

# US Economic Comment

## Was April manufacturing bounce sustainable?

### Economics

#### Americas

#### The Philadelphia Fed index signalled slow contraction in May

The current activity index in the Philadelphia Fed manufacturing survey fell to -1.8 (cons 3.0, UBS 3.0) in May from -1.6, inching further into contractionary territory. The Philadelphia and Empire State (ES) indices indicate diminishing manufacturing activity in May, suggesting the 0.3% bounce in the Fed's direct measure of factory output in April may not be sustained.

Even though the headline index drifted lower in May, our ISM-equivalent Philadelphia Fed index (which combines survey details using ISM weights) rose 3.7 pts to 47.7. While still signalling contraction, it suggests details from the survey were stronger than the headline suggests. The ISM-equivalent ES measure fell to 48.1 in May from 51.9.

There were some constructive signals from the May survey. The employment and average workweek indices improved from one month prior, although both still resided in negative territory. While the six-month outlook for business conditions worsened after a significant increase in April, capital expenditure plans jumped in May (23.6 from 12.7)- a contrast to the capex signal from the ES survey.

#### Leading Economic Indicators up in April, with most components improving

The index of leading economic indicators (LEI) beat consensus in April, up 0.6% m/m (cons 0.4%, UBS 0.6%) after 0.2%, marking a second consecutive month of increase. The y/y pace ticked down to 1.9% in April from 2.2%, which is the slowest pace since Q1 2013. However, the annual rate is still within recent ranges.

#### Jobless claims reverses previous week's spring-break related spike

Initial jobless claims fell 16k in the latest week to 278k. In our weekly note ([LINK](#)) we attributed the surge in claims (NY-centric) for the week ending May 7<sup>th</sup> to be a function of NY schools' spring break and perhaps the Verizon strike. Claims have appeared to revert back to levels pre-spring break.

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#### Philadelphia Fed Survey (C) (8:30 am)

Indexes	Feb	Mar	Apr	May
<b>Current activity (C)</b>	-2.8	12.4	-1.6	-1.8
<b>New orders (L)</b>	-5.3	15.7	0.0	-1.9
<b>Shipments</b>	2.5	22.1	-10.8	-0.5
<b>Employment (C)</b>	-5.0	-1.1	-18.5	-3.3
<b>Inventories</b>	-17.1	-12.7	-20.5	-2.5
<b>Prices paid (L)</b>	-2.2	-0.9	13.2	15.7
<b>Prices received (C)</b>	-4.5	3.5	7.4	14.8
<b>6-month outlook (L)</b>	17.3	28.8	42.2	36.1
<b>6-month capex (L)</b>	2.5	13.3	12.7	23.6
<b>ISM-equivalent index*</b>	45.9	52.4	44.0	47.7

\* Composite index based on manufacturing ISM weights.  
Source: Federal Reserve Bank of Philadelphia and UBS.

#### Jobless Claims (L) (8:30 am)

Seasonally adj	New claims (000s)		Continuing claims (000s)	
	Wkly	4-wk avg	Wkly	%
<b>16 Apr</b>	248	261	2129	1.6
<b>23- Apr</b>	257	256	2124	1.6
<b>30-Apr</b>	274	258	2161	1.6
<b>7-May</b>	294	268	2152	1.6
<b>May 13*</b>	278	276		

\* Sample week. Source: Labor Dept and UBS

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### Leading Indicators (C/L) (10:00 am)

	Jan	Feb	Mar	Apr
<b>Index (%m/m) (L)</b>	-0.2	-0.1	0.2	0.4
%y/y	2.2	2.2	2.2	1.9
<b>Coincident (%m/m) (C)</b>	0.3	0.1	0.0	0.3
%y/y	1.8	1.8	1.8	1.8

Source: Conference Board and UBS

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## Mixed signals from regional manufacturing surveys

Headlines from the Empire State and Philadelphia Fed factory surveys offered diverging views of factory sector weakness in May. While both measures signalled deterioration in May, the Philadelphia survey's 0.2 pt decline looked inconsequential next to the NY survey's measure's 18.6 pt slide.

However, details of the two reports' assessments of current conditions were more similar. Our ISM-equivalent measures that add up details of the reports using ISM weights registered similar contractionary readings in May, with the Empire State ISM-equivalent index at 48.1 and the Philadelphia Fed ISM-equivalent at 47.7. There was some difference in the composition of growth suggested by the two surveys: More weakness in NY than Philadelphia regions in new orders and inventories, and less weakness in employment. (That said, in the Philadelphia Fed survey, the employment index had been much weaker in recent months, but it jumped to -3.3 from -18.5 in May: it may still look weaker than in the NY survey, but May showed rapid improvement.)

For capex plans, the two surveys have diverged significantly — the Philadelphia Fed survey showing a rebound but the Empire State survey showing continued deterioration so far in Q2 (see chart).

