CURRENT ECONOMICS
& ENERGY MARKETS

CORNERSTONE INVESTORS' NETWORK

Aug. 7, 2004
Harper College, Palatine, IL

Stewart M. Bishop, Publisher

Bishop's Full House Trader

E1

THE ECONOMIC OUTLOOK

	8-6	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec'03	Nov	Oct	Sep	Au
GROWTH	N	N	VS	S	VS	N	S	S	S	VS	S	N	VV
INFLATION	Neu	Neu	Rising	Neu	Rising	Rising	Rising	Low	Low	Low	Low	Low	Lo

Growth key: Very Weak | Weak | Neutral | Strong | Very Strong

ECONOMIC REPORT TRENDS AT-A-GLANCE

This table tracks the bond market implications of all major U.S. economic reports. The reports are divided into two categories: Economic Strength and Inflation. Weak economicresports are considered "Bullish" for bonds while strong reports are "Bearish"

Date	ECONOMY	Bull	NA	Bear	INFLATION	Bull	NA	Bear
8/6/04	Unemp Rate Jul dn to 5.5%		X					
	Avg Workweek up to 33.7		X					
	Hrly Earnings up .3%		X					
	Payrolls up 32K	X						
	Cons Credit Jun							
8/4/04	ISM Services up to 64.8			X				
	Factory Orders Jun up .7%			X				
8/3/04	Pers Spending down .7%	XX						
	Pers Income Jun up .2%		X					
	Auto Sales Jul up 12%			XX				
	Truck Sales Jul up 18%			XX				
8/2/04	Const Spend Jun down .3%	X						
	ISM Idx Jul unch @ 62%			X				
7/30/04	GDP Adv. Q2 up 3%		X		Deflator Adv up 3.2%			X
	Chicago PMI Jul up to 64.7			X				
7/29/04	Help Wtd Idx Jun unch @38		X					
7/28/04	Durables Jun up .7%			X	Emp Cost Idx Q2 up .9%		X	
7/27/04	Cons Conf Jul up to 106.1			X				
	New Home Sales unch		X					
7/26/04	Exist Home Sale Jun up 2%			X				
7/22/04	Lead Econ Indic Jun dn .2%	XX						
7/20/04	Bldg Permits @ 1.99mm units			X				
	Bldg Permits down 8%	XX						
	House Starts @ 1.80mm units			X				
	House Starts Jun dn 8%	XX						
7/16/04					CPI Jun up .3%	X	X	
					CPI Core up .1%			
7/15/04	Phila Fed Idx Jul up to 36.1			X	PPI Jun down .3%	XX		
	NY Empire St Idx up to 36.5			X	PPI Core Jun up .2%		X	
	Ind Prod Jun down .3%	X						
	Cap Util down to 77.2%	X						
	Bus Inventory May up .4%			X				
7/14/04	Retail Sales Jun down 1.1%	XX			Import Price Jun unch	X		
	Sales less autos down .2%	X						
7/13/04	Bal of Trade May dn to -$46B		X					
7/9/04	Whsl Inventories May up 1.2%			X				
7/8/04	Cons Credit May up to $8.2B			X				
	Jobless claims @ 310K			X				
7/6/04	ISM Services Idx dn to 59.9		X					
7/2/04	Factory Orders May dn .3%	X						
	Avg Workwk Jun unch		X					
	Hrly Earnings Jun up .1%	X						
	Payrolls up 112K			X				
	Unemp Rate unch @ 5.6%		X					
7/1/04	Auto Sales Jun dn 12.2%	XX						
	Truck Sales Jun dn 16.4%	XX						
	Const. Spend May up .3%		X					
	ISM Idx Jun dn to 61.1		X					
6/30/04	Chicago PMI Jun dn to 56.4	X						
6/29/04	Cons Conf Jun up to 101.9			XX				
6/28/04	Pers Inc May up .6%			X				
	Pers SPending May up 1.0%			XX				
6/25/04	Exist Home Sales May down 2%	X			Deflator Q1 Final 2.9%		X	
	GDP Q1 Final Up 3.9%		X					
6/24/04	Durables May down 1.6%	X						
	Help Wtd Idx May Unch		X					
	New Home Sales May up 15%			XX				
6/18/04	Curr Ac Deficit Q1 up to $144B			X				
6/17/04	Lead Indicators May up .5%			XX	PPI May up .8%			XX
	Phila Fed May up 5 pts to 28.9			X	PPI Core May up .3%		X	
6/16/04	Indus Production May up 1.1%			XX				

INFLATION EASES

JULY + EARLY AUGUST ECON. REPORTS HAVE GENERALLY BEEN NEUTRAL ON GROWTH + TAME on INFLATION

ABOUT ECRI

In the Press

Weekly Leading Index Falls

06/10/2004

NEW YORK, June 10 (Reuters) - A decline in mortgage applications and an increase in jobless claims helped push a leading index of the U.S. economy lower in the latest week, a report said on Thursday.

