Economic Alert iQ

First Citizens Research & Analytics

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International

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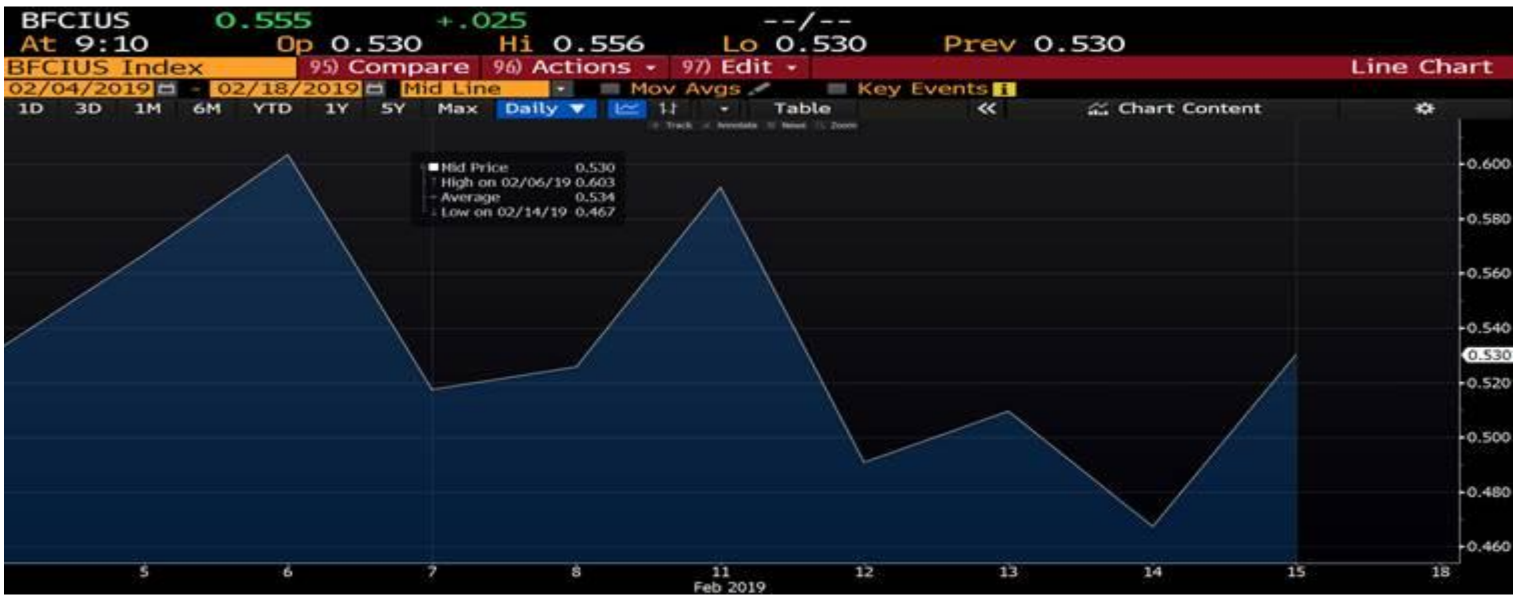
U.S. Market Stress level increases.

- The Bloomberg U.S. Financial Conditions Index, a barometer of health in financial markets, fell in the past week.



Source: Bloomberg

- The index fell to 0.53 from 0.60 a week ago, though the 20-day moving average shows an upward trend.
- Bloomberg's index is made up of Money-market, Libor and treasury spreads, Volatility index and US Equity Market.

Retail sales down.

- Disappointing retail earnings released last week dented the US stock market recovery, and fanned concerns that the economic slowdown that panicked investors last year might not be a blip.
- The broad plummet in retail sales at the end of the holiday shopping season likely resulted from a mix of crosscurrents. Plunging gasoline prices failed to boost discretionary spending amid the government shutdown and stock market turmoil.
- Such a significant pullback in retail sales stands in stark contrast with the recent acceleration in wage pressures, evident in recent employment data. This suggests consumers were more cautious in the face of increased uncertainty, which could lead to a temporary pickup in personal saving.
- Headline retail sales fell 1.2% in December, significantly below the lowest forecast of economists surveyed by Bloomberg. The bleak headline was a result of broad-based weakness in most of the categories. Retail sales decelerated to a 1.8% annual rate in the fourth quarter from 4.3% in the third.
- The significant downward surprise in retail sales for December has led Bloomberg analyst to revise down fourth-quarter GDP estimates to 2.3% from 2.9%. As such, estimates suggest the economy grew at 3.0% in 2018, down from a prior forecast of 3.2%.

