

# ECONOMIC AND FINANCIAL HIGHLIGHTS

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OCTOBER 3, 2012



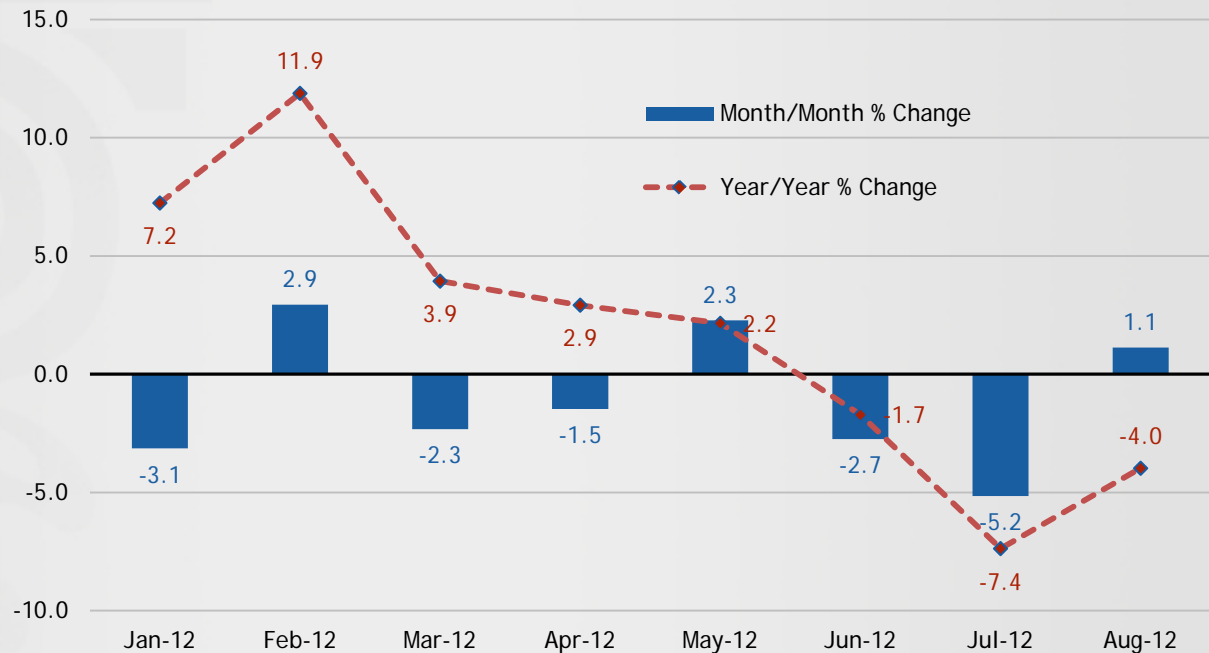
# MANUFACTURING

## SUMMARY

According to the U.S. Census Bureau, new orders for core capital goods increased by 1.1 percent in August compared to July levels, but were still down 4 percent from August 2011. The core new orders number for August was weighed down heavily by a 10.9 percent decline in new orders for motor vehicles and parts.

The headline number for all durable goods orders was much worse, indicating a monthly decline of 13.2 percent; that was driven by a staggering 101.8 percent drop in new orders for nondefense aircraft and parts (a notably volatile series).

Change in New Orders for Core Capital Goods\*  
percent change, SA, \*excludes defense, aircraft, and parts



Source: U.S. Census Bureau

## ADDITIONAL DETAIL

- Communications equipment was another headwind for growth in capital orders in August: the category slipped 7.1 percent in new orders compared to July's level. New orders for machinery also fell 4.7 percent from July to August.

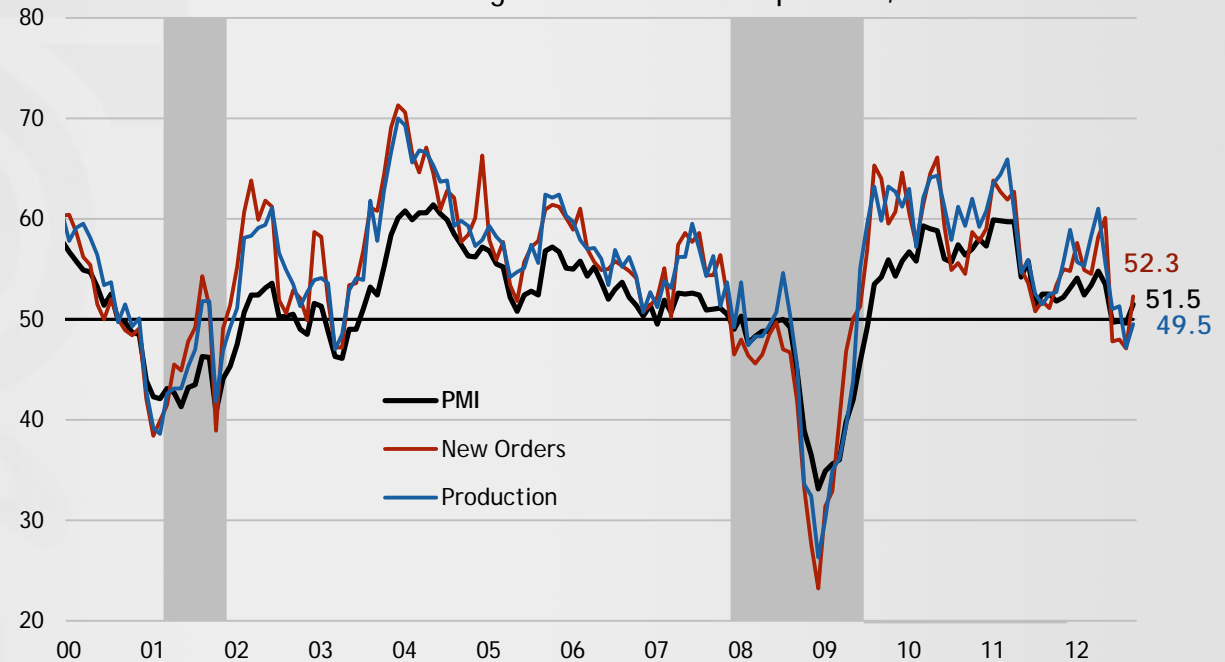
# MANUFACTURING

## SUMMARY

The Institute for Supply Management's (ISM) Purchasing Managers Index (PMI) indicated a slightly faster pace of growth in the manufacturing sector in September. That followed three consecutive months of the index indicating contraction.

The PMI tacked on 1.9 index points to reach 51.5, a rate indicative of expansion. The new orders component added a sizable 5.2 index point gain to reach a reading of 52.3. Production, a measure of current manufacturing activity, added 2.3 index points, but its overall reading remained at 49.5, still indicative of contraction.

ISM Manufacturing Purchasing Managers Index (PMI)  
Index: 50 or greater indicates expansion, SA



Source: Institute for Supply Management

through September 2012

## ADDITIONAL DETAIL

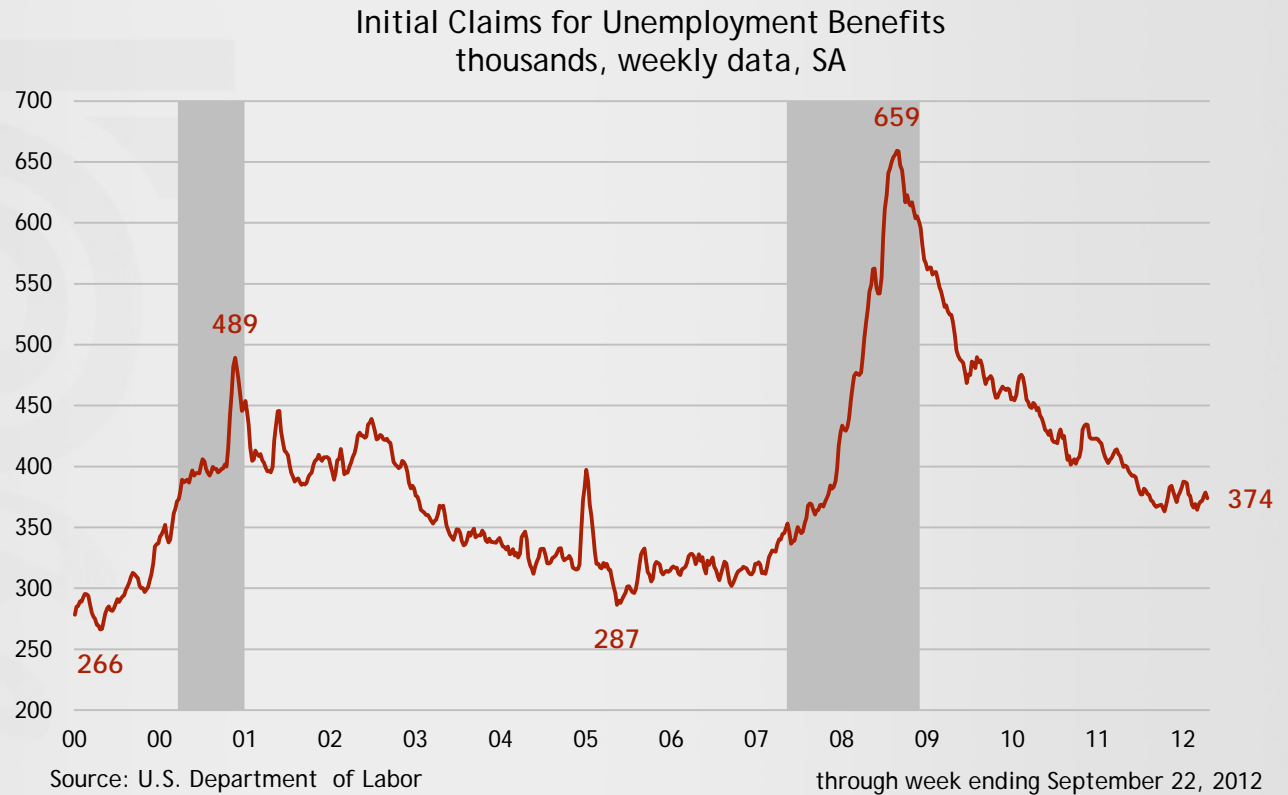
- The ISM's employment indicator for the manufacturing sector also gained ground in September; the employment component added 3.1 index points to reach 54.7
- In the ISM survey, manufacturers indicated their input prices had risen at a faster pace over the month of September: the prices paid index jumped 4 index points to reach 58.

# EMPLOYMENT

## SUMMARY

The U.S. Department of Labor announced last Thursday that initial claims for unemployment insurance had dropped by 4,500 from the previous week. Initial claims stand at 374,000 per week as of the week ending September 22.

Initial claims for unemployment insurance for the week ending September 22, 2012, were 36,500 lower than the same week a year ago.



