IN THE SPOTLIGHT

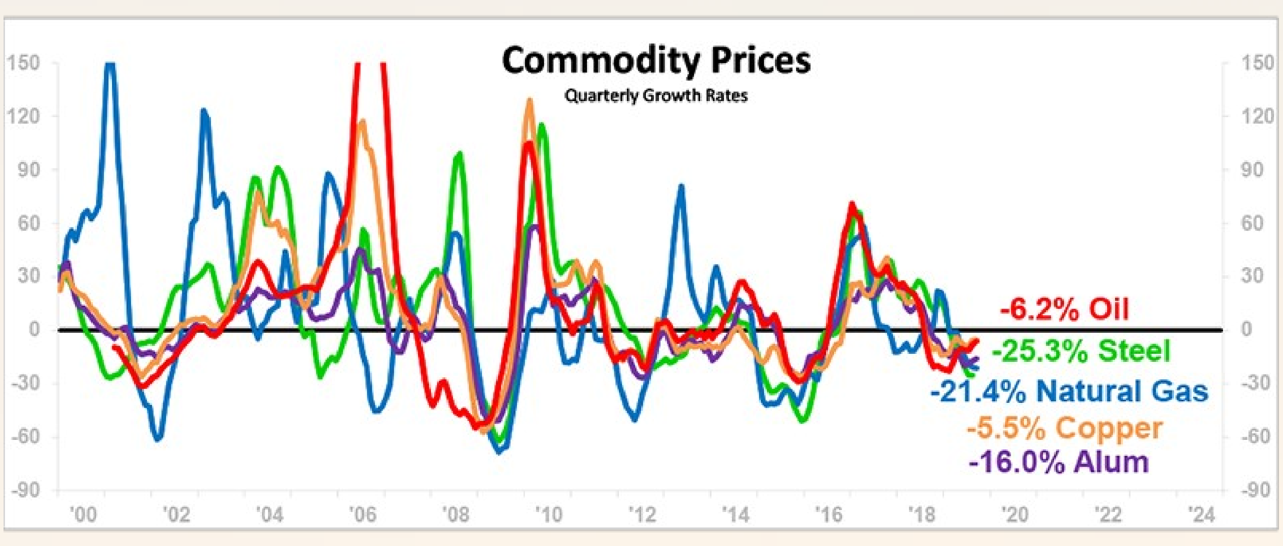
Commodity Price Outlook

During the past three months expectations for steel, natural gas, and oil prices have been adjusted. Despite recent upward movement in the trends for these commodities, prices between now and the first half of 2020 are unlikely to rise above levels seen in the first half of 2019. Industrial activity, as measured by US industrial production, is expected to decline into the first half of 2020. As activity decreases, we will likely see a more price-conscious consumer. Consider renegotiating contracts to try to save on costs as prices generally decline through early 2020.

The outlook for US crude oil futures prices have likewise adjusted downward. Market factors such as the global economic slowdown, which is limiting demand, coupled with growing supply, leads to revised expectations for prices.

US steel scrap producer prices during the three months through August were down 25.3% from the same three months last year. Prices will likely fall a little further through the remainder of this year. Activity in US iron and steel mills production was 0.9% below last year. At the same time, related new orders were down 7.2%, likely a function of both lower prices and less-robust demand.

US natural gas futures prices came in below expectations in September. The outlook for utilities, business-to-business activity, and housing suggests weakened demand for natural gas. The double-digit year-over-year growth in US drilled but uncompleted wells inventory and US natural gas production suggests excess supply will likely contribute to lower prices as well. Given these factors, the outlook for prices revised downward.



US Retail Sales Outlook

What you need to know: *The reaction to the latest retail sales data was interesting, but a more holistic look at retail sales reveals reasons to be encouraged about the US economy in the coming months.*

The September figure for retail sales was released Oct. 16, and the reaction to it was … interesting. CNBC took the September stumble in retail sales as an opportunity to cast doubt on the health of the US economy. They also stated that it was the first time that retail sales had fallen in seven months. The expression of doubt was not warranted, and this is not the first month-to-month decline in retail sales in the last seven months, according to the US Census Bureau data.

