

## The Economy – It's Airplanes Versus Consumer Goods

1Q02	2Q02	3Q02	4Q02
-2.10%	2.10%	2.60%	1.90%
1Q03	2Q03	3Q03	4Q04
-1.40%	3.90%	5.00%	8.50%
04-Apr	04-Jul	04-Oct	05-Jan
13.20%	6.80%	1%-3% *	0% **

Source: Prudentbear.com

These are the same store sales increases for Nordstrom's over the various same period a year ago. The third quarter\* is the company estimate (1-3%) and the fourth quarter\*\* estimate (0%) comes from a Wall Street analyst. In addition, the two largest discount stores, Wal-Mart and Target, are projecting 0-2% increases for the upcoming quarter. Does this mean the consumer is running out of gas? Yes it does and that means trouble ahead.

What about the increases in durable goods that were reported last Wednesday? Airplanes. *That's* what caused that increase. A cyclical purchase made largely by Singapore that will not be continued until said airplanes need to be replaced again, several years from now. Not much to hang your hat on.

We continue to believe that we are entering a classical recession mode – inflation picked up monetarily, the Fed raised the Federal Funds rate, capital spending has continued to move forward, but only meekly, and now there is evidence that consumer spending is weakening along with inventory concerns. The Fed had better hurry up and raise rates. Why? Because soon they will need to cut them again.