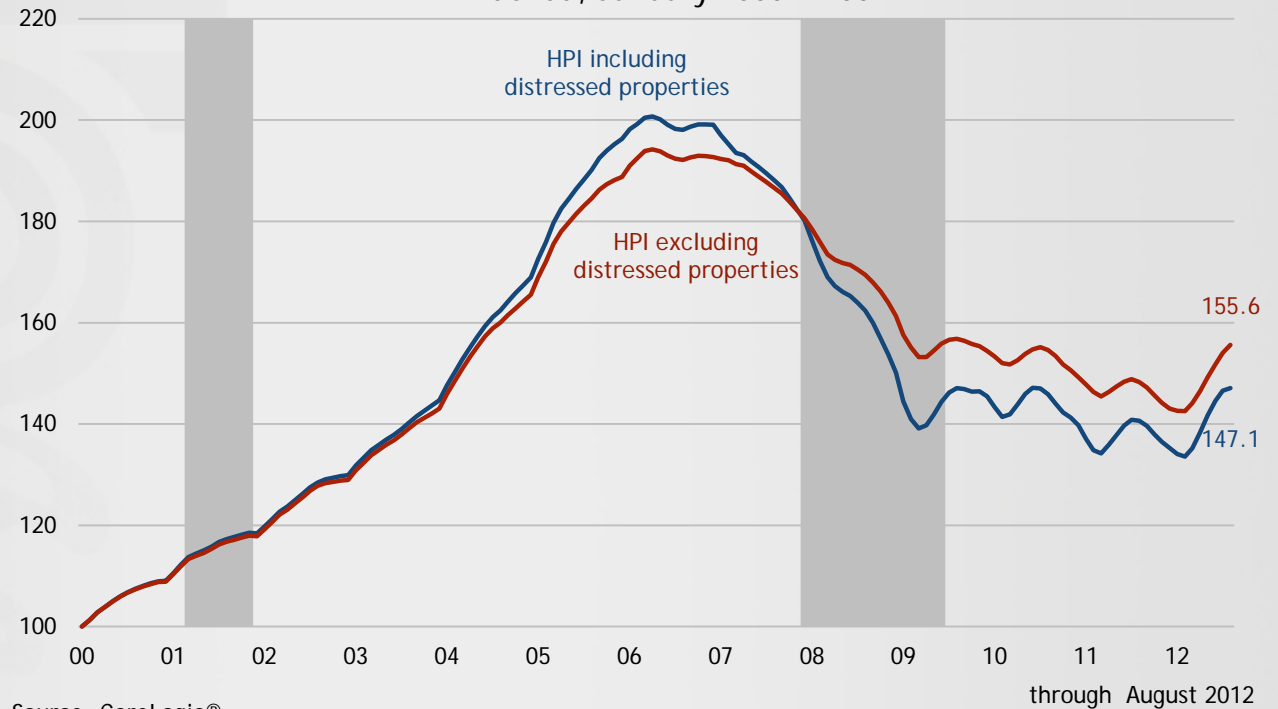
# REAL ESTATE

## SUMMARY

The August CoreLogic home price index, including distressed properties, increased 4.6% compared with a year earlier and increased 0.3% from July.

The home price index excluding distressed properties increased 4.9% on a year-over-year basis in August and gained 1% from July.

U.S. CoreLogic® Home Price Index (HPI)  
indexed, January 2000 = 100

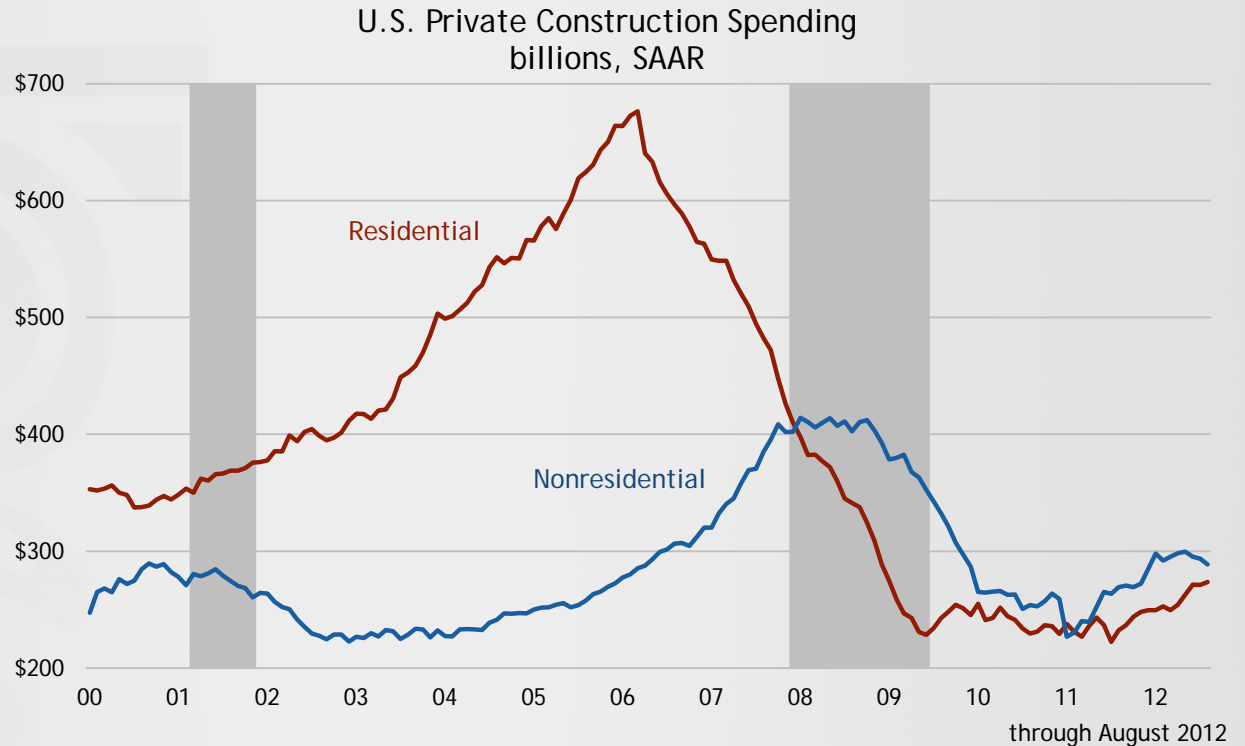


Source: CoreLogic®

# REAL ESTATE

## SUMMARY

The U.S. Census Bureau reported that total construction spending weakened somewhat from July to August, down 0.6 percent, but remained ahead of the year earlier level, up 6.5 percent. Private nonresidential construction spending continued to slow, declining for the third consecutive month, down 1.7 percent from July to August.