The reality is that retail sales did stumble in September. Total retail sales posted a steeper-than-normal 8.82% decline from August to September, but the September 2019 figure came in 3.8% above the year-ago figure. 2013 posted a steeper August-to-September decline, and the US GDP still accelerated in the second half of 2013 and continued to see a solid rate of growth in 2014. The September data does not present a reason to become gloomy about the future, and it is not a harbinger of recession in retail sales.

A more holistic look at total retail sales reveals reasons to be encouraged about the US economy in the coming months. Retail sales for the entire third quarter came in slightly above the second quarter, posting the only second- to third-quarter rise in the post-Great Recession period. Seasonal rise since March is a very encouraging 11.1%, the steepest since 2005 and steeper than the post-Great Recession average of 8.3%.

The retail sales data is also providing encouraging input about the US economy in 2020. Retail sales during the past 12 months were 3.4% higher than during the previous 12 months. Additional rate-of-change rise will be key to a positive outlook for the US in 2020.

We believe that monthly pronouncements are best taken with a grain of salt. In this case, what is purported to be unsettling or bad news is just a single data point. The larger trends show that retail sales are providing an encouraging, if preliminary, look into 2020. We suggest you plan on economic expansion in the coming year and ignore the doomsayers.

READERS' FORUM

A deal has not yet been approved for Brexit. What kind of effect is this having on the UK's economy and trade?

While a Brexit deal is looking more likely, hurdles remain, and we have seen the regional leading indicators react to the uncertainty. The UK Business Confidence Index has dropped significantly in recent months, signaling that companies are uneasy about the future. This trend also indicates that a negative impact to the UK's industrial economy could persist into early 2020.

While UK exports of machinery and equipment are still rising, UK machinery and equipment production is down 5.5% from last year. Producers are apparently shipping existing inventory.

Regarding consumer trends, growth rates for UK retail sales have held relatively steady over the last few years, but have slowed more noticeably in recent months. UK housing prices have flattened, and UK new housing starts are declining.

The UK will face unique pressures due to Brexit. As long as negotiations continue and the possibility of a no-deal scenario remains, uncertainty will be a factor. Uncertainty typically turns off investors and can negatively impact consumer spending. While we will continue to monitor the situation closely, we have not changed our outlook for the region, as a timeline for Brexit remains undecided.

INDUSTRY SNAPSHOTS

Arrows indicate 12-month moving total/average direction

Retail Sales

- Retail sales up 3.3% from same period a year ago
- Retail Sales will grow at a slowing rate into mid-2020
- Consumer Price Index unlikely to contract through 2021, resulting in more price-conscious consumers

Rotary Rig

- Count up 1.3% from one year ago, but count declining; trends suggest further downward movement
- US oil rotary rig count and natural gas rotary rig count declining YOY
- Market putting downside pressure on oil prices & natural gas prices

Wholesale Trade

- Wholesale trade up 1.9% from one year ago
- Durable goods segment outlook adjusted downward
- Spending in Durable Goods segment likely to mildly decline into early 2020, while nondurable goods likely to plateau for next few quarters

Capital Goods

- Nondefense capital goods new orders up 1.9% from year-ago level
- New order spending declined and likely to persist into late 2020
- Defense capital goods new orders up 9.5% year over year
- Defense new order spending flat through 2019 before rising in 2020

Auto Production

- N. America light vehicle production down 0.6% from year-ago level
- Decline likely to be short-lived, with production rising by mid-2020
- Production will rise through the latter half of 2020 and throughout 2021

Nonresidential Construction

- Nonresidential construction up 2.8% from one year ago
- Public nonresidential construction is up 4.7% year over year
- Private nonresidential construction spending is declining

Manufacturing

- Total Manufacturing Production up 1.2% from one year ago
- Production declined in recently; decline likely persist into early 2020
- Macroeconomic trends suggest business cycle decline will persist through the first half of 2020

Residential construction

- Residential construction down 6.9% from a year ago
- Construction spending likely to fall into the middle of next year
- US housing starts are down 2.1% from same 12 months last year, but showing signs of recovery

Copper Prices

Copper averaged $2.62 per pound in October 2019, down 5.7% from the same period one year ago. Prices have generally fallen in recent months. Slowing growth in the global industrial economy could keep prices trending downward through the remainder of this year.