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DAILY GLOBAL COMMENTARY

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Index of Leading Economic Indicators Sends a Warning Signal

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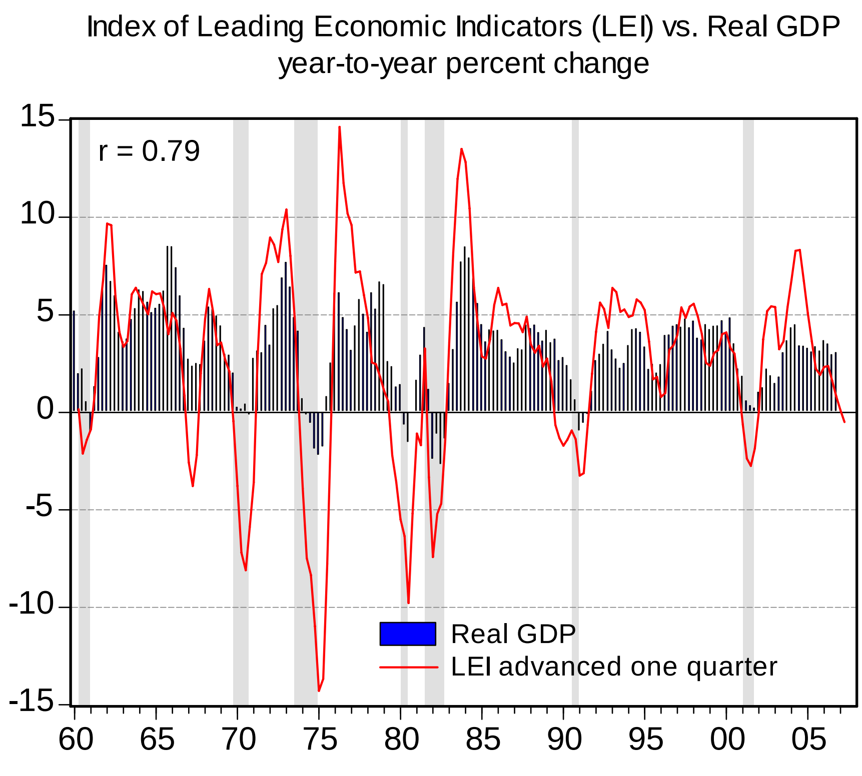
The Index of Leading Economic Indicators (LEI) declined 0.5% in February after a revised 0.3% drop in the prior month. This puts the year-to-year decline at 0.4%, after a similar reading in January. The January-February average of the LEI is down 0.5% from a year ago. If this were followed by additional quarterly readings that are negative and larger in size, a recession is strongly likely. Historically, negative quarterly year-to-year changes of the LEI are associated with recessions in the economy, with the exception of one false signal in the mid-1960s (see chart 1). There is a possibility that January and February may be revised and readings during the months ahead may yield positive year-to-year changes. However, the current January-February data are sending a convincing signal about weak economic conditions in the near term.

Chart 1



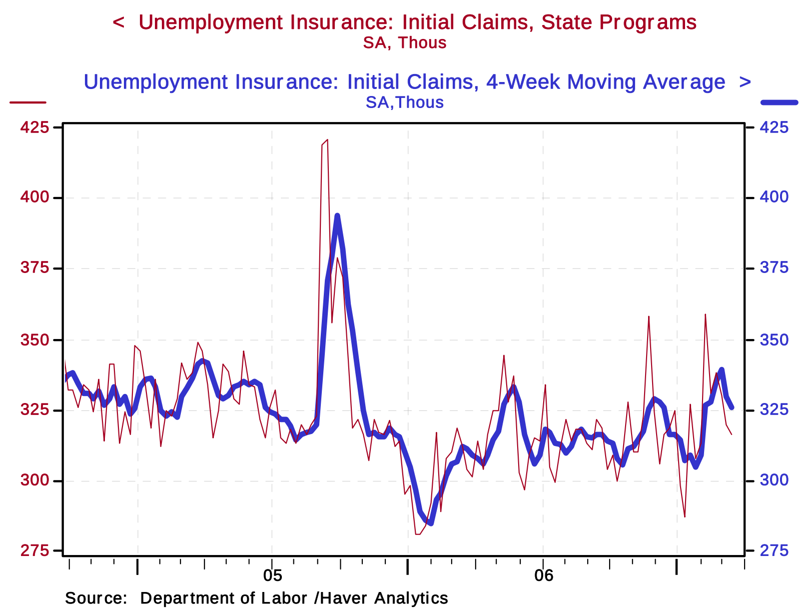
*Shaded regions denote recessions

In February, four of the components of the index of LEI advanced -- orders of non-defense capital goods, orders of consumer goods, real money supply, and stock prices. Building permits, consumer expectations, initial jobless claims, interest rate spread, and vendor performance declined in February. The average manufacturing workweek held steady in February. Is this noise or the beginning of an improving trend?

