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Economic Indicator — April 22, 2021

Surge in LEI the Latest in a Run of Better-Than-Expected Data

Summary

March economic data came in strong and with a 1.3% monthly increase, the Leading Economic Index (LEI) did not disappoint either. The increase was broad-based, as the services and manufacturing sectors saw record-breaking improvement over the month.

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Broadly-Based Increases Lift LEI

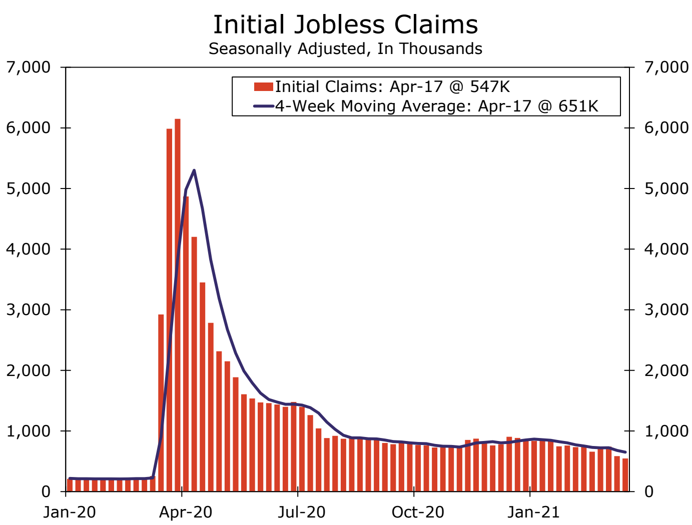
The 1.3% increase in the Leading Economic Index (LEI) was supported by broadly-based gains, as all ten indicators showed improvement in March. For some of those components, the improvement was significant. The biggest overall boost to the LEI was the 0.35 percentage point contribution from initial jobless claims. Fewer people filing claims is good news for the economy, and first time jobless claims finally dipped below 700K the third week in March. There is scope for this component to help lift LEI next month as well, as claims have continued to trend lower so far in April. This morning, the four-week moving average fell to 651K, the lowest since the start of the pandemic. After months of remaining stubbornly high, this milestone hints at an improving labor market.

ISM new orders contributed 0.26 percentage points to the headline, as the index rose to 68 in March, its highest in a little over 16 years. Manufacturing and services both had a stellar month, as the ISM manufacturing index rose to a 37-year-high of 64.7 and the services index followed closely behind at 63.7. While the ISM's survey-based measure for the manufacturing sector is a positive, supply constraints have been affecting producers' ability to meet demand. That was evident in the core capital goods measure, which was roughly flat on the month at 0.03%.

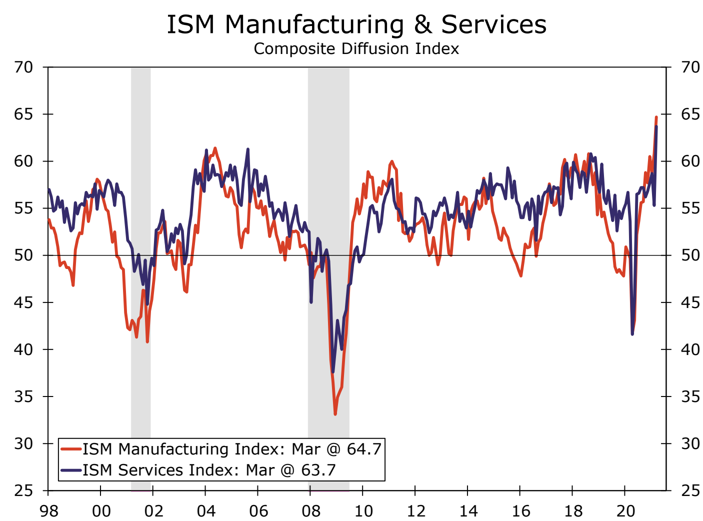
Coincident Index Sees More Muted Improvement

Perhaps an even better example of the supply chain problems was industrial production, which explains the comparatively muted gain in the Coincident Economic Index. Many indicators in March surprised on the upside, but industrial production was one of the few disappointing reports, with the March gain not even large enough to offset the decline in the prior month, though it was sufficient to lift the Coincident Index. The release of March's durable goods orders early next week should shed further light on to what extent these supply chain disruptions affected orders.

