

DAILY GLOBAL COMMENTARY

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Minutes of September 22-23 FOMC Meeting – More of the Same October 14, 2009

The minutes of the September 22-23 FOMC meeting contain the typical pros and cons of Fed policy, with nothing standing out. There was willingness among some members to enlarge the size of the mortgage-backed securities purchase plan as it was being seen as able to “reduce economic slack more quickly than in the baseline outlook.” At the same time, another member held the opinion that improvements underway implied a reduction of these purchases. The importance of “flexibility” to expand purchases of assets in the event of a deterioration of economic conditions was noted.

The FOMC’s views about inflation are noteworthy. The majority of the FOMC views the inflation outlook during the next few quarters as roughly balanced. There were a belonging to the significant disinflation camp, but they had lowered the probability of this occurrence in the intermeeting period. In the longer term, a few were reported to see “risks tilted to the upside.” Inflation expectations have been stable (see chart 1) and allow the Fed to watch and wait and focus on economic growth.

Chart 1



Q3 Consumer Spending Expected Jump Likely, but Muted Growth in Q4

Retail sales in September fell 1.5% after a 2.2% gain in August. These headline numbers reflect the swings in auto sales brought about by the lift from the temporary “Cash for Clunkers” program. Excluding autos, retail sales increased 0.5% in September following a 1.0% increase in August. Furthermore, the sharp increase in gasoline prices in August translated into corresponding gains of gasoline purchases in the retail sales report. Excluding autos and gasoline, retail sales increased 0.4% in September after a 0.6% advance in August. The main message is

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that retail sales in September has been impressive with purchases of furniture (+0.9%), apparel (+0.5%) and general merchandise (+0.5%) posting significant increases which will add up to a strong increase in consumer spending in the third quarter (+3.0%) compared with a 0.9% drop in the second quarter. The absence of the “Cash for Clunkers” program implies that consumer spending will be positive but show only muted growth in the fourth quarter.

Chart 2



Retail Sales – September 2009

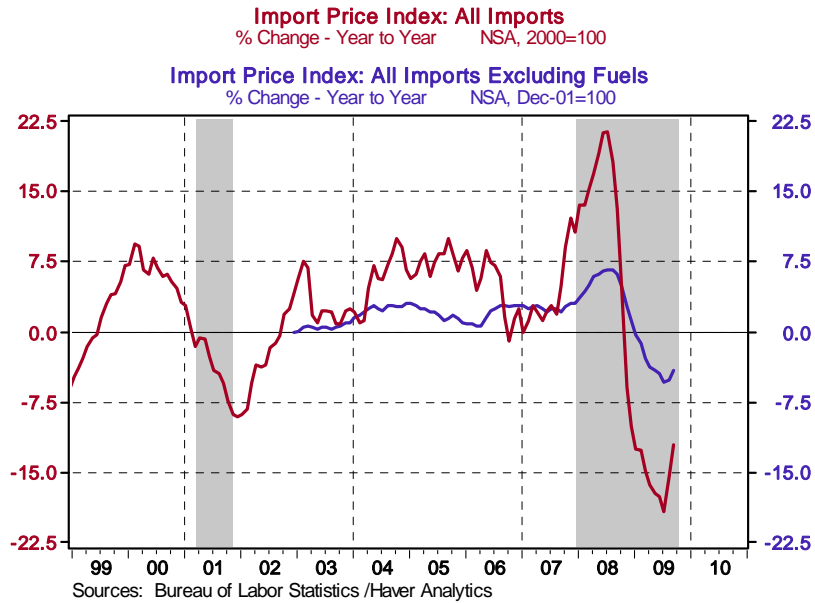
	<u>July</u>	<u>August</u>	<u>September</u>	<u>09:Q2</u>	<u>09:Q3</u>
				<u>quarterly change SAAR</u>	
Total Retail Sales & Food Service, % m-o-m	-0.1	2.2	-1.5	-1.4	1.6
% change y-o-y	-8.2	-6.4	-5.4		
Ex-auto, % m-o-m	-0.5	1.0	0.5	-1.2	0.6
% change y-o-y	-8.3	-7.2	-4.7		
Ex- autos and gas % m-o-m	-0.3	0.6	0.4	-3.1	-0.6
% change y-o-y	-3.8	-3.8	-1.1		
Exc. Bldg. mat., auto, gas, % m-o-m	-0.2	0.7	0.4	-2.8	1.8
% change y-o-y	-2.4	-2.6	0.3		

Import Prices are Turning Around

Prices of imports moved up 0.1% in September, despite a 1.8% decline in the price index of imported fuel. Excluding fuels, the import price index advanced 0.6% in September. On a year-to-basis, prices of all imports and of those excluding imported fuel declined 12.1% and 4.1%, respectively (see chart 3). The important message from the chart is that import prices have established a bottom and are heading up. There is no inflationary threat in the near term but the several months down the road if the dollar continues to remain weak the situation may be less favorable.

