FEDERAL RESERVE BANK *of* ATLANTA

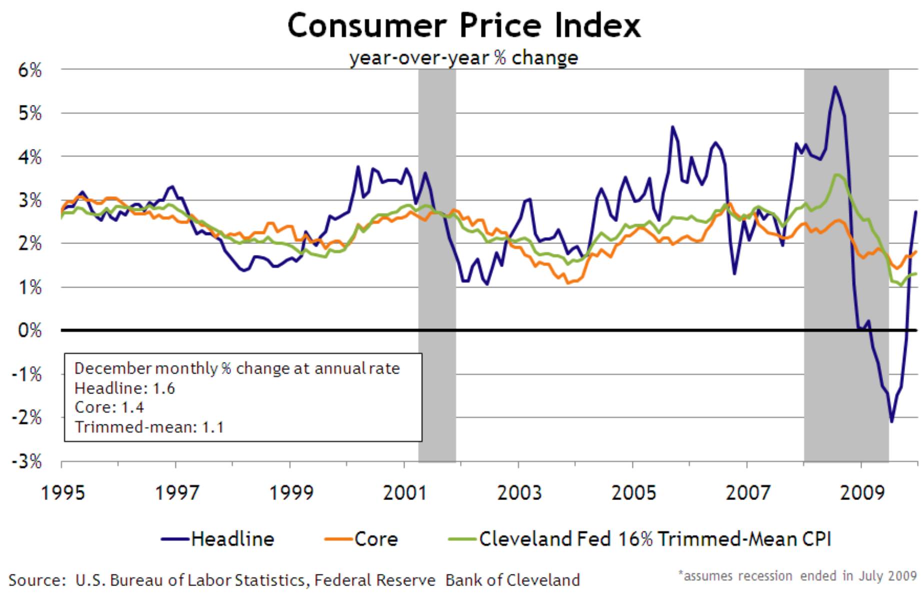
January 20, 2010

Economic Highlights

Prices

Summary

Unusually low energy prices last year are upwardly distorting year-over-year headline measures of inflation. Headline CPI jumped 2.7% in December even though it actually moderated on a monthly basis.



- **Headline inflation**, measured by the consumer price index (CPI), was **up 1.6% in December month over month annualized**, down from 4.9% in November. Energy prices posted the smallest monthly gain since July 2009, rising 2.8% (annualized rate) in December. Overall CPI was 2.7% above year-earlier levels; note that much of the year-over-year increase comes from a lower base level.
- The **core** (excluding food and energy) measure of **consumer prices** was up 1.4% month over month annualized in December after increasing 0.4% the month before. The index for used cars rose at a 34.7% annual rate, accounting for nearly half the increase in the core index for the month. The indices for airline fares, apparel, and medical care also contributed to the core increase in December, while the indices for new vehicles and recreation declined. The shelter index edged up 0.4% (annualized rate) in December after declining 2.6% in November.
- December core CPI increased 1.8% year over year and 1.7% from November.
- The Cleveland Fed's trimmed mean CPI measure ticked down in December to a 1.1% annualized rate from 1.2% the previous month. The trimmed mean measure was up 1.3% year over year and steady from the previous month.

