

DAILY GLOBAL
COMMENTARY

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Consumer Spending Gains Strength in January, but Underlying Fundamentals Raise Questions

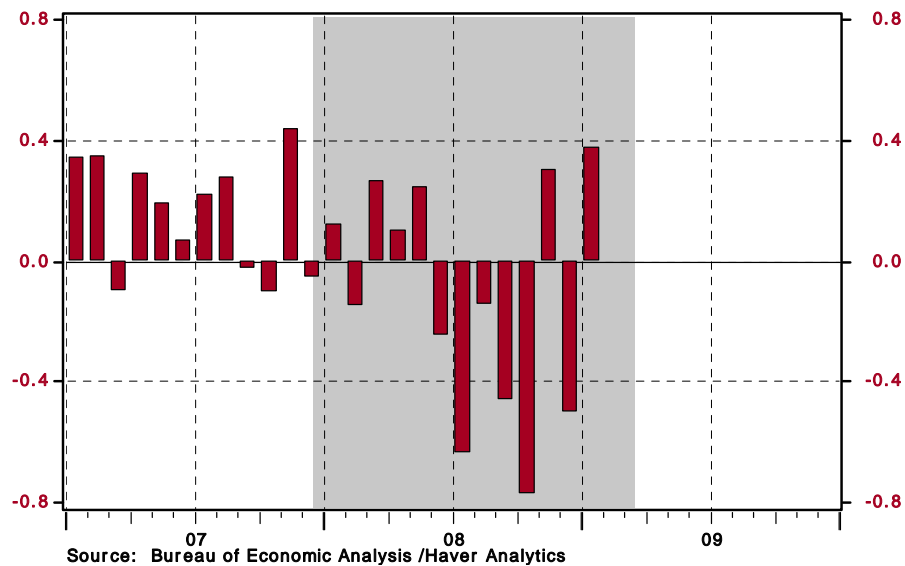
March 2, 2009

Consumer spending, after adjusting for inflation, rose 0.4% in January, after posting only one monthly gain (November 2008) since June 2008. Among the three major components of consumer spending, purchases of non-durables (food, clothing, gasoline, shoes) increased 0.7% in January with food and gasoline outlays accounting for a large part of the increase in consumer spending in January. A 0.3% increase in services and a 0.2% gain in purchases of durables (cars, furniture, appliances) were also noteworthy.

Chart 1

Real Personal Consumption Expenditures

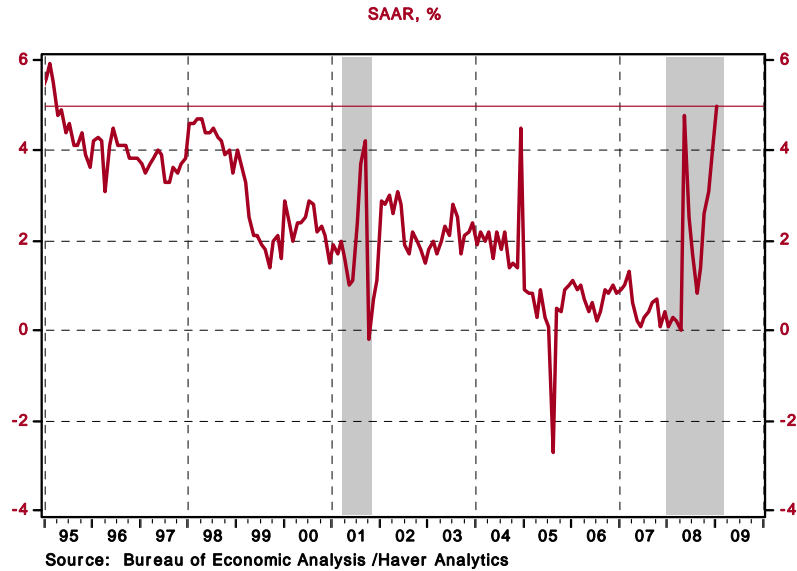
% Change - Period to Period SAAR, Bil.Chn.2000\$



Is the strength in consumer likely to prevail in the next two months such that in the first quarter consumer spending will advance after posting declines in the third (-3.8%) and fourth (-4.3%) quarters of 2008? The probability of an increase in consumer spending is small but the probability of a smaller-than-expected decline has risen after the January data have been published. That said, these numbers are subject to revision. The significantly weak employment conditions, the recent trajectory of consumer saving, and a financially strapped household are factors that are supportive of forecasts of another likely quarterly drop in consumer spending.

