

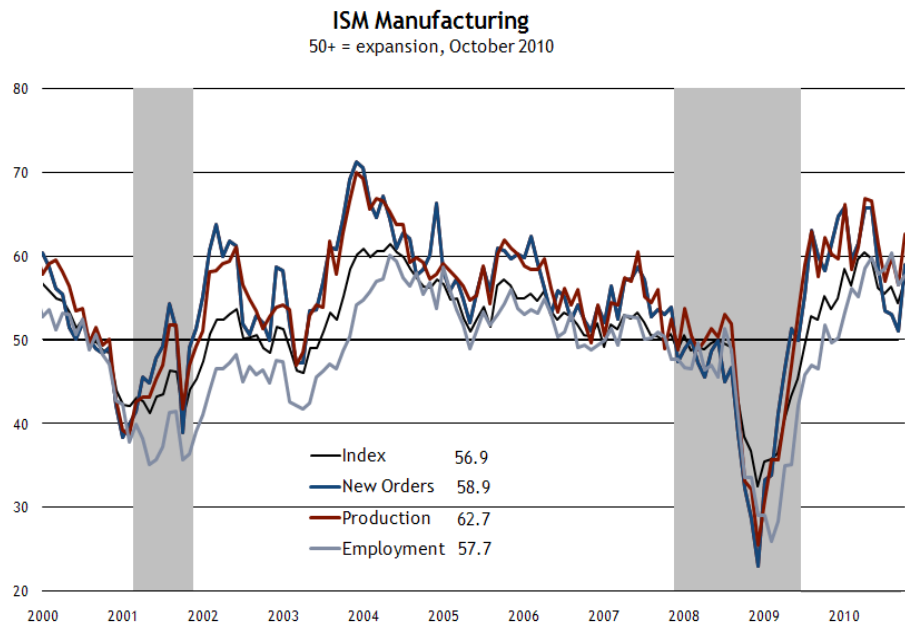
Economic Highlights

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Manufacturing

Summary

The Institute for Supply Management Purchasing Managers Index (PMI) experienced a strong uptick in October driven largely by improvements in new orders and levels of production.

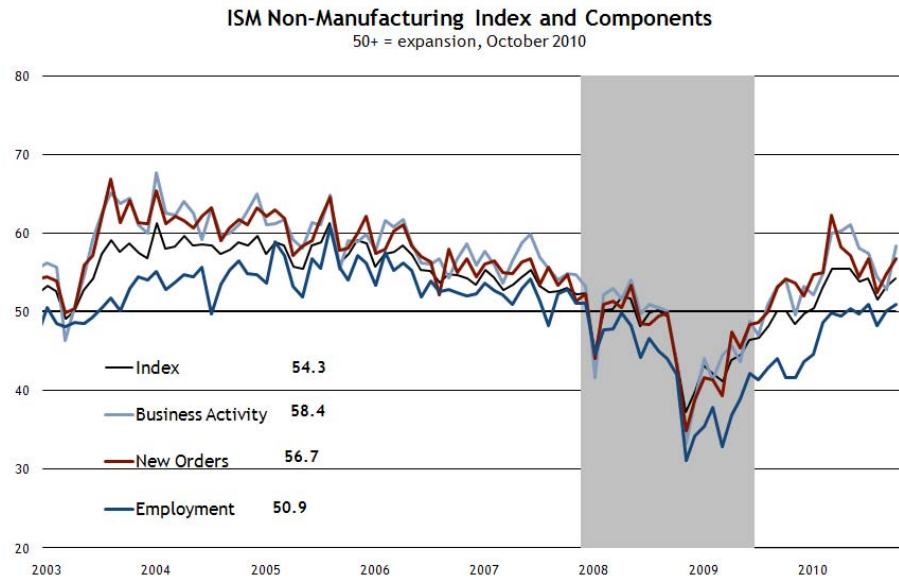


Source: Institute for Supply Management

- The ISM's PMI indicates that the manufacturing sector expanded at a faster pace in October. The overall index rose 2.5 points to reach 56.9.
- October's largest PMI component increase was in new orders, which gained 7.8 index points for the month.
- Production also had a notable increase of 6.2 index points to reach 62.7. This gain was a result of 37% of respondents reporting higher levels of production in October than September, while 49% said production was roughly the same. This reading puts the production index at its highest level since May.
- The employment component also strengthened, gaining 1.2 index points in October to reach 57.7.
- Manufacturers' orders for exports also increased significantly in October. The index for exports gained 6 index points for the month to reach 60.5.

