

Economic Indicators – Summary

June 2010

07.02.10

Bob Allsbrook – Chief Economist, CFA
Steve Pfitzer – Finance



Monthly Highlights / Commentary



Overall Economy

- › May was not as favorable as the few previous months. June was not as favorable as May. A slowing from the robust 5.6% [almost twice the 3% long-term average] real GDP growth of Q4 2009 was inevitable and overall growth in the following quarter, Q1 2010, did slow to an officially estimated 2.7% pace. Anecdotal information and weekly data in May and June increasingly point to slower H2 2010 growth than was widely expected.
- › The monthly numbers are now catching up with the anecdotal information. The June labor data met “less-unimpressive” general expectations. But now that hard June numbers are available, many forecasts that rely almost exclusively on monthly data are now shifting overall growth expectations from average-to-above-average to below-average for the next several quarters.
- › In May and June, consumer and business confidence suffered from the previously unexpected psychological hits of:
 - 1] The Eurozone problems
 - 2] China’s new, tightening economic / financial policies and
 - 3] The Gulf oil problem.
- › Increasingly, anecdotal information and daily, weekly, and --- now --- monthly surveys indicate that consumers and businesses feel that policy makers “just don’t get it”. This confidence shift appears to be causing a “let’s wait and see” factor to seep into private sector economic decisions.
- › This new environment is adding to more vocal anecdotal and media inquiries about a possible double-dip recession. This current small probability is still overcome by a package of supportive influences, as identified in our previous report:
 - 1] Recent significantly lower interest rates
 - 2] Ongoing inventory replenishment from extremely depressed levels
 - 3] Non-optional replacement of worn-out or obsolete tools, equipment, computer, software and electronic equipment
 - 4] Moderate consumer fulfillment of postponed demand
 - 5] Approved Stimulus Plan spending and
 - 6] Additional monetary and fiscal policy support if needed.
- › The momentum of this current confidence shift is being monitored extremely closely by key Washington monetary and fiscal policy makers.

The June Labor Report

- › The seemingly favorable decline in the Unemployment Rate from May's 9.7% to June's 9.5% was just a statistical quirk attributable to, for example, revised assumptions about the size of the work force and people dropping from the unemployment roles because of the expiration of benefits. Excluding such factors, the June Rate was unchanged. Companies remain reluctant to hire, citing very uncertain revenue and expense forecasts and the increasing productivity of today's workers. With these influences expected to continue, the Unemployment Rate will likely remain at an unacceptable level.
- › With distortions from fluctuations in Census Bureau employment, the change in Nonfarm Payroll Employment dropped sharply from a 431k increase in May to a -125k decrease in June, roughly matching general expectations. Excluding government employment, Nonfarm Payroll Employment increased a weak 41k in May and a sluggish 83k in June, about as widely expected. As a loose approximation over time, the threshold for reducing the Unemployment Rate is thought to be a sustained 150k gain in monthly Nonfarm Payroll Employment. June provided "less unfavorable" job growth, not a collapse as some sources were whispering before the numbers were published
- › Selected other aspects of the June labor report are provided in the following pages. Overall, anecdotal information and weekly and monthly numbers describe a job market that will likely continue at unsatisfactory levels that will prompt increasing pressure for economic policy makers to "do something" about it.

Data Highlights – June 2010

Key Economic Indicators	Current	Prior	Yr Ago	TREND
Overall:				
Gross Domestic Product (GDP) Q	2.7%	5.6%	-6.4%	NEGATIVE
Unemployment Rate	9.5%	9.7%	9.5%	NEGATIVE
Under-utilized / Under-employed Rate	16.5%	16.6%	16.5%	NEGATIVE
% Unemployed > 27 weeks	45.5%	46.0%	29.6%	NEGATIVE
Payroll Employment Change *	-125K	433K	-515K	NEGATIVE
Consumer Price Index (CPI): (Y-O-Y)	2.0%	2.2%	-1.3%	NEUTRAL
PCE Deflator (Y-O-Y)	1.9%	2.0%	-0.3%	NEUTRAL
5-Year Inflation Expectations (U Mich)	2.8%	2.9%	3.0%	NEUTRAL

Consumer:				
Real Disposable Personal Income (Y-O-Y) *	-0.2%	1.0%	-1.3%	NEUTRAL
Real Personal Spending (Y-O-Y) *	2.6%	2.4%	-1.8%	NEUTRAL
Consumer Confidence Index (Conf. Board)	52.9	62.7	49.3	NEGATIVE
Consumer Financial Obligation Ratio Q	17.36%	17.63%	18.49%	MIXED
Credit Card Delinquency Q	5.78%	6.32%	6.60%	NEGATIVE
Consumer Savings Rate	4.0%	3.8%	6.4%	MIXED

Housing:				
Existing Housing Sales	5.66M	5.79M	4.75M	MIXED
Housing Starts	593K	659K	550K	MIXED
Inventory/Sales Ratio - Existing (months)	7.8	8.1	9.1	MIXED
Case-Shiller 20-Metro Home Price Index (Y-O-Y)	3.8%	2.4%	-18.1%	POSITIVE

NOTES:

Energy prices / interest rates / exchange rates are as of end of June. Except where noted, economic data are from May 2010 or Q110.

Unemployment Rate, Underutilized Rate and Payroll Employment Change for June 2010. Case-Shiller index for April 2010.

The following numbers are expressed as a seasonally adjusted annualized rate - linked quarterly: GDP, Gross Private Domestic Investment.

Industrial Production is a seasonally adjusted linked monthly rate (e.g. not annualized).

Q = Quarterly Data

* Key business cycle criterion

Key Economic Indicators	Current	Prior	Yr Ago	TREND
Business:				
Industrial Production *	1.2%	0.7%	-1.1%	POSITIVE
Gross Priv Dom Invest - Equip/Software Q	11.4%	19.0%	-36.4%	POSITIVE
Gross Priv Dom Invest - Nonres Struct Q	-15.5%	-18.0%	-43.6%	NEGATIVE
Energy:				
Crude Oil Price	\$75.63	\$73.97	\$69.89	POSITIVE
Unleaded Gasoline Price	\$2.75	\$2.73	\$2.63	POSITIVE

Interest Rates:				
Fed Funds Target Rate	≤0.25%	≤0.25%	≤0.25%	NEUTRAL
LIBOR (Overnight)	0.31%	0.30%	0.28%	NEUTRAL
LIBOR (30-day)	0.35%	0.35%	0.31%	NEUTRAL
UST 3-Month Yield	0.17%	0.15%	0.18%	NEUTRAL
UST 10-Year Yield	2.93%	3.28%	3.53%	NEUTRAL

Exchange Rates:				
Euro per U.S. Dollar	0.82	0.81	0.71	MIXED
Japanese Yen per U.S. Dollar	88.43	91.26	96.36	MIXED
Fed Trade-Weighted Mkt Basket (Index)	105.23	104.58	105.01	MIXED

Economic Indicators

June 2010

Graphs / Notes

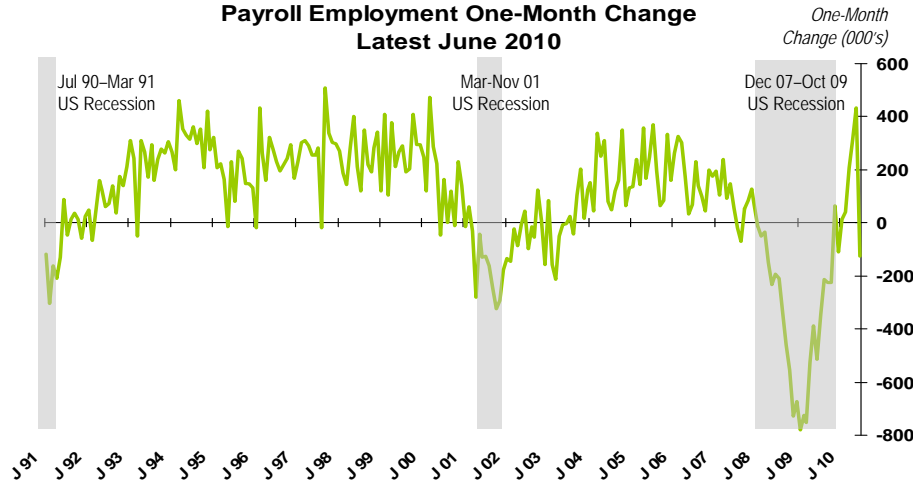
07.02.10

Bob Allsbrook – Chief Economist, CFA
Steve Pfitzer – Finance



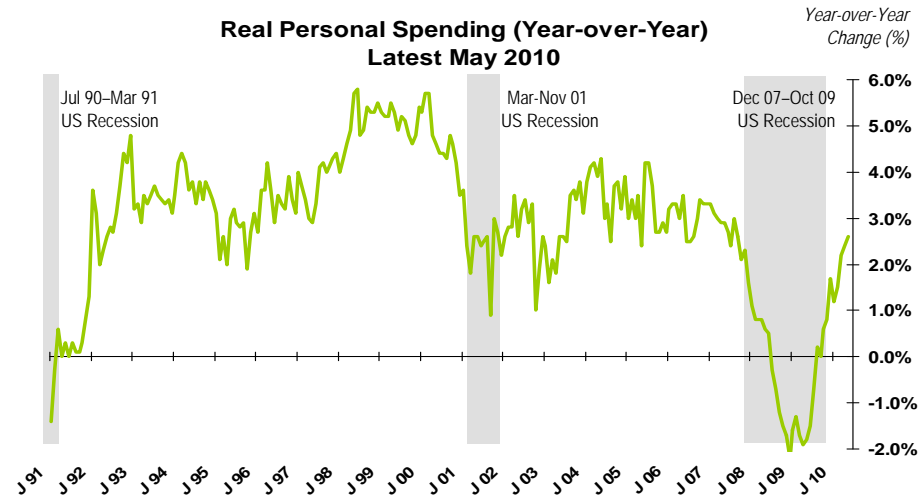
Key Recession Measures

Payroll Employment One-Month Change
Latest June 2010



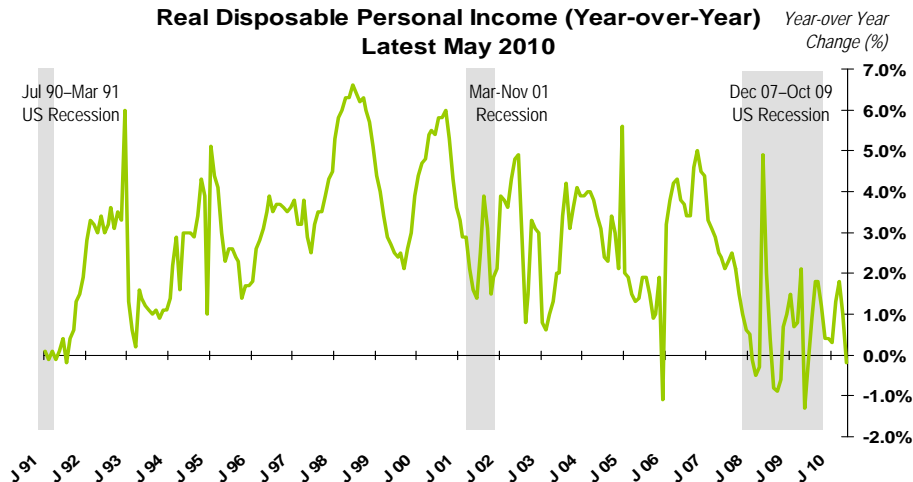
- Nonfarm payroll: -125K June, +431K May. Private: 83K June, 41K May.
- Great Recession began officially Dec. 2007; unofficial early estimated ended Oct. 2009.

Real Personal Spending (Year-over-Year)
Latest May 2010



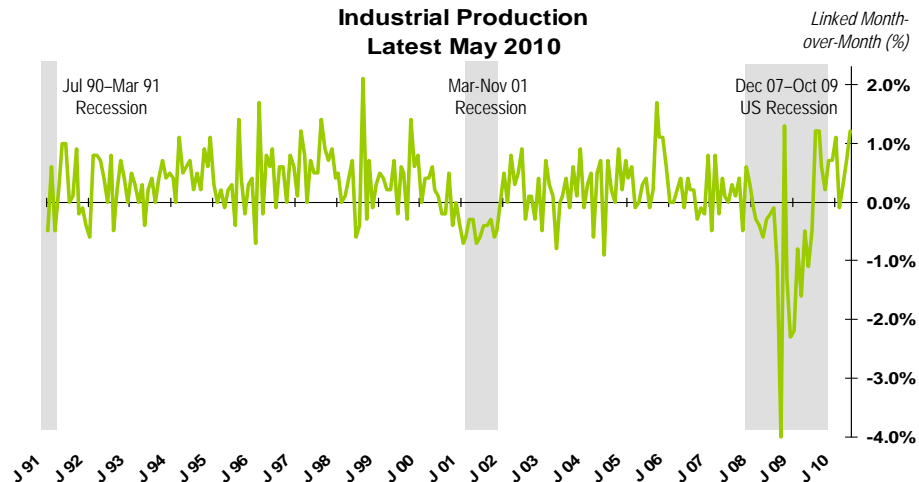
- The consumer is struggling with long term problems.
- Great Recession began officially Dec. 2007; unofficial early estimated ended Oct. 2009.

Real Disposable Personal Income (Year-over-Year)
Latest May 2010



- May 2010 change of -0.2% was below the revised 1.0% for Apr and was first negative since July 2009. Special one-time favorable factors explain much of the positive aberration of prior several months. Strong real DPI recovery not likely.
- Great Recession began officially Dec. 2007; unofficial early estimated ended Oct. 2009.

Industrial Production
Latest May 2010

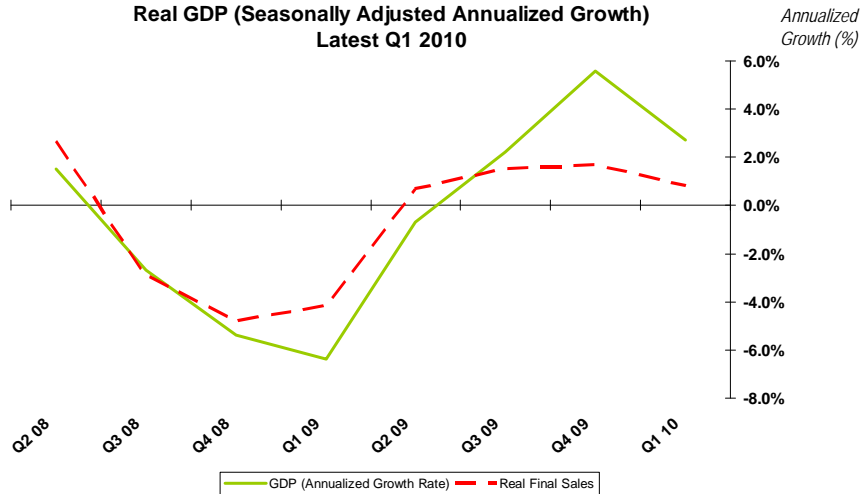


- Favorable momentum should continue but "break-out" unlikely. ISM Mfg. is favorable. Likely benefiting from current inventory replenishment.
- Great Recession began officially Dec. 2007; unofficial early estimated ended autumn 2009.

Overall Economy

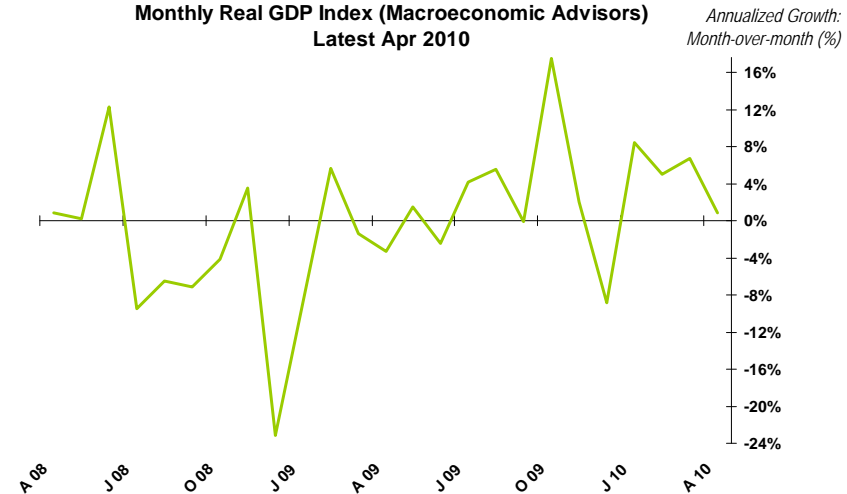


Real GDP (Seasonally Adjusted Annualized Growth)
Latest Q1 2010



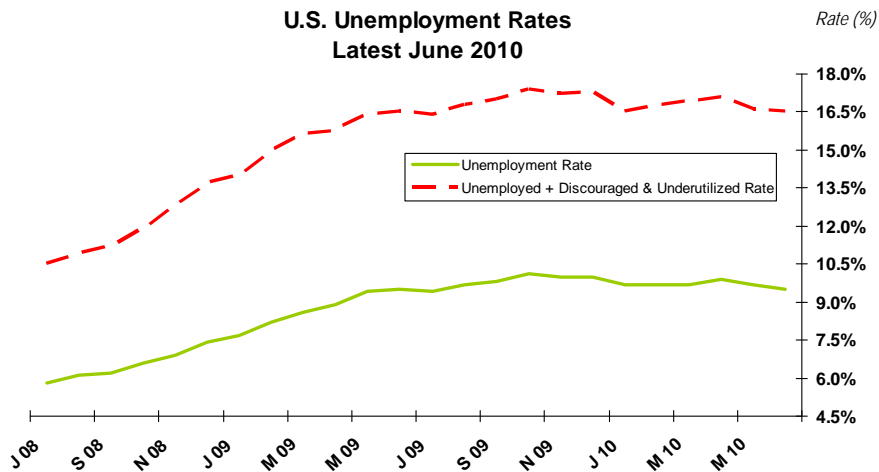
- Third official estimate for Q1 10 of 2.7% (Supply) versus Real Final Sales (Demand) of only 0.8% for Q1 10, below the 1.7% for Q4 09.

Monthly Real GDP Index (Macroeconomic Advisors)
Latest Apr 2010



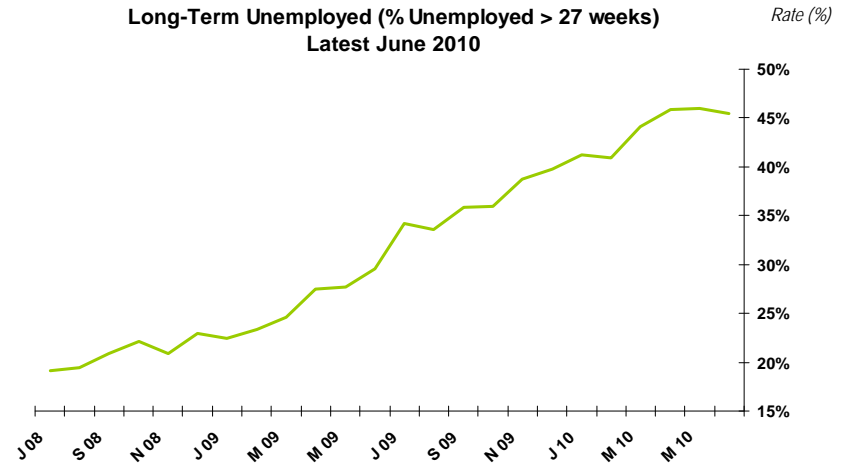
- Index (Macroeconomic Advisors) attempts to model monthly real GDP growth. Index is an official recession criteria.
- April 2010 GDP grew an estimated 0.9% (annualized) over March 2010.

U.S. Unemployment Rates
Latest June 2010



- The unemployment rate declined to 9.5% in June to its lowest level since July 09. The unemployment rate was 9.7% in May. The June decline resulted from statistical quirks, not more favorable underlying.

Long-Term Unemployed (% Unemployed > 27 weeks)
Latest June 2010

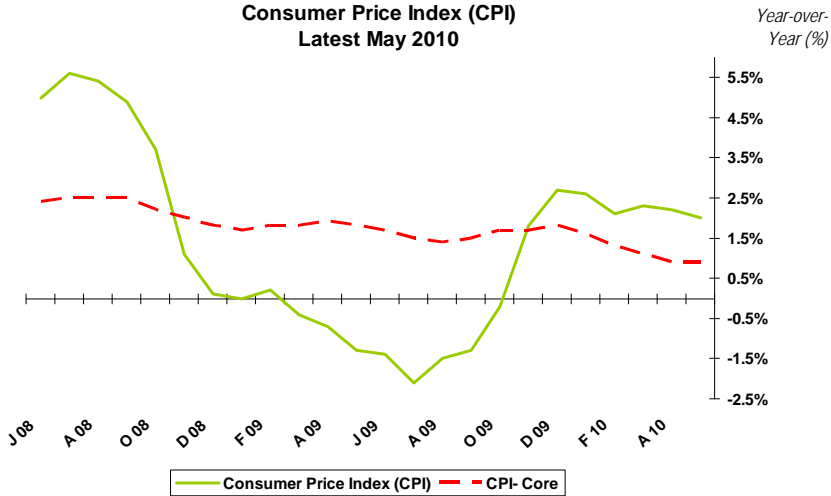


- Percentage of unemployed who have been without work for > 27 weeks rose steadily from 19.1% in July 2008 to 46.0% in May 2010, an all-time high since the series inception in Jan 1948. Percentage decreased slightly in June 2010 to 45.5%.

Overall Economy

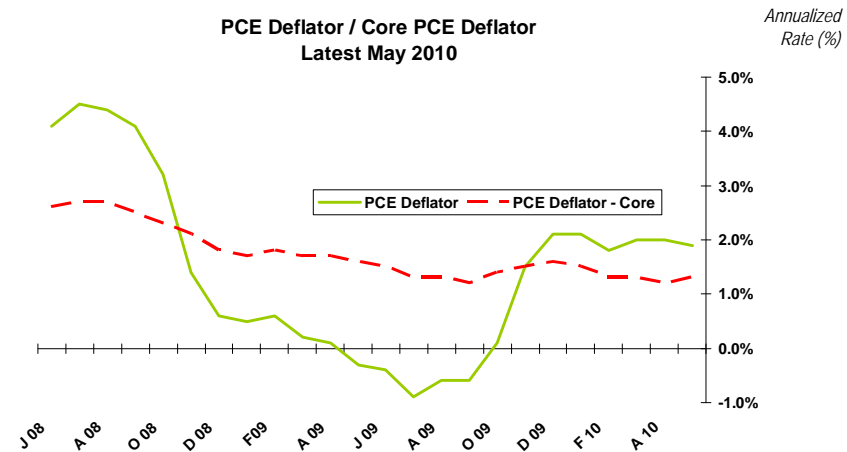


**Consumer Price Index (CPI)
Latest May 2010**



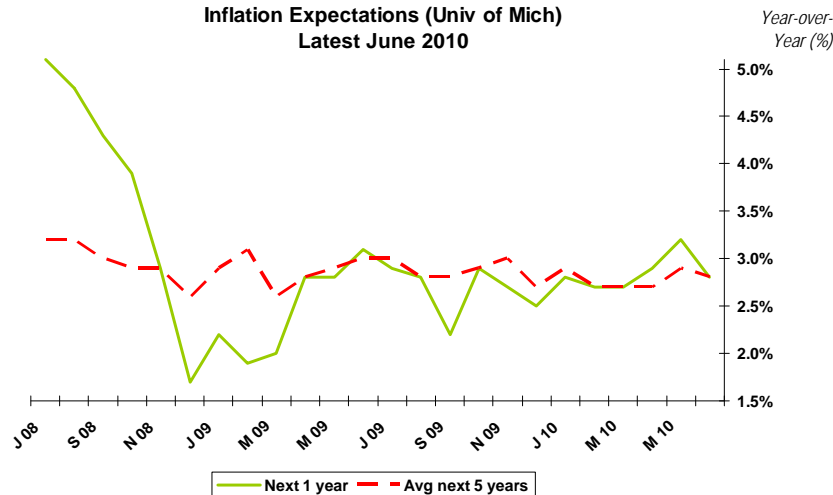
- Some upward pressure in coming months from rising housing rent assumption.
- CPI Core inflation of 0.9% the lowest of the current business cycle

**PCE Deflator / Core PCE Deflator
Latest May 2010**



- PCE Core inflation of 1.3% May 2010 vs. 1.2% Apr 2010 (the lowest of the current business cycle)
- Current commodity price declines raise deflation "talk" but various other measures do not.

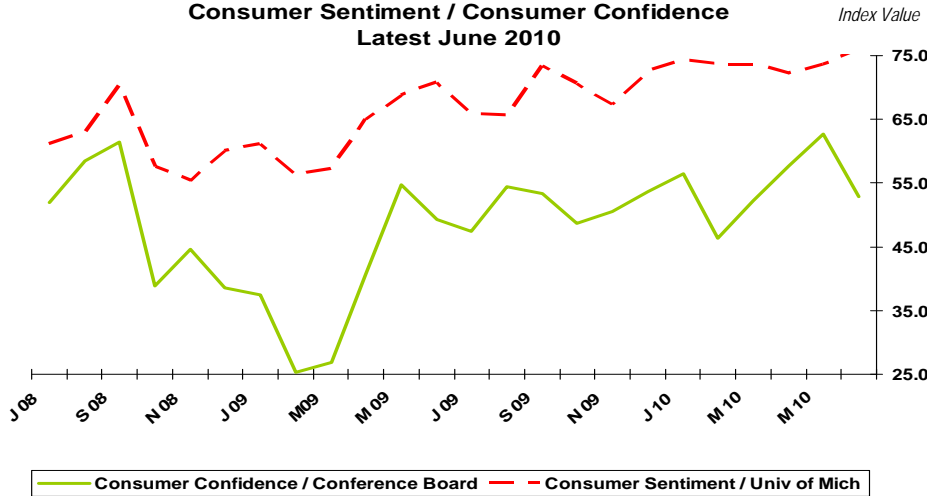
**Inflation Expectations (Univ of Mich)
Latest June 2010**



- Both short-term and intermediate-term (5-year) inflation expectations are currently just under 3%. Steady. Key Fed policy criterion.

