



Economics Group

John Silvia, Chief Economist

john.silvia@wellsfargo.com • (704) 374-7034

Tim Quinlan, Economist

tim.quinlan@wellsfargo.com • (704) 374-4407

Leading Indicators: Modest Gain—Modest Economic Growth

Leading indicators rose 0.3 percent in June, consistent with a modest gain for industrial production in the second half of this year. Gains in financial components boosted the index, while consumer confidence fell.

Leading Indicators Signal Modest Growth

In June, the leading economic index rose 0.3 percent and is up 6.0 percent on a year-over-year basis (top graph). The gain reflects contributions from financial indicators, such as the yield curve and real money growth. The largest positive contribution in June came from the real money supply, in part a reflection of the completion of the Fed's asset purchase program (QE2). Meanwhile, the yield spread, which is the difference between the yield on the 10-year Treasury and the Fed Funds rate also boosted the leading economic index.

Both the positive gain and the moderation of growth in the leading index are consistent with the pattern we see with industrial production.

Mixed Indicators—Mixed Economy

But the positives were not limited to simulative financial conditions. The contribution from building permits suggests that housing is contributing at least a little to the economic expansion. In addition, vendor performance (longer delivery waits) and manufacturers' new orders for consumer goods and materials also contributed to the gain. The gains in vendor performance and new orders suggest that the slowdown in manufacturing in the second quarter will be limited and that the third quarter will be stronger.

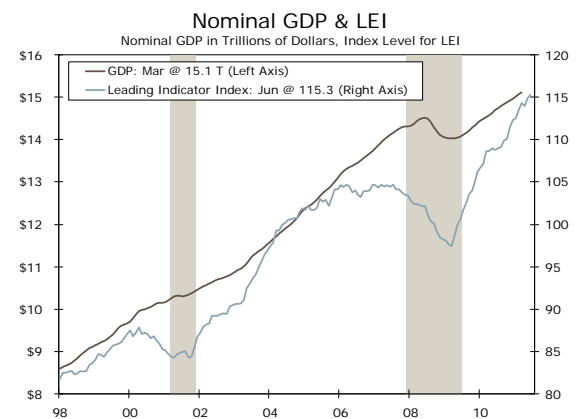
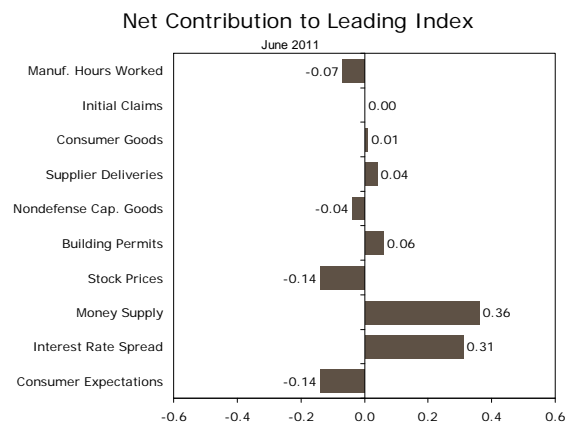
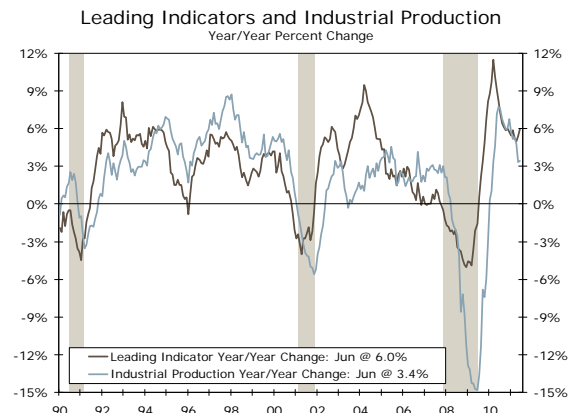
Weakness was evident in stock prices and consumer expectations. Both of these components reflect the readjustment for consumers and investors to an economic outlook that is positive, but not as positive as many had hoped. Meanwhile, average weekly manufacturing hours also had a negative contribution to the leading indicators index. For us, this decline suggests continued, moderate, and disappointing job gains in the manufacturing sector. The character of the manufacturing process continues to emphasize productivity, not hiring, as the way to reach output goals.

Neither Double Dip Nor Boom—Just Muddling

Along with the leading indicator report, we also received the Philadelphia Fed manufacturing index, which showed some improvement. As illustrated in the bottom graph, the outlook remains for continued economic growth and no double dip.

However, the pace of that growth pleases very few. Growth is simply not strong enough to generate the tax revenues that will help balance the budgets at the federal, state or local levels. Meanwhile, job growth remains modest. Our expectation is for the unemployment rate to end this year above 8.5 percent.

For the economy and for decision makers we must deal with the economic growth we have and not simply hope for the future. Hope is not a strategy.



Wells Fargo Securities, LLC Economics Group

Diane Schumaker-Krieg	Head of Research & Economics	(704) 715-8437 (212) 214-5070	diane.schumaker@wellsfargo.com
Paul Jeanne	Associate Director of Research & Economics	(443) 263-6534	paul.jeanne@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 374-7034	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 383-5635	mark.vitner@wellsfargo.com
Jay Bryson, Ph.D.	Global Economist	(704) 383-3518	jay.bryson@wellsfargo.com
Scott Anderson, Ph.D.	Senior Economist	(612) 667-9281	scott.a.anderson@wellsfargo.com
Eugenio Aleman, Ph.D.	Senior Economist	(704) 715-0314	eugenio.j.aleman@wellsfargo.com
Sam Bullard	Senior Economist	(704) 383-7372	sam.bullard@wellsfargo.com
Anika Khan	Economist	(704) 715-0575	anika.khan@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 383-6805	azhar.iqbal@wellsfargo.com
Ed Kashmarek	Economist	(612) 667-0479	ed.kashmarek@wellsfargo.com
Tim Quinlan	Economist	(704) 374-4407	tim.quinlan@wellsfargo.com
Michael A. Brown	Economist	(704) 715-0569	michael.a.brown@wellsfargo.com
Tyler B. Kruse	Economic Analyst	(704) 715-1030	tyler.kruse@wellsfargo.com
Joe Seydl	Economic Analyst	(704) 715-1488	joseph.seydl@wellsfargo.com
Sarah Watt	Economic Analyst	(704) 374-7142	sarah.watt@wellsfargo.com

Wells Fargo Securities Economics Group publications are produced by Wells Fargo Securities, LLC, a U.S broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes these publications directly and through subsidiaries including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A, Wells Fargo Advisors, LLC, and Wells Fargo Securities International Limited. The information and opinions herein are for general information use only. Wells Fargo Securities, LLC does not guarantee their accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sales of any security or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company © 2011 Wells Fargo Securities, LLC.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE

