



Decelerating economic data seemed to be validating spreading fears of a double-dip recession ...

On the Other Hand Economic Insights

Second Quarter 2010



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Catch a Falling Knife, Anyone?

Well, like it or not, it was going to happen sometime: the first down quarter for stocks out of five. The preceding year-long rally was terrific. From the March 2009 financial crisis low through April 26, 2010, the S&P 500 Index soared 82.9%, bottom tick to top, with the Dow Industrials trailing just a bit, up 74.0%. The rally came to an end as worries mounted about whether the current recovery would continue, whether a Lehman-style credit freeze will extend the financial crisis in the Euro area, and whether poor public policies of fast rising taxes and burdensome regulation around the world would stifle the nascent recovery. Decelerating economic data seemed to be validating spreading fears of a double-dip recession and the continuing oil disaster in the Gulf of Mexico was an added blow to U.S. investor confidence.

This quarter was somewhat similar to the period following the Lehman bankruptcy in that macro-economic concerns boosted prices of safe-haven assets and returns for the most risky assets were highly correlated, i.e., they were all negative. U.S. Treasury bonds, Japanese governments and gold were about the only assets with positive returns. The Barclays Capital benchmark for U.S. long-term Treasury bonds had a total gain for the quarter of 12.0%. The perpetual futures contract for gold jumped 11.9% and the U.S. dollar index rose 6.2%. Of the 19 major currencies, the dollar fell only against the Japanese yen; the euro plunged 9% against the U.S. dollar as fears widened of eventual defaults by debt-laden Club Med countries.

The S&P 500 lost 11.9% for the quarter and the Dow Industrials fell 10.0%. But the carnage was broad-based. The MSCI World Index fell 12.7% weighted down by the MSCI Europe Index, down 16.5%; a key Greek index plunged 30.6%. Emerging markets were not spared as the MSCI Emerging Index fell 9.1%. As Chile recovered from the earthquake, its stock market rallied, with a main index up 8.0%. Asia was the best performing area as markets in Philippines, Indonesia, Thailand, India and South Korea were all up modestly for the quarter. China equities were the exception in Asia as the official clampdown on real estate slashed property sales, concern broadened about slower growth and the Shanghai Composite equity index plummeted 22.9%,

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After the market peak on April 26th, investors cut risk across all asset classes and credit spreads widened. The S&P 500 Index corrected by 15.0% so far; U.S. and MSCI defensive sectors lost the least: telecoms 4.9%, 9.5%, utilities 7.4%, 12.7%, staples 8.5%, 8.2% and health care 9.1%, 9.0%, respectively. While small and mid cap indices beat large caps for the quarter, they lagged as expected during the correction from the late April peak. Growth versus value was mixed in the large cap indices, but growth had better returns than value stocks among small caps. Corporate bond yields widened against rates on U.S. Treasuries, but Treasury yields fell more than spreads widened, so the return to high quality corporate bonds was positive.

As bad as the quarter was, there have certainly been much worse, such as the fourth quarter of 2008 when the S&P 500 plunged 22.5%; that was the biggest drop since the fourth quarter crash of 1987, down 23.2%. Since the 1920s, though, the biggest three month collapse was the second quarter of 1932 when the index sank 39.4% near the low for the Great Depression. That was the last of five straight quarters of negative returns beginning with the second quarter of 1931; over those 15 months the precursor to the S&P 500 Index lost a total of 73.4% of its value, a horrendous period for investors.

So, What's Bothering the Stock Market?

It's likely not earnings or valuation, since U.S. stocks don't seem overvalued. The price/earnings ratio (PE) of the S&P 500 Index at the end of June using operating earnings was 14.3, the lowest since 1990. Using reported earnings, the PE ratio was 16.2, the lowest since June 1995, a little below 16.9, the long term average from 1925. Using the Shiller method to compare prices to a 10-year average of earnings, the PE is 20.8. That sounds high, but is still the lowest since the end of 1990 except during the financial crisis; and it is also only slightly higher than its 75-year average of 20.3. We also expect the first quarter reporting period, starting soon, to show earnings as exemplary as the last several quarters. After all, economy-wide profits in the first quarter rose 8.0% over the fourth quarter, an upward revision from the 5.5% jump in the prior GDP estimate; that's almost a 35% annual rate and continues

the spectacular trend of the second half of 2009. With sales rising and hiring still slow, the profit outlook for the rest of the year should continue reasonably strong. So the stock market fundamentals and valuation appear pretty good.

Is it just plain fear or negative momentum, where a falling stock market induces more selling the lower it goes? It's possible for a couple of reasons. First, studies in Behavioral Finance show that the more recent the event, the more people expect the event to reoccur; i.e., investors expect recent events to happen again with greater than actual probability. The trauma of the financial crisis was just 18 months ago, so investors naturally agonize about its return, rushing into safe havens at the first hint of danger. That fear is likely what kept lots of money flowing into bond funds and very little into equity funds over the last five quarters.

Second, a herd mentality is instinctively hard-wired into all of us from our hunter-gatherer ancestors over many millennia. Just as the entire herd moves the instant the first wildebeest or gazelle senses a lion, prehistoric man watched others in his tribe to know when danger was afoot. In general, it feels safer and is more satisfying to buy when others are buying and sell when others are selling. This is why momentum investing often works and may be what underlies at least some of technical analysis.

Neither is the stock market's problem "irrational exuberance" from the April peak. Stocks climbed a tremendous wall of worry during their 13-month monster rally. Flows into equity funds were nil; confidence was rising but only from very low levels; investors felt forced to be fully-invested because the rally was so robust, even though most were bearish; the losses had been so severe, few were brave enough to buy. Many investors lost their trust in equities for the long term or in financial markets altogether; getting that confidence back will be very difficult.

"It's the Economy, Stupid"

Stock market worries are surely all about growth. At this stage of the business cycle, it's hard for investors to distinguish between, 1) a typical deceleration of

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growth as the rapid recovery of industrial production reverts to trend and turns into a more moderate but sustainable economic expansion, and 2) the start of a more severe slowdown or double-dip recession. During the crisis, business slashed production way below sales so inventories reached record low levels; output had to be ramped up at least to match sales. The ensuing V-shaped surge of industrial production off that panic-induced low is now slowing and investors, recalling the financial crisis, are especially edgy, worrying that growth is about sputter again.

Current data seems to be validating that concern. In the United States, jobless claims above 450,000 are too high to indicate strong job creation even though most other employment indicators are better. The last payroll report was disappointing as both hours and wages fell slightly and the household survey showed over 300,000 fewer people working. Vehicle sales in June dropped to an 11.1 million (m) annual rate from an 11.6m rate in May. The purchasing manager index (PMI) for manufacturing fell from 59.7 to 56.2 in June, indicating a slower but still solid expansion. House prices are in a very slow uptrend, but home sales have collapsed from the end of tax incentives. Consumer confidence is in a rising trend, but is still very low. The official PMI for China dropped again in June to 52.1 from 53.9 in May suggesting further moderation in manufacturing activity; property sales have vanished and prices are beginning to edge down in Beijing and Shanghai. Europe is in the throes of a sovereign debt crisis with a severe recession in Spain and Greece, but perhaps the end of one in Ireland. After the plunge in the euro, the German export engine will be revving up but growth, if any, in the rest of 'Euro-land' will be very slow.

Global Rebalancing

Besides the natural and expected moderation of growth after a production surge to stop the inventory liquidation, there is another economic transition that is helping temper U.S. growth. As income rises in China from boosts in wages and salaries, consumer demand will become a bigger driver of economic growth and China's dependence on exports to drive employment will lessen. The trade surplus in China has already fallen

substantially; there was even a slight trade deficit in March. Beijing officials have restarted their currency reform and the renminbi has already jumped about 0.7% in just two weeks. No one expects that rate of appreciation to continue, but a stronger currency gives Chinese consumers more purchasing power on the world market.

The counterpart of that in the United States is a smaller trade deficit, higher household savings, more modest consumer spending growth, strong business investment and a greater focus on exports of both goods and services. In 2009, the United States added another year to its history as the largest producer of manufactured goods in the world with 19.9% of the total. This rebalancing toward exports will further that strength even though exports of services are becoming an increasing share of total exports, 30% in 2007.

But this change in emphasis toward exports and away from an almost sole focus on consumer spending as the driver of U.S. growth requires some restructuring within the economy. That is indeed happening as the saving rate is up to 4%, the trade deficit has already shrunk by 60%, capital spending is rising at a 10% rate and consumer spending growth is expected to grow only a modest 2% to 2.5% in 2010 and 2011. But these changes take time to enact. Some construction workers will find their jobs are not coming back even if the recovery continues; some jobs in finance and real estate that supported that construction may also have disappeared for good.

The best way to deal with these changes is to have a vibrant, flexible, innovative and creative economy that can change, adapt and grow into these new and different roles. China's vibrant private sector is adapting quickly to these changes, moving up the supply chain, trying to build local brands and concentrating on domestic demand. Flexibility and innovation have always been U.S. strengths and hopefully that will continue; but it's disappointing to see U.S. public policy veer away from supporting that adaptability. The huge increase in taxes already passed by Congress or planned for next year, plus the attendant uncertainty around the effects on business of massive changes

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in health care and financial regulation are likely already restricting job creation and investment and hampering economic growth.

A Look Ahead

The downside risk to growth has clearly risen in recent weeks. And our forecast for U.S. growth has also ticked down slightly to 3.0% for 2010 and 3.1% for 2011. We expect consumer spending to grow at the modest rate of 2.0% to 2.5% as the household savings rate slowly rises to 5% or above. Rather than a “New Normal” of very anemic U.S. growth over the next few years, we see a “New Balance” with the impetus for expansion coming from a broader group of forces as described above: pent-up demand for capital spending, net exports as emerging markets continue their fast growth, a slow pace of inventory accumulation and modest consumer spending. Nevertheless, uncertainty around the new regulatory changes may keep job growth slower and the unemployment rate higher at year-end than desired, expected to be 9.3% or so.

The key to growth is final demand; and it only rose 0.8% in the first quarter. We expect final demand to pick up through next year for several reasons. Despite the recent downbeat jobs data, wage and salary income is still rising. Aggregate hours and average hourly earnings are still in a rising trend despite the downtick in June. Job growth, together with more hours and better earnings, means wage income is rising at a 4% to 5% annual rate. With inflation low, this translates into greater purchasing power through rising real income. Unless equities continue to plunge, this should lead to the modest consumer spending growth that we anticipate.

