

# US Economics Digest

## US Economics

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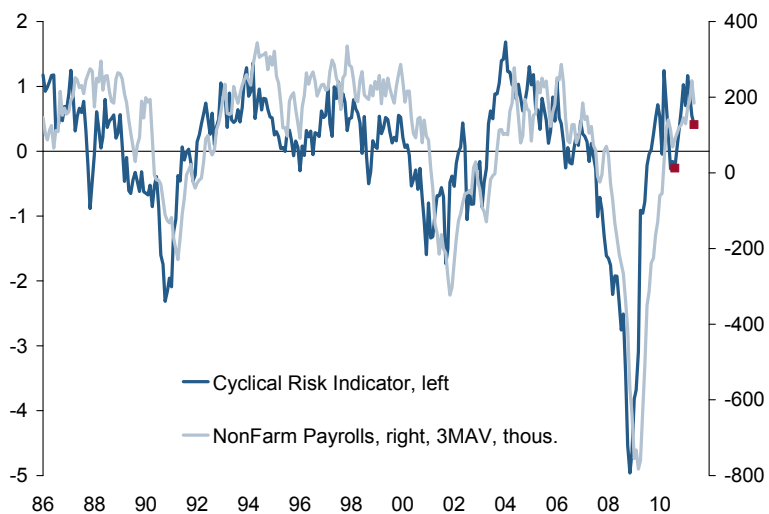
## 2011 Spring Soft Patch vs. 2010 Summer Swoon

How does the current soft patch measure up against last summer's swoon? In the following charts, we review the status of key economic and financial indicators relative to August of last year, the low point for a variety of activity readings. We also present a "cyclical risk" indicator which combines information from the most forward-looking data as another way of gauging the strength of the economy and risks to growth in the period ahead.

In short, the current slowdown, as of now, appears less dangerous than the one that we experienced in the summer of 2010.

Moreover, two identifiable headwinds of recent months – supply-induced disruption from the Japanese disaster and the oil price surge – are already in a corrective process. And auto production schedules point to a sharp pick-up in Q3. This does not imply that the data can't possibly deteriorate further before they turn up. In particular, cyclical indicators may have further to fall, as suggested by the available May data. But from our vantage point, the economy seems to be safer than it was a year ago.

### Exhibit 1: Cyclical Risk Indicator vs. Non-Farm Payrolls



Source: Bureau of Labor Statistics, Haver Analytics®, Credit Suisse

## 2011 Spring Soft Patch vs. 2010 Summer Swoon

Concerns about a soft patch in the economy are intensifying, and with good reason. Payroll growth stumbled badly last month, and the ISM Manufacturing Index fell sharply. First quarter GDP was soft and recent figures raise doubt about a widely forecasted Q2 rebound. The stutter in the economic data is reminiscent of last summer's "double-dip" scare, which, in hindsight, turned out to be a garden-variety growth slowdown.

How does the current soft patch measure up against last summer's swoon?

In the following charts, we review the status of key economic and financial indicators relative to August of last year, the low point for a variety of activity readings. We also present a "cyclical risk" indicator which combines information from the most forward-looking data as another way of gauging the strength of the economy and risks to growth in the period ahead.

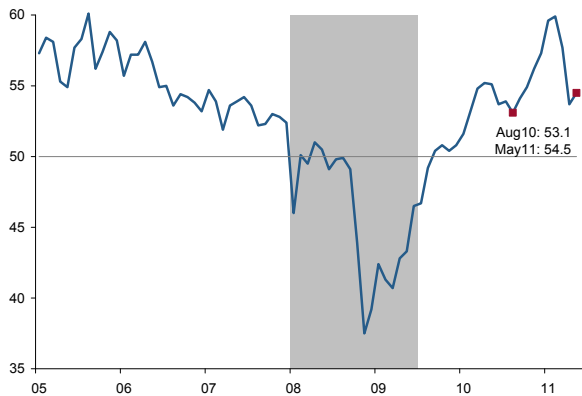
The current slowdown, as of now, appears less dangerous than the one that we experienced in the summer of 2010. Financial conditions are more supportive of growth than they were a year ago. Consumer sentiment is higher. The labor market is on firmer footing, despite last month's jobs disappointment. Retail demand is trending at a faster clip. Household wealth is higher. An extra year of economic growth, profits, retained earnings, and cash holdings has added a layer of insulation for the corporate sector, which makes it better able to withstand the occasional cooling in final demand.

