

## DAILY GLOBAL COMMENTARY

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### Minutes of March 18 FOMC Meeting – Bearish Outlook for Economy

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The minutes of the March 18 FOMC meeting indicate a central bank that is quite bearish about the economy. The staff forecast showed “a contraction in real GDP in the first half of 2008 followed by a slow rise in the second half.” Some members of the FOMC “believed that a prolonged and severe economic downturn could not be ruled out given the further restriction of credit availability and ongoing weakness in the housing market.” At the same time, members held these views: 1) They “recognized that monetary policy alone could not address fully the underlying problems in the housing market and in financial markets.” (2) The discussion about inflation noted that incoming news about inflation was disappointing and that recent depreciation of the dollar could boost import prices and contribute to higher inflation. In addition, members were concerned that inflation expectations might become less firmly anchored, given the fact that inflation expectations had edged higher (Inflation expectations in the past few days have been less threatening.) (3). “With the uncertainties in the outlook for both economic activity and inflation elevated, members noted that appropriately calibrating the stance of policy was difficult, partly because some time would be required to assess the effects of the substantial easing of policy to date.” These observations which imply the need for caution in easing monetary policy offset part of the concern about severely weak economic conditions. On balance, these conflicting remarks lead us to view that a less aggressive easing of 25 bps, taking the federal funds rate to 2.00%, is the most likely scenario on April 30.

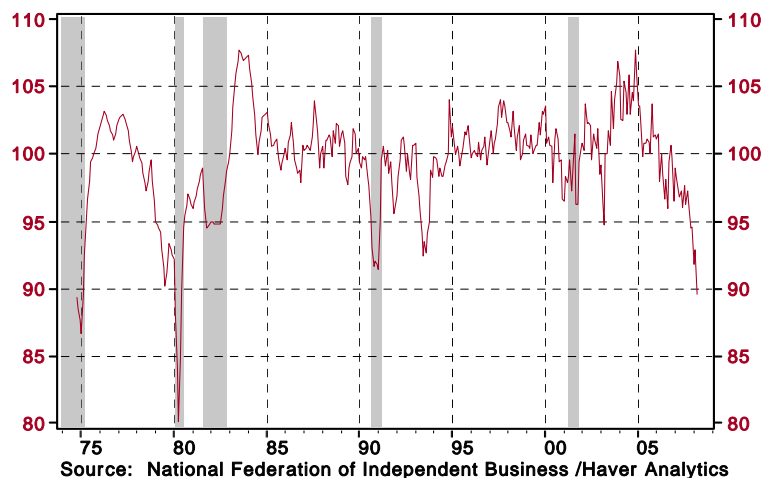
### Small Business Survey Sends a Dour Message

The Small Business Optimism Index fell to 89.6 in March, the lowest since May 1980 (see chart 1). Underlying this gloomy outlook was a sharp drop in plans to raise employment (see chart 2).

Chart 1

NFIB: Small Business Optimism Index

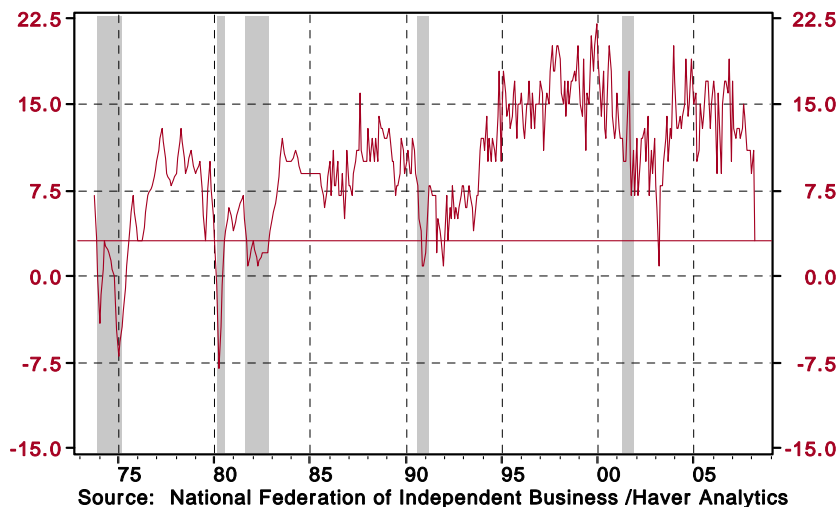
SA, 1986=100 (I)