Summary

The Institute for Supply Management's PMI for nonmanufacturing organizations indicated a faster rate of growth in October.



Source: Institute for Supply Management

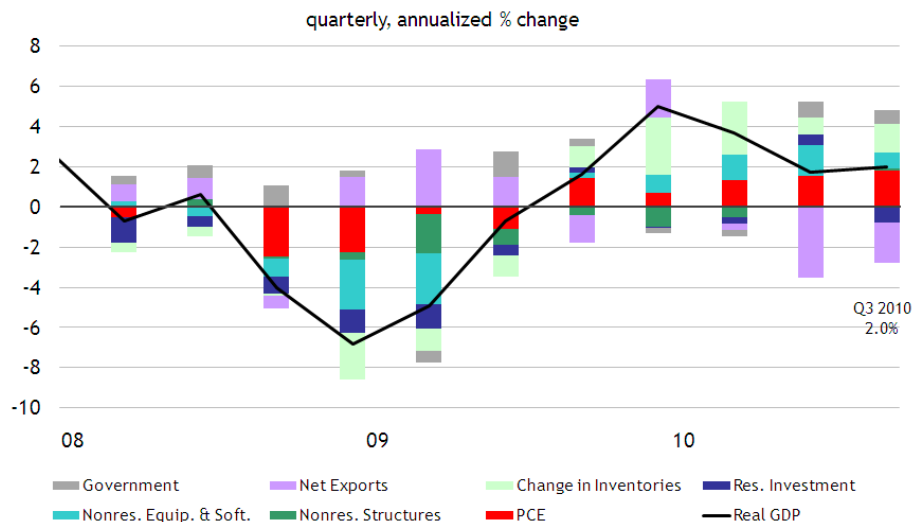
- The ISM's nonmanufacturing PMI indicated faster growth in October. The overall index gained **1.1 index points** for the month to reach 54.3.
- The **business activity component of the index added 5.6 index points** as a higher percentage of respondents reported improved conditions.
- New orders for nonmanufacturers also grew at a faster pace in October, adding **1.8 index points** to reach 56.7.
- In October, purchasing managers indicated the second consecutive month of expansion in the **employment component, which added 0.7 index points**.

Economic Activity

Summary

Real GDP increased by 2% in Q3 2010, according to the advance estimate, in line with expectations.

Contributions to Real GDP Growth



Source: U.S. Bureau of Economic Analysis

- Real GDP increased 2% in Q3, exactly in line with analysts expectations.
- Real GDP growth in Q3 reflected increased growth in consumer spending. Personal consumption expenditures (PCE) increased 2.6%, marking the highest rate since 2007.
- Business investment in equipment and software slowed in Q3, increasing 12% following two quarters of growth above 20%.
- Residential investment declined by 29.1% in Q3, reversing the 25.7% increase in Q2.
- Nonresidential investment in structures increased by 3.9% in Q3 after eight quarters of declines.
- Net exports continued to be a drag on GDP growth although not as much as in Q2. Net exports subtracted 2 percentage points from real GDP growth in Q3; exports grew 5%, and imports grew 17.4%.
- Inventories contributed more than in the previous quarter, adding 1.44 percentage points to real GDP in Q3. Inventories increased by \$46.7 billion over the quarter.

