

# FOMC DECISION

## *A look at the US economy over the previous month*

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- ♦ **The Fed's policy decision is due at 11:45 pm (India time) today, September 18.** The Fed is widely expected to cut rates – the only remaining speculation is on whether it will cut the Fed funds rate by 25bps or 50bps. The Fed Funds futures put a higher probability to a 50bps cut, though the probability of a 25bps cut is fast rising.
- ♦ At the time of the unscheduled cut in discount rate a month ago, the Fed had highlighted the risks to a slowing down in overall economic activity. A number of data points released since do point towards some cooling off – particularly in the non-farm payroll numbers. However, survey indicators paint a mixed picture. Inflation has been stable over the previous month.
- ♦ **The Fed will likely continue to highlight the overall risks emanating from the continued correction in the housing market and its impact on the financial markets. It could also note the coming off in yearly growth in CPI inflation, though capacity utilization remains elevated.**
- ♦ 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		Remarks	
	Latest	Prior		
<b>Prices</b>				
Core personal consumption expenditure (PCE) (% M-o-M)	JUL	0.1	0.2	Core-CPI, which reflects underlying inflationary pressures in the economy, softened further in May to 0.1% M-o-M. However, the headline inflation number rose sharply by 0.3 percentage points, reflecting higher gasoline costs. Core PCE data has not been revised since our last review of the US economy
Consumer price index (% M-o-M)	JUL	0.2	0.2	
Core CPI (% M-o-M)	JUL	0.2	0.2	
<b>Housing indicators</b>				
Housing starts ('000s)	JUL	1381	1470	The housing market will continue to remain a source of concern for the Fed. All major housing indicators have softened since our last review, with the exception of existing home sales that were unchanged. Rising defaults among borrowers are believed to be hampering the recovery of this market
Existing home sales (mn)	JUL	5.8	5.8	
New home sales ('000s)	JUL	870	846	
S&P/CS composite 20 Home price(% Y-o-Y)	JUN	(3.5)	(2.9)	
<b>Survey indicators</b>				
Philadelphia Fed.	AUG	0.0	9.2	Business survey indicators look largely buoyant. All three major business survey indicators - Philly Fed, Chicago PMI and ISM manufacturing gained since our previous review of the US economy. However, U Michigan - the consumer confidence survey looks sluggish. It shed 4.6 points, suggesting that consumer outlook is not optimistic.
Chicago PMI	AUG	53.8	53.4	
ISM manufacturing	AUG	52.9	53.8	
University of Michigan consumer confidence	SEP(P)	83.8	83.4	
<b>Real activity</b>				
GDP annualized	Q2(P)	4.0	3.4	The real activity data reflects a mixed picture. On the one hand (a) GDP growth cooled off to the lowest since Q4 2002 and (b) industrial production stayed flat in May from the previous month. On the other hand, retail sale rose the most in over an year, suggesting that consumer spending continues.
Retail sales (% M-o-M)	AUG	0.3	0.5	
Industrial production (% M-o-M)	AUG	0.2	0.5	
<b>Labour market</b>				
Change in non-farm payrolls ('000s)	AUG	(4.0)	68	The US labour market report for May reflected signs of strength. Non-farm payroll numbers almost doubled, while the unemployment rate remained steady. Hourly earnings also rose marginally, reflecting tightening.
Unemployment rate	AUG	4.6	4.6	
Average hourly earnings (% M-o-M)	AUG	0.3	0.3	

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## Recent Research

Date		Title
13-Sep-07	<b>IIP Indicator release</b>	Cause for concern?
03-Sep-07	<b>Economy Update Macro Picture</b>	Overall healthy picture
29-Aug-07	<b>Economy Update</b>	Release calendar for September
24-Aug-07	<b>Economy Update</b>	Strong ECB flows
22-Aug-07	<b>Macro Meter</b>	Policy tightening, Depreciating rupee
21-Aug-07	<b>Economy Outlook</b>	

## Distribution of Ratings / Market Cap

### Edelweiss Research Coverage Universe

	Buy	Accumulate	Reduce	Sell	Total
Rating Distribution*	97	46	23	6	181

\* 7 stocks under review / 2 rating withheld

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	76	71	34

## Rating Interpretation

Rating	Expected to
<b>Buy</b>	appreciate more than 20% over a 12-month period
<b>Accumulate</b>	appreciate up to 20% over a 12-month period
<b>Reduce</b>	depreciate up to 10% over a 12-month period
<b>Sell</b>	depreciate more than 10% over a 12-month period

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