Economy's Performance Continues to Beat Forecasts

Three more measures of how the U.S. economy is performing once again beat economists' forecasts: consumer confidence, jobless claims, and manufacturing. Tuesday's release by the University of Michigan of its monthly "Survey of Consumers" showed all three of its indexes notching highs not seen in years. Its Index of Consumer Sentiment ("How are you feeling about your finances today?") hit 99.7 compared to January's robust 96.3. That is the second-highest level since 2004, reflecting, according to the survey's chief economist Richard Curtin, consumers' "favorable assessments of jobs, wages, and higher after-tax pay … overall, the data signal an expected gain of 2.9% in real personal consumption expenditures during 2018."

The forecasters in this instance nearly got it right. The consensus reported by the *Wall Street Journal* expected 99.5. But that's about as close as any of them got.

The U of M's Index of Current Economic Conditions ("How does the economy look to you from your personal perspective?") also beat expectations, jumping from 110.5 in January to 114.9 last month. And its Index of Consumer Expectations ("How do things look to you down the road?") also leapt higher, from 86.3 in January to 90 in February.

Economists' crystal balls missed the mark on the numbers coming out of The Conference Board, a nonprofit business membership and research group organization. Their expectation was 127 in February, up from 124.3 in January (any number above 100 shows improving outlooks by consumers). The real numbers released on Tuesday? 130.8.

Said Lynn Franco, director of those various economic indicators that The Conference Board measures in developing its report, "Despite the recent stock market volatility, consumers expressed greater optimism about short-term prospects for business and labor market conditions, as well as their [personal] financial prospects." The Board's "present situation" index, reflecting the University of Michigan's report, rose from 154.7 last month to 162.4 in February, while its "future expectations" index jumped to 109.7 in February from January's 104.

And then came jobless claims that also dropped to levels not seen since 1969, nearly 50 years ago (when the U.S. economy was a fraction of its present size). Forecasters missed the boat here too, expecting new unemployment claims of 226,000 in February. The real number, according to the government, was 210,000.

Next came the report from the Institute for Supply Management (ISM), measuring the strength in the manufacturing sector of the U.S. economy. Factories expanded at a rate not seen since May 2004, jumping from 59.1 to 60.8 in its index, and beating expectations (again) of a decline to 58.7. The key number from the ISM, however, is its order backlog — a measure of how quickly orders are being filled, or not being filled — which climbed from 56.2 to 59.8. This shows some factories are having trouble keeping up with demand (oh, darn!). Said one executive in machinery manufacturing, "It seems the tax break for business is making a difference. [Our] customers are spending more for capital equipment." Another executive, in plastics and rubber products, said, "Business is very strong, and our lines are running at full capacity."

Add to this the comments expressed by the new head of the Federal Reserve, Jerome Powell: "The economic outlook remains strong," and one has a good feel for an economy that has finally found its footing after years of stagnation.

There are some hurdles facing the economy, such as a lack of qualified workers to fill positions, and the likelihood that Powell will think the economy is too strong and will raise interest rates several times before the end of the year. Economists refer to this as "removing the punch bowl just as the party is getting started."

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