

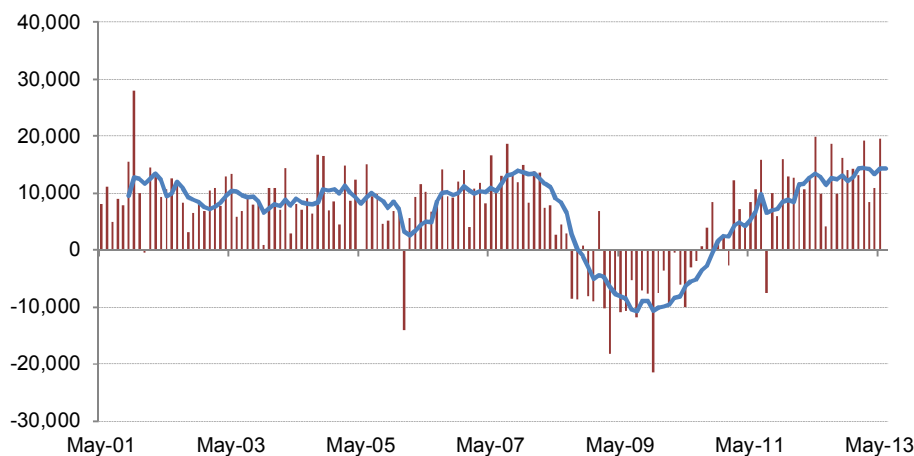
Uneven US data but economy on track

- **Recent US data has been uneven**
- **But recovery remains on track**
- **Monetary developments point to some continued mileage out of equities**

Recent US data has been somewhat uneven. That was highlighted earlier this week when on the one hand, consumer credit data for May was considerably stronger rise than expected; but, on the other, small business optimism index edged down in June after rising for two months.

On 8th July the Federal Reserve published consumer credit numbers for May. The growth of consumer credit slowed for a third month, from 6.1% in the year to February, to 5.8% in May. However, that is still higher than the 5.6% average over the last 12 months. Moreover, the actual rise in consumer credit – 19.6 billion dollars – was the highest since May 2012 and the second highest since November 2001 (which was boosted by the 9/11 attack two months prior). The latest number may be somewhat distorted by changes to student loans; but, even so, it shows that US households' appetite for some borrowing – and therefore also spending – remains intact. Meanwhile, car sales rising to a 5½-year high in June tell us where at least some of the money borrowed is spent.

**Total consumer credit, monthly change, \$bn s/a
6-month moving average line added**



The healthy consumer credit number was balanced a day later by a weaker-than-expected small business confidence report from the National Federation of Independent Business (NFIB). NFIB confidence fell in June, having risen in both April and May. The latest number, 93.5, is up from 87.5 in November 2012; but the upward trend is feeble at best, and the number is lower than the fluctuations around 100 that used to be standard in the decades prior to 2007. Even here, however, there were some

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brighter spots; inventories are perceived as slightly below normal, and plans to expand are edging up slightly, both of which should boost output in coming months. In addition, plans to increase employment are also creeping upwards, confirming recent US labour market strength, both non-farm payrolls and unemployment claims (in spite of a rise in claims in the first week of July).

Jobless claims, four-week moving average



While other survey data is uneven – the ISM manufacturing employment index is back below 50, while the non-manufacturing employment index is rising – it is still looking likely that the Fed’s 6½% unemployment threshold will be reached next year, probably in the first half. That should also be the time when the Fed should begin to plan for its first interest rate increase, although whether that will come in 2014 (as it should) or later, is still unclear and will depend on a number of issues – not least on who will succeed Ben Bernanke as Chairman of the Board of Governors. Meanwhile, Fed signals about the future development of QE are currently confusing – to say the least, with the chairman blowing hot and cold on alternate days.

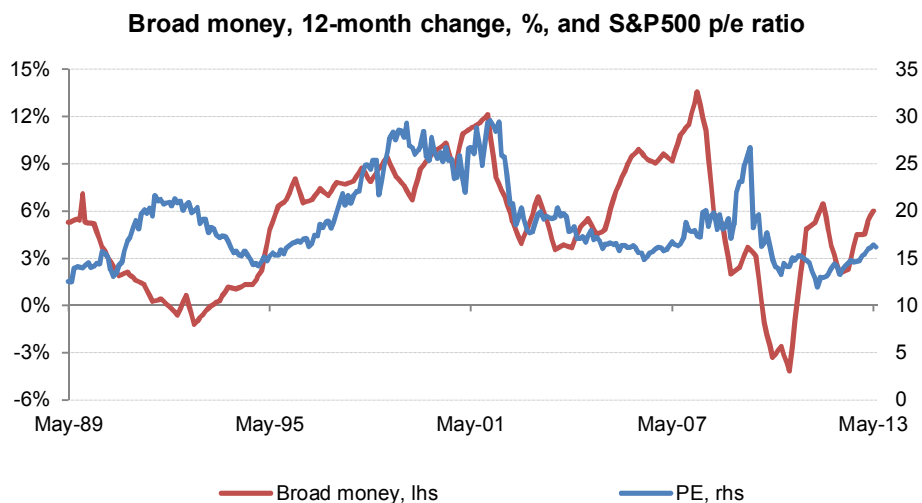
However, all in all, recent data confirm that the US recovery – unexciting and plodding as it is, particularly in comparison with previous cycles – remains in place. Q2 growth will have been soft, but activity should accelerate again in Q3 and Q4. In spite of the confused messages, the Fed is clearly looking to end QE as soon as possible. Hence, Treasuries are unattractive and will remain so for some years to come. Equities have of course had a good run – if with some setbacks – since November 2012. Crucially, monetary developments imply that this is set to continue. There is (unsurprisingly) a reasonable relationship between developments in broad money and asset prices.¹ Although subject to variable lags, 12-month broad money growth tends to lead the S&P500 p/e ratio trend by about a year. At the moment,

¹ ‘Broad money’ refers to the recreation by Stein Brothers (UK) of the M3 measure that the Federal Reserve ceased to publish in March 2006.

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the p/e ratio is at the lower range of the 15-20 band it has moved in for the past decades. The broad money numbers imply that it still has some way to rise.



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