

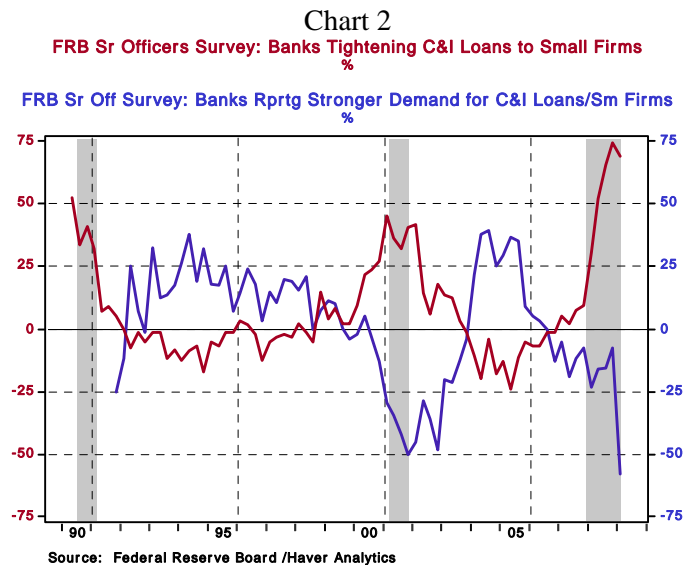
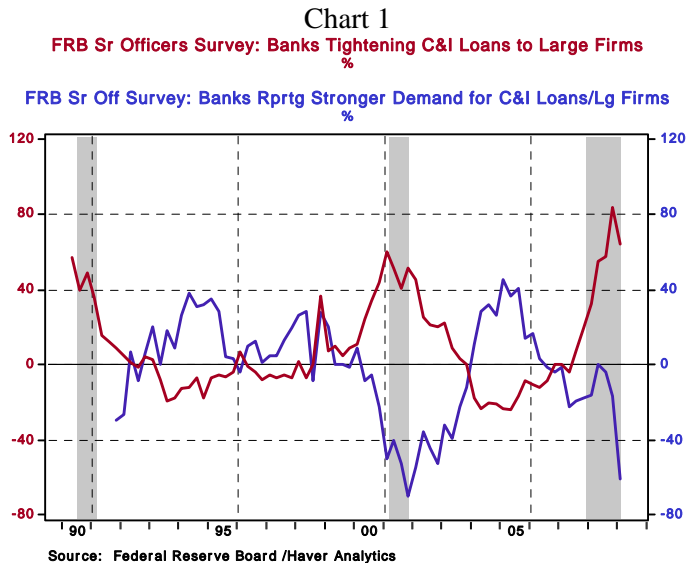
DAILY GLOBAL COMMENTARY

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**January Senior Loan Officer Survey Includes Many Positive Aspects**  
*February 2, 2009*

The Senior Loan Officer survey of January 2009 contains many noteworthy aspects that bear good tidings. There were fewer bank officers reporting they had tightened loan underwriting standards for commercial and industrial loans for both small and large firms in January compared with December (see charts 1 and 2). In the case of both large and small firms, the demand for loans was weaker in January compared with December. Although the history of these data is short, in 2001, the demand for loans turned around only after the recession had reached its last leg, where as the peak for the number of banks reporting tightening standards peaked slightly ahead.



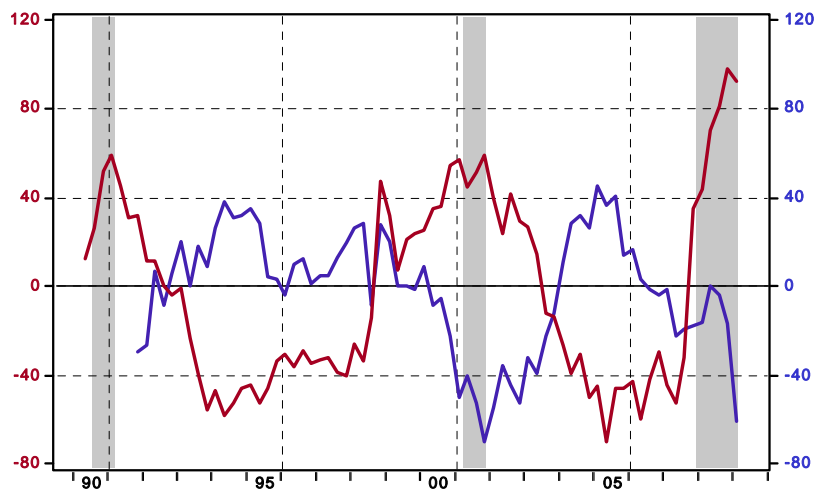
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Spreads of loan rates, which reflect the cost of borrowing, move inversely with the demand for loans. The positive news here is that spreads appear to have peaked (see charts 3-4). As mentioned earlier, we need to see more data to be confident if the tide is turning.

