



WEEKLY ECONOMIC COMMENTARY

April 10, 2017

Solid Consumer Complementing Industrial Economy

After the S&P 500 being down more than 1% with just a few trading days to go, March salvaged a total-return win. The month ended with a fractional change in the S&P 500 that was so slight you had to go out three or four decimal places to see a slight decline. Including dividend income, the S&P 500 managed a 0.12% gain for March 2017.

The S&P 500 in 1Q17 logged its best first quarter since 2013 and its best quarter over all since 2015. The S&P 500 appreciated 5.5%, and including dividends was up 6.07%. The bluest of blue chip indexes, the Dow Jones Industrial Average, rose less than 5%; the small-cap-heavy Russell 2000 barely grew 2%. But the Nasdaq Composite rose nearly 10%.

The solid first-quarter showing came amid continued Washington turmoil as the Trump administration tries to speed-dial through its change agenda. The Trump time-line is running into the reality of Washington gridlock. The stymied agenda has to be all the more galling to the president as much of the opposition comes from his own party, while Democrats remain largely on the sidelines.

The best thing going for the new team in Washington is that they can focus on their fiscal policy plans without excessive worry about economic underpinnings. The prior president spent much of his first term using various fiscal and monetary tools to stabilize the economy (he did find time for a little diversion known as ACA). Assuming no meaningful change in tax policy for 2017, the Federal deficit could widen past \$500 billion this fiscal year – but that is still less than one-third peak levels. The GOP should have a slightly longer leash to enact fiscal stimulus measures, such as tax reduction infrastructure investment, without fear of triggering a massive and immediate spike in deficits.

ECONOMY STILL SOLID

We have pointed out that the consumer has been positive for years, likely tracking the very solid trend in job creation. Monthly gains in job creation have averaged 222,000 for the past four years. Even if that pace moderates as we anticipate in the coming year, we expect job gains firmly in triple digits to keep consumer and small business people enthusiastic.

Consumer confidence rose to 125.6 in March, its highest level since December 2000. Meanwhile, the National Federation of Independent Businesses (NFIB) reported that its Small Business Optimism index remained near a 43-year high in March 2017. Capital One, which maintains a Small Business Growth Index, saw its survey jump nine points year-over-year; 50% of small business owners feel conditions are good to excellent, versus just 41% a year ago.

Higher home values, reflected in escalating home prices amid scant supply, are also helping the consumer mood. Existing home sales are rising in single digits, but new home sales are rising in low double-digits. The construction and outfitting of a new home drives much higher ancillary economic activity than an existing home transaction.

While the consumer is undoubtedly feeling good, the industrial economy is now also sending positive signals. As we pointed out last week, U.S. durable goods orders rose 1.7% in February, led by greater demand for commercial aircraft. When the volatile transportation equipment component is stripped out, orders still rose a healthy 0.4%.

U.S. factory orders rose 1.0% in February, while January factory orders were revised up to a gain on 1.5% from a prior 1.2%. New orders excluding defense rose 1.2% in Feb-

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ECONOMIC & MARKET COMMENTARY (CONT.)

ruary after rising 1.4% in January. Excluding the volatile aircraft component, orders ticked down by 0.1% after rising 0.2% in January.

Moving beyond the month-over month change, year-over-year trends send a highly positive signal regarding factory activity; they also smooth out the absence of aircraft from all comparisons. The annualized change in three-month rolling average for non-defense capital goods orders excluding aircraft increased 9.4% year-over-year, up from an annualized 9.1% as of January.

The Institute for Supply Management's (ISM) manufacturing purchasing managers' index (PMI) for March flattened out compared with February, but did so at a high level. The March Manufacturing PMI of 52.7 represented the 94th consecutive month of expansion in this diffusion index (measured as any reading above 50). Though the ISM index missed the 57.8% consensus call, it was chock full of positive data points, including employment at 58.9 and new orders at 64.5.

