

Weakness in Durable Goods, Job Claims and GDP

Sorting through the week's economic releases, several numbers stand out from the rest. This week's surprises include durable goods orders, the number of new claims for state unemployment benefits, and the revised first quarter Gross Domestic Product (GDP). All three tell of weakness where none was expected.

Durable Goods Negative Again

If the industrial economy has begun a long-term, sustainable expansion, the performance of this sector should surprise us on the upside, not disappoint us on the downside. For example, orders for durable goods should not drop below zero, nor should they fall below expectations for two months in a row. But that is exactly what happened.

After the first disappointment in April, economists predicted that May orders would rebound, growing 1.5% - 2%. But instead orders fell again. The weakness in durable goods orders suggests that the industrial economy is stagnating rather than expanding. If this continues, then the probability rises that the industrial recovery has ended for now.

Unemployment Claims Up

In another surprise, new claims for state unemployment benefits were again higher than forecast. This makes us wonder if the job market is actually improving as much as some job creation numbers say. In an expanding economy, the number of people filing claims each week should drop as new jobs increase. But instead, not only did the reported number exceed analysts' expectations, but the trend in weekly applications has turned up. Even though the number of new jobs has grown since the beginning of the

year, the situation is not clearcut. Other data from the Department of Labor indicate that most of these new jobs are part-time.

Major GDP Revision

In the major surprise of the week, GDP growth in the first quarter of 2004 was revised downward by 0.5%. This is an especially large downward revision since economists thought that growth would hold at the previously reported 4.4%. With this last revision, first quarter GDP has now fallen below last year's fourth quarter - not what we expect from a sustainable economic expansion.

The specific causes of the reduction give little comfort: higher inflation, higher imports, and lower consumer spending. Also, no one seems to have noticed that GDP peaked last summer and has been falling each quarter since. Just like the trend in durable goods and initial claims reports, falling GDP looks out of place in a recovery.

The overall scenario does not look as bright as most analysts would have us think. The industrial recovery has weakened; the labor market turnaround looks short-lived; and GDP is slowing. These surprises, along with others in previous weeks, argue that the economy has reached a plateau. In fact, if the surprises continue on the weak side, then the recovery would appear to have stalled. Now that would certainly surprise most analysts.