



CONTINUING SIGNS OF SLOW BUT STEADY RECOVERY

KEY ECONOMIC STATISTICS

ADVANCE RETAIL SALES

↑0.4%

August 2010

INDUSTRIAL PRODUCTION

↑0.2%

CAPACITY UTILIZATION

↑0.1%

August 2010

CPI-U

↑0.3%

Core CPI

Unchanged

August 2010

INITIAL JOBLESS CLAIMS 4-WEEK AVG

464,750 ↓13,500

Week Ending September 11, 2010

THIS WEEK

Tuesday, September 21

Housing Starts

August 2010

Thursday, September 23

NAR Existing Home Sales

August 2010

Friday, September 24

Advance Durable Goods

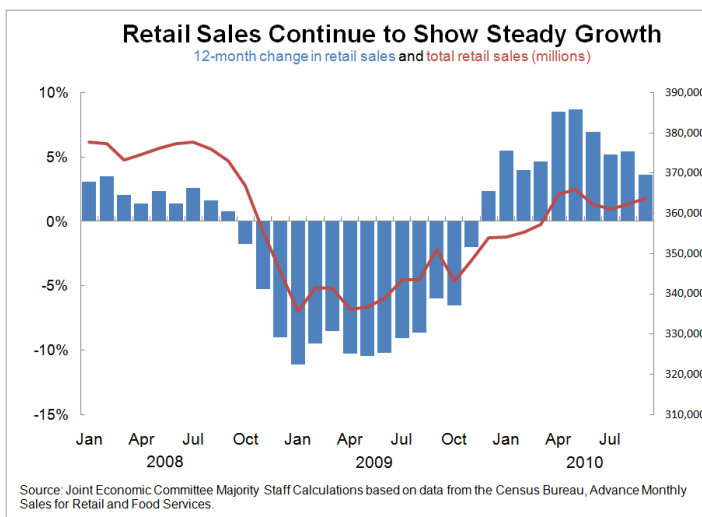
August 2010

New Residential Sales

August 2010

SUBDUED INFLATION CONTINUES IN AUGUST. Core CPI-U, which excludes volatile food and energy prices and is generally believed to be a better gauge of inflation, was unchanged during August. In the past 12 months, core inflation was up just 0.9 percent. Headline inflation rose 0.3 percent in August, driven by rising energy prices. Energy prices increased 2.3 percent during the month, pushed higher by a 3.9 percent increase in gasoline prices. Food prices also increased slightly, rising by 0.2 percent, the largest jump since April. However, even including this month's increase in energy prices, headline inflation is only up 1.1 percent over the year. With inflation in check, the Federal Reserve will not have to split its focus between its dual mandate of stable prices and full employment and will be able to focus on pursuing monetary policy that will maximize full employment.

RETAIL SALES INCREASE. Retail and food services sales increased in August by 0.4 percent to \$363.7 billion, according to advance estimates released by the Census Bureau. (See chart) Excluding motor vehicles and parts, which can vary widely month to month, the monthly increase was 0.6 percent. The growth, which was slightly better than anticipated, may indicate consumers felt somewhat more optimistic as they entered this year's back-to-school shopping season, a closely-watched part of the calendar for retailers. After falling in May and June, retail and food services sales have now increased for the last two months, although July's growth was revised downward slightly, from 0.4 percent to 0.3 percent. Prior to the declines in May and June, retail sales had increased in 12 of the 13 previous months. The August increase was driven by growth in department stores (+0.4 percent), clothing and clothing accessories stores (+1.2 percent), grocery stores (+1.4 percent) and sporting goods, hobby, book and music stores (+0.9 percent), which were partially offset by declines in auto and other motor vehicle dealers (-1.1 percent), furniture and home furnishing stores (-0.5 percent) and electronics and appliance stores (-1.1 percent). In the past 12 months, retail and food services sales increased by 3.6 percent.



INDUSTRIAL OUTPUT AND CAPACITY UTILIZATION CONTINUE TO RISE. The Federal Reserve released preliminary estimates showing that both industrial production and capacity utilization continued to rise in August, suggesting a slow but persistent recovery and further assuaging concerns of a double-dip recession. Overall industrial production rose 0.2 percent in August following a downwardly revised 0.6 percent increase in July. A let-up in motor vehicles and parts production (-5.0 percent), which spiked in July (+9.5 percent), drove the slowdown in growth from July to August. Overall manufacturing production increased 0.2 percent in August, with production of machinery goods showing the strongest growth (+0.4 percent) among durables goods, and production of printing and support goods showing the strongest growth (+0.6 percent) among non durable goods. Overall industrial production has increased 6.2 percent over the year. Preliminary estimates also revealed that capacity utilization across all industries increased 0.1 percentage point to 74.7 percent in August. Utilization shrank within utilities (-1.4 percentage points), but rose within manufacturing (+0.1 percentage point) and mining (+1.0 percentage point).