

The message of the leading indicators is now clear: the 2007-09 recession will end this summer. The trough most likely will occur in June or July, but the historical range of lead times is consistent with a trough as late as September.

The Weekly Leading Index published by the Economic Cycle Research Institute increased for the ninth straight week in the week ending May 15 on a four-week moving average basis. The smoothed six-month rate of change improved to -11.5%, up from the low for the cycle and the all-time low of -29.7% reached on December 5. The rate of change in the index remains deeply negative; however the sharp upturn since the early December low is a strong and reliable signal that the end of the 2007-09 recession is imminent.

The four-week moving average of the index has reached a trough on average about two months prior to the end of the six recessions since the 1969-70 downturn. The lead time ranged from about four months to as little as a month or less. The mid-March trough in the index suggests that the recession will end no later than July, based on the historical range of lead times.

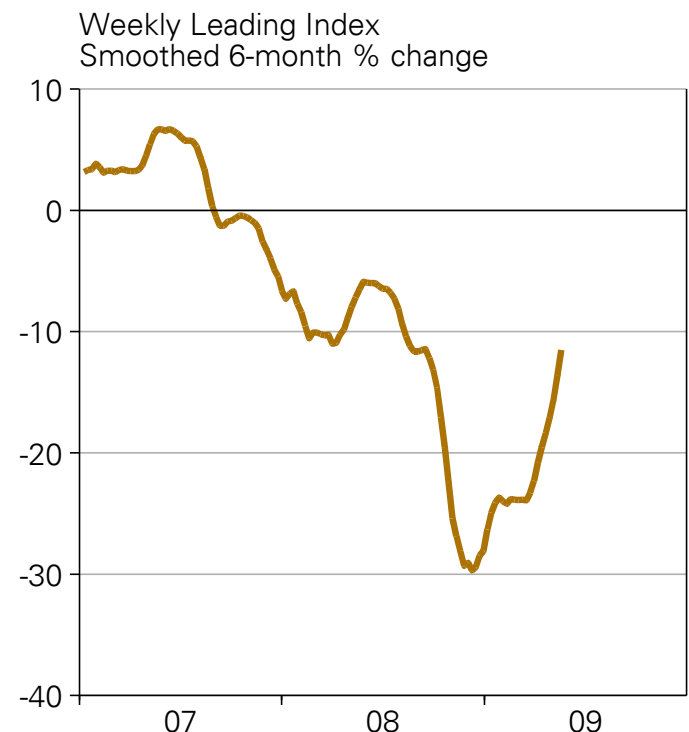
Keep in mind that the official announcement of the end date of the recession will occur with a substantial delay, as it depends on the actual course of the economy. The strength of the coming recovery will affect the timing of the announcement. The weak recovery following the recession that ended in November 2001 resulted in a 20-month delay before the recovery could be determined to be sufficiently substantial and sustainable. If this recession ends in July, we should not expect an announcement before January 2010.

The set of cyclical economic indicators from the Conference Board also point to a near-term end to the recession. The Leading Economic Index increased 1.0% in April for the first rise since June 2008. The smoothed six-month rate of change bounced up to -2.0% from -4.4% in March. In addition, the ratio of the Coincident to Lagging Economic Indexes edged up ever so slightly in April. The ratio has a historical lead time ranging from 0 months to 4 months with an average of about 1 month.

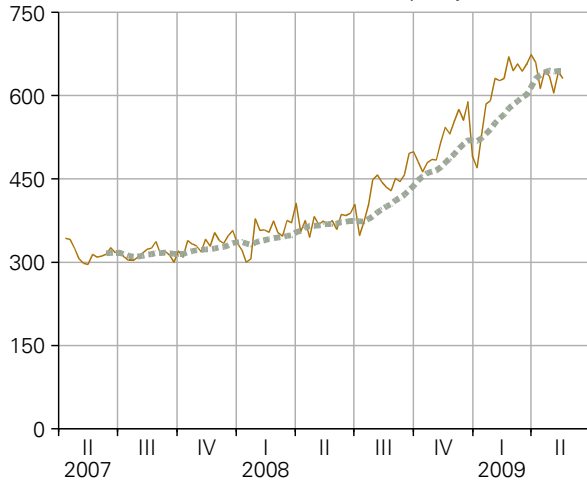
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Plenty of disheartening economic developments are likely to unfold in the weeks and months ahead. As noted last week, industrial production, which normally marks an end to recessions, decreased another 0.5% in April. In addition, the unemployment rate, which prior to the 1990-91 recession peaked within 4 months of recessions, continued to rise for roughly a year and a half on average following the most recent two recessions. The economy is about to turn the corner, but will face a long road to recovery.

Jim Coons



Initial Claims for Unemployment Insurance  
Thousands Per Week, Seasonally Adjusted



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



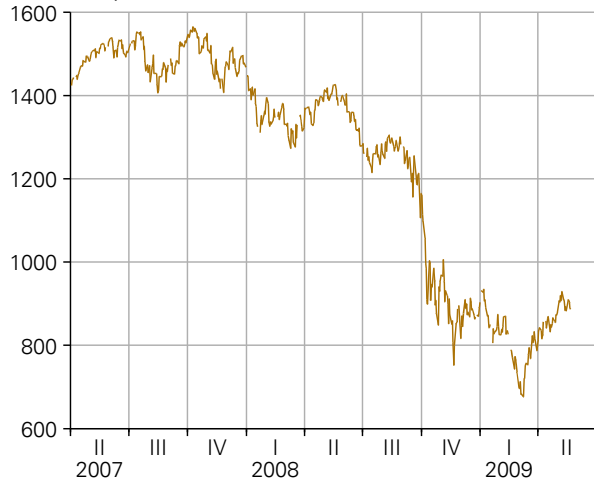
Price of Oil  
West Texas Int, \$/bbl



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

