

US Economic Comment

Another solid factory figure for March

Economics

Americas

Phila Fed, echoing NY survey, rebounded in March, +15.2pt to +12.4

The current activity index in the Philadelphia Fed manufacturing survey rose 15.2 points to 12.4 in March. Its sharp improvement echoed that in the Empire State survey reported earlier in the week—supporting the possibility that the worst of the industrial sector slump is past. However, that conclusion is at odds with recent increases in factory I/S ratios (see charts). A reacceleration in factory output may be premature, but stabilization seems closer.

As in the Empire State survey, new orders and shipments accelerated sharply, but employment fell and inventories continued to contract. On balance, details of the surveys were as strong as the headlines. Headline indexes in the Philadelphia Fed and Empire State surveys are based on single questions about current activity, unlike the manufacturing ISM composite index, which is based on an aggregation of survey details. Using the ISM aggregation method on Philadelphia Fed and Empire State survey details, both the Philadelphia Fed and the Empire State ISM-equivalent composite indexes bounced back into expansionary territory in March—the first positive read in six months for the Philadelphia measure and nine months for the NY measure.

Jobless claims tick up, but less-than-expected

Claims rose 7k to 265k (cons 268k, UBS 268k) for the week ending Mar 12 from a -1k revised 258k. While the four-week average of 268k is up 1k from the previous week, it is still consistent with downtrend. The current reading continues to reverse a weather-related rise in Jan (when claims averaged 284k) and points to a healthy labor market. We project the trend in initial claims to stabilize in the near future.

2.8% current account deficit in Q4, little changed

The current account deficit narrowed by 0.1pt in Q4 to 2.8% of GDP, interrupting a gradual deterioration from 2.3% of GDP a year earlier and 1.9% two years earlier. Still, the slow widening of the past two years only takes the deficit back to its 2012 average—a seemingly small deterioration given the dollar strength of the past year and a half.

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

Indexes	Dec	Jan	Feb	Mar
Current activity (C)	-10.2	-3.5	-2.8	12.4
New orders (L)	-11.1	-1.4	-5.3	15.7
Shipments	-2.1	9.6	2.5	22.1
Employment (C)	2.2	-1.9	-5.0	-1.1
Inventories	-5.7	-15.7	-17.1	-12.7
Prices paid (L)	-8.3	-1.1	-2.2	-0.9
Prices received (C)	-8.5	-2.8	-4.5	3.5
6-month outlook (L)	24.1	19.1	17.3	28.8
6-month capex (L)	10.7	9.4	2.5	13.3
ISM-equivalent index*	47.7	48.3	45.9	52.4

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

Jobless Claims (L) (8:30 am)

Seasonally-adjusted	New claims (000s)		Continuing claims	
	Wkly	4-wk avg	Wkly	%
Feb 13*	262	273	2254	1.7
Feb 20	272	272	2257	1.7
Feb 27	277	270	2227	1.6
Mar 5	258	267	2235	1.6
Mar 12	265	268		

* Sample week for payroll survey.
Source: Labor Department and UBS

Current Account (8:30 am)

