**US Economy - Manufacturing Expansion Slows, Inflation Down, Consumer Spending, Meh**

*Forbes.com* - [Tim Worstall](http://www.forbes.com/sites/timworstall/) - May 1, 2017

We have a trio of economic statistics for the United States economy today. None of them are really showing anything exciting and none of them are showing anything disastrous. Really, the combination of the three of them is telling us that the economy is just bobbing along in its own sweet way. There's nothing in particular that should be done on the macroeconomic front. We don't need to inject some stimulus through higher spending or tax cuts, we don't need to cool things down with tax rises either, nor really interest rate rises.

That is, this is the time we should be concentrating on the microeonomic issues and of course those can also be justifications for interest rate and tax and even spending changes too.

Firstly, the manufacturing [numbers](http://www.cnbc.com/2017/05/01/april-ism-manufacturing-index.html):

The Institute for Supply Management (ISM) said its index of national factory activity dropped to a reading of 54.8 last month, the weakest reading since December, from 57.2 in March.

That's not actually a reading of activity. It's supply managers being surveyed and it's about what they're planning for the very near future. It is much better seen as a leading indicator of what next month's figures are going to be like. Because, of course, people have to gear up to produce something before they do produce it. And people tend to produce what they're geared up to produce. A reading above 50 means expansion from current plans, so we're still seeing expansion here but just nothing very wondrous.

Inflation has fallen a bit as [well](http://www.marketwatch.com/story/us-inflation-retreats-in-march-from-5-year-peak-2017-05-01):

The rate of U.S. inflation slowed in March one month after hitting a five-year peak, reflecting lower prices for gasoline and other consumer goods such as new autos.

The halt last month to the recent rise in inflation could ease pressure on the Federal Reserve to raise interest rates, though the central bank appears on track to increase them within the next few months.

More specifically:

In March, the PCE index fell 0.2% to mark the first decline in more than a year, the government reported Monday. A core index that strips out the volatile food and energy categories also dropped 0.1%, reflecting the largest decline since 2001.

Core PCE is what the Federal Reserve has declared is its target for their 2% inflation rate. It's currently, on the 12 month basis they use, a little below that target. And then there's the consumer spending [number](https://www.bloomberg.com/news/articles/2017-05-01/consumer-spending-in-u-s-stalled-in-march-for-second-month):

Projections for consumer spending in the Bloomberg survey ranged from a decline of 0.2 percent to a 0.4 percent increase. The previous month’s reading was initially reported as a 0.1 percent advance.

After adjusting for inflation, in order to generate the figures used to calculate gross domestic product, purchases increased 0.3 percent in March after a 0.1 percent decline in February, Monday’s report also showed.

The real point here being that none of these numbers are very exciting. On a macroeconomic level none of them call for us to be doing anything. They're not indicative of a looming disaster either way. They're all rather just bumbling along meaning we've not got, as far as we can see at least, some looming depression nor any inflationary boom about to consume the economy. The macroeconomic message is thus, well, actually, it's pretty much "Meh" if we're honest about. But then it's also true that we'd really like the macroeconomy to be extremely unexciting. Sure, we'd prefer 3 or 4% growth in it rather than the 2 and a bit % we're likely to get but boring is *good* in macroeconomics.

This still leaves open the questions of tax cuts, tax changes, infrastructure spending booms and interest rate changes. But we're not, at this point, going to be able to justify any of them by the need to either stimulate or rein in that macroeconomic performance. None of which stops us thinking about such things from a microeconomic point of view.

My own readings of which would be that we should indeed change the tax system even if I'm happy enough with the general tax take itself. Lightening corporate taxation (although abolishing it altogether would be better of course) and raising the revenue in a different manner would be a good idea for me. I'd also support the Federal Reserve raising interest rates simply because we've got to get back to a system of positive real interest rates to avoid the distortions being created by the current rates. Pension funds are in all sorts of problems for example. And maybe we do need to spend more on the road systems, the infrastructure. I'm deeply unpersuaded myself but if we do we do.

The underlying point from these economic statistics being that the macroeconomic performance is fine, if a bit dull. Any changes we want to make to taxes, spending or interest rates need to be justified by the microeconomics of those subjects therefore.

