

DAILY GLOBAL
COMMENTARY

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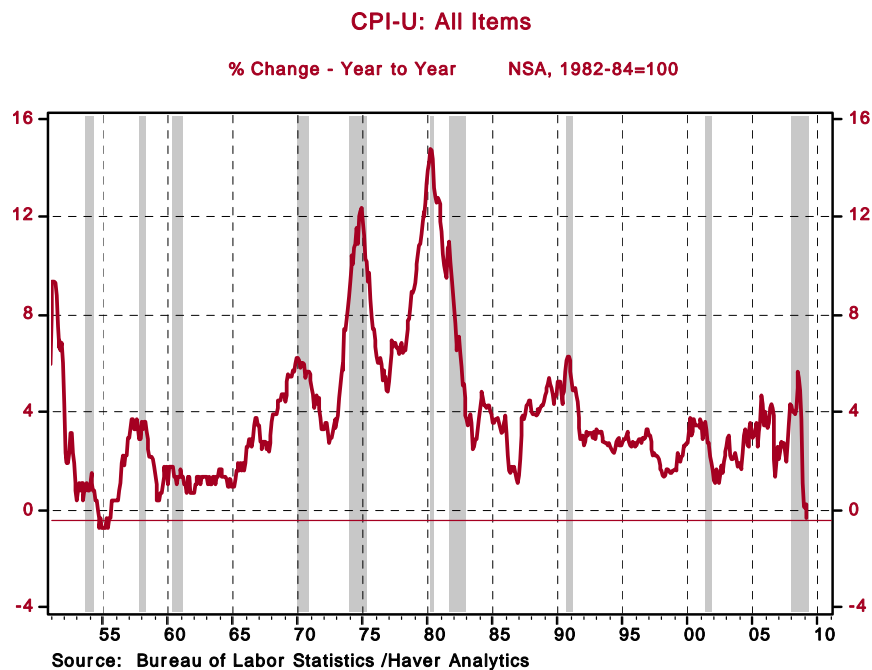
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Lower Energy and Food Prices Help to Contain Inflation

April 15, 2009

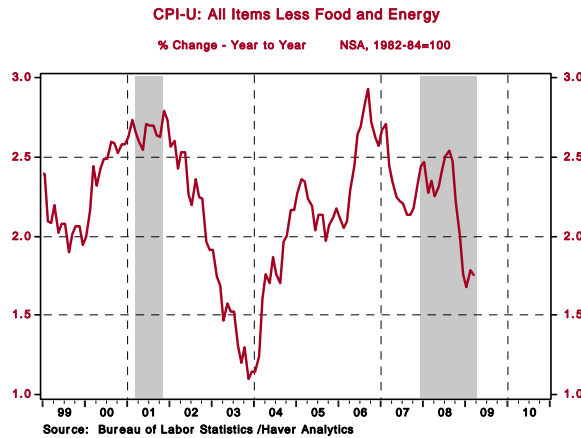
The Consumer Price Index (CPI) fell 0.1% in March, following a 0.4% increase in February. The 0.38% year-to-year decline of the overall CPI is the first deflationary reading since 1955. Additional year-to-year declines are conceivable for the months ahead. The 3.0% drop in the energy price index and 0.1% decline of the food price index helped to bring down the overall CPI. Gasoline prices declined 4.0% and natural gas prices fell 4.8% in March. Information available for April suggests that energy prices should be higher in April.

Chart 1



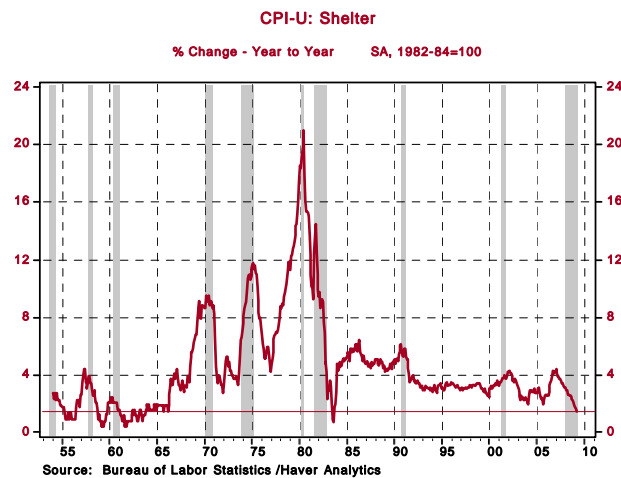
Excluding food and energy, the core CPI moved up 0.2%, matching the gains seen in each of the prior two months. The BLS indicated that the 11% increase tobacco process explains over sixty percent of the gain in the core CPI. On a year-to-year basis, the core CPI increased 1.8%, down from the cycle high of a 2.54% gain in August 2008.

Chart 2



From the details of the report, the housing price index fell 0.1% in March, reflecting a 0.2% increase in the both rent indexes and a 2.4% drop in hotel prices. Apparel prices fell 0.2%, new car prices moved up 0.6%, used car prices dropped 1.7%, airfares were down 2.3%, and the medical care price index rose 0.2%. Shelter costs (the largest component of CPI – nearly 33%) increased only 1.49% on a year-to-year basis in March (see chart 3) which is close to historical lows.

Chart 3



Inflation, a lagging economic indicator, is contained for now. Concerns about inflation are growing in light of the size of the Fed's balance sheet, which has expanded rapidly to support the financial system and stem the decline of economic activity. Chairman Bernanke has noted that

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the Fed has the policy tools and will to unwind the aggressive easing that is in place before inflationary trends become entrenched in the economy.

CONSUMER PRICE INDEX – MARCH 2009

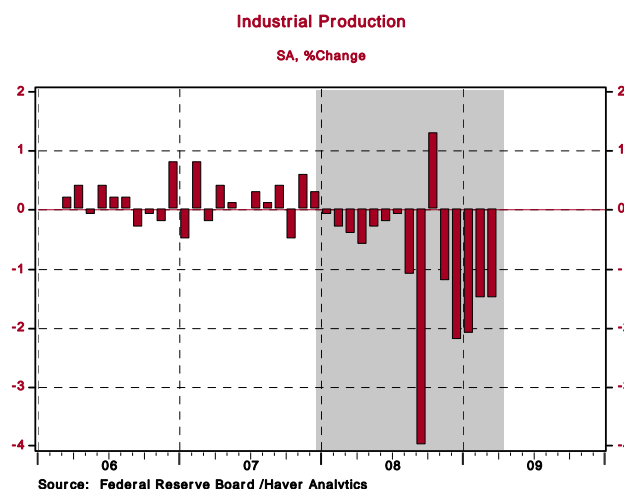
	% change	annualized % change		% change		
	prior month	3 mo. ago	6 mo. ago	Mar-09 yoy	Mar-08 yoy	Dec-08 yoy
CPI - ALL ITEMS	-0.1	2.2	-5.4	-0.4	4.0	0.1
CORE - ALL ITEMS LESS FOOD & ENERGY (77.75)*	0.2	2.2	1.2	1.8	2.4	1.8
CPI ALL ITEMS LESS ENERGY (92.4)	0.1	1.7	1.1	2.2	2.7	2.4
FOOD (14.63)	-0.1	-0.8	0.8	4.4	4.5	5.9
ENERGY (7.62)	-3.0	7.9	-49.9	-23.0	17.0	-21.3
SHELTER (33.2)	0.0	0.6	0.8	1.5	2.9	1.9
COMMODITIES (39.6)	-0.3	4.5	-13.6	-4.2	4.9	-4.1
COMMODITIES LESS FOOD & ENERGY (21.5)	0.4	3.8	0.7	0.4	0.0	-0.6
SERVICES (60.4)	0.0	0.8	0.8	2.3	3.3	3.0
SERVICES LESS ENERGY SERVICES (56.3)	0.1	1.5	1.4	2.3	3.3	2.7
FRB CLEVELAND MEDIAN CPI	0.2	2.3	2.1	2.7	2.9	2.9

* - Figures in parentheses denote the relative importance of each category in the CPI.

