Outlook and Market Review – Third Quarter 2013

Real GDP grew 3.6% in the third quarter of 2013 according to the second estimate from the Bureau of Economic Analysis. Second quarter growth was 2.5%. Both quarters had higher growth than expected but the economy continues to expand at a rate well below potential. The primary drags on third quarter GDP growth were federal government spending and imports. Inventory buildup added about 1.7% to GDP, raising the possibility that fourth quarter GDP growth will be slowed if inventories do not move as expected. Consumers played an important role by providing 1.8% and 1.5% to growth in the second and third quarters, respectively. Personal spending increased 3.7% in the third quarter while real disposable income grew only 2.5%. Consumers are likely to ratchet back on spending to keep pace with income growth.

Consumer confidence has been declining since July but increased slightly in November. The Conference Board's Index of Leading Economic Indicators grew 4.4% on a year-over-year basis, consistent with modest growth. Surveys suggest that present conditions are poor but prospects for the future are better. This is a fragile balance. Job growth is not strong enough to boost wages and salaries very much while, consumers will be facing higher taxes and insurance costs. These factors may dampen consumer enthusiasm for spending going into 2014. It is unlikely that government spending will grow outside of entitlement spending and global economies are not likely to improve enough to provide much boost for U.S. exports.

The unemployment rate dipped to 7.0% in December aided by a shrinking workforce. The civilian labor force, which declined by 720,000 in October, rebounded 455,000 in November and the labor force participation rate dropped 0.2% to 63.0% in that two month period. The U6 unemployment rate, which adjusts for marginally attached and part-time workers, is just over 13%. Labor costs continue to show very modest growth due to a combination of improved productivity and a labor market that is too weak for significant wage increases.

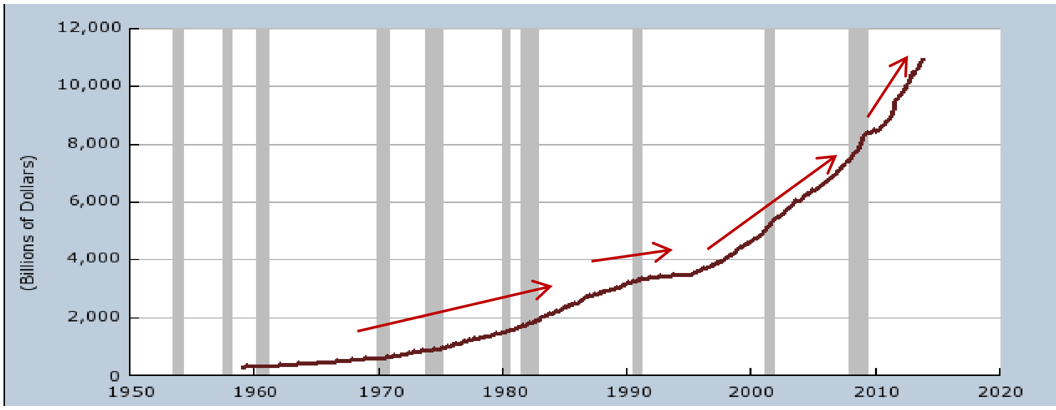
Inflation is low in the U.S. and most other countries. Both the CPI and PCE indexes are growing less than 2%, suggesting that deflation may become more of a concern than inflation. Interest rates remain low across the maturity spectrum. Most analysts expect the Fed to pull back from the $85 billion a month bond purchase program sometime in the early part of 2014. Much of this expectation is already being priced and interest rates are not expected to take the full 100 basis point surge seen earlier this year in response to the suggestion of tapering. The Fed should keep short term rates low to maintain bank liquidity and allow upward creep in longer term rates.

The outlook calls for low growth of about 2% for the fourth quarter of 2013 with slightly higher rates of 2.5% to 2.7% in the first two quarters of 2014. The unemployment rate should break below 7% late in 2014 with job growth averaging about 180,000 per month. Inflation will remain at or below 2% with little movement in short term rates and intermediate term rates creeping up to just over 3% by the end of 2014.

Massive Increases in the Money Supply – Why isn't the Economy Moving?

By now, it is clear that planned fiscal policy stimulus has come and gone. Tax cuts and increases in government spending that are normally prescribed to get the economy out of a malaise are off the table due to the accumulated 17 trillion dollar debt that has been rolled up already. Government spending has been a drag on GDP growth for most of 2013 and that trend is surely going to continue into 2014. Without entitlement reform, tax reform, and restructuring of moral hazards embedded in many government policies, monetary policies have been the only option for economic stimulation. It would be hard to say that the Fed has not tried to get the economy moving, but after QE I, QE II, operation twist, and a massive $85 billion a month bond purchase program the economy continues to be fragile with large scale unemployment. Figure 1 below illustrates the rapid increase in the money supply (M2) overall with a much more rapid rate of growth since 2009.

Figure 1. M2 Money Stock (billions of $s since 1960)



Shaded areas represent recessions *Source: Federal Reserve Bank of St. Louis*

Note: M2 includes a broad set of liquid financial assets held principally by households. M2 consists of M1 plus: (1) savings_deposits (which include money market deposit accounts, or MMDAs); (2) small-denomination time deposits (time deposits in amounts of less than $100,000); and (3) balances in retail money market mutual funds (MMMFs).

