

Wentz Weekly

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The Quickly Approaching Brexit Deadline, Weakening Manufacturing Data, the September Employment Report and more...



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- With under 30 days until the United Kingdom is expected to officially leave the European Union, British Prime Minister Boris Johnson offered what he called a “fair and reasonable compromise” for a Brexit deal. Reports so far are saying the revised deal is going over well with U.K. lawmakers, but not so well with EU chief negotiators. By law, Johnson must request an extension beyond the October 31 deadline if no deal is agreed upon by October 19.
- The World Trade Organization ruled in favor of the U.S. in the dispute over subsidies provided to the European aircraft manufacturer Airbus by the European Union. The ruling authorizes the U.S. to impose retaliatory tariffs on the EU, which the U.S. announced shortly after. The tariffs will include \$7.5 billion of imported goods with a 10% tariff on EU aircraft products and a 25% tariff on dairy and agricultural products.
- Construction spending, which is a sizeable input to GDP, rose just 0.1% in the month of August and below the 0.3% increase that economist were expecting. Compared to a year ago construction spending is down 1.9%. A positive in the report was residential construction spend rose 0.9% in the month, pointing to a stronger housing market after a long streak of lower spending. Pulling down the index was nonresidential construction, which fell 0.4% in the month, driven by a large decline in commercial buildings.
- Sparking more concerns of a recession were the weak manufacturing survey results from around the global. Markit Economics conducts a monthly survey of manufacturers around the world to gauge activity referred to as the Purchasing Managers’ Manufacturing Index. The U.S. PMI manufacturing survey was at a level of 51.1 for September which has been declining over the last several months. An index level above 50 corresponds to expanding manufacturing activity while a level below 50 corresponds to contracting conditions. Globally, PMI results were even worse, with the Eurozone at 45.7 for the lowest level since 2012, Japan at 48.9 from 49.3 the month prior, the U.K. at 48.3, and China surprisingly showing expanding conditions at a level of 51.4.
- The survey also reaching the service sector in a report referred to as the non-manufacturing PMI survey. This index level was 52.6 for September, which was much lower from the level of 56.4 in the prior month. The service sector makes up two-thirds of the U.S. economy. Stocks fell after the report but recovered throughout the day as investors saw the chance of a future Fed interest rate cut higher.
- On Friday the Bureau of Labor Statistics reported there were 136,000 additional payrolls in September and the 130,000 payroll gain from August was revised up to 168,000. August tends to be a month with large revisions due to back to school hiring. The unemployment rate fell to 3.5% from 3.7%, while the U-6 unemployment rate which includes marginally attached and those working part time for economic reasons was 6.9%, down from 7.1% for the lowest level since 2000.
- Wages were flat in the month of September, ending a streak of solid wage gains that brought the year-over-year rate down to 2.9% from 3.2% the month prior. A tighter labor market typically drives wages higher.



Company news

- Pepsi released its most recent quarterly results with earnings and revenues that beat analysts’ estimates. They also reaffirmed their fiscal year 2019 guidance while saying they will meet or exceed the organic revenue growth target of 4%.
- The beer and spirits maker Constellation Brands reported quarterly results that were better than expected. Shares were down though after management reported their share in Canopy Growth, a cannabis company, had lost \$484 million.
- Exxon Mobil warned profits would fall by around 50% compared to a year ago to \$3.1 billion driven by lower oil prices.
- Nikkei is reporting Apple has advised its suppliers to increase production by 10% amid unexpectedly higher demand.

The Week Ahead

The earnings calendar will be light this week with Delta Airlines on Thursday and industrial supply company Fastenal on Friday, before picking up next week. Fed Chairman Powell will address the National Association for Business Economic on Tuesday for their annual conference. The topic of his speech will be “Data Dependence in an Evolving Economy”. From the economic calendar the consumer price index, producer price index, and import/export price data will be released.

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