

Economic Highlights

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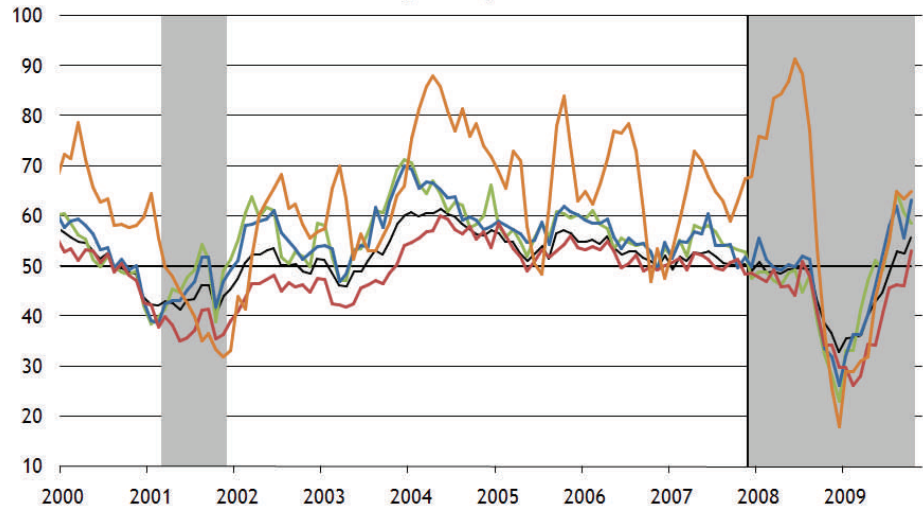
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Summary

The Institute for Supply Management's Purchasing Managers Index gained 3.1 index points to reach 55.7 for October.

ISM Manufacturing Index and Components

50+ = expansion, October 2009



Source: Institute for Supply Management — Index 55.7 — New Orders 58.5 — Production 63.3 — Employment 53.1 — Prices 65.0

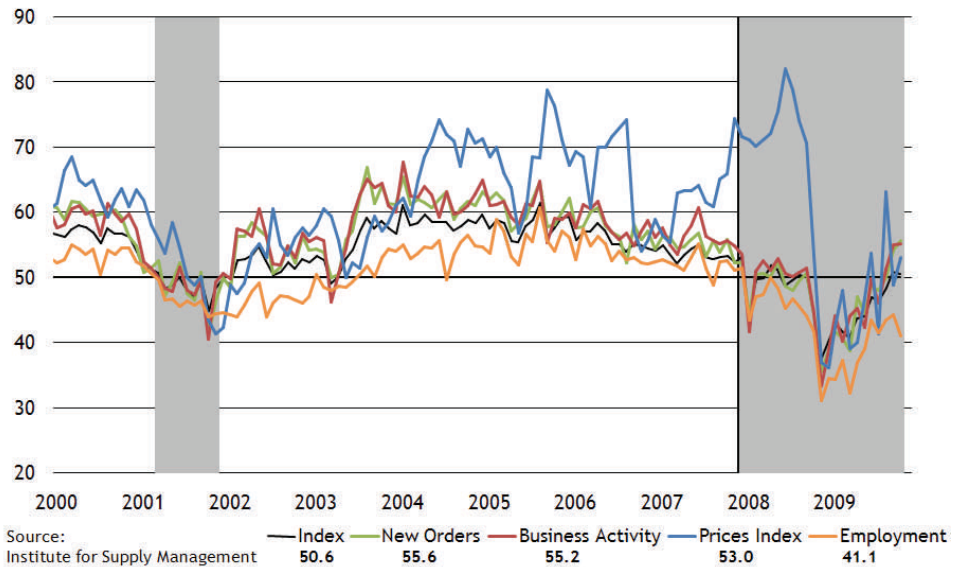
- The ISM's Manufacturing Purchasing Manager's Index continued its year-to-date ascent by adding 3.1 index points to reach 55.7 in October.
- The new orders component of the index is still above 50, but new orders expanded at a slower rate than in September. New orders lost 2.1 index points to settle at 58.5.
- October's largest gain was in the production component, which added 7.9 index points for the month to reach 63.3. The largest contribution to the production component's gain was from plastic and rubber products, followed by furniture and related products.
- Of note, the manufacturing employment index is now above 50 for the first time since October 2007. The component gained 6.9 index points to reach 53.1. The largest contribution to the component's gain for October came from increased employment in petroleum and coal products.
- The export component added 0.5 index point to reach 55.5 in October while the imports component lost one point to reach 51.
- The ISM manufacturing price index gained 1.5 points in October to reach 65, currently the highest reading for any ISM manufacturing index.

Summary

The ISM nonmanufacturing index slipped 0.3 index point in October while the new orders component gained 1.4 points.

