



## U.S. Employment Problems

The U.S. economy continues to struggle as job creation, an imperative piece to economic recovery, shows signs of slowing. In an interview with Foreign Policy magazine, Economist Nouriel Roubini stated: "At this point, there is serious risk of a double-dip recession in the U.S. If you look at the latest numbers from GDP growth, consumption, housing and the labor market figures, they are very weak. The unemployment rate fell only because 200,000 people got discouraged and left the labor force. Otherwise it would have gone up."

The participation rate fell to 63.9%, the lowest rate since January 1984, from 65.5% a year ago. The average unemployed worker has been without work for 40.4 weeks, or 10 months, the longest since the government began tracking in 1948.

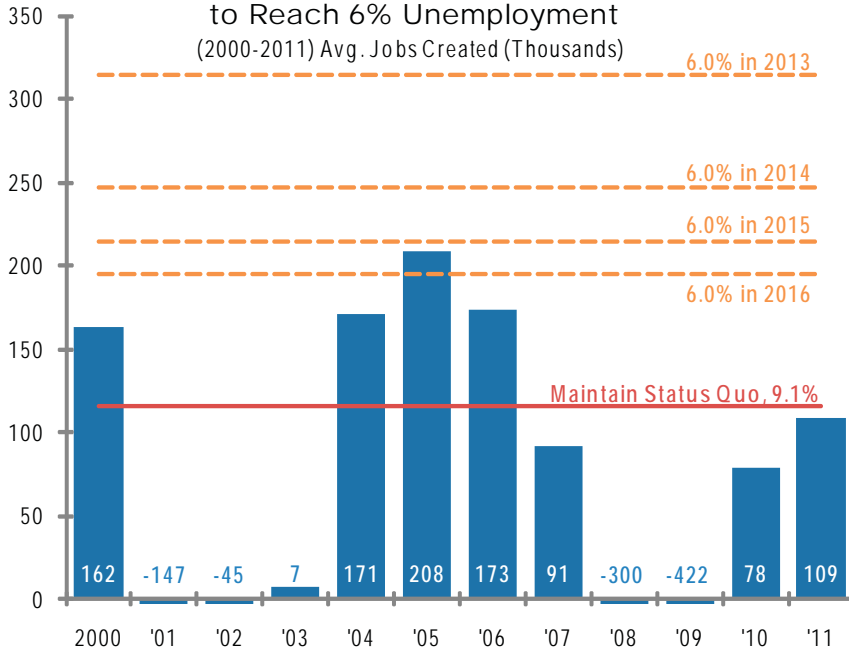
The latest recession has pushed the unemployment rate above the full employment level (5-6%). With a labor force of 153 million and an overall population

growth rate of 0.9%, a job creation rate of 115,000 per month is just enough to maintain the status quo, 9.1% unemployment. Historical job creation levels highlight how difficult it will be to accomplish this (see graph on right). In the last 10 years, the U.S. has had 4 years that averaged over 115,000 jobs added per month.

The U.S. has added 1.9 million jobs since the free-fall in job losses ended in February 2010, but remains 6.8 million jobs short of pre-recession levels. Payroll growth since February 2010 has been offset by 490,000 job losses of federal and state employees.

"We are in for a rather long period of higher-than-comfortable unemployment, and that means lower tax revenues and a more difficult economy." (John Mauldin, President of Millennium Wave Advisors, July 21, 2011)

Monthly Job Creation to Reach 6% Unemployment (2000-2011) Avg. Jobs Created (Thousands)



Sources: The Bureau of Labor Statistics  
U.S. Census Bureau

In order for the U.S. to drop from the current 9.1% unemployment rate to full employment levels (6%) in one year, 512,000 jobs per month would need to be added for a total of 6.1 million jobs. To drop to 6% in 5 years, 195,000 jobs per month would need to be added, a total of 11.6 million jobs (see table below).

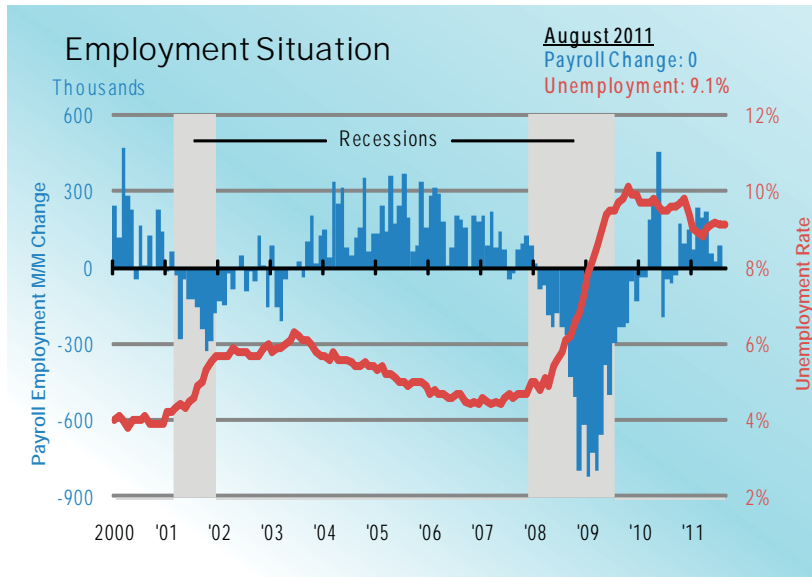
	2012	2013	2014	2015	2016
9%	128,000	122,000	119,000	118,000	117,000
8%	255,000	186,000	162,000	150,000	143,000
7%	384,000	250,000	205,000	182,000	169,000
6%	512,000	314,000	247,000	214,000	195,000
5%	640,000	378,000	290,000	246,000	220,000

Source: The Bureau of Labor Statistics

Number of jobs needed per month to reach target unemployment rate by September of each year.

Estimates include effects of population growth and a static labor force participation rate

## Employment



Bureau of Labor Statistics, "Employment Situation", September 2, 2011

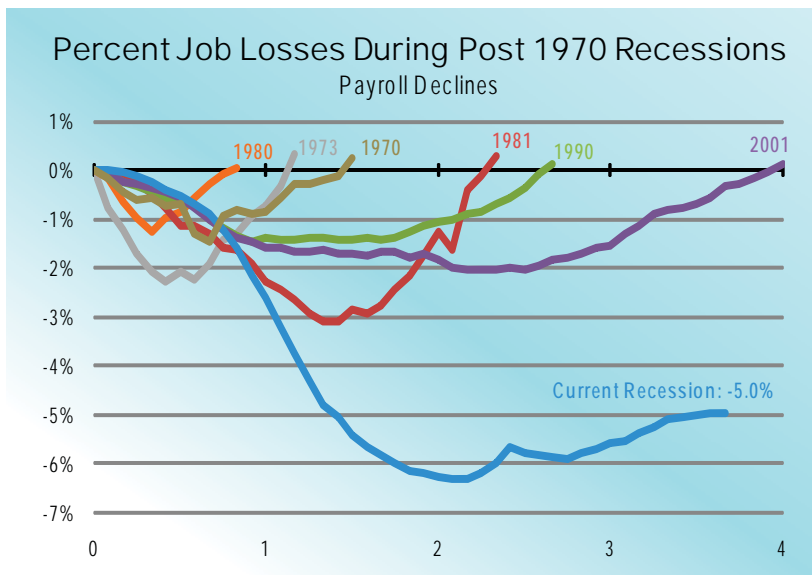
8.7 million jobs were lost from January 2008 to February 2010. 1.9 million have been recovered since February 2010 (1.3 million from a year ago), therefore employment remains 6.8 million jobs short of pre-recession levels. The unemployment rate dipped by 1.0% since the peak in October 2009.

"It's clearly disappointing, although we were looking for a very low number. Part of the weakness is the Verizon strike, it wouldn't be quite as bad without the strike. There were a couple of encouraging things: We saw a rise in household employment and the labor participation ratio improved. We've had several months now that have added well below 100,000. The Fed downgraded their forecast for the economy. This justifies what they've done. This looks like an economy stalling out as opposed to falling into a recession." (Mark Vitner, Senior Economist at Wells Fargo Securities, September 2, 2011)

### Significant Employment Changes

Since February 2010 Trough

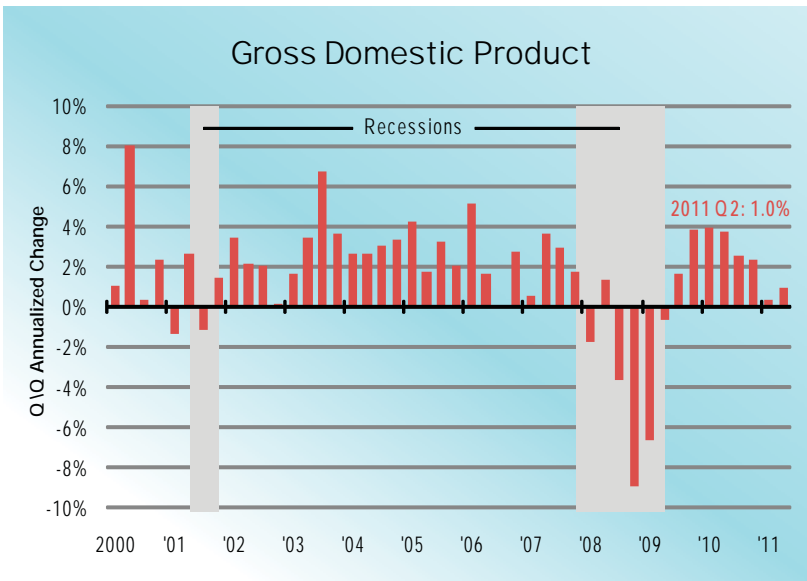
Education and Health Services	+625,000	3.2%
Logistics and Utilities	+413,000	1.7%
Employment Services	+310,100	11.9%
Food Services	+290,700	2.6%
Leisure and Hospitality	+284,000	2.2%
Manufacturing	+275,000	2.7%
Mining and Logging	+131,000	19.5%
Clothing Stores	+81,300	6.0%
Motor Vehicles and Parts	+44,700	6.8%
Accounting	+25,100	2.8%
Information Services	+24,000	17.4%
Printing	-24,700	-5.0%
Other	-22,600	-1.2%
Telecommunications	-103,800	-11.3%
Government	-512,000	-2.3%
<b>Total</b>	<b>+1,886,000</b>	<b>1.5%</b>



