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Fed on Hold at the January FOMC Meeting

January 5, 2007

Unemployment Rate: Held steady at 4.5%

Nonfarm payrolls: Increased 167,000 in December vs. a gain of 154,000 in November

Household Survey – The unemployment rate held steady at 4.5% in December. The average unemployment rate in 2006 was 4.6%, down from 5.1% in 2005.

Chart 1

Civilian Unemployment Rate: 16 yr +

SA, %



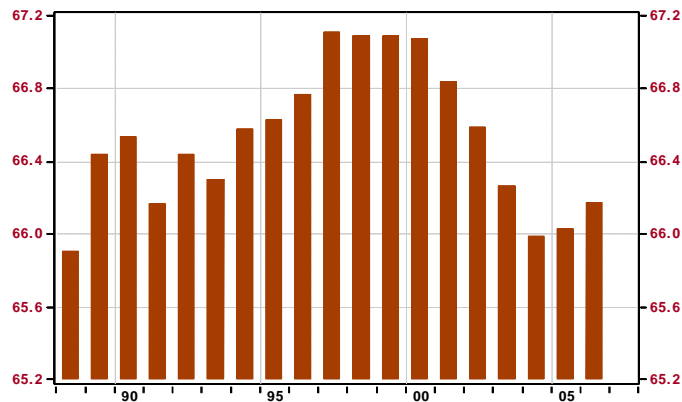
Source: Bureau of Labor Statistics /Haver Analytics

The participation rate rose to 66.2% in 2006 after holding at 66.0% for two consecutive years.

Chart 2

Civilian Participation Rate: 16 yr +

SA, %



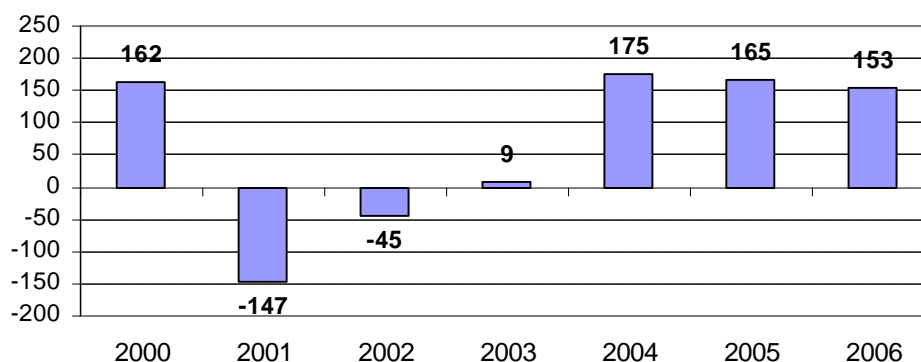
Source: Bureau of Labor Statistics /Haver Analytics

Establishment Survey – Nonfarm payrolls increased 167,000 in December, after an upwardly revised gain of 154,000 in November. The bullish reading of December payroll employment is partly due to warmer-than-typical weather in December. The muted losses in employment in the goods producing sector could be indicative of the impact of warm weather. The national average temperature in December was 37.1 degrees Fahrenheit – 4.5 degrees warmer than December 2005 and the warmest December since 1957. This unseasonably warm weather undoubtedly permitted more construction activity to take place than normal and might have contributed to less interruption of other commercial activities. Employment in the goods producing sector declined only 11,000 in December vs. an average loss of 52,000 jobs in October and November months. Only 3,000 construction jobs were lost in December compared with declines of 28,000 and 25,000 jobs in October and November, respectively. A sharp offset is most likely in January.

Payroll employment grew, on average, by 153,000 per month in 2006, the smallest average monthly increase during the last three years of the current expansion (see chart 3).

Chart 3

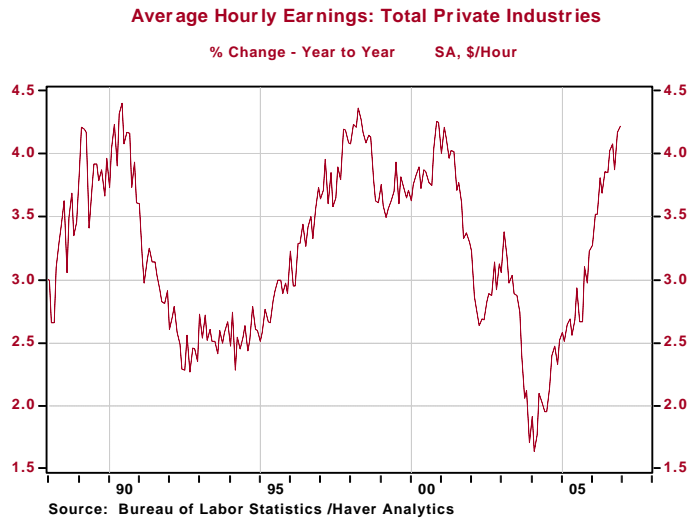
**Nonfarm Payrolls
(Average per month)**



