Weekly Econotes

COONS ADVISORS

MAY 16, 2008

Although viewed as better than expected, the economic data released this week were uninspiring. Retail sales were soft and industrial production gapped lower.

Industrial production decreased 0.7% in April and was revised slightly lower in March. Production increased by 0.2% in March after falling 0.7% in February. Compared with a year earlier, industrial production was up by only 0.2% in April – the weakest year-over-year advance since early in the recovery from the 2001 recession. Since peaking in January, industrial production has declined at an annual rate of 3.7% – the steepest drop in a four-month period since the recession, other than following the 2005 hurricanes.

Manufacturing output fell 0.8% in March, in part reflecting the ongoing strike at an automotive parts supplier. Mining output fell due to a disruption at an offshore gas facility. The disruptions in the motor vehicle and mining sectors also suppressed output in May. Capacity utilization fell below 80% for the first time since 2005. It hit a peak of 81.4% last August.

Surveys of manufacturers in different regions uncovered mixed conditions in May. The Philadelphia Fed Manufacturing Index improved due to better orders and shipments, but remained well into negative territory. The Empire State Manufacturing Survey conducted by the Federal Reserve Bank of New York deteriorated in May, after rebounding in April, mainly reflecting weaker shipments.

Retail sales fell in April for the third time in the past five months. Falling employment, the high price of gasoline, and tighter credit conditions combined to push down retail sales by 0.2% to 2.0% above the year ago level. Non-auto sales increased 0.5% on the month and 4.5% on a year-over-year basis. Non-auto sales also were revised higher for March, lifting the prospects for consumer spending during the second quarter.

According to the University of Michigan survey of consumers, however, attitudes deteriorated to a 28-year low in May. Assessments of both current and future conditions worsened to long-time lows, presumably as consumers focused on weaker job prospects and the

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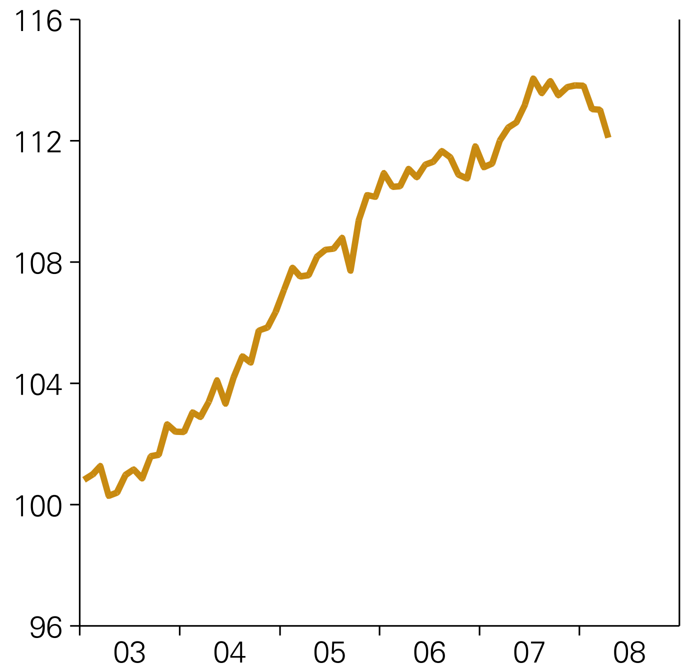
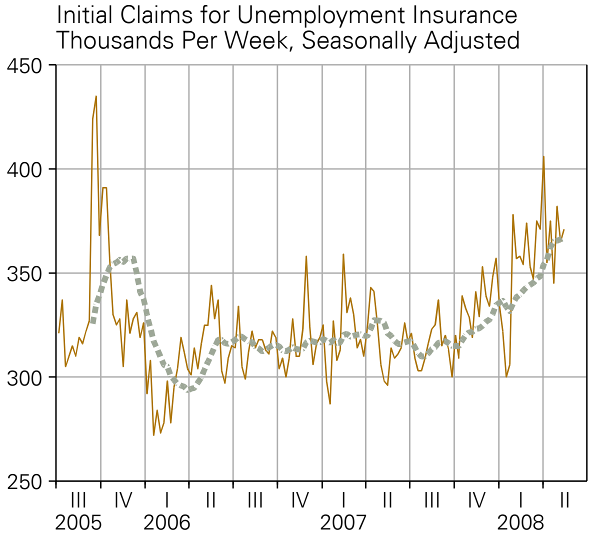
surge in the price of gasoline. The decline in the index during May was concentrated among low- and middle-income households. About 90% of the respondents believe that the economy is in a recession, as buying plans for motor vehicles and household durables remained at levels consistent with recession.

If not for the distribution of tax rebate checks, which begain at the beginning of the month, consumer spending would very liekly have declined durign the second quarter.

