

DAILY GLOBAL  
COMMENTARY

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## Fed Reduces Term of Discount Window Loans

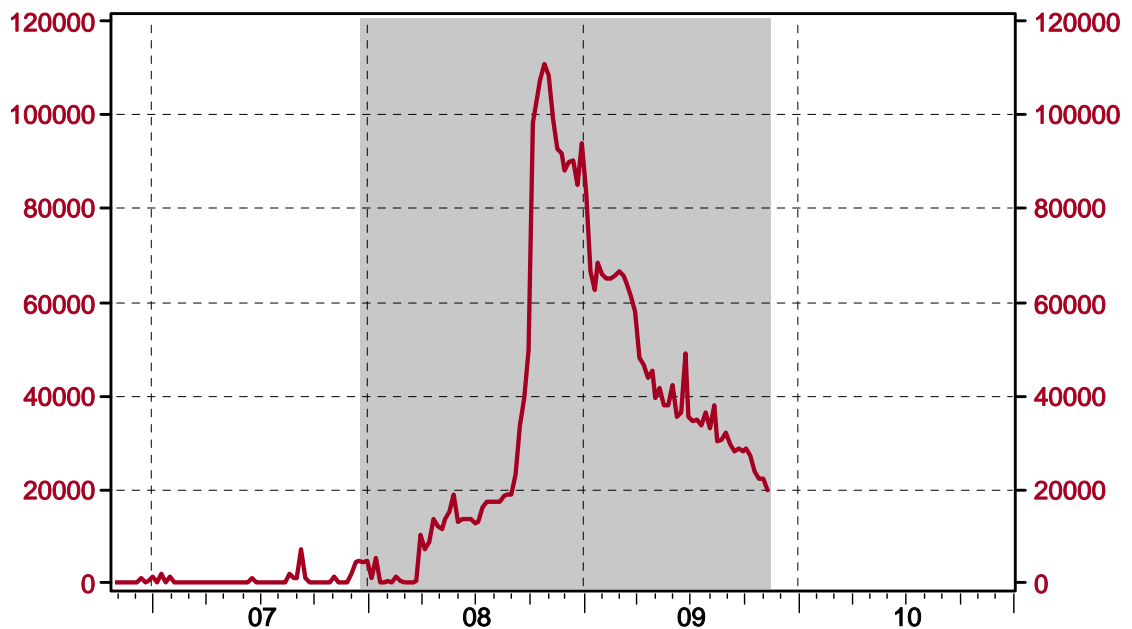
November 17, 2009

The Fed announced a reduction in the term of discount window loans to 28 days from 90 days as of January 14, 2010. The Fed lengthened the maturity of discount window loans on August 17, 2007 to 30 days from a maximum term of overnight and extended it further to 90 days on March 16, 2008. As seen in Chart 1, the need for discount window loans has reduced significantly from the period following the collapse of Lehman Brothers. This marks the beginning of a gradual withdrawal of the extraordinary support the Fed has extended to the global financial system as signs of stability have emerged.

Chart 1

### Reserve Bank Credit: Primary Credit to Depository Institutions

EOP, Mil.\$ (Discount Window Borrowing)

