

Risk Factor Update

January 2016 Economic Trends

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The Service Sector

This metric dropped in December, for the second month in a row. Although no longer at recent record levels, the service sector continues to expect both business and employment expansion, and this data point remains healthy, near where it was before the financial crisis. Continued strength in the service sector is consistent with business confidence; as a representative sample of the largest sector of business, this is an important leading indicator.



ISM Nonmanufacturing: NMI Composite Index

SA, 50+=Increasing



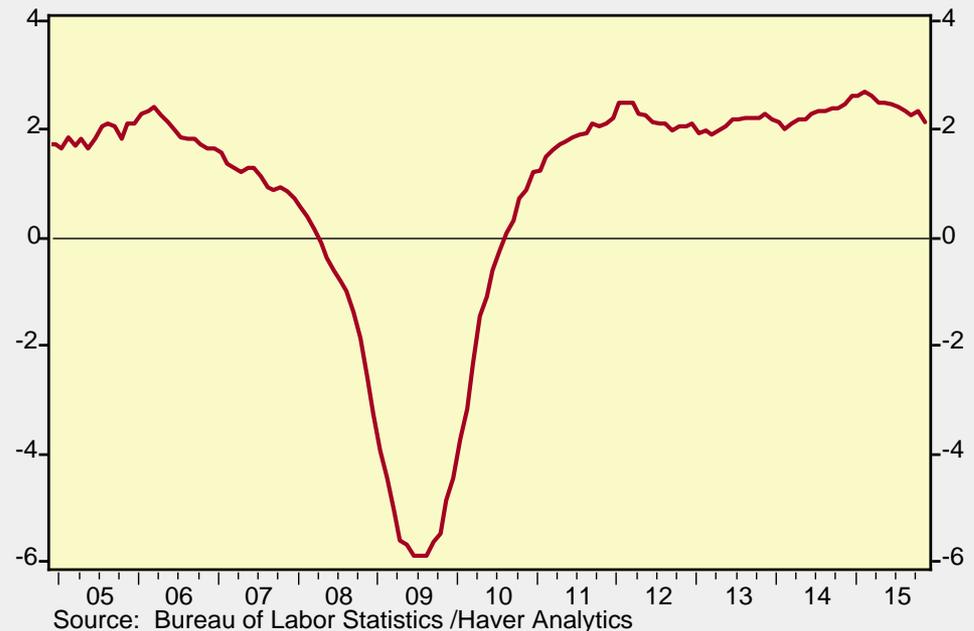
Private Employment: Annual Change

Private employment growth year-over-year continued its decrease, largely because of weak third-quarter results. Nonetheless, it remains at healthy levels, at or above those of the mid-2000s, with recent strong monthly figures suggesting that the decline may be stabilizing. Because this is an annual figure, the changes are slower and smaller than those we see in more frequently reported data, but the trend continues to look stable.



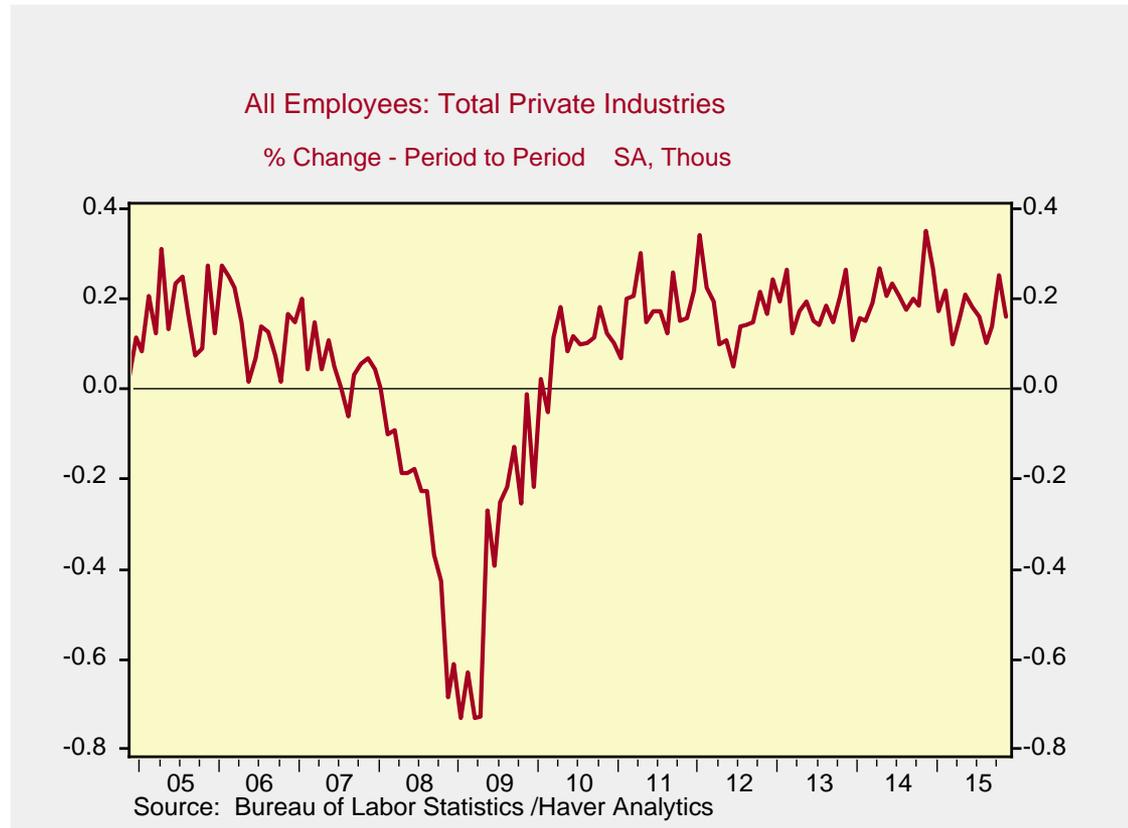
All Employees: Total Private Industries

% Change - Year to Year SA, Thous



Private Employment: Monthly Change

These are the same numbers as in the previous chart, but on a month-to-month basis, which can provide a better short-term signal. Fourth-quarter figures were much stronger than those of the weak third quarter, ending with better-than-expected December data, as well as an upward revision to November. Employment remains at a growth level consistent with the mid-2000s, and total employment growth continues to be healthy.



Yield Curve (10-Year Less 3-Month Treasury)

Rates for the 10-year Treasury ticked up slightly over the past month, while 3-month rates declined, and the spread between long-term and short-term rates remains healthy. Despite the Federal Reserve's decision to start raising rates in December, this metric has not changed, which seems due, at least in part, to demand from international buyers for assets with low political and economic risk.



Treasury Yield Curve - 10 Year Minus 3 Month Rates



Consumer Confidence: Annual Change

Consumer confidence increased this month, reversing previous declines. Although the year-over-year growth rate has declined, we're not yet close to a worry point. Despite the recent uptick in confidence, however, I'll continue to call this a yellow light until we see a couple more months of healthy data.



Conference Board: Consumer Confidence

% Change - Year to Year SA, 1985=100



Conclusion: Slowdown Possible But Not Likely

With the exception of consumer confidence, which actually improved substantially last month, all of the major indicators continue to be positive.

Although signs of potential weakness—such as the decline in the ISM Nonmanufacturing Survey and previous declines in the consumer confidence indicator—suggest that a slowdown is possible, it's not a probability at this point, given strong employment growth and other positive factors.

On balance, then, it's still a green light for the economy as a whole.



Disclosure

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