

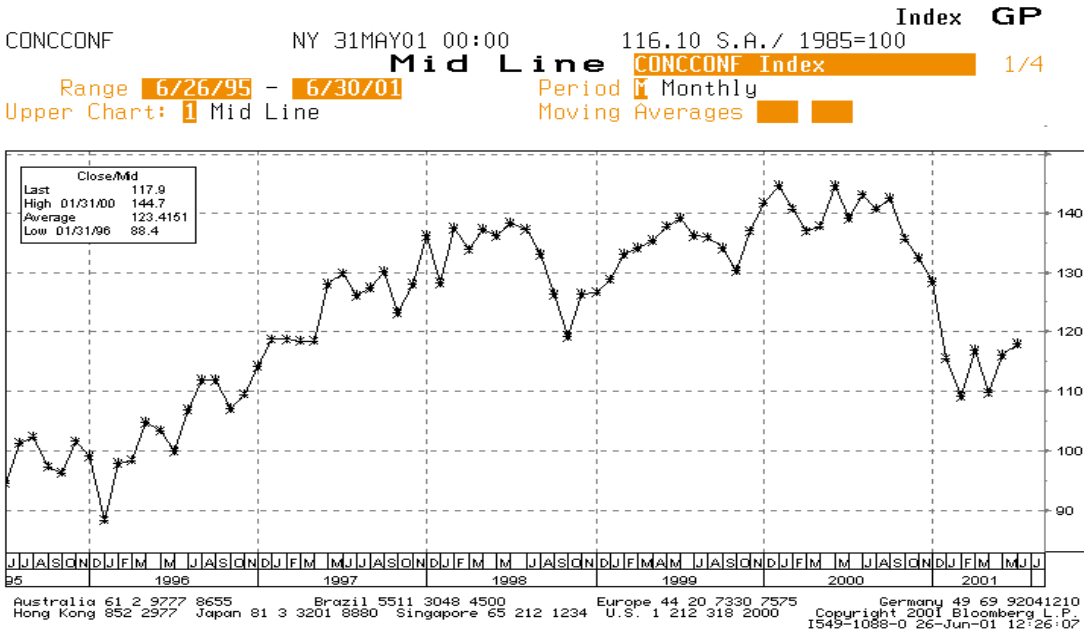
ECOMENTARYÔ

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Data Driven Fed MORE Likely to Make Only a Tempering Move

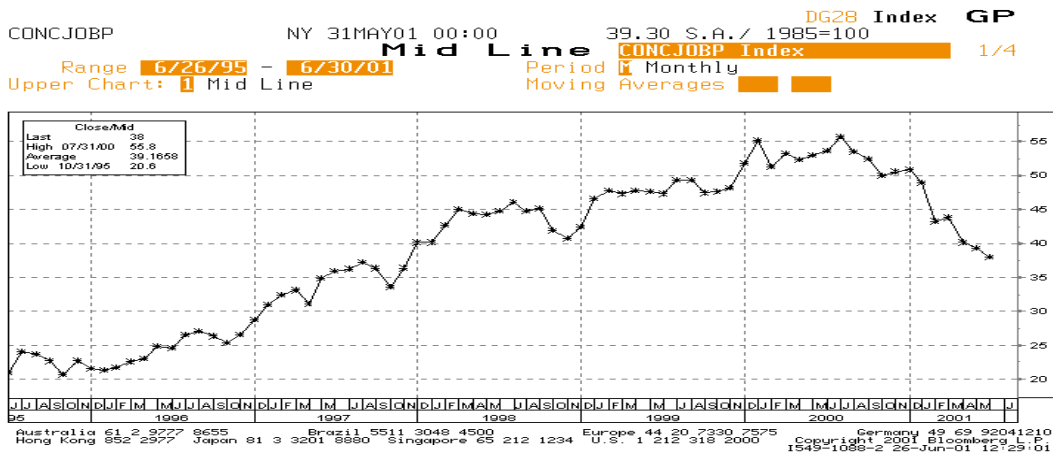
Data drive decisions at the Greenspan Fed and the day-to-day data flow will be important at tomorrow's FOMC meeting. Today, the consumer confidence numbers created a surprise for some of us who have found it difficult to believe that the consumer would "hang in" this long. The surprise is two fold—confidence didn't fall; it rose! The data drive us to change our forecast for the FOMC.

