

Weekly Economic Report: US

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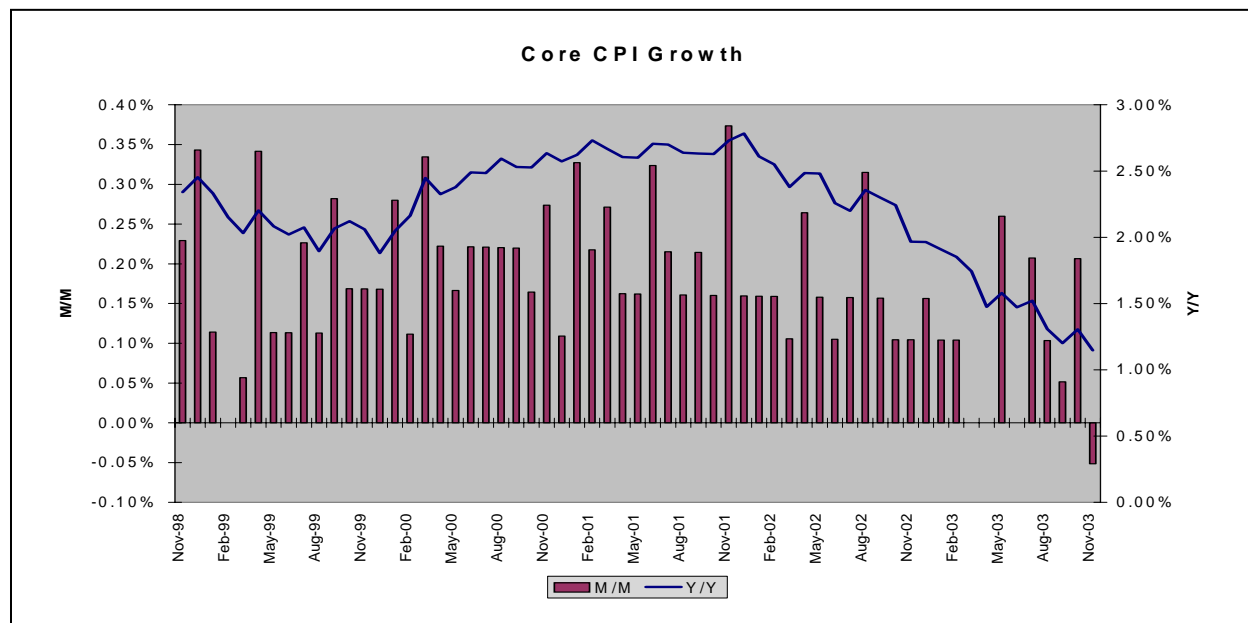
December 30, 2003

Over the past two weeks, economic data showed strength in the industrial production and manufacturing indices, signs of continued deflationary pressures in the core CPI and PCE deflator, and a fall in durable goods orders.

Weekly Highlights

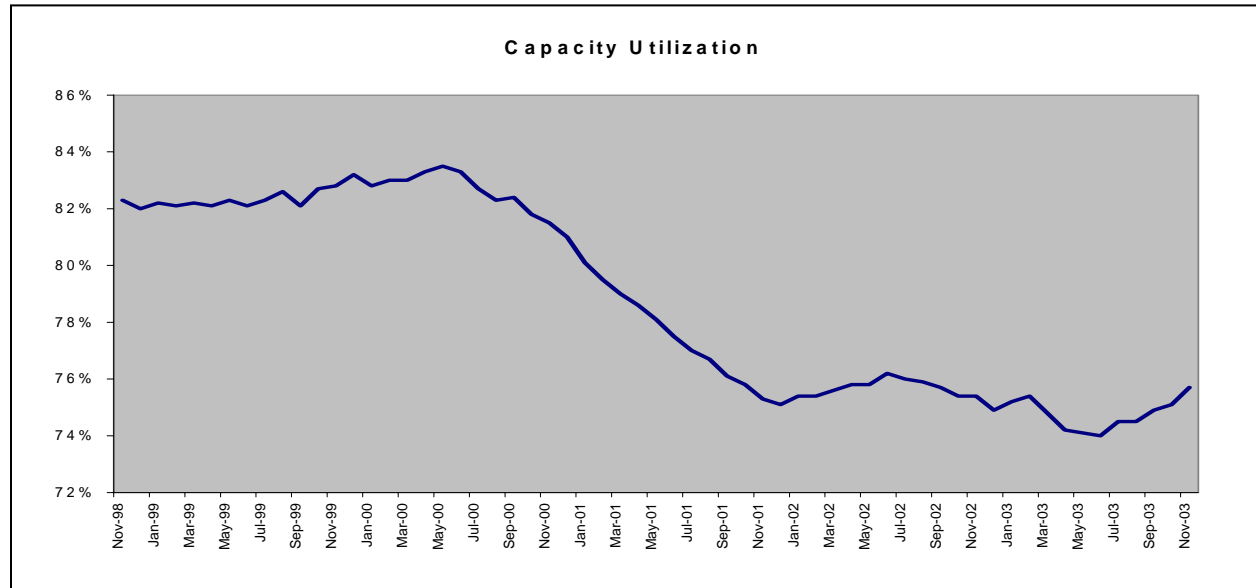
- **Inflation-** Deflationary pressures remain. (cover)
- **Capacity Utilization & Industrial Production-** Growth with lots of slack left. (page 2)
- **Philadelphia Fed & Empire Index-** Historically strong numbers. (page 3)
- **Housing-** New home sales decline, but housing starts are still growing. (page 4 & 5)
- **Durable goods orders-** Computers & electronic products lead the way down. (page 5)
- **Personal spending & income-** PCE deflator declines & spending grows slower than income. (page 6)
- **Unemployment-** Recovering, but not enough to reduce output gap. (page 7)