Moreover, two identifiable headwinds of recent months – supply-induced disruption from the Japanese disaster and the oil price surge – are already in a corrective process. Auto production schedules point to a sharp pick-up in Q3. This does not imply that the data can't possibly deteriorate further before they turn up. In particular, cyclical indicators may have further to fall, as suggested by the available May data. And we would acknowledge that, for the moment, the risks to forecasts are skewed to the downside. But from our vantage point, the economy seems to be safer than it was a year ago.

### Exhibit 2: ISM: Manufacturing + Non-Manufacturing

50+=Activity Increasing

The ISM Composite Index, a weighted index of the manufacturing ISM (12% of GDP) and non-manufacturing ISM (88%), remains comfortably in expansion territory, even though it is down from recent peaks. The index increased slightly in May from April and stands above August 2010 levels. Over time, a 54.5 reading is consistent with approximately 2.3% real GDP growth.

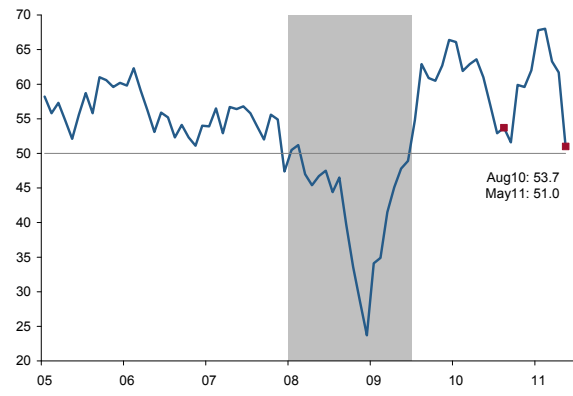


Source: ISM, Credit Suisse

### Exhibit 3: ISM Manufacturing New Orders Index

50+=Activity Increasing

The ISM Manufacturing New Orders Index fell sharply in May, dipping slightly below last August's level. A correction was in prospect because manufacturing production growth exceeded real business demand by almost two-fold in the first quarter, though Japan-induced disruption probably exaggerated the decline.

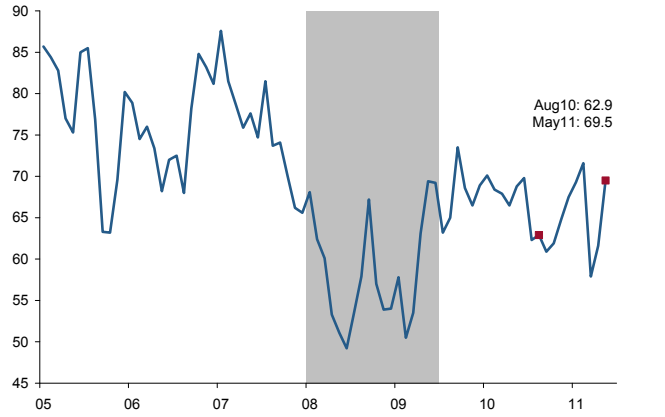


Source: ISM, Credit Suisse

### Exhibit 4: Consumer Expectations

1Q66=100

After falling during the early spring (as gasoline prices surged) the Consumer Expectations Index from the University of Michigan Survey rebounded sharply in May and stands above last August's low.

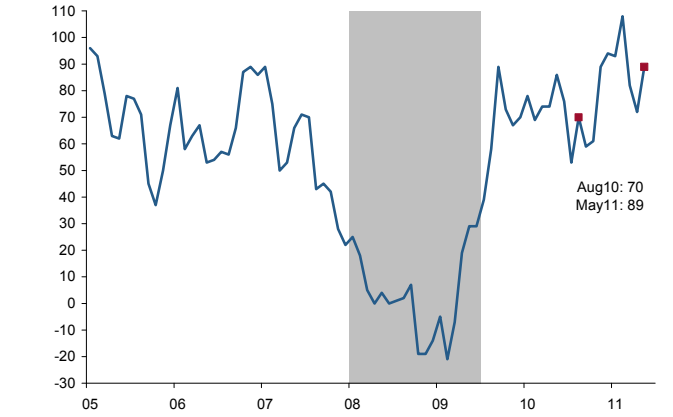


Source: University of Michigan, Credit Suisse

### Exhibit 5: News Heard of Recent Changes in Business Conditions

Relative score of news heard on favorable vs. unfavorable business conditions

The News Heard Index within the Michigan Survey is a leading indicator of activity. This index also improved in May, and stands 19 points above last August's level.