**U.S. economy bogs down in first quarter with slowest growth in 3 years, GDP shows**

**Small 0.7% GDP reflects temporary dropoff in consumer spending**

*[Market Watch](http://www.marketwatch.com/topics/journalists/jeffry-bartash" \o "Jeffry Bartash)* [- JeffryBartash - April 28, 2017](http://www.marketwatch.com/topics/journalists/jeffry-bartash" \o "Jeffry Bartash)

The U.S. economy grew at the slowest pace in the first quarter since 2009. But don’t read too much into that.

The government’s official scorecard for the U.S. economy in the first quarter pointed to the weakest growth in three years, but the slowdown appeared tied to temporary effects that are likely to give way a rebound in the coming months.

Gross domestic product increased at a meager 0.7% annual pace in the first three months of the year, down from 2.1% and 3.5% in the back half of 2016. Economists polled by MarketWatch had forecast a 0.9% increase.

In recent trading, the Dow Jones Industrial Average [DJIA, +0.04%](http://www.marketwatch.com/investing/index/djia?mod=MW_story_quote) and the S&P 500 index [SPX, -0.13%](http://www.marketwatch.com/investing/index/spx?mod=MW_story_quote) fell slightly.

The steep drop-off stemmed from the smallest increase in consumer spending since the end of 2009, largely reflecting fewer sales at car dealers. Consumer outlays rose just 0.3%, a steep drop from the 3.5% gain at the end of 2016.

Government also reduced spending and businesses scaled back on inventory production to make sure they didn’t get stuck with lots of unsold goods on warehouse shelves.

The pullback in consumer spending is unlikely to last, though.

Americans spent less on gasoline and home-heating fuel after a spell of unseasonably warm weather in February—the second hottest on record. Warm weather also dampened sales at retailers such as clothing stores trying to move the last of their cool-weather inventory while a bout of stormy weather kept consumers away in March.

That’s unlikely to be repeated in the spring.

For starters, household finances are in the best shape in years amid record stock market gains, a strong labor market and gradually rising wages. An index that tracks labor costs, for example, posted the biggest gain in the first quarter in a decade. Read: [Worker compensation posts biggest gain since 2007](http://www.marketwatch.com/story/worker-compensation-sees-biggest-gain-since-2007-eci-shows-2017-04-28)

Millions of Americans also received their tax refunds later than usual in 2017, a hiccup that probably shifted some spending from the first quarter to early in the second quarter.

Consumer spending “will rebound in the second quarter,” said Paul Ashworth of Capital Economics.

The better financial positions of households is evident in steadily rising home sales. In the first quarter, investment in home building climbed 13.7%, marking the construction industry as a major engine of U.S. growth. The biggest problem in the real-estate market is a lack of properties for sale.

Another sudden tailwind for the economy — after a prolonged absence — is business spending.

Companies are investing more in structures such as drilling rigs and office buildings. So-called fixed business investment increased 10.4% and accounted for bulk of U.S. growth in the first quarter, a marked contrast to the prior two years when it was often an albatross.

The gain was driven by a whopping 450% increase in outlays by energy producers bent on pumping more oil and natural gas out of wells on land and at sea.

Yet even though American corporations are brimming with optimism about a pro-business Trump White House, they’ve shed none of the caution exhibited during a stutter-step eight-year-old economic recovery.

Companies barely increased the production of goods, making inventories the other big drain on first-quarter growth. They rose by just $10.3 billion in the first quarter after a roughly $50 billion increase at the end of 2016.

Government spending at the local, state and federal levels also fell 1.7%, the largest drop in four years.

Trade, another key part of the economy, was largely a wash on first-quarter results. Exports climbed 5.8% while imports rose 4.1%.

Meanwhile, Inflation advanced at a 2.4% annual pace in the first quarter, according to the personal-consumption expenditures, or PCE index. The PCE index—the preferred inflation gauge of the Federal Reserve—easily topped the central’s bank’s 2% target for the first time in several years.

Yet the core PCE that strips out the volatile food and energy categories was little changed at 2%, underscoring the big effect that oil prices can have on U.S. inflation.

U.S. oil prices [CLM7, -1.94%](http://www.marketwatch.com/investing/future/clm7?mod=MW_story_quote)  have retreat after a run-up late last year, suggesting moderation in price pressures. If labor costs continue to rise, however, that could become another source of worry for the Fed.