Chart of the Week

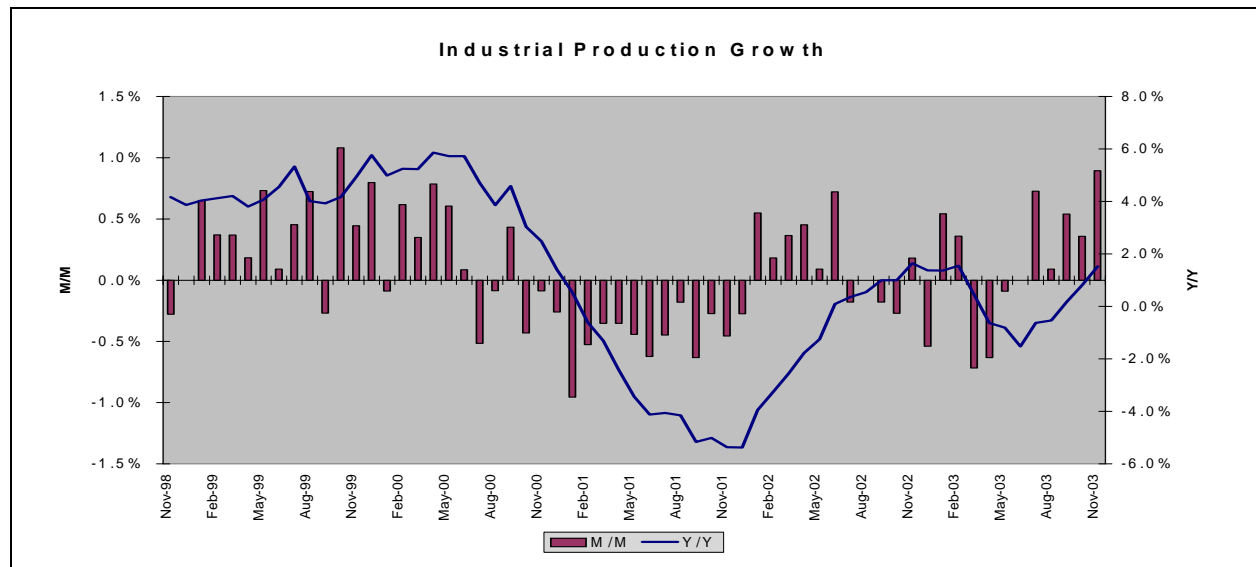


Core CPI growth was -0.1% M/M and 1.1% Y/Y in November. November's data represents the lowest Y/Y growth since January 1966 and a continuation of the downward trend in inflation. One of the Fed's favored inflation measures, the chain weighted core CPI, now stands at 0.6% Y/Y.

