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Key index shows economy slowing

8 out of 10 economic indicators are negative.

BY CANDICE CHOI AP BUSINESS WRITER

NEW YORK -- A gauge of future economic activity showed the U.S. economy will slow in coming months, reversing recent gains and suggesting higher gas prices and a sluggish construction industry are beginning to take their toll.

The Conference Board said Thursday its index of leading economic indicators dropped 0.5 percent, higher than the 0.1 decline analysts were expecting. The reading is designed to forecast economic activity over the next three to six months.

The increase almost reversed an amended 0.6 percent climb in March, which analysts say should relieve pressure on the Federal Reserve to raise interest rates.

"The data may be pointing to slower economic conditions this summer. With the industrial core of the economy already slow, and housing mired in a continued slump, there are some signs that these weaknesses may be beginning to soften both consumer spending and hiring this summer," said Ken Goldstein, labor economist for the Conference Board.

The reading tracks 10 economic indicators. Two of those readings were positive in April: stock prices and real money supply.

The negative contributors, beginning with the largest, were building permits, weekly unemployment claims, manufacturers' new orders for non-defense capital goods, consumer expectations, vendor performance, average weekly manufacturing hours and interest rate spread.

With the latest decline, the cumulative change in the index over the past six months has dropped 0.2 percent.

The slowdown should ease concerns that the Federal Reserve will raise interest rates, said Mark Zandi, chief economist at Moody's Economy.com.

The interest rate standstill over the past nine months has driven the Dow Jones industrial average to record highs.

The Conference Board's report came amid a batch of mixed economic data, reflecting the ongoing uncertainty over the direction of the economy.

The job market showed surprising strength Thursday, with the Labor Department reporting a drop in jobless claims. The number of U.S. workers filing new claims for jobless benefits fell for a fifth straight week to the lowest level in four months.

"The job market is holding together better than any other part of the economy. Otherwise, we might be sliding into a recession," Zandi said.

A better-than-expected picture of the industrial sector also bolstered investors' confidence this week, but mixed housing figures offered a more measured dose of optimism. Construction of new homes rose in April, but housing starts fell to their lowest level in 17 years.

"If you add up the plethora of economic data, it shows expansion will continue but that it's soft," Zandi said.

While the stock market should keep advancing as the economy keeps growing, analysts say data indicating otherwise could cause a tumble.

Brian Bethune, an economist with Global Insight, said the Conference Board report indicates the "economy is pretty much hovering right now."

Still, he said the positive contributors -- stock prices and real money supply -- may point toward a pickup in growth later in the year.

"Stock prices in particular are anticipating what activity is going to be like in the future," Bethune said.

Wall Street retreated modestly on Thursday, with the Dow falling 10.81, or 0.08 percent, to 13,476.72, after rising as high as 13,516.71.

On Wednesday, the index reached its 23rd record close of the year.

Broader indexes also declined. The Standard & Poor's 500 index lost 1.39, or 0.09 percent, to 1,512.75, and the Nasdaq composite index fell 8.04, or 0.32 percent, to 2,539.38.

With the first-quarter earning season mostly over, Wall Street is turning to economic data this week to chart the direction of the economy in coming months. Investors on Friday focus on the University of Michigan's preliminary index on May consumer sentiment. They expect a reading of 86.5, the same as in April.
