

DAILY GLOBAL
COMMENTARY

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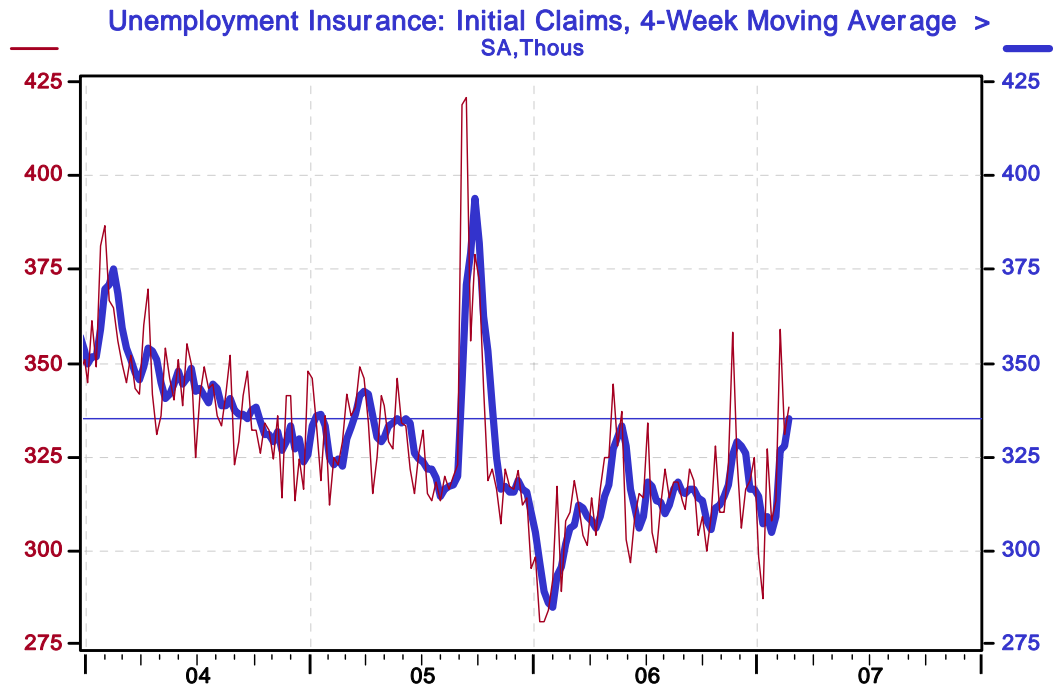
Labor Market Data Stand Out Among Several Reports Published Today

March 1, 2007

Among the several reports published today – jobless claims, personal income and outlays, ISM manufacturing survey, OFHEO House Price Index, and construction spending – we start with the information about the labor market. **Initial jobless claims** increased 7,000 to 338,000 during the week ended February 24. The 4-week moving average of initial jobless claims is at the highest since May 28, 2005, excluding the Katrina-related spike (see chart 1).

Chart 1

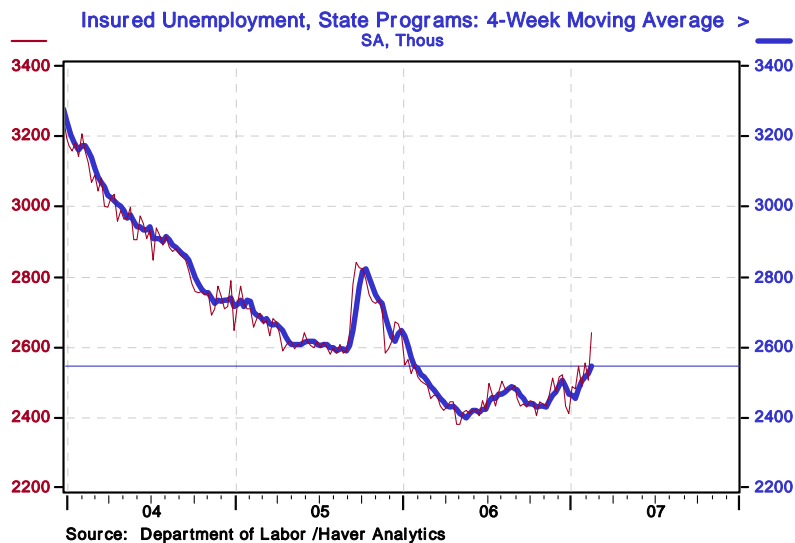
< Unemployment Insurance: Initial Claims, State Programs
SA, Thous



Source: Department of Labor /Haver Analytics

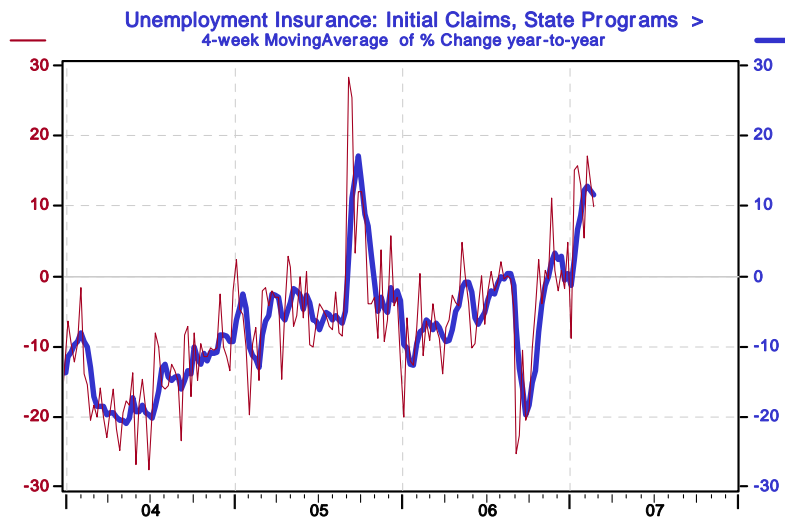
Continuing claims, which lag initial claims by one week, rose 134,000 to 2.640 million and the 4-week moving average of continuing claims (2.547 million) is the highest since January 2006. The insured unemployment rate rose to 2.0%, after holding at 1.9% since the week ended October 28, 2006.

Chart 2
 < Insured Unemployment, State Programs
 SA, Thous



Seasonally unadjusted initial jobless claims rose 9.8% on a year-to-year basis, marking the seventh consecutive increase (see chart 3).

Chart 3
 < Unemployment Insurance: Initial Claims, State Programs
 % Change - Year to Year NSA, Thous

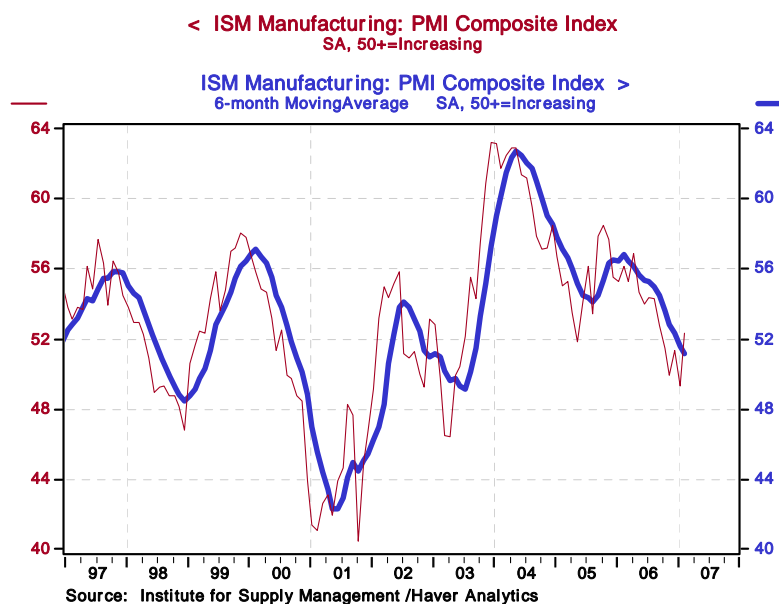


The main take away from these jobless claims data is that there is a significant weakness developing in the labor market which will be validated or refuted by the February employment report.

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The **ISM manufacturing survey results for February** show an improvement in the factory sector. The Purchasing Managers' Index (PMI) rose to 52.3 in February from 49.3 in the prior month. Indexes tracking production and new orders posted impressive gains (see table below).

Chart 4



The PMI has held in a narrow range between 49.3 and 52.7 in the last six months. The 6-month moving average of the PMI is the lowest since August 2003 (see chart 4). Based on this trend, the best we can say is that additional monthly gains are necessary to confirm the strength seen in February.

Table 1 ISM Manufacturing Survey – February 2007

	<u>Sep-2006</u>	<u>Oct-2006</u>	<u>Nov-2006</u>	<u>Dec-2006</u>	<u>Jan-2007</u>	<u>Feb-2007</u>
Composite Index	52.7	51.5	49.9	51.4	49.3	52.3
New Orders	54.2	52.1	49.7	51.9	50.3	54.9
Production	54.9	52.7	49.3	52.4	49.6	54.1
Employment	49.6	50.6	48.9	49.4	49.5	51.1
Vendor Deliveries	54.1	50.6	52.8	53.3	52.7	50.8
Inventories	47.1	49.3	49.1	48.5	39.9	44.6
Prices	61.0	47.0	53.5	47.5	53.0	59.0
Backlog of Orders	46.5	44.5	46.5	45.0	43.5	51.5
New Export Orders	55.3	57.8	56.9	54.3	52.5	54.0
Imports	56.0	57.0	56.5	55.5	54.5	61.5

Inflation and consumer spending information for January included some noteworthy nuggets.