Real GDP Growth Estimates

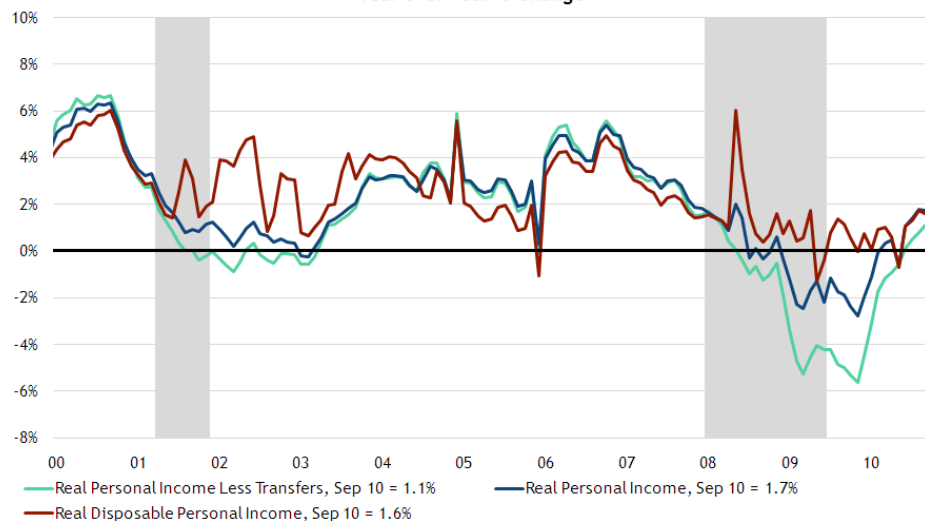
	Q3 2010	Q2 2010	Q1 2010	2006 Average
Contributions to GDP Growth				
PCE	1.79	1.54	1.33	2.3
Nonres. Structures	0.10	-0.01	-0.53	0.4
Nonres Equip. & Soft.	0.80	1.52	1.24	0.5
Res. Investment	-0.80	0.55	-0.32	-1.0
Change in Inventories	1.44	0.82	2.64	-0.4
Net Exports	-2.01	-3.50	-0.31	0.4
Government	0.68	0.80	-0.32	0.3
Total GDP Growth	2.0	1.7	3.7	2.5

Consumer Spending

Summary

Real personal income decreased in September both over the month and compared to a year earlier.

Real Personal Income Year over Year % Change

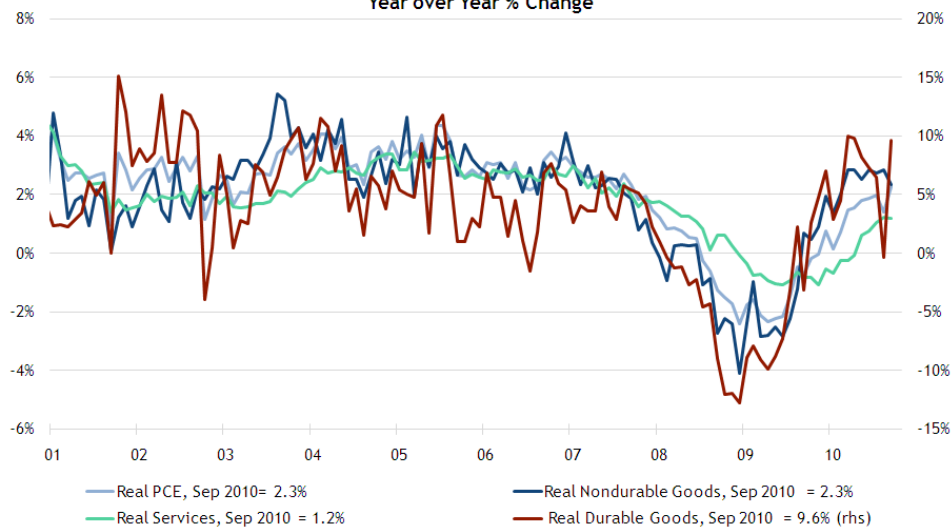


Source: BEA, Haver

- Real personal income fell 0.2% in September. Real personal income excluding transfer payments was flat over the month for the third consecutive month.
- On an annual basis, real personal income and real personal disposable income edged down in September, to 1.7% and 1.6%, respectively. Real personal income less transfers increased 1.1% compared with a year earlier, the highest rate since the beginning of the recession.

