

DAILY GLOBAL
COMMENTARY

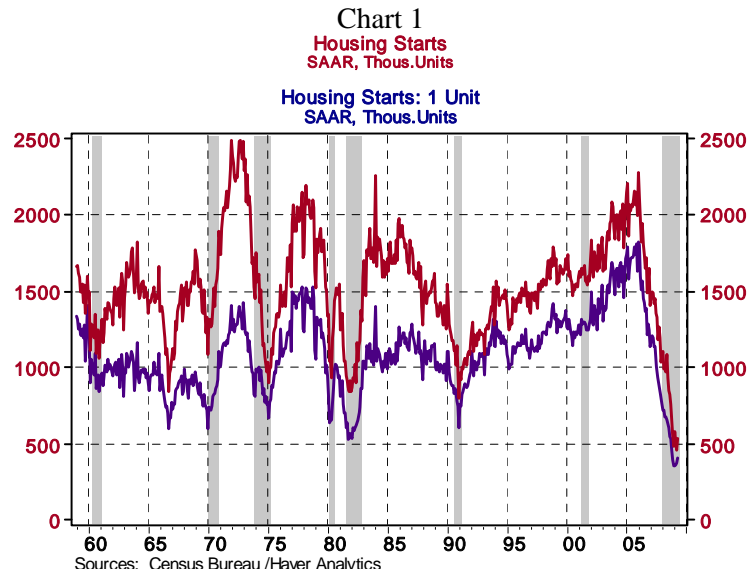
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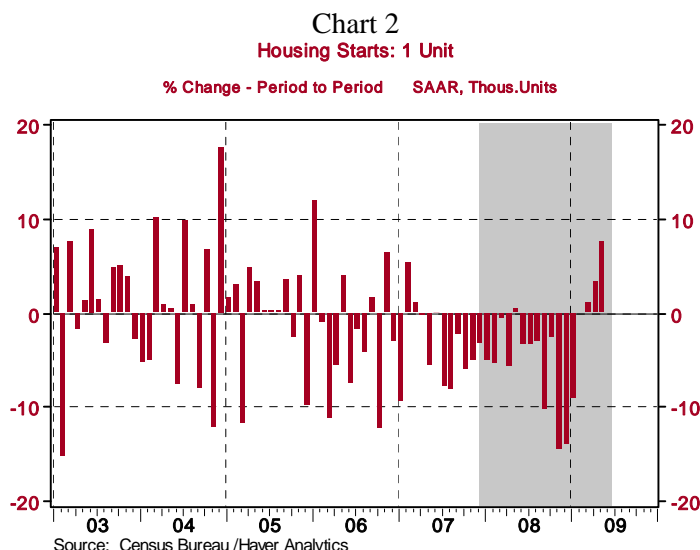
Housing Starts: Turning the Corner?

June 16, 2009

Home builders broke ground to construct more homes in May, both multi-family and single-family homes, compared with April. Housing starts increased 17.2% to an annual rate of 532,000 after posting a 12.9% drop in April and a 9.2% decline in March. The headline number reflects swings in the multi-family sector in both April (-49.4%) and May (+61.7%).



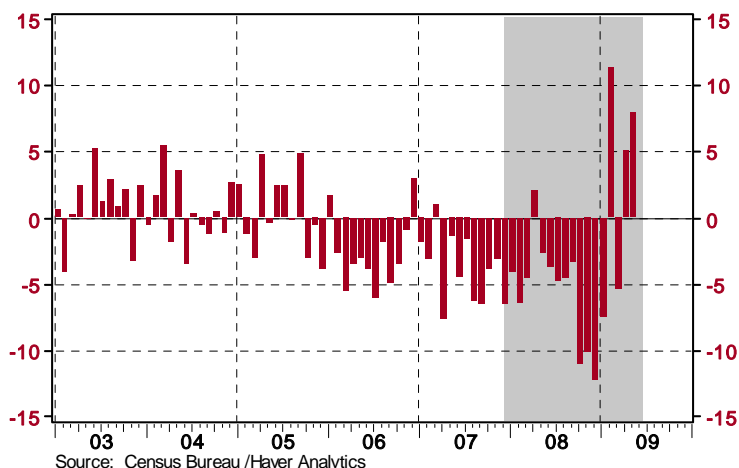
The single-family sector shows a more steady and noteworthy improvement, with the 7.5% increase in single-family starts during May marking the third consecutive monthly increase. Single-family starts have risen 12.3% from the historical low of 357,000 recorded in the January-February months of 2009. On a regional basis, housing starts increased in all four regions of the nation.



