THE ECONOMIC OUTLOOK GROUP

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ECONOMIC TALKING POINTS

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Jobless claims and the Trade Deficit -- A Decaffeinated Recovery

This has been a light week for economic reports. But what little we have received is worth noting because they point to a continuation of our creeping recovery.

We begin with the latest on jobless claims, which saw new applications for unemployment benefits slip by 26,000, to 550,000, for the week ending September 5th. That's the third lowest this year, and stands well below its peak of 674,000 a week last March. The total number of Americans currently collecting unemployment checks has fallen to 6.09 million, the fewest in five months since April 4th.

Once again, states that have shown the most declines in new filings appear to be those that suffered the greatest losses this past recession - Michigan, Ohio, and Pennsylvania. Much of the improvement, however, has to be attributed to the "cash for clunkers" program, which did generate fresh demand for new, fuel-efficient cars and thus allowed automakers to call back workers. But they were not the only states that saw fewer claims: Kansas, Wisconsin and Oregon were in that group as well. All told, 29 states and territories showed a decline in new filings, while 24 registered increases. (Remember, all individual state statistics are reported with a one-week lag.)

Here's what we take away from these numbers. The initial claims numbers show labor market conditions still deteriorating, but at a much slower pace. Good news? Well, yes in the sense that companies are no longer handing out pink slips in the volume seen earlier this year. But let's get real here. Given the pace of current layoffs and past employment trends following recessions, it may well take half a decade for the economy to replace the 7 million jobs lost since the start of the recession. These micro steps of improvement in the economy are exasperating for many. It complicates business spending strategies and frustrates American households who find little to celebrate with a dull, fractional recovery. We really need to see jobless claims move convincingly below 450,000 a week before Americans begin to feel a palpable change in labor market conditions.

The government also released July U.S. trade numbers and the news here, on net, was positive. Yes, the deficit did increase during the month to $32 billion from $27.5 billion in June, but the relevant point here is not the deterioration in the trade balance but that domestic demand has picked up now that the economy has shifted from recession to recovery. Rising imports after a recession reflect an economy that is generating more businesses activity. Imports rose by $159.6 billion in July, the second consecutive monthly increase. Imports of goods jumped by 5.7%, while services rose a less impressive 0.6%.

Drill down deeper and we see that much of the gain on the import side came from consumer goods (retailers replenishing exhausted inventories), autos and parts (rising demand from cash for clunkers), capital goods (as business leaders strive to improve productivity and replace obsolete equipment), industrial supplies (now that U.S. manufacturers are beginning to ramp up production), and, finally, a rise in both the volume purchased and price of crude oil. In terms of volume, the U.S. imported 5.6% more oil in July than the previous month, while the average price for all the different grades rose to $62.48 a barrel, the highest since last November.

It's not just imports that rose, however. We're also seeing more signs that the world economy is starting to gather some steam. Exports jumped in July to $127.6 billion, the most this year! Virtually all of the increase came from higher demand for capital goods, autos, computers and aircraft.

Our expectation is that U.S. exports will accelerate faster than imports in coming months as the weakening dollar makes U.S. products more price competitive in international markets --- and that this is occurring just as more countries are re-awakening from their economic slumber. That will help reduce the monthly U.S. trade deficit by early next year and contribute more to GDP growth in 2010.