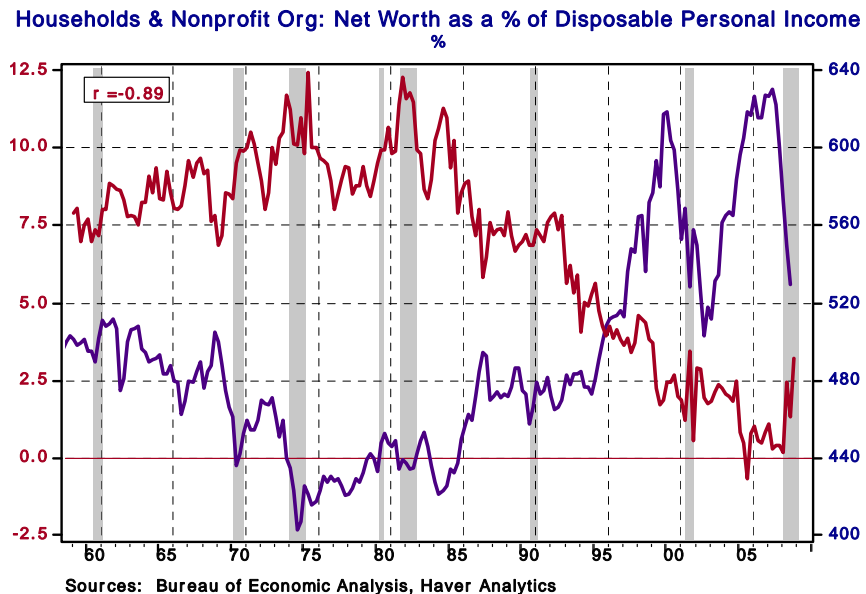
Personal saving as percent of disposable income was 5.0% in January. The spike in the saving rate in May/June 2008 was related to the tax rebates of 2008. On a monthly basis, the personal saving rate in January 2009 is the largest since March 1995 (see chart 2).

Chart 2
Personal Saving Rate



Net worth of households and the saving rate move in opposite directions. Given the large loss in net worth of households, the rising unemployment rate, and uncertainty in the economy, it is not surprising that the saving rate has risen in the past few months.

