

## Economic Highlights

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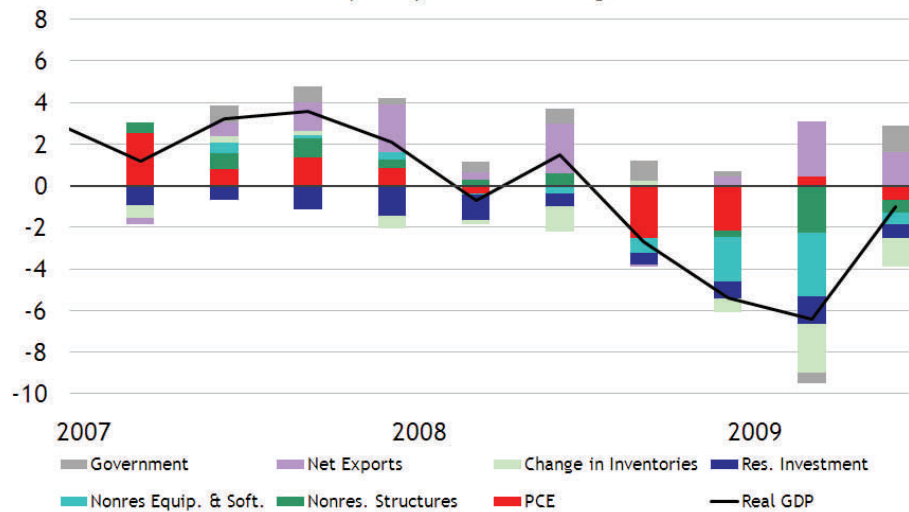
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## Summary

Real GDP declined 1% in Q2, according to the second estimate, unchanged from the advance estimated reported in June.

## Contributions to Real GDP

quarterly, annualized % change

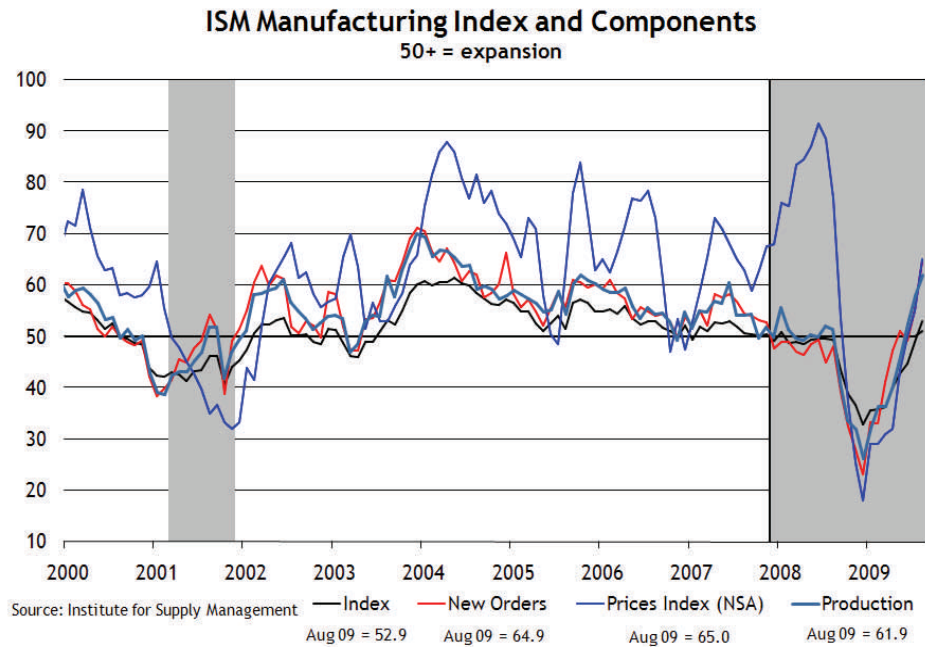


Source: U.S. Bureau of Economic Analysis

- The revised (now called second) Q2 GDP estimate released by the BEA showed GDP declining 1% in Q2 (quarter over quarter annualized), an unchanged estimate from that released in the preliminary report in June.
- Although the headline figure was unrevised from the preliminary report, there were several notable changes among underlying components. Ultimately, upward revisions to exports, residential fixed investment, PCE, and government spending were offset by downward revisions to inventory investment and nonresidential investment in structures.

