

The economy contracted at an annual rate of 1.0% in the second quarter. The change in first quarter real GDP was revised lower to -6.4% and the fourth quarter change was revised up to -5.4%. Since the peak in the second quarter of 2008, real GDP has decreased by 3.9%, exceeding all other post-World War II peak-to-trough and 4-quarter declines.

Real GDP decreased in each of the past four quarters and four of the past six quarters. The economy had not previously contracted in four straight quarters in the quarterly dataset beginning in 1947. GDP declined in four quarters during the severe 1981-82 recession, but not in any two consecutive quarters. GDP declined in five quarters during the severe 1973-75 recession, but only in three consecutive quarters. In contrast, real GDP declined in only two quarters each during the 1990-91 and 2001 recessions.

Contributing to the decrease in real GDP during the first quarter, in order of the amount subtracted, were personal consumption expenditures, investment in residential structures, change in private inventories, investment in business equipment and software and investment in nonresidential structures. Positive contributions were made, in order of the amount contributed, by net exports and government consumption and investment.

Positive developments during the quarter include the slowdown in the rate of decline in nonresidential fixed investment and the largest-ever drawdown in inventories as a percent of previous-period final sales.

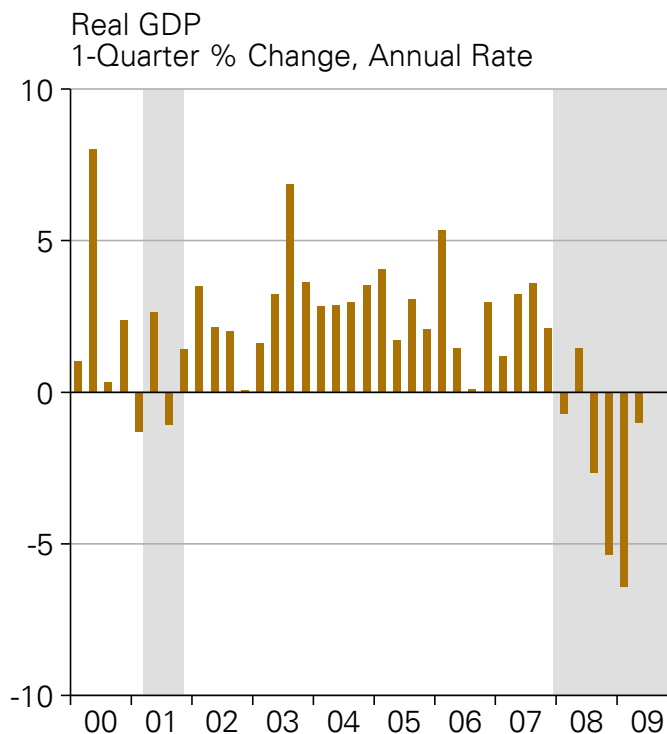
Nonresidential fixed investment, which includes investment in structures and equipment, decreased at an alarming annual rate of 39.2% in the first quarter. The rate of decline improved to 8.9% in the second quarter. The size of inventory drawdown – in conjunction with signs of strengthening final demand – is likely a prelude to a snap-back in production during the second half.

The consensus is that the recovery will be weaker than average. The Blue Chip Economic Indicators panel projected in early July that the economy will expand by only about 2% during the first year of recovery. That would be weaker than the first-year recovery from every

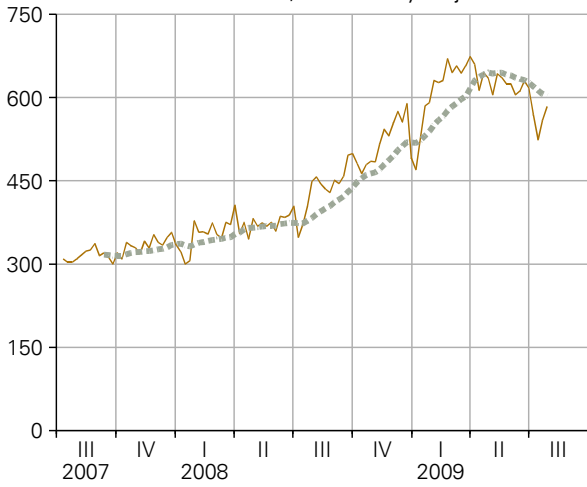
Real GDP decreased at an annual rate of 1.0% in the second quarter, following a 6.4% decrease in the first quarter. The economy has contracted by 3.9% since the beginning of the recession - the largest drop in the post-war period.

one of the ten previous recessions, during which growth averaged almost 7%. The economy expanded only 2.3% following the 2001 recession and only 2.7% following the 1990-91 recession – the two most recent recessions.

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

