SMITHFIELD
TRUST COMPANY
Est. 1996

BLAME THE WEATHER . . . ? – MARCH 14, 2014

The on-going crisis in Ukraine, along with its possible impact on the global economy, has clearly been a major contributor to the recent volatility in U.S. equity prices. At the same time, however, many of the reports on economic activity during January and February were distorted by the severe winter weather in many parts of the country. As a consequence, the equity markets have found it difficult to assess the significance of recent economic statistics, many of which were decidedly downbeat.

Looking first at employment, one sees that bad weather was generally to blame for the meager increase in jobs during December 2013 and January of this year. And yet, even though the weather in February was just as bad as the previous month, the Bureau of Labor Statistics reported a much better than expected gain of 175,000 in payroll employment. It might be noted, however, that close to 50% of this gain was due to a single industry group – professional and business services – which posted a substantial increase in employment of 75,000 during the month. Bear in mind, also, that over the past three months, monthly increases in non-payroll employment averaged 129,000, well below the figure of 205,000 reported during the prior three-month period. While harsh winter weather undoubtedly contributed to the December-January slowdown in job growth, we should not ignore the possibility that a decline in businesses' demand for additional workers may also be having a negative impact on the employment picture.

Meantime, retail sales (ex-automobiles) in January were just 2.2% ahead of a year ago and were down 0.4% from December 2013. Furthermore, the weakness in retail trade appears to have carried over into February, with early reports indicating another lackluster month for many of the nation's retailers. Once again, it can be argued that the unusually severe winter weather in many parts of the country kept many consumers at home – and out of the stores. Bad weather has also been blamed for the decline in homebuilding activity during January. Housing starts were at a yearly rate of 880,000 – the lowest reading since last September – while the annualized rate of building permits issued for future construction fell from 991,000 in December to 937,000 in January – the lowest month since last August. Once again, it might appear that January's weakness in residential construction activity was, for the most part, weather-related. And yet the Census Bureau reported that in the northeast region of the country, which was hard hit by a succession of winter storms, housing starts in January were ahead of the previous month as well as the same month a year ago. And conversely, the Census Bureau also reported that western and southern regions of the country, which were less affected by the weather, posted a significant decline in housing activity as compared with the previous month. With the nonresidential construction, expenditures in January were relatively unchanged from the previous month and, in fact, have shown very little movement – in either direction – since last summer.

Business investment in new equipment has also been weak. In January, nondefense capital goods (ex-aircraft) were up just 1% from the previous month and were down 1% from the level reported a year earlier. As a matter of fact, over the past year the trend of orders for capital goods has been flat, which does not point to a significant pickup in outlays any time soon. Finally, manufacturing production in January was down 0.8% from the previous month, the largest monthly decline since the recession month of May 2009, and one which has been blamed on severe winter weather. In our view, the magnitude of the decline appears to be larger than one that could reasonably be attributed solely to inclement weather.

Even allowing for the negative effects of severe winter weather on economic activity in many parts of the country, we believe it would be premature to conclude that the arrival of spring will necessarily see a significant rebound in the economy's growth rate. We will have to wait for statistics covering March and April before there will be confirming evidence that the underlying trend of economic activity is speeding up – or slowing down. Meantime, the recent volatility in equity markets can be expected to continue until the economic outlook is clarified and the crisis in Ukraine is resolved.

Norman Robertson