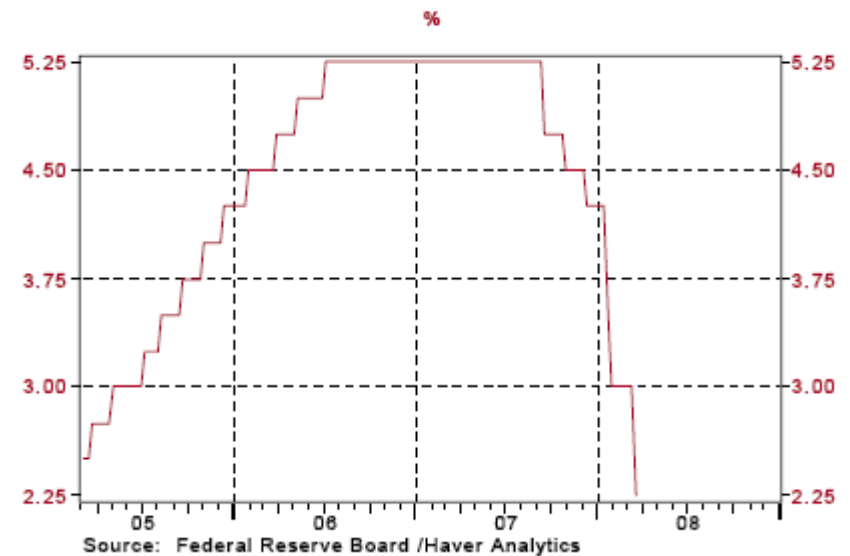




*Weekly Economic Chart Book*  
*April 18, 2008*



The Fed is most likely to lower the federal funds rate 25 bps on April 30 to 2.00% given the weakness in the housing sector, retail sales, and employment conditions. The upward pressure from rising import prices due to a weak dollar, the steady erosion of the dollar, dissents within the FOMC, combined with the remarks in the minutes of the March 18 FOMC meeting which noted the Fed needs time to assess the impact of its aggressive policy changes, and the view that monetary policy alone cannot correct the current impairment in financial markets are factors that support our forecast that the Fed may watch and wait after the April 30 cut in the federal funds rate.

**Federal Open Market Committee: Fed Funds Target Rate**


### March Retail Sales Remained Weak

U.S. retail sales during March increased a modest 0.2% after a 0.4% decline during February. The February drop was a bit shallower than the -0.6% reported last month due to a lessening of that month's decline in sales of motor vehicles & parts. On a three month basis overall retail sales rose a negligible 0.7% through (AR) March.

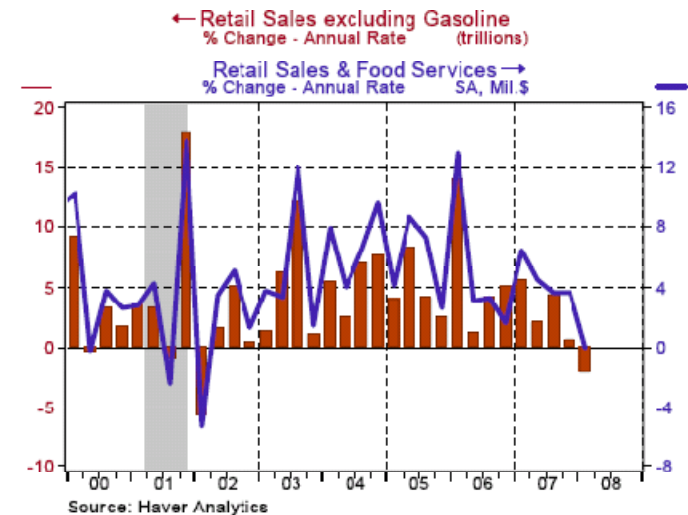
Sales of motor vehicles & parts ticked up just 0.2% (-3.5% y/y) following February's revised 1.4% downdraft.

During March, *retail sales excluding autos* ticked up just 0.1% last month and reversed a little revised 0.1% February dip. So far this year the gain in non-auto retail sales amounted to 1.8% (AR) following a 4.5% rise last year.