The relative strength in the labor market reflected in the LEI was also evident in the coincident index. The much better-than-expected improvement in nonfarm payrolls resulted in that component being the largest contributing factor, lifting the coincident index to 0.6% monthly gain.



Source: U.S. Department of Labor and Wells Fargo Securities

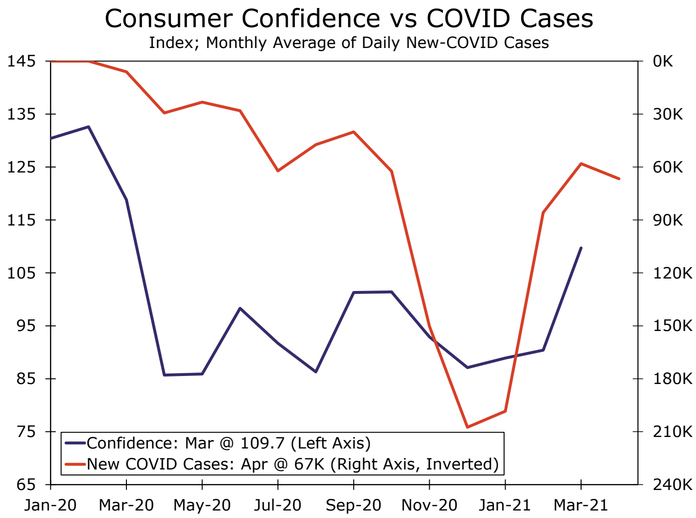


Source: Institute for Supply Management and Wells Fargo Securities

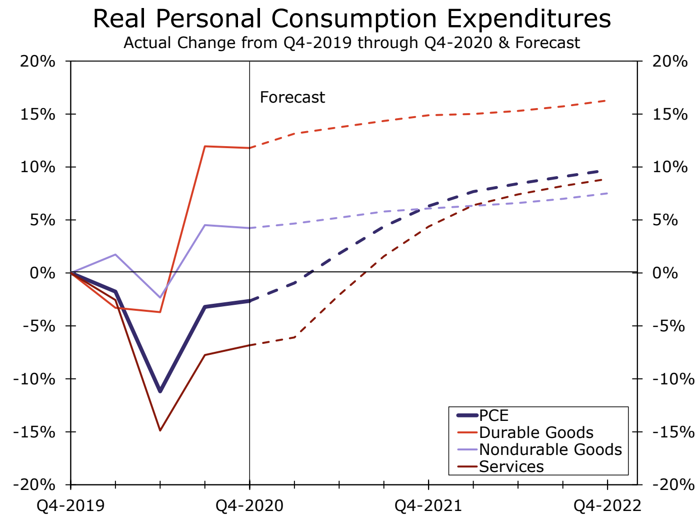
Services Economy Is Coming Out of Hibernation

Consumer spending ramped up further on the goods side and there are indications that services outlays grew as well. While the consumer goods orders line item of the LEI was flat over the month, consumers are brimming with optimism, as seen in the consumer expectations component adding 0.11 percentage points, a rapid turnaround from the negative or flat contributions since the onset of the pandemic. Consumer confidence climbed almost 20 points to 109.7 in March, its first above-100 print since fall of 2020.

The impressive March numbers should positively factor into PCE and GDP this first quarter, which is admittedly sooner than we had initially expected. While the goods spending parts of the economy have done very well already, we are still at the beginning stages of the revival of the service sector. In the next few months, this momentum should continue as the public health situation improves and as businesses that were operating under capacity restrictions or begin to reopen to the broader public.



Source: The Conference Board, Bloomberg LP and Wells Fargo Securities



Source: U.S. Department of Commerce and Wells Fargo Securities

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