

# THE ECONOMIC OUTLOOK GROUP



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## ECONOMIC TALKING POINTS

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### **The Economic Clouds Are Lifting**

Confused by the mix of good and bad economic news out today? Let's try to put some of the data points in perspective.

First, there is little analytical value in the latest weekly numbers on applications for unemployment benefits, so let's get that out of the way first. Clearly no one should be surprised by the way these filings leaped the first three weeks of October in the maelstrom of a federal government shutdown and warnings of an economic cataclysm should the US defaults on its debt.

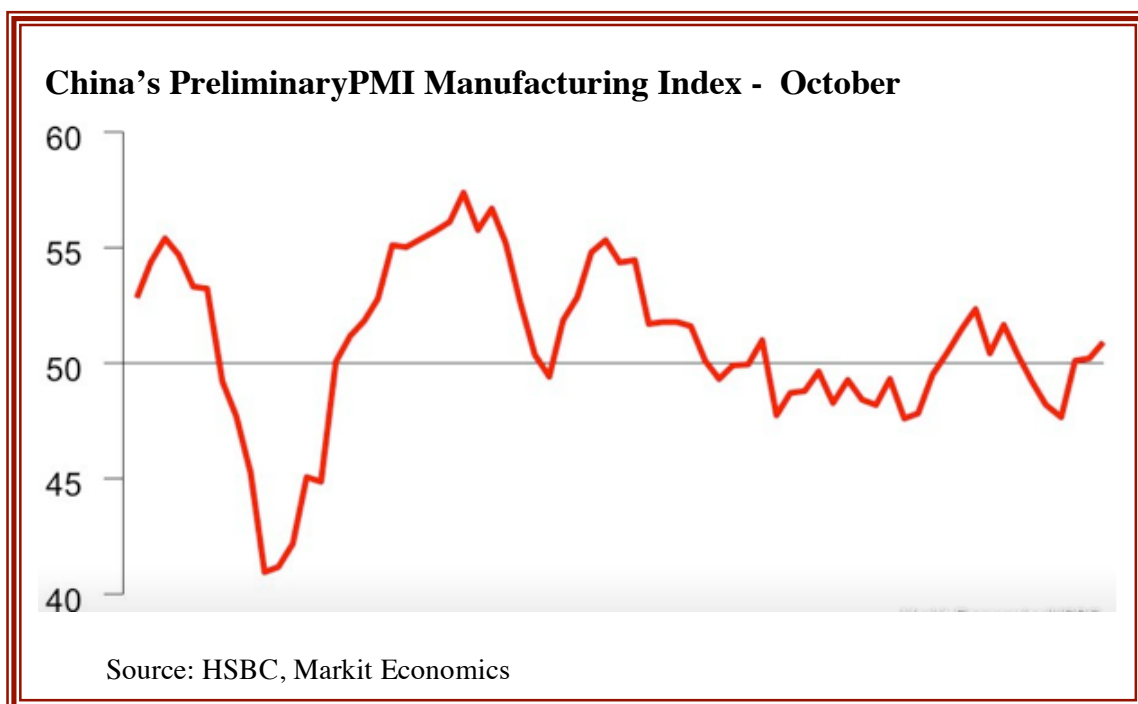
During this period, claims jumped from 308,000 in the week ending September 28<sup>th</sup>, to a whopping 373,000 the following week, then another 363,000 for the week of the 12<sup>th</sup> month, and then today's report of 350,000 applications submitted.

Historically, filings for jobless benefits can serve as useful indicator of labor market trends. But the temporary shock of large layoffs involving federal and non-federal workers all due to the shutdown in Washington made this data series inherently less useful as a forecasting tool this month. Now that the shutdown has ended and the threat of default no longer an immediate concern (...and with a replay of that threat less likely early next year given the bruising House

Republicans received), we expect to see weekly claim numbers to gradually swing back to their lower range of between 280,000 and 320,000.

Second, the US international trade numbers continue to be encouraging because they reflect the ongoing recovery in the international economy . US exports on a three month moving average --- which is really the only way to look at these stats to detect meaningful trends --- jumped to \$189.7 billion in the period ending in August. That is a record high, as both sales of goods and services rose to their best levels ever (again, on a 3-month moving average).

Several other foreign indicators were just released that further reinforced the view of a global economy gaining traction. HSBC and Markit Economics reported that manufacturing activity in China was even stronger in October than first thought, with the flash PMI index stepping up to 50.9. Underscoring this trend is the fact that Chinese imports of iron ore and oil set records last month. Not only does this suggest Chinese policymakers are succeeding in their goal to gently slow the economy to a more efficient cruising speed of 7.7% to 8% growth, it also means the world's second largest economy will likely remain one of the major locomotives in the global economy in 2014.

