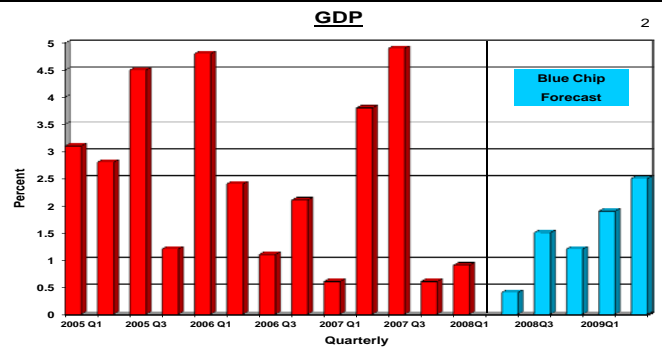


Economic Update

GDP

The economy was more resilient than expected in the first quarter of 2008, posting growth of 1.0 percent, although the latest *Blue Chip* forecast shows that GDP growth is likely to remain sluggish until mid-2009. Real GDP growth is expected to remain tepid this year as tighter credit, the housing downturn, and higher energy prices continue to weigh on the economy.

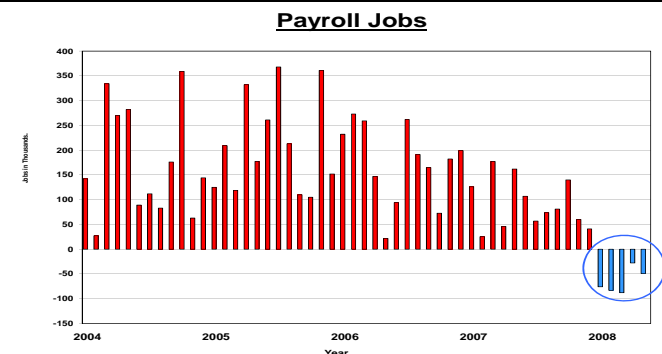
Next Release: Q2 GDP advance estimate, July 31



Employment

Payroll employment fell for the fifth consecutive month in May as businesses shed 50,000 jobs. Since the beginning of the year, employment has declined by roughly 325,000. A weakening labor market and higher food and energy prices are two key headwinds for consumer spending, which typically accounts for roughly 70 percent of economic growth.

Next Release: June Employment Report, July 3



Unemployment Rate

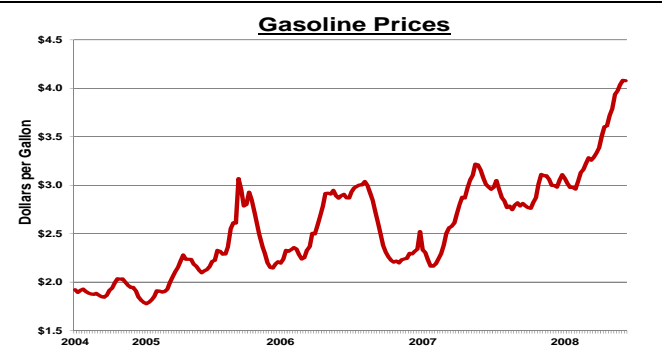
The unemployment rate rose to 5.5 percent in May, although part of that increase was due to a statistical fluke (related to an earlier-than-expected influx of young job-seekers into the market this summer) and will likely be revised down in the next employment report. Looking ahead, the *Blue Chip* forecast sees the unemployment rate gradually rising, peaking at about 5.7 percent in mid-2009.

Next Release: June Employment Report, July 3



Gasoline Prices

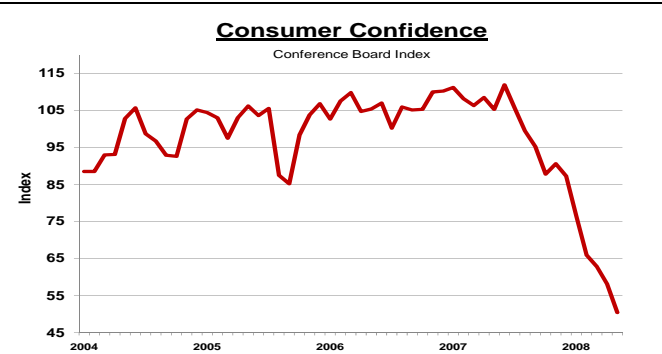
Record-high crude oil prices (nearly \$140 per barrel) have pushed gasoline prices well past \$4 per gallon. This week, the national average for gasoline prices hit \$4.08 per gallon, which is more than a \$1 above what consumers were paying last year at this time. With this price increase, the average 2-car household could see its overall transportation bill rise by over \$500 this spring and summer (average family consumes 550 gallons of gas over a 6-month period).



