

The recent deterioration in leading economic indicators points to more economic weakness ahead.

The smoothed 6-month rate of change in the Conference Board's leading economic index decreased in July for the first time after improving for four straight months. The rate of change fell to -2.7% from -1.7% in June and almost all the way back to the low for this cycle of -2.9%, which was reached in February.

While the rate of change in the leading economic index has reached a trough and started to rise on average seven months prior to the end recessions, the lead time has varied from as short as two months to as long as thirteen months.

If the February low holds, the historical timing of the leading economic index would imply an end to this recession (if it started in January) anywhere from last April to next March, using the shortest and longest historical lead times, respectively. The average lead time of seven months would mean the recession would end in September.

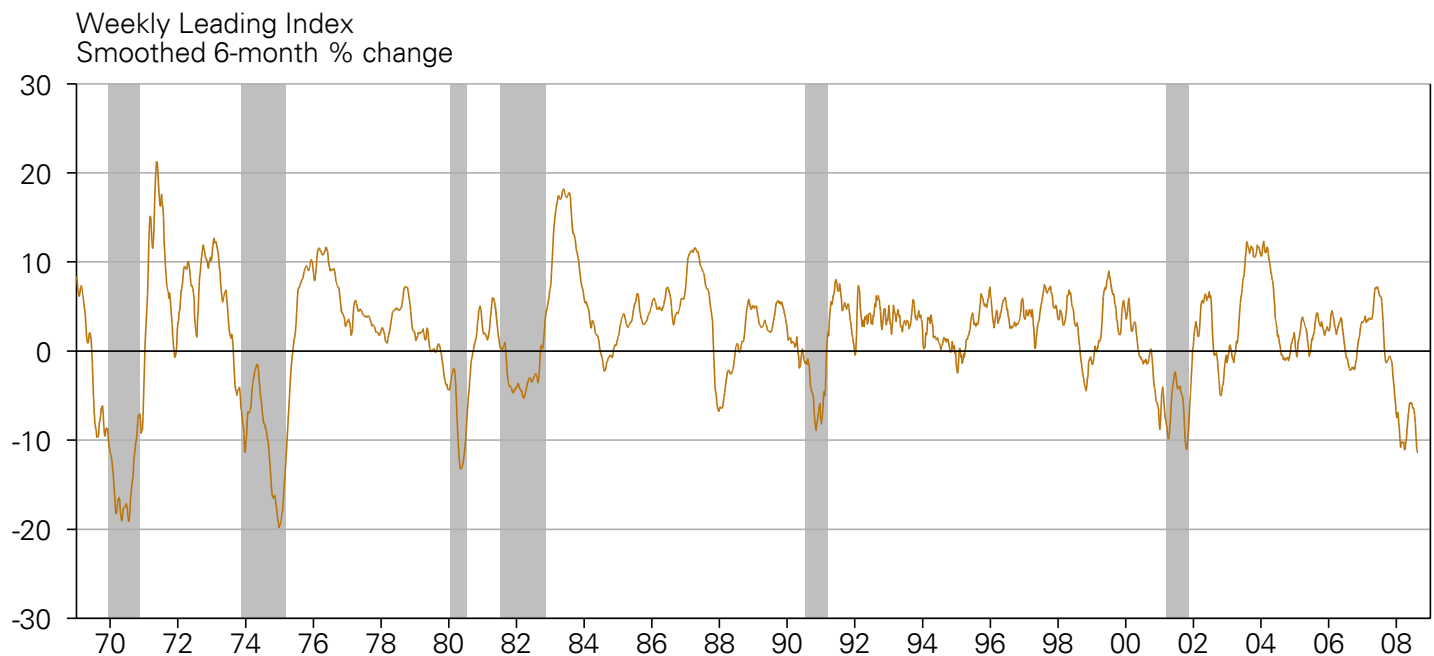
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Of course it is possible that the growth rate has not yet reached its low for this cycle, which would push the wide window for possible end dates further into the future.

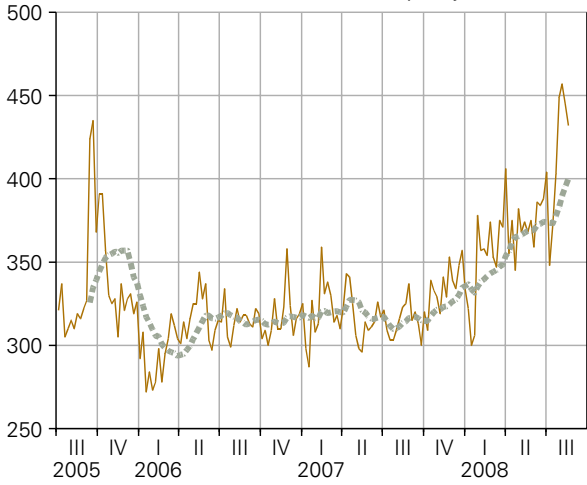
The weekly leading index, compiled by the Economic Cycle Research Institute, just reached a new low for the cycle during the week ending August 15. Its shorter and less variable historical lead time points to an end to the recession between next month and April 2009, with a best guess of December. All of that depends on the August 15 reading being the low point for this cycle, which we cannot know until well after the fact.

Regardless of the considerable uncertainty, the leading indicators do tell us that the economy is in recession and provide no signal that it is about to end.

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