Numbers of years since peak employment  
Bureau of Labor Statistics, September 2, 2011

"August was a pretty rough month for the economy. We saw financial markets tighten. I think businesses sort of responded by putting hiring on the back burner." (Ryan Sweet, Senior Economist at Moody's Analytics, September 2, 2011)

## GDP



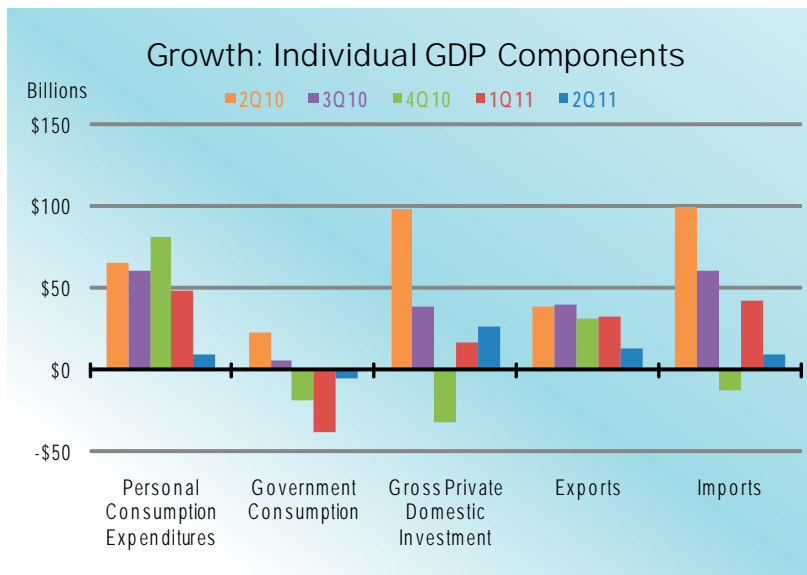
Real GDP was up 1.0% in 2011 Q2, compared to a 0.4% increase in 2011 Q1.

“The acceleration in real GDP in the second quarter primarily reflected a deceleration in imports, an upturn in federal government spending, and an acceleration in nonresidential fixed investment that were partly offset by decelerations in PCE and in exports and a downturn in private inventory investment.” (Bureau of Economic Analysis, GDP 2011 Q2, August 26, 2011)

“It appears that the U.S. economy is losing further momentum. While several indicators for July were surprisingly strong, timelier survey-based data have turned down sharply, and weakness in the hard statistics seems likely to follow.” (Zach Pandl, Economist at Goldman Sachs Group, August 26, 2011)

Bureau of Economic Analysis, August 26, 2011

## GDP Components



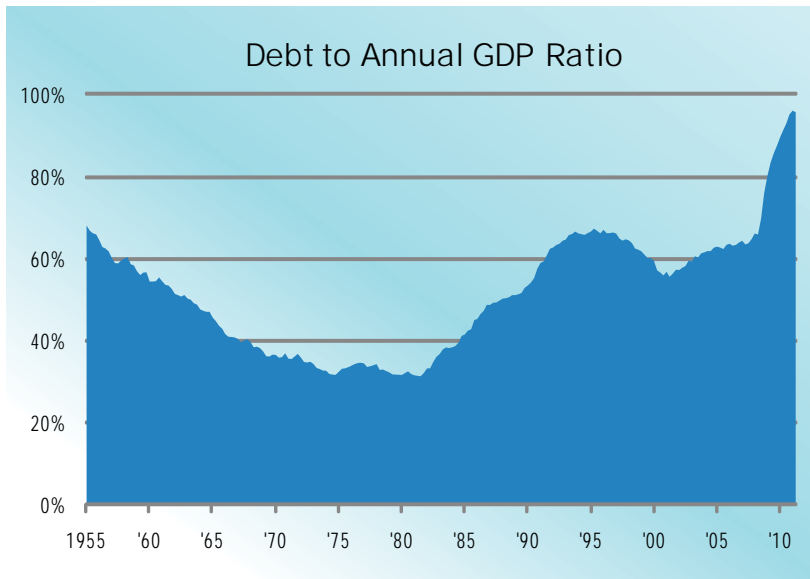
Real personal consumption expenditures increased 0.1% in 2011 Q2, compared with an increase of 0.5% in 2011 Q1.

“The increase in real GDP in the second quarter primarily reflected positive contributions from nonresidential fixed investment, exports, personal consumption expenditures (PCE), and federal government spending that were partly offset by negative contributions from state and local government spending and private inventory investment. Imports, which are a subtraction in the calculation of GDP, increased.” (Bureau of Economic Analysis, GDP 2011 Q2, August 26, 2011)

“Consumers don’t look like they’re in much of a mood to buy. The economy continues weaker than we thought. It looks like it’s losing momentum and trade reflects the weaker economic circumstances abroad.” (Robert Brusca, Chief Economist at Fact & Opinion Economics, August 26, 2011)

Bureau of Economic Analysis, August 26, 2011

## Debt and GDP



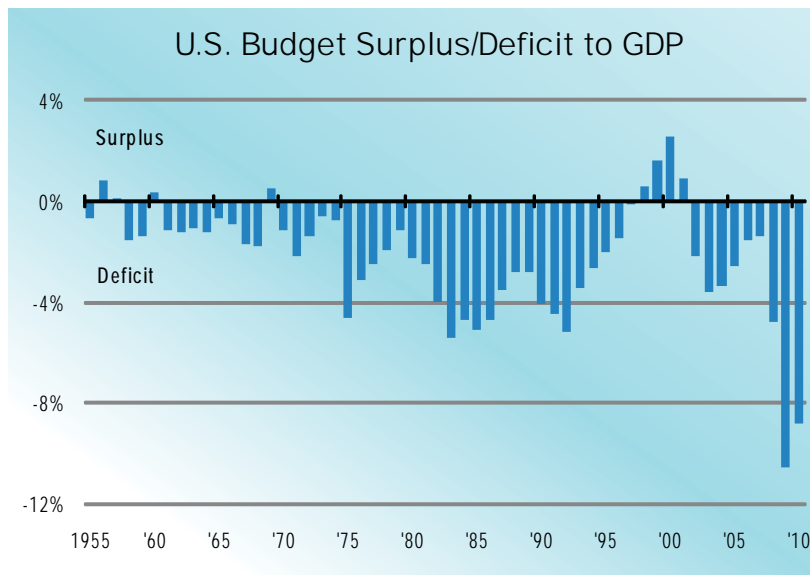
Treasury Direct, June 2011  
Bureau of Economic Analysis, July 29, 2011

The U.S. government narrowly passed a deal to raise the national debt ceiling when congress reached a deficit-reduction deal that was signed into law on August 2, 2011, the day of the deadline. This marks the 75<sup>th</sup> time the debt ceiling has been raised since 1962 (11<sup>th</sup> since 2000). Similar debates are expected in 2012 and 2013.

Standard & Poors notified the U.S. government on April 18, 2011 that it risked losing the AAA rating it has had since 1941.

Moody's Investor Service and Fitch Ratings affirmed the U.S. AAA credit ratings on August 2, 2011 but stated that downgrades were possible if the government failed to enact debt reduction measures.

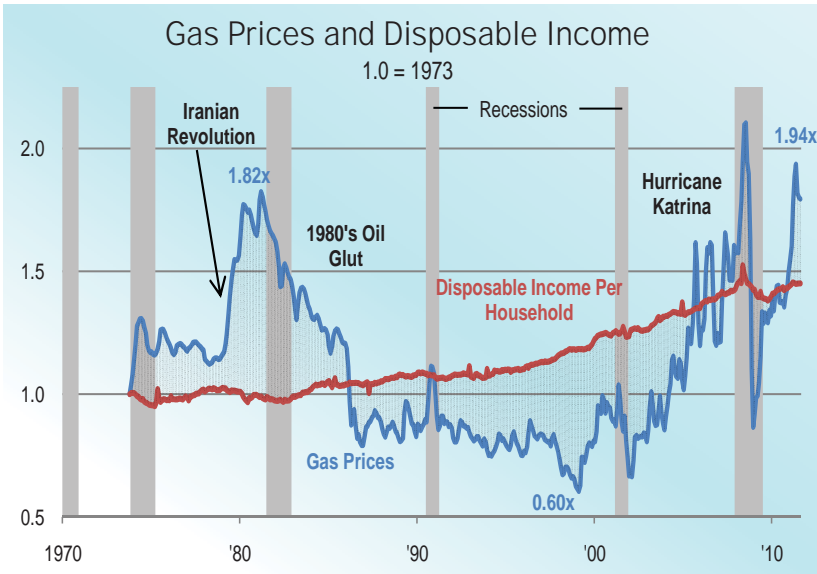
On August 5<sup>th</sup>, S&P downgraded the U.S. credit rating citing failure to make significant cuts to spending or increase revenue to reduce record budget deficits. S&P downgraded the credit rating to AA+ while keeping the outlook at "negative".