Chart 3

**FRB Sr Off Survey: Banks Incr Spreads of Loan Rates to Large Firms**  
%

**FRB Sr Off Survey: Banks Rprtng Stronger Demand for C&I Loans/Lg Firms**  
%

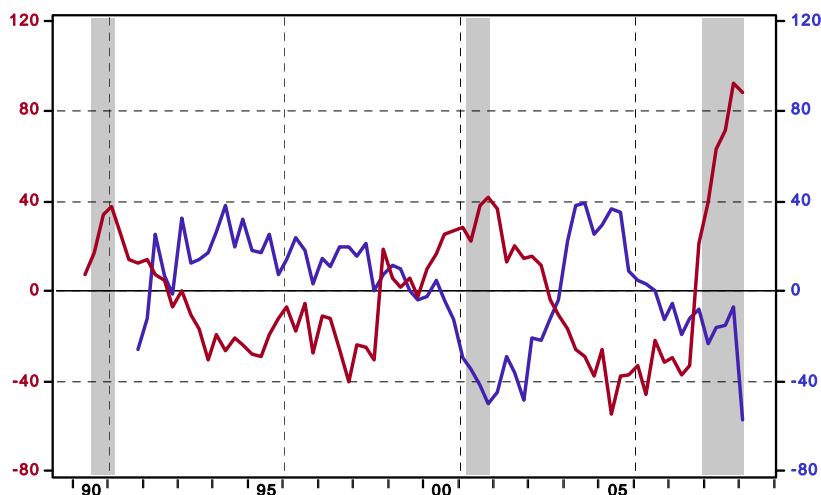


Source: Federal Reserve Board /Haver Analytics

Chart 4

**FRB Sr Off Survey: Banks Incr Spreads of Loan Rates to Small Firms**  
%

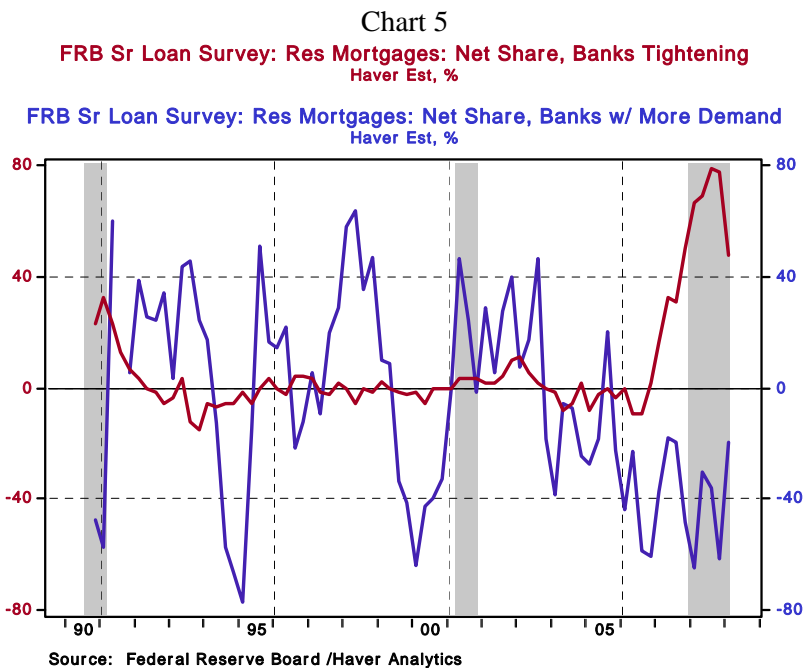
**FRB Sr Off Survey: Banks Rprtng Stronger Demand for C&I Loans/Sm Firms**  
%