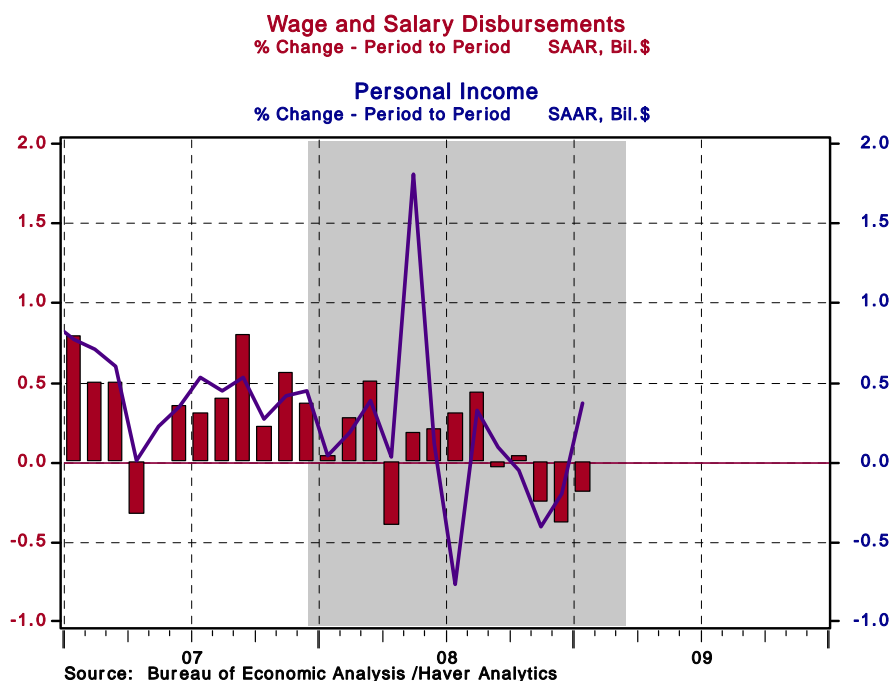
Chart 3
Personal Saving Rate



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Personal income moved up 0.4% in January, the first monthly increase since September 2008. Special factors such as pay hikes for military and federal government employees, unemployment insurance funds, and inflation adjustment for social security payments accounted for the increase in personal income. Wages and salaries fell 0.2%, which is consistent with the weakness portrayed in the employment data. In fact, wages and salaries have not risen since August 2008 (see chart 4). In light of the weak labor market conditions, personal income will most likely decline in February.

Chart 4



ISM Manufacturing Survey – Insignificant Gain in February

The ISM Manufacturing Survey results for February show signs of stability, for the most part. The composite index was up slightly (35.8 vs. 35.6 in January) from the prior month. Indexes tracking new orders and inventories showed a small decline, the index measuring employment conditions dropped to a record low, while indexes tracking vendor deliveries and production advanced. The factory sector remains mired in weak economic conditions, but the good news is that sub-indexes are close to the levels seen in January, with the exception of the employment index.

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Chart 5

ISM Manufacturing: PMI Composite Index

SA, 50+=Increasing (I)

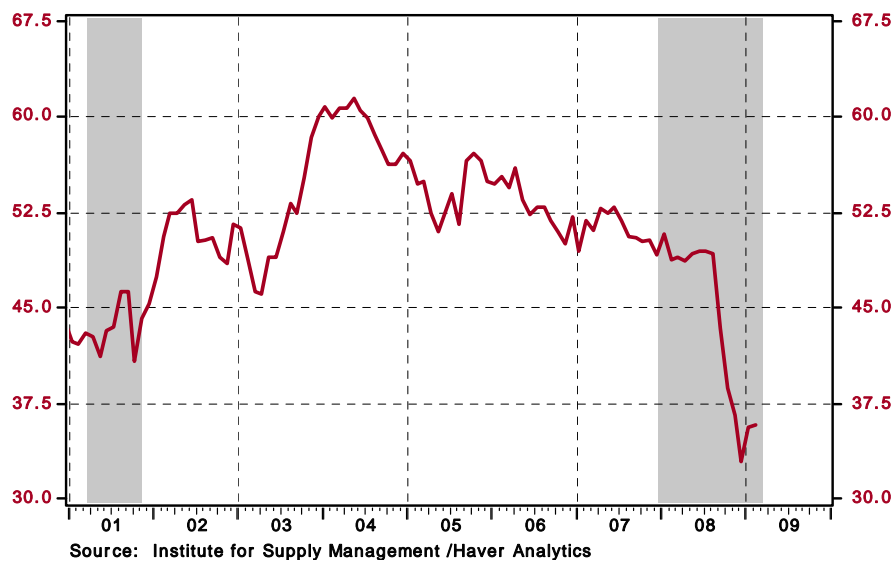
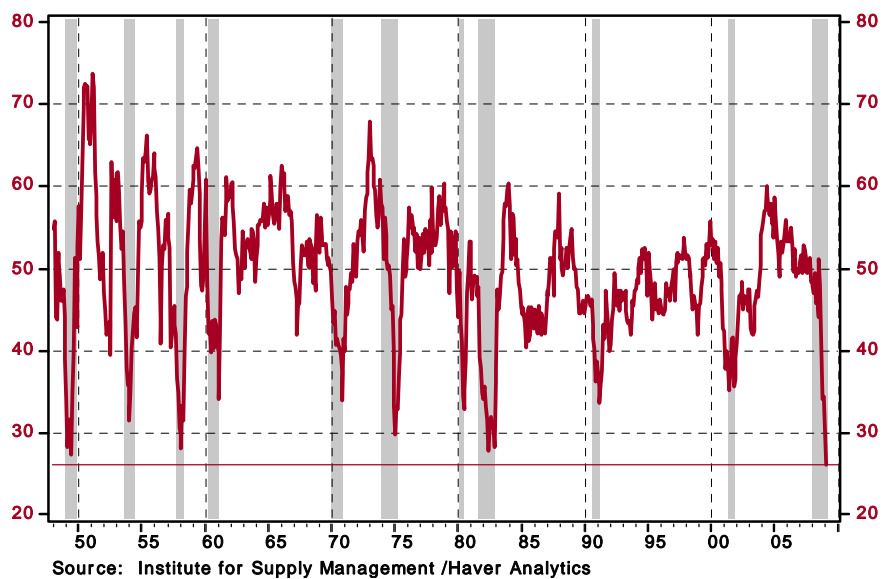