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Chart 3

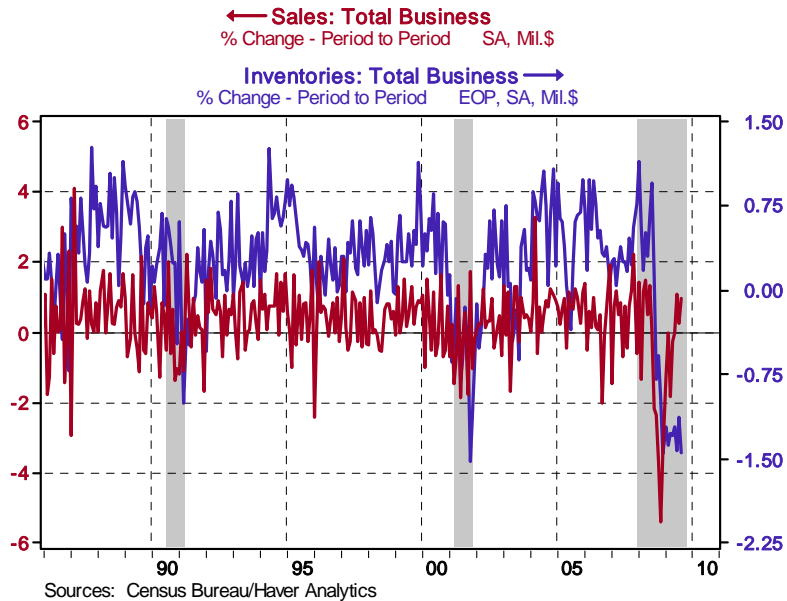


Restocking – One of the Conduits of Economic Growth in the Months Ahead

Business inventories dropped 1.5% in August, marking the twelfth consecutive monthly drop. In the meanwhile, business sales have risen for three straight months, inclusive of a 1.0% increase in August.

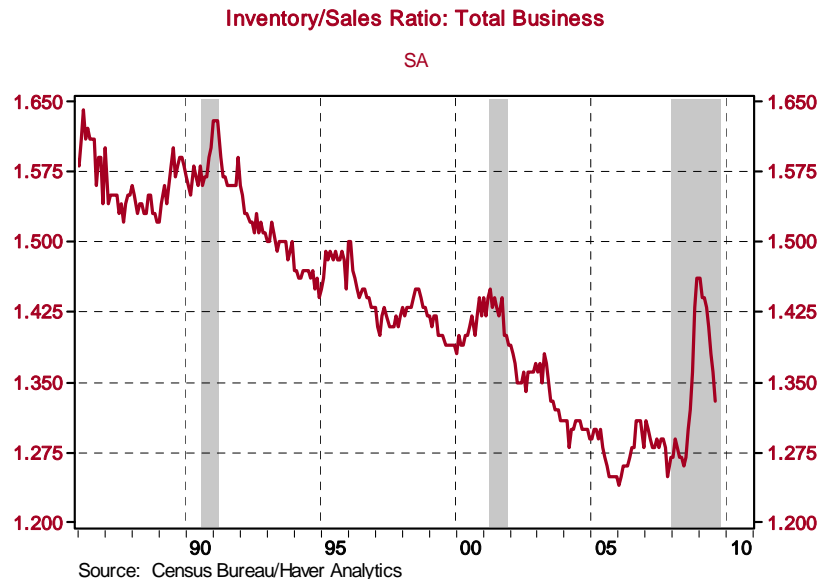
Chart 4

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As a result of the drop in inventories and gain in sales, the inventories-sales ratio plummeted to 1.33 in August from 1.36 in July and it is a sharp reduction from the cycle high of 1.46 in January 2009 (see chart 5). Starting from the end of the third quarter of 2008 businesses have been liquidating stocks in response to the weakness in demand conditions. As the economy recovers, inventories will add to real GDP growth, some of which is already apparent, particularly in the auto sector.

Chart 5



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