



Economics Group

Tim Quinlan, Economist
tim.quinlan@wellsfargo.com • (704) 410-3283
Erik Nelson, Economic Analyst
erik.f.nelson@wellsfargo.com • (704) 410-3267

Housing Market Lifts Leading Index in November

The Conference Board's Leading Economic Index (LEI) rose 0.4 percent in November, led by a surge in building permits and a boost from stock prices. Manufacturing indicators continue to weigh on the index.

Vindication for the Fed

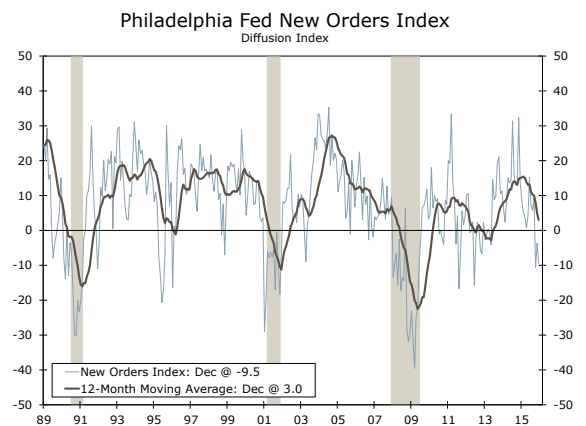
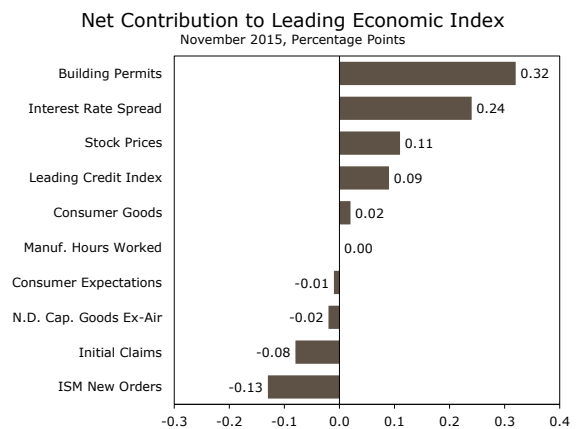
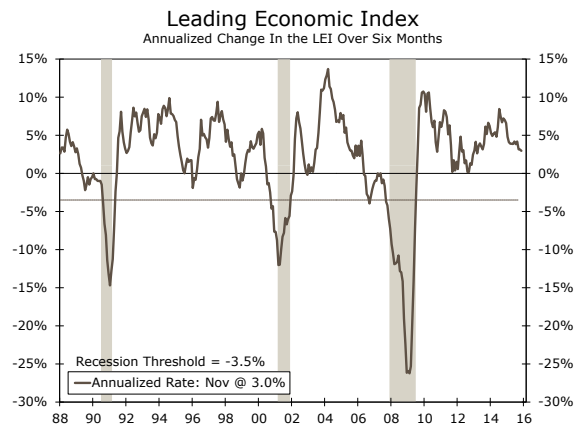
The Federal Open Market Committee (FOMC) sanctioned an increase in the federal funds rate yesterday for the first time in more than nine years. Fed Chair Yellen noted that the economy was “performing well and expected to continue to do so,” thus making a 25 bps increase appropriate. Today’s solid print in the LEI largely corroborates Chair Yellen’s narrative. The index rose 0.4 percent in November, while the year-over-year growth rate was little changed at 3.4 percent. Over the past six months, the LEI has risen at an annualized pace of 3.0 percent (top chart). While this represents a modest slowdown from last year, it remains consistent with continued solid growth in domestic demand. Moreover, the strengths in the index remain more widespread than the weaknesses.

Growth in the LEI was led by building permits, which contributed 0.3 percentage points to the headline figure (middle chart). Perhaps no other component of the index has been more of a rollercoaster ride than permits this year; the permits component has been among the top three positive contributors to the index in seven of the 11 months so far this year but has been among the most significant detractors in the other four months. Stock prices were also among the most significant positive contributors to growth in November, adding 0.1 percentage point, while the Leading Credit Index posted a similar contribution.

Interestingly, despite the drop in gasoline prices and rise in equity prices over the month, the consumer expectations component was more or less flat. This likely reflects the fact that most of the decline in gasoline prices and rise in stock prices occurred in the latter half of the month, after most of these surveys were conducted. Meanwhile, jobless claims subtracted about 0.1 percentage point from the headline figure. We do not believe this is cause for alarm, however, as the four-week moving average of claims rose only slightly from the 40-year low seen in October.

Factory Sector Can't Manufacture a Recovery

The ISM new orders index was the largest negative detractor from LEI growth in November, subtracting just over 0.1 percentage point, while core capital goods orders also posted a modest negative contribution. Meanwhile, in a separate report, we learned that the Philly Fed Manufacturing Index unexpectedly fell to -5.9 in December (bottom chart). Weakness in manufacturing has been corroborated by a number of other regional indicators, in particular the Empire State Manufacturing Survey. Moreover, as indicated by the dip in the ISM manufacturing index to 48.6 in November, manufacturing activity is in contractionary territory at the national level. Given the FOMC’s decision to raise interest rates yesterday, it appears the committee does not believe that the weakness in manufacturing is enough to derail the broader economic expansion. We agree, although it bears close monitoring.



Wells Fargo Securities, LLC Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 410-1801 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 410-3275	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Jay H. Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Currency Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Eugenio J. Alemán, Ph.D.	Senior Economist	(704) 410-3273	eugenio.j.aleman@wellsfargo.com
Anika R. Khan	Senior Economist	(704) 410-3271	anika.khan@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Eric Viloría, CFA	Currency Strategist	(212) 214-5637	eric.viloría@wellsfargo.com
Sarah House	Economist	(704) 410-3282	sarah.house@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@wellsfargo.com
Erik Nelson	Economic Analyst	(704) 410-3267	erik.f.nelson@wellsfargo.com
Alex Moehring	Economic Analyst	(704) 410-3247	alex.v.moehring@wellsfargo.com
Misa Batcheller	Economic Analyst	(704) 410-3060	misa.n.batcheller@wellsfargo.com
Michael Pugliese	Economic Analyst	(704) 410-3156	michael.d.pugliese@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com

Wells Fargo Securities Economics Group publications are produced by Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes these publications directly and through subsidiaries including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A., Wells Fargo Advisors, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. Wells Fargo Securities, LLC is registered with the Commodities Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. Wells Fargo Bank, N.A. is registered with the Commodities Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC. and Wells Fargo Bank, N.A. are generally engaged in the trading of futures and derivative products, any of which may be discussed within this publication. Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm which includes, but is not limited to investment banking revenue. The information and opinions herein are for general information use only. Wells Fargo Securities, LLC does not guarantee their accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sales of any security or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company © 2015 Wells Fargo Securities, LLC.

Important Information for Non-U.S. Recipients

For recipients in the EEA, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority. The content of this report has been approved by WFSIL a regulated person under the Act. For purposes of the U.K. Financial Conduct Authority's rules, this report constitutes impartial investment research. WFSIL does not deal with retail clients as defined in the Markets in Financial Instruments Directive 2007. The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients. This document and any other materials accompanying this document (collectively, the "Materials") are provided for general informational purposes only.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE

