

The economic picture improved a bit in a data-light week. Yet it is not clear how consumers and businesses will escape the high and rising price of oil and the ongoing tightening of lending standards by banks.

The trade deficit narrowed by more than was widely expected in March. Imports of goods fell by 3.3% and exports of goods declined by 2.7%. The improvement in net exports could add as much as one-half percentage point to first quarter real GDP growth, lifting it to 1.2%.

The consensus is for an increase in real GDP of 0.2% in the second quarter, according to *Blue Chip Economic Indicators*, which was released before the trade number. The second quarter is seen as the weakest quarter of the year, with growth rising to 1.7% in the third quarter and 1.5% in the fourth quarter. Interestingly, even though the consensus is for no negative quarters in 2008, 60% of the Blue Chip panelists say the economy is in or will enter a recession this year.

Meanwhile, the housing slide continues. The pending home sales index compiled by the National Association of Realtors fell another 1.0% in March after a revised drop of 2.8% in February. The index is down 20.1% from a year earlier – off the all-time low of -24.3% last December.

As Fed chairman Bernanke argued in a speech at Columbia Business School last week, the key factor behind mortgage defaults and foreclosures is the effect of falling home prices on expectations. He urged Congress to formulate and enact legislation that will support housing prices in order to break the feedback loop between falling prices, loan defaults, and foreclosures and back to prices.

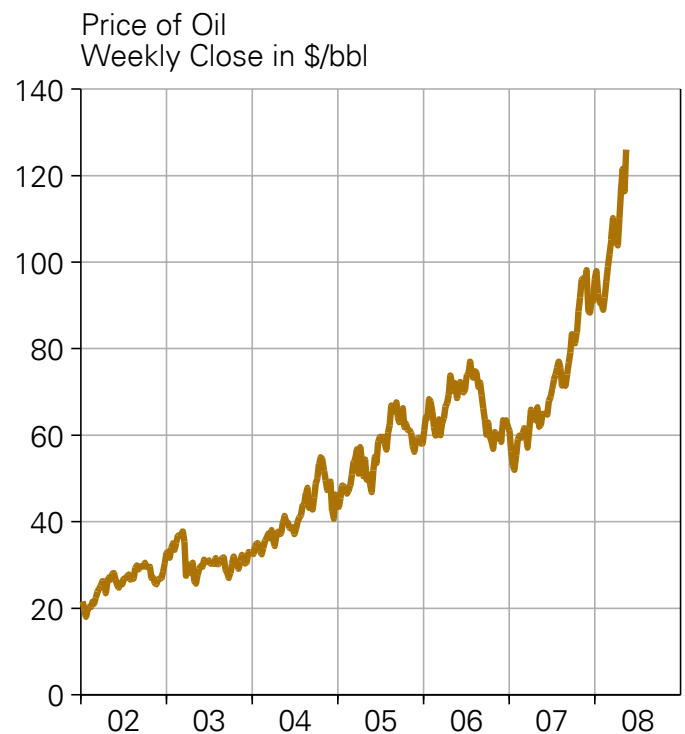
Labor markets remain consistent with slow economic growth. Jobless claims improved modestly in the latest week, but the four-week average stayed in the 350,000 to 375,000 range first pierced in the week of February 9. Continuing claims dipped, too, but remained above the 3 million mark for the second straight week.

While recession remains our call, it is not fully in the data yet. The two main reasons for expecting a business cycle downturn are the surge in the price of oil and the tightening of credit standards by banks. Every modern recession

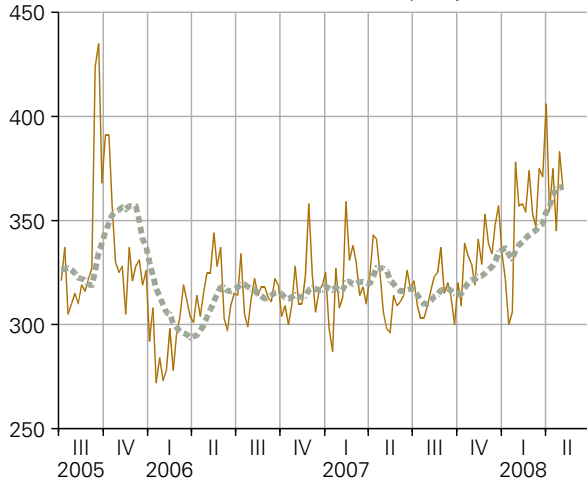
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has been associated with a spike in the price of oil and every spike in the price of oil has been associated with recession. Likewise, credit tightening in one form or another has played a key role in sparking past recessions. The price of West Texas Intermediate ended last week up almost 100% from a year earlier after climbing more than 100% during the previous four years. The Federal Reserve announced a further tightening of bank lending standards across loan types in the second quarter.

Jim Coons



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

