

DAILY GLOBAL COMMENTARY

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Subdued Inflation Data Leaves Room for Fed

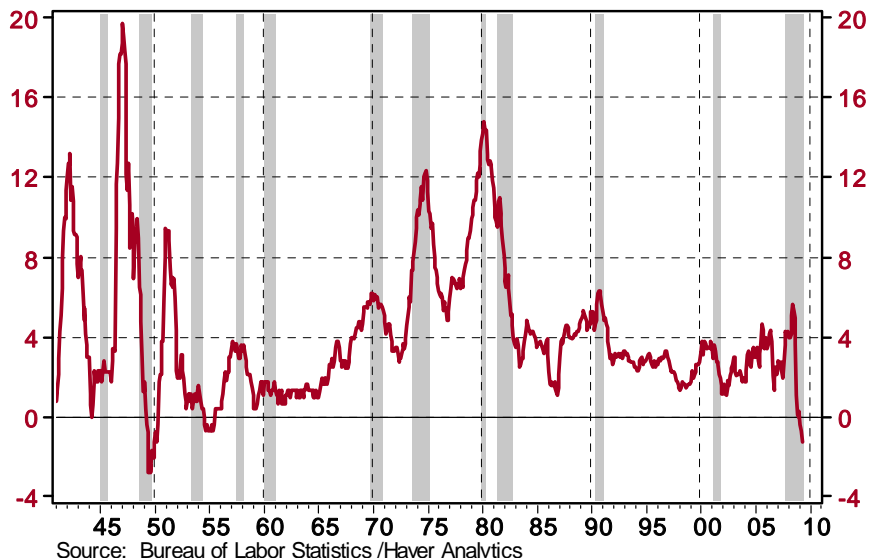
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Inflation is not and will not be a top priority in Fed policy decisions in the near term. Inflation is a lagging economic indicator which peaks long after a recession is underway and gathers steam long after an expansion is visible. A convincing economic recovery and strong expectations of a growing economy are necessary for the Fed to consider suitable actions to prevent inflation. At present time, the enormous slack in the economy supports expectations of subdued inflation data, which is what we see at the moment. In May, the Consumer Price Index (CPI) edged up 0.1% after a steady reading in the prior month. The CPI is down 1.3% from a year ago, the largest drop since April 1950, mostly due to the sharp 27.3% drop in energy prices. The energy index rose 0.2% after posting declines in March and April. Food prices fell 0.2%, the fourth monthly decline.

Chart 1

CPI-U: All Items

% Change - Year to Year NSA, 1982-84=100

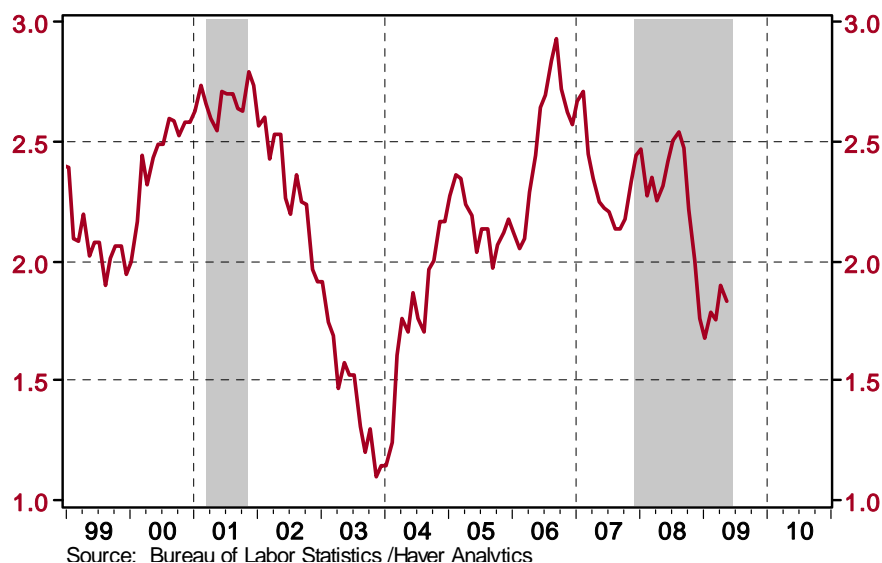


Excluding food and energy, the core CPI was up only 0.1% in May. The year-to-year increase in May is 1.8%. The recent high for the year-to-year increase of the core CPI is 2.54% in August 2008.

