



Strategas Research Partners, LLC

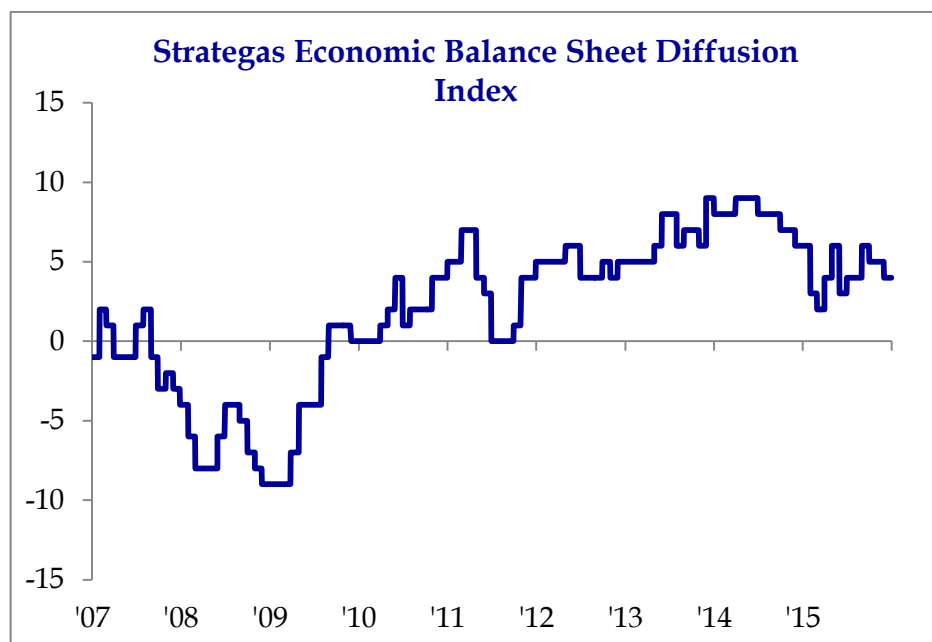
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## U.S. ECON BALANCE SHEET REMAINS AT +4

Each month we characterize 14 broad U.S. economic sectors as *Assets* or *Liabilities*. **This month, our diffusion index remained at +4.** There are key assets like employment (low jobless claims) & consumer spending. Wages appear to be reaccelerating, which allowed the Fed to liftoff (though they are now likely set for a pause, on weaker data & tightening financial conditions). Liabilities are mainly in the mfg space, and we continue to watch PMI readings closely. Inflation has turned slightly higher ex food and energy (ie, “core”), but we expect the Fed to let this run a bit.



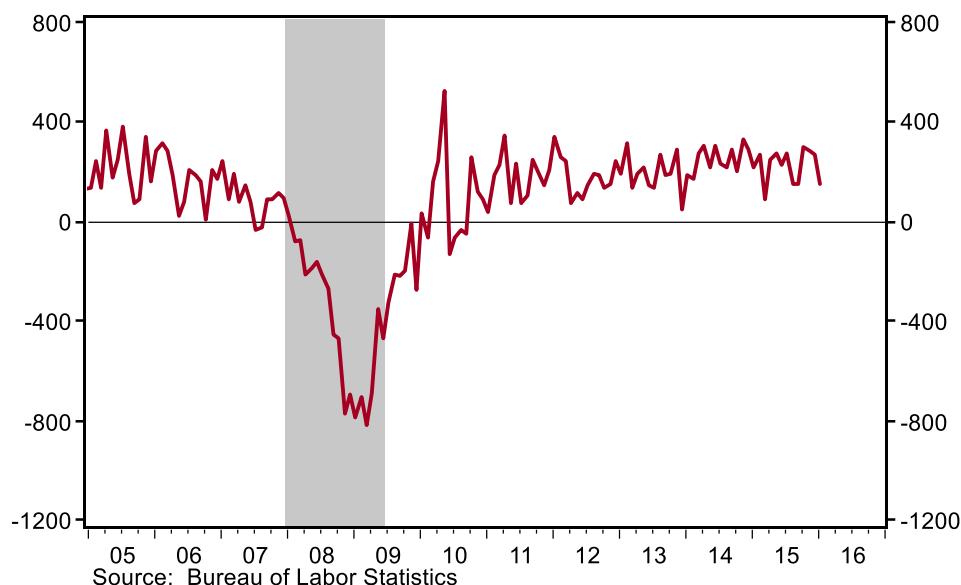
<u>Assets</u>	<u>Neutral</u>	<u>Liabilities</u>
Credit Environ	Price Inflation	Mfg
Employment	Trade Deficit	Capex Eqp
Interest Rate Env	Nonres Constr	
Cons. Spending	Business Conf	
Housing	Cons Conf	
Govt Deficit	Wages	

<b>Economic:</b>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>
<b>Assets</b>	6	4	3	4	6	4	5	5	6	6	6	6	<b>6</b>
<b>Liabilities</b>	0	1	1	0	0	1	1	1	0	1	1	2	<b>2</b>
<b>Net</b>	6	3	2	4	6	3	4	4	6	5	5	4	<b>4</b>

# EMPLOYMENT

All Employees: Total Nonfarm

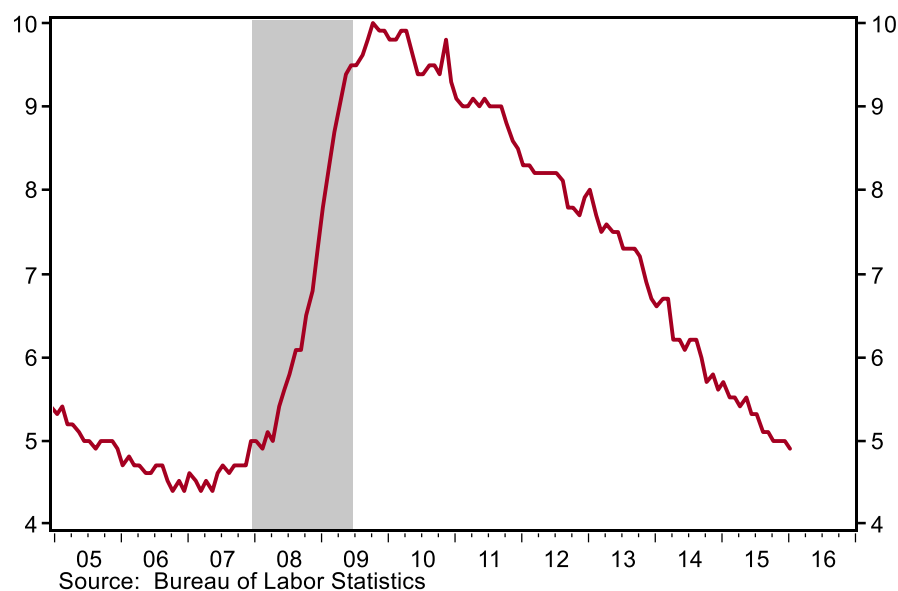
Change - Period to Period SA, Thous



U.S. nonfarm payroll gains continued at a decent clip (+151,000 in Jan), weekly jobless claims remain low, and the unemployment rate remains in a downtrend. This is still a key asset for the U.S. economy.