Source: U.S. Census Bureau

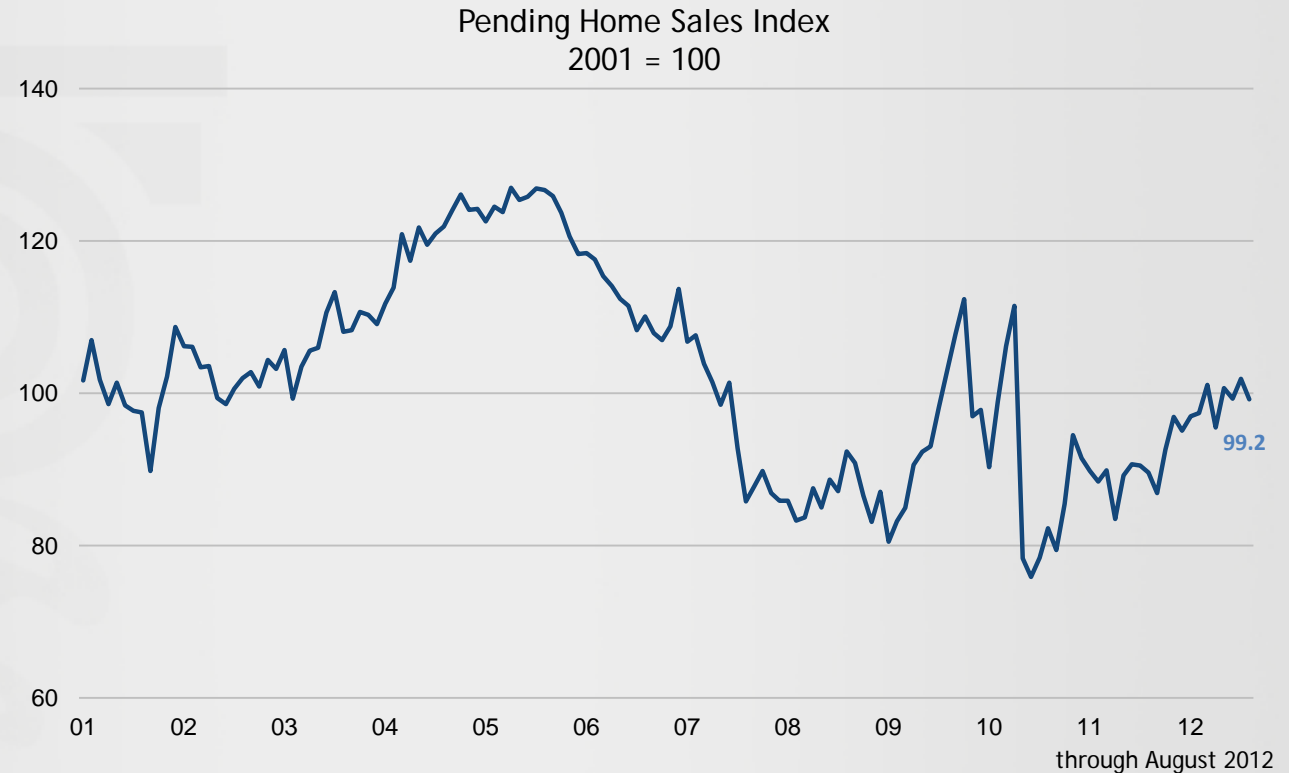
### August 2012 Construction Spending Put in Place

	Total	Total Private	Total Public	Total Nonresidential	Private Nonresidential	Public Nonresidential	Total Residential	Private Residential
<b>Billions, SAAR</b>	837.1	562.2	274.9	557.2	288.7	268.5	279.9	273.5
<b>M/M</b>	-0.6%	-0.5%	-0.8%	1.3%	-1.7%	-0.9%	0.9%	0.9%
<b>Y/Y</b>	6.5%	12.1%	-3.5%	2.2%	7.2%	-2.7%	16.1%	17.8%

# REAL ESTATE

## SUMMARY

The National Association of Realtors reported that its pending home sales index declined 2.6 percent in August from the July level but remained ahead of the year earlier level, up 10.7 percent.



