

## Economic Highlights

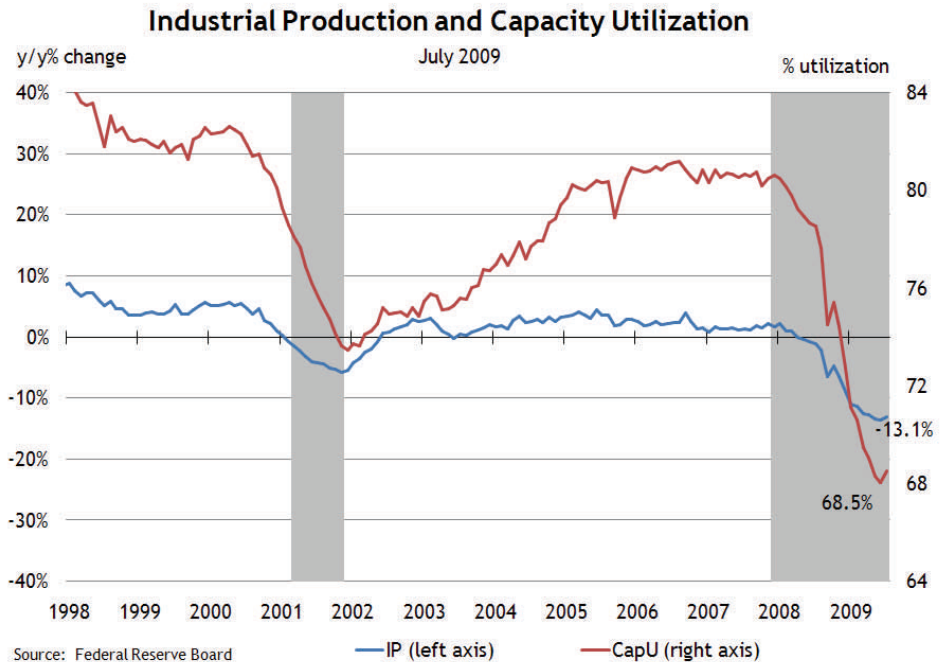
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# Manufacturing

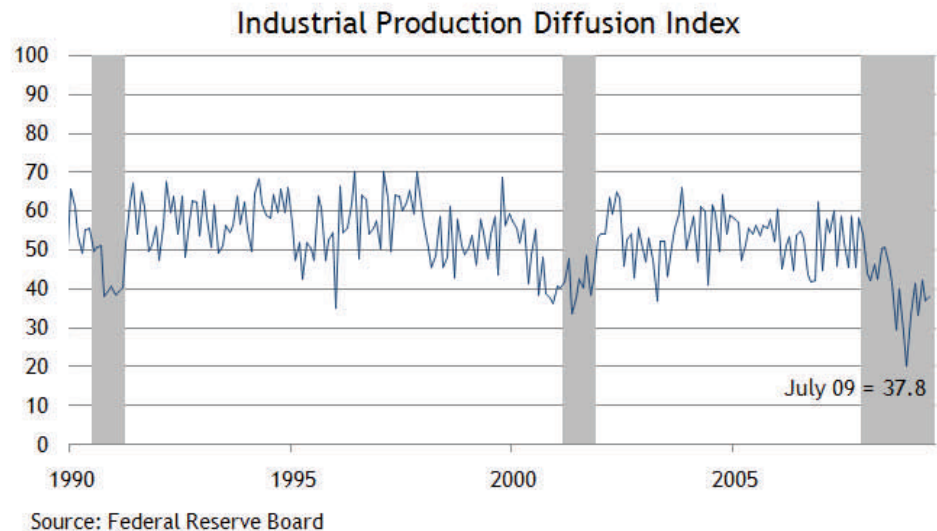
## Summary

Industrial production (IP) rose 0.5% in July, with manufacturing IP rising 1.0%. Capacity utilization was up 0.5 percentage point from June's historically low level.



- Industrial production rose 0.5 percentage point overall in July. Versus a year ago, however, industrial production still remains down 13.1%.
- Among those categories posting monthly gains were manufacturing IP (1.0%) and mining IP (0.8%). There was a 2.4% decline in utilities concentrated among electric utilities.
- In manufacturing IP, 80% of the increase was from auto and parts manufacturing, up 20% from June after many months of decline. Nonautomotive manufacturing IP was up 0.2% from June.
- Capacity utilization saw a 0.5 percentage point increase to reach 68.5%, up from June's historically low level.

