

DAILY GLOBAL
COMMENTARY

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Factory Production Remains Weak, But Pace of Decline Shows Moderation

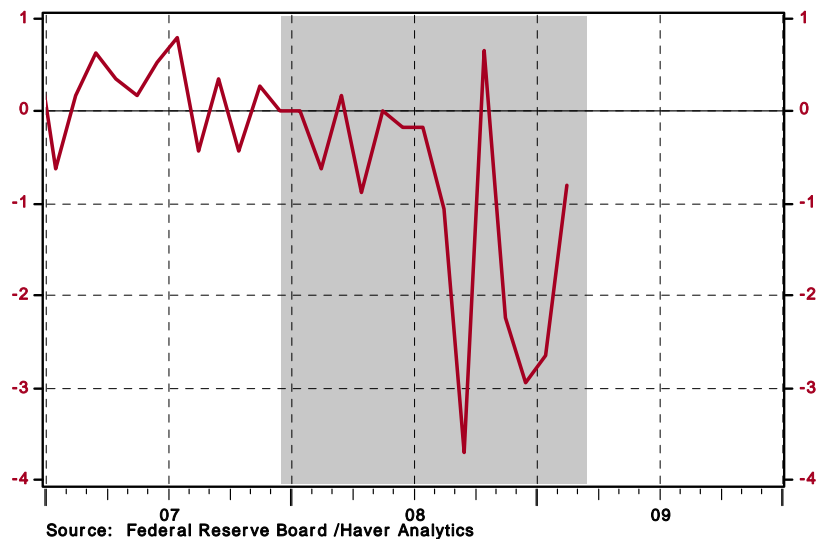
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Industrial production declined 1.4% in February after a revised 1.9% drop in the previous month. Excluding the 7.7% plunge in utilities output and a 0.4% reduction in mining production, manufacturing output dropped 0.7% in February following a 2.7% decline in January.

Chart 1

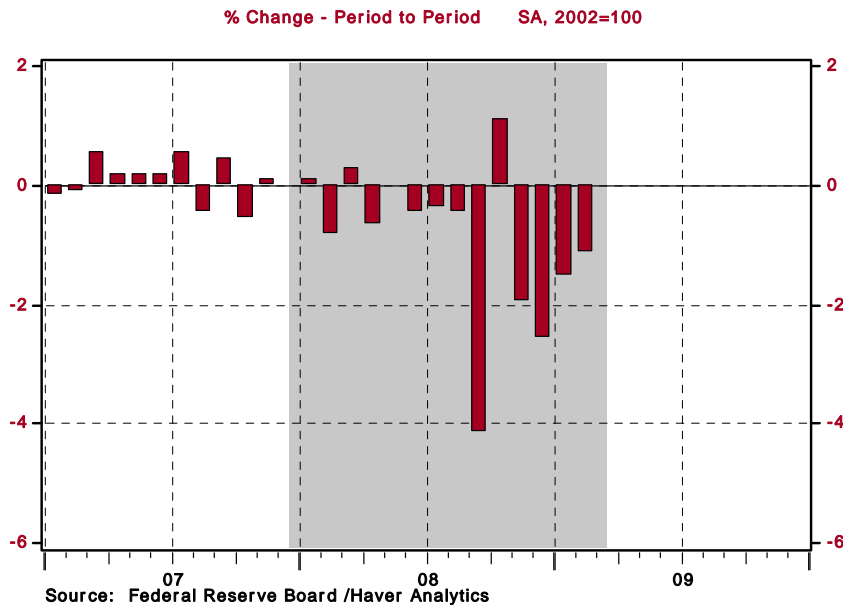
Industrial Production: Manufacturing [SIC]