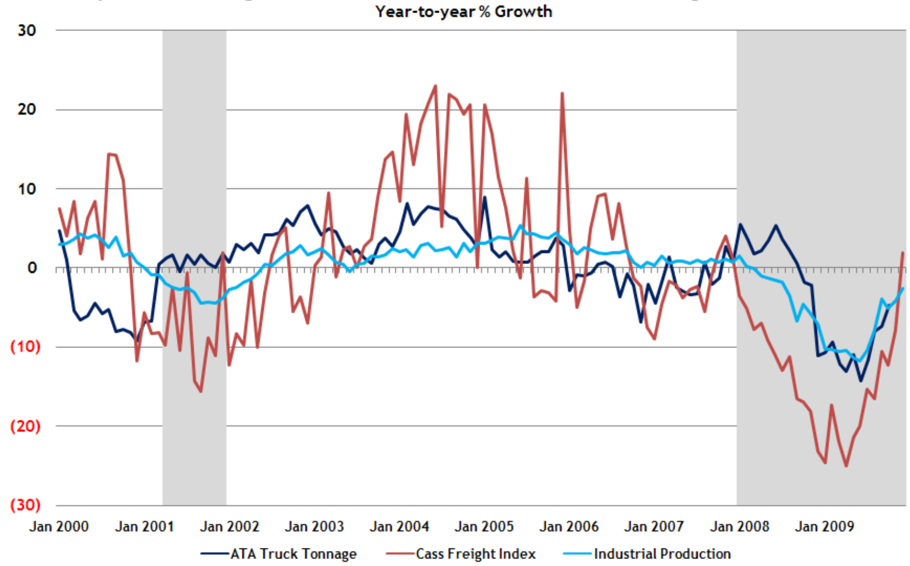
Transportation

Summary

Year-over-year freight indicators continued to improve in recent months in agreement with recent manufacturing data.

Transportation Freight Trends and Industrial Production through December 2009

Year-to-year % Growth



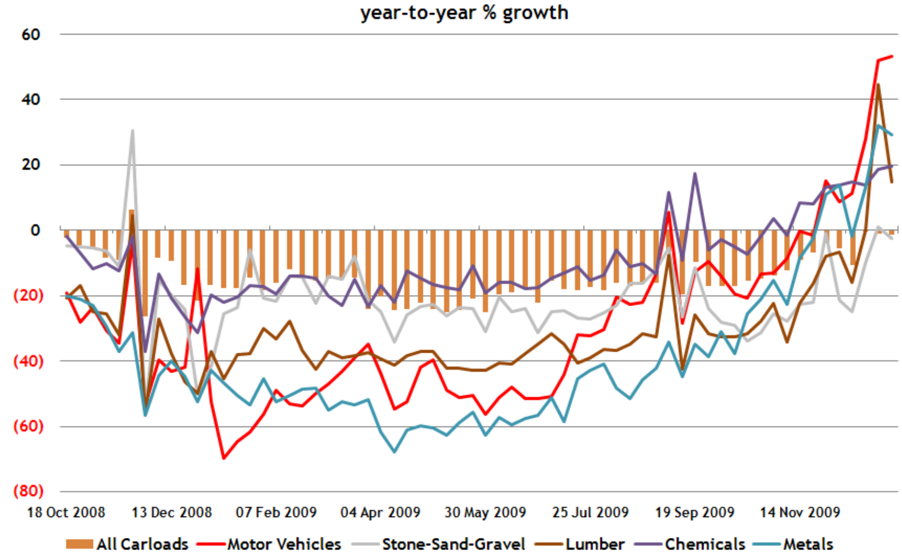
Source: American Trucking Associations, Cass Information Systems and Federal Reserve Board

- The December Cass Freight index (a wide range of shipping companies) posted the first year-to-year gain since December 2007. The American Trucking Associations index for November declined only 3.5% from a year earlier, the lowest drop in a year and an improvement from steeper declines in previous months.
- Industry economists expect a moderate freight outlook thanks to improving business conditions and more normal inventory flows, which, contrary to earlier months, are no longer a drag on truck volumes.

Railroad shipments through early January continued to climb ahead of the weaker pace reported earlier in the year. An ongoing rise in key industrial shipments may suggest a sustained recovery in some manufacturing sectors.

Rail Shipments for Selected Industries through week Jan. 2, 2010

year-to-year % growth



Source: American Association of Railroads

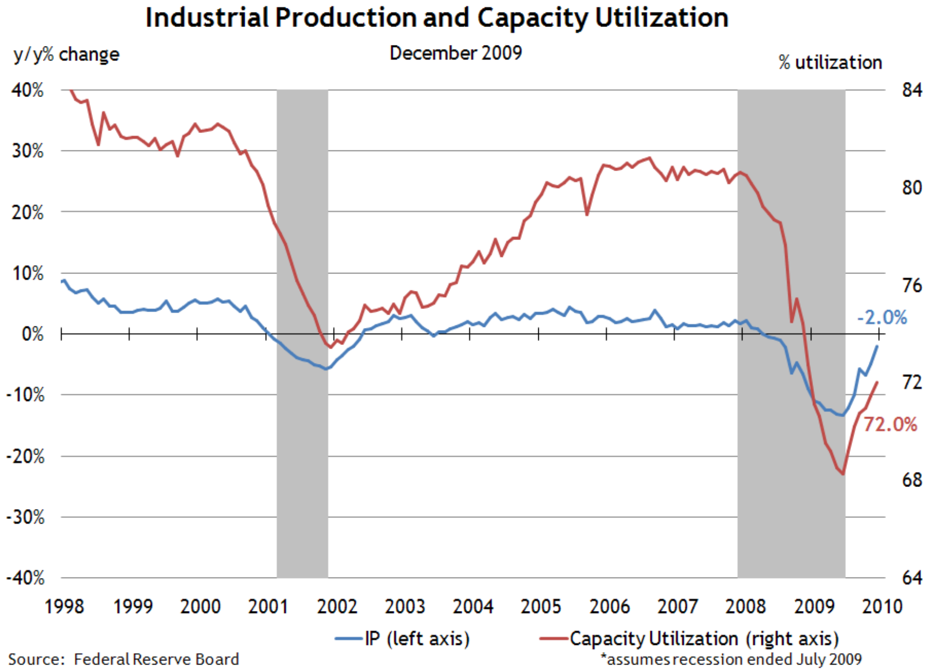
- The Association of American Railroads reported that total rail shipments through early January were off slightly from the weaker pace reported in previous weeks. Supporting the recent pickup in industrial production, shipments of motor vehicles, chemicals, and metals continue to post healthy gains from a year earlier.
- Despite the volatility of construction-related shipments, their recent pace is still showing the uptrend reported in previous weeks.

Manufacturing

Summary

Industrial production rose 0.6% in December from large gains in utilities output and, to a lesser extent, gains in mining output. Manufacturing output decreased 0.1% in December.

Capacity utilization rates rose across the board from the previous month, with manufacturing utilization up 0.1 percentage point, mining up 0.2 percentage point, and utilities up 4.5 percentage points.