Capacity Utilization & Industrial Production



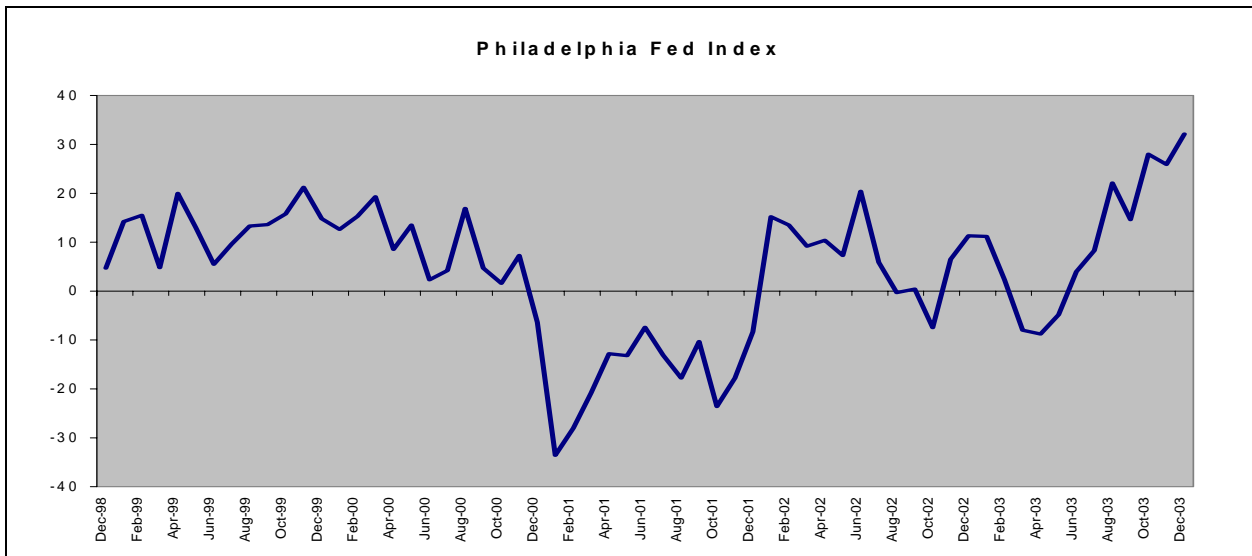
Capacity utilization increased to 75.7% in November from 75.1% in October and 75.4% a year ago. The utilization rate has recovered from the lows experienced in June of 2003, but still shows a significant amount of slack in the economy. As the Fed has stated, this slack in the economy should allow for the Fed to be “accommodative” for a “considerable period”.



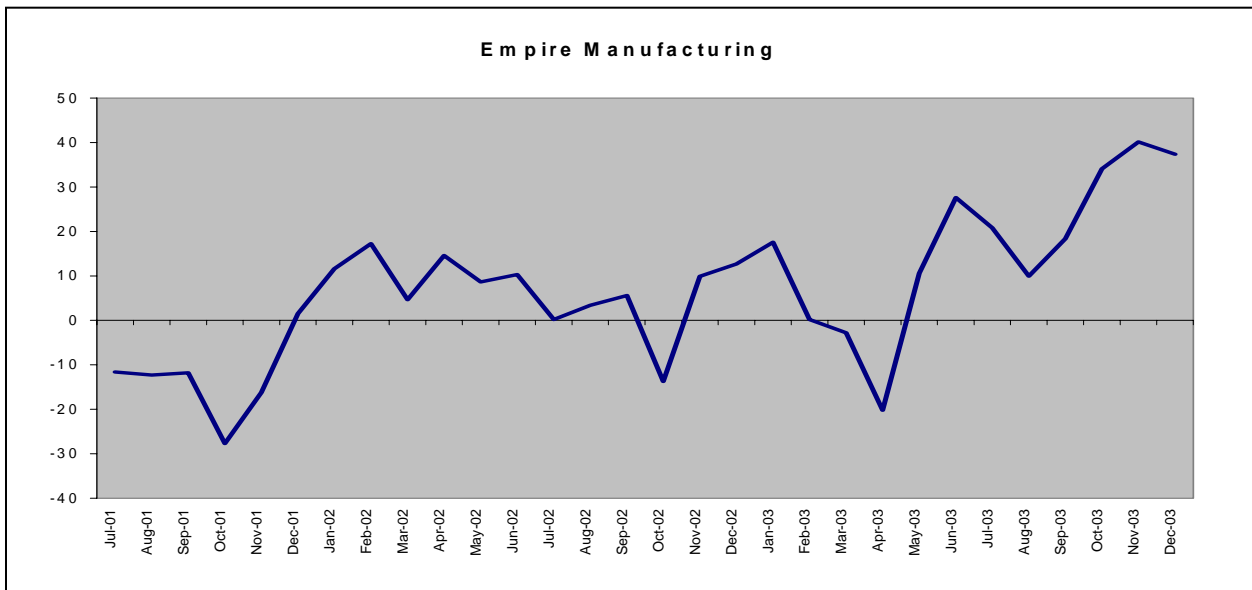
Industrial production grew 0.9% M/M and 1.5% Y/Y in November. November represents the fifth straight month of positive M/M growth and a reversal of the negative Y/Y growth experienced earlier this year. The production of business equipment was a significant contributor to growth, growing 1.7% M/M and 2.9% Y/Y. Industrial production needs to accelerate to 3% Y/Y growth and maintain that growth for all of 2004 to reach the absolute levels experienced in 2000.

