

Real GDP increased 3.5% in the third quarter, as expected – the first increase following four consecutive quarterly decreases. The year-over-year rate of change improved from -3.8% in the second quarter – the largest 4-quarter decrease in the post World War II period – to 2.3% in the third quarter. Economic stimulus programs were largely responsible for the third quarter increase.

Personal consumption expenditures contributed 2.4 points of the 3.5% growth. Spending on motor vehicles and parts alone contributed a full point, reflecting the federal auto sales incentives that were offered in July and August. Exports added 1.5 points to growth, followed by the change in inventories, which added 0.9 points. Investment in residential structures, which benefited from the first-time homebuyers credit, added 0.5%. Government outlays also added 0.5%, as a small decline in state and local government expenditures partially offset an increase in federal spending, which was concentrated in national defense.

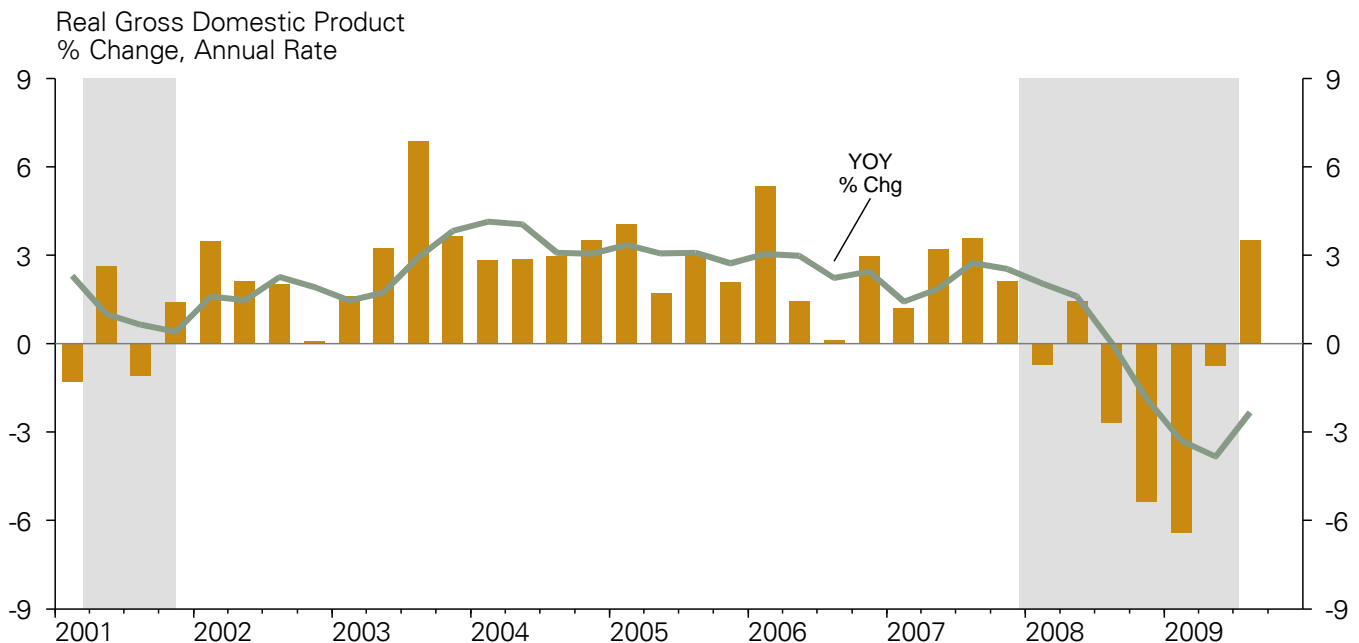
Forecasters drew an increasingly accurate bead on the third quarter GDP number as the year progressed. The *Blue Chip Economic Indicators* consensus increased from a low of 0.4% in April to 3.2% in early October. The *Blue Chip Financial Forecasts* consensus increased from a low 0.1% in April to 3.5% just before the GDP report.

**Real GDP expanded 3.5% in the third quarter, as expected, led by consumer spending, exports and home building and federal government outlays. Economic stimulus programs added significantly to growth.**

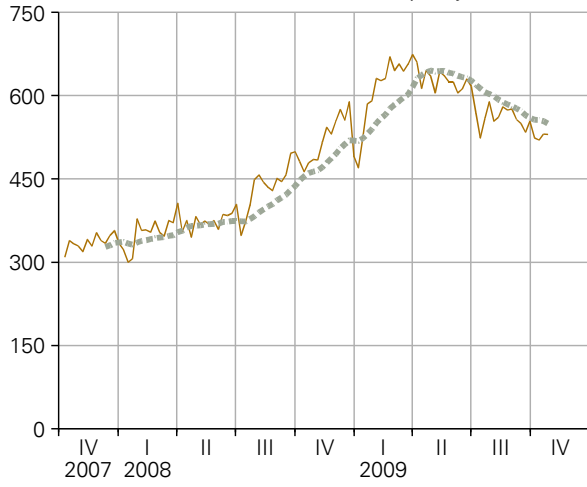
The Weekly Leading Index increased on a four-week moving average basis in the week ending October 23 following a one-week decline that followed twenty-nine straight weekly increases. The smoothed six-month rate of change was 26.9%, down marginally for the second week in a row, but up from the low for the cycle and the all-time low of -29.7% reached on December 5.

The peak growth rate in the WLI has been highly correlated with the peak 4-quarter growth rate in real GDP during the first two years of previous economic recoveries. The current growth rate of the WLI is consistent with a much stronger rate of growth in real GDP at some point during the next two years than is widely anticipated.

Jim Coons



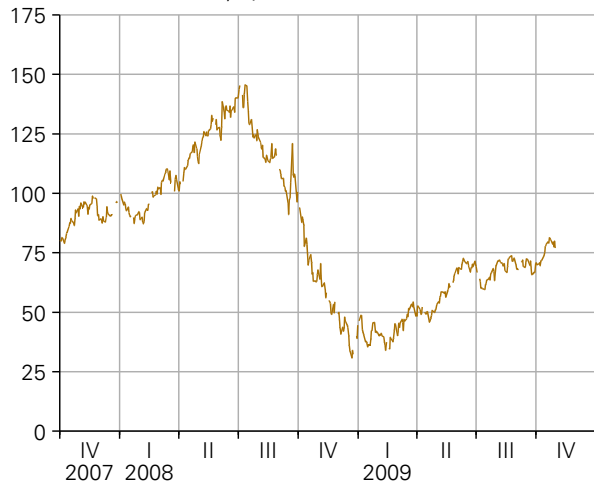
Initial Claims for Unemployment Insurance  
Thousands Per Week, Seasonally Adjusted



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

