

March Durable Goods, Advance Indicators, April UI Claims, Tax Reform

Lots of Moving Parts As Trump Administration Pushes Fiscal Agenda

- New Orders for Durable Goods increased by 0.7 percent in March, the third consecutive monthly gain.
- The Advance Estimate of International Trade in Goods showed a widening trade gap, dragging on Q1 GDP.
- Initial Claims for Unemployment Insurance gained 14,000, to hit 257,000 for the week ending April 22.

Tomorrow morning we will get the first estimate of 2017Q1 real GDP growth, which we expect to be modest at about 1.1 percent annualized. Today we have a mixed bag of economic releases that shed some light on Q1. Manufacturing conditions generally improved through the quarter, with the notable exceptions of auto sales and auto production. New orders for durable manufactured goods increased by 0.7 percent in March, the third consecutive solid monthly gain. Often this series shows a saw tooth, or moving average pattern with a strong month followed by a weak month. So three consecutive monthly gains is good news. In March, new orders were supported by another increase in commercial aircraft orders and by rebounding defense aircraft orders. The core measure of durable goods orders, nondefense capital goods excluding aircraft, increased by 0.2 percent in March, after similar gains in January and February.

The report on Advance Economic Indicators provides early estimates of international trade in goods, and for wholesale and retail inventories. The trade numbers imply that we will see a slightly widening trade gap in the first quarter, which will be a drag on first quarter GDP growth. Exports of goods in March were down \$2.2 billion, while imports of goods were down by \$1.4 billion, widening the trade gap for goods. Even though the value of the dollar has eased this year compared to a broad basket of currencies, it remains somewhat strong, making our exports expensive and imports cheap. Wholesale inventories dipped by 0.1 percent in March, but retail inventories were up by 0.4 percent. We expect inventories to be a positive for Q1 GDP growth.

Labor markets remain tight, especially for selected occupations, including construction workers. Initial claims for unemployment insurance increased by 14,000 for the week ending April 22, to reach 257,000. Initial claims are showing a little volatility now on a week-to-week basis, but the longer-term trend still looks very favorable. Continuing claims for the week ending April 15 gained 10,000 to hit 1,988,000, still exceptionally low, below the two million mark.

Team Trump unveiled the broad contours of their tax reform agenda yesterday. Gary Cohn, Director of the President's National Economic Council, said that the initial proposal for personal taxes would reduce brackets from seven to three, with base rates of 10 percent, 25 percent and 35 percent. Capital gains and dividend taxes would also be reduced. Deductions would be pared down to the mortgage interest and charitable contributions deductions. The current deduction for state and local taxes would be eliminated. That last point alone threatens to make personal tax reform a very contentious fight in Congress, pitting high tax states like New York against low tax states like Texas. Treasury Secretary Steve Mnuchin said that he wanted to drop the corporate tax rate from 35 percent to 15 percent and shift to a territorial system where U.S. companies only pay taxes on income related to the U.S. A low, one-time tax on overseas earnings would be a significant incentive for the repatriation of trillions of dollars, according to Mnuchin. He did not mention the border adjustment tax at the press conference yesterday. Obviously this is just the opening salvo in what is expected to be a long battle for tax reform that may not get resolved until late this year. We will have to wait and see what emerges from Congress at the end of the process.

Market Reaction: U.S. equity markets are mixed. The 10-Year T-bond yield is down to 2.29 percent. NYMEX crude oil is down noticeably to \$48.39/barrel. Natural gas futures are down to \$3.25/mmbtu.

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