

## Economic Highlights

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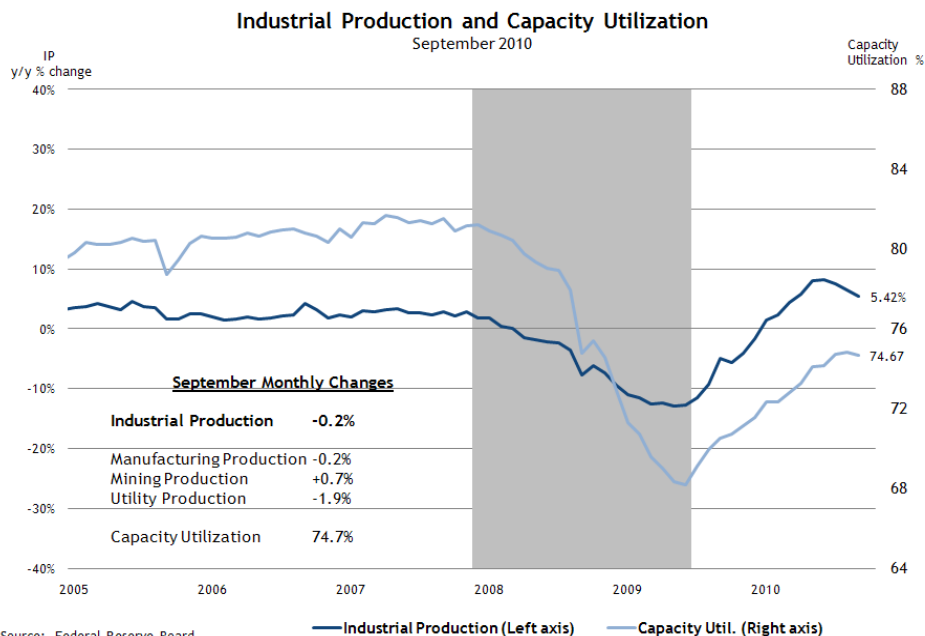
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# Manufacturing

## Summary

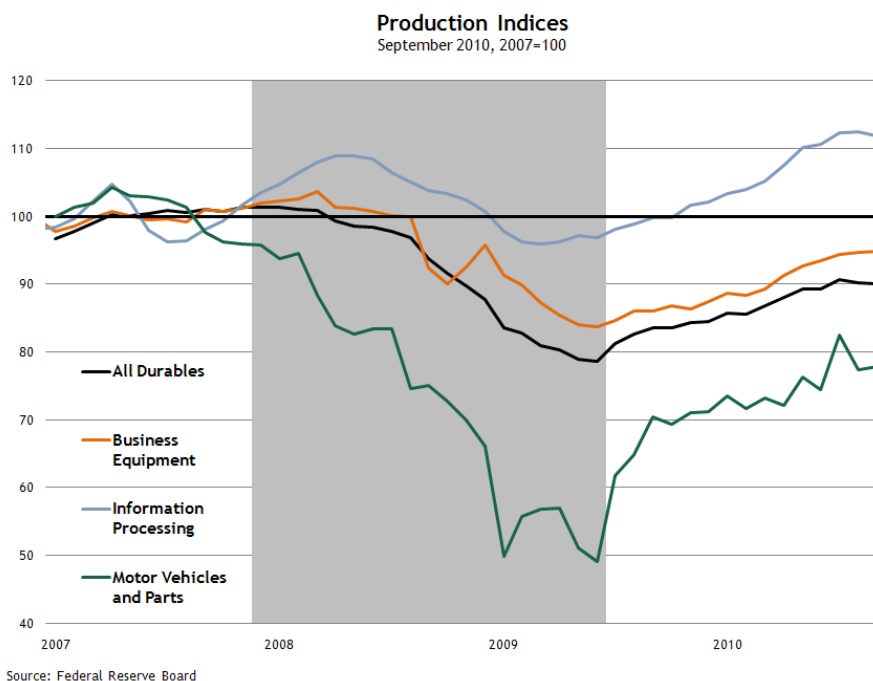
Industrial production shed 0.2% in September, a result of declines in manufacturing and utilities as fall weather moderates.

For the third quarter, overall industrial production increased at a 4.8% annual rate while manufacturing production grew at a 3.6% annual rate.