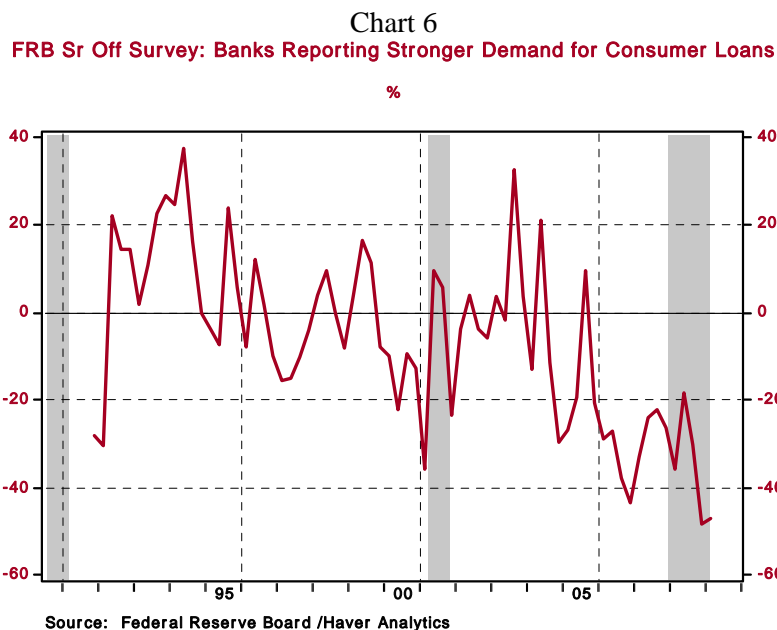
Source: Federal Reserve Board /Haver Analytics

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The survey also indicates that fewer banks were tightening lending standards in January for mortgage loans compared with the December survey, but the number is at an elevated level. At the same time, bankers reported that demand for mortgages was improving (see chart 5).



As shown in chart 6, there was no perceptible change in the report with regard to the demand for consumer loans.

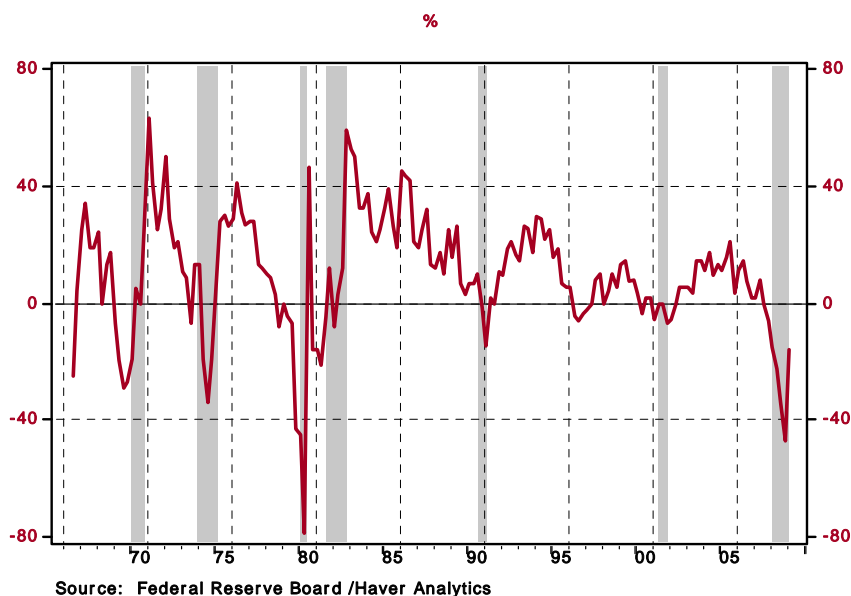


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There were fewer banks unwilling to extend consumer loans in January compared with December. In sum, there are many encouraging aspects in this report, but we need to see additional data to confirm that the banking system is mending.

Chart 7

**FRB Sr Officers Survey: Banks Willingness to Lend to Consumers**



### Significant Reduction in Consumer Spending

The reduction in consumer spending in the past few months is noteworthy not only because it has declined in six out of the last seven, but at the same time the savings rate has increased rapidly (see charts 8 and 9) in an environment when income is not advancing rapidly. The spike in income and saving (see chart 9) in May 2008 reflects the tax rebate of 2008. The significance of an appropriately targeted fiscal stimulus package is evident from these two charts. In other words, external stimulation is necessary to offset the weakness in consumer spending because an endogenous increase is unlikely in the months ahead. A decline in consumer spending in the first quarter is nearly certain. Also, the decline will be hefty because the level of consumer spending in December was considerably large such that there is an arithmetical disadvantage also.

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Chart 8  
Real Personal Consumption Expenditures

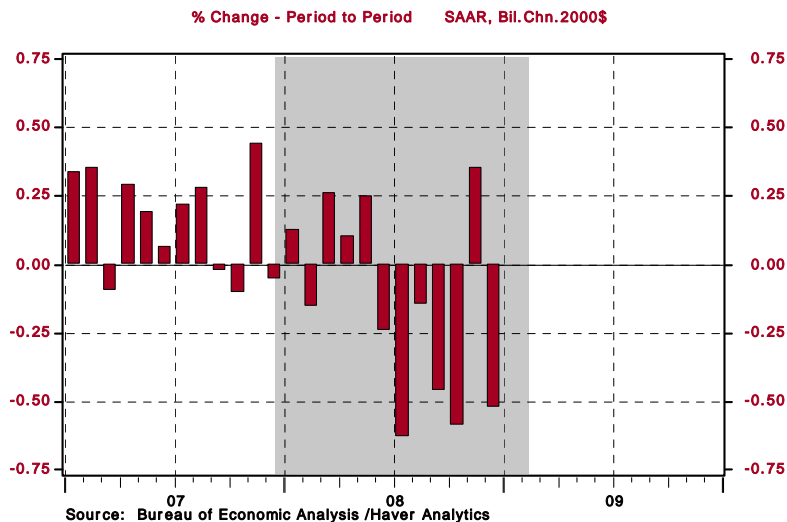
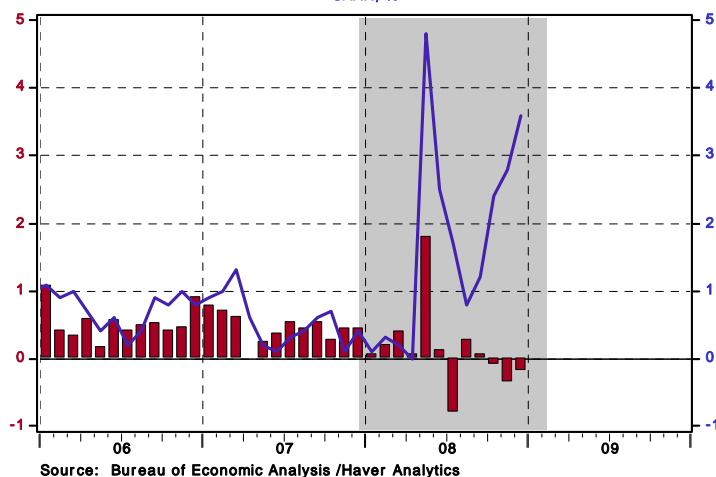


Chart 9  
Personal Income  
% Change - Period to Period SAAR, Bil.\$  
Personal Saving Rate  
SAAR, %



Noteworthy details:

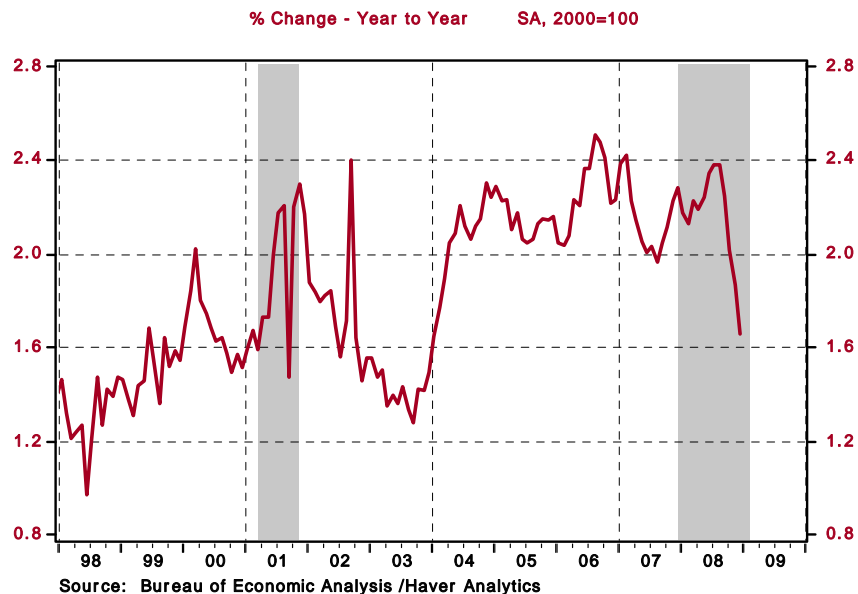
- Personal income fell 0.2% in December after a 0.4% drop in November.
- Wages and salaries dropped 0.3% in December, putting the quarterly decline at 1.0%, the largest drop since the last recession in 2001
- Saving as a percent of disposable income rose to 3.6% in December vs. a 1.2% increase in September.

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- Inflation is a non-issue. The personal consumption expenditure price index was down 0.5% in December, while the core personal consumption expenditure price index, which excludes food and energy, has held steady for three months in a row. The year-to-year change in the core personal consumption expenditure price index was 1.66% in December, down from a high of 2.38% in August 2008.

Chart 10

**PCE less Food & Energy: Chain Price Index**



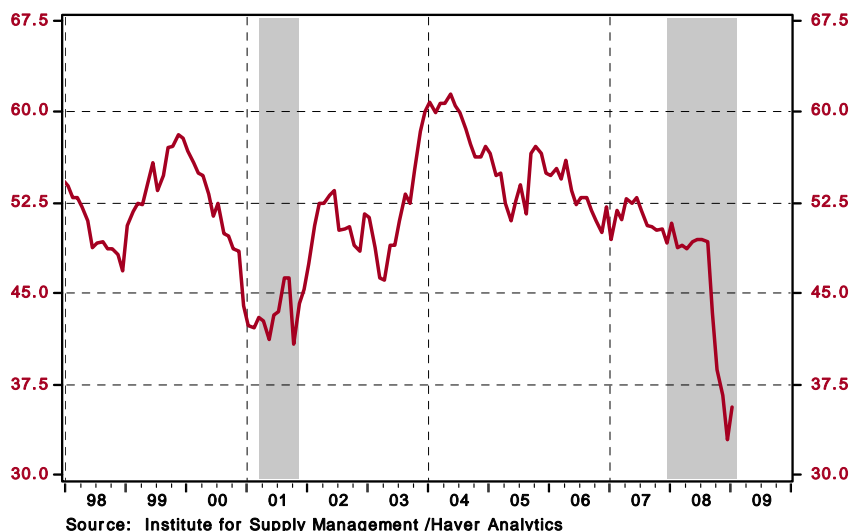
**ISM Survey January 2009: Positive News, but More is Necessary**

The ISM manufacturing composite index rose to 35.6 in January from 32.9 in December. The level of the index remains below 50.0 signifying a contraction in factory activity. However, the gain of the index suggests that factory activity is contracting at a slower pace in January compared with December. This is positive news. Indexes tracking production, new orders, and new export orders moved up in January, the employment index held steady, inventories and supplier delivers moved down. The 10.1 point increase in the new orders index warrants watching because these large jumps are associated with the end of recessions. Additional improvement in the subsequent months will be necessary to confirm that a recovery is underway given that the composite index and sub-components are far below 50.0 still.

