2018 Macroeconomic Recap

Entering 2018 optimism was high, Congress had just passed the Tax Cuts and Jobs Act (TCJA) lowering the top corporate tax from 35% to 21%. The TCJA also lowered personal tax rates with gov't spending projected to increase by $160 billion. Combined, the tax cuts and additional spending were expected to fulfill President Trump's campaign promise to get the economy back to 4-5% growth. The justification being that the benefits would far out-weigh the costs!

Q1 2018 GDP, at 2.2%, was little changed from much of the past 10 years. Initially, Q2 (4.5%) and Q3 (3.4%) seemed to support President Trump's policies. However, as we entered Q4 it became clear there was very little economic boost from the new tax policy/stimulus –

1) Existing home sales peaked in Nov. 2017 and have fallen from an annual rate of 5.7 mil to 4.9 mil (Jan 2019) **a decline of over 13% -** lowest in 5 years.
2) US auto sales peaked in Sept. 2017 and have fallen from an annual rate of 18.5 mil to 17 mil (Jan 2019) **a decline of -8%** - lowest level in 5 years.
3) Dec 2018 Retail Sales **declined 1.2%** the largest one month fall since 2009.
4) Jan 2019 Industrial Production declined led by motor vehicle assemblies, **down 1.6 mil** at an annualized rate – lowest in 5 years.
5) Almost 50% of Q3 GDP increase was inventory build as companies accelerated purchases ahead of US/China tariffs.
6) Q4 2018 GDP (due out next week) is estimated at 1.5% - which would make 2018 annual GDP 2.7% - well below the expected 4-5%.
7) If 2018 GDP does end up at 2.7% that's .5% or $100 billion better than 2017 GDP growth but the additional $100 billion in growth cost tax payers over $1 trillion in additional gov't debt!!!
8) After the largest corporate tax cuts since the 1980's and almost $1 trillion in corporate share buybacks the S&P 500 finished 2019 **down -4%.**

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9) The NY Fed's most recent report on consumer credited noted that 7 million people are more than **90 days late** on the auto loans, the most delinquencies ever reported!
10) Nov. 2018 GM announced **14,700 job cuts and 5 plant closings**!
11) Throughout history, auto's and housing have been the core of the economy if they don't do well the economy **can not** do well!!!
12) As pointed out in Lacy Hunt's Q4 newsletter, both velocity and growth of the money supply have been declining since 2016!

Slowing growth can be attributed to 1) rising interest rates, 2) peak debt and 3) reduced money supply.

Since Dec 2016 the Federal Reserve has increased the Fed Funds Rate to 2.25% (8 rate hikes) – which is the overnight rate banks charge each other. In addition, QT, where the Federal Reserve is allowing Treasuries and Mortgage Securities expire at mature, is also reducing the money supply!

With the economic expansion nearing 10 years, peak debt, rising interest rates, slowing monetary base and velocity, it should surprise no one that the economy is heading for a recession!

Your thoughts are greatly appreciated.

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