## Summary

The Institute for Supply Management's PMI reading for August was 52.9, the first reading indicating manufacturing expansion in 18 months.

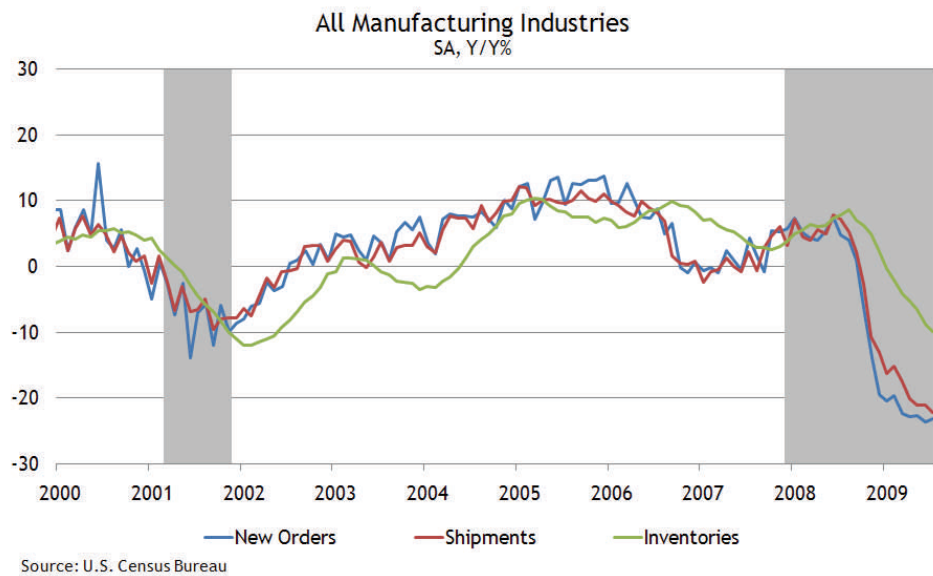


- The ISM's purchasing manager's index gained 4 points in August, placing PMI above the 50 point threshold at 52.9. (A reading above 50 indicates an expansion of the manufacturing sector.)
- The new orders component of the index, up 6.1 points in July, added a substantial 9.6 points in August to reach 64.9, its highest reading since December 2004. New orders troughed at 23.1 in December 2008. Several anecdotal responses to the ISM survey indicate that improved business conditions are combining with drained inventories to bolster new orders.
- Production grew 4 points in August to reach 61.9 as a result of the substantial increase in new orders. This was production's highest reading since October 2005.
- Prices jumped 10 points from 55 to 65 in August, the largest gain in the August PMI report. In July, the prices component gained 5 points.
- Employment gained 0.8 points in August. Employment, along with inventories, is one of now only two components below 50.

