

FOMC DECISION

A look at the US economy in April

- The Fed meets for the FOMC meeting on May 9. There is consensus expectation of unchanged interest rates in the US, given still mixed economic trends. It will likely continue to acknowledge the softening in growth, while keeping an eye on inflation.
- Growth indicators strongly suggest cooling off in the US economy. Q1 2007 GDP figures and housing market data have slowed down. The labour market report for April also showed an across the board cooling off in employment indicators. However, survey indicators still paint a mixed picture. Inflation too, does not give a clear signal. While core inflation has come off, headline inflation has risen. The table below shows trends in the key economic indicators in the U.S. over the last month (*Figures in red denote softening in comparison with the previous month, figures in blue show strengthening from the previous month, unchanged figures are denoted in black*).

Indicator	For period	Latest Prior		Remarks
		Latest	Prior	
Prices				
Core personal consumption expe. (PCE) (% , M-o-M)	MAR	0.0	0.3	Core readings for April were encouraging. While core PCE remained unchanged from the previous month, the pace of increase in core-CPI inflation slowed down to 0.1%. Overall CPI, however, showed a rise.
Consumer price index (% , M-o-M)	MAR	0.6	0.4	
Core CPI (% , M-o-M)	MAR	0.1	0.2	
Housing indicators				
Housing starts ('000s)	MAR	1506	1525	Sluggishness in the housing market was visible across major indicators. While housing starts and new home sales softened over the previous month, existing home sales were unchanged. The drop in S&P/CS home price index accelerated in February to 1% Y-o-Y, from 0.2% Y-o-Y in January.
Existing home sales (mm)	MAR	6.7	6.7	
New home sales ('000s)	MAR	836	848	
S&P/CS composite 20 Home price (% , Y-o-Y)	FEB	(1.0)	(0.2)	
Survey indicators				
Philadelphia Fed.	APR	0.2	0.2	The outlook is mixed for business confidence indicators. While ISM manufacturing showed strength in April, Philly Fed stayed unchanged and Chicago PMI softened. The U Michigan consumer confidence report showed a cooling off from the previous month too.
Chicago PMI	MAR	62.9	61.7	
ISM manufacturing	APR	54.7	50.9	
University of Michigan consumer confidence	APR	85.3	88.4	
Real activity				
GDP annualized	Q1	1.3	2.5	Cooling off in the US economy is becoming increasingly evident. GDP for Q1 2007, grew at a below trend rate of 1.3%. It slowed down by more than a percentage point from the previous quarter. Industrial production slowed too, though retail sales still reflect some buoyancy.
Retail sales (% , M-o-M)	MAR	0.5	0.1	
Industrial production (% , M-o-M)	MAR	(0.2)	0.8	
Labour market				
Change in non-farm payrolls ('000s)	APR	88	177	The labour market reflected a slowing down, with additions to non-farm payrolls at their lowest in over two years. The unemployment rate and average hourly earnings also slowed down. The cooling off in the labour market is in line with the slow growth seen in GDP figures.
Unemployment rate	APR	4.5	4.4	
Average hourly earnings (% , M-o-M)	APR	0.2	0.3	

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RATING INTERPRETATION

Buy	Expected to appreciate more than 20% over a 12-month period	Reduce	Expected to depreciate up to 10% over a 12-month period
Accumulate	Expected to appreciate up to 20% over a 12-month period	Sell	Expected to depreciate more than 10% over a 12-month period
Trading Buy	Expected to appreciate more than 10% over a 45-day period	Trading Sell	Expected to depreciate more than 10% over a 45-day period

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