Weekly Econotes

AUGUST 21, 2009

The economic news was decidedly upbeat this week, as existing home sales increased, the Philadelphia Fed survey of business conditions improved and leading indicators increased yet again.

Housing starts decreased in July, yet the 3-month moving average increased for the second straight month and to the highest level since December. The 3-month average of single-family starts increased for the fourth straight month. The 3-month average of single-family permits increased to 432,000 units, which while still depressed was up 20% from the March 2009 low.

The housing starts and permits figures are calculated from sample data. Because the sample is small, the information-to-noise ratio in the monthly data is high. The 3-month average raises the information-to-noise ratio, providing a more useful picture of residential construction activity.

Existing home sales increased 7.2% in July for the fourth straight monthly increase, reflecting strength in both single-family and condo sales. The number of homes on the market increased, but the number of months necessary for all currently listed homes to be sold at the current sales pace stayed at 9.4 – still high, but down from the peak of 11.3 months in April 2008.

The index of business conditions in the Philadelphia Fed District, compiled through a survey of businesses in the district, extended its trend toward improvement in August. The overall index rose to an index level of 4.2 from -7.5 in July and -24.4 in April. Much of the improvement came from an increase in prices paid, but orders and shipments also increased into positive territory. A similar survey from the New York Fed showed the same picture.

The Leading Economic Index published by the Conference Board increased 0.6% in July, following solid increases in the previous three months – the first string of four consecutive increases since the heart of the last expansion in 2003-04. The rate of change increased to 3.8% – the third consecutive positive change and the best since December 2004. The sharp upturn is very strong evidence that economic recovery is underway.

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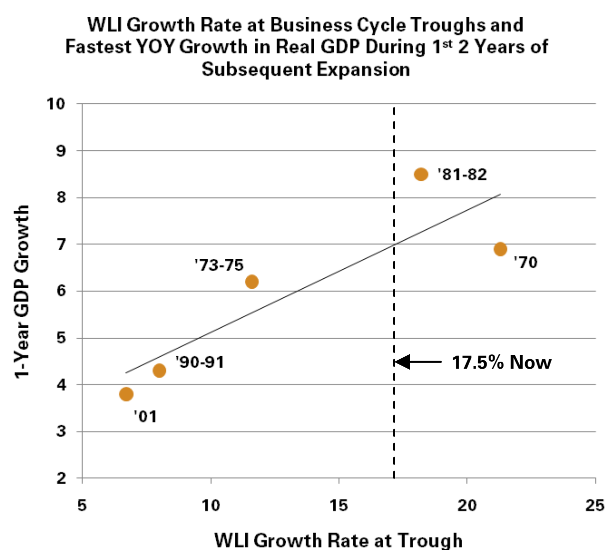
The Ratio of the Coincident to Lagging Economic Index published by the Conference Board increased for the fourth straight month in July – another signal of an upturn in the economy. The ratio has reached its cyclical trough at approximately the same time that recessions have ended on many occasions in the past.

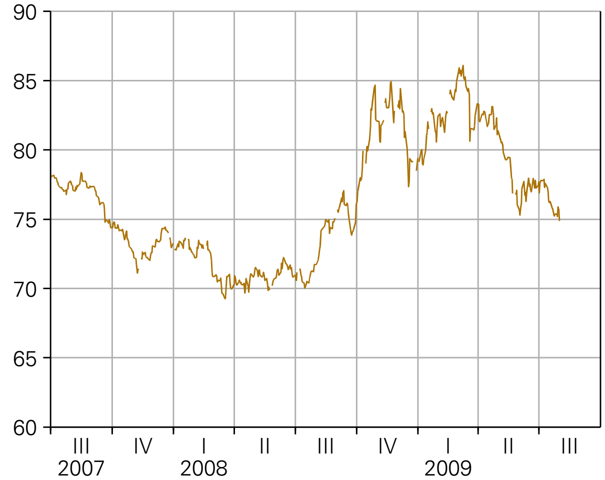
Finally, the Weekly Leading Index increased for the twenty-second straight week in the week ending August 14 on a four-week moving average basis. The smoothed six-month rate of change improved to +17.5%. There has been a strong correlation between the peak rate of increase in the WLI at the trough of past recessions and real GDP during the first two years of the subsequent expansions, calling into question the consensus that growth will be modest in the next two years.

Jim Coons



Initial Claims for Unemployment Insurance
Thousands Per Week, Seasonally Adjusted

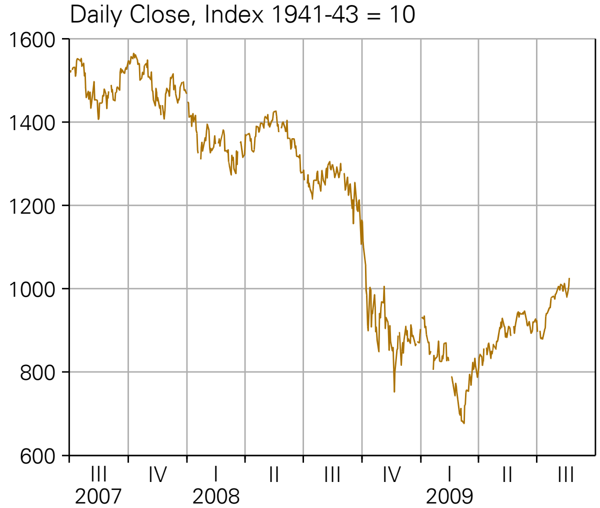
U. S. Dollar Exchange Rate
FRB Major Currency Index, 1973 = 100



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