Weekly Econotes

The leading economic index was stable for another month, but existing home sales continued to slide. The minutes from the Fed's April policy making meeting reinforced expectations that the next rate change will be an increase before year end.

The composite leading economic index compiled by the Conference Board eked out a 0.1% gain for the second consecutive month in April. The new data point lifted the six-month smoothed rate of change from a cycle low of -3.0% reached in February to -2.1% in April. The trough for the rate of change in the last downturn was -3.9% in March 2001 – the same month that the recession began.

The March and April increases followed five straight months of declines. Six of the ten components made positive contributions in April, led by higher stock prices, a positive interest rate spread, and an increase in residential building permits.

The Weekly Leading Index from the Economic Cycle Research Institute (ECRI) paints a similar picture of moderating decline in the economy. The rate of change of the index improved during the week of May 16 to -6.6% – its best showing since the week of December 21. ECRI analysts say the improvement is notable, but does not yet reverse the recession signal, in part because it is narrowly based across components.

Existing homes sales fell 1.0% in April after a 1.8% drop in March. Compared with a year earlier, sales are off 17.5%. The inventory of homes for sale jumped to 4.552 million from 4.118 million in March. And the number of months' supply increased to 11.2 from 10.0 in March – a new high for this cycle. The months' supply of condominiums and townhouses increased to 14.2 from 12.8 in March. Recent weakness in mortgage applications (see reverse for chart) indicates that the housing adjustment has further to go.

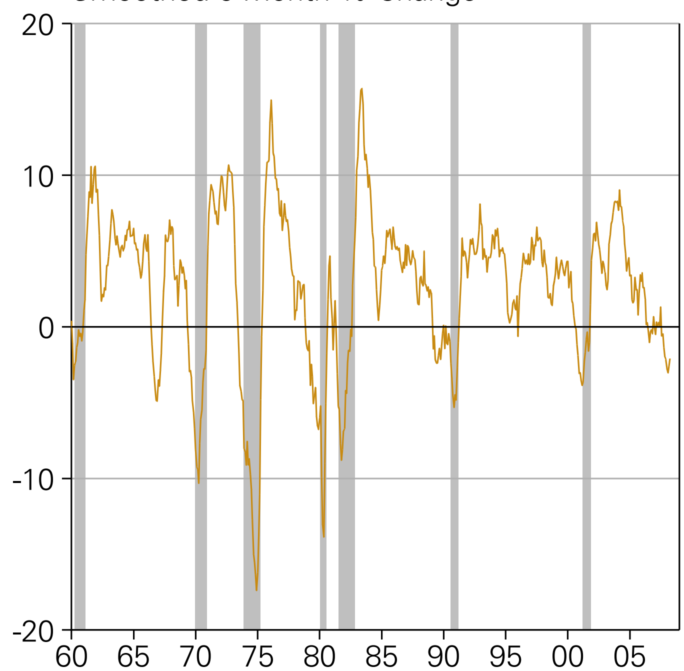
The Fed released the minutes from the April 29-30 Federal Open Market Committee meeting, at which members voted to reduce the federal funds rate target by 25 bps to 2.00%. The minutes stated that "several members noted that it was unikely to be appropriate to ease policy … unless economic and financial developments indicated a significant weakening of the economic outlook."

The leading economic index was stable for another month, but existing home sales continued to slide. The minutes from the Fed's April policy making meeting reinforced expectations that the next rate change will be an increase before year end.

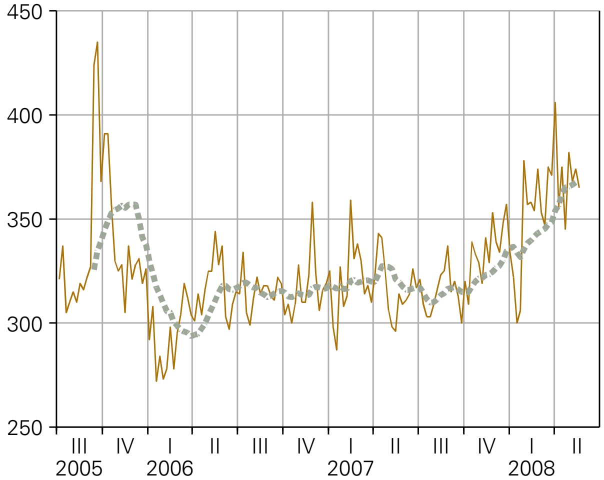
We view an increase in the federal funds rate target before year end as highly unlikely in light of recent economic reports. We expect the Fed to hold at 2.00% either until the economy takes a turn for the worse, in which case it will reduce rates further, or until well after an economic upturn is in place.

Jim Coons

Composite Leading Economic Index (LEI)
Smoothed 6-Month % Change



Initial Claims for Unemployment Insurance
Thousands Per Week, Seasonally Adjusted

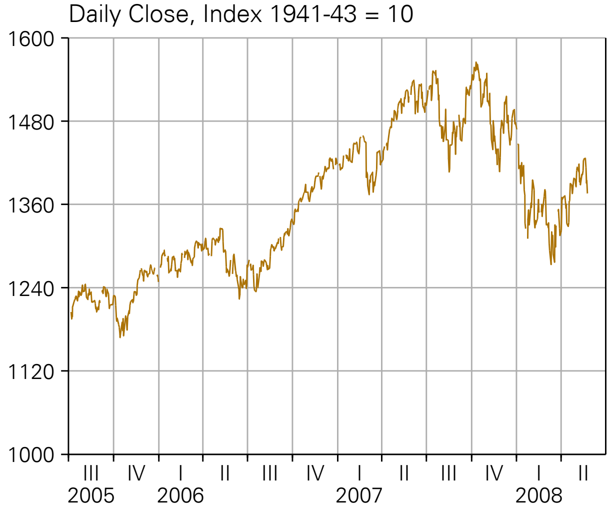


U. S. Dollar Exchange Rate
FRB Major Currency Index, 1973 = 100

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