Treasury Direct, June 2011  
Bureau of Economic Analysis, July 29, 2011

"The downgrade reflects our opinion that the fiscal consolidation plan that Congress and the Administration recently agreed to falls short of what, in our view, would be necessary to stabilize the government's medium-term debt dynamics. More broadly, the downgrade reflects our view that the effectiveness, stability, and predictability of American policy making and political institutions have weakened at a time of ongoing fiscal and economic challenges to a degree more than we envisioned when we assigned a negative outlook to the rating." (Standard & Poor's, August 5, 2011)

# U.S. Economic Profile



U.S. Energy Information Administration (EIA), August 29, 2011  
 Bureau of Labor Statistics, August 18, 2011  
 Bureau of Economic Analysis, August 29, 2011  
 Inflation adjusted using CPI-U minus food and energy  
 (BLS ID CUSR0000SA0L1E)

While gas prices have passed the 1979 Energy Crisis level, average disposable income is also higher. The gas price to disposable income ratio peaked in 1981, at 84% above the base year in 1973 (set to 1.0 in the graph). Gas prices today are 25% higher. The ratio has averaged 3% lower than 1973.

“Gas prices falling could be a good thing. After all, lower gas prices give Americans more money in their wallets. At a time when sluggish consumer spending has been one of the biggest drags on the U.S. economy, that’s a welcome change. It’s possible there could be a lot of things going wrong in the economy, and while a decline in oil prices would help to boost spending a little, it wouldn’t completely offset weakness. If the outlook for GDP growth is correct, then the decline in oil prices is just going to help consumers get through the rest of the year and help stave off a second recession.” (Chris Lafakis, Economist with Moody’s Analytics, August 19, 2011)

## European Debt Crisis

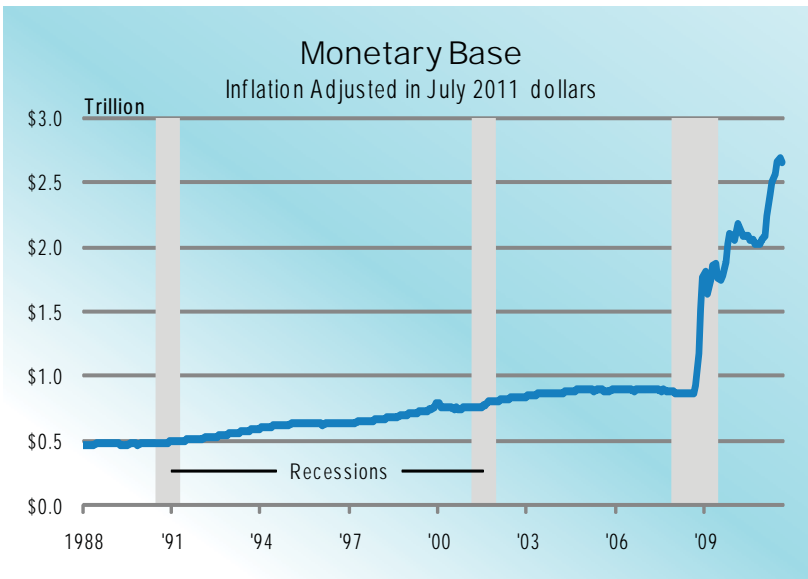


J.P. Morgan, Morgan Markets, August 25, 2011

The leaders of France and Germany unveiled plans on August 16, 2011 for closer euro zone integration in order to restore confidence in the EU. U.S. stocks dropped more than 1% and the euro slid as the proposals failed to ease concerns that the debt crisis is spreading to the euro zone’s core.

“With the tougher governance proposals it increasingly looks as though we are headed for a two-speed Europe, with the 17 countries transferring more and more power for fiscal competency to Europe and forging a tight political union, while the remaining 10 countries remain a looser free trade zone.” (Stephane Deo, senior European economist at UBS, August 16, 2011)

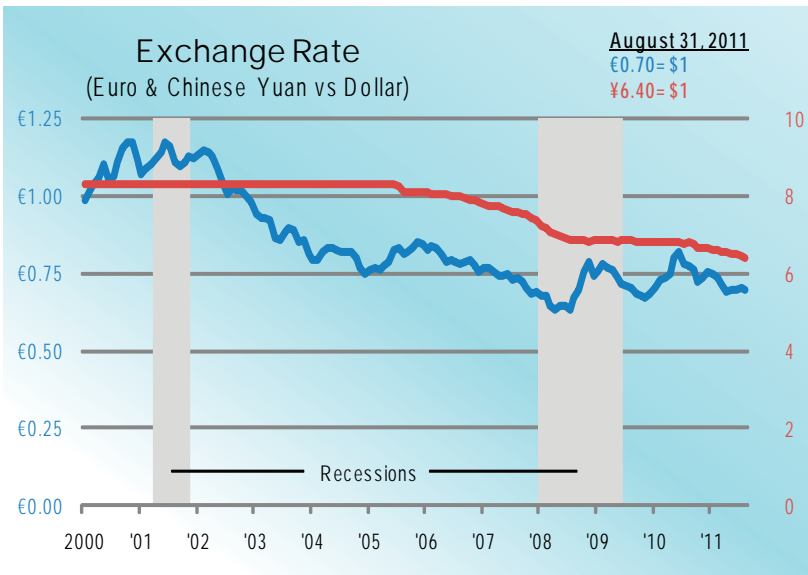
Monetary Policy



The monetary base rose 29% in August from a year ago as the Fed continued to reinvest principal payments of security holdings acquired during quantitative easing.

“The Committee currently anticipates that economic conditions -- including low rates of resource utilization and a subdued outlook for inflation over the medium run -- are likely to warrant exceptionally low levels for the federal funds rate at least through mid-2013. The Committee also will maintain its existing policy of reinvesting principal payments from its securities holdings. The Committee will regularly review the size and composition of its securities holdings and is prepared to adjust those holdings as appropriate.” (Federal Reserve, FOMC statement, August 9, 2011)

Federal Reserve Bank, August 11, 2011  
Bureau of Labor Statistics, August 18, 2011



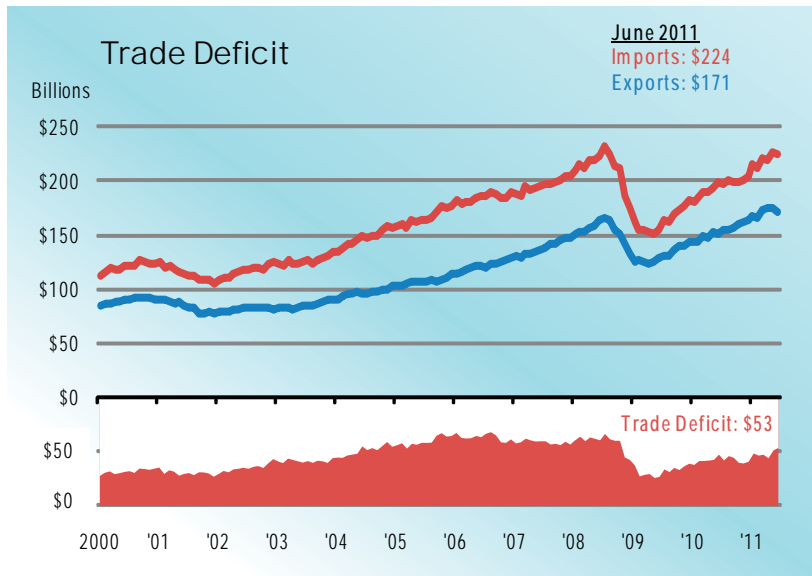
“The yuan exchange rate has to become more flexible, and widening the band is certainly in the cards. Even if the central bank widens the band, it would be more of a symbolic move announcing that China is making another step in yuan reform than a serious policy change since the current band was rarely touched in the past years.” (Lang Qi, analyst at Huaxin Securities in Shanghai, August 11, 2011)

“The circumstances have changed a little bit. And so as China started to worry about its inflation rate, that led to some balancing of the consensus in China to move toward appreciation of the currency. That could help deal with some of the inflation rate and is also a contributor, to some of the stability in the international system.” (Robert Zoellick, World Bank President, August 11, 2011)

X-Rates.com, August 31, 2011

# U.S. Economic Profile

## Trade



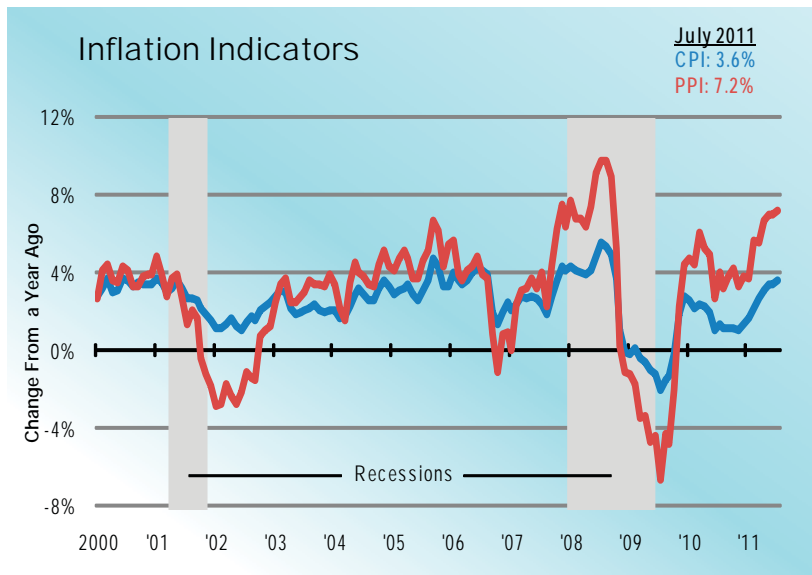
Bureau of Economic Analysis, "U.S. International Trade" August 11, 2011

Exports are \$47 billion higher than the trough in April 2009 and \$6 billion higher than the peak in July 2008. Imports are up \$73 billion from the trough in May 2009 but still \$8 billion below the peak in July 2008.

