

## Economics Group

Tim Quinlan, Economist

[tim.quinlan@wellsfargo.com](mailto:tim.quinlan@wellsfargo.com) • (704) 410-3283

Erik Nelson, Economic Analyst

[erik.f.nelson@wellsfargo.com](mailto:erik.f.nelson@wellsfargo.com) • (704) 410-3267

## 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.

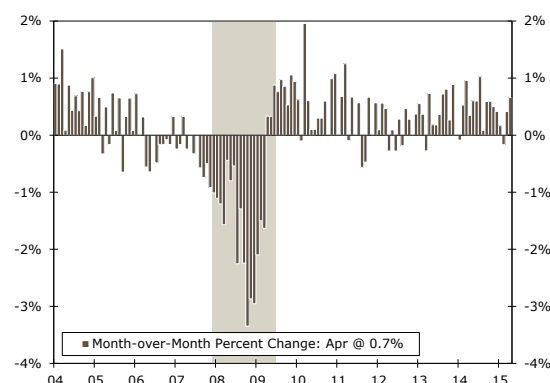
Employment data were another key contributor to the LEI, with initial jobless claims adding 0.07 percentage points to growth in the headline index. Weekly jobless claims touched a 15-year low in the final week of April, and the four-week moving average continues to trend downward on balance. Further 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

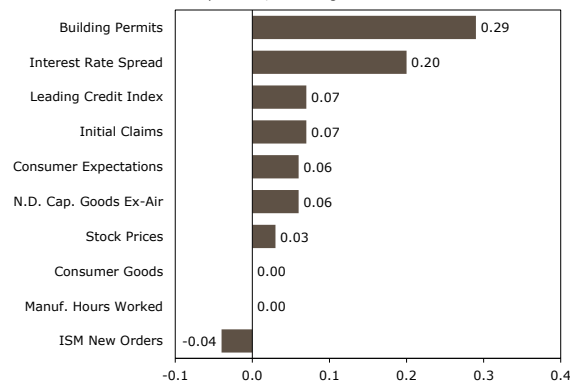
Data from the factory sector continue to provide mixed signals. The ISM new orders component subtracted 0.04 points from headline growth, its fourth-straight monthly decline. Moreover, hours worked in the manufacturing sector were flat in April after notching negative contributions in the previous two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

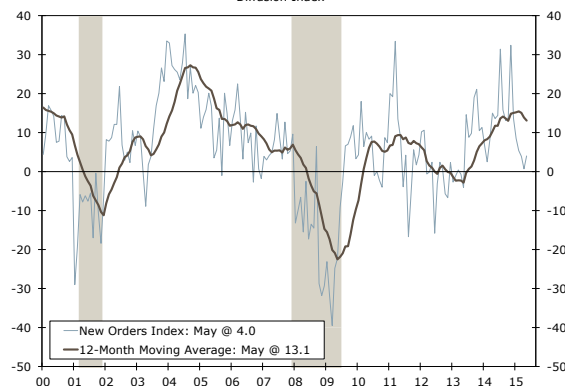
Leading Economic Index



Net Contribution to Leading Economic Index  
April 2015, Percentage Points



Philadelphia Fed New Orders Index  
Diffusion Index



## Wells Fargo Securities, LLC Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 410-1801 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 410-3275	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Jay H. Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Currency Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Eugenio J. Alemán, Ph.D.	Senior Economist	(704) 410-3273	eugenio.j.aleman@wellsfargo.com
Anika R. Khan	Senior Economist	(704) 410-3271	anika.khan@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Eric Vilorio, CFA	Currency Strategist	(212) 214-5637	eric.viloria@wellsfargo.com
Sarah House	Economist	(704) 410-3282	sarah.house@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@wellsfargo.com
Michael T. Wolf	Economist	(704) 410-3286	michael.t.wolf@wellsfargo.com
Mackenzie Miller	Economic Analyst	(704) 410-3358	mackenzie.miller@wellsfargo.com
Erik Nelson	Economic Analyst	(704) 410-3267	erik.f.nelson@wellsfargo.com
Alex Moehring	Economic Analyst	(704) 410-3247	alex.v.moehring@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com
Cyndi Burris	Senior Admin. Assistant	(704) 410-3272	cyndi.burris@wellsfargo.com

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