ISM Non-Manufacturing Index and Components

50+ = expansion, October 2009

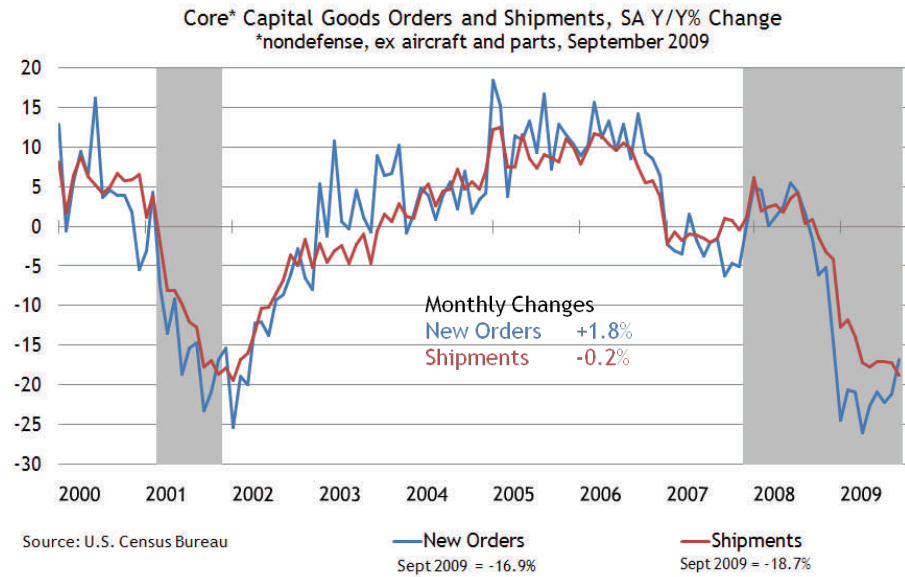


- In October, the ISM nonmanufacturing index lost 0.3 index point.
- Despite the drop in the overall composite index, the new orders component gained 1.4 index points while the business activity index gained 0.1 index point.
- The export component of the nonmanufacturing survey gained 5 index points in October.
- The price component dropped 4.2 points in October.
- Losses were in the employment component, which dropped 3.2 index points last month.

Manufacturing

Summary

The factory orders report showed growth for new orders for core capital goods in September.



- In September, **new orders for core capital goods rose 1.8%** compared to the headline new orders figure for all manufactured goods, which gained 0.9%.
- New orders for machinery were up 7.9% for September. Within the machinery component, new orders for construction machinery skyrocketed 47.4% while turbines, generators, and other power transmission equipment jumped 25.8%. Industrial machinery dragged the component, losing 8.9%. New orders for motor vehicle bodies and parts were up 2.8%.
- **Shipments of core capital goods fell 0.2%** in September.
- **Inventories of core capital goods decreased 0.6%** month over month.
- **Unfilled orders for core capital goods increased 0.2%** for the month.

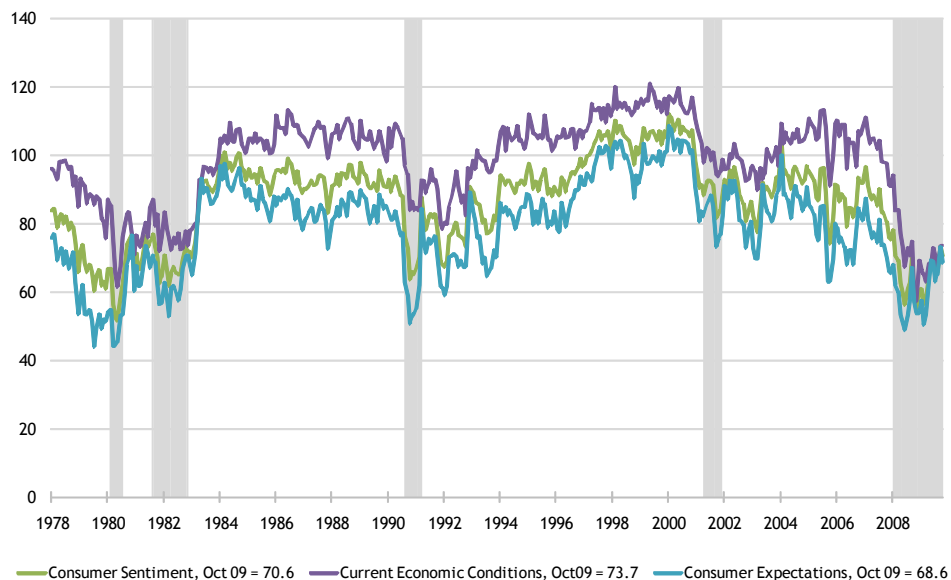
Consumer Spending

Summary

In October, the Reuters/University of Michigan Consumer Sentiment Index declined modestly.

The decline was led by the consumer expectations component likely because of the participants' poor assessment of the labor market in the coming year.

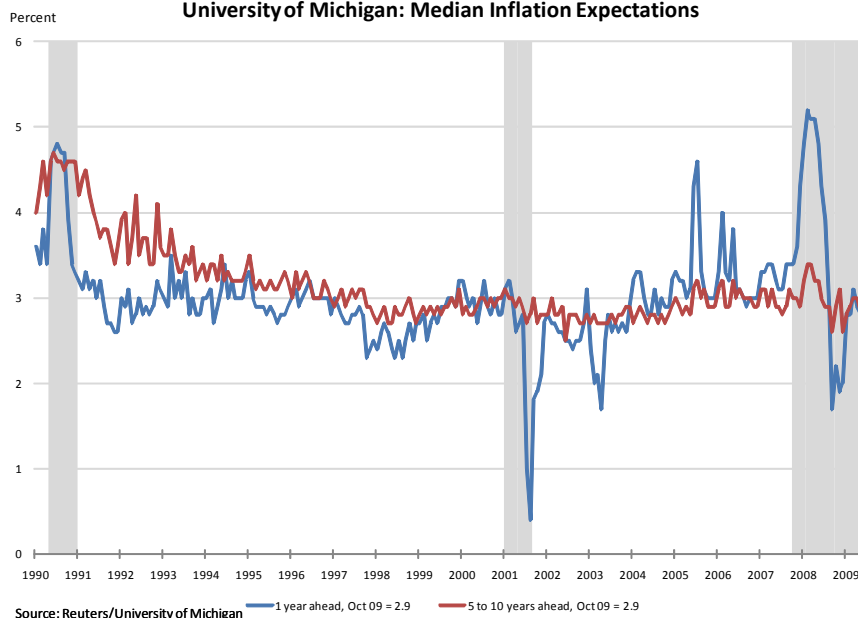
Reuters/University of Michigan Consumer Sentiment Index
1966Q1= 100



