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Real GDP decreased at an annual rate of 3.8% in the final period of 2008 – the fastest decline since the 6.4% decline in the first quarter of 1982.

Weakness was broad-based. Consumer spending fell 3.5% following a 3.8% decline in the third quarter – the first back-to-back drop since 1991. Business investment in equipment and software fell 1.8%, investment in nonresidential structures fell 23.6%, housing construction fell 23.6%, and exports dropped 27.7%.

The change in inventories swung from a decline of \$29.6 billion in the third quarter to a gain of \$6.2 billion in the fourth quarter, presumably as demand fell short of expectations. Businesses are likely in the process of scaling back employment and production in the current quarter to bring inventories into line with diminished sales projections.

Government spending increased 1.9%, reflecting a 5.8% increase in federal government purchases and a 0.5% decline in state and local government spending. Federal nondefense spending rose 14.5%, while defense spending was up 2.1%.

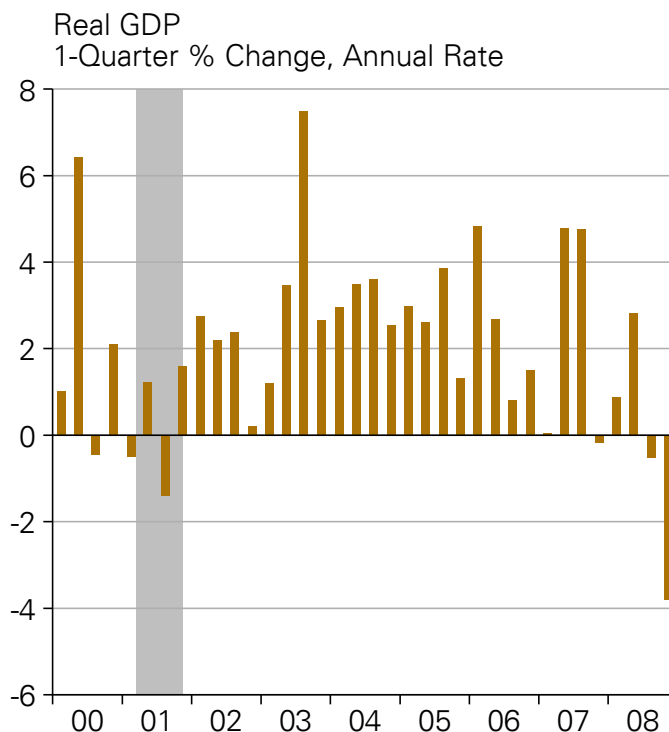
The composition of activity during the quarter augurs poorly for growth in the first quarter. The downward trajectory of consumer spending is so steep that if spending merely stays at the December level during the first quarter, consumption will decline at an annual rate of approximately 2.7%.

That would mark the first string of three consecutive quarterly declines in real consumer spending on record. Consumption fell in 4 of 7 consecutive quarters in the 1973-75 recession and 3 of 5 consecutive quarters surrounding the 1980 recession.

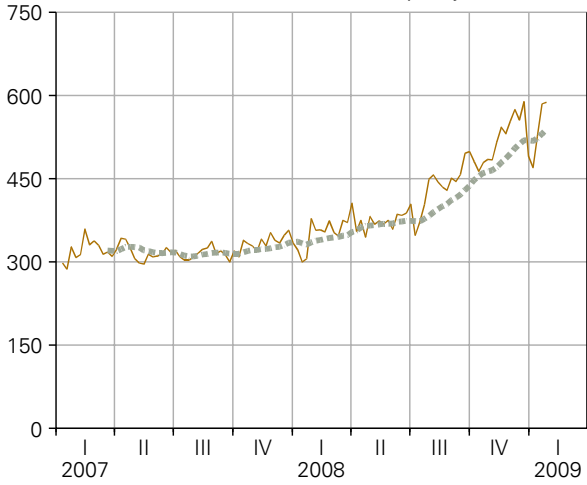
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More ominous are the almost surely involuntary inventory build and the sharp drop in exports during the fourth quarter. Even though the decrease in inventories in the third quarter was the second largest on record, the steep drop-off in demand suggests further declines ahead. And after driving growth higher through the earlier years of the decade, exports are likely to subtract from activity, as foreign economies continue to contract.

Jim Coons



Initial Claims for Unemployment Insurance
Thousands Per Week, Seasonally Adjusted



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



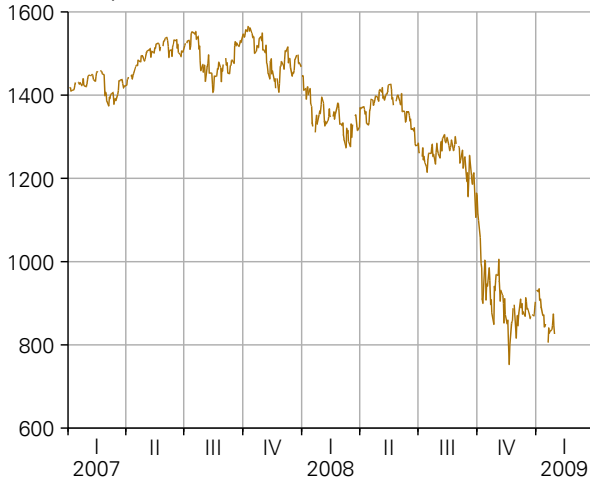
Price of Oil
West Texas Int, \$/bbl



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