The industrial production diffusion index gained 0.9 point to reach 37.8.

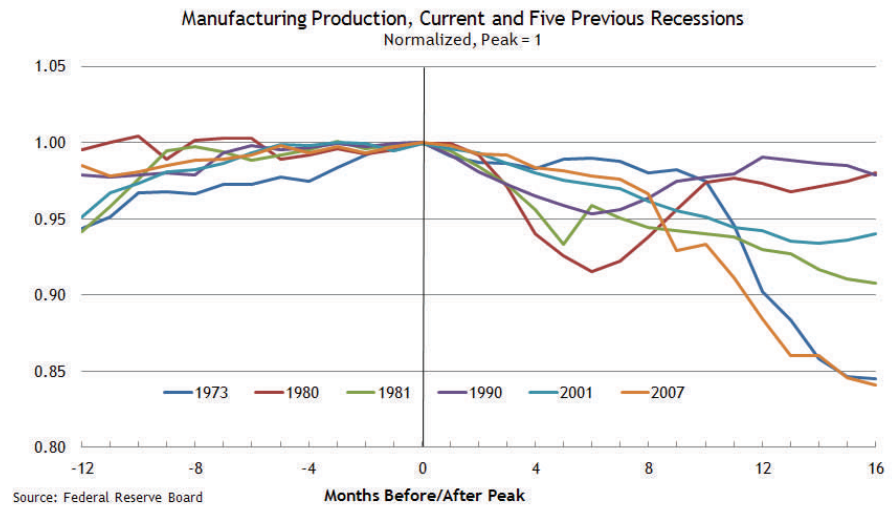


- Most manufacturing industries posted gains for July; however, the industrial production diffusion index remains below 50, at 37.8. July's gain in the index indicates a slower contraction in industrial production.

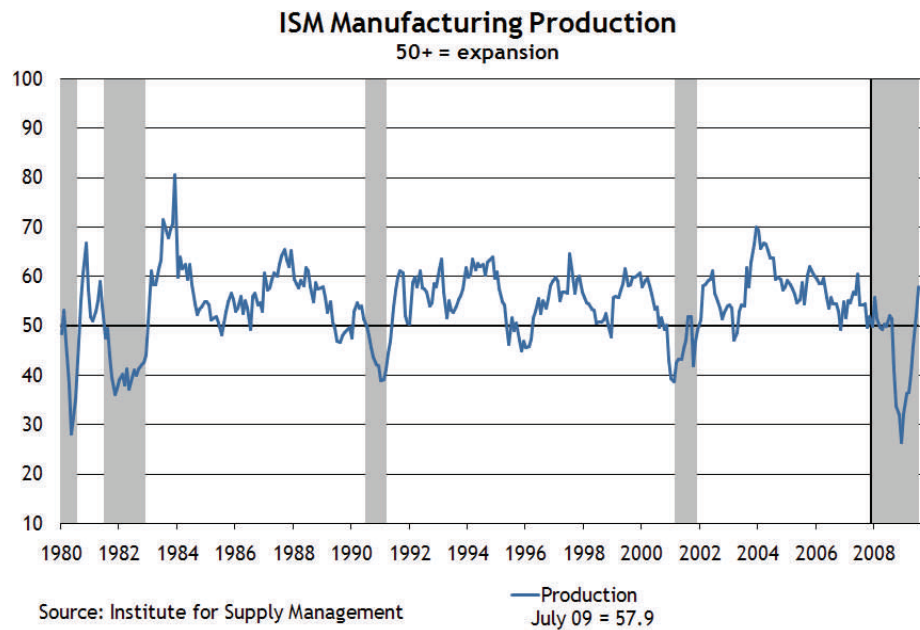
# Manufacturing

## Summary

The current recession has proved to be the worst since the early 1970s for manufacturing production.



- Down more than 15% from its peak, manufacturing production during the current recession most resembles the industrial recession of 1973.



