

## Economic Highlights

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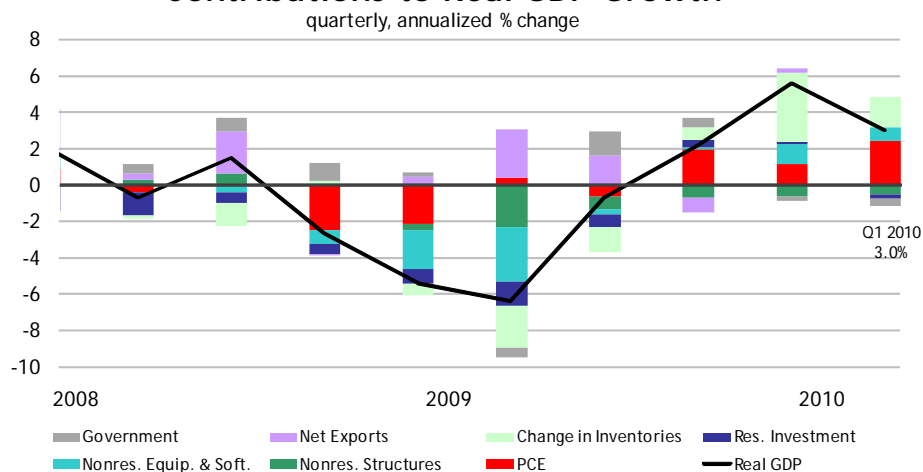
# Economic Activity

## Summary

Real GDP was revised down from 3.2% to 3% in Q1 2010, according to the BEA's second estimate.

Most components of GDP were revised down, but only slightly.

## Contributions to Real GDP Growth



Source: U.S. Bureau of Economic Analysis

- Most of the components of Q1 GDP growth were revised lower, including PCE (consumer spending), business investment, government, and net exports. Residential investment and inventories were revised up.
- The second release of GDP also included corporate profit data. Corporate profit before taxes rose 24% in Q1 on an annual rate to a level of \$1.549 trillion. Nonfinancial profits rose \$140 billion, and financial industry profits rose \$19 billion in Q1.

Q1 2010 GDP	Quarterly annualized percent change	
	Advance release	Second release
GDP Growth	3.2	3.0
PCE	3.6	3.5
Nonres. Structures	-14.0	-15.3
Nonres Equip. & Soft.	13.4	12.7
Res. Investment	-10.9	-10.7
Change in Inventories	51.0	53.6
Government	-1.8	-1.9
Exports	5.8	7.2
Imports	8.9	10.4

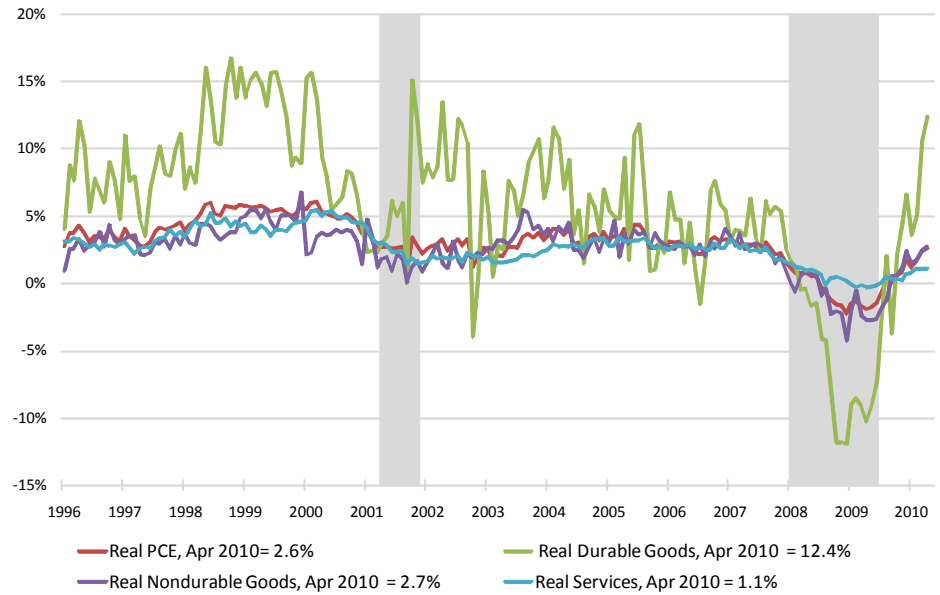
Source: BEA

# Consumer Spending

## Summary

Real personal consumption expenditures (PCE) growth slowed in April following two months of strong increases.

