WASHINGTON IS CONCERNED ABOUT BUSINESS FIXED INVESTMENT

Senior monetary officials down in Washington are concerned about business fixed investment. So-called BFI. Three letters. Their abbreviation, not ours. BFI. What’s that? Technically, it is business investment in structures, equipment, and intellectual property. It is commonly believed that the China-U.S. trade war and geopolitical risks are curbing companies’ appetite for risk as they are uncertain whether demand for their goods and services will continue to hold up. Times are good… for now, but what about the future. The biggest corporate tax cut in history was signed in December 2017 as part of the Tax Cuts and Jobs Act (Senate stamp of approval on 51-49 vote) and yet, and yet, business investment has become a drag on GDP growth lately leaving all the heavy lifting on the backs of the consumer to drive our economy forward. If this is the best economy in U.S. history, why have businesses stopped investing? Maybe it is getting late in the day, the expansion completes eleven years in June. Companies have bought enough equipment for now.

It’s complicated. Business fixed investment (BFI) or nonresidential fixed investment as economists call it, includes all investment spending except residential housing construction and inventories.
Maybe Washington is right to worry. It isn’t a secret that business spending is the swing factor that causes most recessions. Business fixed investment spending fell 14.5% in the 2007-09 recession. Business fixed investment spending fell 6.9% in 2002 with continued uncertainty after the 2001 recession. Business investment had been picking up in 2018 after the slowdown in 2015-16 that seemed to reflect the crash in oil prices starting late in 2014. In 2018, business spending on construction, equipment, “software” rose 6.4% which added 0.8 percentage points of that year’s 2.9% GDP growth. With business investment falling the last two quarters, Q2 and Q3 2019, it will be hard for GDP growth to hit the Trump administration’s 3% forecast.

Business investment expenditures have been slowing. Oil & gas drilling declined in the second and third quarters, but in the second quarter intellectual property and equipment spending kept BFI slightly positive. In Q3 2019, nonresidential business investment fell 1.8% or $12.8 billion however. Oil & gas drilling fell harder by $13.3 billion and equipment fell $15.5 billion. Computer equipment fell $11.9 billion, and Transportation equipment (includes aircraft) fell $11.2 billion. Intellectual property rose $16.6 billion, but total nominal investment spending still fell in Q3 2019. If there is truly a manufacturing recession, then business investment will fall harder of course. The fourth quarter investment spending data comes out with the GDP report to be released 830am EST on Thursday, January 30. The trade war uncertainty didn’t begin to lift until Trump tweeted out the phase one China-U.S. agreement on December 12, so Q4 business investment spending could still be a drag on economic growth, especially as business construction on structures other than oil & gas drilling is looking weak. As far as reducing U.S.-China trade war uncertainty further with a phase two agreement, the President in Davos said China wants to start phase two right away and he does as well. Commerce Secretary Ross in Davos said now that confidence and mutual trust have been built and they’ve covered some of the sensitive issues, it should be getting easier not harder. We’ll see. Stay tuned.
FEDERAL RESERVE POLICY

The Fed meets January 28-29, 2020 to consider its monetary policy. Nothing is expected to happen on interest rates (ever again) but Fed Chair Powell will hold a press conference at 230pm on Wednesday, January 29, after the FOMC meeting press statement (remember those?) is released at 2pm EST. The Fed has said no change in rates without a material change in the outlook, probably no new news here, but we are interested in their “Implementation Note” to the Fed press statement. At the December 2019 meeting the Implementation Note said the Committee directed the Desk to continue buying Treasury bills “at least into the second quarter of 2020” to maintain reserve balances. Similarly, the Fed directed the Desk to continue doing term and overnight repos to add liquidity to the system “at least through January 2020” to ensure there are enough reserves. Say no more. The Fed’s balance sheet in the table above has come down a little on January 22 with Repurchase Agreements in the table above falling to $186.1 billion on January 22 from $229.5 billion on January 15. QT Here we go.