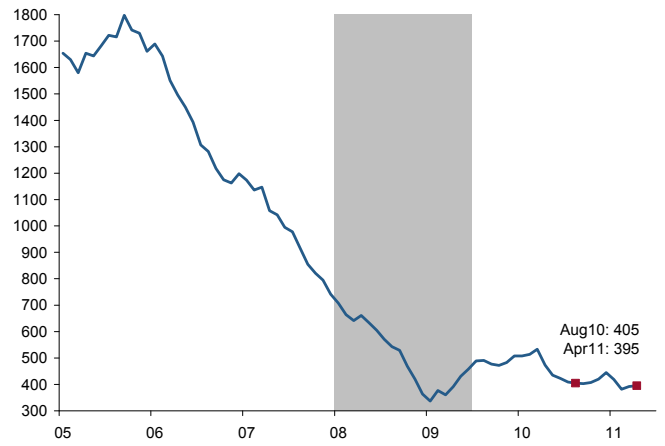


Source: University of Michigan, Credit Suisse

### Exhibit 6: Housing Permits

SAAR, Thous.

Home construction continues bumping along the bottom, without much recovery in prospect, but is no longer a significant drag on activity.

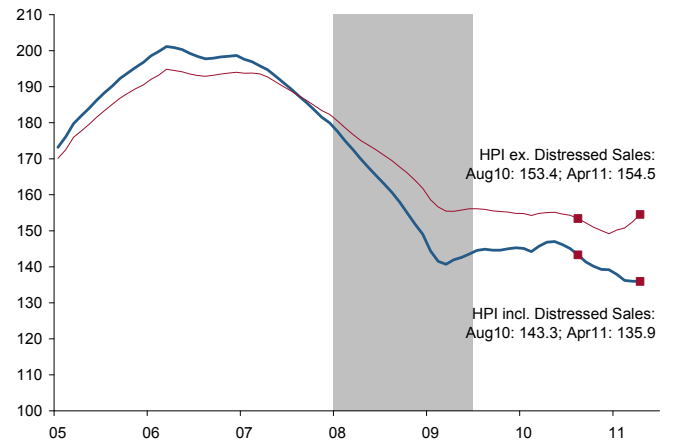


Source: Census Bureau, Credit Suisse

### Exhibit 7: National Home Price Index

Jan 2000=100

Home prices have resumed their slide, with the declines coming primarily from distressed sales activity. Prices excluding distressed sales are up slightly versus last summer.

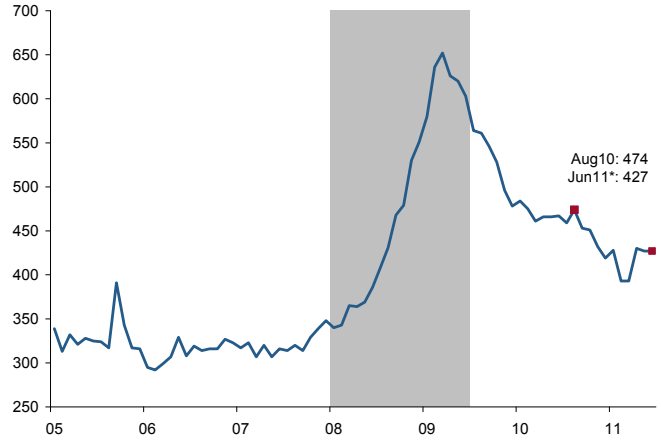


Source: CoreLogic, Haver Analytics, Credit Suisse

**Exhibit 8: Initial Claims**

SA, Thous.

Initial jobless claims have ticked up from recent lows, but are tracking almost 50K below last August's level. (This is one indicator where lower is better.)

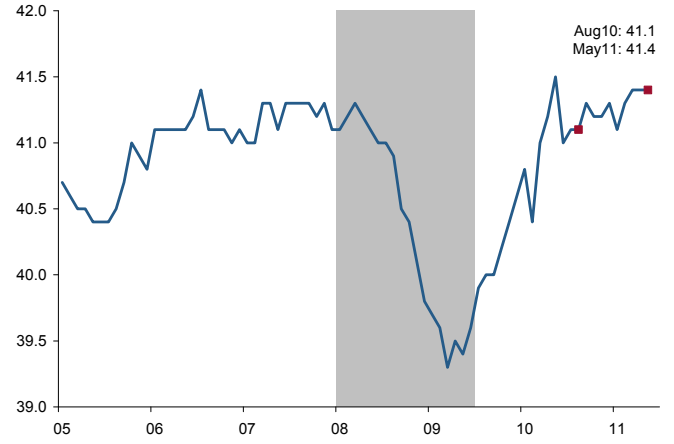


Source: Department of Labor, Credit Suisse; \* First week in June.