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Philadelphia Fed & Empire Index



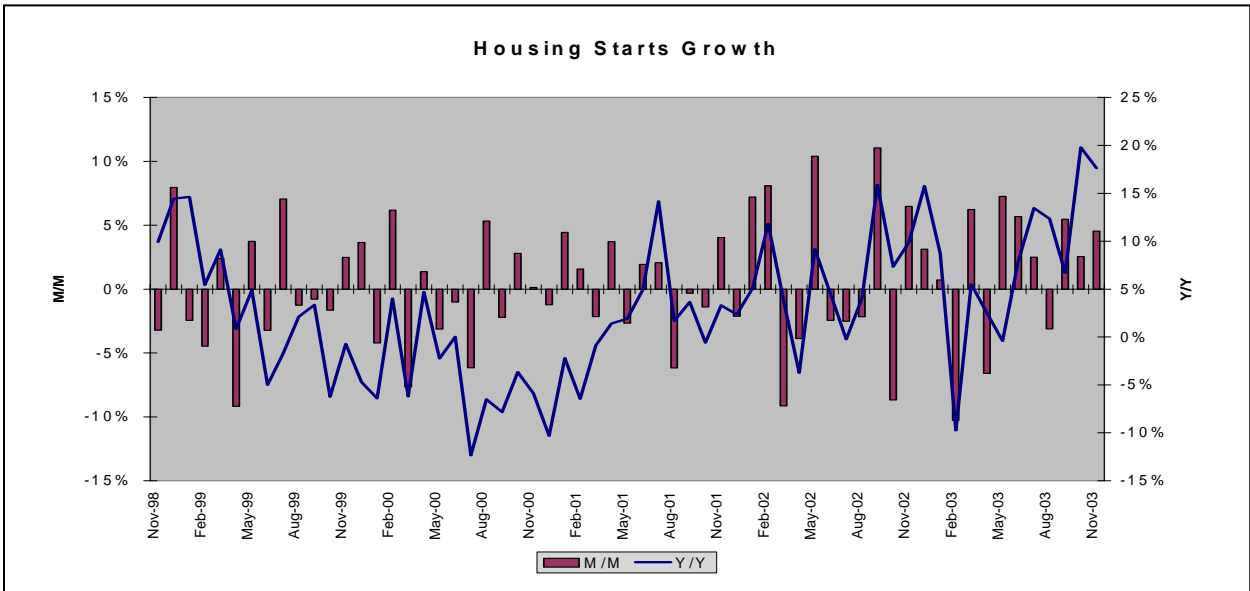
The Philadelphia Fed Index increased to 32.1 in December from 25.9 last month and 11.3 a year ago. It has been ten years since this index has reached these levels. New orders jumped from 20.8 in November to 41.8 in December and employment increased dramatically to 21.9 from 3.3 last month. Prices paid increased from 24.9 to 31.4 this month while prices received only increased from 3.4 to 5.5. The rebound in manufacturing surveys largely reflects an inventory rebuild.



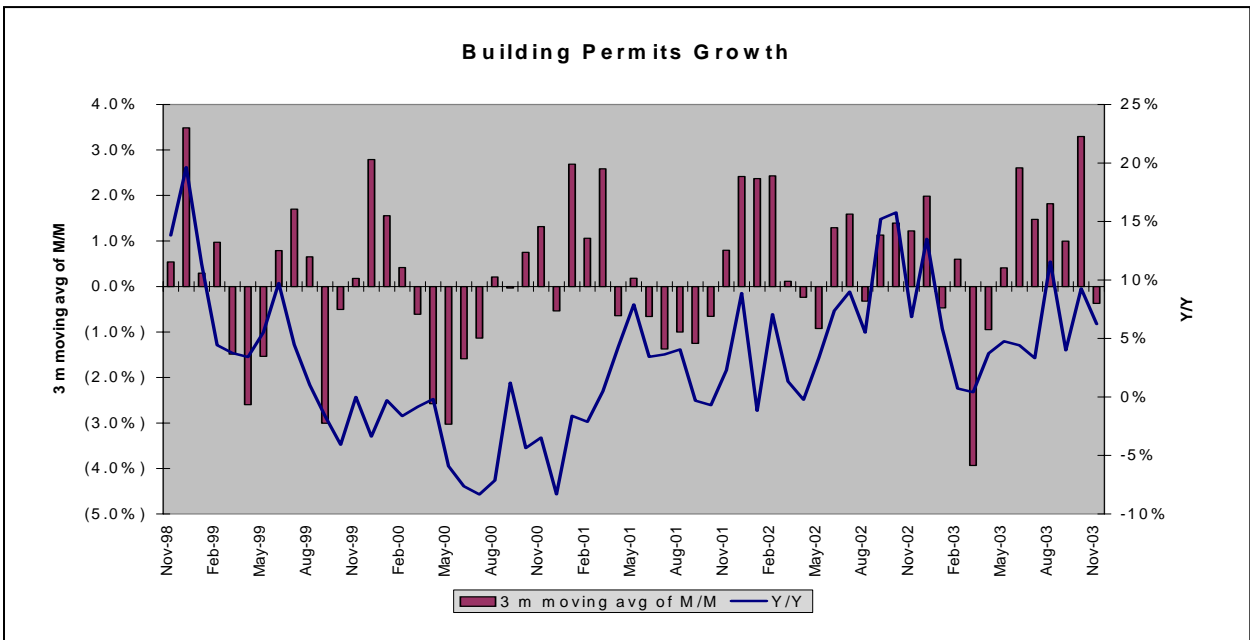
The Empire Manufacturing Index decreased to 37.4 in December from 40.1 in November, but is up from 12.7 a year ago. New orders dropped from 40.5 in November to 31.2 in December. Meanwhile, the employment component improved slightly to 12.5 from 9.3 last month and -12.9 a year ago.