% Change - Period to Period SA, 2002=100



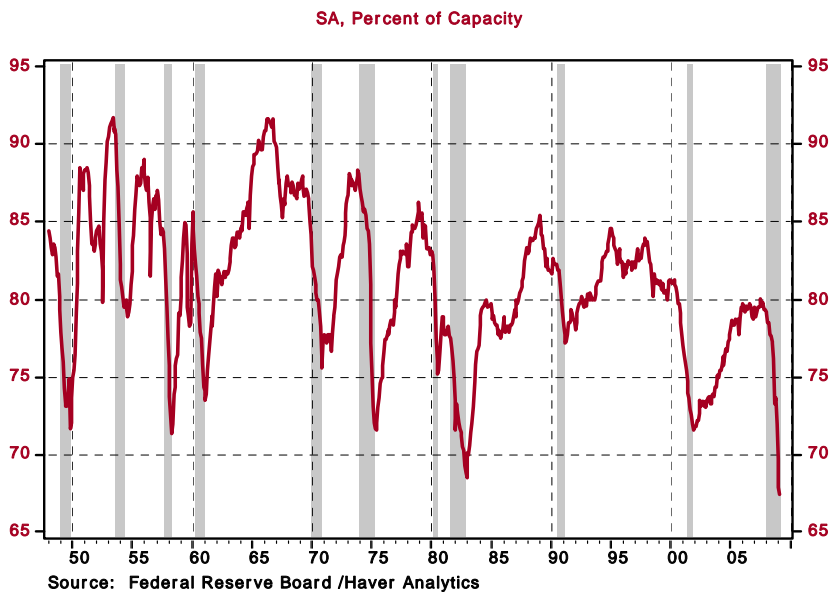
Factory production in the January-February period should be averaged to reflect the shutdown of auto firms in January and resumption of activity in February. Excluding autos, factory production fell 1.2% in February vs. a 1.6% decline in January. The sharp drop in factory production in September 2008 and a noticeable rebound in October reflect the disruption in factory operation due to Hurricanes Gustav and Ike and the Boeing strike followed by the end of a strike and recovery of production in October. High-tech production declined sharply in February (-3.4%) after a 1.3% drop in the previous month. In the last four months, factory production excluding autos and high-tech shows a decelerating trend (see chart 2). A similar decelerating trend is in place for factory production including high-tech but excluding autos. However, we would need additional monthly readings to confirm that the factory sector is heading to a recovery.

Chart 2
 IP: Manufacturing Ex Selected High Tech & Motor Vehicles & Parts



In February, all major categories of the factory sector posted declines excluding the auto sector (production rose 10.2% in February after auto plant shut downs in January) and the aerospace sector, which recorded a 0.4% increase. The factory operating rate fell to 67.4%, a historical low.

Chart 3
 Capacity Utilization: Manufacturing [SIC]



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Table 1 Industrial Production – February 2009

	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09
Industrial Production*	-4.1	1.7	-1.3	-2.4	-1.9	-1.4
Total Capacity Utilization	75.0	76.2	75.2	73.3	71.9	70.9
Manufacturing output*	-3.7	0.6	-2.2	-2.9	-2.7	-0.7
Man. Capacity Utilization	73.2	73.6	71.9	69.7	67.9	67.4
Capacity Utilization ex. High-tech industries	73.1	73.6	72.1	70.0	68.2	67.8
High-tech industries - output*	-1.2	-1.9	-5.9	-4.8	-1.3	-3.4
Manufact. Ex high-tech output*	-3.9	0.8	-2.0	-2.8	-2.8	-0.6

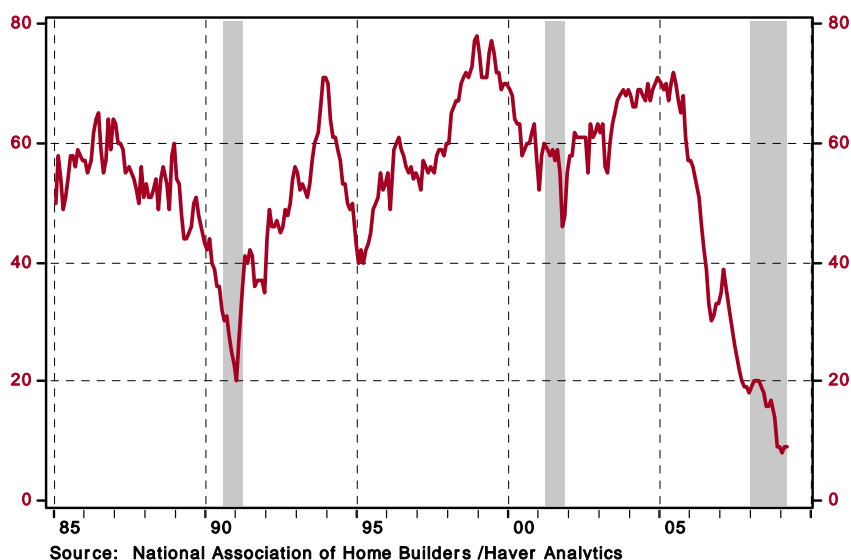
* - percent change from prior month

Home Builders Survey Show Flickering Signs of Stability

The Housing Market Index of the National Association of Home Builders held steady at 9.0 in March (see chart 4). Indexes tracking current sales and sales six months ahead were also unchanged. But, the index measuring traffic of prospective buyers fell slightly to 9.0 from 11.0 in February (see chart 5).

