

Looking For A Recovery In The US. Still Looking. And ISM Numbers That Don't Stack Up

It has been my forecast that the US economy would be in recession in the first half of 2011. If you use an ex Shelter deflator, it just about gets you there. A dynamic economy does not sit in a recession for long unless there are structural inefficiencies. I do not see that for the US and have therefore been seeking signs of an economic recovery .

Where to look? I would have expected the recovery to occur in the export sector. So far I have not found signs of this. In 2008 there was a one time surge in the trade balance towards a less negative balance. Since early 2009 this has reversed and the trend of increasing trade deficit resumed. Since then the trade balance has threatened to bottom in January 2011. Export growth has accelerated over January to April 2011. Import growth has stabilized rather than accelerated in the same period. This provides mild, not overwhelming support for the thesis.

The June 2011 ISM numbers released last week were encouraging, an improvement in the ISM PMI from 53.5 to 55.3. The stock market certainly was encouraged by the data. The data, however, is equivocal.

In manufacturing:

- Prices paid fell from 76.5 to 68.0.
- Production rose from 54.0 to 54.5, hardly significant and significantly weaker than March.
- New orders recorded a paltry improvement from 51.0 to 51.6, well below February's 68.0.
- Backlog orders fell from 50.5 to 49.0.
- Supplier deliveries improved from 55.7 to 56.3, again a paltry improvement.
- Inventories rose significantly from 48.7 to 54.1, not the most encouraging sign.

- Employment showed a more encouraging increase from 58.2 to 59.9.
- Export orders fell from 55.0 to 53.5. Imports fell from 54.5 to 51.0.
- Quite how the above numbers translated into an improvement in the PMI I struggle to understand.

In non manufacturing the picture was just as ambiguous.

And so the search for a fundamental underpinning for a stronger economy goes on...