

## MONDAY, March 3<sup>rd</sup>

■ The ISM manufacturing index fell to 50.5% in February from 53.9% in January. February's index reading indicates modest expansion in the sector. After tentative gains last year, declines have returned in new orders and production. Employment remains weak. The manufacturing sector has slipped back into essentially a no-growth mode waiting for demand to return to spur activity.

■ Construction spending gained 1.7% in January, as November and December's already-strong levels of spending were revised higher. Strong gains in construction spending continue to be driven by robust homebuilding. Residential construction leapt 2.5% in January, while non-residential or commercial building fell 0.3%. Government spending on schools and roads increased 1.0% last month. Housing continues to be the economy's bright spot, with stronger building activity over the last three months primarily in the residential segment.

■ Personal incomes rose 0.3% in January, the same gain as in December. Personal spending fell in January for the first time since September, down 0.1% on auto sales declines. Income gains are trending a bit lower due to weak labor market conditions. Although spending slipped in January, it remains solid over the last year.

## TUESDAY, March 4<sup>th</sup>

■ Motor vehicle sales have slowed considerably from last year, with two of the three major domestic automakers (Ford & GM) reducing production schedules as a result. Motor vehicle sales totaled an annual rate of 15.4 million units in February, down more than 7% from a year ago. After a strong two years, driven by zero-percent financing and big incentives, vehicle sales are expected to wane this year under an uncertain outlook and spent-up demand.

## WEDNESDAY, March 5<sup>th</sup>

■ A survey of the twelve Federal Reserve Districts, known as the beige book, showed little change in economic conditions across the country. Consumer and business spending were lackluster under the uncertainties that continue to haunt the economy. Manufacturing and employment remained weak while the residential housing remained healthy. Despite higher energy costs, price pressures were well contained. Economic growth is likely to remain subdued until after the crisis with Iraq is resolved. The beige book is compiled in preparation for the FOMC meeting and covers conditions from mid-January through early March.

● The MBA mortgage applications index jumped 10.8% to 1265.4% in the week that ended February 28. Purchase activity was up 11.9%, while refinance activity gained 10.4%. Driven by low rates, the mortgage refi boom remains in place. Despite the jump last week, purchase activity has been trending lower since July of last year.

## THURSDAY, March 6<sup>th</sup>

▼ Sales at major chain stores were anemic in February, rising just 0.8% from February a year ago, according to the Bank of Tokyo Mitsubishi tally of 78 chain stores nationwide. Harsh winter weather in many parts of the country cut into sales. Chain store sales are also expected to be weak in March because the Easter holiday falls in April.

▼ Joblessness is on the rise again, with initial claims rising by 12K to a 430K level for the week that ended March 1. Moreover, last's week's jobless claims were upwardly revised to a 418K level. The four-week moving average was up 9K to 409K, its fifth weekly gain. Claims above the key 400K level show renewed weakness in labor conditions, which does not bode well for February's employment report due out on Friday.

## FRIDAY, March 7<sup>th</sup>

▼ Labor market conditions have been described as stalled or stagnant lately, but the February employment report unequivocally shows the labor sector in steep decline. Payrolls fell by 308,000 in February, a shock really, when consensus estimates called for a slight gain. Job losses were widespread across many industries as businesses hold back hiring amid the uncertainty caused by the showdown with Iraq. The unemployment rate edged up to 5.8% last month from 5.7% in January.

### Stock Market Close for the Week

Index	Latest	A Week Ago	Change
Dow Jones	7740.03	7891.08	-151.05 or -1.91%
NASDAQ	1305.29	1337.54	-32.25 or -2.41%

## WEEK IN ADVANCE

Renewed labor market weakness has brought the Fed back into play. While chances are slim that the Fed will cut rates March 18<sup>th</sup>, fed funds futures traders priced in roughly an 84% chance of a ¼-point cut for the May 6<sup>th</sup> FOMC meeting.

Key Interest Rates	Latest	6 Mos Ago	1 Yr Ago
Prime Rate:	4.25%	4.75%	4.75%
Fed Discount:	2.25%	1.25%	1.25%
Fed Funds:	1.19%	1.81%	1.74%
11th District COF:	2.308%	2.821%	2.823%
10-Yr Treasury:	3.62%	3.98%	5.13%
30-Yr T-Bond:	4.67%	4.87%	5.54%
30-Yr Fixed (FHLMC):	5.67%	6.15%	6.87%
15-Yr Fixed (FHLMC):	5.01%	5.56%	6.37%
Adj. Rate (FHLMC):	3.76%	4.35%	5.07%
6-Mo LIBOR (FNMA)	1.336%	1.815%	2.068%

Sources: Federal Reserve, Freddie Mac, Fannie Mae, and Federal Home Loan Bank of San Francisco

- ▲ Upward pressure on interest rates
- ▼ Downward pressure on interest rates
- No pressure to change interest rates
- Newsworthy



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