Retail sales less gasoline & autos fell very slightly and were up 1.3% from a year earlier. On a three month basis these sales are roughly unchanged following the 4.4% rise last year. Sales at gasoline service stations rose 1.1% (18.9% y/y).

Sales of discretionary items remained quite weak. *Furniture, home furnishings & appliance store sales* fell 0.4% (-3.2% y/y). The level of these sales peaked last November and has fallen 4.0% since. Sales of electronics & appliances fell 0.4% (+1.2% y/y) after no change in February which initially was reported as a slight decline. *Apparel store sales* fell by 0.5% (-1.6% y/y) after a 0.9% (-1.6% y/y) February decline. These sales peaked last July and have since fallen 2.3%. Sales at *general merchandise stores* fell 0.6% (-0.0% y/y) and are 0.7% off last December's peak.

Building materials & garden equipment sales dropped another 1.6% (-6.9% y/y) and since their peak early in 2006 these sales are down 9.6%.

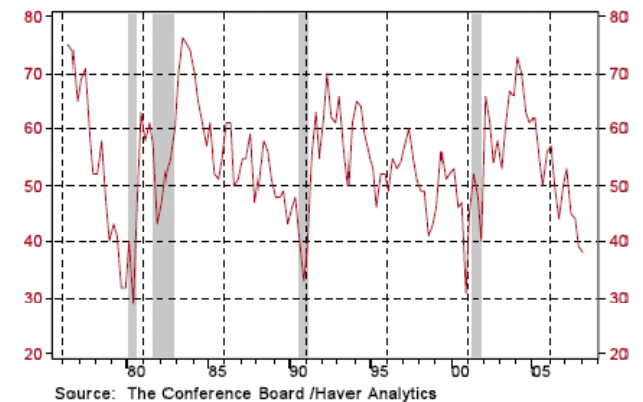


### CEO Confidence Hits Low

The Conference Board's CEO Confidence Index edged down to 38.0 in the first quarter from 39.0 in the fourth quarter; it is down 15 points from a year ago. The first quarter level of the index is the lowest since the fourth quarter of 2000, which was just prior to the onset of the recession in March 2001. The pessimistic assessment of economic conditions is justified in the current environment.

CEO's see the current economic conditions worse than it was six months ago (26 vs. 34 in the fourth quarter). Also, their opinion about the economy six months ahead held steady in the first quarter compared with the fourth quarter (40). This index is the lowest since the fourth of 2000, implying gloomy expectations about the future.

CEO Business Confidence Survey: Business Executive Confidence  
50+=Positive



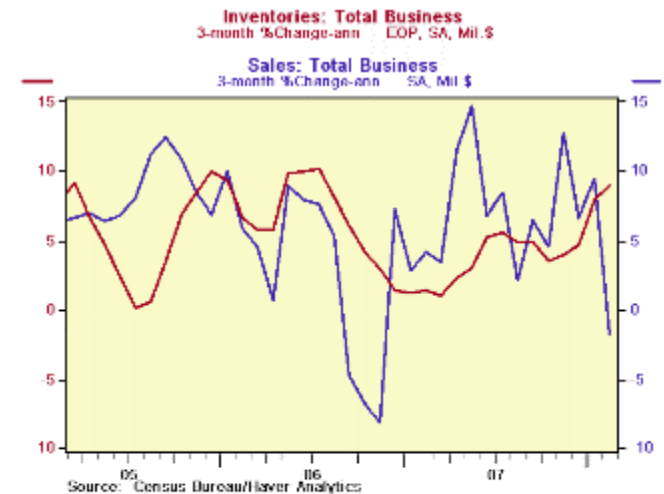
## Business Inventories Up

During February, total business inventories matched expectations and rose 0.6%. That followed a 0.9% January increase which was revised up slightly. The annualized three month growth in inventories rose to a quite firm annualized rate of 8.9%, the strongest since mid-2006.

