Weekly Econotes

COONS ADVISORS

AUGUST 29, 2008

Real GDP growth was revised up to 3.3% in the second quarter from the initial report of 1.9%. The upward revision reflected much stronger foreign trade than originally estimated and a smaller decrease in business inventories.

The increase in exports and decrease in imports accounted for almost all of the growth in real GDP during the quarter. Real GDP excluding net exports – referred to as gross domestic purchases – edged up by only 0.2%. That followed a small rise of 0.1% in the first quarter and a decrease of 1.0% in the fourth quarter of 2007. Real gross domestic purchases growth has been weaker in the past only during or heading into recessions.

The major drivers of second quarter growth remained net exports, personal consumption expenditures, government spending, and investment in nonresidential structures. Factors subtracting from growth included the change in business inventories, investment in residential structures and investment in equipment and software.

Looking ahead, the Weekly Leading Index from the Economic Cycle Research Institute (ECRI) sank to a new cycle-low in late August. The composite Leading Economic Index compiled by the Conference Board fell by 2.7% from a year earlier in July, nearing the cycle-low of -2.9% reached in February. Both business cycle gauges indicate that the economy is not likely to rebound in coming months.

A key factor holding back the economy in the third and fourth quarters will be consumer spending. Real personal consumption expenditures managed only a 1.8% increase in the second quarter, even with the large dose of fisacl stimulus. Real spending ended the quarter on a weak note, falling 0.1%, and started the third quarter on a weaker note, falling 0.4%.

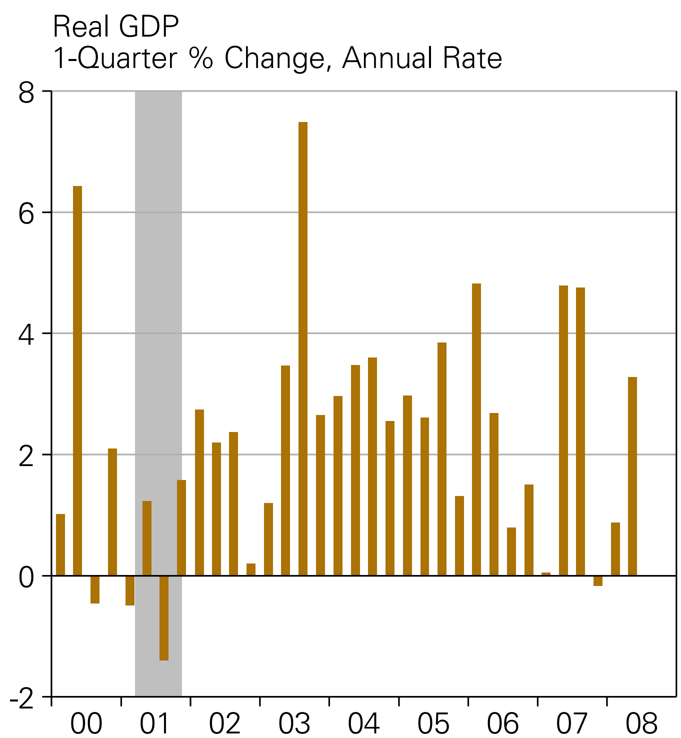
Consumer expectations for the economy improved very modestly in July and again in August, according to the Conference Board and Reuters/University of Michigan surveys, but remained near historic lows. The Index of Small Business Optimism, compiled by the National Federation of Independent Business, fell further into recession territory in July, largely reflecting weak capital spending plans. Owners of small businesses reported that

Real GDP growth was revised up to 3.3% in the second quarter from the initial report of 1.9%. The upward revision reflected much stronger foreign trade than originally estimated and a smaller decrease in business inventories.

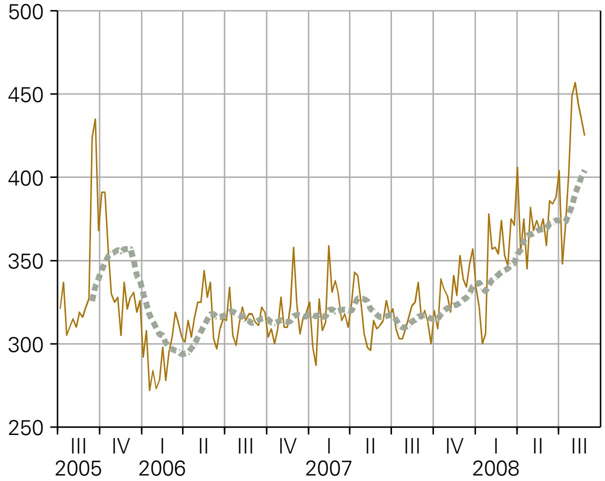
credit remains available, job creation is weak but not crashing, and that inflation is a widespread problem.

Initial jobless claims remained above 400,000 for the sixth straight week. The elevated level of claims reflects the reapplication by previous job losers whose benefits were extended to 9 months from 6 months by legislation signed into law on June 30. The failure of claims to fall back below the 400,000 level in coming weeks would be a clear sign of continued deterioration in labor markets.

Jim Coons



Initial Claims for Unemployment Insurance
Thousands Per Week, Seasonally Adjusted

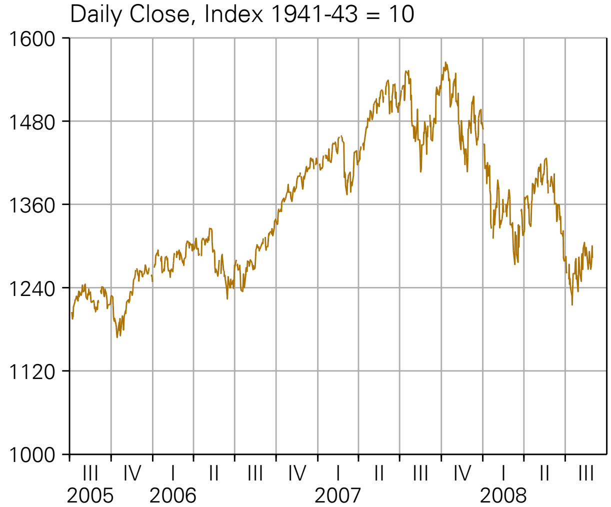


U. S. Dollar Exchange Rate
FRB Major Currency Index, 1973 = 100

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