

## Economic Highlights

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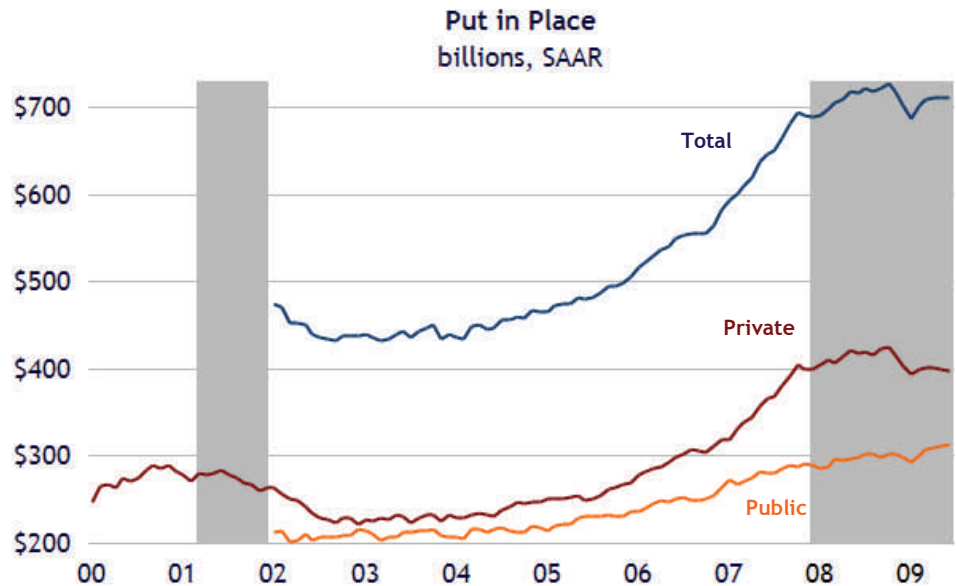
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Summary

The U.S. Census Bureau June construction spending report indicated that nonresidential construction spending did not benefit from the increase in public nonresidential spending, which was largely offset by declines in private nonresidential spending.

U.S. Nonresidential Construction Spending

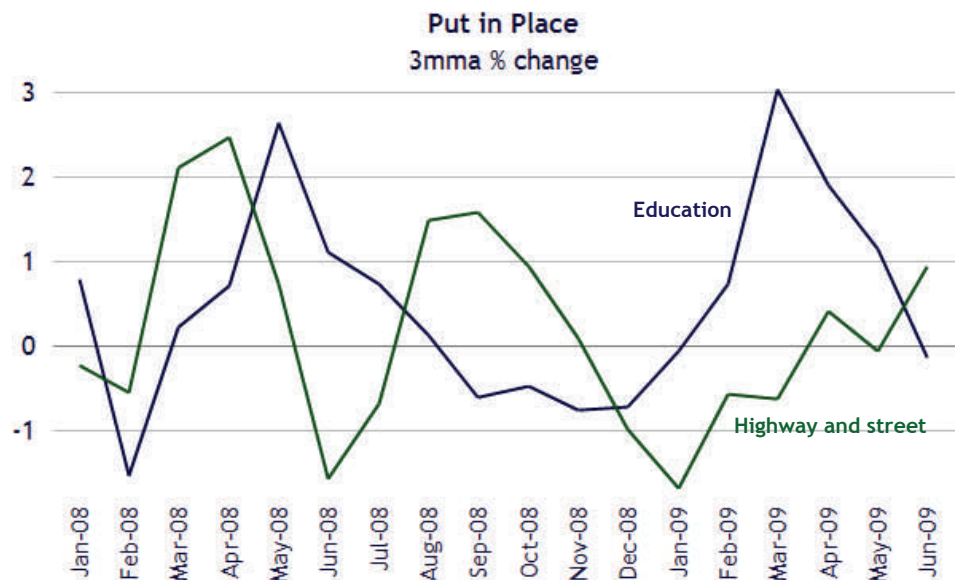


Source: U.S. Census Bureau

June Construction Spending Put in Place: (millions SAAR)

Total:	\$965,662	-10.2% y/y	+0.3% m/m
Total Nonresidential:	\$711,909	-0.7% y/y	+0.1% m/m
Private Nonresidential:	\$397,851	-4.8% y/y	-0.5% m/m
Public Nonresidential:	\$314,059	+5.1% y/y	+0.9% m/m
Total Residential:	\$253,753	-29.3% y/y	+0.7% m/m
Private Residential:	\$246,067	-30.0% y/y	+0.5% m/m