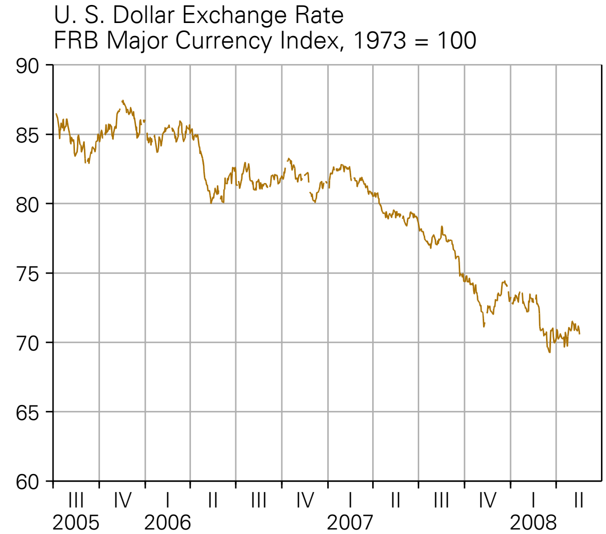
Jim Coons

Industrial Production - Manufacturing
Index 1992=100





Initial Claims for Unemployment Insurance
Thousands Per Week, Seasonally Adjusted
450
400
350
300
250
III IV I II III IV I II III IV I II
2005 2006 2007 2008



U. S. Dollar Exchange Rate
FRB Major Currency Index, 1973 = 100
90
85
80
75
70
65
60
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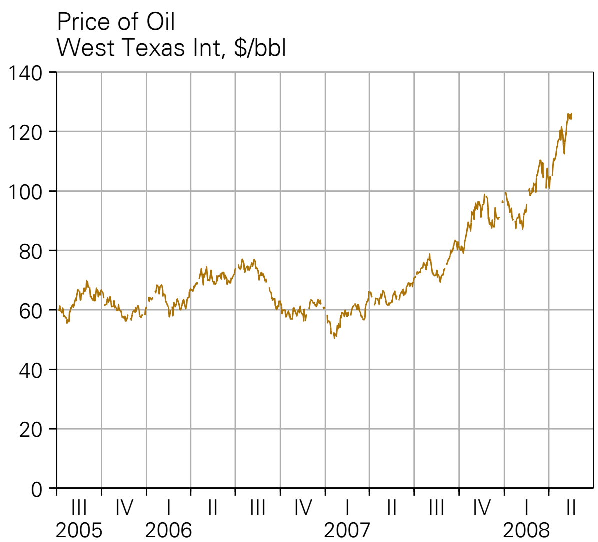
2005 2006 2007 2008



Price of Oil
West Texas Int, $/bbl
140
120
100
80
60
40
20
0
III IV I II III IV I II III IV I II
2005 2006 2007 2008

Price of Gold
London PM Fixing, $/oz
1200
1000
800
600
400
200
0
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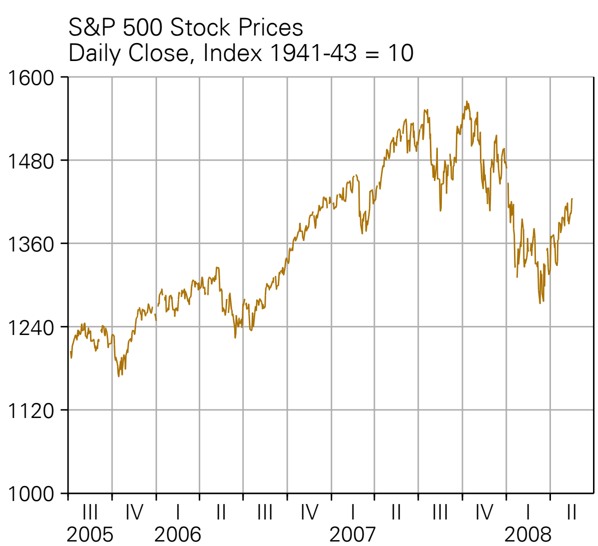
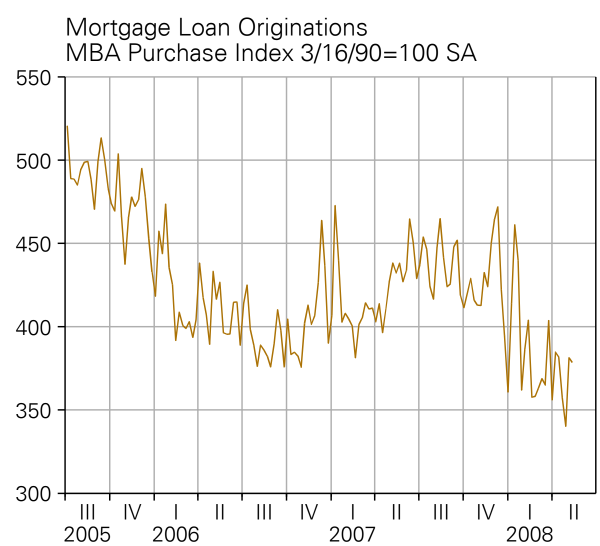
2005 2006 2007 2008



S&P 500 Stock Prices
Daily Close, Index 1941-43 = 10
1600
1480
1360
1240
1120
1000
III IV I II III IV I II III IV I II
2005 2006 2007 2008



Mortgage Loan Originations
MBA Purchase Index 3/16/90=100 SA
550
500
450
400
350
300
III IV I II III IV I II III IV I II
2005 2006 2007 2008