Initial Jobless Claims – Noise or Improvement?

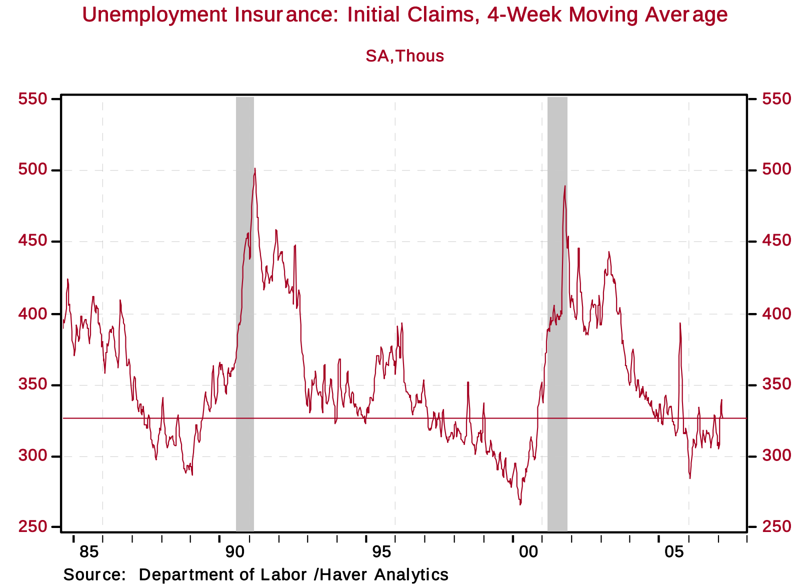
Initial jobless fell 4,000 to 316,000 during the week ended March 17. Initial jobless claims have declined for three straight weeks.

Chart 2



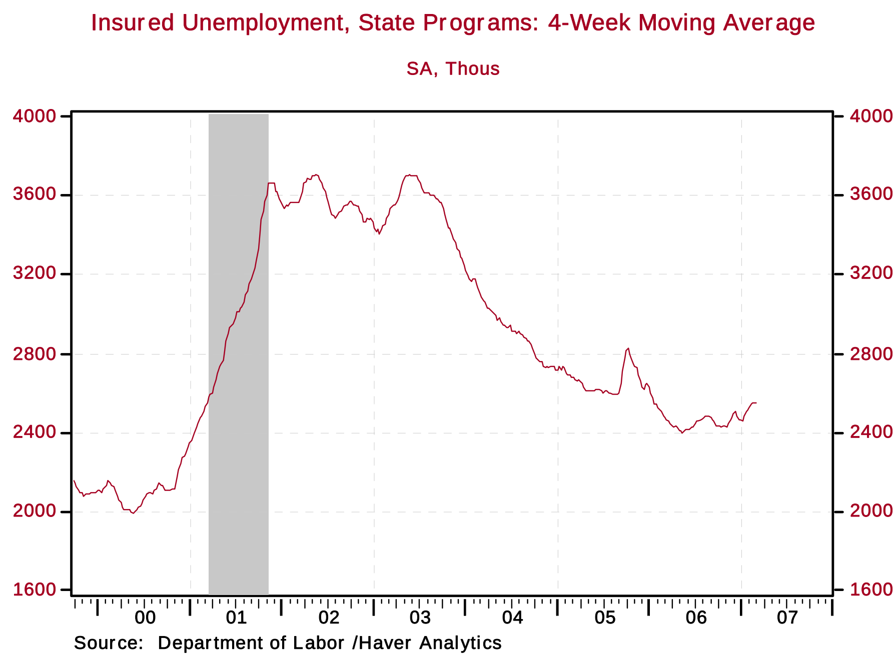
The four-week moving average, at 326,000, is noticeably above the level that is associated with robust labor market conditions (see chart 3). Readings below 300,000 will be necessary to declare that hiring has gained momentum. At present, additional data will be necessary to label the recent improvements as meaningful.

Chart 3



Continuing claims, which initial claims by one week, dropped 69,000 to 2.501 million. The four-week moving average of continuing claims at 2.555 million virtually unchanged from last week's estimate f 2.557 million. The four-week moving average of continuing claims continues to maintain an upward trend. The insured unemployment rate was down one notch to 1.9%. Seasonally unadjusted initial jobless claims rose 1.9% from a year ago, which is a smaller then gains posted a few weeks ago. Today's weekly report on jobless claims suggests that conditions have not improved significantly in the labor market.

Chart 4



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