

Daily Commentary

Review:

A 4.4% jump in energy costs pushed the **headline CPI** up 0.6%, but the **core index** rose a modest 0.2%. That indicates that the unrelenting surge in energy costs so far at least has not been transmitted to a broader increase in prices. This divergence contrasts with some earlier episodes of rapidly rising energy costs and underscores the important differences in policy responses now to large changes in the RELATIVE price of energy. The persistence of core inflation is also an encouraging sign that the inevitable convergence of headline and core inflation will entail a decline in headline inflation rather than a rise in core. Relatively stable inflation expectations reflects a presumption of this sort of convergence but the Fed will be closely monitoring those expectations for signs of a less benign outcome. With both headline inflation and unemployment moving up sharply, it is not surprising that the University of Michigan's index of consumer sentiment slipped further to a new 28-year low. Encouragingly, however, the survey showed no further increase in inflation expectations.

Preview of the Week Ahead:**Monday, June 16:**

Empire State Index: June. NSI: -1.0, Last: -3.2. Consensus: -1.8; range:-8.0 to +7.0.

The forecast reflects a judgment that the region's manufacturing sector remains weak but a bit livelier than in the rest of the country.

Treasury International Capital System (TICS) Report: April.

Net Foreign Purchases. NSI: NF. Last: \$80.4 b.

The TICS for March showed that net foreign inflows rose from about \$64.9 billion in February to \$80.4 billion. Persistently large trade deficits ensure that foreign capital flows will remain an important feature of the global financial markets for the foreseeable future.

NAHB Housing Market Index: June. NSI: N.F., Last: 19. Consensus: 19; range: 18 to 23.

Until home buyers return to the market in greater numbers, the home builders' index is likely to remain near its historical lows.

Tuesday, June 17:**Weekly Retail Store Surveys; week ending June 14.**

Despite a sales gain in the ICSC index in the first week of June, the Redbook index reflected a retreat to "below-target" performance after matching the monthly target for the first time in May. The economic stimulus checks should continue to offset some downward pressure on discretionary spending resulting from record high gasoline prices.

Producer Price Index: May. NSI: 1.0%. Consensus: +1.0%, range: +0.3% to +1.2%

Core PPI: May. NSI: 0.2%. Consensus: +0.2%, range: +0.0% to +0.3%

Energy costs continue to propel headline inflation measures. We expect core inflation to maintain its recent trend but these prices at the wholesale level are subject to a somewhat greater risk of energy-price pass-through effects than is the CPI.

Housing Starts: May. NSI: 970, +6.0%. Consensus: 980 K.; range: 920 K. to 1060 K.

Building Permits: May. NSI: 945, -3.8%. Consensus: 960 K.; range: 910 K. to 990 K.

Starts of large projects -- those with 5 or more units -- surged 40% in April but single-family starts fell 1.7% drop while 2- to 4-unit projects were down 22%. Although permits for new single-family building rose for the first time in over two years, the weak sales pace suggests more cuts in building probably lie ahead.

June 13, 2008, 5:40 PM

Equities Market		
	<u>Close</u>	<u>Change</u>
DJIA	12307.4	165.77
%Change		1.37%
YTD %		-7.22%
Nasdaq	2454.5	50.15
%Change		2.09%
YTD %		-7.46%
Treasury Market		
<u>Current Issues</u>	<u>YTM</u>	<u>Prev. Close</u>
2-Yr	3.04	3.04
Change	0.00	
5-Yr	3.73	3.70
Change	0.03	
10-Yr	4.26	4.21
Change	0.05	
5:40 PM		

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Industrial Production: May. NSI:-0.1%. Consensus: +0.1%, range: -0.5% to +0.3%

Capacity Utilization: May. NSI: 79.5%. Consensus: +79.7%, range: 79.4% to +80.0%.

Another decline in manufacturing employment along with cuts aggregate hours implies a small drop in production.

Wednesday, June 18:

Mortgage Applications Index. Week ending June 13, Last: 557.1.

The mortgage applications index rose only slightly from a 6-year low as applications remain highly sensitive to changes in mortgage lending rates, which continue to climb.

Thursday, June 19:

Initial Claims: week ending June 14. Last Week: 384,000.

Initial claims for unemployment benefits rose 25,000 to 384,000, the highest reading since late March when claims topped 400,000. It seems likely that the latest week's count picked up some workers who failed to file during the week of Memorial Day. Averaged over the two weeks, claims were essentially the same as in the previous two weeks. While initial claims have been relatively steady, the number of people remaining on the jobless roll jumped by 58,000 to the highest total since February 2004.

Leading Economic Indicators: May. NSI: No change. Consensus: 0.0%, range: -1.0% to +0.4%.

After five straight declines, the LEI has risen 0.1% the last two months. Available data suggest the May index will reflect offsetting effects of small gains and losses in the key components. However, a surprisingly strong or weak report on building permits for May could prove looks likely A mix of ups and downs in March but it looks likely to have resumed its slide in April. Along with a shorter workweek and decline in real M2 growth, the big drop on consumer expectations about the coming six months more than offset the major positive contributors to the index. The latter included an increase in housing permits, which led to a mall upward revision.

Philadelphia Fed Index: June. NSI: -10.0, Last: -15.6. Consensus: -10.0, range 0.0 to -22.8.

The Philadelphia Fed index hit a 7-year low in April but improved slightly in May and is expect to show further improvement in June.

Friday, June 20:

No Economic Data

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