Factory inventories continued to lead the quickened rate of accumulation. February inventories increased 0.5% following the very strong 1.3% January surge. The three month rate of accumulation remained double digit at 11.3% versus 7.2% during 4Q07 and 2.5% in 3Q. Higher oil prices continued behind some of that faster rate of gain. Petroleum inventories rose at a 60.7% rate over the last three months. But elsewhere accumulation also has been strong. Excluding petroleum, factory inventories rose at an 8.4% rate over the last three months versus 5.9% growth during 4Q and 1.7% in 3Q.

Retail inventories ticked up just 0.2% in February and three month growth remained subdued at 2.1%. Inventories of motor vehicle & parts during the last three months fell at a 3.3% rate due to production cutbacks. Outside of autos, retail inventories rose just 0.1%. The three month growth of 4.7% wasn't far off the pace of the last few years.

The industry detail in the retail sector indicated that furniture inventories fell for the fourth straight month and at an annual rate of 4.1% during the last three months. Clothing & accessory store inventories have been held under control and fell 0.4% after a large 0.7% January drop. The three month rate of change fell to a negative 2.2% rate. General merchandise stores' inventories need some further reining back. Though they rose just 0.2% in February, over the last three months they're up at an 8.1% rate after little change last year.



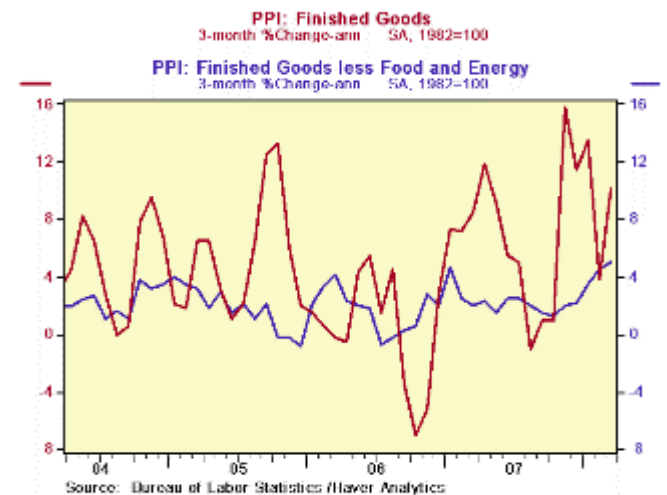
### PPI Soared

Finished producer prices in the U.S. soared 1.1% last month, up sharply from the unrevised 0.3% February increase. The increase nearly doubled Consensus expectations for a 0.6% rise and it was the strongest rise since last November.

Energy prices surged 2.9% (20.4% y/y) as home heating oil prices spiked by 13.1% (52.0% y/y) and natural gas prices increased 4.2% (4.0% y/y). Gasoline prices continued firm and rose 1.3% (36.4%).

Finished consumer food prices spiked 1.2% (5.8% y/y). During the past three months food prices have risen at a 10.1% annual rate led by soaring egg prices (56.3% y/y), higher dairy prices (13.5% y/y), higher coffee prices (13.8% y/y) and higher bakery product prices (7.8% y/y). That strength has been offset somewhat by easier gains in prices for beef & veal (-0.3% y/y) and fresh fruits (0.0% y/y).

Less food and energy, prices matched expectations and rose a more moderate 0.2%, less than half the 0.5% February surge. Prices of core finished consumer goods rose 0.3% (3.3% y/y) due to strength in nondurable prices (4.4% y/y). Capital equipment prices rose a modest 0.1% (2.0% y/y), about equal to the rise for all of last year.