Are there any concerns at all on the horizon? U.S. March auto sales were a disappointment, although we have long been waiting for the surge in new vehicle sales to crest. According to Wards, the industry's annualized sales pace or SAAR (seasonally adjusted annualized rate) dipped to 16.6 million units in March, from a prior 17.5 million figure for February; SAAR was even below 16.7 million from a year earlier.

Ominously, high incentives and generous discounts failed to lure consumers into showrooms, or at least to sign on the dotted line. The dollar value of vehicles continues to rise, though. We have all seen ads for self-braking cars; that kind of technology is expensive, at least for now.

CONCLUSION

After an inconclusive March, April stock trading has opened to the downside. Keep in mind, though, that April has been the third-best month for capital appreciation on the S&P 500 since 1980. April has averaged cap appreciation of 1.59% in that span, trailing only December (+1.75%) and November (+1.68%). Moreover, April has a very good 70% win rate: over the 37 years since 1980, the S&P 500 in April has been up 26 times and down only 11 times.

May and June are a different story. Neither is as positive for stocks as April, and June in particular is weak as investors unwind positions ahead of the summer doldrums. Our optimism toward this particular April looks beyond the calendar.

We are modeling a big swing to double-digit EPS growth for the 1Q17 reporting season, which will get underway in mid-month with the big banks, and then get going in earnest around the third week of April. Nearly all sectors face easy comparisons against the tumultuous year-ago quarter. Energy comparisons in particular are positioned to swing from very difficult to very favorable.

Given our neutral near-term technical stance, we would not be surprised to see a spate of profit-taking in April. And given what we see as positive economic and earnings fundamentals, we would treat any broad market pullback as an opportunity to invest in financially strong category leaders that had gotten out of reach valuation-wise.

