

Economic Highlights

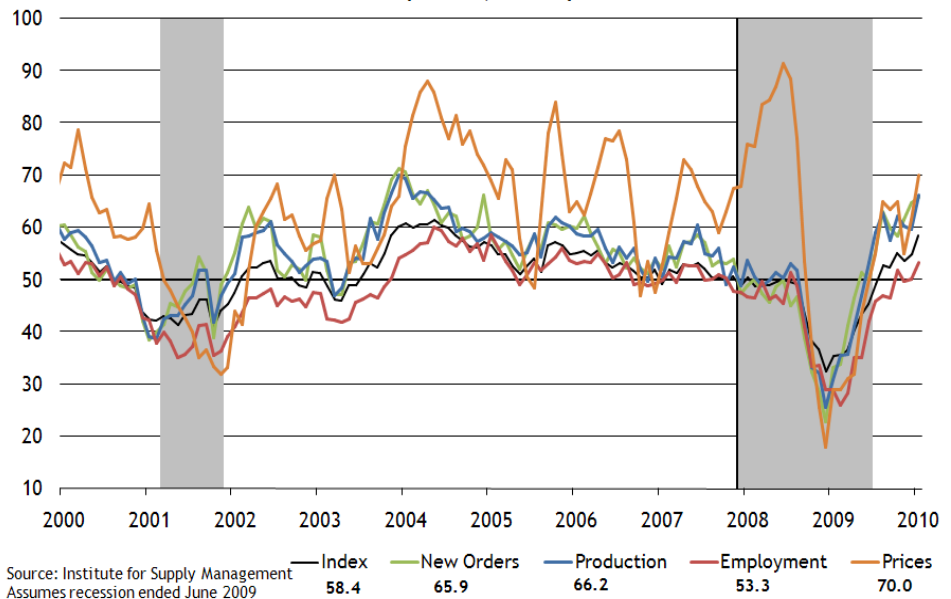
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Summary

The Institute for Supply Management's Purchasing Managers Index gained 3.5 index points to reach 58.4 in January. The composite index, new orders component, and production component reached their highest levels in more than five years.

ISM Manufacturing Index and Components

50+ = expansion, January 2010

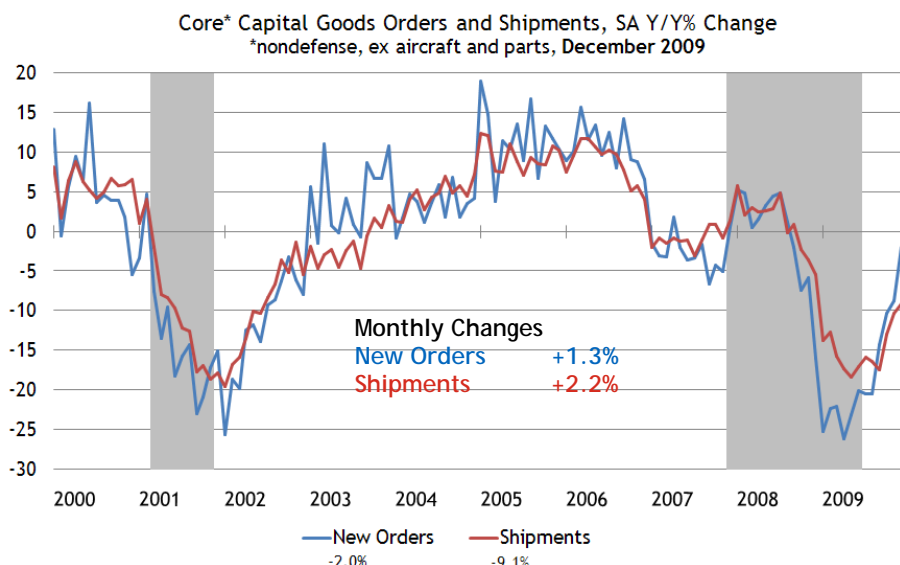


- The ISM's manufacturing purchasing managers composite index jumped 3.5 index points in January to reach 58.4, the highest composite reading since August 2004.
- The new orders component posted a 1.1 index point gain to reach 65.9, the highest reading for the component since December 2004. The ISM PMI survey has shown growth (though varying in magnitude) in new orders for the past seven months.
- The production component added a sizable 6.5 index points to reach 66.2. Month over month, 38% of contacts reported higher production levels, 51% reported no change in production levels, and 11% reported lower production levels.
- The employment component gained 3.1 index points in January to reach 53.3, the component's highest reading since April 2006.
- Often the most volatile component of the composite PMI, the ISM manufacturing price index soared 7 index points to reach 70.
- January's price index was a result of 44% of manufacturing respondents reporting paying higher prices, 52% reporting paying the same prices as in the prior month, and only 4% reporting paying lower prices in January than in December.