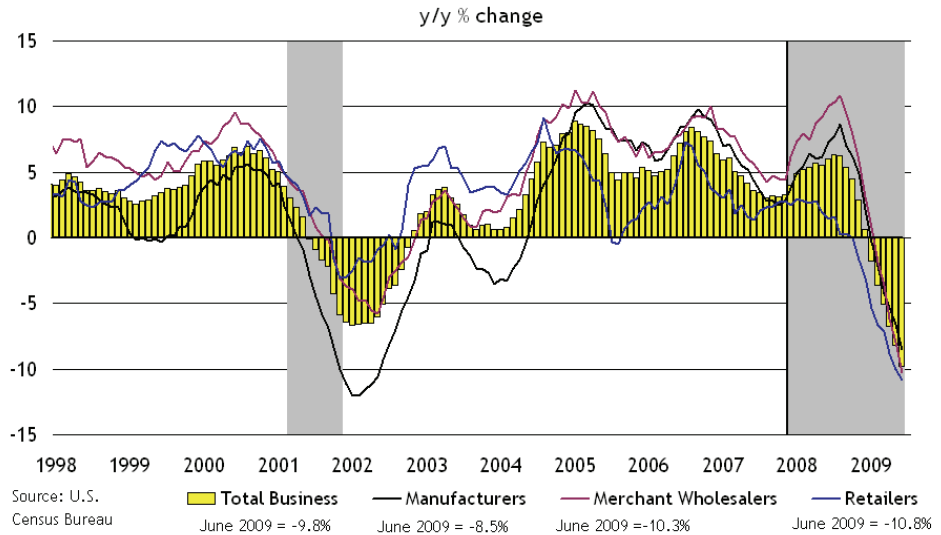
- However, the trend may be turning. The Institute for Supply Management’s production index was above 50 points for June and July. (A reading above 50 indicates an expansion.) This chart of the ISM’s production index also illustrates the severity of the current recession’s effect on manufacturing production.

# Manufacturing

## Summary

In June, total business inventories declined 1.1% from May levels.

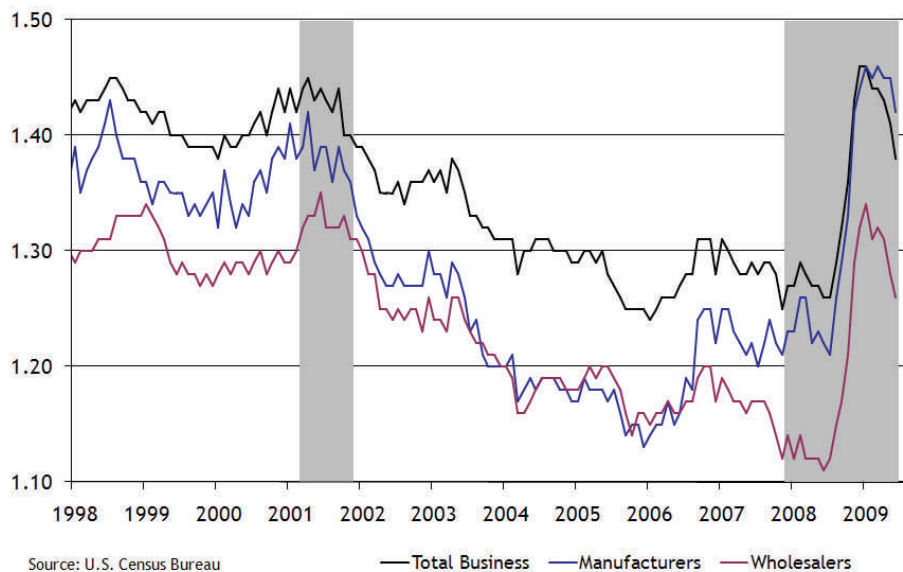
## Business Inventories



- **Total business inventories were down 1.1% in June month over month.** Significant declines in year-earlier levels also remain and have been the trend since January 2009. June's level of business inventories was down 9.8% compared with the previous year.
- Compared with a year earlier, June manufacturing inventories fell back 8.5%, merchant wholesalers' inventories were down 10.3%, and retail inventories dropped 10.0%.
- Compared with a year earlier, May manufacturing inventories contracted 0.8%, merchant wholesalers' inventories were down 1.7%, and retail inventories declined 1.0%.
- The combined value of **sales and manufacturers' shipments was up 0.9%** in June from May.

Inventory-to-sales (I/S) ratios continued their year-to-date declining trend in June, with the I/S ratio for total business inventories falling to 1.38.