Real personal consumption expenditures (PCE) increased only slightly in September.

Real Personal Consumption Expenditures Year over Year % Change



Source: BEA

- In September, real PCE rose 0.1%, reflecting a 0.8% increase in durable spending over the month; spending on services increased 0.1% while nondurable goods spending fell 0.2%.
- On a year-over year basis, real PCE increased 2.3%, still below the 3% average growth of consumer spending during past economic expansions.

Consumer Spending

Summary

The savings rate decreased in September but still remains elevated.

Personal Savings Rate
As a percentage of disposable income

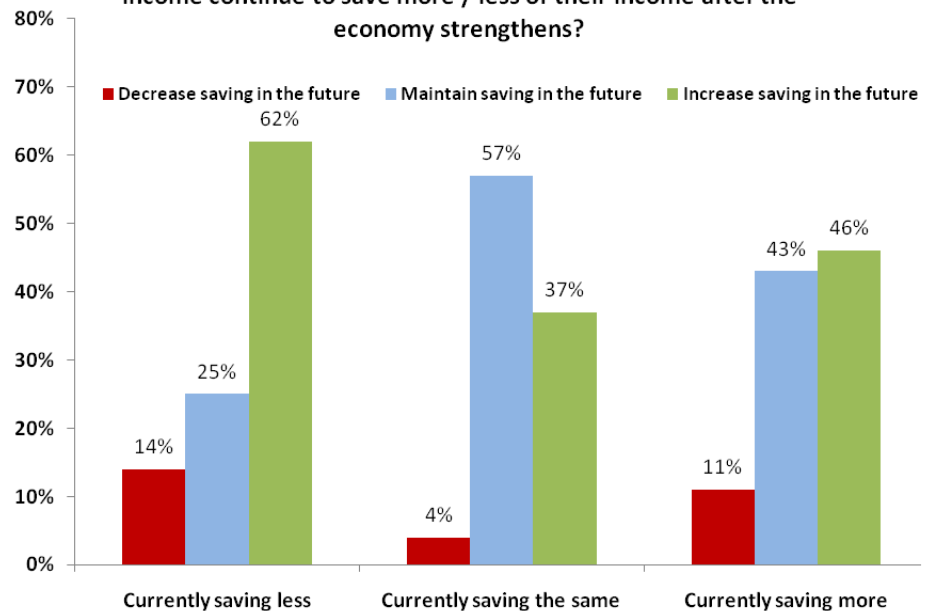


Source: BEA

- In September, the savings rate decreased to 5.3% from 5.8% in August but still remains elevated compared with the previous 10 years.

The September Middle Tennessee State University consumer survey showed that very few consumers expect to decrease their level of saving after the economy strengthens.

Will consumers' who are currently saving more / less of their income continue to save more / less of their income after the economy strengthens?



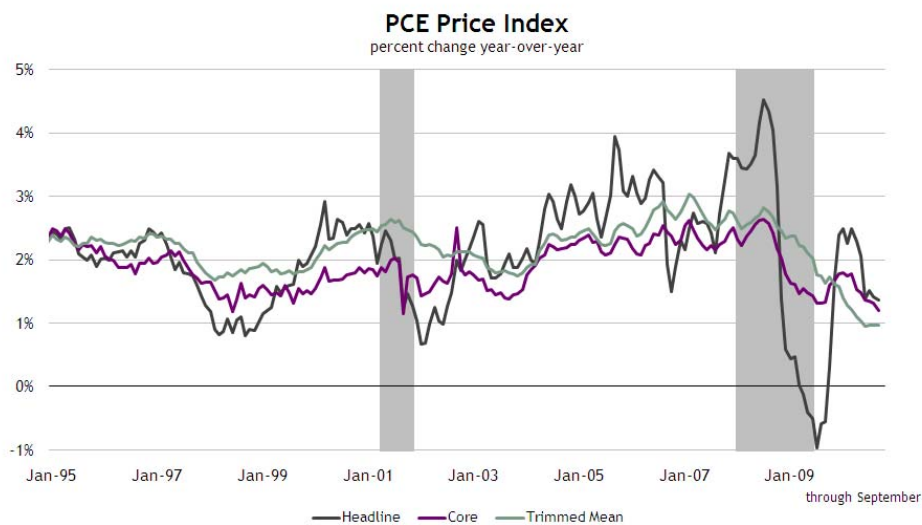
Are you currently saving more, less, or the same as you did prior to the recession?