Consumer Confidence

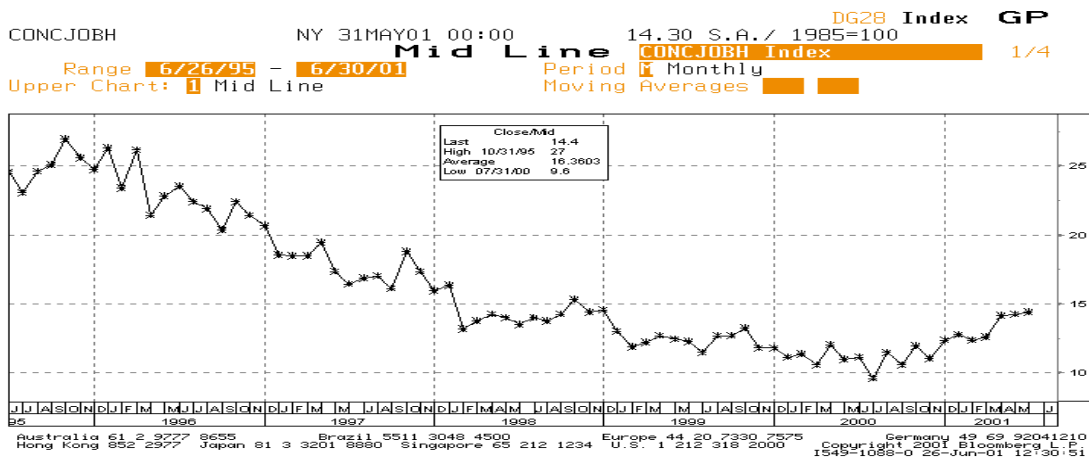


At the same time, the Conference Board "jobs" measures (easy and hard to get) indicate that unemployment may still rise, in spite of the pleasant surprise, earlier in the week, of a fall in initial job claims (from 434,000 to 400,000). The CB reports two measures: those reporting jobs are plentiful and those saying jobs were harder to find. Both measures show a kind of 'weakening' that suggest unemployment will yet rise.

Jobs Plentiful



Jobs Harder to Find



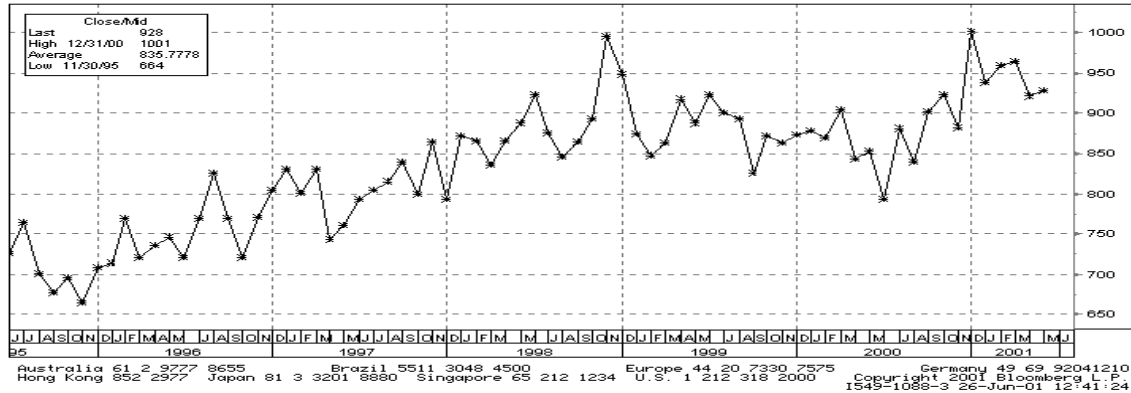
In addition to the Consumer Confidence numbers, both Durable Goods and New Home sales add to the 'positive' data stream that may restrain the Fed tomorrow from moving a full 50 basis points. Housing Sales numbers slipped some from the prior month, but still continue to show the consumer "hanging in," no doubt responding to the favorable conditions in the mortgage market created by 250 basis points of Fed easing since early January. This has got to produce confidence in some FOMC members that the Fed need not make another huge move.

The durable goods numbers rebounded from the prior month decline. While this is a noisy series that makes month-to-month jumps that make it difficult to discern trends in the short run, there was a reversal from last month's sharp fall. The significance of an improvement over the prior month in durable goods is that it can be read as a kind of bottoming out of the clear recession in the manufacturing sector.

