Weekly Commentary

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Darkening skies

Are storm clouds finally forming over the U.S. economic landscape? The narrative has been that the domestic economy was moderating, but a recession was not imminent. That translated into thought that the Federal Reserve could take its time assessing data rather than cut rates rashly. In fact, the markets were split on whether it would reduce the federal funds target rate range once or twice the rest of 2019.

That story changed last week as surveys on manufacturing and service activity disappointed. Service-industry businesses neared the contraction level in September, while manufacturing companies fell further below it. That threw other recent data such as consumer confidence and spending into a different light, with deceleration once seen as insufficient to suggest a slowdown now seen as part of that trend. The nonfarm payroll report for September released Friday was mixed, but had an overall pessimistic tone. While the unemployment rate hit a 50-year low of 3.5%, the labor market grew by only an under-consensus 136,000 jobs. Of course, a few positive reports can make a difference, too. The Fed will have time to keep monitoring the situation before its next policy-setting meeting in late October. The repo markets were steady last week, with the Fed continuing to support them with daily operations as it works to figure out if permanent fixes are needed.

The London interbank offered rate (Libor) fell from the previous week: One-month from 2.04% to 1.99%, 3-month from 2.10% to 2.04% and 6-month from 2.06 to 1.91%.