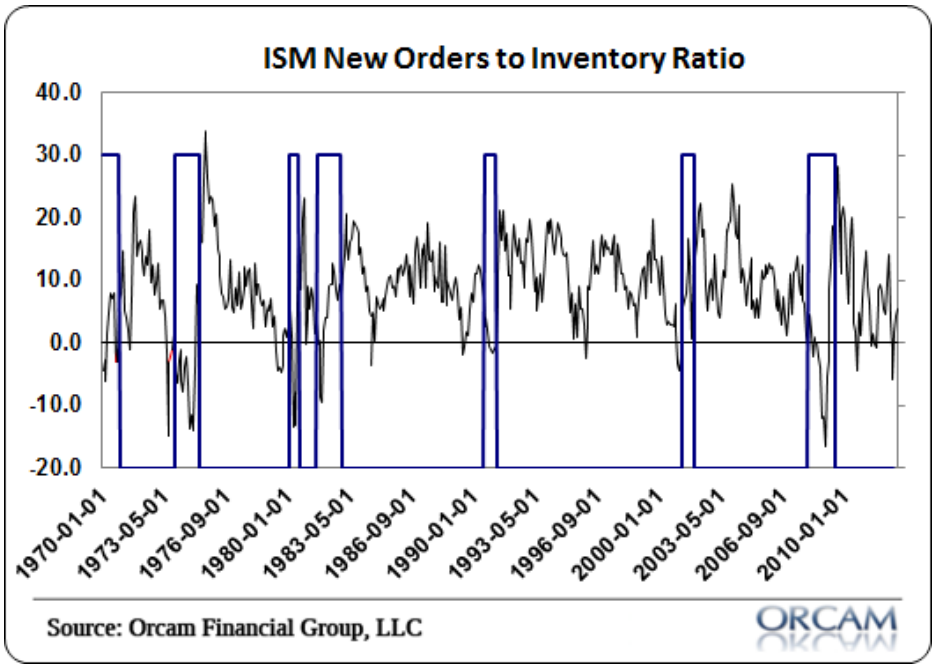
Globally Weighted PMI Moves to Expansion

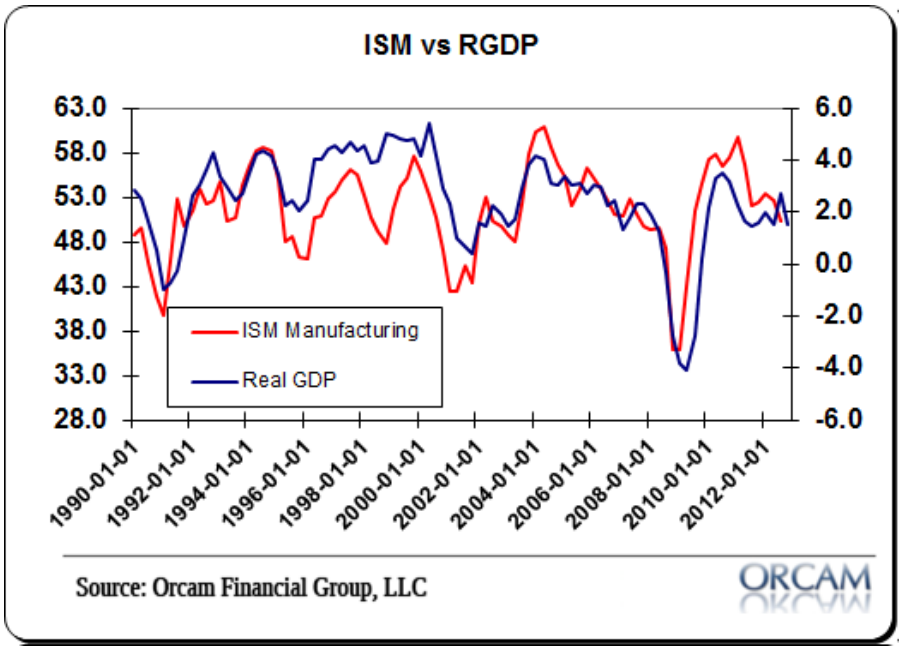
Cullen O. Roche
Founder
Orcam Financial Group, LLC
cullenroche@orcamgroup.com

PMI Day Data Crunch

Global PMI's were reported overnight and the data always tells us quite a bit about the state of the global economy. We'll start with the US PMI data. One of our favorite indicators from the PMI data is the ratio of new orders to inventories. This tells us about the state of supply/demand in the real economy. The chart below shows recession in the blue bars with the ratio in the black. You'll notice that deep recessions tend to coincide with deeply negative readings in this indicator. This month's reading of 5.3 is actually an improvement over last month's reading of 4.3. And more