A \$68 billion goods deficit and a \$15 billion services surplus make up the June \$53 billion trade deficit.

"There's no doubt the trade deficit will continue to widen through the quarter. The big increase in oil prices could cause some temporary pain. Companies are betting that demand will continue to be strong this year, which will fuel gains in non-oil imports." (Chris Low, Chief Economist at FTN Financial, August 11, 2011)

## Inflation



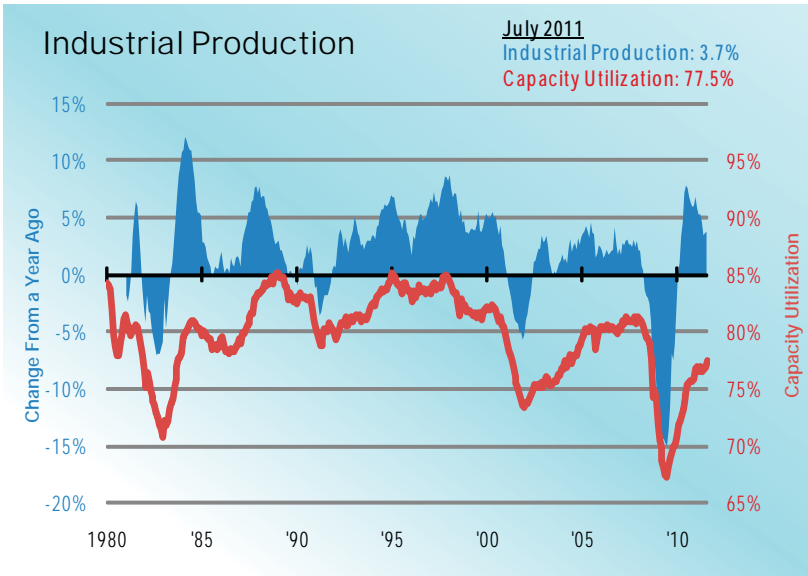
Bureau of Labor Statistics, "Producer Price Index" August 17, 2011  
Bureau of Labor Statistics, "Consumer Price Index" August 18, 2011

"The recent increase in the producer and consumer price indexes are an indication that the Federal Reserve policies are starting to work. However, the lack of economic growth at a time when inflation is increasing is not what the Federal Reserve wanted. They wanted both economic growth and higher prices, but what they are getting is higher prices and very little growth. This combination of higher inflation and no, or very little, growth is called stagflation, a combination of inflation and stagnation." (Eugenio J. Alemán, Senior Economist at Wells Fargo, August 17, 2011)

"Companies still feel the need to pass through the higher commodity prices that they haven't yet passed through to consumers. The inflationary pressures from commodity costs will ease in the second half of this year. It gives the Fed some leeway." (Joel Naroff, President of Naroff Economic Advisors, August 18, 2011)

# U.S. Economic Profile

## Manufacturing



Federal Reserve, August 16, 2011

Total industrial production is at 93.1% of its 2007 average and 4.5% higher than a year ago. Output of motor vehicles and parts increased 6% and output of business equipment increased 9% from a year ago.

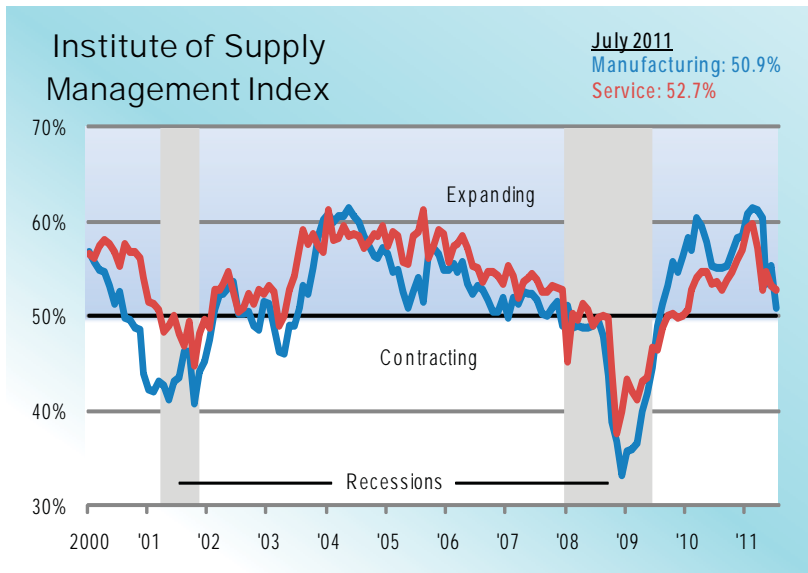
Capacity utilization increased to 77.5%, 15% higher than the trough in June 2009, but 3% below the average from 1972 to 2010.

### Average Monthly Industrial Production

Year	Prod.	% Δ*	Year	Prod.	% Δ*
2000	92.1	4.0	2006	97.4	2.2
2001	88.9	-3.4	2007	100.0	2.6
2002	89.1	0.3	2008	96.3	-3.7
2003	90.2	1.3	2009	85.5	-11.0
2004	92.3	2.3	2010	90.1	5.3
2005	95.3	3.2	2011**	93.1	4.5

\* % Δ indicates percentage change from prior year

\*\*Average production from January to July 2011



Institute of Supply Management, Manufacturing ROB, August 1, 2011  
 Institute of Supply Management, Non-Manufacturing ROB, August 3, 2011  
 Index above 50%=Expanding, below 50%=Contracting

The ISM manufacturing index fell sharply for the 6th consecutive month to 50.9% in July after reaching a peak of 61.4% in February 2011.

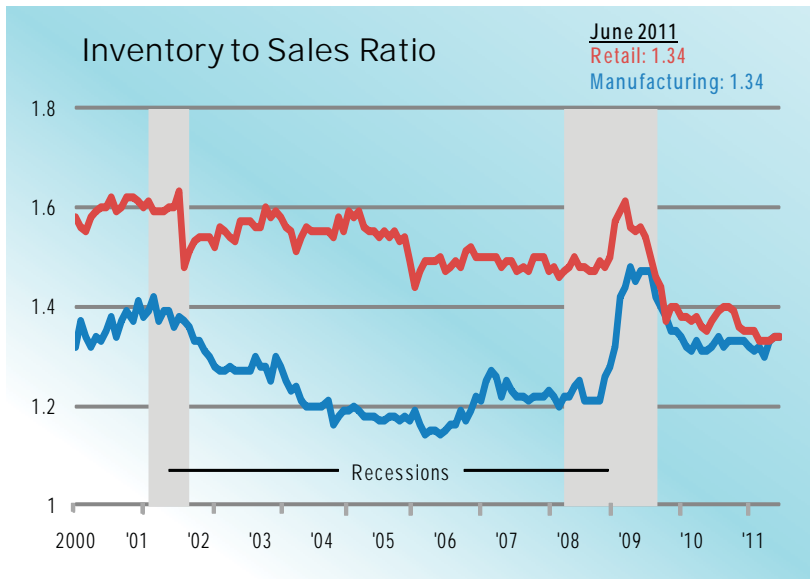
The service index fell 7.0 percentage points from the peak of 59.7% in February 2011 to 52.7% in July. The lowest level since February 2010.