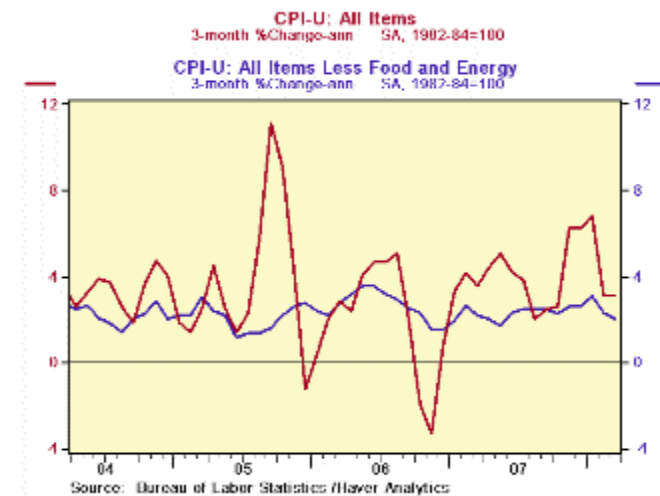


### CPI Total Rose 0.3% - In Line With Expectations

During March, the **consumer price index** (CPI-U) rose an expected 0.3% after having been unchanged in February. **Less food & energy**, consumer prices rose 0.2% and that also was as expected.

**Energy prices** were quite firm last month and they rose 1.9% overall, the strongest increase since last November. Fuel oil prices led the strength with a 7.9% (40.2% y/y) rise while natural gas & electricity prices also were strong. They rose 1.9% (4.1% y/y). Gasoline prices increased 1.3% (26.0% y/y) and in April already have increased another 3.6%.

Inflation of **food & beverage prices** remained moderate at 0.2% due to continued softness in prices for meats poultry & fish which were unchanged m/m (3.7% y/y). That followed a slight decline in February. Conversely, prices for cereal & bakery products remained strong and rose 1.3% (8.1% y/y). Earlier strength in dairy products took a breather m/m and they fell 0.8% (+11.0% y/y).



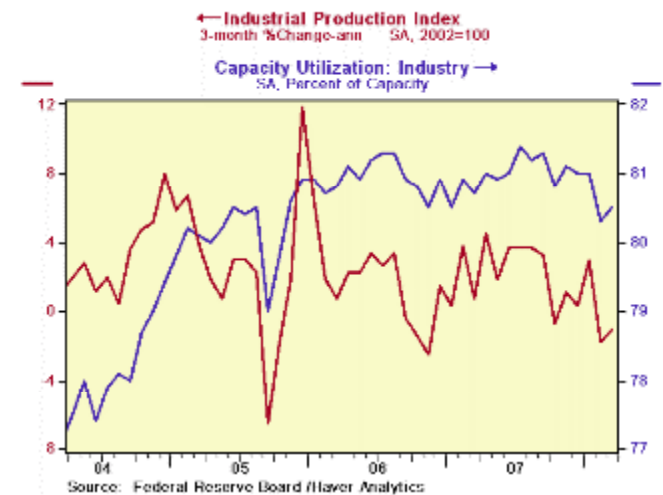
### Industrial Output Up 0.3% Last Month – Beats Expectations

Industrial production last month rose 0.3% after a 0.7% February decline which was deeper than reported initially. Also revised down was production growth last year and during 2006. A 0.1% decline in March output had been the Consensus expectation.

Factory output ticked up 0.1% in March after falling by a downwardly revised 0.5% in February. The three month change in output, however, fell to a negative 1.4% (AR). Production in the high tech sector has been strong and rose 1.3% (13.1% y/y), as it did in February. Outside the high tech sector, factory output fell 0.1% and a February decline was revised deeper to -0.7%. Three month output growth in manufacturing output less high tech fell to -2.8% (AR) but appliance production rose 5.0% last month.

Production of computers & electronics surged again last month by 2.6% and three month growth totaled 20.3% (AR).

