

DAILY GLOBAL COMMENTARY

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Wall St. Rallies on Philly Fed Reading

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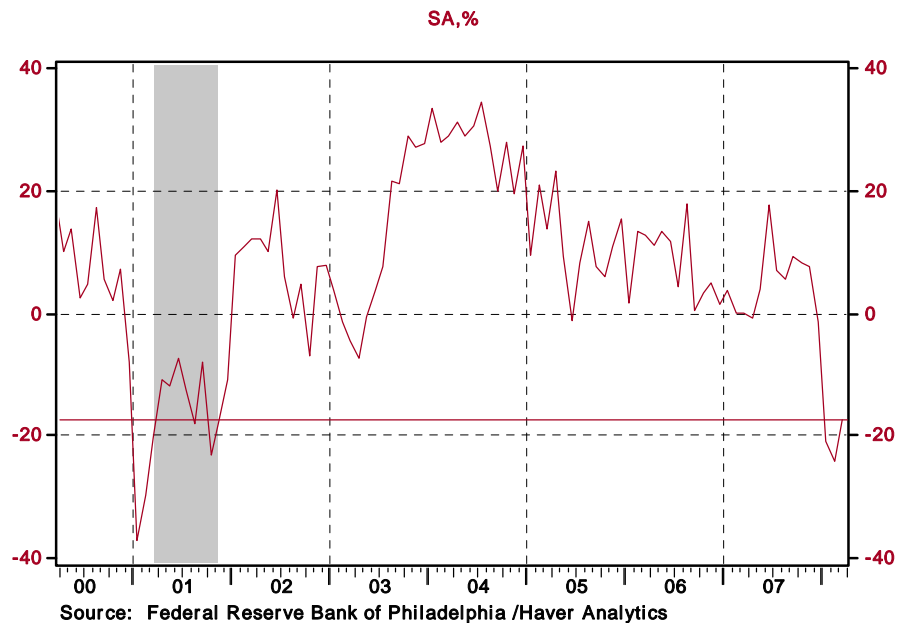
“NEW YORK, March 20 (Reuters) - U.S. stocks jumped on Thursday, pushing the Dow briefly up more than 1 percent, as a reading on factory activity in the mid-Atlantic region fell by less than analysts' had forecast, improving views on the U.S. economic outlook.”

Tell me. On what basis did “analysts” have to predict what the Philly Fed March factory activity headline would be? For that matter, on what basis do “analysts” have for predicting what *weekly* initial jobless claims will be. At the end of each week “analysts” are sent forms to fill out as to what their forecasts are for economic reports to be released in the next week. For many of these economic reports there is no way to accurately predict the data based on *fundamentals* – seasonal variation, perhaps, but *not* underlying economic fundamentals. Similarly, in this current environment, how can an equity analyst accurately predict the earnings of an investment bank when it does not know how that bank is valuing its Level 3 assets? So an investment bank reports that its earnings are down 50% and its stock rallies because “analysts,” on the basis of very little, had predicted that its earning would fall by 70%.

The chart below shows the behavior of the headline index for the Philly Fed region’s factory activity. Notice that the headline was in deep negative territory, but rising, as we *entered* the 2001 recession. The March reading of the headline, at minus 17.4, is lower than where it was during most months of the last recession. Yes, indeed, the Dow should rally on this because “analysts” had predicted that the headline would be worse than it turned out. What nonsense!

Chart 1

Phila FRB Bus Outlook: General Activity, Current, Diffusion Index



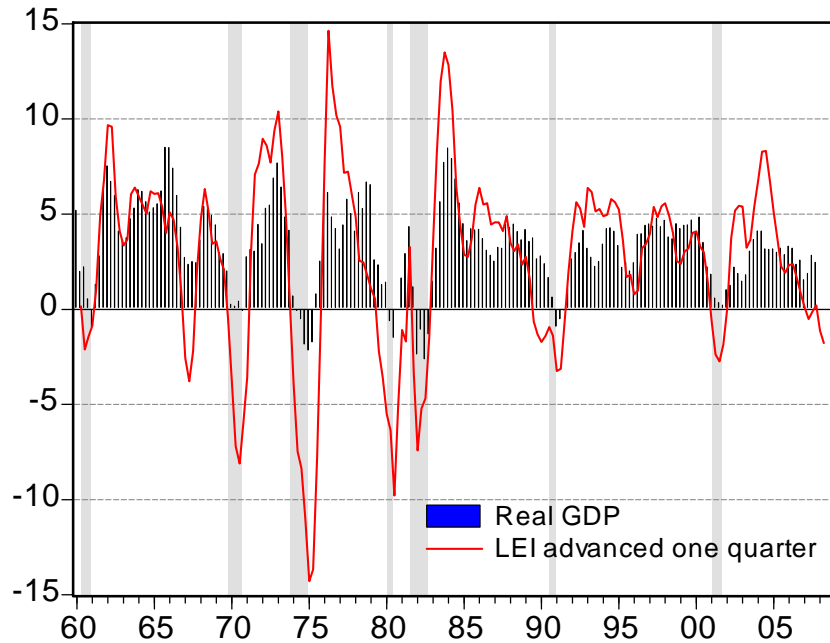
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Today's Reports Confirm Severely Weak Economic Conditions in U.S. Economy

The Index of Leading Economic Indicators (LEI) dropped 0.3% in February, the fifth consecutive monthly decline of the index. On a year-to-year basis, the index is down 1.5%, marking the sixth monthly decline. On a quarterly basis, the year-to-year change of the January-February fell 1.8% -- the biggest drop in the current cycle and consistent with readings seen in past recessions (see chart 2). A larger negative reading would seal the case of a recession; it should not be surprising to see to this in the months ahead.

