



# Weekly Economic Commentary



March 30, 2009

## Waiting for Confirmation that the Economy has Stopped Getting Worse

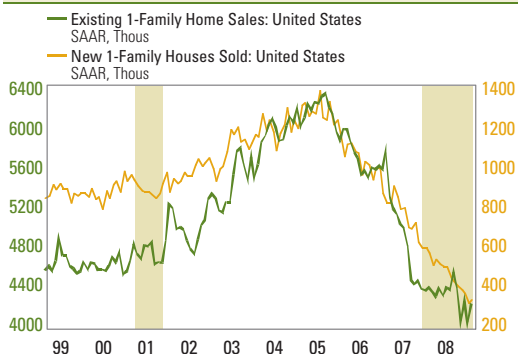
**John Canally, CFA**

Economist  
LPL Financial

### ECONOMIC CALENDAR

<b>Tuesday, March 31</b> Chicago PMA March	<b>Thursday, April 2</b> Initial Claims wk 03/28
Consumer Confidence March	Factory Orders February
<b>Wednesday, April 1</b> Construction Spending February	<b>Friday, April 3</b> Nonfarm Payrolls March
ISM Mfg March	Unemployment Rate March
Domestic Car/Light Vehicle Sales March	Mfg Payrolls March
	ISM NMI March

### 1 New and Existing Home Sales Beginning to Stabilize: Is a Bottom Near?



Source: Realtor, Census / Haver Analytics 03/30/09

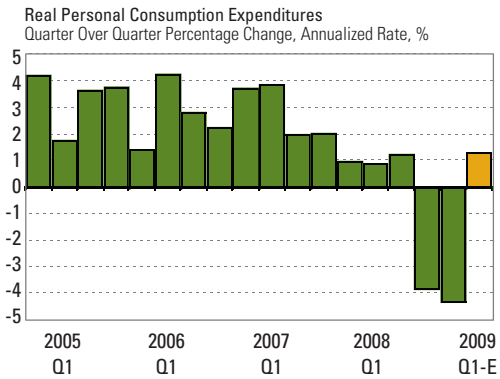
Last week's economic data came in better than expected, and provided some comfort to financial market participants that the pace of decline in the economy in Q1 2009 won't be as severe as the 6.2% drop in real GDP in Q4 2008. This week, markets digest a slew of potentially market moving economic data for March, from vehicle sales to the jobs report, with plenty in between. Markets will also be focused on the G-20 meeting in London, which begins on April 2.

Financial market participants processed a ton of economic data last week, and for the most part, they liked what they saw. The news on new and existing home sales for February reinforced the idea that the housing market is closer to a bottom. In addition, there was another big uptick in mortgage applications, as well as the reports that jobless claims may be stabilizing—although still pointing to a horrible labor market in March. Durable goods orders were better than expected in February, but suggest that business spending (and inventories) are falling even more sharply in Q1 than they did in Q4. Late in the week, the market absorbed the better than expected February personal consumption data, which showed that real personal spending in January and February was running 1.3% ahead of its Q4 average, along with the better than expected reading on consumer sentiment in late March.

On balance, the incoming data continue to suggest that the U.S. economy is on track for our base case for Q1 2009 and for all of 2009. We expect real GDP in Q1 2009 to contract by between 4.5% and 5.5% (versus the 6.3% drop in Q4 2008). Personal spending—which accounts for roughly 2/3 of GDP—will be a bright spot, but won't be enough to offset huge declines in business capital spending (about 8% of GDP), construction of non residential buildings (malls, office buildings, industrial buildings etc), which is about 3% of GDP, and housing construction (3% of GDP). Net exports are likely to be a small drag on GDP growth in Q1, as the plunge in exports due to the global recession outweighs the plunge in imports due to the recession in the U.S. Government spending (about 20% of real GDP) always increases, and will increase again in Q1 2009. The big wild card for Q1 2009 GDP could be inventories. A big drawdown in inventories in Q1 could pull real GDP growth close to -6% or lower, which would actually be good news for the economy over the remainder of the year. Why? A dramatic paring of inventories in Q1 may leave more room for rebuilding them in later quarters, which would mean unanticipated production (and employment) gains that will add to growth. The Q1 2009 GDP data will be released on April 29.



## 2 Consumer Spending Has Surprised on the Upside Thus Far in Q1 2009



## 3 "Back End" of Economy, Business Capital Spending, Still Plunging in Q1 2009



This week is full of data for February and March, which will help to refine markets' perceptions of the pace of the decline in the economy in Q1 2009 relative to Q4 2008. As we have been writing for most of this year, the key for financial markets is the inflection point in the economy. Put another way, markets are looking for a slowing in the pace of decline in the economy. As we note above, there has been plenty of evidence to support the premise that while still contracting, the pace of decline in the economy in Q1 2009 was less severe than the 6.3% contraction in Q4 2008. This week, the market hopes to get confirmation of that improving trend, as it digests key reports on:

- The manufacturing sector in March (Chicago Area Purchasing Managers Index and ISM Manufacturing Index),
- Consumer spending in March (vehicle sales)
- The labor market in March (nonfarm payroll job count and unemployment rate)
- The service sector in March (ISM report on nonmanufacturing),
- Construction of residential and non residential buildings in February (construction spending), and
- Business capital spending and business inventories in February (factory orders report)

In addition, markets will digest the high frequency, real time data that will provide an insight as to how the economy was functioning as Q1 2009 ended. Due out on Tuesday is the weekly retail sales for the week ending March 28. Wednesday brings the mortgage applications for the week ending March 27, and on Thursday, it's the weekly jobless claims data for the week ending March 29. Policy concerns will also be on the front burner this week, as President Obama and Treasury Secretary Geithner prepare for the G-20 Summit in London which begins on April 2.

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