## Inventory-to-Sales Ratios

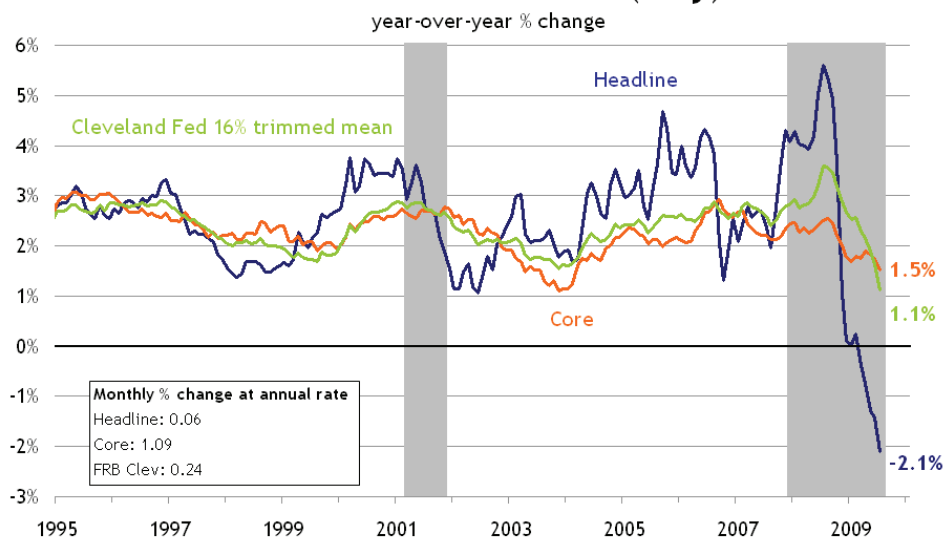


- Inventory-to-sales ratios dropped across the board. **The I/S ratio for total business inventories dropped from 1.41 in May to 1.38 in June.** Month over month, merchant wholesalers' I/S ratio slipped from 1.28 to 1.26, and the manufacturing I/S ratio dropped from 1.45 to 1.42.

Summary

The CPI was down 2.1% from year-ago levels in July, the largest annual decline since October 1949. Energy prices have fallen a record 28.1% from July 2008, when global oil prices peaked.

Consumer Price Index (July)



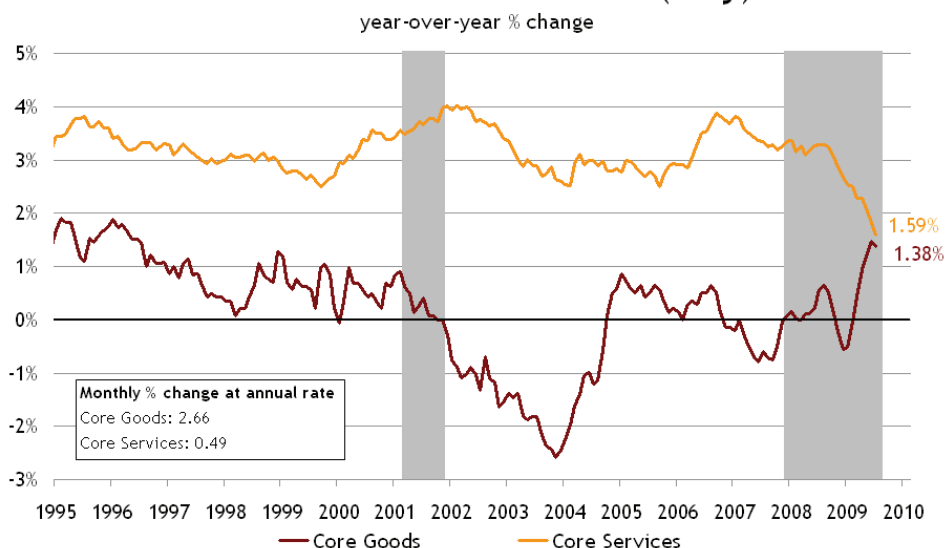
Source: U.S. Bureau of Labor Statistics

- **Headline inflation**, measured by the consumer price index (CPI), was **unchanged in July from the month before**, in line with Bloomberg consensus expectations, after gaining 0.7% in June. (On a non-seasonally adjusted basis, CPI fell 0.2% in July.) Overall CPI is 2.1% below year-earlier levels, the largest decline in almost sixty years, with energy prices down a 28.1% since the price surge last summer.
- The **core** (excluding food and energy) measure of consumer prices **increased 0.1% month over month** in July following a 0.2% increase in June. Year-over-year core CPI, which has been slowly decelerating since April, clocked in at **1.5% year over year** in July.

Core services and core goods inflation have converged considerably since December 2008.

The CPI measure for owners' equivalent rent and rent of primary residence, which together account for about 30% of the total CPI index, came in flat (-0.03%) in July from the month earlier, reflecting ongoing softness in the housing market.

Core Consumer Price Index (July)



Source: U.S. Bureau of Labor Statistics

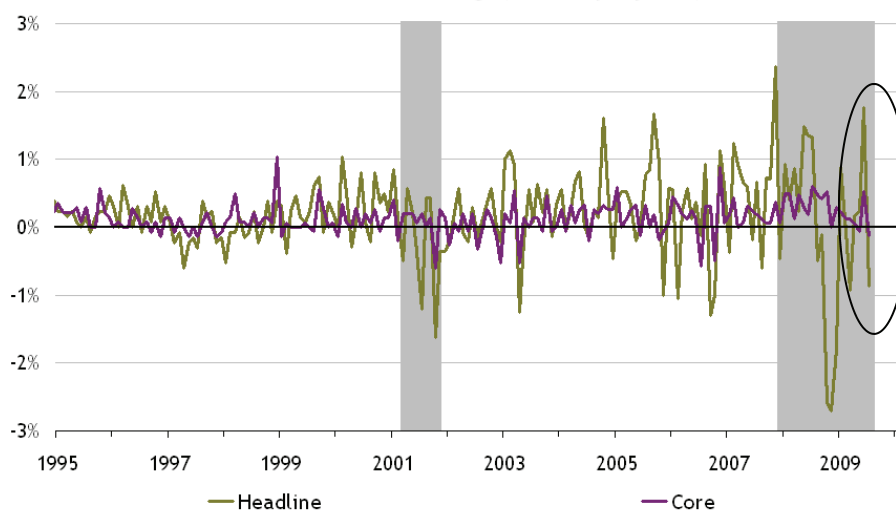
- Since December 2008, the disparity between core services and core goods inflation has been narrowing as goods prices tick up (tobacco index up 28%, apparel prices up 1%, new vehicle prices up 1% but computers and medical equipment prices down) and service price inflation is weighed down (at its lowest rate since August 1980) by the weakness in the housing sector.

Summary

The July reading showed PPI reversing some of the paradoxical price strength reported in June.

Producer Price Index: Finished Goods

month-over-month % change (seasonally adjusted)



Source: U.S. Bureau of Labor Statistics

- The headline producer price index (PPI) for finished goods fell 0.9% month over month in July with broad-based price declines among finished goods, retracing half of the sharp 1.8% increase seen the previous month.
- Producer prices for both food and energy fell at all stages of processing in July.
- Excluding food and energy, finished goods PPI fell 0.1% month over month in July, with a 0.7% decline in prices for light motor trucks—a volatile indicator that had unexpectedly surged 3.4% in June.

PPI by Stage of Processing

	1-month*	3-month*	12-month*	2008**	2003-2008**
Finished	-9.9	9.5	-6.4	-1.2	3.2
Less food & energy	-1.4	1.4	2.6	4.5	2.5
Intermediate	-2.8	8.1	-15.0	-2.6	5.0
Less food & energy	2.8	1.4	-8.2	2.9	4.8
Crude	-42.3	14.8	-45.0	-24.3	4.1
Less food & energy	41.6	61.3	-35.7	-24.1	5.4

\*Seasonally adjusted annualized rates of change in price indices for given period ending July 2009  
 \*\*Seasonally adjusted annualized rates of change in price indices for given period  
 Source: U.S. Bureau of Labor Statistics

Core commodity prices have picked up considerably over the past three months but are still down sharply over a 12-month period.

- Headline PPI declined for all stages of processing in July, with producer prices for crude goods falling at a 42.3% annualized pace following three consecutive months of increases. The decline in overall crude goods producer inflation was largely due to declining food and energy prices.
- Core (less food and energy) commodity prices have seen significant increases in the past few months, with the three-month annualized rate of price growth topping 60%. Industrial inputs, like iron and steel scrap and aluminum base scrap, have seen considerable price increases in the past month, perhaps indicating an improvement in the industrial sector.