Chart 2

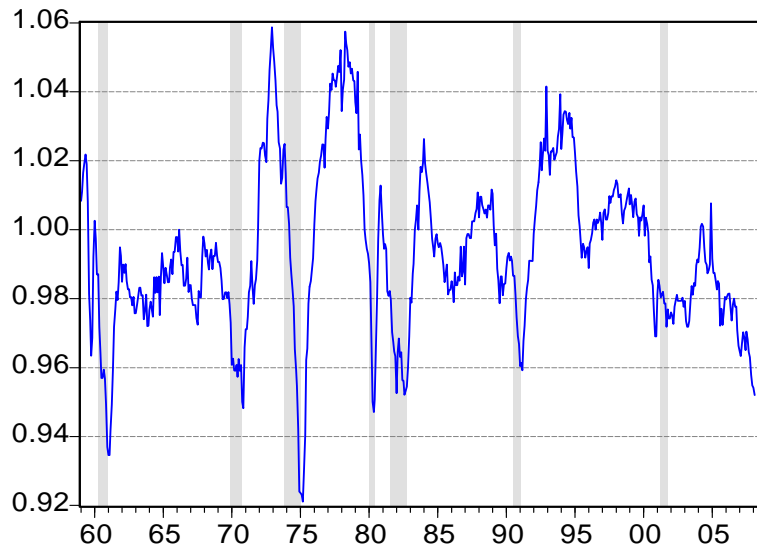
Index of Leading Economic Indicators (LEI) vs. Real GDP
year-to-year percent change



The Coincident index has held steady for three straight months and the Lagging index moved up 0.2% in February 2008. The ratio of the Coincident index to the Lagging index (0.9519) is the lowest since June 1980. This ratio is below the lows seen in the 1981-82, 1990-91 and 2001 recessions (see chart 3). We rest our case about the possibility of a recession in the U.S. in 2008.

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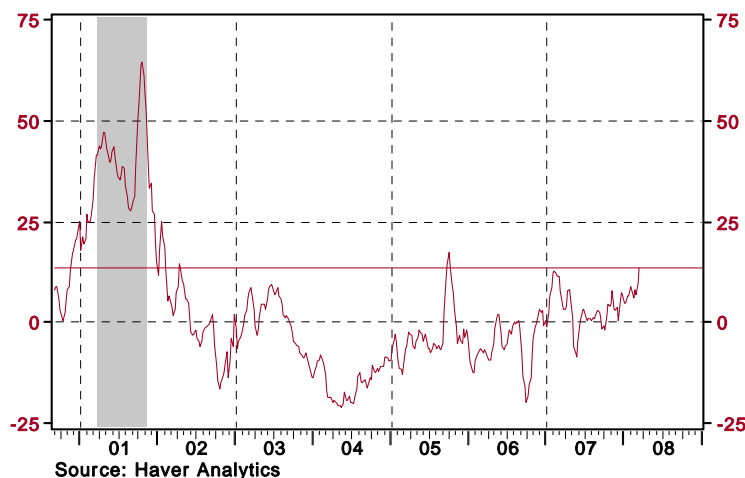
Chart 3
Ratio of Coincident Index to Lagging Index



In February, initial claims for unemployment insurance, building permits, the vendor performance index, and consumer expectations made large negative contributions to the LEI more than offsetting large positive contributions from money supply and interest rate spread. It is noteworthy that only two components out of ten components of the LEI have increased from August to February.

Initial jobless claims rose 22,000 to 378,000 during the week ended March 15. The 4-week moving average of the seasonally unadjusted year-to-year change, at 13.3%, is the largest since April 19, 2002, excluding the Katrina related hike (see chart 4).

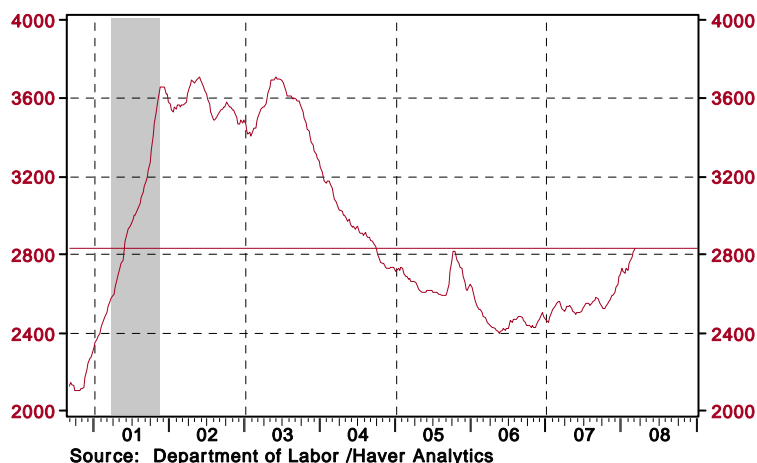
Chart 4
Initial Jobless Claims: Year-to-year change (NSA)
4-week Moving Average



