

The stream of negative economic reports continued, and leading indicators of economic activity sank further. The Consumer Price Index fell in October by the largest amount on record dating back to 1947.

Industrial production rebounded by 1.3% in October, reflecting recovery from Hurricanes Gustav and Ike. The September decrease was revised lower from -2.8% to -3.7% due to upward adjustments to the estimated costs of the hurricanes. Production of light motor vehicles fell 3.5% in October to 18.4% below the year earlier level, and is likely to fall further in the months ahead in response to slower sales.

The Philadelphia Federal Reserve manufacturing index decreased to -39.3 – the lowest mark since the 1990-91 recession. A key component fell to its lowest level since 1982. Expectations of manufacturers deteriorated further.

Housing construction deteriorated in October, as housing starts fell to 791 thousand units at a seasonally adjusted annual rate – the lowest level on record dating back to 1959. Permits fell 12.0% to 708 thousand units – down about 60% from the peak in September 2005. Permits declined for both single-family and multi-family units and across all four regions of the country.

Leading indicators deteriorated again in October and through mid-November. The Conference Board's Leading Economic Index decreased 0.8% in October, pulled down by 6 of the 10 components. The declines in stock prices, residential building permits, and consumer confidence were especially significant. The smoothed 6-month percent change fell to -4.0%, which is the fastest pace of decline by a slim margin since January 1991.

The smoothed 6-month rate of change in the Economic Cycle Research Institute's Weekly Leading Index decreased to another record of -28.2%. The steep rate of descent reflects the very abrupt downturn in the economy that started in late summer. Neither the Leading Economic Index nor the Weekly Economic Index show any sign of a near-term upturn in the economy.

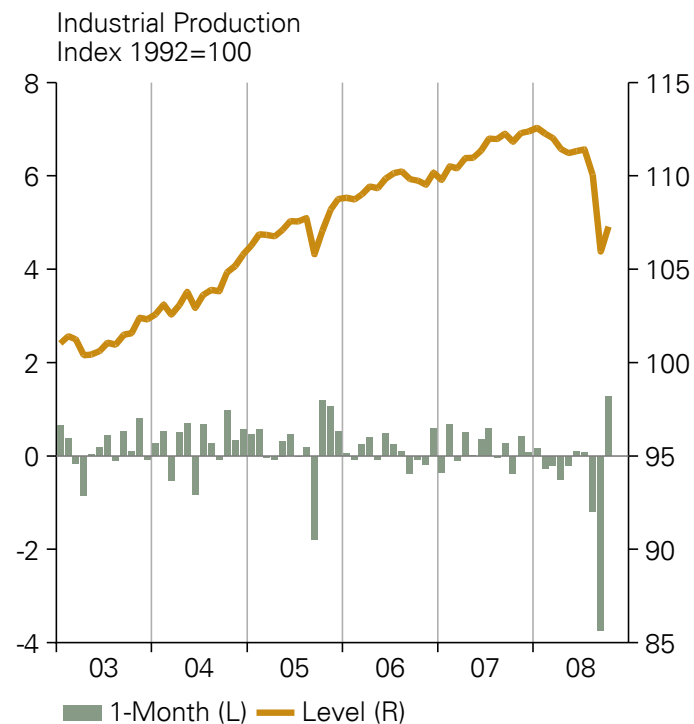
Reflecting substantial declines in energy prices, the Consumer Price Index fell by 1.0% in October – the

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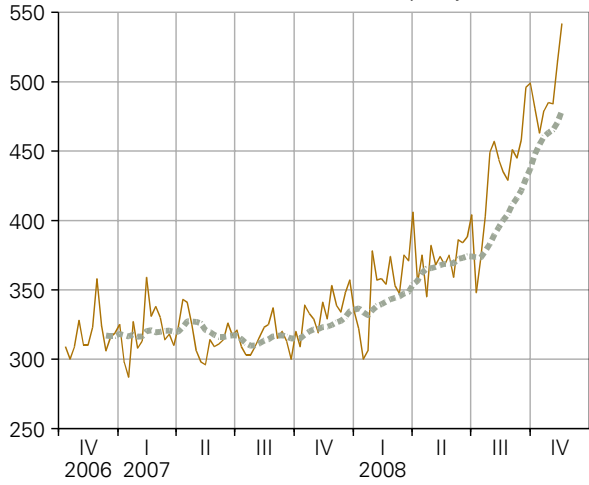
largest monthly decline on record dating back to 1947. Energy prices fell by 8.6%, following declines of 3.1% and 1.9% in August and September, respectively. Excluding food and energy, the CPI decreased 0.1% – the first monthly decline since 1982. The year-over-year rate of change in the CPI slowed to 3.7% in October, down from a peak of 5.5% in July.

Concerns have quickly shifted from inflation to deflation. Our analysis has consistently pointed to, and continues to point to, a significant moderation in the rate of inflation.

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

