



Rising Tide  
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## IS ANOTHER RECESSION IMMINENT? *Key indicators suggest economy slowly on mend.*

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This year, assorted economists and journalists have contended that the U.S. is on the edge of a new recession. Yet recent indicators hint that the economy is doing a bit better than some analysts think.

**U.S. retail sales were up 1.1% in September.** This is the kind of monthly number that you might expect during a typical recession recovery, and it surpassed the +0.7% consensus forecast of economists polled by Bloomberg News. Additionally, the Commerce Department revised August retail spending (formerly flat) to +0.3%. The year-over-year numbers in the September report really impress: we see annual gains of 7.9% for overall retail sales, 10.1% for online retailers, 6.9% for the restaurant and nightlife component, 7.6% for clothing shops and 6.5% for home and garden stores.<sup>1,2,3</sup>

As Credit Suisse economist Jonathan Basile told CNBC.com, “The fear of recession recedes when you see a retail sales report like this.” Basile said he was revising Credit Suisse’s 3Q 2011 GDP forecast for the U.S. north from +2.5% to +2.9%.<sup>4</sup>

**GDP did improve in the second quarter.** Real GDP was +0.4% in the first quarter of 2011, but the third and final real GDP estimate for the second quarter from the Bureau of Economic Analysis was +1.3%.<sup>5</sup>

“As of today, the recovery is still underway,” Berkshire Hathaway CEO Warren Buffett commented at an October 4 *Fortune* Magazine conference. “Our railroad carried 200,000 carloads last week,” he said, referring to the Burlington Northern Santa Fe company. “That’s the highest total in three years. And that’s stuff moving around the country, supplying merchants and doing all kinds of things.”<sup>6</sup>

**Other signs of growth & stability can be seen.** Here in October 2011, many corporations appear to be in better shape: U.S. non-financial firms have \$15 trillion of potentially liquid cash or investments on hand compared to \$13.7 trillion a year ago. American residential investment spending is up by \$9 billion since a low-water mark last spring; existing home sales rose 7.7% in August and the backlog of homes for sale fell to an 8.5-month supply from the previous 9.5-month inventory. The Institute for Supply Management’s twin purchasing manager indexes still show ongoing sector expansion; the service sector has grown for 22 months.<sup>7,8,9</sup>

The continued vitality in consumer spending and other encouraging factors points to a recovery. It may seem unimpressive or frustrating, but it doesn’t indicate a recession.



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**Citations.**

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**ISM NON-MANUFACTURING SURVEY RESULTS AT A GLANCE  
COMPARISON OF ISM NON-MANUFACTURING AND ISM MANUFACTURING SURVEYS\*  
SEPTEMBER 2011**

Index	Non-Manufacturing						Manufacturing		
	Series Index Sep	Series Index Aug	Percent Point Change	Direction	Rate of Change	Trend** (Months)	Series Index Sep	Series Index Aug	Percent Point Change
<b>NMI/PMI</b>	53.0	53.3	-0.3	Growing	Slower	22	51.6	50.6	+1.0
<b>Business Activity/Production</b>	57.1	55.6	+1.5	Growing	Faster	26	51.2	48.6	+2.6
<b>New Orders</b>	56.5	52.8	+3.7	Growing	Faster	26	49.6	49.6	0.0
<b>Employment</b>	48.7	51.6	-2.9	Contracting	From Growing	1	53.8	51.8	+2.0
<b>Supplier Deliveries</b>	49.5	53.0	-3.5	Faster	From Slowing	1	51.4	50.6	+0.8
<b>Inventories</b>	51.5	53.5	-2.0	Growing	Slower	8	52.0	52.3	-0.3
<b>Prices</b>	61.9	64.2	-2.3	Increasing	Slower	26	56.0	55.5	+0.5
<b>Backlog of Orders</b>	52.5	47.5	+5.0	Growing	From Contracting	1	41.5	46.0	-4.5
<b>New Export Orders</b>	52.0	56.5	-4.5	Growing	Slower	2	53.5	50.5	+3.0
<b>Imports</b>	47.5	53.5	-6.0	Contracting	From Growing	1	54.5	55.5	-1.0
<b>Inventory Sentiment</b>	59.0	56.0	+3.0	Too High	Faster	172	N/A	N/A	N/A
<b>Customers' Inventories</b>	N/A	N/A	N/A	N/A	N/A	N/A	49.0	46.5	+2.5