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Housing Starts & Permits



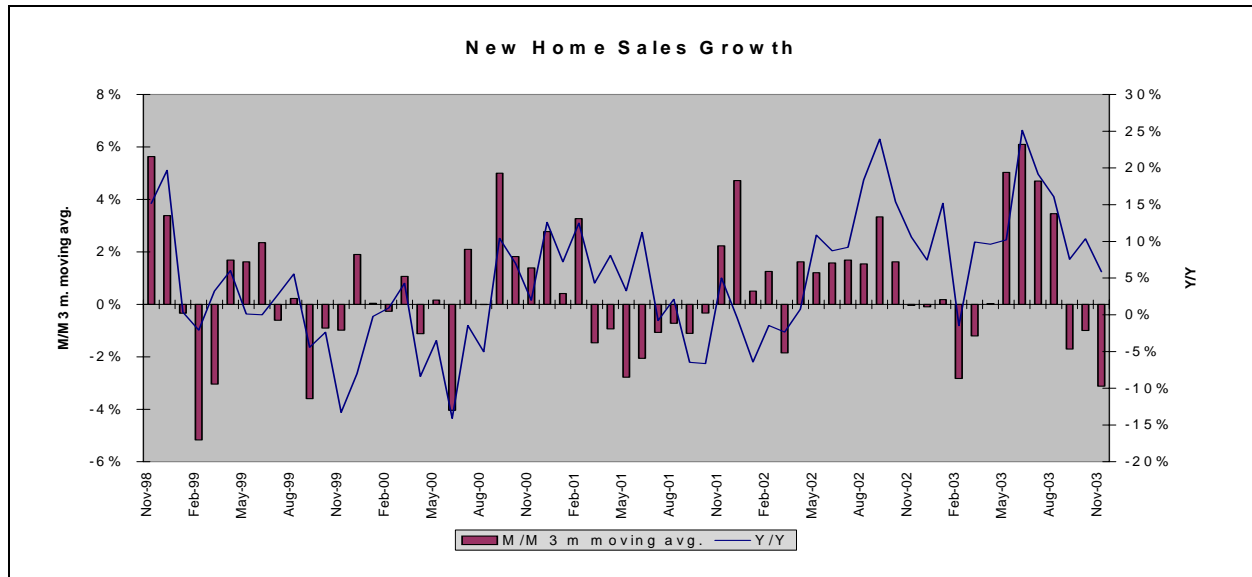
Housing Starts reached 2.07 million in November, up 4.5% M/M and 17.6% Y/Y. The Y/Y growth has fallen off its peak of 19.8%, but as one can see from the five year chart above this series is quite volatile. Historically low mortgage rates appear to continue to entice people to build homes.