The Fed has a dual mandate to keep inflation at about 2% to 2.5% and to get the economy back to full employment. It is clear that the Fed is failing on the employment front and new fears are building that it is failing on the price stability front due to deflation. A healthy economy requires some low level of inflation to keep consumers buying rather than waiting for lower prices. Inflation also helps lower the costs of servicing debt, since debt repayment is made in cheaper dollars. If actual inflation is lower than expected inflation the real cost of borrowing increases even if interest rates are low. Oddly enough, a low and stable level of inflation is necessary to help promote the spending and borrowing that drives an expansion. U.S. inflation has been falling and is now slipping below the magic 2% threshold.

Why do we have falling inflation and a sluggish economy when the Fed has clearly pushed all the expansionary buttons more than once? There are some laws of economics that cannot be repealed or changed with an executive order. One such law is the definitional identity between nominal GDP and the product of the Money supply and Velocity of money known as the equation of exchange:

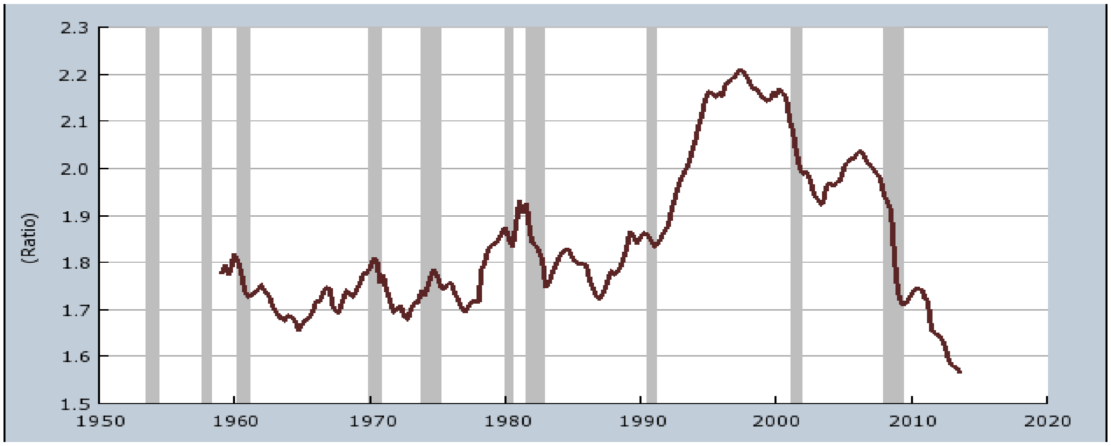
$$MV = PQ$$

where M is the aggregate money supply, V is the velocity of money, P is the aggregate price level, and Q is real output. The logic is relatively simple. The dollar value of expenditures on all goods and services in a given year (PQ = GDP) must be equal to the total money supply times the number of times the money supply is turned over. Another common version of these relationships defines the velocity of money as follows:

$$V = PQ/M$$

The velocity of money (V) is simply the turnover in the money supply. The velocity of money tells us how long people hold onto their money. If the velocity of money is stable, an increase in the money supply (M) is translated into an increase in GDP (PQ). But, the velocity of money over the last decade has not been stable, rather it has crashed as the following figure illustrates.

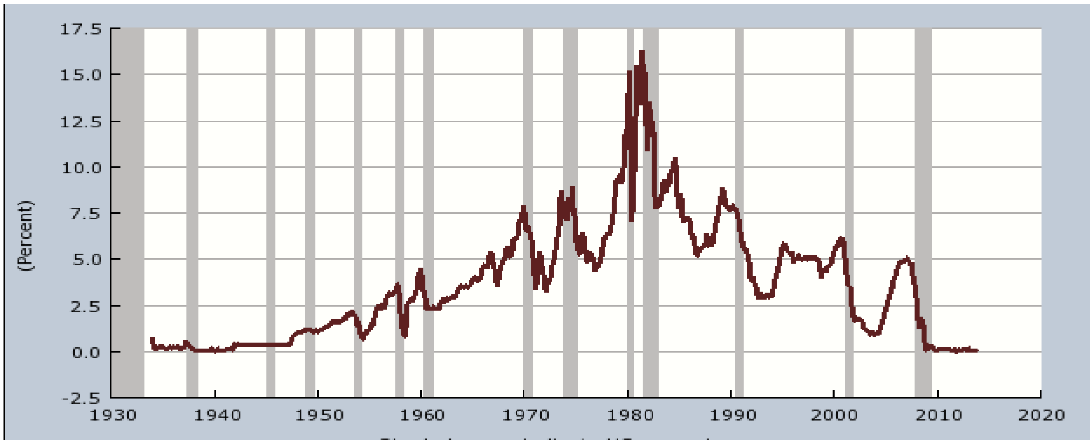
Figure 2. Velocity of the Money Stock Money (M2)



Shaded areas represent recessions *Source: Federal Reserve Bank of St. Louis*

With the money supply increasing while the velocity of money is falling, the ultimate impact of the increase in the money supply is muted. In fact, declines in the velocity of money can completely negate increases in the money supply. The decline in the velocity of money is due to factors that prompt people to hold money longer rather than spend it. When households and businesses are fearful about the economy, they will hold onto money longer and velocity dips. The opportunity cost of holding liquidity is lower when short term interest rates are low. This last fact helps explain the link between Fed policy and the velocity of money When the Fed pushes short term interest rates to very low levels, even to negative real rates, a logical reaction is to hold more liquidity and the velocity of money falls. Figure 3 below shows the 3-month Treasury bill yields over time. It is no accident that increases in the money supply, declining interest rates, and falling velocity of money are all now taking place.

