

THE ECONOMIC OUTLOOK GROUP



475 Wall Street
PRINCETON, NEW JERSEY 08540 Tel: 609 - 529 - 1300
www.economicoutlookgroup.com

ECONOMIC TALKING POINTS

Bernard Baumohl
Chief Global Economist

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Data Results: US Economy at an Inflection Point

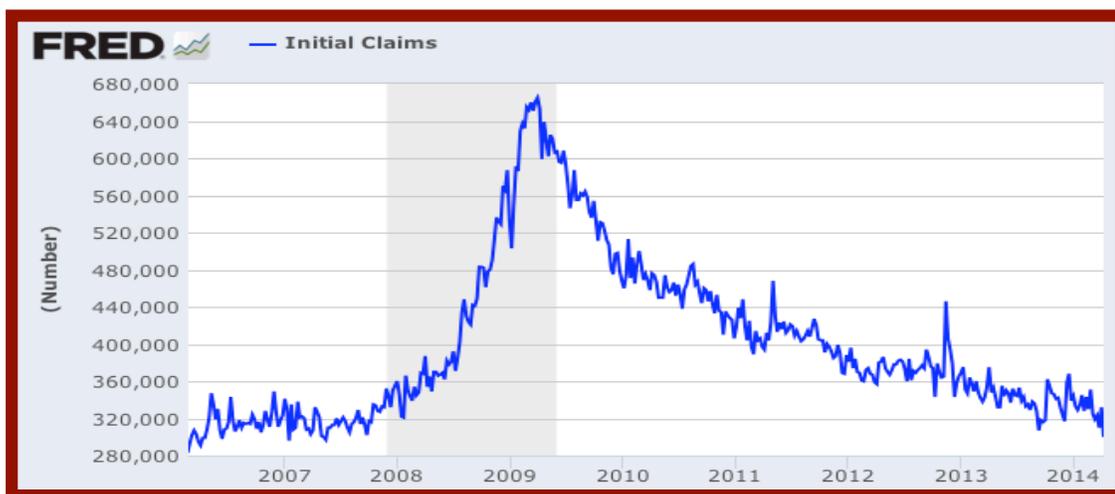
For those still unsure about the direction of the US economy, check out several of the best forward looking economic indicators out lately. Both the monthly reports and, even more telling, several weekly releases show an economy at an inflection point and transitioning towards faster growth.

Let's start with some of the weekly economic reports because they can be timelier in capturing turning points in the business cycle.

- **New applications for jobless benefits** plummeted by 32,000 in the week ending April 5th, bringing the number of claims filed to 300,000. That's the lowest figure we saw since May 2007, about the time when the economic cycle was near its previous peak!

The more stable four-week moving average on new applications dropped to 316,250, the smallest in more than six months.

This comes on the heels fairly strong evidence from both March's ADP Employment survey and last week's BLS jobs report that employers in the private sector are now ramping up hiring.

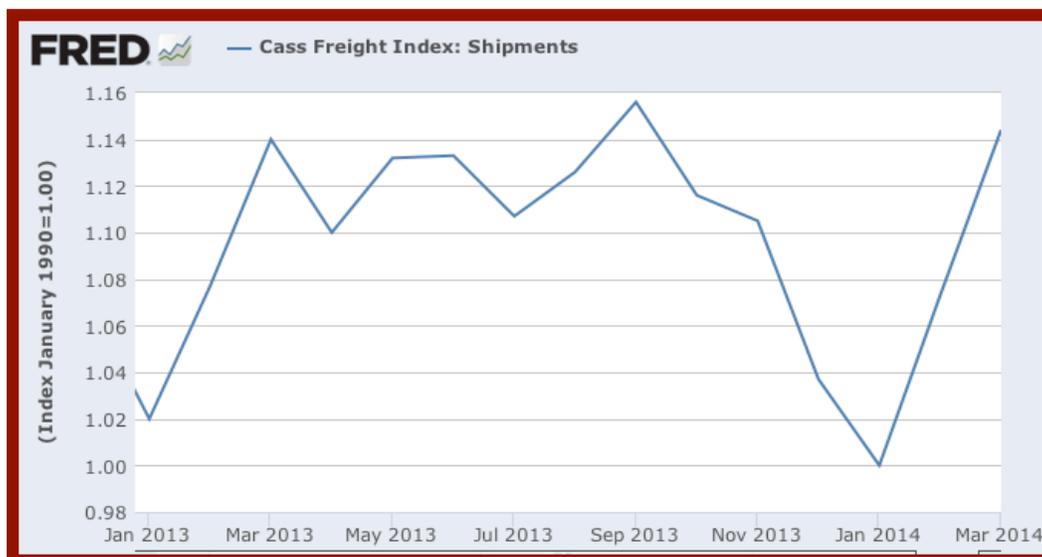


- Another encouraging weekly release came from the **Mortgage Bankers Association (MBA) on new mortgage applications**. True, the headline was anything but upbeat. Total applications fell in the week ending April 4. However look closely and you see this is entirely because households have dramatically scaled back refinancing their older mortgages. The Refinance Index has now dropped to its lowest level since the end of 2013.

