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DE Recession/Recovery Scorecard

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Decision Economics: *Contents*

- Scorecard 3
  - GDP – Contributions to Growth 4
  - Leading Indicators 5
  - Consumer Sentiment 7
  - Employment Measures 9
  - Retail Sales 11
  - Initial Claims 12
  - Housing Starts 13
  - ISM Index 15
  - Yield Curve 16
  - Corporate Quality Spreads 17
  - Equities 19
  - Oil Prices 20

Decision Economics: *U.S. Double-Dip Kept At Bay, Risks Abound*

- True reprieve or more disappointment in Europe? Equities surged 15% in recent weeks as investors hope European policymakers are closer to containing the debt crisis. Resolution is another story, and Italian bond yields have yet to be convinced. Recession looks likely in the Eurozone in Q4 and Q1.
- Some U.S. indicators are flashing signs normally associated with recession, others are not. The current experience is hardly typical, especially on the policy fronts, leaving normal historical relationships as a less than clear guide. DE continues to expect growth, but at a slow pace relative to a "normal" upturn.
- Credit spreads narrowed from recent wides, and equities surged as markets took down the odds of imminent collapse.
- Employment: Still-sluggish payroll growth, but better results in the private sector thus far. Jobless claims still above 400K, but stability a positive.
- Consumer sentiment measures remain depressed, still deep in recession-like territory. But overall spending holding up.
- Housing market healing, but recovery not quite at hand.
- Oil and other commodity prices remain well down from early-2011 peaks, but ticked higher recently on the risk trade.

