



## Basis Points – January 22, 2019

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### Above the Fold

- The government shutdown may be making a material dent in U.S. economic growth. Kevin Hassett, the chairman of the Council of Economic Advisers, said on Tuesday that the administration now calculates that the shutdown reduces quarterly economic growth by 0.13 percentage points for every week that it lasts, which is the cumulative effect of lost work from contractors and furloughed federal employees who are not getting paid and who are investing and spending less as a result. A full quarter of shutdown could cut the GDP growth in half.
- Santa brought a rally: Since the sharp December market decline which left the S&P 500 down -19.8 percent on Christmas Eve, the market has seen a tremendous recovery. The index has gained 13.7 percent since its holiday low, crude oil has gained 26 percent and the FAANG stocks have rallied 19 percent. A change in the Fed's public stance on the urgency of future rate increases has certainly eased the downward pressure on stocks.
- Prior to the shutdown, consumers opened their wallets and spent a record \$126 billion online during the holiday season, a gain of 16.5 percent over 2017. While many department stores saw sluggish traffic, online sales grew sharply during the 2018 holiday season, taking advantage of early discounts on Amazon.com and other websites and with more people using smartphones to place their orders.

### Three Things

- Nancy Lazar at Cornerstone Macro noted yesterday that most business media headlines will report that China's GDP growth in 4Q18 was the lowest since 2009. While this is true, it is now an old story. She notes the large moves made recently by China to stimulate the economy, loosening credit, cutting taxes and weakening the currency that will re-accelerate the economy as we move through 2019. Growth in 2015 was very weak as well, and the fiscal stimulation at that time led to a GDP growth of 8 percent in late 2016. The correlation between China GDP growth and

growth in the rest of the world is high, so the seeds have been sown for a global re-acceleration in 2019.

- Business inflation expectations declined in the latest report from the Atlanta Fed. The average expected change to business unit costs over the next 12 months fell to 2.0 percent in January, the lowest level since July. Business inflation expectations are considered a better barometer of coming inflation than consumer expectations, as company planners have much more at stake for being correct and are the price setters of the economy.
- Consumer confidence has taken a hit in January, down sharply with the volatility of the stock market and news of the continuing government shutdown. However, consumer spending is not highly correlated with consumer confidence. Consumers will spend money if they have it, not if they are merely confident. Consumer spending remains strong due to strong job and wage growth and a very tight labor market.

## **Did You Know**

President Trump's State of the Union address originally scheduled for Jan. 29 has been postponed due to the continuing government shutdown. Speaker of the House Nancy Pelosi has in effect withdrawn the invitation previously sent to the President to speak to a joint session of Congress and has offered to have the President speak later or submit his comments in writing to Congress. While it seems like a longstanding ritual for a president to give his address in the last two weeks of every January, there is no established law or requirement in the Constitution for him to do so or to give a live address at all.

The speech takes its name from the clause in the Constitution stipulating that the president "shall from time to time give to the Congress information of the state of the union and recommend to their consideration such measures as he shall judge necessary and expedient."

Like much of the Constitution, this language left the details for content, format and timing of the speech up to the president and Congress. George Washington delivered the first such speech on Jan. 8, 1790. It was short and to the point, at a mere 1,089 words. A year later he gave the speech again, which set the precedent of an annual address, with Congress expected to send a written reply.

The second president, John Adams, continued the practice, but Thomas Jefferson did not care for the annual speech to the nation, as he thought it had a distasteful monarchical flavor, and the new country was still fearful of any tradition that seemed like a stuffy British tradition. The pomp of a yearly address reminded Jefferson's party of a longstanding British practice, the "speech from the throne," that the monarch delivered

before Parliament that set out his directions for the course of lawmaking, so when Jefferson won the presidency after the contested election of 1800, he abandoned the ritual altogether.

Instead, Jefferson sent a written message that his personal secretary read to the assembled House and Senate. Jefferson was also known to be a terrible public speaker, so this fear may have played a part in his decision to discontinue the practice as well. In any case, the comments were submitted to Congress in writing from 1800 until 1913, when Woodrow Wilson began the annual tradition of giving the speech live to Congress every January. Wilson had legislation that he wanted to pass in Congress, so he used his time to preach to the body about the merits of his platform. Beginning in 1913, the speech became an annual tradition and presidents have used the speech to push the White House's agenda, beliefs and propaganda to the Congress and public ever since.