Weekly Econotes

FEBRUARY 27, 2009

The economy contracted at a faster pace in the fourth quarter of 2008 than initially expected and originally reported. The rate of decrease in real GDP was revised lower from the advance estimate of 3.8% to 6.2%.

The fourth quarter decline was the largest since the first quarter of 1982 and before that the second quarter of 1980. The latter ushered in a ten-quarter period during which real GDP decreased in six quarters and the economy managed virtually no net growth.

Real GDP fell by 0.8% from the fourth quarter of 2007 – the first decrease during a four-quarter span since the third quarter of 1991, when output fell 0.1%, and the first for a calendar year since the fourth quarter of 1982, when output fell 1.4%.

Most major categories contributed to the decline during the quarter. Exports, personal consumption expenditures, investment in equipment and software and investment in residential structures subtracted 3.4 percentage points, 3.0 percentage points, 2.2 percentage points, and 0.8 percentage points, respectively.

Federal government spending made a positive contribution of 0.5 percentage points, which was partly offset by a negative contribution of 0.2 percentage points from state and local government spending. Imports decreased for the fifth consecutive quarter, adding 3 percentage points to growth.

The trade deficit widened from its long-time low in the third quarter, as exports fell by more than imports, but was the second narrowest gap since the first quarter of 2000. The trade deficit typically widens when the U.S. economy is expanding and narrows when growth slows.

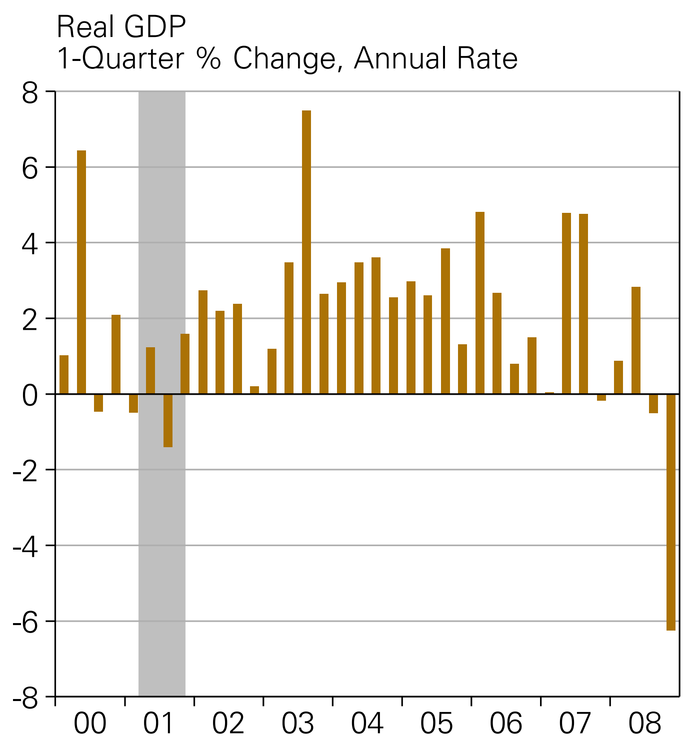
The main sources of the large revision to the change in fourth quarter GDP were the change in business inventories, exports and personal consumption expenditures for nondurable goods. The revision to the change in inventories accounted for one-half, or 1.2 percentage points, of the downward revision to GDP.

Much larger inventory reductions are likely in the quarters immediately ahead, in light of the substantial drop-off in demand and the relatively small inventory reductions so far in this cycle compared with previous recessions. As a percent of GDP, the decline in inventories has been only half as large in any quarter in this cycle as the maximum declines in the 1980, 1981-82 and 2001 recessions.

The economy contracted at a faster pace in the fourth quarter of 2008 than initially expected and originally reported. Leading indicators suggest that the rate of decline in activity is near its maximum.

The Weekly Leading Index from the Economic Cycle Research Institute was little changed on balance in late February from its November level, suggesting that the rate of decline in real GDP has reached its maximum, but not that an improvement is imminent.

Jim Coons



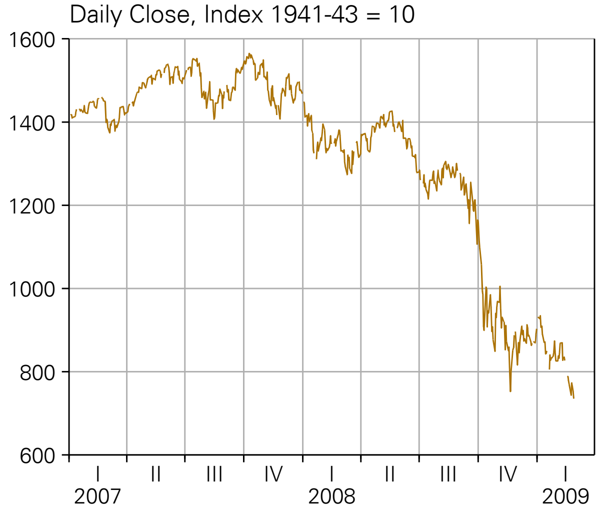
Initial Claims for Unemployment Insurance
Thousands Per Week, Seasonally Adjusted

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