Civilian Unemployment Rate: 16 yr +

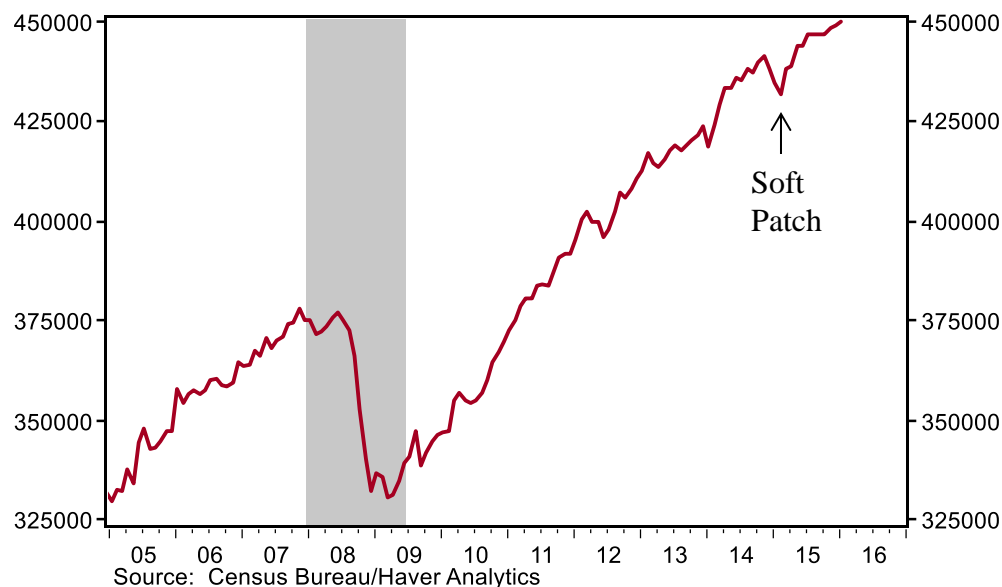
SA, %



# CONSUMER SPENDING

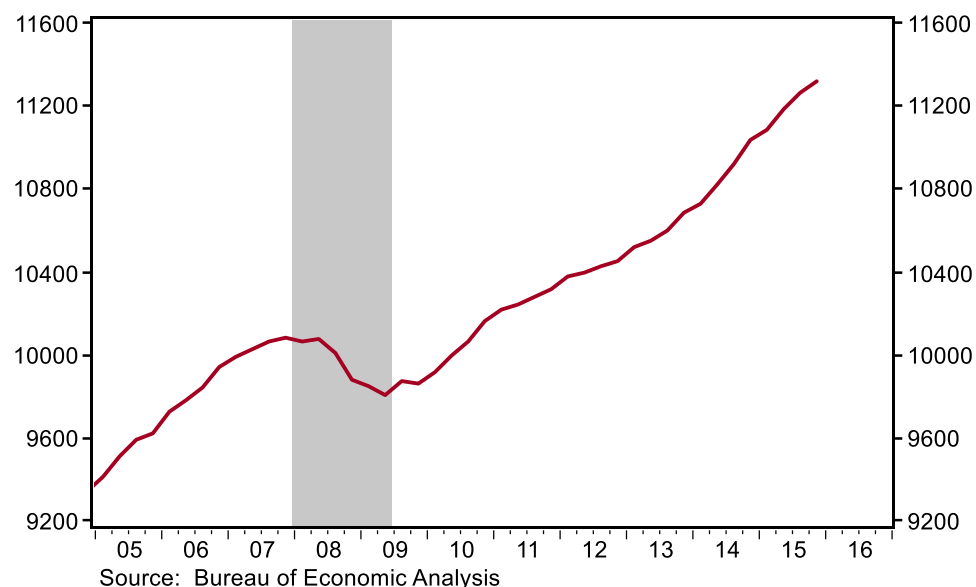
Retail Sales &amp; Food Services

SA, Mil.\$



Real Personal Consumption Expenditures

SAAR, Bil.Chn.2009\$



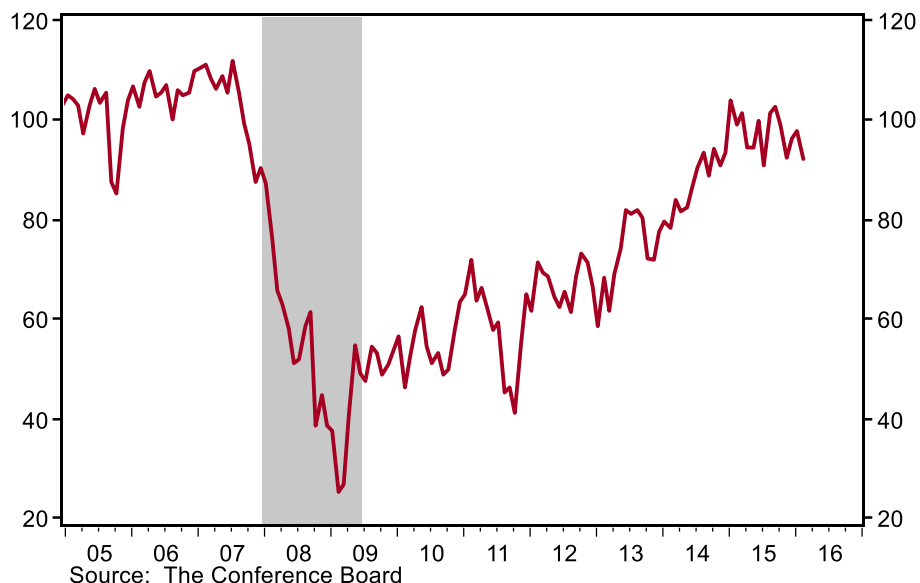
Consumers appear to be shifting their preferences, spending more on experiences, and less on goods. Nominal sales are also weaker than real (inflation adjusted) numbers. Also, consumers are buying more online, vs in stores. Still, recent data on retail sales & consumer spending together have shown a recovery. We expect this to continue, even if payroll growth slows down (as would be typical in 2H of a cycle), since wages should pick up.

Neutral

# CONSUMER CONFIDENCE

Conference Board: Consumer Confidence

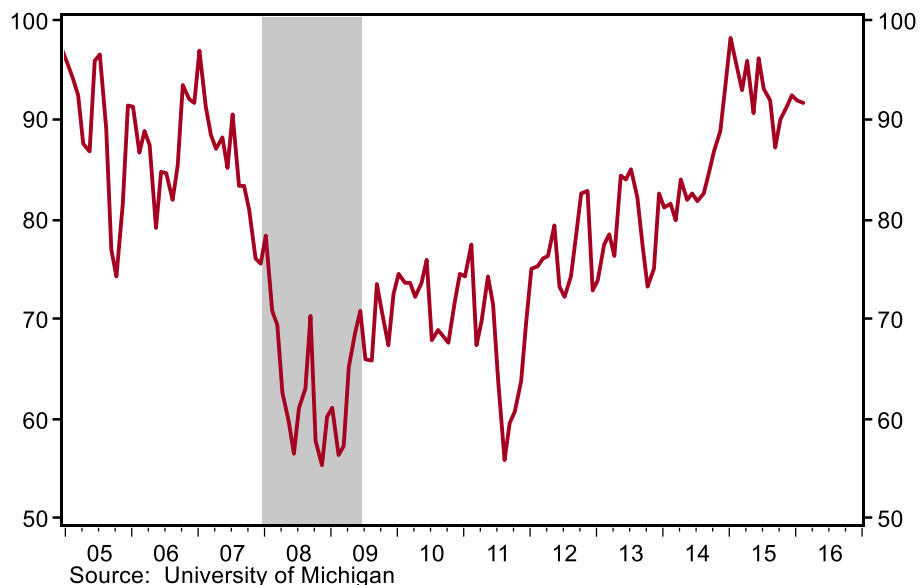
SA, 1985=100



U.S. consumer confidence readings have been choppy the past year, based partly on international events (Greece, China hard-landing questions, Puerto Rico uncertainty, NYSE technical issues, market volatility, U.S. presidential election uncertainty, etc). This sector remains *Neutral* on our balance sheet, ie, no change.