Manufacturing

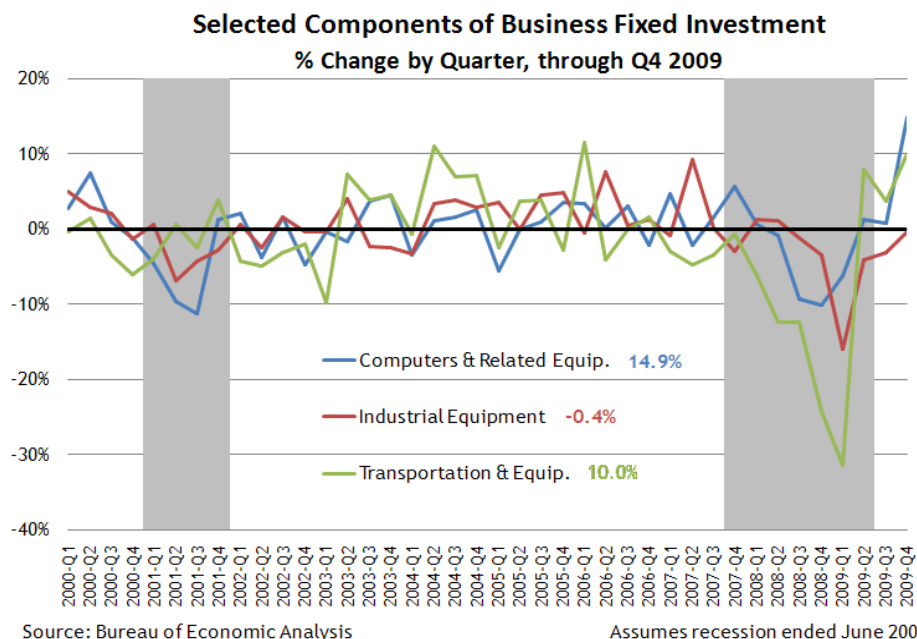
Summary

After a strong, upwardly revised gain of 3.1% in November, core capital goods increased 1.3% in December. Shipments of core capital goods were up 2.2% in December.



- New orders for core capital goods increased 1.3% in December. The largest driver for the gain was a 6% gain in new orders for machinery. Another major driver was an uptick in new orders for motor vehicles and parts.
- Shipments for core capital goods increased 2.2% in December.

Though spending on two components (structures and industrial equipment) of business fixed investment are still negative, spending on high-tech components grew quickly in the fourth quarter of 2009.

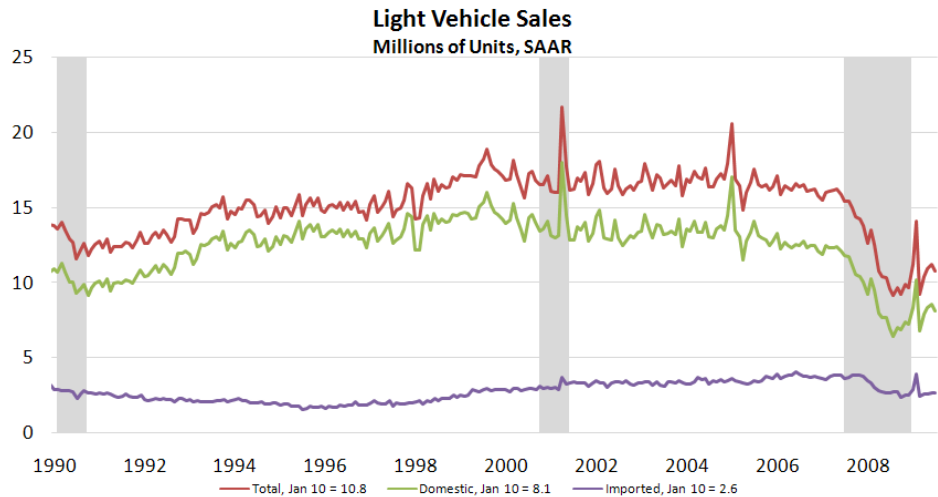


- In the fourth quarter of 2009, some components of business fixed investment soared from the previous quarter. Particularly, spending on computers and related equipment jumped 14.9% while spending on transportation and related equipment jumped 10%. Overall business fixed investment grew 0.3%.

Consumer Spending

Summary

Light vehicle sales declined 400,000 units in January from December after three months of growth.



Source: BEA

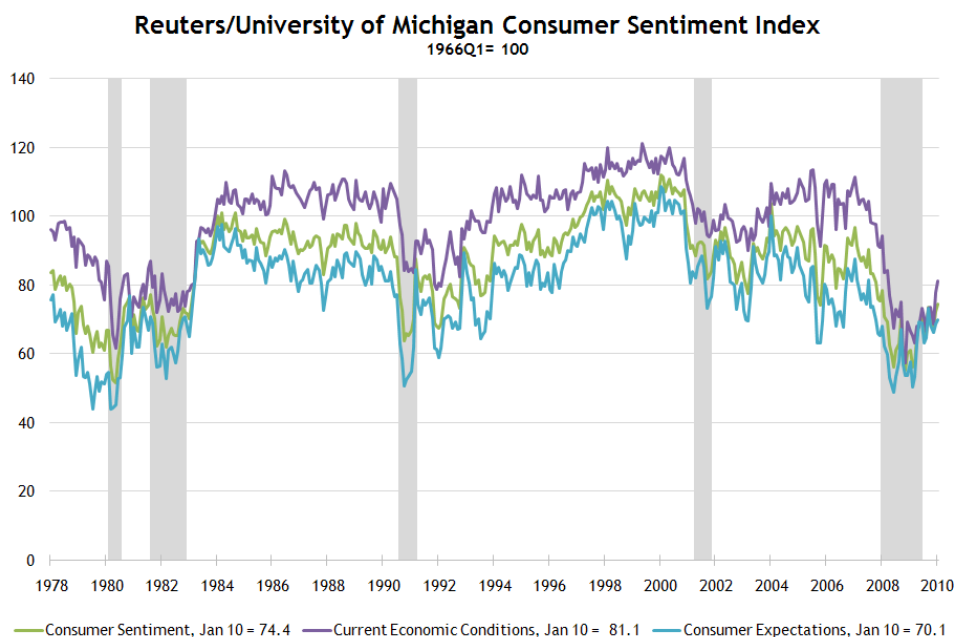
Assumes recession ended June 2009

- Total light vehicle sales for January declined 4% from December to an annualized rate of 10.8 million units, falling a bit short of Bloomberg's market consensus expectation of 10.9 million units.
- Imported vehicle sales declined 0.8% to an annualized rate of 2.6 million units.
- Domestic vehicle sales fell 5% from December to an annualized rate of 8.1 million units in January. Toyota experienced a 29% drop in sales from December to January after suspending production and sales of eight popular models during the last week of January. This decline, along with the conclusion of year-end sale incentives that took place in December, was a large contributing factor to the decline in total auto sales in January.

Consumer Spending

Summary

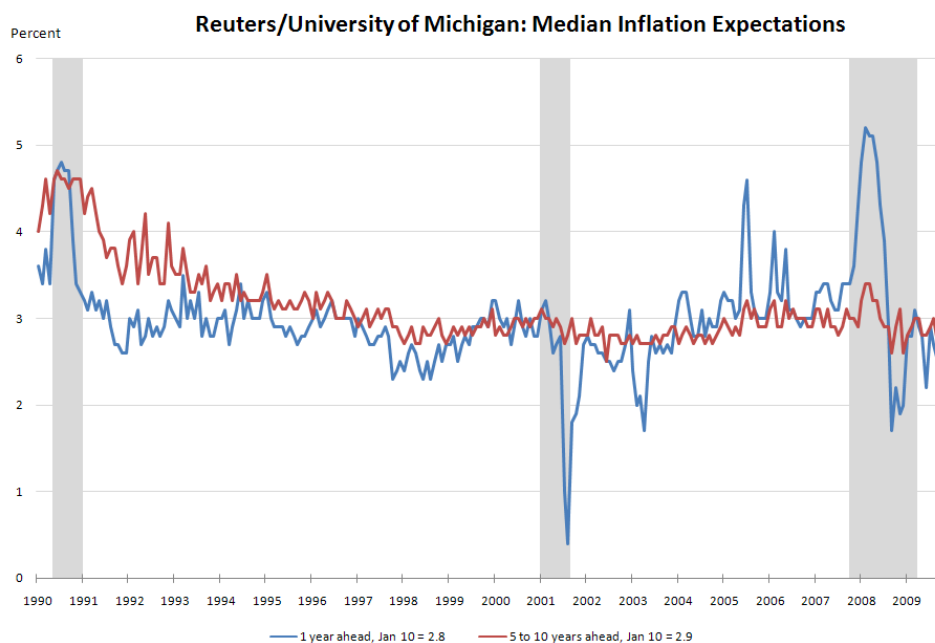
The Reuters/University of Michigan Consumer Sentiment Index increased modestly in January.



Source: Reuters/University of Michigan

Assumes recession ended June 2009

- The January Reuters/University of Michigan Consumer Sentiment Index increased from 72.5 points to 74.4, surpassing analysts' expectations of 73. The index reached its highest level since January 2008. The gain was driven by the current economic conditions component, which increased 3.1 points to 81, its highest level in almost two years. Consumer expectations increased 1.4 points to 70.1 in January.
- The Reuters/University of Michigan index is now approximately 19 points above its cyclical low in November 2008.
- The median one-year-ahead expected inflation rate rose from 2.5% to 2.8% from December to January while the median five-to-ten-year outlook also increased from 2.7% to 2.9%.