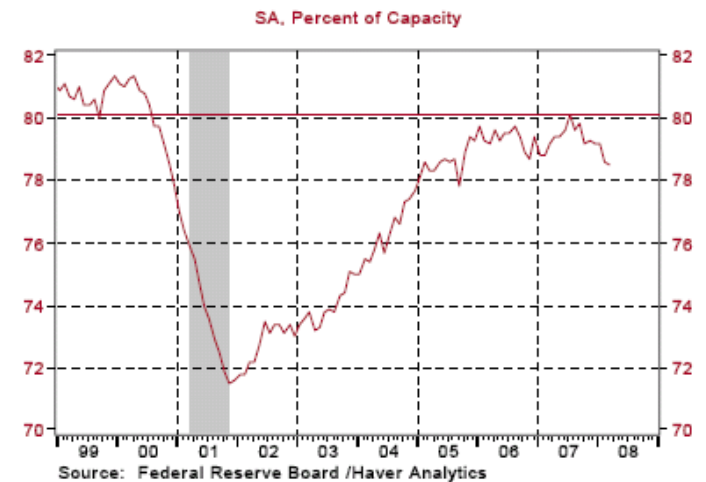
Weakness elsewhere in the durable goods area continued intense. Output of furniture & appliances is down at a 10.5% rate during the last three months while production of automotive products has fallen at a 29.0% rate. Auto output is down partially due to the workers' strike at the American Axle Company. Machinery production is off at a 1.2% rate and metals output turned negative. In the non-durables sector apparel product output has fallen at a 10.8% rate over the last three months.



### Exports keeping Factory Sector Humming Along

The operating rate of the factory sector has moved down to 78.5% in March from a peak of 80.1% in July 2007. Exports of the U.S. economy, which are growing at a double digit pace, are keeping the factory sector humming along, albeit at a slow pace.

Capacity Utilization: Manufacturing [SIC]



### Housing Starts Weaker Than Expected

During March, housing starts were weaker than expected, falling 11.9% m/m to 947,000 units. A decline to 1.010M had been generally expected. The latest level was the lowest since early 1991.

Accentuating the total's m/m decline was a 24.6% drop in starts of multi-family units which more than reversed February's 11.7% rise.

Single family starts last month fell by about the same 5.7% as they did in February. That month's decline was revised slightly shallower. Single family starts in March also were at their lowest level since early 1991 and they have fallen 63.0% since their early 2006 peak. For 1Q08, starts fell 12.6% from 4Q07.

By region, in the *Midwest single family starts fell to a record low* and were down 25.0% y/y. Single family starts in the Northeast were roughly unchanged m/m but were down 30.4% y/y. In the South, single family starts also were about unchanged (-40.9% y/y) and in the West single family starts fell 11.8%. (-48.3% y/y). That decline reversed much of the surge in February and they remained down 70% from the August 2005 peak.

Building permits fell 5.8% m/m and single-family permits fell 6.2% (-46.4% y/y).



Putting the housing starts and permits data in a historical perspective paints a grim picture of the new housing market. Data for housing starts and permits go back to 1960. The current business cycle is the eighth business cycle in the 1960-March 2008 period. Looking back at peak-to-trough declines in housing starts across each business cycles, we find that the current decline in single-family starts from the peak in January 2006 to the level in March 2008 yields a 63.0% drop, which is the largest decline on record (see table ). The median peak-to-trough drop in single-family housing starts across seven business cycles since 1960 is 47.4%. The downward trend of total housing starts (58.7%) is close to the historically largest peak-to-trough decline of 63.6% seen in the 1973-1975 recession. The median peak-to-trough decline in total housing starts across seven business cycles since 1960 is 45.5%.

Recession	Peak - Housing Starts				Trough - Housing Starts				Change - Peak to Trough	
	Date	Total Starts	Date	Single-family	Date	Total Starts	Date	Single-family	Total starts	Single-family
Apr. 60-Feb. 61	Feb-59	1667	Jan-59	1336	Dec-60	1063	Dec-60	841	-36.23%	-37.05%
Dec. 69-Nov. 70	Jan-69	1769	Jan-69	967	Jan-70	1065	Jan-70	596	-36.67%	-36.37%
Nov. 73-Mar. 75	Oct-72	2485	Sep-72	1399	Feb-75	904	Feb-75	667	-63.62%	-52.32%
Jan. 80-Jul. 80	Apr-78	2197	Apr-78	1517	May-80	927	Mar-80	633	-57.81%	-58.27%
Jul. 81-Nov. 82	Jan-81	1547	Sep-80	1019	Jan-82	843	Oct-81	523	-45.51%	-48.68%
Jul. 90-Mar. 91	Jan-89	1621	Jan-89	1149	Jan-91	798	Jan-91	604	-50.77%	-47.43%
Mar. 01-Nov. 01	Feb-00	1737	Dec-99	1375	Oct-01	1540	Oct-01	1240	-11.34%	-9.32%
Current cycle	Jan-06	2292	Jan-06	1837	Mar-08	947	Mar-08	680	-58.68%	-62.98%

