

The economy contracted sharply again in the first quarter. Real GDP fell at an annual rate in excess of 6% for the second consecutive quarter – the worst two-quarter showing since the late 1950s. At the same time, however, a growing list of signs point to impending recovery.

All major sectors, except for personal consumption expenditures, contributed to the decline in real GDP. Capital spending subtracted 4.7 percentage points from the change in real GDP. Exports subtracted 4.1 percentage points. The change in business inventories subtracted 2.8 points. Investment in residential structures subtracted 1.4 percentage points. Government spending subtracted 0.8 points, reflecting declines in national defense spending and outlays by financially strapped state and local governments.

The decline in capital spending accelerated, due largely to weakness in nonresidential structures. The drop during the half-year ending in the first quarter was the steepest on record. Past troughs in the two-quarter change in nonresidential construction have occurred at the end of recessions or at the beginning of recoveries.

Business inventories decreased at a record annual rate of \$103.7 billion, as production cutbacks finally overtook decreases in demand. As a percent of prior-quarter real GDP, the drop roughly matched the largest declines associated with previous recessions and which occurred close to the end of those downturns.

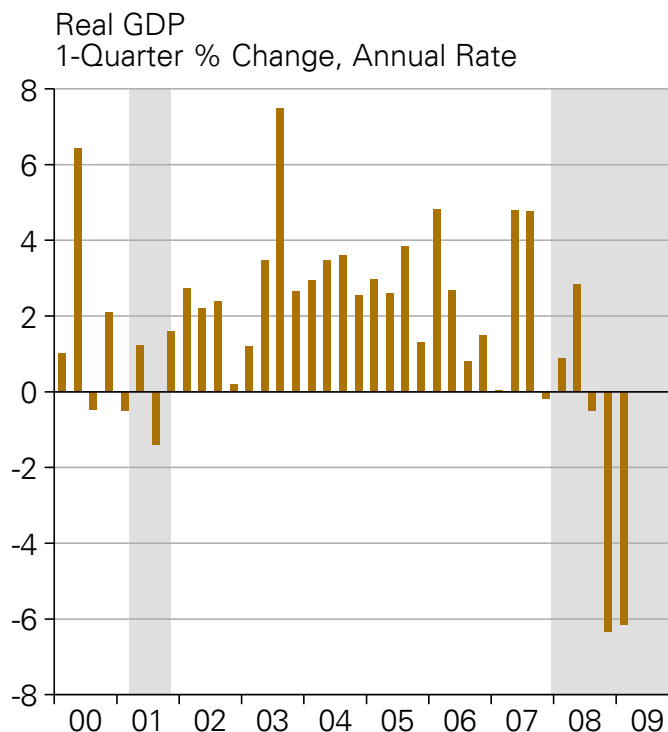
The large draw-down in inventories during the first quarter will provide a strong positive contribution to growth in the second and/or third quarters. For example, a halving in the rate of decline in inventories this spring would add approximately 2 percentage points to real GDP in the second quarter.

U.S. exports fell 30.0% at an annual rate in the first quarter, following a 23.6% drop in the fourth quarter. The decline in exports reflects the substantial slowdown in global economic activity. The decline was the second largest two-quarter decline on record, trailing the drop in the third and fourth quarters of 1949, which coincided with the end of the 1948-49 recession.

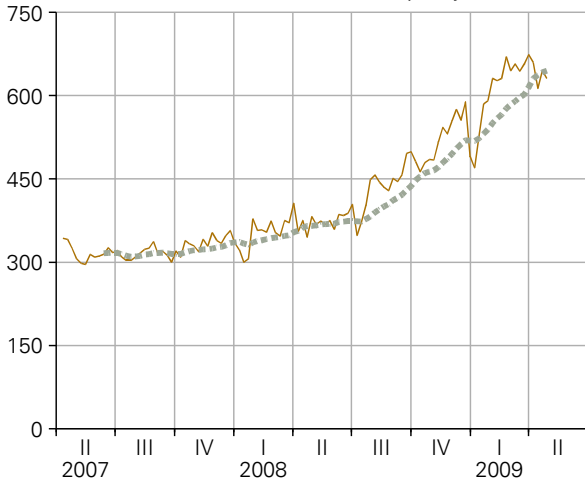
**The economy contracted sharply again in the first quarter, but signs of recovery continue to accumulate.**

Leading economic indicators continue to point toward a near-term upturn in the economy. The Weekly Leading Index from the Economic Cycle Research Institute has increased for five consecutive weeks on a four-week moving average basis. The rate of change, while still deeply negative, has improved from a low of -29.7% in early December to -17.4%. Past recessions have ended near the time that the growth rate of the index has reached a trough.

Jim Coons



Initial Claims for Unemployment Insurance  
Thousands Per Week, Seasonally Adjusted



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



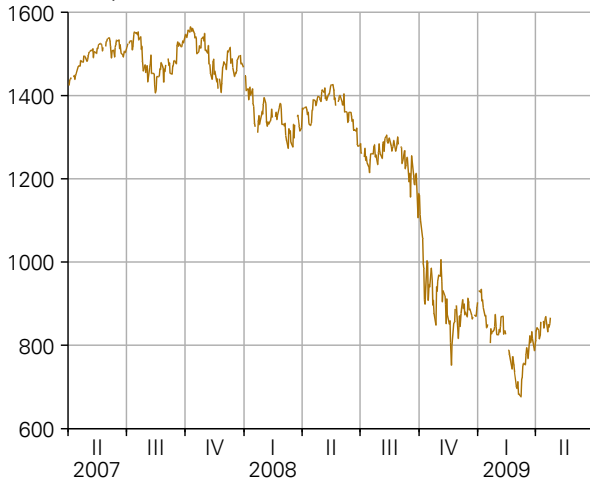
Price of Oil  
West Texas Int, \$/bbl



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