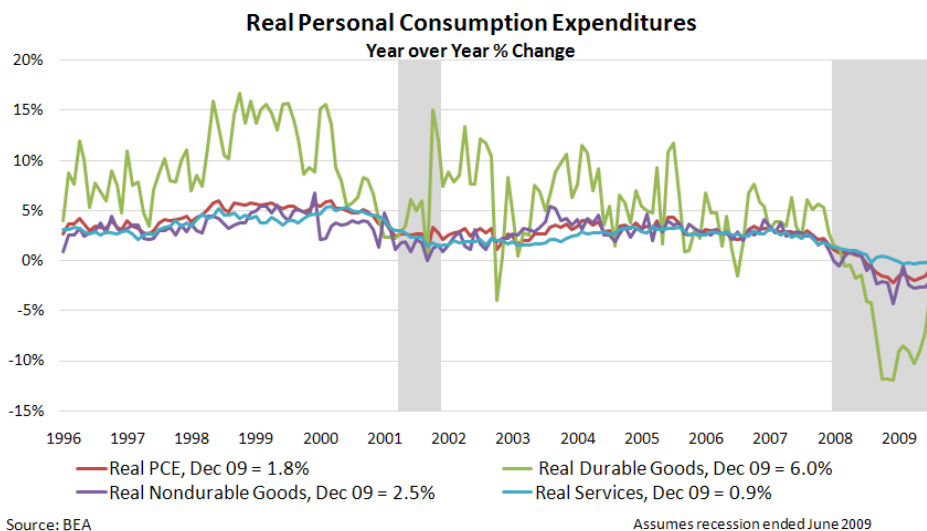
Source: Reuters/University of Michigan

Assumes recession ended June 2009

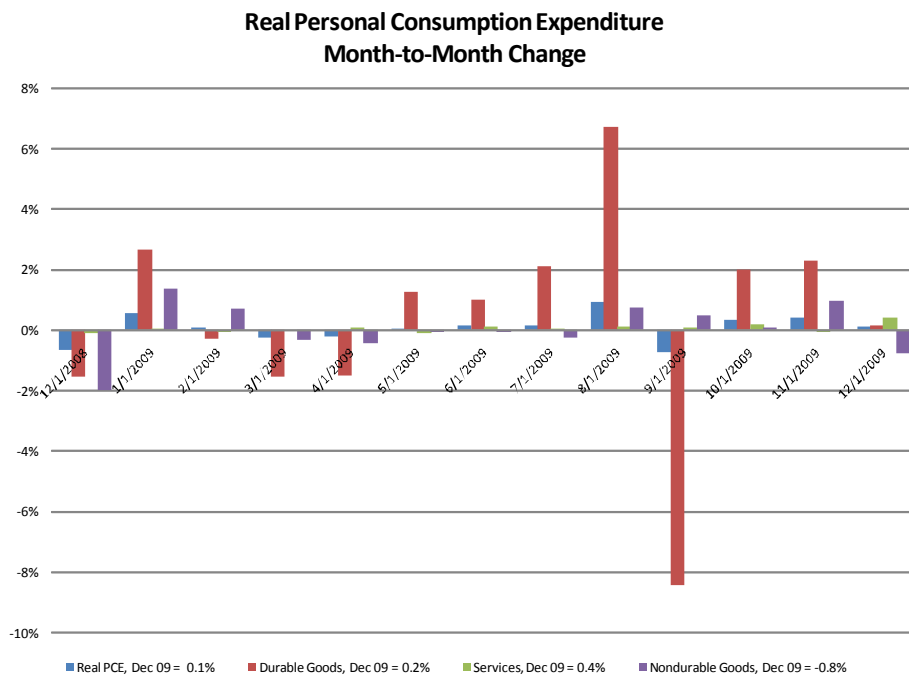
Consumer Spending

Summary

Real personal consumption expenditures (PCE) rose from November to December and are up on a yearly basis for the third consecutive month. At an annualized rate, real PCE rose 1.5% from November to December.



- In December 2009, real PCE rose 1.8% from December 2008. Nondurable goods, durable goods, and services increased 2.5%, 6%, and 0.9%, respectively.
- The strong year-over-year levels in all components of PCE reflect the much stronger holiday season spending compared to December 2008. However, 2008 holiday sales were dismal.
- The monthly data experienced modest increases. Durable goods and services were slightly higher than in November, and nondurable goods were down 0.8%. Overall real PCE increased 0.1%. On an annualized basis, however, real PCE rose 1.5% from November to December.
- Personal savings as a percentage of disposable income remains at relatively high levels, climbing to 4.8% in December. The average savings rate between 2002 and 2007 was 2.6%.