Chart 6

ISM Manufacturing: Employment Index

SA, 50+=Increasing



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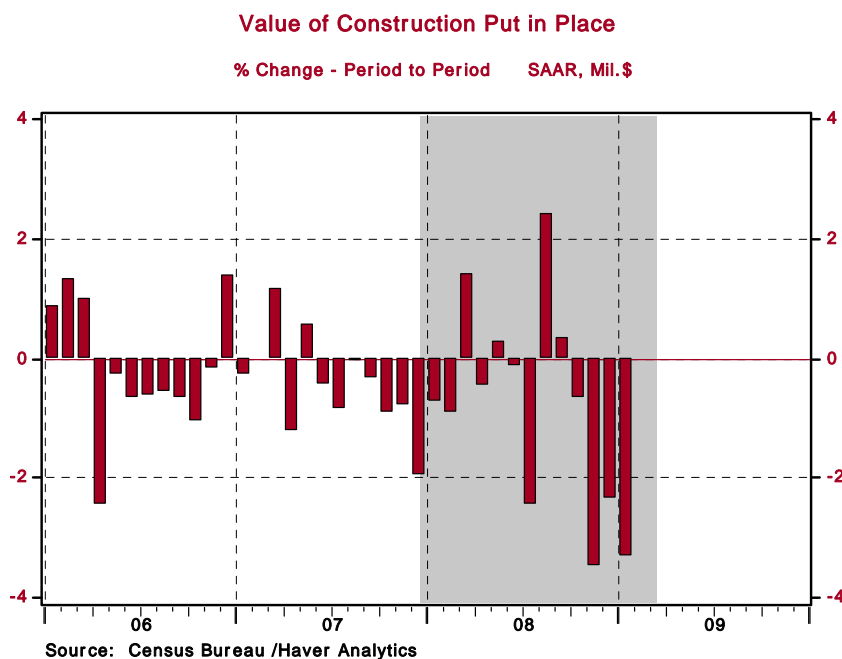
ISM Survey – February 2009

	<u>Sep-2008</u>	<u>Oct-2008</u>	<u>Nov-2008</u>	<u>Dec-2008</u>	<u>Jan-2009</u>	<u>Feb-2009</u>
Composite Index	43.4	38.7	36.6	32.9	35.6	35.8
New Orders	39.2	32.4	28.1	23.1	33.2	33.1
Production	41.0	33.6	32.0	26.3	32.1	36.3
Employment	40.9	34.2	34.3	29.9	29.9	26.1
Vendor Deliveries	51.8	49.3	48.6	45.7	45.3	46.7
Inventories	44.0	44.0	40.1	39.6	37.5	37.0
Prices	53.5	37.0	25.5	18.0	29.0	29.0
Backlog of Orders	35.0	29.5	27.0	23.0	29.5	31.0
New Export Orders	52.0	41.0	41.0	35.5	37.5	37.5
Imports	44.0	41.0	37.5	39.0	36.5	32.0

Construction Spending – Non-residential and Public Components Deteriorate More

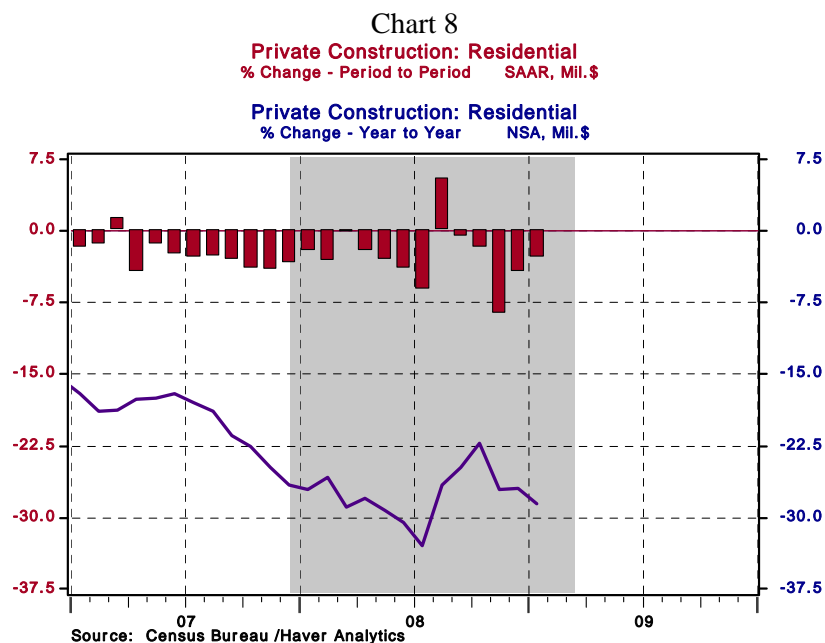
Construction spending dropped 3.3% in January, with November (-3.5% vs. -1.2% in last month's report) and December (-2.45% vs. -1.4% in last month's report) outlays being revised down substantially.

Chart 7

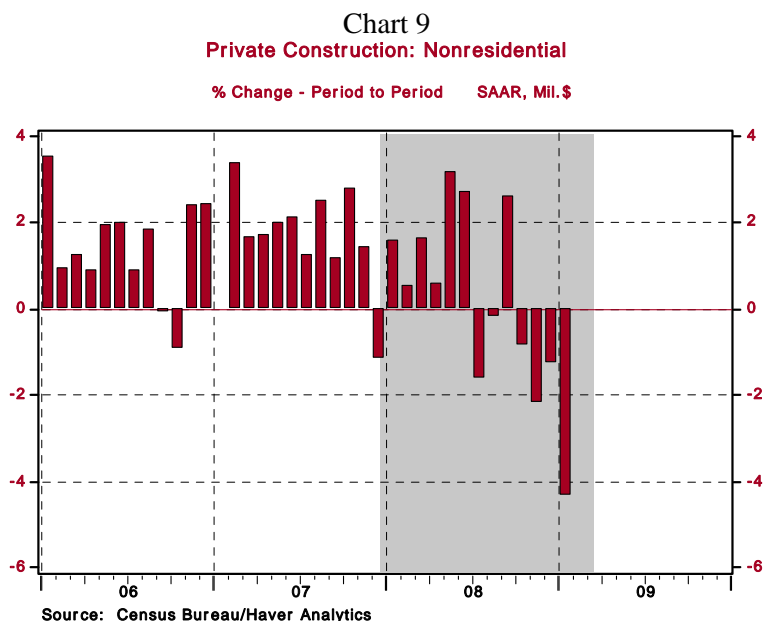


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The 2.9% drop in private residential construction spending is noteworthy because it appears that residential construction spending is bottoming out (see chart 8).



Non-residential construction spending fell 4.3% in January, the largest decline of the past four months. Additional weakness in this sector is likely in the months ahead. Public sector construction spending was down 2.3% in January, after a 1.8% drop in the prior month. A pickup in public sector spending should appear in the latter half of the year.



