Weekly Econotes

COONS ADVISORS

MARCH 14, 2008

Retail sales faltered in February. The smaller-than-expected rise in consumer prices during the month at least temporarily tempered concerns about inflation. We expect the Fed to reduce the federal funds rate target by 75 basis points to 2.25% on Tuesday.

Weak February retail sales reinforced already-substantial evidence of slower economic activity. The smaller-than-expected rise in consumer prices during the month tempered concerns about inflation. The Fed is likely to reduce the federal funds rate target by 75 basis points to 2.25% on Tuesday.

Retail sales posted a broad-based decline of 0.6% in February. Compared with a year earlier, sales were up only 2.6% – well below the rate of inflation. Weakness during February was especially evident at motor vehicle dealers (-1.9%) and gasoline stations (-1.0%).

Excluding cars and gas, retail sales fell 0.1% to only 2.4% above the year earlier level. Sales at housing-related stores were weak, as has been the case for some time. Sales at building supply stores and furniture stores decreased 0.7% and 0.5%, respectively.

We have enough data on consumer spending to sketch out the first quarter, and the picture isn't pretty. If retail sales increase by 0.45% or less in March, retail sales will be flat in nominal terms for the quarter. Increases in spending on services, which are not included in retail sales, could keep overall nominal consumer spending above the zero mark.

Adjusting for CPI inflation, which is likely to be above 4% annualized in the first quarter, however, will push the change in real consumer spending closer to or into negative territory.

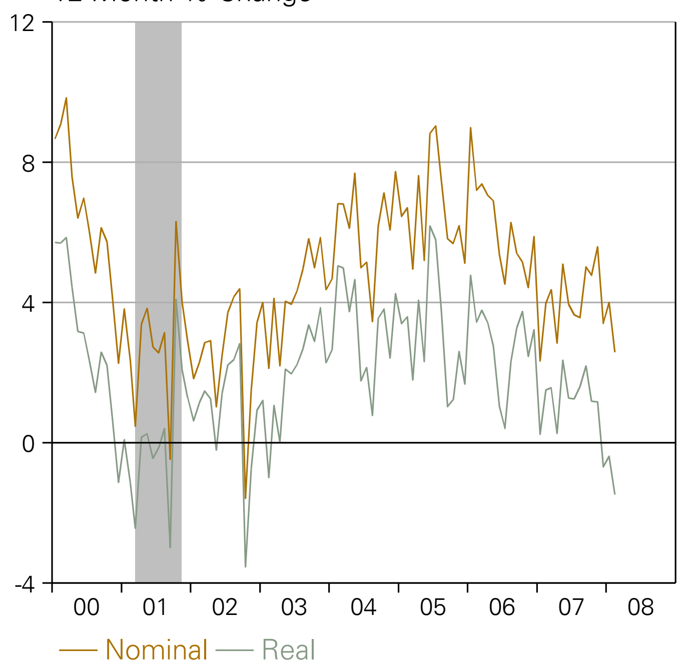
The CPI was unchanged in February after a string of sizable increases during the previous three months. The core CPI was also flat on the month. Compared with a year earlier, the CPI was up 4.1% – down from a 4.4% year-over-year pace the month before – and the core CPI was up 2.3%.

Our view remains that (1) the elevated rate of increase in the general consumer price level is the temporary result of the very large increase in energy and related prices and (2) it is not in the process of becoming a cumulative upward spiral.

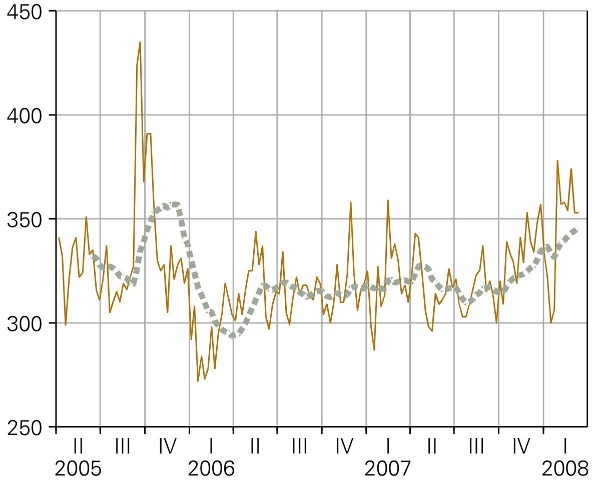
Although the core CPI, which excludes prices of food and energy, is not a valid measure of the general price level over a period longer than, say, one year, it does indicate whether an acceleration in food and and energy prices is spreading to other prices. So far, that pass-through does not appear to be happening across the board.

Two other key measures of inflatin potential also remain stable. The expected rate of inflation implied by Trea-sury Inflation-Protected Securities is relatively benign, as are the rates of change in monthly average hourly earnings and quarterly unit labor costs.

Retail Sales
12-Month % Change



Initial Claims for Unemployment Insurance
Thousands Per Week, Seasonally Adjusted

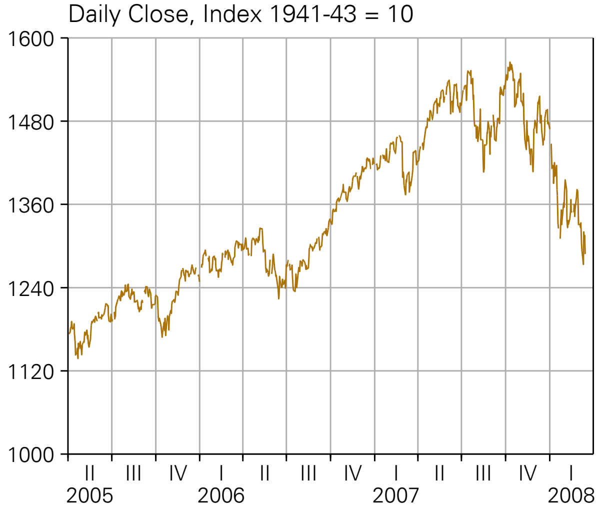


U. S. Dollar Exchange Rate
FRB Major Currency Index, 1973 = 100

Price of Oil
West Texas Int, $/bbl

Price of Gold
London PM Fixing, $/oz

S&P 500 Stock Prices
Daily Close, Index 1941-43 = 10



Mortgage Loan Originations
MBA Purchase Index 3/16/90=100 SA