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ECONOMIC TALKING POINTS

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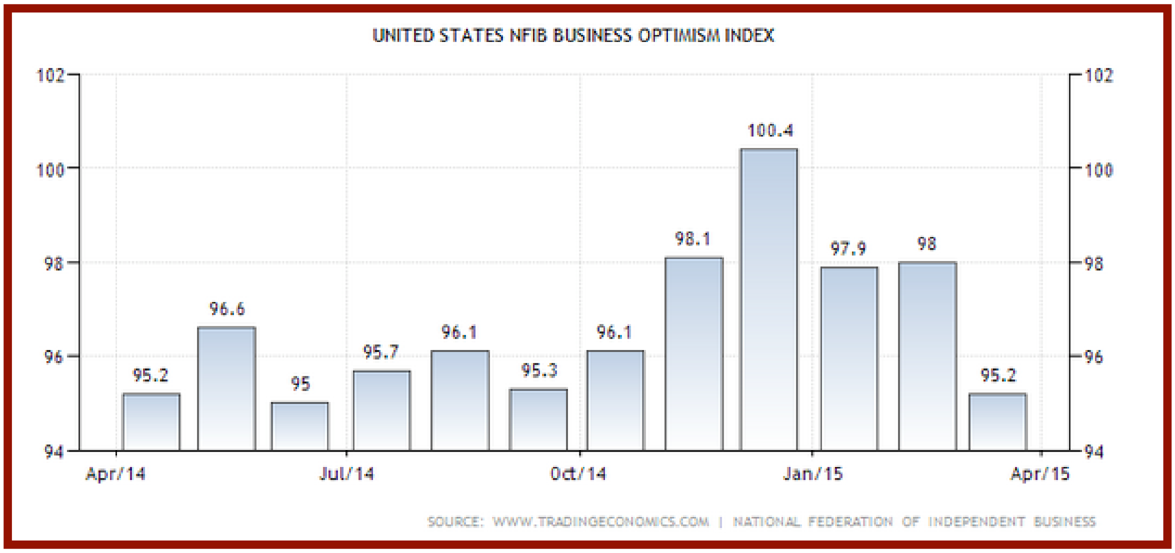
Look Beyond the Weak Data From Winter: This Economy is Now Shifting Into Faster Gear

The consumer is back! March retail sales, along with another more current shopping metric, suggest households have shaken off the winter freeze and resumed spending in recent weeks.

Retail sales jumped 0.9% last month, the first increase in four months and the biggest advance in a year! Nine of the 13 major retail categories showed gains, with auto purchases leading the charge, followed by furniture, clothing and department store sales.

We're fairly certain the rebound in shopping began in the latter half of the month. Unfortunately, government statisticians do not ask retailers for sales data by the week, just monthly totals. But we can surmise from another data set that most purchases were made the last few weeks. For example, according to data compiled by Goldman Sachs and Retail Economist LLC, the Weekly Chain Store Sales Index rose 1% in the week ending April 11th compared with the previous seven days. This marks the third straight weekly increase in sales, evidence consumer activity is picking up again as temperatures warm up. The chief economist of that report, Michael Niemira, specifically noted "the post-Easter retail business was more robust than expected."

Today's good news on the consumer front, however, was blunted somewhat by another report that small business owners in March expressed less optimism about the economic outlook. The National Federation of Independent Business noted the "small business optimism index" fell to 95.2, bringing the confidence level to the lowest since June 2014. All their subcomponents --- including capital spending and employment plans --- dropped last month.



Meanwhile, the government announced that total business inventories in February (a more dated and thus less relevant figure) swelled by 0.3%, an obvious reflection of weak sales during that weather-damaged month. Nor was it surprising the Cass Freight Index (which gauges the volume of freight being shipped on the nation's roads and rails) was depressed in March. We attribute that weakness to both transportations hazards this winter AND the labor disputes at West Coast ports.

But, again, let's take a step back. The underlying theme here is that exogenous factors severely disrupted consumer spending and business shipments the last three months. Tomorrow's release of March industrial production and Thursday's housing starts will likely fail to impress as well. So you can effectively write off 1Q GDP growth to be a meek 1%.

However the weakness last quarter should not be seen as a harbinger of more sluggish growth ahead. We expect business activity will bounce back fairly quickly, with the economy well positioned to show an average quarterly growth rate of more than 3% the rest of the year. Propelling the economy forward will be a resumption to faster hiring, greater real household income, an upturn in housing, more stable energy prices (which will help support cap ex spending in the energy sector), and a dollar that is close peaking.

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