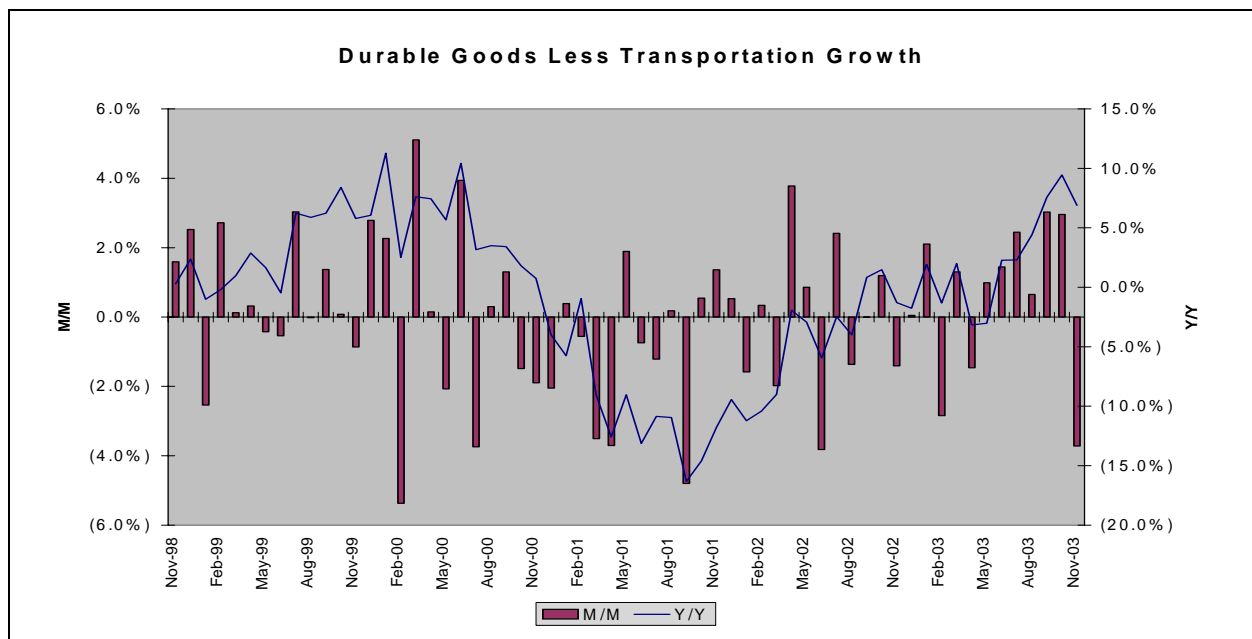
Building Permits were down to 1.87 million in November, down 5.4% M/M and up 6.2% Y/Y. The weaker growth of permits versus starts may portend an eventual slowdown to the housing market. Building permits need to grow 1.8% M/M in December to keep the Y/Y growth positive because of the difficult comparisons to December 2002.

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New Home Sales & Durable Goods



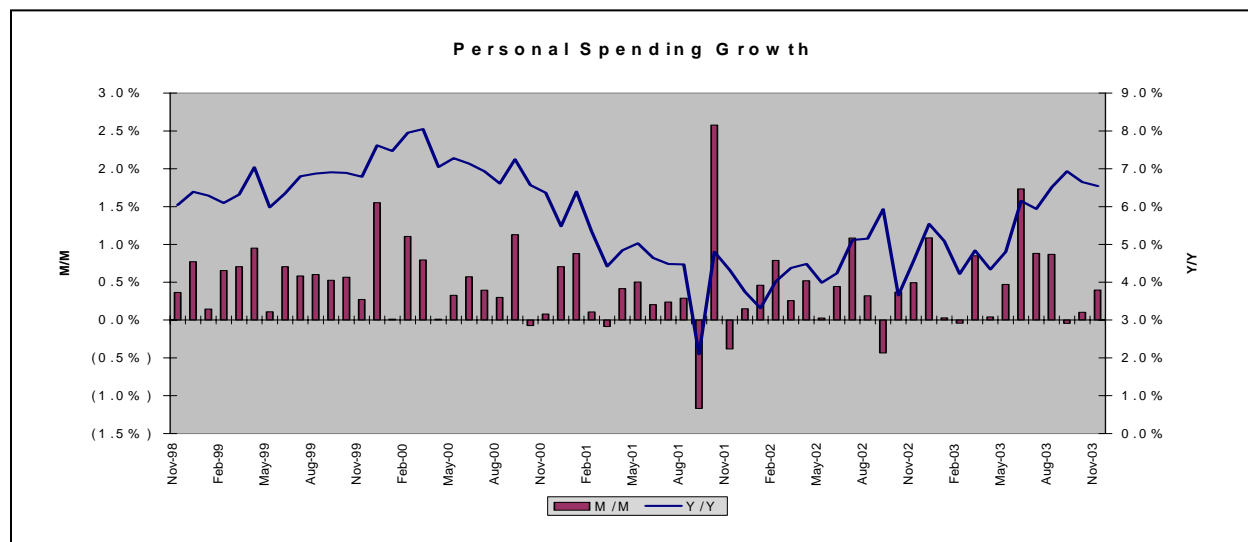
New home sales decreased for the third straight month, declining 2.4% M/M in November while the Y/Y growth slowed to 5.9%. The rate of new home sales has fallen to 1.082 million, down 10% from the peak reached in June of 2003. The median price of new homes has reached \$209 thousand, up 11% M/M and 15% Y/Y.