Capital spending should continue to be solid as businesses have underinvested for a decade. After very strong investment in the late 1990s during the tech bubble, the collapse in profits in 2001 kept business wary throughout the last decade. Now, depreciation is almost greater than spending and business will have to invest just to keep the capital stock from shrinking. As discussed above, profit growth has been tremendous, total U.S. profits should make a new record high either last quarter or this quarter and cash and liquid financial securities on company balance sheets is at all-time highs and has almost reached \$2 trillion.

A few selected forecasts and other statistics are highlighted in the following table. Other summary data plus our forecasts are included in the tables at the end.

Forecast Table	2009(A)	2010(E)	2011(E)
Real GDP	-2.4%	+3.0%	+3.1%
Domestic Final Sales	-2.7%	+1.7%	+2.7%
U.S. Auto Sales (units)	10.387M (-21.2%)	11.8.M (+13.6%)	13.3M (+12.7%)
Industrial Production	-9.7%	+5.8%	+5.0%
Housing Starts	555,000 (-38.7%)	600,000 (+8.1%)	700,000 (+16.7%)
After Tax Corporate Profits (National Income and Products Accounts Basis through Q4 2008)	-4.9%	+25.0%	+10.0%
Federal Budget Balance (Fiscal Years)	-\$1.4T (that's a T!)	-\$1.4T	-\$1.0T
Civilian Unemployment Rate	9.5%	9.5%	8.7%
CPI – Overall	-0.4%	+1.7%	+1.5%
CPI – ex Food & Energy	+1.7%	+0.7%	+0.7%
GDP Price Index	+1.3%	+1.0%	+1.0%

A – Actual E – Estimated

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U.S. Employment – Needs to Be Better

The June employment report was not great but it could have been worse. That characterization is at best faint praise, but it's hard to find elements in the June data to cause investors to reassess their down beat views of economic growth. June payrolls fell by 125,000 workers with federal employment falling 198,000 reflecting census worker layoffs as the 2010 census winds down. State and local governments reduced employment once again, this time by 10,000, as states and municipalities cut spending in response to falling revenues and growing deficits. State and local jobs have fallen in five of the first six months of 2010.

Given the distortions to payroll jobs from the census were well known, attention has been focused on private employment. In this regard, non-census hiring rose 100,000 and private jobs increased by 83,000. Private sector payrolls have risen every month this year by an average of 99,000 per month which really isn't too bad. However, there is a lot of ground to make up given the eight million jobs lost since December 2007. The loss of private sector hiring momentum over the last two months lends little encouragement to prospects for reaching prior peaks in employment any time soon. If present trends continue, it could be 2014 before employment rises above its past peak.

The unemployment rate fell, surprising the consensus, but it fell for the wrong reasons. Household employment dropped by 301,000 in June following a 35,000 dip in May, but the labor force fell even more, declining 625,000 after a 322,000 downturn in May. As a consequence, the labor force participation rate which had been above 65% dipped back down to 64.7%, close to its low of last year.

Hours and earnings were further disappointments. The average workweek dipped slightly as did average hourly and weekly earnings where actual declines are quite rare. Consequently, aggregate payroll income dropped slightly on the month but is still increasing at a 4.7% annualized rate over the past three months and is up 2.3% year-over-year. Unless the drop in payroll income escalates, there should be enough income support for modest growth in consumer spending over the balance of the year.

The June jobs report portrayed a significant loss of momentum from the first four months of the year, but is definitely not yet evidence that the economy is heading back into recession, i.e., a true double-dip. After all, employment growth is continuing, just at a slower pace than consistent with truly robust, early stage expansion levels of economic growth. There is also some hope that private sector job activity will pick up in a couple of months. The gap between unadjusted payrolls and the widely-published, seasonally-adjusted levels is extremely wide. Private unadjusted payrolls surged 863,000 in June and are up an average 840,000 over the last four months. The level of short term predictive power in this unusually-wide gap is not known, but the pace of job growth could well kick up over the next couple of months once the census distortions and seasonal adjustment factors fade away.

Based on trends in household employment over the first half of 2010 and our anticipated levels of labor force and employment growth over the balance of the year, we expect the average unemployment rate for the year to be 9.5% and the year-end unemployment rate to be 9.3%. Household employment at year-end is expected to total 140,819,000, up 2.3% from year end 2009. More details on the employment situation are contained in the attached tables.

Treasury Yields in Freefall

Interest rates on 10-year U.S. Treasuries hit new cycle highs during the month of April, flirting with the 4% level for the first time since 2007 as investors became excited about stronger U.S. growth, expected monetary policy tightening and Fed rate hikes later this year. Since then, long-term interest rates have collapsed coinciding with sky-rocketing financial volatility. Investors shifted their focus away from surging corporate profits, expanding consumer and business spending, strong industrial production and expanding exports to the economic potholes of poor public policies, debt-laden governments and the consequent fiscal austerity, all of which are likely to foster slow or no growth in developed countries. In this context, the trend in U.S. Treasury yields in the year to date has been as follows:

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Interest Rates	31 Dec 07	31 Dec 08	31 Dec 09	5 Apr 10 (High)*	30 June 10 (Low)*	30 June 10 Current
2 year	3.05%	0.76%	1.14%	1.17%	0.61%	0.61%
10 year	4.02%	2.21%	3.84%	3.99%	2.93%	2.93%
10-2 spread	0.97%	1.45%	2.70%	2.82%	2.32%	2.32%

*Based on the 10-year Treasury Bond, over the previous 12 months

U.S. government bond prices have soared over the last three months and in hindsight, the reasons are simple and not too hard to find. First, the exploding debt crises in Greece and the ongoing restructuring and potential contagion to other EU countries has pushed U.S. Treasury yields sharply lower from a flight to safety. This is happening despite the recent EU rescue package which was in fact much larger than anyone did or should have expected. Second, the U.S. economy hit a “soft patch” in activity and job creation. So, many economists are sharply ratcheting down their growth expectations. Third, the slowdown is being reinforced by fears that tightening in China will sharply reduce growth not only in China, but in emerging markets more generally; in other words, the world’s growth engine may be losing steam. Finally, the Fed has moved away from monetary tightening, shrinking its balance sheet and raising rates to no changes in policy or rates until next year, citing resource slack and very low inflationary expectations as the prime reasons.