The Economic Cycle Research Institute, an independent forecasting group, said its weekly leading index slipped to 132.9 in the week ended June 4 compared with a 134.1 in the previous week.

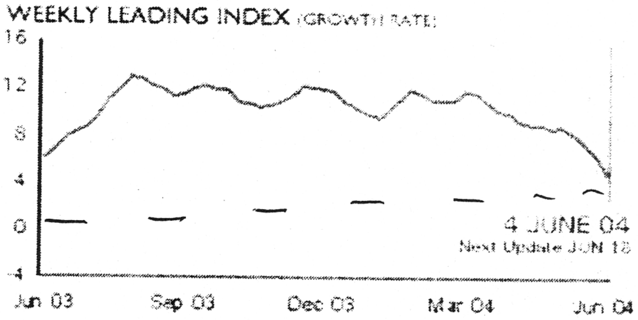
"While U.S. economic growth will stay healthy in the near term, signs of deceleration are clearly on the horizon," said the group's managing director Lakshman Achuthan.

The index's annualized growth rate, which smoothes out weekly fluctuations, decreased for the fourth week in a row and now stands at 5.1 percent. That was its weakest reading in more than a year compared with a revised 6.5 percent in the previous period.

more ECRI press quotes

ECRI - Economic Cycle Research Institute

Leading Index Falling



The Weekly Leading Index (WLI) is updated every Friday and leads turning points in the economy by about 8 months. It is more promptly available and more accurate than any other widely available leading index. To find out more about this type of research, click here.

To access the latest WLI update please log in or register here.

REASONS for SLOWING ECONOMY:

1. TAX & MORTGAGE STIMULUS SPENT
2. RISING ENERGY COSTS
3. JOB REBOUND WEAK
4. HEALTH COSTS of NEW HIRES
5. BUSINESS SPENDING CAUTIOUS

E3

Fed Regional Survey Shows Slowdown in Recent Growth

Goods Orders Rise Less Than Expected

WASHINGTON, July 28 (AP) — The Federal Reserve reported on Wednesday that the economy cooled in June and July as consumer spending slowed after a surge in early spring.

Separately, the Commerce Department said that orders to factories for durable goods rose 0.7 percent in June, reflecting demand for military aircraft, after declines in orders in April and May. The increase was nonetheless smaller than analysts expected.

The survey of business activity, compiled from reports from the Federal Reserve's 12 regional banks, was the latest indication of what the Fed chairman, Alan Greenspan, calls a "soft patch" in the economy that developed in June. Elements of the Fed report, known as the beige book, will be used on Aug. 10 when the Federal Open Market Committee meets on interest rates.

The survey found that wholesale prices, especially for energy, steel and cement, were rising but that relatively little price pressure other than in energy products was being passed on to retail buyers.

The Fed depicted an economy that was rebounding unevenly from a period of recession and weak employment.

"Several districts reported that the rate of growth moderated," the beige book said, listing New York, Cleveland, Richmond, Kansas City and San Francisco as regions where pauses in activity were detected.

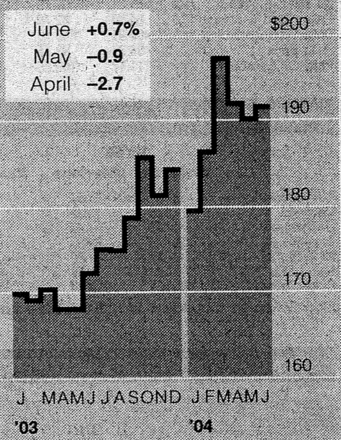
Much of the weakness was attributed to a slowing of consumer spending, particularly on autos. But the report said there were "pockets of weakness" in manufacturing as well.

It described travel and tourism, hit hard after the September 2001 terrorist attacks, as "strong" and said that residential construction remained healthy despite a recent rise in mortgage rates from 40-year lows.

June's gain in orders for durable goods, items expected to last three or more years, followed declines of 0.9 percent in May and 2.7 percent in April. The drop in May had originally been reported as a sharper fall of 1.8 percent. Orders last rose in March, when they surged 5.9 percent.

Durable Goods Orders

Manufacturers' total new orders for durable goods, in billions of dollars, seasonally adjusted.



Source: Commerce Department

The New York Times

Most Regions Experience Modest Growth

A roundup of regional economic conditions in recent months for the Federal Reserve's 12 districts, according to the beige book report issued yesterday by the Fed.

Minneapolis The region reported moderate economic improvement. Real estate sales and construction strengthened.

Chicago Business strengthened despite softer consumer spending. Producer prices rose.

Cleveland Economic growth declined. Manufacturing, retail sales and residential construction slowed.

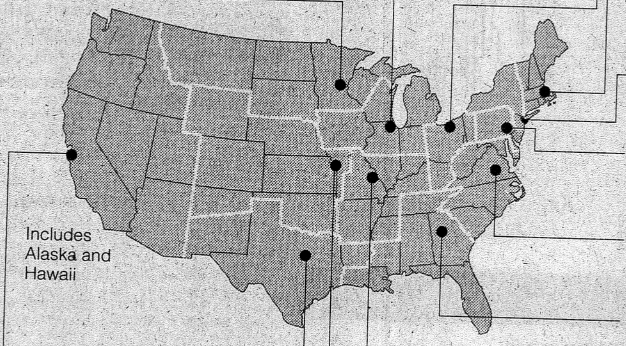
Boston Business conditions were mixed. Retailers and manufacturers report an increase in commodity prices.

New York The region's economy experienced modest growth. Housing and manufacturing remained strong.

Philadelphia Manufacturers reported increased orders and shipments. Retail and auto sales rallied after a slow June.

Richmond, Va. The region's economy grew at a modest pace because of weaker retail sales and manufacturing.

Atlanta Economic growth continued at a steady pace. Retail and auto sales decreased. Commercial real estate grew.



San Francisco The economy experienced steady growth. Retail sales and manufacturing production declined. Commercial real estate increased slightly.

St. Louis Economic activity continued to improve despite reports of plant closings and job cuts by manufacturers and service companies.

Kansas City, Mo. The region's economy grew at a slow pace. Labor markets improved. Auto and retail sales experienced little change.

Dallas Economic growth expanded, bolstered by an increase in activity in the manufacturing and service sectors. Retail sales softened.

Source: Bloomberg News

E4

The New York Times

8-4-04

Sun-Times

Energy costs fuel big drop in spending

BY JEANNINE AVERSA

Consumers, the lifeblood of the economy, clutched tight to their wallets in June, and triggered the steepest spending drop in three years.

The Commerce Department reported Tuesday that consumers cut their spending by 0.7 percent in June from the previous month as high energy prices and a sluggish job market made for more cautious buyers.

Because the buying retreat came off a strong 1 percent rise in consumer spending in May, some economists believed it was just a temporary lull. Others weren't so sure, however, and they said the disappointing showing in June raised new questions about consumers' future willingness to spend.

Americans' incomes, the fuel for future spending, rose by 0.2 percent in June, down from a solid 0.6 percent increase the month before.

The figures are not adjusted for price changes.

"Jobs will be the key factor to get income and spending back on track," said Lynn Reaser, chief economist at Banc of America Capital Management.

The nation's payrolls grew by just 112,000 in June, half the amount analysts had forecast. Economists are predicting a rebound in July, however, with job growth in the 200,000 range. The government releases the employment report for July on Friday.

Consumer spending accounts for roughly two-thirds of economic activity in the United States. Thus, it plays a crucial role in shaping an economic recovery.

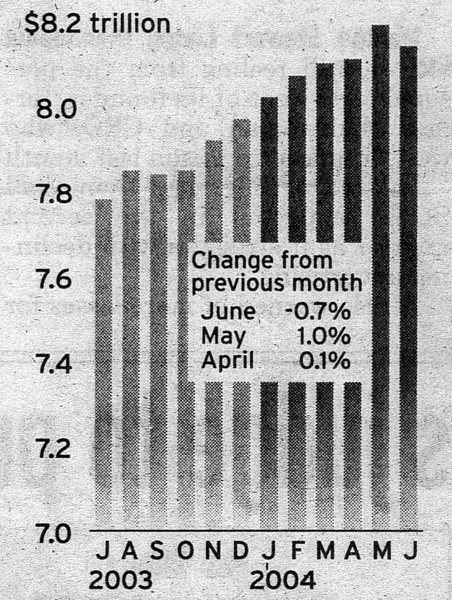
Federal Reserve Chairman Alan

See **ECONOMY**, *Page 76*

PERSONAL SPENDING

Here is a look at the nation's personal spending.