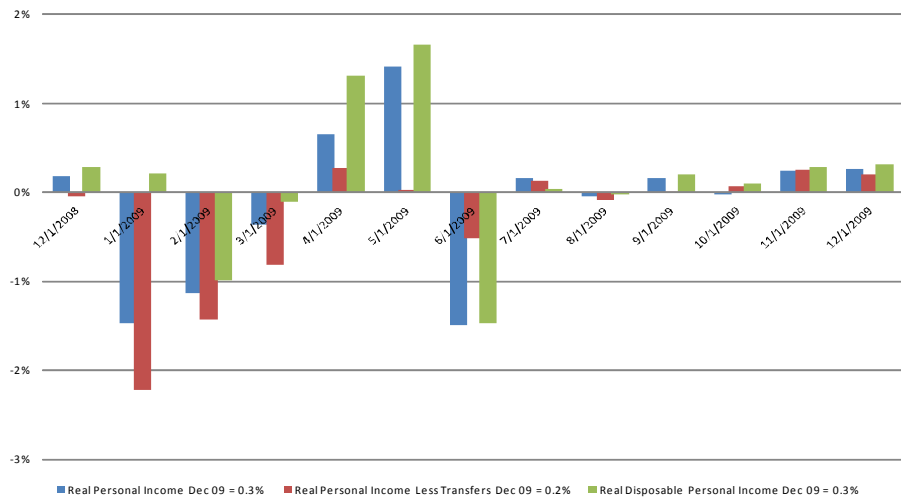


Consumer Spending

Summary

Real personal income, real personal income less transfers, and real disposable personal income rose on a month-to-month basis in December 2009. However, all three measures fell on a yearly basis in December 2008.

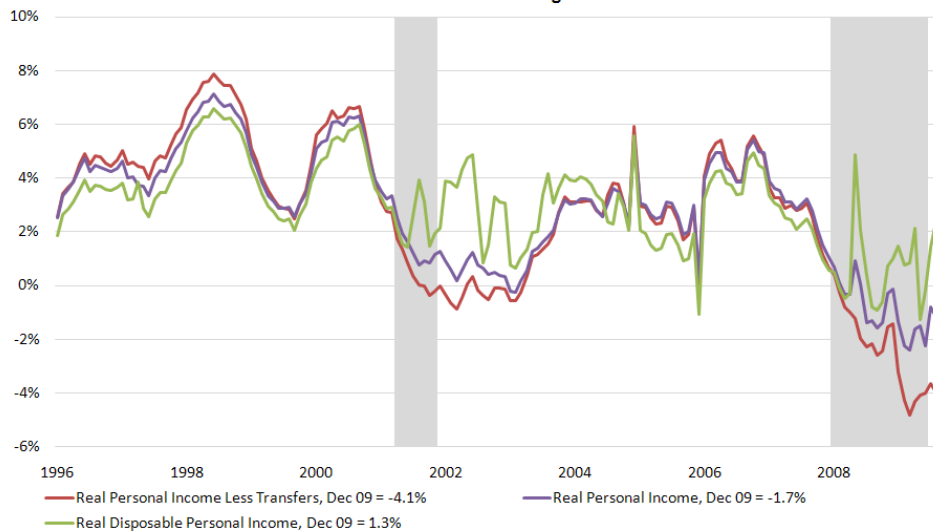
**Real Personal Income Growth
Month to Month Change**



Source: BEA

- In December 2009, real personal income, real disposable personal income, and real personal income less transfers increased from November, rising 0.27%, 0.32%, and 0.21%, respectively. Employee compensation increased 0.1% from November to December.
- The large gains in farm proprietors income as a result of the uncommonly late harvest and a one-time payment to Social Security recent retirees that took place in December largely contributed to the gain in personal income.
- On an annual basis, real personal income declined 1.4% from December 2008. Real personal income less transfers plunged 4.1%, and real personal disposable income declined 1.3% from December 2008. However, all three measures are declining at a decelerating rate.