**Exhibit 9: Manufacturing Average Weekly Hours**

Production & Nonsupervisory: Manufacturing (SA, Hrs)

Manufacturing weekly hours, a leading indicator, are up from last August.

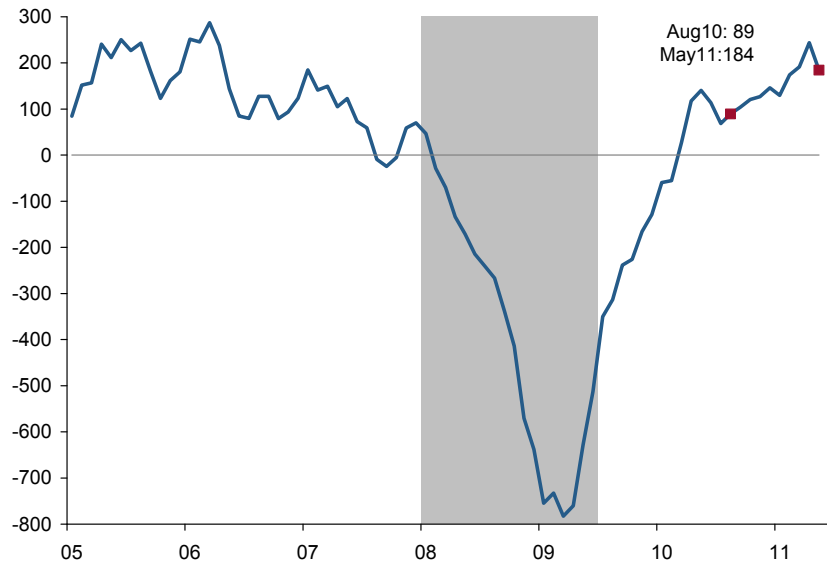


Source: BLS, Credit Suisse

**Exhibit 10: Private Payroll Growth**

3-month moving average, thous.

Private job creation is tracking more than twice last summer's pace, even with the May disappointment.

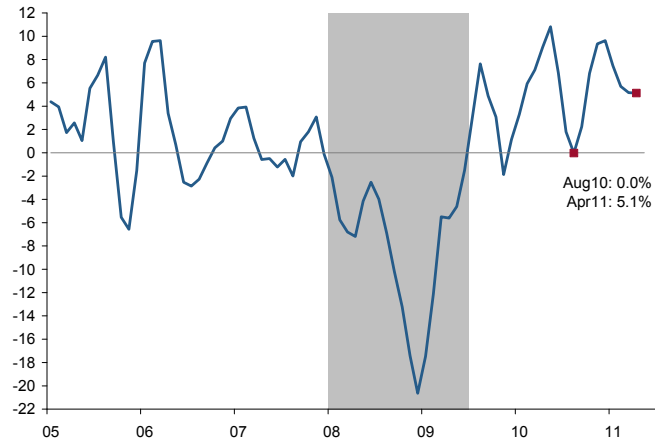


Source: Bureau of Labor Statistics, Credit Suisse

**Exhibit 11: Real Retail Sales**

3m/3m% Ann.

Real retail sales are tracking at a 5.1% annual rate over the last three months; sales were flat during last summer's slowdown.

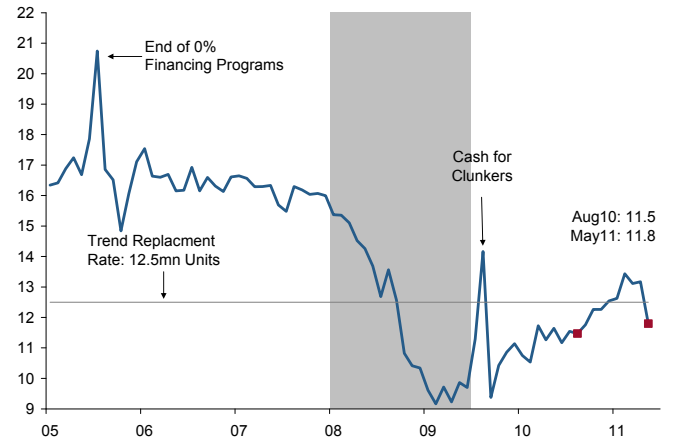


Source: BLS, Census Bureau, Credit Suisse

**Exhibit 12: Vehicle Sales**

SAAR, Mil. Units

Vehicle sales dipped sharply in May from the better performance of recent months, though Japan-induced supply constraints were reportedly the main factor. Auto production schedules point to a sharp rebound in July, which could start to alleviate the supply shortage by August.