Jim Kelleher,
Director of Research

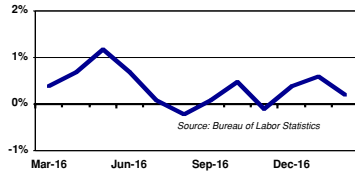
U.S. MACROECONOMIC DATA SHEET

	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17
Consumer Confidence, Conference Board	96.1	94.7	92.4	97.4	96.7	101.8	103.5	100.8	109.4	113.3	111.6	116.1	125.6
Consumer Expectations, U Michigan	81.5	77.6	84.9	82.4	77.8	78.7	82.7	76.8	85.2	89.5	90.3	86.5	86.5
Consumer Sentiment Index, U Michigan	91	89	94.7	93.5	90	89.8	91.2	87.2	93.8	98.2	98.5	96.3	96.9
Leading Economic Indicators	0.0%	0.0%	-0.2%	0.2%	0.5%	-0.1%	0.2%	0.2%	0.1%	0.6%	0.6%	N/A	N/A
CRB Futures Index	170.52	184.61	186.15	192.57	181.01	180.21	186.32	186.28	189.31	192.51	192.04	190.62	185.53
LME Copper (USD/Metric Tonne)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Crude Oil, WTI	\$38.34	\$45.92	\$49.10	\$48.33	\$41.60	\$44.70	\$48.24	\$46.86	\$49.44	\$53.72	\$52.81	\$54.01	\$50.43
Housing Starts (000)	1,113	1,155	1,128	1,195	1,218	1,164	1,052	1,320	1,149	1,275	1,251	1,288	N/A
Housing Permits (000)	1,077	1,130	1,136	1,153	1,144	1,152	1,225	1,260	1,212	1,228	1,293	1,216	N/A
New Home Sales (000)	537	570	566	558	622	559	568	568	573	530	558	592	N/A
Existing Home Sales	5,390	5,480	5,470	5,480	5,330	5,340	5,470	5,530	5,600	5,510	5,690	5,480	N/A
Construction Expenditures	1.6%	-2.9%	0.1%	0.9%	0.5%	0.5%	-0.2%	0.8%	1.5%	0.1%	-1.0%	N/A	N/A
Personal Consumption Expenditures	0.0%	1.1%	0.3%	0.5%	0.4%	0.1%	0.7%	0.5%	0.3%	0.6%	0.2%	0.1%	N/A
Retail Sales	-0.2%	1.2%	0.2%	0.7%	0.1%	0.0%	1.0%	0.7%	0.2%	1.0%	0.6%	0.1%	N/A
Automotive & Lt. Truck Sales, Mins (SAAR)	16.73	17.46	17.22	16.69	17.77	16.91	17.65	17.91	17.75	18.29	17.48	17.47	N/A
Consumer Credit	6.4%	6.3%	6.4%	6.0%	6.0%	6.3%	6.0%	6.0%	6.3%	6.5%	6.3%	N/A	N/A
Industrial Production	-0.7%	0.3%	-0.1%	0.4%	0.1%	-0.1%	-0.2%	0.2%	-0.2%	0.7%	-0.1%	0.1%	N/A
Capacity Utilization	75.4%	75.6%	75.6%	75.8%	75.9%	75.8%	75.6%	75.8%	75.6%	76.0%	75.9%	75.9%	N/A
ISM - Purchasing Managers Index	51.7	50.7	51	52.8	52.3	49.4	51.7	52	53.5	54.5	56	57.7	N/A
ISM - Production Index	55.7	54.6	52.7	54.8	54.8	49.3	53.3	54.4	55.6	59.4	61.4	62.9	N/A
ISM - Non-Manufacturing Index	59.7	58.8	56	58.8	58.9	52.4	59.8	58.1	60.3	60.9	60.3	63.6	N/A
Chicago-Area Purchasing Managers Index	53.1	50.7	50.3	55.5	54.6	51.6	54	51.8	53.9	53.9	50.3	57.4	57.7
Durable Goods Orders	2.0%	3.2%	-2.9%	-4.3%	3.6%	0.2%	0.3%	5.0%	-4.7%	-0.9%	2.3%	1.7%	N/A
Factory Orders	1.7%	1.8%	-1.2%	-1.8%	1.4%	0.4%	0.6%	2.8%	-2.3%	1.3%	1.2%	N/A	N/A