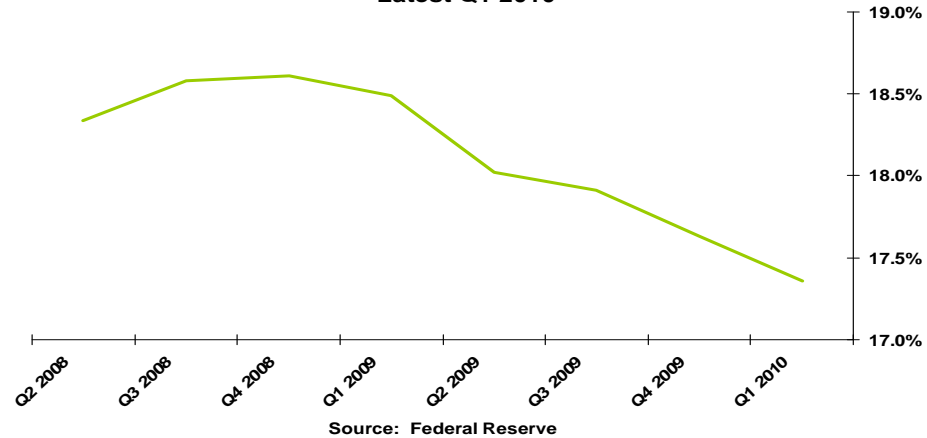
Consumer

Consumer Sentiment / Consumer Confidence
Latest June 2010



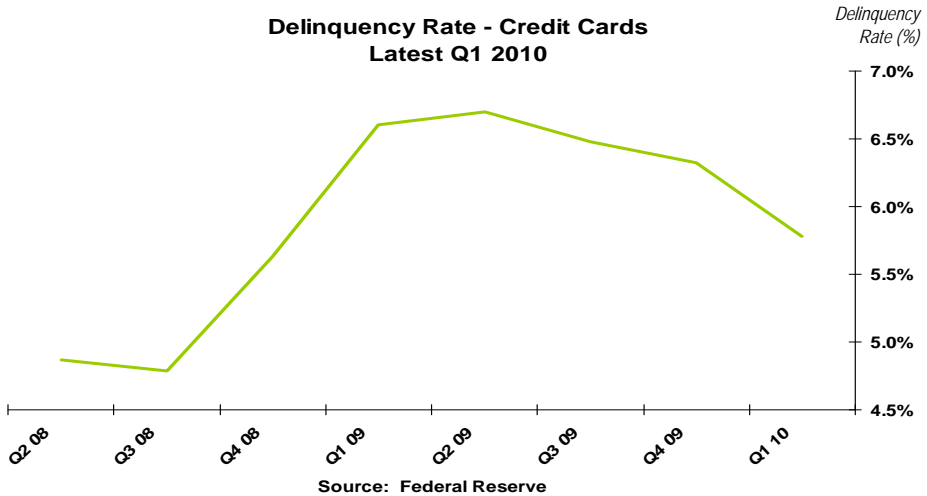
- Main concern remains employment. Since inception: CB, 2/67, 145 - 25; UM, 1/78. 112 - 52. CB more sensitive to employment.
- Eurozone and Gulf oil problems are "piling on".

Consumer Financial Obligation Ratio
Latest Q1 2010



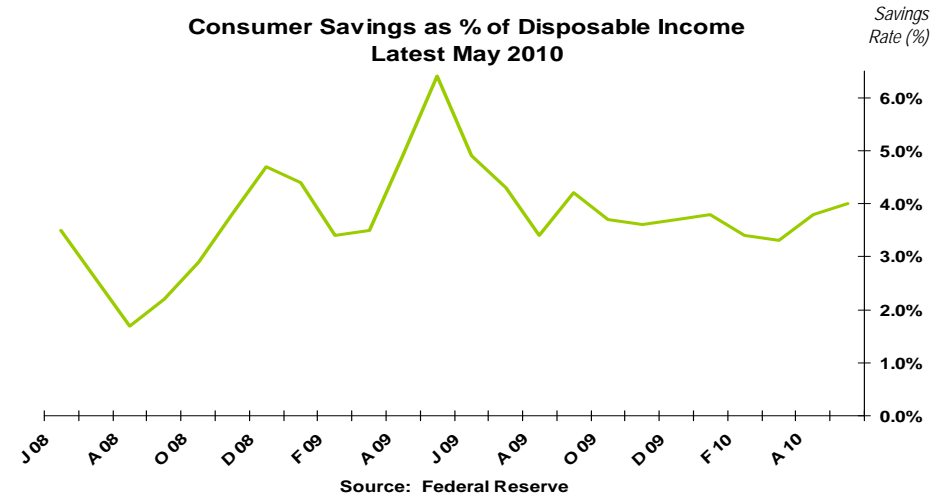
- Long-term structural changes occurring as consumers reduce debt burden and raise savings. Combination is negative influence on spending.

Delinquency Rate - Credit Cards
Latest Q1 2010



- Credit card delinquency rate has declined the last three quarters, but is still very high historically.

Consumer Savings as % of Disposable Income
Latest May 2010



- Long-term shift to higher savings rate is evolving.

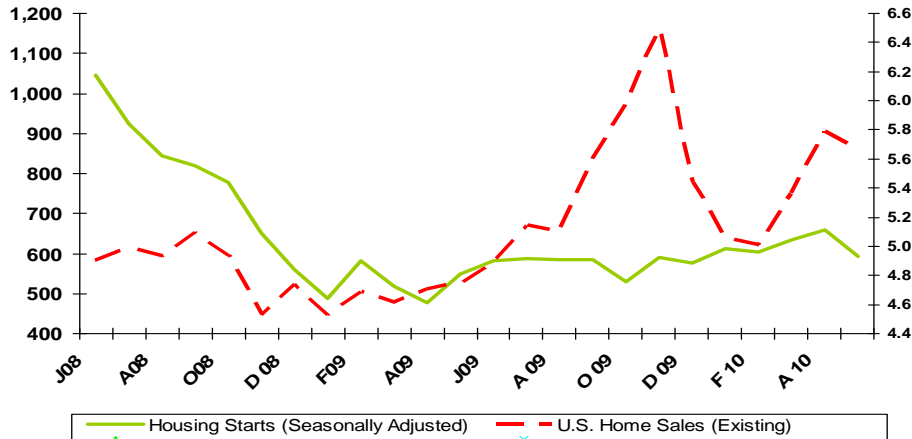
Housing



Housing Units Started (000's)

Housing Starts & Existing Home Sales Latest May 2010

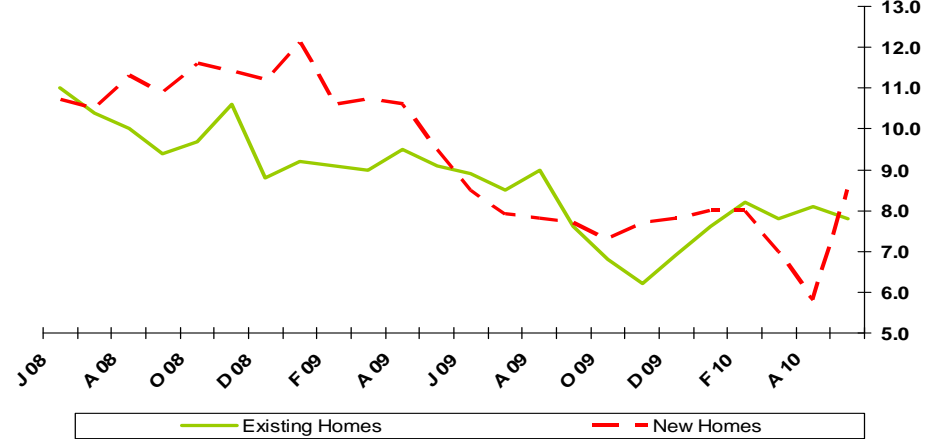
Existing Homes Sold (MM)



- May housing starts were at a seasonally adjusted annual rate of 593,000, lowest since Dec. 2009. Existing-home sales declined in May to 5.66MM.
- Home Buyer Tax Credit influence? Pending foreclosures? Strategic defaults? New gov't programs?