Figure 3. 3-Month Treasury Bill Yield (Secondary Market Data)



Source: Federal Reserve Bank of St. Louis

The Fed can push reserves into the banking system. If banks are secure and willing to use excess reserves to make loans rather than holding excess reserves, the money supply increases. The increase in the money supply (M) will not affect prices (P) nor will it affect real output (Q) if the velocity of money declines enough to offset the increase in the money supply. These factual relationships that must hold explain why such aggressive monetary policies have not provided the type of stimulation to GDP that is desired. These relationships also explain why massive increases in the money supply have not elevated the inflation rate. Until a higher rate of inflation is expected, there is little incentive to spend money faster because delaying spending will not mean buying at higher prices later.

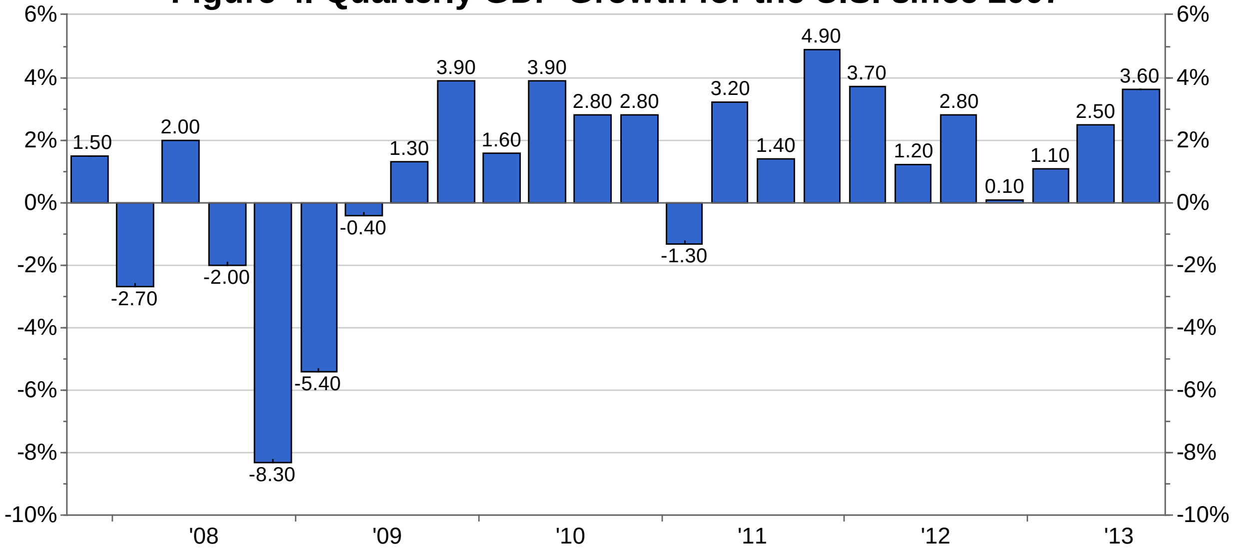
To get the ship right it will take more than lower interest rates and increases in the money supply. Lower interest rates have helped boost asset values and have created a sense of more wealth from stocks and housing. But such wealth is on paper and will quickly disappear when interest rates eventually creep back up. It is not clear how much this paper wealth influences the velocity of money unless it is believed to be permanent. There must be more job stability and less uncertainty about availability of income. Consumer confidence needs to be rebuilt by creating more certainty about the future. A long run plan for taxes, entitlements, regulation, and budget reduction will offer some certainty even if the plan will take a long time to implement. The key is less uncertainty about the direction the country is taking and how disposable income will be affected. Businesses are clearly holding excess cash and marketable securities with little incentive to invest and high uncertainty over regulation, environmental control, taxes, and energy costs. Without more clarity on these issues it would make sense to encourage either higher dividend distributions or stock repurchases which would free up these funds for use by households. Households also need some added clarity on tuition costs to plan for college education of their children and plan with more confidence of the future. Healthcare costs pose a looming nightmare if the supply of healthcare services is not expanded to meet the increased demand for healthcare service that the Affordable Healthcare Act creates. Without such initiatives there is not much more monetary policy or fiscal policy can do to get the economy out of its current malaise.

Summary of Recent Economic Data

GDP - *Economic growth picked up in the second and third quarters of 2013. Part of the expansion is attributed to growing inventories in anticipation of stronger consumer spending in the last half of 2013. The federal government and imports continue to be drags on growth.*

- The Bureau of Economic Analysis released a revised second estimate of 3.6 % growth for third quarter 2013 Real Gross Domestic Product (GDP). The estimate for the second quarter was 2.5 %. Figure 4 below illustrates the quarterly growth pattern for the U.S. economy since 2007.

Figure 4. Quarterly GDP Growth for the U.S. since 2007



Source: Bureau of Economic Analysis

- Third quarter growth was aided by increases in personal consumption expenditures, private inventory investment, exports, residential fixed investment, nonresidential fixed investment, and state and local government spending. The federal government and imports were both drags on the growth rate.

- The price index for gross domestic purchases (prices paid by U.S. residents) increased 1.8% in the third quarter following an increase of only 0.2 % in the second quarter. Excluding food and energy prices, the index increased 1.5 % in the third quarter, compared with an increase of 0.8 % in the second.

- Real personal consumption expenditures increased 1.4 % in the third quarter following an increase of 1.8 % in the second quarter. Durable goods increased 7.7 %, compared with an increase of 6.2 % in the second quarter. Nondurable goods increased 2.4 % in the third quarter after an increase of 1.6 % in the second quarter. Services was unchanged in the third quarter following an increase of 1.2 % in the second quarter.