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Construction Outlays – January 2009 (% change from prior month)

	<u>Total</u>	<u>Private</u>	<u>Residential</u>	<u>Non-residential</u>	<u>Public</u>
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	-3.5	-5.1	-8.6	-2.2	0.4
Dec-2008	-2.4	-2.6	-4.4	-1.2	-1.8
Jan-2009	-3.3	-3.7	-2.9	-4.3	-2.3

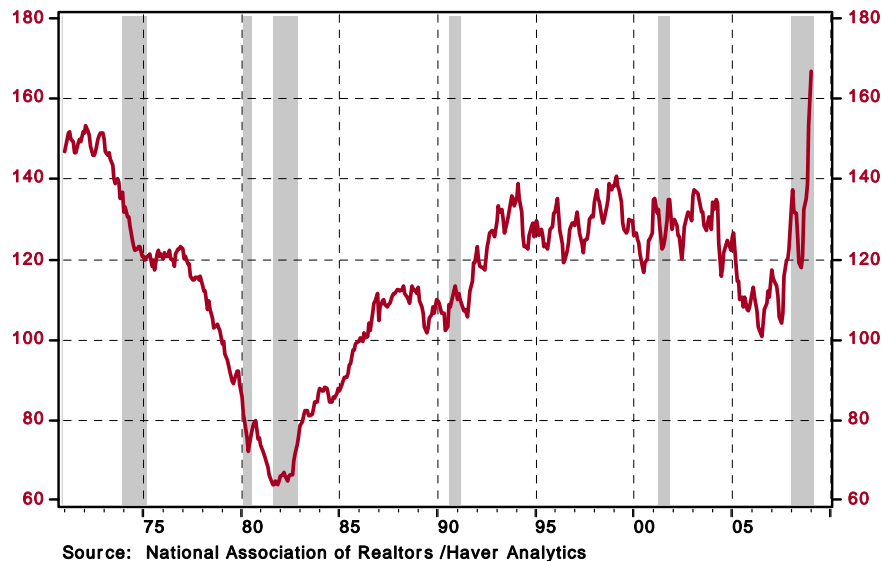
The Silver Lining of the Housing Sector

The Housing Affordability Index (HAI) of the National Association of Realtors shot up to a record high of 166.8 in January. The attractive interest rate (see chart 11) and price environment needs support from employment conditions to prop up home sales. In other words, favorable conditions for an improvement in home sales are gradually appearing on the horizon.

Chart 10

Composite Housing Affordability Index

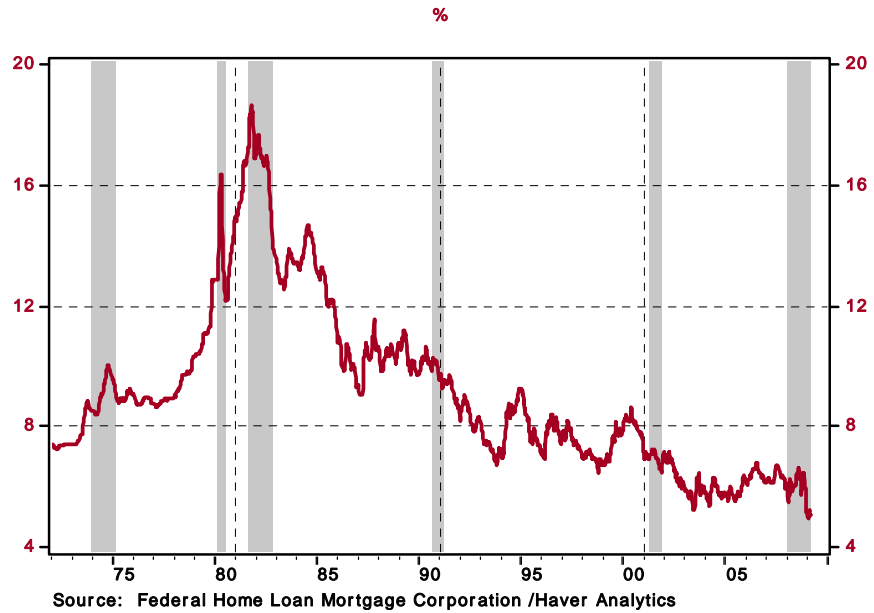
Median Inc=Qualifying Inc=100



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Chart 11

FHLMC: 30-Year Fixed-Rate Mortgages: U.S.



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