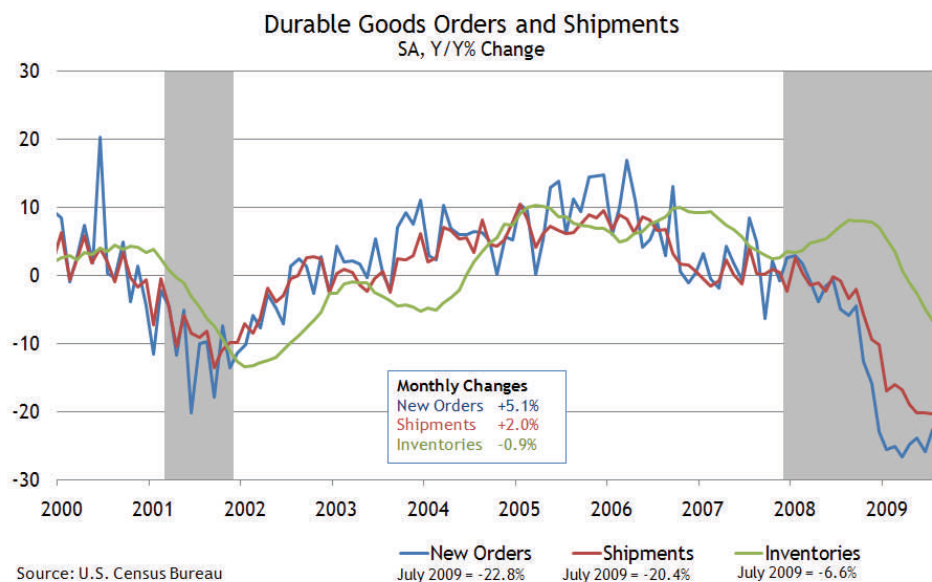
# Manufacturing

## Summary

The July factory orders report largely confirmed what the earlier-reported durable goods numbers indicated: Orders are rising while inventories are falling.



- In July, new factory orders gained 1.3%. When transportation is excluded, new factory orders were down 0.7%.
- Shipments were down 0.1% overall.
- Inventories, down for 11 consecutive months, decreased 0.7% further in July.



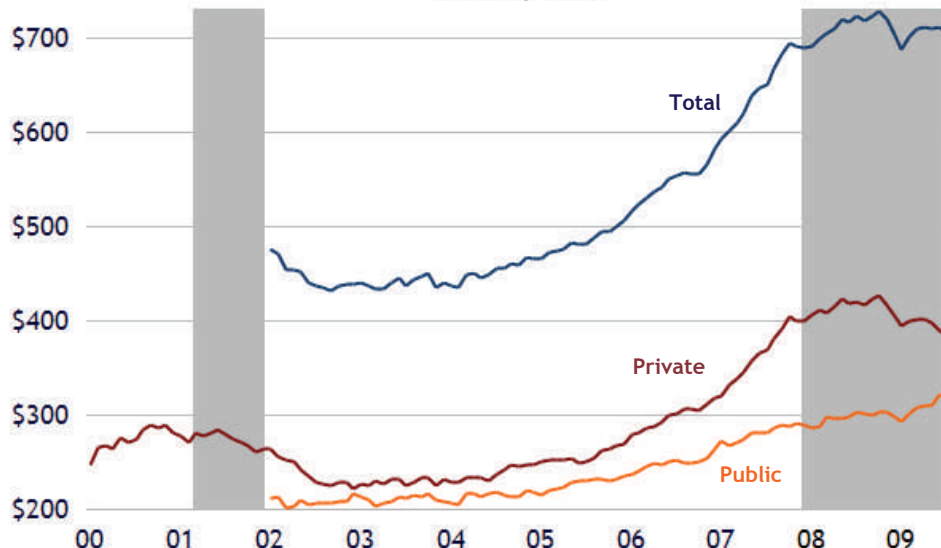
- New factory orders for durable manufactured goods were up a hefty 5.1% (revised up slightly from 4.9%) while nondurables lost 1.9%.
- Shipments for manufactured durable goods rose 2.0% month/month but remain down more than 20% annually.
- Inventories of durable goods fell 0.9% in July.

## Summary

The July report on construction spending put in place indicated that both public and private spending contracted.