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The 7.9% jump in permits issued for single-family homes and the fact that it is the third monthly increase in the last four months strengthens the bullish outlook gleaned from production of new homes.

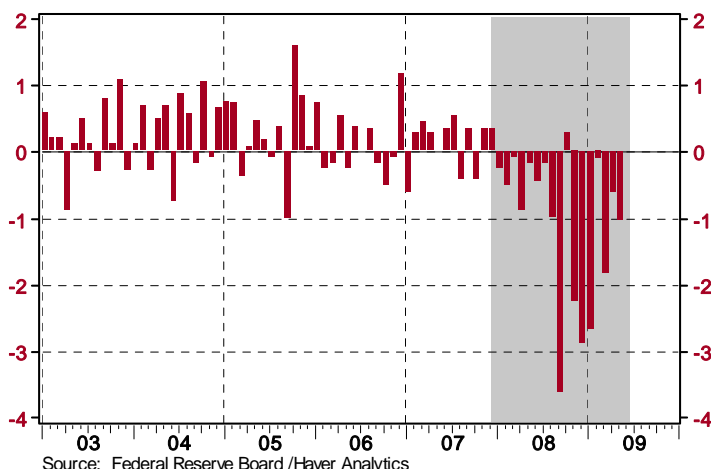
Chart 3
Housing Units Authorized: 1-Unit Structures
 % Change - Period to Period SAAR, Thous.Units



Factory Production and Operating Rate Remain Problematic

Industrial production fell 1.1% in May after a downwardly revised 0.7% drop in April. Output at the nation's utilities and the mining industry fell 1.4% and 1.1%, respectively. Excluding these two sectors, factory production declined 1.0%, led by a 7.9% plunge in production in the auto industry. Production in the high-tech sector was down 0.9% in May.

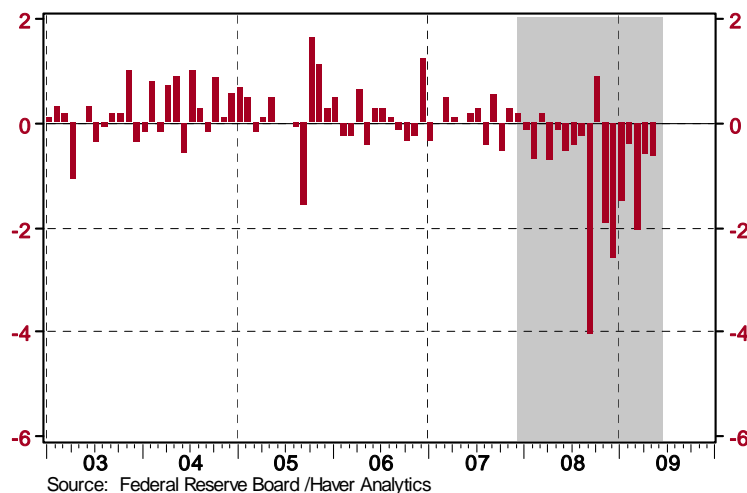
Chart 4
Industrial Production: Manufacturing [SIC]
 % Change - Period to Period SA, 2002=100



