

DAILY GLOBAL
COMMENTARY

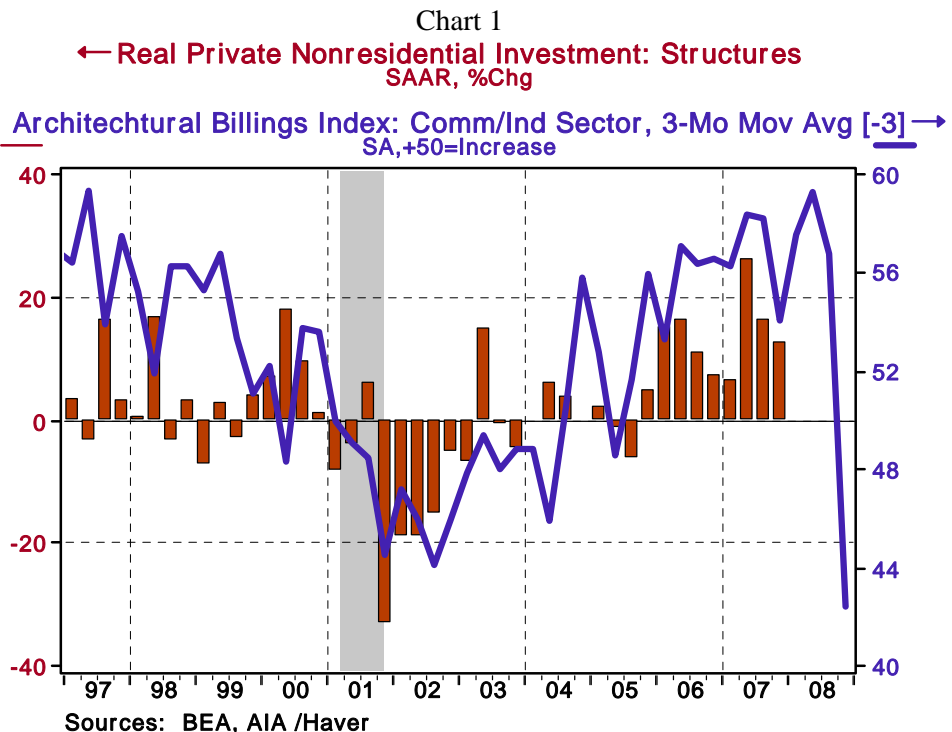
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Bearish News about Nonresidential Construction

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Consumer spending and residential investment expenditures are two components accounting for projections of weak economic growth in 2008. How about other components of GDP? Going down the list, the poor performance of profits and the sharp drop in the CEO Confidence Index bode poorly for equipment and software spending. Exports and federal government spending (state and local governments are in a tight spot) are most likely to add to GDP in the quarters ahead. Weak demand conditions imply firms are not too keen on piling up inventories. We are left with nonresidential structures, a component that has shown significant gains for nine consecutive quarters (see chart 1). The latest Architectural Billing Index suggests that non-residential investment will join the group of decliners. The overall Architectural Billings Index fell to 39.7 in March, the lowest on record for this series that commenced in November 1995. The index contains residential and nonresidential components. The story about the housing sector is widely known; the residential sector is most likely to show positive momentum only in early-2009. The 3-month moving average of the index measuring architectural billing activity in the nonresidential sector dropped to 38.3 in March, the lowest reading in the short history of the series. The Architectural Billings Index is a leading indicator of construction activity. The index according to the American Institute of Architects has a nine to twelve month lead with respect to construction activity. The Architectural Billings Index of the commercial/industrial sector (advanced 3 quarters) closely tracks the non-residential structures component of GDP (see chart 1) and is indicative of notable weakness in the rest of the year.



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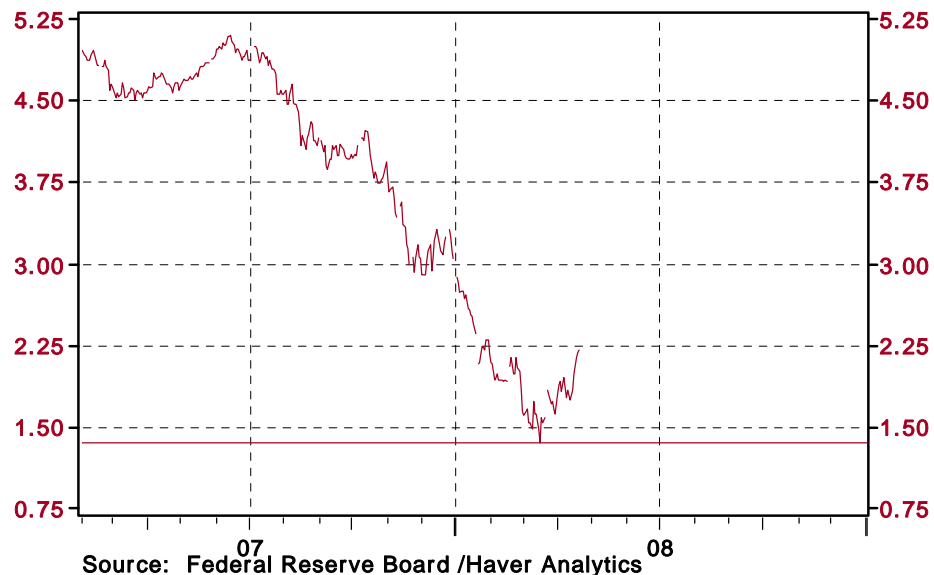
The Bond Market in the Past Month