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Chart 11  
ISM Manufacturing: PMI Composite Index

SA, 50+=Increasing



### ISM Manufacturing Survey – January 2009

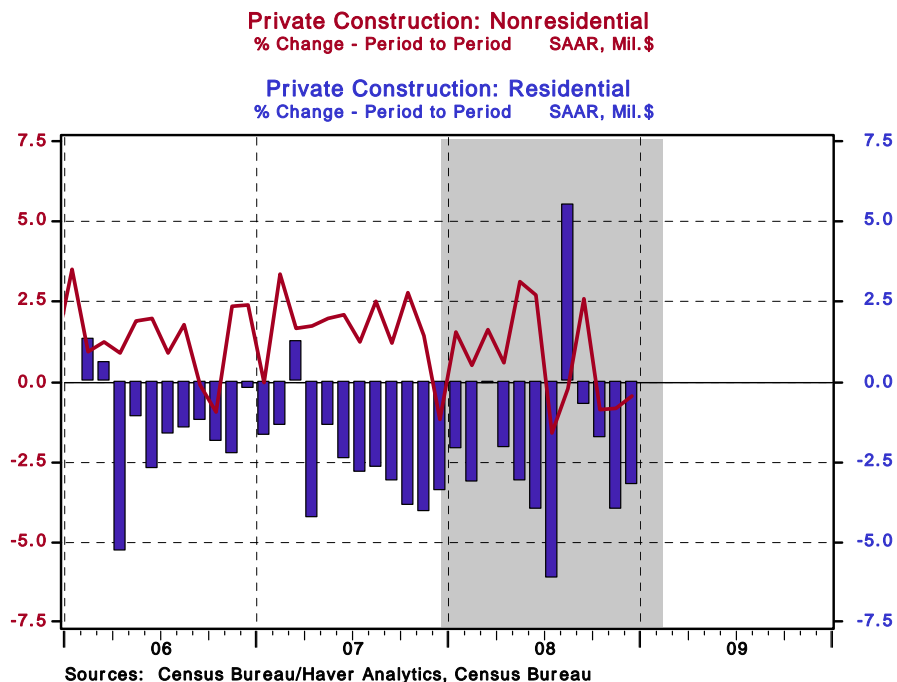
	<u>Aug-2008</u>	<u>Sep-2008</u>	<u>Oct-2008</u>	<u>Nov-2008</u>	<u>Dec-2008</u>	<u>Jan-2009</u>
<b>Composite Index</b>	49.3	43.4	38.7	36.6	32.9	<b>35.6</b>
<b>New Orders</b>	48.2	39.2	32.4	28.1	23.1	<b>33.2</b>
<b>Production</b>	51.3	41.0	33.6	32.0	26.3	<b>32.1</b>
<b>Employment</b>	48.0	40.9	34.2	34.3	29.9	<b>29.9</b>
<b>Vendor Deliveries</b>	50.5	51.8	49.3	48.6	45.7	<b>45.3</b>
<b>Inventories</b>	48.4	44.0	44.0	40.1	39.6	<b>37.5</b>
<b>Prices</b>	77.0	53.5	37.0	25.5	18.0	<b>29.0</b>
<b>Backlog of Orders</b>	43.5	35.0	29.5	27.0	23.0	<b>29.5</b>
<b>New Export Orders</b>	57.0	52.0	41.0	41.0	35.5	<b>37.5</b>
<b>Imports</b>	48.5	44.0	41.0	37.5	39.0	<b>36.5</b>

### Construction Outlays Remain Weak

Construction spending fell 1.4% in December after a 1.2% drop in the previous month. Residential construction spending declined 3.2% and non-residential construction spending dropped 0.8% in December. Non-residential construction expenditures are a lagging indicator of economic conditions, which implies that we will be watching these numbers to confirm about underlying economic conditions and not to predict the future course of the economy.

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Chart 12



**Construction Outlays (percent change from prior month)**

	<u>Total</u>	<u>Private</u>	<u>Residential</u>	<u>Non-residential</u>	<u>Public</u>
Jun-2008	-0.2	-0.5	-4.0	2.7	0.7
Jul-2008	-2.4	-3.7	-6.2	-1.6	0.7
Aug-2008	2.4	2.3	5.5	-0.2	2.7
Sep-2008	0.3	1.0	-0.8	2.6	-1.4
Oct-2008	-0.7	-1.3	-1.8	-0.9	1.0
Nov-2008	-1.2	-2.3	-4.1	-0.8	1.2
Dec-2008	-1.4	-1.7	-3.2	-0.4	-0.8

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