

Leading Index in U.S. May Signal Recession Will End in 2009

By Shobhana Chandra

The index of U.S. leading economic indicators probably rose in May for a second straight month, reinforcing signs that the worst recession in five decades may end this year, economists said before a report today.

The Conference Board's gauge of the economic outlook for the next three to six months climbed 1 percent, according to the median forecast in a Bloomberg News survey. That would match April's gain and mark the first back-to-back increase since September-October 2006. Other reports may show the manufacturing slump is easing while job losses continue.

The gains in stock prices, consumer confidence and building permits that are propelling the leading index higher bolster forecasts the economy will start growing again in the second half of 2009. Still, mounting unemployment and tight credit mean the recovery will be slow.

"The worst part of the economic decline is behind us," said Scott Brown, chief economist at Raymond James & Associates Inc. in St. Petersburg, Florida. "The economy is still contracting, but is likely to bottom out in the second half of the year" and a "gradual" recovery will begin, he said.

Estimates of 55 economists in the Bloomberg survey ranged from a drop of 0.7 percent to a gain of 1.8 percent.

The Federal Reserve Bank of Philadelphia may report its general economic gauge improved to minus 17 this month from minus 22.6 in May, according to the survey median. Negative readings indicate a contraction.

Jobless Claims

A Labor Department report recently showed initial jobless claims rose to 604,000 last week from 601,000 the week before, according to the survey. The number of people on benefit rolls jumped to a record for the 20th straight week.

A 6.4 percent gain in the Standard & Poor's 500 Stock Index in May likely added to the leading indicators gauge. The stock index has soared about 35 percent since March 9 -- when it hit 676.53, the lowest level in more than 12 years -- amid evidence the worst of the downturn has passed.

Another boost came from a May jump in the Reuters/University of Michigan index of consumer expectations six months from now, a proxy for future spending. A preliminary report for June, meanwhile, showed that gauge fell this month.

Seven of the 10 indicators for the leading index are known ahead of time: stock prices, jobless claims, building permits, consumer expectations, the yield curve, factory hours and supplier delivery times.

The Conference Board estimates new orders for consumer goods, bookings for capital goods, and the money supply adjusted for inflation.

Manufacturers

Weekly jobless claims dropped to an average 626,800 in May from 638,250 in April and kept falling in the week ended June 6.

The bankruptcies of automakers General Motors Corp. and Chrysler LLC, as well as parts-makers Visteon Corp. and Metaldyne Inc., may cause more firings. The unemployment rate will touch 10 percent by year-end, according to a Bloomberg survey this month.

Some manufacturers are seeing a turnaround.

While the outlook for business jets remains weak amid the slump, officials at Honeywell International Inc., the world's largest maker of airplane controls, detect signs of a recovery in some aerospace markets.

"If we're looking for 'green shoots,' there are some out there," Chief Executive Officer David Cote said this week in a Bloomberg Television interview from Paris.

Moreover, building permits -- a sign of future construction and a component of the leading index -- rose 4 percent to a higher-than-forecast 518,000 pace in May from a 498,000 rate in April, government figures showed this week. Housing starts soared 17 percent, as construction of single-family homes gained for the third straight month.