- Spending on real nonresidential fixed investment increased 3.5% in the third quarter following an increase of 4.7 % in the second. Nonresidential structure spending increased 13.8 % in the third quarter and 17.6 % in the second quarter. Equipment spending was unchanged in the third quarter in contrast to an increase of 3.3 %. Real residential fixed investment increased 13.0 % in the third quarter with an increase of 14.2 % in the second quarter.

- Real exports of goods and services increased 3.7 % in the third quarter, compared with an increase of 8.0 % in the second. Real imports of goods and services increased at 2.7 % in the third quarter, which was an improvement from the 6.9 % increase in the second quarter.

- Real federal government consumption expenditures and gross investment fell 1.4 % in the third quarter after a decline of 1.6 % in the second. National defense spending fell 0.3 % in the third quarter following a decrease of 0.6 %. Nondefense spending fell 3.1 % in the third quarter, the same decrease as in the second quarter. Real state and local government consumption expenditures and gross investment increased 1.7 % in the third quarter compared with an increase of 0.4 % in the second quarter.

- The change in real private inventories added 1.68 % point to the third-quarter change in real GDP after adding 0.41 % point to the second-quarter change. These inventory increases will be followed by lower production in future quarters if holiday spending is disappointing. Real final sales of domestic product (GDP less change in private inventories) increased 1.9 % in the third quarter, compared with an increase of 2.1 % in the second quarter.

Personal and Disposable Income- *Consumer spending is growing faster than consumer income. The declining saving rate is not sustainable in the long run.*

- Current-dollar personal income grew 3.8 % in the third quarter compared with an increase of 4.1% in the second quarter. The decline in personal income primarily reflects reductions in personal dividend income, wages, and salaries that were partly offset by higher government social benefits and an upturn in income of farm proprietors.

- Personal current taxes fell $5.3 billion in the third quarter, in contrast to an increase of $35.8 billion in the second quarter.

- Real disposable personal income grew 2.5 % in the third quarter following a 3.5% increase in the second quarter. Personal spending increased 3.7 % in the third quarter, compared with an increase of 1.4 % in the second. The personal saving rate, defined as personal saving as a % of disposable personal income, was 4.7 % in the third quarter, compared with 4.5 % in the second.

Sentiment and Confidence – *Consumer confidence has been declining since July but a modest gain occurred in November. Overall, sentiment is not strong and should be in line with modest growth for the last quarter of 2013 and first quarter of 2014. Consumer inflation expectations are higher than the current sub-2% rate.*

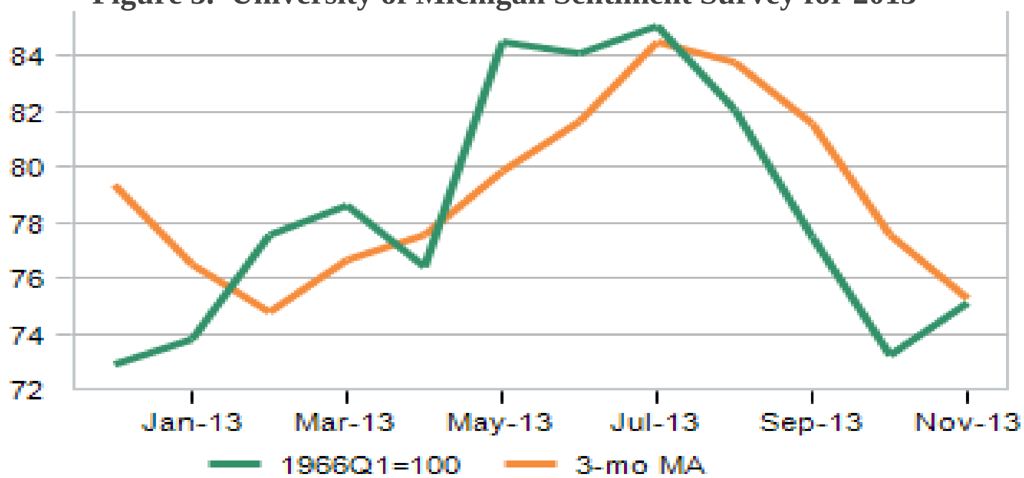
- The University of Michigan Consumer Confidence Index added 1.9 points in November, rising to 75.1. The increase is attributed to optimism for the future relative to less positive current conditions. One-year inflation expectations eased since October but five-year-ahead projections indicate reveal higher inflation expectations over that period. Overall, consumers see inflation rising and exceeding the Fed's target of 2.0%. Table 1 summarizes recent movement of the sentiment index and inflation expectations...

Table 1. University of Michigan Consumer Sentiment Survey (1966 Q1 = 100)

	Nov '13	Oct '13	Sept '13	Aug '13	July '13	June '13	May '13
Consumer Confidence Index	75.1	73.2	77.5	82.1	85.1	84.1	84.5
Change in the Index	1.9	-4.3	-4.6	-3.0	1.0	-0.4	8.1
Inflation Expectations 1-year	2.9	3.0	3.3	3.0	3.1	3.0	3.1
Inflation Expectations 5-year	2.9	2.8	3.0	2.9	2.8	2.9	2.9

