

Economics Group

Tim Quinlan, Economic Analyst
tim.quinlan@wachovia.com • (704)374-4407

Conference Board Economic Indexes Paint Mixed Picture

The Leading Economic Index (LEI) increased 0.3 percent in October signaling modest growth in the U.S. economy will continue into 2010. The Coincident Index is still stuck in neutral.

Slow Growth Likely to Continue

The seventh consecutive monthly gain in the LEI is consistent with our outlook for economic recovery to continue into 2010. That said, the pace of growth will likely be below trend for most of the year.

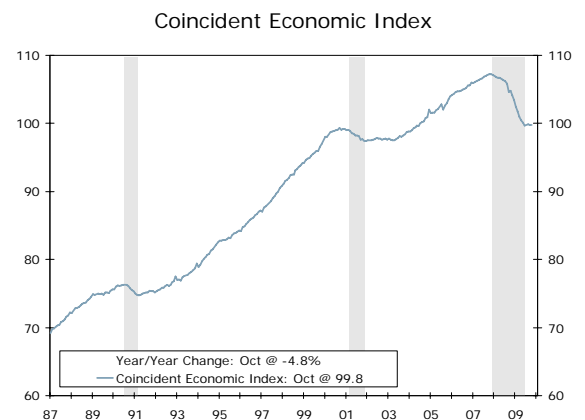
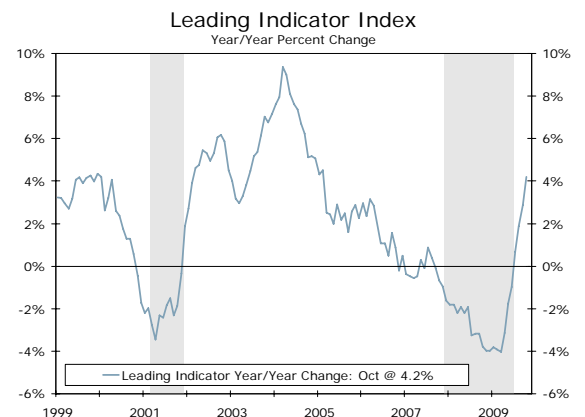
Unfortunately, the components of LEI that contributed the most to this month's gain are more reflective of government efforts to bolster growth rather than a self-sustaining recovery in the private sector. With overall inflation pressures currently low and the economic recovery just getting started, the FOMC is likely to keep rates low, at least in the near term. This shows up in the LEI in the interest rate spread component, the spread between the yield on the 10-year Treasury and the Federal Funds rate. This was the largest overall positive contributor in October, followed by another increase in the money supply. However, other areas of the economy are either showing modest improvement or no improvement at all. Capital goods orders, consumer sentiment, and manufacturers' pace of deliveries all weighed on the LEI in October. The ongoing work-out in housing is also a big drag on the index as building permits decreased on the month. Until we start to see broader-based growth in these other components, growth will remain below trend.

Recovery? What Recovery?

Tell anybody other than an economist that the economy is on the rebound, and you are likely to be met with a lot of skepticism. For many people, it feels that the economy has yet to get itself into gear. That perspective is illustrated rather well by the Coincident Index, which was unchanged in October. In fact, it has been unchanged in substantive way in months. As various indicators offer proof of the expansion, perhaps the most glaring contradiction is in the labor market, which sheds more jobs every month. Recent weekly jobless claims have been improving, raising hopes that the job market may finally be starting to thaw. While that is certainly welcome news, a *slowing in the pace of job declines* is not nearly as positive for the economy as *actual job growth*. The ongoing declines in non-farm payrolls continue to weigh on the Coincident Index, offsetting months of gains in business sales and industrial production.

Don't Look Now: The Bad Guys are Still in the Rear-view Mirror

Only two of the seven components of the Lagging Economic Index were positive in October. The positives were diminished input costs for businesses, as the CPI services measure and unit labor costs both came down. All other lagging indicators were negative in October. The biggest drag was a drop in commercial and industrial loans, reflecting the difficult lending environment for businesses.



Wells Fargo Securities, LLC Economics Group

Diane Schumaker-Krieg	Global Head of Research & Economics	(704) 715-8437 (212) 214-5070	diane.schumaker@wachovia.com
John E. Silvia, Ph.D.	Chief Economist	(704) 374-7034	john.silvia@wachovia.com
Mark Vitner	Senior Economist	(704) 383-5635	mark.vitner@wachovia.com
Jay Bryson, Ph.D.	Global Economist	(704) 383-3518	jay.bryson@wachovia.com
Scott Anderson, Ph.D.	Senior Economist	(612) 667-9281	scott.a.anderson@wellsfargo.com
Eugenio Aleman, Ph.D.	Senior Economist	(612) 667- 0168	eugenio.j.aleman@wellsfargo.com
Sam Bullard	Economist	(704) 383-7372	sam.bullard@wachovia.com
Anika Khan	Economist	(704) 715-0575	anika.khan@wachovia.com
Azhar Iqbal	Econometrician	(704) 383-6805	azhar.iqbal@wachovia.com
Adam G. York	Economist	(704) 715-9660	adam.york@wachovia.com
Ed Kashmarek	Economist	(612) 667-0479	ed.kashmarek@wellsfargo.com
Tim Quinlan	Economic Analyst	(704) 374-4407	tim.quinlan@wachovia.com
Kim Whelan	Economic Analyst	(704) 715-8457	kim.whelan@wachovia.com
Yasmine Kamaruddin	Economic Analyst	(704) 374-2992	yasmine.kamaruddin@wachovia.com

Wells Fargo Securities Economics Group publications are produced by Wells Fargo Securities, LLC, a U.S broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes these publications directly and through subsidiaries including, but not limited to, Wells Fargo & Company, Wachovia Bank N.A., Wells Fargo Bank N.A., Wells Fargo Advisors, LLC, and Wells Fargo Securities International Limited. The information and opinions herein are for general information use only. Wells Fargo Securities, LLC does not guarantee their accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sales of any security or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company © 2009 Wells Fargo Securities, LLC.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE