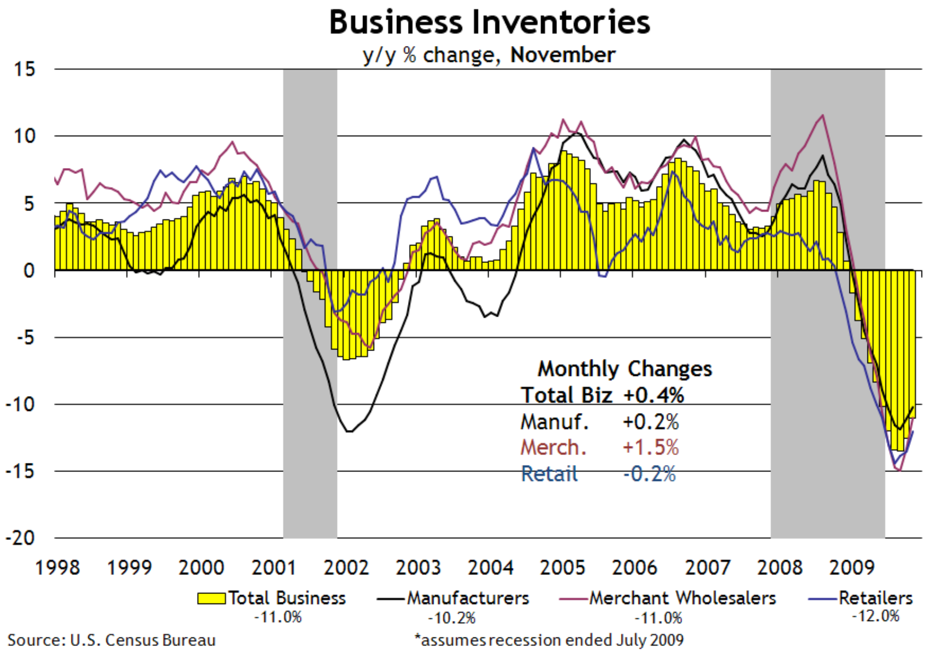


- **Total industrial production (IP) rose 0.6% in December.**
- The overall rise in IP largely reflected **gains in the output of utilities, up 5.9% for the month**.
- **Manufacturing output dipped 0.1% from November levels.** Within this category, the output of durable goods actually increased 0.1% from the previous month because of advances in the output of machinery and computer and electronic products. These gains were offset by large declines in nonmetallic mineral products, appliances, and components. The production of nondurable goods decreased 0.1%.
- For the fourth quarter of 2009, manufacturing output increased 5.7% at an annualized rate.
- After an unseasonably warm November, a colder-than-usual December increased demand for gas utilities, driving the **output of utilities up 0.2% in December.**
- Overall **capacity utilization gained 0.5 percentage point in December.** This gain came from increases in the utilization rates of **manufacturing, up 0.1 percentage point**; **mining, up 0.2 percentage point; and utilities, up 4.5 percentage points.**

Manufacturing

Summary

After an addition of 0.2% in October, total business inventories gained 0.4% in November.



- In November, **total business inventories gained 0.4%.**
- The largest share of this gain came from **merchant wholesale inventories, which rose 1.5% in November.**
- **Manufacturing inventories posted a modest gain of 0.2%** in November but were still down 10.2% from year-earlier levels.
- **Retail inventories dropped slightly in November, falling 0.2%** compared with October levels.

The table lists the top five contributors to each inventory section.

Where Are Inventories Being Held?

Total Business Inventories, November 2009, $1,313m

Manufacturing Inventories	**38%**
Transportation Equipment	18.2%
Chemical Products	12.7%
Machinery	9.7%
Computers & Electronic Products	8.6%
Fabricated Metal Products	7.5%

Retail Inventories	**33%**
Motor Vehicles & Parts Dealers	26.4%
General Merchandise Stores	16.3%
Bldng Materials, Garden Equip, Supplies	10.5%
Clothing & Clothing Access. Stores	9.7%
Food & Bev. Stores	8.8%

Wholesale Inventories	**29%**
Machinery	17.0%
Automotive	8.6%
Drugs	8.1%
Electrical	7.6%
Professional Equipment	7.4%

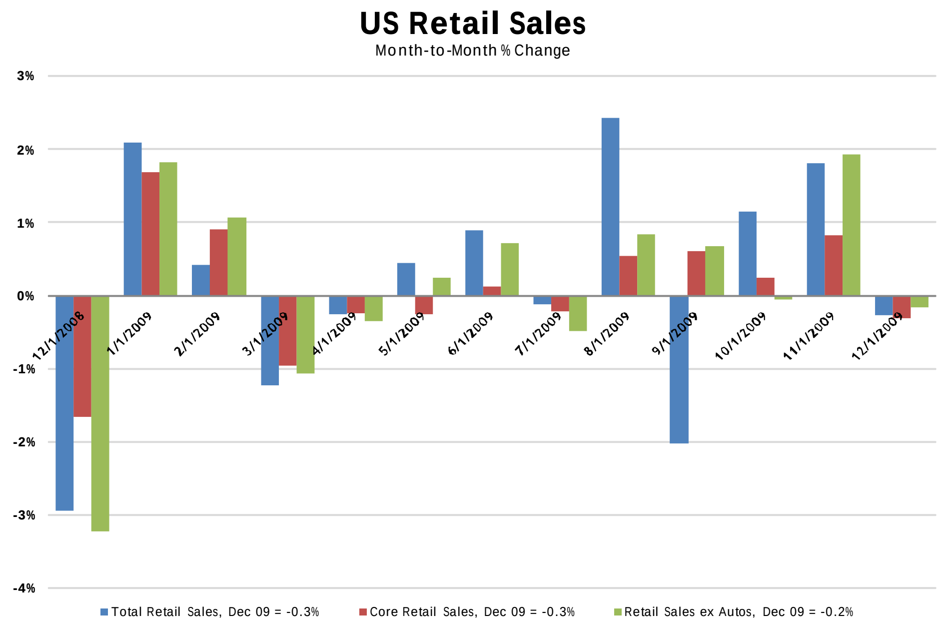
Consumer Spending

Summary

Retails sales came in much weaker than analysts' projections.

In December, on a month-to-month basis, retail sales were very weak, dropping 0.3% from November after two months of growth.

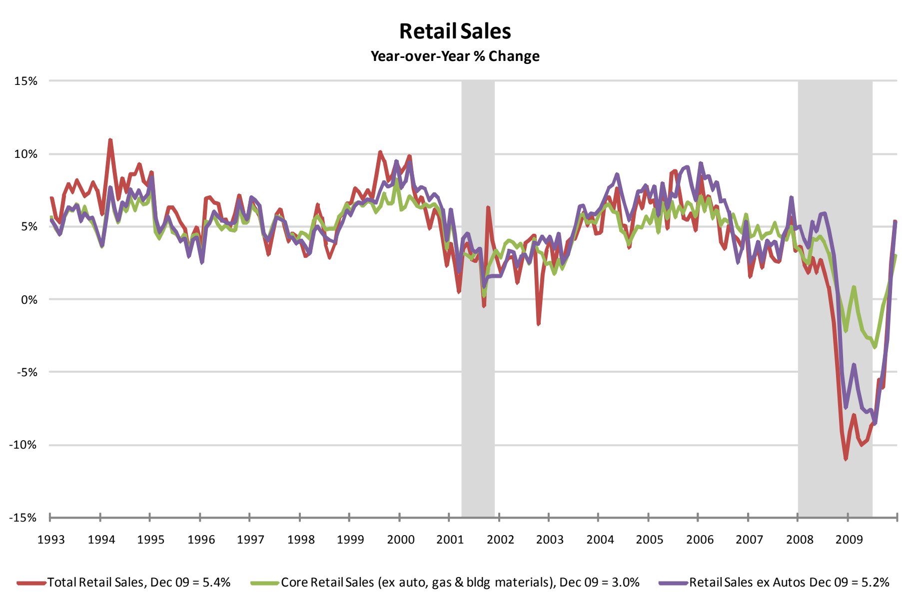
This decline may indicate that most of 2009's holiday shopping took place during November.



Source: U.S. Census Bureau

- Retail sales came in weak in December, decreasing 0.3% from November; Bloomberg's market consensus expectation was an increase of 0.5%. On a year-over-year basis, total retail sales are up 5.4%, the highest level since November of 2007; however, December 2008 had rather dismal retail numbers.
- From November to December, retail sales excluding autos declined 0.2% and core retail sales declined 0.3%. On a year-over-year basis, retail sales excluding autos and core retail sales (total excluding gas, autos and building supplies) were up 5.2% and 3.0%, respectively, from December 2008.
- The decrease in retail sales was led by electronics and appliances, which decreased –2.6% from November to December. Gasoline stations, personal care items, and home furniture were the only components to experience increases from November to December.

Total retail sales experienced positive growth on a yearly basis in December for the second consecutive month.



Source: U.S. Census Bureau

Assumes recession ended July 2009

Consumer Spending

Summary

The Reuters/University of Michigan Consumer Sentiment Index increased in January.

Reuters/University of Michigan Consumer Sentiment Index

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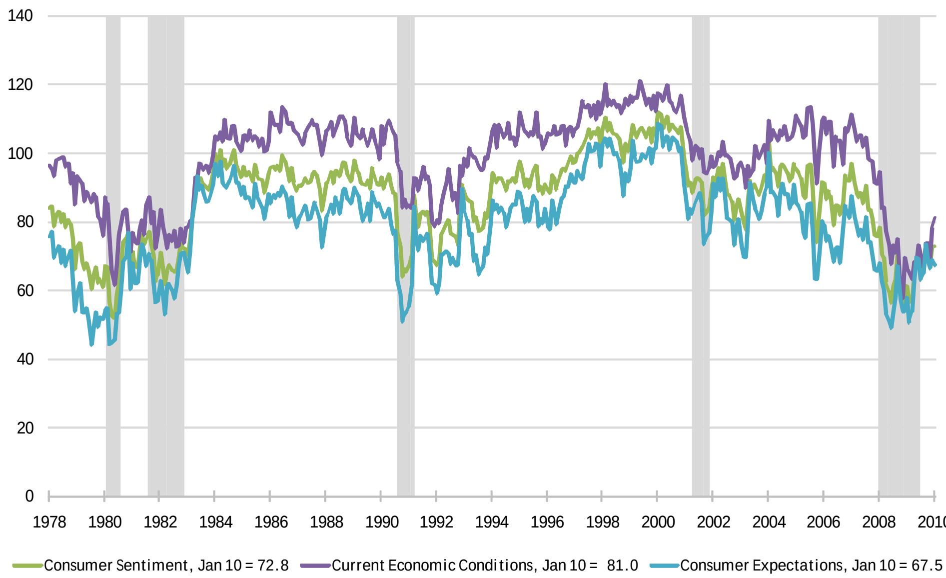
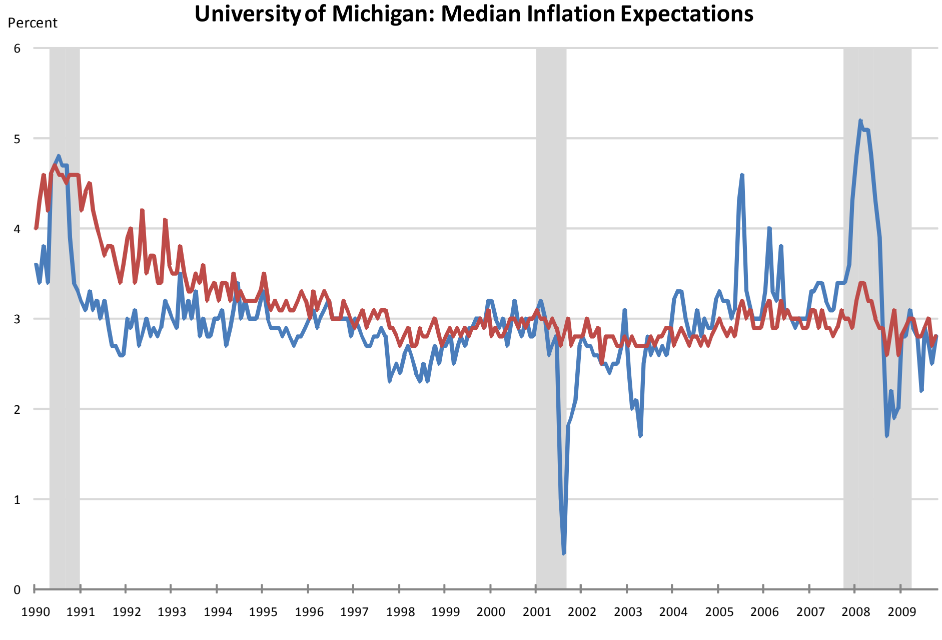


Source: Reuters/University of Michigan

Assumes recession ended July 2009

- The January Reuters/University of Michigan Consumer Sentiment Index increased from 72.5 points to 72.8, falling short of analysts' expectations of 74. The gain was driven by the current economic conditions component, which rose 3 points to 81, its highest level in almost two years, while consumer expectations declined 1.4 points to 67.5.
- The Reuters/University of Michigan index is now approximately 17 points above its cyclical low in November 2008.
- The median one-year-ahead expected inflation rate rose from 2.5% to 2.8% from December to January, while the median five-to-ten-year outlook increased modestly from 2.7% to 2.8%.

