

Headline Story

Reports Hint U.S. Recovery Will Be a Ruttled Road

Thursday, May 21, 2009 7:57 PM

CHICAGO – Data on Thursday underscored that the U.S. economic recovery, when it arrives, will be a long slog, with a key factory index showing only marginally less weakness and unemployment tipped to hit double-digit levels.

Financial markets were also slammed by suggestions of the unthinkable -- that the United States could lose its coveted triple-A credit rating.

The developments came a day after the Federal Reserve, in minutes released from its April policy meeting, said that a full U.S. recovery could take five or six years.

On Thursday, the Philadelphia Fed reported that its closely watched indicator of factory activity in the Mid-Atlantic region rose by a fraction in May, with the level of contraction more than markets had expected. Separately, an index of leading economic indicators for April managed its first increase in almost a year.

The U.S. Labor Department also reported that initial jobless claims last week fell for the third time in four weeks, while continuing claims hit a 16th consecutive record high.

U.S. stock prices ended with heavy losses. The broad-based S&P 500 index fell 1.68 percent, bond yields spiked and the dollar tumbled.

Standard & Poor's warning that it could cut its top AAA credit rating on the UK stoked fears that the United States could face a similar fate.

Bill Gross, of top bond firm Pimco, told Reuters that fears the United States is also at risk of losing its AAA credit rating hurt all U.S. assets.

A ratings cut, which could be made in response to the soaring budget deficit, would affect the value of all U.S. financial assets.

FACTORY CLIMATE TEPID

The Philly Fed factory index rose to minus 22.6 in May from April's minus 24.4, but improved less than the consensus forecast of minus 18.

"The numbers are consistent with only a tepid global recovery as factories switch on the lights again," said Alan Ruskin, chief international strategist at RBS Greenwich Capital in Greenwich, Connecticut.

New orders relapsed to minus 25.9 from minus 24.3, although employment picked up markedly and manufacturing executives in the region were said to be more optimistic that a recovery will occur before the end of the year.

"We have whittled inventories down to the bone, and just a bit of improvement in demand will cause an increase in production. But clearly these are recessionary numbers," said Tim Ghriskey, chief investment officer at Solaris Asset Management in Bedford Hills, New York.

Meanwhile, the New York-based Conference Board's leading economic indicators, an index that measures 10 disparate components on the U.S. economy, rose by 1 percent in April, its first increase since June 2008.

"We expect another sharp increase in the index for May. Even if it is then flat in June it will be up at a near 6 percent rate for the second quarter ... consistent with our view that the economy will record at least some very modest growth in the summer quarter," said Ian Shepherdson, chief U.S. economist at High Frequency Economics in Valhalla, New York.

NEW JOBLESS CLAIMS SLOWING

Initial claims for state jobless benefits fell to 631,000 in the week ended May 16, compared to a high of 674,000 in late March, the Labor Department said. Analysts had forecast new claims at 630,000.

Still, continuing claims -- workers who remain on the rolls of the unemployed -- rose by 75,000 to a record 6.662 million in the week ended May 9.

The most severe U.S. recession in decades has claimed over 5 million jobs, and despite recent declines in the weekly claims data, the labor market remains in perilous shape.

"We need a more convincing decline (in new claims) to signal from the jobless claims perspective that the recession has bottomed out," said John Ryding, chief economist at RDQ Economics in New York.

Employment is often seen as a lagging indicator, and many companies are likely to wait for sustained evidence of an economic revival before hoisting help-wanted signs.

In that vein, the Congressional Budget Office said that the U.S. economy will likely start growing again in the second half of 2009, but the jobless rate could peak at more than 10 percent against the current 8.9 percent.

Data from the euro zone on Thursday suggested that Europe could also return to growth by year-end. By contrast, Japan's downturn is deepening as its export-dependent economy looks for a pickup in global demand, the latest reports suggest.

© 2009 Reuters. All rights reserved. Republication or redistribution of Reuters content, including by caching, framing or similar means, is expressly prohibited without the prior written consent of Reuters.