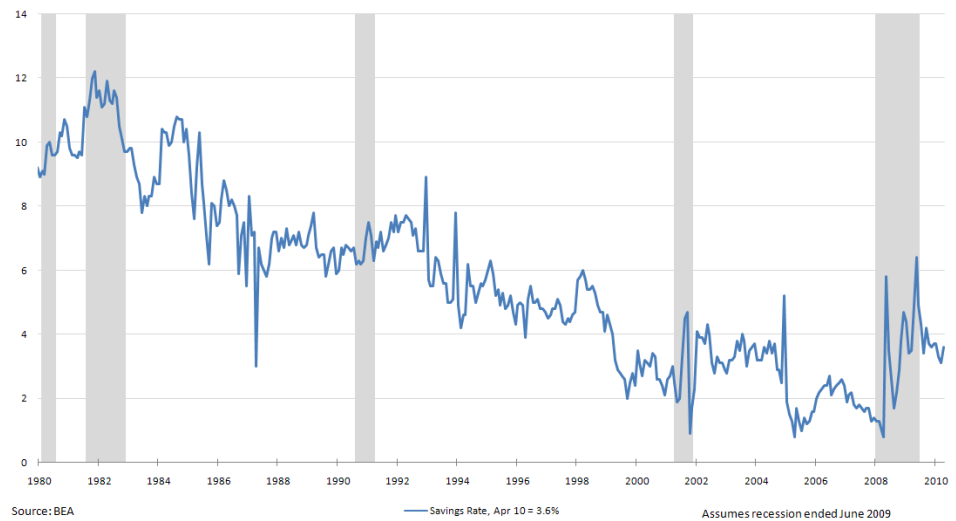
**Real Personal Consumption Expenditures**  
Year over Year % Change



- In April real PCE was unchanged. Spending on durable goods was flat during the month, while nondurable spending fell 0.6% and spending on services increased 0.2%.
- On a year-over-year basis, real PCE increased 2.6%, the highest rate since September 2007.
- The savings rate rose five-tenths to 3.6% in April after trending lower for three consecutive months.

The savings rate rose to 3.6% in April as a result of faster growth of income over the month.

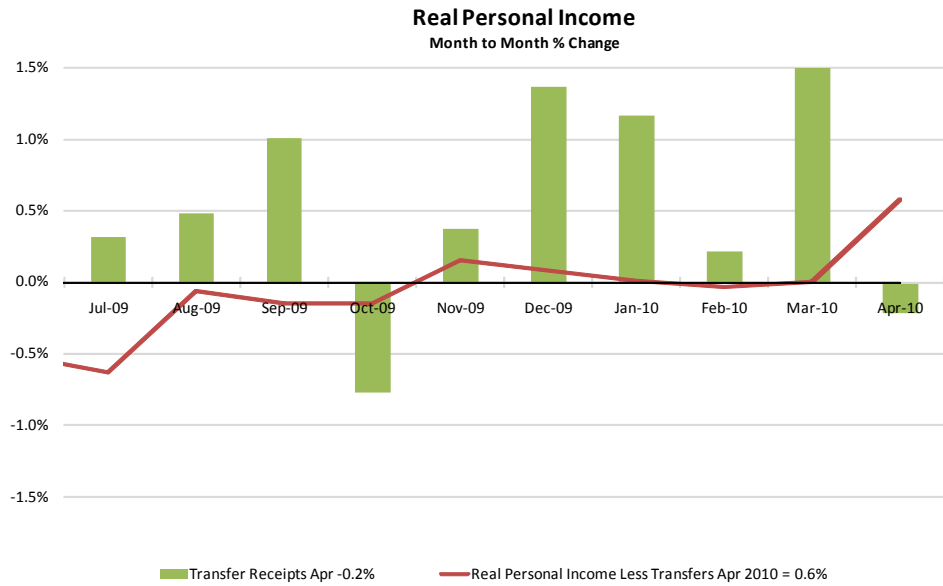
**Personal Saving Rate**  
(as percentage of disposable income)