Chart 4
Home Builders: Housing Market Index (Composite)

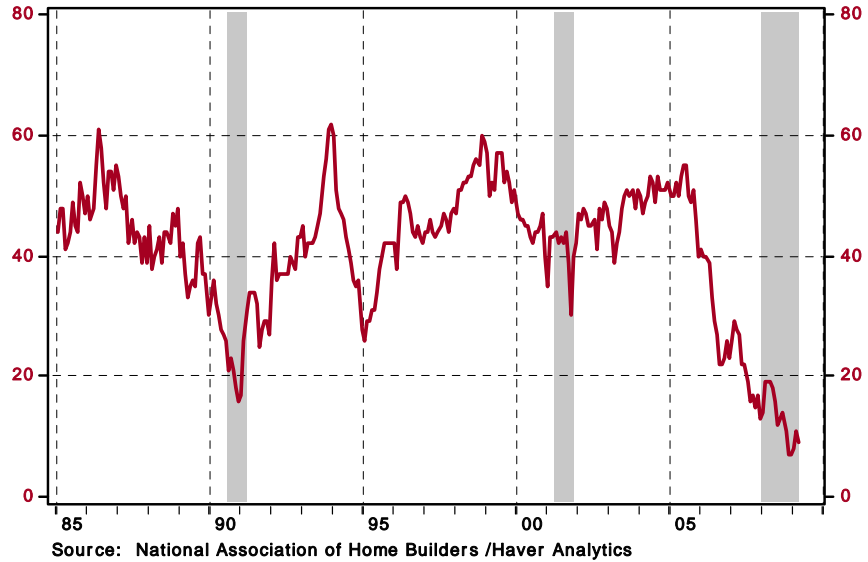
SA, All Good = 100



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Chart 5
HMI: Traffic of Prospective Buyers of New Homes Index

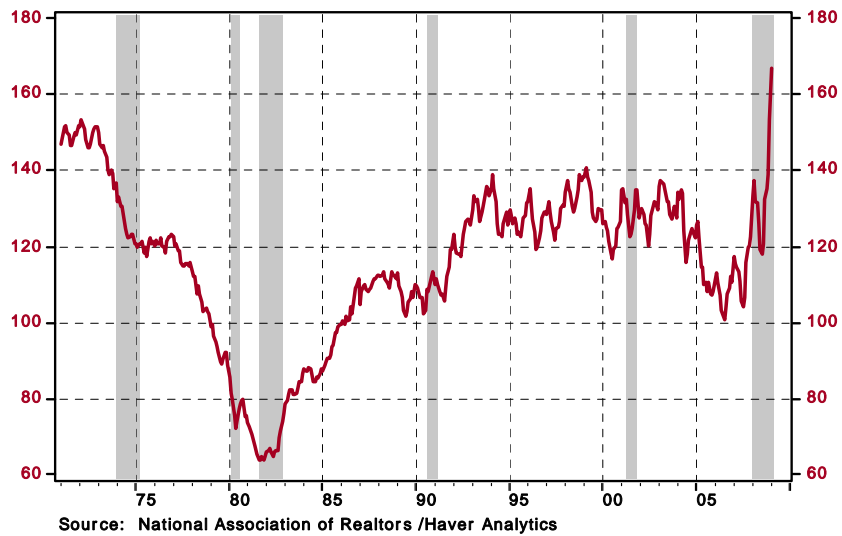
SA, All Good = 100



The latest Housing Affordability Index of the National Association of Realtors has shot up to record highs (see chart 6) which supports expectations of a recovery in home sales in the months ahead.

Chart 6
Composite Housing Affordability Index

Median Inc=Qualifying Inc=100



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