U.S. Public Nonresidential Construction Spending

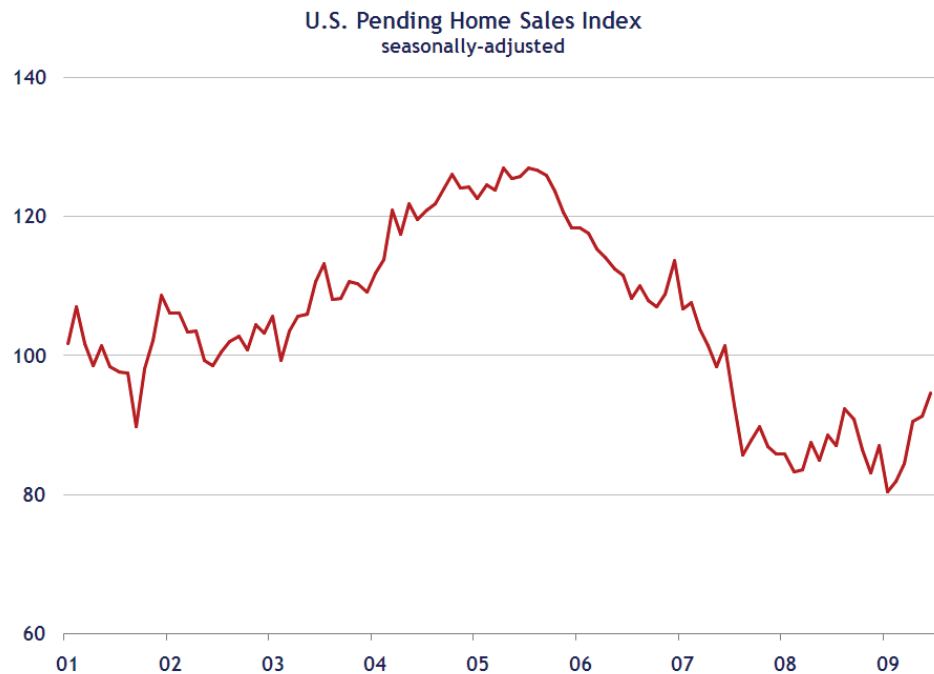


Source: U.S. Census Bureau

Public education and highway and street construction spending account for more than half of public nonresidential construction spending. Highway and street spending has trended up in recent months while education spending has moderated.

## Summary

The National Association of Realtors (NAR) reported that their June pending home sales index advanced for the fifth consecutive month, up 3.6% from May and up 6.7% year-over-year.



Source: National Association of Realtors

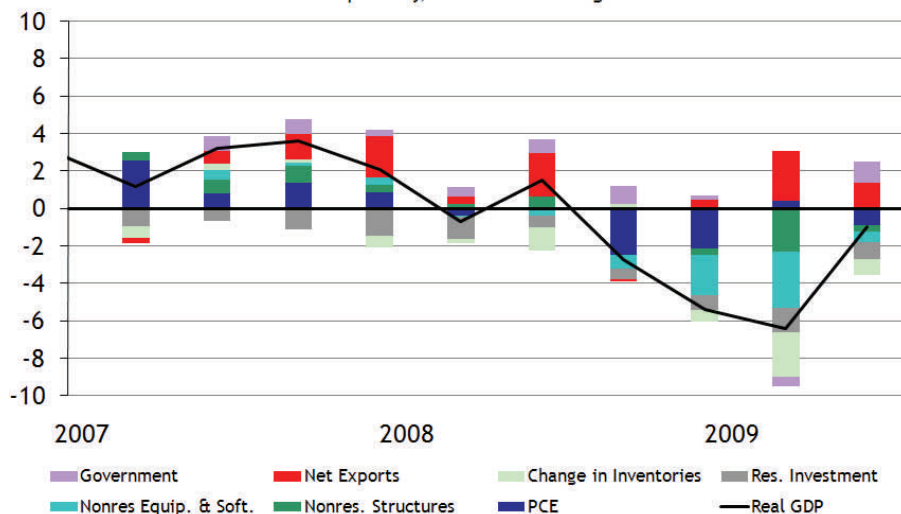
- The NAR reported that activity remained stronger among lower-priced homes.
- According to the NAR report, cancellations of pending home sales have been elevated in recent months, resulting in more muted gains in existing home sales. However, the NAR president was hopeful that cancellations would ease with Freddie Mae's and Freddie Mac's recent clarification that appraisals should be done by appraisers with local expertise.

## Summary

The rate of real GDP contraction slowed to 1% (annualized) in the second quarter from 6.4% in the first quarter. Except for government spending and investment, all major GDP components declined in the second quarter.

## Contributions to Real GDP

quarterly, annualized % change



Source: U.S. Bureau of Economic Analysis

- **Real GDP fell 1% in the second quarter**—better than the Bloomberg consensus estimate of a 1.5% decline and considerably less than the 6.4% contraction in the first quarter. The much smaller decrease in output in the second quarter largely reflected a **deceleration in the rates of decline across major components of private sector GDP**, including business fixed investment and residential investment, and a **rebound in government spending** on federal, state, and local levels.
- **Inventories were less of a drag** on GDP in the second quarter. Businesses decreased inventories by \$141.1 billion during the quarter.
- **Net exports added to real GDP growth** for the third consecutive quarter as imports fell more than exports.
- Consumer spending (PCE), which represents about 71% of the U.S. economy, declined 1.2% in the second quarter following a small 0.6% increase in the previous quarter.

The U.S. Bureau of Economic Analysis (BEA) published a **comprehensive revision to the national income and product accounts (NIPA)**.

Revised data show that the economy contracted more in recent quarters than originally reported.

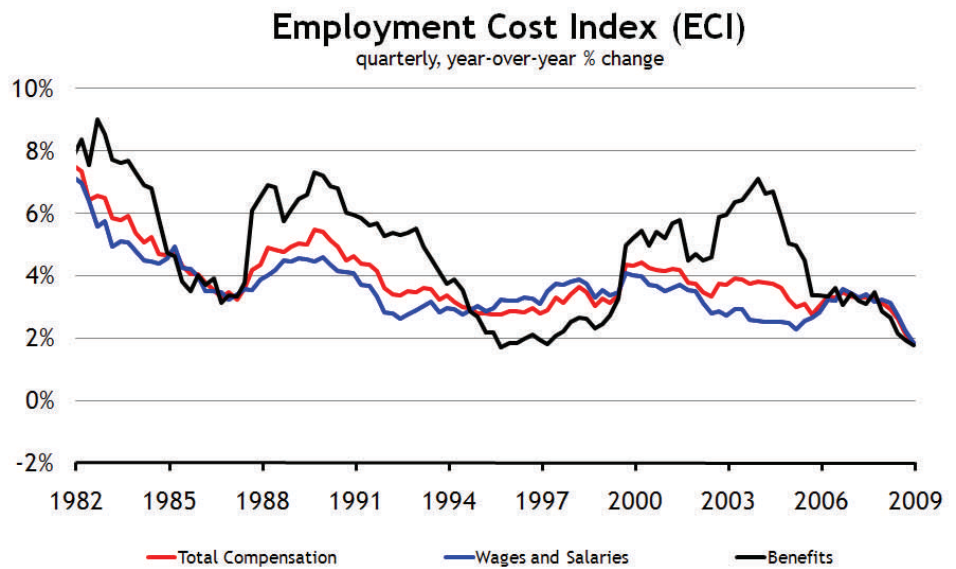
## Comprehensive Revision to the National Income and Product Accounts

- Approximately every five years, the BEA conducts a comprehensive revision to its GDP estimates. The latest revision accompanied the second quarter advance GDP report.
- The revisions affected GDP and component estimates back to 1929, though the **major impacts of the revision occurred in the post-2007 data**. Revised data show that **real GDP declined by more in recent quarters than originally reported**. Since the start of the recession in the fourth quarter of 2007, real GDP is now estimated to have declined at a pace of 2.8%—a percentage point greater than previously estimated.
- The **personal saving rate was revised up** by about 1 percentage point in the past few years, but the revised numbers show a smaller increase in recent quarters than originally reported.

# Employment

## Summary

The Employment Cost Index increased at a record low pace in the second quarter compared to a year ago as growth in wages, salaries, and benefits expenses decelerated markedly.

