MACRO PULSE™
April 2017 A Delphi Advisors Publication Volume 8, No. 4

Are "Soft" Data Hitting a "Hard" Reality?

In the aftermath of last November's election, and particularly since the start of 2017, a number of surveys ("soft" data) have shown consumers and businesses alike to be almost overwhelmingly upbeat. Examples include the University of Michigan's U.S. consumer confidence index, which has risen to levels last seen prior to the Great Recession. Also, the Wells Fargo/Gallup Small Business Index survey (posted in mid-March) reported optimism among small-business owners "soaring" to its highest reading in a decade. Finally, a survey published by the National Association of Manufacturers at the end of March found that 93% of the 14,000 companies surveyed felt positive about their economic outlook. That is the highest percentage in the survey's 20-year history, up from 56.6% one year ago and 77.8% in December.

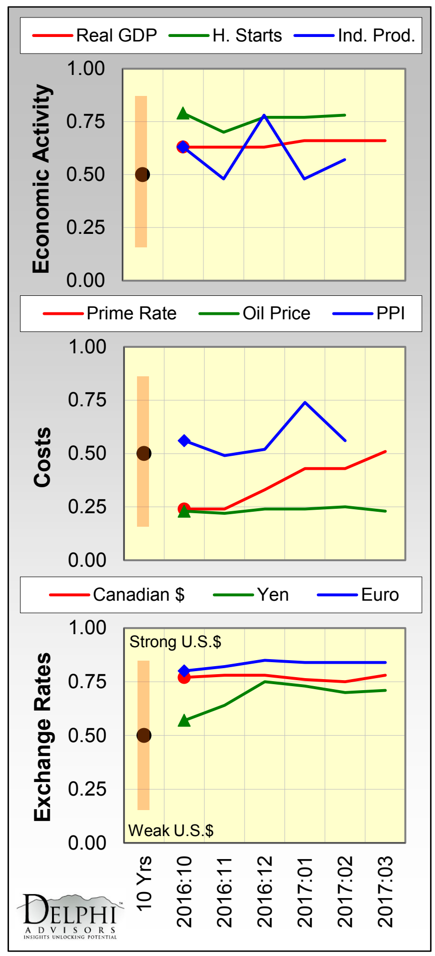
The rub is that "soft" data rarely correspond to what eventually unfolds in the economy. For example, the correlation between consumer confidence and spending is weak at best. Comparing historical aggregates of consumer and business data also indicates that activity measured by "hard" data typically fluctuates much less than might be expected from the significant swings in "soft" data. Much as we would hope such optimism might provide a late-cycle "second wind," a plethora of indicators suggest to us the economy will have to contend with tangible headwinds rather than tailwinds from ephemeral optimism. What follows are "hard" data metrics, published during the past month, which provide a mixed perspective regarding economic direction:

- ***Housing*** – Residential construction activity was buffeted in various directions in February. Housing starts received a 3.0% lift, but permits exerted drag thanks to a 21.6% slump in the multi-family component. Sales were mixed, with new-home sales "roaring" to an 11-month high (although to levels only on par with the early 1990s) but resales retreating.

- ***Employment*** – Non-farm payroll employment rose by just 98,000 jobs in March – barely half the +178,000 expected. Moreover, combined January and February 2017 employment gains were trimmed by 38,000 jobs. Meanwhile, the unemployment rate fell to 4.5% as growth in the number of employed (+472,000) outpaced that of people (re)entering the labor force (+145,000). With the number of persons not in the labor force ticking up by 23,000 (to 94.2 million) and only marginal expansion of the labor force, the labor force participation rate was unchanged at 63.0%.

- ***Manufacturing*** – Reflecting annual revisions published at the end of March, total industrial production (IP) edged up by 0.1% in February (+0.4% YoY). Manufacturing output rose by 0.5% (+1.5% YoY). Revisions to total IP show lower rates of change, especially in 2014 and 2015. The revision also left manufacturing output in February 2017 more than 6% below its pre-recession peak.

New orders jumped by 1.0% (+3.5% YoY) in February, led (as usual) by transportation equipment. Excluding transportation trimmed the increase to 0.4% (+3.7% YoY – the fourth consecutive month of YoY increases). Business investment spending edged down by 0.1% (and just +0.3% YoY – although that represents the first three-month string of YoY increases since October 2014). ■



Previous six months' behavior of macroeconomic variables indexed relative to their historical 10-year min, max and average (lower and upper ends of the orange bars, and black dots, respectively)

This report is typically a compilation of articles posted on our website; those articles relate in greater detail recent economic developments to the U.S. forest products sector.

DELPHI ADVISORS INSIGHTS UNLOCKING POTENTIAL
© 2017 Delphi Advisors™ LLC