

Economic data have continued to deteriorate. Retail sales fell 0.5% and industrial production in manufacturing was off 0.4%. The ECRI weekly leading index moved deeper into negative territory.

Retail sales decreased 0.5% in June after a 1.1% decline in May. Consecutive monthly declines during periods of economic expansion have occurred only infrequently. Sales at furniture stores and building supply stores both fell for a second month, reflecting renewed weakness in housing. Sales at motor vehicle dealers fell 2.3%. Sales fell 1.4% at sporting goods and hobby stores and rose 1.0% at nonstore retailers.

For the second quarter, retail sales increased 4.1% annualized, but decreased 5.0% annualized from March to June, setting up a weak third quarter. Sales increased 8.2% annualized in the first quarter. The recent monthly pattern has been similar even without motor vehicle dealers and gasoline stations, which can cause misleading fluctuations on a monthly basis.

The mood among consumers has deteriorated since May. Readings from the Conference Board survey dropped noticeably in June, and the Reuters/University of Michigan (RUM) survey of consumer sentiment turned up similar feelings in early July. Assessments of both current and expected conditions darkened, led by a decline in the RUM expectations component to the lowest level since March 2009 and 3.5% below the recession average.

After a solid advance from the lows traced out about a year ago, manufacturing activity softened in the spring. Industrial production in manufacturing decreased 0.4% in June, roughly in line with expectations based on aggregate hours worked in manufacturing and reports from purchasing managers.

Because of strength during the March-May period, manufacturing output increased 7.9% during the second quarter, following a 6.1% rise in the first quarter. However, results from the latest surveys of businesses by the New York and Philadelphia Federal Reserve Banks reveal that weak June activity carried over into July. In addition, the message of the ECRI weekly leading index grew more ominous in the week ending July 9. The 6-

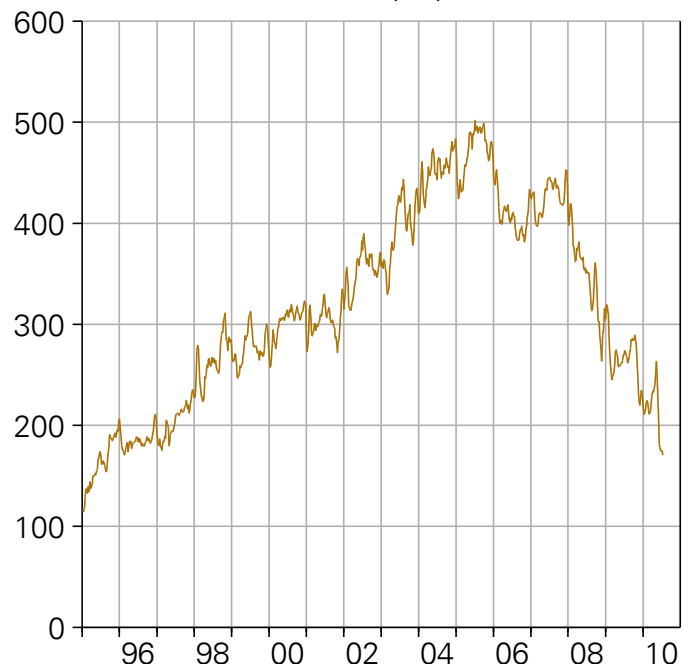
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month smoothed rate of change fell to -9.8% and was negative for the sixth straight week. The lowest rate of change while the economy was expanding in the past was -6.8% at the end of 1987.

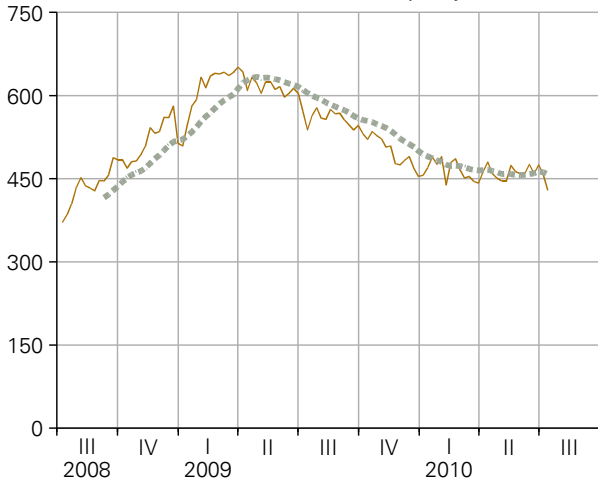
Housing activity has also deteriorated in recent weeks, as the Mortgage Bankers Association's index of purchase applications fell to the lowest level since September 1995, on a 4-week moving average basis. Fixed 30-year mortgage carried interest rates of about 8% back then, compared with about 4.5% today.

Jim Coons

Mortgage Loan Originations, 4-Week Average
MBA Purchase Index 3/16/90=100 SA



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
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