Philadelphia Fed BOS	10.6	-1.2	-1.5	4.1	-0.9	4.3	11.6	11.1	8.7	19.7	23.6	43.3	32.8
Richmond Fed Manufacturing, Shipments	22	13	-3	-8	7	-14	-4	2	1	12	13	16	17
Business Inventories	0.3%	0.1%	0.2%	0.2%	0.0%	0.2%	0.0%	-0.1%	0.8%	0.4%	0.3%	N/A	N/A
PCE Deflator (YOY%)	0.8%	1.0%	1.0%	0.9%	0.9%	1.0%	1.2%	1.4%	1.3%	1.6%	1.9%	2.1%	N/A
Core PCE Deflator (YOY%)	1.6%	1.6%	1.6%	1.6%	1.6%	1.7%	1.7%	1.8%	1.7%	1.7%	1.8%	1.8%	N/A
Consumer Price Index %change	0.1%	0.3%	0.2%	0.2%	0.0%	0.2%	0.3%	0.3%	0.2%	0.3%	0.6%	0.1%	N/A
Producer Price Index	0.0%	0.4%	0.5%	0.6%	-0.2%	-0.2%	0.5%	0.4%	0.1%	0.6%	1.1%	0.1%	N/A
Import Price Index	0.4%	0.7%	1.2%	0.7%	0.1%	-0.2%	0.1%	0.5%	-0.1%	0.4%	0.6%	0.2%	N/A
Export Price Index	95.9	96.4	97.5	98.2	98.4	97.5	97.9	98	98.1	98.5	98.7	99	N/A
Spot Gold, London PM Fixing	\$1,237.00	\$1,285.65	\$1,212.10	\$1,320.75	\$1,342.00	\$1,309.25	\$1,322.50	\$1,272.00	\$1,178.10	\$1,145.90	\$1,212.80	\$1,255.60	\$1,244.85
Nonfarm Payrolls, Monthly Change	225,000	153,000	43,000	297,000	291,000	176,000	249,000	124,000	164,000	155,000	238,000	235,000	N/A
Manufacturing Payrolls, Monthly Change	-20,000	1,000	-21,000	12,000	12,000	-17,000	-12,000	-5,000	0	18,000	11,000	28,000	N/A
Challenger, Gray & Christmas Job Cuts	48,207	64,141	30,157	38,536	45,346	32,188	44,324	30,740	26,936	33,627	45,934	36,957	N/A
Unemployment Rate	5.0%	5.0%	4.7%	4.9%	4.9%	4.9%	4.9%	4.8%	4.6%	4.7%	4.8%	4.7%	N/A
Average Hourly Earnings	\$21.40	\$21.46	\$21.48	\$21.53	\$21.59	\$21.62	\$21.68	\$21.72	\$21.74	\$21.80	\$21.82	\$21.86	N/A
Personal Income	0.3%	0.7%	0.4%	0.4%	0.5%	0.2%	0.4%	0.4%	0.5%	0.3%	0.4%	0.4%	N/A
M-1 % Change (MOM%)	15.9%	17.1%	18.5%	0.3%	-1.4%	32.7%	1.0%	4.0%	3.5%	-5.0%	26.4%	-7.6%	N/A
M-2 % Change (MOM%)	7.1%	8.5%	7.2%	6.7%	5.9%	8.0%	5.7%	5.2%	7.3%	3.4%	7.8%	3.9%	N/A
M-2, seasonally adjusted (yoY%)	6.1%	6.5%	6.8%	6.9%	7.0%	7.2%	7.2%	7.6%	7.3%	7.1%	6.6%	6.4%	N/A
U.S. \$ -- Trade Weighted Index (Broad)	121.3586	119.4249	120.8839	121.1283	121.9666	120.8472	121.7757	122.9086	125.8049	127.7405	127.618	125.7805	N/A
USD/Yen	112.57	106.5	110.73	103.2	102.06	103.43	101.35	104.82	114.46	116.96	112.8	112.77	111.42
USD/EUR	1.138	1.1451	1.1132	1.1106	1.1174	1.1158	1.1235	1.0981	1.0589	1.0517	1.0798	1.0576	1.0685
U.S. Trade Deficit (blns\$)	-\$37.259	-\$38.544	-\$42.189	-\$45.073	-\$39.691	-\$40.513	-\$36.026	-\$42.577	-\$45.484	-\$44.259	-\$48.492	N/A	N/A