Factory employment fell 12,000 in December, while professional business services jobs increased 50,000, health care added 31,000 to payrolls, food service jobs rose 23,000, and government employment grew 17,000. Temporary employment posted an increase of 14,600. Temporary jobs in 2006 grew by less than fifty percent of the pace seen in 2005. A loss of factory jobs (-12,000) and a steady workweek translated to a 0.1% drop in the manufacturing man-hours index, which points to a drop in factory production during December. The hourly earnings (up 4.2% yoy basis) and payroll numbers point to a hefty increase in personal income during December. The upward trend of hourly earnings is troubling for the FOMC focused on fighting inflation.

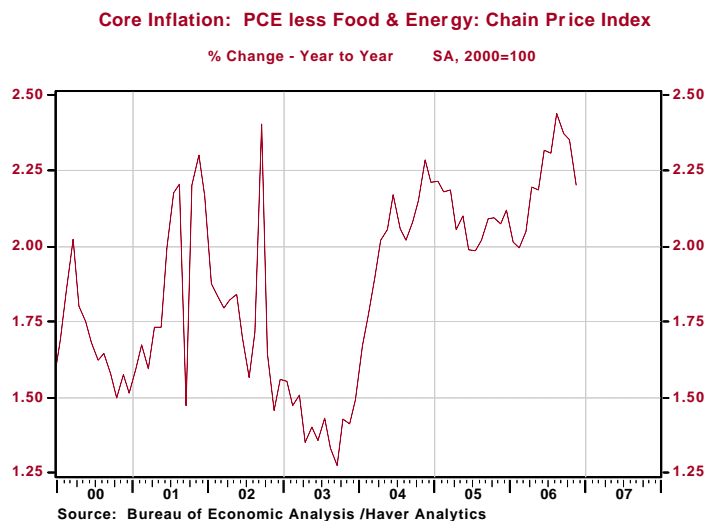
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Chart 4



Conclusion – An unchanged 5.25% federal funds rate at the close of the January 30-31 FOMC meeting is nearly certain. Core inflation is moderating in the desired direction but the level is still above the Fed’s “comfort zone.” Economic growth in the 2% - 2-1/2% will be tolerated until the FOMC sees below-2.0% readings of core inflation. For now, as noted in the minutes of the December 12 FOMC meeting, inflation remains the predominant concern in the inflation-growth debate.

Chart 5



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HIGHLIGHTS OF THE DECEMBER 2006 EMPLOYMENT REPORT

	<u>Jul-06</u>	<u>Aug-06</u>	<u>Sep-06</u>	<u>Oct-06</u>	<u>Nov-06</u>	<u>Dec-06</u>
Household Survey						
Chg. in Civilian Labor Force (000)	188	176	84	234	397	326
Chg. in Civilian Employed (000)	-56	288	288	431	286	303
Civilian Unemployment Rate	4.8	4.7	4.6	4.4	4.5	4.5
Participation Rate	66.2	66.2	66.2	66.2	66.3	66.4
Establishment Survey						
Chg. in Total Nonfarm Payrolls (000)	123	230	203	86	154	167
Chg. in Manufacturing Payrolls (000)	-23	-4	-9	-41	-20	-12
Chg. in Services Ex. Government (000)	119	173	155	128	185	161
Total Workweek (Hours)						
Total Workweek (Hours)	33.9	33.8	33.8	33.9	33.9	33.9
Manufacturing Workweek (Hours)	41.4	41.3	41.1	41.1	41.0	41.0
Manufacturing Overtime (Hours)	4.5	4.4	4.3	4.3	4.2	4.3
Average Hourly Earnings						
Average Hourly Earnings	16.76	16.81	16.85	16.91	16.96	17.04
Chg. from prior month	0.4%	0.3%	0.2%	0.4%	0.3%	0.5%
Chg. from year ago	3.8%	4.0%	4.1%	3.9%	4.2%	4.2%
Average Weekly Earnings						
Average Weekly Earnings	568.16	568.18	569.53	573.25	574.94	577.66
Chg. from prior month	0.4%	0.0%	0.2%	0.7%	0.3%	0.5%
Chg. from year ago	4.1%	4.3%	4.1%	4.2%	4.5%	4.5%
Index of Aggregate Weekly Hours:						
Chg. from prior month in Total Index	0.1%	-0.1%	0.1%	0.4%	0.1%	0.2%
Chg. from prior month in Mfg. Index	0.1%	-0.2%	-0.7%	-0.4%	-0.4%	-0.1%

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