

To the extent that expectations matter, the economy is in deep trouble. The outlook of consumers and small business owners deteriorated to critical levels in March and early April, suggesting that economic conditions could worsen before getting better.

Judging by surveys of consumers by the Conference Board and Reuters/University of Michigan, the mood is as bleak as at any time since early in the 1990-91 recession.

The Conference Board Consumer Confidence Index fell in March to its lowest level since March 2003, and before that, October 1993. The Reuters/University of Michigan Consumer Sentiment Index just scraped below its October 1990 level in April, hitting its lowest mark since March 1982. The economy was in recession during July 1990 to March 1991 and July 1981 to November 1982.

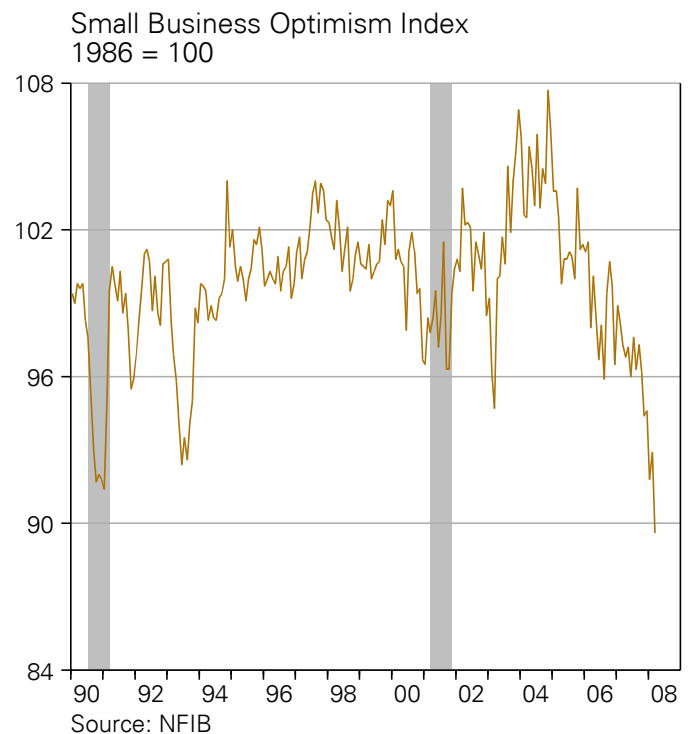
Expectations have deteriorated to a far more serious extent. The Conference Board Index of Consumer Expectations dropped in March to its lowest level since December 1973. The economy was in recession from November 1973 to March 1975. The index has only been anywhere near the March 2008 level during October/November 1990 and April/May 1980. As is typically the case near business cycle peaks, assessments of current conditions have not declined as much as expectations.

Survey measures of consumer attitudes provide little, if any, information that is not contained in other economic indicators, such as employment, unemployment, inflation, and interest rates. At times, however, these survey measures are a useful summary of the economic picture that is available a little bit sooner than most other indicators. Based on previous patterns, consumer confidence measures indicate that the economy is in recession, a message that will not be changed even if these measures post significant rebounds in coming months.

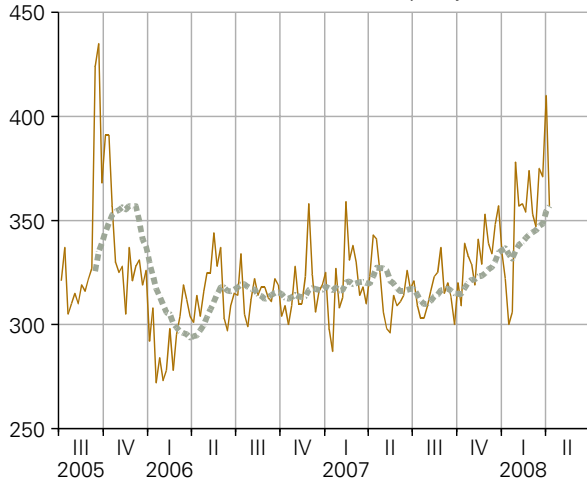
Owners of small businesses share the darkened outlook of consumers, according to the latest survey by the National Federation of Independent Business. The Index of Small Business Optimism fell 3.3 points in March to 89.6 (1986=100) – the lowest monthly reading since the monthly surveys began in 1986 and the lowest reading since the second quarter of 1980, when it was 80.1. A net

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3 percent of owners were planning to create new jobs – down eight points from February to the lowest reading since March 2003. A net negative 23 percent expect business conditions to improve during the next six months, down 14 points from February. Inflation is viewed as the number one problem by 12 percent of owners – the largest share since 1982. Profits have suffered, as rising labor and materials costs have outpaced selling prices. Oddly enough, owners report no greater-than-usual difficulty in obtaining credit.



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

