

# Economic Indicators – Summary

02.06.12

Steve Pfitzer – Finance



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# Data Highlights – January 2012



Key Indicators	Current	Immediate Prior	Previous Prior	Yr Ago
<b>Overall</b>				
Real Gross Domestic Product Q	2.8%	1.8%	1.3%	2.3%
Unemploy. Rate	8.3%	8.5%	8.7%	9.1%
Under-util. / Under-employ. (U6 Rate)	15.1%	15.2%	15.6%	16.1%
% Unemployed > 27 weeks	42.9%	42.5%	43.1%	43.9%
Payroll Employ. Change *	243K	203K	157K	110K
Private Payroll Employ. Change	257K	220K	178K	119K
NFIB (Small Business) Hiring Index	6.0	7.0	3.0	6.0
Consumer Price Index (CPI): (Y-O-Y)	3.0%	3.4%	3.5%	1.5%
PCE Deflator (Y-O-Y)	2.4%	2.6%	2.7%	1.4%
PCE Deflator - Core (Y-O-Y)	1.8%	1.7%	1.7%	0.9%
5-Year Inflation Expect. (U Mich)	2.7%	2.7%	2.7%	2.9%

Key Indicators	Current	Immediate Prior	Previous Prior	Yr Ago
<b>Consumer</b>				
Real Disp. Personal Inc. (Y-O-Y) *	-0.1%	-0.2%	-0.1%	3.2%
Real Personal Spending (Y-O-Y) *	1.4%	1.6%	1.8%	2.8%
Consumer Conf. Index (Conf. Board)	61.1	64.8	55.2	64.8
Consumer Financial Oblig. Ratio Q	16.15%	16.15%	16.26%	16.74%
Credit Card Delinquency Q	3.47%	3.62%	3.82%	4.59%
Consumer Savings Rate	4.0%	3.5%	3.6%	5.2%

Key Indicators	Current	Immediate Prior	Previous Prior	Yr Ago
<b>Housing</b>				
Existing Housing Sales	4.61M	4.39M	4.25M	4.45M
Housing Starts	657K	685K	628K	526K
Inventory/Sales Ratio - Existing (mo.)	6.2	7.2	7.7	8.1
C-S 20-Metro Home Price Index (Y-O-Y)**	-3.7%	-3.4%	-3.5%	-1.6%

Key Indicators	Current	Immediate Prior	Previous Prior	Yr Ago
<b>Business</b>				
Industrial Production *	0.4%	-0.3%	0.6%	1.3%
GPDI - Equipment/Software*** Q	5.2%	16.2%	6.2%	8.1%
GPDI - Nonres. Struct*** Q	-7.2%	14.4%	22.6%	10.5%
ISM New Order Index (Mfg)	57.6	54.8	55.0	63.8
ISM New Order Index (Non-mfg)	59.4	54.6	54.1	63.2
NFIB Small Bus. Optimism Index	93.8	92.0	90.2	92.6

Key Indicators	Current	Immediate Prior	Previous Prior	Yr Ago
<b>Energy / Commodities</b>				
WTI Crude Oil Price	\$98.48	\$98.83	\$100.36	\$92.19
Unleaded Gas Price (AAA avg.)	\$3.45	\$3.28	\$3.29	\$3.10
Gold (1 month futures - COMEX)	\$1,738	\$1,567	\$1,746	\$1,334

Key Indicators	Current	Immediate Prior	Previous Prior	Yr Ago
<b>Interest Rates</b>				
Fed Funds Target Rate	≤0.25%	≤0.25%	≤0.25%	≤0.25%
LIBOR (Overnight)	0.14%	0.15%	0.15%	0.24%
LIBOR (30-day)	0.26%	0.30%	0.27%	0.26%
UST 3-Month Yield	0.05%	0.01%	0.00%	0.15%
UST 10-Year Yield	1.80%	1.88%	2.07%	3.37%

Key Indicators	Current	Immediate Prior	Previous Prior	Yr Ago
<b>Exchange Rates</b>				
Euro per U.S. Dollar	0.76	0.77	0.74	0.73
Japanese Yen per U.S. Dollar	76.27	76.91	77.62	82.04
Fed Trade-Wt. Mkt Basket Index	98.62	100.46	99.54	98.62

## NOTES:

Energy prices / interest rates / exchange rates are as of end of January. Except where noted, economic data are from December 2011 or Q4 2011.

Unemployment Rate, U6 Rate and Payroll Employment Change for January 2012. Case-Shiller index for November 2011. ISM New Order data and NFIB Indices for January 2012.

Consumer Financial Obligation Ratio and Credit Card Delinquency for Q3 2011.

These 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 (i.e. not annualized).

Q = Quarterly Data

\* Key business cycle criterion

\*\* C-S = Case-Schiller

\*\*\* GPDI = Gross Private Domestic Investment

# Economic Indicators Graphs / Notes

02.06.12

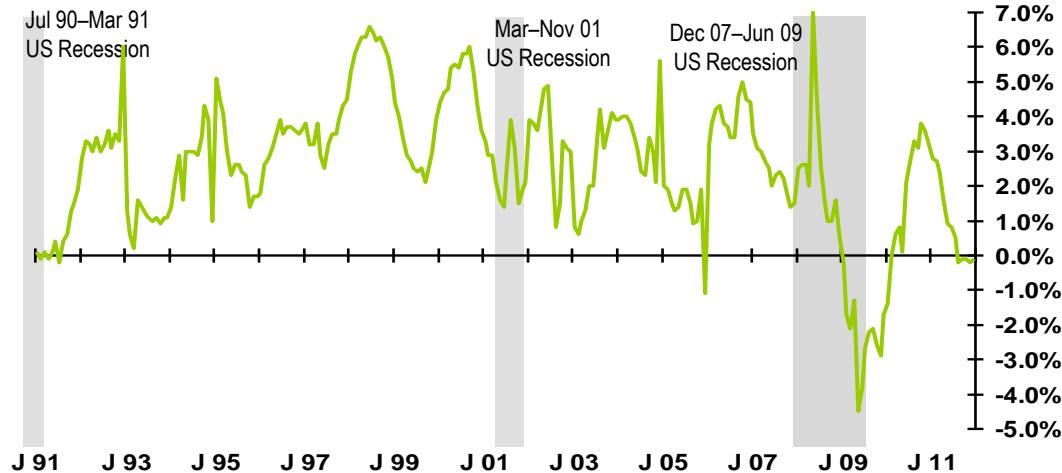
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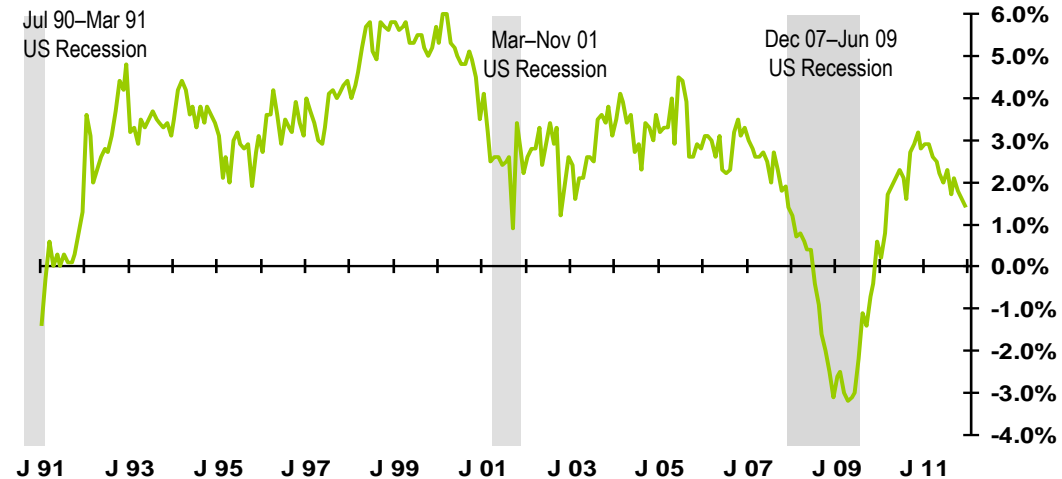
# Key Recession Measures

**Real Disposable Personal Income (Year-over-Year)** *Year-over-Year Change (%)*  
**Latest December 2011**



- Losing momentum. December's -0.1% decrease was only slightly better than November's revised -0.2% decline. Real DPI (Y-O-Y) has been negative for five months in a row. In the last 20 years (with the exception of Dec. 2005), this measure has been negative only during a recession.
- Sustained real DPI recovery without sustained (unlikely) job gains not likely. Cannot support strong consumer spending.