Source: Reuters/University of Michigan

- The October Reuters/University of Michigan Consumer Sentiment Index decreased from 73.5 points to 70.6. Current economic conditions rose 0.3 points to 73.7, and consumer expectations fell 4.9 points to 68.6.
- Thirty-six percent of participants in the survey reported they expect the unemployment rate to continue to increase in the next year whereas only 16% expect the unemployment rate to decline. This assessment is more negative than in September but far more optimistic than in early 2009, when there was a gap of more than 50 percentage points between those who felt the unemployment rate would increase and those who felt it would decline.
- The median one-year-ahead expected inflation rate jumped from 2.2% to 2.9% from September to October while the median five-to-ten-year outlook increased modestly from 2.8% to 2.9%.

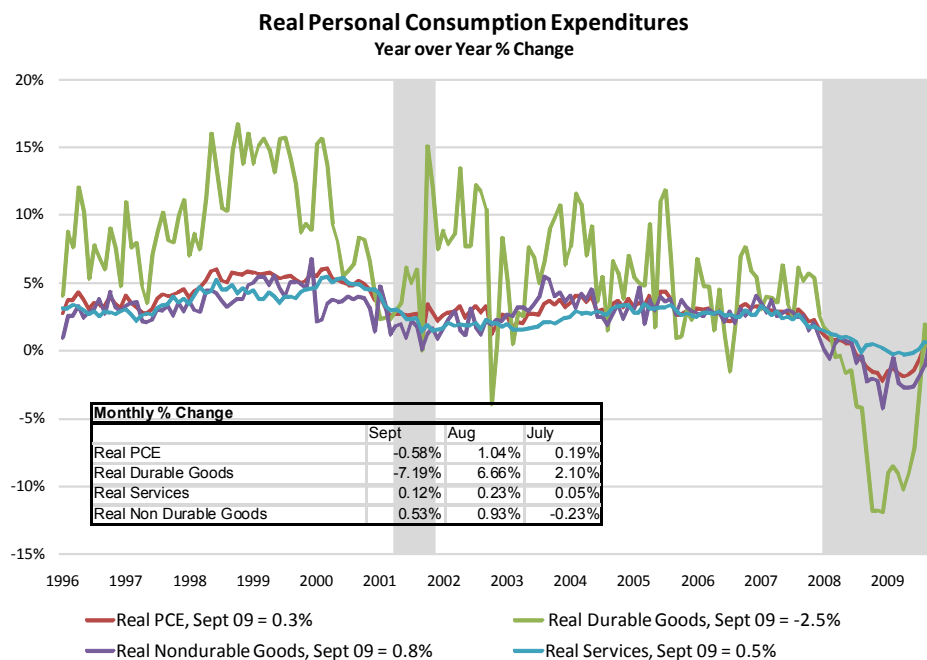
University of Michigan: Median Inflation Expectations



Consumer Spending

Summary

In September, real personal consumption expenditures (PCE) declined from August but increased on a yearly basis for the second consecutive month.



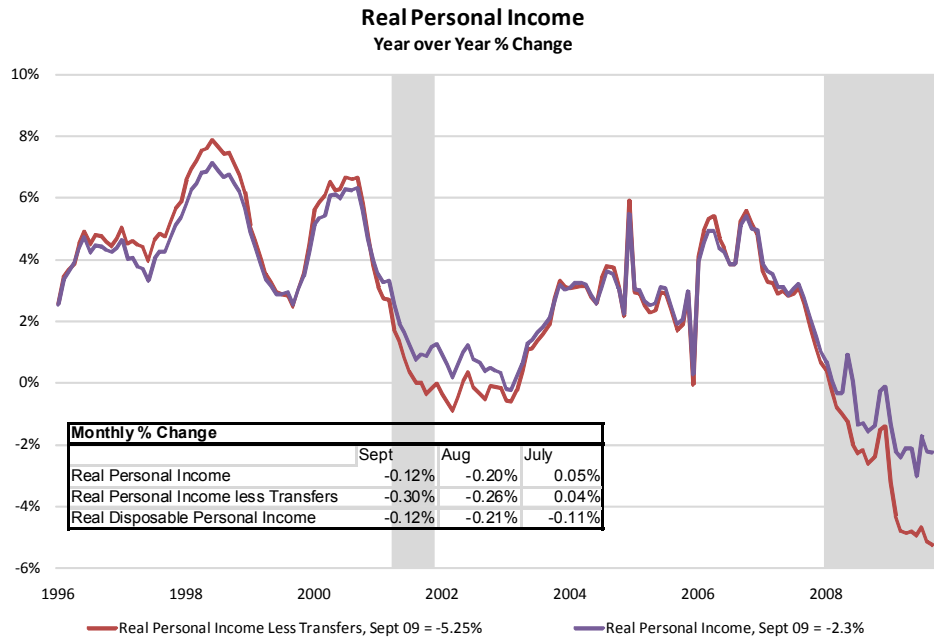
Source: BEA

- September real PCE fell 0.6% from August and increased 0.3% from September 2008. The large monthly decline in spending on real durable goods dragged down real PCE. This decrease reflects the conclusion of the “cash for clunkers” program, which boosted durable goods spending in July and August.
- Real spending on durable goods plunged 7.2% from August to September, the largest monthly drop since 1987. On a year-to-year basis, spending on durable goods was 2.5% below September 2008 levels. Real spending on nondurable goods rose 0.5% from August to September and increased 0.8% from September 2008, the first yearly increase in 14 months.
- Real spending on services increased 0.1% from August to September and 0.5% from September of last year.