### Empire State Index Stabilized

The April index of manufacturing activity in New York State recovered to 0.63% following the sharp falloff in March to a reading of -22.2%. It was better than expectations for continued weakness at a level of -17%. The figure is a diffusion index and it is reported by the Federal Reserve Bank of New York.

Since the series' inception in 2001 there has been a 55% correlation between the index level and the three month change in U.S. factory sector industrial production.

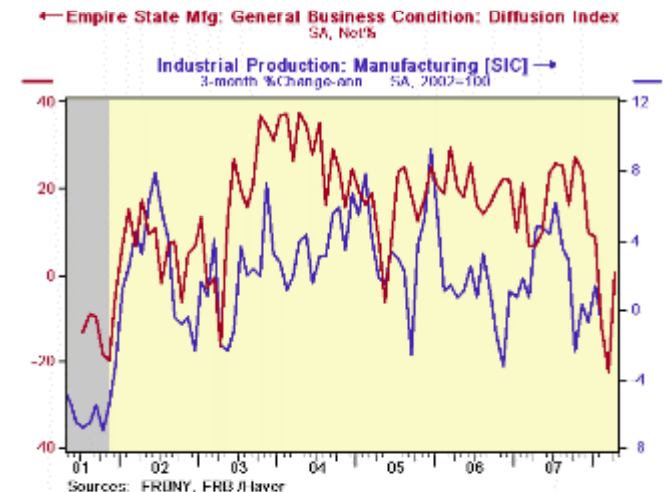
New orders, shipments and inventories each improved.

The employment index, however, deteriorated to a level of 0.00% from 4.49% in March. During all of 1Q08 the employment index averaged 1.61% versus 11.28% averaged during all of last year. In the (perhaps too) short six year history of the NY employment index, there has been an 85% correlation between it and the three month growth in overall factory sector employment.

Like the Philadelphia Fed Index of General Business Conditions, the Empire State Business Conditions Index reflects answers to an independent survey question; it is not a weighted combination of the components.

Pricing pressure rose even further to an index level of 57.29, its highest since 2005. Since 2001 there has been an 81% correlation between the index of prices paid and the three month change in the core intermediate materials PPI.

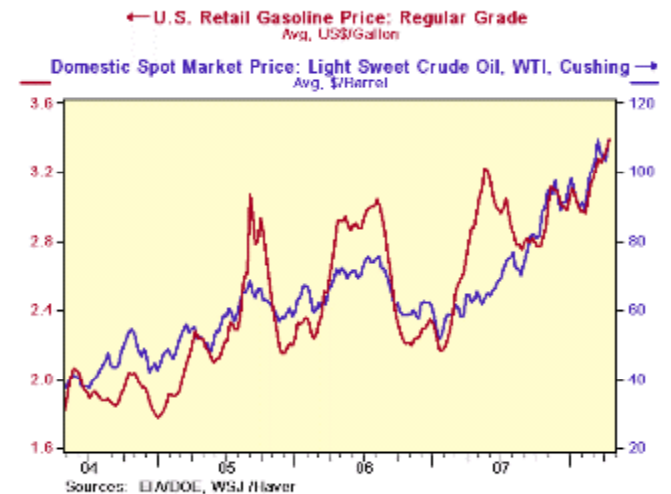
The Empire State index of expected business conditions in six months fell to a reading near the recession low during 2001.



### Record Gasoline Prices

Gasoline prices jumped another six cents last week to a record of \$3.39 per gallon. In yesterday's trading the wholesale price of gasoline rose to \$2.72 per gallon, up another four cents from last week's average.