So we await the Fed’s Implementation Note, as in what the heck are they doing with the balance sheet, up or down? (Because we Fed watchers have nothing else to do.) The stock market is waiting with bated breath. Stay tuned. Story developing.

So while we wait for the Fed, bond yields have dropped this week, meaning Fed funds futures and Eurodollar futures (Libor) yields have dropped, pricing in greater odds of a Fed rate cut this year. Funny, we thought the median Fed forecasts at the December meeting said nothing this year, one rate hike in 2021 and one more rate hike in 2022. Given the daily effective Fed funds rate is way-low at 1.55%, 20 bps under the Fed’s 1.75% “target,” the odds of one 25 bps rate cut this year to 1.5% are 30 percent at the June 2020 Fed meeting and 116 percent at the December 2020 Fed meeting. Stay tuned. You know what to do.

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### Selected Fed assets and liabilities

<table>
<thead>
<tr>
<th></th>
<th>Sep 10</th>
<th>2008**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fed H.4.1 statistical release billions, Wednesday data</td>
<td>22-Jan</td>
<td>15-Jan</td>
</tr>
<tr>
<td>Factors adding reserves</td>
<td>2381.020</td>
<td>2362.635</td>
</tr>
<tr>
<td>U.S. Treasury securities</td>
<td>2.347</td>
<td>2.347</td>
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<tr>
<td>Federal agency debt securities</td>
<td>1398.642</td>
<td>1404.318</td>
</tr>
<tr>
<td>Mortgage-backed securities (MBS)</td>
<td>186.076</td>
<td>229.468</td>
</tr>
<tr>
<td>Repurchase agreements</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>Primary credit (Discount Window)</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>Term auction credit (TAF auctions)</td>
<td>4194.1</td>
<td>4224.1</td>
</tr>
<tr>
<td>3-month Libor %</td>
<td>1.80</td>
<td>1.84</td>
</tr>
<tr>
<td>Factors draining reserves</td>
<td>1794.751</td>
<td>1795.725</td>
</tr>
<tr>
<td>Currency in circulation</td>
<td>126.629</td>
<td>131.504</td>
</tr>
<tr>
<td>Reserve Balances (Net Liquidity)</td>
<td>1609.594</td>
<td>1673.362</td>
</tr>
<tr>
<td>Treasuries within 15 days</td>
<td>23.659</td>
<td>14.867</td>
</tr>
<tr>
<td>Treasuries 16 to 90 days</td>
<td>126.629</td>
<td>131.504</td>
</tr>
<tr>
<td>Treasuries 91 days to 1 year</td>
<td>369.212</td>
<td>349.598</td>
</tr>
<tr>
<td>Treasuries over 1-yr to 5 years</td>
<td>902.619</td>
<td>907.750</td>
</tr>
<tr>
<td>Treasuries over 5-ys to 10 years</td>
<td>315.605</td>
<td>315.612</td>
</tr>
<tr>
<td>Treasuries over 10-years</td>
<td>643.297</td>
<td>643.304</td>
</tr>
</tbody>
</table>

**September 10, 2008 is pre-Lehman bankruptcy of 9-15-08**

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### Slowing world growth was one of Fed’s reasons for cutting rates three times in 2019. January 2020 IMF world GDP forecast this week is not so bad.

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### World Economic Growth

![World Economic Growth Chart](chart.png)

- **US 1980-81 recessions**
- **US 1990-91**
- **2001 recession**
- **5.25% Fed funds**
- **11.5% Fed funds**
- **3.0% Fed funds**
- **5.4% Fed funds**
- **4.3% Fed funds**
- **3.8% Fed funds**
- **IMF Jan 2020 GDP forecast**

- **Steady 3.4% to 3.5% 2012 - 2016**
- **US 1990-91**
- **2001 recession**
- **-4.1% 2009 First global recession**
- **98 99 00 01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16 17 18 19 20**