Seasonally adjusted



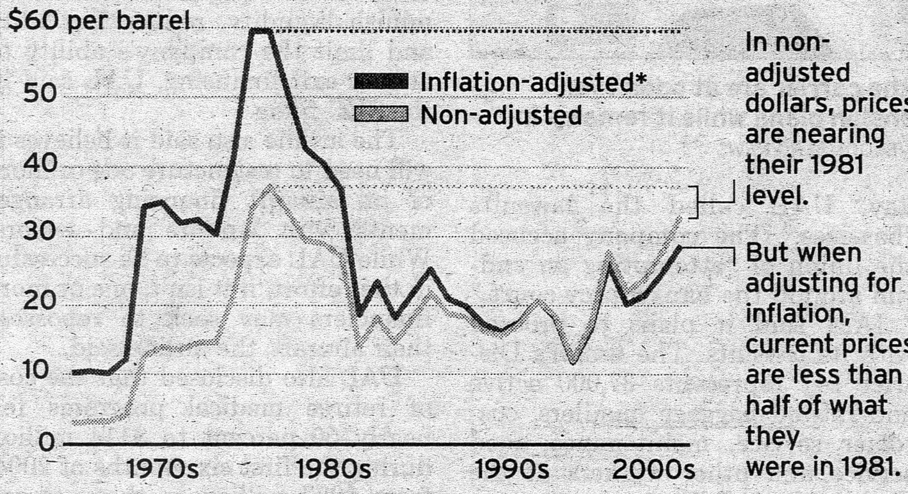
SOURCE: Department of Commerce AP

CRUDE OIL PRICES IN PERSPECTIVE

When taking inflation into account, current prices for imported oil are higher than they were in the 1990s, but still only a fraction of what they were in the early 1980s.

Average cost of crude oil imports to U.S. refiners, 1970-2004

In inflation-adjusted dollars and non-adjusted dollars



NOTE: Prices for 2004 are based on year-to-date estimates. * 1996 dollars

SOURCE: Energy Information Administration AP

Fears about supply, terrorism send oil prices to record

Oil prices climbed to new highs around the globe Tuesday, rising above $44 a barrel in the United States, as global supply concerns and terrorism fears made for jittery trading at a time of strong demand.

Light crude for September delivery rose 33 cents to $44.15 on the New York Mercantile Exchange, topping the previous record, set Monday, of $43.82.

"There's no shortage of oil, but there's no shortage of disruptive events," said John Kilduff, senior vice president of the energy risk management group at Fimat USA Inc. Traders are investing largely

See **OIL**, *Page 76*

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Consumer Spending Declines, But Personal Income Increases

Dow Jones Newswires

WASHINGTON—Consumer spending declined in June, but another rise in personal income should fuel better consumption in the months ahead.

The Commerce Department reported that consumer spending slid 0.7% in June, a retrenchment after a rise of 1% in May. The decline was the steepest since the 1.2% fall of September 2001.

Meanwhile, personal income advanced 0.2% in June after rising 0.6% in May, the Commerce Department said. The increases helped produce the third consecutive quarter of income growth.

"The recent strength in income growth should support consumption growth over the second half of the year," said Gary Bigg, an economist at Banc of America Securities LLC.

Wages were flat in June after a 0.6% rise in May. That reflected a sluggishness that hit the job market, causing businesses to show more caution in hiring in June.

Consumer spending accounts for about two-thirds of economic activity in the U.S. and plays a big role in shaping economic growth.

The decline was led by a cutback in spending on automobiles and other big-ticket durable goods. Other preliminary reports, however, suggest that auto sales improved in July as dealers offered more-generous incentives to boost sales.

Spending on durable goods, or those products expected to last at least three years, declined 5.9% in June, compared with a 3.7% rise in May. For nondurables, such as food and clothes, spending fell 0.3%, following a 1.4% increase. Spending on services rose 0.2%, down from a 0.3% increase.

The reports are consistent with a string of other economic data in June—including the employment report, retail sales and industrial production—that suggested the economy took a bit of a breather in that month.

Despite the weakness, economists still expect the Federal Reserve to boost short-term interest rates by 0.25 percentage point again when it meets next week to keep a lid on inflation. The Fed on June 30 increased interest rates for the first time in four years. It raised a key rate to 1.25% from a 46-year low of 1% at that time.

Journal Link: *WSJ.com subscribers can see the latest economic reports, at* **WSJ.com/JournalLinks**.

