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Economics Group

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LEI Suggests Q1 Weakness Mostly Transitory

The Conference Board's Leading Economic Index (LEI) grew 0.7 percent in April, pointing to resilience in the U.S. economy after a weak Q1. The outlook for the manufacturing sector is slightly less rosy, however.

Morning in America?

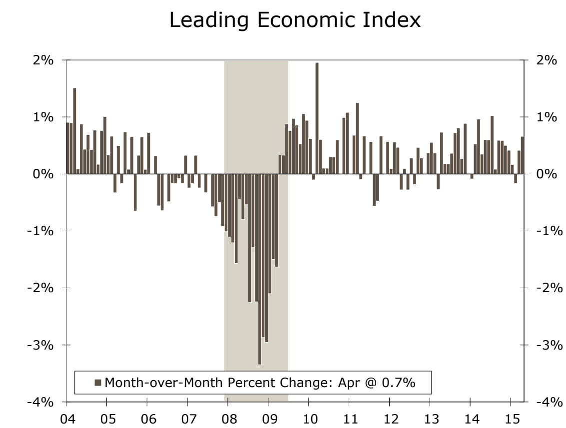
In its April meeting minutes released yesterday, the Fed noted that, while growth was decidedly weak in Q1, it was "likely held down, in part, by transitory factors." Today's release of the Conference Board's Leading Economic Index (LEI) largely corroborated that story. The headline index grew 0.7 percent, well above consensus expectations of a 0.3 percent rise, marking the largest sequential increase since July 2014. Only one of the index components, the ISM New Orders Index, subtracted from growth in April. March's initially reported 0.2 percent growth rate was also revised up to 0.4 percent. Building permits were the largest positive contributor in April, adding 0.29 percentage points to headline LEI growth. This comes as little surprise, given permits rose 10.1 percent in April to a fresh post-recession high of 1.14 million units. However, the strong reading comes on the heels of a particularly weak start to the year, and we suspect the pace of improvement in residential construction may be somewhat overstated by this figure.

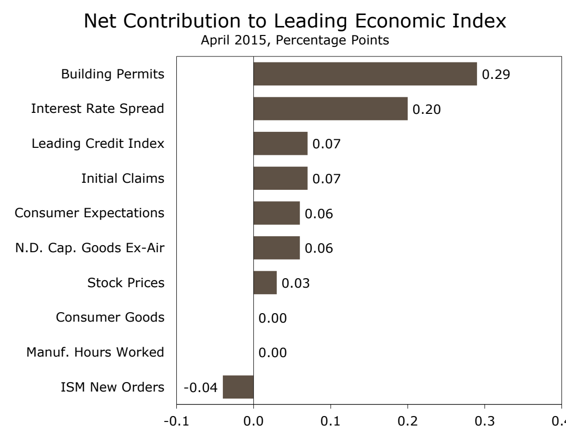
Employment data were another key contributor to the LEI, with initial jobless claims adding 0.07 percentage points to growth in the headline index. Weekly jobless claims touched a 15-year low in the final week of April, and the four-week moving average continues to trend downward on balance. Further strengthening in the job market likely helped bolster the consumer expectations component of the index as well. Consumer confidence has contributed positively to the index for seven straight months now.

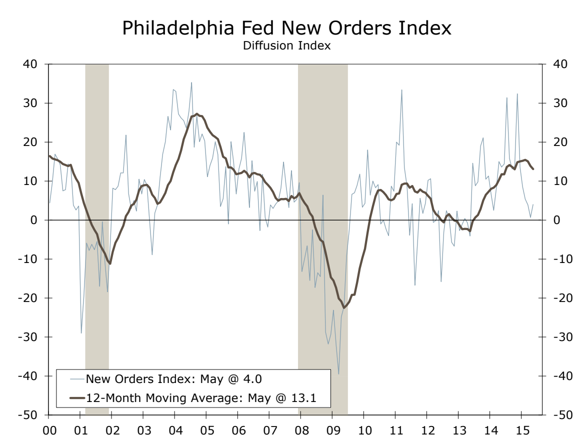
Manufacturing Sector Still on Shaky Ground

Data from the factory sector continue to provide mixed signals. The ISM new orders component subtracted 0.04 points from headline growth, its fourth-straight monthly decline. Moreover, hours worked in the manufacturing sector were flat in April after notching negative contributions in the previous two months.

Meanwhile, core capital goods orders notched its first positive contribution to headline LEI growth since December, offering a glimmer of hope in the otherwise dim performance we have seen from the U.S. manufacturing sector thus far this year. In addition, this morning's release of the Philly Fed Manufacturing Index showed that the new orders component bounced back to 4.0 in May, although this series remains well below the highs touched last year. Both of these series have endured significant weakness since the end of last year, but the recent improvement, although slow, suggests that the outlook for the U.S. factory sector is brightening. Our read on the manufacturing sector is that the effects from the port shutdown and other temporary factors should continue to wane, but the stronger dollar may prove to be a headwind to the sector for quite some time.







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