

Plow Horse Gets De-Iced

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For the last couple of months it's been an open question whether US economic growth was slower because of brutal winter weather or if something more serious and worrisome was going on.

We have consistently sided with the "weather theory." The winter of 2014 was one of the coldest and snowiest in the past 30 years, at least in the population centers in the East and Midwest. It was likely enough to slow real GDP growth from the 2.6% pace of the past year to under 1% annualized growth in the first quarter.

But for our weather theory to hold, we needed to see a rebound in the economic data as the climate patterns started heading back toward normal. Not that the weather has been completely normal, of course. In March, kids as far south as Virginia got a snow day on St. Patrick's Day.

Nonetheless, recent reports point to a Plow Horse that is coming out of hibernation. On Tuesday, the March data on auto and truck sales were reported at a 16.3 million annual rate, the fastest pace in seven years. In other words, bad winter weather really did hold back buyers. Why drive a brand new car off the lot into slush? But, as the snow melted, that pent-up demand came back.

On Friday, the employment report also showed a rebound. Although both nonfarm and private payrolls grew 192,000 in March, slightly under consensus expectations, plenty of details show accelerating improvement in the labor market.

First, revisions for prior months added 47,000 to private payrolls – for a total improvement of 239,000.

Second, civilian employment, an alternative measure of jobs that includes small business start-ups, increased 476,000 in March and is up 2.4 million in the past year. With civilian employment finally exceeding the pace of

payroll growth, history says payroll growth is set to accelerate further. It's no coincidence this has happened soon after Congress ended the policy of offering up to two years of unemployment insurance.

With employment growing faster, it looks like the labor force participation rate is starting to level off. At 63.2%, it's the same as it was six months ago. During that time, the labor force has grown about 125,000 per month. If that continues and jobs grow about 200,000 per month, the unemployment rate can still decline about 0.6 points per year.

Third, the total number of hours worked surged in March, growing 0.7%. This is maybe the clearest sign that winter weather hurt economic activity. In past episodes of severe weather it was hours worked, not jobs, which showed the most volatility. The March gain fully offset the drop in hours over the previous three months.

Plugging all this, and other data into our models, points to a big pop upward in both retail sales and industrial production – two of the broadest measures of the economy. It's still early (we get figures on chain store sales this Thursday), and things may change, but right now it looks like retail sales will be up more than 1% in March, which would be the largest gain in 18 months.

Hours worked in the durable goods sector jumped 0.8% in March, the largest gain in more than two years. While utility output may fall, the gain in hours worked suggests about a 0.6% gain in factory output in March. The Plow Horse clearly has a spring in his step!

The bottom line is that the harsh winter weather put a dent in growth. With the weather improving, we're starting to see the expected rebound. We think this is just the beginning of that better data.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
4-7 / 2:00 pm	Consumer Credit– Feb	\$14.0 Bil	\$14.5 Bil		\$13.7 Bil
4-10 / 7:30 am	Initial Claims – Apr 5	320k	322k		326k
7:30 am	Import Prices – Mar	+0.2%	+0.4%		+0.9%
7:30 am	Export Prices – Mar	+0.2%	+0.2%		+0.6%
4-11 / 7:30 am	PPI – Mar	+0.1%	+0.2%		-0.1%
7:30 am	“Core” PPI – Mar	+0.2%	+0.2%		-0.2%
8:55 am	U. Mich Consumer Sentiment- Apr	81.5	80.5		80.0