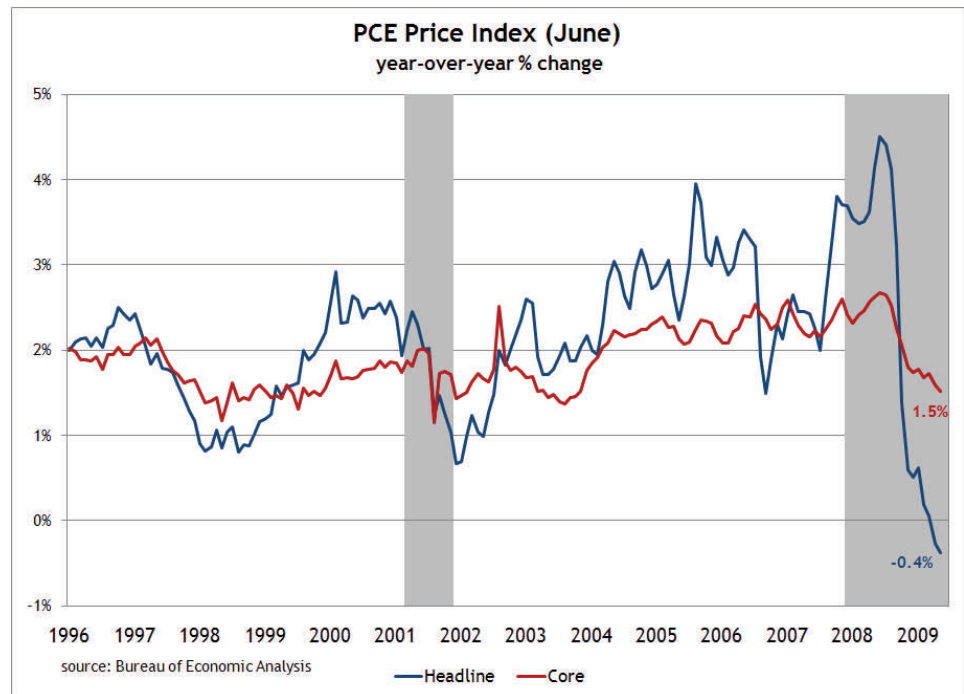


Source: U.S. Bureau of Labor Statistics

- The **Employment Cost Index (ECI)**, which is a measure of employee compensation, increased 0.4% in the second quarter compared to the previous quarter. The index increased 1.9% on a year-over-year basis, which is the weakest pace since the series began in 1982.
- Growth in both **wages** and **benefits** has slowed markedly over the past few quarters across most major industries.

## Summary

Headline and core PCE increased 0.6% and 0.2%, respectively, in June from the month before. Both gains were in line with the Bloomberg consensus expectations.



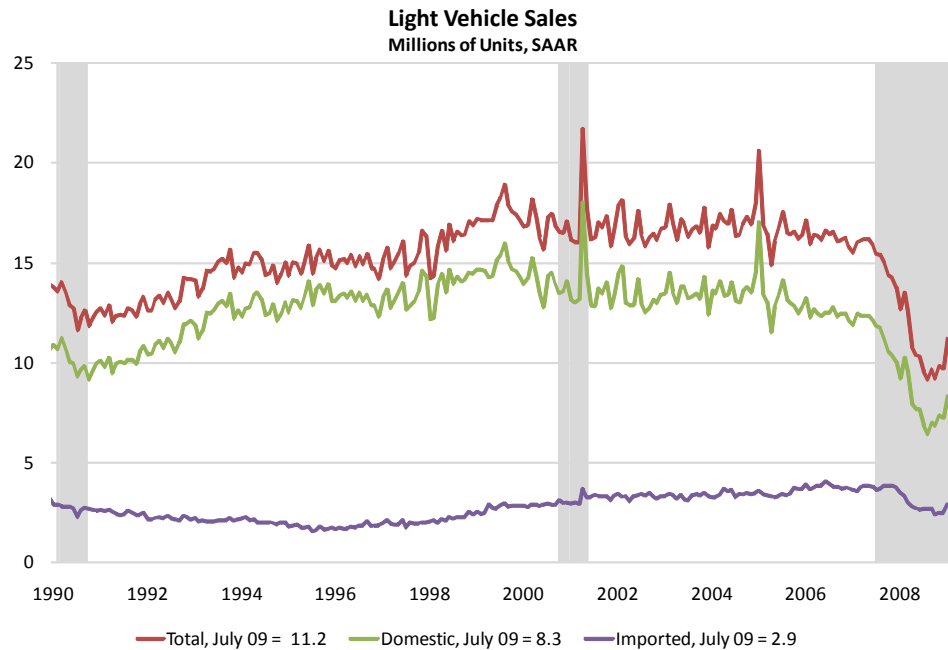
- The headline PCE price index increased 0.6% month over month in June, the largest monthly gain in a year. The increase was the result in large part of an 8.5% monthly increase in energy goods and services.
- Core PCE (excluding food and energy) increased 0.2% month over month while the year-over-year measure decelerated to 1.5%.
- Beginning in June, the core PCE price index now includes the price of restaurant meals, which presumably are more influenced by restaurant services costs than by food prices.

