BUSINESS INVESTMENT IN FACTORIES, SHOPPING CENTERS, WAREHOUSES, OFFICES IS TIRING LATE IN THE DAY

How many new offices does the country still need in a long economic upturn that will start its 12th year in July? Companies are not increasing the amount they spend each year on “structures,” with the value of private nonresidential construction put in place less than it was when Trump was elected in November 2016. If the economy is the best in 50 years, then why are companies not building more for tomorrow? The China-U.S. trade/economic war was 2019 and now the coronavirus is the biggest economic risk (let’s be honest, biggest recession risk) in 2020. But we still don’t have an answer to whether the economy is more prone to a fall after it has built and built and built following a recession to the point where no more investment is needed… for now.

Let’s put it this way, the U.S. population in 2019 is 329.3 million which is 1.6 million more people than in 2018 (0.5%); in every business cycle, even one of this length, the question remains, how many more seats and desks does the country need for companies, businesses, offices? The Fed has been building up the rate of growth in the economy, so the question is: for how much longer? The chart below shows the value of private nonresidential construction put in place from 1991 to 2019. The chart also shows the value of private nonresidential construction put in place in 2018 and 2019. The chart also shows the value of private nonresidential construction put in place in 2018 and 2019.
corporations? This is the question for offices, but it could apply equally to all business investment on structures: hotles/motels, factories, amusement parks, hospitals. The question on how many retail premises, shopping centers, are needed is even more concerning. A worry because even though fewer are being built, investors seem to be shying away from providing financing for this sector of the economy. Some real-estate investment funds centering on retail establishments like shopping malls have seen their investors asking for their money back. Retail malls have seen reduced traffic as the rise of e-commerce, shopping on your phone, continues.

Shopping malls construction is down to $2.2 billion in 2019 or 14.6% of total retail establishment construction in the country. Shopping malls construction fell in the recession and had recovered to $3.9 billion in 2017 before falling back. There was a severe drop in shopping center construction from $14.895 billion in 2018 to $9.615 billion in 2019. Shopping centers include so-called shopping plazas and town centers.

To conclude, business investment in all structures were unchanged for the full year 2019 at $460.4 billion. This is a high level of spending, fully recovered from the recession, but construction has to move higher or it does not add to real GDP growth. The Tax Cuts & Jobs Act in December 2017 may have led to some additional spending for a time, but generally, there is little that Washington can do to increases investment. Lowering interest rates from 1.75% would do little if nothing.
A quiet week with daily closes ranging from 1.57 to 1.63 percent for 10-yr Treasuries. The Dow industrials made a record high close at 29,551.42 on Wednesday, up 3.5% YTD, and bond yields closed at the week’s high of 1.63%. The S&P 500 kept going and made a second record high this week on Friday, but bond yields were too tired to climb back up and closed the week at 1.59%. The market is still glued to coronavirus headlines with the news Wednesday evening of 14,840 new cases (methodology revised) dropping yields back from the week’s Wednesday 1.63% closing high. For all the talk of the $1 trillion Federal budget deficit, the Treasury sold $84 billion 3-years, 10-years, 30-years this week without much effect on yields.

CORPORATES: CARRIER GLOBAL, NOVARTIS, SYSCO, INTEL, AT&T, OSHKOSH

Corporate offerings were $34.6 billion in the February 14 week versus $26.6 billion in the February 7 week. On Tuesday, DTE Electric sold $1.1 billion 10s/30s. It priced a $600 million 2.25% 10-yr (m-w +15bp) at 68 bps (Aa3/A). The energy company (electric energy in southeastern Michigan) will use the proceeds to repay $300 million 4.89% notes, repay short term borrowings, capex, and for general corporate purposes. Corporate bond yields (10-yr Industrials rated A2) were 69 bps above 10-yr Treasuries Friday versus 71 bps last Friday.
FEDERAL RESERVE POLICY

The Fed meets March 17-18, 2020 to consider its monetary policy. Nothing for them to do. The bond market’s hopes for Fed rate cuts because of the coronavirus are later this year. June Fed funds futures say the odds of a 25-bps rate cut to 1.5% at the June 2020 Fed meeting are 56%, and for the December 2020 Fed meeting, 13 bps of a second rate cut this year to 1.25% is discounted. Nothing for the Fed to do soon, but what about further off in the future? Like when there’s a recession. Powell said on Wednesday the Fed will aggressively use QE and forward guidance to fight the next recession. This sounds a lot like the old Monty Python movie where the brave knight insists he can continue to fight his foe without his arms and legs. The reality is the Fed has nothing. Some rate cuts and QE could take bond yields down to 0.75% and mortgage rates maybe to 2.5%, but that’s it. It’s one shot. An unnecessary shot that could ruin the financial system, where if the Fed simply stood aside, the economy would most likely come back on its own. Former Fed Chairman Bernanke used to have his fans saying he stopped the Great Recession from turning into the Great Depression. We don’t know. We think the economy can come back on its own. And the Federal Reserve’s research saying it takes 500 bps of rate cuts to get us out of a recession is just plain wrong.

Okay. Calm down. There will still be a bond market after 10-year Treasury yields fall below 1 percent, it’s just that there won’t be a bond market for half of those on Wall Street employed in trading and sales. Wall Street economists should be fine as investors will still need an interest rate forecast after the Fed’s QE pushes yields down along the curve all to zero.