University of Michigan: Median Inflation Expectations



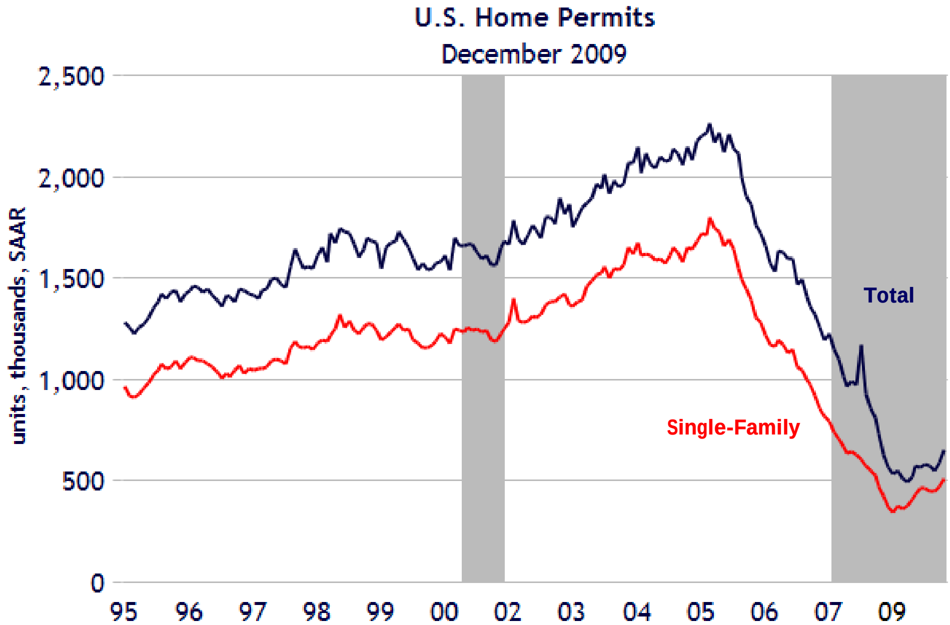
Source: Reuters/University of Michigan

Assumes recession ended July 2009

Real Estate

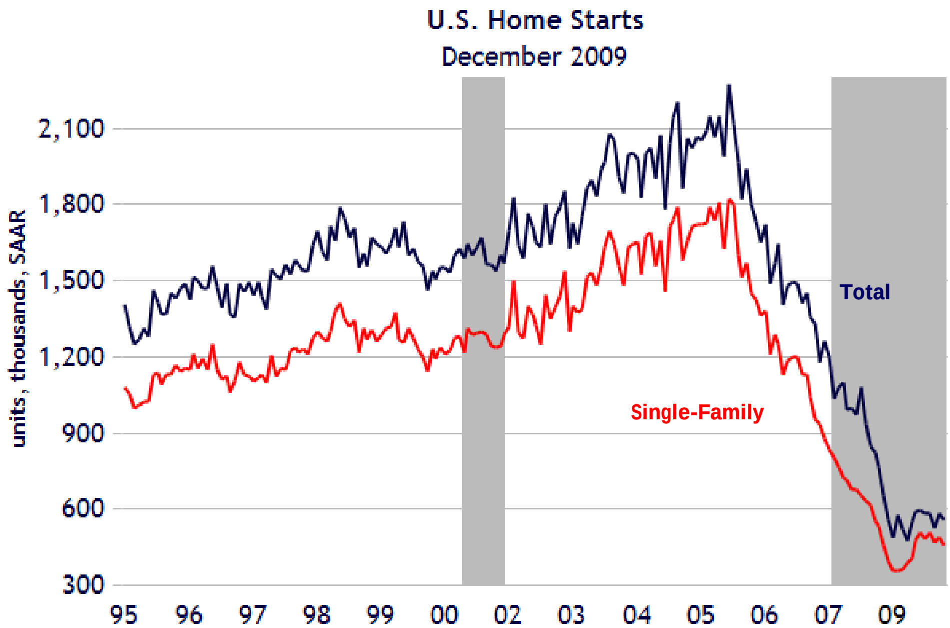
Summary

U.S. home permits in December were up 11% from November, continuing the trend upward from series lows set earlier in the year.



Source: U.S. Census Bureau

However, U.S. home starts softened in December, down 4% from November. Starts have mostly moved sideways since May.



Source: U.S. Census Bureau

December permits, SAAR

Total	653K	15.8% y/y	10.9% m/m
Single-family	508K	37.3% y/y	8.3% m/m
Multifamily	145K	-25.3% y/y	20.8% m/m

December starts, SAAR

Total	557K	0.2% y/y	-4.0% m/m
Single-family	456K	16.0% y/y	-6.9% m/m
Multifamily	101K	-38.0% y/y	12.2% m/m