Lavery Consulting Group

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Data Scan: the Good, the Bad and the Ugly

Durable goods orders in February increased 0.5% m/m, on top of an upwardly revised January gain of 3.9%, previously reported as 3.0%. While civilian aircraft orders jumped 33% in February, overall transportation equipment orders declined 0.7%. The slippage in transportation orders was due to a 1.9% drop in motor vehicle orders in February, featuring the troubles of Toyota. Removing transportation, durable goods orders rose 0.9%, beating consensus expectations of a 0.6% gain, ex transportation.

The 0.5% February gain in durable goods orders on the surface looks weaker than the revised 3.9% jump in January. Actually, in the most important way, as a precursor of capital spending, i.e, business investment spending in the GDP accounts, February represents a strengthening from January. Core orders for non-defense capital goods, excluding aircraft rose 1.1% in February. Shipments of non-defense capital goods, ex aircraft rose 0.8% last month, while that gauge was actually down 1.9% in January, after a 2.3% rise in December. Non-defense aircraft orders had surged 134.9% in January. Shipments of non-defense capital goods orders ex aircraft have risen 7.9% at an annual rate over the last six months.

The strengthening in capital goods orders and shipments bode well for payroll employment growth. The Richmond Fed's manufacturing index strengthened in March, including its employment component. The Richmond Fed's new orders reading was the best in 6 months.

We expect the March employment data being reported on Friday to show an increase in non-farm payrolls of 250,000. This is in sharp contrast to the 36,000 payroll decline reported in the February data. Some of the employment gain we see is the rebound from snowstorm depressed numbers in February. And, roundly half of the employment gain in March would, we estimate, be due to temporary hiring of Census workers. We believe average hourly earnings will advance 0.2% in March m/m, following an increase of 0.1% in February, and 0.2% in January. We believe average weekly hours, which slipped from 33.9 in January to 33.8 in February, will return to 33.9 in March. We see the March unemployment rate remaining at 9.7%.

Our estimated employment increase is influenced by the ISM surveys, both manufacturing and non-manufacturing. In addition, initial jobless claims

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have been trending lower. The Bureau of Labor Statistics (BLS) reported on March 23rd that February Mass Layoffs declined by 191 events to 1,570, the lowest figure since July 2008. (The BLS defines a mass layoff event when there are at least 50 initial claims for unemployment insurance coming from a single employer over a span of five consecutive weeks.)

In February, the Challenger planned layoff statistics were 77% below February 2009, and were also the lowest monthly figure on planned layoffs since July 2006. The Challenger layoff report for March is released on Wednesday, March 31 at 7:30a.m., and may well show a continuing lessening of layoffs, except in the state and local government area where broadening layoffs are likely in local school districts, notably in California.

The latest BLS Job Openings and Labor Turnover Survey (JOLTS) was January data released on March 10th. The JOLTS data measure gross hiring and separations through the end of the month. In contrast, the monthly payroll numbers take a look at employment as of the pay-period that includes the 12th of the month. The JOLTS data offer some of the dynamics impacting not only the January payroll survey, but also the February jobs report. The January JOLTS report showed a rise in job openings from 2.531 million in December to 2.724 million, the strongest since February 2009. Layoffs in the January JOLTS data were the lowest since April 2008.

Our assessment of labor market conditions is one of continued improvement in the months ahead, outside of two key sectors: construction and state and local government. The moderate downward revision in 4Q:'09 real GDP from 5.9% annualized growth to 5.6% still has inventories accounting for most of the growth. This was due to inventories declining by less than was the case in 3Q:'09. There was no real restocking of the shelves. But, now inventory to sales ratios are at record lows. Final sales are accelerating, and business is poised to build inventories, contributing to economic growth. We are likely to see 2.5% real growth in 1Q:'10 and a stronger second quarter.

The shaving of 4Q:'09 real growth was due to even greater weakness in non-residential construction, and paring of residential investment, as well as state and local government outlays. Existing home sales are moving lower m/m, and supply on the market has increased, expressed as the number of months supply at reduced selling rates. With additional supply coming from distressed sales and foreclosures, the median selling price of an existing home fell 1.8% y/y in February. New home sales declined 2.2% m/m in February, the fourth consecutive monthly decline, and sixth in the last seven months. Inventories moved higher because of depressed selling rates. The average selling price of the new homes that sold were up 5.2% up y/y.