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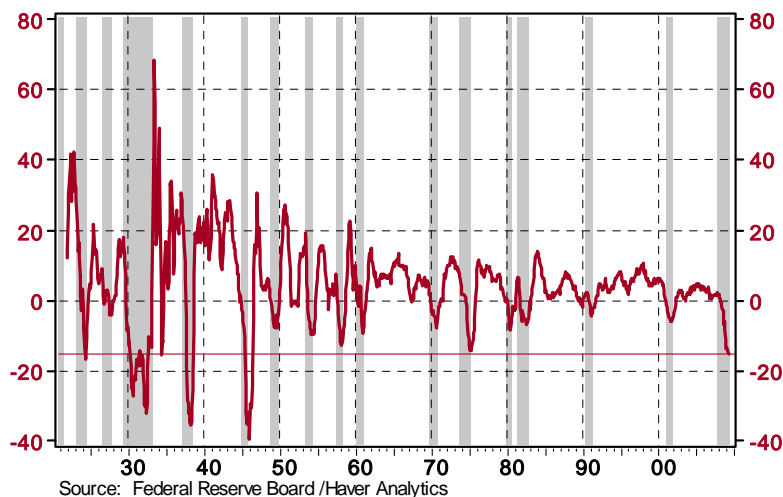
Excluding autos and high-tech, the factory sector posted a 0.6% drop in production in May after a similar loss in April.

Chart 5
IP: Manufacturing Ex Selected High Tech & Motor Vehicles & Parts
 % Change - Period to Period SA, 2002=100



The 15.3% year-over-year drop in factory production (see chart 6) underscores the extent of weakness in the factory sector.

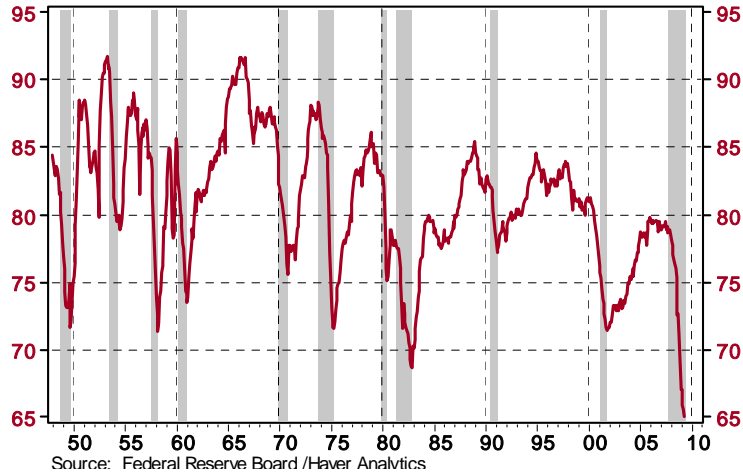
Chart 6
Industrial Production: Manufacturing [SIC]
 % Change - Year to Year SA, 2002=100



The operating rate of the factory sector at 65% in May is the lowest in the post-war period (see chart 7). The historically low operating rate of the factory sector offers support to maintain the current easy monetary policy stance of the Fed for an extended period.

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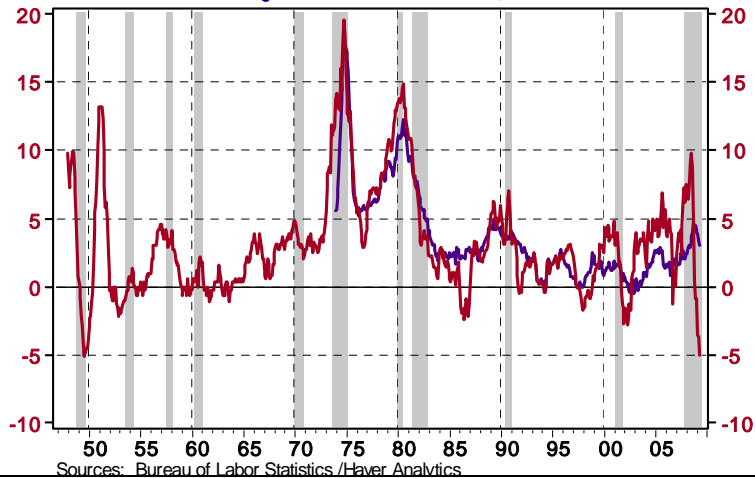
Chart 7
Capacity Utilization: Manufacturing [SIC]
 SA, Percent of Capacity