Source: Middle Tennessee State University Office of Consumer Research

- In the September Middle Tennessee State University survey of consumers, respondents answered questions about their current and future level of savings.
- Of consumers who are currently saving less of their income than prior to the recession, the majority expect to increase their level of saving after the economy strengthens.
- Of those consumers who are currently saving more of their income than prior to the recession, about half expect to increase their level of saving after the economy strengthens.
- Meanwhile, those who reported they currently save the same amount as before the recession will continue to save the same amount in the future.

Summary

Headline PCE inflation maintained a low growth trend in September.

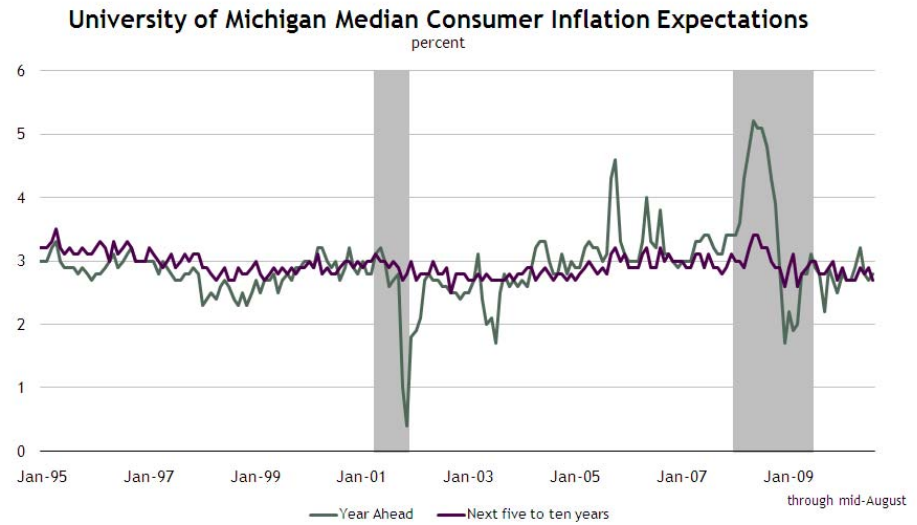


Source: Bureau of Economic Analysis, FRB Dallas

- August headline inflation, as measured by the consumer spending deflator, rose at a 1% annualized pace in September, decelerating from a growth pace of around 2.5% (annual rate) each of the prior two months. Headline PCE prices were up 1.4% year over year.
- Core (less food and energy) PCE prices have been mostly unchanged for the past four months, growing by less than 1% (annual rate) from June to September. Year-over-year core PCE inflation was 1.2%, the smallest one-year growth in the index since September 2001.
- The Dallas Fed trimmed-mean 12-month PCE inflation index rose 1% (annual rate) in September following a 1.3% increase in August. The inflation statistic remained steady on both a six- and 12-month annualized basis, growing 0.9 and 1%, respectively, in September.

Summary

Survey data compiled in September by the University of Michigan showed both near- and longer-term consumer inflation expectations were down from July.



