

In the absence of a cliff

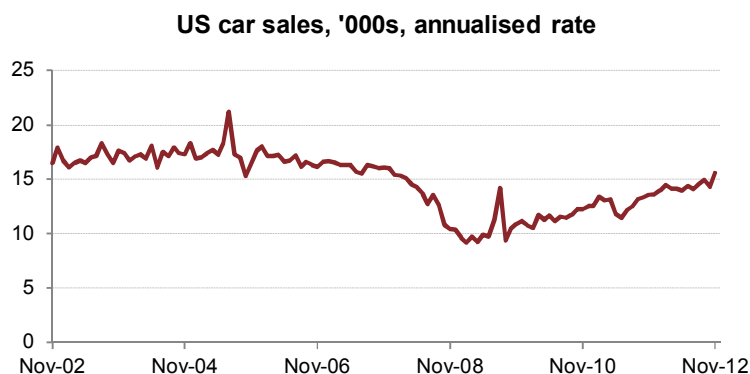
US to do all right, not spectacularly in 2013

The headline is premature. While politicians on both sides (notably President Obama and Speaker Boehner) have stepped up their efforts to reach a compromise which avoids worst ravages of the fiscal cliff without – crucially – letting US public sector finance deteriorate again, there is as yet no deal. However, what is the outlook for 2013 if there is indeed a deal?

Recent indicators have generally been disappointing. The UMich consumer sentiment index, which had been rising steadily from a reading of 72.3 in July to 82.7 in November, dropped to 74.5 in December. The manufacturing ISM index fell back below 50 in November, having spent two months above that ‘boom-bust’ line. And the Empire State manufacturing survey, widely expected to improve from -5.22 in November to a positive number in December, actually dropped to -8.1. The NFIB small-business optimism index registered its sharpest monthly drop since 1986, going to 87.5 in November from 93.1 in October. However, these are all sentiment-based surveys. Without attempting to analyse whether the outcome of the presidential election has affected them (the point has been raised), it seems very clear that one of the mood-dampening factors is indeed concerns about the fiscal cliff. Hence, if the cliff is avoided or substantially modified, sentiment should quickly improve.

Meanwhile, for every weaker indicator, there is another which is moving in a more positive direction – including, strangely enough, in the sentiment-based ones. The manufacturing ISM survey saw the gap between the new orders and inventories sub-indices – a leading indicator of near-term industrial production – rise to a six-month high. The Empire State survey cap-ex plans recovered to a five-month high, a pattern mirrored in the Philly Fed survey (in both cases, post-Sandy rebuilding is of course playing some role). The NAHB housing market index rose to another six-year high reading of 47 in December.

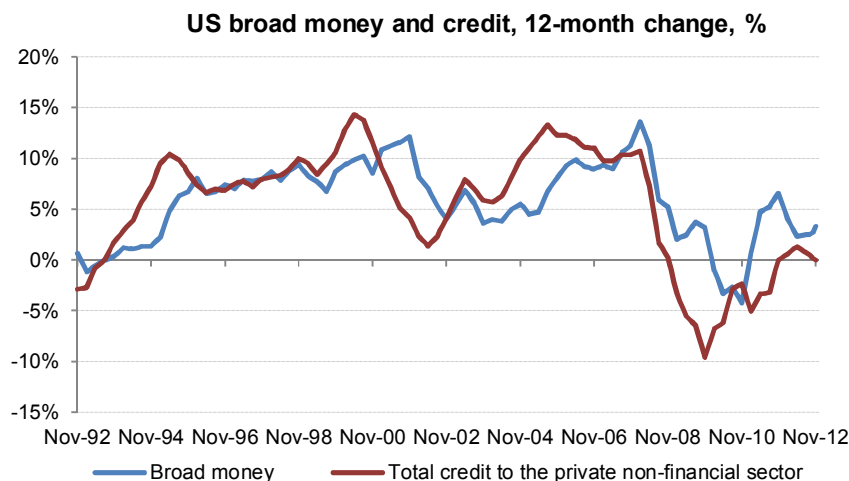
On more tangible indicators, US car sales continued to rise strongly in November, again reaching a post-crisis high.



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More importantly broad money growth seems to have levelled off and begun to pick up again. On a six-month annualised basis, US broad money grew by 7.5% in November, up from a low of -0.8% in May. 12-month broad money growth was 3.3%, continuing a steady, if unspectacular pick-up and well above the post-crisis average of 2.1%. By contrast, credit growth remains subdued.



Meanwhile, the housing market continues its, equally steady and equally unspectacular advance. In fact, this – ‘unspectacular’ – is probably the key word for 2013. None of the indicators touched on here are booming; but they are improving, and what matters right now is the direction.

It is by no means clear that there will be a cliff-averting deal. Each move towards a compromise seems to be accompanied by one saying that a compromise is out of the question. Moreover, any deal involves fiscal tightening, meaning there will be a hit to growth. In addition, the US economy is still likely to enter 2013 on a note of lingering weakness, in spite of the strong Q3 growth number. But there does seem to be a fair likelihood that – absent a full drop down the fiscal cliff – activity should recover and the economy grow by perhaps somewhere around 2%. That may indeed not be spectacular, but it would continue the pattern of 2012. It could also mean that the Fed’s 6½% unemployment target is reached earlier than is currently believed – and hence the time for interest rates to begin to shift would also approach (though unlikely before 2014).

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