**Real Personal Spending (Year-over-Year)** *Year-over-Year Change (%)*  
**Latest December 2011**

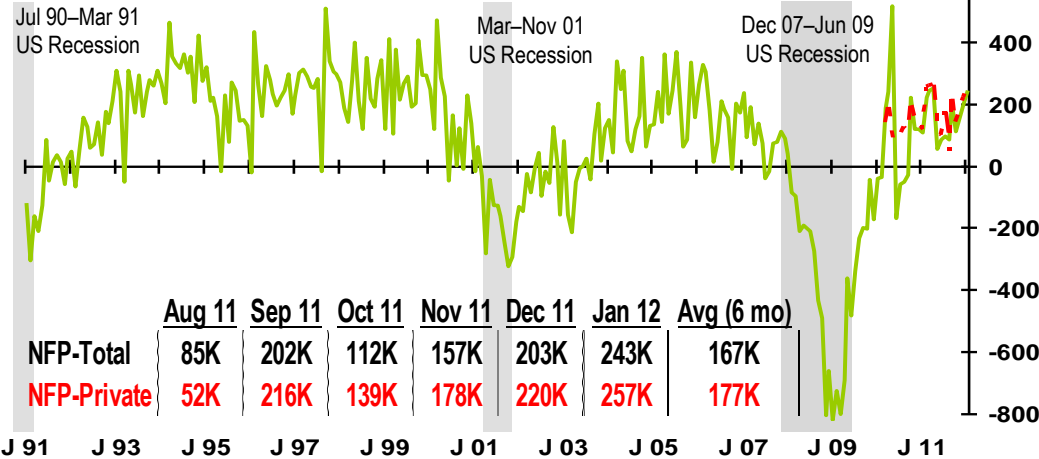


- Losing momentum. December's 1.4% increase was unfavorable vs. November's revised 1.6% gain. The last nine months have all been  $\leq 2.5\%$ .
- December spending continued to be adversely affected by high gasoline prices (discretionary spending). The average price of a gallon of unleaded fuel was approximately \$3.30 during December, 20-25 cents higher than Dec. 2010.
- Relatively strong 2011 holiday spending unlikely sustainable: 1) unprecedented discounts and promo's, 2) weak consumer fundamentals continue. Consumer is still struggling with long term problems: 1) job outlook, 2) Washington's fiscal fiasco, 3) low confidence.

# Key Recession Measures (cont'd)

**Payroll Employment One-Month Change**  
Latest January 2012

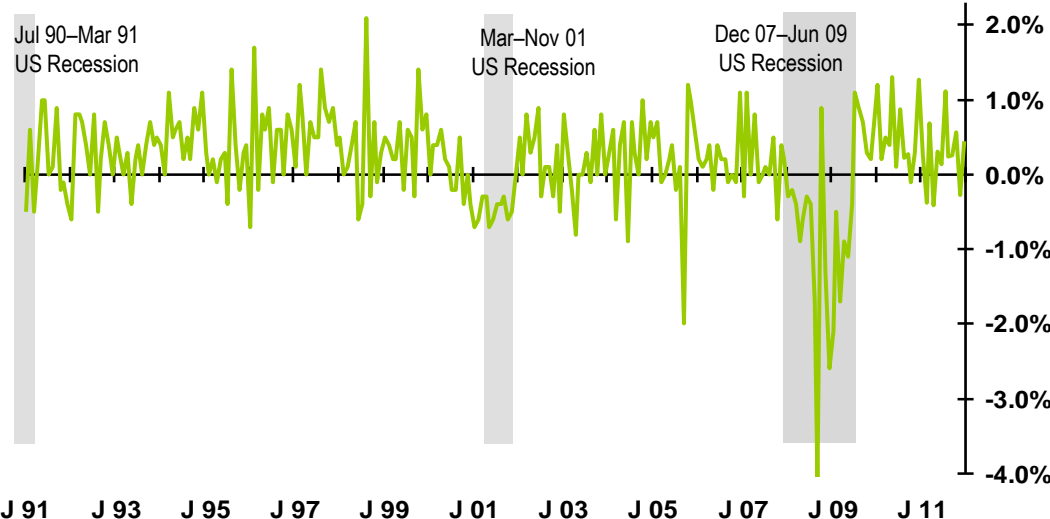
One-Month  
Change (000's)



- The 243k payroll increase far exceeded the roughly 140k average projection of most models. The gain exceeded the bottom [200k] of the historically favorable run rate.
- Government payrolls continued to exhibit weakness in January, most attributable to a 14,000 decline in local government payrolls.
- The January data showed strength across many sectors, including construction, manufacturing and temporary help services.
- With upward revisions of previous months (particularly Nov. 2011), payroll gains averaged 157k in Q4, up from 128k in Q4, suggesting a possible increased hiring pace.

**Industrial Production**  
Latest December 2011

Linked Month-  
over-Month (%)

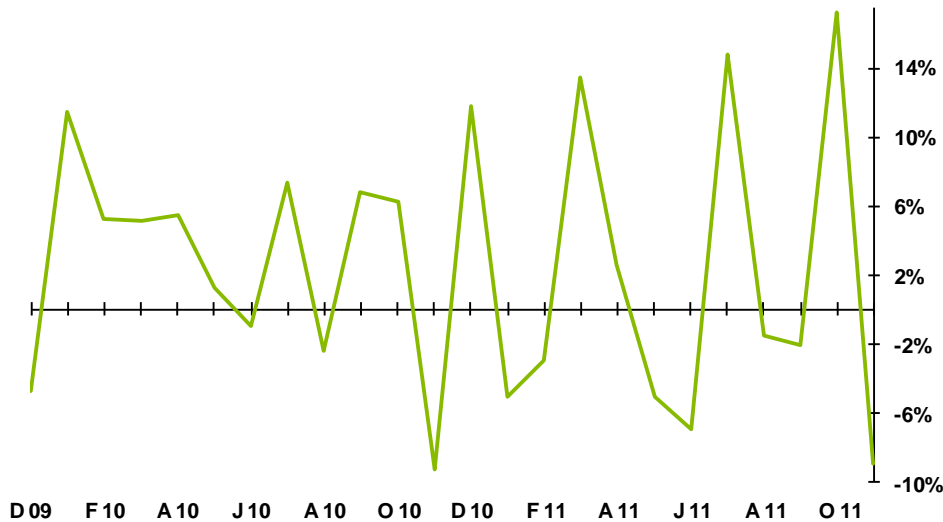


- December overall ISM Manufacturing index is 54.1. Sustained > 50 is favorable for growth. Sustained < 50 indicates contraction.
- December's 0.4% increase was favorable vs. November's revised -0.3% decline in Industrial Production.

# Key Recession Measures (cont'd)

Macroeconomic Advisors Monthly Real GDP Estimate  
Latest November 2011

Annualized Growth:  
Month-over-month (%)



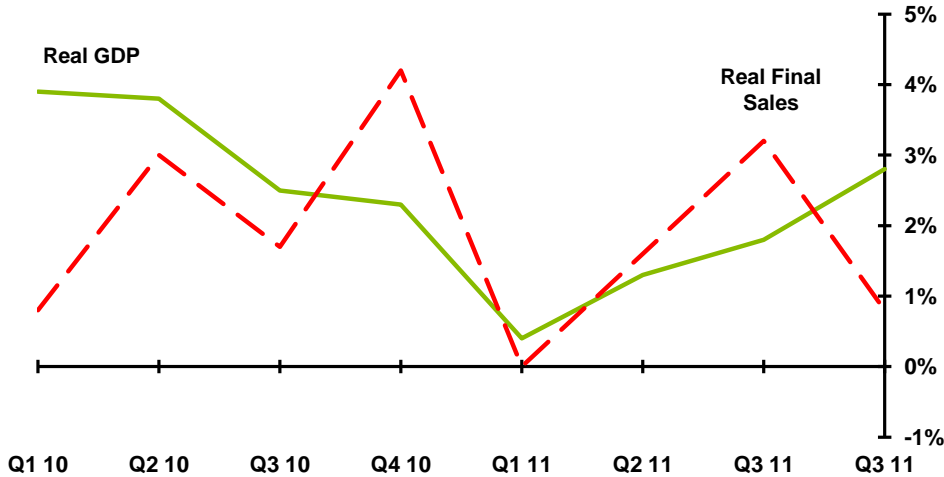
- Index (Macroeconomic Advisors) models monthly real GDP growth. One of the 10 official recession criteria.
- November 2011 real GDP was estimated as -8.9% vs. October (on a seasonally adjusted annualized basis). The sharp November drop partially reversed an even larger upward spike in October (both of which were largely due to a changes in inventory investment). Domestic final sales posted a decent gain in November.
- Latest Macroeconomic Advisers estimate, 1/17/12, was 3.0% growth for Q4 s.a.a.r. The 1<sup>st</sup> formal governmental estimate of Q4 GDP (on 01.27.12) was 2.8%.

