

After decreasing at a modest pace in the third quarter, real GDP is contracting at the fastest rate in many years during the fourth quarter. Real GDP decreased 0.5% in the summer quarter. The year-over-year increase of 0.7% was the weakest since the final quarter of the 2001 recession. The 3.7% decrease in consumer spending was the largest since credit controls induced a steeper decline in the second quarter of 1980.

Real disposable income rebounded by 1.0% in October, but was only 0.5% above the year earlier level. The monthly pattern has been distorted this year by the rebate checks distributed in the second quarter and Hurricanes Gustav and Ike in the third quarter. Real wage and salary disbursements have been lower than a year earlier in each month since June, compared with the year-over-year comparisons close to 3.5% during the first three quarters of 2007.

Strength in nonresidential construction, net exports and national defense spending during the third quarter offset declines in business investment in equipment and software and investment in residential structures. Net exports improved due to the effect of weak domestic demand on imports. Business inventories added to growth by falling by less than in the second quarter.

The consensus among forecasters is that the negatives will persist during the next few quarters without much offset from the few positives. The consensus is for the largest percentage declines since the 1981-82 recession in real GDP during the fourth quarter and the first quarter. Economic growth is expected to return at a modest rate by the second-half of 2009.

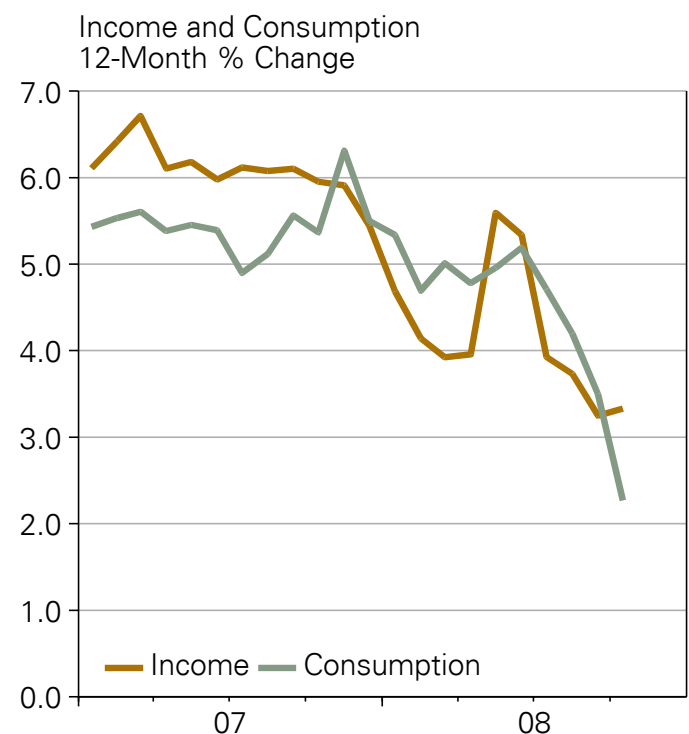
The depth and duration of downturns are very difficult to gauge reliably. Projections that the downturn will persist throughout 2009 have several historical precedents. For example, real GDP decreased in six of the twelve quarters during 1980-82, increasing in four quarters, and posting modest advances in two quarters. Real GDP decreased during five of the seven quarters of the 1973-1975 recession.

Leading economic indicators provide no sign of a near term upturn in the economy. The Conference Board's

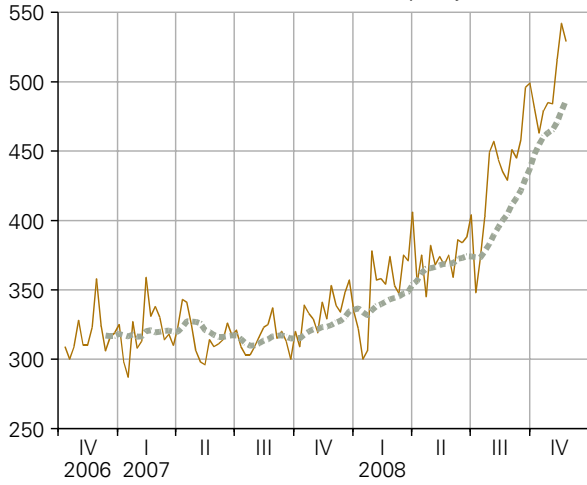
Real GDP growth in the third quarter was revised slightly lower to -0.5%. Higher frequency indicators point toward a sharp drop-off in activity during the fourth quarter that could last at least through the winter.

Leading Economic Index is falling only about as fast as the most rapid rates of decline in the last two recessions on a year-over-year basis through October. But the rate of change of the Weekly Leading Index from the Economic Cycle Research Institute reached an all-time low of 29.2% in the week ending November 21. Analysts at the Institute believe that the rate of change in the Index is roughly correlated with the rate of economic growth or contraction.

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