**Real Personal Income
Year over Year % Change**



Source: BEA, Haver

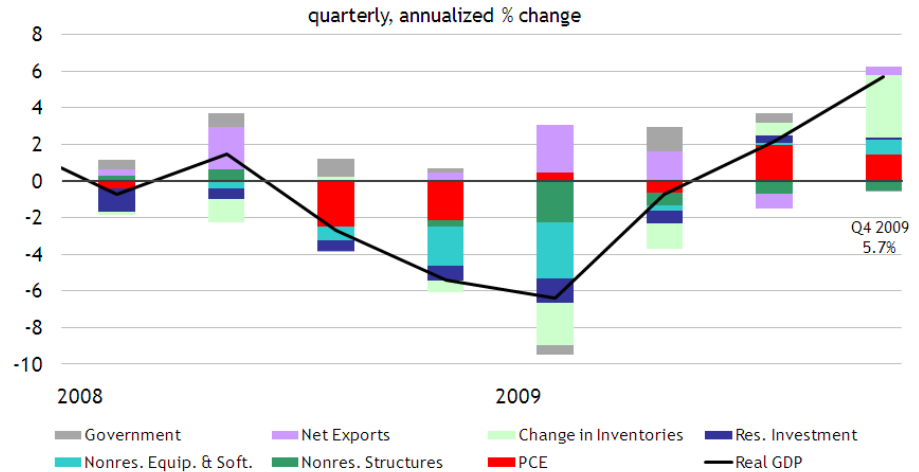
Assumes recession ended June 2009

Economic Activity

Summary

Real GDP increased by 5.7% in Q4 2009, according to the advance estimate. More than half the increase stems from a slowing pace of inventory liquidation.

Contributions to Real GDP Growth

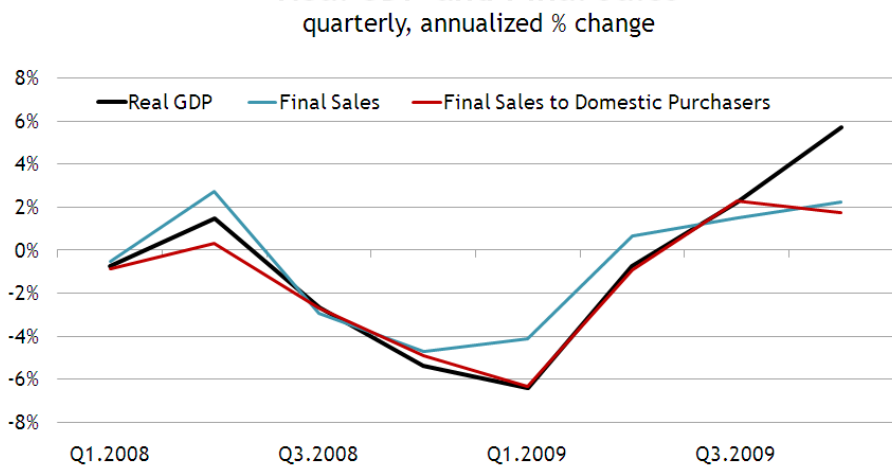


Source: U.S. Bureau of Economic Analysis

- The 5.7% (annualized rate) real GDP growth in the Q4 2009 reflected positive contributions from private inventory investment (inventories fell less in Q4 than in Q3), exports, personal consumption expenditures (PCE), and business investment in equipment and software. This gain was only partially offset by an increase in imports (which subtract from GDP) and a decline in investment in nonresidential structures.
- The advance estimate showed business inventories declining by \$33.5 billion (SAAR) in Q4, following decreases of \$139 billion in Q3 and \$160 billion in Q2, and marking the smallest inventory decline since the Q3 2008. The BEA estimates that the slowing inventory drawdown contributed 3.4 percentage points to Q4 GDP growth, though the release emphasized that the estimate was subject to further revision.

Growth in final sales to domestic purchasers decelerated slightly in Q4 (1.7% annualized from 2.3% in Q3), a testament to the boost from inventories and the external sector.

Real GDP and Final Sales



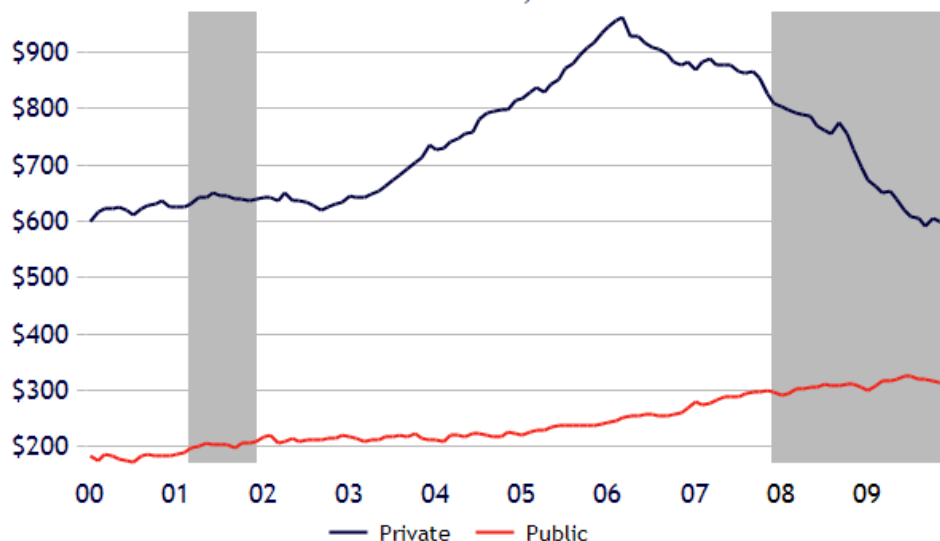
Source: Bureau of Economic Analysis, through Q4 09

Summary

According to the U.S. Census Bureau, both public and private construction spending declined in December from November. Private construction spending remained below the year-earlier level, down 15%, while public spending was just ahead of the year-earlier level, up 1%.

