The economic news over the last month has been generally positive. The labor market continues to show strength, adding 225,000 new jobs over the last month. Labor force participation rates are also expanding, pulling more people into the workforce. Participation rates are hitting multi-year highs, which, in turn, will diminish residual slack remaining in the labor market and potentially translate into rising wages in the coming year.

The consumer remains a bright spot. Spending has been strong, incomes are growing and confidence remains high. Net worth gains over the last year have been robust. While economic growth has felt muted at times, the length of the expansion has lifted households.

Despite shedding 12,000 jobs in January, manufacturing is looking better. The ISM manufacturing index moved above 50 for the first time since July 2019, suggesting the manufacturing sector is expanding. Auto parts production was down only slightly from a year ago. This was the best performance since August 2018 — the last time the sector grew on a year-over-year basis.

The number-one risk factor right now is the COVID-19 (i.e., coronavirus) outbreak. While the impact is being felt most acutely in China, the economic repercussions are being felt widely. Travel bans now in effect will impact travel, tourism and hospitality. But other industries are also being affected. Manufacturers outside of China that rely on components and other supplies from inside China will likely face weeks of delays in addition to the annual one-week delay normally associated with the Lunar New Year holiday period.

Even before the coronavirus outbreak, it would seem businesses were feeling apprehensive. Business capital investment declined in the fourth quarter, for the third consecutive quarter. The phase-one trade deal offered hope that trade tensions would lift and with it uncertainty, but coronavirus brought new uncertainties to deal with. The passage of USMCA last month should help renew some business investment.

A recession looks unlikely in 2020, but collateral damage from global events such as the coronavirus are difficult to fully predict because their impact is widely felt. It is likely that any near-term decline will be answered by a quick rebound in the months that follow. We’ll have to wait and see on both accounts.
Real GDP increased 2.1 percent in the fourth quarter of 2019 and, in turn, grew 2.3 percent in 2019 (Q4/Q4). Consumer spending rose 1.8 percent in the fourth quarter — not the slowest pace of growth during the expansion but below the recent average. Also concerning was the 1.5 percent decline in business investment, the third consecutive quarterly decline. It is clear uncertainty is weighing on businesses. Expect some deceleration from here. Real GDP will grow 1.5 percent in the first quarter of 2020 and 1.8 percent in 2020.

While growth in consumer spending slowed during the fourth quarter, consumer sentiment remains robust. The Index of Consumer Sentiment increased to 99.8 in January, just below the cyclical peak of 101.4. Consumer sentiment remained high in January despite concerns of increased military conflict, ongoing impeachment trials, the coronavirus outbreak and an overall slowing economy. Sentiment remains high primarily because of low unemployment and record gains in household net worth. Gains in personal finances were reported by 53 percent of all consumers in January, equal to 2018 and 2019 averages and the highest two years in the past half century.

Personal income rose 0.2 percent in December and is up 3.9 percent in the past year. A decline in farm income (-60.9 percent) due to lower subsidy payments from the federal government to farmers impacted by the trade war restrained the total. Disposable personal income (income after taxes) is up 3.6 percent. Spending was up 0.3 percent in December and is up 5 percent over the last year — the largest annual increase since 2006. There is some concern that spending growth is outpacing income growth.
ECONOMICS

Nonfarm payrolls increased a very strong 225,000 in January, surpassing the consensus estimate of 165,000. The largest increases in January were education and health services (+72,000), construction (+44,000), leisure & hospitality (+36,000) and transportation and warehousing (+28,000). Manufacturing declined 12,000. The unemployment rate ticked one tenth higher to 3.6 percent. Mild weather likely helped the January numbers. The labor force participation rate — the share of adults who are either working or looking for work — increased to 63.4 percent, the highest since early 2013. Participation among “prime-age” adults (25-54), hit 83.1 percent, the highest since 2008.

The trade-weighted dollar index decreased 0.5 percent in January and is up just 0.8 percent over the last year. The strength of the US dollar has been one of several headwinds for U.S. exports, but that was projected to change somewhat in 2020. The coronavirus outbreak and generally upbeat U.S. economic news could bolster the dollar in the coming weeks. Traditionally safe-haven currencies such as the Japanese Yen and the Swiss Franc have strong ties to China through trade and are likely more susceptible to spillover effects that will move investors into the US dollar and away from other global currencies.

