

Economic news worsened this week, with the latest reports on manufacturing turning negative and the composite leading economic index slipping further into recession territory. The Fed reduced the federal funds rate by 75 basis points to 2.25%, as expected.

Industrial production fell 0.5% in February and is little changed on balance since last June. Output was up 0.1% in January. The February decline was the first since last October, when the index declined by 0.6%. Compared with a year earlier, industrial production was up just 1.0%.

Manufacturing output fell 0.2% after no change in January, as most categories posted declines and motor vehicle assemblies fell to the lowest level in ten years. Utility output fell by 3.7%. Total capacity utilization fell below 81% for the first time since late 2005.

Midwest industrial production decreased 0.1% in January, according to the Federal Reserve Bank of Chicago. Production declined in the auto and steel sectors and increased in the machinery and resource sectors. Regional production is little changed from November, but remains below the April 2007 level.

Surveys of manufacturers indicate that activity has continued to decline in the Northeast since February. The Philadelphia Fed manufacturing index improved modestly in March due to better reports on shipments, but remained consistent with declining activity. Expectations also improved, but remained slightly negative.

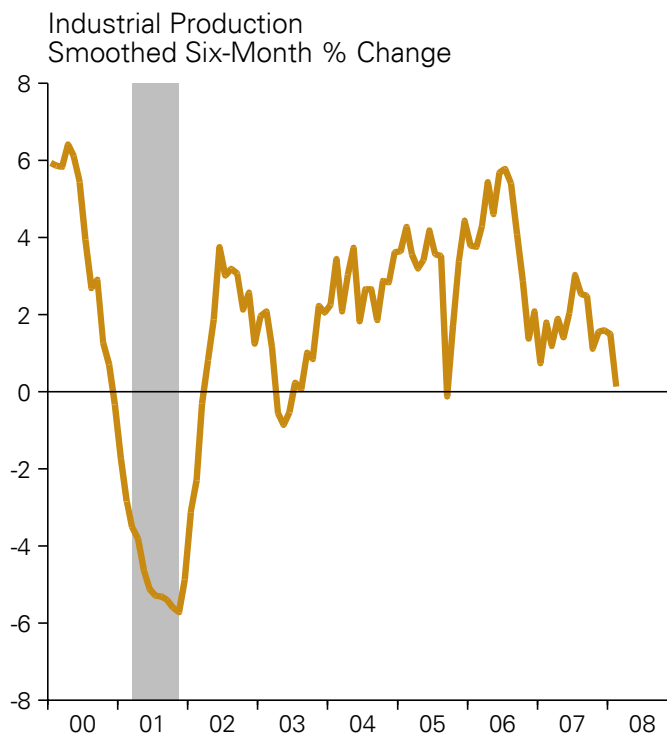
The Empire State Manufacturing Survey conducted by the Federal Reserve Bank of New York deteriorated significantly from February to March, falling to the lowest reading in the seven-year history of the survey. Reports of shipments were little changed. Reports of new orders were less negative.

The composite leading economic index published by the Conference Board posted its fifth consecutive monthly decrease in January. Five of the ten components contributed to the decline. The smoothed six-month rate of change fell to -2.6% – the fastest pace of decline since April 2001. The 2001 recession began in March 2001.

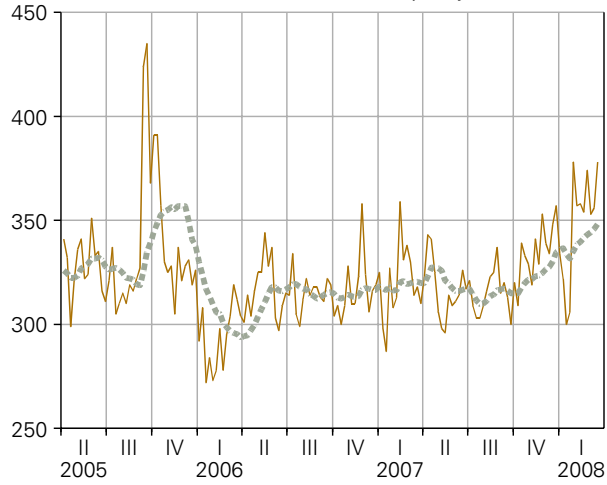
Economic news worsened this week, with the latest reports on manufacturing turning negative and the composite leading economic index slipping further into recession territory. The Fed reduced the federal funds rate by 75 basis points to 2.25%, as expected.

The Federal Reserve announced another reduction in the federal funds rate target at its March 18 meeting, trimming the benchmark rate by 75 basis points to 2.25%. The Fed has cut its target rate by a total of 300 basis points since last September.

Our estimate of the equilibrium level of the funds rate in the fourth quarter was approximately 2.50%, meaning that the funds rate is probably still on the high side of neutral, considering the deterioration in economic conditions this year.



Initial Claims for Unemployment Insurance
Thousands Per Week, Seasonally Adjusted



U. S. Dollar Exchange Rate
FRB Major Currency Index, 1973 = 100



Price of Oil
West Texas Int, \$/bbl



Price of Gold
London PM Fixing, \$/oz



S&P 500 Stock Prices
Daily Close, Index 1941-43 = 10



Mortgage Loan Originations
MBA Purchase Index 3/16/90=100 SA