Consumer Spending

Summary

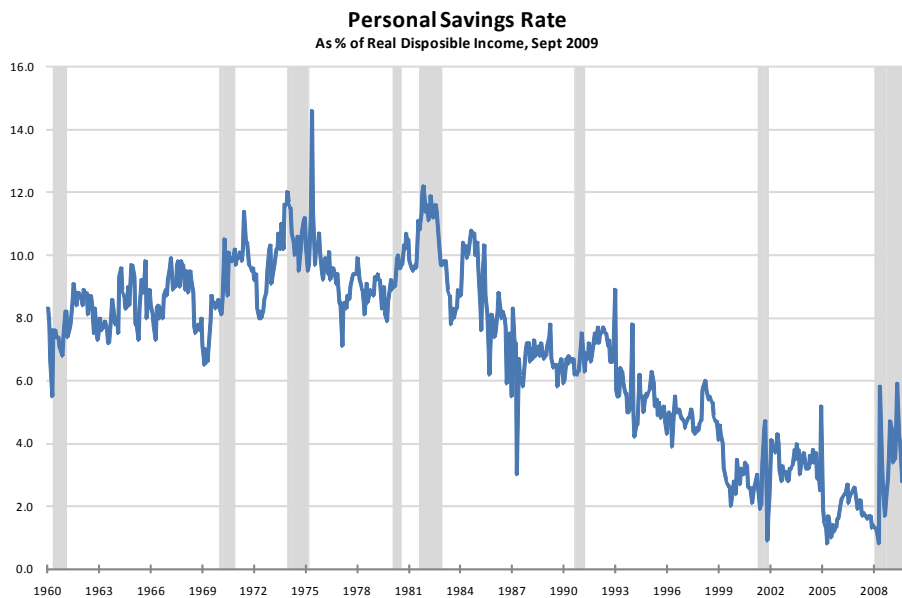
Both real personal income and real personal income less transfer payments fell on a monthly and yearly basis in September.



Source: BEA

- Real personal income fell 0.1% from August to September and declined 2.3% from September 2008. Real personal income less transfer payments fell 0.3% from August to September and declined to -5.3% from September of last year.
- Both real personal income and real personal income less transfer payments are experiencing record declines. The decline in real personal income growth is the third-largest since the series began in 1960, the lowest being June of this year, and real personal income less transfer payments plunged to the lowest growth rate on record.

The personal savings rate as a percentage of disposable income rose 0.5 percentage point in September.



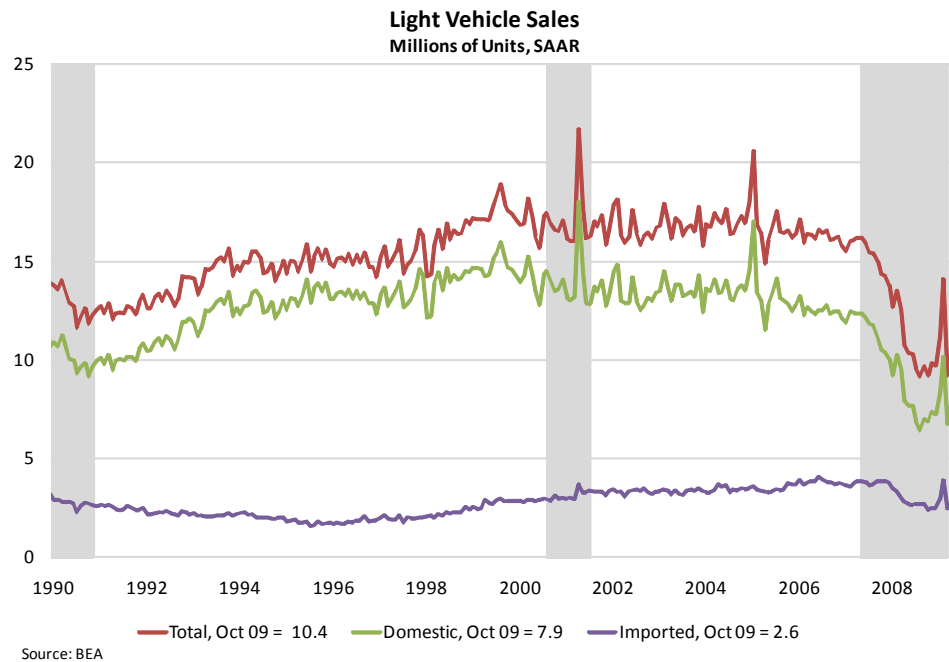
Source: BEA

- The savings rate rose from 2.8% to 3.3% in September.

Consumer Spending

Summary

October auto sales rose 1.25 million units from September.