8-4-04

Consumer Spending Dropped 0.7% in June

WASHINGTON, Aug. 3 (AP) — Consumers reduced their spending by 0.7 percent in June from the preceding month, the Commerce Department reported Tuesday, as high energy prices and a sluggish job market made buyers more cautious. It was the largest spending drop in three years, and stood in contrast to a forecast of only a 0.1 percent dip.

Because the buying retreat came after a strong 1 percent rise in spending in May, some economists suggested that it was a temporary lull. But others said the disappointing showing raised new questions about consumers' willingness to spend.

Personal income rose 0.2 percent in June, down from a 0.6 percent increase the month before. The figures were not adjusted for price changes.

"Jobs will be the key factor to get income and spending back on track," said Lynn Reaser, chief economist at Banc of America Capital Management.

A total of 112,000 jobs were created in June, half the number analysts had forecast. Economists predict July growth in the 200,000 range when the Labor Department releases the employment report on Friday.

Moreover, wages were flat in June after a 0.6 percent rise in May, reflecting the slowdown in job creation.

"These are sour numbers; there is no sugarcoating that," said Ken Mayland, president of ClearView Economics. "Consumers were confronted with a whole range of high prices, including energy, and they balked."

The 0.7 percent drop in spending was the first since September 2003 and the largest since September 2001.

It was led by a cutback in spending on automobiles and other big-ticket items. Spending on durable goods declined 5.9 percent in June, compared with a 3.7 percent rise in May. In nondurable categories, like food and clothing, spending dipped 0.3 percent after a 1.4 percent increase. Spending on services rose 0.2 percent, after a 0.3 percent increase the month before.

Possible reasons for Consumer Pull Back:
1. High debt
2. Slow job creation
3. ↑ Energy costs

E6

JOBS REBOUND BUT STILL WEAK

Cycle Comparison: Weak Across the Board

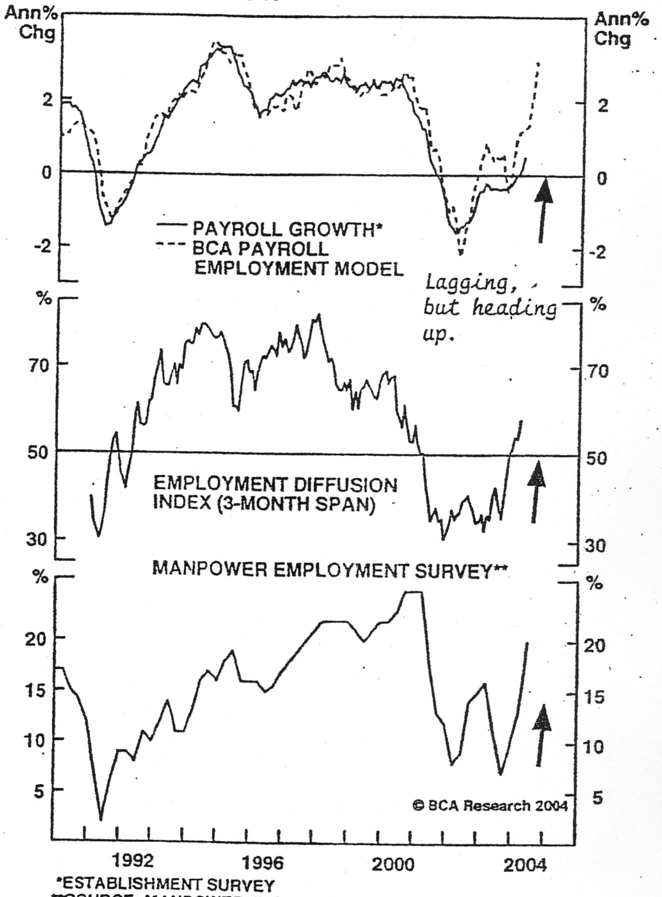
It is widely recognized that the upturn in payrolls has lagged behind previous recoveries. **Charts III-2** and III-3 compare job growth in the current economic recovery to the 1990s recovery, as well as to the average of the six recoveries since the mid-1960s.

Manufacturing was particularly hard hit in the most recent recession. It was not until the March 2004 payroll report, 28 months after the recession officially ended, that the manufacturing sector stopped shedding jobs. More importantly, service sector employment has also lagged in most areas. Information technology (IT) accounts for more than half of all the jobs lost since early 2001. Nonetheless, employment cutbacks were widespread in the service sector, including trade, transportation, professional and business services, leisure and hospitality. Even job gains in the education and health care industries, which do not usually follow the business cycle, have fallen well behind previous recoveries.