With the involvement of the International Monetary Fund, the turmoil around Greece is contained… for now. And, the new U.S. health care law and fiscal spending excesses will bring significant tax increases by January 2013, unless major changes are made, as a result of November 2010 and November 2012.

Economic Indicators in the Week Ahead:

Monday, March 29 8:30a.m. February Personal Income and Spending
We anticipate a 0.2% m/m increase in personal income (PI), the 7th successive monthly rise. We see the all important private wage and salary area moving higher slowly, but stronger transfer receipts and proprietors income will help total PI advance 0.2%. The weakness in average hourly earnings and the average workweek in the February employment report promise to restrain wages and salaries. Stronger PI growth will eventuate in March, consistent with the 250,000 increase in payrolls in our forecast of Friday's March employment report. The February retail sales gain leads us to expect total personal consumption expenditures (PCE) rose at least 0.3% last month. The consensus forecast sees February PI up 0.1% and PCE up 0.3%. We estimate the personal savings rate will slip to 3.1% in February, from 3.3% in January. We see the PCE deflator up 0.1% m/m, and the core PCE deflator rising 0.1% as well. On a y/y basis, the core PCE deflator would be up 1.3%, matching the February 1.3% y/y gain in the core CPI.

Tuesday, March 30 8:30a.m. January Case-Shiller Home Price Index
We believe the Case-Shiller home price index for the 20 largest metropolitan areas will show a 0.6% y/y decline. This matches the consensus expectation, and would be the smallest y/y drop since February 2007. December had shown a 3.1% y/y decline. The 0.6% y/y drop for the composite 20 metro areas in January, assumes a 0.2% decline m/m.

Tuesday, March 30 10:00a.m. March Consumer Confidence Index
The Conference Board's Consumer Confidence Index plunged from 56.5 in January to 46.0 in February. We expect a partial rebound in March to 52.0 in light of a bounce of six points to -43 in the weekly Consumer Comfort Index, with only a 1 point slippage to -44 the following week. Initial jobless claims have declined in recent weeks, and we believe a healthy rise in payroll employment began in March. Our expectation for consumer confidence is stronger than the consensus call of 50.0.

Wednesday, March 31 8:15a.m. March ADP Priv. Sector Employment
The ADP employment report is likely to show an advance of 60,000 in private sector payrolls in March. This is in sharp contrast to a 60,000 employment decline in January and a drop of 20K in private sector payrolls in February. Our forecast is well above the consensus call, at this writing, of

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a 40,000 rise in private sector payrolls in March. Our view is heavily hinged on employment growth in the service sector.

Wednesday, March 31 9:45a.m. March Chicago PMI

We see slippage in the March Purchasing Managers Index (PMI) to 60.0 from 62.6 in February and 61.5 in January. The latest Beige Book showed declining order backlogs in the region. The seasonal adjustment factors will restrain the Chicago PMI in March and in the months ahead.

Wednesday, March 31 10:00a.m. February Factory Orders

We expect factory orders to increase 1.0% m/m in February, following a 1.7% rise in January and a 1.5% gain in December. February would be the sixth successive monthly increase in factory orders. We expect the February advance to be led by a 1.7% m/m rise in non-durable orders. On a y/y basis, factory orders in February would be up 10.8%, following a 10.2% y/y rise in January.

Thursday, April 1 8:30a.m. Initial Jobless Claims, Wk. Ending 3/27

Following a decline of 14,000 in the week ending March 20 to 442K, we believe claims will recede to 435K in the week ending March 27th. Claims have moved to a level consistent with payroll employment gains.

Thursday, April 1 10:00a.m. February Construction Spending

We estimate construction spending dropped 1.2%m/m in February, more negative than the consensus decline of 1.0%. Construction spending fell 0.6% in January and declined 1.2% in December. Construction employment fell in February, as did housing starts. We see weakness most pronounced in non-residential construction and in public construction at the state and local government level.

Thursday, April 1 10:00a.m. March ISM Manufacturing Survey

The Institute for Supply Management (ISM) manufacturing survey likely moved higher to 58.0 in March, from 56.5 in February, but will likely remain below the January level of 58.4. The regional Fed surveys, e.g., Empire, Richmond, and Philadelphia showed expansion in their latest reading, and initial jobless claims have been moving lower.

Friday, February, April 2 8:30a.m. March Employment Situation

Nonfarm payroll employment increased 250,000, in our estimation, in March. At this writing, the consensus employment gain is 187,000, comprised of a range from a decline of 60,000 to a gain of 350,000. The details of our labor market assessment are treated on pages 1 and 2 of this report.

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