Recession/Recovery Scorecard

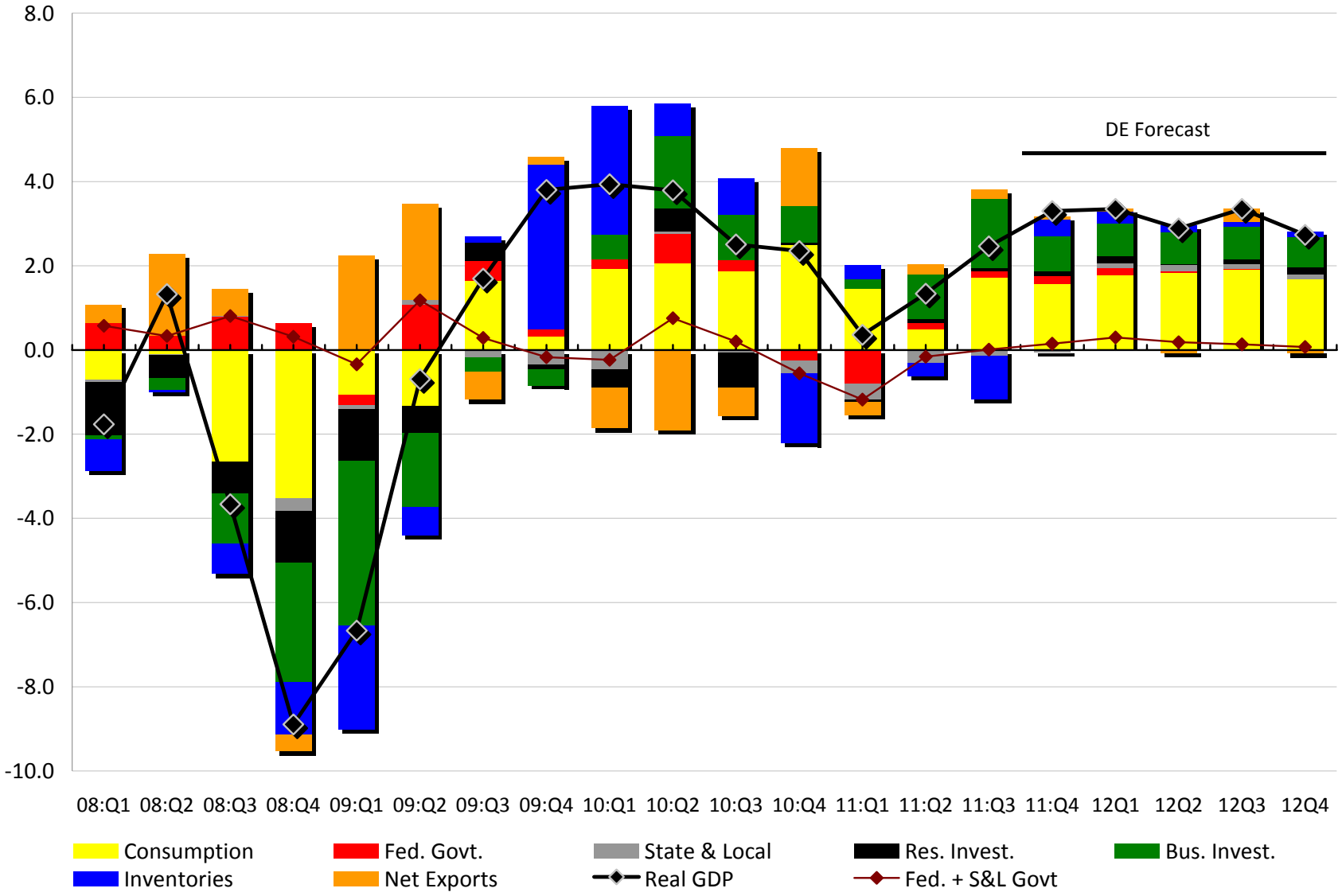
Indicator	Peak Value	Peak Date	Low Value	Low Date	Last Month	Current Value	Typical Range Entering A Recession	In or Near Recession Territory?	Comments
LEI*	11.5	Mar. 10	-5.0	Dec. 08	6.5	5.9	-3% to -4%	No	**Real economy components remain weak.**
Consumer sentiment	96.9	Jan. 07	55.3	Nov. 08	59.4	60.9	60 to 80	Yes	**Recession-like for a while.**
Real retail sales*	7.5	Jun. 05	-8.1	Oct. 08	2.9	3.0	+1% to +2%	No	**Slower growth in recent months.**
Payroll employment**	239	Mar. 06	-568	Jul. 09	113	124	+100K to -100K	No	**Sluggish, but not declining.**
Initial claims***	291	Feb. 06	653	Mar. 09	418	406	Sharp rise.	No	**Still elevated.**
Housing Starts	2273	Jan. 06	478	Apr. 09	572	658	1200K to 1400K	Yes	**Surge on multi-family starts.**
ISM	61.4	May. 04	33.3	Dec. 08	50.6	51.6	38 to 43	No	**Needs to rebound soon to support 2011H2 growth.**
Yield curve****	-3.72	Jun. 04	0.69	Dec. 06	-1.73	-1.91	--	Unclear	**Steepened a bit over the last month.**
Corp. quality spread*****	21.7	Dec. 08	2.7	Jun. 07	6.90	6.90	6.50 plus	Yes	**Narrower at month end, but still wide.**
Stock prices (S&P500)	1540	Oct. 07	757	Mar. 09	1173	1270	-10% over 6m	Close	**Surged 15% from recent low on Europe hopes.**
Oil prices (WTI, *2010$*)	138	Jun. 08	16	Feb. 99	80	90	--	Unclear	**Firmed up a bit in recent weeks.**

*Percent change year-ago
**Average monthly change over 12 months
***Avg. of weekly data; series low is cyclical peak
****Fed funds less 10-yr Treasury note
*****ML high yield index less 10-yr Treasury note, month avg.

Decision Economics: *Contributions to GDP Growth*

No double-dip in the cards under DE baseline.

