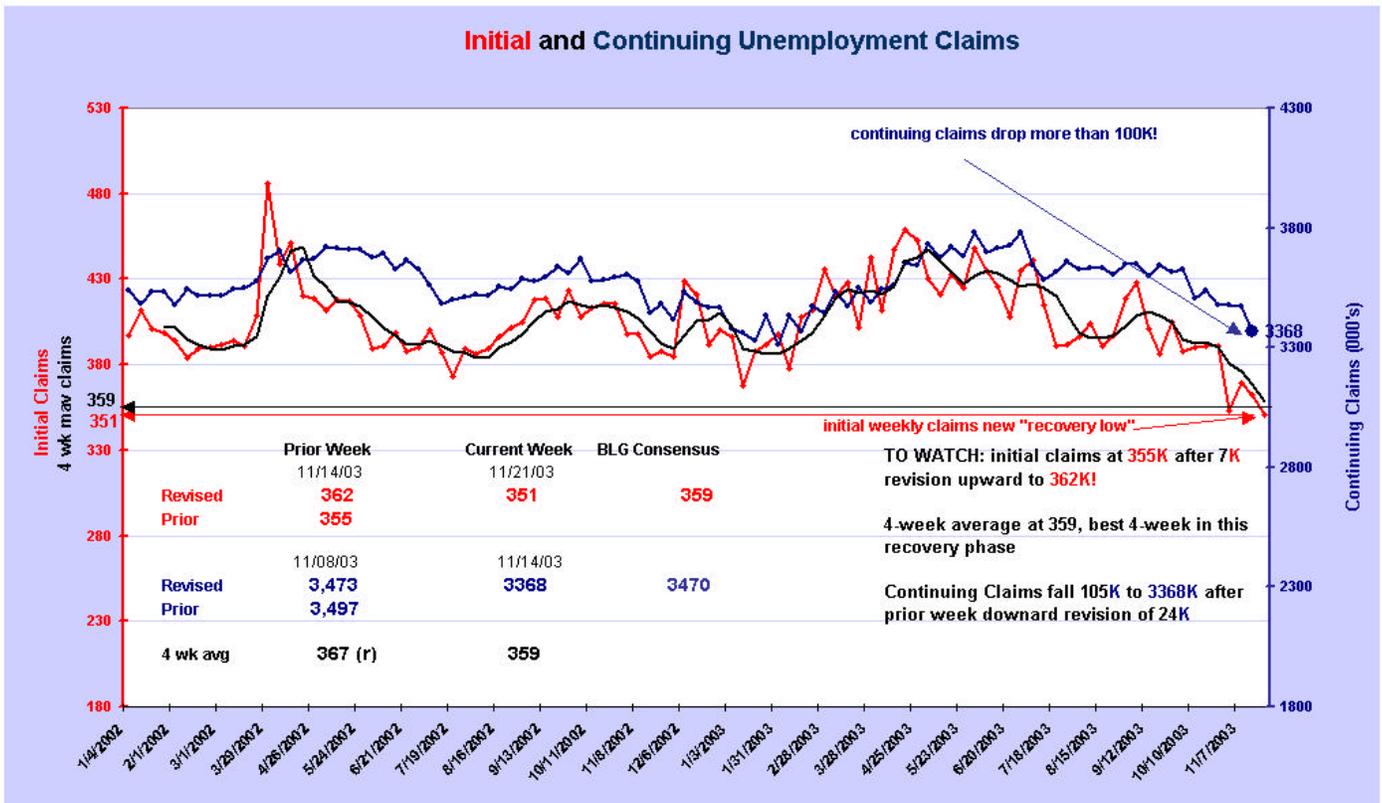




**Will the real recovery stand up?**



**Initial and Continuing Claims**

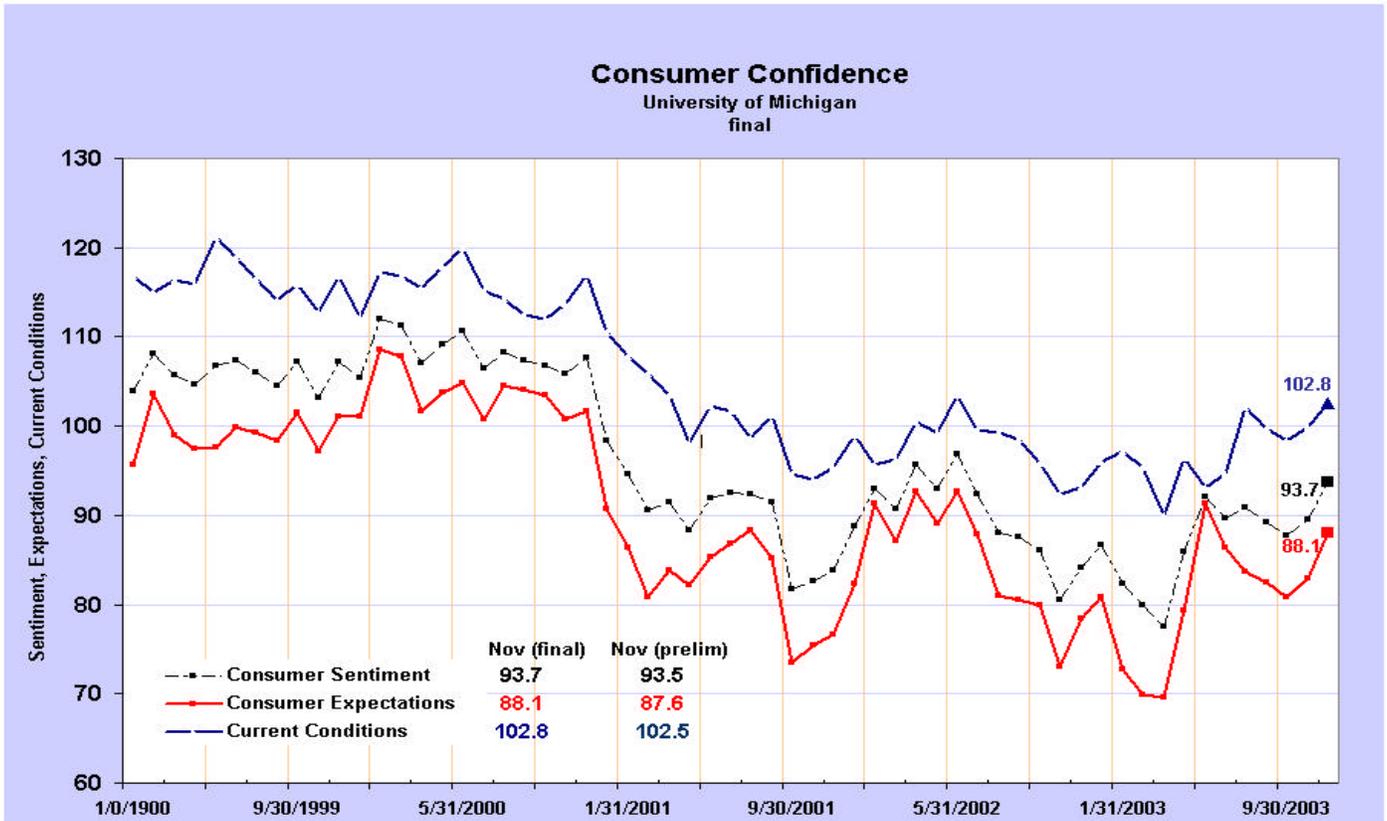
The GDP boom of QIII03 finally seems to be having an impact on the job market with initial claims falling now from their peak high's during the waning spring. All of the claims 'barometers' in the graph above are moving in the same direction and we would expect that personal disposable income will be rising going forward as a result. Initial claims fell to 351,000 and the four-week average initial claim count was 359,000. Continuing claims dropped to 3,368,000. The importance of the consumer in this recovery cannot be underestimated, and consumer demand ultimately depends on growing labor income. The tension point between 'missing jobs' and 'rising consumer demand' can be resolved only through an expansion of employment. While initial and continuing claims seem to indicate growth in labor demand, there yet may be dark spots as the Chicago PMI data today indicate (see below).