“The recent easing in economic growth is increasingly looking more like a sustained slow-down than a short-lived soft patch.” (Paul Dales, Economist: Capital Economics, August 3, 2011)

“Since orders are a leading indicator, the drop in this index suggests the second half pickup in growth will be far less than some had estimated.” (John Silva, Chief Economist, Wells Fargo Economics, August 3, 2011)

# U.S. Economic Profile

## Inventories



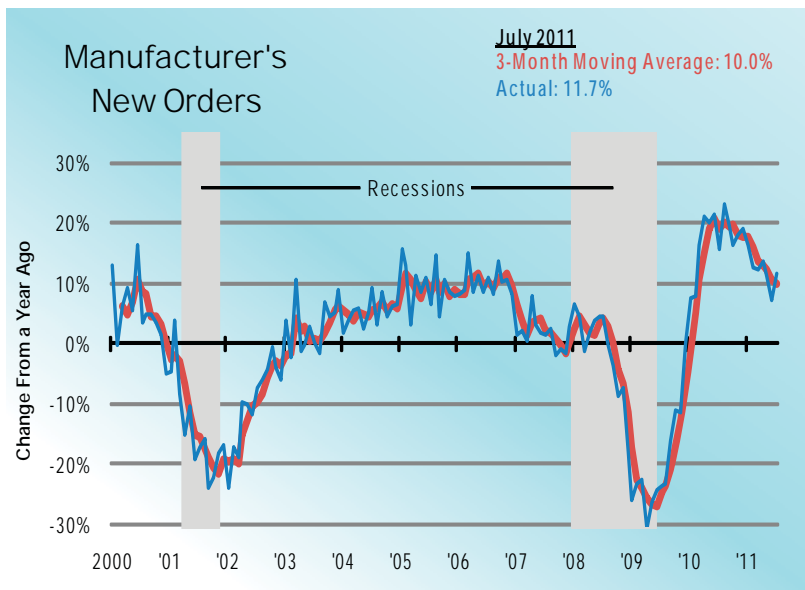
U.S. Department of Commerce, August 12, 2011

Retail inventories increased 9.4% after bottoming out in August 2009 and are up 5.0% from a year ago. Manufacturing inventories rose 1.3% above the previous peak in 2008, up 17.2% since the trough in September 2009.

“Concerns about consumer demand have led to a more cautious inventory replenishment strategy with inventories remaining at historically low levels relative to sales even as the retailers posted so much stronger sales year over year.” (John Koraleski, Executive Vice President of Marketing and Sales for Union Pacific Corp, July 21, 2011)

“We don’t have a big buildup in inventories like we did prior to the last recession and that’s good news. That implies a shallow downturn if we have one.” (Kurt Karl, Chief Economist at Swiss RE, August 12, 2011)

## Capital Goods



U.S. Census Bureau, “Manufacturer’s New Orders of Nondefense Capital Goods Excluding Aircraft”, August 31, 2011

New orders of capital goods (excluding defense and aircraft) were \$66.5 billion in July 2011, up 40% from the trough in April 2009, but 2.9% below the peak in April 2008.

“This report provides some hope that the downshift in manufacturing output being picked up in the regional manufacturing indicators may be temporary. We continue to expect slower growth in manufacturing output over the next few months, but we do not expect declines in manufacturing output.” (Scott Anderson, Senior Economist at Wells Fargo Securities, August 31, 2011)

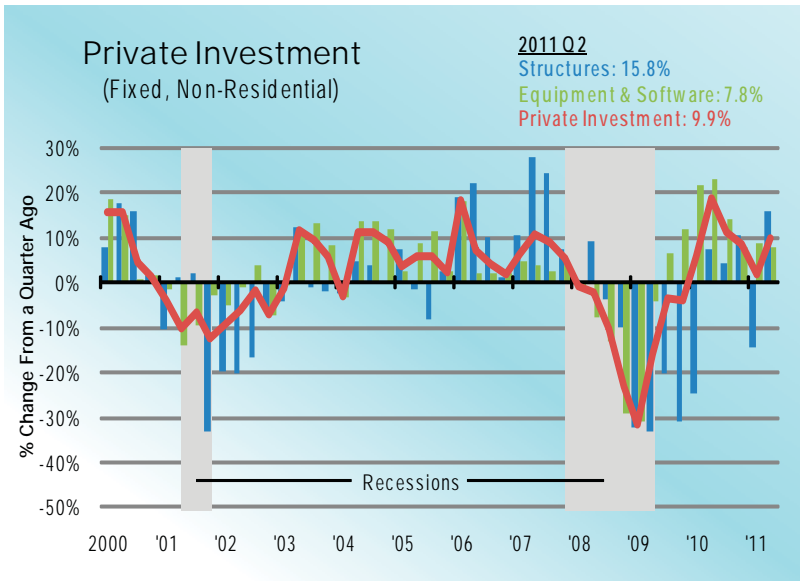
### Average Monthly New Orders (in billions)

Year	New Orders	Year	New Orders
2000	\$64	2006	\$64
2001	\$55	2007	\$65
2002	\$49	2008	\$64
2003	\$51	2009	\$51
2004	\$53	2010	\$60
2005	\$58	2011*	\$65

\*Average production from January to July 2011

# U.S. Economic Profile

## Private Investment

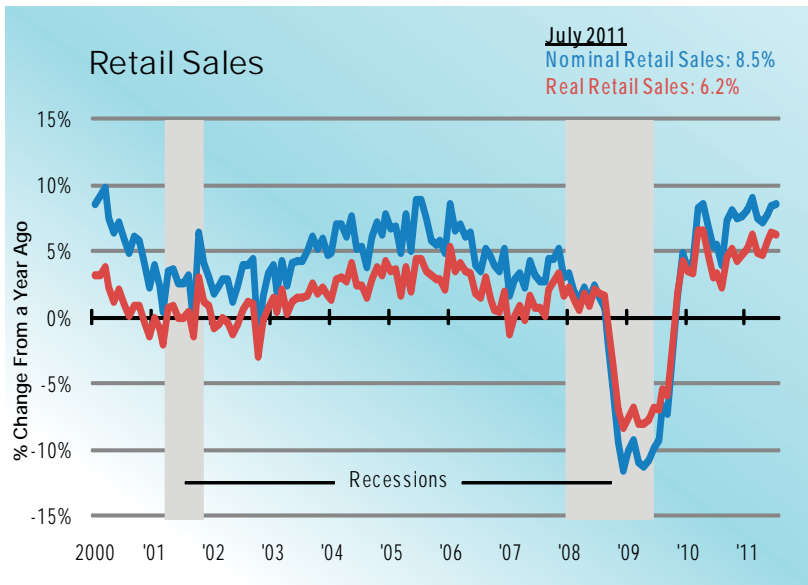


Bureau of Economic Analysis, August 26, 2011

Investment in non-residential structures increased 15.8% in 2011 Q2. Investment in equipment and software increased for the ninth consecutive quarter, up 7.8% in 2011 Q2 from the prior quarter, compared with an increase of 8.7% in 2011 Q1.

“Equipment and software spending is expected to continue to contribute to growth based upon the improvement in capital goods orders, gains in corporate profits and the incentives for global competitiveness. Commercial and residential real estate investment is also expected to contribute to economic growth. On the downside, state and local governments will continue to cut spending and restructure their operations as rating downgrades add to the pressures of below-historical revenue growth trends.” (Wells Fargo Economics Group, Monthly Economic Outlook, August 10, 2011)

## Consumer Activity



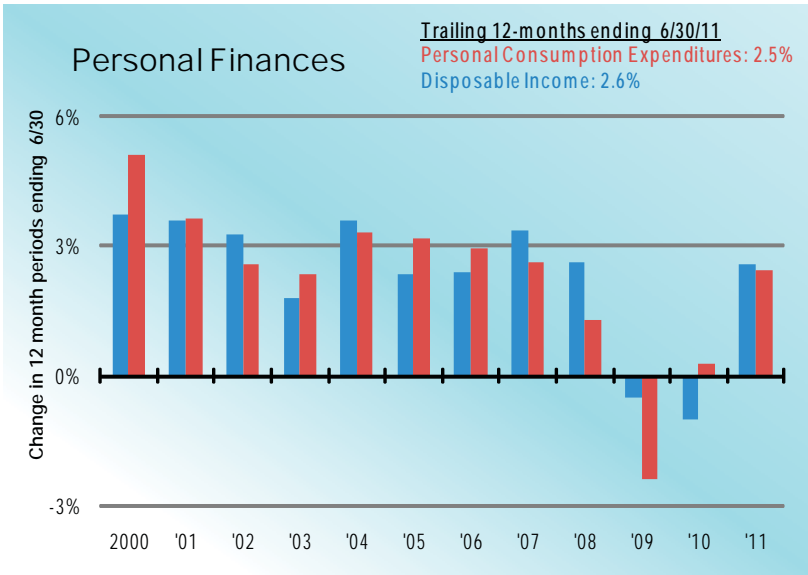
U.S. Census Bureau, “Monthly Sales for Retail and Food Services”  
August 12, 2011  
Bureau of Economic Analysis, “Real Personal Consumption Expenditures”  
August 29, 2011

In-store retail sales were up 5.7% from last year while nonstore retail sales were up 14%. Sales at gasoline stations had the highest growth from last year at 24%.