Factory Sector Remains Significantly Weak

Industrial production fell 1.5% in March, matching the decline recorded in the prior month. In the first quarter, industrial production has dropped at an annual rate of 20%. Total capacity utilization was 69.3% in March, a historical low for the series which dates back to 1967.

Chart 4



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Factory production dropped 1.7% in March after a 0.5% reduction in the prior month. Factory production has declined 15% from a year ago, the largest decline since the 1945 recession (see chart 5). The factory operating rate in March stands at 65.8%, a new historical low for the data series which extends back to 1948 (see chart 6).

Chart 5

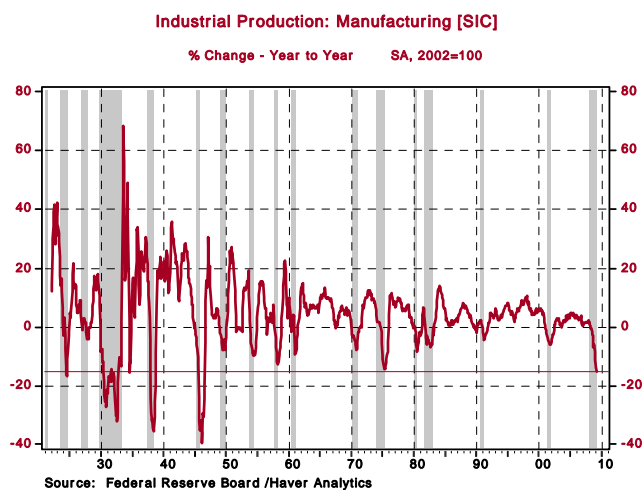
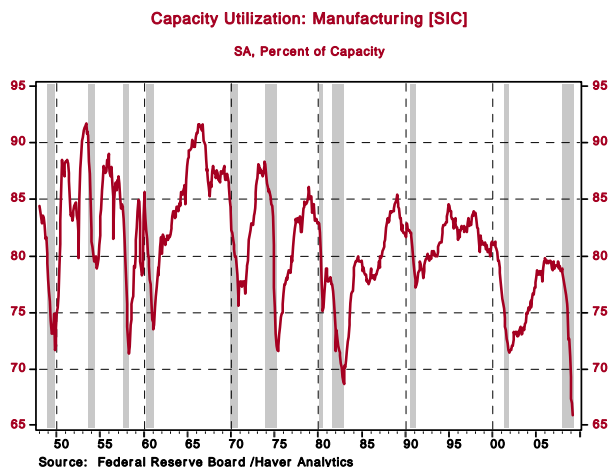