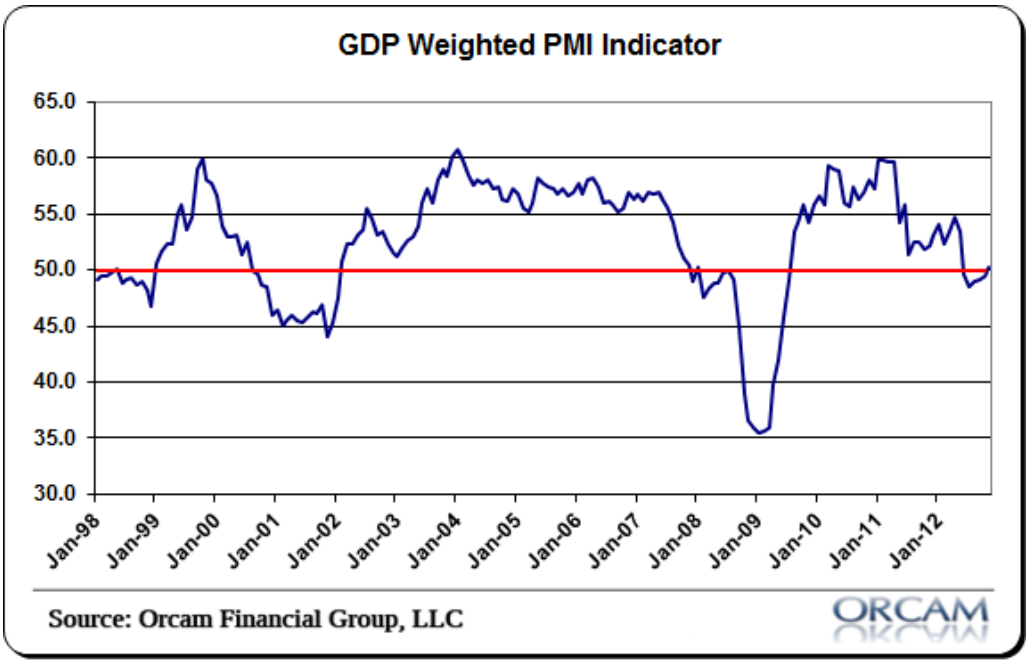
"Failure to prepare is preparing to fail."
-Coach John Wooden



importantly, it's still far from turning negative. This means inventories are actually being drawn down at a faster rate than new orders which implies a restocking cycle is likely to take place sooner rather than later. That's a positive sign for economic growth despite the declines in new orders from 54.2 to 50.3.

The headline figure from Markit Economics came in at 52.8 which is a mildly positive number. If we overlay this with Real GDP in the USA you have an environment that is growing in the high 1% range.

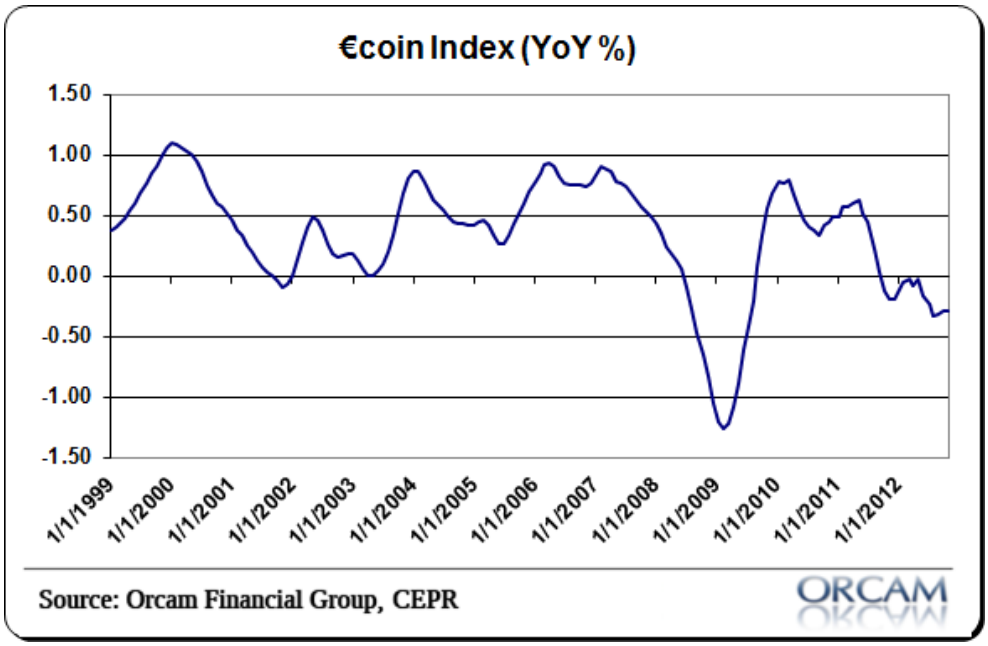
It's hard to get excited about that, but things could certainly be worse. The most unfortunate sign from this data is that the unemployment situation has deteriorated as the employment data showed a decline to 48.4 from 52.4. The economy remains too weak for hiring to pick-up and bring the



unemployment rate down considerably.

The global PMI readings were a mixed bag on the whole, but showed mild improvement. Notable improvements came from the EMU, USA and China. The EMU is clearly still in recession, but showing signs of modest improvement as the PMI moves from 45.8 to 46.2. This is still a contraction, but we're seeing some stabilization if nothing else. The USA's Markit PMI improved to 52.8 from the October reading of 51. And China showed some mild improvement to 50.5 – its highest reading in 13 months.

The globally weighted GDP index moved up to 50.3 from 49.4 (see the chart on the previous page). This is the first expansion reading since May of this year.



Unfortunately, the story remains bleak in Europe though there are at least some signs of mild stabilization. The November Eurocoin index came in at -0.29. which is still consistent with an economic contraction. This is flat versus October, but it is an increase from the recent August lows of –0.33.

All in all, this doesn't change the macro outlook much. The global economy appears to be gaining its footing while the risks are rising that the USA could enter a mild recession in the coming quarters. But the key here is "mild". Orcam's official recession indicators still don't see contraction in the USA, but early Q4 readings are likely looking at a growth rate that is consistent with ~1% RGDP. So we're really splitting hairs between growth and contraction here. The goods news (if there is any) is that we're certainly not on the verge of a deep economic contraction that could really spiral out of control and result in substantial market declines.

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