Weekly Econotes

JUNE 25, 2010

The economy is slowing more than previously reported. Real GDP expanded only 2.7% in the first quarter, instead of the 3.0% reported in May and the 3.2% originally reported in April. The downward revision primarily reflected downward revisions to personal consumption expenditures and net exports that were partly offset by an upward revision to inventory investment.

The economy grew more slowly than previously announced in the first quarter. Forecasters continue to expect uninterrupted growth at a rate of approximately 3%, but leading indicators have deteriorated notably.

The revised first quarter growth rate is less than one-half the 5.6% fourth quarter growth rate. Compared with a year earlier, real GDP was up by 2.4%, but remained 1.3% below the peak for the last cycle that was reached in the second quarter of 2008.

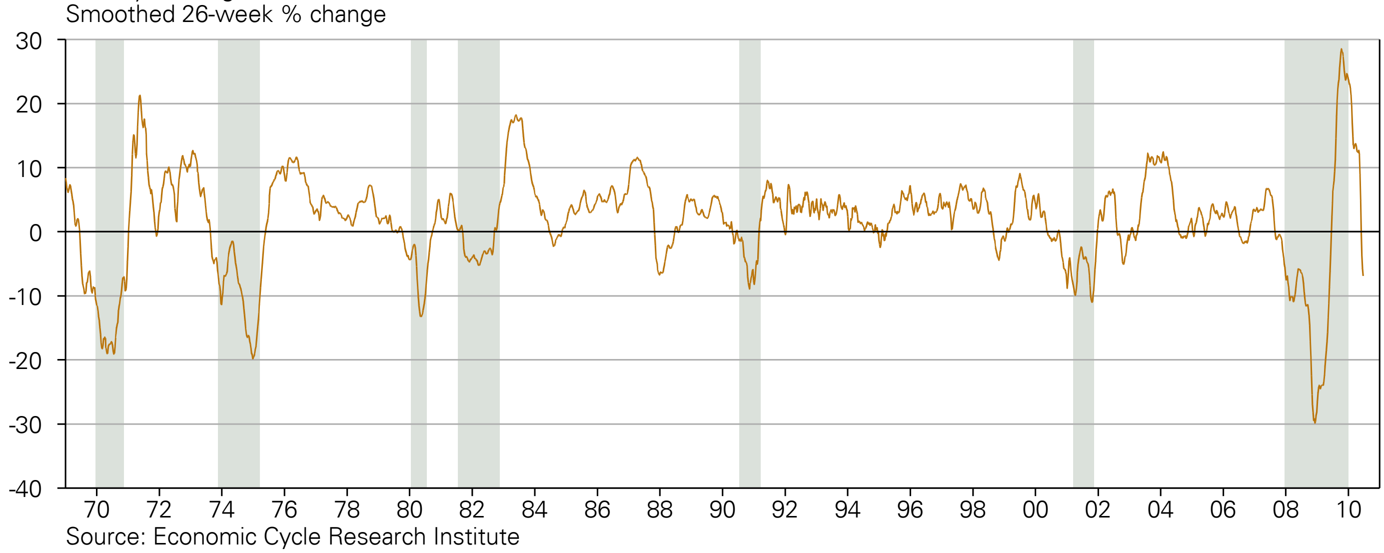
Real final sales grew only 0.8% in the first quarter – down from the previous estimate of 1.4%. Real final sales has increased for four consecutive quarters, but at only an annual rate of 1.2%, ranking the last year as the weakest first-year recovery in real final sales from the recession-low among the eleven since World-War II.

The consensus among forecasters is for continued moderate growth through year end at a pace of approximately 3%, according to Blue Chip Economic Indicators. Leading indicators remain consistent with uninterrupted growth at a moderate-to-slow pace, but have deteriorated recently to the point threatening a significant slowdown. After rising for ten straight weeks, the grow h rate of ECR I We ekly Leading Index fell to 6.9% in mid-June. Every time in the forty-two year history of the index that the growth rate has been this low or lower, the economy has been in recession. (The growth rate fell to 6.8% in the final week of 1987 without a recession.)

The Leading Economic Index increased 0.4% in May after no change in April. The index has not declined on a moth-to-month basis since March 2009, but the 6-month smoothed percent change decreased to 8.2%, down from the peak for the cycle of 11.0% in March. The Ratio of the Coincident to Lagging Economic Index increased 0.5% in May – the third straight solid increase. Although the 6-month smoothed rate of change was positive for the tenth straight month, it fell to 5.1% from 6.2% last December. The recent pattern of the ratio is consistent with a slowing in the rate of overall economic growth during the balance of the year.

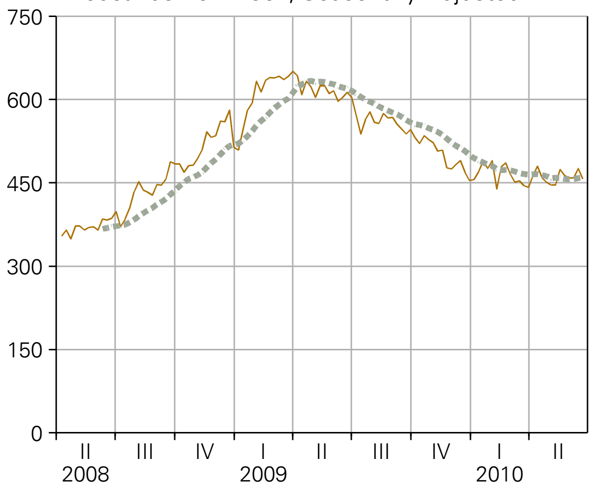
Jim Coons

Weekly Leading Index
Smoothed 26-week % change



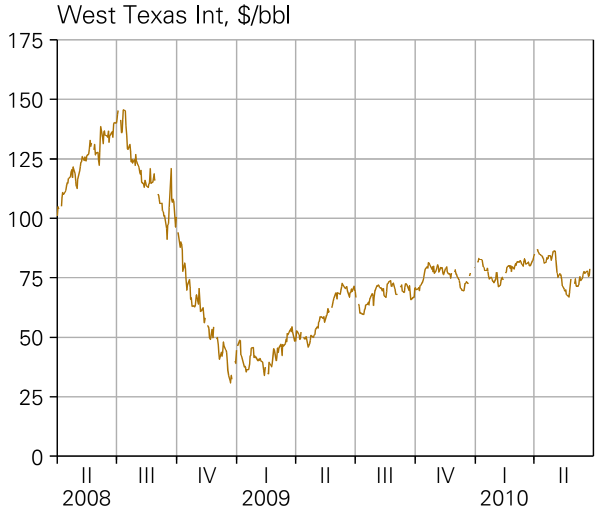
Source: Economic Cycle Research Institute

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