# REAL ESTATE

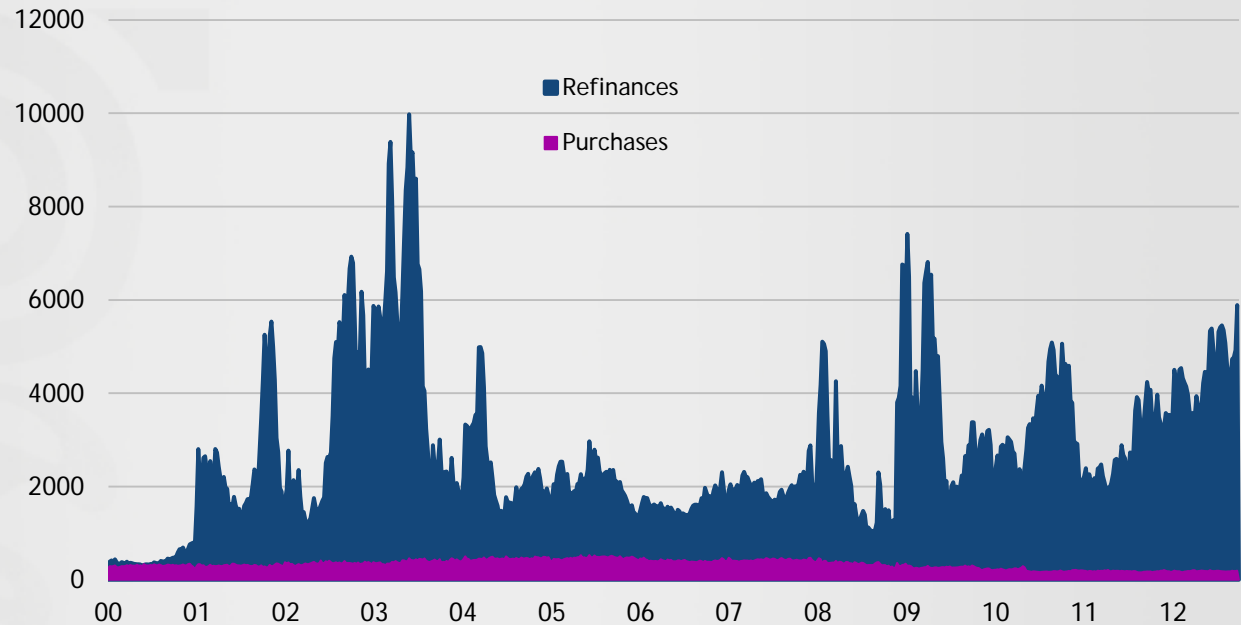
## SUMMARY

Data from the Mortgage Bankers Association's Weekly Mortgage Applications Survey show a sharp 16.6 percent increase in the volume of mortgage loan applications over the week ending September 28, 2012.

The Refinance Index volume, which increased 20 percent over the same period and represents 83 percent of the total volume of mortgage loan applications, is the highest since April 2009.

The Purchase Index increased 4 percent from one week earlier.

Mortgage Loan Applications Volume Index  
March 16, 1990 = 100



Source: Mortgage Bankers Association

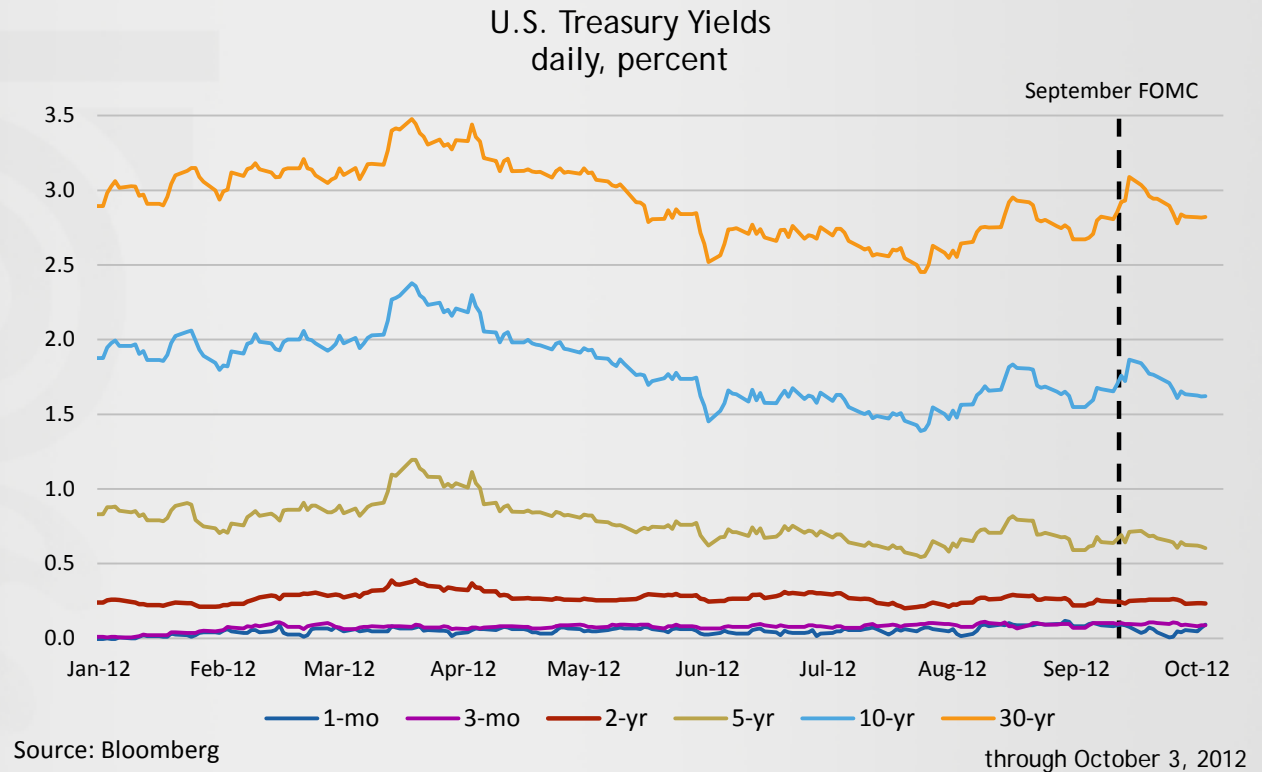


# FINANCIAL MARKETS

## SUMMARY

Longer-term U.S. Treasury yields are lower since the September Federal Open Market Committee (FOMC) meeting.

Since the close on September 12, the 10-year note has declined 14 bps and 30-year bond 10 bps, and they now yield about 1.6 percent and 2.8 percent, respectively.

