

Plow Horse Meets Polar Vortex

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The Plow Horse has met the Polar Vortex and it finally met its match. Dismal data suggest a slowing recovery. It started with the January ISM factory report early this month, continued with weak auto sales and tepid payroll growth, and was followed by declines in both overall retail sales and industrial production. Housing starts are likely to be the latest victim when they're reported this week (see table, below).

The perma-bears say it can't all be caused by the weather; some of the weakness reflects a damaged underlying trend in growth. And, as a result, equities should remain under prolonged downward pressure despite the recent rally.

We don't buy this at all and don't see any evidence of a recession or a reason to change our plow horse forecast. Yes, weak data is still in train and GDP growth will be very slow in Q1. But, it seems clear that weather is the culprit and Q2 will see a revival.

Some analysts correctly note that national average temperatures were just a little below normal in January. But the national average is weighted by region size (not population) and includes some normally temperate winter areas (like California, Nevada, and Arizona) being even warmer than normal.

For economic purposes, it's important to know that if an area that's normally 60 degrees in the winter is instead 65, the extra warmth has very little effect on business. By contrast, if an area that normally averages 35 degrees, instead, averages 30, the negative impact can be large. In other words, "average" national temperatures can hide a problem, like the statistician who drowned in a river with an average depth of 2 feet.

Lucky for us, there is a better measure of temperatures. NOAA calculates something called "Heating Degree Days (HDD)," which measures how much more heat we need to

bring the whole country up to 65 degrees. So the higher the HDD index, the colder it is (the more heat that's needed).

One reason HDD is so useful is that it completely ignores the regions where the weather is already good enough for normal business activity. The other reason it's useful is that, unlike the national average temperature, the HDD index is weighted by population size. After all, it doesn't matter that much if the weather is better than normal in places where few people live. (We love you, Montana, and wish more people lived there, but those are the facts.)

And what did NOAA say about January? That it had the highest HDD index (coldest temperatures) for any January going back 20 years. We were in Memphis, TN on a day when it was 9 degrees. That's Armageddon weather there. No wonder economic activity is temporarily off. Friday's industrial production report put the whole month in a nutshell: manufacturing was down 0.8% while utility output rose 4.1%.

Some analysts say the retail sales slowdown in January couldn't all be weather-related because internet/mail-order sales slipped 0.6% as well. Apparently, none of these analysts had kids home from school on snow days.

It's also important to notice that not all the recent data are bad. The ISM Services index, which covers more of the economy than the Manufacturing report, increased in January. And the four-week average of initial unemployment claims is lower than it was in December.

As we've been saying the past couple of weeks, the recent spate of soft data is not over. Expect more of it this week and, given recent major snowstorms, it may linger on for another month. But when the spring thaw eventually comes – and it will – expect the Plow Horse to make up for lost time.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
2-18 / 7:30 am	Empire State Mfg Survey – Feb	9.0	13.5	4.5	12.5
2-19 / 7:30 am	Housing Starts – Jan	0.950 Mil	0.915 Mil		0.999 Mil
7:30 am	PPI – Jan	+0.1%	+0.3%		+0.4%
7:30 am	"Core" PPI – Jan	+0.1%	+0.2%		+0.3%
2-20 / 7:30 am	Initial Claims – Feb 15	334K	335K		339K
7:30 am	CPI – Jan	+0.1%	+0.1%		+0.3%
7:30 am	"Core" CPI – Jan	+0.1%	+0.1%		+0.1%
9:00 am	Philly Fed Survey – Feb	8.0	4.0		9.4
9:00 am	Leading Indicators – Jan	+0.4%	+0.4%		+0.1%
2-21 / 9:00 am	Existing Home Sales – Jan	4.670 Mil	4.680 Mil		4.870 Mil