There are four leading theories for the poor performance of the U.S. labor market in recent years: offshoring, over-hiring in the bubble years, a shift in the relative price of capital relative to labor, and an exaggerated cyclical boost to productivity, driven by corporate angst. We examine the evidence on each theory below and conclude that over-hiring and corporate angst are the primary suspects.

REASONS

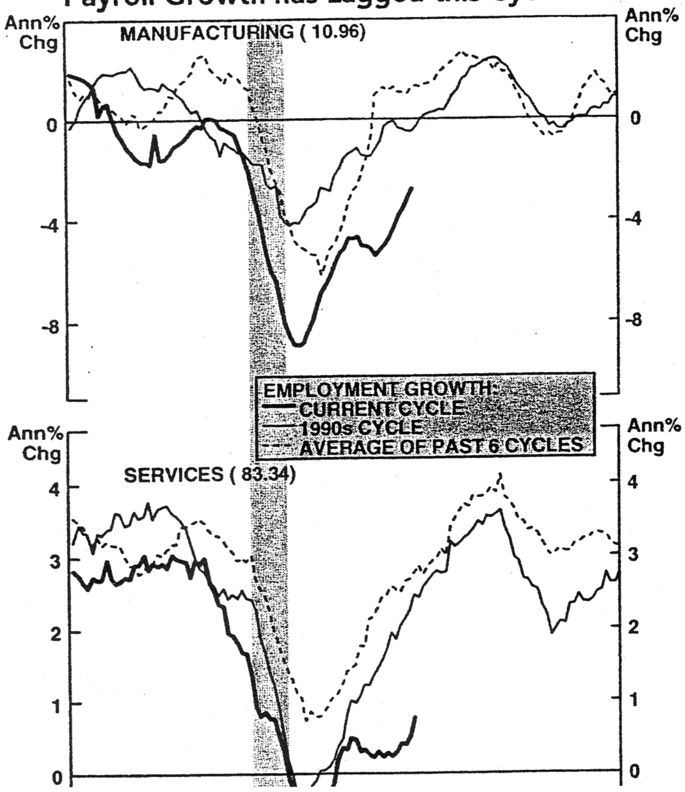
CHART III-1
We Have Lift-Off



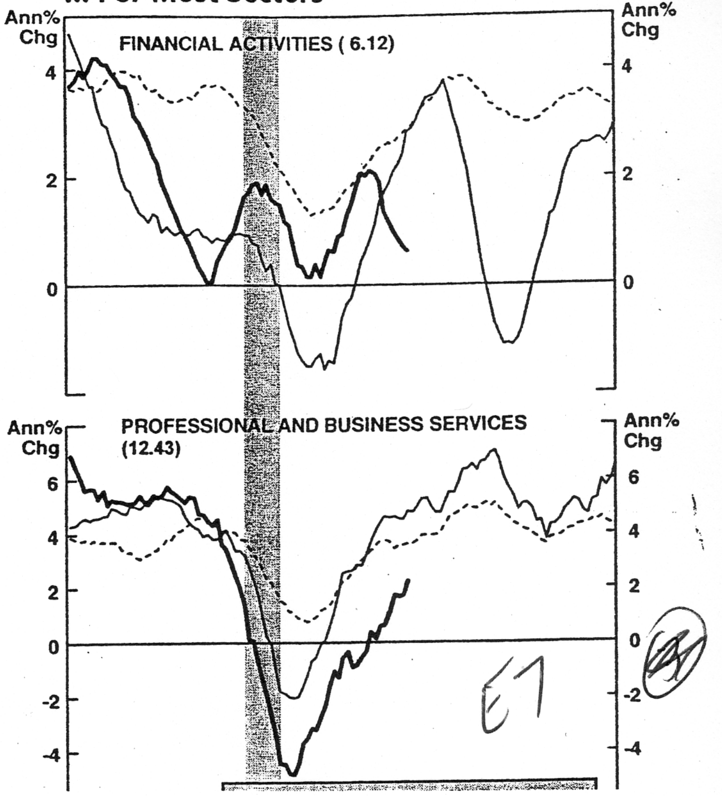
*ESTABLISHMENT SURVEY
**SOURCE: MANPOWER, INC.

Our analysis concludes that the delayed payroll recovery reflected temporary, cyclical factors. There are no structural headwinds to prevent accelerating job gains in the coming quarters.

Payroll Growth has Lagged this Cycle...