- Industrial production dipped 0.2% in September, mostly a result of a 0.2% drop in manufacturing production.
- Capacity utilization dipped roughly 0.1% in September while the factory utilization rate of manufacturers lost 0.1% to reach 72.2%.
- The drop in manufacturing production was widespread across most industries, with motor vehicle and part production being an exception (up 0.5% month over month). Makers of business equipment also added 0.1% to their levels of production in September. The index for information procession and equipment lost 0.7%.
- Manufacturers produced 0.2% fewer durable goods in September than in August while the production of nondurable goods was up 0.1% month over month.

The production of motor vehicles and parts was up 0.5% in September while the production of business equipment added 0.1%. The index for information processing and related equipment dipped 0.7%.



# Consumer Spending

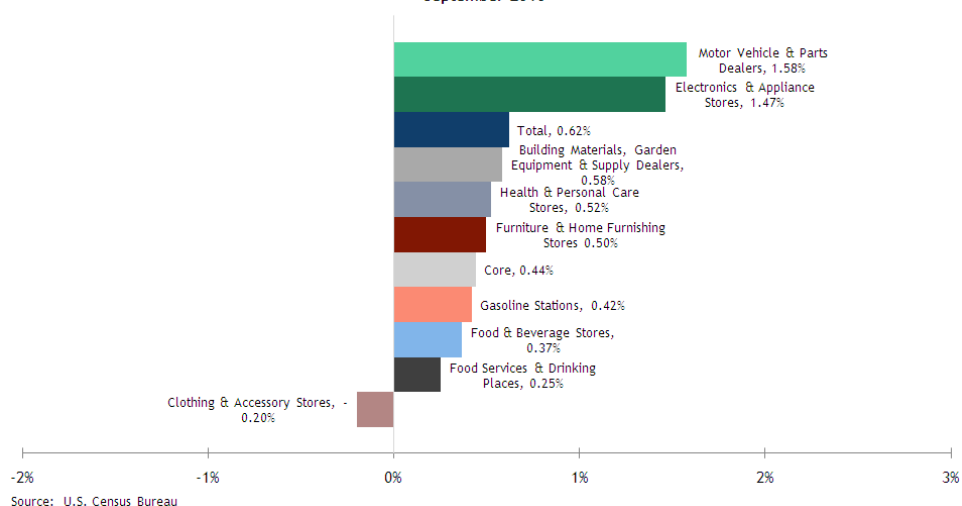
## Summary

Retail sales increased more than expected in September, reflecting widespread gains among retail categories.

In response to the rise in retail sales, most economic forecasters increased their estimates for third quarter real PCE growth.

## U.S. Retail Sales Components

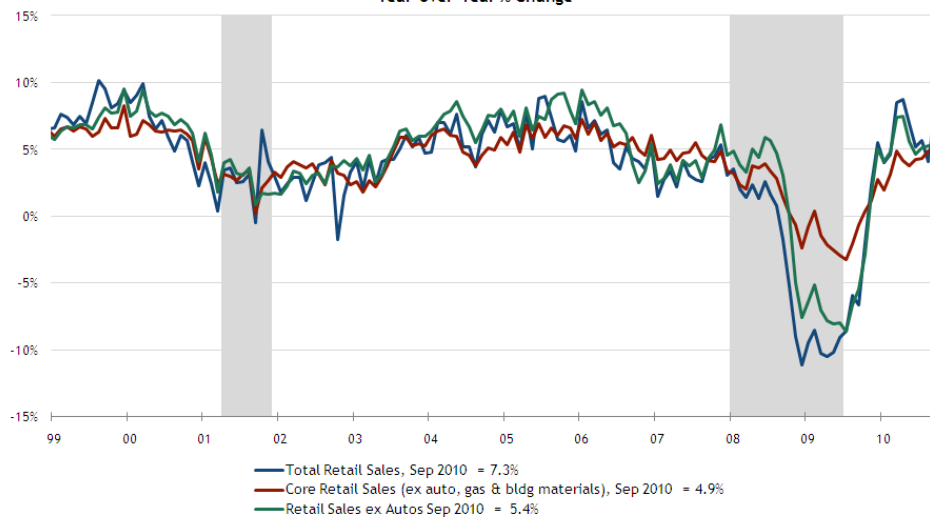
Month-to-Month Percent Change  
September 2010



- Total retail sales increased 0.6% in September, above expectations of an 0.4% increase. The increase in total retail sales for July was widespread among retail categories over the month. Excluding gas, autos, and building supplies sales, core retail sales increased 0.4% in September.
- Retail sales for July and August were revised higher as well; total sales were up 0.5% in July (up from 0.3% in the initial report), and sales increased 0.7% in August (revised up from 0.4%).

## Retail Sales

Year-over-Year % Change



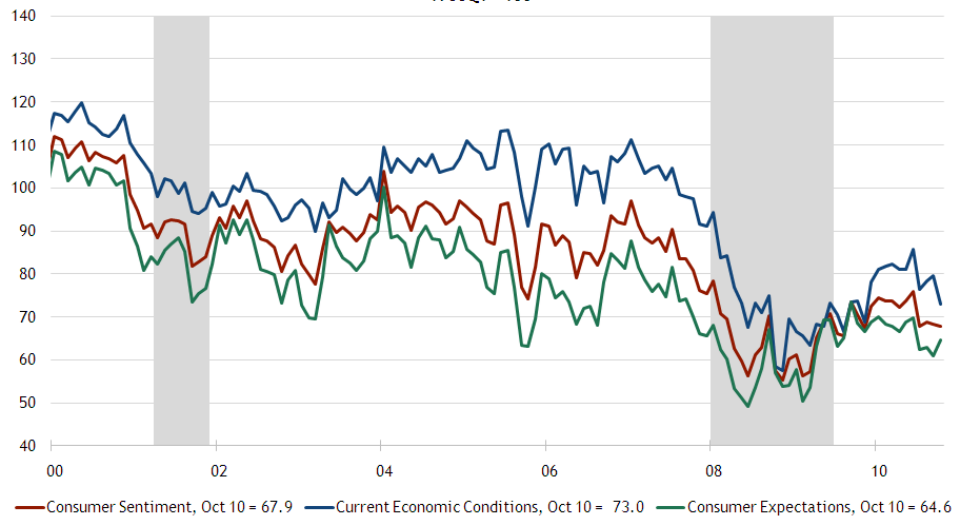
- On a year-over-year basis, total retail sales were up 7.3% in September, and core retail sales remained at 4.9% for the second consecutive month.

# Consumer Spending

## Summary

Consumer sentiment was little changed in October, and the index remains at depressed levels.

University of Michigan Consumer Sentiment Index  
1966Q1= 100

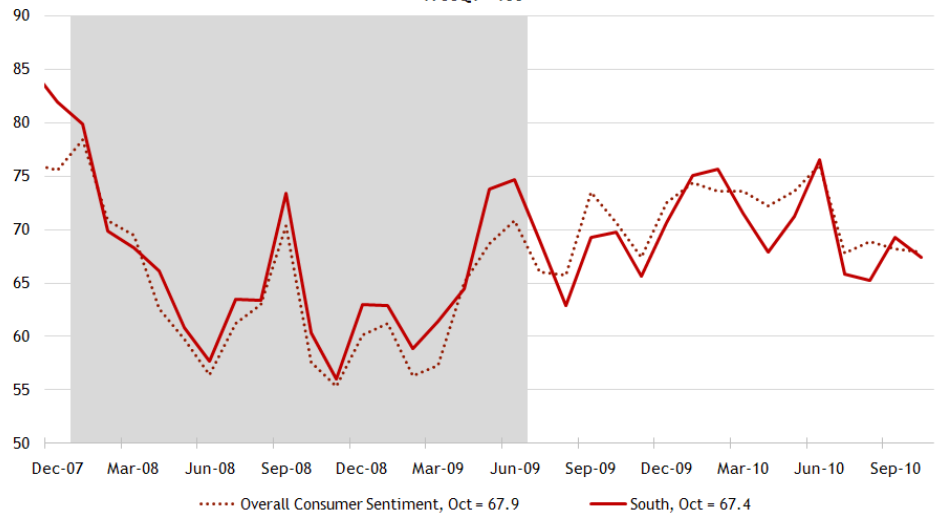


Source: Reuters/University of Michigan

- The University of Michigan's consumer sentiment index was largely unchanged in October, inching down 0.3 points in to 67.9. The index still remains well below prerecessionary levels .
- The future expectations component index rose 3.7 points, the highest level since June. Meanwhile, the current conditions component index fell 6.6 points over the month to 73.

Consumer sentiment in the South Census region is back to the same level as overall U.S. consumer sentiment.

University of Michigan Consumer Sentiment Index by Region  
1966Q1= 100



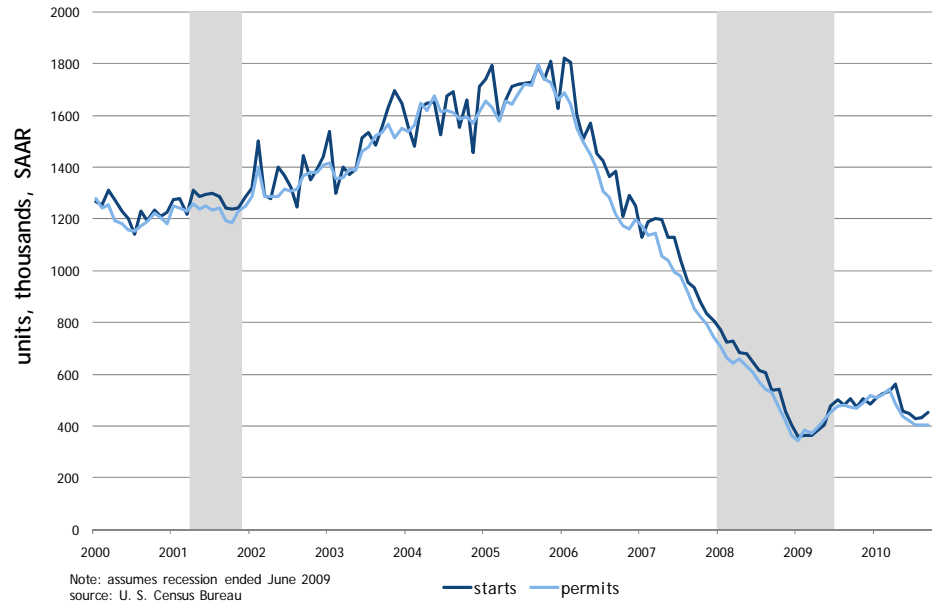
Source: Reuters/University of Michigan

- The University of Michigan's consumer sentiment index for the South Census region has moved back in line with the overall U.S. consumer sentiment index after falling lower in July and August, likely a reflection of the oil spill.

## Summary

U.S single-family home starts and permits both rose slightly in September.

## US Single Family Home Construction September 2010



### September Permits, SAAR

Total	539k	-10.9% y/y	-5.6% m/m
Single-family	405k	-14.4% y/y	0.5% m/m
Multifamily	134k	1.5% y/y	-20.2% m/m

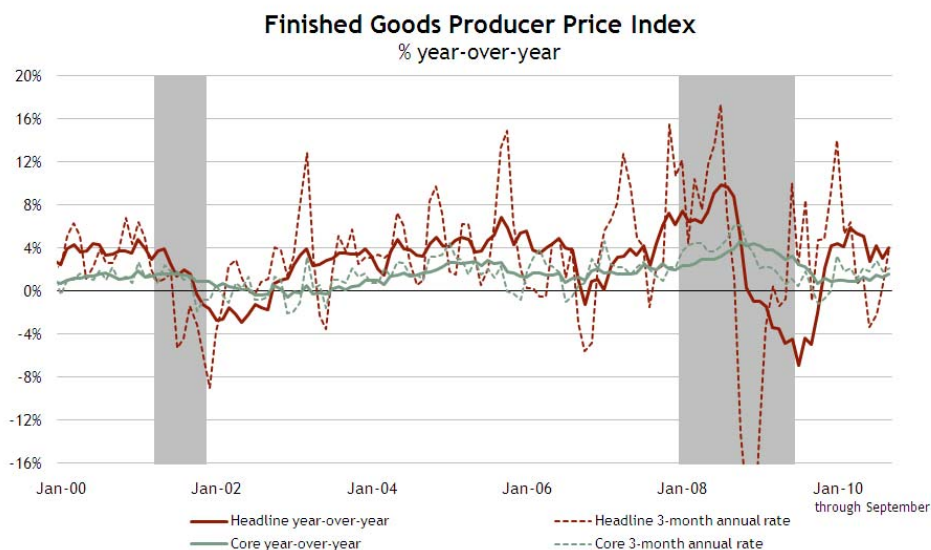
### September Starts, SAAR

Total	610k	4.1% y/	0.3% m/m
Single-family	452k	-10.9% y/y	4.4% m/m
Multifamily	158k	100.0% y/y	-9.7% m/m

Source: U.S. Census Bureau

Summary

Producer prices rose modestly in September.



Source: Bureau of Labor Statistics

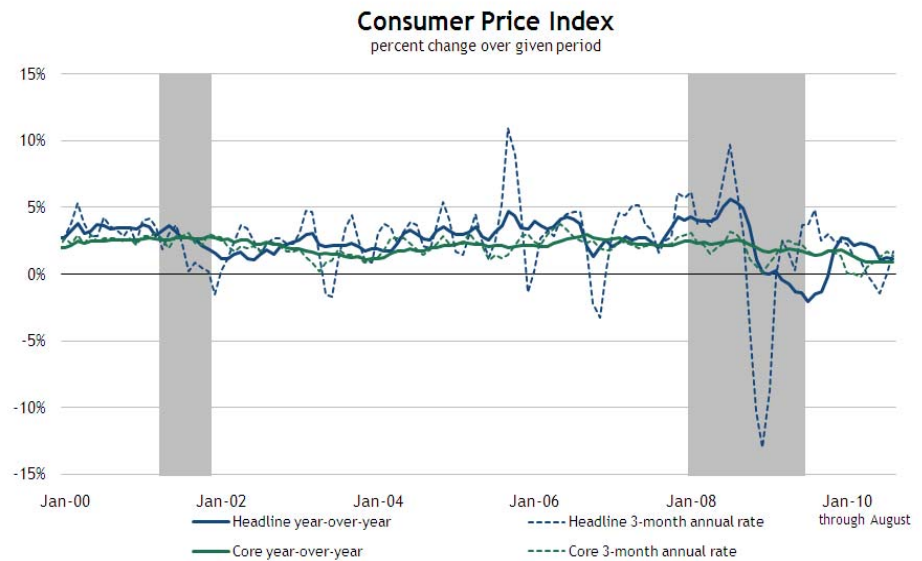
- The headline producer price index (PPI) for finished goods rose 5.5% (annual rate) in September after increasing 4.8% in August. Headline PPI is up 4% on a 12-month basis.
- Core (less food and energy) PPI for finished goods increased 1.4% (annual rate) in September, its eleventh consecutive monthly increase. The index for finished core PPI is up 1.6% year over year.
- Further down the chain of production, intermediate goods PPI rose at a 6.1% annual pace, and crude materials for further processing declined 5.6%.

PPI by Stage of Processing					
	1-month*	3-month*	12-month*	2008**	2003-2008**
Finished	5.5	4.1	4.0	-1.2	3.2
Less food & energy	1.4	2.1	1.5	4.5	2.5
Intermediate	6.1	1.5	5.5	-2.6	5.0
Less food & energy	2.7	-0.7	3.9	2.9	4.8
Crude	-5.6	19.5	20.2	-24.3	4.1
Less food & energy	91.1	37.3	25.3	-24.1	5.4

\*Seasonally adjusted annualized rates of change in price indices for given period ending September 2010  
 \*\*Seasonally adjusted annualized rates of change in price indices for given period  
 Source: U.S. Bureau of Labor Statistics

## Summary

The consumer price index rose modestly on higher food costs in September while the core measure remained unchanged.