## Broad-based advance in the LEI index

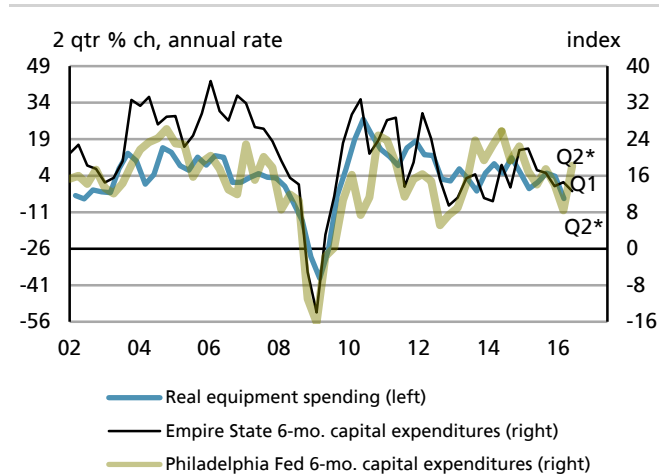
A majority of the components of the Leading Economic Indicators index (LEI) rose in April. Data on the labor market was positive- the average workweek and initial jobless claims provided a net positive contribution to the leading index. Nondefense capital goods ex-aircraft and consumer goods orders also provided positive contributions (0.1% combined). Equity market volatility in April lowered its contribution to 0.1% in April after 0.2.

Before five of the last seven recessions since 1970, the LEI fell on a monthly basis for four consecutive months on average. This metric missed the recessions of 1969 and 1990 and falsely signalled recession in late 1966. Since December, the LEI has recorded two positive monthly gains in a row after three negative prints.

Since 1970, six of the ten components of the LEI fell one month before a recession on average. At least seven of the ten indices were negative one month prior to the past four recessions. The LEI diffusion index shows that nine of ten components

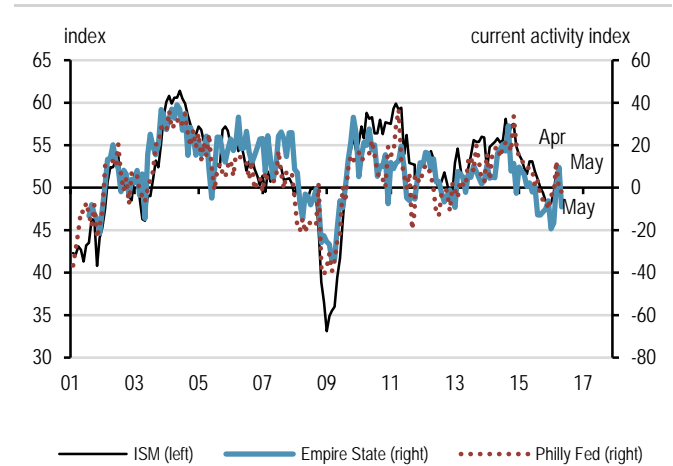
rose in April, which should dispel concerns about a U.S. recession in the near future (see chart).

**The Empire State and Philadelphia Fed measures of capital spending plans have weakened over the past year. The Philadelphia measure has shown some improvement in Q2.**



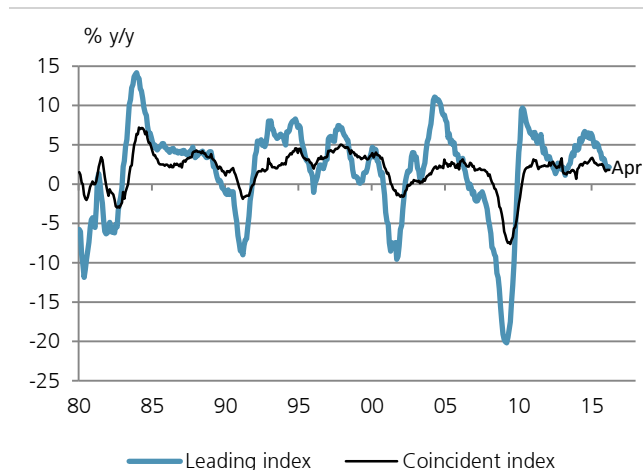
Source: Bureau of Economic Analysis, Federal Reserve Banks of New York and Philadelphia and UBS

**Unlike the Empire State and Philadelphia measures, the manufacturing ISM survey was still in expansionary territory in April.**



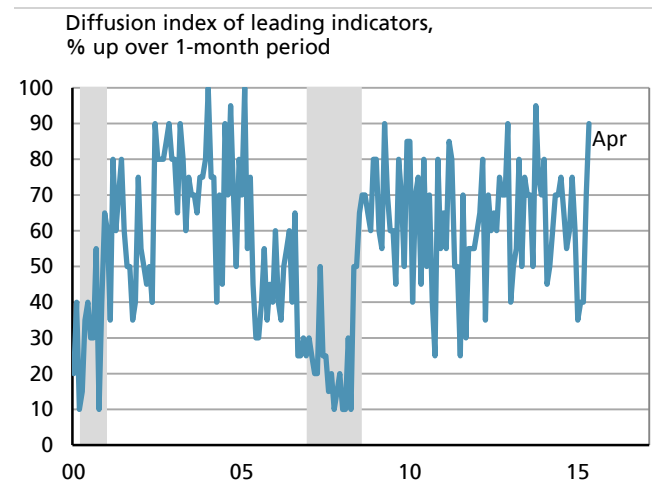
Source: Institute for Supply Management, Federal Reserve Bank of New York, and Federal Reserve of Philadelphia and UBS

**The index of leading indicators was slowing through much of 2015 and into early 2016. The April annual pace is the slowest in two years. However, similar sized slowings in the past have only occasionally been followed by significant downturn in the coincident index.**



Source: Conference Board and UBS

**Before most recessions, a majority of components declined (displayed as readings below 50 in the diffusion index plotted below). The diffusion index rose to 90.0 in April.**



Note: Shaded areas mark recessions  
Source: Conference Board and UBS

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