University of Michigan: Consumer Sentiment

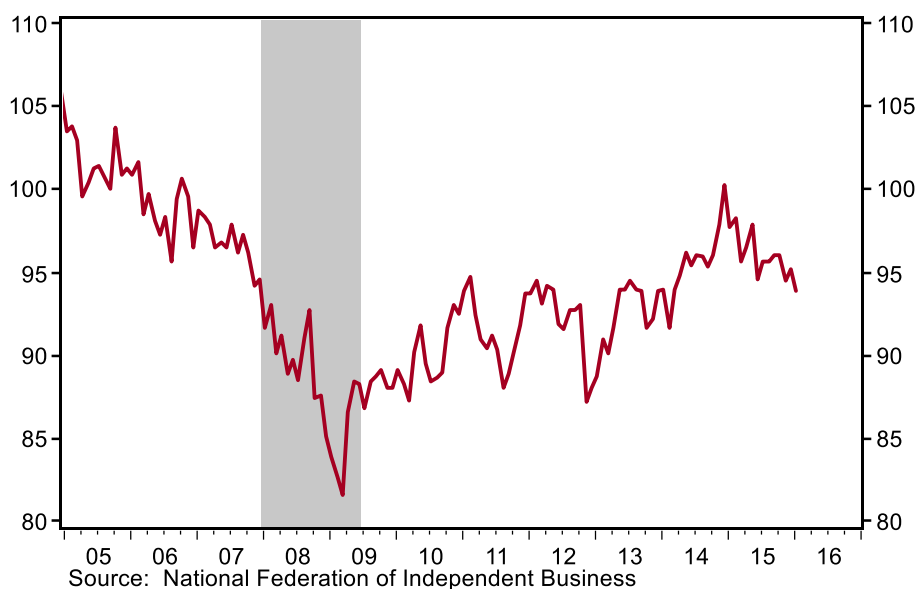
NSA, Q1-66=100



# BUSINESS CONFIDENCE

NFIB: Small Business Optimism Index

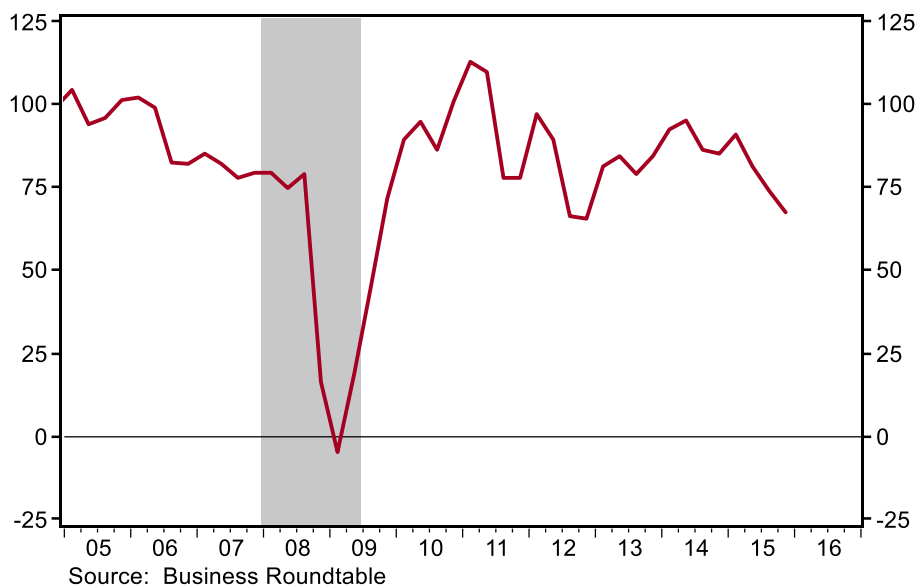
SA, 1986=100



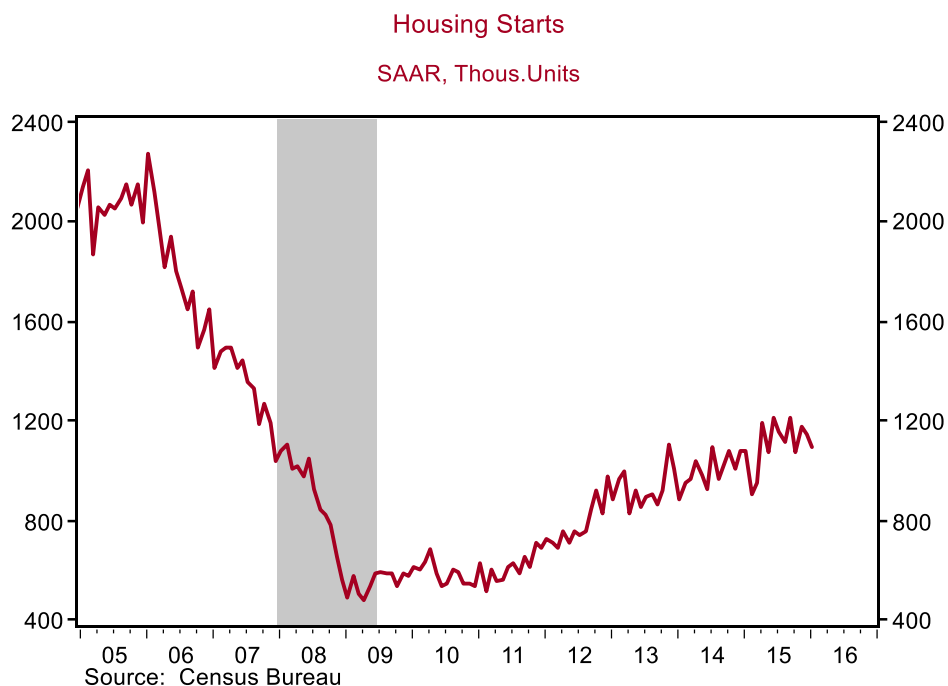
Business confidence has remained mixed, and continued global uncertainty (Brexit, Greece, China, Puerto Rico, etc) is likely in part to blame here as well. With the recent volatility in equity markets, a continued sideways channel would still not be surprising. The worry now is that the trend is down – stay tuned.