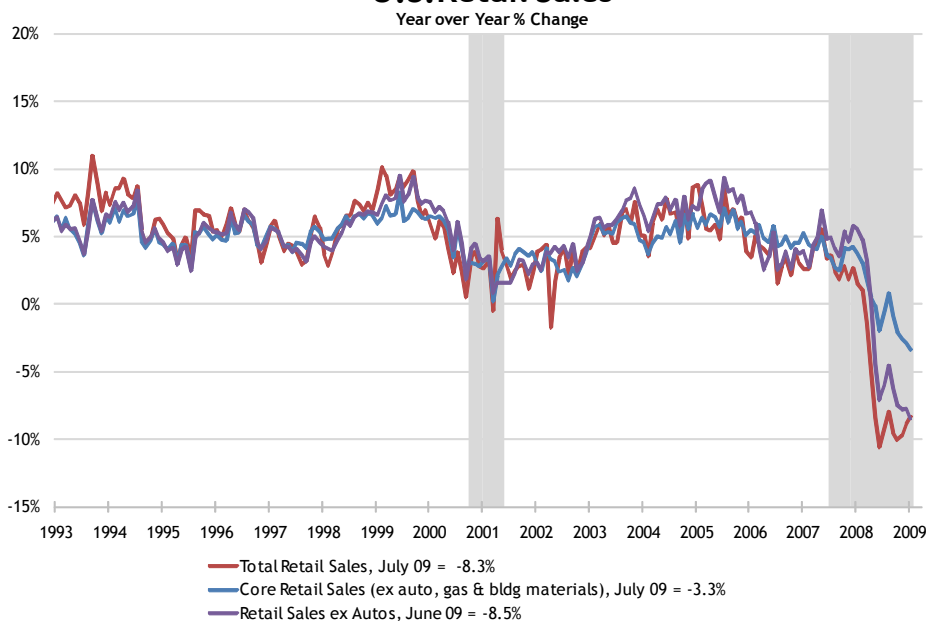
# Consumer Spending

## Summary

Retail sales fell modestly from June to July, though a significant portion of the softness is likely the result of declining gasoline prices.

Bloomberg's market consensus expectation was an increase of 0.8% from June to July.

## U.S. Retail Sales



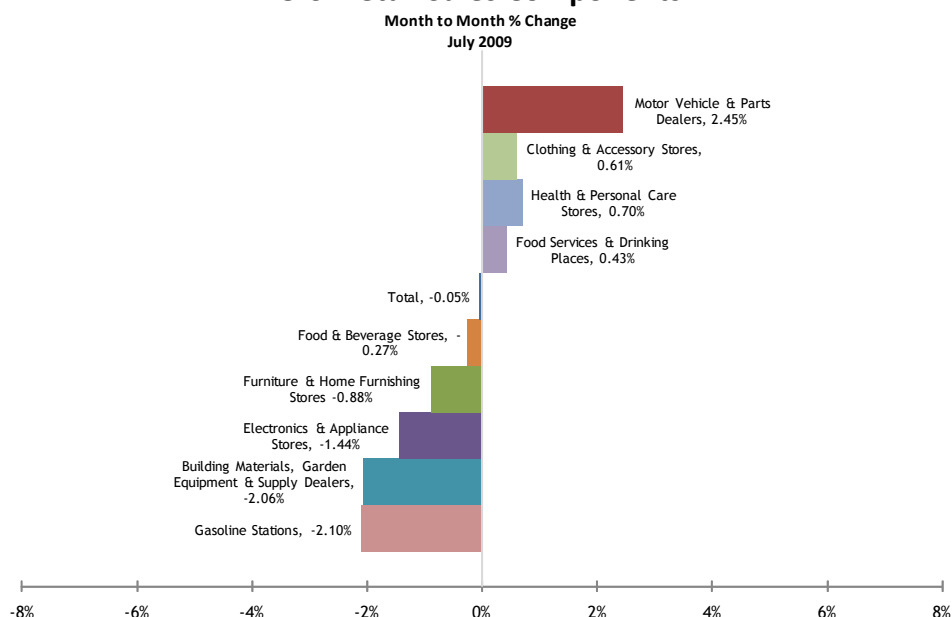
Source: U.S. Census Bureau

- Retail sales continue to decline on a monthly and yearly basis. Retail sales are down 0.05% from June 2009 and 8.3% from July 2008.
- On a year-over-year basis, the decline in retail sales excluding autos and core retail sales (total excluding gas, autos, and building supplies) continued to accelerate, falling to -8.5% and -3.3%, respectively. From June to July, retail sales excluding autos fell 0.6%, while core retail sales fell 0.2%.
- Core retail sales are typically less volatile than total retail sales and are an important indicator the U.S. Bureau of Economic Activity uses to estimate a component of personal consumption expenditures.

Although retail sales decreased in July, auto sales helped to reduce the magnitude of the decline—a possible reflection of the positive impact of the car allowance rebate system (CARS) program that took place during the last week of July.

Elsewhere, spending was mixed as building materials dealers, electronic and appliance stores, and furniture stores posted declines in July, while drug stores, clothing stores, and restaurants all experienced growth.