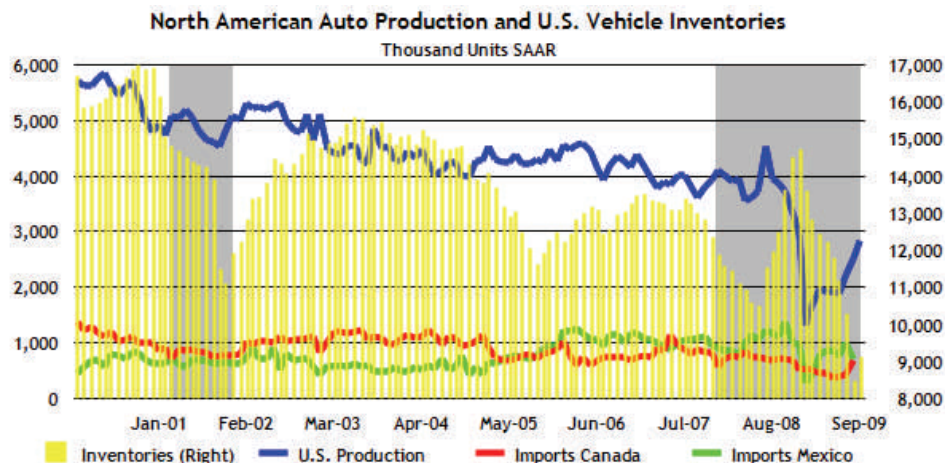


- Total light vehicle sales for October rose 14% from September to an annualized rate of 10.4 million units; Bloomberg's market consensus expectation was 9.8 million units.
- Domestic vehicle sales rose 17% from September to an annualized rate of 7.9 million units in October. Imported vehicle sales increased 4% to an annualized rate of 2.6 million units.

Auto Production

Summary

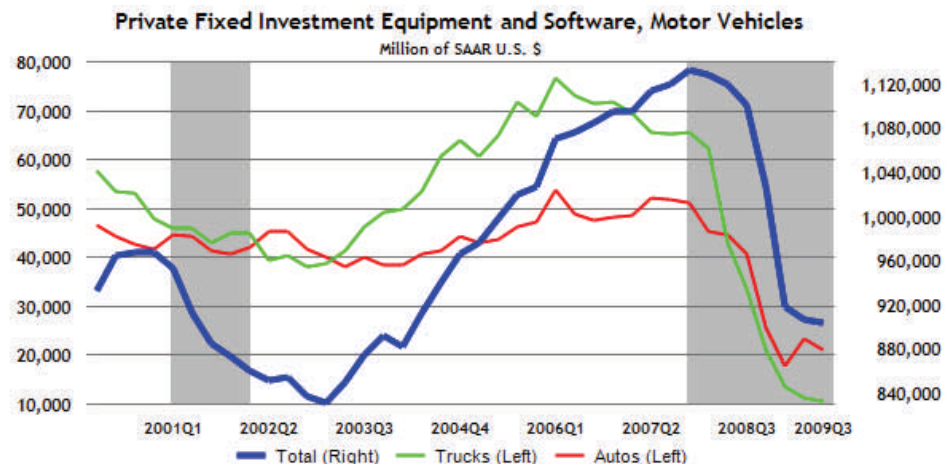
BEA estimates of U.S. vehicle inventories reached 9 million units in September, the lowest reading since January 1993.



Source: Bureau of Economic Analysis

- U.S. domestic vehicle production climbed in August and September, recovering further from low readings in January 2009.
- Clearly, the pickup in production was driven by automakers' need to fill depleted vehicle inventories prompted by their previous downsizing and a successful "cash-for-clunkers" program. The surge in U.S. production surpassed vehicle flows from Canada and Mexico.

Similar to the plunge in private fixed investment in equipment and software (PFIES), investment spending in car and trucks for the third quarter of 2009 was down sharply from 2006 levels.



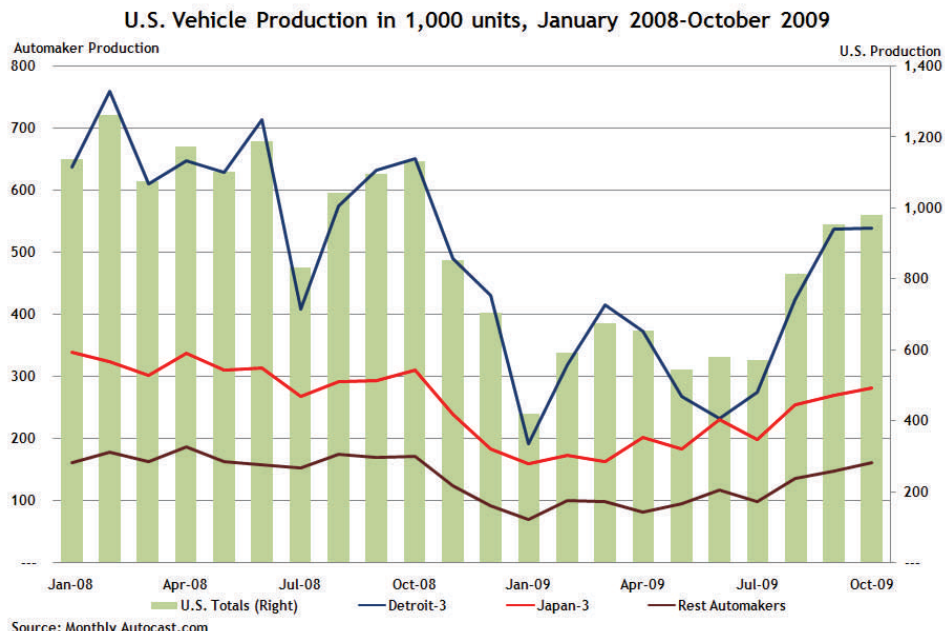
Source: Bureau of Economic Analysis

- Sharp cutbacks in auto-related PFIES spending reached an all-time low in the second and third quarters of 2009, with a modest recovery for autos that, if sustained, will be encouraging.
- Investment spending for autos, after declining \$31 billion from 2007 levels, had a mild turnaround in mid-2009. This trend may be in line with the industry's mandated federal guidelines to improve fuel efficiency and environmental ratings by 2016. Recently, most automakers have reportedly boosted investments on new technologies, planning new production of hybrid and electric vehicle models for coming model years.