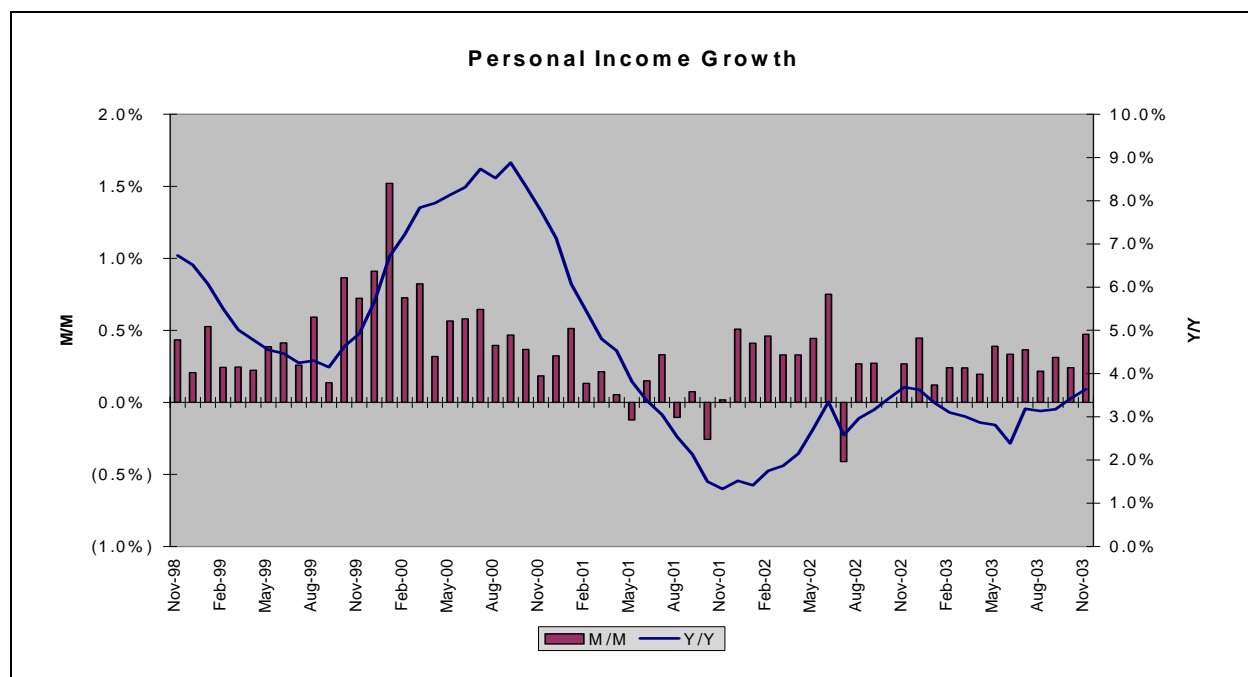
Durable goods orders less transportation were down 3.7% M/M in November, but still up 6.9% Y/Y. November's fall comes after two straight months of 3% M/M growth. Through November, 2003 is only up 2.9% over 2002, mostly caused by a 9.8% increase in orders of computers and electronic products. However, this strong growth trend is showing some weakness with November computers and electronic product orders declining 10.8% M/M.

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Personal Income & Personal Spending



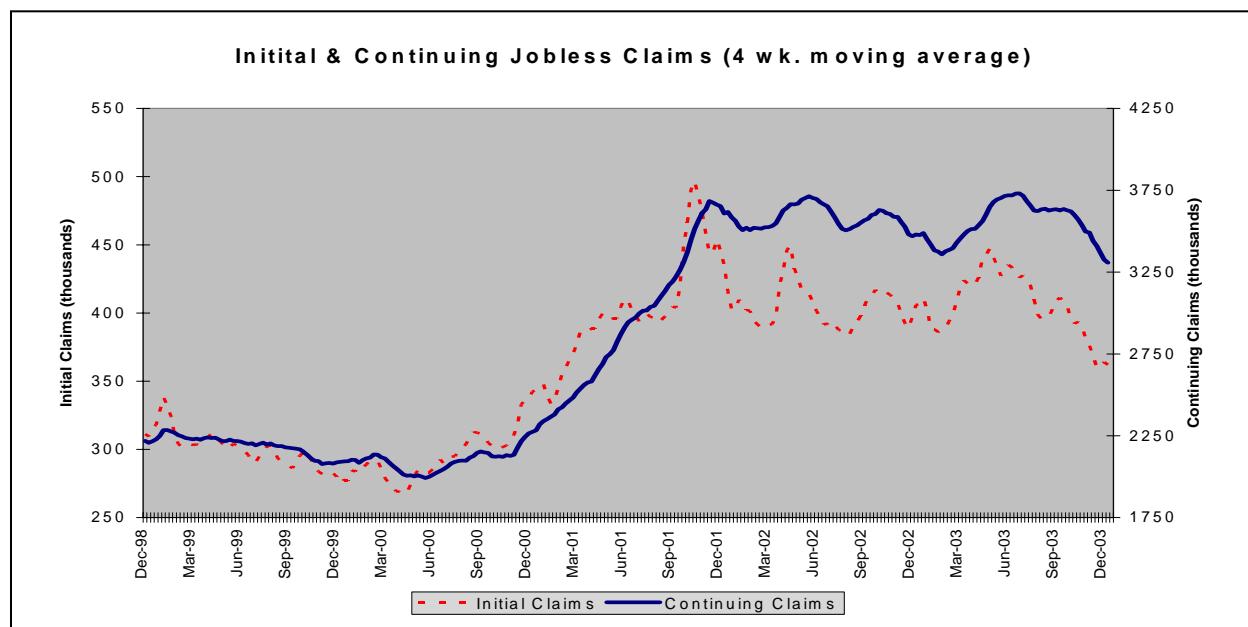
Personal spending grew 0.4% M/M and 6.5% Y/Y in November; below expectations of 0.7% for M/M growth. The largest growth in spending came from expenditures on durables with 1.1% growth this month. **The core PCE deflator also showed a slight decline of 0.03% M/M and increased 0.8% Y/Y; giving more evidence that deflationary pressures continue in the economy.**



