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## Further Signs of Economic Recovery



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This past week's economic data on balance continued to be stronger than consensus, providing further evidence that the economy began to recover at mid-year. Declines in initial and continuing jobless claims, for the week ending September 4, point to ongoing if gradual improvement in employment conditions. Consumer confidence rose more than expected at the beginning of September. While the U.S. trade deficit was larger than expected in July – thus leading to a larger subtraction from GDP – the larger deficit came from a nearly 5% revival in imports, which points to continued recovery in U.S. final demand. At the same time, however, a much larger than expected decline in consumer credit in July reflects ongoing pressures on households and suggests that consumer spending is unlikely to grow robustly until employment begins growing again, which we do not expect until early 2010.

### Initial Jobless Claims

The U.S. Labor Department reported yesterday that initial jobless claims had declined more than forecast for the week ending September 4. Continuing claims, reported for the week ending August 28, also fell more than expected, and the insured unemployment rate declined both before and after seasonal adjustment. The decline in claims is part of the improvement in employment conditions we expect over the next several months, which should lead to an end to job losses by year-end and a peak in the unemployment rate shortly thereafter.

- Initial claims fell by 26,000 to 550,000 in the week ending September 4. The mean forecast had been for a decline to 560,000, with individual forecasts ranging from 535,000 to 570,000. Claims for the week ending August 28 were revised upward from 570,000 to 576,000. The four-week moving average of initial claims fell to 570,000 from 572,750. Before seasonal adjustment, claims fell by about 8,000 to 456,200.
- Individual state reports for the week ending August 28 (when claims increased slightly) showed that the largest increases were in New York, Texas, Florida, New Jersey and Georgia, and that layoffs tended to be in service industries. The largest declines were in Michigan, Ohio, Oregon, Wisconsin and Kansas, with Ohio reporting a continued decline in auto industry layoffs.
- Continuing claims had risen unexpectedly in the week ending August 21, but fell more than forecast in the week ending August 28. Continuing claims were 6.088 million, vs. a mean forecast of 6.198 million and forecasts ranging from 6.05 to 6.3 million. Continuing claims for the August 21 week were revised upward from 6.234 m. to 6.247m. The seasonally-adjusted insured unemployment rate came back down to 4.6% from 4.7%, and the rate before seasonal adjustment fell to 4.1% from 4.2%.

*Source: U.S. Department of Labor*

As a weekly indicator, claims are volatile, but we continue to expect a declining trend as employment conditions stabilize and begin to improve. As measured by monthly changes in non-farm payrolls, we would expect decreasing job losses through year-end, and employment to start turning positive early next year. This should be reflected in the unemployment rate with a lag of a few months. ■

### Consumer Confidence

The preliminary University of Michigan consumer confidence index for September was above expectations and above levels for both July and August. Both the current conditions and the expectations components rose. Measures of inflation expectations were mixed. It now seems clear that the decline in consumer sentiment seen earlier in the summer was temporary and that confidence levels should continue to rise – although slowly and unevenly – over the next several months.

- The preliminary reading for September was 70.2, compared with a final August level of 65.7 and a preliminary August level of 63.2. The consensus had expected 67.4, with individual forecasts ranging from 64.5 to 71.0.
- The index for current conditions rose to 71.8 from 66.6, while that covering future expectations rose to 69.2 from 65. The current conditions index has 40% weight in the total and the expectations index has 60% weight.
- Respondents' average expectation of inflation one year out was unchanged at 2.8%, but that for inflation five years in the future rose to 2.9%. These figures have been moving in a narrow range after recovering from 1 - 2% levels in the spring.

*Source: University of Michigan*

The Michigan data reflect a somewhat less weak tone in employment as well as the recovery in household net worth stemming from higher stock prices and a stabilization of home prices in most regions. The gradual and uneven improvement we have seen in confidence since its low late last year should continue in coming months but it remains unrealistic to expect a complete recovery until employment is growing once again. ■

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