

Economics Group

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LEI & Philly Fed Both Surge: A Faster Pace of Growth?

The Leading Economic Index posted its largest monthly gain since February, and the Philadelphia Fed Survey returned to expansion territory for the first time since April. Is the economy poised for a growth spurt?

Residential Construction Boosts the LEI

The 0.6 percent monthly gain in the Leading Economic Index (LEI) bested consensus expectations for a more modest gain of just 0.2 percent. The best explanation we can offer for the miss is that most forecasters did not update their projection after yesterday's release of key residential construction data. That report showed that building permits posted the largest monthly spike (up 11.6 percent on the month) since the expiration of the homebuyer tax credit back in 2010. Building permits is one of the 10 input components of the LEI, and in the month of September, it was the primary driver of growth. In fact, this component alone exerted more of a boost than the second and third largest components combined.

The next largest contributors to growth in the LEI were both reflections of positive financial conditions. With stock prices generally up in September and the Fed's renewed efforts to keep the cost of consumer financing low, both the stock prices component as well as the credit index were the next largest positive contributors.

The gains in the LEI were strong enough to offset drags from the ISM new orders component, which remained soft in September, and jobless claims, which trended higher.

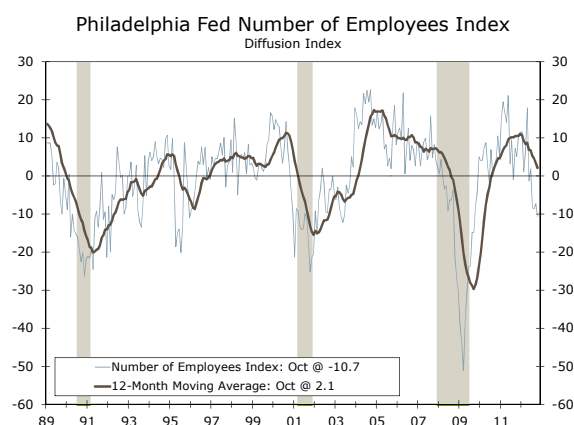
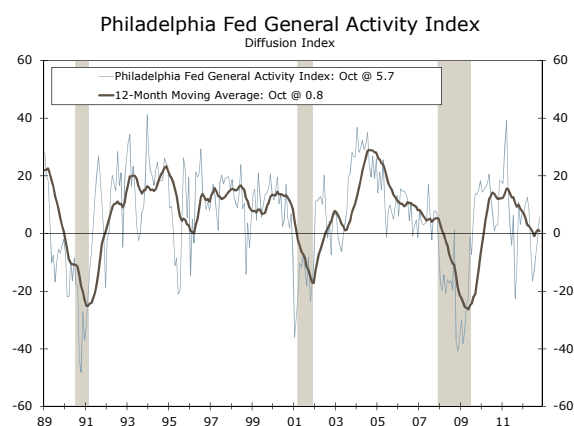
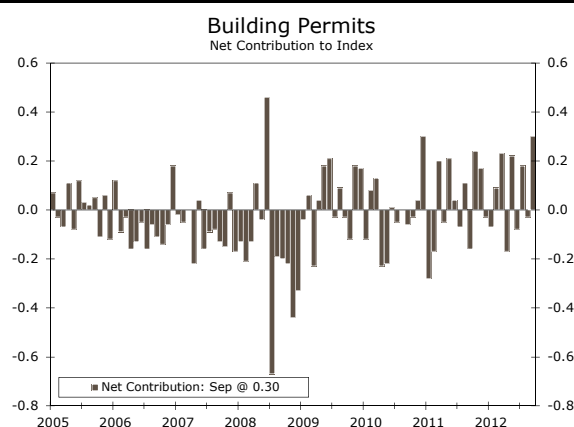
Bruised and Battered, Couldn't Tell What I Felt

The Philadelphia Fed Index is prized for its long track record as a yardstick for factory sentiment. In the five months between May and September, this indicator offered an early warning signal that manufacturing activity was slowing. It turned out to be no "false-alarm" either, as non-defense capital goods orders ex-aircraft turned firmly negative in subsequent months. In that context, today's improvement in the Philly Fed index should come as a welcome departure from the more cautious tone. Unfortunately, the details of the report do not offer the comfort you might expect to find given the stronger headline reading.

The prices paid component jumped to 19.0 from 8.0, but the prices received measure only improved to 5.4 from -0.2 in the prior month. This is not a good sign for corporate profits if businesses are not able to pass on higher prices. The labor market indicators were not good either, with the number of employees component falling further into contraction territory and the average workweek getting cut even shorter.

Bottom-line: Does This Change the Outlook?

There is some good news here. The improvement in the housing market in general and in residential construction specifically is a clear bright spot. Unfortunately, a lethargic recovery in the labor market and shakiness in orders and industrial production tell us to expect continued slow growth in the final quarter of the year.



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