“Today’s report is a welcome development that allays concerns about a double-dip recession. The better-than-expected number likely took so many by surprise because other economic data has been so weak in recent weeks and because (aside from low interest rates) we are hardly in an economic environment that would seem to be supportive of this sort of spending growth on the part of consumers.” (Wells Fargo Economics Group Weekly Commentary, August 12, 2011)

# U.S. Economic Profile

## Consumption



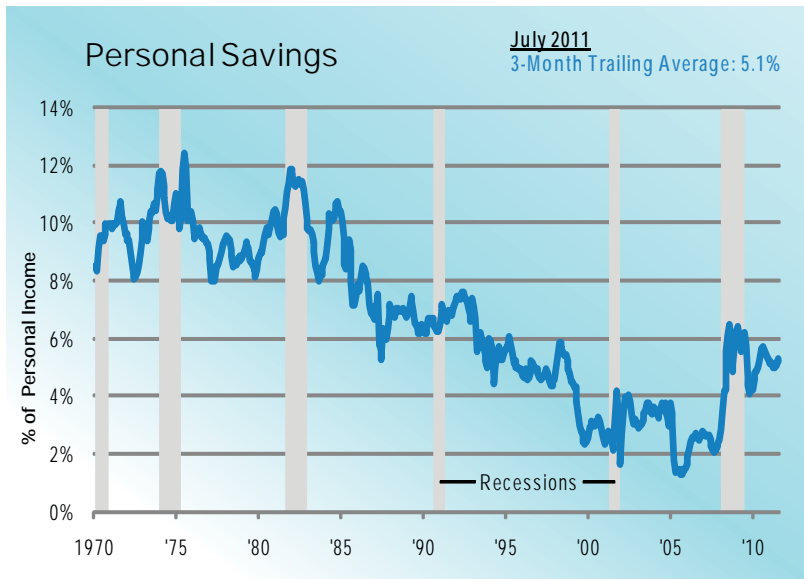
Personal Consumption Expenditures (PCE) strengthened in 2011 Q1. Trailing 12-month PCE increased by 2.5% from 2010 but growth is still below the peak in 2007.

Trailing 12-month disposable income increased 2.6% from a year earlier.

“Consumers responded well to price discounts on durable goods like cars and electronics as well as spending on utilities to keep their houses cool during the summer. Although the surge in services spending is likely to be temporary, the broad-based growth in total consumption suggests that consumers are weathering the financial market volatility well and remain confident enough to spend on big ticket items.” (CBRE Macroeconomic Advisors, August 31, 2011)

Bureau of Economic Analysis, August 29, 2011

## Savings



After hitting an 18 year high of 6.4% in January 2009, personal savings dipped this year, averaging 5.1% since January 2011.

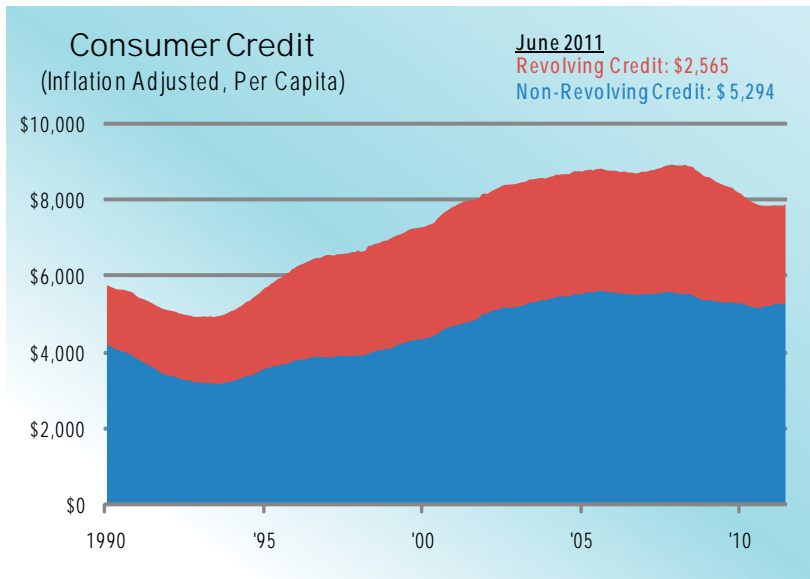
As disposable income saw a 1.5% growth rate from a year ago, personal savings rose slightly as energy and food costs began to decline.

“Consumer’s confidence in weathering the financial market volatility is supported by the savings rate which remains at a healthy rate of 5%. This has given consumers some room for comfort as job growth has been disappointing and as financial markets have been volatile in recent months. In the months ahead, however, income growth from new jobs will play a vital role in sustaining broad-based consumption growth and supporting demand for consumer driven real estate such as retail.” (CBRE Macroeconomic Advisors, August 31, 2011)

Bureau of Economic Analysis, August 29, 2011

# U.S. Economic Profile

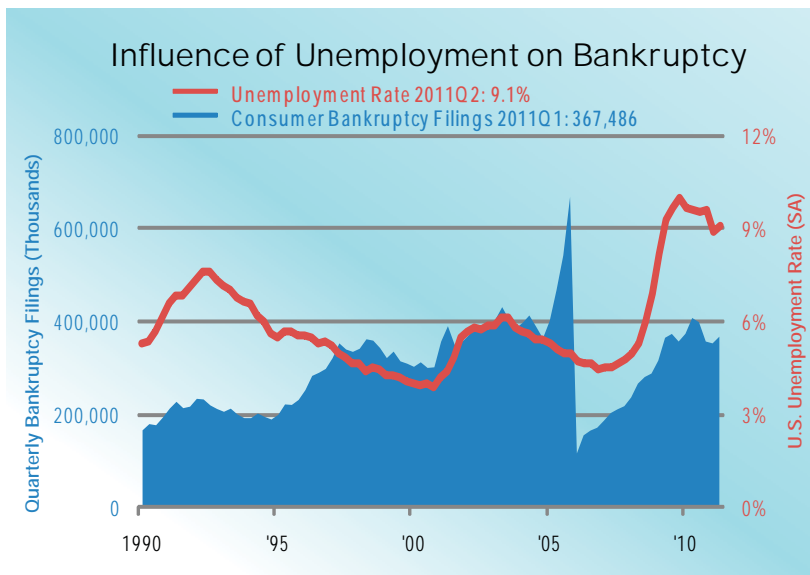
## Consumer Finances



Revolving credit, which includes credit cards, rose in June for the third time since September 2008, but remains 23% below the peak. Non-Revolving credit rose for the tenth consecutive month and is 2% higher than a year ago.

“While consumer credit has grown, it has done so more slowly than disposable income. Households are still deleveraging but not nearly as aggressively as they were last year.” (Steven Wood, President of Insight Economics, August 5, 2011)

Federal Reserve, “Consumer Credit” August 5, 2011



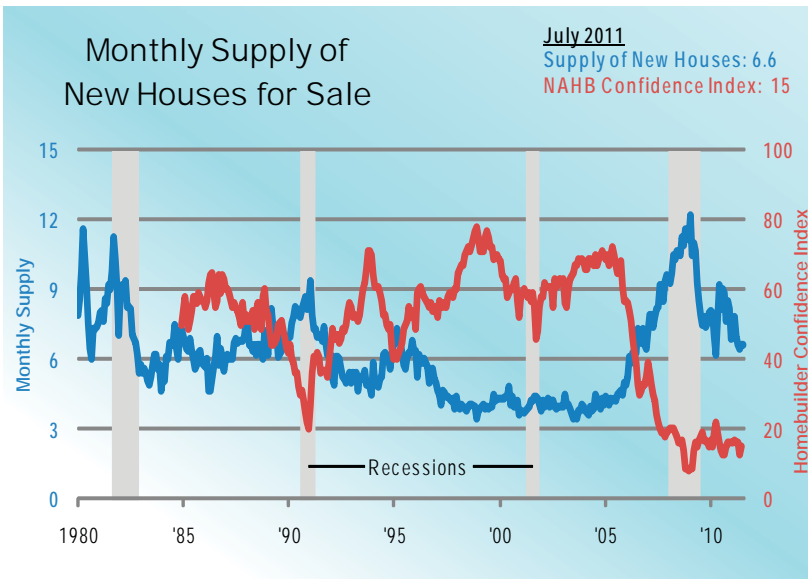
Consumer Bankruptcy filings during 2011 Q2 were down 9.8% from a year ago and up 80.4% from the beginning of the recession in 2007.

“We won’t see a spike in bankruptcies until we see a sustained rise in consumer spending driving the economy. The decline is further evidence that consumers are deleveraging, as if they were on strike, and are worried about their economic futures.” (Samuel Gerdano, American Bankruptcy Institute Executive Director, August 2, 2011)

“It’s a little bit confounding that the numbers are down, given that consumer financial conditions are degrading. More people are calling us for help, but we’re able to help fewer of them because many of their situations are already so far gone.” (David Jones, President of the Association of Independent Consumer Credit Counseling Agencies, August 2, 2011)

American Bankruptcy Institute, August 2, 2011  
Bureau of Labor Statistics, August 5, 2011

Residential Activity

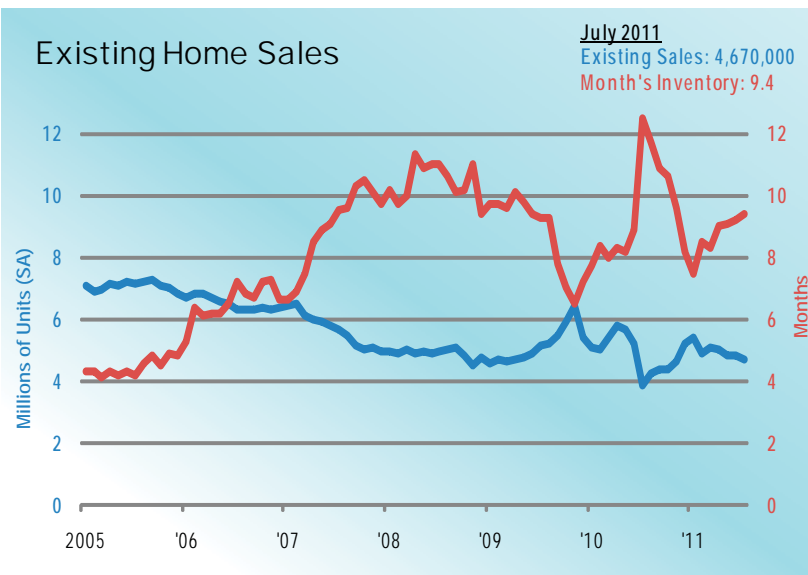


U.S. Census Bureau, "New Residential Sales (SA)" August 23, 2011  
National Association of Home Builders, August 15, 2011

Sales of new houses decreased to 298,000 homes in June, which is 329,000 fewer sales than the peak of the market in December 2007.