Source: University of Michigan

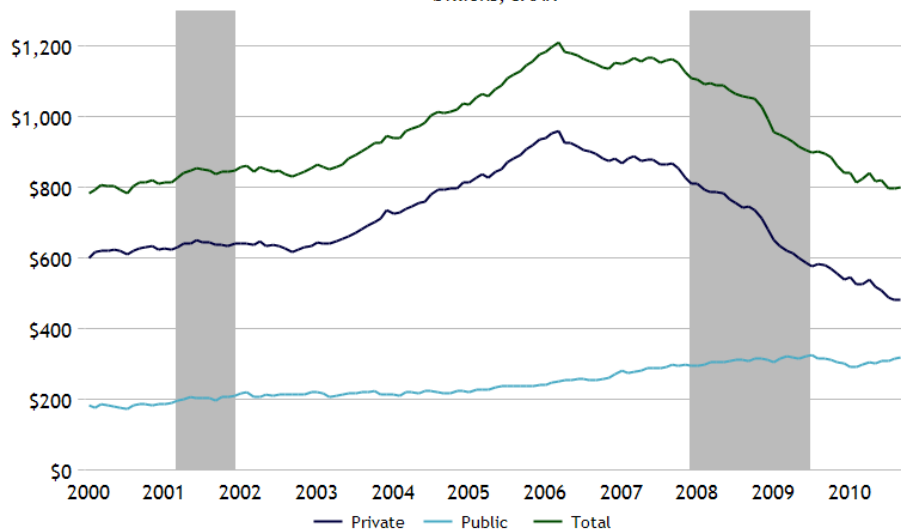
Assumes recession ended June 09.

- According to the University of Michigan's inflation expectations survey, the median inflation rate expected by consumers 12 months out was 2.2% in September, unchanged from midmonth estimates released two weeks earlier, marking the lowest reading since September 2009.
- The median expectation for inflation in five to 10 years was 2.7% in mid-September, down from 2.8% reported earlier in the month.

Summary

The U.S. Census Bureau reported that total construction spending edged up slightly in September, spurred by public construction spending.

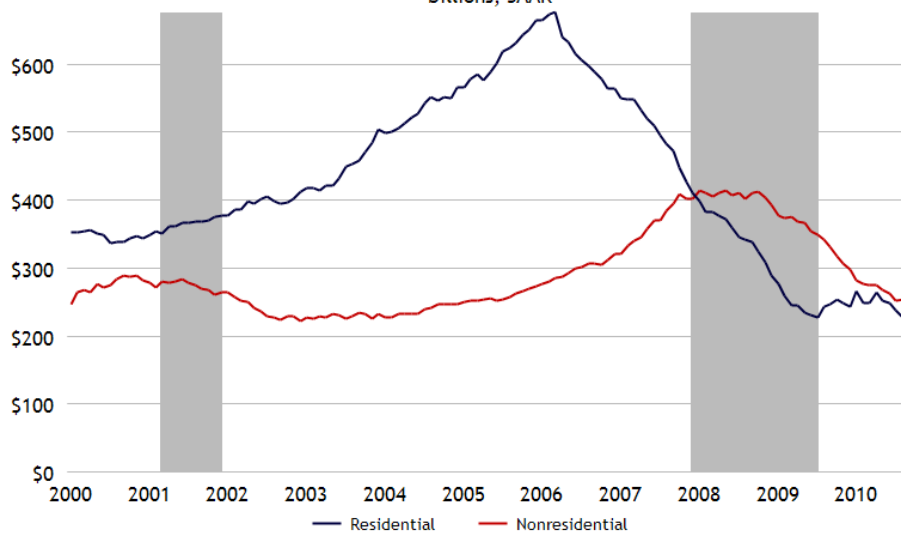
September 2010 U.S. Construction Spending
billions, SAAR



Source: U.S. Census Bureau

Gains in private residential construction spending in September were offset by continued slowing in nonresidential construction spending.

September 2010 U.S. Private Construction Spending
billions, SAAR



Source: U.S. Census Bureau

September 2010 Construction Spending Put in Place

	billions, SAAR	yr/yr change	mo/mo change
Total	801.7	-10.4%	0.5%
Total private	482.0	-16.8%	0.0%
Total public	319.7	1.3%	1.3%
Total nonresidential	559.6	-12.4%	0.0%
Private nonresidential	250.3	-24.6%	-1.6%
Public nonresidential	309.3	0.7%	1.3%
Total residential	242.2	-5.3%	1.8%
Private residential	231.7	-6.3%	1.8%