

6 September 2013 Web Comments

INDEX	WKLY CLOSE	% CHANGE YTD
DOW JONES IND	14,922.50	13.88 %
S&P 500	1,655.17	16.06 %
NASDAQ	3,660.01	21.21 %

The U.S. Economy

The trade deficit in the U.S. has widened from a four year low, reached in July, an indication that Americans are importing more goods and services, particularly fuel and automobiles. The U.S. trade gap with China, the world's second-biggest economy, widened to a record \$30.1 billion from \$26.6 billion, according to reports we read this week. Our economy continues to improve, albeit at near glacial speed.

Imports will probably keep rising, reflecting improving domestic demand and a jump in crude-oil prices as tensions mount in the Middle East. At the same time, a strengthening U.S. expansion is helping companies in the European Union and China boost sales, which should go a long way toward stabilizing global growth and, in turn, improve prospects for American exports.

Actually, reports this week indicated that global growth is gaining momentum. Our work is suggesting that global GDP will pick up speed in the second half of this year, with growth reaching 2.6% on a year-to-year basis in the fourth quarter vs. the 2.1% experienced in the second quarter.

U.S. Jobs Report

We were not impressed by today's jobs report. While the headlines were quite positive, our careful read and analysis gave us an entirely different impression.

Yes, the unemployment rate declined to 7.3%, from 7.4% in July. Yes, the nation added 169,000 jobs, broadly consistent with the pattern of recent months. However, in almost all of the other individual numbers, we found signs that the job market is weaker than it appeared just a few months ago, and might even be getting worse. We say this because the drop in the unemployment rate was simply the result of 312,000 people dropping out of the labor force. The number of people actually reported as having a job declined by 112,000, in the government survey on which the unemployment rate was based.

We understand that jobs numbers ebb and jobs numbers flow and, as always, it would be unwise to make too much of one report. Nevertheless, this one has enough signs of weakness embedded in enough places to make economy-watchers, including those at the Federal Reserve who will meet in less than two weeks, reassess their confidence that a solid, steady jobs recovery is underway.

Another of our observations is that the proportion of the U.S. population that had a job in August was 58.6%. Six months earlier, the number was...58.6%. The year is nearly three-quarters over, and the economy isn't growing fast enough to put a higher proportion of our citizens back to work?

Remembering that Chairman Ben Bernanke has said that the Fed would only start pulling back on the pace of the Fed's \$85 billion-a-month bond purchases when the jobs market improved, we're not at all sure that "tapering" will be warranted, following the upcoming September 17-18, FOMC meeting, however, we do believe that the announcement will be made that the Fed will begin to reduce its bond purchases, at that meeting.

The U.S. Stock Market

U.S. stocks have been swinging between gains and losses all week as investors weighed tensions between America and Russia over Syria, and slower-than-forecast jobs growth. After declining in August, the S&P 500 Index has been flat, for the most part, all week.

How high is up? At this writing, we cannot see any catalyst that would break the S&P 500 Index above 1,685. The high of 1,709.67 was reached on August 2, 2013. Large U.S. companies possessing export capability and solid free-cash-flow consistency remain our most favored investments.

Have a nice long weekend.

Robert W. Nichols, Ph.D.
CEO

S.L. Reed & Company

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