# Consumer Spending

## Summary

July auto sales increased 1.5 million units from June.

The Car Allowance Rebate System (CARS) program appears to have had a major influence on U.S. auto sales in July.



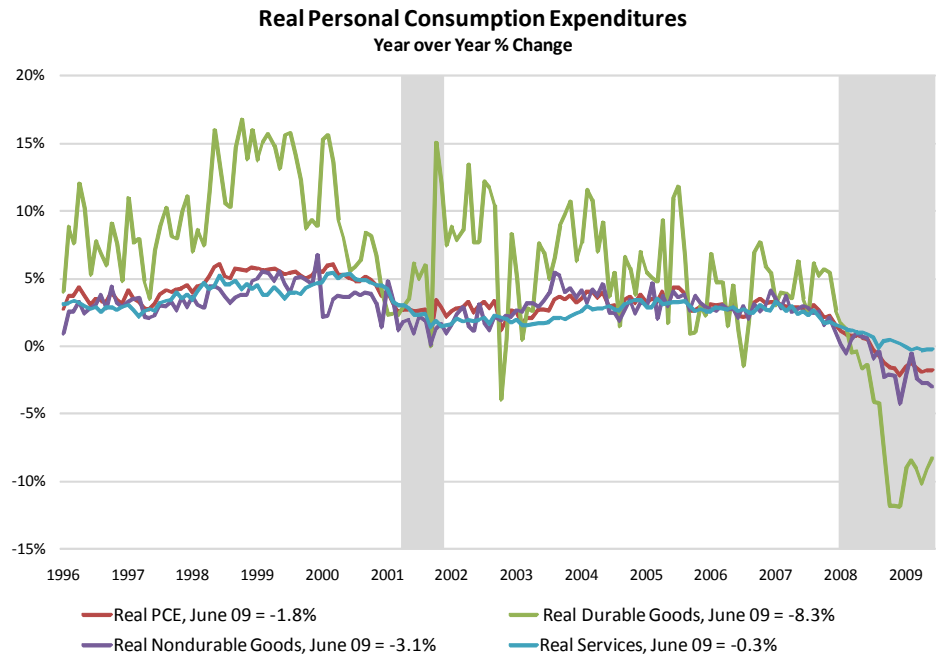
- Total light vehicle sales for July increased 16% from June to an annualized rate of 11.2 million units; Bloomberg's market consensus expectation was 10.1 million units.
- Domestic vehicle sales rose 15.8% from June to an annualized rate of 8.3 million units in July. Imported vehicle sales increased 16.8% to an annualized rate of 2.9 million units.
- Approximately 250,000 consumers utilized the CARS program from July 24 to July 31. The \$1 billion CARS budget was almost completed exhausted within the first week of the program.
- Once the incentive program ends, analysts from economy.com believe sales will decline back to pre-CARS auto sale levels.

# Consumer Spending

## Summary

Real personal consumption expenditures (PCE) fell in June from May and from the previous year.

All components of real PCE experienced declines on a monthly and yearly basis.



- PCE rose 0.4% from May to June, but real PCE fell 0.1%. The nominal increase primarily reflects rising gasoline prices .
- Real spending on durable goods fell at an annualized rate of 2.7% from May to June and is down 8.3% from June 2008. Real spending on services fell at an annualized rate of 0.2% over the month and declined 0.3% from last year. Real spending on nondurable goods fell an annualized rate of 5.2% from May to June and 3.1% from June of last year.
- After the U.S. Bureau of Economic Analysis (BEA) revisions to the national income and product account (NIPA), real personal consumption expenditure is softer than previously estimated. Growth from the first quarter of 2008 to the first quarter of 2009 was revised downward by an average of 0.4%.