Months of Housing Supply

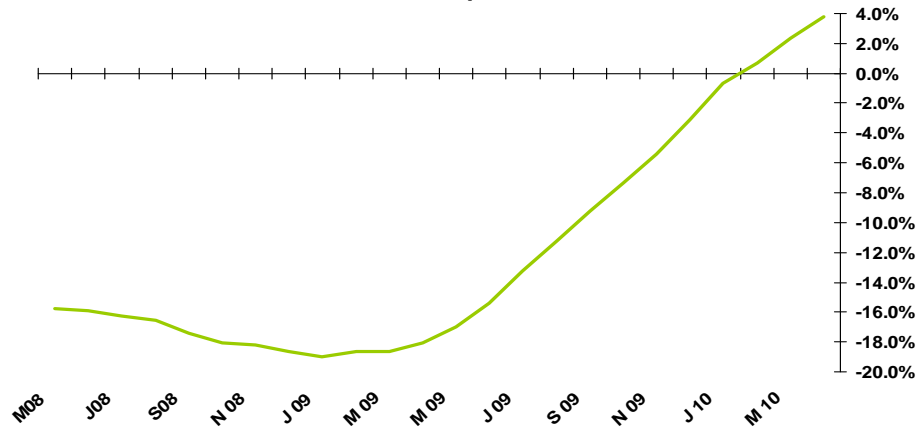
Months of Housing Supply Latest May 2010



- New Home inventory ratio increased to 8.5 months in May, in line with Jan. and Feb. 2010. Apr. # low due to expiring home buyer credit, as New Home sales are counted at time contract is signed.
- Ratios ran in the 4x to 5x range from 1999 to 2006. But "shadow inventory" today?

Case-Shiller 20 Metro Home Price Index Latest Apr 2010

Y-O-Y Price Change (%)

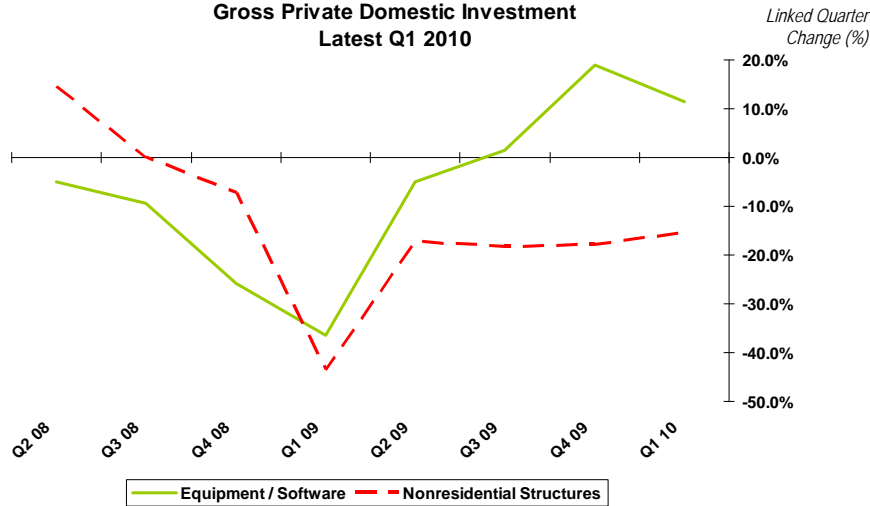


- The index gained 3.8% from a year earlier, the third year-over-year increase since Dec. 2006. Still, 9 of the 20 markets had a year-over-year decline. Likely overstates the severity of the decline because of more extreme adverse factors at "lower end". #s after the April 30 Tax Credit deadline?

Business / Energy

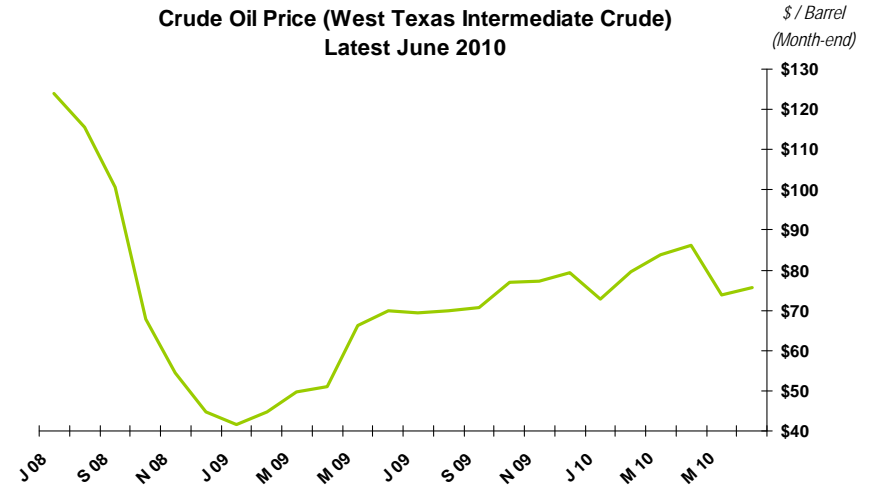


**Gross Private Domestic Investment
Latest Q1 2010**



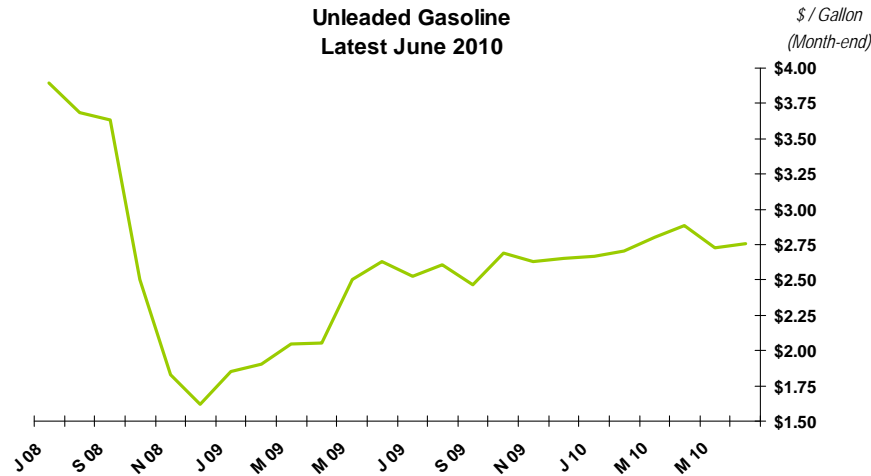
- GDP Equip/Software reported at 11.4% for Q1 2010, down from 19.0% in Q4 2009, but much better than -36.4% in Q1 2009. Low expansion incentive for Nonresidential Structures. Industry data and anecdotal info agree.

