Weekly Econotes

COONS ADVISORS

MARCH 13, 2009

Consumer spending appears to have stabilized in the first quarter despite a huge decrease in wealth during the fourth quarter. The Weekly Leading Index slipped again in the week ending March 6 as initial jobless claims remained well above the 600,000 per week level.

Consumer spending appears to have stabilized early in 2009, even as household wealth suffered a major setback in the fourth quarter.

News that retail sales increased 1.0% in January was met with widespread skepticism when it was announced in mid-February. Not only was the surprise increase followed by flat sales in February (down 0.1%), but the January increase was revised up to 1.8% not down.

Based on the recent pattern in retail sales, real consumer spending is now projected to rise by 0.5% to 1.0% in the current quarter. That's a small increase for the sector that is usually the main source of growth, but a monumental turnaround from the 3.8% decline in the third quarter and 4.3% drop in the fourth.

Nonetheless, real GDP is still on pace for another nasty decline in the first quarter as reductions in inventories and construction put-in-place in particular will more than offset any pockets of growth elsewhere in the economy.

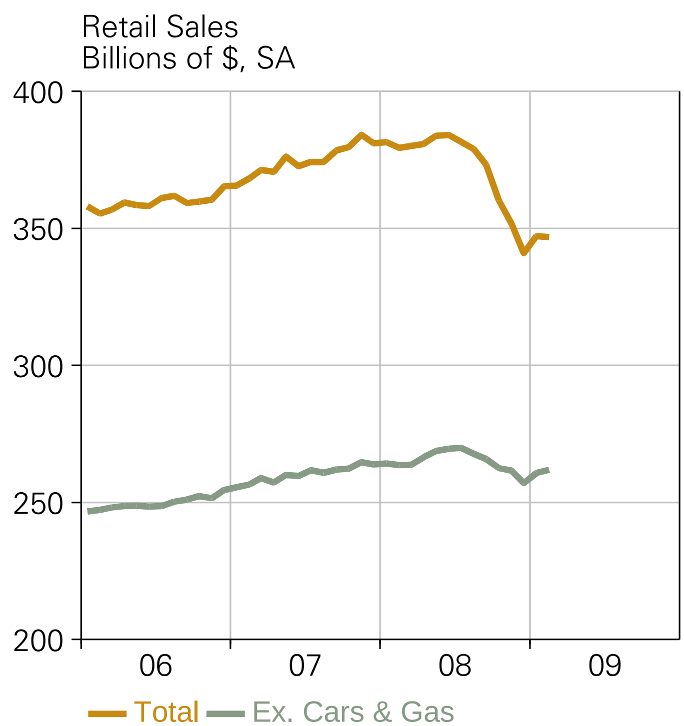
Outside of the automotive segment, most major retail categories posted higher sales in February. Retail sales at automotive dealerships fell 4.3% in the fifth decline in six months. Excluding sales at both dealerships and gasoline stations, retail sales increased 0.5% after a 1.4% rise in January. Sales at clothing retailers increase 2.9% in February after a 4.9% rise in January that followed five straight monthly declines.

The apparent strength in consumer spending early in 2009 is a surprise, given record-low confidence readings and the enormous loss in wealth during the fourth quarter. The Conference Board measure of consumer confidence stood at an all-time low in February. And the Reuters/University of Michigan measure was not far above its all-time low in early March. More ominously, the Federal Reserve Board reported that household net worth decreased by $5 trillion during the fourth quarter to the same level as four years ago.

The Weekly Leading Index from the Economic Cycle Research Institute dipped to a new low for the cycle and the lowest level in about fifteen years during the week ending March 6. The index had leveled off starting in November after a sharp decline, but resumed its decline three weeks ago. The smoothed 52-week rate of change remains stable at about -24%, still a bit better than its low of -30.2% in early December.

A key factor in the Index is initial jobless claims, which have been 600,000 to 700,000 during the most recent six weeks. This might be the peak in jobless claims, in which case, the economy might begin expanding as soon as the second or third quarter, but that remains to be seen.

Jim Coons

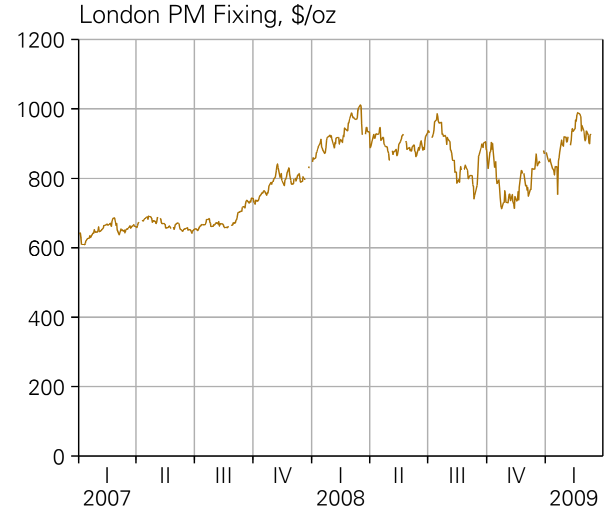


Initial Claims for Unemployment Insurance
Thousands Per Week, Seasonally Adjusted

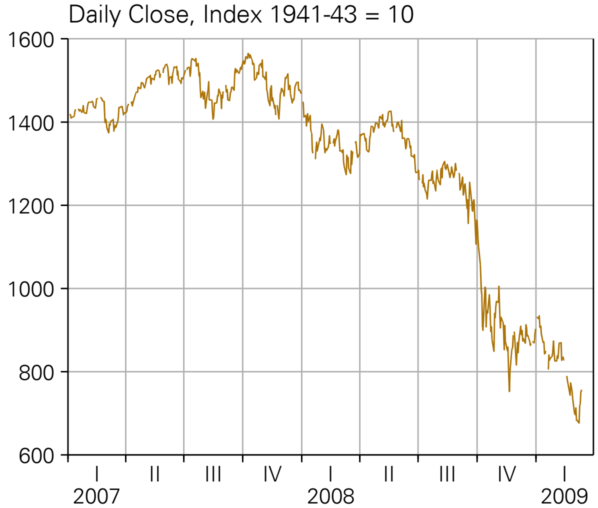
U. S. Dollar Exchange Rate
FRB Major Currency Index, 1973 = 100

Price of Oil
West Texas Int, $/bbl

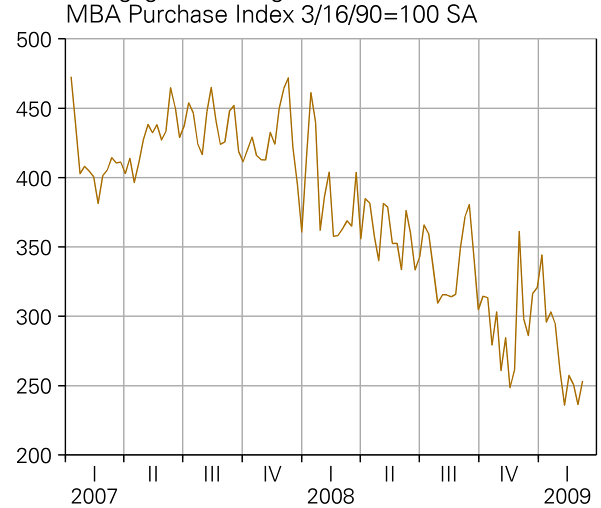
Price of Gold
London PM Fixing, $/oz



S&P 500 Stock Prices
Daily Close, Index 1941-43 = 10



Mortgage Loan Originations
MBA Purchase Index 3/16/90=100 SA



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