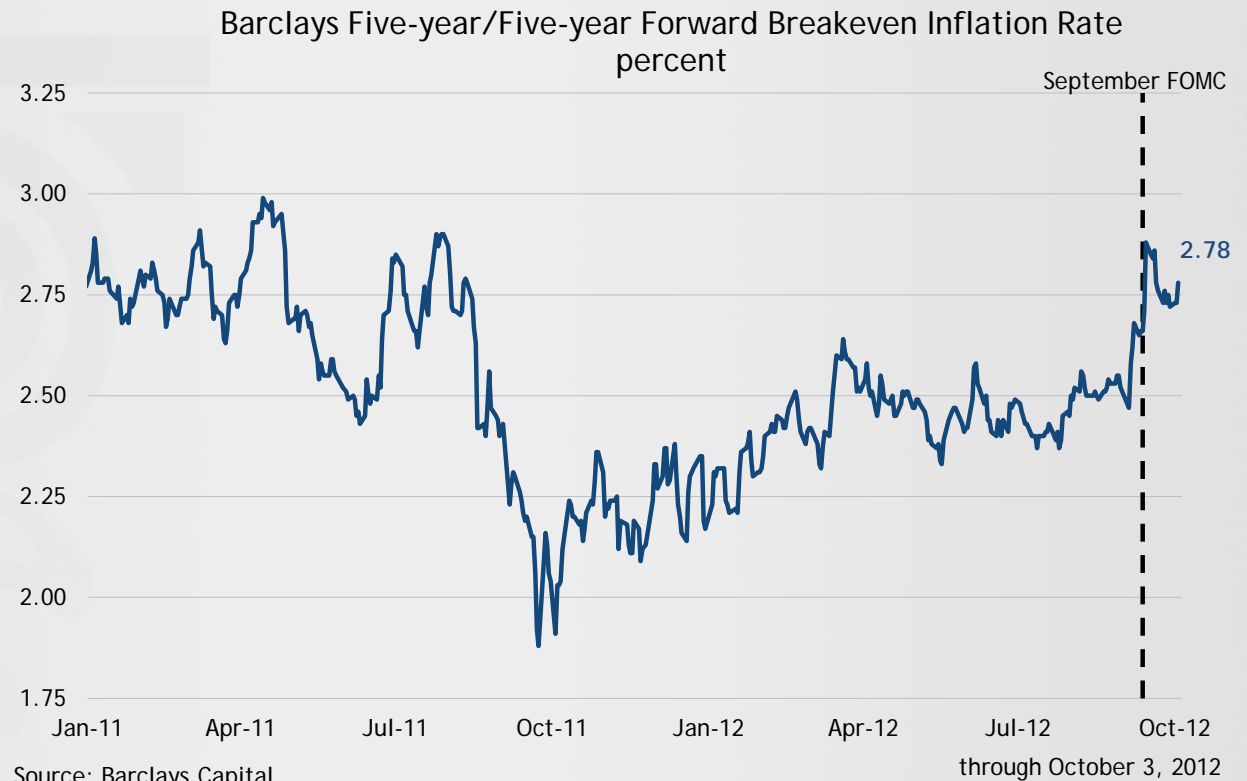


# FINANCIAL MARKETS

## SUMMARY

The Barclays five-year/five-year forward breakeven inflation rate is currently at 2.78 percent, well within the range seen since last year.

(Note: the breakeven inflation rate is a measure of expected inflation derived from “nominal” Treasury securities and their counterparts—“real,” or inflation-protected TIPS securities.)

