The NASDAQ's rebound is indicative that Wall Street participants now see a light at the end of the tunnel. Earnings have begun to rebound and are expected to do much better as the economy gains momentum next year. However, one needs to remember that the anticipation of good news often leads to rallies, while the actualization of those expectations usually leads to a short-term sell off. More worrisome is that current expectations may exceed what the economy can really deliver. If the expansion just slows down, the enthusiasm for stocks at current prices will significantly diminished.
The best news on the national economy is the substantial decline in initial claims for unemployment insurance. With new claims now below the 375,000 mark, we see for the first time the beginnings of some positive spillover effects of GDP growth to the nation’s labor market. It is important, however, that the unemployment claims remain below this critical threshold. Thus, this statistic still remains one of the key indicators to watch as one tries to assessed the strength and permanence of the current economic rebound.
Recent money supply statistics have been both puzzling and worrisome. After strong gains this summer, money growth has nearly come to a total halt. Furthermore, this is true of all key measures: M1; M2; and M3. The longer the drought in money growth continues, the greater the chance that the robust growth in GDP over the last 2 quarters will come to an end and that the economy will return back to a much more subdued recovery. Of all the leading indicators right now, money growth remains the single most negative signal. A further slowdown in money growth would definitely be a bad omen.
The decline in the dollar is good news, not bad. The weak dollar may be the most important factor in revitalizing American manufacturing. The weak dollar will finally begin to produce some improvement in the U.S. trade imbalance which besides stimulating the American recovery will help stem the tide of the anti-free trade sentiment that has been gaining momentum in this country. We don’t need to put an end to free trade arrangements, we just need a correctly valued dollar that makes the playing field level.