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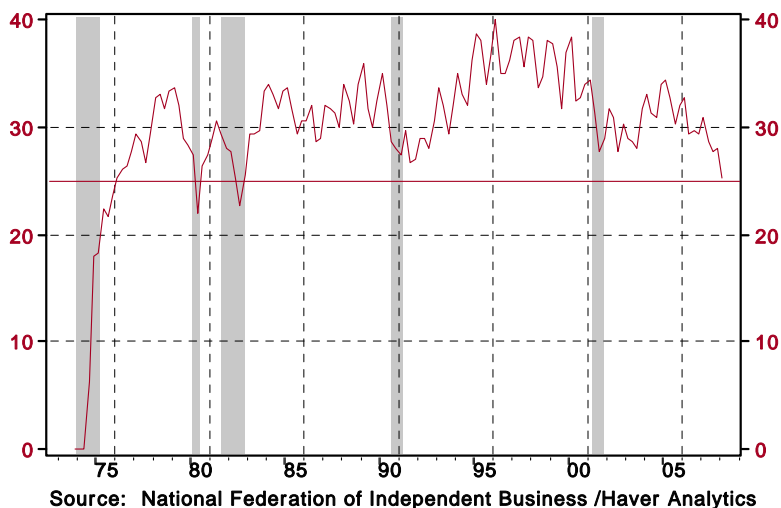
Only 3.0% of firms reported plans to increase payrolls. A lower reading was reported for March 2003 when the war in Iraq commenced. Excluding the March 2003 mark, the March 2008 reading is the lowest since December 1991.

Chart 2  
**NFIB: Percent Planning to Increase Employment, Net**  
 SA, % (I)



In addition, the number of firms reporting plans to raise capital expenditures in the next 3-6 months fell to 25 in March from 26 in the prior month. In the first quarter, the number of firms indicating an increase in capital expenditures (25) is the lowest since the second quarter of 1980 (see chart 3).

Chart 3  
**NFIB: Percent Planning Capital Expenditures next 3 to 6 Months**  
 SA, % (I)

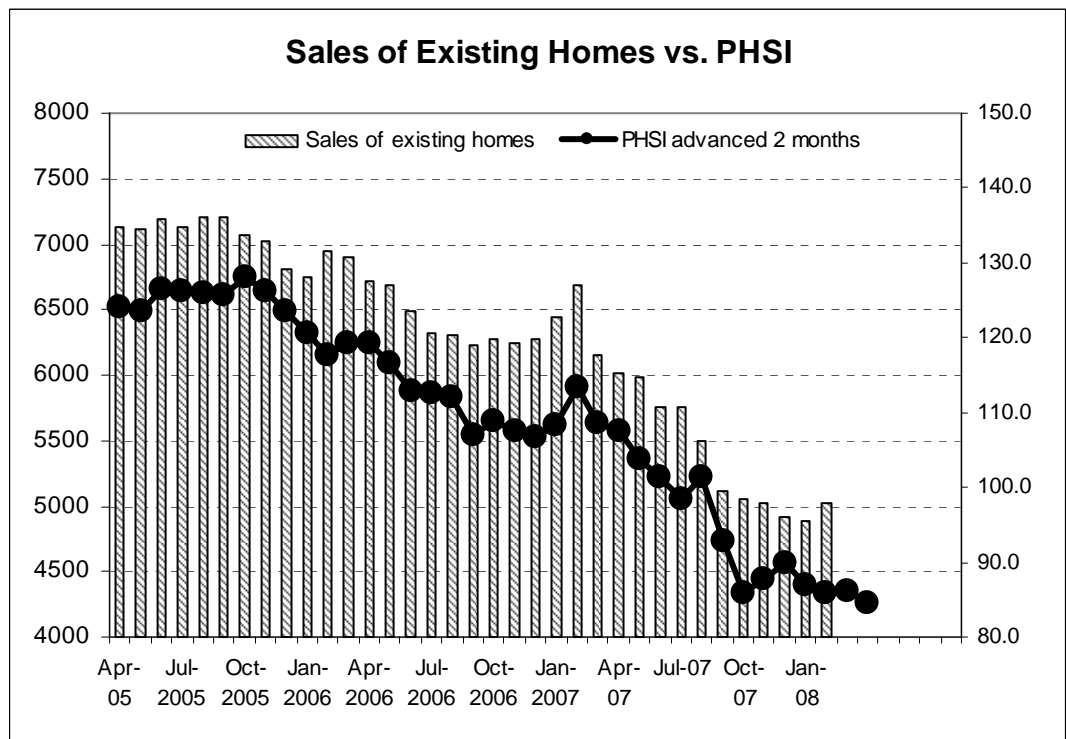


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## Existing Home Sales Likely to Post Declines in the Near Term

The Pending Home Sales Index (PHSI) of the National Association of Realtors dropped to 84.6 in February from 86.2 in January. With the exception of June 2007, the PHSI has posted double-digit gains in the entire 12-month period ended February 2008. The declines of the PHSI in the January-February period bode poorly for sales of existing homes in the months ahead. Sales of existing homes posted a 2.8% increase in February, reflecting seasonal adjustment issues and an increase in sales stemming from foreclosures.

Chart 4



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