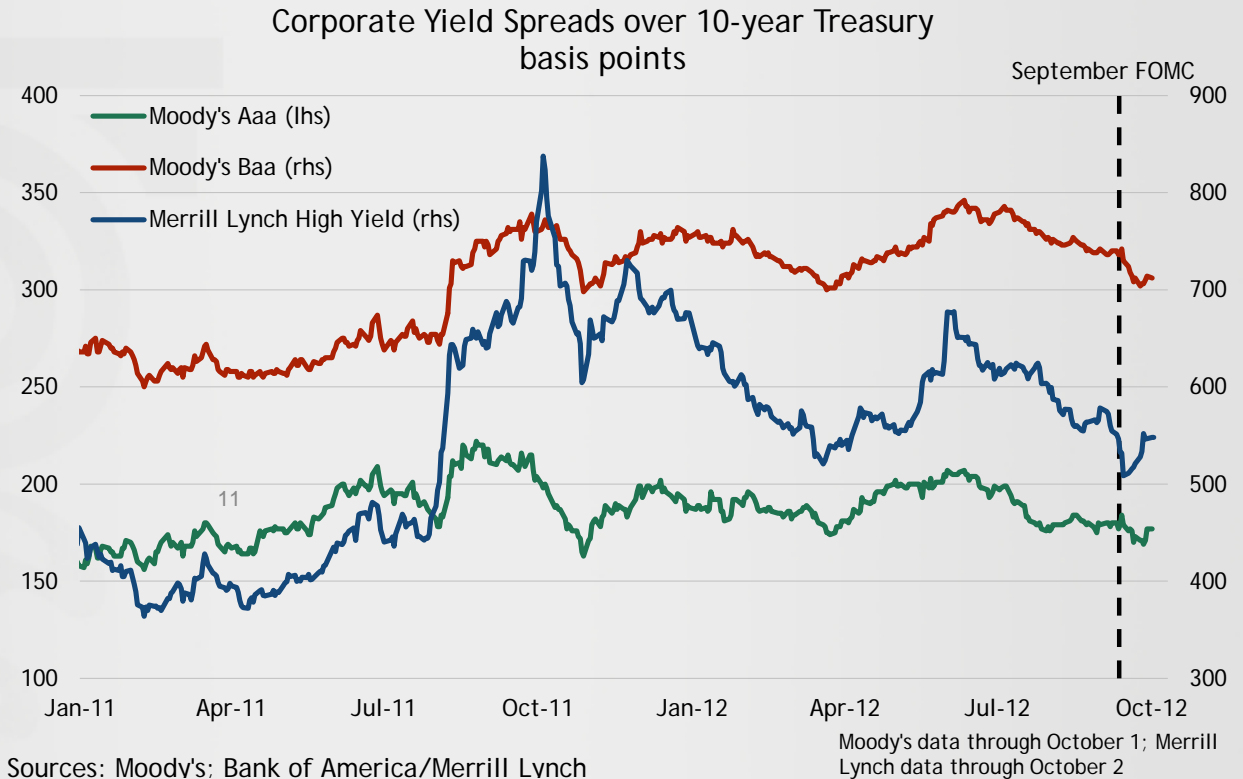


# FINANCIAL MARKETS

## SUMMARY

Since the September FOMC meeting, corporate yield spreads over the 10-year Treasury have narrowed for investment-grade debt but widened for high-yield debt.

The Moody's Aaa spread is 2 basis points (bps) lower over this period, but the Baa spread is 12 bps lower. However, the Merrill Lynch High Yield Index is 15 bps higher.



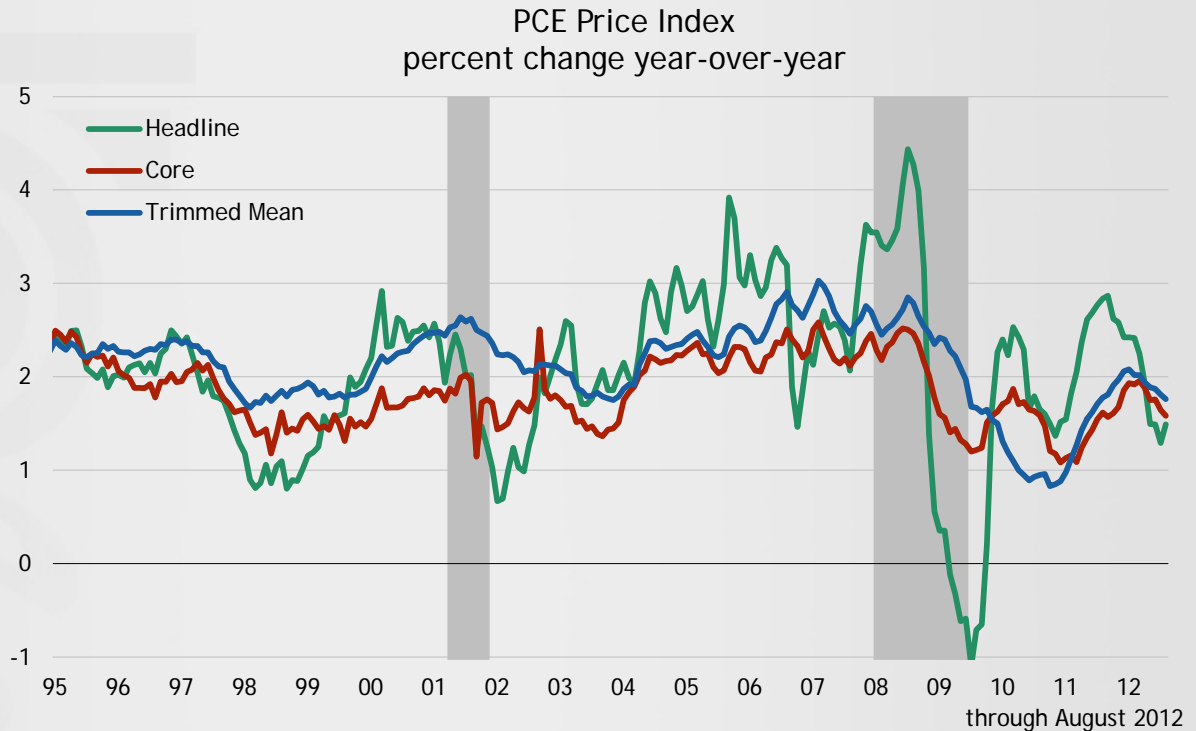
# INFLATION

## SUMMARY

Inflation, as measured by the consumer spending deflator, jumped 5.33 percent (monthly annualized) on a headline basis in August. The increase was led by a large 96.1 percent rise in the index for energy goods and services, following four consecutive months of declines.

Excluding food and energy, core personal consumption expenditures (PCE) inflation rose 1.3 percent (monthly annualized) in August.

On a year-over-year basis, the headline PCE price index rose 1.5 percent, while core PCE inflation was up 1.6 percent.



