Leading Indicators Point To Labor Growth in 2004

Leading economic indicators rose in December and pointed to job growth in early 2004.

Indeed, layoffs appeared to be subsiding as initial jobless claims dropped last week and the four-week moving average hit another three-year low.

The Conference Board reported Thursday that its composite index of leading indicators climbed 0.2% in December to 114.3, after a revised 0.2% gain a month earlier. The index was equal to 100 in 1996.

The private research group attributed much of the positive December reading to financial and labor market developments.

"All indicators point to continued economic growth," Conference Board economist Ken Goldstein said in a press release. "More job gains than in November and December are in store for the early months of 2004," along with continued robust consumer spending and an uptick in business investment, he said.

Seven out of 10 indicators in the index rose in December. The biggest positive contributors to the index were vendor performance, stock prices, building permits and falling claims for unemployment insurance. The biggest drag was a drop in money supply.

Meanwhile, initial jobless claims fell by 1,000 in the week ending Saturday to a seasonally adjusted 341,000, the Labor Department reported Thursday. The four-week moving average, which smooths out weekly fluctuations, fell by 3,250 to 344,500. The last time claims were lower was in the week ending Jan. 27, 2001, when they dropped to 338,000.

Economists had expected claims to rise by 2,000, according to a survey by Dow Jones and CNBC. A Labor Department statistician said "no special factors" caused the drop.
Claims for the previous week, ended Jan. 10, were revised downward by 1,000 to 342,000. That was the first downward revision in roughly one and a half years.

Economists believe the labor market is recovering, albeit gradually, from a three-year slump. Jobless claims have held below 400,000 for 16 consecutive weeks. Anything below that level is widely seen as an indication of an improving labor market.

Federal Reserve policy makers, however, consider the pace of job growth much too slow, and have said they will be disinclined to raise interest rates until they see a much stronger labor-market recovery.

In December, the nation's payrolls grew by just 1,000, disappointing economists, who were forecasting stronger growth. The unemployment rate fell to 5.7% during the month but some economists attributed that to the fact that thousands of people gave up looking for work.

The weekly claims data "tell us that layoffs have really fallen off -- it's just that we haven't had much new hiring yet," said Cary Leahey, an economist with Deutsche Bank in New York. Still, he said, all other indicators of the state of the labor market point to nonfarm jobs growth of "150,000 or better" in January.

After the minuscule 1,000-job gain in December, Morgan Stanley economists David Greenlaw and Ted Wiesemen "expect to see a partial catch up" in January, pegging the job gain at about 275,000.

The Fed's monetary-policy committee is scheduled to meet next week to decide the course of interest rates; it is widely expected to leave its key interest rate unchanged at 1%, a 46-year low. Amid the Fed's concerns about the labor market, some economists suggest that the central bank may leave rates alone throughout this year and into part of 2005.

In its report Thursday, the Labor Department said the number of workers drawing unemployment benefits for more than a week rose in the week of Jan. 10, the latest period for which those statistics are available. Such continuing claims climbed by 17,000 to 3,143,000. The unemployment rate for workers with unemployment insurance held steady at 2.5%.

In all, the Labor Department said, 45 states and territories reported an increase in unadjusted initial claims for the week of Jan. 10 while eight reported a decrease. California reported the biggest increase at 14,857, citing layoffs in the service industry and agriculture. Kentucky reported the biggest decline at 4,223 amid fewer layoffs in the manufacturing industry.

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Updated January 22, 2004 12:00 p.m.