Federated

Soaring retail sales point to GDP rebound

On continued benign inflation and strong P/E multiples, we are sticking to our full-year S&P target of 3,100.

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BOTTOM LINE

Retail sales soared by a much stronger-than-expected 1.6% on a month-over-month (m/m) basis in March, marking the highest growth rate since September 2017. This emphatically reverses the disastrous results of both December and February.

With winter behind us, a dovish resolution to the uncertainty over Fed policy, the federal government's re-opening and the risk of recession pushed out until early 2021, this morning's positive data strongly suggests renewed economic growth in the spring, supporting our more constructive view of the economy.

Above-consensus GDP growth estimates Our first-quarter estimate is at 1.8% versus the Blue Chip consensus of 1.5%. We forecast 2.7% in the second quarter versus 2.6%, and 2.6% for full-year 2019 versus 2.3%. We believe this positive trajectory will drive S&P 500 corporate profits up 4-5% year-over-year (y/y) to $170. Given continued benign inflation (1.8% y/y core PCE) and P/E multiple expansion back to 18 times earnings, we are sticking to our full-year target price of 3,100.

Strong "Mapril" bounce The 20% decline in stock prices in the fourth quarter spawned a negative wealth effect that drove nominal retail sales in December down 1.6%, their largest m/m decline in a decade. Control results plummeted 2.2% in December, their sharpest m/m decline since Sept. 11, 2001.

Although stocks and retail sales bounced in January, a typical "Frugal February" amid sloppy winter weather put a damper on consumer spending. Nominal and control retail sales in February slipped 0.2% and 0.3%, respectively. But with the personal savings rate spiking to a 3-year high of 7.7% at year-end, we expected a healthy bounce in March, as consumers began to spend their dry powder. These combined for stronger "Mapril" sales ahead of this year's late Easter. As if on cue, nominal and control retail sales leapt by much stronger-than-expected gains of 1.6% and 1%, respectively, last month.

Labor market rebound Nonfarm payrolls grew by a stronger-than-expected 196,000 jobs in March. Combined with February's disappointing 33,000 jobs and January's robust final gain of 312,000, the first quarter had a solid average monthly gain of 180,000.

Importantly, 390,000 people—78,000 more than typically the case—couldn't get to work in February because of the bad weather. In addition, some 800,000 federal workers were furloughed in January due to the longest government shutdown on record. The Labor Department was unable to calculate the number of private workers who also were sidelined. So, while that collective shutdown noise hampered February's nonfarm payroll tally, the dark cloud began to lift in March.

We expect this positive trend to continue, as the Labor Department announced a half-century low for initial weekly unemployment claims of 192,000 for the week ended April 13, the survey week for the April nonfarm payroll report, to be flashed May 3.

LEI reaccelerates The Conference Board's leading economic Indicators (LEI) hit a 58-year cycle high last September at 111.5. But it had been drifting sideways over the past five months, bottoming in January at a slightly-lower 111.4. The March reading, however, spiked by 0.4% m/m, allowing the index to re-accelerate to a new cycle high of

111.9. Among its components, jobless claims, average consumer expectations and stock prices were the biggest contributors. The LEI's gain gives us increased confidence in our above-consensus estimates for GDP growth.

We wish everyone a blessed Passover and Easter holiday.

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DISCLOSURES

Views are as of the date above and are subject to change based on market conditions and other factors. These views should not be construed as a recommendation for any specific security or sector.

The Conference Board's Composite Index of Leading Economic Indicators is published monthly and is used to predict the direction of the economy's movements in the months to come.

Gross Domestic Product (GDP) is a broad measure of the economy that measures the retail value of goods and services produced in a country.

Personal Consumption Expenditure (PCE) Index: A measure of inflation at the consumer level.

S&P 500 Index: An unmanaged capitalization-weighted index of 500 stocks designated to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. Indexes are unmanaged and investments cannot be made in an index.

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