December 2009 U.S. Construction Spending

billions, SAAR

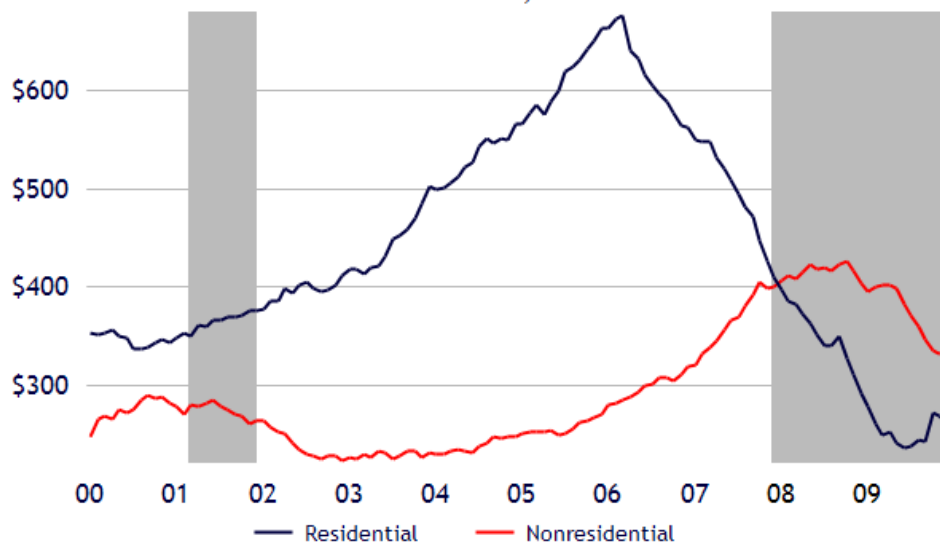


Source: U.S. Census Bureau

Following eight consecutive monthly declines, private non-residential construction spending held steady in December, rising 0.2%, while private residential construction spending continued to soften.

December 2009 U.S. Private Construction Spending

billions, SAAR



Source: U.S. Census Bureau

December 2009 Construction Spending Put in Place

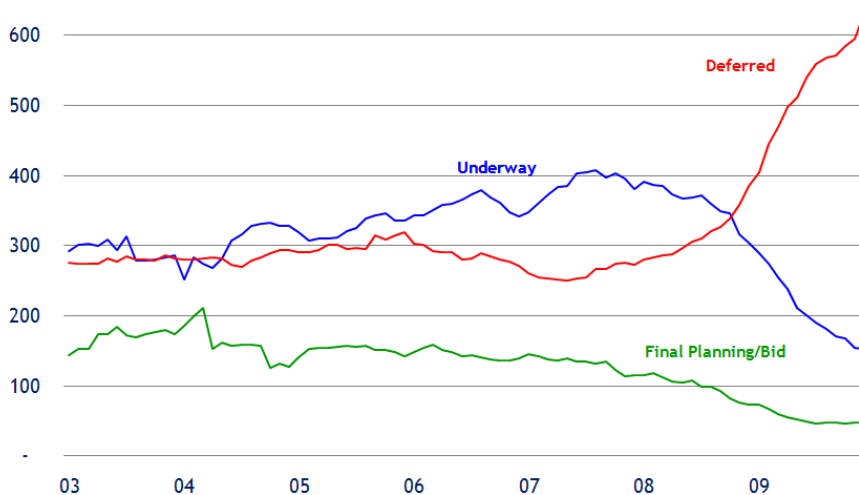
	millions, SAAR	y/y change	m/m change
Total	\$902,545	-9.9%	-1.2%
Total nonresidential	\$633,846	-9.8%	-0.5%
Private nonresidential	\$332,510	-17.7%	0.2%
Public nonresidential	\$301,337	1.0%	-1.3%
Total residential	\$268,699	-10.3%	-2.7%
Private residential	\$260,448	-10.9%	-2.8%

Summary

TWR/Dodge Pipeline data for December indicate that commercial construction activity under way continued to slow, declining 2% from November to December.