Crude oil prices jumped five dollars w/w to \$108.93 (74.0% y/y for a barrel of WTI crude. That price is up roughly thirteen dollars so far this year.



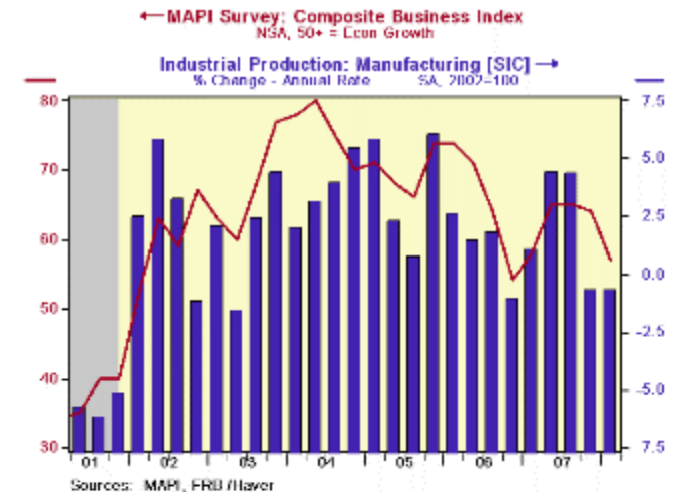
## MAPI Business Outlook Survey Fell Again

The 1Q '08 Composite Business Index published by the Manufacturers' Alliance/MAPI fell to 57 from 64 in 4Q '07. The latest reading was the lowest since 4Q '06.

During the last ten years there has been a 69% correlation between the Composite Index Level and quarterly growth in US factory sector output.

The current orders index fell sharply to the lowest since 2003. The 1Q export orders index also fell moderately to its lowest level since mid-2005. During the last ten years there has been a 59% correlation between the export orders index and quarterly growth in real US exports.

The profit margins index also fell to its lowest level since 3Q '05. Capital spending intentions for the coming year were down to the lowest level since 2006. During the last ten years there has been a 75% correlation between the capital spending index and q/q growth in business investment.



## Initial Unemployment Insurance Claims Up

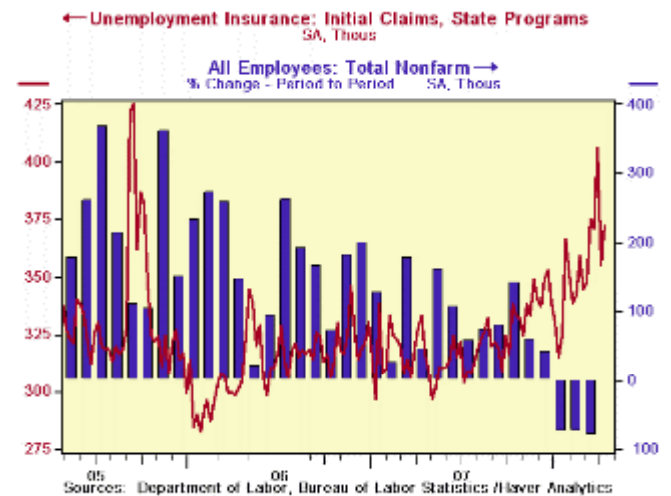
Initial unemployment insurance claims last week rose 17,000 to 372,000. During the prior week, claims fell 51,000 and that was slightly less of a decline than reported initially. Consensus expectations had been for claims to total 375,000 last week.

A claims level below 400,000 typically has been associated with growth in non-farm payrolls. During the last ten years there has been a (negative) 76% correlation between the level of initial claims and the m/m change in non-farm employment.

The latest claims figure covers the week that April non-farm payrolls were surveyed by the Labor Department and claims fell 3,000 (-0.8%) from the March survey period.

The four week moving average of initial claims held roughly steady at 376,000 (17.0% y/y), still near its highest level since 2005.

Continuing claims for unemployment insurance rose another 18,000 and the previous week's increase was revised up to 18,400. Insured unemployment was at its highest level since mid 2004. The figure provides some indication of workers' ability to find employment.