**Consumer Confidence**

While this recession was not "typical," in the sense that the job recovery was historically quite belated (as measured against the recession's trough), the usual linkage between better job prospects and the "expectations" component of the Consumer Confidence survey seems to be holding up. The overall consumer sentiment measure as reported by the University of Michigan jumped to **93.7** (a 'recovery high') and the



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expectations component rose for the third consecutive month to **88.1**. Current conditions also rose to **102.8**.

## Chicago Purchasing Managers Survey—Employment Demand Rising?

The Chicago PMI has been a kind of 'laggard' as an indicator of expansion while the New York State and Pennsylvania surveys conducted by their respective Federal Reserve District Banks have shown more optimism with regard to a broad variety of measures. This month, however, the Chicago PMI survey seemed to play catch-up with significant expansions in all the significant categories **excluding employment**. In the previous Chicago PMI, the employment diffusion index was **53.10** but this month's reading fell to **48.50**. In the face of sharp expansions in the New Orders, Order Backlog and Inventory components of the survey, the first inference is that the QIII productivity blowout is showing up in a region known for its concentration of 'old line' manufacturing. The second inference is that "offshoring" appears to have accelerated all through this recession-recovery cycle.

Manufacturing jobs are not expanding, even though output rises while imports of manufactured products continue to increase. Consumers, of course, are huge beneficiaries of these reduced costs, but the strain in the labor market is obvious. Perhaps, more important, given the rapid outbreak of protectionism, the political impact of job losses in manufacturing will continue to push politicians to do the "wrong thing." Data like the Chicago PMI employment index will add to that pressure, even though looking at the historical record suggests that the current monthly 'drop' should be seen in the context of a very substantial recovery from the lows following the attack of **9-11**.



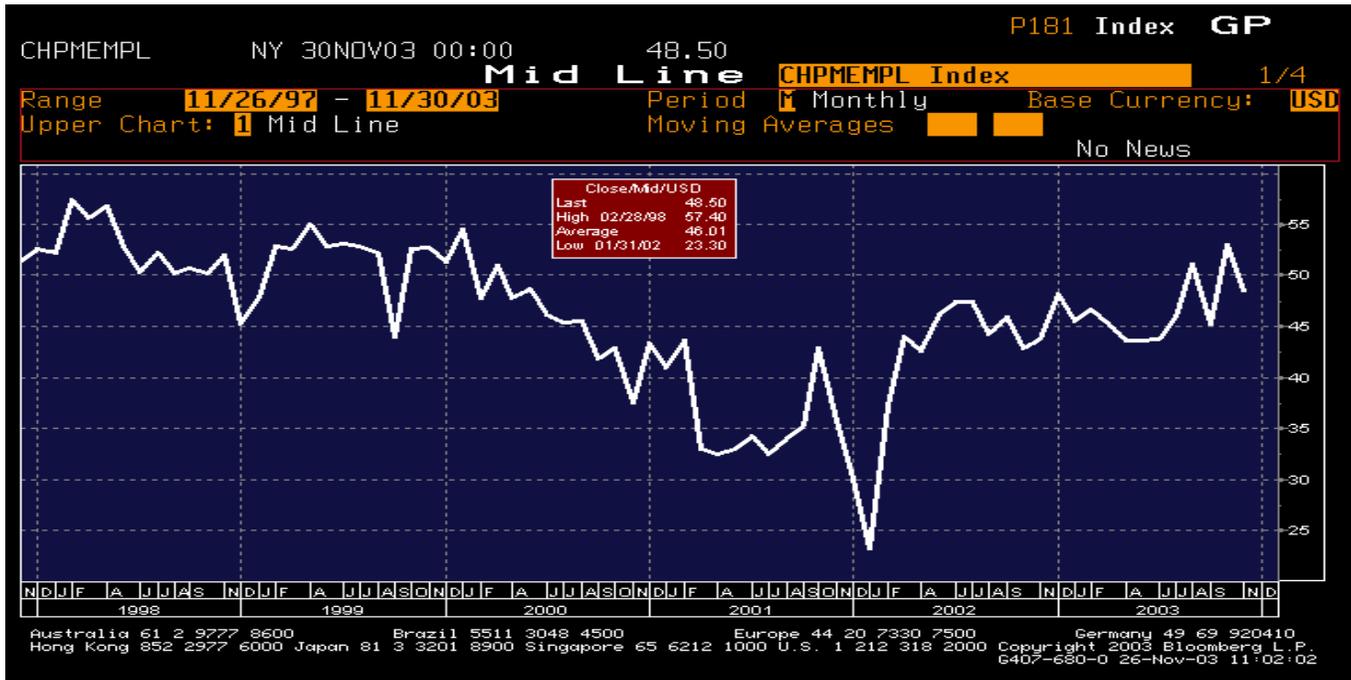
Press 98<GO> to make a copy, 99<GO> to clear news alerts. Index **BIL**