# Consumer Spending

## Summary

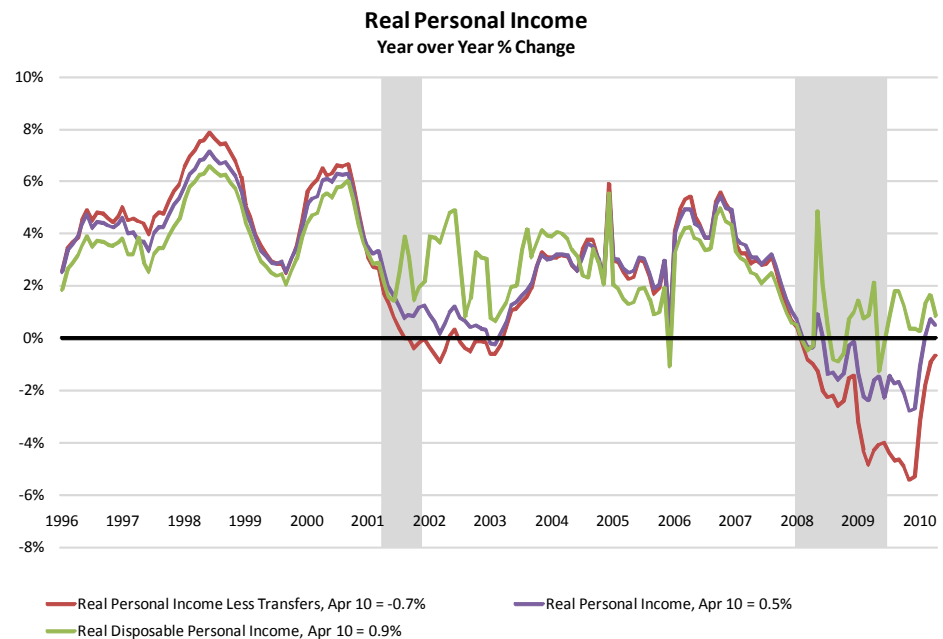
April was the first time in several months that income rose without the boost from transfer payments.



Source: BEA

- Real personal income less transfers grew 0.6% in April. Government transfer payments fell 0.2% over the month following several months of gains.
- On an annual basis, real personal income increased 0.5%, and real personal disposable income increased 0.9% from April 2009. Real personal income less transfers accelerated but remains negative at -0.7% over the year.

On a year-over-year basis, real personal income less transfers remains weak but is less negative in April.



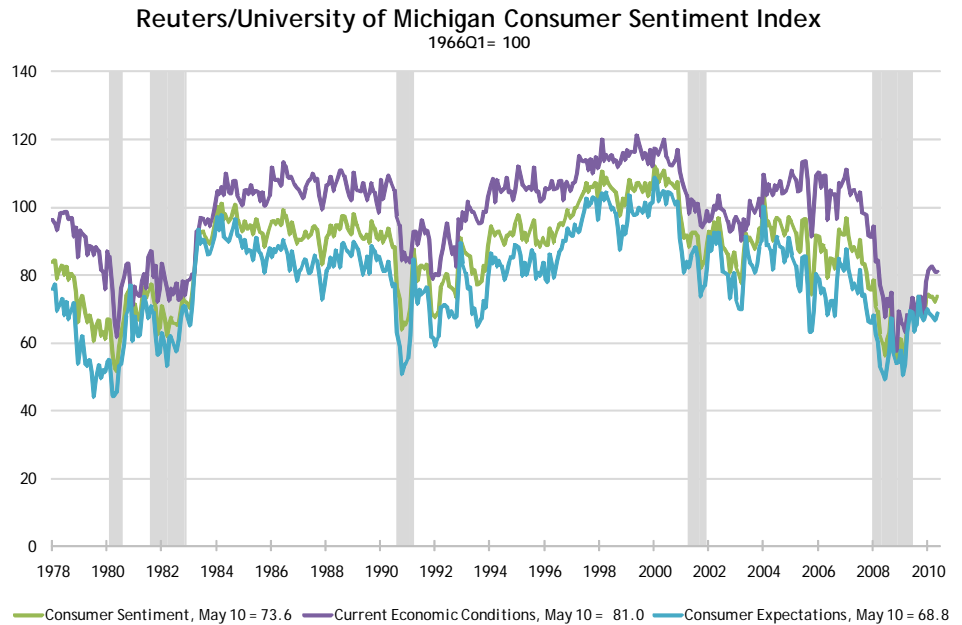
Source: BEA, Haver

Assumes recession ended June 2009

# Consumer Spending

## Summary

The University of Michigan's Consumer Sentiment Index final release showed a slight increase in consumer confidence in May.

