



Economics Group

Tim Quinlan, Economist
tim.quinlan@wellsfargo.com • (704) 410-3283
Zachary Griffiths, Economic Analyst
zachary.griffiths@wellsfargo.com • (704) 410-3284

LEI and Philly Fed Signaling Strength Ahead

The Leading Economic Index rose 0.9 percent in July, marking the sixth-straight month of positive growth. Positive contributions this month were widespread, with seven of ten indicators boosting the headline.

Permits Build Up LEI in July

As economic conditions continue to improve, the Leading Economic Index (LEI) continues to string together positive reports. The LEI rose a stronger-than-expected 0.9 percent in July (top chart) with seven of ten components contributing to growth. In keeping with a well-established trend, the interest rate spread provided the largest boost at 0.27 percentage points, but building permits and average weekly claims were right behind at 0.24 percentage points each. This comes as housing starts and building permits, released earlier this week, both bounced back strongly in July following declines in June. The housing recovery has been on a bit of shaky ground since experiencing a rough start to the year, as housing market indicators have been back and forth in recent months. Despite recent volatility, we still expect the housing recovery to press on as builder sentiment remains strong—represented by the NAHB home builders’ sentiment index—which posted its fourth-straight monthly gain in August.

Labor Market Indicators Split

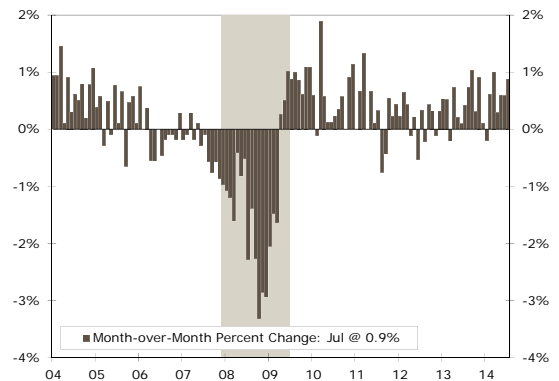
Average weekly claims was one of the strongest contributing components to July’s gain in the LEI. This comes as no surprise, as initial jobless claims reached its lowest level on a weekly basis in July, since 1999, bringing the four-week moving average to 303,000, the lowest since 2007. However, average weekly hours is responsible for the only notable drag, with a negative contribution of 0.13 percentage points (middle chart). Continued strong employment gains and falling jobless claims are consistent with a recovering labor market, while the weekly hours component shows that there is still room for improvement.

Other positive contributors this month include the ISM new orders component, leading credit index and a slight boost from stock prices and consumer goods, while consumer expectations and core capital goods were minor drags on the month. The strong contribution from the leading credit index is consistent with recent improvement in consumer credit, as consumers seem to be more comfortable borrowing again. Also encouraging is the jump in the ISM new orders component, pointing to solid growth in business activity.

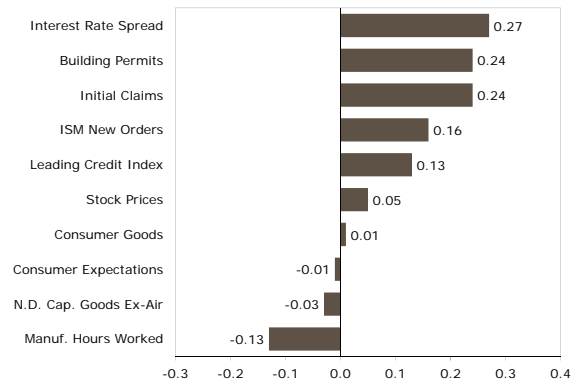
Philly Fed Index Jumps Unexpectedly

Consistent with national and regional manufacturing PMIs, the Philly Fed index showed continued strength in August. The six-month forward-looking figure of this survey marked the highest reading since 1992 at 66.4 (bottom chart). While some of the volatile underlying components were a bit less encouraging, the larger-than-expected jump in the headline to 28.0 is a strong positive. The prices-paid component fell in August, consistent with the cooling in inflation following the brief pickup. Overall, we see the August release of the Philly Fed index as another positive for a manufacturing sector that seems to be gathering steam.

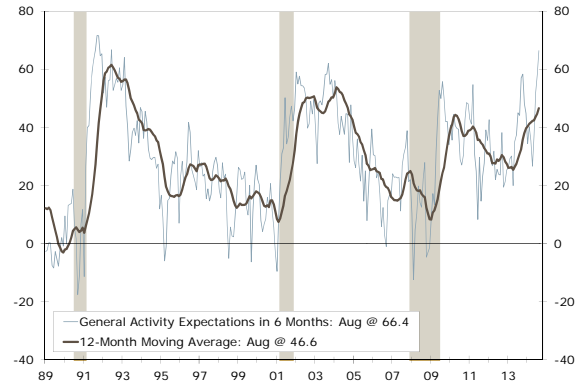
Leading Economic Index



Net Contribution to Leading Economic Index July 2014



Philadelphia Fed Future Activity Index Diffusion Index



Wells Fargo Securities, LLC Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 410-1801 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 410-3275	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Jay H. Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Currency Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Eugenio J. Alemán, Ph.D.	Senior Economist	(704) 410-3273	eugenio.j.aleman@wellsfargo.com
Anika R. Khan	Senior Economist	(704) 410-3271	anika.khan@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Eric Viloría, CFA	Currency Strategist	(212) 214-5637	eric.viloria@wellsfargo.com
Sarah Watt House	Economist	(704) 410-3282	sarah.house@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@wellsfargo.com
Michael T. Wolf	Economist	(704) 410-3286	michael.t.wolf@wellsfargo.com
Zachary Griffiths	Economic Analyst	(704) 410-3284	zachary.griffiths@wellsfargo.com
Mackenzie Miller	Economic Analyst	(704) 410-3358	mackenzie.miller@wellsfargo.com
Erik Nelson	Economic Analyst	(704) 410-3267	erik.f.nelson@wellsfargo.com
Alex Moehring	Economic Analyst	(704) 410-3247	alex.v.moehring@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com
Cyndi Burris	Senior Admin. Assistant	(704) 410-3272	cyndi.burris@wellsfargo.com

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