Source: Autodata, Credit Suisse

**Exhibit 13: Household Net Worth**

\$bn

Household net worth as of Q1:2011 (the latest data point) was up \$3.3trn versus Q3:2010, with gains in stock market wealth providing most of the improvement.

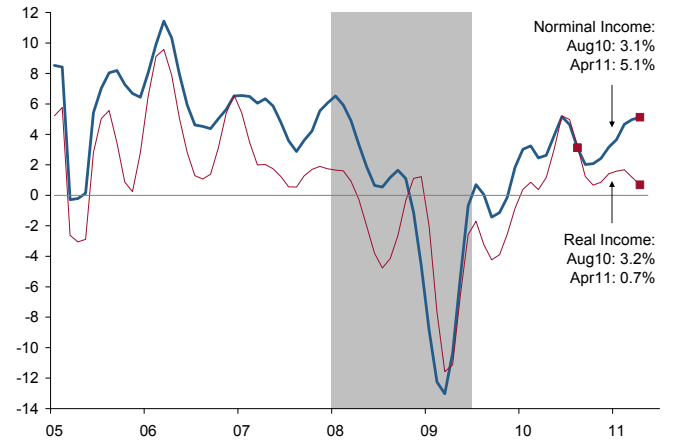


Source: Federal Reserve, Credit Suisse

**Exhibit 14: "Organic" Personal Income**

3m/3m% Ann.

Nominal income derived from "organic" sources (as opposed to government transfer payments) – paychecks, small business, dividends, interest, and rents – is running faster in nominal terms than last summer. Discouragingly, real income has been squeezed by higher inflation (gasoline prices). The recent decline in oil, if it sticks, bodes well for the real income path in H2.

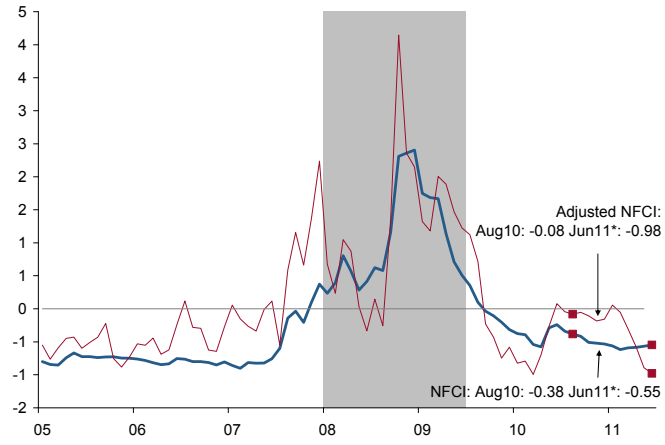


Source: Bureau of Economic Analysis, Credit Suisse

**Exhibit 15: Financial Conditions Index**

+ = Tighter Than Average

Financial conditions are broadly more supportive of activity than they were last summer. The Chicago Fed's National Financial Conditions Index combines information from money markets, debt and equity markets, and the traditional and shadow banking systems. Both the headline index and the "adjusted" index (the latter isolates a component of financial conditions not correlated with economic conditions) are at more stimulative levels than last year.

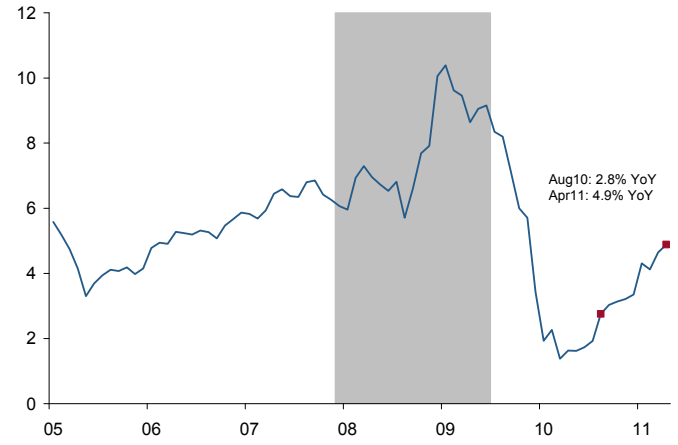


Source: Federal Reserve Bank of Chicago, Credit Suisse

**Exhibit 16: M2 Money Supply**

YoY%

Money supply growth has quickened...