Auto Production

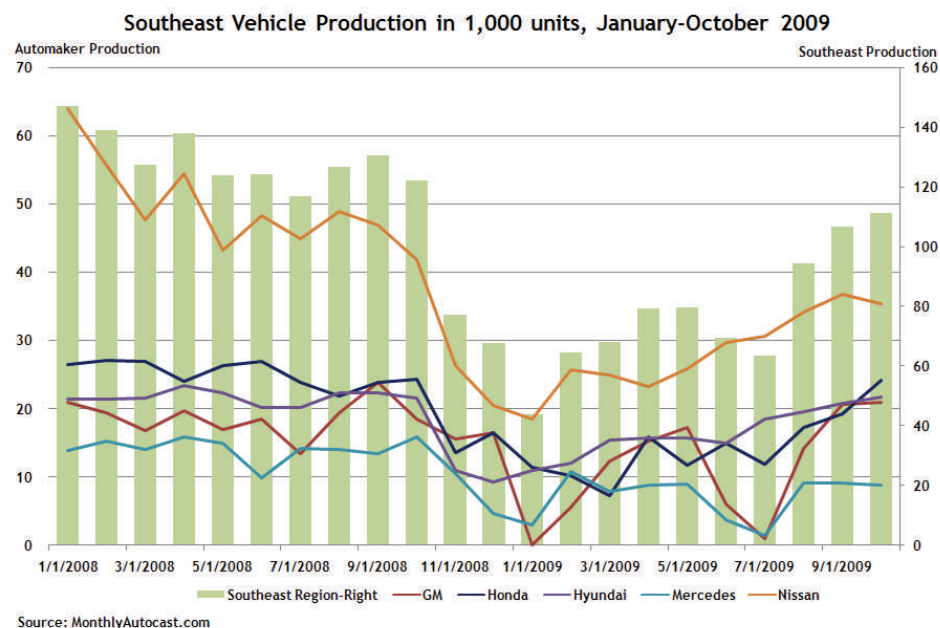
Summary

Most automakers are increasing U.S. production in response to expected pickup in vehicle demand after the “cash-for-clunkers” program.



- U.S. vehicle production in September-October posted healthy gains from weak levels in early 2009. However, production levels through October 2009 were 39% below 2008 levels.
- Both Detroit-3 and foreign-brand automakers are restoring production levels, hoping to sustain vehicle demands after the “cash-for-clunkers” program.

Regional vehicle production increased in September and October. However, on a year-to-date basis, this year’s production was far below 2008 levels.



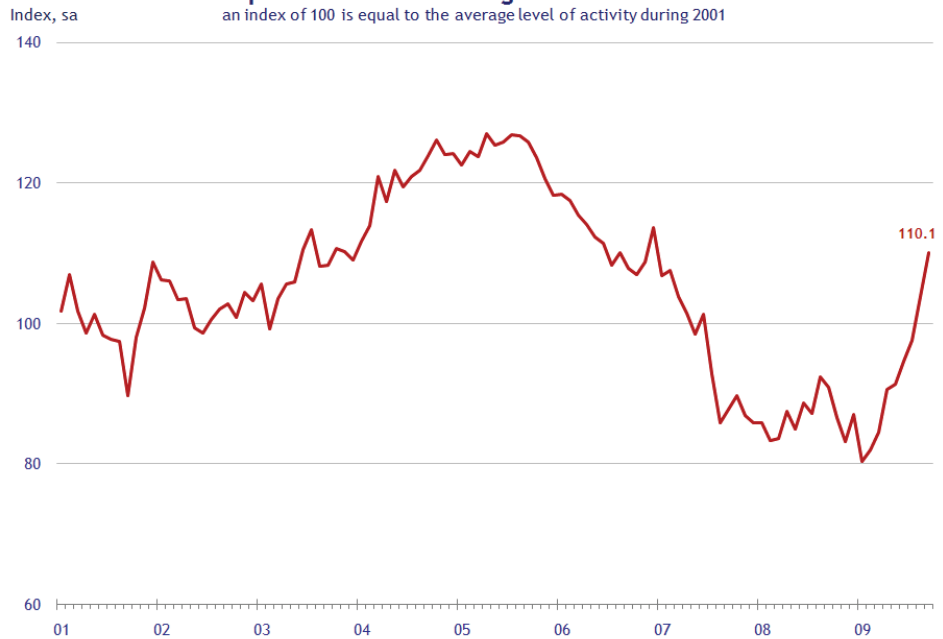
- Regional plants’ vehicle production also recovered from low levels in early 2009. All companies, with the exception of GM and Mercedes, posted sequential gains.
- However, the region’s production levels through October 2009 plunged 40% from 2008 levels, with all companies posting double-digit declines.

Summary

The National Association of Realtors (NAR) reported that its pending home sales index rose again, up 6.1% in September. The NAR chief economist said that there is “a rush of first-time buyers trying to beat the expiration of the tax credit at the end of this month.”