### U.S. Nonresidential Construction Spending Put in Place

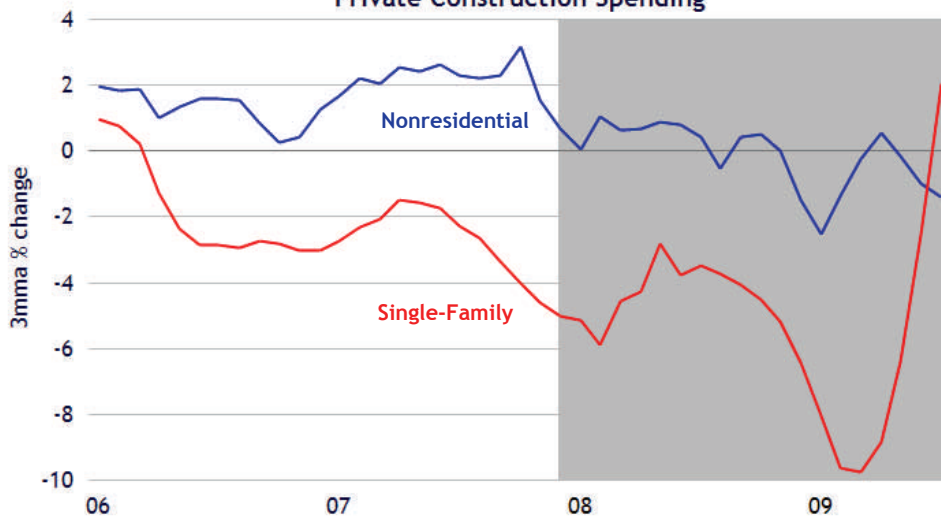
billions, SAAR



Source: U.S. Census Bureau

The recovery in private single-family home construction spending has taken a firmer hold in recent months while private nonresidential construction spending has weakened.

### Private Construction Spending



Source: U.S. Census Bureau

### July Construction Spending Put in Place

	millions, SAAR	y/y change	m/m change
Total	\$ 958,037	-10.5%	-0.2%
Total nonresidential	\$ 703,835	-2.6%	-1.0%
Private nonresidential	\$ 384,857	-8.3%	-1.2%
Public nonresidential	\$ 318,978	5.4%	-0.8%
Total residential	\$ 254,202	-26.9%	2.3%
Private residential	\$ 245,566	-27.8%	2.3%

## Summary

The National Association of Realtors (NAR) reported that its July pending home sales index advanced for the sixth consecutive month, up 3.2% from June and up 12% year over year.

## Pending Home Sales Index seasonally adjusted



Source: National Association of Realtors

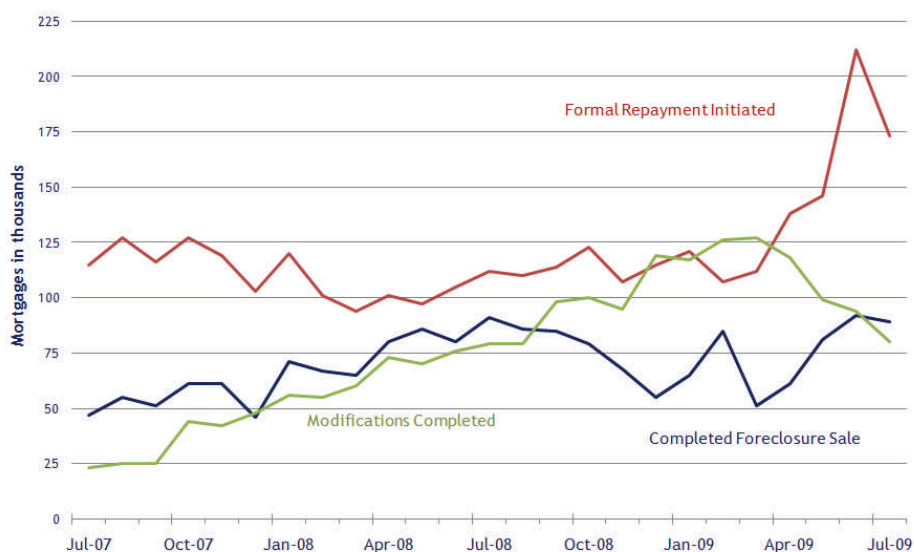
- The NAR reported that the index reached its highest level since June 2007.

## Summary

July data from Hope Now Inc. indicates that borrower workout plans (formal repayment initiated + modification completed) declined 17% from June to July but increased 33% compared with a year earlier.

Foreclosure sales moderated slightly after peaking in June.

## The Hope Now Alliance Measures of Mortgage Mitigation



Source: Hope Now Alliance

- In July prime mortgages accounted for 59% of borrower workout plans. A year earlier prime mortgages accounted for 42% of borrower workout plans.