Chart 2

CPI-U: All Items Less Food and Energy

% Change - Year to Year NSA, 1982-84=100



In May, the shelter price index rose 0.1%, with the index for rent, owners' equivalent rent, and hotel prices each posting a 0.1% gain. Apparel prices fell 0.2%, medical care costs advanced 0.3%, gasoline prices rose 3.1%, used cars prices climbed 1.0% and new car prices were up 0.5%. The reason for higher prices for new and used cars is unclear given the weakness in demand for cars.

CONSUMER PRICE INDEX – MAY 2009

	% change	annualized % change			% change		
	prior month	year-to-date	3 mo. ago	6 mo. ago	May-09 yoy	May-08 yoy	Dec-08 yoy
CPI - ALL ITEMS	0.1	1.5	-0.2	-0.4	-1.3	4.2	0.1
CORE - ALL ITEMS LESS FOOD & ENERGY (77.75)*	0.1	2.3	2.3	1.9	1.8	2.3	1.8
CPI ALL ITEMS LESS ENERGY (92.4)	0.1	1.7	1.6	1.4	2.0	2.7	2.4
FOOD (14.63)	-0.2	-1.5	-2.2	-1.1	2.7	5.1	5.9
ENERGY (7.62)	0.2	-0.7	-18.9	-18.1	-27.3	17.4	-21.3
SHELTER (33.2)	0.1	1.1	1.3	1.0	1.5	2.6	1.9
COMMODITIES (39.6)	0.2	3.0	-0.6	-1.8	-5.2	5.1	-4.1
COMMODITIES LESS FOOD & ENERGY (21.5)	0.2	3.9	4.4	2.8	1.2	0.1	-0.6
SERVICES (60.4)	0.0	0.5	0.0	0.6	1.5	3.5	3.0
SERVICES LESS ENERGY SERVICES (56.3)	0.1	1.6	1.5	1.5	2.1	3.2	2.7
FRB CLEVELAND MEDIUM CPI	0.1	1.9	1.6	1.8	2.4	3.0	2.9

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

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Significant Improvement in Current Account Deficit

The current account deficit of the U.S. economy was \$101.5 billion in the first quarter from \$154.9 billion in the previous quarter. This is the smallest deficit since the fourth quarter of 2001. The current account deficit as a percentage of GDP fell to 2.88%, the smallest in ten years (see chart 3). The deficit on goods declined nearly \$55 billion from the fourth quarter of 2008 to \$124.04 billion in the first quarter. This is the single largest quarterly narrowing of the deficit on goods on record. The significant improvement of the current account deficit places a smaller burden for raising funds from capital inflows. However, the large increase in the federal budget deficit requires the capital to continue flowing.