Higher Prices for Energy and Tobacco Lift Overall Wholesale Price Index

The Producer Price Index (PPI) of Finished Goods rose 0.2% in May, following a 0.3% gain in the prior month. The 2.9% jump in the energy price index reflecting a 13.9% increase in gasoline prices and higher prices for heating oil combined with a 0.7% increase in cigarette prices led to an increase in the overall PPI. However, food prices fell 1.6% in May, following a 1.5% increase in April. Excluding food and energy, the core PPI of finished goods price index fell 0.1% in May, putting the year-to-year increase at 3.00%. The peak year-to-year increase of the core PPI was 4.66% in October 2008.

Chart 8
PPI: Finished Goods [Including Foods & Fuel]
 % Change - Year to Year NSA, 1982=100
PPI: Finished Goods Less Food and Energy
 % Change - Year to Year NSA, 1982=100



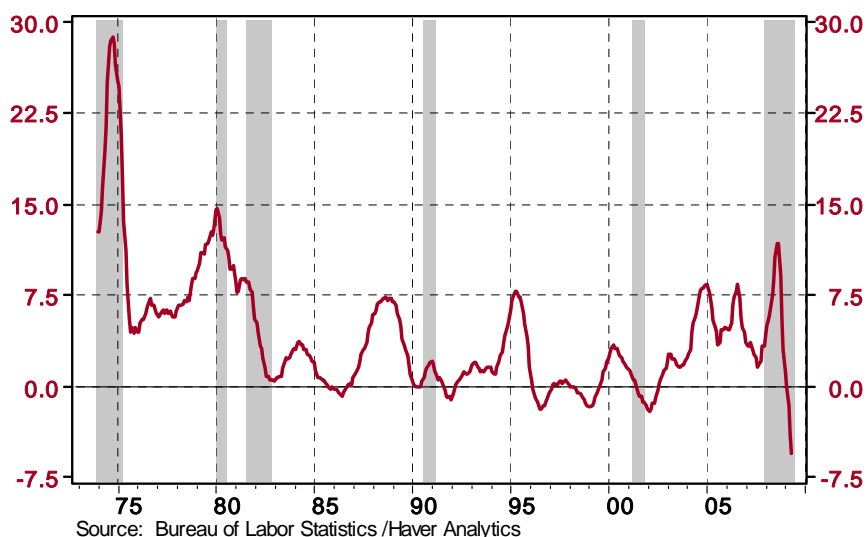
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At the earlier stages of production, the intermediate goods price index excluding food and energy fell 5.5% from a year ago in May, the largest drop on record (see chart 9).

Chart 9

PPI: Intermediate Materials Less Food & Energy

% Change - Year to Year NSA, 1982=100



Producer Price Index – May 2009

	% change prior month	annualized % change			% change		
		year-to-date	3 mo. ago	6 mo. ago	May-09 yoy	May-08 yoy	Dec-08 yoy
PPI - FINISHED GOODS							
ALL ITEMS	0.2	0.7	-2.5	-3.0	-5.0	7.3	-0.9
CORE - ALL ITEMS LESS FOOD & ENERGY	-0.1	1.1	0.0	1.5	3.0	3.0	4.5
FOOD	-1.6	-5.4	-3.2	-6.9	-2.1	6.5	3.2
ENERGY	2.9	5.4	-10.6	-13.7	-27.3	20.3	-20.3
CAPITAL EQUIPMENT	-0.1	-0.3	-1.5	0.5	2.4	2.4	4.3
PPI - INTERMEDIATE GOODS							
ALL ITEMS	0.3	-6.3	-6.6	-12.8	-12.5	12.7	-2.3
CORE	-0.2	-6.5	-5.6	-9.9	-5.5	7.5	3.3
PPI - CRUDE GOODS							
ALL ITEMS	3.6	-4.6	27.9	-14.3	-41.1	40.9	-24.6
CORE	6.7	14.1	18.5	8.3	-36.8	31.7	-24.1

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