U.S. Office, Retail & Warehouse Construction Activity

SF in Mill. (thru December)

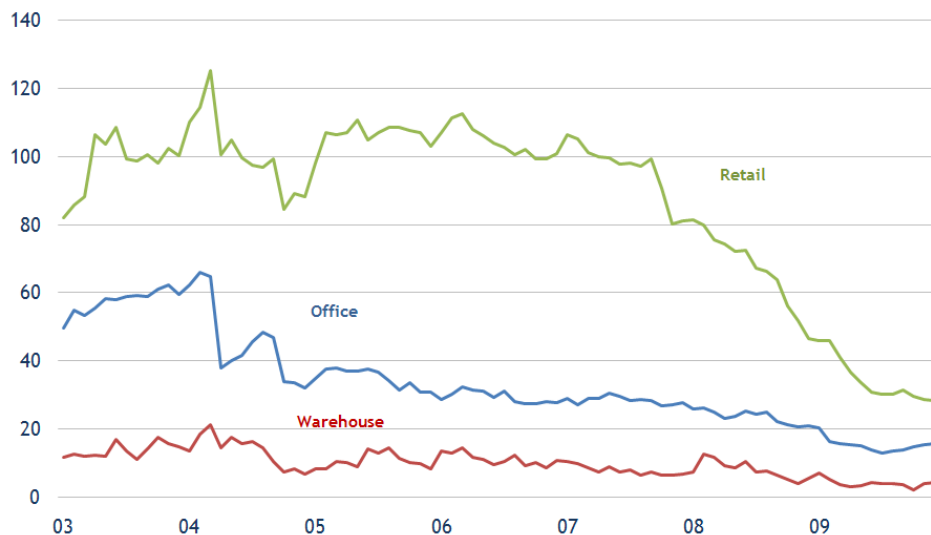


Source: McGraw-Hill/TWR Pipeline

Total space in the final planning or bid phase held steady in December following a more positive reading the prior month. Weakness continued to be centered in the retail sector.

U.S. Commercial Construction in the Final Planning or Bid Phase

SF in Mill. (thru December)



Source: McGraw-Hill/TWR Pipeline

Note: TWR/Dodge Pipeline tracks commercial real estate projects through development phases.

Final planning—projects moving toward final approvals with a high probability that a construction contract will be awarded within the next six months

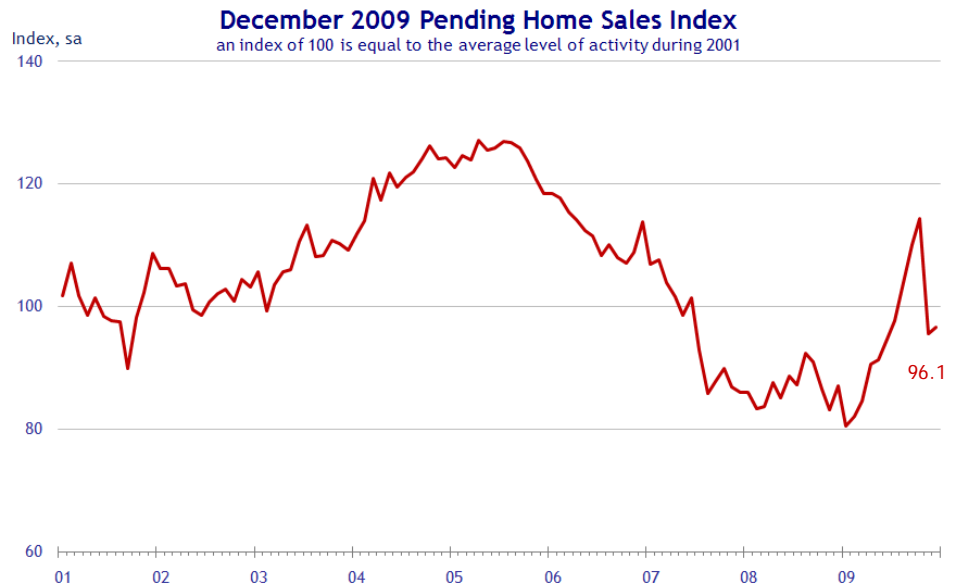
Bid—projects that have been finalized, are put out to bid by general contractors, are very close to being awarded, and have a very high probability of coming to market

Under way—projects that are under construction

Deferred—projects delayed at any point in the planning cycle for reasons including problems with financing or design approvals or deterioration in market conditions

Summary

According to the National Association of Realtors (NAR), the pending home sales index increased 1% in December, in line with expectations.



Source: National Association of Realtors

- The NAR's pending home sales index is considered an accurate indicator of existing home sales over the next several months.
- The pending index is based on existing homes that are under contract but the transaction has not been closed. Typically, the sale is complete within one or two months of signing a contract.
- According to the NAR, the index represents about 20% of transactions for existing home sales nationwide.