

A promising bounce in May retail sales and solid upward revisions to March and April raised the prospects for second quarter economic growth. The mood among consumers and owners of small businesses remained especially gloomy.

Retail sales increased by a very strong 1.0% in May, apparently boosted by tax rebate checks that totaled \$50 billion during the month. Sales were revised higher in March and April. Excluding cars (+0.3%) and gas (+2.6%), sales were also up by 1.0%. Sales at gasoline stations reflected an estimated 5.5% rise in gasoline prices. On a year-over-year basis, sales remained soft, rising only 2.5% in May, compared with 3.0% in April.

All major categories posted gains in May, except for miscellaneous store retailers. Sales at building material and garden supply stores increased 2.4% after rising 2.7% in April. Sales at general merchandise stores (+1.2%) reportedly benefited from a flurry of promotional activity during the month. Department store sales rose 0.8%.

The strength in spending during May and the significant upward revisions to March and April data point toward an upward revision to consumer spending in the first quarter and stronger growth than previously expected in the second quarter. The question remains, however, to what extent a temporary economic stimulus program can address critical deterioration in labor markets and consumer attitudes, high and rising food and energy prices, and ongoing turmoil in financial markets.

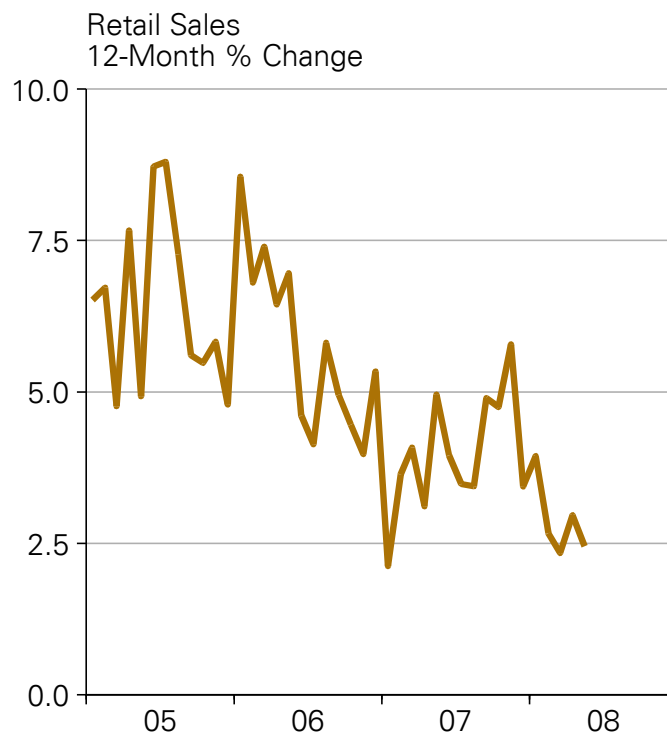
The Reuters/University of Michigan Index of Consumer Sentiment fell in early June to its lowest level since May 1980, underscoring concerns about the economy among households across the country. Since last August, the index has declined by 37%.

The index of current economic conditions fell to its lowest level since June 1980 and the index of consumer expectations fell (for the fifth straight month) to its lowest level since May 1980. Nearly all consumers believe that the economy is in a recession, and a majority expect further increases in the unemployment rate.

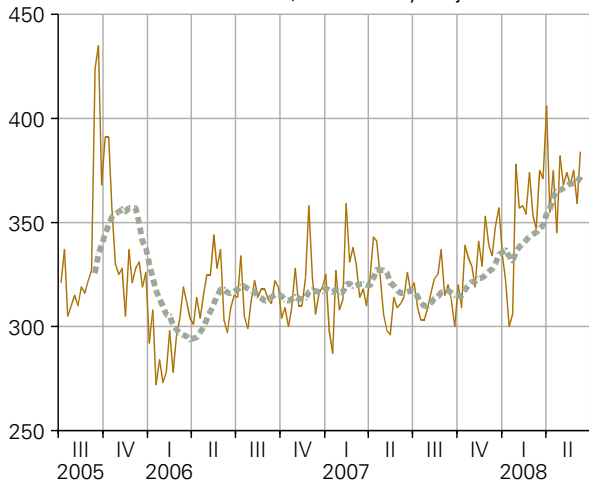
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A record 60% of survey respondents said that their finances worsened during early June. High prices for food and energy are cutting into consumer purchasing power and forcing cutbacks in spending on major purchases such as motor vehicles. Purchases of light motor vehicles averaged 14.3 million units at a seasonally adjusted annual pace in April and May – the weakest two-month performance since May 1995.

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