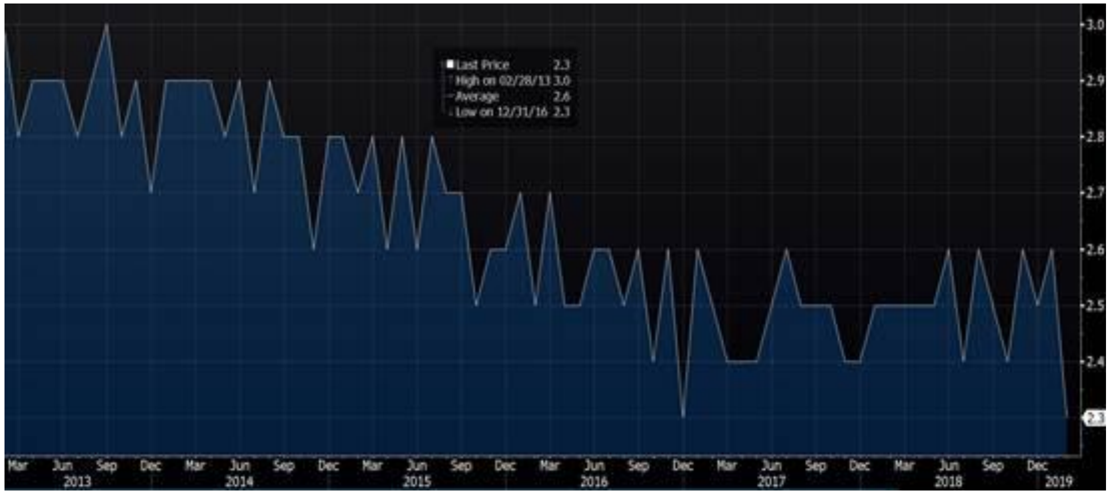
Bloomberg Economics U.S. Forecast Table

INDICATOR	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	2018	2019	2020
GDP, SAAR QoQ%	2.2	4.2	3.4	2.3	2.1	2.7	2.4	2.4	3.0	2.4	2.1
Unemployment Rate	4.1	3.9	3.8	3.8	3.7	3.6	3.5	3.4	3.8	3.4	3.4
Headline CPI, YoY%	2.3	2.6	2.6	2.2	1.5	1.8	1.9	2.0	2.2	2.0	2.2
Core CPI, YoY%	1.9	2.2	2.2	2.2	2.1	2.2	2.3	2.4	2.2	2.4	2.2
Fed Funds Rate	1.75	2.00	2.25	2.50	2.50	2.50	2.75	3.00	2.50	3.00	3.00

Source: Bloomberg

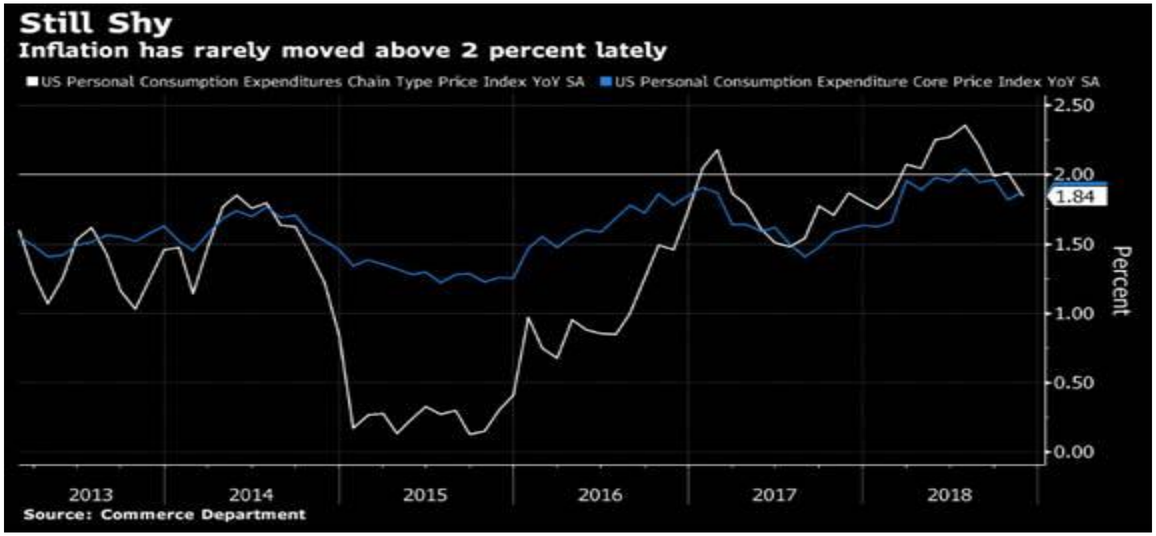
Inflation expectations lower.

- Preliminary data released Friday show that a gauge the University of Michigan compiles on the 5-to-10-year inflation outlook slipped to 2.3% in February, matching December 31 2016 levels, the lowest on record.



Source: Bloomberg

- Slow inflation has been surprising Fed officials. They had expected price gains to slightly overshoot their 2% goal as low unemployment spurred companies to raise wages and prices.



Source: Bloomberg

- Fed Chairman Jerome Powell said on Jan. 30 that he will monitor inflation closely as he gauges if and when another rate increase is appropriate. The central bank signaled last month that it will take a pause after increasing borrowing costs four times in 2018.

Emerging Markets bullish.

- As activity in the U.S. begins to cool, the prospect of relatively higher growth rates in developing economies will bolster the asset class.
- Investors have already taken their cue from the Federal Reserve's dovish tilt last month and piled into the riskier securities. A Bank of America Merrill Lynch survey of global fund managers published last week shows investing in developing nations overtook the U.S. dollar as the most "crowded" trade.

Auto Production Slumps in January

- Headline industrial production fell 0.6% in January, below the lowest forecast of economists surveyed by Bloomberg. The previous reading was revised lower to a 0.1% gain from 0.3% as initially reported.
- Growth in the manufacturing sector slumped in January (-0.9% vs. consensus estimate for no change, and below the lowest survey forecast). The decline was the largest since May and resulted from a confluence of factors. Consumer car and truck production plunged by 13.9%, the largest decline since the Great Recession.
- Auto sales peaked in 2016 and have fallen since then, exacerbated by deterioration in loan performance. But such a significant drop in output in one month seems excessive, and is unlikely to persist.
- The Fed will likely hold off on resuming rate increases until the third quarter, which should provide plenty of time for data to rebound from the recent slump, which is assumed to result from one-time factors. Bloomberg Economics estimates economic growth to remain above trend at 2.4% in 2019.