CEO Economic Outlook Survey Diffusion Index

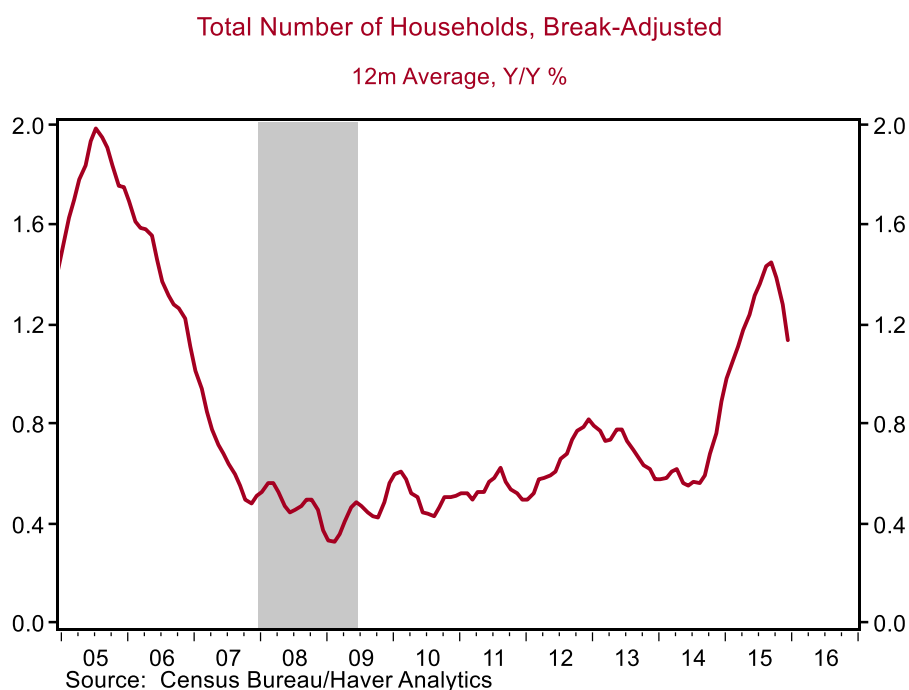
50+=Expansion



# HOUSING



There is enough good news that we continue to believe we have turned the corner on U.S. housing. The last several months have seen generally solid data, though some choppy readings on home sales as new regulations have been implemented.

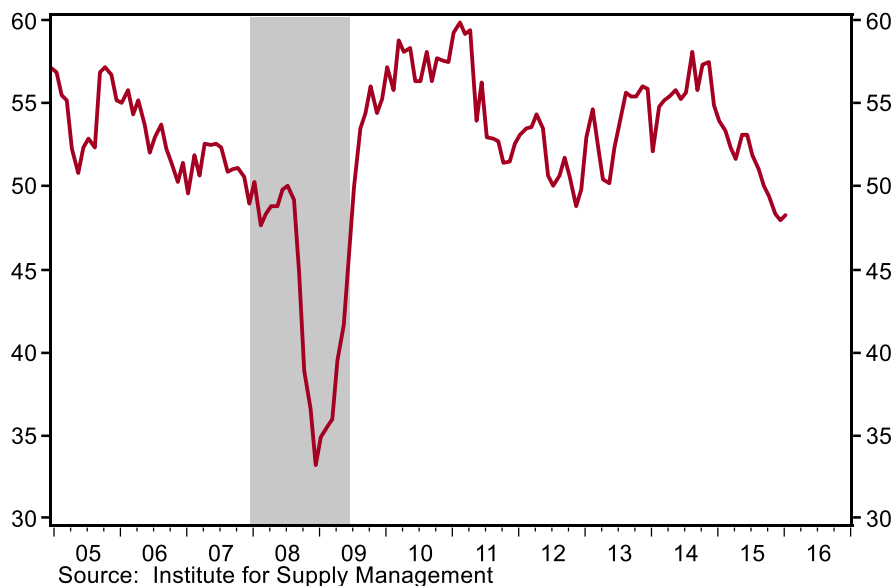


# MANUFACTURING

**Liability**

ISM Manufacturing: PMI Composite Index

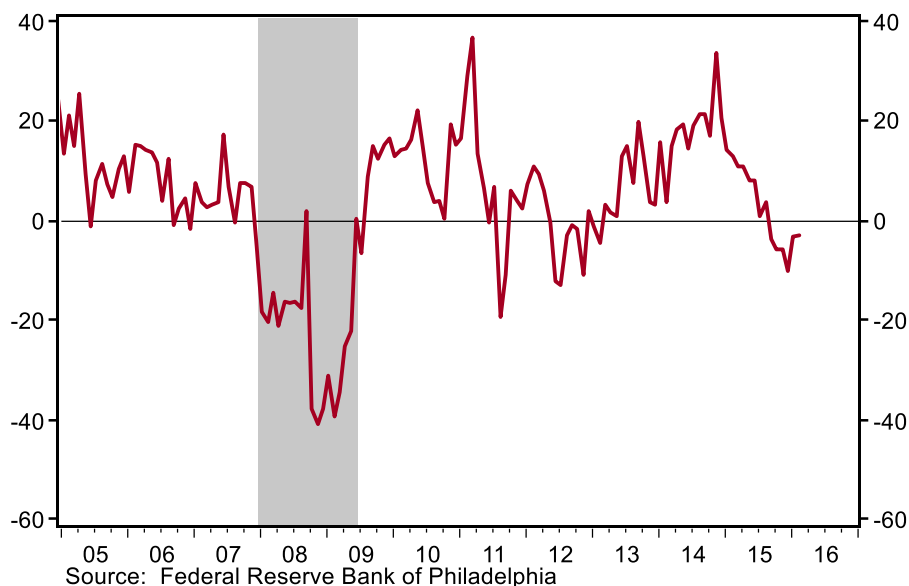
SA, 50+=Increasing



Recent data leaves us with mfg as a *Liability* again. We're watching the upcoming PMI measures closely.