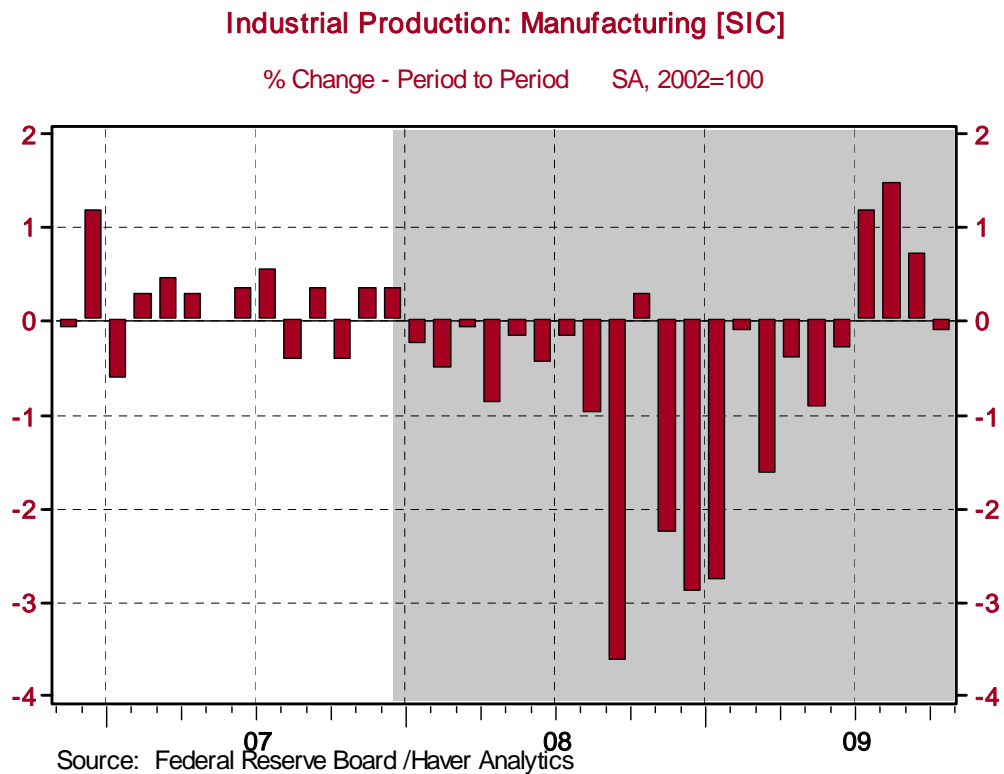


Source: Federal Reserve Board /Haver Analytics

## Factory Production Slips in October

Industrial production inched up 0.1% in October mainly due to a 1.6% increase in production at the nation's utilities. Utilities and mining (-0.2%) components make up small part of the total industrial production. Excluding these components yields manufacturing /factory activity; factory production slipped 0.1% in October after posting strong gains for three consecutive months.

Chart 2



The weakness was in the durable goods component (-0.4%), while production of non-durable posted a small increase. Within durables, the gain in primary metals (+3.6%) was more than offset by declines in autos (-1.6%), furniture (-1.9%), electrical equipment (-0.9%) and computer and electronic products (-0.3%). Stepping back from these details, the small decline in factory production is not a severe setback. The process of recovery will be marked with some monthly readings showing declines. More importantly, the projected trajectory of factory activity in the coming months is positive.

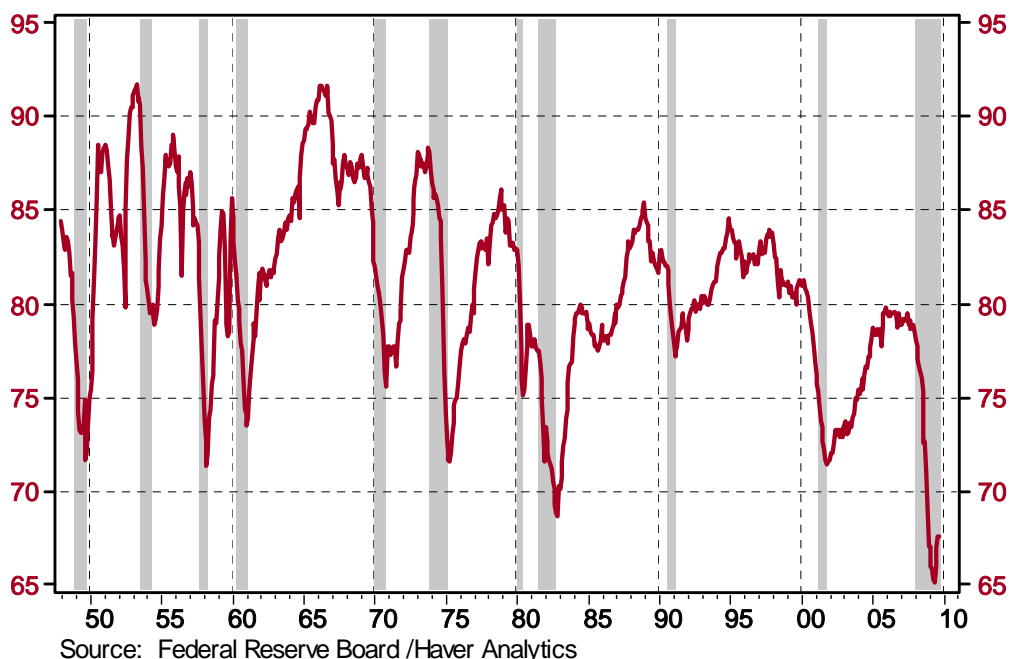
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The operating rate of the nation's industries moved up to 70.7% in October from 70.5% in the prior month. The capacity utilization rate of the factory sector held steady at 67.6% in October, which is noticeably higher than the 65.1% record low mark of June 2009 (see chart 3).

