

The consensus among forecasters is for continued moderate growth through year end at a pace of approximately 2¾%, according to Blue Chip Economic Indicators. Leading indicators remain consistent with uninterrupted growth, but have deteriorated recently to be consistent a significant slowdown.

After rising to a record high last October, the growth rate of ECRI Weekly Leading Index fell to -7.7% in late June. The normal cyclical pattern is a rapid rise that typically begins before the end of recession followed by a significant slowdown in the growth rate of the indicator early in the subsequent recovery period. That pattern has played out again in this cycle, and points to slower economic growth in the second half.

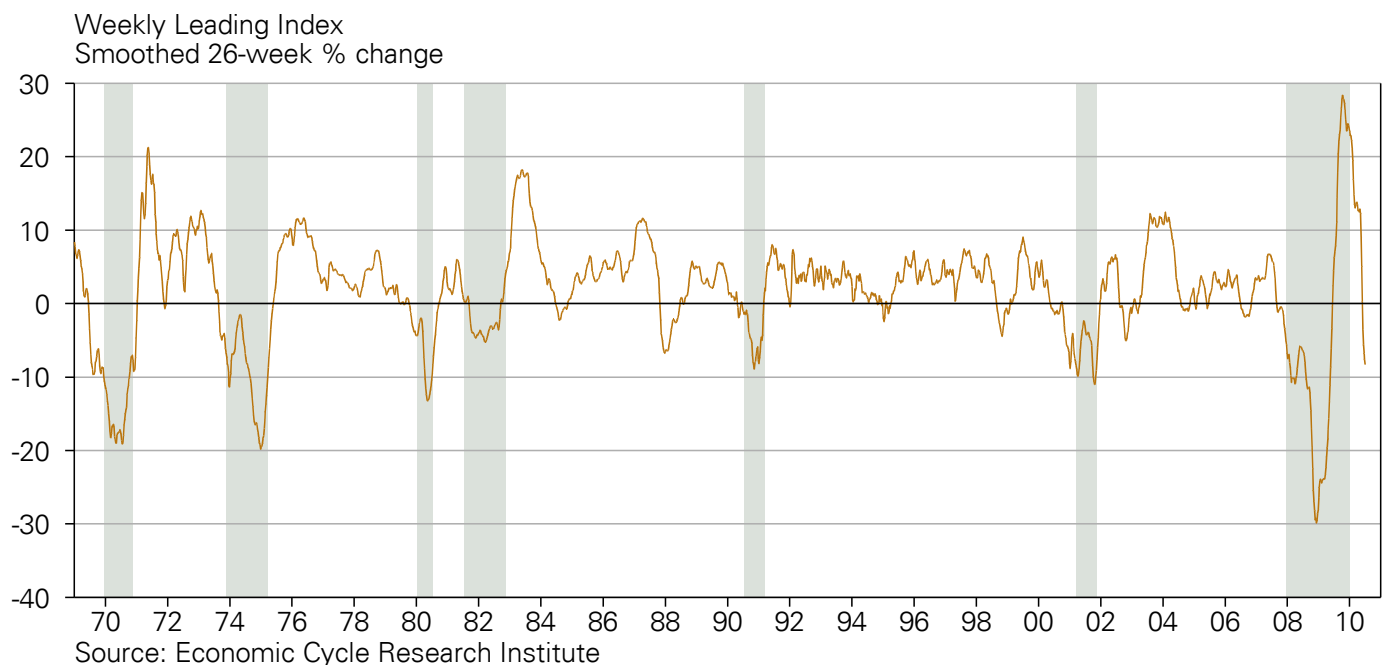
Every time in the forty-two year history of the Weekly Leading Index that the growth rate has fallen to -7.7% or lower, the economy has been in recession. Declines in the growth rate to -6.8% in late 1987 and -5.0% in late 2002, however, were not followed by recession. In the current case, the failure of growth to rise as high as predicted by the indicator at the beginning of this recovery and the absence of confirming patterns in other leading indicators pointing to recession now suggests that renewed recession is not the most likely path.

Leading economic indicators point decidedly to an imminent slowdown. Some compelling evidence is consistent with the onset of recession, but we think that conclusion is premature.

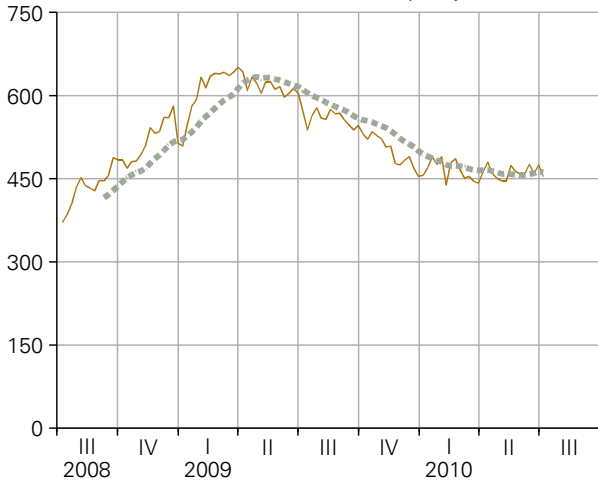
The Leading Economic Index increased 0.4% in May after no change in April. The index has not declined on a month-to-month basis since March 2009, but the 6-month smoothed percent change decreased to 8.2%, down from the peak for the cycle of 11.0% in March.

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



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