Philly Fed Mfg Business Outlook: Current Activity Diffusion Index

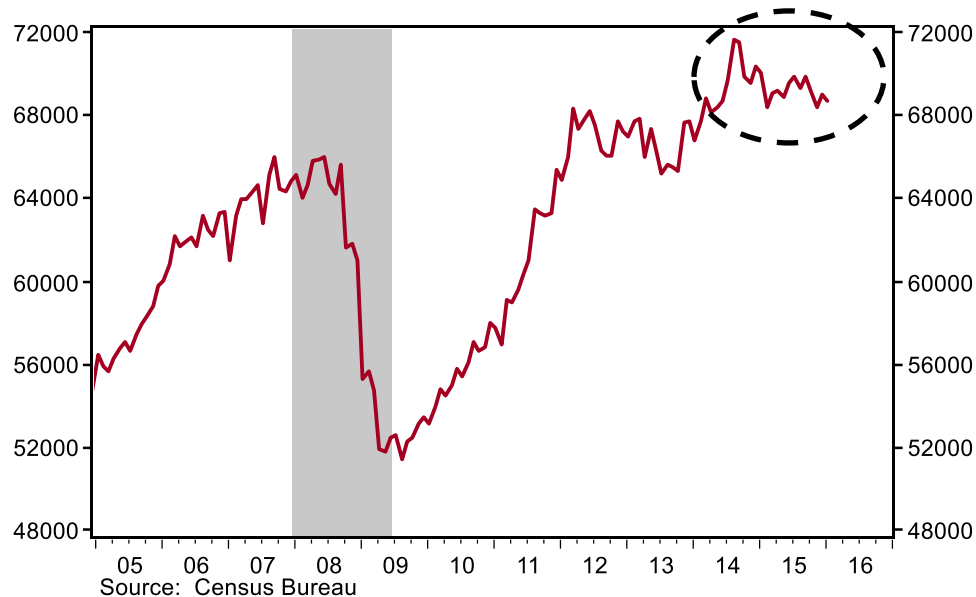
SA, %Bal



# CAPEX EQUIPMENT

Mfrs' Shipments: Nondefense Capital Goods ex Aircraft

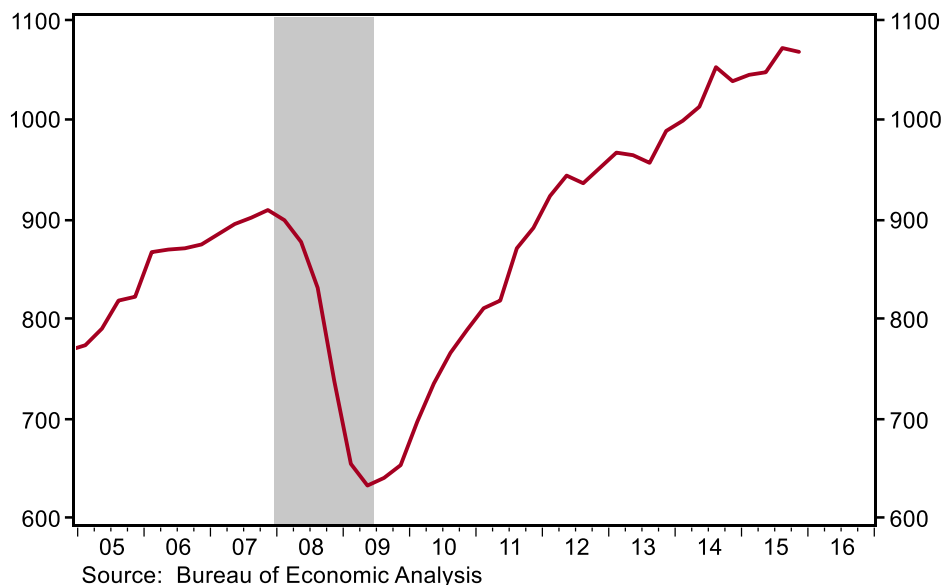
SA, Mil.\$



Capex readings have been choppy recently, and we leave this sector as a *Liability* on our balance sheet this month. The renewed drop in oil prices has created a drag on the energy patch (though this can & should be offset elsewhere in the economy). But oil does have to remain stable.

Real Private Nonresidential Fixed Investment: Equipment

SAAR, Bil.Chn.2009\$



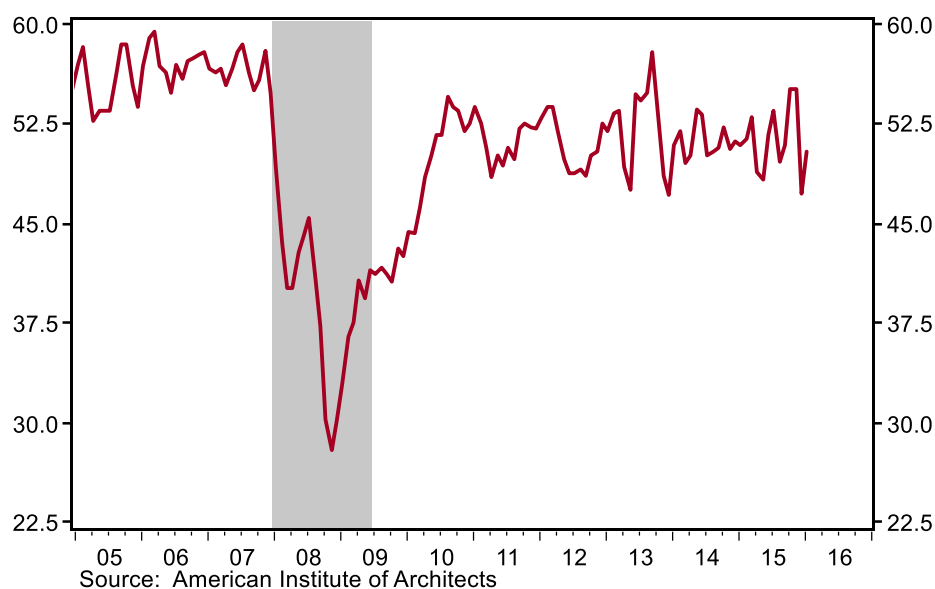


Neutral

# NONRESIDENTIAL CONSTRUCTION

Architectural Billings Idx: Comm/Ind Sector, 3-Mo Moving Avg

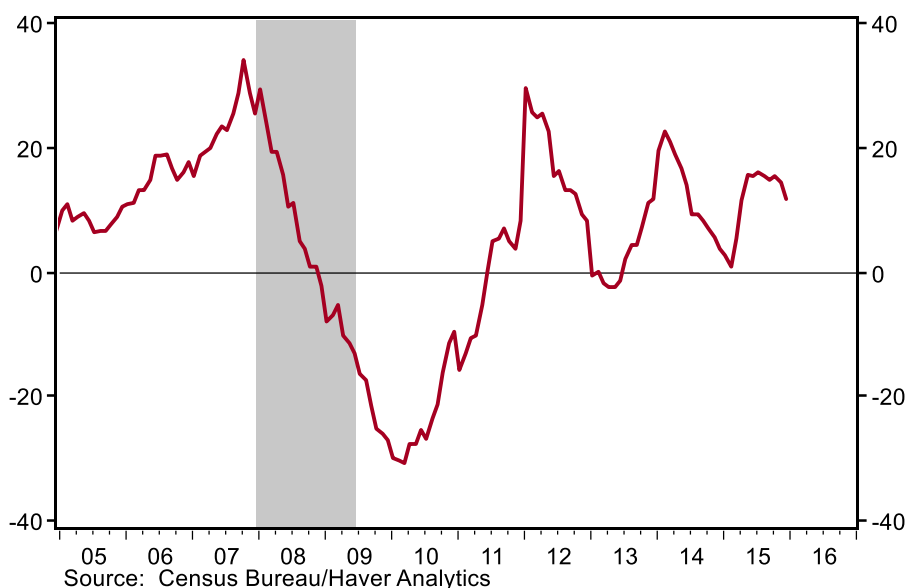
SA, +50=Increase



The AIA architecture billings index has been choppy recently, as has census data on private nonres construction. We leave this (lagging) economic indicator *Neutral* on the balance sheet.