Chart 3

**Capacity Utilization: Manufacturing [SIC]**

SA, Percent of Capacity



Industrial Production and Capacity Utilization – October 2009

	<u>May-09</u>	<u>Jun-09</u>	<u>Jul-09</u>	<u>Aug-09</u>	<u>Sep-09</u>	<u>Oct-09</u>
<b>Industrial Production*</b>	-1.1	-0.4	0.9	1.3	0.6	0.1
<b>Total Capacity Utilization</b>	68.5	68.3	69.0	70.0	70.5	70.7
<b>Manufacturing output*</b>	-0.9	-0.3	1.2	1.4	0.8	-0.1
<b>Man. Capacity Utilization</b>	65.3	65.1	66.0	67.0	67.6	67.6
<b>Capacity Utilization ex. High-tech industries</b>	65.4	65.3	66.2	67.3	67.9	67.9

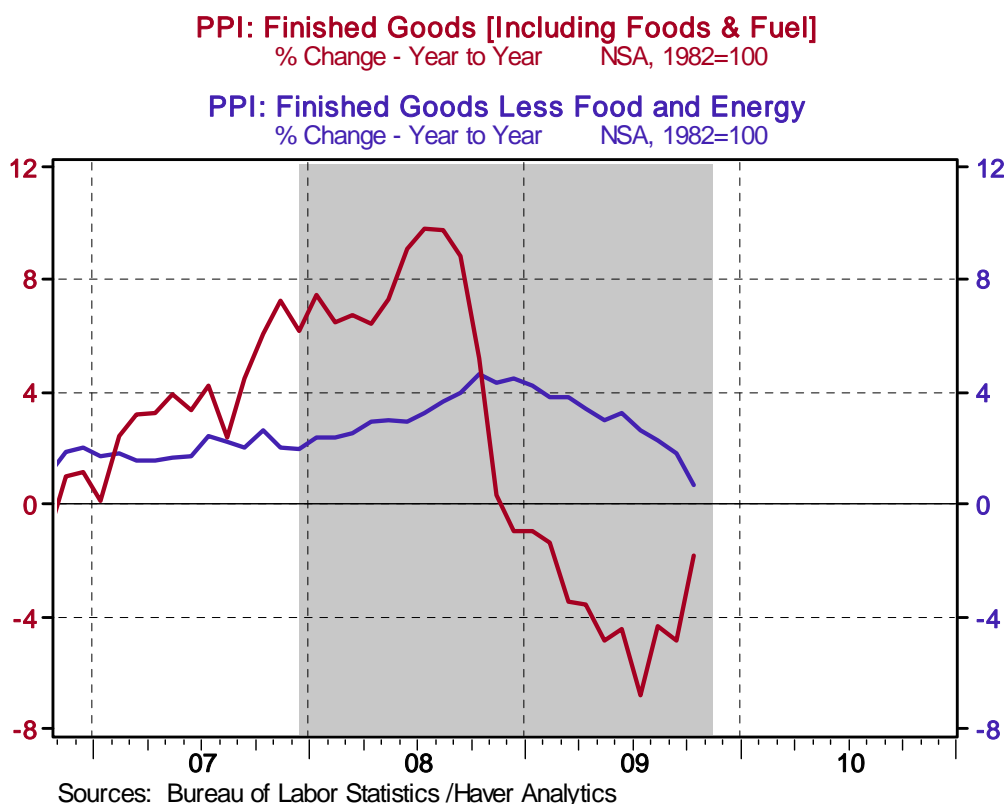
\* - percent change from prior month

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## Higher Prices for Food and Energy Lift Wholesale Prices, Core Price Index Declines

The Producer Price Index (PPI) of Finished Goods moved up 0.3% in October after a 0.6% drop in the prior month. The 1.6% jump in prices of both food and energy lifted the overall index but the core PPI, which excludes food and energy fell 0.6%. In October, higher prices for gasoline (+1.9%) and fresh and dry vegetables (+24.2%) mainly accounted for the sharp gains of the energy and food price indexes, respectively.