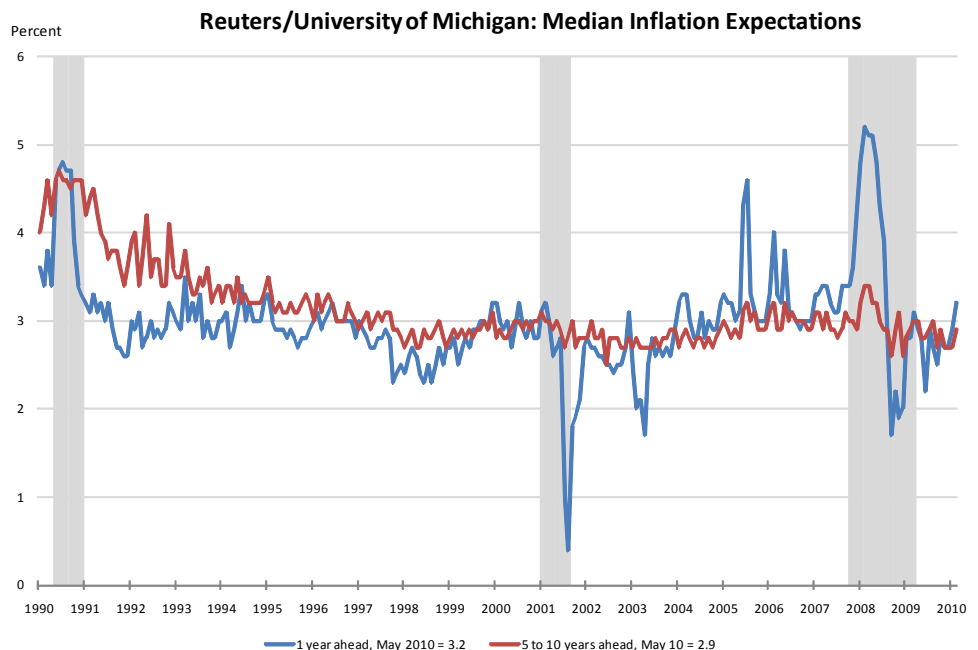


Source: Reuters/University of Michigan

Assumes recession ended June 2009

- In May, the University of Michigan's Index of Consumer Sentiment increased to 73.6, slightly higher than the preliminary report of 73.3. The index is close to prerecession levels but still historically low.
- The expectations component of the index led the upward revision, increasing to 68.8 instead of 68.3 from the preliminary report for May. The present situation component was unchanged at 81.
- The University of Michigan's median inflation expectations measure for one year ahead was revised up from 3.1% to 3.2%, while the five-to-ten-years-ahead measure remained at 2.9%.

The University of Michigan's inflation expectations short-term measure was revised up slightly for May.



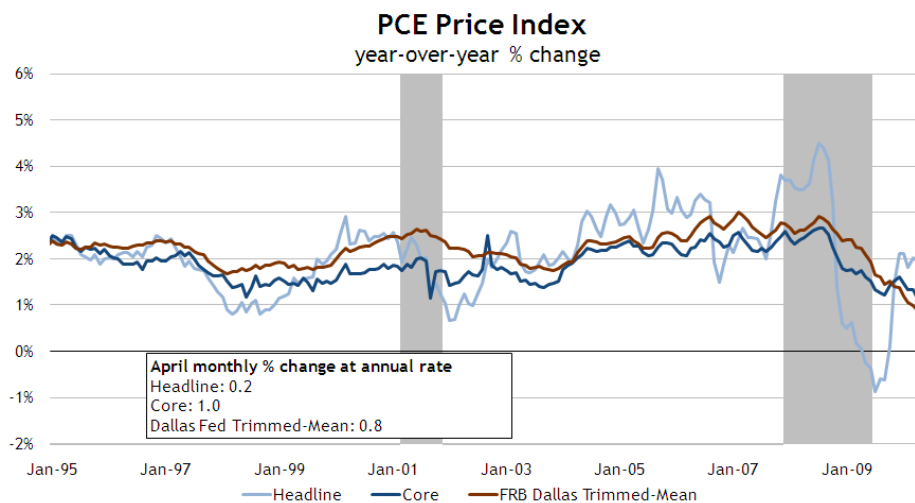
Source: Reuters/University of Michigan

Assumes recession ended June 2009

# Inflation

## Summary

PCE inflation measures indicate persistent disinflation.



- April headline inflation, as measured by the consumer spending deflator, was up 0.2% on an annualized monthly basis, a deceleration from 1.3% in March. Headline PCE prices were up 2% year over year, unchanged from the earlier month's reading.
- Core (less food and energy) PCE prices increased by 1% (annual rate) in April, down from 1.2% the month before. Year-over-year core PCE inflation was 1.2%, a slight moderation from 1.3% in March.
- The Dallas Fed trimmed-mean 12-month PCE inflation rate ticked down to a 0.9% annual rate in April, the lowest since the series began in 1978.