Here are the key takeaways from two days of Powell Q&A before Congress this week. Just to be clear. Here are the key takeaways from two days of Powell Q&A before Congress this week. There were some we guess besides him being willing to employ all their tools in the next recession. (1) It’s too early to know if the coronavirus will cause a material change in the outlook. (2) No reason the economy can’t keep on going. (3) Fed still wants banks to switch from Libor. (4) Fed will buy T-bills at least into April. (In Fed balance sheet table above, repos are $164.4 billion this week and will likely be slowly replaced with T-bills.) (5) Reduced uncertainty about trade could mean investment will pick up. Stay tuned. Story developing.
**OTHER ECONOMIC NEWS THIS WEEK**

**Wow. Job openings are plummeting in this best economy in history (Tuesday)**

Breaking economy news. The Jolts data. Job openings and labor turnover survey. Job openings around the country plummeted 364 thousand to the 6.423 million level in December. Jobs are disappearing in manufacturing, education and health services, retail trade, financial activities, and the information industry. The last time job openings fell this dramatically was in the early months of 2018 during the Great Recession.

Net, net, job openings around the country are plummeting in a way that we hate to say looks like a recession. Since November 2018, the month before the Fed's bridge-too-far final rate hike to 2.5%, 1.3 million job openings have disappeared from the nation's jobs boards which is an astounding number. The high-water mark was 7.626 million openings in November 2018 and in December 2019 there were 6.423 million openings. Something is happening out there to the economy and while we can't be quite sure what it is, this collapse in the need for labor on the part of companies is not a positive development. It's a good thing that Powell is saying the Federal Reserve is monitoring the economy closely because the labor market is saying they really need to pay attention. This is serious.
Inflation still above target (Thursday)

Breaking economy news. CPI inflation slowed in January from falling energy prices, a modest uptick of one-tenth percentage point, but it is still 2.5 percent higher than last year which makes a mockery of Fed officials’ claims that the sky is falling because there’s not enough inflation. 2.5 percent inflation is well above the Fed's 2 percent target.

Housing costs are a bigger part of the consumer's paycheck than the Fed's PCE inflation measure acknowledges and this is one major reason there is more inflation out there in the country than we think. Certainly more than the bond market thinks, otherwise why buy bonds at yields under 2.5 percent? Shelter costs in CPI rose 0.4 percent in January and are up 3.3 percent the last year. The only nonenergy prices running faster than home prices are medical care services up 5.1 percent the last year.

There's inflation out there which is what textbooks say should happen after over a decade of growth. Just look at dining-out costs up 3.1 percent the last year. Core consumer prices rose 0.2 percent in January to a 2.3 percent year-to-year rate, held back a little by used cars and trucks falling 1.2 percent in January. Meanwhile new car prices are up just 0.1 percent the last year which we never understood as the quality adjustment method of calculating CPI prices has plainly gone mad. Although we would not wish this on even our enemies, go to a car dealer if you think there is no car inflation. They will assure you you are getting a better deal with more cupholders and wood veneer paneling. You will still pay more. There’s car inflation.

Net, net, consumer inflation has risen steadily to a 2.5 percent year-on-year rate the last few months as the sharp fall in gasoline prices during the period of the Federal government shutdown and financial market turbulence falls out of the year-to-year data. There is not no inflation out there and with unemployment claims remaining at low full employment levels of 205 thousand in the February 8 week, inflation pressures will continue to build and consumers who can least afford it will have to pay up. Does the Fed Listens? Stay tuned.
Retail sales up after downward revisions (Friday)

Breaking economy news. Retail sales for January rose 0.3% to start the year off right although November and December sales were revised down one-tenth each. That is, December is now 0.2% lower than reported last month. Retail sales were a slow 1.8% in Q4 2019 and now with just January in, sales are again rising 1.8% in Q1 2020 with February and March data left to go.

Real consumer expenditures rose just 1.8% last quarter adding 1.2 percentage points to that modest 2.1% real GDP growth. Whatever the consumer is doing in the first quarter to start 2020, it doesn’t look like it is shaping up to be a strong quarter for growth if they don’t take more shopping trips to the malls of America. It looks like consumers don’t know if they are going backwards or forwards after the downward revisions to last year and modest spend in January. Consumers wake up! The economy is counting on you. Every day a Fed official is out speaking around the country talking about how solid the consumer is, but that’s starting to look less true.

In January, sales of most categories were up slightly, but sales were down 0.5% at electronics and appliance stores, and down 0.4% at health and personal care stores. Gasoline prices were down in January so sales at gasoline stations fell 0.5%. Clothing and clothing accessories stores saw their sales collapse 3.1% after a 2.7% sales increase in December.

Net, net, the consumer seems to be on the back foot for a second quarter in a row, and this has to be disappointing news for the Trump administration that is counting on consumers to carry the load as business investment remains cool due to the constant barrage of negative news which creates uncertainty for companies and businesses. This isn’t the greatest economy ever if consumers don’t decide to spend their paychecks. Stay tuned. Story developing.
Factory production sputters on global warming and Boeing (Friday)

Breaking economy news. The Fed’s very own economic statistic measuring factory output around the country for over a century. January industrial production fell again by 0.3% this month to start the year after the 0.4% drop in December. Look no further for reasons for the decline than the warmer than seasonal temperatures and a “major manufacturer significantly slowed production of civilian aircraft.” Frankly it could have been worse given the warning from Treasury Secretary Mnuchin that the administration’s 3.0% growth forecast for 2020 could see a hit by as much as 0.5 percentage point due to Boeing. Can we just call the major civilian aircraft company Boeing? Manufacturing production fell 0.1% in January, but would have been up 0.3% if we exclude aircraft production.

Net, net, factory output cooled with the warmer than seasonal temperatures for a second month and the Boeing production slowdown of the 737 Max weighing down output even further. The good news is that the weather and hopefully the civilian aircraft production schedules are just temporary in nature which means the manufacturing recession is looking less like a recession as the purchasing managers said in a January report. Stay tuned. Story developing. Our best guess is that the factory production slowdown for much of 2019 is not worsening and that growth of industrial output will pick back up again as we head into spring.
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