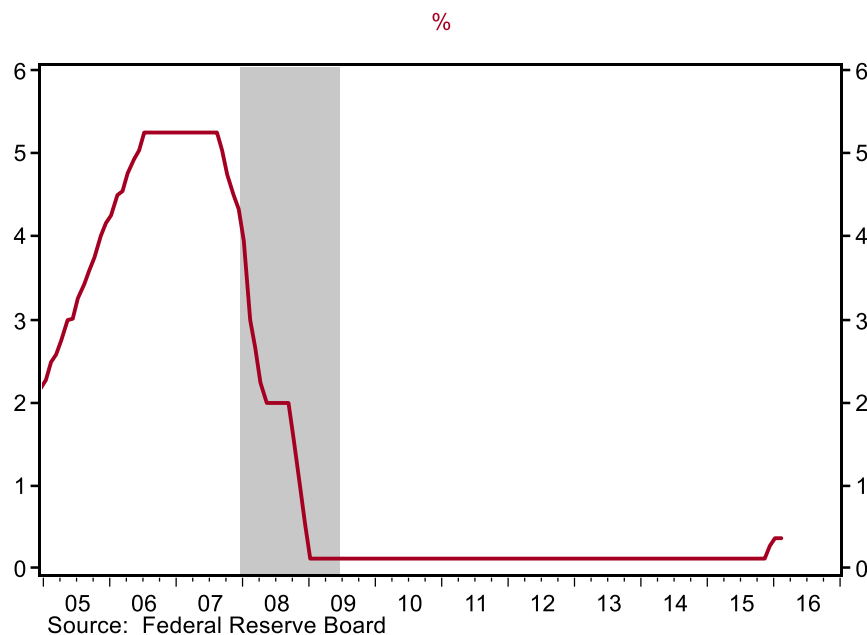
Private Construction: Nonresidential

% Change - Year to Year SAAR, Mil.\$



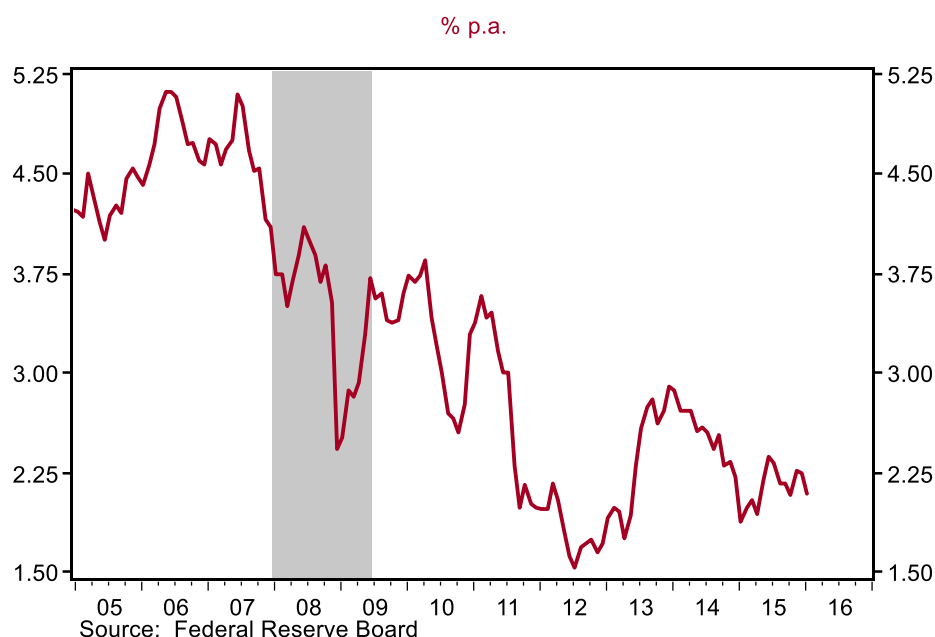
# INTEREST RATE ENVIRONMENT

Federal Open Market Committee: Fed Funds Target Rate



We keep the Interest Rate Environment as an *Asset* on the balance sheet. The U.S. 10-year Treasury yield continues to remain very low, relative to history, as the flight to quality continues & central banks around the world remain easy (sometimes with negative interest rate policy - NIRP).

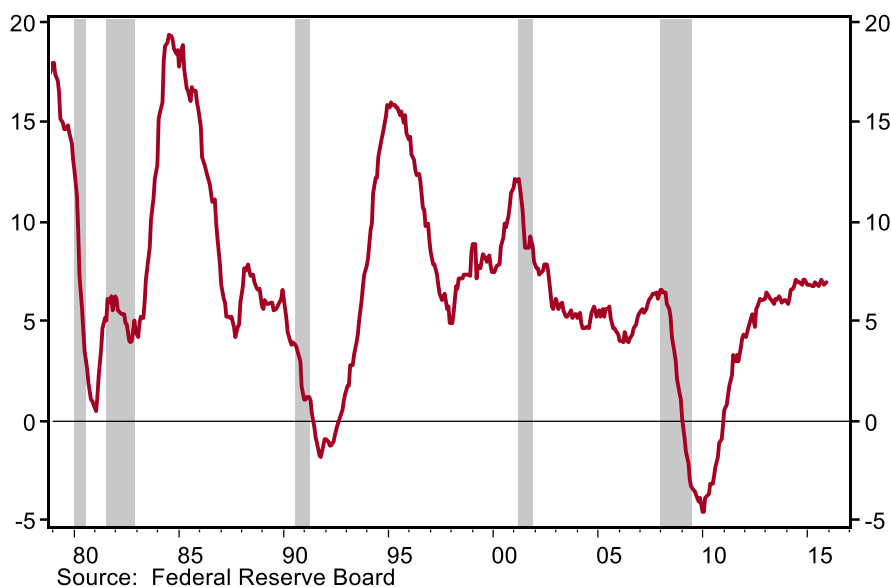
10-Year Treasury Note Yield at Constant Maturity



# CREDIT ENVIRONMENT

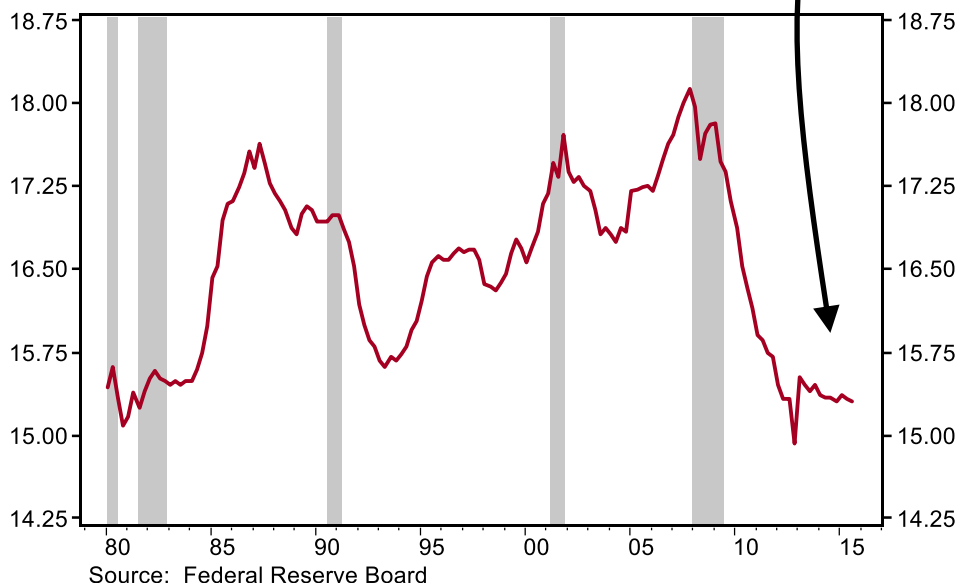
Break-Adjusted Consumer Credit Outstanding

