

The prices of gold, oil and equities headed lower on the week, reflecting accumulating concerns about a global recession and its implications for corporate profits. Superficial improvement in the Leading Economic Index and existing home sales was largely ignored.

The Leading Economic Index published by the Conference Board increased 0.3% in September, following a revised 0.9% decrease in August. The smoothed six-month rate of change increased from -3.8% in August – the low for this cycle – to -2.7% in September.

The improvement is probably misleading, however, because it was driven by stronger growth in the money supply and a steepening in the Treasury yield curve that are symptoms of the ongoing financial crisis.

Parsing composite indexes can be dangerous, but also instructive. After all, the point of creating a composite is to observed the joint patterns of the various components. Picking an choosing which components to emphasize at different times can lead analysts astray. Yet recognizing when a few components are distorting the message of the composite can be valuable. We will find out the meaning of the September bounce after observing the index for several more months.

In the meantime, other evidence supports the negative view. The Weekly Leading Index from the Economic Cycle Research Institute, for example, tumbled again in the week ending October 17, pulling down the smoothed 52-week rate of change to -9.3% – the steepest rate of descent since near the end of the 1973-75 recession in late 1974. The indicator provides no signs of an imminent upturn in the economy, and is consistent with the most severe recession since the early 1980s.

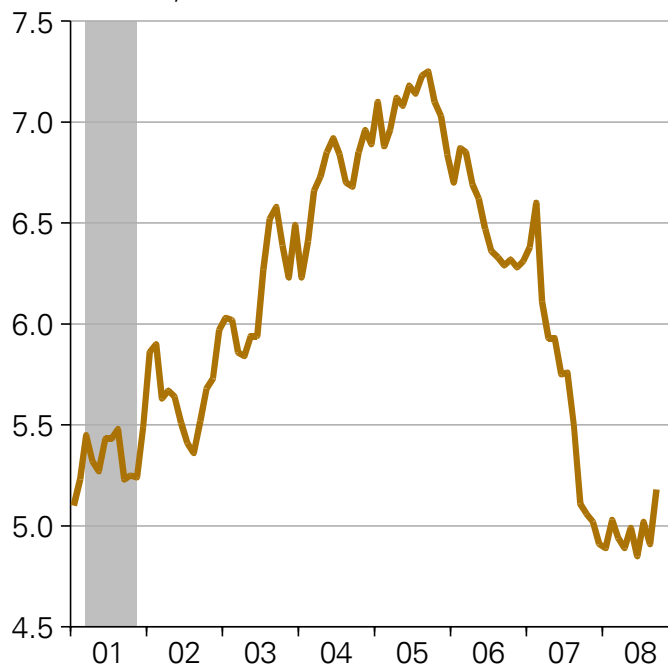
Existing home sales increased 5.5% in September to the highest rate in more than a year, after being flat since late 2007. (See nearby chart) The median price was 9.0% below the year ago level and the average price was down 8.8%. The inventory of unsold homes fell to the lowest mark since March and the months' supply of existing homes for sale decreased from 10.6 months in August to 9.9 months in September – the lowest level since February.

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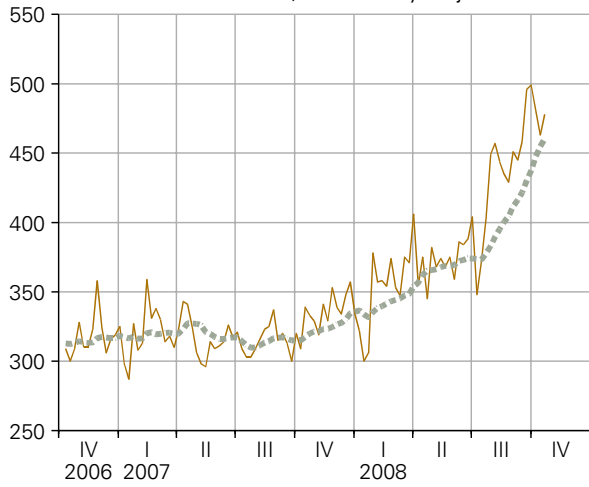
The improvement in sales came entirely in single-family homes and to a great extent from sales in the West. Apparently, distressed sales, comprised of short sales and properties being sold out of foreclosure were an important factor. Sales are sales, of course, and reduce inventory. But distressed sales do not represent a strengthening in demand, which remains under pressure from falling employment and tight credit.

Jim Coons

Existing Single-Family Home Sales  
Millions, SAAR



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

