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MIXED SIGNALS – JANUARY 24, 2014

Economists have a habit of predicting that the coming year will be better than the last one. Not surprisingly then, real GDP in 2014 is expected to post a gain in the range of 2.5-3%, representing a significant improvement over last year's estimated increase of about 1.8%. As of now, however, there is very little in the way of hard evidence to indicate that the economy is picking up speed.

To start with, payroll employment in December recorded a much lower-than-expected increase of just 74,000 while the unemployment rate fell from 7% to 6.7%. To be sure, December's anemic employment number may well have been a statistical aberration or anomaly and may not imply a downward shift in the underlying trend of employment. And, of course, bad weather in most parts of the country might have contributed to December's weak employment report. By the same token, however, one should not discount the possibility that the first signs of a cyclical slowdown in job growth may be making their appearance. Bear in mind, moreover, that the decline in the jobless rate primarily reflects a drop in the labor force as opposed to a stronger demand for workers. Indeed, the employment-to-population ratio – which is a measure of the extent to which we are utilizing the nation's labor resources – has fallen to 58.6% as compared with 63% prior to the recent recession. Consider also that a broader measure of unemployment which includes workers marginally attached to the labor force and workers who can only find part-time as opposed to full-time employment shows an unemployment rate of 13%, well above the 8.4% rate recorded before the recession. Finally, long-term unemployment continues to be an alarmingly high percentage of total unemployment. At 36%, the current ratio is double the pre-recession level of 18%.

Meantime, the anticipated acceleration in consumer spending has yet to materialize. In December, retail sales (ex autos) were up just 3.5% from a year earlier, which after adjusting for inflation implies a slender real increase of about 2%. While we are still hopeful of a pickup in consumer outlays in 2014, we remain concerned that gains in income might not be sufficient to support a palpable rise in outlays. On this point, the most recent data is not encouraging. Thus, in the fourth quarter of last year, real after-tax incomes were essentially unchanged from those of a year earlier. On another issue, the changing pattern of retailing is evident from the fact that in 2013 sales of the nation's department stores were down almost 5% from a year ago while sales of non-store retailers – which are now more than two and one half times those of department stores – were up more than 10% over this same period of time.

In addition to concerns about the near-term strength of consumer demand, the housing outlook appears to be one of stability rather than growth. Most notably, the upswing in single-family house construction appears to be running out of steam. By way of evidence, the trend of building permits issued for single-family house construction has been flat since last April, which does not bode well for a rising trend of construction over the immediate months ahead. Unfortunately, the release of data for January is unlikely to clarify the situation since unusually severe winter weather in much of the country will likely have a negative effect on construction activity as well as retail trade and employment. As a consequence, we may have to wait until March or April before the underlying trend of economic activity can be determined.

Despite these worries about the outlook, we have not as yet changed our forecast of GDP growth for 2014 which appears to be in the neighborhood of 2.7%. That said, the downside risks to this forecast of a pickup in economic activity are not in our view inconsequential. Looked at another way, there is some risk that the prediction of a near 3% economic growth rate in 2014 could prove as disappointing and as inaccurate as those of the past four years.