# Overall Economy



**Real GDP (Seasonally Adjusted Annualized Growth)**  
**Latest Q4 2011: 1st Official Estimate**

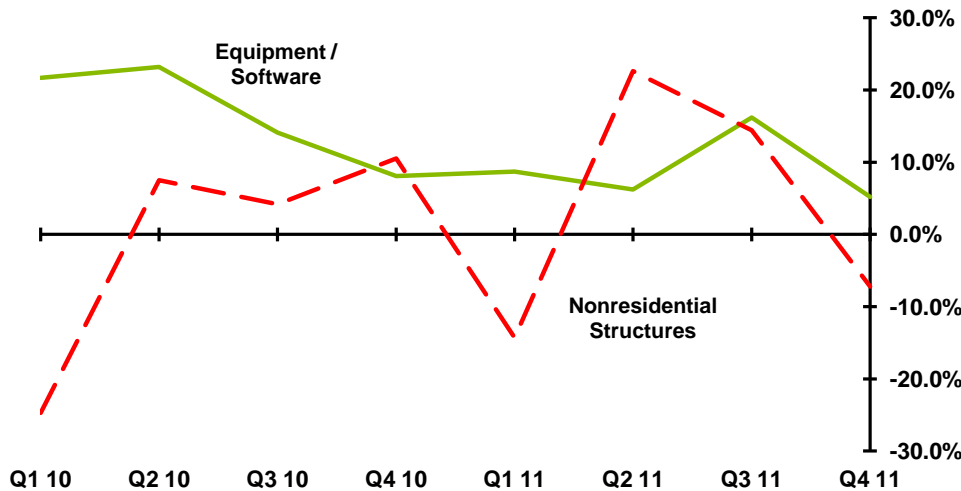
*Annualized Growth (%)*



- Government's 1st estimate of Q4 2011 real GDP annual growth was 2.8%, slightly below expectations. Changes in private inventories added +1.9 percentage points to Q4 2011, or 70%. Six more editions over next five years with likely major revisions.
- The consensus forecast for real GDP growth in 2012 is between +2.0% and +2.5%.

**Gross Private Domestic Investment**  
**Latest Q4 2011: 1st Official Estimate**

*Linked Quarter Change (%)*

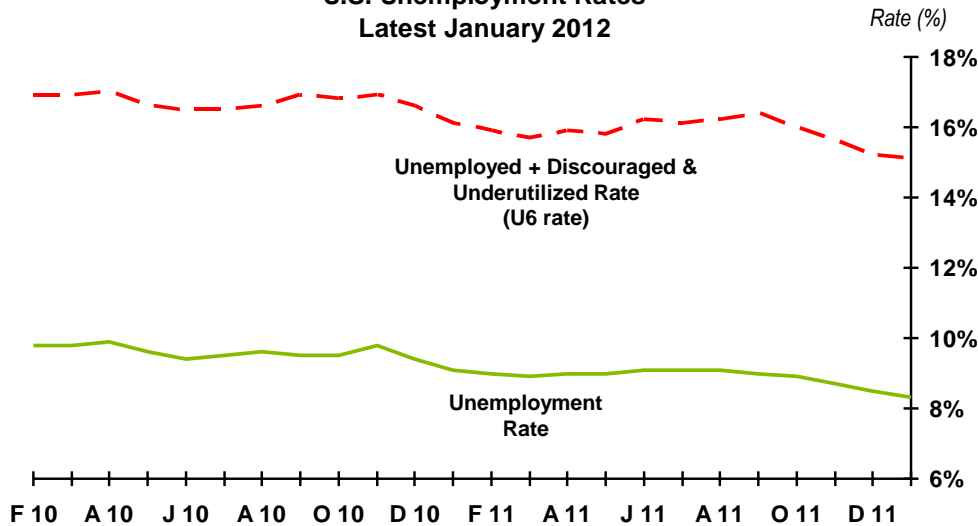


- GDP Equip/Software growth Q4 12 E1 of +5.2%, down from +16.2% in Q3 2011. Replacement and obsolescent demand will likely fade.
- Low expansion incentive for Nonresidential Structures. Q4 2011 E1 of -7.2% contraction declined sharply from the strong 14.4% growth in Q3 2011. Much of current investment appears to be remodeling.

# Overall Economy (cont'd)

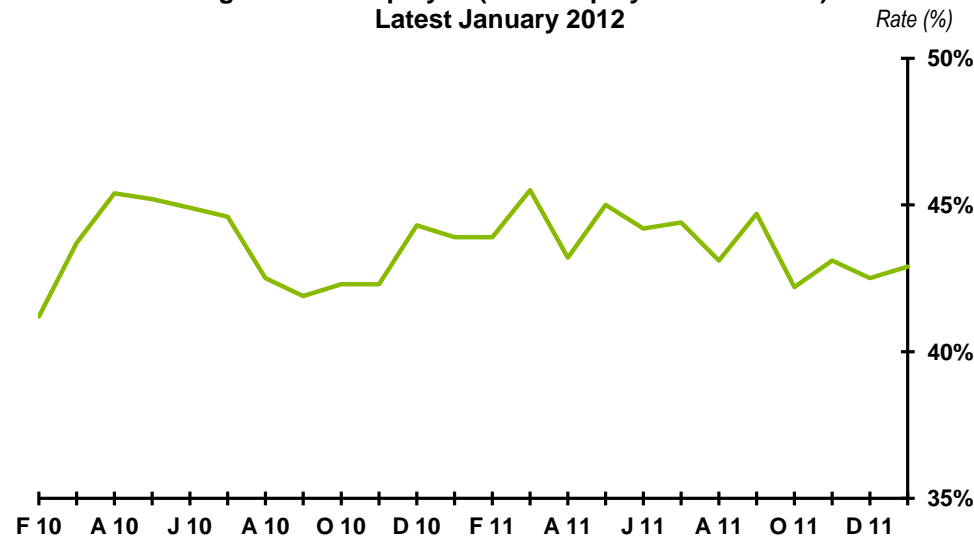


**U.S. Unemployment Rates  
Latest January 2012**



- The unemployment rate in January was another pleasant surprise, declining from 8.5% in December to 8.3% in January (expectation was for it to stable at 8.5%). The January unemployment rate is the lowest since February 2009.
- Businesses continue to say they are somewhat reluctant to hire: 1) weak demand; 2) highly productive existing workforce; 3) very unreliable expense forecasts (e.g. health care); 4) scarcity of qualified, skilled workers; and 5) fiscal freeze fiasco in Washington, which adds to planning difficulty.

**Long-Term Unemployed (% Unemployed > 27 weeks)  
Latest January 2012**

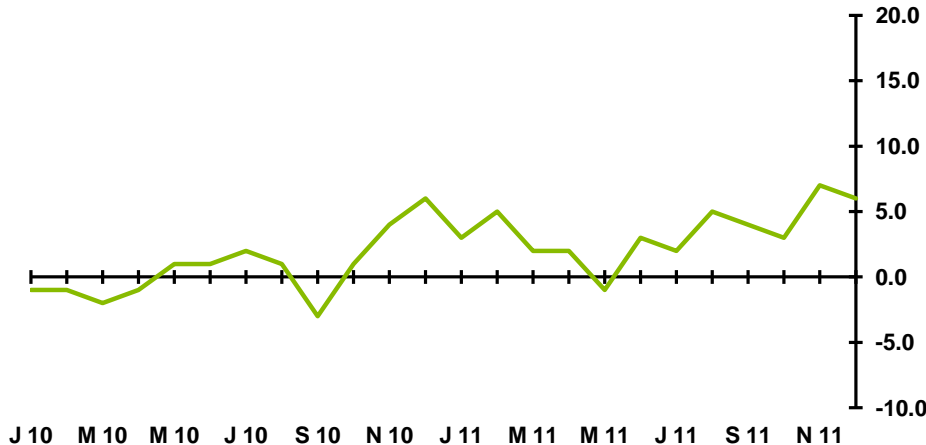


- Percentage of unemployed who have been without work for  $\geq 27$  weeks rose steadily from 16.8% in March 2008 to 45.4% in April 2010.
- The percentage increased slightly to 42.9% in January from 42.5% in December. Percentage has been in excess of 40% for 26 consecutive months.
- Increasingly difficult to get a job for those unemployed a long time. Growing problem with social and political implications.

# Overall Economy (cont'd)

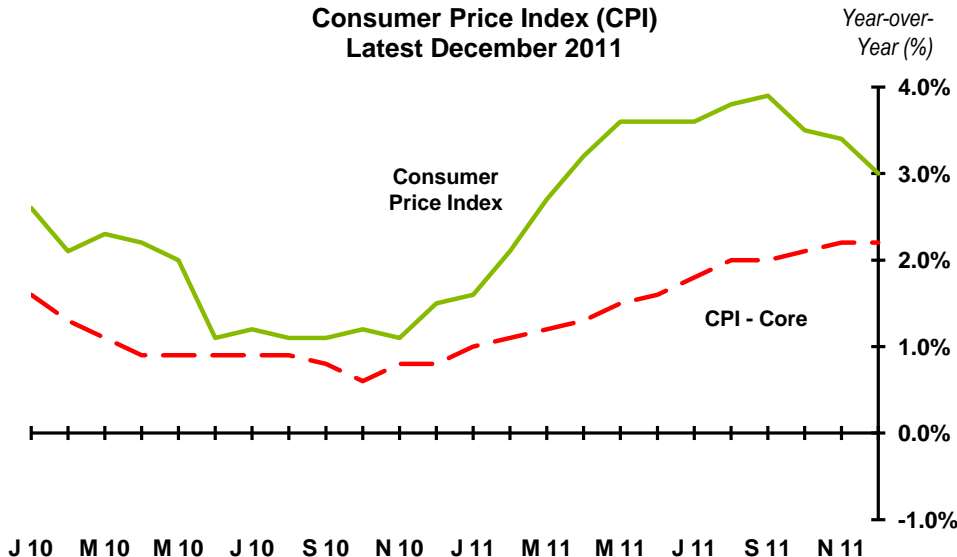


**NFIB% Net New Hires Next Three Months**  
 % Hire - % Layoff: Latest December 2011



- Highlights net hiring plans for the next three months of small business owners. Group has 350K members (businesses with < 500 employees). Small business historically has generated approximately 65% of all jobs in the U.S.
- Decreased slightly from 7% in November to 6% in December. The small business community continues to face many uncertainties relative to hiring.
- Range from 1997 to Present: -10 to +22.

**Consumer Price Index (CPI)**  
 Latest December 2011

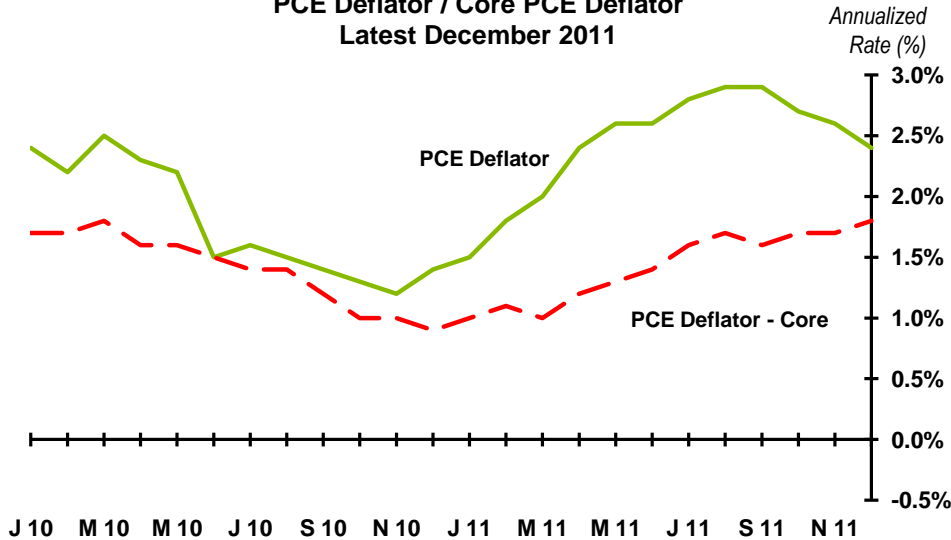


- Fed emphasizes current inflation is not a problem.
- CPI Core inflation of 2.2% December 2011 equal to November rate. Highest core inflation rate since October 2008. But, Fed says “transitory” and focus is on high unemployment now. Says Congress must act.

# Overall Economy (cont'd)

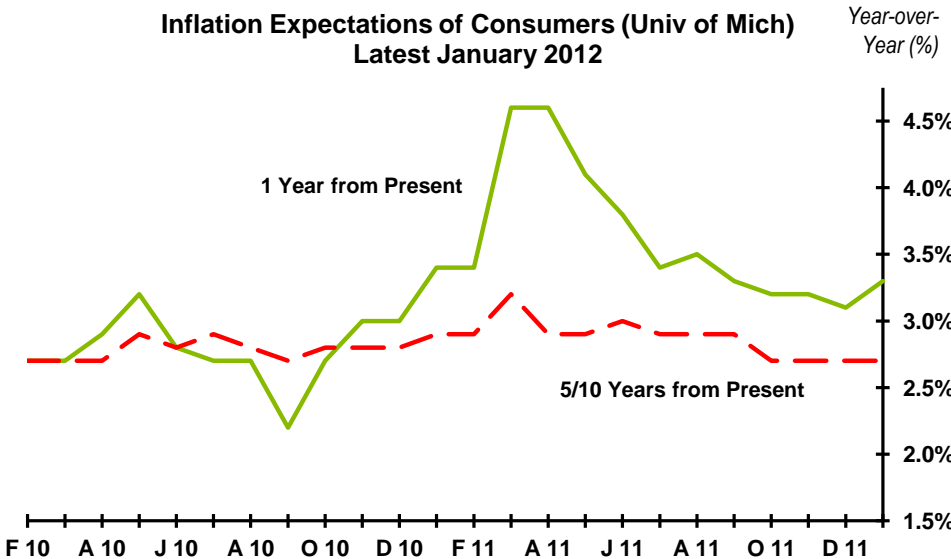


**PCE Deflator / Core PCE Deflator  
Latest December 2011**



- PCE Core inflation of 1.8% year-over-year December, up from November's 1.7% inflation rate.
- Fed wants the PCE Core rate policy benchmark at a 1.7% to 2.0% run rate. Will accept higher inflation to get lower unemployment.

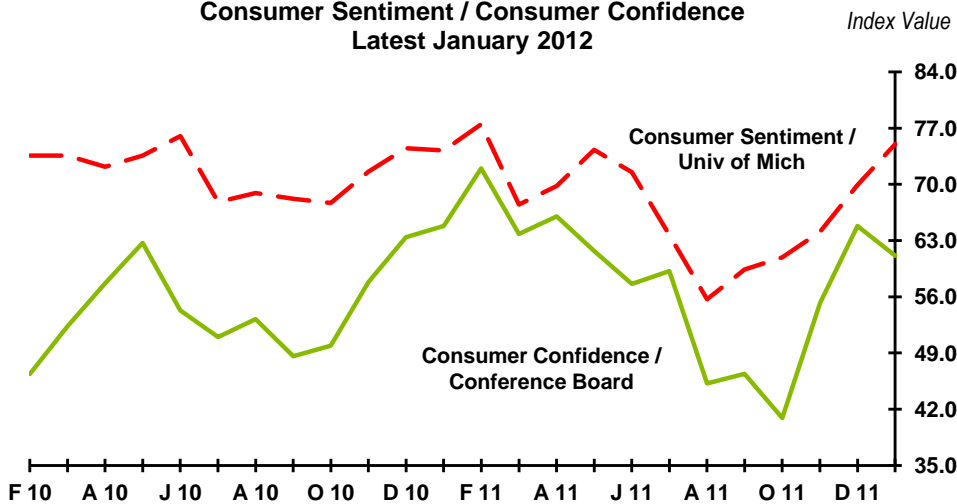
**Inflation Expectations of Consumers (Univ of Mich)  
Latest January 2012**



- In January, one-year inflation expectations by consumers increased to 3.3% from 3.1% in December, likely related to increasing gas prices.
- Key Fed policy criteria. Fed emphasizes the more acceptable, 2.7% 5 to 10 year expectations rate.

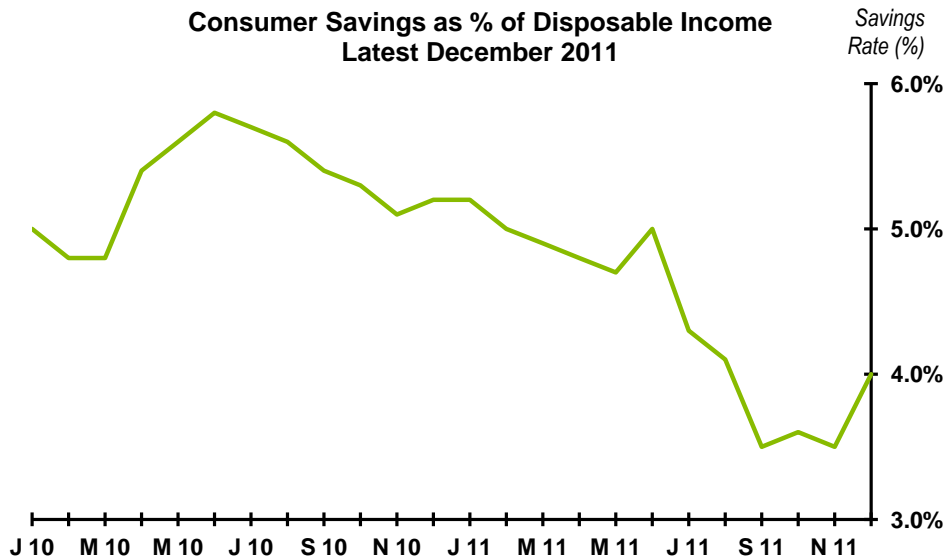
# Consumer

**Consumer Sentiment / Consumer Confidence**  
Latest January 2012



- Confidence indices have generally improved since the trough in the fall of 2011, but remain relatively low by historical standards. Consumers remain concerned about jobs and national fiscal policy gridlock.
- Since inception: CB, 2/67, 145 - 25; UM, 1/78. 112 - 52. CB more sensitive to employment.

**Consumer Savings as % of Disposable Income**  
Latest December 2011

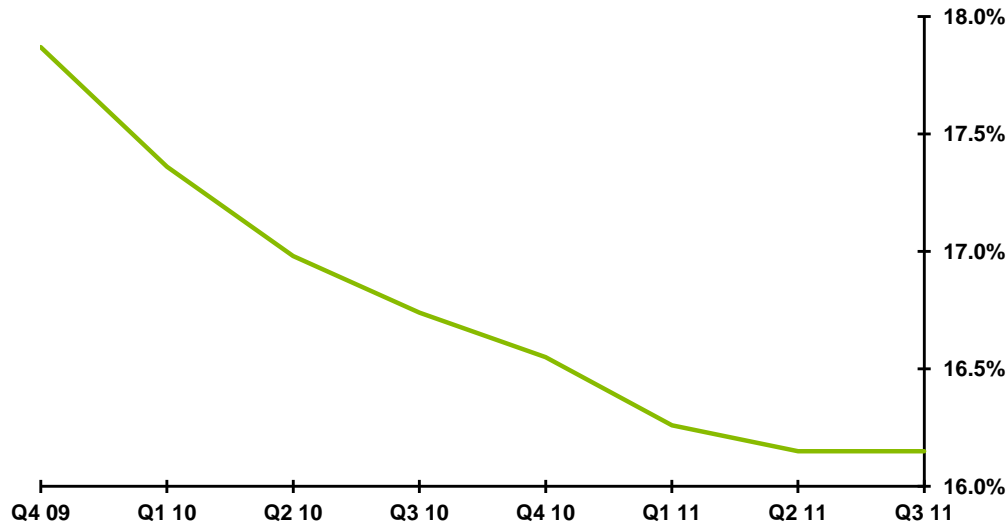


Source: Federal Reserve

- Today's high energy and food prices provide relatively less discretionary income available for saving.
- Long-term shift to higher savings rate is evolving. Approximate range 1960-1990: 6% to 12%.
- Increasing savings = decreasing spending ("all other factors unchanged").

# Consumer (cont'd)

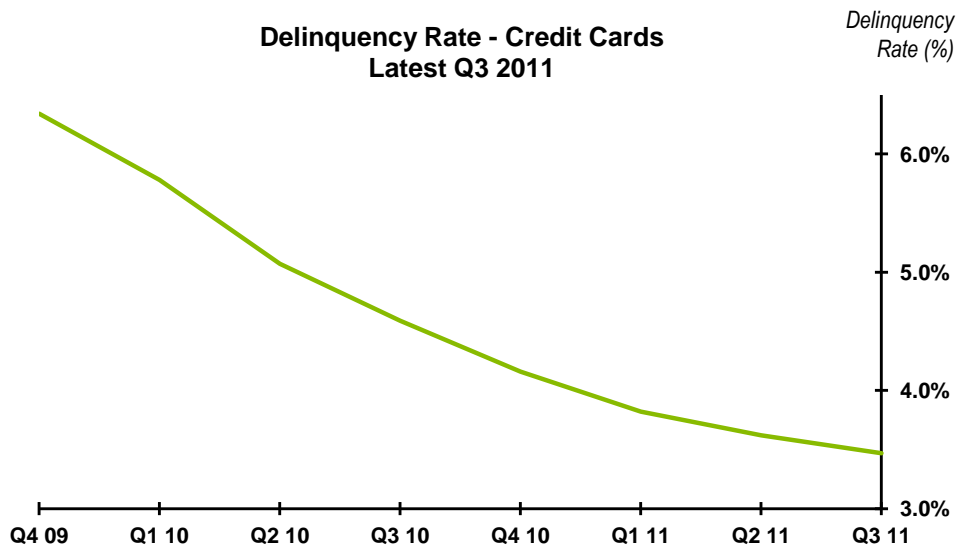
**Consumer Financial Obligation Ratio  
Latest Q3 2011**



Source: Federal Reserve

- Long-term structural changes are occurring as consumers reduce required payments and raise savings. Combination is a dampening influence on consumer spending.
- Ratio was 16.15% for Q3 2011, equal to Q2's revised ratio. Range since inception, 1980: 15.45% low Q4 1980, 18.86% high Q3 2007.

**Delinquency Rate - Credit Cards  
Latest Q3 2011**



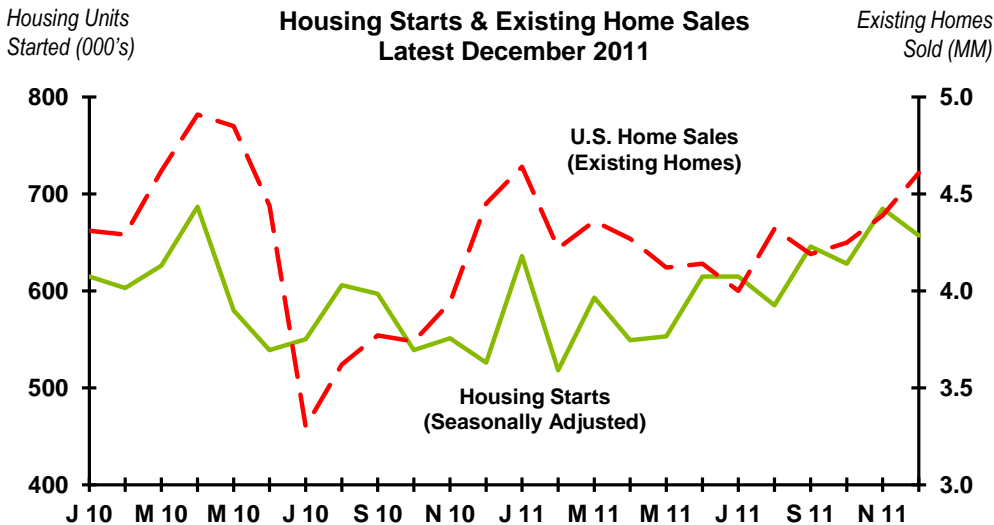
Source: Federal Reserve

- Credit card delinquency rate has declined the last 9 quarters, and as of Q3 2011 was at its lowest rate since Q1 1995. Great Recession peak was 6.76%.
- Range from 1994-2007: 3.24% - 5.00%.

# Housing

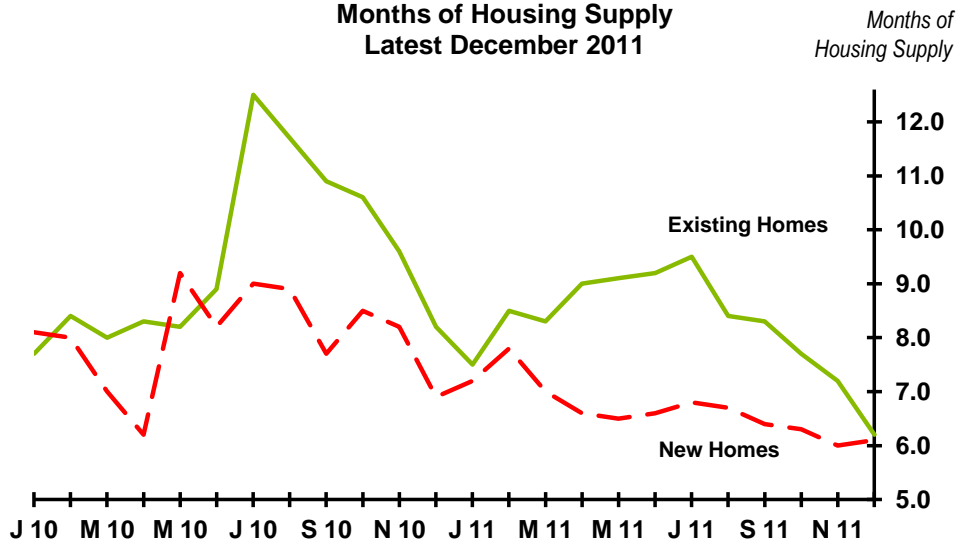


**Housing Starts & Existing Home Sales  
Latest December 2011**



- December housing starts at a seasonally adjusted annual rate of 657,000, down from 685,000 for November. No change in weak underlying conditions.
- Existing home sales increased from 4.39MM (revised) in November to 4.61MM in December. Very low historically.
- Pending foreclosures. Strategic defaults. Heavy invisible inventory.

**Months of Housing Supply  
Latest December 2011**



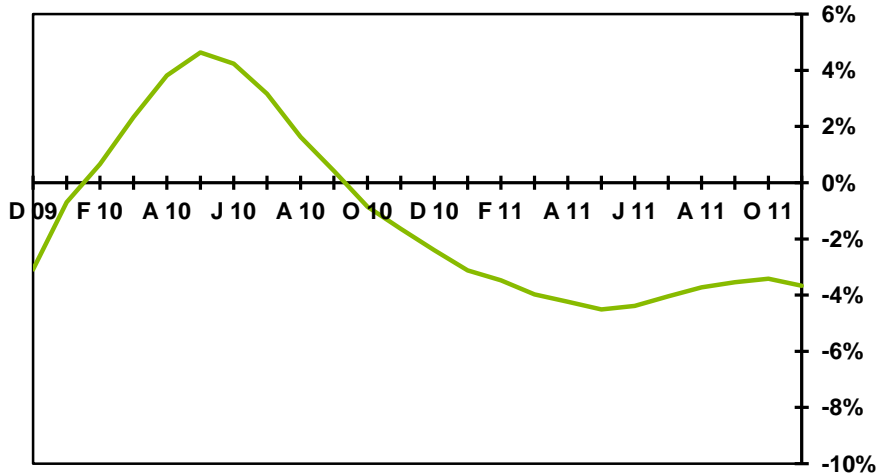
- Existing home inventory ratio was 6.2 months in December, down from November's 7.2 months. Lowest ratio since April 2006. Ratios ran in the 4x to 5x range from 1999 to 2006. Still, some industry sources estimate "invisible inventory" at  $\geq$  the visible inventory.
- New home inventory ratio was 6.1 months in December, up slightly from 6.0 months in November. November was the lowest level of inventory since March 2006.

# Housing (cont'd)



Case-Shiller 20 Metro Home Price Index  
Latest November 2011

Y-O-Y Price  
Change (%)

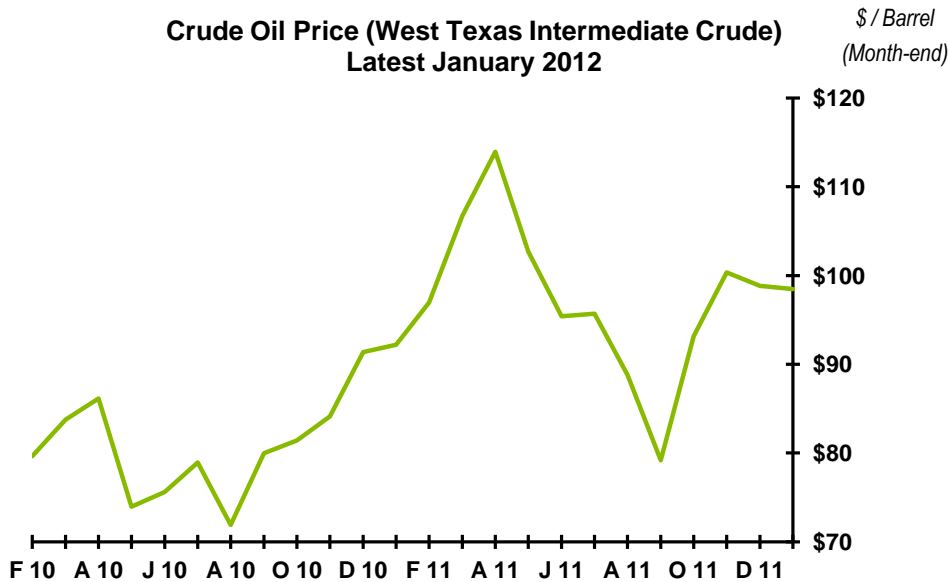


- Double-dip continues. Trends in sales and construction are disappointing.
- The index declined – 3.7% in November (the latest data) from a year earlier, the 14<sup>th</sup> consecutive decrease. 18 of the top 20 MSAs were down year-over-year, including Atlanta (–11.8%, worst in the 20 city index), Tampa (– 6.1%), Miami (– 4.4%) and Dallas (– 0.8%). Only Washington D.C. (+0.5%) and Detroit (+3.8%) had year-over-year increases.

# Business / Energy

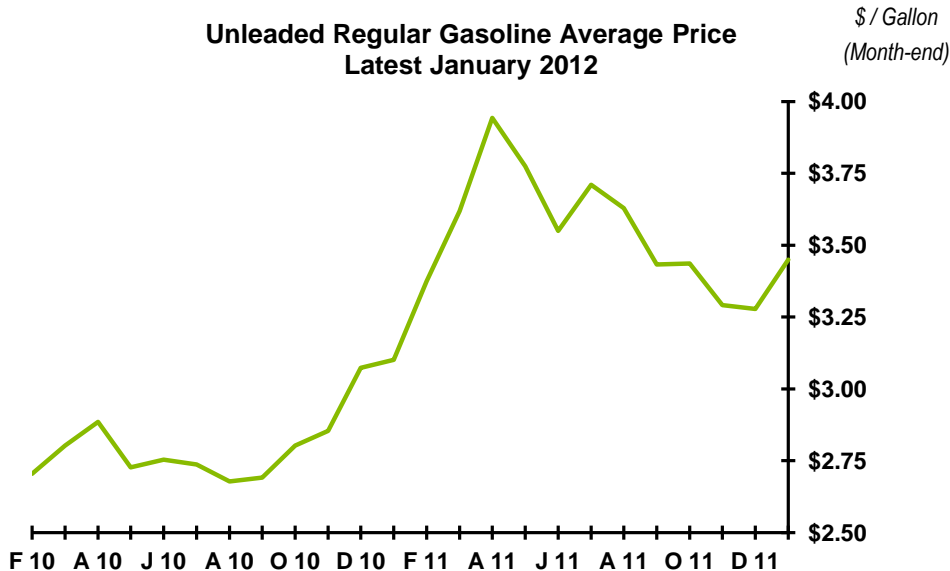


**Crude Oil Price (West Texas Intermediate Crude)**  
Latest January 2012



- WTIC oil price was relatively stable in January, closing the month at \$98.48 (month-end), down very slightly from \$98.83 at month-end December. Fluctuating foreign demand, speculators, the continuing Mid East political turmoil, European financial questions, and an uncertain US\$ outlook remain major influences. **\$96.77 2/6/12.**

**Unleaded Regular Gasoline Average Price**  
Latest January 2012

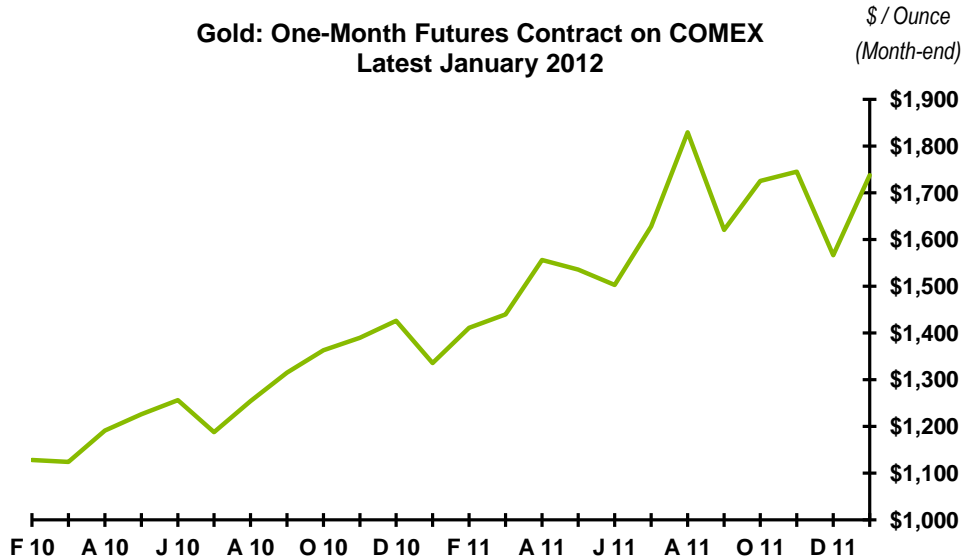


- Prices increased sharply in January to close the month at \$3.45, up \$0.17 vs. month-end December. There have been several announcements in recent months of refinery closures that will likely impact gasoline supplies (and prices) on the East Coast. **\$3.48 2/5/12.**

Source: American Automobile Association (AAA)

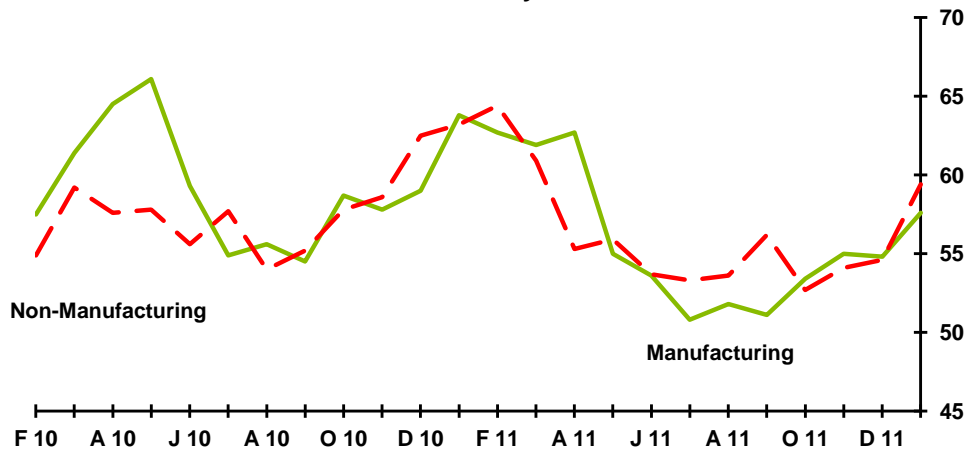
# Business / Energy

**Gold: One-Month Futures Contract on COMEX**  
Latest January 2012



- Gold prices, which had declined sharply in December, bounced back in January, as one-month futures closed at \$1,738 on 1/31, up from \$1,567 on 12/30.
- Volatility reflects continuing inflation concerns, a flight to quality as a result of the recent turmoil in the Mid East and Europe, the US fiscal fiasco, and other world events. **\$1,718 2/6/12.**