The FOMC is most likely to lower the federal funds rate to 25 bps to 2.00% on April 30. We are also of the opinion that the Fed may pause after this action, barring unexpected developments in financial markets. The 2-year U.S. Treasury note yield has risen from a low of 1.35% on March 17 to 2.24% on April 22 and was trading at 2.19% as of this writing. (On Sunday, March 16, was the weekend announcement of the creation of the PDCF after the Bear Stearns crisis.) This rapid increase in yield has occurred in the face of bearish economic news -- significant drop in nonfarm payrolls, higher unemployment rate, weak auto and non-retail sales, decline in housing starts and permits, upward trend of jobless claims, a loss in momentum conveyed in the national ISM report for March and Federal Reserve Bank of Philadelphia's factory survey of April, decline in consumer sentiment measures, and the drop in home sales and prices and the elevated level of unsold inventories of homes. The most likely message from this movement is the possibility of the Fed pausing after April 30.

Chart 2

2-Year Treasury Note Yield at Constant Maturity

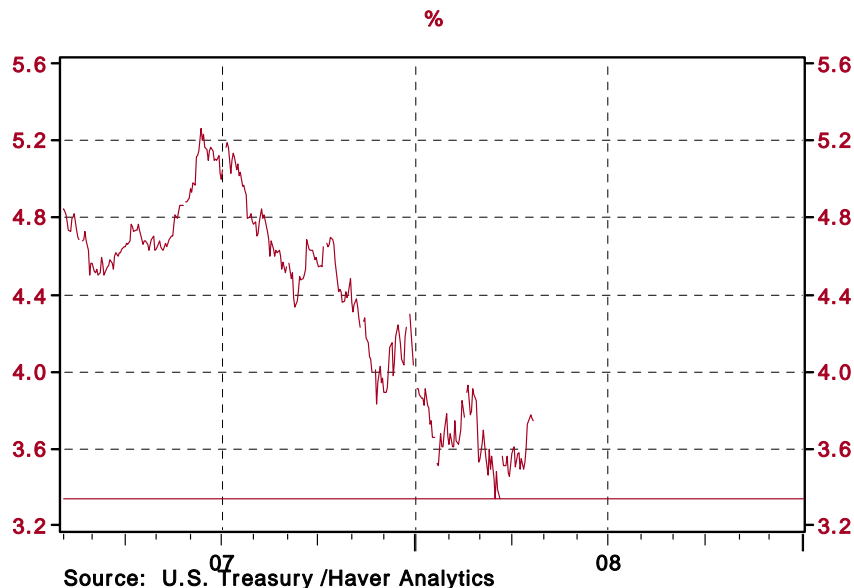
% p.a.



At the longer end, the 10-year U.S. Treasury note yield hit a low of 3.34% on March 17, closed that week at 3.34% but has since moved on. The 10-year U.S. Treasury note as of this writing was trading at 3.74%. It has closed between 3.74% and 3.77% during the four trading days ended April 22.

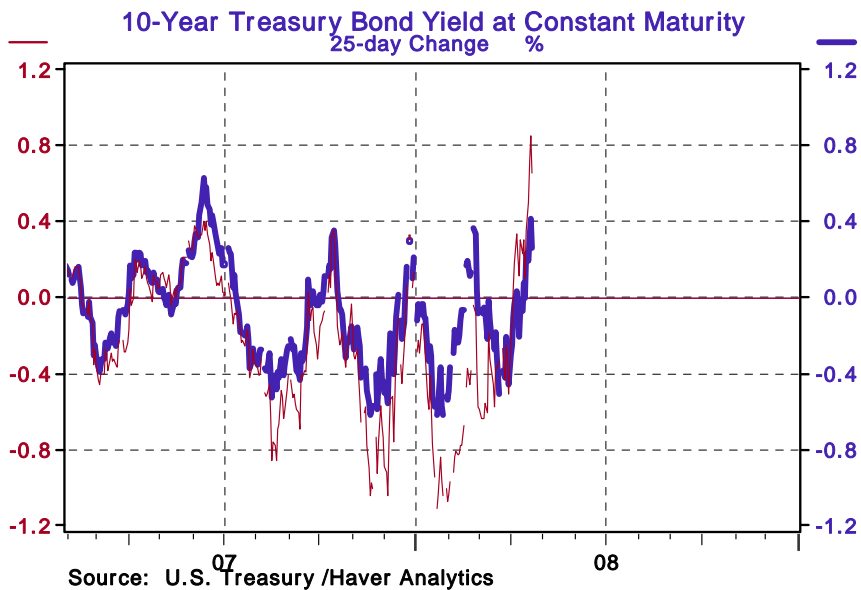
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Chart 3
10-Year Treasury Bond Yield at Constant Maturity



In the 25 trading days between March 17 and April 22, the swings at the short-end have been larger than at the long-end (see chart 4). We are watching these moves closely, particularly on April 30 when the Fed publishes its policy statement and on May 2 when the April employment report is published.

Chart 4
2-Year Treasury Note Yield at Constant Maturity
 25-day Change %



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