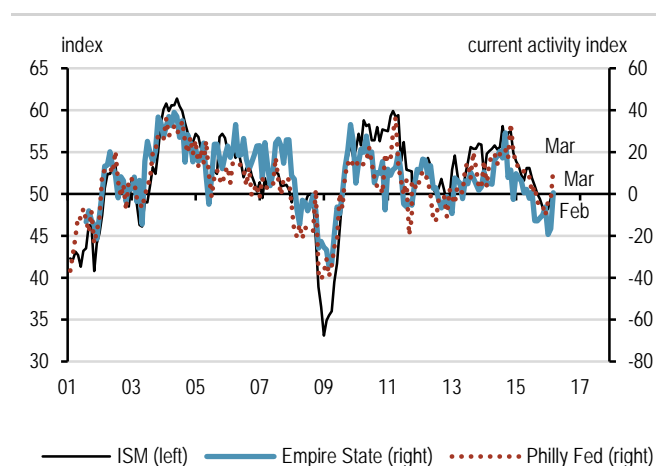
\$ bil, quarterly rate, unless otherwise noted	15Q1	15Q2	15Q3	15Q4
Balance	-118.0	-110.8	-129.9	-125.3
% of GDP	-2.7	-2.5	-2.9	-2.8
Financing (Net US acquisition)				
Financial assets ex derivatives	321.5	142.7	-95.9	-126.1
Direct investment	68.8	106.6	67.8	101.9
Portfolio investment	233.5	173.0	-111.3	-108.9
Other investment	23.4	-136.1	-52.1	-118.1
Reserve Assets	-4.2	-0.9	-0.3	-1.0
Financing (net incurrence of liabilities)				
Liabilities ex derivatives	341.3	204.8	-35.7	-84.4
Direct investment	191.2	110.7	49.1	58.9
Portfolio investment	101.1	262.2	-117.0	17.1
Other investment	49.0	-168.0	32.2	-160.4
Financial derivatives other than reserves, net	-40.1	1.8	0.7	12.3

Source: Bureau of Economic Analysis and UBS

Some improvement in business expectations

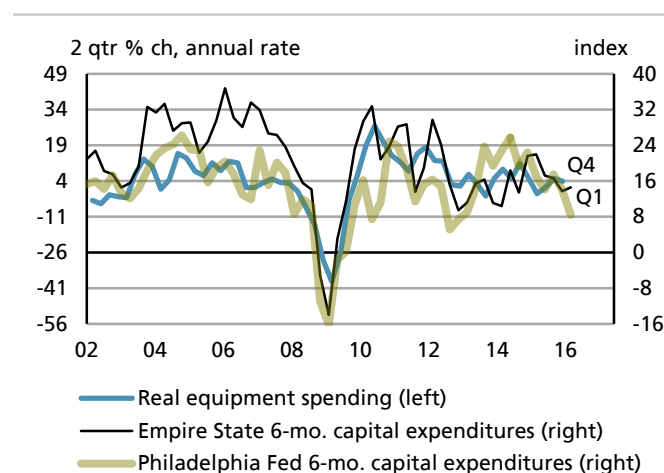
Outlook measures in the Philadelphia Fed survey also bounced in March, with the outlook for general business activity rebounding to almost the Q4 average after a couple of weak months. At 28.8 in March, it was up from a Jan-Feb average of 18.2 but still below Q4's 30.8 and 2015's 37.6. Capex expectations had been especially weak at points in Q4 and in January and February. They improved somewhat in March albeit to still weak levels, and given recent volatility a more sustained rise will be necessary to be convincing.

March was the first positive read for the headline index in the Empire State survey since last July.



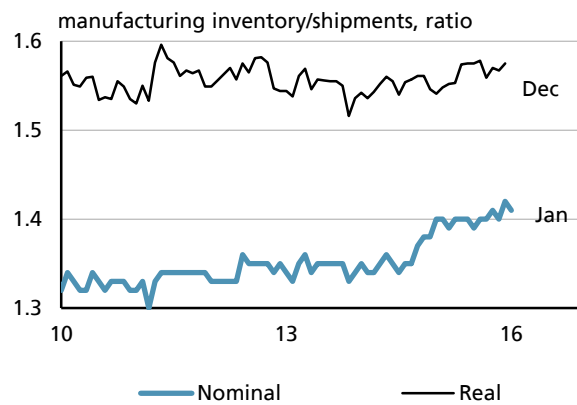
Source: Institute for Supply Management, Federal Reserve Bank of New York, and Federal Reserve of Philadelphia and UBS

In Q1, capex expectations were particularly depressed in the Philadelphia Fed survey. Their improvement in March (to 13.3) would leave them close to the Q4 average (14.0) but still well below the average in Q1-Q3 2015 (16.2).



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

The factory sector improvement so far signalled for March seems a bit premature in view of the uptrend in factory I/S ratios.



Source: Census Bureau and UBS

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