A US Economic Recovery Is Shaping Up… But

I first looked for an export led recovery in the US in June in my article **Investment Strategy: The New Macro**. It was my view at the time that the US economy had been in recession for the last 12 months, despite a 2 year long liquidity and emerging market driven bull market in the S&P500, and that no recovery had yet taken place, at least in real terms. My base scenario was that the US was becoming an export economy.

In July I sought signs for a recovery in the US economy in my article **Looking For A Recovery In The US. Still Looking. And ISM Numbers That Don't Stack Up** but to no avail. Exports were a bright spot though and reinforced my thesis that the US economy would recover on the back of exports towards the latter half of the year.

In mid October I wrote about **The Seeds of a US Economic Recovery**. By this time it was clear that an indirect export route had been established and that exports were taking hold.

The latest ISM numbers for November are encouraging. Where previous ISM numbers north of 50 suffered from strong inventory accumulation, the current numbers do not. New orders are up from 52.4 to 56.7, Production is up from 50.1 to 56.6, and Inventories although they have risen are 48.3. Customer's Inventories are up 6.5 to 50, but this shows a static position and perhaps reflects improved sentiment. Employment continues to be a problem slipping from 53.5 to 51.8. Exports rose from 50 to 52 and imports fell from 49.5 to 49.0. Taken together with US trade balance and export numbers they paint an encouraging picture of an economy in recovery. US exports in nominal terms have now exceeded 2008 levels (from which they fell precipitously in 2009.)

The US continues to make stuff people the world over want. Accounting issues mean that the data is more likely to show up in corporate cash flow and income statements than in the national income accounts but they are real.

The big risk to all of this is China. Much of the export demand that the US sees comes either directly from the Asia Pacific or indirectly through capital goods demand from resource rich countries with the Americas. Canada, Mexico and Latin America are big exporters of resources to China which has until recently had a voracious appetite for infrastructure. If China slows or stalls, the knock on effects could easily derail the recovery in the US.