



January 2011

## No double-dip recession in 2011

U.S.'s payroll growth for November was unexpectedly soft and the unemployment rate rose. Payroll employment increased 39,000, following a revised 172,000 boost in October and a 24,000 dip in September. The latest figures fell short of the median forecast for a 168,000 advance. Private sector payrolls increased 50,000 in November, following a 160,000 boost the month before. The unemployment rate bumped up to 9.8% from 9.6% in October, topping analysts' forecast for 9.7%.

The employment situation is clearly disappointing, but does it mean that U.S.'s economy has lost the momentum? Is it probable that double-dip recession will come shortly?

According to the FOMC statement released on Dec 14, 2010, the Federal Open Market Committee intends to purchase \$600 billion of longer-term Treasury securities by the end of the second quarter of 2011. The committee announced that it will maintain the target range for the federal funds rate at 0 to 0.25 percent. The committee also described the latest economic situation, part of the content are shown below:

1) The economic recovery is continuing, though at a rate that has been insufficient to bring down unemployment. Household spending is increasing at a moderate pace, but remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit. Business spending on equipment and software is rising, though less rapidly than earlier in the year, while investment in nonresidential structures continues to be weak. Employers remain reluctant to add to payrolls.

2) The housing sector continues to be depressed. Longer-term inflation expectations have remained stable, but measures of underlying inflation have continued to trend downward. The FOMC continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels for the federal fund rate for an extended period.

There is no doubt that unemployment rate will stay at high level for an extended period. However, it is a lagging indicator only. What we should pay attention are the signals from the leading indicators.

The Conference Board Leading Economic Index (LEI) for the U.S. increased 1.1% in November to 112.4 (2004=100), following a 0.4% increase in October, and a 0.6% increase in September. Says Ataman Ozyildirim, economist at The Conference Board: "November's sharp increase in the LEI, the fifth consecutive gain, is an early sign that the expansion is gaining momentum and spreading. Nearly all components rose in November. Continuing strength in financial indicators is now joined by gains in manufacturing and consumer expectations, but housing remains weak."

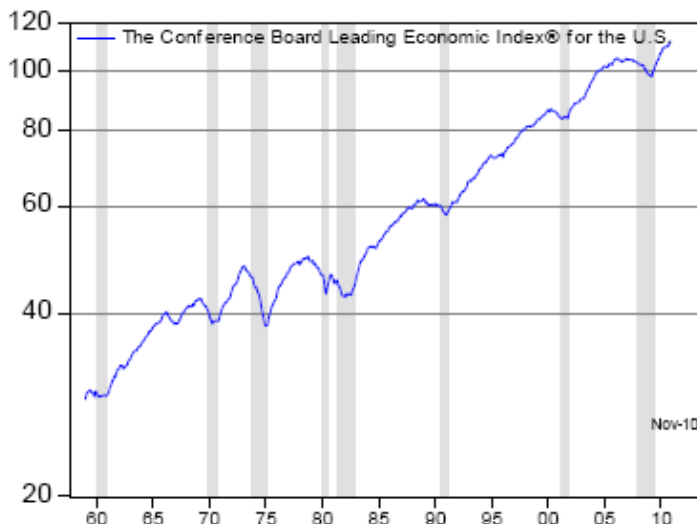
Chart 1 clearly shows that LEI (the blue line) turns down before recession (the grey area). There is no signal that the recent rally will end suddenly.

On the other hand, the Weekly Leading Index (WLI) of the Economic Cycle Research Institute (ECRI) has been improving since September 2010 (See Table 1). Lakshman Auhuthan, the Managing Director of ECRI, stated in October that the economy will avoid a double dip. Besides, in late November, he mentioned that Long Leading Indicator (LLI) shows the nation is on track for a soft landing and there is a revival in economic growth.

For more details, please visit the website: <http://www.businesscycle.com/news/press/2026/>

In conclusion, we believe that: 1) U.S. economy is growing and is gaining momentum, 2) double dip recession unlikely happens in 2011, 3) the unemployment rate is a lagging indicator and it will peak soon, 4) high unemployment rate is a new normal for Americans, but it has been fully reflected in the stock market.

**Chart1. The Conference Board Leading Economic Index for the U.S. (starting from 1960)**



Sources: The Conference Board

**Table 1. The Weekly Leading Index of ECRI (23 Jul 2010 – 17 Dec 2010)**

Date	Level	Growth	Date	Level	Growth
23-Jul-10	120.7	-11.0	08-Oct-10	122.3	-6.9
30-Jul-10	121.3	-10.7	15-Oct-10	122.2	-6.7
06-Aug-10	121.9	-10.2	22-Oct-10	123.1	-6.4
13-Aug-10	120.6	-10.1	29-Oct-10	123.2	-6.4
20-Aug-10	120.8	-10.0	05-Nov-10	124.3	-5.5
27-Aug-10	120.4	-10.3	12-Nov-10	124.2	-4.6
03-Sep-10	121.9	-10.2	19-Nov-10	126.0	-3.3
10-Sep-10	122.5	-9.4	26-Nov-10	125.3	-2.4
17-Sep-10	122.2	-8.7	03-Dec-10	126.4	-1.5
24-Sep-10	122.5	-7.8	10-Dec-10	127.3	-0.1
01-Oct-10	123.7	-7.0	17-Dec-10	128.0	+0.8

Sources: ECRI

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