That's hardly a surprise. Rates on conventional mortgages have barely budged in recent weeks, though they have been creeping up the past 12 months, rising from 3.43% a year ago to about 4.3% now. So the incentive to rush out and refinancing has greatly diminished. In fact, refinancings now account for 51% of all mortgage applications, the lowest proportion since July 2009.

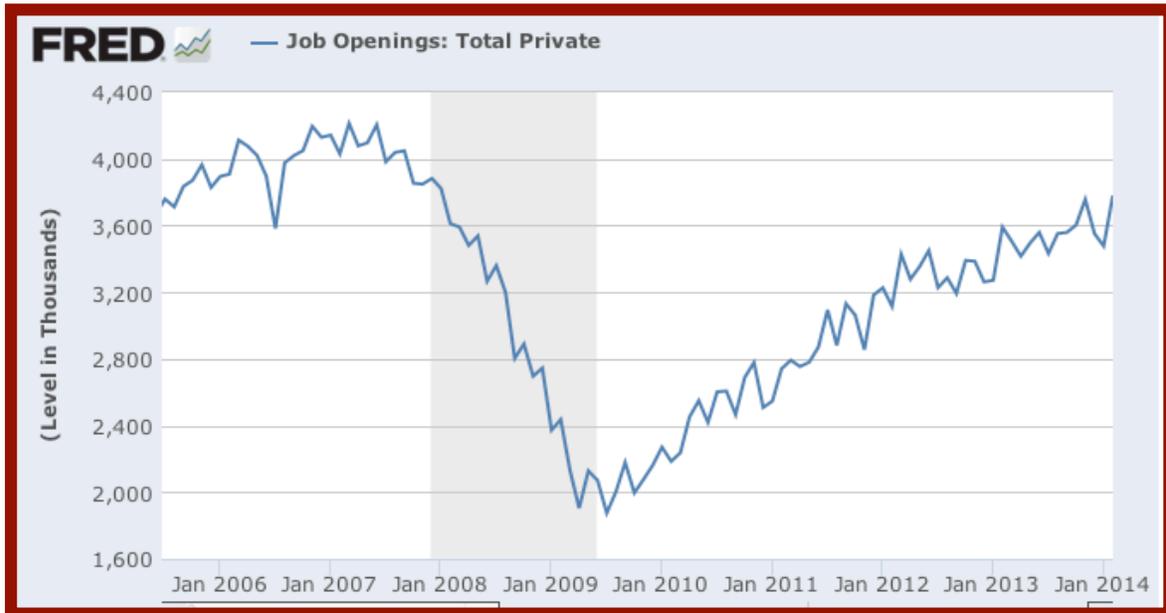
But here's the goods news! At the same time, the number of mortgage applications for the purpose of *buying a home* has jumped for the third week in a row. As a result, we expect to see new home purchases and pending sales on existing homes accelerate this spring, especially as the inventory of homes on the market grows and the pace of price increases slows.

- Another weekly window into the economy, one that takes a peek at consumer spending, shows Americans have resumed shopping now that the weather has warmed up. The **International Council of Shopping Centers** reported that both shopper traffic and outlays jumped in the week ending April 5th. This was the third increase in four weeks on household spending.
- In addition to these weekly reports, a slew of recent monthly indicators underscore the economy's resilience. Some of these gauges are less followed by analysts, but are important nevertheless. The **Cass Freight Index**, which measures the volume of freight being shipped around the country, jumped to 1.144 in March, the highest in six months and second best figure since the fall of 2012. A busier supply chain delivery system provides yet more evidence of an economy that is revving up speed.



- The latest JOLTS (**Job Openings and Labor Turnover Survey**) by the BLS showed companies in February sought to fill the largest number of positions in six years. Total job openings in the private sector jumped to 3.78 million in February, a jump 303,000 from the previous and the biggest monthly increase in a year.

The JOLTS report is watched closely by the Federal Reserve, especially Fed chair Janet Yellen, not just for the pace of new job openings, but also the number of those who willingly quit their current job on the belief they will successfully find another. The latter is a gauge of employee optimism that labor market conditions have sufficiently improved to risk seeking other jobs. In the private sector, the proportion of those who quit one job for another as a percentage of total separations (which is the aggregate of quits, layoffs and those retiring) increased to 55.1% in February, the highest since last November.



- Finally, since small and medium-sized firms are responsible for hiring 7 out of 10 new workers, their expectation of future business activity can influence employment trends in the coming months. Earlier this week, the National Federation of Independent Business (NFIB), the trade group that represents small and mid-size companies, released their latest **Small Business Optimism Index** and it rose to 93.4 in March, compared with 91.4 in February. More of these firms also said they plan to expand operations in the next three months also rose. Indeed, most of the responses in this survey reflect the view that the economic outlook has improved.

Somewhat bizarrely, hiring plans by small and mid size firms were still depressed, but we expect this, too, will turn up as demand for goods and services pick up more visibly in the coming weeks.

Bottom line:

With China witnessing slower growth, Japan likely in recession this quarter, and Europe's anemic recovery vulnerable to geopolitical shocks from Russia, the spotlight turns to the US as evidence mounts it will be the leading locomotive of growth in the world this year.