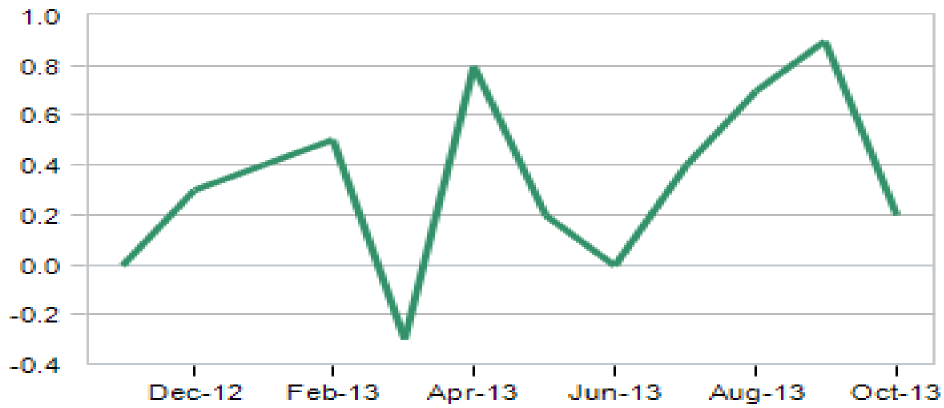
- For the year, sentiment peaked in July and declined steadily until the November uptick. The graph below shows the pattern of the index for 2013.

Figure 5. University of Michigan Sentiment Survey for 2013



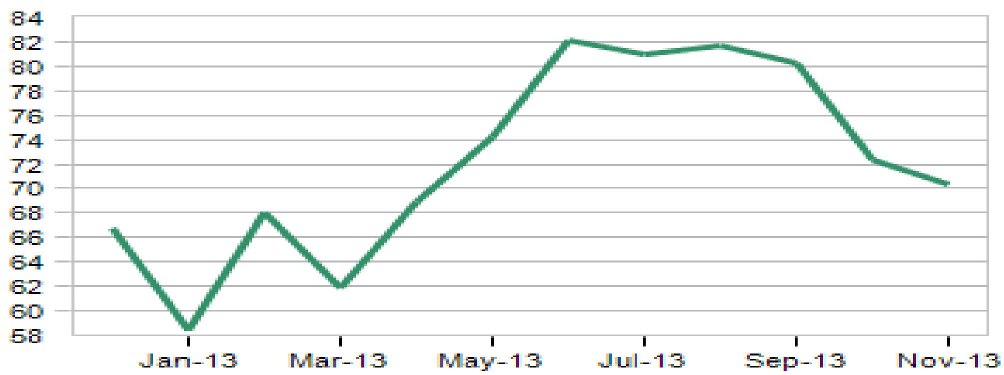
- The Conference Board index of leading indicators increased 0.2% in October following larger increases in the prior three months. A 4.4% year-over-year increase in the index is consistent with a low but accelerating growth in activity. The increase in the average weekly initial jobless claims pulled the index down but was more than offset by the financial components of the index. The S&P500 index advanced by almost 2% in October and the spread between the 10 year Treasuries and the fed funds rate increased to 2.53%. Figure 6 illustrates the changes in growth rates of the index over the past year.

Figure 6. Conference Board's Index of Leading Economic Indicators (% Change)



- The Conference Board's Consumer Confidence Index fell to 70.4 in November, the lowest level since April. Pessimism about present economic conditions and poor expectations for improvement were largely responsible for the downturn. Figure 7 below illustrates the recent monthly movement in the Consumer Confidence Index.

Figure 7. Consumer Confidence Index (1985 = 100)



- Consumer confidence continued its slide in November after the government shutdown squabble ended. Overall, shoppers see a tougher job market over the next six months.

- Households have some good news in the third quarter. Deleveraging has been occurring over the past few years, lowering their debt-service ratio to twenty year lows. Delinquent credit balances are at a six-year low and mortgage delinquencies are almost back to normal. The housing recovery and strong stock market are both fueling a wealth effect that is picking up some of the slack from slow income growth. On the other hand, personal income and wages are rising slowly.

Labor Market and Employment – *the unemployment rate dipped to 7.0% in November. The size of the workforce continues to shrink, making improvements in the unemployment rate appear better than they really are. Labor costs remain low but the private sector faces a number of obstacles to growth that may keep a lid on hiring.*

- Total nonfarm payroll employment rose by 203,000 in November, and the unemployment rate declined from 7.3 % to 7.0 %, according to the U.S. Bureau of Labor Statistics. Job growth average 195,000 per month over the prior 12 months. In November, job gains occurred in transportation and warehousing, health care, and manufacturing.

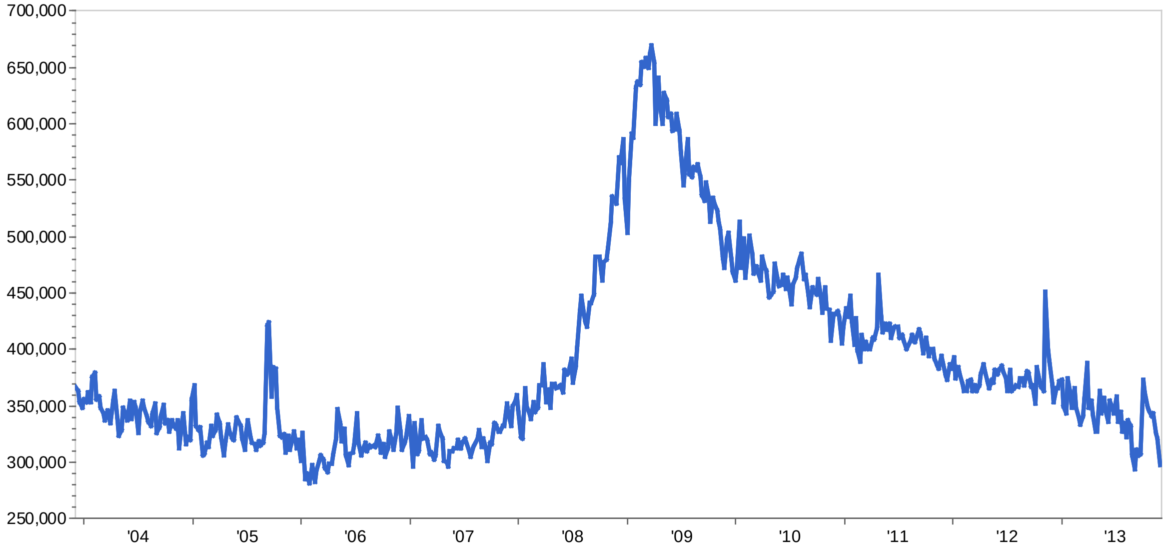
- Year-ago growth in the employer total cost index was essentially unchanged from the last quarter, holding steady at 1.9%. Hourly compensation rose 1.3% in the third quarter, slowing from the 2.3% rate in the second quarter. The year-ago change in unit labor costs improved to 1.9%. Overall manufacturing unit labor costs rose 1.3%, slowing slightly from the 1.5% advance in the second quarter. Manufacturing unit labor costs were flat on a year-ago basis, pointing to a competitive U.S. labor force.