*Note: Hope Now Inc. is an alliance between counselors, mortgage companies, investors, and other mortgage market participants. The U.S. Department of the Treasury and the U.S. Department of Housing and Urban Development encouraged leaders in the lending industry, investors, and nonprofits to form this alliance. (www.hopenow.com)*

*Repayment plan—a plan that allows the borrower to become current and catch up on missed payments that are appropriate to the borrower's circumstances, which involves deferring or rescheduling payments. But the full amount of the loan is expected ultimately to be paid and within the original contractual maturity of the loan.*

*Modification—a modification occurs anytime any term of the original loan contract is permanently altered. This modification can involve a reduction in the interest rate, forgiveness of a portion of principal, or extension of the maturity date of the loan.*

*Borrower Workout Plan = Formal Repayment Plan Initiated + Modifications Completed*

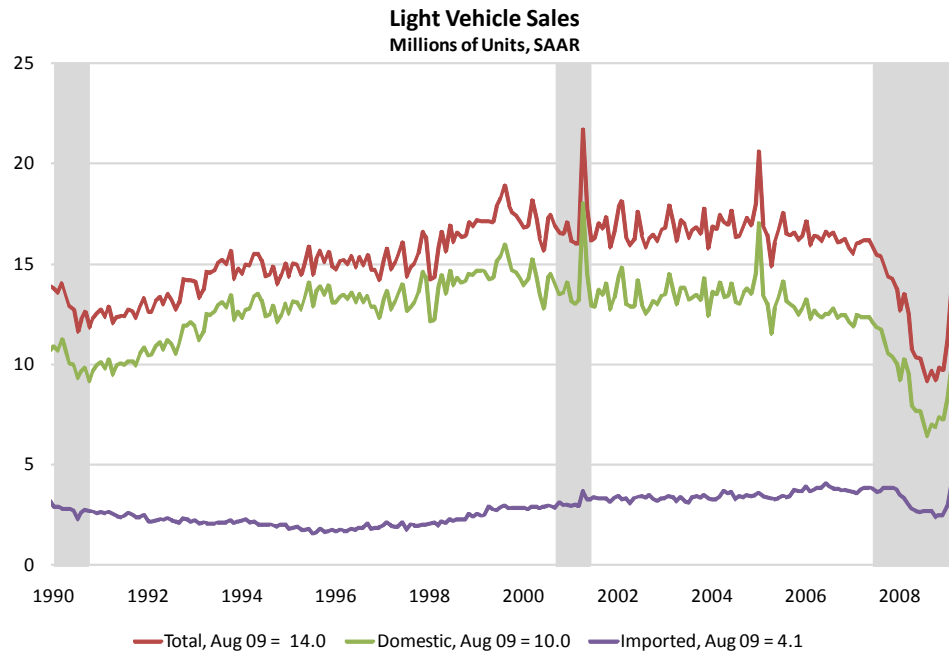
*Completed Foreclosure Sale—represents an acquisition of a foreclosed property by the lender or servicer of the property; also referred to as REO (real estate owned).*

# Consumer Spending

## Summary

August auto sales increased 2.8 million units from July.

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



- Total light vehicle sales for August increased 25% from July to an annualized rate of 14 million units; Bloomberg's market consensus expectation was 13.3 million units.
- Domestic vehicle sales rose 20% from July to an annualized rate of 10 million units in August. Imported vehicle sales increased 41% to an annualized rate of 4.1 million units.
- Approximately 700,000 consumers utilized the CARS program, which began during the last week of July.

