Weekly Econotes

Coons Advisors

JULY 17, 2009

Coincident economic indicators continued to deteriorate during June, but leading indicators continued to rebound. The end of the recession is near at hand.

Industrial production decreased 0.4% in June, down 13.6% from June 2008. The monthly performance was the best since the 1.3% rise last October, which reflected recovery from weather and strike disturbances. This was the best clean number since last July, when production decreased 0.1%.

Even so, industrial production was weak in June. Output declined in all three major sectors: manufacturing, utilities and mining. Production in motor vehicles and parts fell 2.6, as assemblies of new vehicles slid 5.0%.

Manufacturing production was lower than a year earlier by 15.5% and below the pre-recession peak by 17.5% – another new record. The second-worst showing was the 15.3% decline in the nasty 1973-75 recession, followed by the 14.3% in the 1957-58 recession.

We will know for sure that the 2008-09 recession has ended when industrial production increases and the increase survives revisions. Industrial production reached its low point within one month of the end of each of the previous ten recessions, dating back to 1948-49.

The trough in production coincided with the trough in the economy on seven occasions, preceded it by one month on one occasion (1953-54), and followed it by one month on two occasions (1973-75 and 1981-82). It might be a coincidence that production was late by one month following the two most severe recessions (prior to this one). But if not, if there is a relationship between the severity of a downturn and the timing of the upturn in production, then the recession could have ended in May.

Leading indicators are consistent with a spring-summer end to the recession – as early as April-May and as late as August-September. The four-week moving average of the ECRI Weekly Leading Index (WLI) increased for the seventeenth week in the week of July 10, lifting its smoothed 26-week rate of change to 7.0% – the strongest growth rate since 2003-04 when the economy finally fully emerged from the 2001 recession.

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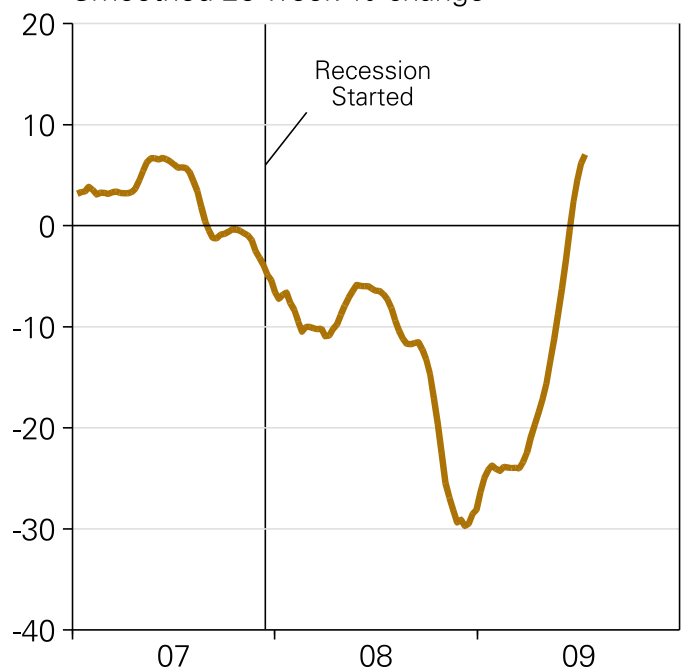
The Leading Economic Index (LEI) from the Conference Board supports the message of the WLI. The smoothed 6-month rate of change in the LEI increased to 2.3% in June from 0.7% in May – the best back-to-back monthly showing in more than two years.

An additional indication that the recession is ending is the ratio of the Coincident Economic Index to the Lagging Economic Index, which has been a reliable leading indicator for decades, increased for the third straight month in June.

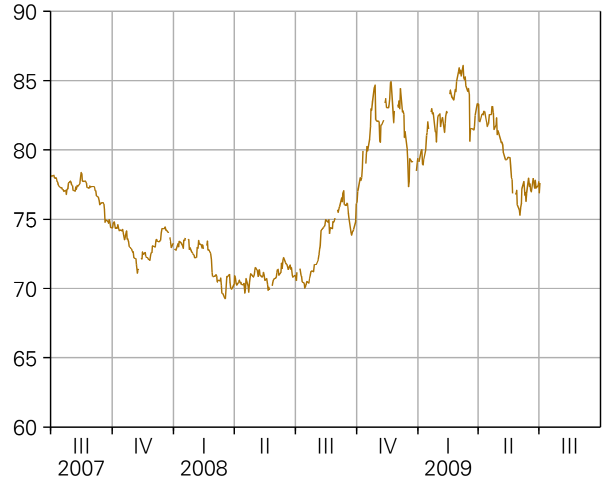
Jim Coons

Weekly Leading Index
Smoothed 26-week % change



Initial Claims for Unemployment Insurance
Thousands Per Week, Seasonally Adjusted

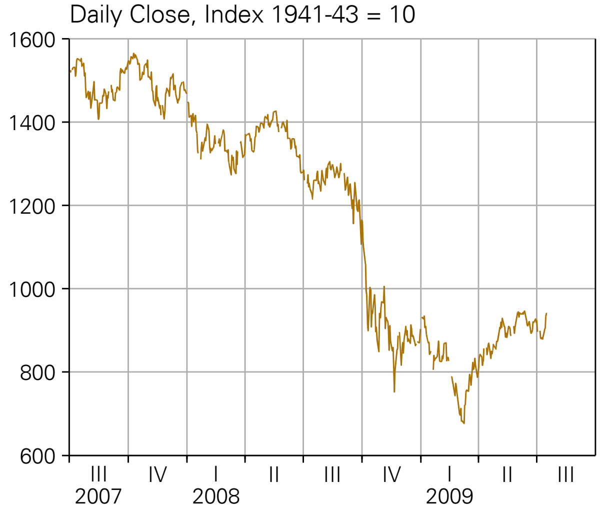
U. S. Dollar Exchange Rate
FRB Major Currency Index, 1973 = 100



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