Based on these factors and reinforced by the Fed’s FOMC meeting in June which reaffirmed their “exceptionally low” for an “extended period” philosophy of interest rates, our latest estimates of year-end interest rates are as follows:

	2010
Federal Funds Rate	0.25%
10-year Treasury Rate	3.75%
2-year Treasury Rate	1.50%
2-10 year curve slope	2.25%

Our forecast for U.S. growth is sufficiently modest to keep inflation expectations very low and the Fed from taking any action over the rest of 2010. The Fed will also be keeping a close eye on Europe and policy developments in China. Any changes in the Fed’s policy decisions may be driven as much or more by global growth dynamics as by activity only within the United States.

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Global Stock Markets

	Friday Close	Low	High	Week	QTD	12 Month
	12 Month			Percentage Change		
U.S. Dow Jones Industrials	9,686	8,147	11,205	-4.51%	-0.90%	16.98%
U.S. S&P 500	1,023	879	1,217	-5.03%	-0.79%	14.07%
U.S. S&P 400 Midcap	702	547	850	-5.77%	-1.33%	24.29%
U.S. S&P 600 Smallcap	323	256	395	-6.18%	-1.55%	22.72%
NASDAQ Composite Index	2,092	1,746	2,530	-5.92%	-0.83%	16.44%
London FTSE 100	4,838	4,127	5,825	-4.13%	-1.60%	15.33%
Germany DAX	5,834	4,573	6,332	-3.90%	-2.20%	25.42%
Canada TSX	11,196	9,653	12,281	-4.37%	-0.87%	11.65%
Japan Nikkei 225	9,204	9,050	11,339	-5.48%	-1.91%	-4.93%
Hong Kong Hang Seng	19,905	17,255	22,944	-3.80%	-1.11%	10.71%
South Korea KOSPI	1,672	1,378	1,752	-3.35%	-1.56%	17.00%
India Sensex 30	17,461	13,400	17,970	-0.65%	-1.36%	24.34%
China Shanghai Composite	2,383	2,374	3,471	-6.66%	-0.64%	-23.74%
Brazil Bovespa	61,430	48,873	71,785	-5.24%	0.81%	21.35%
MSCI EAFE	1,347	1,252	1,642	-2.51%	-0.05%	5.59%

Global Interest Rates

	Central Bank Official Rank	3 Month	2 Year Government Debt	10 Year	2-10 Spread
U.S.	0.25	0.16	0.63	2.98	2.35
UK	0.50	0.50	0.76	3.36	2.60
Eurozone	1.00	0.24	0.67	2.60	1.94
Japan	0.10	0.20	0.15	1.14	0.99
Australia	3.00	4.43	4.43	5.04	0.61
Canada	0.50	0.51	1.455 ²	3.12	1.67
Brazil	10.25	0.80	2.36	4.63	2.27
China	5.31 ¹	2.00	2.29	3.27	0.98

¹China one-year best lending rate; ²Brazil generic government three-year bond (USD)

U.S. Credit Spreads (in basis points)

	Friday	1 Week	1 Month	12 Month
Investment Grade	193	191	191	305
High Yield	699	680	697	980
CMBS	297	298	309	711

Exchange Rates (to USD)

	Friday	1 Week	1 Month	12 Month
European euro	1.257	1.219	1.192	1.398
Chinese renminbi	6.772	6.798	6.831	6.835
Japanese yen	87.760	88.600	91.370	95.350
Brazilian real	1.772	1.814	1.880	1.954
Canadian dollar	1.062	1.056	1.062	1.159
Australian dollar	0.842	0.849	0.810	0.798

Sources: Bloomberg, Barclays Capital Live

Economic Releases

U.S.	Date	For Period	Actual	Prior
Personal Spending	6/28/10	May	0.20%	0.00%
S&P/CS 20 City MoM% SA	6/29/10	Apr	0.44%	-0.05%
Pending Home Sales MoM	7/1/10	May	-30.00%	6.00%
Factory Orders	7/2/10	May	-1.40%	1.20%
Canada GDP MoM	6/30/10	Apr	0.00%	0.60%
UK PMI Manufacturing	7/1/10	Jun	57.50	58.00
Japan Industrial Production MoM	6/28/10	May P	-0.10%	1.30%
Australia Retail Sales s.a. MoM	6/30/10	May	0.20%	0.60%

Sources: Bloomberg, Barclays Capital Live

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TABLE II: Global Economic Trends