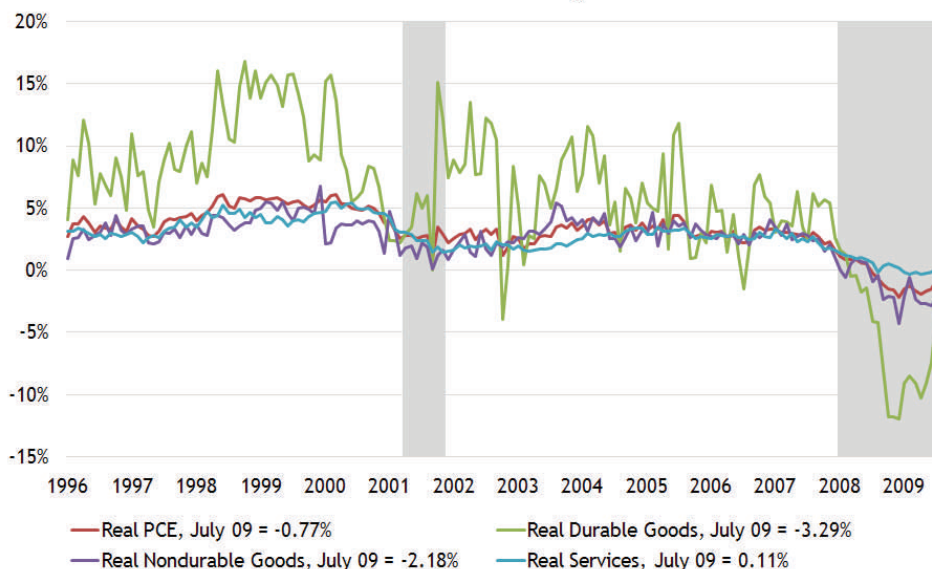


# Consumer Spending

## Summary

July real personal consumption expenditures (PCE) rose from June but is still down on a yearly basis.

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



Source: BEA

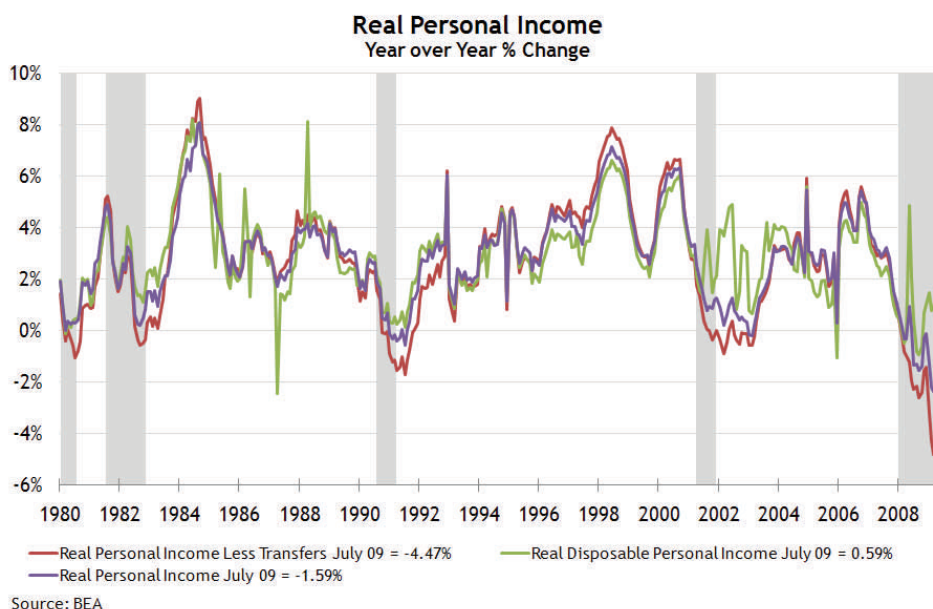
Monthly % change	July	June	May
Real PCE	0.21%	0.07%	0.06%
Real nondurable goods	-0.25%	-0.30%	-0.06%
Real durable goods	1.82%	0.77%	1.26%
Real services	0.12%	0.08%	-0.08%

- July real PCE rose 0.2% from June and fell 0.8% from July of last year. Spending on autos accounted for the rise in July spending, while consumption excluding new autos was flat during the month.
- The increase in goods spending was more than accounted for by higher durable goods spending in July. Real spending on durable goods rose 1.8% from June to July and is down 3.3% from July 2008. Real spending on nondurable goods fell 0.25% from June to July and 2.2% from July of last year.
- Real spending on services increased 0.1% over the month and 0.1% from last year.