**US Economy Expanded at Weakest Pace in 3 Years**

*The New York Times* - THE ASSOCIATED PRESS – April 28, 2017

WASHINGTON — The U.S. economy turned in the weakest performance in three years in the January-March quarter as consumers sharply slowed their spending. The result fell far short of President Donald Trump's ambitious growth targets and underscores the challenges of accelerating economic expansion.

The [gross domestic product](http://topics.nytimes.com/top/reference/timestopics/subjects/u/united_states_economy/gross_domestic_product/index.html?inline=nyt-classifier), the total output of goods and services, grew by just 0.7 percent in the first quarter following a gain of 2.1 percent in the fourth quarter, the Commerce Department reported Friday.

The slowdown primarily reflected slower consumer spending, which grew at a seasonally adjusted annual rate of 0.3 percent after a growth rate of 3.5 percent in the fourth quarter. It was the poorest quarterly showing in more than seven years.

Despite the anemic first-quarter performance, the U.S. economy's prospects for the rest of the year appear solid. Growth is expected to be fueled by a revival in consumer spending, supported by continued strong job growth, accelerating wage gains and record stock levels.

Weakness in the first quarter followed by a stronger expansion in the spring has become a pattern in recent years. The government's difficulty with seasonal adjustments for the first quarter has been a chronic problem and may have shaved as much as 1 percentage point off growth this year.

The sharp slowdown in consumer spending in the first quarter was attributed to a collection of temporary factors: warmer weather, which shrank spending on heating bills, a drop-off in auto sales after a strong fourth quarter and a delay in sending out tax refund checks, which also dampened spending.

Sal Guatieri, senior economist at BMO Capital Markets, said he expected consumer and government spending to bounce back, leading to a much stronger second quarter.

"Still, the report will mark a rough start to the administration's high hopes of achieving 3 percent or better growth, not the kind of news it was looking for to cap its first 100 days in office," Guatieri said in a note to clients.

Commerce Secretary Wilbur Ross, one of the administration's top economic policymakers, said that the weak first quarter performance showed the need for the new policies Trump is offering.

"We need the president's tax plan, regulatory relief, trade negotiations and the unleashing of (the) American energy sector to overcome the dismal economy inherited by the Trump administration," Ross said in a statement.

He said that strong business and consumer sentiment "must be released from the regulatory and tax shackles constraining economic growth."

Averaging the two quarters, they forecast growth of around 2 percent for the first half of this year. That would be in line with the mediocre performance of the eight-year economic expansion, when growth has averaged just 2.1 percent, the poorest showing for any recovery in the post-World War II period.

Trump had repeatedly attacked the weak GDP rates during the campaign as an example of the Obama administration's failed economic policies. He said his program of tax cuts for individuals and businesses, deregulation and tougher enforcement of trade agreements would double growth to 4 percent or better.

In unveiling an outline of the administration's tax proposals on Wednesday, Treasury Secretary Steven Mnuchin said he believed growth above 3 percent would be achievable.

Many economists are more skeptical. They are forecasting growth of this year around 2.2 percent. That would be an improvement from last year's 1.6 percent, the weakest showing in five years, but far below Trump's goal. Many analysts believe that the impacts of Trump's economic program will not be felt until 2018 because they are not expecting Congress to approve some version of Trump's tax program until late this year.

The GDP report released Friday was the first of three estimates the government will make of first quarter growth.

The 0.7 percent increase was the worst showing since GDP contracted by 1.2 percent in the first quarter of 2014.

In addition to weaker consumer activity, the first quarter slowdown also reflected a cutback in restocking of store shelves. The slowdown in inventory rebuilding cut nearly a percentage point from growth in the first quarter. Also acting as a drag was a reduction in government spending, which fell at a 1.7 percent annual rate with both the federal government and state and local governments seeing cuts.

On the positive side, business investment rose at a 9.4 percent rate, helped by a record surge in spending in the category that tracks spending in the energy sector. This category had seen sharp cutbacks in recent quarters, reflecting reductions in exploration and drilling as energy prices declined. Housing construction was also strong, growing at a 13.7 percent rate, the fastest pace in nearly two years.

Trump noted the weak 2016 GDP performance in a tweet Wednesday and contended that "trade deficits hurt the economy very badly." For the first quarter, trade was actually a small positive after a major drag in the fourth quarter.