1.96	1.96	2.10	1.95	2.22	1.95
P/E Ratio (S&P)	20.2	19.7	19.2	19.4	19.2	18.0	19.3	20.2	16.6
Dollar Exchange Rate (vs. Major Currencies)	92.37	92.7	92.3	91.7	91.6	92.6	92.3	92.7	91.4

** Monthly Averages*

ECONOMIC INDICATORS

								12-Month Range	
	October	September	August	July	June	May	April	High	Low
Housing Starts (In Thousands)	1314	1266	1375	1204	1233	1264	1270	1375	1142
New Home Sales (Thousands of Units)		701	706	665	729	598	656	729	557
New Home Prices (Thousands of Dollars)		299	325	308	312	313	339	339	299
Retail Sales (% Change Year Ago)	3.1	4.1	4.1	3.4	3.5	3.0	3.8	4.1	1.4
Industrial Production (% Change Year Ago)	-1.1	-0.1	0.4	0.4	1.1	1.8	0.7	4.1	-1.1
Operating Rate (% of Capacity)	76.7	77.5	77.8	77.8	77.7	78.4	78.5	79.6	76.7
Inventory Sales Ratio (Months)			1.40	1.40	1.40	1.40	1.39	1.40	1.34
Real Gross Domestic Product (Annual % Change)		1.9			2.0			3.1	1.1
Unemployment Rate (Percent)	3.6	3.5	3.7	3.7	3.7	3.6	3.6	4.0	3.5
Payroll Employment (Change in Thousands)	128	180	219	166	178	62	216	312	56
Hourly Earnings (% Change Year Ago)	3.0	3.0	3.2	3.2	3.2	3.1	3.2	3.4	3.0
Personal Income (% Change Year Ago)		4.9	4.6	4.6	4.9	4.9	4.9	5.1	4.5
Savings Rate (Percent of Disposable Income)		8.3	8.1	7.8	8.1	8.0	8.1	8.8	7.2
Consumer Credit (Change in Blns. Of Dollars)		9.5	17.8	22.8	13.2	16.9	16.5	22.8	9.5
Consumer Prices (% Change Year Ago)	1.8	1.7	1.7	1.8	1.6	1.8	2.0	2.2	1.5
CPI Less Food & Energy (% Change Year Ago)	2.3	2.4	2.4	2.2	2.0	2.0	2.1	2.4	2.0
Wholesale Prices (% Change Year Ago)	1.1	1.4	1.8	1.7	1.7	1.8	2.2	2.6	1.1

Louisiana Corporate Credit Union

SimpliCD

SimpliCD Issuance

Share Certificate Program

Second Quarter 2019 – By the Numbers

$4.27 billion	Total credit union issuance outstandings.
1,472	Number of credit unions that have issuance agreements in place, prepared to issue share certs, should the need arise.
$195 million	Total outstandings for SimpliCD's largest share certificate issuer.
411	Number of credit unions that currently have share certificate issuance balances through SimpliCD.

Generate Liquidity Quickly and Easily with SimpliCD.

Nearly 70% of the nation's credit unions have an investing relationship with SimpliCD. With one phone call, your credit union can issue up to $50 million or more in share certificates in a single transaction to our network of more than 3,500 credit union investors across the country.

For more information on issuing share certificates through SimpliCD, please contact Louisiana Corporate at 504-838-8250, or email lacorp@lacorp.com.

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SimpliCD Issuance complements or provides a competitive alternative to FHLB advances and other funding alternatives and is an effective solution for credit unions looking to add a secondary liquidity source.

It's quick. It's easy. It's SimpliCD.

Benefits of issuing through SimpliCD include:

- No subscription, broker, or transaction fees
- A centralized way to raise funds and generate liquidity
- Access to the largest network of credit union investors nationwide
- The ability to aggregate investors into one certificate of deposit
- The safety of working with a credit union owned entity
- As easy as opening any other customer account

Please inquire about current rates.