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Economic Week in Review: The mood turns hopeful

There was little economic news this week, but most of it was good. The Conference Board's index of leading economic indicators and existing-home sales both rose for the third straight month. Federal Reserve Chairman Ben Bernanke made hopeful but cautious comments in his semiannual testimony to Congress on Tuesday and Wednesday. For the week, the S&P 500 Index rose 4.1% to 979.3 (for a year-to-date total return of 10.0%). The yield of the 10-year U.S. Treasury note rose 3 basis points to 3.70% (for a year-to-date increase of 1.45 percentage points).

Fed Chairman voices optimism

In his testimony on Tuesday, Mr. Bernanke said the economy is improving. He noted at the beginning of his speech, "Aggressive policy actions taken around the world last fall may well have averted the collapse of the global financial system." However, he warned there are still serious economic concerns. Until unemployment falls, he said, the Fed plans to keep interest rates near zero. In his second day of testimony on Wednesday, Mr. Bernanke said he expects a slow recovery. Although his optimism was qualified, his testimony was far more encouraging than his report to Congress six months ago, when he warned the situation was dire and promised to use "all available tools" to grow the economy.

Leading indicators advance again

The Conference Board's index of leading economic indicators increased in June by 0.7%, in line with economists' expectations, after a 1.3% gain in May. A composite of ten statistical measures created to forecast economic activity, the index climbed for the third consecutive month. The Conference Board noted, "All in all, the behavior of the composite indexes suggests that the recession will continue to ease and that the economy may begin to recover in the near term." Seven of the ten indicators rose. The largest positive contributors were interest rate spread and building permits, while real money supply was the greatest detractor.

"The consistency of the signals from the leading indicators is encouraging," Vanguard economist Roger Aliaga-Diaz said. "Historically, turning points in the index occur on average six months ahead of actual turns in the level of economic activity, and this time around the index has been consistently increasing since February.

"However, we must bear in mind that the information contained in the leading indicators is not indicative of the shape of the subsequent recovery," Mr. Aliaga-Diaz added. "When the recovery comes, it will be gradual and subdued. Jobs losses in particular will continue for a while."

Existing-home sales continue climb

Sales of existing homes rose 3.6% in June to a seasonally adjusted annual rate of 4.89 million. The rate is higher than it has been since last October, and it's the first time since 2004 that sales have increased for three successive months. Inventory levels dropped to 9.4 months from 9.8. Sales increased in all four regions of the nation, most rapidly in the South and West because of the sale of distressed properties. While the market appears to be stabilizing, sales declined 0.2% compared to last year and the median sales price fell 15.4%.

The economic week ahead

Economists will be busy next week deciphering more fresh data. Reports are scheduled for new-home sales on Monday, consumer confidence on Tuesday, durable goods on Wednesday, and employment costs and gross domestic product on

Friday. Also on Wednesday, the Federal Reserve will release its latest Beige Book, which provides a summary of current economic conditions in each of the 12 Federal Reserve regional districts.

Summary of major economic reports

	Report	Actual Value	Expected Value	10-Year Note Yield	S&P 500 Index
July 20	Leading Economic Indicators (June) *Source: The Conference Board*	+0.7%	+0.5%	–6 bp	+1.1%
July 21				–11 bp	+0.4%
July 22				+8 bp	–2.1%
July 23	Initial Jobless Claims (week ended 7/18) *Source: Labor Department*	554,000	550,000	+14 bp	+2.3%
	Existing-Home Sales (June, annualized) *Source: National Association of Realtors*	4.89 million	4.84 million		
July 24				–2 bp	+0.3
			Weekly change	**+3 bp**	**+4.1%**

bp=basis points. 100 basis points equal 1%. For example, if a bond's yield rises from 5% to 5.5%, the increase is 50 basis points.

Note: The economic statistics presented in this report are subject to revision by the agencies that issue them. For more information on the reports mentioned in this article, read Guide to major U.S. economic reports.

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