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THE OUTLOOK

Five Indicators Give Early Clues To the Direction of the Economy

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After trudging through the fourth quarter and breaking into a sprint early this year, the U.S. economy is supposed to be easing into a steady jog about now. At least, that is what the Federal Reserve and many economic forecasters expect.

But is growth slowing just enough to please the Fed and keep inflation in the bottle? Is the economy fading faster than expected, raising the prospect of higher unemployment later this year and creating headaches for Republicans in November's congressional elections? Is the economy even slowing at all?

The Fed isn't sure. It has let markets know that any change in interest rates beyond the quarter-point increase expected next month will be "data dependent," which is Fed speak for "we're waiting to see more numbers." That makes life interesting for economics reporters, but it can be maddening for others. Last week, the bond market got whiplash after a comforting government inflation measure one day was followed by a disconcerting one the next.


Here is a guide to five telling indicators that will give early signals on the economy's direction.

Orders for capital goods

On Wednesday, the Commerce Department will release figures on new orders for durable goods -- items like turbines, computers and dishwashers that are meant to last at least three years. The headline number gets distorted by the volatile aircraft sector, so economists look to orders for nondefense capital goods excluding aircraft, or "core capital goods," to gauge how much equipment companies will buy in the near future.

A few months of upward movement is a good omen, suggesting manufacturers are confident

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Read more about the five early indicators on the economy's direction:

- Orders for capital goods: <http://www.census.gov/indicator/www/m3/index.htm>¹
- Initial jobless claims: <http://www.dol.gov/opa/media/press/eta/ui/current.htm>²
- Home-builder sentiment: http://www.nahb.org/news_details.aspx?newsID=2382³
- Retail sales: <http://www.census.gov/svsd/www/retail.html>⁴
- 10-year Treasury: <http://online.wsj.com/public/resources/documents/trkbnd.pdf>⁵
- Plus, read San Francisco Fed President Janet Yellen's [latest speech](#)⁶.

enough to invest in expansion. With corporations sitting on big profits and cash hoards, economists expect business-investment spending to be a significant driver of growth this year, at a time when the growth in consumer spending is expected to slow.

In a prelude to the robust growth in the first quarter, orders for core capital goods rose 6.2% between September and January. Orders were flat in January and fell 0.8% in February. In one encouraging sign, Internet giant **Google Inc.** last week said its capital spending -- \$838 million last year -- would grow faster than its revenue this year.

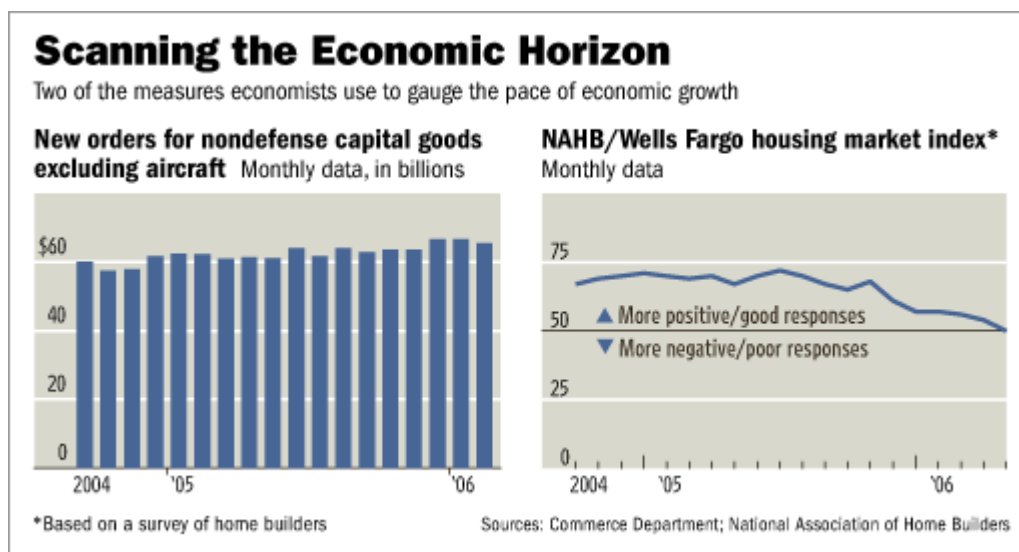
Initial jobless claims

Each week, the Labor Department counts the number of people filing new claims for unemployment benefits. Falling claims are an early indicator of a surge in hiring, which in turn means more people with paychecks to spend. Because it is impossible to spot a trend in one week, economists track the "four-week moving average" of claims. That measure fell to 305,250 last week from 336,000 a year ago. The U.S. unemployment rate, which tends to follow claims, fell to 4.7% from 5.1% over the same period.

The moving average fell below 300,000 earlier this year, a threshold that indicates the economy may be running above the point where wages should rise as companies have to compete for qualified workers. If claims stay in the current range -- slightly above 300,000 -- that is a sign the job market is providing income sufficient to maintain consumer spending. If the tally moves higher, it is a sign that growth may slow. If it goes even lower, watch for inflation -- and more Fed interest-rate increases.

Home-builder sentiment

The National Association of Home Builders/Wells Fargo monthly housing-market index gauges builders' attitudes about the climate for new-home sales, an indicator of what lies ahead in the home-construction business, which has been giving economic growth a significant boost in recent years.



NAHB readings above 50 mean the outlook is positive, and below 50 suggest times are tough. The index topped at 72 in June 2005, accurately predicting the peak in new-home sales the following

month, and has declined steadily to 50. That is the lowest level in a decade, except for a brief period after the 9/11 attacks. David Seiders, the builders' chief economist, expects the index to decline further but to remain above 40.

It took a few months, but housing construction now appears to be following the downward arc of declining sales. Along with rising oil prices and interest rates, a severe housing slowdown remains one of the major risks to U.S. economic growth this year.

Retail sales

The Commerce Department's monthly retail-sales report is an important signpost of consumer spending, which accounts for the biggest chunk of spending in the economy. Car sales are volatile, so economists look at a measure excluding them to gauge underlying trends.

Warm weather boosted this measure by 2.6% in January, but sales have been flat since. If consumers keep getting squeezed by rising gas prices, weakness in retail sales and consumer spending on other things could follow.

The bond market

After stubbornly refusing to respond to the Fed's increases in short-term interest rates, the bond market has pushed the yield on the benchmark 10-year Treasury note above 5%, the highest in nearly four years. While that creates opportunities for investors, it raises borrowing costs for businesses and pushes up mortgage rates. That, in turn, could damp growth prospects.

Of course, that was the Fed's intention a couple months ago. Now, there is a risk that the 10-year's yield could go even higher. Economists surveyed by WSJ.com expect the 10-year yield to be at 5.04% in June, on par with its current level, and near 5.1% by the end of the year.

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Hyperlinks in this Article:

- (1) <http://www.census.gov/indicator/www/m3/index.htm>
- (2) <http://www.dol.gov/opa/media/press/eta/ui/current.htm>
- (3) http://www.nahb.org/news_details.aspx?newsID=2382
- (4) <http://www.census.gov/svsd/www/retail.html>
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