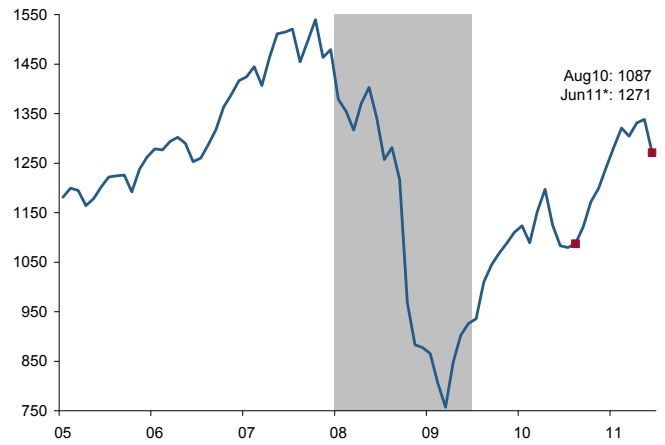


Source: Federal Reserve, Credit Suisse

**Exhibit 17: S&P 500 Stock Price Index**

Monthly averages

The S&P is 17% above last summer's levels...

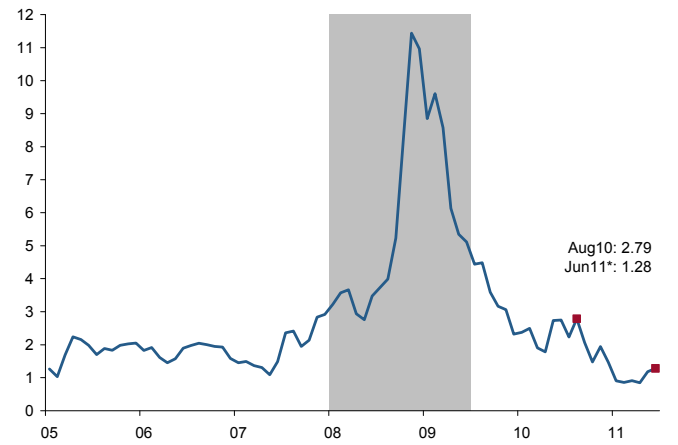


Source: WSJ, Credit Suisse; \* June 10 closing price

**Exhibit 18: High Yield Spread**

Percentage Points

...high yield bond spreads are tighter...

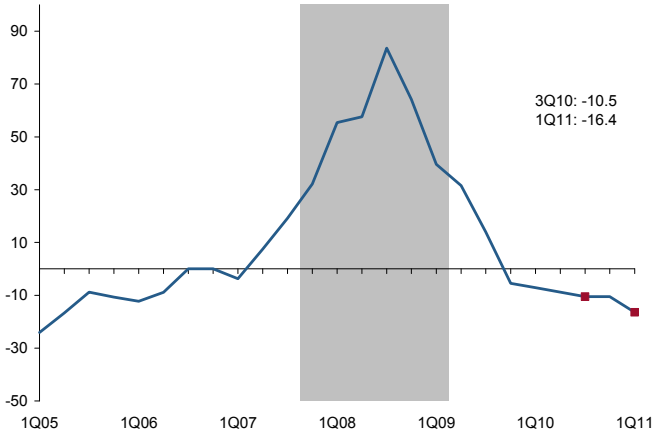


Source: Credit Suisse Leverage Finance; Moody's, \* June 7th

### Exhibit 19: Net Percent of Banks Tightening Standards for C&I Loans

%, +=Tightening

More banks are easing standards for commercial and industrial loans...

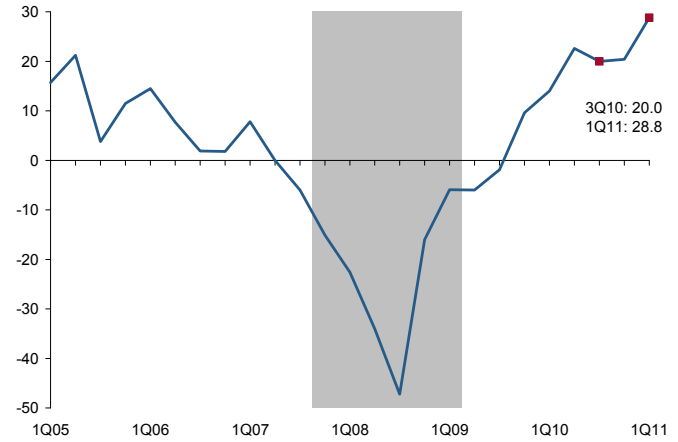


Source: Federal Reserve Senior Loan Officer Survey, Credit Suisse

### Exhibit 20: Banks' Willingness to Make Consumer Installment Loans

%, +=More Willing to lend

...and the percentage of banks willing to make consumer loans is also increasing.

