The New Economy Index

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Each week we update the New Economy Index (NEI), which tracks the state of the retail economy. The most sensitive retail stocks (bricks and mortar, transportation and Internet) are averaged to give us the weekly reading in the NEI, which in turn points to the direction the economy is headed. The components of the index are: Amazon.com (AMZN), Wal-Mart (WMT), Ebay (EBAY), Monster Worldwide (MWW) and Fed-Ex (FDX). All five stocks are given equal weighting and a simple weekly average of these five stocks forms the basis of the NEI.

In addition to averages the weekly closing stock prices of the aforementioned five stocks, we also use the important 12-week and 20-week moving averages. Doing so allows us to obtain a sense of interim direction that the economy will take in the months ahead. The latest readings of the NEI point to improvement between now and year-end, and the government's economic numbers should begin reflecting this sometime in the fourth quarter.

As shown in the latest NEI chart below, the index continues its pattern of making higher highs and higher lows while the important 12-week (red line) and 20-week (black line) moving averages continue to move higher.

[Insert NEI chart]

Fed-Ex (FDX) is one of the components of NEI and perhaps the most important of the stock market indicators for the future direction of the economy. FDX has just made a fresh recovery high for the year and this indication alone is positive news for the economic outlook. Investors would be better serviced in taking the directional signals provided by FDX over the conventional wisdom of mainstream economists any day.

Another component of the NEI is Monster Worldwide (MWW), which in turn is a reflection of the job market. MWW is at a new recovery high for the year as of mid-September and is starting to hold out promise for an improved job market outlook.

In summary, the stimulus measures for getting the U.S. economy out of recession appear to be taking hold slowly but surely. An economic crisis of the magnitude we saw last year takes time to reverse, something the pessimists don't seem to comprehend. The remarkable recovery in the stock market itself points to economic improvement and the market typically leads economic reversals by 6-9 months. Based on the historic norm we can expect to see economic improvement between roughly October and December.

Using the 12-week moving average (which follows the 24-week cycle) and the 20-week MA (which tracks the 40-week cycle), we find some useful signals can come from crossovers of these two moving averages. When the 12-week MA crosses above the 20-week MA, and especially if both moving averages turn up, we get a "heads up" signal that bodes well for the interim outlook for retail sales. On the other hand, a downside crossover where the 12-week MA crosses below the falling 20-week MA typically bodes ill for the retail sales outlook. For most of 2007 and 2008 these moving averages were in a downward trend, reflecting the poor state of the domestic economy.

Below is the latest chart showing NEI in relation to the 12-week and 20-week moving averages.

The 12-week MA has crossed above the 20-week MA and both turned up in unison for the first time since 2007 earlier this spring. This bodes well for the intermediate-term (6-9 month) retail economic outlook.