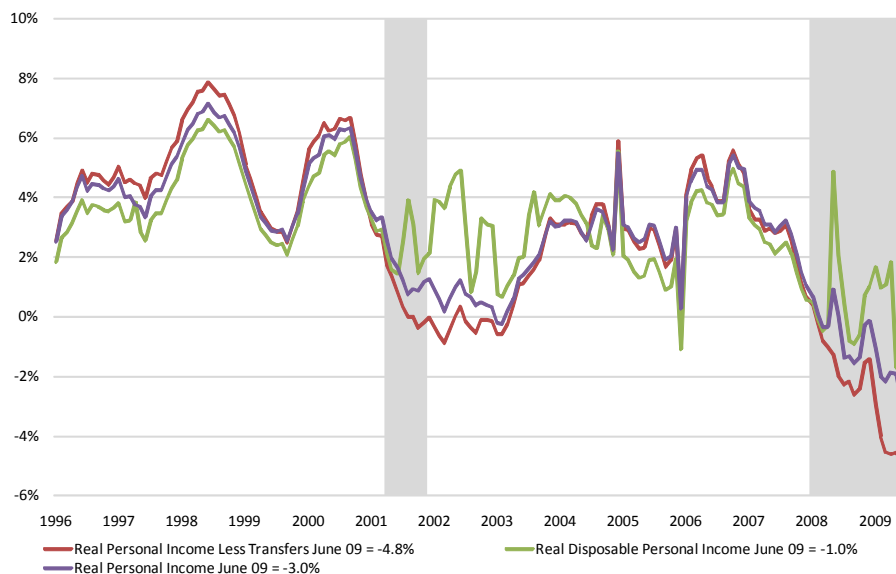
# Consumer Spending

## Summary

Both real personal income and the personal savings rate (as a percentage of disposable income) fell in June.

Stimulus checks played a major role in the surge in personal income in May and the decline in June.

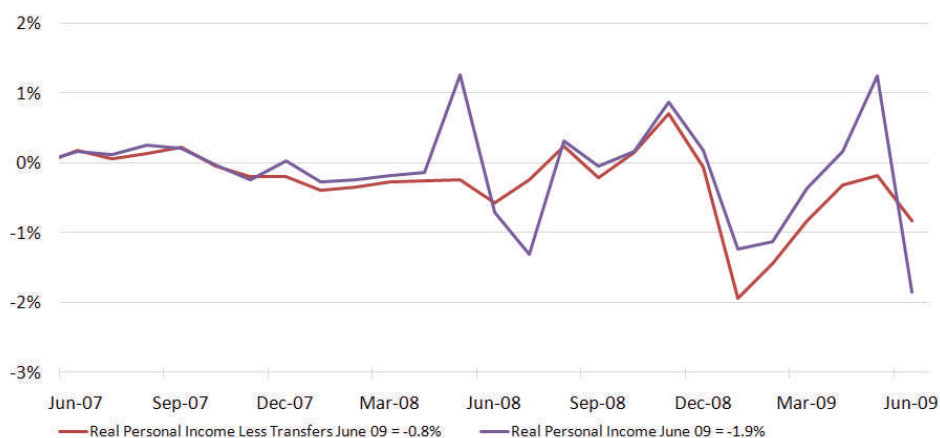
**Real Personal Income**  
Year over Year % Change



Source: BEA

- Real personal income fell 1.9% from May to June and 3.0% from June 2008. The month-to-month decrease was slightly larger than Bloomberg's market consensus expectation of a 1.0% decline.
- Wage income fell for the eight consecutive month.
- Although the June saving rate of 4.6% is still well above the 2.8% average over the past 10 years, it fell 1.8 percentage points from its 14-year high in May.
- After the BEA revisions to NIPA, real personal income data are stronger than originally estimated going many years back but were notably revised downward over the last three quarters.