- In October, average hourly earnings for employees on private nonfarm payrolls edged up 2 cents to $24.10. Over the year, average hourly earnings increased by 52 cents, or 2.2 %.

- Nonfarm business productivity rose 1.9% on a seasonally adjusted annualized basis in the third quarter. The prior quarter was revised down significantly. The report suggests a benign inflation outlook as productivity growth is strong enough to hold unit labor costs down to well below long-term averages.

- Initial claims for unemployment insurance fell 23,000 to 298,000 in the week ended November 29. The four-week moving average fell to 322,250. The significant improvement in claims over the past month and a half suggests improvement in the pace of net job gains and a lower unemployment rate in November. Figure 8 below illustrates the longer run decline in initial claims for unemployment insurance.

Figure 8. Unemployment Insurance Initial Claims (November 2003 to November 2013)



- Unemployed persons declined to 10.9 million in November. Long-term unemployment (jobless for 27 weeks or more), which accounts for 37.3% of the unemployed, also remained at 4.1 million.

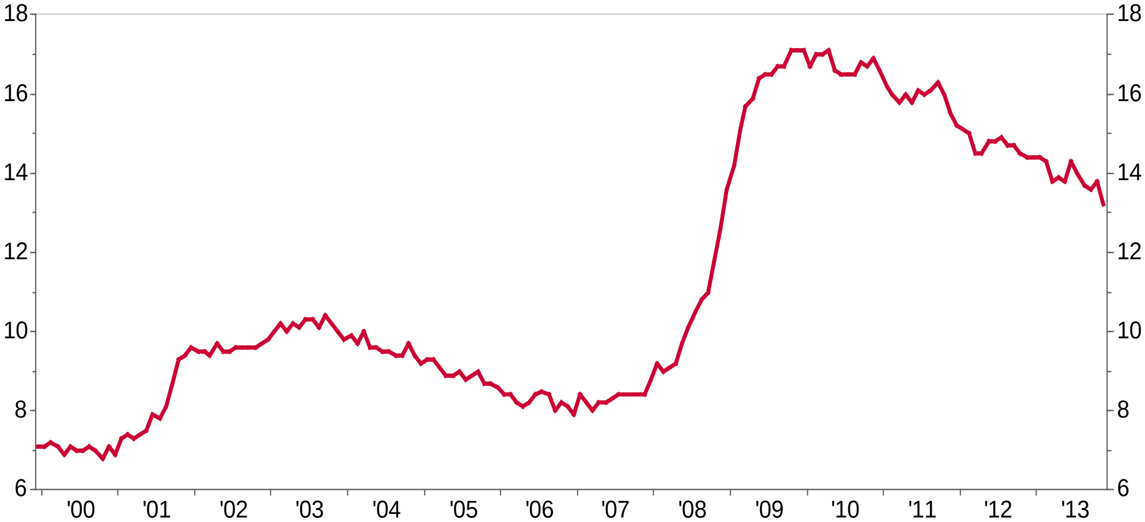
- The civilian labor force rose by 455,000 in November. The labor force participation rate changed little over the month and is at 63.0%. Total employment increased by 818,000 over the month and the employment-population ratio increased by 0.3 % to 58.6%.

- The traditional U3 unemployment rate does not tell the full story of the labor market. Workers who are “part time for economic reasons” (sometimes referred to as involuntary part-time workers) fell by 331,000 to 7.7 million in November. “Marginally attached” workers declined by 409,000 from a year earlier to 2.1 million. These individuals were not in the labor force but wanted work, were available, and looked for a job sometime in the prior 12 months. They are not counted as unemployed because they had not searched for work in the 4 weeks preceding the survey.

- The average workweek for all employees on private nonfarm payrolls edged up by 0.1 hour in November to 34.5 hours. The manufacturing workweek was 41.0 hours, 0.1 hour higher than October, and factory overtime edged up by 0.1 hour to 3.5 hours. The average workweek for production and nonsupervisory employees edged up by 0.1 hour to 33.7 hours.

- The U6 unemployment rate counts people seeking full-time employment (the familiar U-3 rate) as well as "marginally attached workers” and “part-time workers.” Some of the part-time workers counted as employed by U-3 could be working as little as an hour a week. And the "marginally attached workers" include those who became discouraged and stopped looking, but still want to work. Individuals must be 16 years and over to be counted. The figure below illustrates the U6 rate movement from 2000 to the present.

