Written by **Bob Adelmann** on December 24, 2014

Underlying Economic Indicators Confirm Dow's Record Run

With the Santa Claus rally driving stocks to new all-time highs, the normally restrained *Wall Street Journal* found itself describing the economy "in a sweet spot of growth, sustained hiring and falling unemployment, stirring optimism that a post-recession breakout has arrived."

Investopedia explains the cause of the usual rally in stocks toward the end of each year this way:

> There are numerous explanations for the Santa Claus Rally phenomenon including tax considerations, happiness around Wall Street, people investing their Christmas bonuses and the fact that the pessimists are usually on vacation this week.

Indeed, pessimists are in short supply. On Tuesday the Commerce Department said that the U.S. economy expanded at a five percent seasonally adjusted annual rate in the third quarter, its strongest rate in 11 years. In a separate report, it added that consumer spending increased in November as well, with consumers spending their savings at the gas pump on healthcare and eating out, while businesses were investing more in software and new equipment. And, for the moment at least, exports showed a rise in November as well.

In other words, the U.S. economy was firing on at least six if not seven of its eight cylinders.

Some of those cylinders included the American Staffing Association's report that its index of hiring is now the highest it's been since June of 2006. The Association of American Railroads reported that, for the week ending December 13, total carload traffic was up more than 12 percent over the same week a year ago.

Add to that the Conference Board's announcement that its Leading Economic Index (the LEI is a measure of forward-looking indicators) increased another 0.6 percent in November following gains of 0.6 percent in October and 0.8 percent in September. This puts their index at 105.5 percent of how the economy was doing in 2004, during the run-up to the popping of the real estate bubble in 2007. Conference Board spokesman Ataman Ozyildirim was, for an economist, positively giddy, declaring,

> Widespread and persistent gains in the LEI point to strong underlying conditions in the U.S. economic expansion.
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> The current situation, measured by the coincident economic index, has [also] been expanding steadily, with employment and industrial production making the largest contributions in November.

Also singing in the chorus of optimists was the American Trucking Associations (a federation of trucking groups), which announced that the tonnage of goods shipped by rail increased by 3.5 percent in November, following growth in October of 0.5 percent. Their overall index is now 136 percent ahead of where the economy was back in 2000, making it the highest level the ATA has ever recorded.

The Chicago Fed's National Activity Index also showed growth across its 85 indicators of economic growth, with 54 of them making positive contributions to the index, compared to just 51 of them doing so in October. This, according to the Federal Reserve Bank of Chicago, "suggests that growth in national economic activity was above its historical trend."

In addition, personal income showed growth last month, clocking a gain of more than four percent from a year ago. And consumer sentiment reflected optimism as well, with December's sentiment index from the University of Michigan jumping from 88.8 in October to 93.6 in November.

Perhaps the most persuasive and relevant indicator of economic health is the one showing just how long a person must work to pay for enough gas to take his family to Grandma's house on Christmas Day, if she lives 100 miles away. In 1975, he had to work almost one hour to pay for the trip. Today he pays for the trip in just 27 minutes. And, according to economist Mark Perry, who delights in tracking such things, "If gas prices fall another 26 cents per gallon … gas prices … would be the cheapest in US history."

Curtis Dubay, writing for the Heritage Foundation's *Daily Signal*, reminded his readers that, strong as the economic recovery appears to be, it pales when compared to the recovery following the sharp recession of 1981-82:

> A year after the similarly deep 1981 to 1982 recession, the economy had three successive quarters where growth exceeded 8 percent. In the second quarter of 1983, the economy grew an astounding 9.4 percent.

Others tried to dampen the holiday economic spirit by noting that the third quarter's apparent robustness was due to an unusually large increase in military spending, which isn't likely to be repeated any time soon. And the growth in exports may weaken considerably as the relatively strong (at least compared to other weak currencies around the globe) dollar dampens foreign buyers' enthusiasm for American-made goods.

Still others noted that, despite the five-percent growth rate in the third quarter, for the year the economy would clock in only a 2.5 percent growth rate — hardly a robust follow-through after eight years of underperformance.

And then there's the dark side of falling oil and gas prices: The overextended oil patch is now on the verge of turning down the spigot thanks to its increasing inability not only to gain new financing but to service its present obligations.

Finally, there's the housing sector, which has yet to return to pre-Great Recession levels, despite low interest rates and stronger job growth. In a jarring sour note in the chorus of celebrators of new highs in stocks, the sales of both new and existing homes fell in November.

But in an economy wracked with overregulation and forced stimulus from the Federal Reserve, the fact that it appears to be firing on at least six of its eight cylinders is a welcome gift at this particular time of year. Now if the Fed and its coterie of "fixers" would just leave the patient alone, it's likely he would get back to full throttle all by himself very shortly.

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