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Leading Indicators Rose A Slim 0.1% in November

A Roundup of Wire-Service Reports

WASHINGTON — The U.S. government's main gauge of future economic activity, the index of leading indicators, rose a slight 0.1% in November, the Commerce Department reported.

The Department said Monday that the advance for its leading indicators was down sharply from the 0.4% gains registered in both September and October.

Without a big rise in stock prices during the month, the index would have shown a 0.3% decline.

The November gain matched a 0.1% rise in June and was the weakest change since a 0.5% decline in April.

Despite the small November rise, the index has increased for seven consecutive months and 10 of the 11 thus far in 1985.

Analysts Surprised

The weak showing surprised many analysts who had been expecting a much better performance given the fact that the stock market set records during the month. A Dow Jones Capital Markets Report survey of 13 economists published Monday found an average estimate of a 0.5% rise in the November index of leading indicators.

But the slight advance was in line with expectations that the economy will continue growing next year, though at much the same sluggish rate as in 1985.

Many analysts feel that 1986 is shaping up to be a virtual replay of this year with modest growth, continued low inflation and further declines in interest rates.

"They tell us that the economy is likely to continue to grow at a moderate rate," said Lyle Gramley, chief economist with the Mortgage Bankers Association. "Nothing (in Monday's report) leads to a change in the forecast."

The rise was led by the November surge in stock prices, while a decline in credit outstanding by business and consumers was the largest negative factor.

Weak Signal

If anything, the indicators were termed slightly weak. The rise in the overall index was small and strength generally stemmed from financial components of the index, while measures of more "real" economic sectors slipped, such as orders for capital goods.

"I've been suprised it's (the index) been as strong as it has been lately," said Michael Drury, a senior economist with A. Gary Shilling & Co., a New York consulting firm. "I think we're still in a sluggish period."

Mr. Drury said the index has been held up in recent months by stock prices and the money supply. Increases would be needed in capital goods orders, consumer goods orders and building permits to signal more genuine prospects for economic growth, he says.

He adds the rapid return to cut-rate financing by the large auto companies is an indication that sales activity hasn't held up without generous incentives. He says he feels car sales will slow further and production cuts will be required.

A minority of forecasters feel the indicators have been understating underlying strength in the economy.

"I think the economy is improving in strength," said Michael Evans, president of Evans Economics, adding that certain categories in the leading indicators appear to be misleading.

Mr. Evans says the downward drag on the November indicators partially reflects a timing problem in measuring the retracement from the autumn surge in borrowing due to the last round of auto sales incentives. The decline in the capital goods component also doesn't seem to square with the durable goods report and other evidence of an increase in machinery orders, he says.

Optimistic Forecasts

The Reagan administration is expected to join the optimistic camp by formally forecasting a 4% 1986 economic growth rate.

The 4% forecast will be used in the economic assumptions in the president's fiscal 1987 budget, now in its final stages of construction. The forecast represents the consensus outlook of Beryl Sprinkel, chairman of the president's Council of Economic Advisers, Treasury Secretary James Baker and Office of Management and Budget director James Miller, as approved by President Ronald Reagan.

The following indicators contributed to the increase: stock prices, net business formation, sensitive material prices and orders for consumer goods.

These other indicators went down: credit outstanding, vendor performance, orders for plant and equipment, building permits and initial unemployment claims. The average workweek and money supply components were unchanged.

The department's composite index of coincident indicators, which tends to move up or down with economic activity, rose 0.3% in November to 161.2% of the 1967 average after falling 0.1% in the preceding month.

The index of lagging indicators, which tends to trail economic trends, decreased 0.2% in November to 130.4% of the 1967 average after rising 1.2% in the preceding month.

The ratio of the coincident to the lagging index, which tends to signal turning points in the economy in advance of the leading indicators, rose last month to 1.24 from 1.23 in the preceding month.