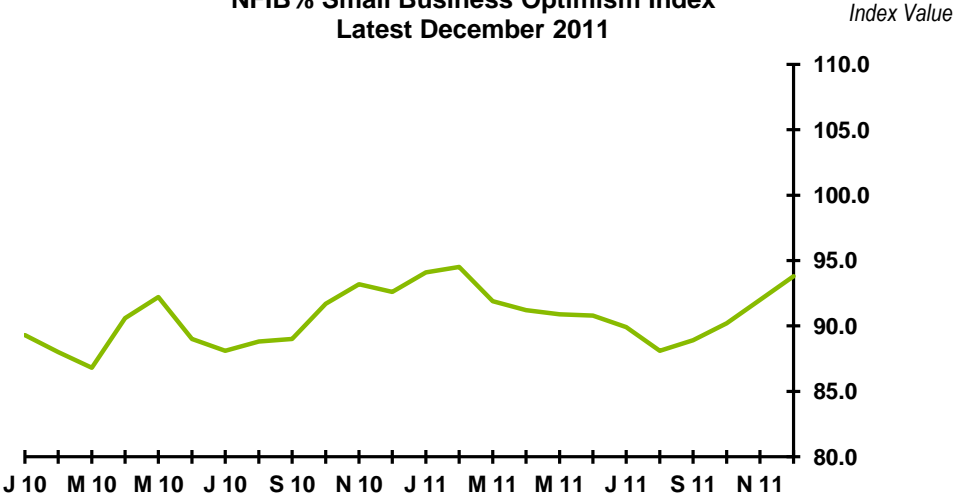
**ISM New Orders Index**  
Latest January 2012



- The Manufacturing New Orders index increased to 57.6 in January from 54.8 (revised) in December and was at its highest point since April 2011.
- The Non-manufacturing new orders index rose to 59.4 in January from 54.6 in December, and was the highest since 60.9 in March 2011. Now solidly >50, growth threshold.
- As unfavorable consumer spending fundamentals press-on, these business measures may face more challenging headwinds.

# Business / Energy

**NFIB% Small Business Optimism Index  
Latest December 2011**

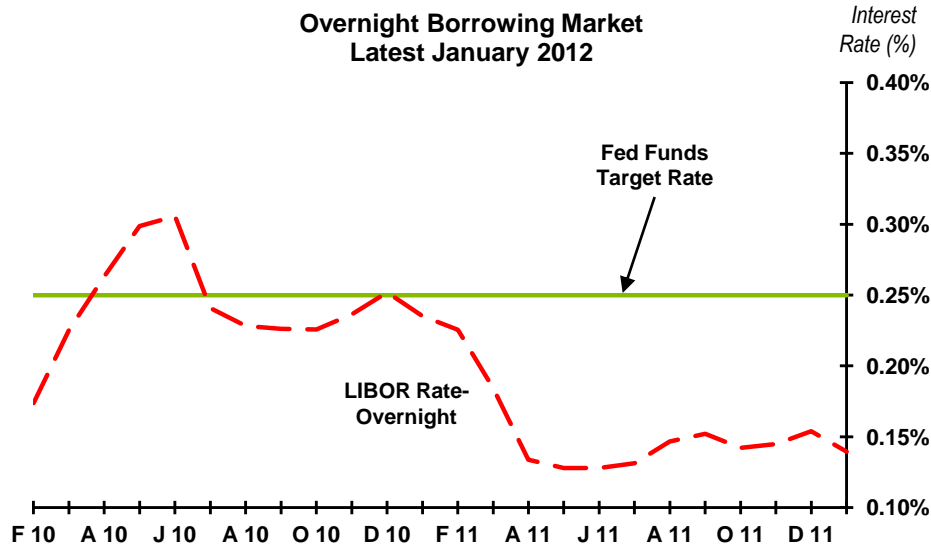


- Index highlights the general optimism of small business owners. Group has 350K members (businesses with < 500 employees). Small business historically has generated approximately 65% of all jobs in the U.S.
- Increased from 92.0 in November to 93.8 in December. Fourth straight monthly increase after six straight months of declines.
- Range from 1997 to Present: 81 – 108.

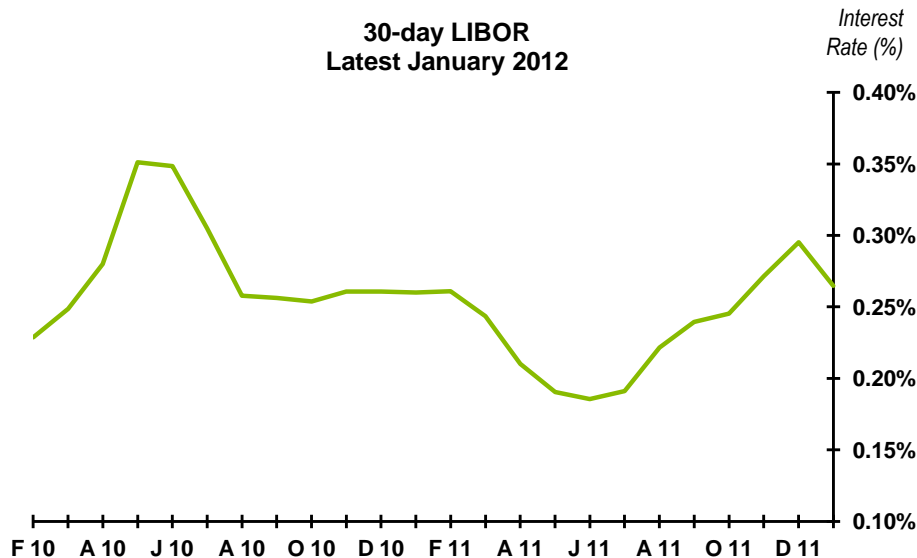
# Interest Rates



**Overnight Borrowing Market  
Latest January 2012**



**30-day LIBOR  
Latest January 2012**



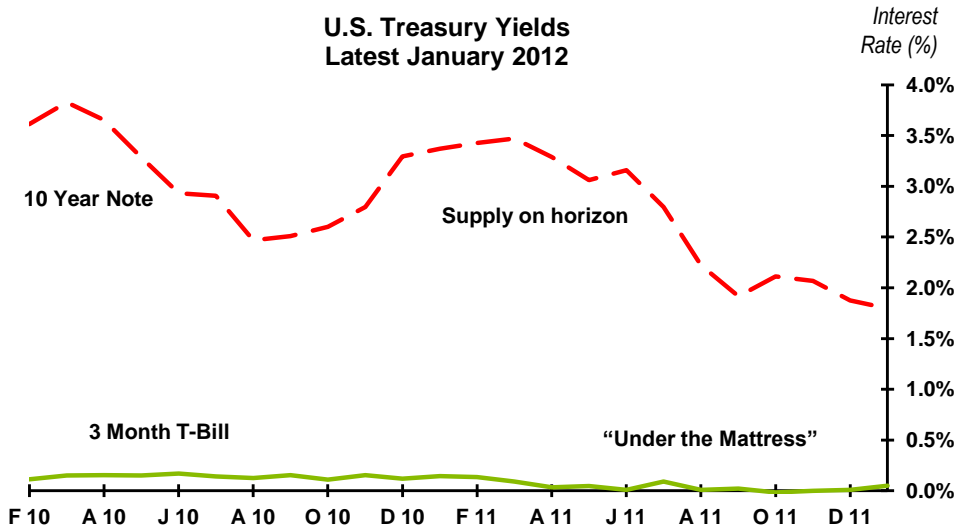
- Minutes of the Fed Dec. 13 monetary policy meeting provided details of the Fed's transparency move:
  1. Each quarter, FOMC members will release their Fed Funds forecasts over the next few years.
  2. FOMC members will publish their estimates for the expected timing of the first Fed Funds Target Rate increase.
  3. Fed officials will publish qualitative info about the size of Fed security holdings.
- The Fed continues to attempt to provide, hopefully, more clarity and stability in influencing monetary conditions – at a time when fiscal policy mismanagement is a major economic burden.

- One-month LIBOR was 0.26% on 1/31, down 4bps from 12/30.
- The one-month LIBOR in December (month-end) was the highest since July 2010.

