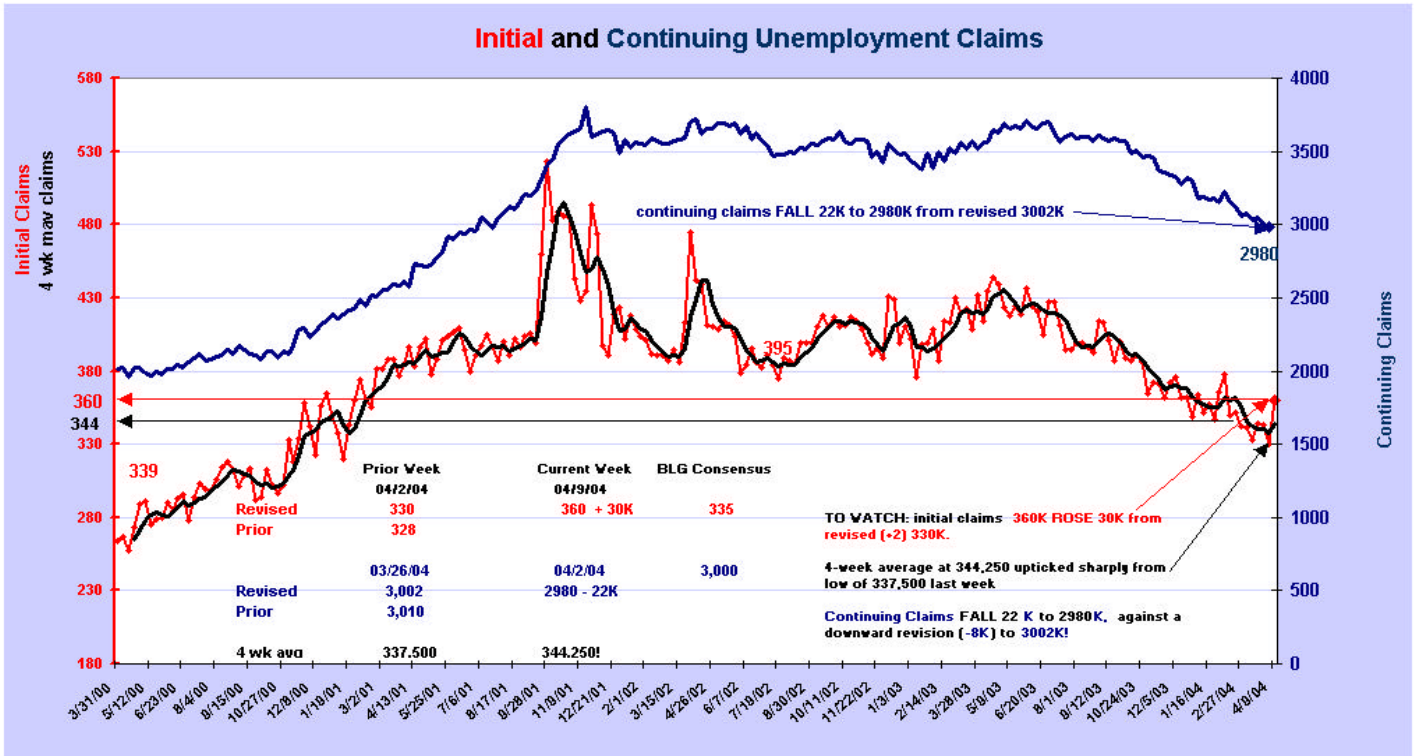




Data Review: Claims, NY Empire Survey, Philly Fed



The labor report of April 2, 2004 that showed a very sharp increase in job creation accelerated the Bond Market's apprehensions that its salad days were over. Basically, the 10 year moved some 70 basis points in the interval and the implicit threat to the 'carry trade' became quite marked. That said, however, the data this week contained apparently contradictory information. The bond market hit a high (in yield) on Thursday but backed off on Friday to where it had been on Tuesday. Excluding Monday's damage, the last four days of the week put little new into the equation. This may be because the data flow beginning Monday (April 12) turned out to be quite contradictory and ambiguous.

The Initial Claims data highlight the 'misdirection' play that occurred when claims rose some 30K from the revised downward figure of the prior week of 330K. Still, the basic trends, judging by the 4 week average and the continuing claims series, seems on course to a tighter labor market in future. This raises fundamental issues for the Fed. Just how much 'slack' is there in the economy and how fast should the Fed lose patience?

While, the market thinks that the Fed will be recalculating both the timing and the path to adjustment for "normalization" of monetary policy, surely the Fed will be sufficiently "patient" to see whether Job Creation is now on a 300K plus path. Recent price reports have suggested that the rate of inflation is about 1.5%, clearly showing that the bogeyman of deflation is not a current threat but that the Fed must stay on its toes in adjusting the Federal Funds rate to a more 'appropriate' level. It is also unclear from today's "Claims Data," is whether this is a real change or just a statistical aberration caused by the short holiday week around Easter.



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Reserve Bank Survey Data

The NYFRB and PHLRB published their data on Thursday and the data seemed mutually reinforcing from the general index, new orders, shipments standpoints. Both improved over the prior month reports, however, the New York survey seemed much stronger, evidencing rising prices paid and received while the current 'labor variables' were much more positive. The Philly survey