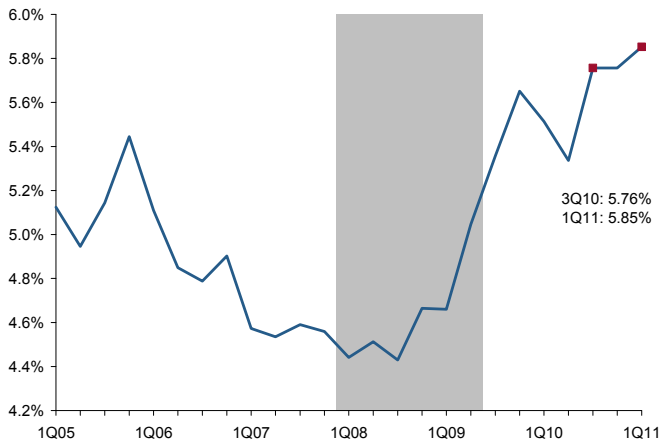


Source: Federal Reserve Senior Loan Officer Survey, Credit Suisse

### Exhibit 21: Nonfinancial Corporate Liquid Assets

% of Total Assets

Non-financial corporations have an even larger liquid asset buffer than last summer...



Source: Federal Reserve, Credit Suisse; \*Includes foreign deposits, checkable deposits & currency, time & savings deposits, money market fund shares, security RPs, commercial paper, Treasury securities, and agency- and GSE-backed securities.

### Exhibit 22: Nonfinancial Profits

\$bn, National Income and Product Account basis

...and corporate profits continue to rise (though at a slower rate than earlier in the recovery).

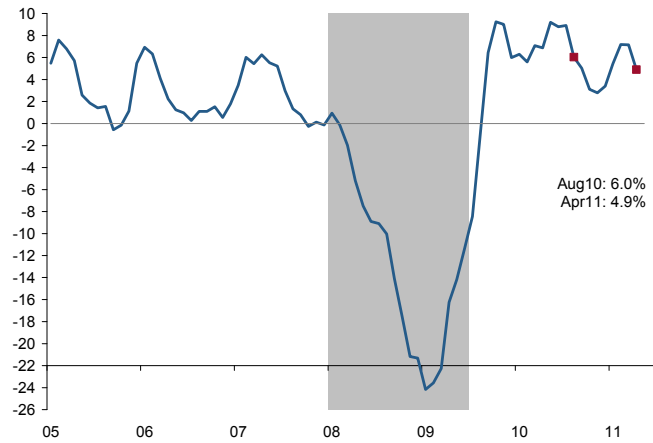


Source: Bureau of Economic Analysis, Credit Suisse

### Exhibit 23: Manufacturing Production

3m/3m% Ann.

Manufacturing output momentum is down slightly from last summer's pace, although auto production disruption was a depressant in April.

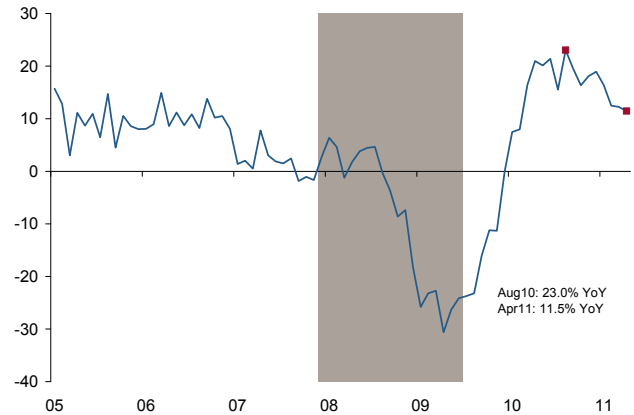


Source: Federal Reserve, Credit Suisse

### Exhibit 24: Core Capital Goods Orders

YoY%, Non-Defense Capital Goods Orders Ex. Air

Capital goods orders have moderated in recent months, hinting at some cooling off (but not a collapse) in business equipment spending. This is one area where the 2011 experience isn't as favorable as last year's. 2010 was an unusually strong "rebound phase" year for capex; 2011 should be slower but more sustainable.