10:34 **CHICAGO PURCHASING MANAGER** Page 1 / 1  
 94<GO> View News.

SECURITY	TICKER	CURRENT	DATE	PREVIOUS	DATE	PCT CHNG	FREQ
1)US Chicago Purch	CHPMINDX	64.10	11/30/03	55.00	10/31	16.55	Monthly
2)Production	CHPMPROD	69.00	11/30/03	62.00	10/31	11.29	Monthly
3)New orders	CHPMNORD	73.30	11/30/03	59.20	10/31	23.82	Monthly
4)Order backlog	CHPMORBA	59.60	11/30/03	47.30	10/31	26.00	Monthly
5)Inventory	CHPMINV	43.40	11/30/03	38.10	10/31	13.91	Monthly
6)Employment	CHPMEMPL	48.50	11/30/03	53.10	10/31	-8.66	Monthly
7)Supplier deliver	CHPMSUPP	53.90	11/30/03	49.20	10/31	9.55	Monthly
8)Paid	CHPMRPA	67.30	11/30/03	61.50	10/31	9.43	Monthly

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 920410  
 Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2003 Bloomberg L.P.  
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Chicago PMI Diffusion Indices

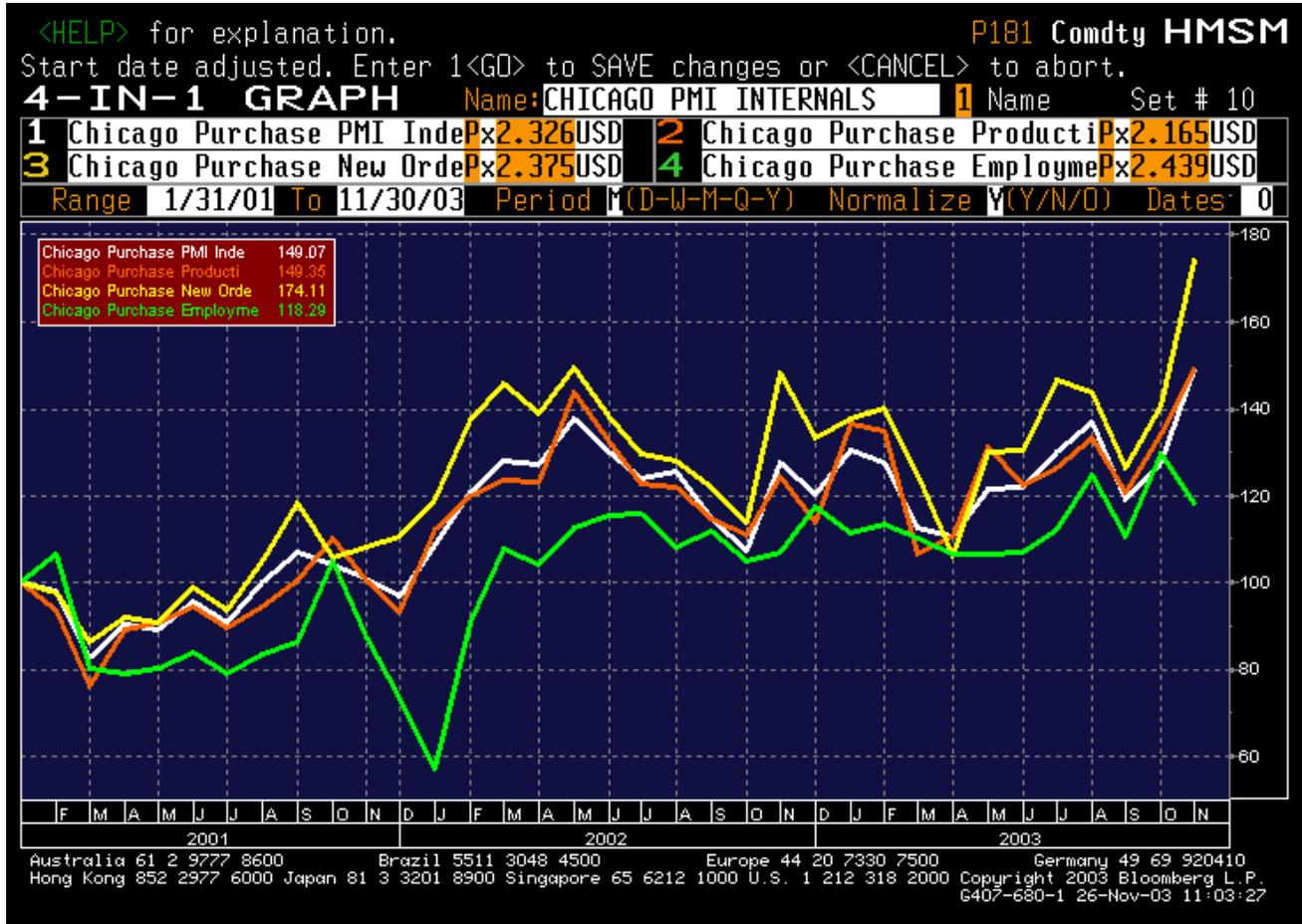


Chicago PMI Employment Diffusion Index

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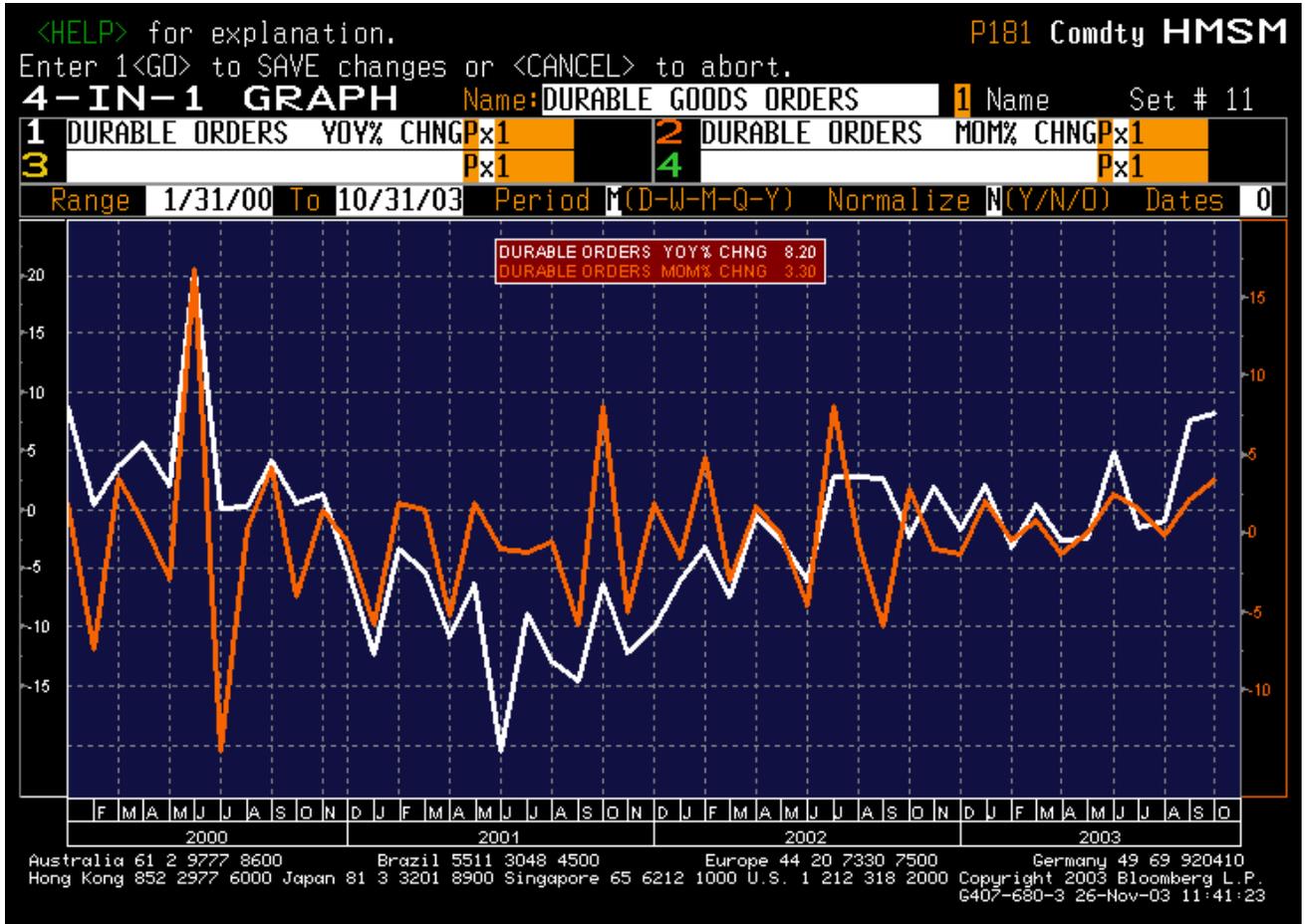
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Relative Performance of Chicago PMI Indices 01/31/01-11/30/03

## Durable Goods

Adding to the “filling out” story of this recovery was a sharp expansion in October Durable Goods Orders. Overall, orders rose 8.2% (YoY) and 2.4% (YoY) ex-transportation. This performance was highlighted by monthly increases in furniture (1.33%), consumer goods orders (5.38%), primary metals (6.24%) and transportation (5.52%), while industrial machinery and electronic goods orders fell 2.83% and 5.46%.