"There is no upside momentum at all in housing. Without any meaningful job growth, we're going to continue to look at a housing sector that is moribund." (Eric Green, Chief Market Economist at TD Securities, August 23, 2011)

"Anecdotal reports from builders note that demand for new homes weakened further in August, reflecting deteriorating economic conditions and renewed worries about job security. The gap between the median price of a new home and the median price of an existing home widened to a record \$57,125 in July. This likely explains why all the growth in new home sales is occurring at the extreme price points." (Mark Vitner, Senior Economist at Wells Fargo Securities, August 23, 2011)



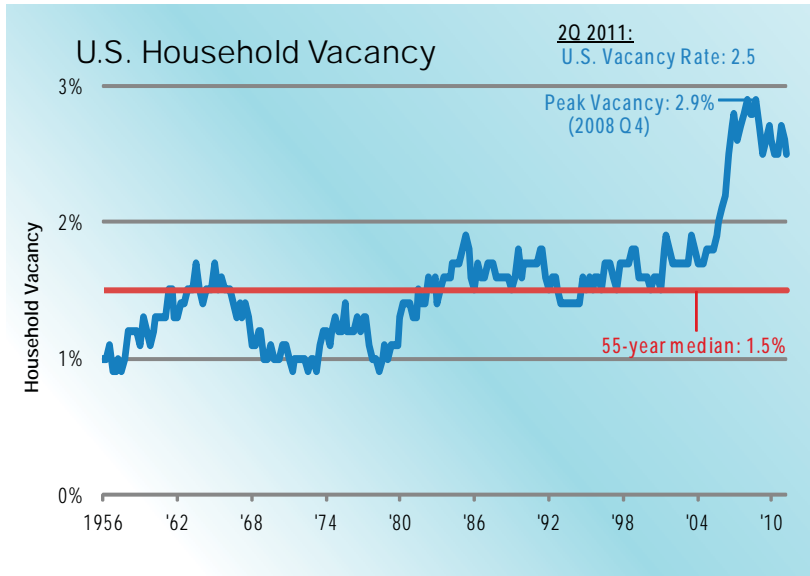
National Association of Realtors, "Existing-Home Sales" August 18, 2011

Existing home sales in July totaled 4,670,000, up 21% from 3,860,000 a year ago. The inventory of homes for sale represents a 9.4 month supply at the current sales rate.

"Affordability conditions this year have been the most favorable on record dating back to 1970, but many buyers are being held back because banks are offering financing to only the most highly qualified borrowers, ignoring a large share of otherwise creditworthy buyers. Those potential buyers represent the difference between an uneven recovery and a much more robust housing market that could stimulate additional economic activity and create jobs." (Lawrence Yun, National Association of Realtors Chief Economist, August 18, 2011)

# U.S. Economic Profile

## Residential Vacancy

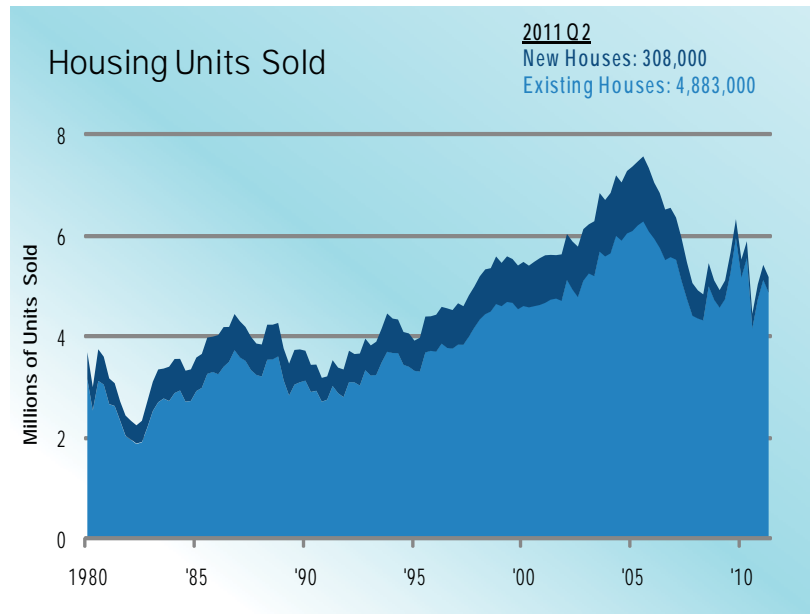


Household vacancy remains elevated by historical standards. In 2011 Q2 the vacancy rate fell to 2.5%, matching the vacancy rate from a year ago.

“For the second quarter 2011, the homeowner vacancy rate was higher in the South (2.7%) than in the Northeast (2.3%), but not statistically different from the rates in the Midwest (2.5%) or West (2.5%). The homeowner vacancy rate in the Northeast was higher than in the second quarter 2010, while the rates in the Midwest, South, and West were not significantly different from a year ago.” (U.S. Census Bureau, July 29, 2011)

U.S. Census Bureau, “Housing Vacancies and Homeownership” July 27, 2011  
Household vacancy excludes apartments.

## Housing Consumption



Distressed home sales accounted for 29% of existing homes sold in July 2011 compared with 30% in June.

“I don’t see much hope that things are going to pick up all that much. If job growth really does slow as it appears it has, then we may see housing cool off later this year with prices falling later in the year too.” (Mark Vitner, Senior Economist with Wells Fargo Securities, August 18, 2011)

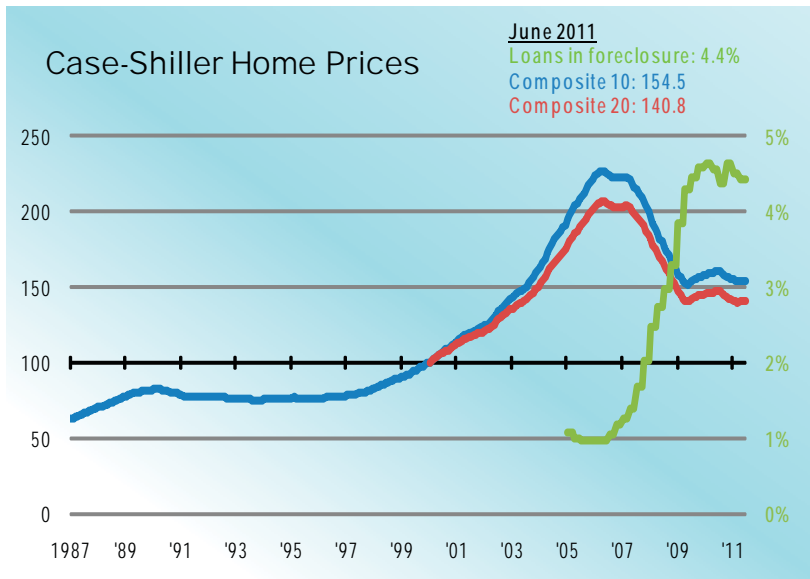
“Sales of single-family existing homes have lost some momentum recently, falling in three of past five months. The recent weakness is likely due to the spike in contract cancellations, possibly reflecting the ongoing struggle from conservative appraisals and tight underwriting standards. The National Association of Realtors noted that 16 percent of its members had a sale canceled in June, up from 4 percent in May.” (Wells Fargo Economics Group, Housing Chartbook, July 29, 2011)

U.S. Census Bureau (SAAR), August 26, 2011  
National Association of Realtors, August 18, 2011

# U.S. Economic Profile

## Home Prices

“This month showed mixed signals for recovery in home prices. No cities made new lows in June, and the majority of cities are seeing improved annual rates. The National Index was up 3.6% from the 2011 first quarter, but down 5.9% compared to a year-ago. Looking across the cities, eight bottomed in 2009 and have remained above their lows. These include all the California cities plus Dallas, Denver and Washington DC, all relatively strong markets. Those which set new lows in 2011 include Las Vegas, Miami, Phoenix, Tampa and Detroit. These shifts suggest that we are back to regional housing markets, rather than a national housing market where everything rose and fell together.” (David M. Blitzer, Chairman of the Index Committee at S&P, August 30, 2011)



Case-Shiller Home Price Index, August 30, 2011  
Mortgage Bankers Association, National Delinquency Survey, August 22, 2011

### Case-Shiller Price Index

June 2011 Decline From Peak

Las Vegas	-59%	Composite-20	-32%
Phoenix	-56%	Seattle	-29%
Miami	-50%	Portland	-28%
Detroit	-48%	Washington	-28%
Tampa	-46%	Atlanta	-24%
San Francisco	-39%	New York	-23%
San Diego	-39%	Cleveland	-20%
Los Angeles	-38%	Charlotte	-17%
Minneapolis	-35%	Boston	-16%
Chicago	-32%	Denver	-11%
Composite-10	-32%	Dallas	-10%