# Consumer Spending

## Summary

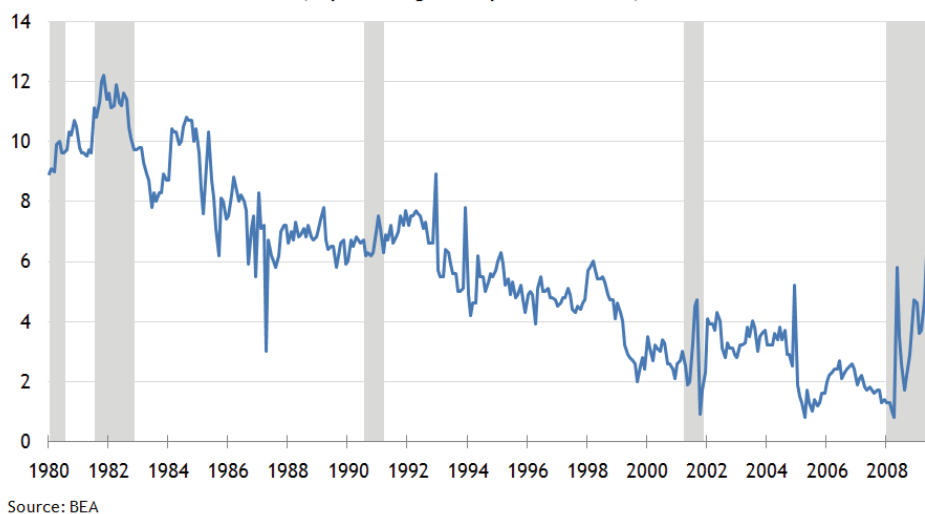
Real personal income remained unchanged from June to July.



Monthly % change	July	June	May
Real personal income	0.00%	-1.64%	1.34%
Real personal income less transfers	0.04%	-0.65%	-0.07%
Real disposable personal income	-0.08%	-1.62%	1.59%

- Real personal income remained unchanged from June to July and fell 1.6% from July 2008.
- Nominal wage income experienced a modest increase of 0.1% from June to July after falling for eight consecutive months.
- On a year-over-year basis, wage and salary disbursements are down 5.1%, the largest decline since the series started in 1960. Current transfers fell for the second consecutive month in July after an outsized 8.1% stimulus-related increase in May.
- The savings rate fell for the second consecutive month to 4.2% in July. The savings rate has been volatile recently given sharp income fluctuations due to transfers from the government. The three-month moving average was at 4.9% in July after peaking at 5% in June.

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

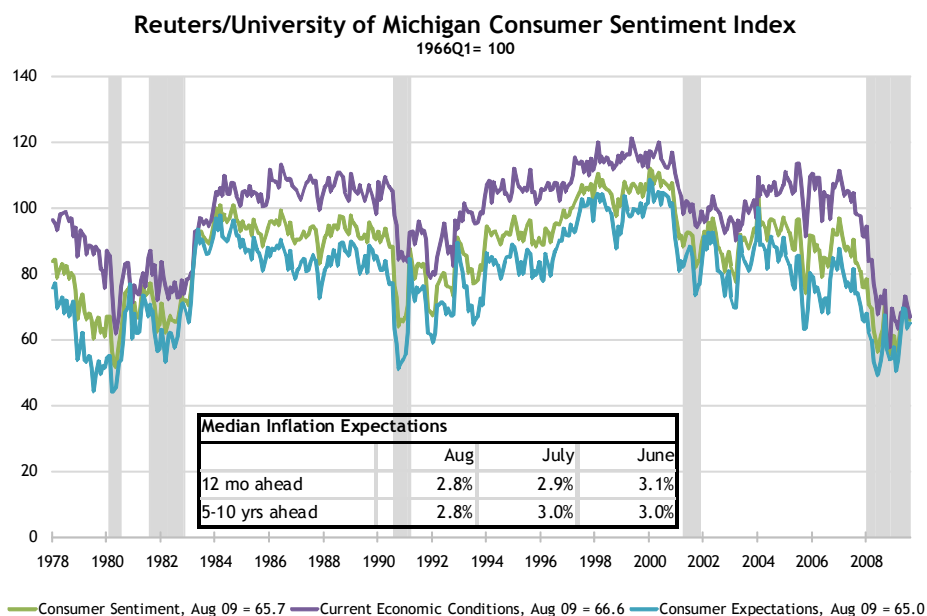


# Consumer Spending

## Summary

Unlike the Conference Board's measure of consumer confidence released earlier this month, which reports large gains in August, the Reuters/University of Michigan Consumer Sentiment Index fell for the second consecutive month.