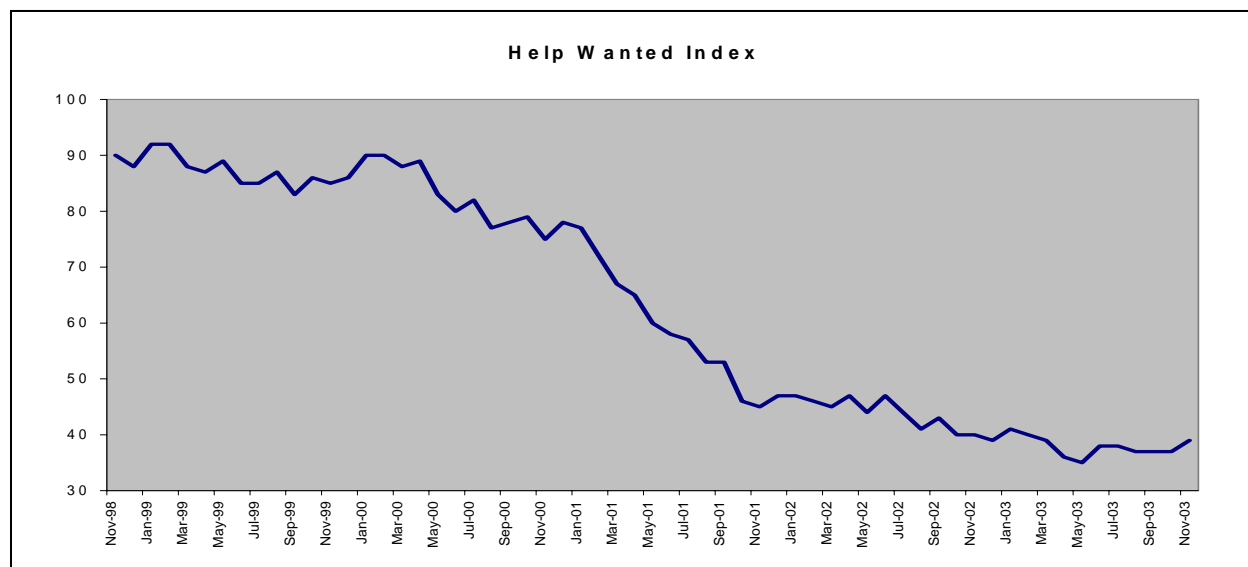
Personal income grew 0.5% M/M and 3.6% Y/Y in November. Despite personal income increasing 0.5% this month, personal spending, discussed above, only increased 0.4%. Personal income has experienced consistent and stable growth since the summer of 2002 due to transfers from government.

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Unemployment



Initial claims decreased to 353k for the week ending 12/19 from 354k last week and decreased from 392k the year before. Continuing claims decreased to 3,269k for the week ending 12/12 from 3,307k the previous week and decreased from 3,487k a year ago. As the graph above shows, continuing claims data is following the downward trend in initial claims. However, the decrease in claims has not been robust enough yet to signal strong job creation.



The Help Wanted Index came in slightly above expectations at 39 for the month of November. This index has been stable at current levels for most of 2003 after experiencing a strong downward trend starting in May of 2000. This data suggests that the sharp decline in gross job creation or hiring has stabilized.

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Key Dates This Week

Date	Indicator	Expectation	Previous
12/31	Initial Jobless Claims (DEC 27)	350k	353k
12/31	Continuing Jobless Claims (DEC 20)	NA	3269k
1/02	ISM Manufacturing (DEC)	61.0	62.8
1/02	ISM Prices Paid (DEC)	63.5	64.0