Bloomberg.com

U.S. Economy: Leading Indicators Shows Slump Easing (Update1)

Share | Email | Print | A A A

By Shobhana Chandra and Bob Willis

June 18 (Bloomberg) -- The index of U.S. leading economic indicators rose in May for a second consecutive month and a regional factory gauge climbed more than forecast in June, showing the worst recession in five decades may soon end.

The leading index increased 1.2 percent after a 1.1 percent gain in April, the best back-to-back performance since November-December 2001, the New York-based Conference Board reported today. The Federal Reserve Bank of Philadelphia's general economic **index** jumped to the highest level in nine months.

Stocks snapped a three-day losing streak and Treasury securities fell for a second day after the reports bolstered forecasts the world's largest economy will begin to grow in the second half of 2009. A third report showed the number of Americans receiving jobless benefits dropped for the first time since January, indicating the job market is starting to thaw.

"The freefall-type environment we saw in the first quarter is definitely behind us," said **Zach Pandl**, an economist at Nomura Securities International Inc. in New York. Manufacturing "is turning a corner" and "we will exit the recession at some point toward the end of this year."

The Standard & Poor's 500 index rose 7.66 points, or 0.8 percent, to close at 918.37 in New York. The yield on the benchmark 10-year Treasury note rose to 3.81 percent at 4:45 p.m. from 3.69 percent late yesterday.

Exceeds Forecast

The leading indicators, which point to the direction of the economy over the next three to six months, were forecast to rise 1 percent, according to the median of 55 economists in a Bloomberg News survey, after an originally reported increase of 1 percent in April. Estimates ranged from a decline of 0.5 percent to a gain of 1.8 percent.

Still, any recovery later this year will not be strong enough to prevent **unemployment** from climbing even more after reaching a 25-year high of 9.4 percent last month. President **Barack Obama** in an interview on Bloomberg Television this week predicted the jobless rate will climb to 10 percent, even as the "engines" of recovery have begun to turn.

A slowdown in factory deliveries, which signals an increase in orders, jumps in building permits and stock prices, a gain in consumer confidence and a widening spread between long- and short-term interest rates paced the advance in the leading index.

"The recession is losing steam," **Ken Goldstein**, an economist at the Conference Board, said in a statement. "If these trends continue, expect a slow recovery beginning before the end of the year. However, employment will take longer to turn around."

Smaller Drop

The Conference Board's index of coincident indicators, a gauge of current economic activity, fell 0.2 percent, the smallest drop since October, after decreasing 0.3 percent the prior month. The index tracks payrolls, incomes, sales and production.

In addition to gross domestic product, the measures in the coincident index are used by the **National Bureau of Economic Research** in determining when recessions begin and end. The private group is the accepted arbiter of U.S. expansions.

The Fed Bank of Philadelphia said its general economic index climbed to minus 2.2 from minus 22.6 in May, paced by improvements in orders and sales. Negative numbers signal contraction.

The slump in manufacturing may be abating after companies reduced inventories in the first quarter at the fastest pace on record. Still, production cutbacks and plant closures at carmakers **General Motors Corp.** and Chrysler Group LLC are likely to depress factory production in the near term.

Recalling Workers

Some factory producers are preparing for better times. Pittsburgh-based **U.S. Steel Corp.**, the largest U.S. steelmaker by sales, is recalling nearly 800 laid-off workers to restart coke production in the Canadian province of Ontario and a blast furnace in Illinois, union spokesmen Dave Dowling and Rolf Gerstenberger said in separate interviews this week.

"We are continuing to adjust production across North American operations to stay in line with customer demand and to adjust our workforce as appropriate to our production levels," Erin Dipietro, a U.S. Steel spokeswoman, said in an interview.

The number of people collecting unemployment insurance plunged by 148,000 in the week to June 6, the **most** since November 2001, to 6.69 million, the Labor Department said today. The average number of initial claims over the last four weeks fell to the lowest level in four months.

"The labor market remains weak but it's starting to stabilize," said **Maxwell Clarke**, chief U.S. economist at IDEAglobal in New York. "An improvement in employment conditions and improvement in confidence go hand in hand with an improvement in consumer spending."

Economists surveyed by Bloomberg June 1 to June 8 projected the U.S. economy would grow at an average 1.2 percent pace in the second half of the year after falling by 2 percent in the second quarter.

To contact the reporters on this story: **Shobhana Chandra** in Washington **schandra1@bloomberg.net**; **Bob Willis** in Washington **bwillis@bloomberg.net**

Last Updated: June 18, 2009 16:47 EDT

©2009 BLOOMBERG L.P. ALL RIGHTS RESERVED. Terms of Service | Privacy Policy | Trademarks