% Change - Year to Year EOP, SA, Bil.\$



Household Financial Obligation Ratio

SA, %

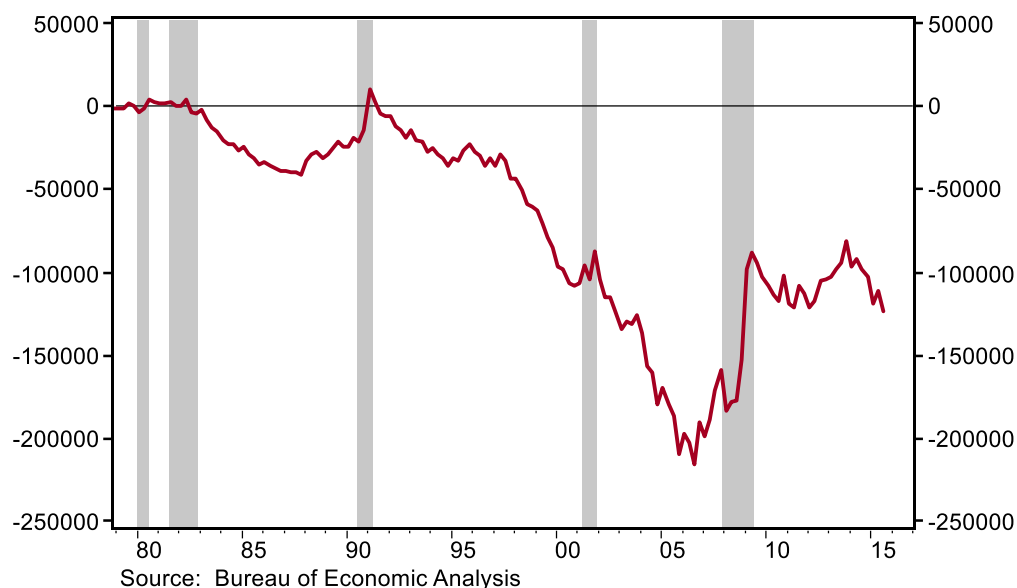


We keep the Credit Environment as an *Asset* on the balance sheet. It's certainly fair to say that increased regulation is likely to keep a lid on some of the financial euphoria of decades past (the U.S. consumer has stopped deleveraging, but does not appear to be releveraging much currently). That "lid" is not necessarily a bad thing. But overall the U.S. economy is (still) looking more normal. To be fair, we are still watching to see if there's significant contagion from the high-yield (energy) space.

# CURRENT ACCOUNT DEFICIT

BOP: Balance on Current Account

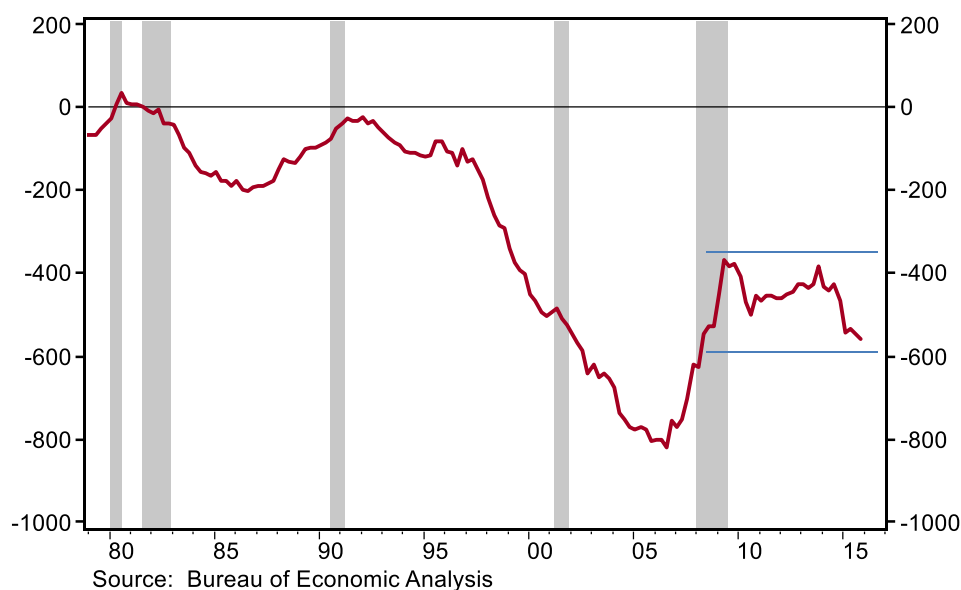
SA, Mil.\$



There are parts of the U.S. trade gap that have improved, including the petroleum balance (which is a key reason oil prices are down sharply – and OPEC has noticed). But overall the U.S. trade deficit has been more range-bound, and we leave this sector *Neutral* on the balance sheet.