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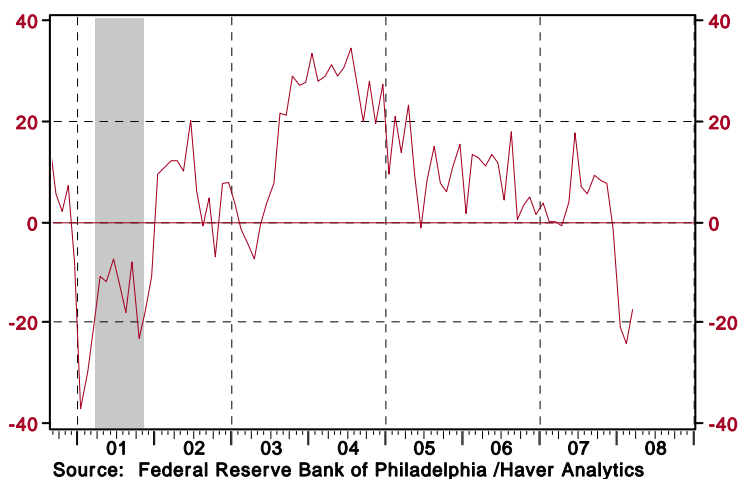
Continuing claims, which lag initial jobless claims by one week, increased 32,000 to 2.865 million and the insured unemployment rate moved up one notch to 2.4%. The 4-week moving average of continuing claims is the highest since September 25, 2004 (see chart 5). The weakness in hiring is at the top of the list of closely monitored events by the FOMC.

Chart 5
Insured Unemployment, State Programs: 4-Week Moving Average
 SA, Thous



The **factory survey of the Federal Reserve Bank of Philadelphia** is the earliest release for the month among regional and national factory surveys. In March, the business activity, shipments, and new orders indexes of the Federal Reserve Bank of Philadelphia improved but they were negative. The important message is that business conditions are weak. Indexes tracking employment (employees and workweek) declined and prices pressures were reported by most businesses with prices paid advancing to new highs.

Chart 6
Phila FRB Bus Outlook: General Activity, Current, Diffusion Index
 SA, %



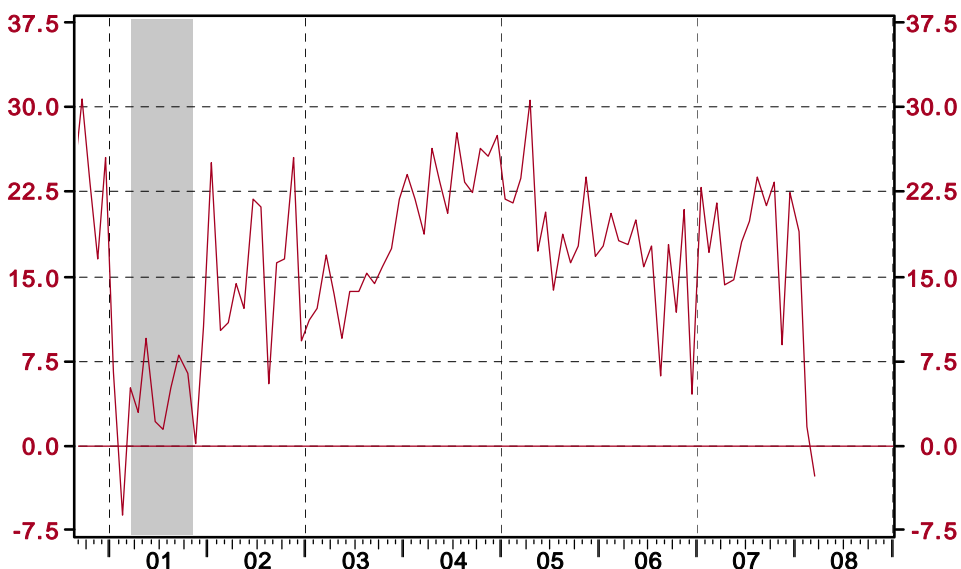
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The future general activity index rebounded from a reading of -16.9 in February (the lowest since 1990) to -0.5 this month but it is still negative. Among the indexes measuring future activity, the capital expenditures index fell to minus 2.7, the first since February 2001 (see chart 7). The survey also included special questions about the future. Firms were asked about expected growth in production during the second quarter compared with the first quarter. The survey results show that firms expect little or no growth in the second quarter.

Chart 7

Phila FRB Bus Outlook: Cap Expenditures, Current, Diffusion Index

SA, %



Source: Federal Reserve Bank of Philadelphia /Haver Analytics

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