... For Most Sectors



E7

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JOBS IN EUROPE, MIGRATING TOO

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New Direction

As Jobs Head East in Europe, Power Shifts Away From Unions

Labor Offers Big Concessions To Get Companies to Keep Production Close to Home

VW Workers Change Their Key

By Neal E. Boudette

WOLFSBURG, Germany—When Volkswagen AG announced in December 2002 that it wanted to lay off 500 people at a plant in Pamplona, Spain, Werner Widuckel headed south to help his fellow workers.

A senior union representative at the car maker's enormous headquarters plant here, Mr. Widuckel had stood up to management many times. But instead of supporting the hard line that Spanish unions wanted to take, Mr. Widuckel warned his colleagues of a bitter truth.

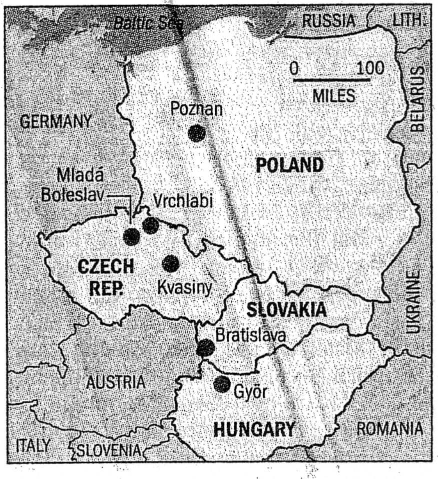
Spanish wages, although well below German levels, are more than double those in Slovakia, where VW has been expanding manufacturing capacity. Push too hard against the layoffs, Mr. Widuckel pointed out, and management could easily shift production to the east, which would endanger far more than 500 Spanish jobs. Several weeks later, the Pamplona workers took a 5% pay cut, and VW cancelled the layoffs. In the age of globalization, Mr. Widuckel says with a shrug, "one has to be willing to go in a different direction."

Not too long ago, winning this sort of concession would have been unthinkable for most Western European companies. For years, European unions bitterly fought even modest givebacks to employers, demanding and winning pay raises and shorter work weeks despite weak economic growth.

But the balance of power is shifting. Since the late 1990s, when the European Union began laying plans to admit new members from Central and Eastern Europe, manufacturers of tires, furniture, glass, consumer electronics and other goods have been building plants and moving production east to take advantage of lower wages, more accommodating unions—and the prospect of relaxed trade barriers. With them have gone tens of thousands of union jobs. Unions fear more will follow as nine Eastern European nations plus Malta join the EU in May, cementing ties between the low-cost East and expensive...

Road Trip

Volkswagen is one of many auto makers that have moved production to low-wage countries in Central and Eastern Europe. VW plants marked below.



Source: the company

Werner Widuckel

A Job for Solomon: Was Bono's Blurt A Verb or Modifier?

* * *

Arbiter of Airwaves Decency Adjusts With the Times; 237,215 Letters Disagree

By Anne Marie Squeo

WASHINGTON—David Solomon, chief of enforcement for the Federal Communications Commission, faced a delicate dilemma of grammar and propriety: Could the "f-word" *not* be indecent?

The word had been uttered during a ...

Pentagon Asks Justice to Join Halliburton Probe

Move Suggests Investigators See Grounds for Penalties Over Billing for Fuel in Iraq

The Pentagon has asked the Justice Department to join an inquiry into alleged fuel overcharging by Halliburton Co. in Iraq, indicating that Pentagon officials see possible grounds for criminal charges or civil penalties.

The broadening of the fuel inquiry, which one military official described as "highly significant," would give the investigation considerably more heft. Justice investigators have the power to indict and to press criminal fraud charges—abilities denied the Pentagon's civilian watchdogs. They also can assess hefty penalties and seek additional damages, a power the Pentagon lacks, though its auditors can reject a contractor's billings as being too high and decline to pay.

By Neil King Jr. in Washington and Glenn R. Simpson in Kuwait City

A senior Justice official said the department was "expected" to take up the investigation, but said that because the allegations involved both civil and criminal violations it is unclear which division will take up the case.

Halliburton spokeswoman Wendy Hall said the referral to the Justice Department was "to be expected ... in the current political environment." But she said it was simply "a method of further studying the issue and not a condemnation" of the company's business practices.

Pentagon officials notified members of Congress yesterday about the move to widen the Halliburton investigation, as the House Government Reform committee prepared for a first-ever hearing today on alleged Iraq contracting abuses.

Halliburton's Kellogg Brown & Root subsidiary has been under mounting scrutiny since last fall over suspicions that a fuel contract the company signed in May had overcharged U.S. taxpayers by $61 million up to the end of September, and by about $20 million a month since then.