## U.S. Retail Sales Components



Source: U.S. Census Bureau

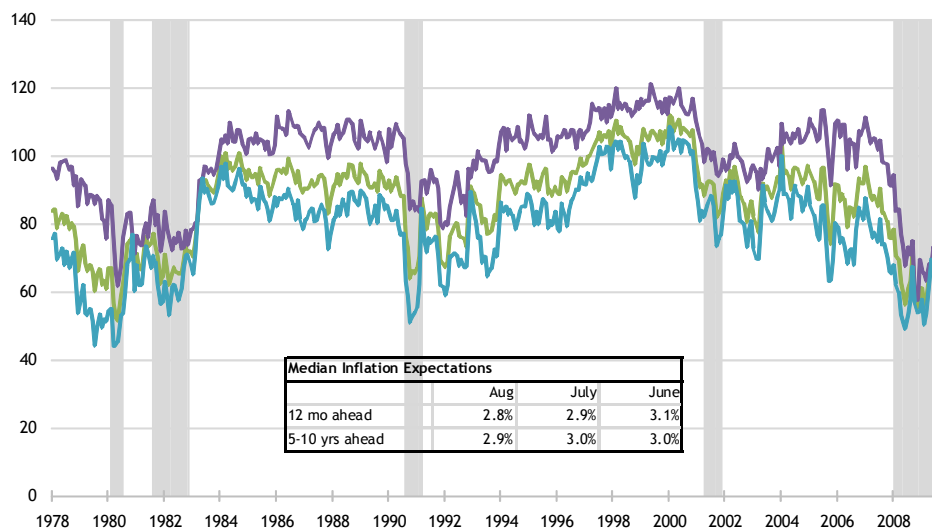
# Consumer Spending

## Summary

August preliminary consumer sentiment fell for the second consecutive month, again approaching record low numbers.

Both the consumer expectations and current economic conditions components fell; however, the current conditions component led the decline.

Reuters/University of Michigan Consumer Sentiment Index  
1966Q1= 100



— Consumer Sentiment, Aug 09 = 63.2 — Current Economic Conditions, Aug 09 = 64.9 — Consumer Expectations, Aug 09 = 62.1

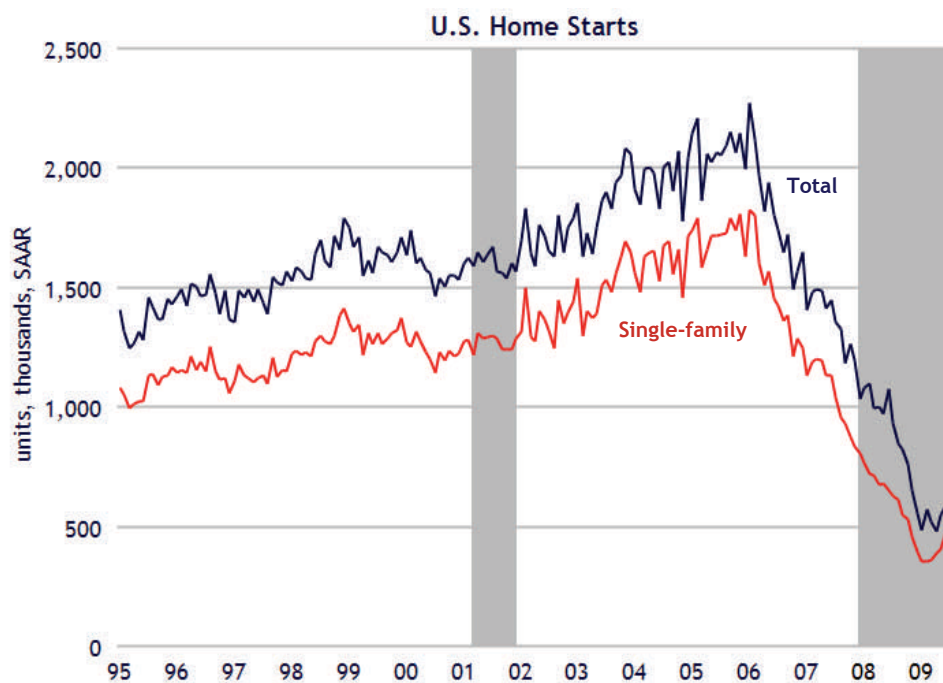
Source: Reuters/University of Michigan

- The August preliminary Reuters/University of Michigan Consumer Sentiment index fell from 66.0 points to 63.2, the lowest level since the record low of April 2009. Current economic conditions fell 5.6 points to 64.9, and August consumer expectations fell 1.1 points to 62.1.
- Analysts point to the weak labor and housing markets and unstable energy and equity prices as the main culprits responsible for the current economic conditions decline.
- On a positive note, in August 41% of respondents expected the unemployment rate to increase in the next 12 months, down from 50% in July.
- Expected inflation levels experienced a modest decrease. The median one-year-ahead inflation rate and the median five-to-ten-year outlook both fell 0.1%, to 2.8% and 2.9%, respectively.