**Crude Oil Price (West Texas Intermediate Crude)
Latest June 2010**



- Oil price rose to \$75.63 in June (month-end) but remains lower than recent months amid concerns over European debt and a potential double-dip recession.
- Oil spill pressures emerging re long-term supply?

**Unleaded Gasoline
Latest June 2010**



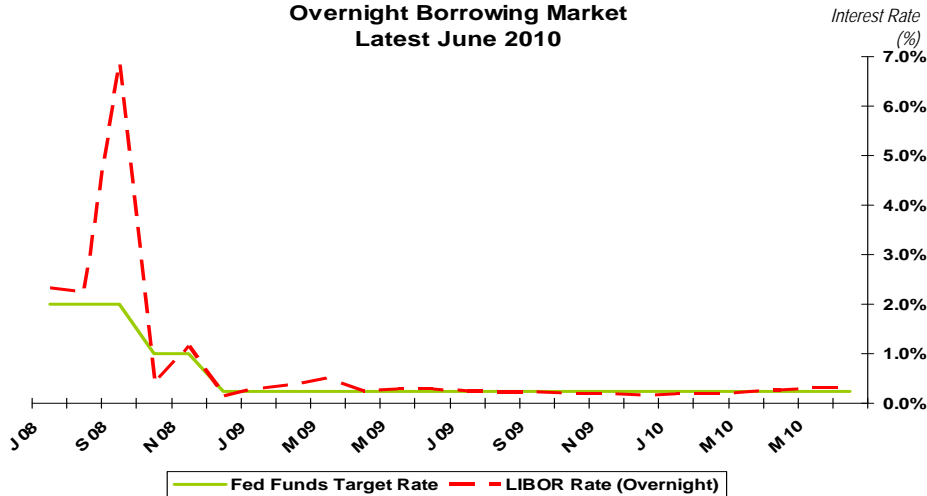
Source: American Automobile Association (AAA)

- At \$2.75 on 6/30/10, essentially equal to month-end May.
- Oil spill pressures emerging re long-term?

Interest Rates

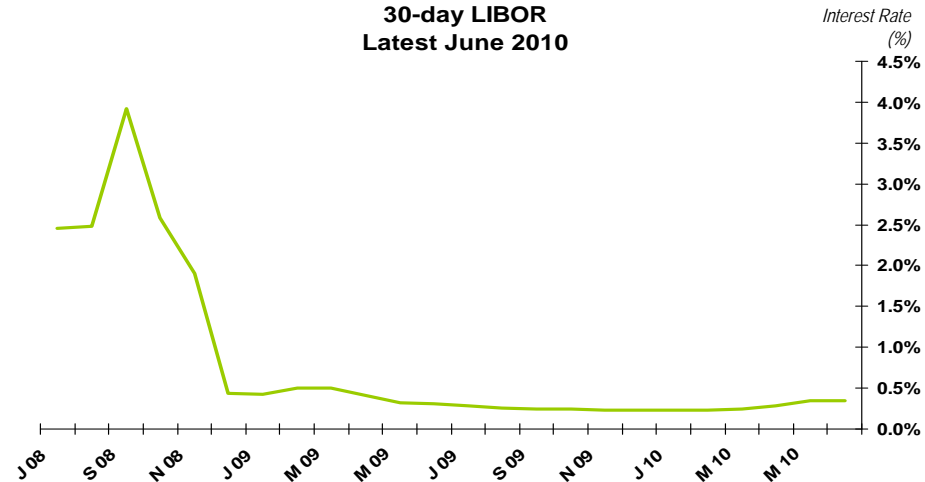


**Overnight Borrowing Market
Latest June 2010**



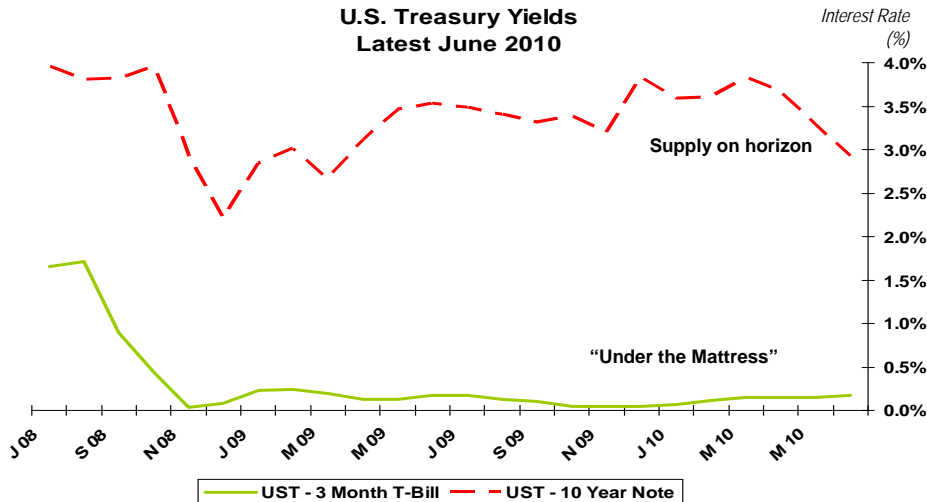
- The Fed continues the Fed Funds Target Rate in the zero-to-0.25% range, extending its “extended period”.

**30-day LIBOR
Latest June 2010**



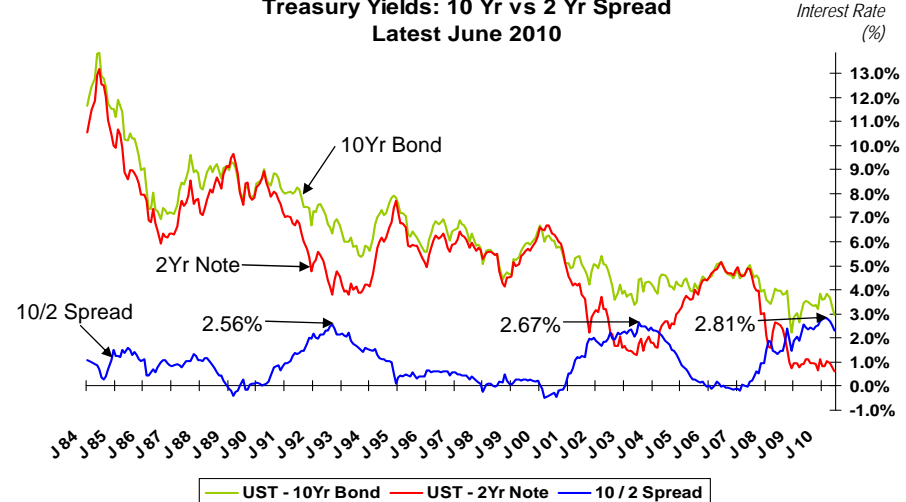
- One-month LIBOR remained at 0.35% in June (month-end), essentially equal to month-end May.