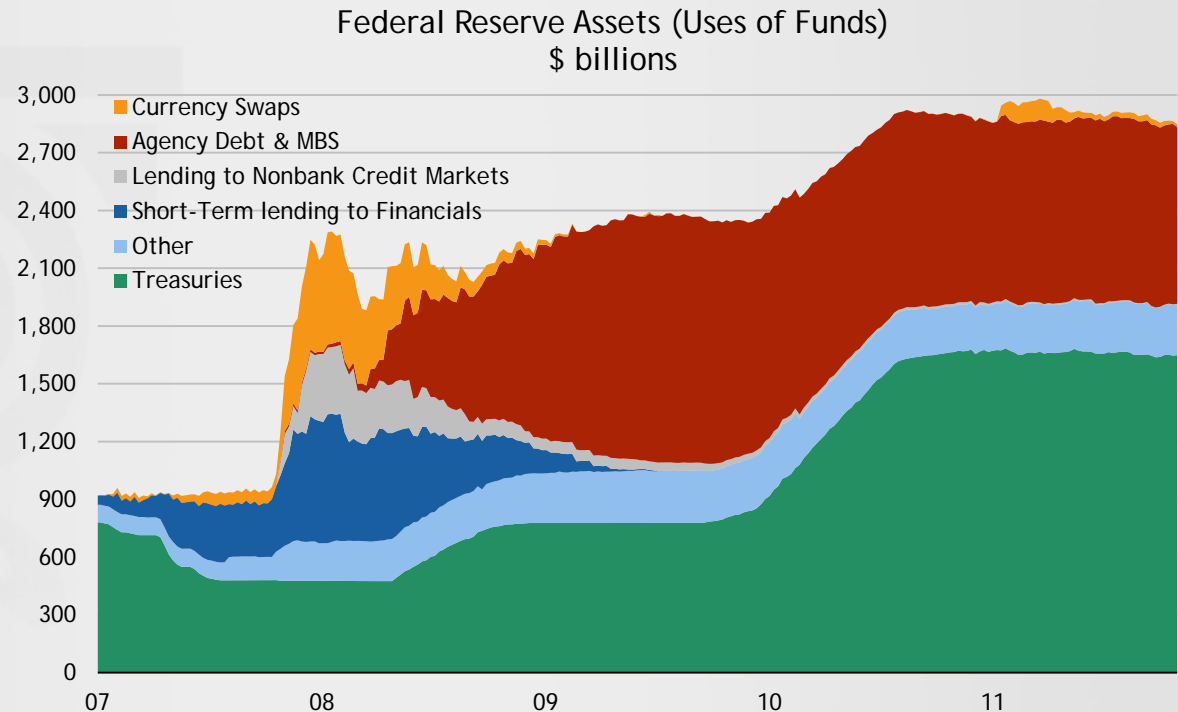
Sources: Bureau of Economic Analysis, Dallas Fed

# FEDERAL RESERVE BALANCE SHEET

## SUMMARY

Between September 19 and September 26, the balance sheet decreased by \$17.1 billion, remaining essentially unchanged at \$2.8 trillion.

At the conclusion of the September FOMC meeting, the desk was instructed to begin purchasing additional agency mortgage-backed securities (MBS) at a pace of \$40 billion per month.



Source: [Federal Reserve Board](#)

through September 26, 2012

## ADDITIONAL DETAIL

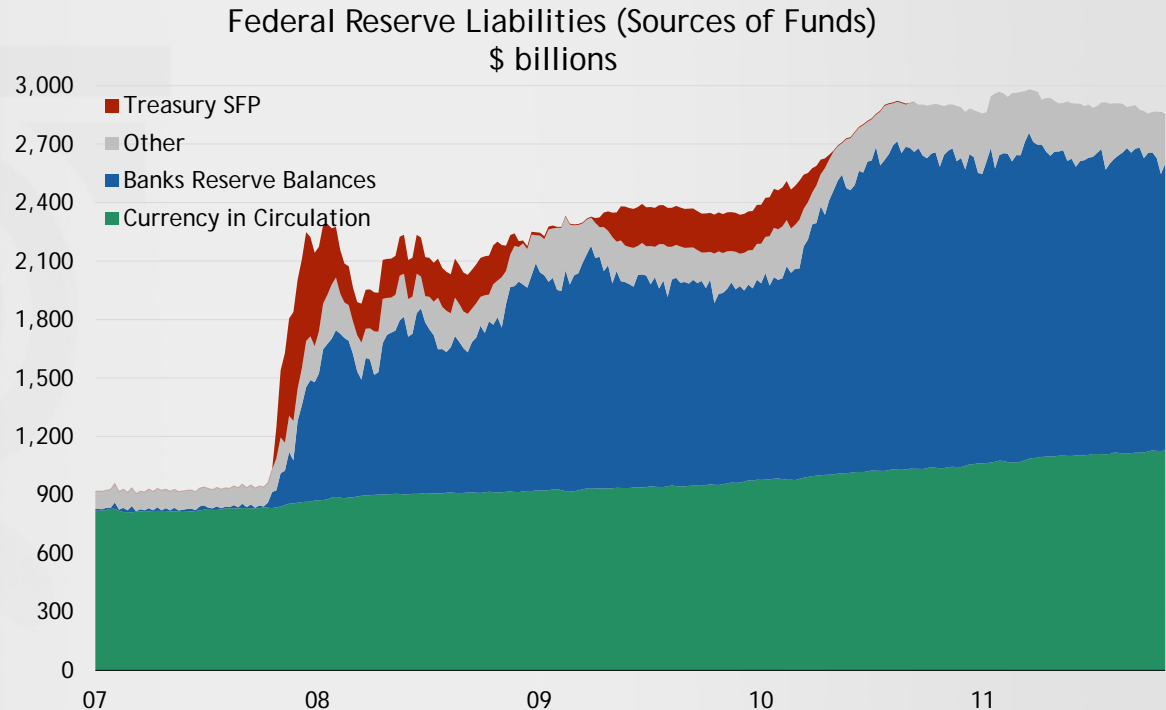
- Treasuries increased by \$2.3 billion.
- According to the [New York Fed's tentative outright Treasury operation schedule](#), and in line with the [Maturity Extension Program](#), the desk plans to purchase approximately **\$46 billion** in securities with longer maturities and sell approximately **\$38 billion** in securities with shorter maturities.

# FEDERAL RESERVE BALANCE SHEET

## SUMMARY

Between September 19 and September 26, bank reserve balances with the Federal Reserve increased by \$49.9 billion while Treasury deposits with the Federal Reserve decreased by \$10 billion.

As of September 26, 2012, bank reserves were \$1.47 trillion.



Source: [Federal Reserve Board](#)  
SFP=Supplemental Financing Program

through September 26, 2012

## ADDITIONAL DETAIL

- Nonreserve deposits with the Federal Reserve decreased by \$54.8 billion.