



Global Economic Activity Update

Markets are rallying around the world today after better than expected economic data. The beginning of the month PMI reports always cause a flurry of market action and generally optimism.

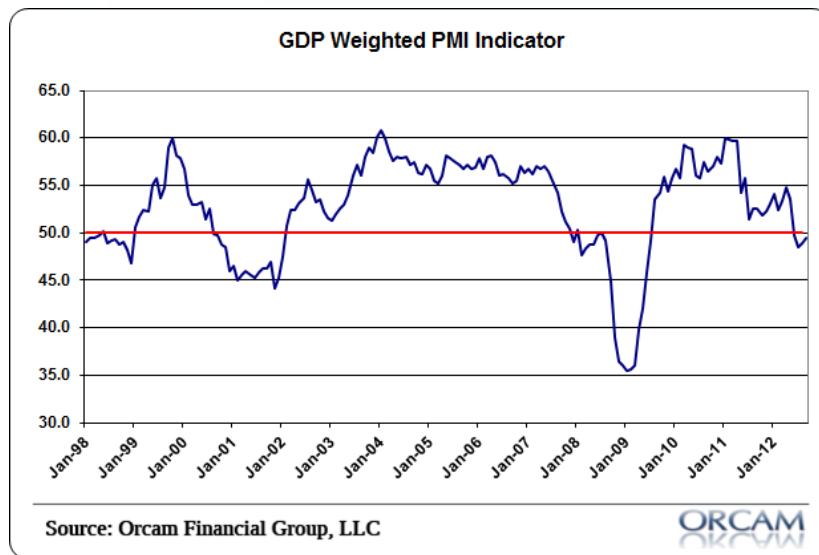
Assessing the big picture

The PMI reports around the globe point to a marginally more positive outlook. But the devil is in the details. We've designed a GDP weighted PMI index to provide a more detailed picture of the global economy. This month's reading comes in at 49.4 as contraction in Europe, China and Japan continue to drag the index below the expansion threshold of 50.

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(Figure 1—Globally weighted PMI)

(continued...)

Long story short—
There's still no recession in the USA. The same cannot be said for the rest of the world.

The overall picture here is still one of divergence where the USA continues to grow (though only marginally) and many of the other key components in this index continue to struggle. There is a titanic battle occurring between Europe and the USA at present where many market observers remain confused by the USA's ability to skirt recession in the face of a weakening global economy and Europe in particular. At almost 25% of total world output, Europe's pull on the global economy is enormous. But we believe the divergence is largely due to the divergence in policy response. While Europe has engaged in austerity in many regions the USA has continued to run the stimulus pump. This is another reason why we believe the fiscal cliff remains such a large risk to the US economy.

But today's beat on economic data has not been the norm of late. In recent weeks the data has surprised increasingly to the downside as analysts remain excessively upbeat about their economic outlooks. The Orcam Economic Expectations Index measures analysts expectations versus actual reports. This provides us with a snapshot of the mood of analysts relative to economic trends. The current reading is only marginally elevated.

The key takeaway from this morning's reports don't change the big picture much. The USA continues to muddle through while Europe struggles, China fights off a hard landing and emerging markets remain mixed.

Perhaps most importantly, this morning's US PMI report continues to validate our "no recession" call in the USA leading us to believe that the US markets are unlikely to sustain a large decline in the near-term.

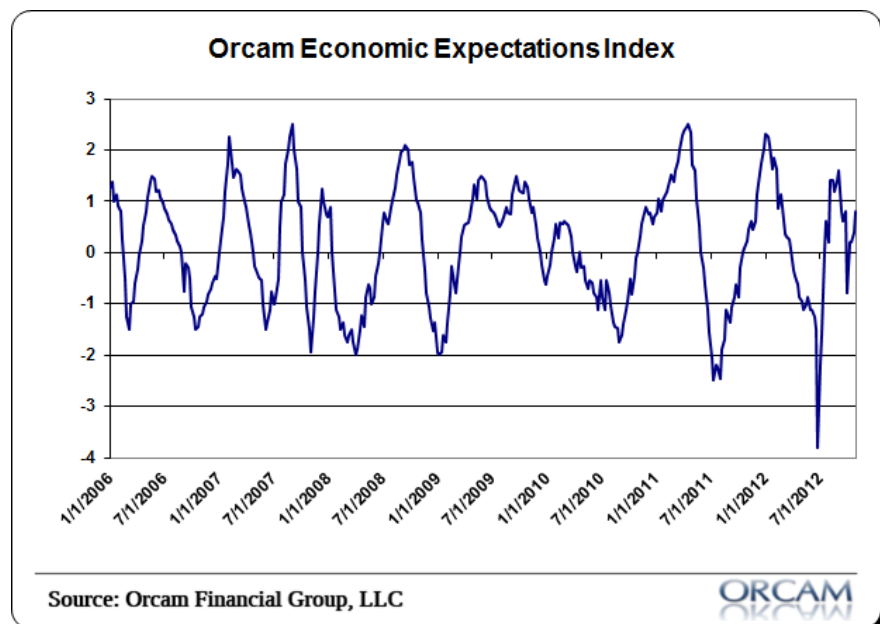


Figure 2—Expectations Index

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Orcam Financial Group, LLC

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