

The 2008 holiday shopping season is not surprisingly shaping up as one of the worst on record. Disposable personal income edged down by 0.1% in November to 3.0% above the year earlier level. After adjusting for inflation, disposable income increased 1.0%, due the large decrease in the price level related to the drop in the price of oil. Compared with a year earlier, real disposable personal income was up only 1.6%.

The summer economic stimulus checks, authorized by the Economic Stimulus Act of 2008 that was enacted by congress in February and distributed mainly during the second quarter, appear to have had little effect on consumer spending. Personal consumption expenditures fell 0.6% in November for the fifth consecutive monthly decline. Compared with a year earlier, consumption was up by only 0.5% in nominal terms and down by 0.9% after adjustment for inflation.

Wage and salary disbursements provide a clearer picture of the underlying trend in consumer spending power, and confirm the underlying deterioration. Wages and salaries declined 0.1% in November for the second decline in the last three months to just 1.5% above the year earlier level. Wages and salaries increased 4.5% from December 2006 to December 2007. The slowdown primarily reflects the downturn in employment, as year-over-year growth in average hourly earnings has slowed only moderately from 4.1% during the twelve months ending in September 2007 to 3.4% during the twelve months ending in November 2008.

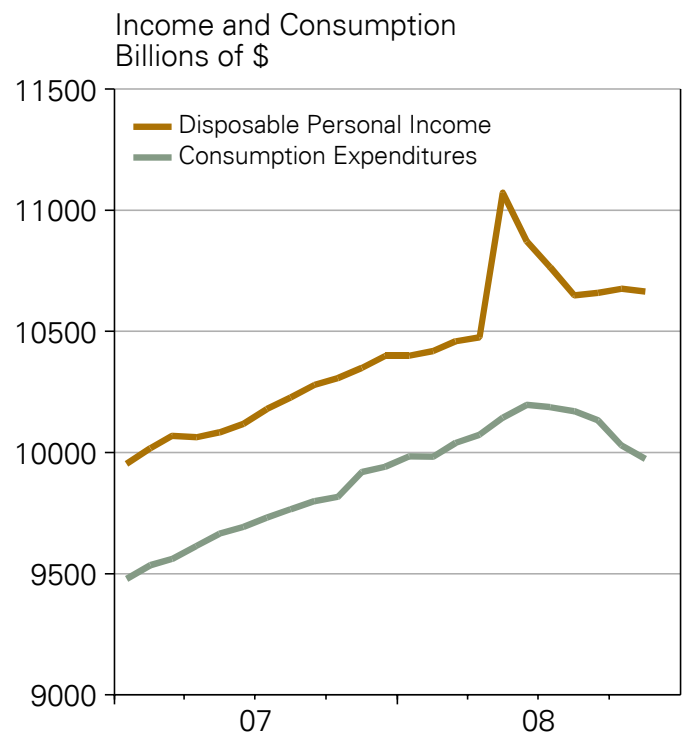
The tough economic conditions are prompting households to save more out of current income. The saving rate increased to 2.8% of disposable person income in November from 2.4% in October. The rate had dipped to a low of 0.0% in April after averaging between 0.5% and 0.7% since 2005. As recently as 2004, the saving rate was 2.1%.

Consumer confidence improved somewhat in December, according to Reuters/University of Michigan, but remained near all-time lows. Expectations were essentially unchanged from November, whereas the assessment of current conditions improved significantly to the best mark since September.

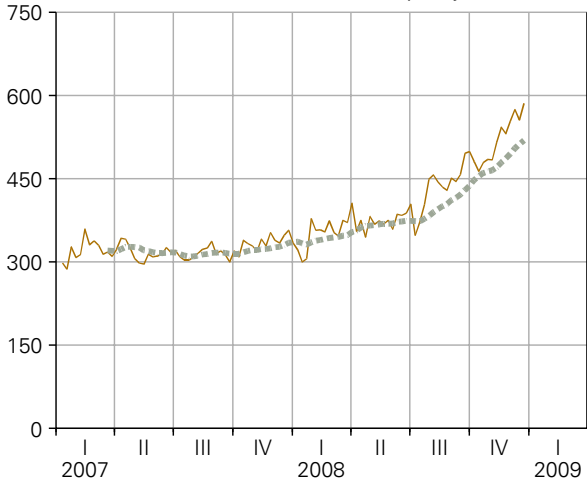
The 2008 holiday shopping season is shaping up as one of the worst on record. Weak income growth and an increasing propensity to save resulted in a decline in consumer spending for the fifth straight month in November.

Sales of both new and existing homes fell in November in the Midwest and across the country. Sales of new homes fell 2.9% to an annual pace of 407 thousand units. The number of unsold newly constructed homes decreased for the nineteenth straight month to the lowest level since February 2004, but remained above 11 months' worth of sales at the November rate – almost double the normal level. The number of existing homes on the market increase slightly, also to more than 11 months' worth at the November rate.

Jim Coons



Initial Claims for Unemployment Insurance
Thousands Per Week, Seasonally Adjusted



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



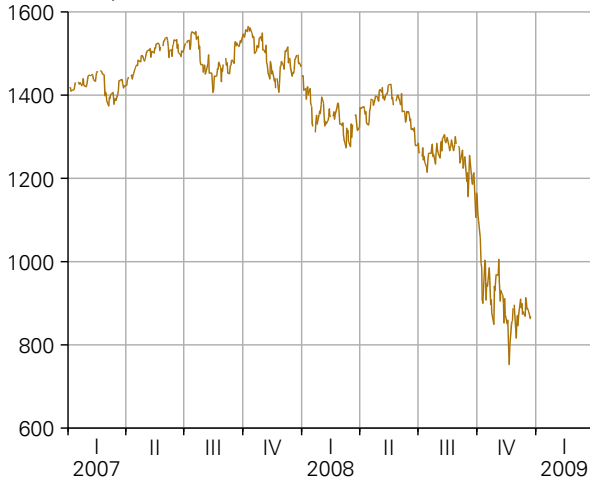
Price of Oil
West Texas Int, \$/bbl



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