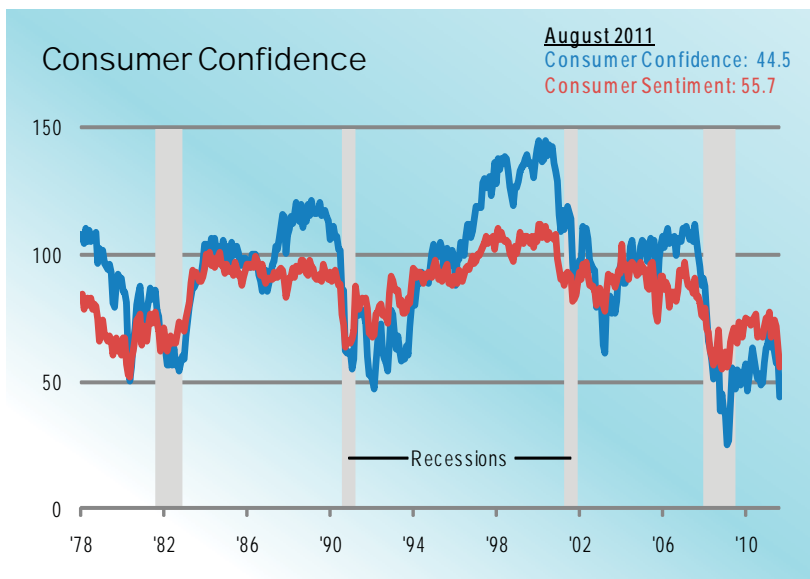
## Future Expectations

The Consumer Sentiment Index has fallen 19.2% from a year ago and is currently at 55.7

The Consumer Confidence Index has fallen 16.4% from a year ago and is currently at 44.5.

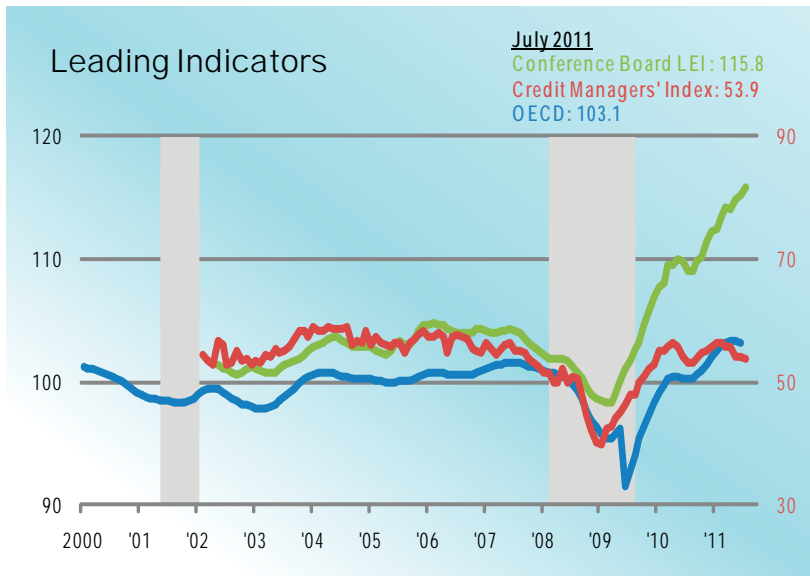
“Since peaking in February earlier this year, consumer sentiment has steadily declined, mostly due to the lagged impact of rising gasoline and food prices, as well as flat wages. The decline in consumer sentiment will likely curb the appetite of consumers to continue spending at levels observed in July.” (Joseph Brusuelas, Senior Economist at Bloomberg, September 1, 2011)

“This paints a picture of underlying demand weakening. Consumers are seeing their wealth deteriorate. We’ve seen a huge decline continuing in the housing market. They’ve also been hit on the chin by the equity markets.” (Bricklin Dwyer, Economist at BNP Paribas, August 30, 2011)



Reuters/Univ. of Michigan Consumer Sentiment Index, August 26, 2011  
The Conference Board Consumer Confidence Index, August 30, 2011

# U.S. Economic Profile



The Conference Board's Index of Leading Economic Indicators (LEI) is up 6.8 points from a year ago and up 17.5 points from the trough in February 2009.

"The U.S. LEI continued to increase in July. However, with the exception of the money supply and interest rate components, other leading indicators show greater weakness – consistent with increasing concerns about the health of the economic expansion. Despite rising volatility, the leading indicators still suggest economic activity should be slowly expanding through the end of the year." (Ataman Ozyildirim, Economist at The Conference Board, August 18, 2011)

The Conference Board, "US Leading Economic Indicators," August 18, 2011  
 National Association of Credit Management, August 31, 2011  
 OECD Normalized CLI Economic Indicators, August 5, 2011  
 The Conference Board data series started in May 2002  
 The CMI data series started in December 2002

## Dow Jones Index



Since the trough in March 2009, the Dow increased 76%, but remains 19% below the previous high in October 2007. As of September 1, 2011, the Dow Jones Industrial Average Index has a P/E Ratio of 12.8, compared with 13.9 a year ago.

August 2011 saw the 6th, 9th and 11th worst days in the Dow's history as the Dow fell more than 1600, or 15%, in six days of trading, erasing gains since the beginning of the year.

Yahoo Finance, Dow Jones Industrial Average Index, September 2, 2011

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# U.S. Economic Profile

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## Definitions

Consumer Credit (Page 12) - Consumer credit outstanding is composed of revolving and non-revolving credit, which reflects most consumer short- and intermediate-term credit, excluding loans secured by real estate. Revolving credit is composed mostly of credit card loans (roughly 95 percent); the remainder are “lines of credit” extensions, which are used for checking account overdraft facilities. Non-revolving credit includes automobile loans and all other loans not included in revolving credit, such as loans for mobile homes, education, boats, trailers, or vacations. These loans may be secured or unsecured. (Federal Reserve Bank of Philadelphia)

Credit Managers Index (Page 16) - The Credit Managers’ Index (CMI) is created from a monthly survey of credit and collection professionals. The CMI survey asks National Association of Credit Management (NACM) members to rate favorable and unfavorable factors in their monthly business cycle. Favorable factors include sales, new credit applications, dollar collections and amount of credit extended. Unfavorable factors include rejections of credit applications, accounts placed for collections, dollar amounts of receivables beyond terms and filings for bankruptcies. The results provide a benchmarking and forecasting tool that looks at the entire cycle of commercial business transactions. (National Association of Credit Management)

Capital Goods (Page 9) - Products which are not produced for immediate consumption; rather, they are objects that are used to produce other goods and services. These types of goods are important economic factors because they are key to developing a positive return from manufacturing other products and commodities. (U.S. Census Bureau)

Household Vacancy Rate (Page 14) - A housing unit is vacant if no one is living in it. In addition, a vacant unit may be one which is entirely occupied by persons who have a usual residence elsewhere. New units not yet occupied are classified as vacant housing units if construction has reached a point where all exterior windows and doors are installed and final usable floors are in place. Vacant units are excluded if they are exposed to the elements, that is, if the roof, walls, windows, or doors no longer protect the interior from the elements, or if there is positive evidence that the unit is to be demolished or is condemned. Also excluded are quarters being used entirely for nonresidential purposes, such as a store or an office, or quarters used for the storage of business supplies or inventory, machinery, or agricultural products. Vacant sleeping rooms in lodging houses, transient accommodations, barracks, and other quarters not defined as housing units are not included in the statistics in this report. (U.S. Census Bureau)

Industrial Capacity Utilization Index (Page 8) - A measure of economic activity released monthly by the Federal Reserve. The report contains detailed information on production by industry groups; most broadly for manufacturing, mining, and utilities. The capacity utilization is based on the percentage ratio of actual production to potential production, and breaks down capacity measures by industry and stage of completeness (crude to finished materials). A capacity utilization of 85% or more can also be considered a signal for inflationary pressure, but the index should not be relied on to predict future market behavior due to inherent difficulties in measurement. (Forexpedia)

ISM Manufacturing Index (Page 8) - A monthly index released by the Institute of Supply Management, based on a scale of 0 to 100, which tracks the amount of manufacturing activity that occurred in the previous month. A value below 50 indicates decreased activity. An economic recession may be observed if the trend continues over several months. A value substantially above 50 likely indicates a time of economic growth. (InvestorWords)

Monetary Base (Page 6) - The monetary base is the sum of reserve accounts of financial institutions at Federal Reserve Banks and currency in circulation (currency held by the public and in the vaults of depository institutions). The monetary base, as the ultimate source of the nation’s Money Supply, is controllable, at least to some degree, by Federal Reserve Monetary Policy. (Financial Dictionary)

OECD CLI (Page 16) - The Organization for Economic Co-op and Development (OECD) composite leading indicator (CLI) is designed to provide early signals of turning points (peaks and troughs) between expansions and slowdowns of economic activity. The CLI is constructed by aggregating together component series selected according to multiple criteria, such as: economic significance, cyclical correspondence and data quality. The OECD compiles CLIs for 29 member countries, for 6 non-member economies and for 7 country groupings such as the Euro zone. (OECD Glossary)