

Business Cycle Index

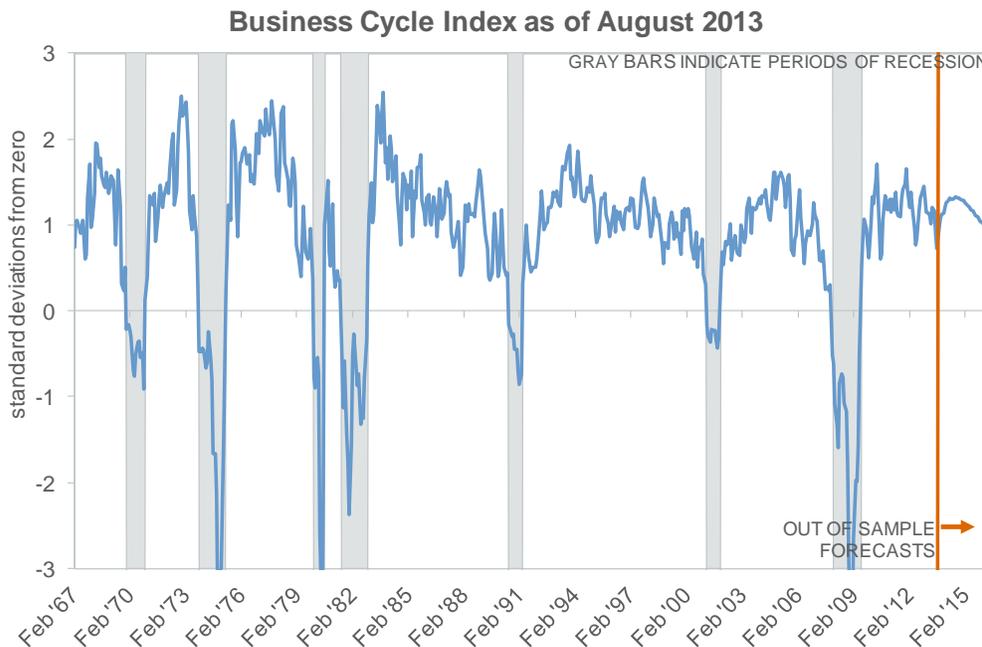
SEPTEMBER 2013

Long-awaited increase in employment gains expected in 2014

The current employment forecasts from the Business Cycle Index (BCI) model suggest that monthly jobs gains will average a little more than 170,000 per month between now and March 2014. Following that, a significant increase in hiring, to 215,000 net jobs per month, is anticipated for a 12-month period.

The long-awaited increase was delayed slightly by the negative revision (down to 104,000) to the nonfarm payroll gains in July. Employment gains appear to be back on track again in August, though: the 169,000 job gains reported for August 2013 were very close to the BCI projection of 172,000.

BUSINESS CYCLE INDEX



Current reading and trend:

- The Business Cycle Index is expected to remain above 1.2 standard deviations above zero through 2014 until the middle of 2015.
- The economy appears poised for noticeably better growth in 2014, with our year-on-year forecast of 2.9% real GDP growth next year.

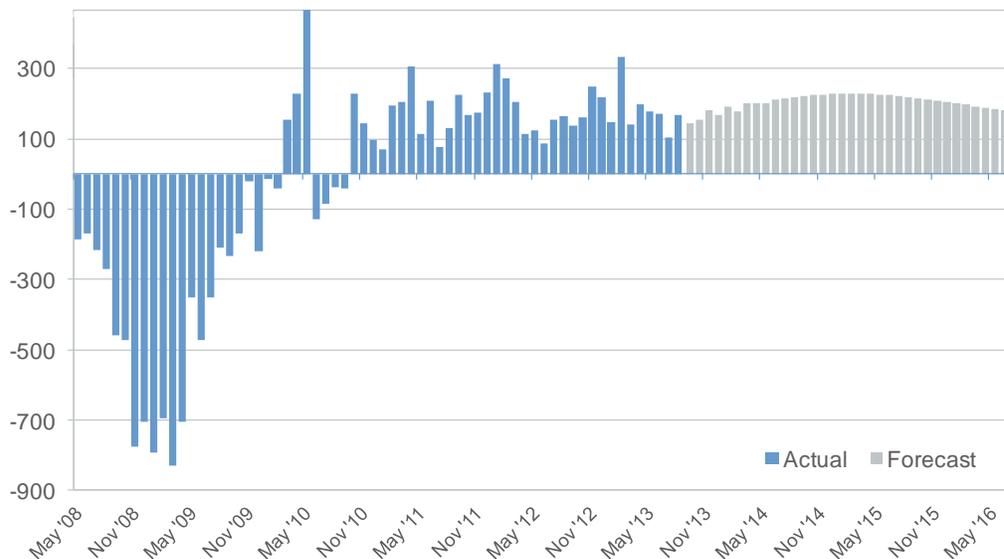
Source: Recession dates from National Bureau of Economic Research

Out of sample forecasts were calculated by simulating the time-series model into the future. The value shown is the median of the simulated value for the month.

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EMPLOYMENT CHANGES

Forecasts of nonfarm payroll employment changes
as of August 2013 (in thousands of jobs)



Current reading and trend

- In our view, the July job report did not derail the trajectory of employment gains by any means. Instead, it simply pushed out the date of the onset of a nice string of 200,000 jobs gains per month. We now expect that string to start in March 2014 and to last through December 2015.

Source: Out of sample forecasts were calculated by simulating the time-series model into the future. The value shown is the median of the simulated value for the month.

FREQUENTLY ASKED QUESTIONS

What is the Business Cycle Index?

- Created by Russell's Chief Economist, Mike Dueker, **the Business Cycle Index (BCI) forecasts the strength of economic expansion or recession** in the coming months, along with forecasts for other prominent economic measures.
- The two outputs featured here are the Business Cycle Index and the Employment Forecast.
- Inputs to the model include non-farm payroll, core inflation (without food and energy), the slope of the yield curve, and the yield spreads between Aaa and Baa corporate bonds and between commercial paper and Treasury bills. A different choice of financial and macroeconomic data would affect the resulting business cycle index and forecasts.
- "Dynamic forecasts of qualitative variables: A Qual VAR model of U.S. recessions", published in the Journal of Business and Economic Statistics in January 2005, provides background on the statistical model behind the BCI.
- The ongoing track record of the BCI forecasts is available on www.helpingadvisors.com



Why is it important?

- **The BCI forecasts the future direction of the business cycle.**
- Historically, the stock market responds to investor perceptions of the future direction of the business cycle.

Can I use the BCI as a market-timing tool?

- **No. The BCI is not meant to serve as a direct prediction regarding the future performance of any financial market.** It is not intended to predict or guarantee future investment performance of any sort.

How do we interpret it?

- An increase in the BCI indicates that the business cycle conditions are improving — either moving closer to exiting a recession or to stronger expansion.
- A decrease in the BCI indicates that business cycle conditions are worsening — either moving closer to entering a recession or to a deeper recession.

How often is it updated?

- The Business Cycle Index is updated monthly after payroll employment numbers are released and will be published by the 15th.



> These macroeconomic forecasts do not constitute a projection of the stock market or of any specific investment.

Historical employment data displayed in the Business Cycle Index are reflective of current data as provided by the data sources including any revisions to previous data. These revisions may change historic data points and historic ranges for some or all indicators. These changes are usually due to seasonal adjustments to previously supplied data.

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Standard Deviation is a statistical measure of the degree to which an individual value in a probability distribution tends to vary from the mean of the distribution.

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No investment strategy can guarantee a profit or protect against a loss in a declining market.

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