**Real Personal Income**  
Month to Month % Change



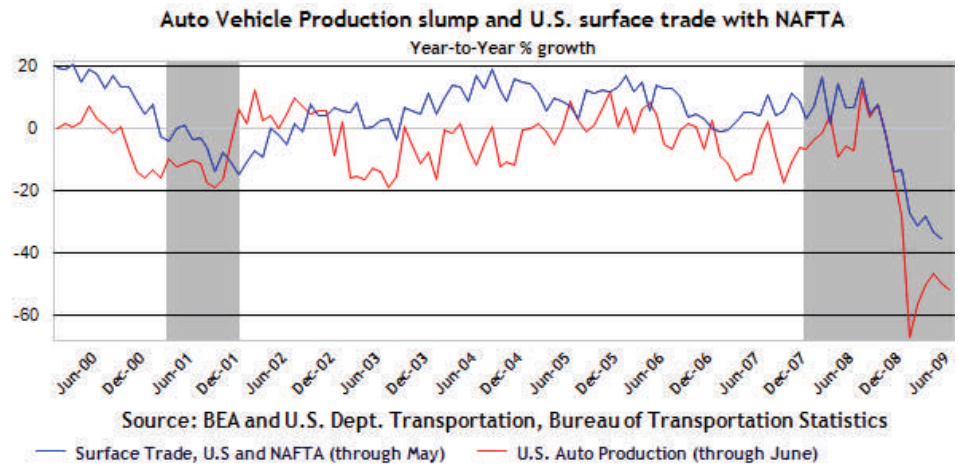
Source: BEA

- The monthly decline in personal income was heavily influenced by stimulus checks from the American Reinvestment Recovery Act, which were distributed from April to June. Nevertheless, excluding these and other transfers, personal income fell in June.

# Transportation

## Summary

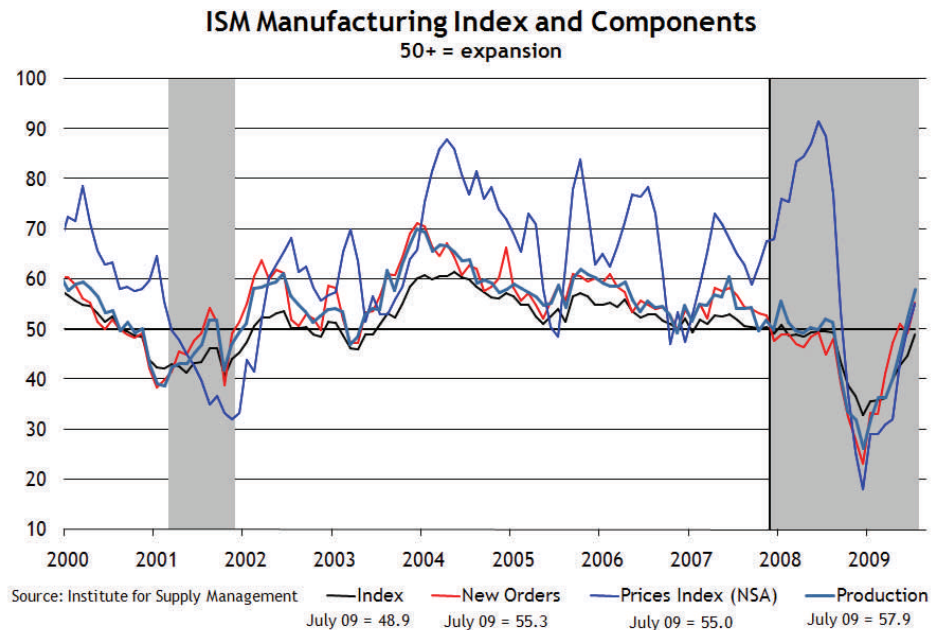
Sharp cuts in U.S. vehicle production seriously affected the volume of rail and truck shipments between the U.S. and NAFTA region.



- By midyear, U.S. light vehicle production plummeted to an all-time low volume reading (4 million vehicle units), a nearly 60% drop from a year earlier.
- The dollar value of surface trade between the United States and NAFTA region (Canada and Mexico) plunged 40% in June 2009 from 2008 levels.

## Summary

The Institute for Supply Management Purchasing Manager's Index gained more than 4 points in July to reach 48.9. Many components of the index are now well above the 50-point mark.