**Durable Goods Orders YoY and MoM Percentage Changes**

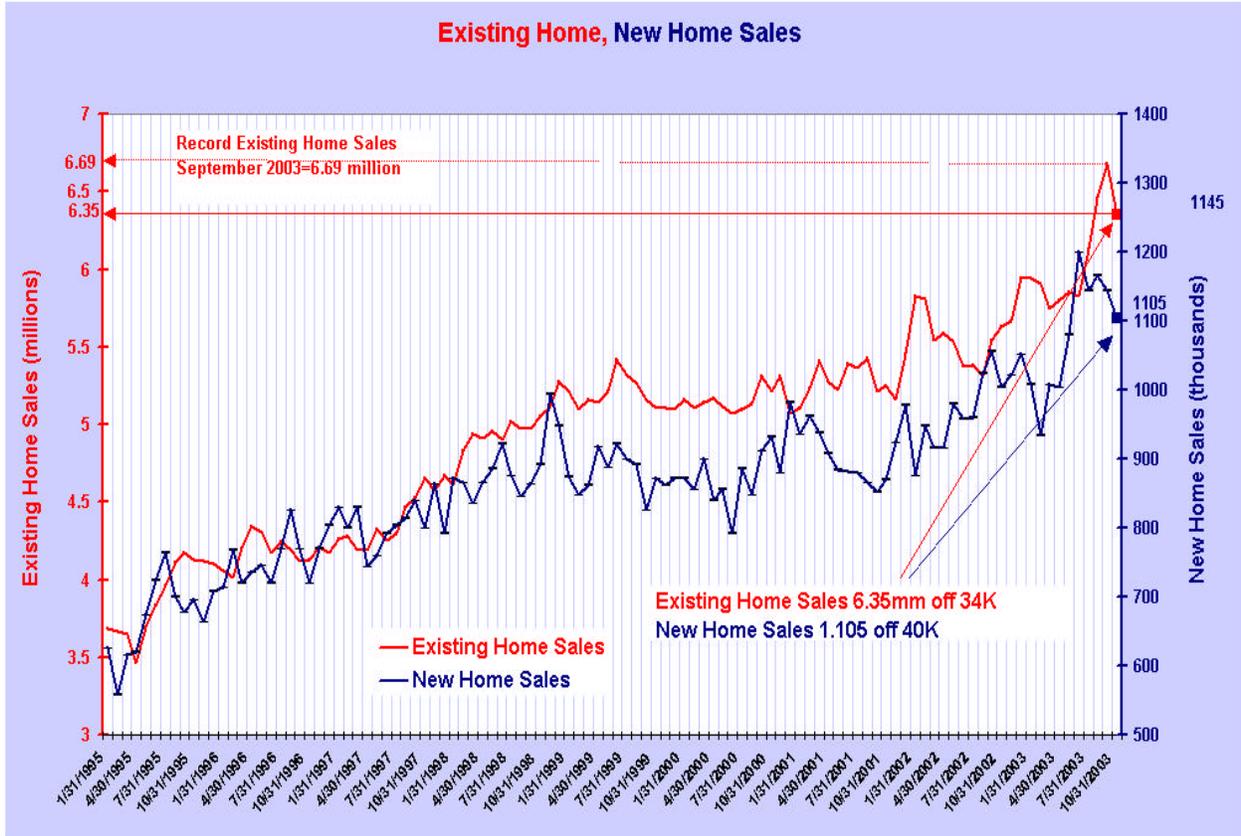
**New Home Sales and Personal Income**

New Home Sales, partly influenced no doubt by forest fires in California, fell to 6.35 million, off 3.5% from the record 6.69 million in September. There has been some expectation that sales in both categories would slip somewhat, but the high level of sales and low inventories of new homes for sale suggest that home building will continue at high rates, seasonally adjusted, through the winter. With personal income continuing to rise and prospects of job expansion, home building and home sales should continue to be strong, particularly in the "considerable period," during which the Fed continues to main an accommodative stance on monetary policy.

Personal income expanded 0.4% during the month while personal spending was flat (after falling 0.3% last month). Early fall retail sales have be less zesty than during the record third quarter, but retailers are optimistic going into the Christmas holiday season.



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## Beige Book

The Fed Beige Book generally found better employment conditions in most districts with higher reported temporary employment as well as some pickup in permanent hires. In a generally improving mosaic of reports across the country, it is interesting to note that several districts reported increases in commodities, including building materials and steel and there were several comments that pricing power seemed to be returning to some businesses. The Fed has to feel increasingly comfortable that the recovery is now well established in many sectors of the economy and that the normal rotation from stronger to weaker sectors will occur as the breadth of the recovery widens. One indicator of the growing confidence in the business sector that recovery is now well established are reports from several districts that commercial real estate is now either improving or is in the process of 'bottoming out.' Non-residential construction has been one of the 'weak' sectors during this long recession – recovery cycle and we should expect that in 2004 leasing of existing space would expand inducing new commercial construction.

## Looking Forward

Next week, the ISM will report and we should expect improvement in both the manufacturing and non-manufacturing reports. On Friday, the payroll report should confirm the improved conditions being noted



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across many sectors. Given the startling rise in productivity, the growth in payrolls has been the standout weak-sister of this recovery, but on the basis of the much more optimistic reports that are beginning to appear, we should now begin to see the job recovery take place. The Fed will be looking at these next few months of payroll data as it considers how to alert the economy that its highly accommodative stance cannot last forever.