Transcript of Andrew Dowie's Economics Update – 1 April 2011

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Andrew Dowie:

Good morning, this is Andrew Dowie from Advance Asset Management with a rundown of the data releases in the US for yesterday, Thursday, 31 March.

Initial jobless claims for the week ending 26 March slipped by 6000 to a seasonally adjusted 388,000. However, with annual revisions to these jobless claims going back to 2006, the less volatile four week movement average rose by 3250 to 394,250.

So, with these revisions, it seems the improvement in labour market conditions over the past three months has been slightly less robust than the earlier data releases suggested, with the level of revised initial claims being on average about 5000 above the earlier data on a weekly basis.

The view from 40,000 feet, the important metric for these weekly jobless claims releases is a sub 400,000 figure, which is on the whole deemed as suggestive of an economy creating between 150,000 to 200,000 jobs. Of note, this later data pulls the fifth consecutive week of a sub-400,000 reading.

Turning now to March's Chicago PMI, the purchasing managers index, it did dip a tickle from February's 22 year high of 71.2 to 70.6 in this latest report, consensus being for a 69.8-ish kind of figure. However, although indeed the production and new orders component of the report did fall slightly, the real standouts of the report were the employment index, which leaped to 65.6 from 59.8. This is the highest monthly level since 1983. But also the audit backlog index which surged to 69.6 from 61.8, the highest level since 1974.

So [net-net], although indeed this released a dip a touch from February's reading, this report does suggest that the Chicago area businesses continue to expand at a robust pace, reminiscent of previous strong recoveries; the employment index being particularly encouraging as it indicates firms of confidence in the durability of the nation's expansion.

Finally, February factory orders were a surprise, indeed a rather unpleasant surprise which will be a small negative for the cause in one GDP calculation. After printing a 3.3% increase in February, consensus had factored in a debt to a half of 1%, the actual release coming in at negative, down 0.1%. Now this was the first fall in orders since October. Excluding transportation, orders were up 0.1% on increasing demand for non-durable goods. But this is a 0.7% gain in January.

If we delve into the details of the release, business spending did not decelerate to quite the level the headline release suggests. Indeed, with an uptake in consumer goods orders, this crucially important part of the economy maintained its modest rate of expansion.

Finally, just looking at that transportation part of the report, transportation orders were of 1.5% on the month, dragged down by 74.8% decline in orders for ships and boats and a 17.4% fall in military aeroplane demand. Excluding defence, overall orders were up half of 1%.

Thank you.

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