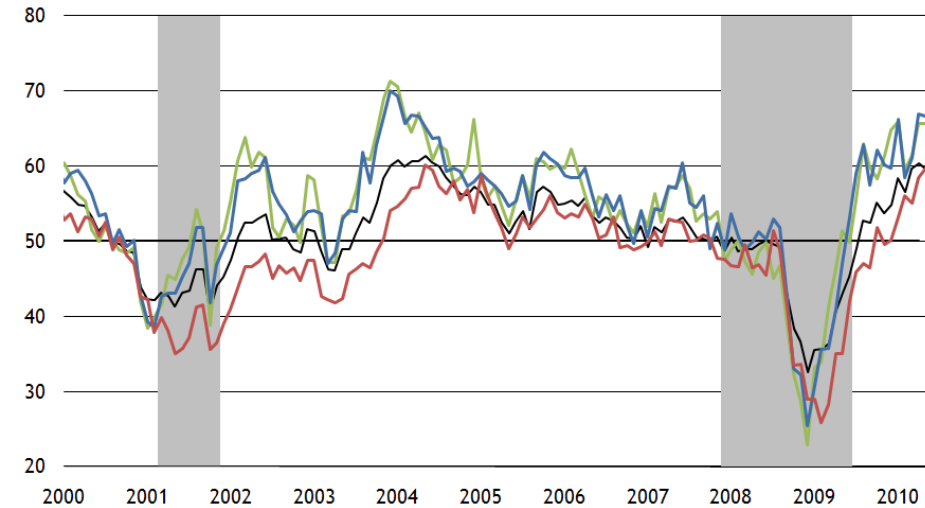
# Manufacturing

## Summary

Manufacturing activity increased at a slightly slower pace in May but is still strongly in expansion territory. May's employment component continued to expand at a faster pace than in April.

### ISM Manufacturing Index and Components

50+ = expansion, May 2010



Source: Institute for Supply Management  
Assumes recession ended June 2009

- In May, the Institute for Supply Management's Purchasing Managers Index (PMI) indicates that manufacturing expanded at a slightly slower pace. The overall index dropped 0.7 index points to reach 59.7.
- The new orders component of the PMI held steady at 65.7, the highest reading since December 2004. This reading was a result of 50% of respondents reporting higher orders and 38% reporting levels similar to April's.
- The ISM's production component dipped 0.3 index points, a result of 51% of respondents reporting higher production levels and 37% reporting production levels similar to April's. Disregarding April's high, this reading was the highest for production since April 2004.
- May's PMI employment index registered 59.8, the highest level since May 2004. The employment component gained 1.3 index points in May.
- A noteworthy addition to this month's survey, participants were asked about their average commitment lead time for capital expenditures:

Executives reported one less day of lead time for capital expenditures.

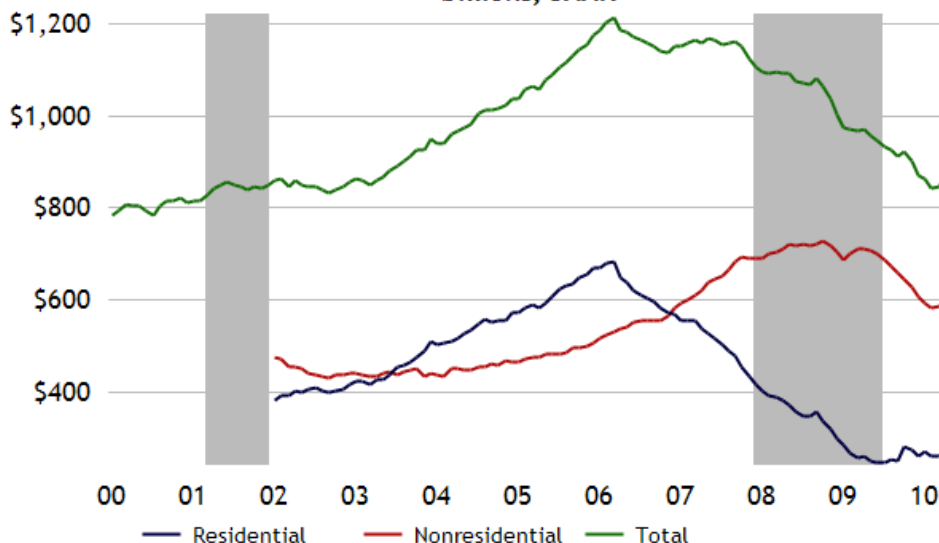
Capital Expenditures	Percent Reporting						
	Hand-to-Mouth	30 Days	60 Days	90 Days	6 Months	1 Year+	Average Days
May 2010	32	8	9	15	26	10	106
Apr 2010	32	5	10	17	26	10	107
Mar 2010	26	9	13	14	25	13	116
Feb 2010	27	6	13	15	26	13	118

Source: ISM

## Summary

The U.S. Census Bureau reported that total construction spending increased in April, up 2.7% from March. Both residential and nonresidential spending improved.