		<u>Real GDP</u>	<u>CPI</u>	<u>Unemploy. Rate</u>	<u>Benchmark Rate (EOP)</u>	<u>10 yr. Rate (EOP)</u>
	US:					
	2006	2.7%	3.2%	4.6%	5.25%	4.70%
	2007	2.1%	2.9%	4.6%	4.25%	4.02%
	2008	0.4%	3.9%	5.8%	0.13%	2.21%
	2009	-2.4%	-0.4%	9.5%	0.13%	3.84%
	2010F	3.0%	1.7%	9.5%	0.25%	3.75%
2011F	3.1%	1.5%	8.7%	1.00%	4.00%	
	Canada:					
	2006	2.9%	2.0%	6.3%	4.25%	4.09%
	2007	2.5%	2.1%	6.0%	4.25%	3.99%
	2008	0.7%	2.4%	6.2%	1.50%	2.88%
	2009	-2.5%	0.3%	8.3%	0.25%	3.61%
	2010F	3.7%	2.0%	8.0%	0.75%	3.75%
2011F	3.5%	2.5%	7.5%	1.50%	4.00%	
	UK:					
	2006	2.8%	2.3%	5.4%	5.00%	4.73%
	2007	3.0%	2.3%	5.4%	5.50%	4.54%
	2008	0.7%	3.6%	5.7%	2.00%	3.25%
	2009	-4.7%	2.0%	7.5%	0.50%	4.01%
	2010F	1.5%	3.0%	8.1%	0.50%	3.50%
2011F	2.5%	2.5%	7.8%	1.00%	4.00%	
	Euroland:					
	2006	3.1%	2.2%	8.3%	3.50%	3.92%
	2007	2.7%	2.1%	7.5%	4.00%	4.33%
	2008	0.7%	3.3%	7.6%	2.50%	2.95%
	2009	-4.0%	0.3%	9.4%	1.00%	3.38%
	2010F	1.0%	1.0%	10.0%	1.00%	3.00%
2011F	1.3%	1.0%	9.8%	1.25%	3.50%	
	Japan:					
	2006	2.4%	0.3%	4.1%	0.25%	1.69%
	2007	2.4%	0.1%	3.9%	0.50%	1.51%
	2008	-0.6%	1.4%	4.3%	0.10%	1.17%
	2009	-5.0%	-1.3%	5.1%	0.10%	1.28%
	2010F	3.5%	-1.5%	4.5%	0.10%	1.30%
2011F	3.0%	-0.5%	4.3%	0.10%	1.40%	
	Australia:					
	2006	2.9%	3.6%	4.8%	6.25%	5.88%
	2007	4.0%	2.4%	4.4%	6.25%	6.34%
	2008	2.1%	4.4%	4.2%	4.25%	4.00%
	2009	0.9%	1.9%	5.6%	3.75%	5.64%
	2010F	3.5%	3.0%	5.0%	4.50%	5.50%
2011F	3.5%	2.7%	4.8%	5.50%	6.00%	

E - Estimate; F - Forecast

Source: Economic Intelligence Unit, International Monetary Fund, OECD & Sovereign Group

TABLE III: OTHER ECONOMIC INDICATORS

Indicator	Latest Data		Percent Change*	2009	Percent Change*	2010 (E)	Percent Change*	2011 (E)	Percent Change*
Index of Industrial Production (2002=100)	May-10	103.5	7.6%	98.2	-9.7%	103.9	5.8%	109.1	5.0%
Total Private Housing Starts (000)	May-10	593.0	7.8%	555	-38.7%	600	8.1%	700	16.7%
Capacity Utilization Rate Total Industry (1997=100)	May-10	74.7%	-1.3%	70.1%	-9.7%	74.7%	6.6%	78.1%	4.6%
Index of Hourly Compensation Non-farm Business Sector (1992=100)	March-10	186.5	1.7%	185.7	1.8%	189.4	2.0%	193.2	2.0%
After-Tax Corporate Profits (Billions \$)	March-10	1,423.9	45.9%	1,112.8	-4.9%	1,391.0	25.0%	1,530.1	10.0%
Year-to-Date Unit Retail Sales:									
Passenger Cars	Jun YTD	2,831	16.7%	5,430	-19.9%	6,100	12.3%	7,000	14.8%
Light Trucks	Jun YTD	2,780	14.5%	4,957	-22.6%	5,700	15.0%	6,300	10.5%
Total Light Vehicle	Jun YTD	5,611	16.7%	10,387	-21.2%	11,800	13.6%	13,300	12.7%

* Change over same period of prior year.

**Discontinuity in series due to change in estimates of Inventory Valuation Adjustment (IVA) and Capital Consumption Allowances (CCA)

(E) - Estimated, (P) - Preliminary, (A) - Actual

Source:

Index of Industrial Production, Capacity Utilization Rate - Federal Reserve Board (<http://www.federalreserve.gov/releases/G17/>)

Total Private Housing Starts - U.S. Census Bureau (<http://www.census.gov/const/www/newresconstindex.html>)

Index of Hourly Compensation Non-farm Business Sector - U.S. Dept. of Labor, Bureau of Labor Statistics (<http://stats.bls.gov/news.release/prod2.t02.htm>)

After-Tax Corporate Profits - U.S. Dept. of Commerce, Bureau of Economic Analysis (<http://www.bea.doc.gov/bea/dn/nipaweb/NIPATableIndex.htm#P>)

Vehicle Sales-U.S. Dept. of Commerce (<http://www.doc.gov>)

Projections - Internal Forecasts

TABLE IV: EMPLOYMENT TRENDS

Labor Force (in thousands)

	2007		2008		2009		2010		2010		2011	
	Average	% change*	Average	% change*	Average	% change*	June	% change*	Average (E)	% change*	Average (E)	% change*
Civilian Labor Force	153,126	1.1%	154,329	-0.09%	154,206	-0.1%	153,741	-0.7%	154,263	0.0%	156,622	1.5%
Civilian Employment	146,050	1.1%	145,368	-3.8%	139,881	-3.8%	139,119	-0.7%	139,547	-0.2%	143,050	2.5%
Total Unemployment	7,077	1.2%	8,961	37.4%	14,325	59.9%	14,622	-0.6%	14,716	2.7%	13,572	-7.8%

* Year-over-year; (E) - Expected

Selected Unemployment Rates (%)

(Seasonally Adjusted)

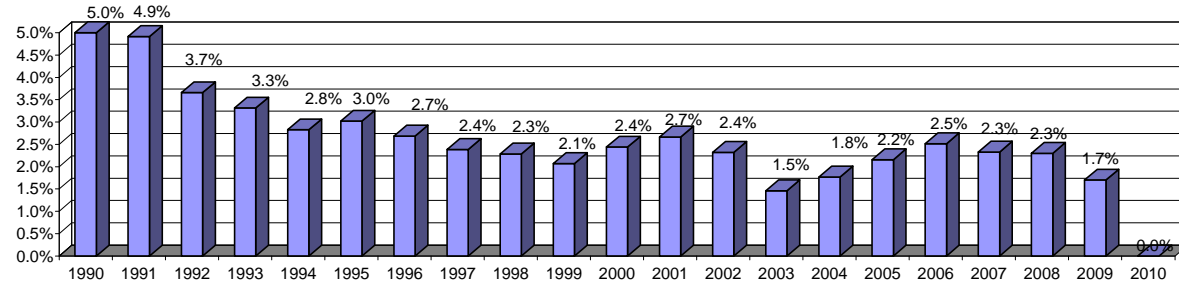
Total	All Workers	Adult Men	Adult Women	Teenagers (16 - 19)	Married Men Spouse Present	Unemployed (> 15 weeks)^
1970	5.0%	3.5%	4.8%	15.3%	2.6%	0.8%
1981	7.6%	6.3%	6.8%	19.6%	4.3%	2.1%
1982	9.7%	8.8%	8.3%	23.2%	6.5%	3.2%
1983	9.6%	8.9%	8.1%	22.4%	6.4%	3.7%
1984	7.5%	6.6%	6.8%	18.9%	4.6%	2.4%
1985	7.2%	6.2%	6.6%	18.6%	4.3%	2.0%
1986	7.0%	6.1%	6.2%	18.4%	4.4%	1.9%
1987	6.2%	5.4%	5.4%	16.9%	3.9%	1.7%
1988	5.5%	4.8%	4.9%	15.3%	3.2%	1.3%
1989	5.3%	4.5%	4.7%	15.0%	3.1%	1.1%
1990	5.6%	5.0%	4.9%	15.6%	3.4%	1.2%
1991	6.9%	6.4%	5.7%	18.7%	4.4%	1.9%
1992	7.5%	7.1%	6.3%	20.1%	5.1%	2.7%
1993	6.9%	6.4%	5.9%	19.1%	4.4%	2.4%
1994	6.1%	5.4%	5.4%	17.6%	3.7%	2.2%
1995	5.6%	4.8%	4.9%	17.3%	3.3%	1.8%
1996	5.4%	4.6%	4.8%	16.7%	3.0%	1.7%
1997	4.9%	4.2%	4.4%	16.0%	2.7%	1.5%
1998	4.5%	3.7%	4.1%	14.6%	2.3%	1.2%
1999	4.2%	3.5%	3.8%	13.9%	2.2%	1.1%
2000	4.0%	3.3%	3.6%	13.1%	2.0%	0.9%
2001	4.7%	4.2%	4.1%	14.7%	2.7%	1.2%
2002	5.8%	5.3%	5.1%	16.5%	3.6%	2.0%
2003	6.0%	5.7%	5.1%	17.4%	3.8%	2.3%
2004	5.5%	5.0%	4.8%	17.0%	3.1%	2.1%
2005	5.1%	4.4%	4.6%	16.5%	2.8%	1.5%
2006	4.6%	4.1%	4.1%	15.3%	2.4%	1.5%
2007	4.6%	4.1%	4.0%	15.7%	2.5%	1.5%
2008	5.8%	5.5%	4.9%	18.7%	3.4%	2.1%
2009	9.5%	9.6%	7.4%	24.1%	6.7%	4.7%
2010 (E)	9.5%					
Jan	9.7%	10.0%	7.9%	26.4%	6.6%	5.8%
Feb	9.7%	10.0%	8.0%	25.0%	6.8%	5.8%
Mar	9.7%	10.0%	8.0%	26.1%	6.7%	5.8%
Apr	9.9%	10.1%	8.2%	25.4%	6.6%	5.8%
May	9.7%	9.8%	8.1%	26.4%	6.7%	5.8%
Jun	9.5%	9.9%	7.8%	25.7%	6.8%	5.8%
2011 (E)	8.7%					

^ Calculated as a % of the Total Civilian Labor Force

Source: Historical - U.S. Dept. of Labor, Bureau of Labor Statistics (<http://stats.bls.gov/news.release/empstoc.htm>); Projections - Internal Forecasts.

TABLE V: CONSUMER PRICE INDEX

CORE CPI: ALL ITEMS LESS FOOD AND ENERGY



HISTORICAL CONSUMER PRICE INDEX FOR ALL URBAN CONSUMERS:

U.S. average, by commodity, service group and detailed expenditure categories.

