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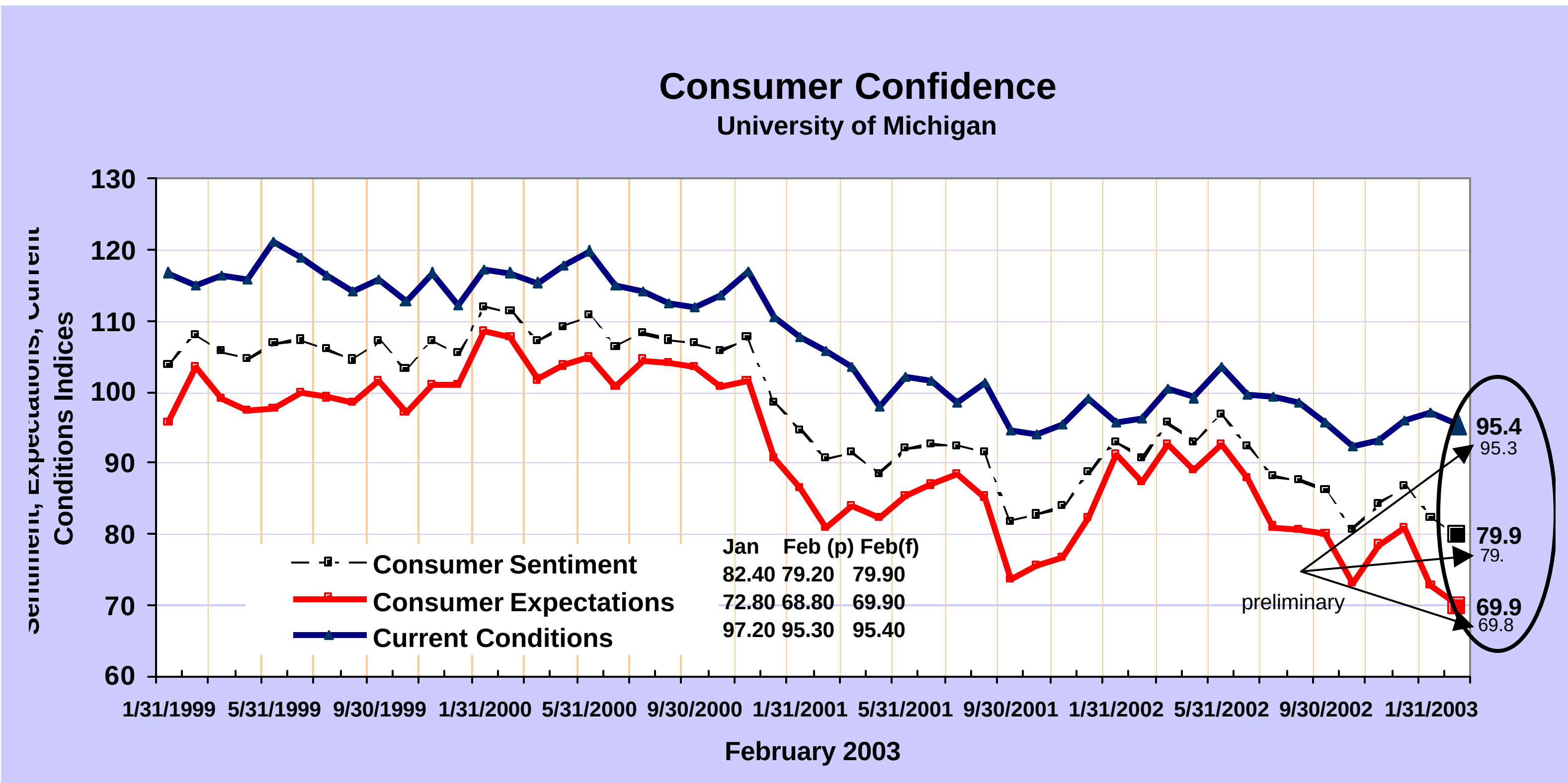
Final February 2003 Data Points

UMich Consumer Confidence Numbers: if there was a surprise, it was that there was no further deterioration. In fact, at the margin, the 'numbers' improved, but we would not regard the changes as being meaningful. Not being worse is an 'upside surprise.'



GDP QIV 2002 Revision: the question to ask is whether going from 0.7% to 1.4% growth over the prior quarter (4.0%)represents a 'significant' change? The compositional changes were as follows:

	ADVANCE	PRELIMINARY
Real GDP	0.7	1.4
Current-dollar GDP	2.5	3.1
Gross Domestic purchases price index	1.8	1.6

For all of 2002, real GDP increased 2.4% (hardly a recession, but not for stocks!) while current dollar GDP incrased 3.6%. The upward revision reflected upward revisions in private inventory investment, personal consumption expenditures for non durables and serves, partly offset by upward revisions in the worsening current account balance. The real weakness during 2002 lies in the paltry final sales of domestic products

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(1.2%) and the replacement of private demand by public sector growth (4.9%). That increase, however, masks the deterioration at the State and Local level which in QIV managed only a 1.6% gain. What has held up has been disposable personal income (4.4% in QIV), but that is the weakest quarter on quarter change in 2002.

In terms of contributions to the percentage change in Real GDP in QIV, personal consumption added 1.03%, gross private domestic investment added 0.92% despite the decline in non-residential structures investment, and total government expenditures added .91%. The subtraction came on the net export side (-1.42%). The test is QI which seems much weaker than the original consensus forecasts (say 2+%), particulary with the added uncertainty and mushrooming oil shock.

Chicago PMI: The Chicago PMI seems is a reasonable forecaster of the 'trend' of the national PM Index (now called the ISM), but on a monthly basis, the "change" in the Chicago PMI is not a good forecaster of the "change" in the ISM. The Index declined from last month fell marginally (54.9 as compared to 56.2) which means that the manufacturers in the Chicago survey continue to expand but at a slightly slower rate. Small changes in the subcomponents of the index are probably not reliable trend indicators, but the absence of a slowdown in employment growth might be considered a "plus." The problem with that interpretation is that initial job claims series and the continuing claims series suggests that employment growth is still weak and that unemployment is likely to rise further during this cycle.

On Balance: during this week, the Conference Board measure of consumer confidence fell sharply while durable goods orders surprised to the upside. New Home Sales recorded their sharpest slow down over the cycle which in itself is puzzling since home sales in the Northeast rose, despite more difficult weather conditions. Initial claims for unemployment rose slightly for the week while continuing claims (for the prior week) fell. If you put all the data end to end, the picture is a mixed one that augurs for more uncertainty even in the datastream. Coupled to the uncertainty over the timing of the onset of hostilities in Iraq, investors will get neither relief nor additional worry from the datastream this week. That is likely not to be a help to "alpha-seeking" portfolio managers because the underlying trend is so difficult to read.

If the 'trend is your friend,' then the absence of trend must make managers feel distinctly uncomfortable. The one, clear trend that has to bring more concern about the sustainability of consumer spending are the new, higher prices of crude oil and natural gas and the persistence of a long, hard winter in the east while the disruption of crude oil and products production in Venezuela continues. Higher energy prices will constrict the growth of consumer spending in 2003. The only issue is how extensive the deterioration in non-energy expenditures will be.

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