

Economic Indicator — January 21, 2022

Leading Index Tells a Similar Story With Some New Plot Twists

Summary

Year's end brought changes in the public health scene as well as the Fed's tone, but December's leading economic index rose 0.8%, the 10th straight monthly gain, reminding us that many pre-existing trends remained intact. Jobless claims continue to carry the index, dropping to an over 50-year low in December. That said, the environment heading into 2022 has led to volatility in the market-related contributions, which adds a layer of uncertainty to the next few months.

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Momentum Carried Through December, Despite Omicron

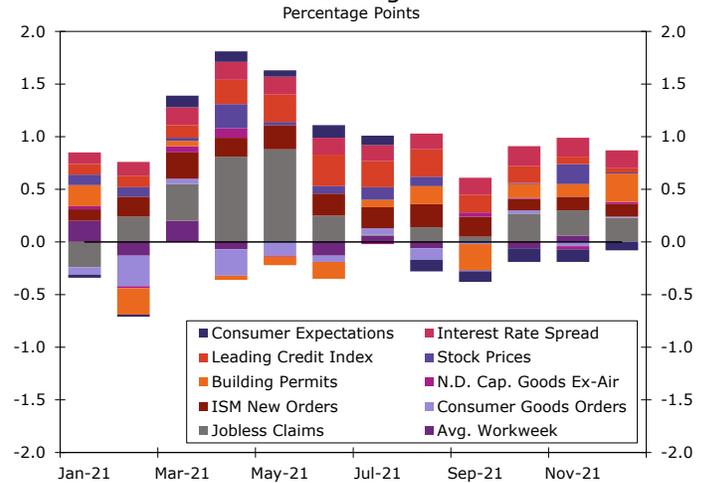
The Leading Economic Index (LEI) had another strong gain, rising 0.8%. Excluding a weak 0.2% increase in September, this roughly matches the average pace since July 2021. The three of the bottom four contributors were the same as November. Despite the third monthly increase in the consumer confidence index, consumer expectations still subtracted the most, -0.08 percentage points (pp), off of the headline, although that is improvement from the -0.12pp taken away in November. Consumer goods and average weekly earnings for manufacturing again were among the most disappointing contributors for the month, each having an essentially flat contribution. For both core capital and consumer goods contributions have hovered near zero for a few months now, as manufacturers struggle to find the materials and labor to produce.

That said, the ISM new orders component was among the top half of contributors, adding 0.12pp to the LEI. In addition, building permits, which have also been negatively affected by supply shortages contributed an impressive 0.27pp as they rose to their highest level since January of last year. These are signs that supply chains issues may at least not be getting worse.

Jobless Claims, the Not-So-Hidden Gem

First-time claims for unemployment insurance have been the main contributor to the leading index in two of the past three months, even with the annual benchmark revisions applied to today's release. December was a perfect wrap to 2021. Jobless claims fell to their lowest monthly average since 1969 and contributed 0.23pp. Despite weaker-than-expected payroll numbers and a disconnect between the stories of the household and establishment survey, jobless claims offer a clear sign of tightness in the labor market. While the modest rise in claims so far in January suggests that things can only be so good for so long, that payback could be expected after the most recent run. Even if we see jobless claims tick up slightly in the first quarter of this year after reaching that low in December, they would still be a far cry from the near 800K seen in the first quarter of last year, which highlights the economy's rapid transition. That said, labor supply is still currently hampered by COVID concerns and childcare, factors which may not be fully reflected in the otherwise rosy jobless claims figures.

Contributions to Leading Economic Index



Source: The Conference Board and Wells Fargo Economics

Initial Jobless Claims Hit a 50-Year Low



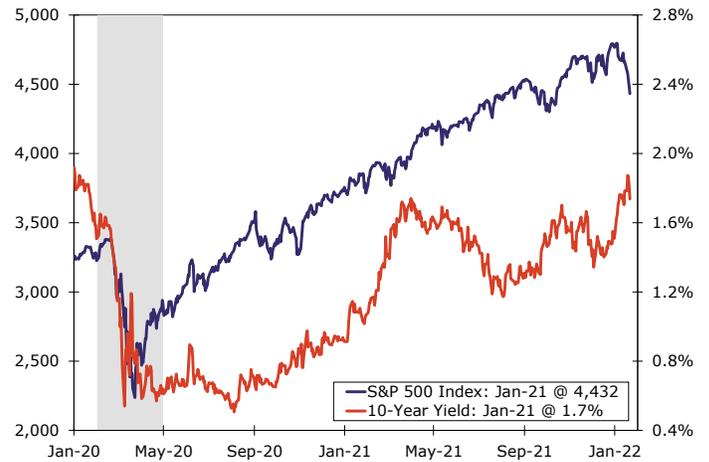
Source: U.S. Department of Labor and Wells Fargo Economics

Uncertainty Shrouds Investments Going Into 2022

The interest rate spread, 10-year bond yields less the fed funds rate, is another line item that was once again added points to the headline, contributing 0.17pp in December. The contribution comes as the spread narrowed with the 10-year yield remaining below 1.50% for the most of the month. However, so far in January, the 10-year yield has rebounded significantly as the bond market is pricing in more and earlier Fed tightening than it did just a few weeks ago.

The 10-year is not the only investment instrument that saw volatility in the past few weeks. The stock market contributed a mere 0.01pp to the LEI in December, a large drop-off from the 0.19pp it added in November. Considering the volatility from the Omicron variant and the complications surrounding the passage of the Build Back Better plan, it was not a bad finish. However, uncertainty surrounding stock prices in 2022 is likely to linger as longer term considerations come into view. The Fed has hinted at an accelerated timeline for raising interest rates; that is not typically cause for celebration on Wall Street. The shift in monetary policy is apt to contribute to sustained volatility in the financial components of the LEI during 2022.

S&P 500 Index vs. 10-Year Treasury Yield



Source: Bloomberg Finance L.P. and Wells Fargo Economics

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