## Summary

Single-family residential home starts continued to improve in July from historical lows while multifamily permits continued to weaken.



Source: U.S. Census Bureau

### July starts

Total	581k	-37.7% y/y	-1.0% m/m
Single-family	490k	-22.5% y/y	1.7% m/m
Multifamily	91K	-69.8% y/y	-13.3% m/m

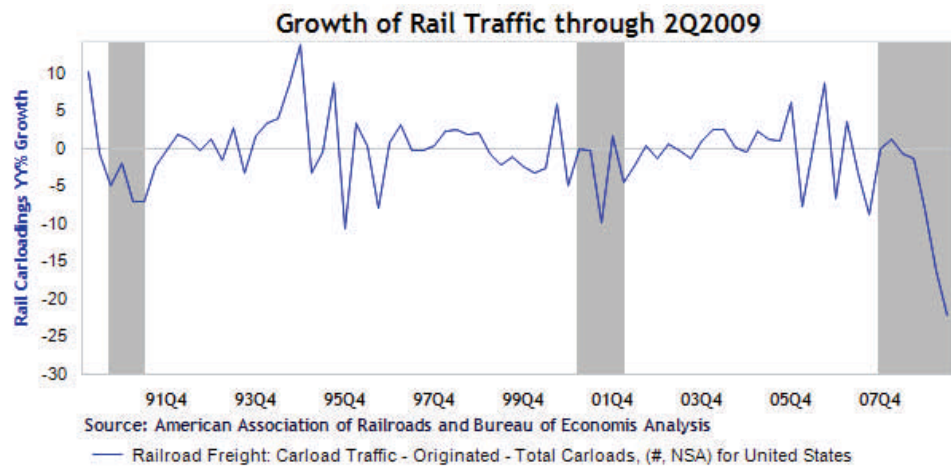
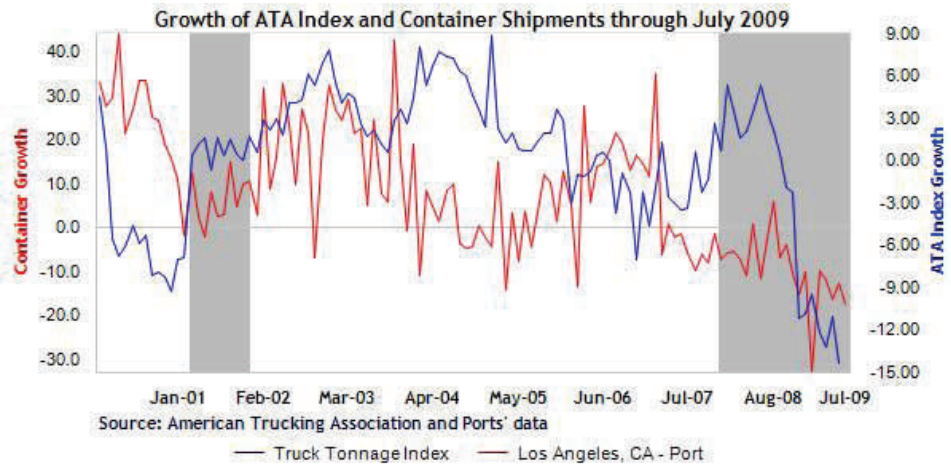
### July permits

Total	560k	-39.4% y/y	-1.8% m/m
Single-family	458k	-20.4% y/y	5.8% m/m
Multifamily	102k	-70.8% y/y	-25.6% m/m

# Transportation

## Summary

Freight indicators continued to post declines during June and July.



- The American Trucking Associations' tonnage index fell 14% in June 2009 from a year earlier, posting the ninth consecutive month of year-over-year declines. Some of the weak trucking shipments have been blamed on softening imports of retail shipments.
- The Association of American Railroads reported that rail shipments through July 2009 were off by 18% from 2008 levels. Industry demand for intermodal shipments also declined at a similar pace.