

Purchasing managers at non-manufacturing firms reported the most favorable conditions in June since the financial panic unfolded last September. The Business Activity Index and New Orders Index both remained below the neutral level of 50, but improved from 44.0 to 47.0 and from 44.4 to 48.6, respectively. These indicators reached their all-time lows (going back to July 1997) of 37.3 and 35.4 last November. The pattern reinforces the message from purchasing managers in manufacturing, who have reported similar improvements since early last winter.

Households continue to adjust. Consumer installment debt outstanding fell 0.7% in May for the seventh decline in the last nine months. From the peak in September 2008, consumer installment debt outstanding has declined \$63 billion or 2.4%. Most of the decline occurred in the form of revolving credit, which is down 5.0% from the peak. Non-revolving credit is down just 0.9%.

A decline in consumer installment credit outstanding (which excludes mortgage debt) over 8-month spans is unusual, having occurred on only four other occasions since World War II. Each case occurred early in economic recovery from recession. Declines in inflation-adjusted credit outstanding have been more common. The current episode is consistent with the pull-back in consumer spending relative to income, which pushed the saving rate in May to 6.9% – the highest since December 1993.

According to the International Council of Shopping Centers (ICSC), same-store sales were 5.0% lower than a year earlier in June, a bit weaker than the 4.6% year-over-decline in May. Compared with a year ago, consumers face much weaker labor markets, no rebate checks (which added to purchasing power last summer) and lousy weather (which appears to have hurt seasonal sales). Only drug stores have reported better sales in the last two months. Luxury retailers reported a 12.2% drop in sales from a year earlier.

Consumer confidence waned further in early July. The Conference Board previously reported that confidence slipped in June in regard to both current and prospective conditions. The Reuters/University of Michigan index of consumer sentiment, which had held its ground in June, slipped in early July. The decline probably reflects further

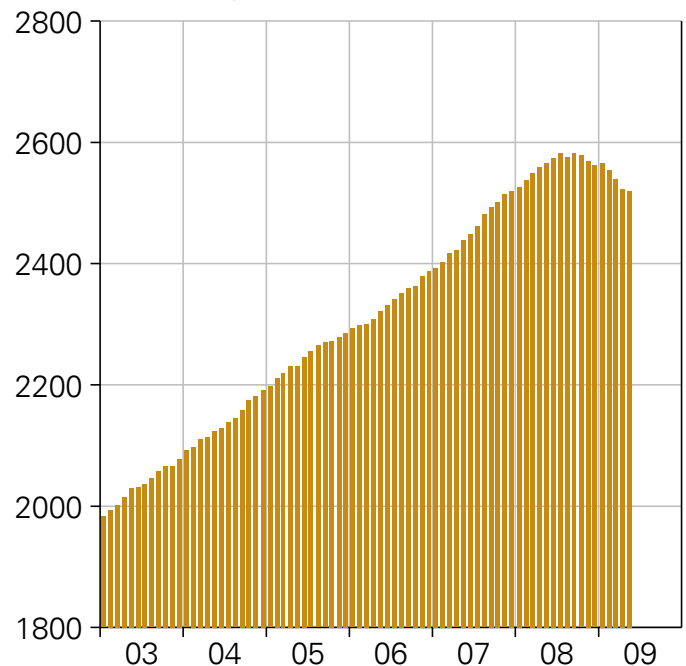
**Consumers pared debt further in May and confidence faded in June and early July. Consumption remains weak compared with a year ago.**

deterioration in labor markets, somewhat higher gasoline prices and mortgage rates, and the pull-back in equities.

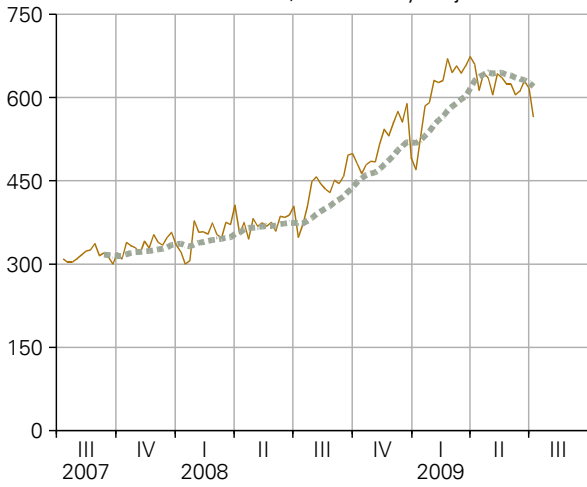
Jobless claims fell sharply in the week ending Saturday, July 4, pulling the 4-week moving average down to 606,000 – the lowest since early in the year. The jobs picture surely is worse than depicted by claims, due to difficulties in adjusting for the seasonal pattern surrounding the holiday.

Jim Coons

Consumer Installment Debt Outstanding  
Billion of \$



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

