

DAILY GLOBAL COMMENTARY

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Plunge in Consumer Sentiment Index Is Significant

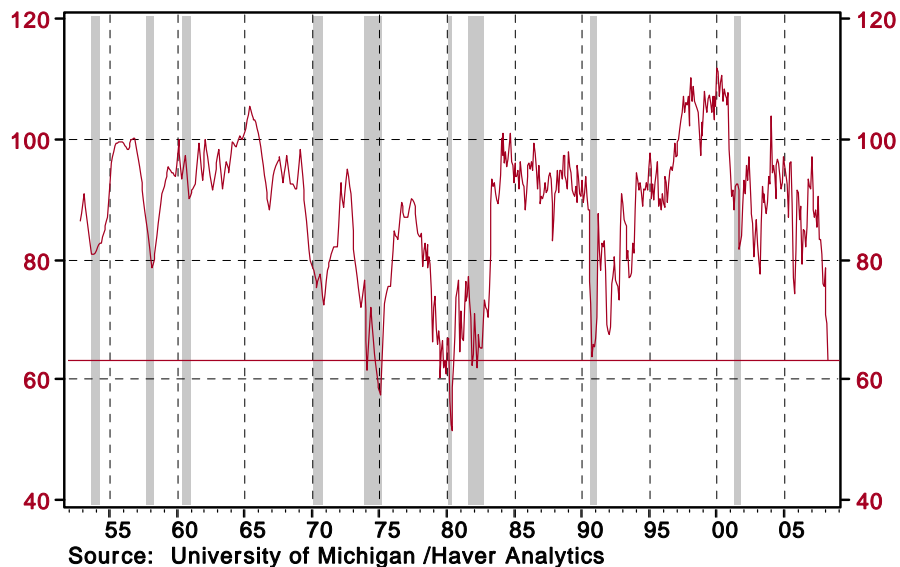
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The preliminary report from the University of Michigan shows an increasingly grim U.S. consumer outlook in April, with the overall consumer sentiment index at the lowest level since March 1982. The Consumer Sentiment Index of the U.S. fell to 63.2 in April from 69.5 in the prior month. The Current Conditions Index dropped to 78.4 from 84.2 in March, the lowest since November 1982. The Expectations Index declined to 53.4 from 60.1 in March.

Chart 1

University of Michigan: Consumer Sentiment

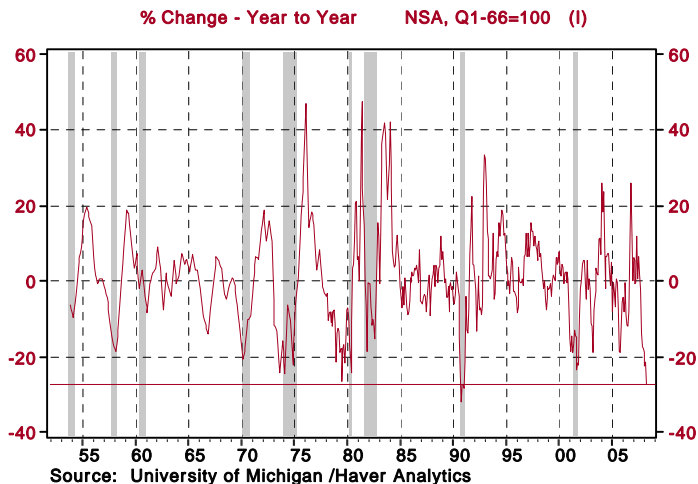
NSA, Q1-66=100 (I)



Source: University of Michigan /Haver Analytics

The Consumer Sentiment Index has dropped 23.9 points from a year ago. In the 1990-91 recession, the largest 12-month decline of this index was 30 points in October 1990. In the 2001 recession, the largest 12-month drop was 25 points in September 2001. On a percentage basis, the year-to-year decline in March was 27.44%, the second largest plunge of the index after a nearly 32.0% drop in the 1990-91 recession (see chart 2). The FOMC should be more than troubled with these readings.

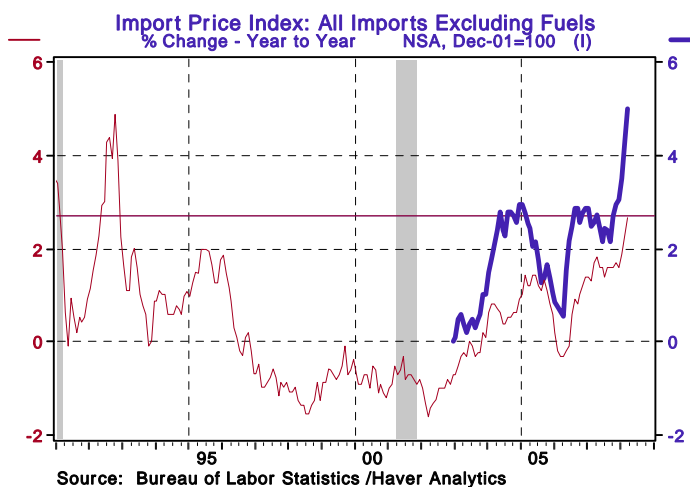
Chart 2
University of Michigan: Consumer Sentiment



The Advancing Trend of Import Prices Is Bothersome

The U.S. Import Price Index rose 2.8% in March after a 0.2% increase in the prior month. The large gain reflects a 9.1% jump in prices of imported petroleum and a 0.9% increase in prices of non-fuel imports. On a year-to-year basis, the U.S. import price index excluding fuel has moved up 5.0%, the largest gain in the short history of the index which began in December 2001. The U.S. import price index of consumer goods excluding autos rose 0.5% in March, putting the year-to-year increase at 2.7%, the largest increase since November 1992 (see chart 3). The upward trend of imported prices excluding fuel is bothersome for a Fed focused on reviving economic growth.

Chart 3
Import Price Index: Consumer Goods excluding Autos
 % Change - Year to Year NSA, 2000=100 (I)



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A large part of the reason for the notable increase in price of imported consumer goods excluding autos is the significant jump in prices of imported goods from China which rose 4.0% in March on a year-to-year basis (see chart 4). In March 2007, this index had dropped 0.5% on a year-to-year basis.

Chart 4
 U.S. Price Index of Imported Goods from China
 year-to-year change



Source: <http://www.bls.gov/mxp/>

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