A Justice official suggested the department might inquire whether there was any violation of the federal False Claims Act. Under that law, a company found guilty of ...

Health costs: Embedded problem for jobs recovery

3-5-04

Health-Care Costs Blamed for Hiring Gap

THE SEARCH IS on for an answer to the most pressing question in the U.S. economy today: Why are businesses so reluctant to hire new workers?

The popular answer is that business is hiring in India and China instead of the U.S. But there isn't enough offshore outsourcing going on to explain the mystery. The economists' quick answer—that productivity is rising—is a tautology: Rising productivity reflects the fact that production is up and employment isn't. It doesn't explain it.

So now rising health-care costs are being fingered. "Medical costs are rising more rapidly than anything else in the economy—more than prices, wages or profits. It isn't only current medical costs, but also the present value of the future stream of endlessly high cost increases that retards hiring," suggests Roseanne Cahn, who runs her own New York consultancy called eCAHNomics.

The logic goes like this: For an employer, adding a worker makes sense when demand seems strong enough for the company to turn a profit from a worker's labor. But adding a new worker means more than paying. There also are payroll taxes. And there are the costs of health care and pensions.

WITH HEALTH-CARE costs surging, employers prefer to squeeze more work from workers on their payrolls—or rely more on temporary workers, who are much less likely to get health or pension benefits—than hire new workers. That gives rewards of extra labor without the cost of extra benefits.

"The reliance on existing workers and temporaries is typical early in a recovery," says Lawrence Katz, a labor economist. "It is surprising so far into a supposed recovery, and surprising given the rate of economic growth over the last year. I do think high and uncertain health-care costs are being viewed by some employers as a substantial fixed cost to hiring new permanent employees."

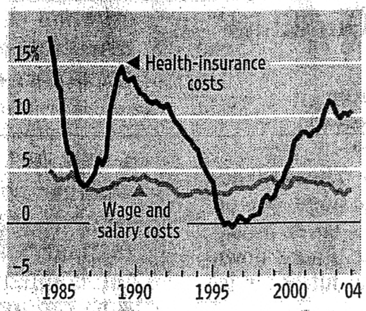
It's a good hunch, but is it true? It's easier to get executives to explain why they *are* doing something than why they *aren't*. The U.S. Federal Reserve's surveys of employers and other surveys find health costs to be a frequently mentioned worry among executives.

A random survey of 2,800 employers conducted last year found that the typical employer spent about $6,619 a year per family on health-insurance premiums; the typical employee paid an additional $2,412. Despite shifting costs to workers, employers' premiums have risen 38% in the past three years. In the past year, the U.S. government says employers' health costs have risen 10.5% while wages are up 3%.

Spending more on health isn't necessarily bad. It isn't all rising prices, excessive drug makers' profits or unneeded care. Some reflects the growing American appetite for health care and costly life-improving advances in knowledge.

Health-Cost Headache

Health-insurance costs are rising more rapidly than wages; year-to-year change



Source: Bureau of Labor Statistics' Employment Cost Index

EVEN SO, anxiety about rising health-care costs could be a particular obstacle to hiring at a time when business finds it difficult to raise prices to cover higher costs of any sort. For every new hire, notes Helen Darling, president of the National Business Group on Health, health insurance now costs an employer roughly as much as payroll taxes. And none of President Bush's tax cuts have made hiring more attractive; indeed, he and Congress offered a sweet tax break to buy more machines and computers.

Skeptics cite some strong contrary evidence. The latest government data don't suggest that companies are making existing workers put in more hours. During the past year, the average front-line worker's workweek has barely grown, though an uptick has occurred recently in factory overtime.

But use of temporary workers has soared. In the past 12 months, private employers of all sorts have added only 188,000 workers, an increase of just 0.2%. Economists keep predicting that businesses must be about to hire enthusiastically, given the economy's growth. Some surveys of executives suggest that's so. So far, the hiring hasn't happened.

This much is clear: Those who identify rising health-care costs as a big problem are quick to draw the link. If the joblessness of the recovery persists, the public search for culprits will intensify. Health costs are bound to get more scrutiny and might even rival outsourcing as a focus of public concern.

E-mail me at **capital@wsj.com**.
See questions and answers Tuesday at **WSJ.com/CapitalExchange**.

WSJ.com **Journal Link:** *How significant a factor are U.S. health-care costs in the movement of jobs overseas? Visit* **WSJ.com/Question** *to vote.*

E9