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U.S. Economy: Leading Indicators Index Gains as Recession Eases

By Shobhana Chandra

May 21 (Bloomberg) -- The index of U.S. leading economic indicators rose more than forecast and a manufacturing gauge improved in signs the deepest recession in five decades could end later this year.

The Conference Board's leading gauge increased 1 percent in April, the biggest gain since November 2005, the New York-based group said today. The index points to the direction of the economy over the next three to six months. A separate report showed manufacturing in the Philadelphia area shrank in May at the slowest pace in eight months.

A recent rebound in **stock prices** and improving consumer confidence are among components of the leading index that are stoking speculation the economy will begin to grow again in the next six months. Still, with **unemployment** at a 25-year high and projected to keep climbing into 2010, and lenders restricting credit, the recovery may be muted.

"This recession is losing its bite," said **Tim Quinlan**, an economist at Wachovia Corp. in Charlotte, North Carolina, who accurately forecast the leading index. "It'll be a gradual, slow recovery. We've got an awful job market and factories are still shrinking, though at a slower pace."

For the first time since the recession started in December 2007, the change in the leading index over the last six months, on an annualized basis, surpassed the year-over-year measure as both improved. That also happened before the end of the previous two recessions.

Philadelphia Fed

The factory industry's contraction in the Philadelphia region slowed as shipments and employment improved, the Federal Reserve Bank of Philadelphia said in its report. Meanwhile, more Americans than forecast filed claims for unemployment insurance last week, and the total number of workers receiving benefits rose to a record, signs the job market continues to weaken.

Stocks and Treasuries fell after the reports. The Standard & Poor's 500 Index was down 1.7 percent at 888.19 as of 12:46 p.m. in New York. Yields on benchmark 10-year notes rose to 3.29 percent from 3.19 percent late yesterday.

The leading index was forecast to rise 0.8 percent, according to the median of 57 economists in a Bloomberg News survey, after an originally reported drop of 0.3 percent in March. Estimates ranged from a decline of 0.2 percent to a gain of 1.4 percent.

Seven of the 10 indicators in today's report increased, with the biggest boost provided by the Standard & Poor's index, which gained 12 percent in April from the prior month's average.

Consumer Sentiment

Another contribution came from the Reuters/University of Michigan index of **consumer expectations**, a proxy for future spending, which rose in April by the most in more than two years. A preliminary report showed the gauge also rising in May.

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Seven of the 10 indicators for the leading index are known ahead of time: stock prices, jobless claims, building permits, consumer expectations, the yield curve, factory hours and supplier delivery times.

The Philadelphia Fed's general economic **index** climbed to minus 22.6 this month from minus 24.4 in April, the bank said today. Negative numbers signal contraction.

While the manufacturing slump is stabilizing after companies reduced inventories in the first quarter at the fastest pace on record, the global downturn will keep paring demand for American-made goods. Production cutbacks at **General Motors Corp.** and Chrysler LLC will ripple through the auto industry, meaning the factory slowdown and **soft labor market** may persist for months to come.

Slower Contraction

"The economy is contracting and manufacturing is contracting, it's just contracting at a slower pace," said **Steven Ricchiuto**, chief economist at Mizuho Securities USA Inc. in New York. Ricchiuto forecast the index would be minus 22.

Initial jobless **claims** fell by 12,000 to 631,000 in the week ended May 16, from a revised 643,000 the prior week that was higher than initially estimated, the Labor Department said today in Washington. The total number of people collecting benefits rose to 6.66 million, a **record** reading for a 16th straight week, and a sign companies are still not hiring.

Job losses are likely to continue after Chrysler filed for bankruptcy and because General Motors may follow suit and terminate 1,100 U.S. dealers.

Still, in a statement following their April meeting, Fed policy makers cited improved financial conditions, stronger business and household sentiment, and expectations of an increase in industrial production to replace inventories, as reasons why the pace of contraction will probably ease.

Fed Projections

Policy makers projected the economic slump this year would be deeper than they forecast in January and estimated a slower rebound next year, according to meeting minutes issued yesterday. Some officials said the central bank may need to boost asset purchases to further lower borrowing costs and secure a stronger recovery.

Some companies are gaining confidence any further decline in demand will not be as dramatic. LSI Corp. Chief Executive Officer **Abhi Talwalkar** said calling the bottom now would be "too bold of a statement," even as sales in the chip industry were improving.

Still, "I do believe we won't experience another freefall like we did in the last quarter and a half," Talwalkar said in a May 18 interview.

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