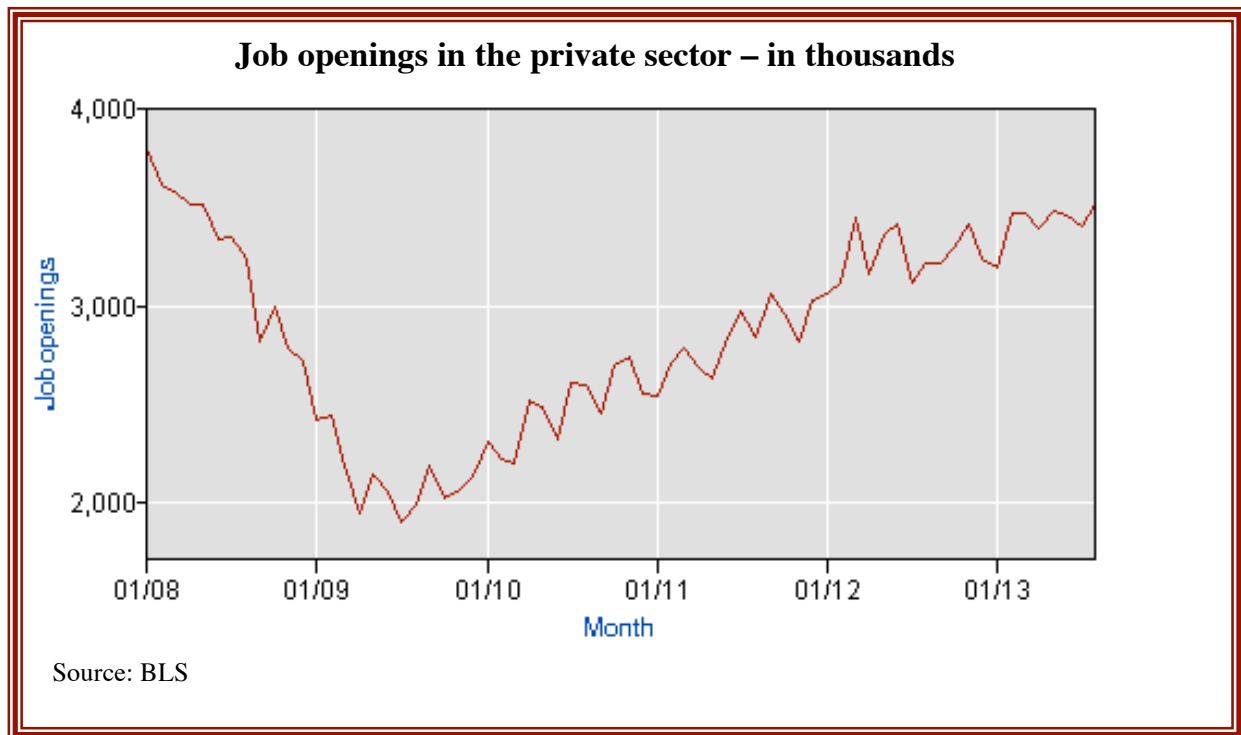


Europe continues to demonstrate that it too has turned the corner. The Eurozone's composite PMI index for services and manufacturing continued to expand this month, though at a slightly decelerated pace from that of September. The index stood at 51.5 in October, a few tenths of a point off the 52.2 level the previous month. Nevertheless, it is getting much harder to refute the conclusion that the region is on the mend. Spain's economy finally grew in the third quarter for the first time in two years and the jobless rate has begun to slide. The improvement in consumer confidence in Europe has allowed car sales to jump last month by the most in two years. Outside the EZ, the UK's economic recovery is turning out to be more robust, and that in turn has allowed the unemployment rate

to drop faster than forecast.

But let's end our assessment today by returning to the US. Anyone see today's JOLT (Job Openings And Labor Turnover) report? The data augurs well for the domestic economy. Demand for workers in the private sector has been increasing!

Companies posted 3.52 million job openings in the latest month (August), the most we have seen in more than five years. Leading the charge ---outside of the usual strong hiring needs of health care and education --- were manufacturing, trade and transportation.



**Bottom line:**

The global backdrop is starting to look quite good; we are now getting a preponderance of positive news from the major world economies. If, in addition, central bankers are inclined to keep interest rates low for a longer period of time, as many news reports now suggest, global growth in 2014 could well surprise on the upside.