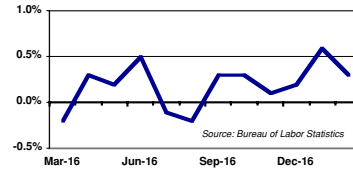
a/o March 31, 2017

ECONOMIC TRADING CALENDAR

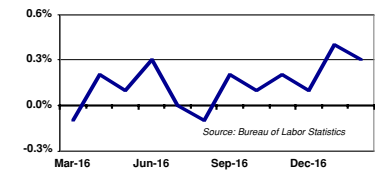
Release: Import Prices
Date: 4/12/2017
Month: March
Previous Report: 0.2%
Argus Estimate: 0.2%
Street Estimate: -0.3%



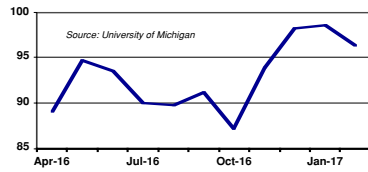
Release: Producer Prices FD
Date: 4/13/2017
Month: March
Previous Report: 0.3%
Argus Estimate: 0.2%
Street Estimate: 0.0%



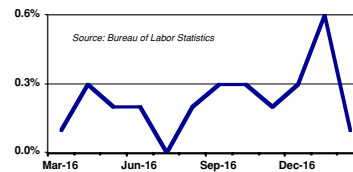
Release: Producer Prices FD-Ex-F&E
Date: 4/13/2017
Month: March
Previous Report: 0.3%
Argus Estimate: 0.2%
Street Estimate: 0.1%



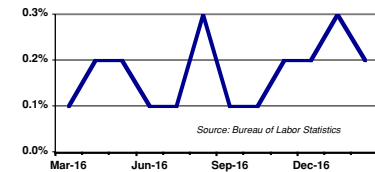
Release: U. of Michigan Sentiment
Date: 3/31/2017
Month: April
Previous Report: 96.9
Argus Estimate: NA
Street Estimate: 97.6



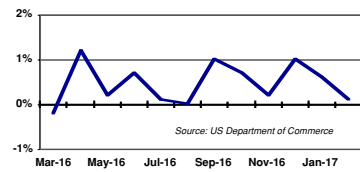
Release: Consumer Prices
Date: 4/14/2017
Month: March
Previous Report: 0.1%
Argus Estimate: 0.2%
Street Estimate: -0.1%



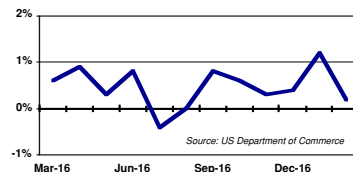
Release: Consumer Prices, Ex-F&E
Date: 4/14/2017
Month: March
Previous Report: 0.2%
Argus Estimate: 0.2%
Street Estimate: 0.2%



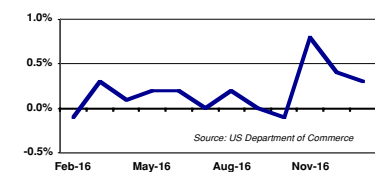
Release: Retail Sales
Date: 4/14/2017
Month: March
Previous Report: 0.1%
Argus Estimate: 0.1%
Street Estimate: 0.2%



Release: Retail Sales; ex-autos
Date: 4/14/2017
Month: March
Previous Report: 0.2%
Argus Estimate: 0.2%
Street Estimate: 0.2%



Release: Business Inventories
Date: 4/14/2017
Month: February
Previous Report: 0.3%
Argus Estimate: 0.4%
Street Estimate: 0.3%



Previous Week's Releases and Next Week's Releases on next page.

ECONOMIC TRADING CALENDAR (CONT.)

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
3-Apr	ISM Manufacturing	March	57.70	56.00	53.50	NA
	Construction Spending	February	-1.0%	0.5%	1.0%	NA
4-Apr	U.S. Trade Balance	February	-\$48.5B	-\$48.0B	-\$44.7B	NA
	Factory Orders	February	1.2%	1.0%	0.9%	NA
5-Apr	ISM Non-Manufacturing	March	57.6	55.0	57.0	NA
	FOMC Minutes Released	NA	NA	NA	NA	NA
7-Apr	Nonfarm Payrolls	March	235k	190k	177k	NA
	Private Payrolls	March	227k	195k	180k	NA
	Unemployment Rate	March	4.7%	4.7%	4.7%	NA
	Average Hourly Earnings	March	0.2%	0.2%	0.3%	NA
	Average Work Week	March	34.4 hrs.	34.4 hrs.	34.4 hrs.	NA
	Consumer Credit	February	\$8.79B	\$8.8B	\$12.5B	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
17-Apr	Empire State Manufacturing	April	16.40	NA	NA	NA
18-Apr	Housing Starts	March	1,288k	1,300k	NA	NA
	Industrial Production	March	0.5%	0.2%	NA	NA
	Capacity Utilization	March	75.7%	75.7%	NA	NA
19-Apr	FOMC Beige Book	NA	NA	NA	NA	NA
20-Apr	Leading Economic Indicators	March	0.6%	0.2%	NA	NA
21-Apr	Existing Home Sales	March	5.48mm	5.5mm	NA	NA

* Preliminary

** Advance

^Final

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