# Interest Rates (cont'd)

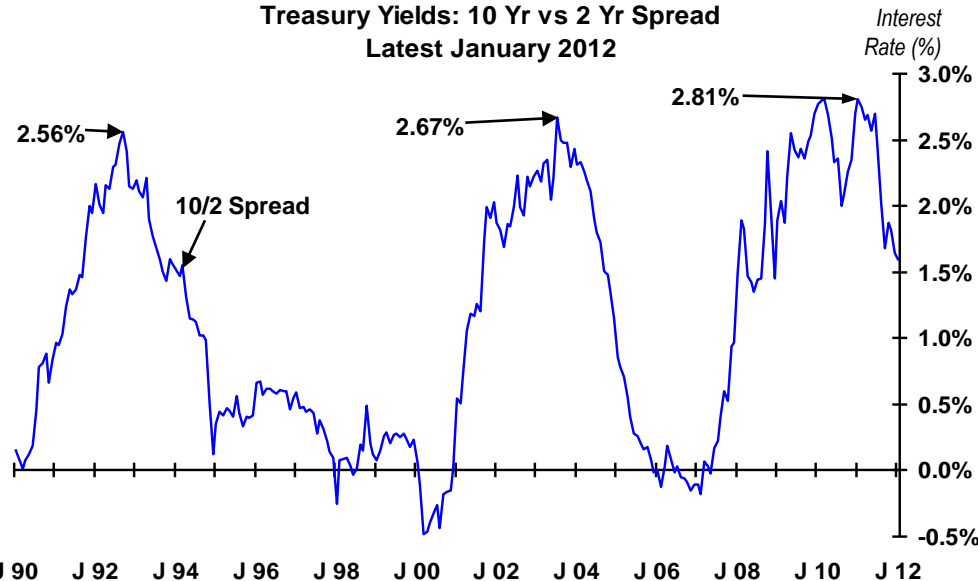


U.S. Treasury Yields  
Latest January 2012



- The 3-month T-bill was at 0.05% on 1/31/12.
- Current pressures: US fiscal gridlock vs. worldwide flight to quality.
- The recent decline in 10-year rate is, among other factors a flight to quality and a result of the Fed's recently announced intent to reduce long-term rates. **1.94% 2/6/12.**

Treasury Yields: 10 Yr vs 2 Yr Spread  
Latest January 2012

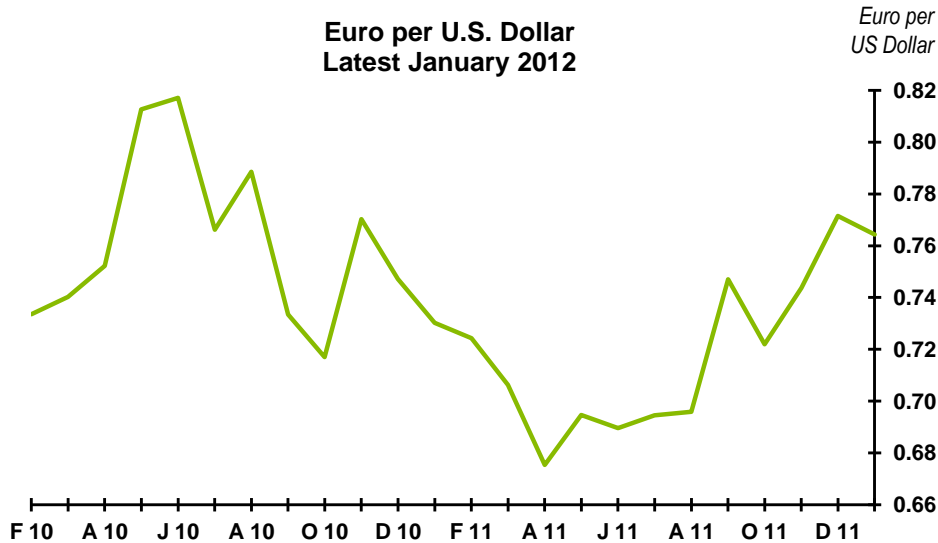


- January 2012: 10 yr vs. 2 yr spread at 1.59%, down 5 bps from 1.64% in December. 25-year peak of 2.81% hit in March 2010 and again in January 2011.
- Previous peaks were 2.56% in September 1992 and 2.67% in July 2003.

# Exchange Rates

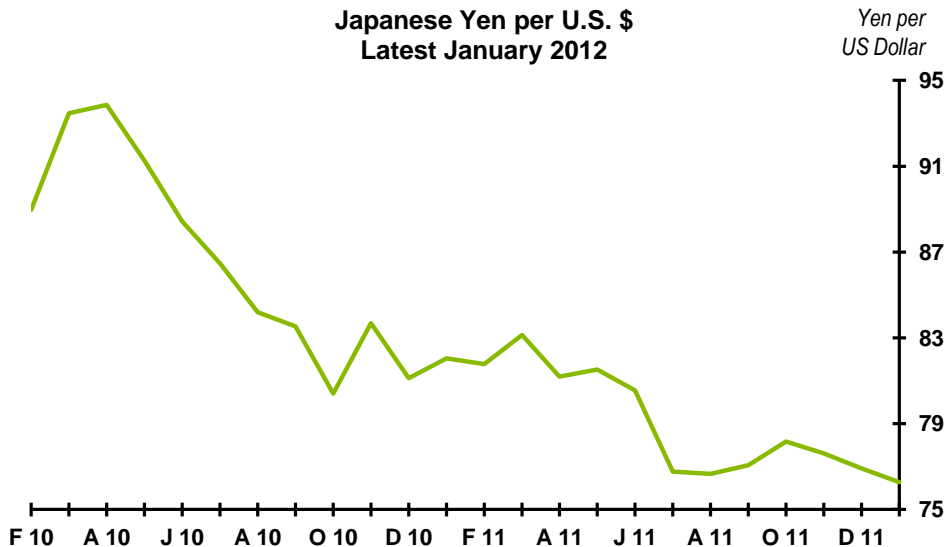


**Euro per U.S. Dollar**  
Latest January 2012



- The dollar fluctuated vs. the Euro in January, closing at 0.764 on 1/31, down slightly from 0.777 on 12/30. In December, the U.S. Dollar was at its highest level against the Euro since August 2010. The ongoing European financial crisis is a major contributing factor to the recent swings in the US\$. Confidence in US fiscal and monetary policy? **0.765 2/6/12.**

**Japanese Yen per U.S. \$**  
Latest January 2012

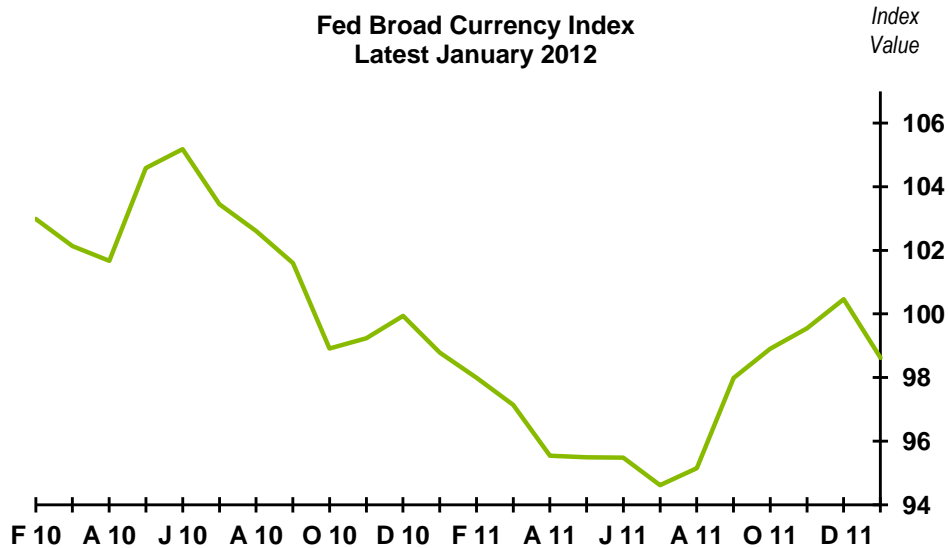


- The dollar declined against the yen in January (month-end vs. month-end). Declined to 76.27 on 1/31 from 76.91 on 12/30. **76.62 2/6/12.**

# Exchange Rates (cont'd)



Fed Broad Currency Index  
Latest January 2012



- U.S. Dollar, as represented by the Fed trade-weighted Broad Currency Index of 25 currencies, decreased in January, as it continued to be affected (both positively and negatively) by the European debt question.
- The index decreased to 98.62 in January from 100.46 in December, which was the first time the index had exceeded 100 since September 2010.

## Explanation Notes

- › Monthly economic data report includes 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; and 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.

*Information contained herein is based on data obtained from recognized sources believed to be reliable. This information has not been verified by us and we do not make any representations about its accuracy, completeness or reliability. Any opinions expressed are solely those of the author and are **subject to change** without notice.*