### Philadelphia Fed Index Down Again – But Expected Conditions Up

The Philadelphia Federal Reserve Bank reported that its April Index of General Business Conditions in the manufacturing sector fell to -24.9% and reversed all of the prior month's modest improvement. The latest level was the lowest since the recession year 2001.

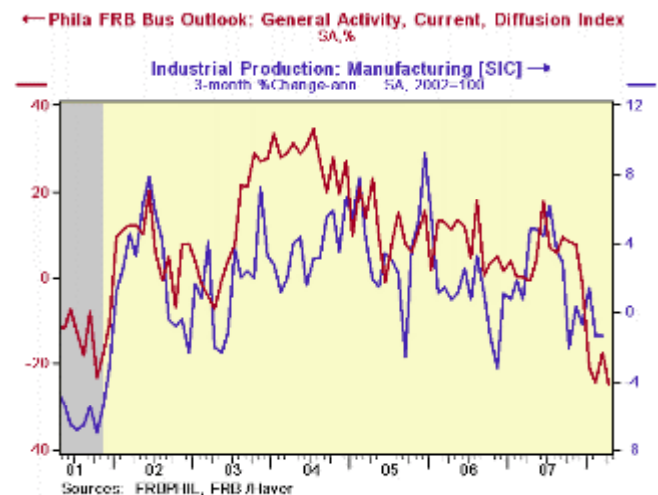
The Philadelphia Fed constructs a diffusion index for total business activity and each of the sub indexes. The business conditions index reflects a separate survey question, not the sub indexes listed below.

During the last ten years there has been a 59% correlation between the level of the Philadelphia Fed Business Conditions Index and the three-month growth in factory sector industrial production. There has been a 42% correlation with q/q growth in real GDP.

Sharp declines in the new orders, employment and in the inventories sub indexes were registered while shipments fell modestly.

The prices paid index backed off slightly after rising in March to its highest level since January 2005. During the last ten years there has been a 76% correlation between the prices paid index and the three-month growth in the intermediate goods PPI. There has been an 85% correlation with the change in core intermediate goods prices.

***The separate index of expected business conditions in six months rose sharply and was at the highest level since November; positive for the first month in the last three. Expectations for new orders rose sharply***



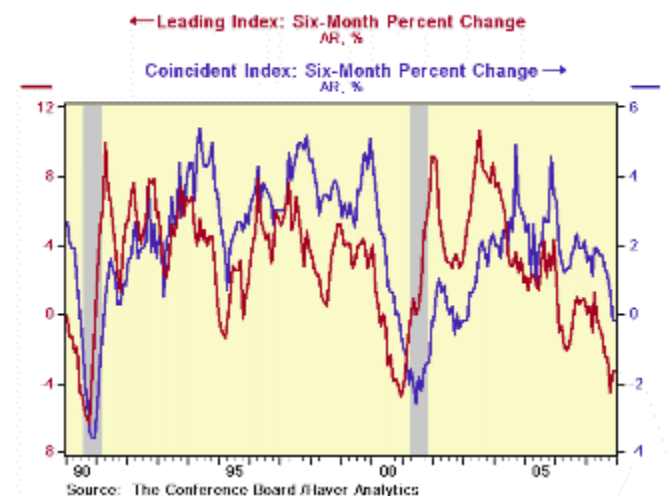
### Signs of Improvement -Leading Economic Indicators Up Slightly

The composite index of leading economic indicators, reported by the Conference Board, increased 0.1% in March after an unrevised 0.3% February decline. It was the leaders' first increase in six months.

During the last ten years there has been a 59% correlation between the y/y change in the leading indicators index and the lagged change in real GDP.

The breadth of one month increase amongst the 10 components of the leading index improved to 60%. It was the first month over the break even level of 50% since last September. Over a six month period, however, the breadth of gain amongst the leaders components remained quite low at 30%.

Last month, a more positive yield spread between the 10 Year Treasury Bond and the Fed funds rate, stronger money supply growth and vendor performance made the largest positive contributions to the leading index. That was offset by lower stock prices, lower consumer expectations and higher claims for jobless insurance



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