Real Net Exports of Goods & Services

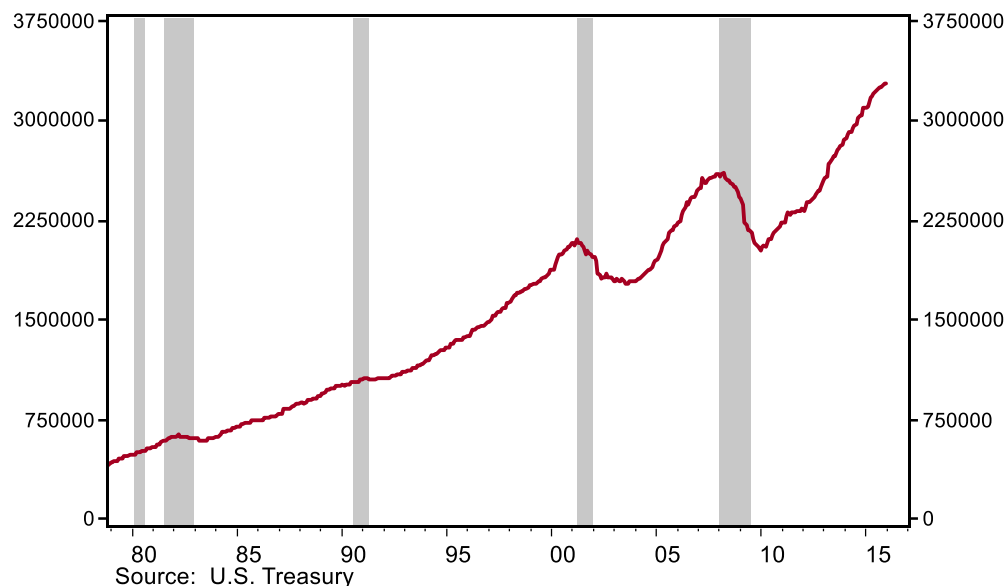
SAAR, Bil.Chn.2009\$



# BUDGET DEFICIT

Federal Receipts

12-month MovingTotal Mil.\$

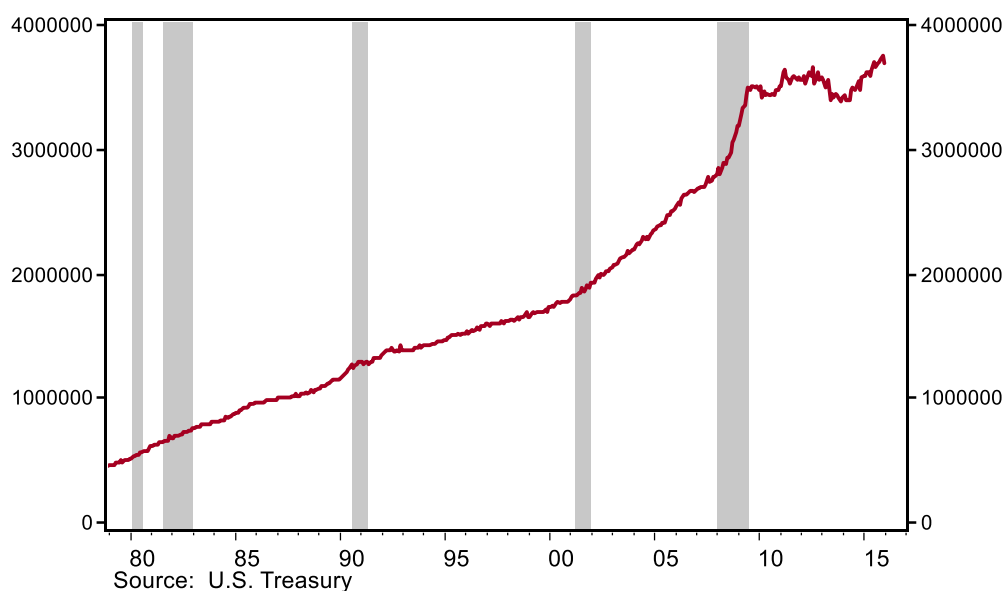


**The age of austerity appears to be over, based on the most recent U.S. budget.**

Longer term, the U.S. faces unsustainable pressures that will need to be dealt with (entitlements, etc). But the budget deal indicates we will see expansionary fiscal spending ahead of the 2016 election. Fiscal stimulus remains a key reason why the U.S. economy isn't weaker now.

Federal Outlays

12-month MovingTotal Mil.\$

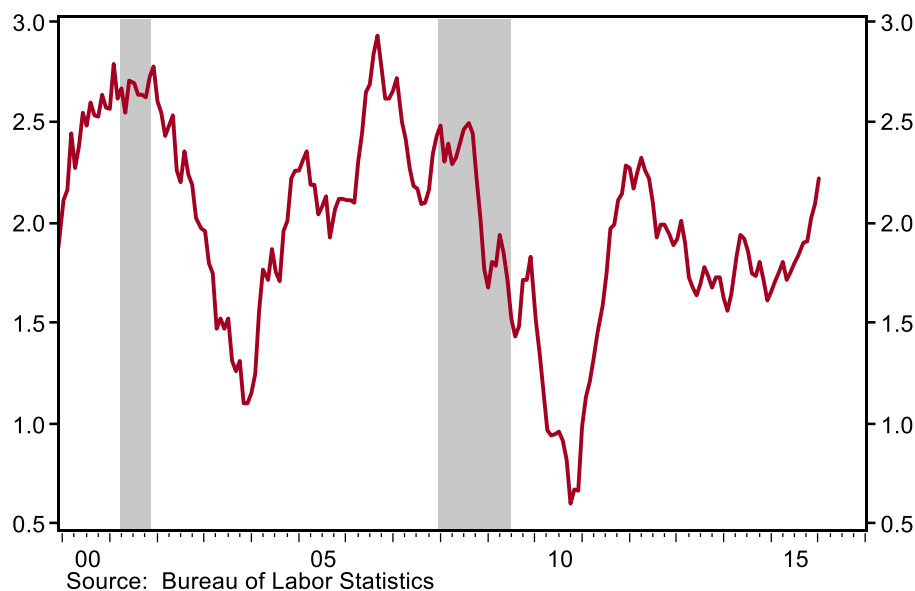


Neutral

# PRICE INFLATION

CPI-U: All Items Less Food and Energy

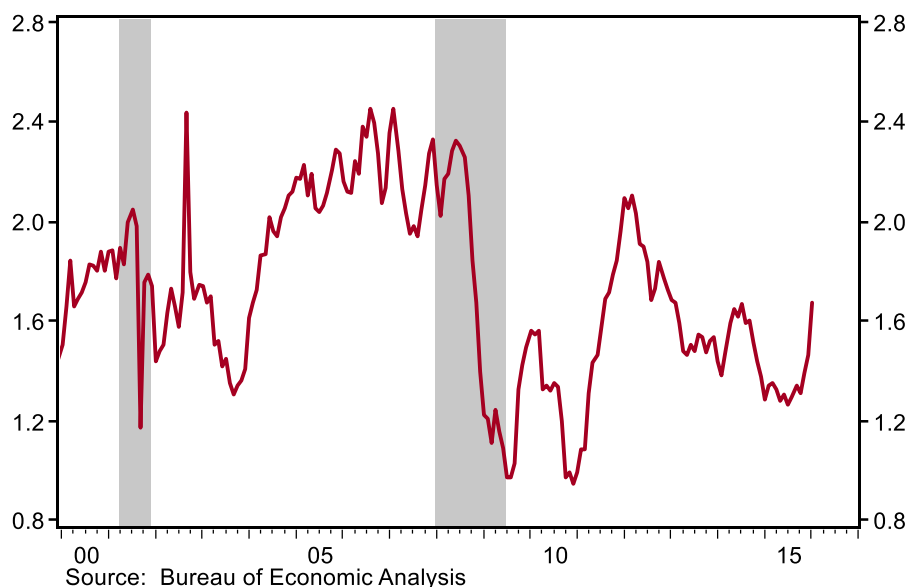
% Change - Year to Year SA, 1982-84=100



There's still neither substantial inflation nor deflation in the U.S. pipeline. There are risks abroad. But domestically, core inflation (ex food and energy) has been a good estimate of inflation's trend. Inflation remains *Neutral* on our balance sheet.

PCE less Food &amp; Energy: Chain Price Index

% Change - Year to Year SA, 2009=100

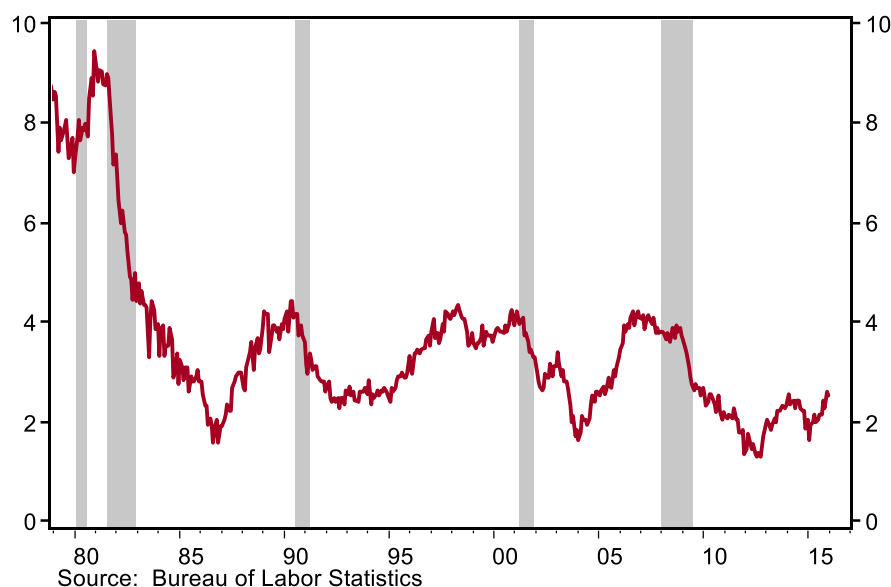


Neutral

# WAGE INFLATION

Avg Hourly Earnings: Prod & Nonsupervisory: Total Private Industries

% Change - Year to Year SA, \$/Hour



We are at the stage of the business cycle where labor should be taking share, and that story still appears to be rebooting. We expect wage growth to continue to accelerate, as the unemployment rate hits levels associated with full employment.

Employment Cost Index: Compensation: Civilian Workers

% Change - Year to Year SA, Dec-05=100