**U.S. Treasury Yields
Latest June 2010**



- Short-term Treasury rates have remained near 0% in 2009.
- The yield on 10-year Treasuries closed 6/30 at 2.93%, under 3% for the first time since April 2009. Likely current downward pressure on UST yields as “safe haven” from world financial system problems but long-term: UST supply surge.

**Treasury Yields: 10 Yr vs 2 Yr Spread
Latest June 2010**

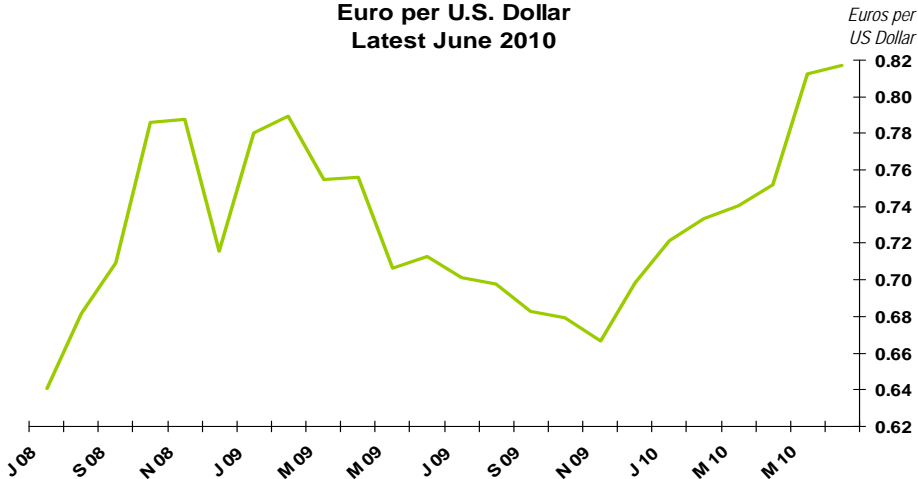


- June 2010: decline in the 10 yr vs. 2 yr spread to 2.33% after a 25-year peak in March 2010 (2.81%).
- Previous peaks were 2.56% in September 1992 and 2.67% in July 2003.

Exchange Rates

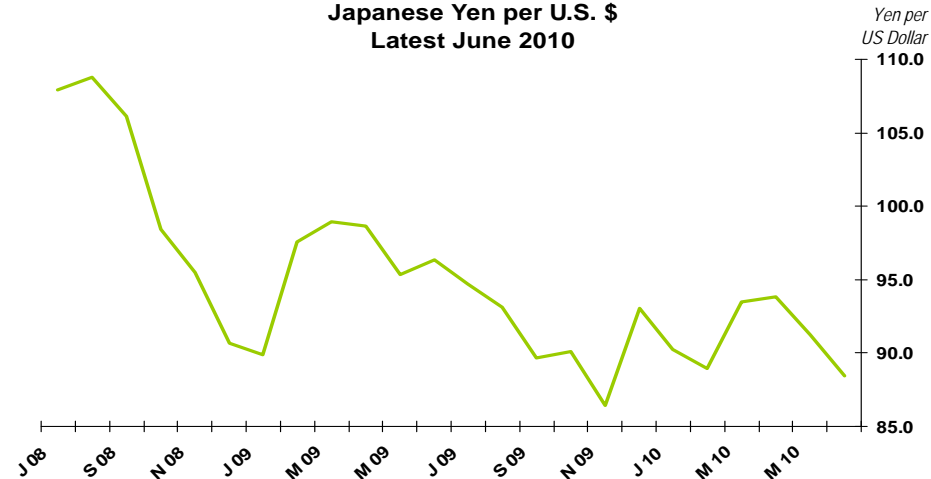


Euro per U.S. Dollar
Latest June 2010



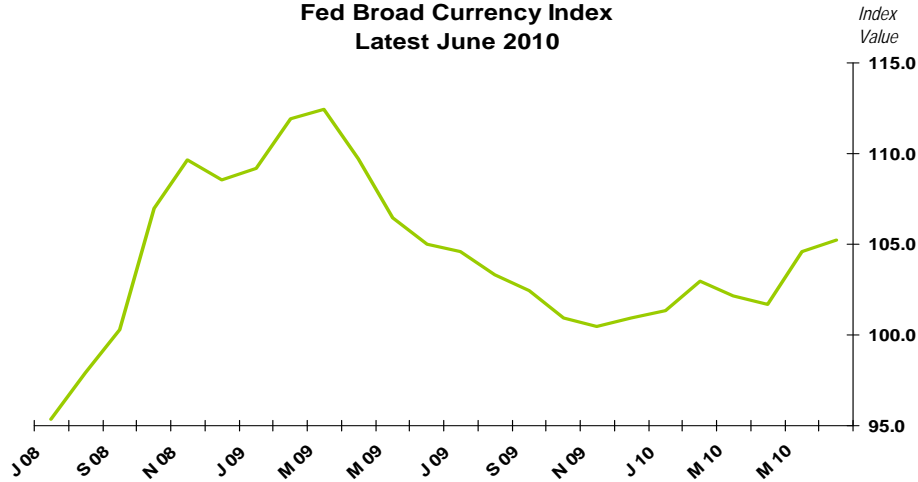
- The dollar continued to rise in June against the Euro to the dollar's highest level in over four years amid the concern over European debt.

Japanese Yen per U.S. \$
Latest June 2010



- Decreased to 88.43 in June. Down 18.7% since August 2008.

Fed Broad Currency Index
Latest June 2010



- U.S. Dollar, as represented by the Fed Broad Currency Index, rose slightly in June, as it continued to be impacted by the European debt issue.

Explanation Notes

- › Monthly economic data report will include previous month-end data for “spot” items (e.g. energy / interest rates / exchange rates) and trailing month (or quarter) economic data.

PCE Deflator is the less-popular but preferred view of inflation. Includes all consumer items in GDP and automatically re-weights each quarter.

Consumer Confidence index is from the Conference Board. **Consumer Sentiment** index is from the University of Michigan.

Financial Obligation Ratio is a ratio of required debt payments to disposable personal income (includes required mortgage payments and consumer debt, as well as auto lease payments, tenant rental payments, property tax payments and homeowners' insurance). **Delinquency Rate** is a measure of credit card bills that are 30 days or more past due.

Case-Shiller 20 Metro Home Price Index reflects home price trend in 20 large U.S. markets. Typically a two-month lag in this series.

Gross Private Domestic Investment measures two components of capital spending by economic sector.