### April 2010 U.S. Construction Spending billions, SAAR



Note: Assumes recession ended in June 2009

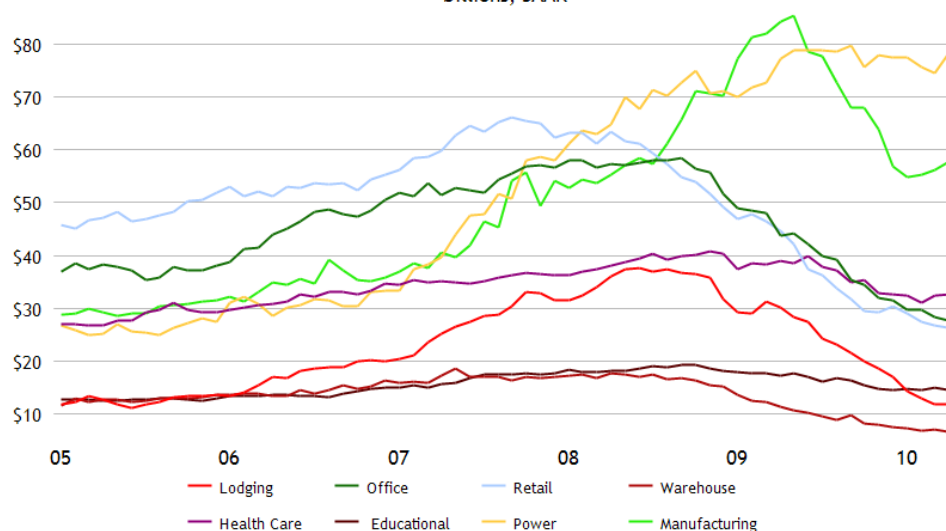
Source: U.S. Census Bureau

### April 2010 Construction Spending Put in Place

	millions, SAAR	y/y change	m/m change
Total	\$869,088	-10.5%	2.7%
Total nonresidential	\$596,900	-16.1%	2.0%
Private nonresidential	\$302,741	-24.6%	1.7%
Public nonresidential	\$294,159	-5.0%	2.3%
Total residential	\$272,188	4.6%	4.5%
Private residential	\$263,047	4.1%	4.4%

A closer look at private nonresidential construction spending indicates that improvement in April was driven by construction spending related to power and manufacturing.

### April 2010 U.S. Private Nonresidential Construction Spending billions, SAAR

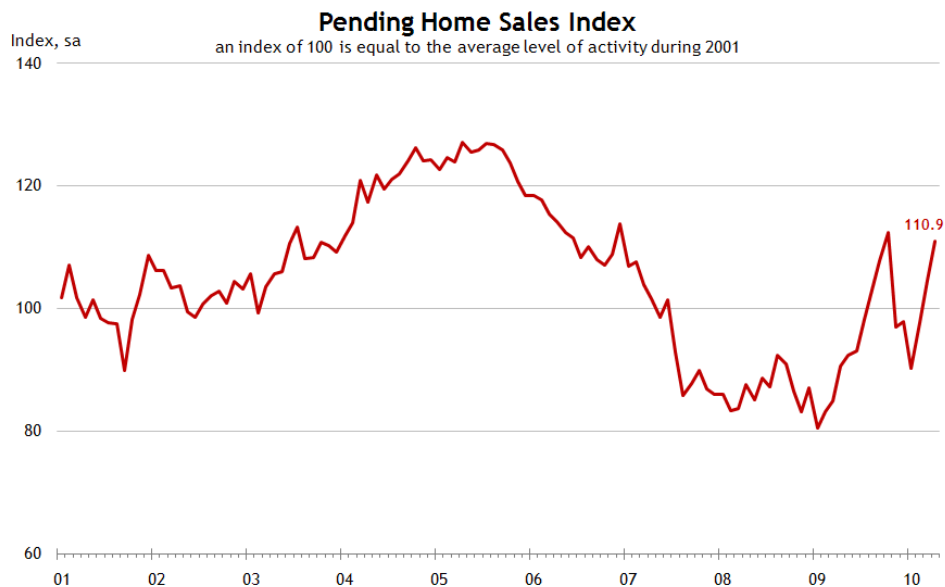


Source: U.S. Census Bureau



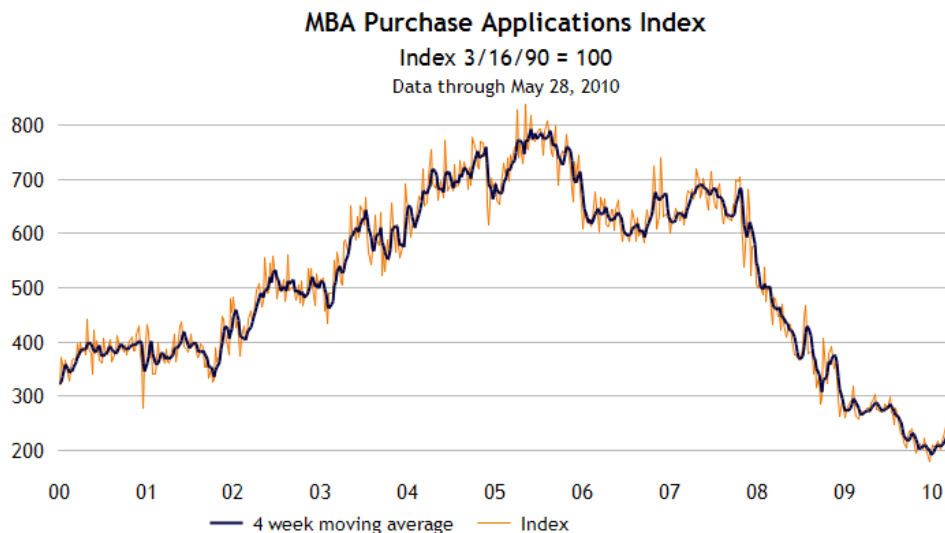
## Summary

The National Association of Realtors reported that the pending home sales index increased 6% to 110.9 based on contracts signed in April.



Source: National Association of Realtors

According to the Mortgage Bankers Association's (MBA) conventional market purchase index, home purchase applications peaked recently in late April/early May and have weakened somewhat since.

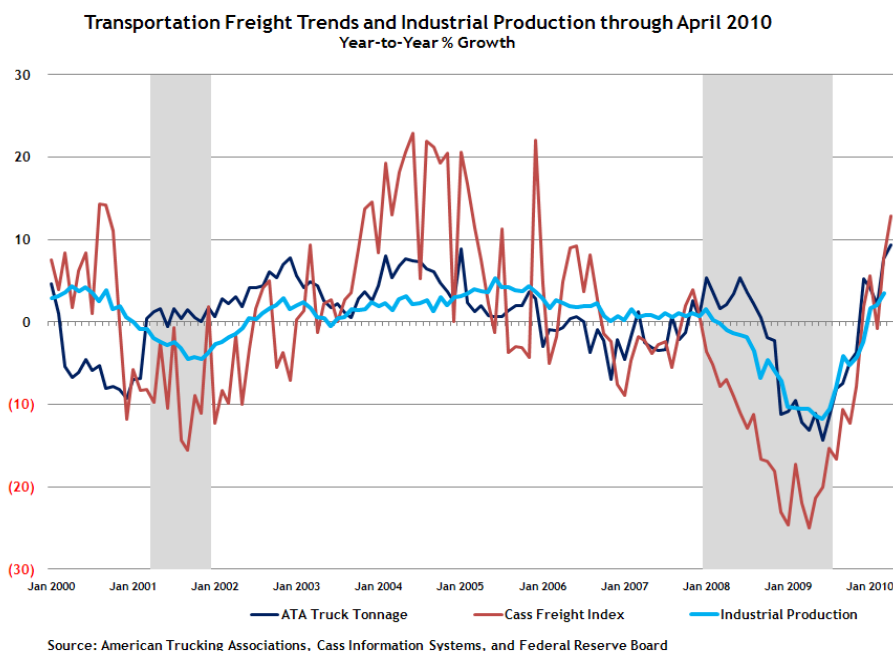


Source: Mortgage Bankers Association: Weekly Mortgage Applications Survey

# Transportation and Auto Production

## Summary

Recent year-over-year freight indicators continued to recover from depressed levels in early 2009. The ATA truck tonnage index in April 2010 was the best year-to-year gain in five years.