(Annual Average: 1982-84=100)

YR/INDEX	ALL ITEMS	% CHANGE*	MEDICAL CARE	% CHANGE*	ALL ITEMS LESS FOOD, ENERGY	% CHANGE*
1990	130.7	5.4%	162.8	9.1%	135.5	5.0%
1991	136.2	4.2%	177.0	8.7%	142.1	4.9%
1992	140.3	3.0%	190.1	7.4%	147.3	3.7%
1993	144.5	3.0%	201.4	6.0%	152.2	3.3%
1994	148.2	2.6%	211.0	4.8%	156.5	2.8%
1995	152.4	2.8%	220.5	4.5%	161.2	3.0%
1996	156.9	2.9%	228.3	3.5%	165.6	2.7%
1997	160.5	2.3%	234.6	2.8%	169.5	2.4%
1998	163.0	1.5%	242.1	3.2%	173.4	2.3%
1999	166.6	2.2%	250.6	3.5%	177.0	2.1%
2000	172.2	3.4%	260.8	4.1%	181.3	2.4%
2001	177.0	2.8%	272.8	4.6%	186.1	2.7%
2002	179.9	1.6%	285.6	4.7%	190.4	2.3%
2003	184.0	2.3%	297.1	4.0%	193.2	1.5%
2004	188.9	2.7%	310.1	4.4%	196.6	1.8%
2005	195.3	3.4%	323.3	4.2%	200.9	2.2%
2006	201.6	3.2%	336.2	4.0%	205.9	2.5%
2007	207.3	2.9%	351.1	4.4%	210.7	2.3%
2008	215.3	3.9%	364.1	3.7%	215.6	2.3%
2009	214.5	-0.4%	375.6	3.2%	219.2	1.7%
2010F	218.2	1.7%	386.9	3.0%	220.8	0.7%
Jan	216.69	2.6%	382.69	3.5%	220.09	1.6%
Feb	216.74	2.1%	385.91	3.6%	220.60	1.3%
Mar	217.63	2.3%	387.14	3.7%	221.06	1.1%
Apr	218.01	2.2%	387.70	3.6%	221.17	0.9%
May	218.18	2.2%	387.76	3.4%	221.19	0.9%
2011F	221.4	1.5%	398.5	3.0%	222.3	0.7%

* Year-over-year

(P) Preliminary; (E) Estimated

Source: Historical Statistics - U.S. Dept. of Labor, Bureau of Labor Statistics (<http://data.bls.gov/cgi-bin/surveymost?cu>); Projections - Internal Forecasts.

