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FRIDAY, NOVEMBER 27, 2009

INVESTORS' SOAPBOX AM

The Economy Is Coming Back

Unemployment aside, economic conditions this Thanksgiving weekend are the best the country has faced in three years.

Economic Outlook Group

THE LATEST CASCADE OF economic reports tells us this recovery is very much on track. Not only is the probability of a double-dip recession receding by the day, but we're also starting to see signs the economy is on a much stronger footing than anyone would have imagined just a few months ago.

We're not predicting an explosive postrecession bounce. What is impressive, though, is how effectively the private sector and the government have worked together to revitalize an economy that was virtually comatose earlier this year.

The improvement in the economy's momentum is noticeable in some of the recent set of numbers.

First, claims for jobless benefits finally crossed below the 500,000 threshold to 466,000 in the week ending Nov. 21. That's down 35,000 from the week before and the lowest level in more than a year. We're still a long way off from the 300,000 weekly claims that is typical of an economy operating on all cylinders. However, the downward trend is critically important for its psychological impact. Remember, nine out of 10 people in the labor force are currently working, and the deceleration in layoffs helps reduce anxieties over job security and will thus encourage more spending.

Second, consumer expenditures rose 0.7% in October, the fifth increase in six months. With the recession now history, layoffs diminishing, and the stock market rebounding, consumers will feel more at ease about unleashing some of the pent-up demand that has been built up over the last two years.

[Third,] another closely watched indicator is New Home Sales and it, too, came in better than expected. Purchases jumped 6.2% last month to a 430,000 unit annual rate, the strongest performance since September 2008. That's a 31% increase from January's low. This report comes on the heels of the 10% increase in sales of existing homes. The combination of rising sales of new homes and little new construction brought the inventory of unsold new homes down to a 6.7 month supply, the lowest since December of 2006. The actual number of new homes for sale fell to 239,000, the smallest in 38 years. With inventories so low, we expect to see new home construction ramp up in coming months, which will lead to more hiring and the purchase of building material.

Fourth, it's true, there were some disappointing economic indicators out today. Orders for durable goods turned out to be a wash when you look at its performance the last two months. New orders did fall 0.6% last month, but it followed an upward revised 2% increase in September. If you take out the volatile transportation component, orders declined 1.3%, but again this drop followed a 1.8% increase the month before. During the early stages of a recovery we look closely at the demand for primary metals, the precursor to future industrial output, and here we see conditions continue to improve. New orders for primary metals shot up 3.6% in October, and that came after increases of 2.6% in September and 1.3% in August.

Finally, consumer sentiment did slip a little this month, falling from 70.6 in October to 67.4. It was the second drop in a row. We assume this decline was in reaction to the larger-than-expected jump in October's unemployment rate, from 9.8% to 10.2%, the highest in 26 years. It would have been unusual for consumers to feel anything but uncomfortable by that double-digit jobless rate. In addition, people are uneasy about a host of other issues: the increasingly acerbic debate over health care, the exploding budget deficit, the difficulty in obtaining financing from banks, the deepening role of government in the private sector, the wars underway in Afghanistan, Iraq and Pakistan. These are clearly stressful times and we are unlikely to see a dramatic pickup in confidence given all these concerns.

Still, we need to point out that there is no month-to-month correlation between consumer confidence and their propensity to spend. Americans may be uneasy, but that alone will not keep them away from stores. For the fact remains that the economy is recovering, incomes are rising, and the labor market is showing signs of turning around.

The bottom line: Economic conditions this Thanksgiving are the best we have seen in three years, and we expect an even better climate this time next year.

-- *Bernard Baumohl*

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