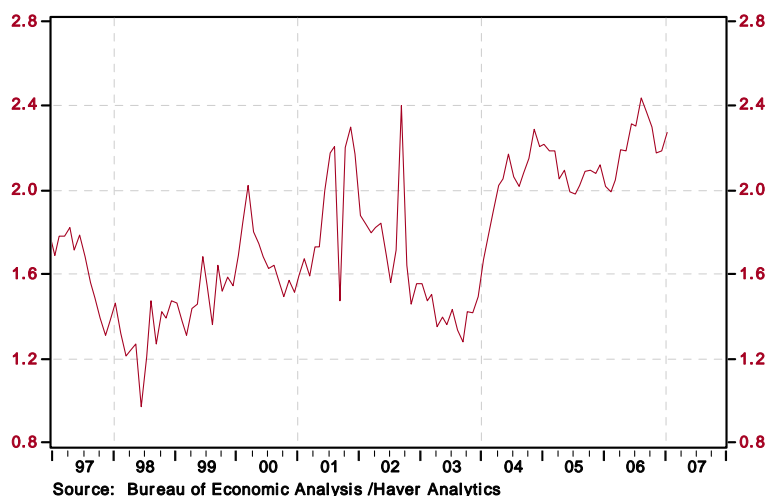
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The core inflation reading for January was not favorable. The core personal consumption expenditure price index excluding food and energy rose 0.25% in January, putting the year-to-year gain at 2.27%, following a revised 2.18% year-to-year increase in December. The January year-to-year core inflation reading remains above the Fed's comfort zone.

Chart 5

PCE less Food & Energy: Chain Price Index

% Change - Year to Year SA, 2000=100



The 1.0% jump in personal income in January partly reflects bonuses and stock options which are once a year event. Excluding this, personal income moved up 0.5% in January. Inflation adjusted consumer spending rose 0.3% in January led by purchases of durable (+0.7%) and services (+0.4%). The strong January reading works in favor of a noticeable increase in consumer spending in the first quarter.

Moving on to the housing sector, construction data show continued weakness in residential construction outlays (see chart 6). Residential construction expenditures fell 1.8% in January, marking the tenth monthly consecutive decline. Non-residential construction spending held steady and public sector construction spending moved up 0.6%.

Table 2 Construction Spending – percent change from prior month

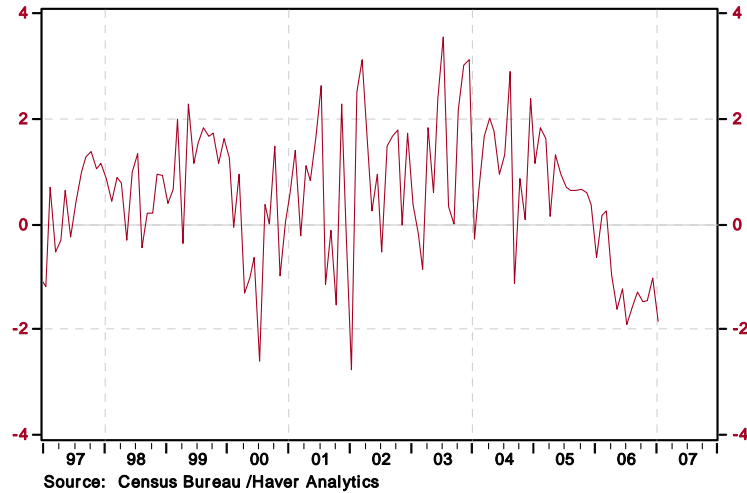
	<u>Total</u>	<u>Private</u>	<u>Residential</u>	<u>Non-residential</u>	<u>Public</u>
Aug-2006	0.0	-0.1	-1.6	3.0	0.1
Sep-2006	-0.8	-1.0	-1.3	-0.5	0.1
Oct-2006	-0.8	-1.3	-1.5	-1.0	0.9
Nov-2006	0.0	-0.5	-1.4	1.4	1.6
Dec-2006	0.6	0.1	-1.0	2.3	2.4
Jan-2007	-0.8	-1.2	-1.8	0.0	0.6

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Chart 6

Private Construction: Residential

% Change - Period to Period SAAR, Mil.\$



The OFHEO House Price Index rose 4.1% on a year-to-year basis in the fourth quarter, which is sharp deceleration of the price index from a peak year-to-year change of 11.0% in the third quarter of 2005.

Chart 7

House Price Index: Purchase Only, United States

% Change - Year to Year NSA, Q4-90=100



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