



## U.S. Economic Update—Still Muddling Through

Today's positive figures on ADP Employment and ISM Non-Manufacturing confirm our longstanding view that the US economy will muddle through, but not fall into recession. Although we wouldn't sound the alarm bells immediately, there remain risks on the horizon that we will keep clients updated on. For now, the many calls for an impending recession in the USA appear overstated. Let's review some of the evidence.

### Expansion/Contraction Model Remains Positive

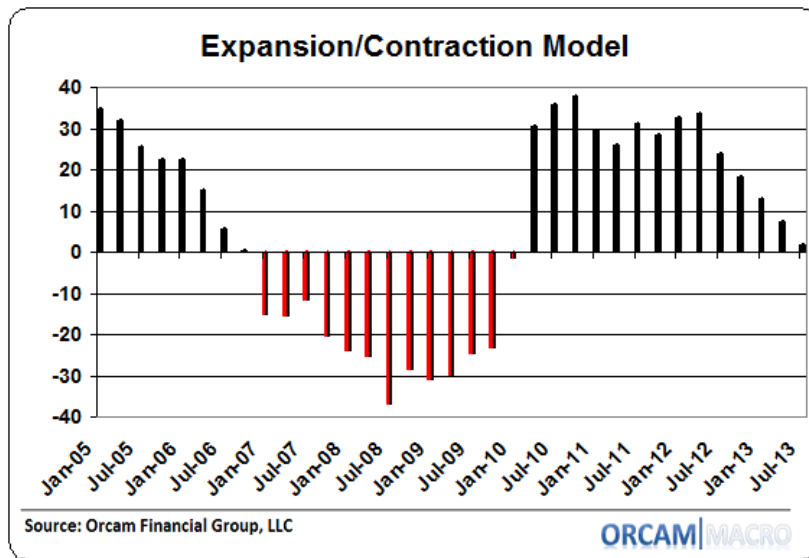
Our internal expansion/contraction model continues to point towards growth. This model is a forward looking indicator that uses a diffusion approach similar to the ISM.

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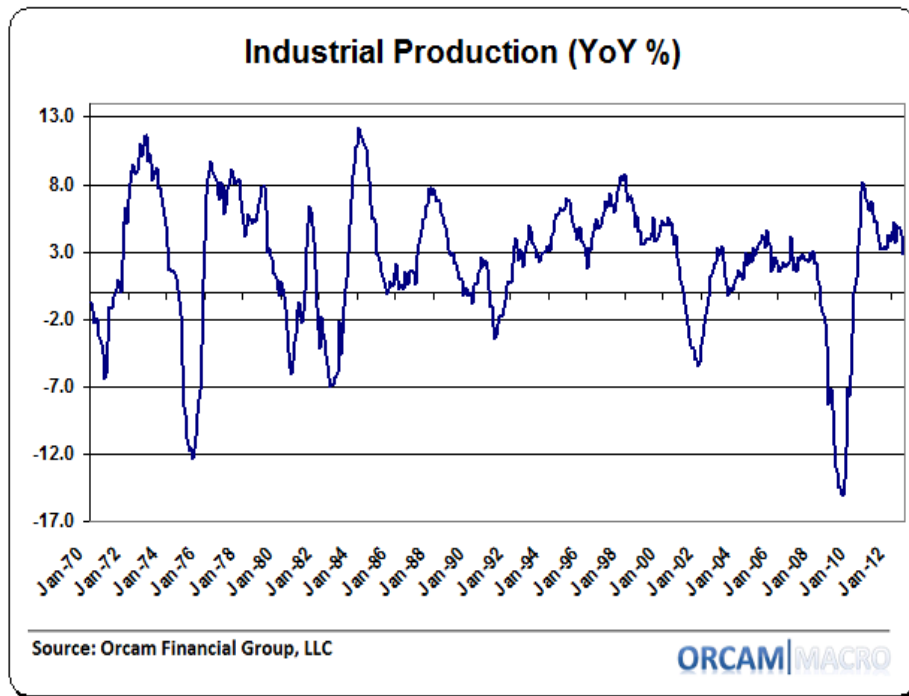
**Long story short—**  
A weak economy is better than a contracting economy....



(Figure 1)

As figure 1 clearly shows the risks to the downside are increasing as we head into 2013. We continue to believe the “fiscal cliff” in the USA could derail any growth.

## Economic Activity Remains Positive

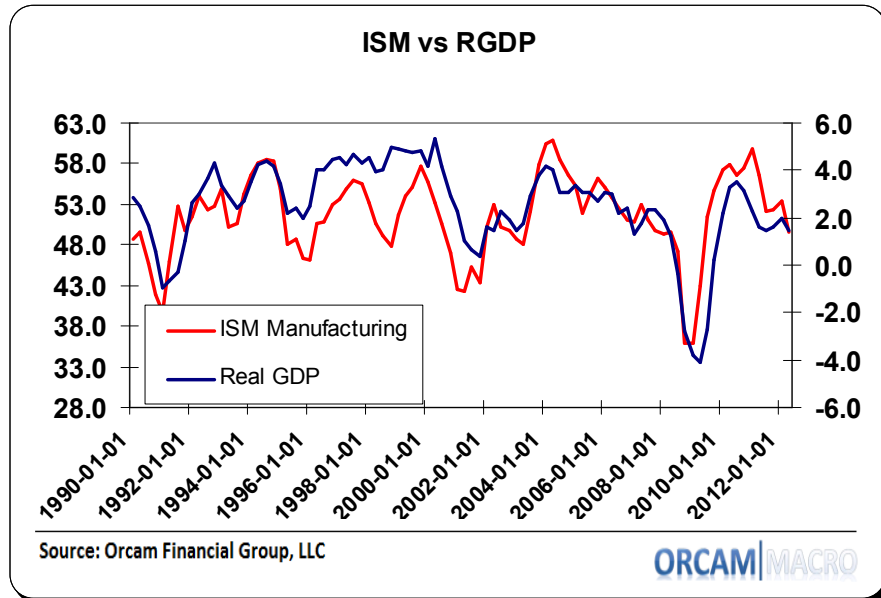


(Figure 2)

We believe this view is confirmed by many prominent indicators. Figure 2 shows industrial production in the USA. Although the index has turned down slightly in recent months the USA hasn't entered a single recession in the last 40 years where industrial production didn't decline on a year over year basis.

Monday's PMI report also confirmed this view. Although the reading was a weak one at 51.5 this is still consistent with an economy that is marginally expanding. Figure 3 shows the overlay of US Real GDP and the ISM Manufacturing PMI Composite. The two have tracked well over the years and the current reading is a tepid one of low single digit GDP.

Clearly, there are enormous risks to an economy that remains very fragile due to the consumer credit recession, but the USA remains a good house in a very weak global economy. In our opinion it remains a safe alternative to many other developed nations and developing economies.



(Figure 3)

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