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**Partially supported by historical GDP growth and recession data.**
OTHER ECONOMIC NEWS THIS WEEK

Existing home sales get a boost by weather and shortage of homes on the market (Wednesday)

Breaking economy news. Existing home sales rise 3.6 percent to a 5.54 million annual rate in December. The median price of a single-family home rose in December to $276,900 which is 8.0 percent higher than a year ago. The Federal Reserve can’t see any inflation, but maybe that’s because their PCE inflation measure underweights housing inflation that is looking like a bubble that won’t stop till it pops with mortgage rates this low, only 3.60 percent this week nationwide.

Home sales like housing starts could have gotten a boost from the warmer than seasonal weather in December, although sales in the biggest market in the South have been bouncing around. Total sales, including Condos, in the South rebounded 5.4 percent in December to 2.36 million after falling 3.9 percent in November. But as far as prices, if you want a good deal on a single-family home that would be in the Midwest where median single-family home prices are only $210,200. Prices in the South are $246,300, Northeast $306,100, and the winner is the West at $415,200.

Net, net, consumers continue to be confident enough to put a down payment on the biggest, big ticket purchase of their lives so they aren’t being held back by the uncertainty on trade and global growth like businesses are when it comes to making new investments. Home sales might have been even better if it were not for the fact that the inventory of homes on the market is at a record low. Except in my neighborhood where homes aren’t moving as many are priced higher than most are willing or able to afford. Stay tuned. Story developing.
Jobless claims say risks to US economy are less pronounced (Thursday)

Breaking economy news. Initial jobless claims rose 6 thousand to 211 thousand in the January 18 week. The total number receiving jobless benefits was 1.731 million in the January 11 week and these are slightly elevated temporarily, possibly due to faulty seasonal adjustment factors.

Jobless claims are telling markets that the risks to the U.S. economy are less pronounced than they were a year ago at this time. It is not an exaggeration to say this is the strongest labor market in history, however, economic growth continues to slow and let's not forget that manufacturing is in a recession. The economy could be better for all even as the presidential challengers running for the office continue to tell voters that the economy is not working for all Americans. Rate cuts by the Federal Reserve and an expansion of the Fed’s balance sheet may have boosted the stock market, but savers continue to receive less interest on their deposits at financial institutions than they have in other economic cycles. The Fed has their hook in the water after lowering interest rates last year to boost investment demand, but companies aren't biting.

Net, net, you can't have a recession without job losses and new claims for unemployment benefits remain at remarkably low levels for this long into an economic expansion signaling the market's recession fear last year was a needless worry. The seasonal factors had a devil of a time adjusting for the huge rise in cold-winter, weather-related claims in December this year, and with somewhat more workers laid off this winter and receiving benefits, the jury is out on whether this signals a soft patch for the monthly payroll figures in January. Payroll jobs slowed to an increase of 145K in December, and the January data are due out on Friday, February 7. Stay tuned.

Story developing.

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Weekly claims for unemployment benefits

- **Jan 21**: 257K
  - Trump takes office
- **Sep 2**: 309K
  - Hurricane Harvey, Texas
- **Nov 24**: 234K
  - Wall Street recession alert
- **Dec 22**: 244K
  - Jan 25 Govt shut down ends
- **Dec 7**: Late Thanks giving
- **May 11**: 212K
  - 25% tariffs $200 bln China imports
- **Apr 13**: 193K
  - lowest since 1969
- **Sep 8**: 208K
  - former "record" low
- **Jan 18**: 211K
  - former "record" low
- **Jan 19**: 212K
  - lowest since 1969

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- **Q1 17**: 175
- **Q2 17**: 200
- **Q3 17**: 225
- **Q4 17**: 250
- **Q1 18**: 275
- **Q2 18**: 300

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- **Q1 19**: 175
- **Q2 19**: 200
- **Q3 19**: 225
- **Q4 19**: 250
- **Q1 20**: 275

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