Consumer Confidence

The Conference Board's index of consumer confidence plunged nearly 8 points in June to a 16-year low. Consumers have become increasingly pessimistic in recent months due to a weakening job market, rising food and energy prices, and falling home prices.

Next Release: July Consumer Confidence, July 29



Housing Prices

National home prices fell a sharp 14 percent in the first quarter of 2008 compared to a year earlier. That is a sharp contrast from the 2003-2005 periods, when home prices were rising at double digit pace. With a large number of unsold homes still on the market and a rising number of home foreclosures, economists expect that home prices have further to fall before the market bottoms out.

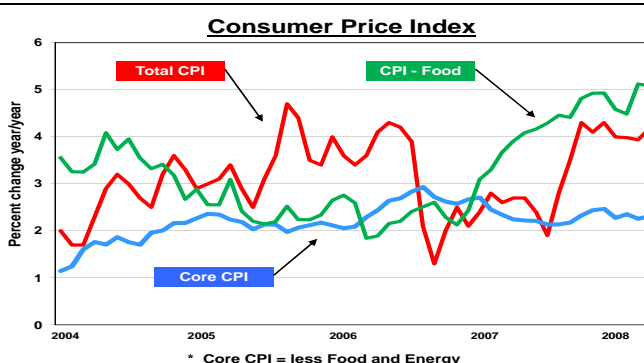
Next Release: S&P/Case-Shiller Home Price Index, July 29



Inflation

The consumer price index [CPI] has risen a sizeable 4.2 percent over the last 12 months. Food prices alone have increased more than 5 percent, the sharpest annual increase in nearly 20 years. The “core” CPI, which excludes food and energy, has risen 2.3 percent over the last 12 months.

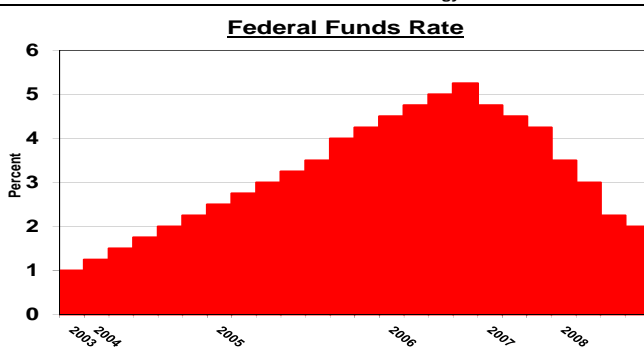
Next Release: Consumer Price Index, July 16



Federal Reserve

The Fed halted its streak of interest rate cuts at its June 25 policy meeting, holding interest rates steady as inflation concerns mount. The next Fed move is likely to be a rate increase, though it is unclear when. Responding to housing and financial market troubles that began late last summer, the Fed has lowered interest rates by 325 basis points (from 5.25 percent to 2 percent)

Next Release: FOMC Meeting, August 5



Dollar

The dollar has declined nearly 15 percent over the past year compared to a basket of major foreign currencies. As the Fed has slashed short-term interest rates in recent months, many foreign central banks (i.e. European Central Bank, Bank of England, etc.) have held their interest rates unchanged due to concerns about inflation. This short-term interest rate differential has contributed to the decline in the dollar vis-à-vis other currencies.



Stock Market

The S&P 500 is down 12 percent from its year-earlier level. The housing crisis, financial market turmoil and rising energy costs are impacting a number of businesses' bottom line, resulting in lower profitability. The stock prices of banks, auto makers, and home builders have been particularly affected in recent months.

