



# Economics Group

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## LEI: Solid Pick Up Points to Further Strength Ahead

*While concerns abroad have been mounting, the U.S. economy remains on firm footing, despite a downward revision to last month's figure, as the Leading Economic Index posted a solid 0.8 percent gain in September.*

### Financial Indicators Firm Ahead of October Volatility

The Leading Economic Index (LEI) grew a strong 0.8 percent month-over-month in September following a downwardly-revised flat reading in August (top chart). Gains were broad based this month, as 9 out of 10 components contributed to headline growth. Unsurprisingly, the interest rate spread led growth for the month, as it has been a positive contributor the past 80 months, adding 0.27 percentage points to the overall LEI. Credit conditions are improving as banks are still gradually loosening lending standards and revolving credit has been gaining momentum in recent months. As a result, the leading credit index was the second strongest contributor in September, adding 0.11 percentage points. The stock price component was also a net positive as equity markets were steadier throughout September compared to the recent volatility seen so far in October. Much of the volatility was a result of renewed concerns over the global economic recovery as economic sentiment surveys in Germany, the Eurozone's largest economy, tumbled and China's Q3 GDP growth moderated further, down to a 7.3 percent year-over-year growth rate.

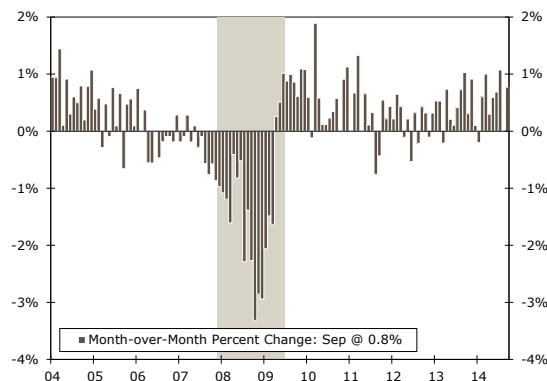
### Labor Market Indicators Also Point to Growth

Labor market indicators continue to improve in the U.S. economy as payroll growth returned to the 200,000-plus gains we have experienced in all but two months of 2014, the jobless claims figure continues its downward trend and the unemployment rate is now just below six percent. Initial jobless claims reached their lowest monthly level in September since January 2006 and resulted in a net contribution from average weekly claims of 0.09 percentage points (middle chart). The downward trend has continued into October as the four-week moving average fell for the sixth consecutive month to 281,000 following this morning's release. While wage growth continues to be relatively muted, weekly hours have ticked up and contributed 0.06 percentage points in September.

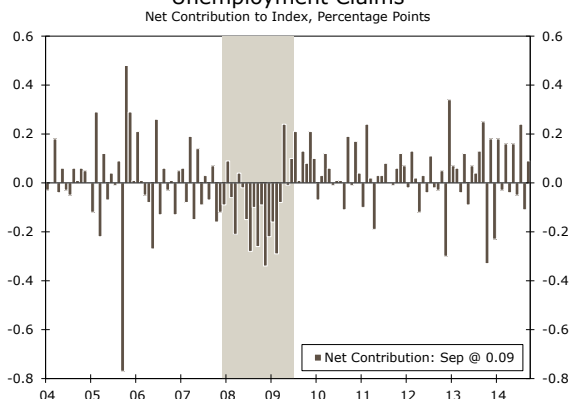
Although building permits and housing starts data reported last week were both relatively firm, the permits component made only a relatively modest contribution to the headline, adding just 0.05 percentage points (bottom chart). Permits could come under some pressure going forward as the NAHB builder's sentiment index fell five points to 54, following four-straight months of gains. This could simply be a result of the typical buying season coming to an end; however, this was a sizable drop and may be a sign of caution going forward.

The only component to impose a small net drag was consumer expectations, as some global turmoil may be affecting overall sentiment. Both orders components posted monthly gains indicating solid activity in the future. Overall, today's report bolsters the case for a relatively strong U.S. economy and is consistent with our view for just under three percent economic growth in the second half of the year.

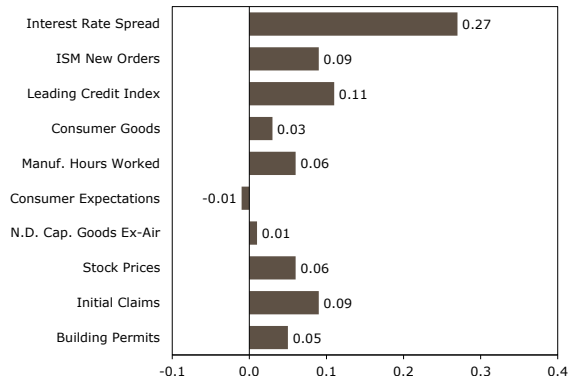
Leading Economic Index



Unemployment Claims



Net Contribution to Leading Economic Index  
September 2014, Percentage Points



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