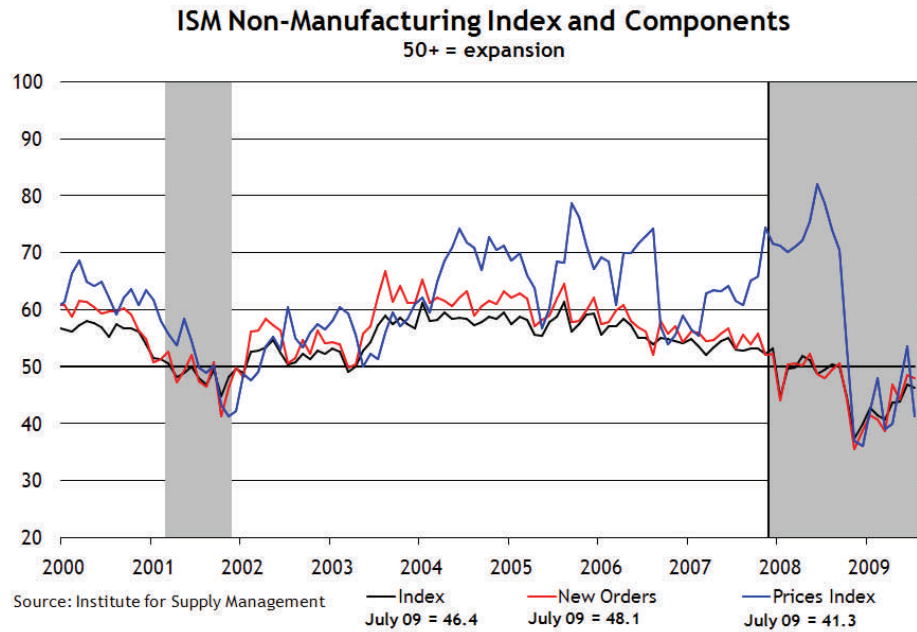


- The ISM's **purchasing manager's index** for July showed a significant gain of 4.1 points to reach 48.9. Employment, currently at 45.6, and inventories, at 33.5, are now the only components of this index below 50. However, in July the index showed a **slowing rate of decline in inventories** for the first time in several months, with the component gaining 2.7 points.
- The **new orders** component of the index saw the greatest increase for July, gaining 6.1 points to reach 55.3. The index component has seen a gradual lessening of decline since its bottom in December 2008, but two out of the last three months have had readings above 50.
- **Production** grew at a faster rate than last month, gaining 5.4 points to reach 57.9, the highest reading of any component in the ISM PMI for July.
- **Prices** jumped 5 points, from 50 to 55, indicating the first month of expansion in prices since September 2008.
- The chair of the ISM PMI survey expects that next month's survey will top the 50-point threshold.

# Manufacturing

## Summary

The ISM's non-manufacturing PMI paints a less optimistic picture. The overall index was down 0.6 points for July.

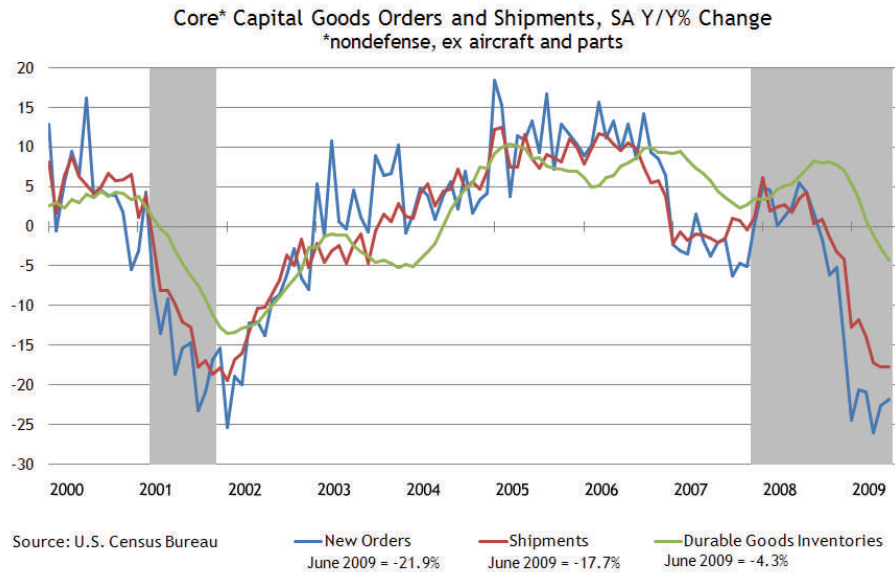


- The ISM's non-manufacturing PMI showed a decrease of 0.6 index points for July to reach 46.4, with the heftiest drivers of the increase being a 12.4 point plunge in the price component and a 3.7 point drop in business activity.
- The July non-manufacturing PMI reveals a 0.5 point drop in the new orders component, from 48.6 points to 48.1.

# Manufacturing

## Summary

The U.S. Census Bureau reported a 0.4% increase in new factory orders for June. New factory orders for core capital goods increased 2.6% in June.



- The factory orders report for June showed a **0.4% monthly increase in new orders** following May's increase of 1.1%. New factory orders for core capital goods increased 2.6% in June, its second consecutive increase.
- Factory **shipments increased 1.4% month over month** after ten consecutive monthly decreases. June's increase was driven by shipments of nondurable goods (+2.7%) while durable goods shipments shrank 0.1%.
- **Durable goods inventories** continued at their May rate of decline, down 1.2% in June. Nondurable goods inventories decreased by 0.2% in June.