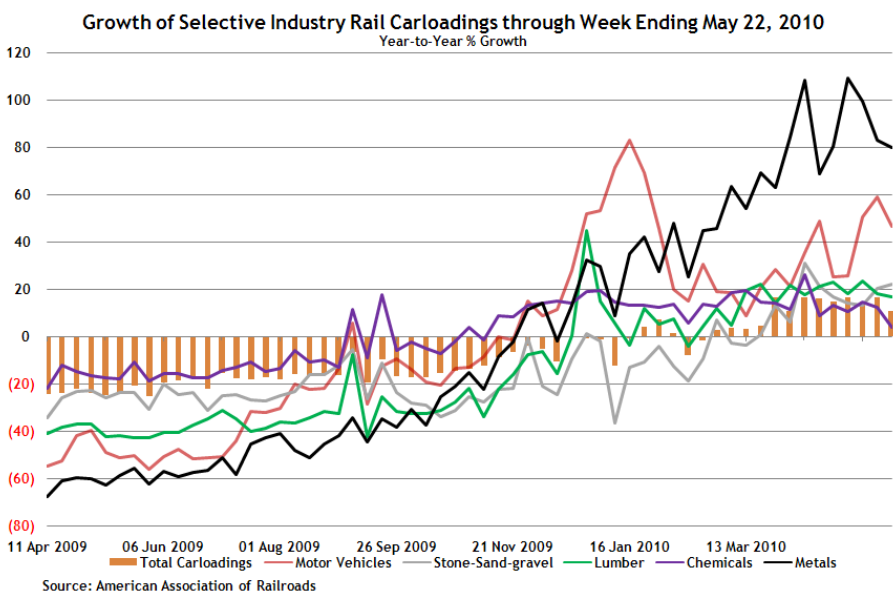


- The ATA tonnage index in April 2010 jumped 9.4% from a year earlier, the fifth straight year-to-year increase and the largest gain reported in five years. Both ATA and Cass Freight Index levels have closely matched this year's surge in industrial production.
- ATA economists noted that truck tonnage volumes are improving at a solid pace in early 2010, led by healthy growth in manufacturing and retail shipments.

Rail shipments continued to recover through mid-May, led by double-digit gains in industrial shipments.

The strong pace for metals and motor vehicle carloads continued to lead carload volumes.

The pace of building-related shipments moderated from earlier weeks but remained far ahead of depressed year-earlier levels.



- Weekly AAR rail shipments through mid-May increased by 11% from depressed volumes reported in May 2009.
- Shipments of motor vehicles and metals continued to lead carload volumes with strong year-over-year growth.
- The pace of construction-related shipments is moderating but is still showing gains from year-earlier levels.

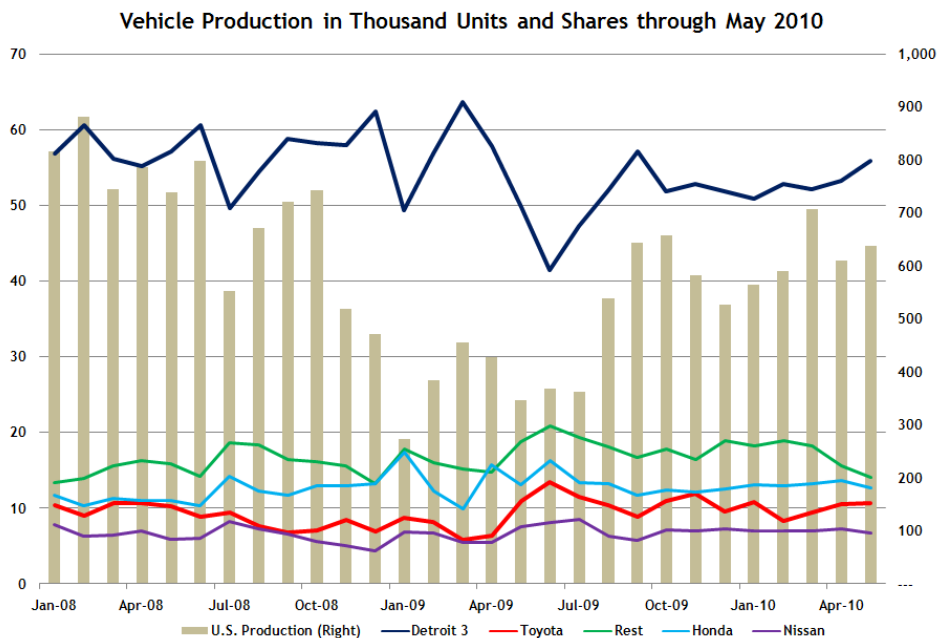
# Transportation and Auto Production

## Summary

U.S. vehicle production in May improved from April and from depressed levels in May 2009.

Vehicle production climbed most for Ford and Toyota automakers, accounting for most of the increase in production during April and May.

Despite improved demand and short supply of best-selling vehicles, most automakers are not expected to significantly raise production capacity in May and June.



Source: The Monthly Autocast.com

- U.S. vehicle production improved 4.3% from April and jumped 84.8% ahead of depressed levels in May 2009. Most of the increase in production in May came from Ford and Toyota.
- However, despite improved vehicle demand and short supply of best-selling vehicles, most automakers are not boosting production capacity in coming months. According to Ward's Automotive Group, U.S. production capacity in May and June are slightly below the 74.4 reported in April, this year's best monthly reading. Vehicle inventories are still relatively tight. *Automotive News* reported that U.S. vehicles inventories, at a 56-day-supply, were about even with April 2010 but far below comparable days' supply reported in May 2009.
- The U.S. near-term production outlook remains uncertain because most automakers are still troubled by supply issues. Industry sources recently estimated that between 2004 and 2015, the production capacity in North America will be reduced by 6.9 million vehicles, with most schedules affecting U.S. facilities of the Detroit 3.