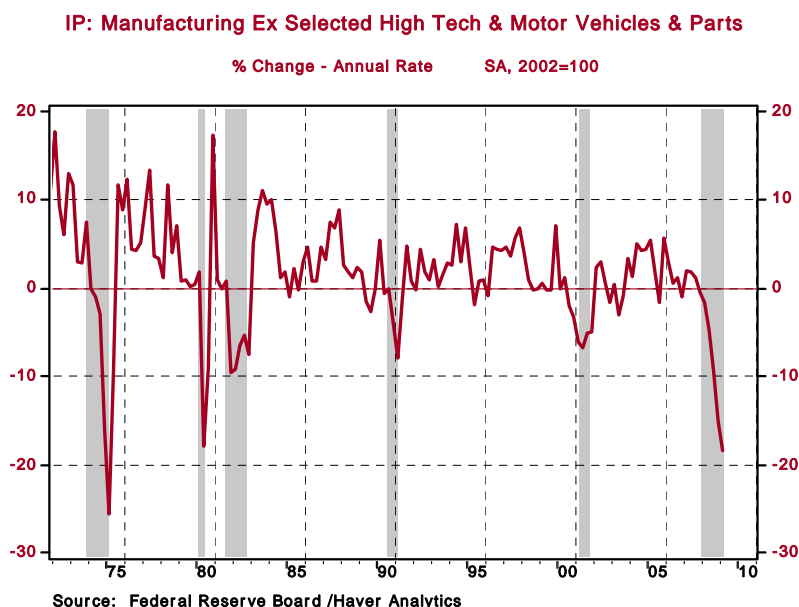
Chart 6



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There were widespread declines among the major components of factory production. High-tech production fell 3.1%, auto output (+1.5%) rose in March but on a year-to-year basis auto assemblies fell 46.1%. Excluding autos and high tech components, factory output fell 1.8%. From a year ago, factory output excluding autos and high-tech fell 13.22%, the largest since the 1973-75 recession.

Chart 7



Industrial Production – March 2009

	<u>Oct-08</u>	<u>Nov-08</u>	<u>Dec-08</u>	<u>Jan-09</u>	<u>Feb-09</u>	<u>Mar-09</u>
Industrial Production*	1.3	-1.2	-2.2	-2.1	-1.5	-1.5
Total Capacity Utilization	75.4	74.5	72.8	71.3	70.3	69.3
Manufacturing output*	0.2	-2.2	-2.6	-2.8	-0.5	-1.7
Man. Capacity Utilization	72.7	71.1	69.2	67.3	66.9	65.8
Capacity Utilization ex. High-tech industries	72.6	71.2	69.3	67.4	67.1	66.1
High-tech industries - output*	-4.8	-6.0	-4.3	-0.5	-3.1	-3.1
Manufact. Ex high-tech output*	0.6	-1.9	-2.7	-2.9	-0.5	-1.6

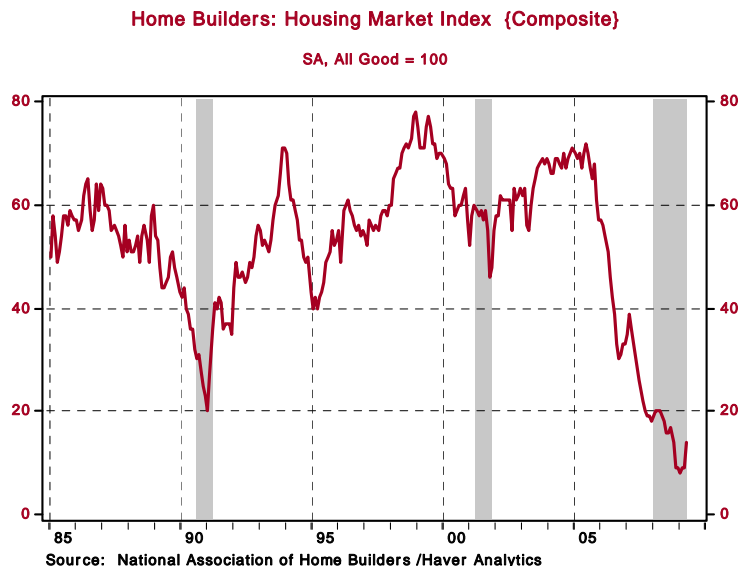
* - percent change from prior month

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Home Builders Survey Shows Optimism

The Housing Market Index (HMI) of the National Association of Home Builders increased to 14 in April from 9 in March, which is the first encouraging sign about the housing market in addition to the increase in sales of homes in February. Indexes tracking current sales (13 vs. 8 in March), sales of homes six months down the road (25 vs. 15 in March), and traffic of prospective buyers (14 vs. 9 in March) advanced in April.

Chart 8



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