The current economic conditions component was responsible for the decline, whereas the future expectations component increased in August.



Source: Reuters/University of Michigan

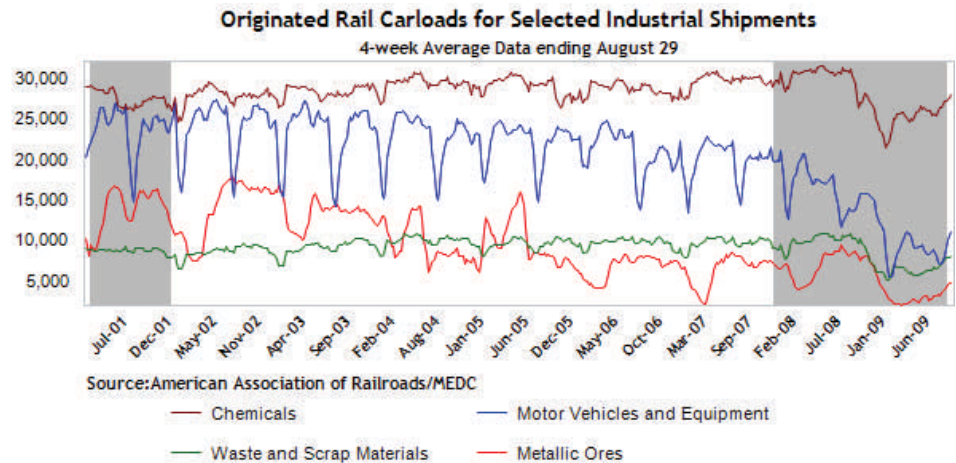
- The August Reuters/University of Michigan consumer sentiment index fell from 66 points to 65.7. Current economic conditions fell 3.9 points to 66.6 while future expectations increased 1.8 points to 65 in August.
- Analysts point to rising gas prices and lack of hiring as the main culprits responsible for the current conditions decline.
- Expected inflation levels experienced a modest decline. The median one-year-ahead inflation rate fell 0.1% to 2.8%, and the median five-to-ten-year outlook fell 0.2% to 2.8%.

# Transportation

## Summary

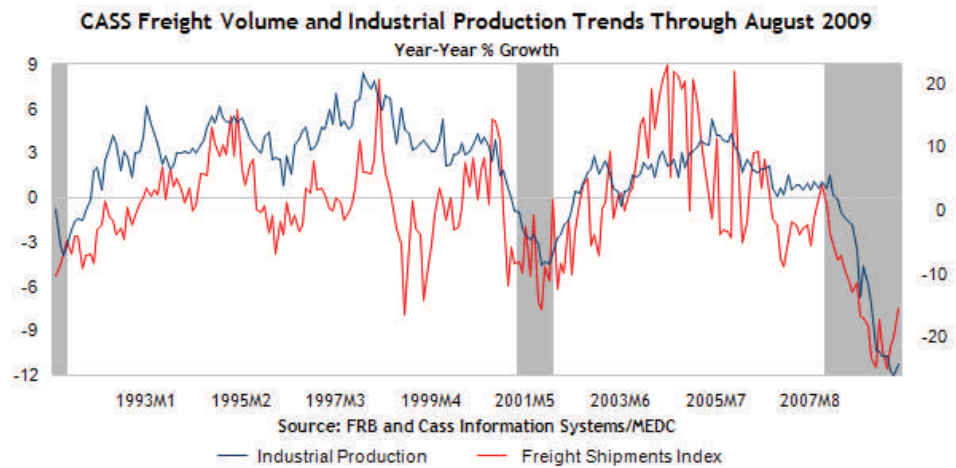
Recent improved readings of transportation indicators suggest that the industrial economy may be finally entering into a stabilization mode.

Shipments of industrial carloads have recently turned positive.



- Through the week ending August 22, key industrial shipments needed in early stages of auto manufacturing turned up.

The CASS freight index for August continues to signal the uptrend reported in July.



- The August CASS Index was 1.3% higher than July but still declined 16.6% from August 2008.
- The volume of shipments in August reached its highest level since November 2008, suggesting that shippers have gradually found a bottom as they enter the fall season.