Taken together with the confidence data, these spending data make a large FOMC move much more unlikely, particularly as there is evident fear that an excess of liquidity has already been created even if the economy seems to stutter.

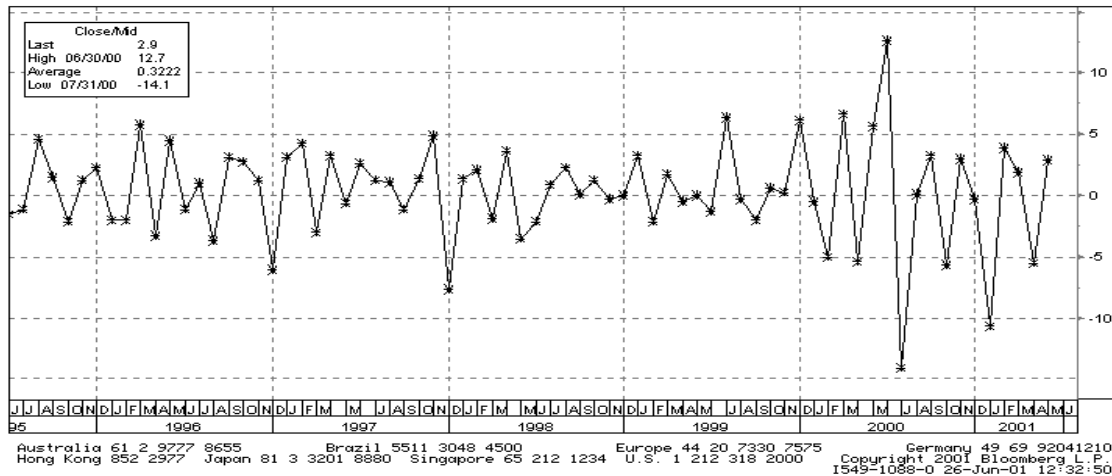
New Home Sales

GPO
 NHSLTOT NY 31MAY01 00:00 928.00 000'S SA DG28 Index GPO
 Mid Line NHSLTOT Index 1/8
 Range 6/26/95 - 5/31/01
 Upper Chart: 1 Mid Line
 Period Monthly
 Moving Averages



Durable Goods

Menu
 DGNCHNG NY 31MAY01 17:00 2.90 MIL\$,SA DG28 Index GPO
 Mid Line DGNCHNG Index 1/8
 Range 6/26/95 - 5/31/01
 Upper Chart: 1 Mid Line
 Period Monthly
 Moving Averages



The Bond market was clearly surprised by the data, as it appears that an expectation of a more vigorous move by the Fed (50 basis points) had influenced the improvement in the market in the past week. Below, we have the inter-day graph for the past 10 days on the 10-year Bond.

The data shock carried over to the Euro, suggesting that perhaps the ECB is now ready to move when it next meets on July 7th. There are other, additional indications, from Frankfurt that the pre-occupation with the possibility of wage inflation, particularly in Germany, may not be as strong as it was at the last meeting of the Governing Council of the ECB. If that is true, then one might suspect that the ECB would begin to be less worried about meeting its inflation concerns next year and now have room to concern itself with the so-called Second Pillar. Some observers view the likelihood of a move on July 7 as quite high. That may explain the sudden fancy the market has taken to the Euro today.

US 10-Year Government Bond

GIP 10 DG28 Govt GIP
 Screen saved as C:\My Documents\ECOM2001\Graphs June\10 year bond chart.gif
 10-DAY CHART BGN T 5 02/15/11 19:30-17:30 12:37
 Hi 99-04+ Lo 98-14 Op 99-02+ #Ticks 2720 12:37 ↑ 98-14+ - 18+



Spot Euro

Monitoring enabled. Curncy GIP
 10-DAY CHART EUR EURO SPOT - CMPN 17:30-17:29 Trade 13:24
 Hi .8651 Lo .8584 Op .8591 #Ticks***** 13:24 ↑ .8633 +.0044



If the data drive the Fed, so should it drive forecasters, and we now must alter our forecast for tomorrow's FOMC meeting. It looks like a 25 basis point move.

The real issue may be what the FOMC says about its future views on the likelihood of recession. Some analysts have felt the risks for 2002 were very high that the Fed's ease would cause an overshoot. Perhaps, this is the time the Fed will signal that its easing path is largely done...or perhaps...the Fed will take out further insurance by not reversing the bias at this time. **We will stick with our earlier forecast that the bias stays on for now and let the data drive the next decision.**