September 2009 Pending Home Sales Index

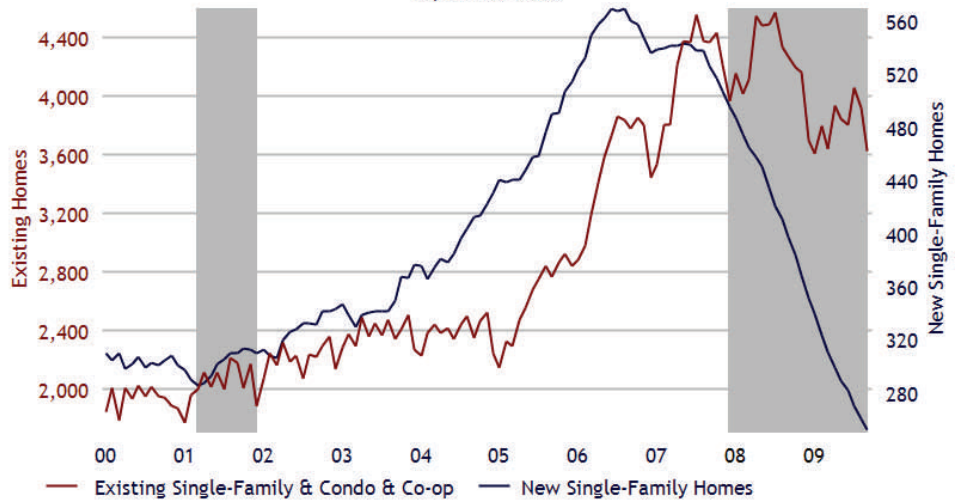
an index of 100 is equal to the average level of activity during 2001



Source: National Association of Realtors

Both existing and new home inventory levels continued to decline in September, according to reports by NAR and the U.S. Census last week.

Residential Inventory Levels not seasonally-adjusted, in thousands September 2009



Source: U.S. Census Bureau, National Association of Realtors

- The NAR pointed out in its pending home sales report that “new home sales may continue to struggle as home builders hold back on construction and drive down inventory.” Also, the report noted that obtaining construction loans remained difficult for builders.
- The report also indicated that despite improvements in existing home inventory levels, current inventories are far from balanced, and foreclosures will continue to enter the pipeline.

Real Estate

Summary

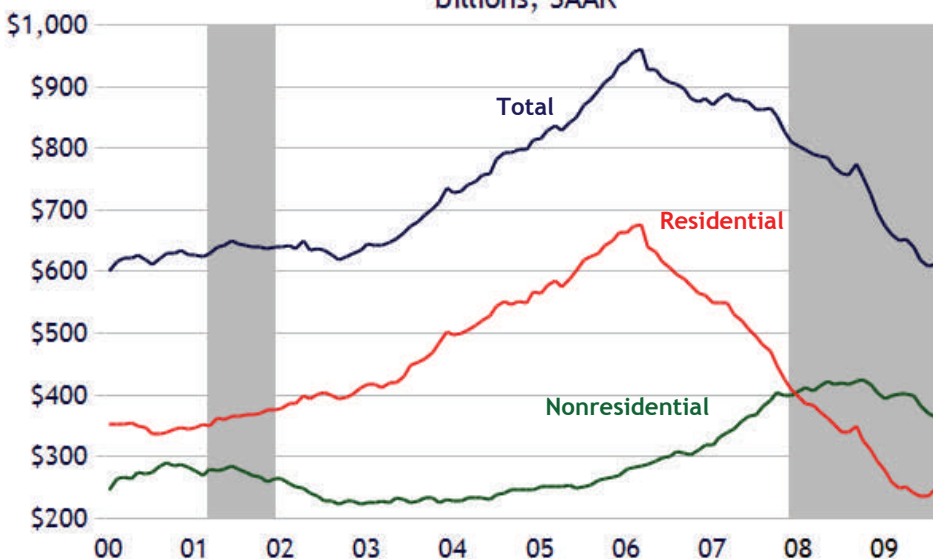
The U.S. Census Bureau reported that construction spending increased nearly 1% in September from a downwardly revised August figure. Improvement was driven largely by private residential spending.

September 2009 Construction Spending Put in Place

	millions, SAAR	y/y change	m/m change
Total	\$940,280	-13.0%	0.8%
Total nonresidential	\$676,175	-6.5%	-0.4%
Private nonresidential	\$357,912	-15.4%	-1.8%
Public nonresidential	\$318,264	6.1%	1.3%
Total residential	\$264,105	-26.3%	3.9%
Private residential	\$255,969	-27.0%	3.9%

Private construction spending improved modestly as well during September, up 0.5% from August. Gains in private construction spending were largely offset by declines in private nonresidential construction spending.

