



# Economics Group

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## LEI's 4th Decline in 5 Months Not as Worrying as it Appears

*The latest decline in the LEI pulls this cyclical measure into negative year-ago territory for the first time since the recession. But it over-weights the challenged manufacturing sector.*

### Jobless Claims Drag Will Not Persist

The Leading Economic Index (LEI) fell again in December. This marked the fourth monthly decline in five months. The biggest drag on the index in December came from a jump in jobless claims. This was likely temporary and may have been due to some seasonal disruption. Since then jobless claims have trended sharply lower, which implies this component will be a boost in next month's LEI report.

### Stock Market Boost

Stock prices made the largest contribution of any component in December, adding 0.09 points to the headline index, but that wasn't enough to keep the LEI from slipping into negative territory on a year-ago basis for the first time since 2009.

### Don't Bring Me Down

Manufacturing employment in the United States peaked at 19.5 million in 1979, the same year the band Electric Light Orchestra recorded their hit that gave us the subtitle above. At that time, one in five U.S. workers had a blue-collar job. While the factory sector has added roughly 1.4 million jobs in the past decade, we have yet to return to the pre-recession peak. The 12.9 million people working in manufacturing today comprise just 8.4% of nonfarm employment.

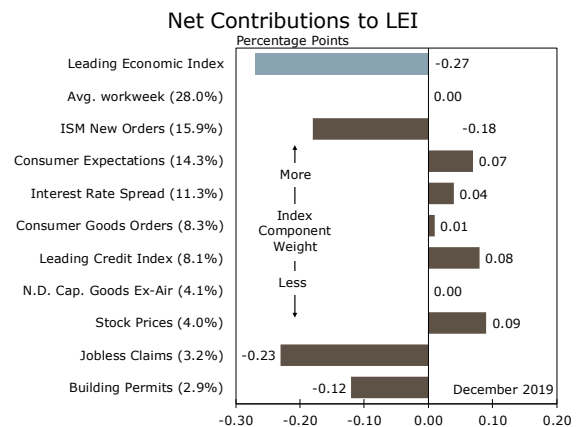
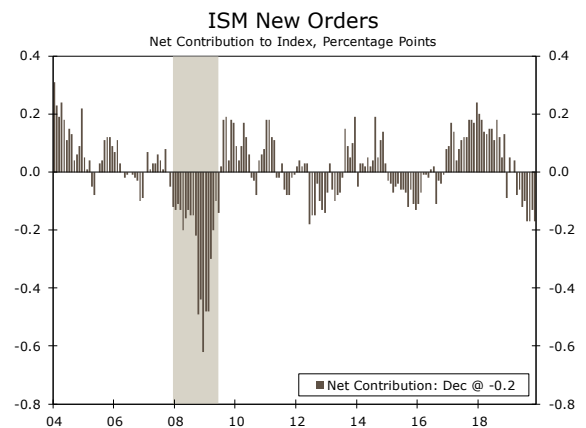
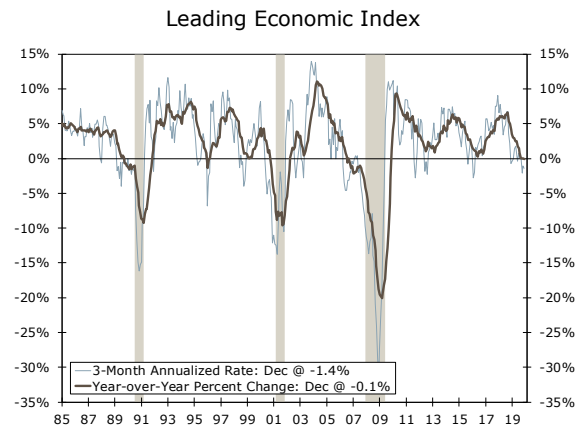
The ISM index, another famed macro measure reputed to be a favorite gauge of former Fed Chairman Alan Greenspan, also signaled trouble in December when it fell to 47.2, signaling the fastest pace of contraction since the midst of the recession in 2009.

What do bellwethers like the ISM and LEI have in common? They both overstate the role of the manufacturing sector. Don't get us wrong, the challenges faced by the nation's manufacturers are serious especially to those whose livelihoods depend on it. But a decline in manufacturing output doesn't weigh on the broader economy the way it did a generation ago.

The manufacturing sector components in the LEI were either flat or slightly lower in December. Consumer durable goods orders, average weekly hours and core capital goods orders were all essentially flat (consumer goods was +0.01). ISM new orders was a -0.18 percentage point drag, the ninth consecutive monthly drag for this component.

### Take Building Permits with a Grain of Salt

Building permits were also a drag on the LEI in the most recent month. Cold weather typically slows residential construction activity in the winter months so even a small change can make waves once the seasonal adjustment is applied. The housing market has been surprising on the upside in other recent reports.



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