Auto parts production was mostly flat in December, ending 0.1 percent lower than November. Auto parts production was down 0.2 percent for the year. December marked the 16th consecutive month of year-over-year declines for U.S. auto parts production. Overall industrial production was down 1 percent over the last year. The value of manufacturers’ unfilled orders for motor vehicles and parts — a measure of demand — was down 4.1 percent over the last year, the fifth consecutive month of year-over-year declines.
New vehicle sales improved marginally in January. Sales were up 1.2 percent from December 2019 and 0.8 percent over the last year. Truck and SUV sales were up 3.9 percent from the prior month and 10.3 percent from last year. Car sales were down 6.2 percent from the prior month and 19.9 percent from the year-ago period. Truck and SUV sales were 75 percent of all new light vehicle sales in January — a record high. Expect new light vehicle sales to decline roughly 2 percent in 2020.

The average national price of gasoline was relatively unchanged in January. Gas prices declined $0.01 to $2.64/gallon in January. Gas prices are likely to decline in the coming months due in part to coronavirus. Oil prices are down on reduced demand, which, in turn, will put downward pressure on gas prices. China is the world’s second-largest consumer of oil. Moreover, travel restrictions to and from China coupled with travel restrictions imposed by individual businesses and reduced global business travel will put downward pressure on oil demand. Prices for oil are down about 20 percent since the start of the outbreak.

Seasonally adjusted travel on all roads and streets decreased by 0.1 percent in November 2019, compared to a year ago. Seasonally adjusted vehicle miles traveled was estimated at 272.8 billion, up 2.4 billion vehicle miles (0.9 percent) from November 2018. Cumulative travel for 2019 increased 0.9 percent (25.3 billion vehicle miles). The West, North-Central and South Gulf all saw declines during the month. The Northeast and South Atlantic saw increases of 1.7 percent and 0.2 percent, respectively.
INSIGHTS FROM SEMA

There are approximately 279 million light vehicles in operation in the United States today, of which nearly 119 million are passenger cars and over 160 million are light trucks. Together, mid range cars and pickup trucks represent almost half of the vehicles on the road.

The specialty-equipment market is a $44.6 billion dollar industry. Customers spend the most money on pickup upgrades, followed by mid range car and SUV upgrades.

INSIGHTS FROM THE SEMA INDUSTRY PERSPECTIVES REPORT

While most businesses report stable or growing sales over the past year, some may be worried about potential slowing. About half of firms expect the industry to keep growing.

Want to learn more? Download the newest SEMA Industry Perspectives Report today at: sema.org/research
U.S. ECONOMIC GROWTH: Gross Domestic Product, or GDP, is a measure of a country’s total economic activity. It represents the value of all goods and services produced within a country. More simply, it's the sum of a country's consumption, government expenditures, investments, and net exports. This graph shows the percent change per quarter at a seasonally adjusted annualized rate.

CONSUMER SENTIMENT: The “Index of Consumer Sentiment” comes from the University of Michigan’s “Survey of Consumers.” The index captures consumers’ opinions on a variety of factors, such as how their current financial situation compares to a year ago, how they expect their financial situation to change and whether the next 12 months are a good time to buy a new vehicle.

CONSUMER SPENDING: Personal consumption expenditures (PCE) is the primary measure of consumer spending on goods and services in the U.S. economy. The index is adjusted for inflation and seasonality.

CIVILIAN UNEMPLOYMENT RATE: The unemployment rate is the number of unemployed individuals as a percent of the total labor force. The Labor force includes all individuals 16 years of age and older who reside in 1 of the 50 states or the District of Columbia. Unemployed individuals are individuals who have actively sought work within the past four weeks.

TRADE-WEIGHTED U.S. DOLLAR INDEX: The trade-weighted U.S. dollar index provides a measure of the foreign exchange value of the U.S. dollar against the currencies of a broad group of major U.S. trading partners. It provides a gauge for how the U.S. dollar is performing against global currencies. A weaker dollar vis-à-vis other world currencies will make U.S. produced goods more attractive to foreign buyers. It can also mean a higher relative price for imported goods.

INDUSTRIAL PRODUCTION - AUTO PARTS: Industrial production of auto parts is a measure of real output for all facilities located in the United States manufacturing auto parts and allied goods. Growth in the production index from month to month is an indicator of growth in the industry.

TOTAL LIGHT VEHICLE SALES (THOUSANDS OF UNITS): Total U.S. cars and light trucks sold per month, including both domestic and foreign brands.

AVERAGE U.S. GAS PRICE (PER GALLON): Weekly average U.S. retail gasoline prices per gallon. This includes all grades and formulations.

VEHICLE MILES TRAVELED: The Federal Highway Administration’s Traffic Volume Trends is a monthly report based on traffic count data. These data are collected at approximately 4,000 continuous traffic counting locations nationwide. Estimates are re-adjusted annually to match the vehicle miles of travel from the Highway Performance Monitoring System and are continually updated with additional data.