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US recovery on track

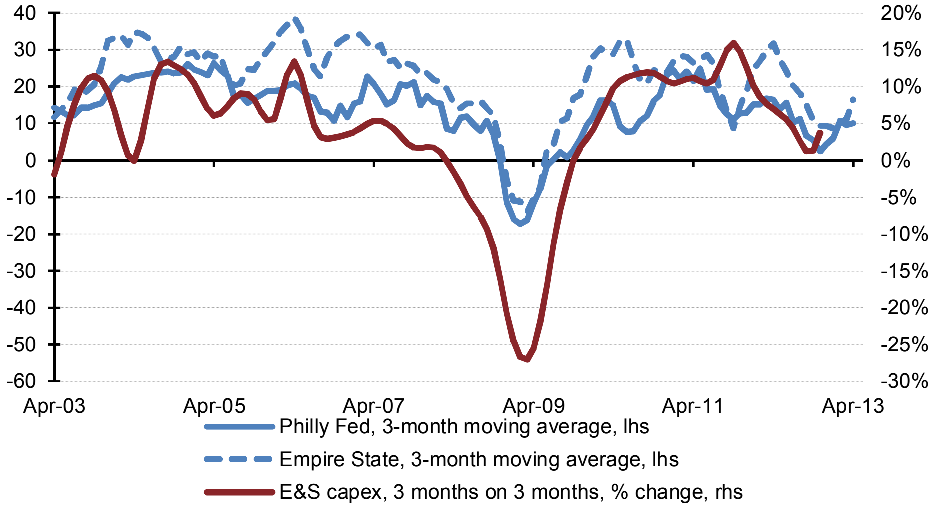
- **Recent data has seen some wobbles**
- **Weaker regional surveys also show stronger cap-ex**
- **Broad money growth fastest since June 2008**

Recent US data has seen some wobbles. This includes the crucial monetary data, where deposit growth – and hence broad money growth – has slowed somewhat over the past five weeks. Nevertheless, ignoring point-to-point fluctuations and looking at the broader picture, the US recovery still seems to be on track, with a most likely strong Q1 followed by a weaker Q2 and then back to trend or even above-trend growth in the second half of the year.

Even the most recent regional Fed surveys, for all that their headline numbers were disappointing, contain a silver lining. The Empire State survey (published earlier this week) was greeted with dismay because the general business conditions index slipped from 9 to 3.1. True, of course, yet this was the third month in which the number was positive, indicating expansion, after seven months of negative numbers. More to the point, the cap-ex plans diffusion index rose to a 10-month high of 20.5.

A similar picture emerges from the Philly Fed index, published today. The headline diffusion index of current activity fell from 2 in March to 1.2 in April, well below expectations of a rise to 3.3. Although the future general activity index also fell (from 32.5 to 19.5) the number of companies expecting improved conditions still substantially outnumber those expecting deteriorating ones. And here too, cap-ex plans picked up, if slightly.

Regional Fed surveys and equipment and software cap-ex



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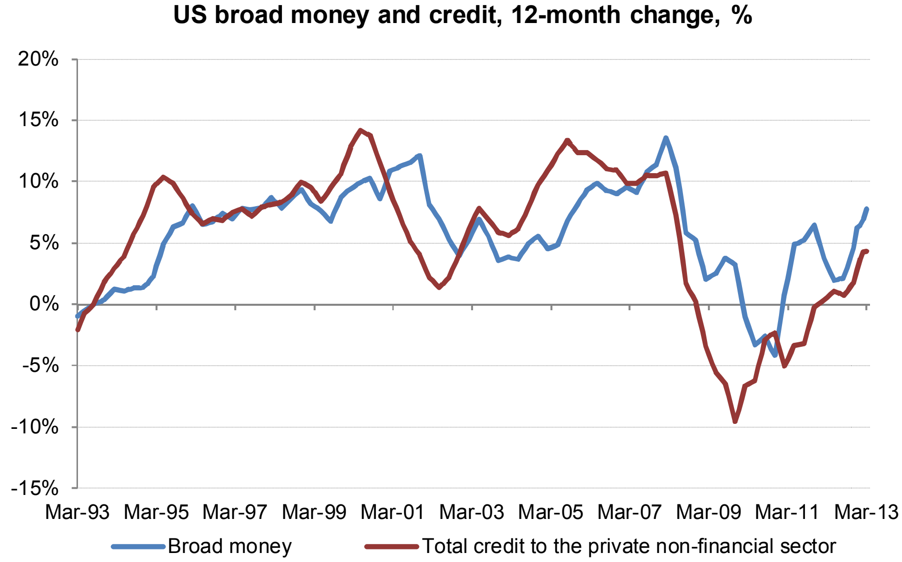
These indices are frequently volatile. Nevertheless, smoothing out the series using a three-month moving average unsurprisingly shows a fair relationship with near-term corporate spending on equipment and software. On this basis, corporate cap-ex should have picked up in Q1 (which we will know by the end of next week when the advance Q1 GDP number is published). Crucially, this acceleration may well continue in the current quarter, cushioning any slowdown.

Meanwhile, in spite of the recent weaker deposit growth (important, as deposits of the non-financial sector are the main components of money supply), US broad money grew by 7.8% in the year to March, the fastest growth since June 2008. Credit growth is also accelerating, which should comfort the Fed.



There are still risks to the US economy, both from abroad – notably further EA crises – and domestic – mainly the risk of a loss of confidence. But, for the time being, it does seem that the US recovery, temporary wobbles aside, remains on track. This reinforces the view that the Fed should end QE later this year – which is likely – and at least symbolically raise interest rates by late 2014 – which currently looks less likely.

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