Weekly Econotes

COONS ADVISORS

MARCH 28, 2008

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Real GDP growth of 0.6% in the fourth quarter was unrevised. The change in inventories was revised to a larger decline, which is a positive for early 2008 – all other things equal – and consumer spending growth was revised higher. But investment in residential structures declined for the eighth straight quarter and did so at an accelerating pace.

Corporate profits from current production decreased in the fourth quarter for the second consecutive quarter. The declines have been small so far, but this measure of profits excludes the asset write-downs and loan-loss provisions in the financial sector. Combined with weaker profits, falling corporate cashflow will curtail capital spending this year.

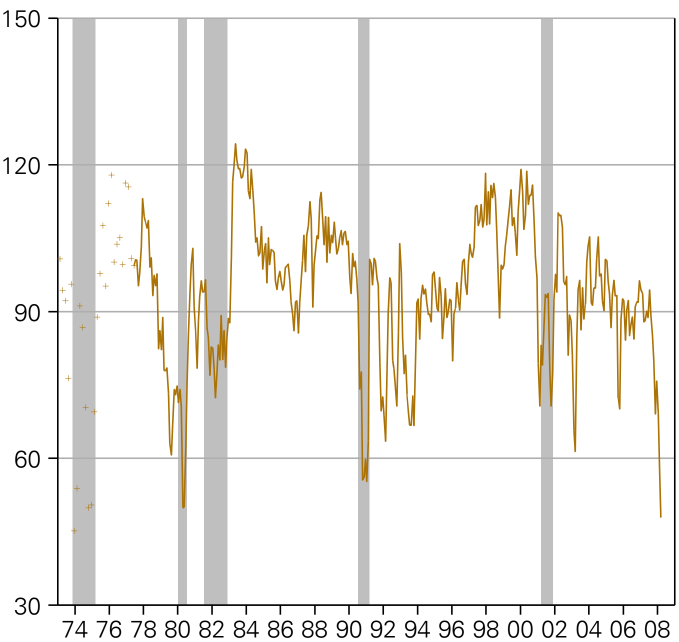
Personal income increased a solid 0.5% in February to 4.6% above the year earlier level. But the year-over-year growth rate has slipped from as high as 6.4% last September. Real disposable personal income grew 0.3% in February, but was only 1.3% above the year earlier level, compared with year-over-year growth of 4.0% as recently as last August.

Responding to the flatter trajectory of income, personal consumption expenditures grew just 0.1% in February and were unchanged after adjustment for inflation. Compared with a year earlier, real personal consumption expenditures were up by only 1.7% and have weakened appreciably recently.

Throw in high and rising gasoline prices, a financial crisis nearing its one-year anniversary, and the accelerated decline in home prices, and it's no surprise that consumer confidence has deteriorated sharply. The Conference Board's measure of consumer confidence fell by double-digits for the second straight month in March – the first back-to-back double-digit monthly declines since the 2001 recession. Expectations were recorded at the lowest level since December 1973, as the economy headed into the deep-freeze for about a year and a half. Assessments of the labor market were also notably weaker, with respondents saying jobs were hard to get rising to 25.1%. Expectations for labor market conditions six months in the future were understandably lower.

Finally, durable goods orders fell 1.7% in February on top of the 4.7% decline in January. Shipments were also lower during the month. The recent patterns in factory orders and shipments point toward progressively weaker capital spending as 2008 grinds on.

Consumer Expectations Index
1985 = 100



Source: The Conference Board

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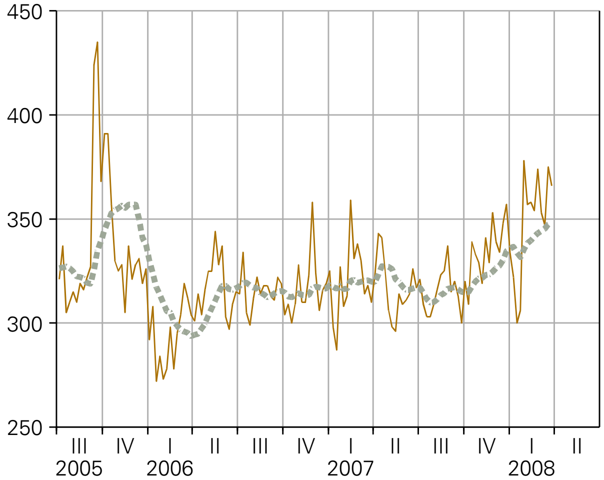
Initial Claims for Unemployment Insurance
Thousands Per Week, Seasonally Adjusted

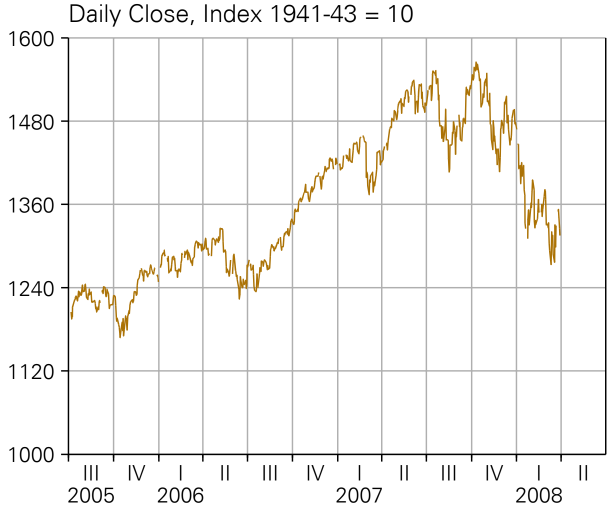


U. S. Dollar Exchange Rate
FRB Major Currency Index, 1973 = 100

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