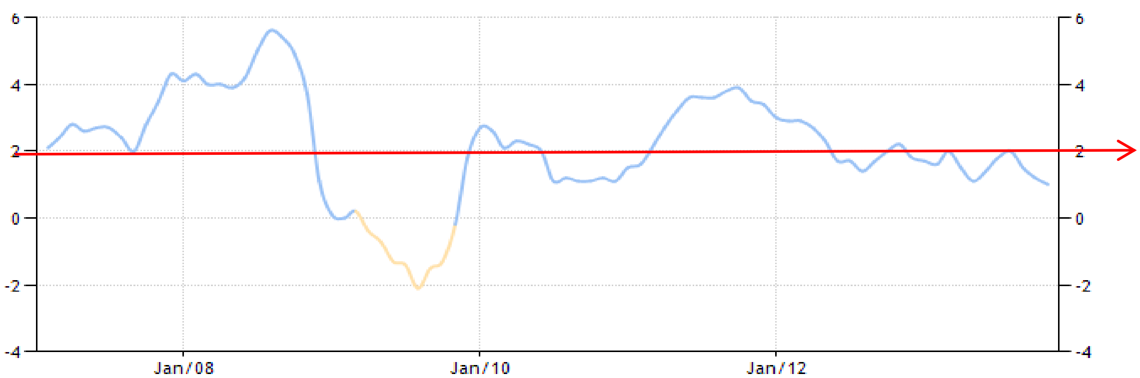
Figure 9. U6 Unemployment Rate from 2000 to the present



Inflation – *the inflation rate is falling and remains well below the Fed's target of 2%. Such low inflation is consistent with a weak economy and should help delay tapering the bond buying program. With the velocity of money falling rapidly, the Fed might want to focus more on deflation than inflation.*

- The U.S. inflation rate measured as the % change in the CPI-All Urban Index was 1 % in October of 2013. Inflation averaged 3.34 % from 1914 until 2013. Figure 10 shows the pattern of the CPI-U over the past 15 years. The red line represents a target of 2%.

Figure 10. U.S. Inflation Rate (% Change in the CPI-U)



Source: Bureau of Labor Statistics

- In October the U.S. inflation rate based on the CPI-U eased for the third straight month to 1 %, the lowest rate since October of 2009. From September, prices dropped 0.1 %, mainly due to a fall in gasoline prices. The index for all items less food and energy increased 1.7 % over the last year, while the food index was up 1.3%.

- The PCE price index, the preferred measure of the Fed, increased at a modest 1.0% annualized rate in September. In general, the PCE measure of inflation has trended lower than the CPI-U rate. The 12-month trimmed PCE rate of 1.3% is the best estimate for the inflation rate over the next 12 months, according to the Dallas Fed.

Production and Capacity Utilization – *Industrial production returned to the pre-recession level in October. Capacity utilization in the industrial sector fell to78.1% and is over 2% below the 1972-2012 average. Excess capacity will hold back private investment.*

- Industrial production edged down 0.1 % in October after having increased 0.7 % in September. Manufacturing production rose 0.3 % in October for the third consecutive monthly gain.

- The level of the index for total industrial production in October was equal to its 2007 average and was 3.2 % above its year-ago level. After almost four years since the recession, production is just now approximately where it was before the recession. Table 2 shows the monthly industrial production index movement since May of 2013.

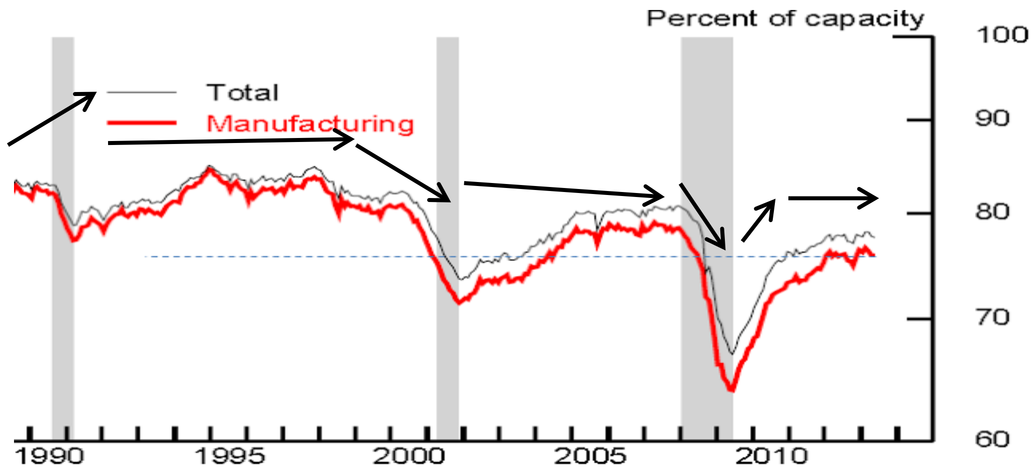
Table 2. U.S. Industrial Production Index (2007 = 100)

	Oct 2013	Sept 2013	Aug 2013	July 2013	June 2013	May 2013
Index	100.0	100.1	99.5	99.0	99.2	99.0
% change	-1.0	0.7	0.5	- 0.2	0.2	0.2

- Capacity utilization for the industrial sector declined 0.2 % point in October to 78.1 %, a rate 1.1 % points above its level of a year earlier and 2.1 % points below its long-run (1972-2012) average.

- A disturbing long-term trend in capacity utilization has developed in the U.S. After each major recession over the past 50 years, capacity utilization peaked at a lower level than after the previous recession. Figure 11 below illustrates this trend. Recessions are noted by the gray shaded areas and the black arrows show the ratcheting down of the utilization rate. Chronic excess capacity hampers investment and growth even in low interest rate environments.

