Look to Trends, Not Headlines, in Economic Data

It has been difficult to keep up with news about the economic landscape over the past month. Geopolitical tensions, trade negotiations, weak European growth, Brexit, oil market disruptions, an autoworkers’ strike and calls for the Federal Reserve to further cut interest rates have captured the headlines and complicated an already uncertain economic picture. With all the chatter and short-term fluctuations in the data, it is important in times like these to cut through the noise and focus on long-term trends rather than daily headlines.

When the Institute for Supply Management announced that its Purchasing Managers Index for manufacturing had fallen to 47.8 percent in September, news coverage focused on the fact that the reading was the lowest in 10 years, and rattled financial markets reacted as if an economic downturn had begun. However, while anything under 50 percent is contractionary, it is not necessarily recessionary. In the meantime, the number of new car sales – a key barometer of the economy that reflects the strength of the consumer – increased to 17.2 million annualized units in September, pushing the 2019 average above 17 million for the first time.

While employers added only 136,000 net new jobs in September – down from an average 158,000 a month earlier this year and 181,000 last year – payroll growth remains consistent with steady economic growth and the labor market remains tight. And a number of indicators suggest that hiring has slowed not because of a lack of demand but rather the inability to find qualified workers. According to the National Federation of Independent Business, 35 percent of companies surveyed for its September Small Business Economic Trends report had positions they were unable to fill. Even with slower 2019 gains, the job market pulled the unemployment rate down to 3.5 percent in September – the lowest reading since December 1969.

Uncertainties created by the U.S.-China trade war and lack of a Brexit deal by the British are weighing heavily on global business confidence. Domestically, anxiety about the trade war and ongoing political environment have begun to detract from small business optimism. As of September, the NFIB Small Business Optimism Index was at 101.8, barely above the low point of 101.2 it hit in January amid the federal government shutdown and sharp stock market selloff at the end of 2018. The numbers compare with a high of 108.8 in August 2018 before tariffs began to take a bite out of the economy.

Consumer optimism, however, comes in contrast to businesses’ attitudes. Consumer sentiment surveys remain elevated although choppy and inconsistent at times over the last few months. The Conference Board’s Consumer Confidence Index saw its largest decrease in a year in September, dropping nine points to 125.1 but still relatively high. Alternatively, the University of Michigan Consumer Sentiment Index rose to 96 in October, its highest level since July. Optimism was boosted by an improvement in consumers’ evaluation of buying conditions for large household items and their financial situation. The survey suggests that consumer spending will be strong enough to offset weakness in business investment and keep the economy expanding into 2020.
Thanks to the 30-year mortgage rate falling more than a percentage point from a year ago, sales of existing single-family homes have recovered from their 2018 drop, posting a seasonally adjusted annual rate of 4.78 million in September that was down from 4.91 million in August but up 3.9 percent from a year ago. As with many other indicators, housing sales go up one month and down the next, but the trend remains up. Lower interest rates are a positive for both housing and for retail sales. According to the National Bureau of Economic Research, new homeowners spend an average $5,900 on home-related goods and improvements in the three months prior to buying a home and the year after.

Overall, consumer fundamentals are supportive of spending growth. Retail sales in September were down 0.1 percent seasonally adjusted from August but up 4.5 percent unadjusted year-over-year. That built on gains of 0.5 percent month-over-month and 4.7 percent year-over-year in August. Month-to-month readings on retail sales can be quite volatile and revisions are sometimes large, so once again it’s important to focus on broader trends. Retail sales for July through September, for example, were up 4.9 percent over the same period a year ago, compared with a 4.1 percent gain in the three-month moving average as of August.

Despite the many moving parts, the economic engine is running and functioning. While economic activity is moderating, it is not collapsing. Moreover, given the existing precarious situations facing the economy, the U.S. consumer has proved to be very resilient throughout these challenges and is still on track as we enter the much-anticipated holiday retail season.
Retail sales are growing at a healthy rate despite the surprise monthly decline in September. Job growth will remain the strongest support of business confidence and retail sales.

Sales of new homes dipped to a 701,000-unit pace in September, in line with expectations. Year-to-date sales are up 7.2 percent compared with last year. Lower mortgage rates are boosting demand.

Over the past 12 months average hourly earnings have increased 2.9 percent — the lowest reading since July of last year. The September dip may be due to seasonal adjustment issues regarding the number of monthly weekdays rather than actual declines.

Payrolls increased by only 136,000 in September but are still growing more than enough to keep pace with new labor entrants. The unemployment rate reached a nearly 50-year low of 3.5 percent.

The retail job market continues to be tight heading in the busy shopping season with 804,000 openings and 781,000 hires. The industry’s unemployment rate is at a record low 3.6 percent.

Consumer credit decelerated modestly in August, possibly due to tighter bank lending standards. A slower borrowing pace might ultimately be a benefit because debt is less likely to become a future problem for the economy.
The September Consumer Price Index was up 1.7 percent year over year, unchanged from August. Core inflation remained at its cycle peak of a 2.4 percent increase after a period of softness earlier in the year. It is not at a level to cause concern.

The outlook for the U.S. economy has moderated. The Conference Board's September Leading Economic Index reflects uncertainty and falling business expectations.