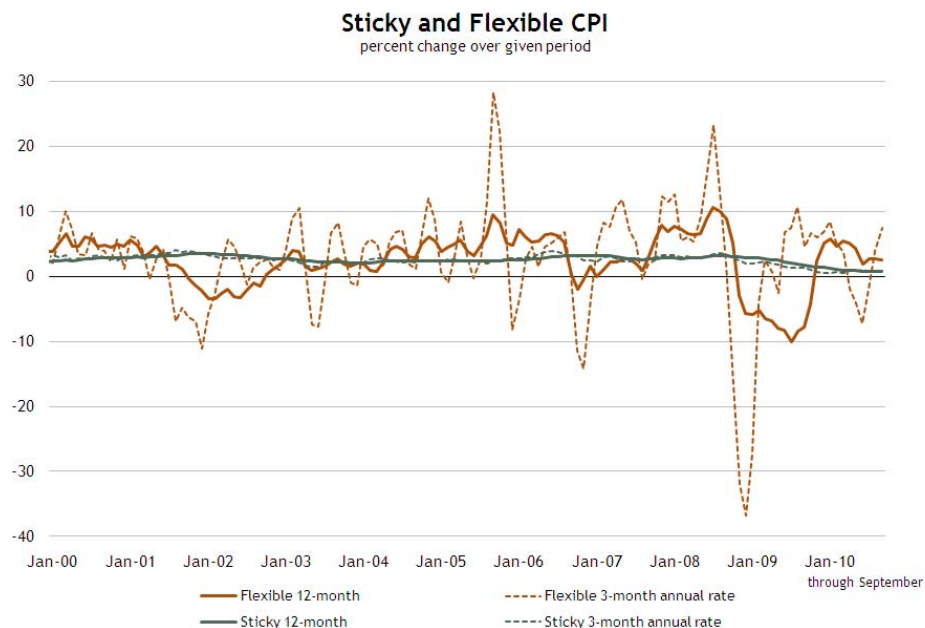
Source: Bureau of Labor Statistics

Assumes recession ended June 09.

- **Headline inflation**, measured by the consumer price index (CPI), was **up 1.2%** (annual rate) in September from the previous month. An increase in the food index accounted for much of the monthly rise in September. The index for energy rose at an 8.2% annual rate while the index for food increased 3.9%. Headline CPI is 1.1% above year-earlier levels.
- The **core** (excluding food and energy) measure of consumer prices was **unchanged (0.0%** annual rate) in September after rising 0.6% the month before. Year-over-year core CPI was 0.8% in September (not seasonally adjusted), the smallest annual increase in the series' 53-year history.
- The **median CPI**, as calculated by the Federal Reserve Bank of Cleveland, was up a very slight 0.6% (annualized) in September, a touch higher than its 0.5% year-over-year rate. Meanwhile, the Cleveland Fed's trimmed-mean CPI rose 0.9% (annualized), also 0.1%age point above its 12-month pace.

## Summary

The Atlanta Fed's sticky price CPI inched up in September.



Source: Atlanta Fed, Bureau of Labor Statistics

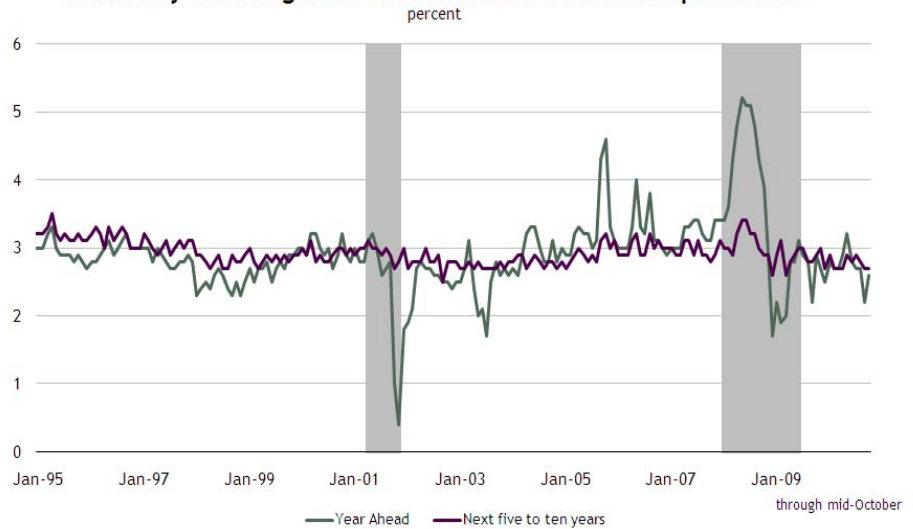
- Growth in the sticky price measure—the weighted basket of goods consumers purchase that change prices relatively infrequently—rose 0.9% (annualized) in September. The 12-month trend in the series is 0.7%, a further modest disinflation from a 1% pace earlier in the year.
- The stick price index increased 0.6% (annualized) on a core (excluding food and energy) basis, in line with recent 12-month trends.
- The flexible cut of the CPI—a weighted basket of goods that change price relatively frequently—rose at a 2.1% annual rate and was up 2.5% from year-earlier levels in September, a deceleration from earlier in the year. Excluding food and energy, flexible CPI declined 3.2% (annual rate) and is up 2.5% from year-earlier levels.



## Summary

Survey data compiled in early October showed near-term consumer inflation expectations higher and longer-term expectations unchanged.

### University of Michigan Median Consumer Inflation Expectations



Source: University of Michigan

- The median inflation rate expected by consumers 12 months out was 2.6% in mid-October, retracing much of the 0.5 percentage point decline that took place in September.
- Expectations for inflation in five to 10 years were 2.7% in mid-October (median), unchanged from the prior month.