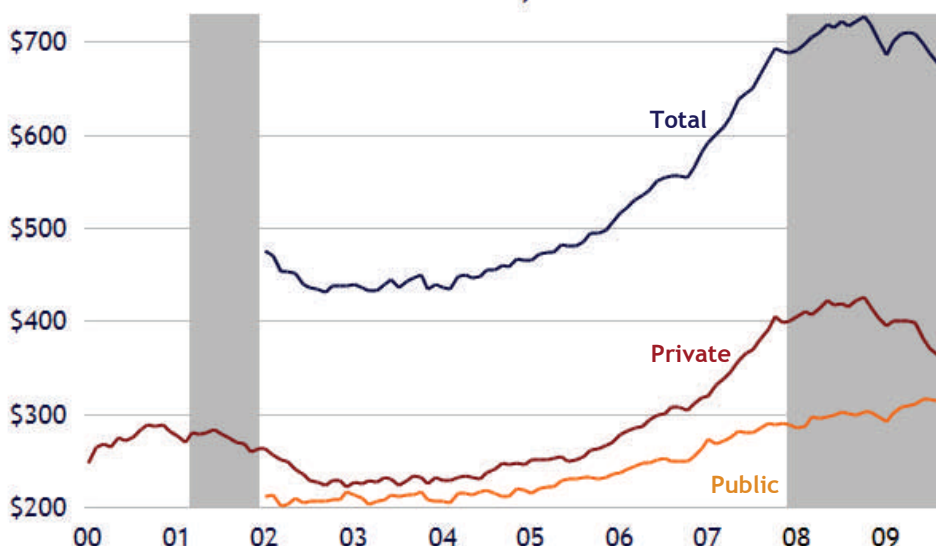
September 2009 U.S. Private Construction Spending
billions, SAAR



Source: U.S. Census Bureau

Nonresidential construction spending continued to weaken overall while the public sector experienced growth of 1.3% from August.

September 2009 U.S. Nonresidential Construction Spending
billions, SAAR



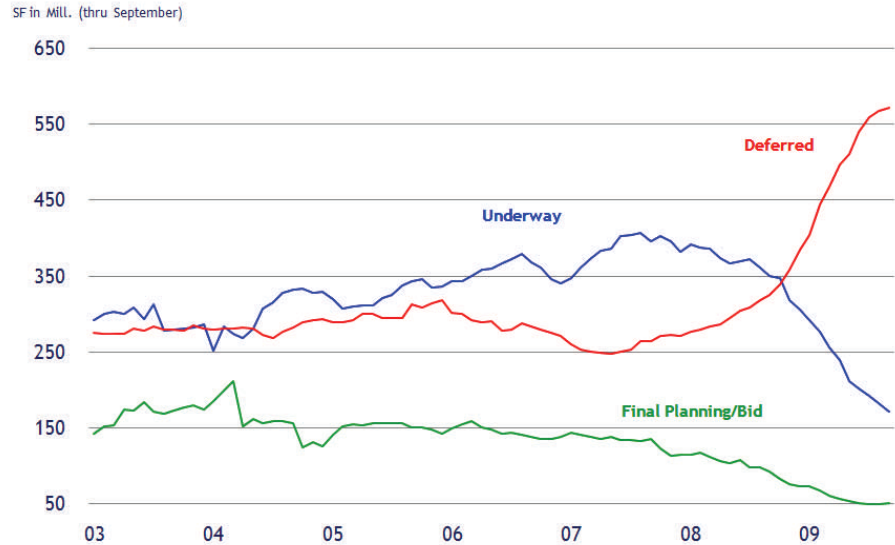
Source: U.S. Census Bureau

Summary

TWR/Dodge Pipeline data for September indicated that commercial construction activity under way continued to slow, declining 6% from August to September.

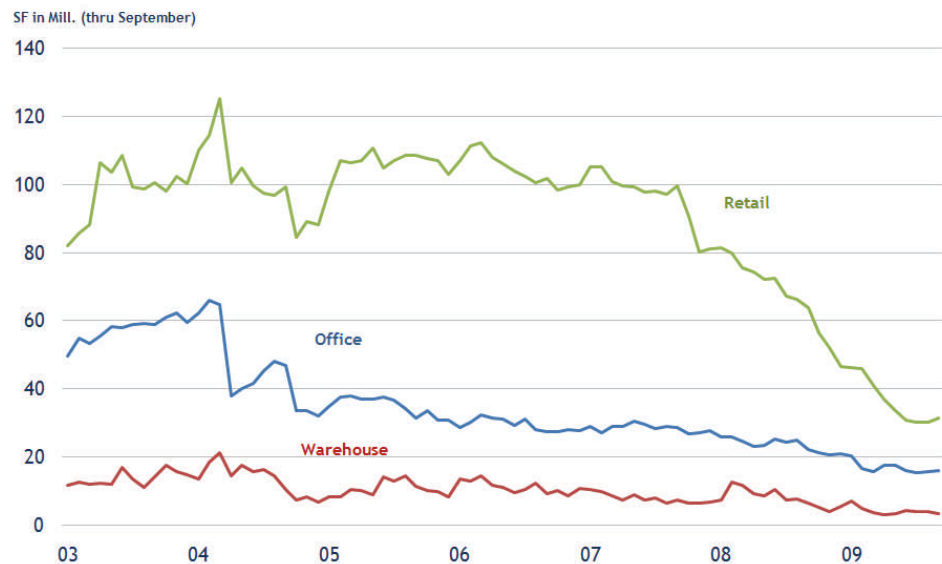
However, space in the final planning or bid phase continued to edge up in September on a month-to-month basis, up 2%, indicating activity may be stabilizing at low levels.

U.S. Office, Retail & Warehouse Construction Activity



Source: McGraw-Hill/TWR Pipeline

Commercial Construction in the Final Planning or Bid Phase



Source: McGraw-Hill/TWR Pipeline

Note: TWR/Dodge Pipeline tracks commercial real estate projects through development phases.

Final planning—projects moving toward final approvals with a high probability that construction contract will be awarded within the next six months

Bid—projects that have been finalized, are put out to bid by general contractors, are very close to being awarded, and have a very high probability of coming to market

Under way—projects that are under construction

Deferred—projects delayed at any point in the planning cycle for reasons including problems with financing or design approvals or deterioration in market conditions