Figure 11. Capacity Utilization and Post-recession Trends



Housing – *Housing prices are back to levels last seen in 2004. Housing permits are rising as the inventory of housing is being rebuilt. Sales due to foreclosures are back to more normal levels resulting in firmer prices and long term buyers.*

- The S&P/Case-Shiller Home Price Index showed that U.S. home prices rose 3.2% in the third quarter of 2013 and 11.2% over the last four quarters. The strong gains have raised some concern for an emerging "bubble" in housing but existing home sales remain low and construction of residential structures is well below pre-recession levels. Rising interest rates are also likely to keep the housing market in check.

- As of the third quarter of 2013, average home prices across the United States are back to their levels posted in the second quarter of 2004.

- Permits for future U.S. home construction hit a near 5-1/2 year-high in October and prices for single-family homes notched big gains in September, suggesting that a run-up in mortgage interest rates has not derailed the housing recovery.

- The Commerce Department announced that building permits increased 6.2 percent last month to an annual rate of 1.03 million units, the highest since June 2008. It was only the second time since mid-2008 that permits broke the 1 million-unit mark.

- It is likely that housing data, combined with stronger-than-expected October payrolls and retail sales reports, raises the risk the Fed could scale back its monthly bond purchases.

Key International Events – *Europe is building a very fragile recovery from a recession while China is posting growth close to 8%. Inflation is falling world-wide, raising concerns for deflation and its adverse effects on spending and growth. Only China, India, and Russia appear to be free from deflation concerns.*

- The Organization for Economic Cooperation and Development reported that the annual rate of inflation in its 34 developed-country members fell to 1.3% from 1.5% in September. Inflation in the wider Group of 20 leading industrial and developing nations slipped to 2.8% from 2.9%. September marked the third straight month of declining rates of inflation. Only China, India, and Russia reported higher inflation rates. When inflation is close to zero, companies, households and even governments have a harder time cutting their debt loads. When prices start to fall, consumers can postpone purchases in the expectation that they will get better value for their money in the future. That can in turn weaken economic activity, and create further deflationary pressures. Following Japan's difficulties in getting out of its long period of deflation, other central banks are anxious to avoid a similar struggle. Central banks are now more likely to either maintain or increase stimulus policies to avert the threat of deflation.

- The Eurozone emerged from an 18-month recession in the second quarter with growth of 0.3%. Eurostat, the EU's statistics agency, reported that retail sales in the 17-nation bloc fell 0.6% in September from August. But, the Eurozone economies remain weak and the recovery is fragile. This week's released forecast by the European Union said that growth would remain slow in the region until at least 2015, with unemployment remaining near record highs. The tepid economic performance is due to both government austerity measures and private-sector debt-cutting, which are combining to weigh heavily on household consumption, business investment, and government spending.

- The "Markit" Eurozone Composite Purchasing Managers Index (PMI) reached 50.4 points in September, above the 50-mark that signals growth. The September index was bigger than expected and followed a 48.7 index recorded in June. The index is a leading indicator of economic activity in the Eurozone and suggests that the recession is over.

- The HSBC China Manufacturing PMI report showed marginal improvement of operating conditions in the manufacturing sector, though both output and new order growth increased at their strongest rates in eight months. The 50.8 reading for November was up slightly from the earlier flash reading.

- November data indicated an improvement in overall business conditions across the German manufacturing sector for the fifth consecutive month. The final PMI of 52.7 was the highest level in almost two-and-a-half years, despite a moderate drop in employment numbers.

- China's growth accelerated in the third quarter, putting to rest for now fears that the world's No. 2 economy was headed for a sharp slowdown that would rattle world markets.

- Scrutiny will now fall on coming quarters to see whether China's economy – a major global growth engine – can sustain that faster pace.

- China's gross domestic product grew 7.8% from a year earlier, according to data from the National Bureau of Statistics released on Friday. That compares with 7.7% in the first quarter and 7.5% in the second.

- The U.K. PMI reading came in at 58.4, its best level since February 2011. Employment in the sector rose at the fastest pace since May 2011.

- In France, the PMI sank to a five-month low of 48.4 as output and new orders fell at sharper rates. That remained below the 50 dividing line between expansion and contraction. Output, new orders and employment all showed sharper declines.

- Spain saw new orders fall for the first time in six months in November. The final PMI for the month fell to 48.6 from 50.9 back in October. Employment continued to fall sharply during the month.

- The Greek PMI checked in at 49.2, up from 47.3 in October and is at its highest level in 51 months. Employment continued to fall but at slower rate.

- The PMI shows that India's manufacturing economy returned to growth as output and new orders expanded. Russia's PMI fell below the 50 benchmark as output growth slowed in November.

- Brazil's economy, the largest in Latin America, contracted more than expected in the third quarter due to falling investments, a stagnating manufacturing sector, and the end of record grain harvests. Gross domestic product contracted 0.5% in the third quarter from the second quarter, according to the announcement by the Brazilian Institute of Geography and Statistics. The third quarter decline was the worst since a 0.1% contraction in the third quarter of 2011. Year over year GDP growth is a modest 2.2%.

- Standard & Poor's cut France's credit rating to double-A, dealing a blow to President François Hollande's efforts to turn around the euro zone's second-largest economy.
  The concern is that the government's reforms to taxation, product, services, and labor markets will not substantially raise France's medium-term growth prospects. Ongoing high unemployment is weakening support for further significant fiscal and structural policy measures.