

The acceleration in real GDP during the fourth quarter that was announced at the end of January survived the first revision, but housing and consumer confidence faltered in January. The Weekly Leading Index weakened again in late February.

Real GDP expanded at an annual rate of 5.9% in the fourth quarter, up from the initial report of 5.7%. Exports and business investment in equipment and software were revised notably higher, but a larger share of domestic demand was met by imports, which roughly offset the impact of greater exports and investment on GDP growth. Personal consumption expenditures and state and local government spending were revised down, but the effect on GDP growth was partly offset by the fact that a greater share of domestic demand was met by current production and less by drawing down inventories.

Housing activity has been buffeted in recent months by changing expectations regarding federal transfers to selected home buyers and erratic weather patterns, but ongoing adjustments continued beneath the surface. U.S. housing starts on a 3-month moving average basis increased from the year earlier level in January for the first time since March 2006. Starts increased 2.7% from a year ago.

Sales of both new and existing homes decreased in December and January from month-to-month and on a 3-month moving average basis. Much of the weakness has been attributed to the expiration of the first-time homebuyers tax credit that expired on November 30. The credit was modified and extended, but sales have been weak due to the bunching of activity prior to the expiration.

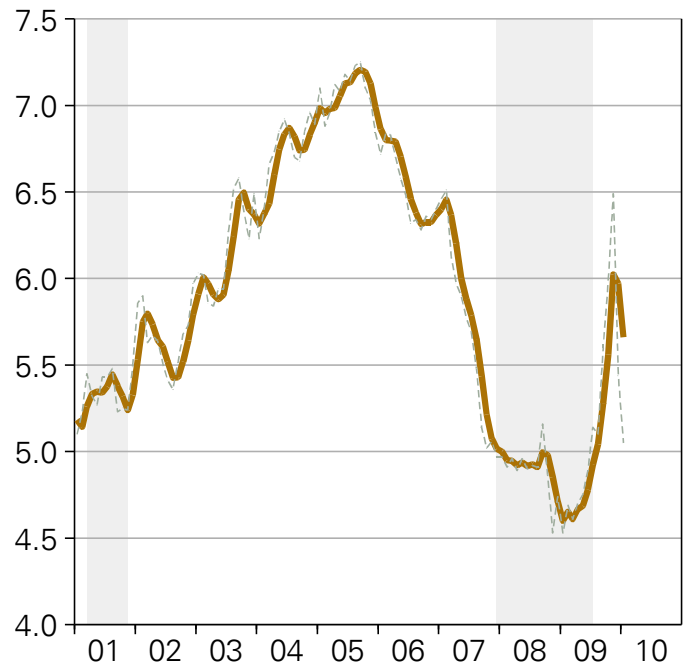
Positive trends include reductions in the stock of homes for sale during the past year and the fledgling rise in the S&P Case/Shiller home price index. Risks include the potential effect on prices of the shadow inventory of homes pending foreclosure that is not included in the homes for sale tallies but could be put on the market this year. In addition the current wave of adjustable mortgage rate resets could lift defaults, foreclosures and prices when unemployment is already high and a large percentage of mortgage balances exceed home values.

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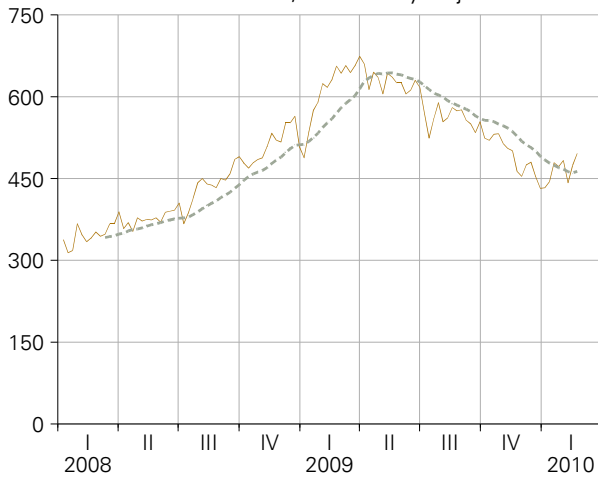
The ECRI Weekly Leading Index has declined again in the week ending February 19 on a 4-week moving average basis for the fourth week in a row. The decrease pulled the smoothed 6-month rate of change down to 14.9% from a peak of 28.6% early last October. The rate of change is still on par with the two highest cyclical peaks, but the decline from the recent peak is consistent with an impending slowdown in real GDP growth. The index does not point to renewed recession, only a slowdown in the rate of GDP growth.

Jim Coons

Existing Single-Family Home Sales  
Millions, SAAR



Initial Claims for Unemployment Insurance  
Thousands Per Week, Seasonally Adjusted



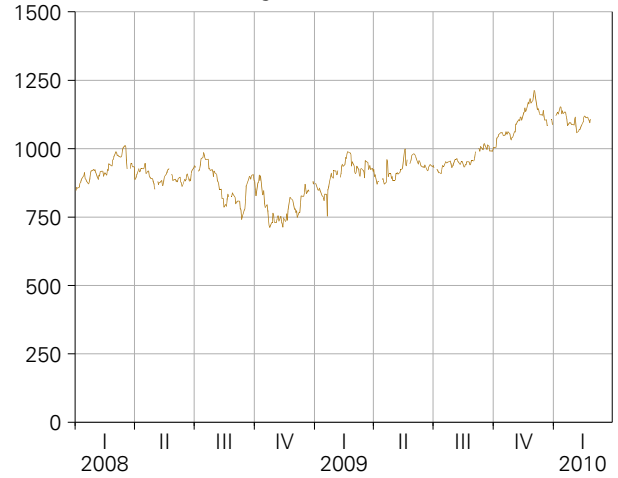
U. S. Dollar Exchange Rate  
FRB Major Currency Index, 1973 = 100



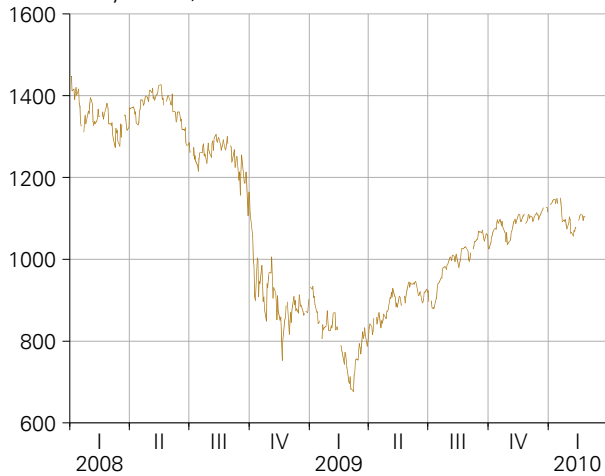
Price of Oil  
West Texas Int, \$/bbl



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

