



Economics Group

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LEI Signals Momentum Heading Into Latest Outbreak

The Leading Economic Index rose 0.7% in October, boosted by a jump in ISM new orders and a drop in jobless claims. The softening of consumer components highlights some rough waters ahead as case counts rise.

Consumer Components in Need of Context

The Leading Economic Index (LEI) increased 0.7% in October, following the moderate growth we have seen over the past few months. The increase might have been larger had the headline not been dragged down by the weak performance of the consumer-side components. Consumer expectations and goods orders both came in essentially flat in October. Despite strong consumer spending this summer, consumer expectations have remained lackluster since the pandemic started.

The softening in some of these consumer lines is not surprising. As we have noted in our retail sales [report](#), the most recent indicator releases have hinted at a slowing pace of goods purchases, but upward revisions to sales figures for the summer months amplify the strong spending we saw mid-year. From May to July, the consumer goods orders component rose an average of 0.62% month-over-month, as there was a boom in purchases of “Summer Recreation” products.

With stimulus support fading away for consumers, and with the virus case counts on the rise again, there are worries about whether or not consumer spending can hold up. The housing market has been a recent bright spot, and although housing starts rose in October, building permits did not budge, resulting in a drag on the LEI. Core capital goods ex-air new orders was also slightly dragged down the headline figure but still looked strong at 1.0% month-over-month in September.

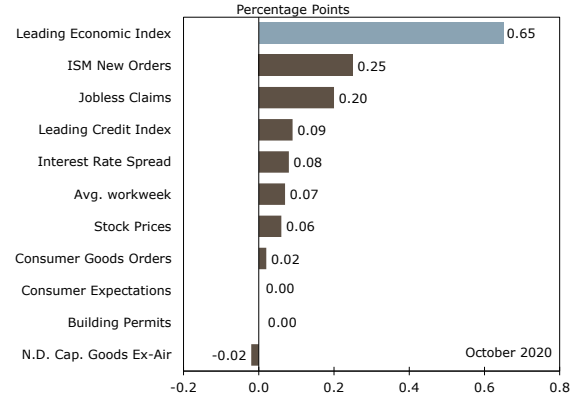
ISM New Orders and Initial Claims in the Spotlight

The headline reading was propped up mostly by the ISM New Orders and average weekly claims components at 0.25% and 0.20%, respectively. The average weekly claims line has an inverse relationship with initial jobless claims, so it increases when initial claims fall. That said, while initial claims have fallen dramatically over the past few months, after being up past one million in mid-August, the increase to LEI from the average weekly claims line is a bit of a head-fake. Unprecedented losses in the labor market were a major drag on LEI in March and April.

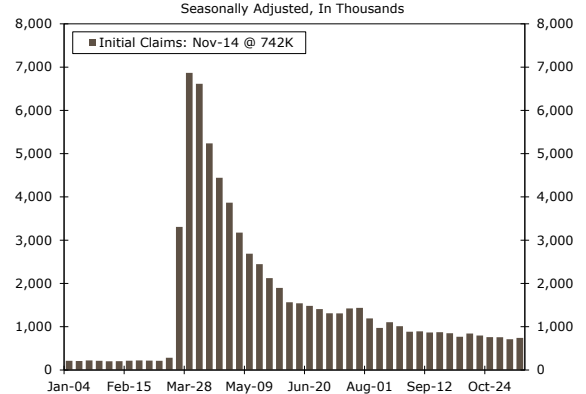
On balance, we are not yet out of the woods in terms of the labor market struggles as this morning’s increase in jobless claims to 742K in the second week of November attest.

The increase in ISM new orders was the largest overall boost. Since June, this component has positively contributed to the headline index, and the ISM new orders index soared to 67.9 in October, the highest reading since 2004. Coming out of a volatile few weeks surrounding the election, the stock prices component added just 0.06% over the month. The post-election rebound earlier this month has faded as COVID worries are once again rattling nerves on Wall Street.

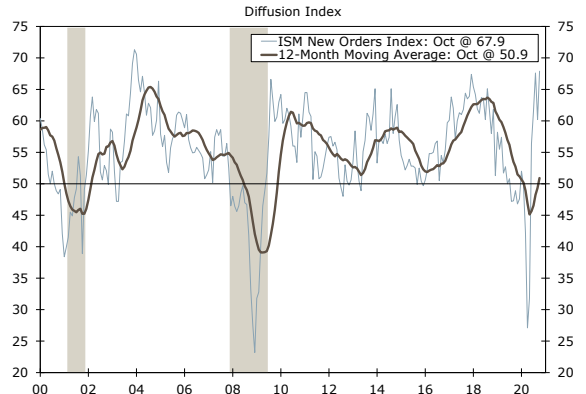
Net Contributions to LEI



Initial Jobless Claims



ISM New Orders Index



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