BASELINE ECONOMIC FORECASTS FOR 2010-2011, BY QUARTER

Baseline Forecasts

A. Growth in Real GDP - Qtr-Qtr (% Change, Annualized) :

	1st QUARTER 10		2nd QUARTER 10		3rd QUARTER 10		4th QUARTER 10		2008 ACTUAL		2009 ACTUAL	
	Forecast		Forecast		Forecast		Forecast					
Real GDP	13,238.6	2.7%	13,334.5	2.9%	13,427.2	2.8%	13,530.9	3.1%	13,312.2	0.4%	12,987.4	-2.4%
Personal Consumption												
Expenditures	9,359.0	3.0%	9,405.9	2.0%	9,457.7	2.2%	9,516.2	2.5%	9,290.9	-0.2%	9,235.1	-0.6%
Durable Goods	1,156.0	12.0%	1,178.5	8.0%	1,198.6	7.0%	1,210.4	4.0%	1,146.3	-4.5%	1,101.3	-3.9%
Non-Durables	2,072.9	3.9%	2,083.2	2.0%	2,093.5	2.0%	2,114.2	4.0%	2,057.3	-0.8%	2,037.0	-1.0%
Services	6,127.9	1.4%	6,149.2	1.4%	6,170.6	1.4%	6,196.7	1.7%	6,083.1	0.7%	6,087.8	0.1%
Gross Private Domestic												
Invest.	1,683.2	16.3%	1,698.1	3.6%	1,724.5	6.3%	1,753.3	6.9%	1,989.5	-7.3%	1,527.7	-23.2%
Bus. Fixed Invest.	1,292.6	2.2%	1,294.9	0.7%	1,313.6	5.9%	1,335.7	6.9%	1,567.8	1.5%	1,291.0	-17.7%
Structures	346.8	-15.5%	335.9	-12.0%	329.0	-8.0%	324.8	-5.0%	486.8	10.3%	390.3	-19.8%
Equipment	944.1	11.4%	969.1	11.0%	994.7	11.0%	1,021.0	11.0%	1,068.6	-2.6%	890.7	-16.6%
Residential Invest.	353.2	-10.3%	353.2	0.0%	355.8	3.0%	357.6	2.0%	451.1	-22.9%	358.7	-20.5%
Change in Inventory	41.2	-	50.0	-	55.0	-	60.0	-	-25.9	0.0%	-108.3	-
Net Exports	-373.0	-	-365.3	-	-347.5	-	-333.7	-	-494.3	0.0%	-355.6	-
Exports	1,598.9	11.3%	1,644.8	12.0%	1,692.1	12.0%	1,740.7	12.0%	1,629.3	5.4%	1,472.4	-9.6%
Imports	1,971.8	14.8%	2,010.1	8.0%	2,039.6	6.0%	2,074.4	7.0%	2,123.5	-3.2%	1,828.0	-13.9%
Gov't Purchases of												
Goods & Services	2,564.8	-1.9%	2,566.0	0.2%	2,562.7	-0.5%	2,565.3	0.4%	2,518.1	3.1%	2,564.6	1.8%
Federal	1,046.4	1.2%	1,051.6	2.0%	1,055.9	1.7%	1,058.5	1.0%	975.9	7.7%	1,026.6	5.2%
National Defense	704.6	1.0%	708.1	2.0%	709.9	1.0%	709.9	0.0%	659.4	7.8%	695.0	5.4%
Non-Defense	341.8	1.5%	343.5	2.0%	346.0	3.0%	348.6	3.0%	316.4	7.3%	331.5	4.8%
State & Local	1,522.1	-3.8%	1,514.4	-2.0%	1,506.8	-2.0%	1,506.8	0.0%	1,543.7	0.5%	1,541.0	-0.2%
Real Final Sales	13,209.5	0.8%	13,284.5	2.3%	13,372.2	2.7%	13,470.9	3.0%	13,341.9	0.8%	13,110.7	-1.7%
Real Domestic Final Sales	13,578.7	1.6%	13,649.8	2.1%	13,719.6	2.1%	13,804.6	2.5%	13,830.8	-0.4%	13,458.9	-2.7%
y/y	2.42%		3.36%		3.50%		2.90%					
	1st QUARTER 11		2nd QUARTER 11		3rd QUARTER 11		4th QUARTER 11		2010 FORECAST		2011 FORECAST	
	Forecast		Forecast		Forecast		Forecast					
Real GDP	13,635.4	3.1%	13,745.8	3.3%	13,855.5	3.2%	13,953.5	2.9%	13,382.8	3.0%	13,797.6	3.1%
Personal Consumption												
Expenditures	9,564.9	2.1%	9,636.5	3.0%	9,695.8	2.5%	9,755.5	2.5%	9,434.7	2.2%	9,663.2	2.4%
Durable Goods	1,225.2	5.0%	1,260.4	12.0%	1,275.9	5.0%	1,291.6	5.0%	1,185.8	7.7%	1,263.3	6.5%
Non-Durables	2,127.2	2.5%	2,140.4	2.5%	2,156.3	3.0%	2,172.3	3.0%	2,090.9	2.6%	2,149.1	2.8%
Services	6,227.5	2.0%	6,250.7	1.5%	6,278.6	1.8%	6,306.7	1.8%	6,161.1	1.2%	6,265.9	1.7%
Gross Private Domestic												
Invest.	1,783.1	7.0%	1,811.1	6.4%	1,838.1	6.1%	1,852.9	3.3%	1,714.8	12.2%	1,821.3	6.2%
Bus. Fixed Invest.	1,362.0	8.1%	1,386.3	7.3%	1,404.4	5.3%	1,415.0	3.1%	1,309.2	1.4%	1,391.9	6.3%
Structures	326.4	2.0%	330.4	5.0%	332.8	3.0%	332.8	0.0%	334.1	-14.4%	330.6	-1.0%
Equipment	1,045.6	10.0%	1,065.9	8.0%	1,081.5	6.0%	1,092.2	4.0%	982.2	10.3%	1,071.3	9.1%
Residential Invest.	361.1	4.0%	369.8	10.0%	378.7	10.0%	387.9	10.0%	355.0	-1.0%	374.4	5.5%
Change in Inventory	60.0	-	55.0	-	55.0	-	50.0	-	51.6		55.0	-
Net Exports	-323.9	-	-319.4	-	-304.1	-	-288.0	-	-354.8	-0.2%	-308.8	-
Exports	1,790.8	12.0%	1,846.3	13.0%	1,903.6	13.0%	1,962.7	13.0%	1,669.2	13.4%	1,875.8	12.4%
Imports	2,114.7	8.0%	2,165.7	10.0%	2,207.8	8.0%	2,250.6	8.0%	2,024.0	10.7%	2,184.7	7.9%
Gov't Purchases of												
Goods & Services	2,571.5	1.0%	2,577.8	1.0%	2,586.0	1.3%	2,593.3	1.1%	2,564.7	0.0%	2,582.2	0.7%
Federal	1,062.8	1.7%	1,067.2	1.7%	1,071.7	1.7%	1,075.2	1.3%	1,053.1	2.6%	1,069.2	1.5%
National Defense	712.5	1.5%	715.2	1.5%	717.8	1.5%	719.6	1.0%	708.1	1.9%	716.3	1.2%
Non-Defense	350.3	2.0%	352.1	2.0%	353.8	2.0%	355.6	2.0%	345.0	4.1%	353.0	2.3%
State & Local	1,508.7	0.5%	1,510.6	0.5%	1,514.3	1.0%	1,518.1	1.0%	1,512.5	-1.8%	1,512.9	0.0%
Real Final Sales	13,575.4	3.1%	13,690.8	3.4%	13,800.5	3.2%	13,903.5	3.0%	13,334.3	1.7%	13,742.6	3.1%
Real Domestic Final Sales	13,899.3	2.8%	14,010.2	3.2%	14,104.7	2.7%	14,191.5	2.5%	13,688.2	1.7%	14,051.4	2.7%
y/y	3.00%		3.08%		3.19%		3.12%					

Source: Historical Statistics - U.S. Dept. of Commerce, Bureau of Economic Analysis (<http://www.bea.gov/bea/dn1.htm>), Projections - Internal Estimates.