Chart 4

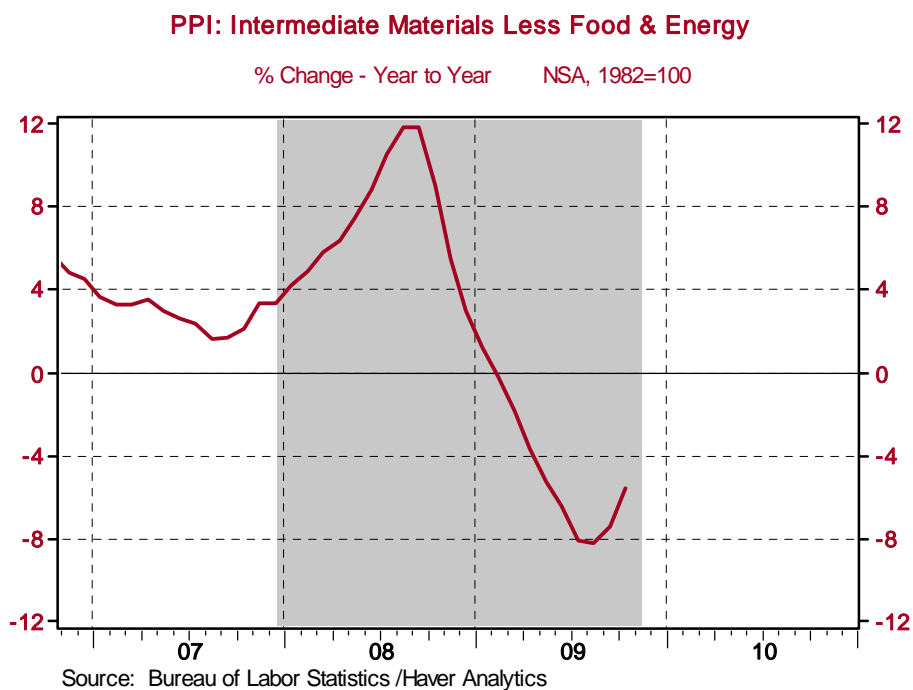


The core PPI has dropped in four out of the last six months. In October, lower prices for light trucks (-5.2%) and cars (-0.5%), due to the introduction of new models, led to the drop of the core PPI. At the earlier stages of production, the core intermediate goods price index also fell 0.2%. The year-to-year change of the core intermediate goods price index (see chart 5) points to a

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moderation in the pace of decline. The overall message from the October report is that wholesale prices present no immediate inflationary threat, for now.

Chart 5



Producer Price Index – October 2009

	% change	annualized % change			% change		
	prior month	year-to-date	3 mo. ago	6 mo. ago	Oct-09 yoy	Oct-08 yoy	Dec-08 yoy
<b>PPI - FINISHED GOODS</b>							
ALL ITEMS	0.3	3.2	6.0	4.8	-1.9	5.2	-0.9
CORE - ALL ITEMS LESS FOOD & ENERGY	-0.6	0.5	-1.8	-0.3	0.7	4.7	4.5
FOOD	1.6	-1.0	7.8	-0.2	-2.7	6.5	3.2
ENERGY	1.6	16.9	31.4	28.5	-9.4	5.5	-20.3
CAPITAL EQUIPMENT	-0.7	-0.4	-2.0	-0.9	0.1	4.2	4.3
<b>PPI - INTERMEDIATE GOODS</b>							
ALL ITEMS	0.3	1.5	9.7	7.6	-7.5	9.8	-2.3
CORE	-0.2	-1.1	5.5	3.0	-5.6	9.0	3.3
<b>PPI - CRUDE GOODS</b>							
ALL ITEMS	5.4	6.0	31.5	24.2	-14.1	0.1	-24.6
CORE	0.5	28.5	48.6	49.6	-1.6	-5.5	-24.1

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