Chart 3
Balance on Current Account as a % of GDP
SAAR, %

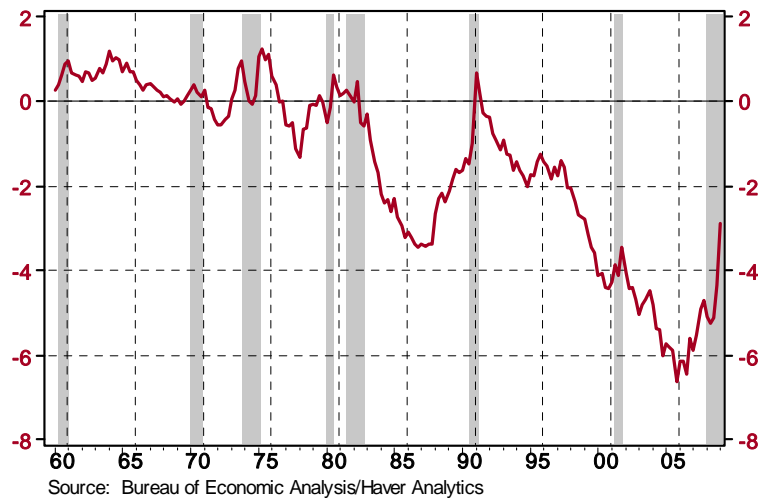
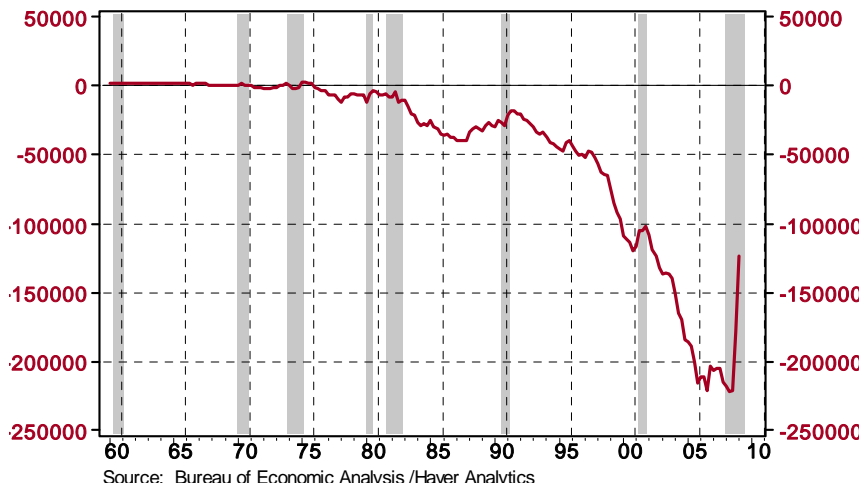


Chart 4
BOP: Balance on Merchandise Trade
SA, Mil.\$



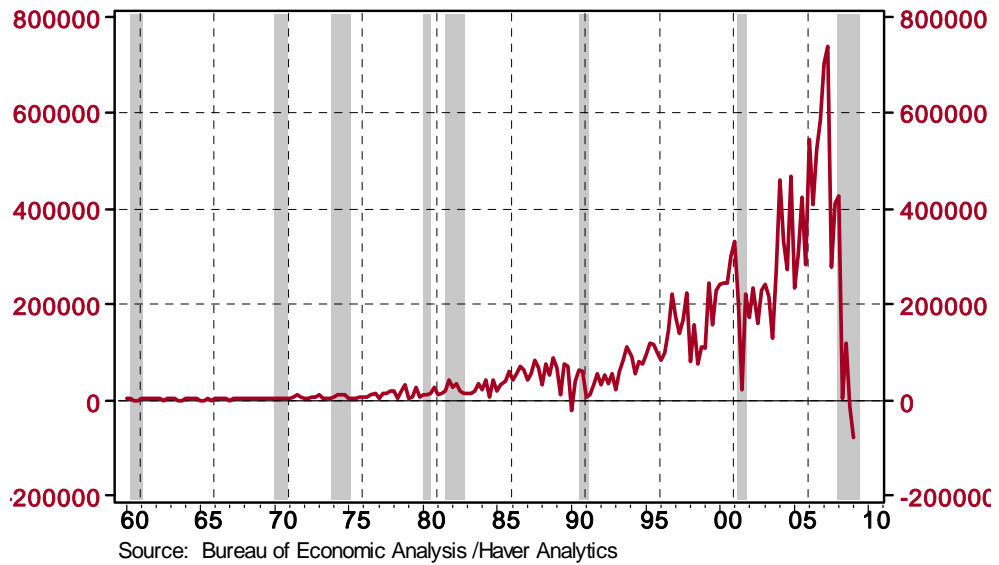
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Foreign owned assets (net capital inflows) declined \$78.1 billion in the first quarter, following a decrease of \$11.9 billion in the fourth quarter of 2008.

Chart 5

BOP: For Assets in the U.S., Net: Cap Inflow Ex Fin Derivatives {+}

SA, Mil.\$



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