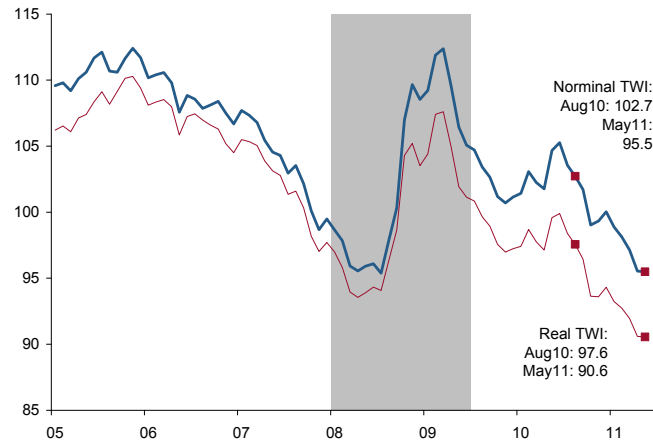


Source: Census, Credit Suisse

### Exhibit 25: Broad Trade-Weighted Exchange Value of the US\$

Jan97=100

The trade-weighted value of the dollar is significantly weaker...

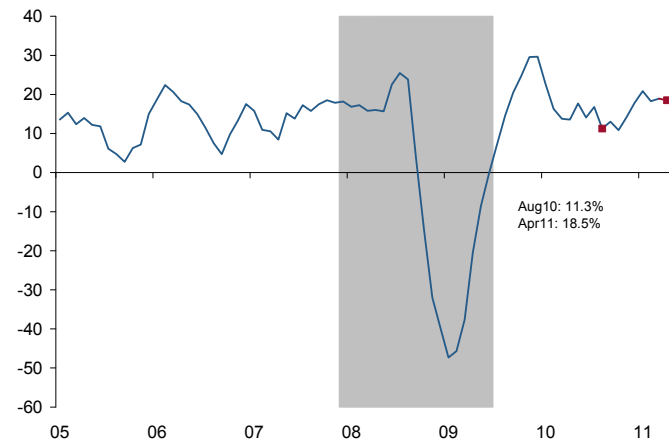


Source: Federal Reserve, Credit Suisse

### Exhibit 26: Export Growth

Nominal, Goods and Services, 3m/3m% Ann.

... a supportive factor for US exports.



Source: Census, Credit Suisse



We combined the most forward-looking economic and financial information to produce a single “cyclical risk” indicator. We calculate the index using a statistical technique called Principal Component Analysis (PCA). PCA synthesizes large datasets into more manageable summary indices. The summary index is essentially the unobserved “common factor” of our basket of individual indicators. The components are the following:

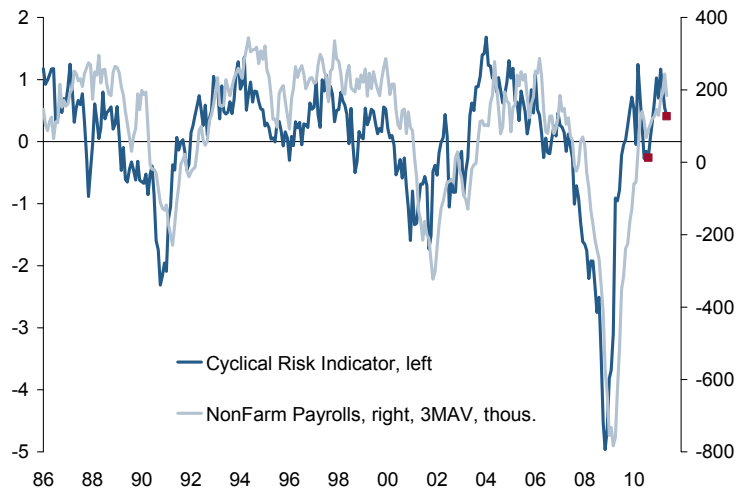
**Index Components:**

- 1) ISM New Orders Index
- 2) University of Michigan Survey of Consumers “News Heard” Index
- 3) Single-Family Housing Permits
- 4) CoreLogic Home Price Index
- 5) Initial Jobless Claims
- 6) Average Weekly Hours; Manufacturing
- 7) Federal Reserve Bank of Chicago Financial Conditions Index
- 8) Federal Reserve Senior Loan Officer Survey: “Banks’ Willingness to Lend” Index
- 9) High Yield Bond Spread
- 10) S&P 500 Index

Exhibit 27 shows our indicator plotted against non-farm payrolls. The latest data point is May, and the May 2011 and August 2010 readings are highlighted. The most recent reading shows a clear slowdown from recent highs, but the level remains above its average (the index is normalized so zero corresponds to its average level) and above last summer’s soft patch lows. Easier financial conditions, higher consumer confidence (expressed through the News Heard Index), and the decline in initial claims are supportive in the most recent period, while the fall in ISM New Orders and softer housing numbers are drags.

**Exhibit 27: Cyclical Risk Indicator**

Factor index of leading Indicators vs. Non-Farm Payrolls



Source: Bureau of Labor Statistics, Haver Analytics®, Credit Suisse

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## Disclosure Appendix

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