Weekly Commentary by Professor Jeremy J. Siegel

Weak Economic News will lower GDP this Quarter

6:10 p.m. EDT, 2/26/2010, Philadelphia PA

On the whole, the data this week are not favorable for the U.S. economy. Today's GDP revision, which raised the growth rate to 5.9%, was all about inventories, which shrank by $16B less than in the advance report. As a result, final sales growth was only 1.9% rather than the 2.2% originally reported. Forecasters are crunching these numbers as I write, but I am sure that these data will lead to a reduction in estimated first quarter GDP. Most estimates had placed growth this quarter around 3.0%, but there is a wide divergence, and the weather in the East makes this quarter's estimate even more difficult. But I wouldn't be surprised to see new estimates in the 2% to 2.5% range.

The government reported that a good part of the unexpected jump in Jobless claims yesterday was mostly due to delays in processing, and we might get a cleaner number next week. Nevertheless, the four week moving average is increasing and this does not bode well for employment this quarter. JPMorgan has estimated that in order to generate 100k new jobs a month, the jobless claims number will have to move back down to 340k. In any case, next Friday's estimate of February labor market growth will be greatly distorted by the winter storms that swept through the mid-Atlantic states during the same week that the payroll were collected. Bloomberg reports the current estimate of payroll change at a 50k loss, although I believe the loss could be much higher. It is expected that the Bureau of Labor Statistics will estimate how many jobs were lost because of the bad weather, but even that is just a guess. I would say that a 50k loss would be a very good report under the circumstances.

The shockingly bad consumer confidence number from the Conference Board on Tuesday was also discouraging, but data show that consumer spending has not fallen off a cliff. Early February same store sales seem on target but I would watch them closely in coming weeks to see if the consumer is cutting back.

In any case, it is manufacturing that is leading the economic recovery and it is likely that capital spending will fuel GDP growth in the first half of this year. The consumer is not expected to be a leading agent in the growth, but we will need at least moderate increases in consumption in order to sustain the recovery.