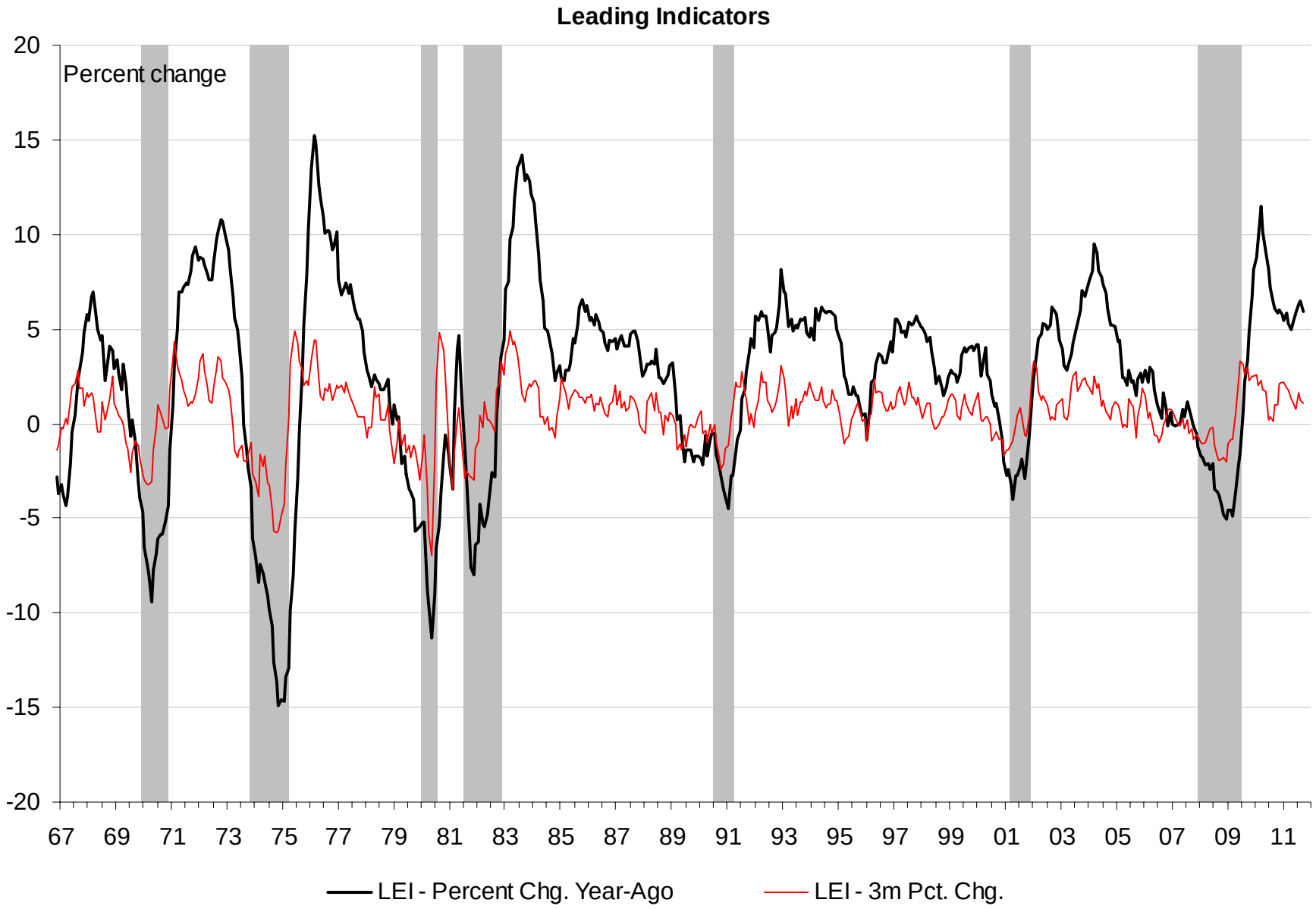
(Contributions of Spending Categories to GDP Growth, Percentage Points)



Source: BEA and Decision Economics

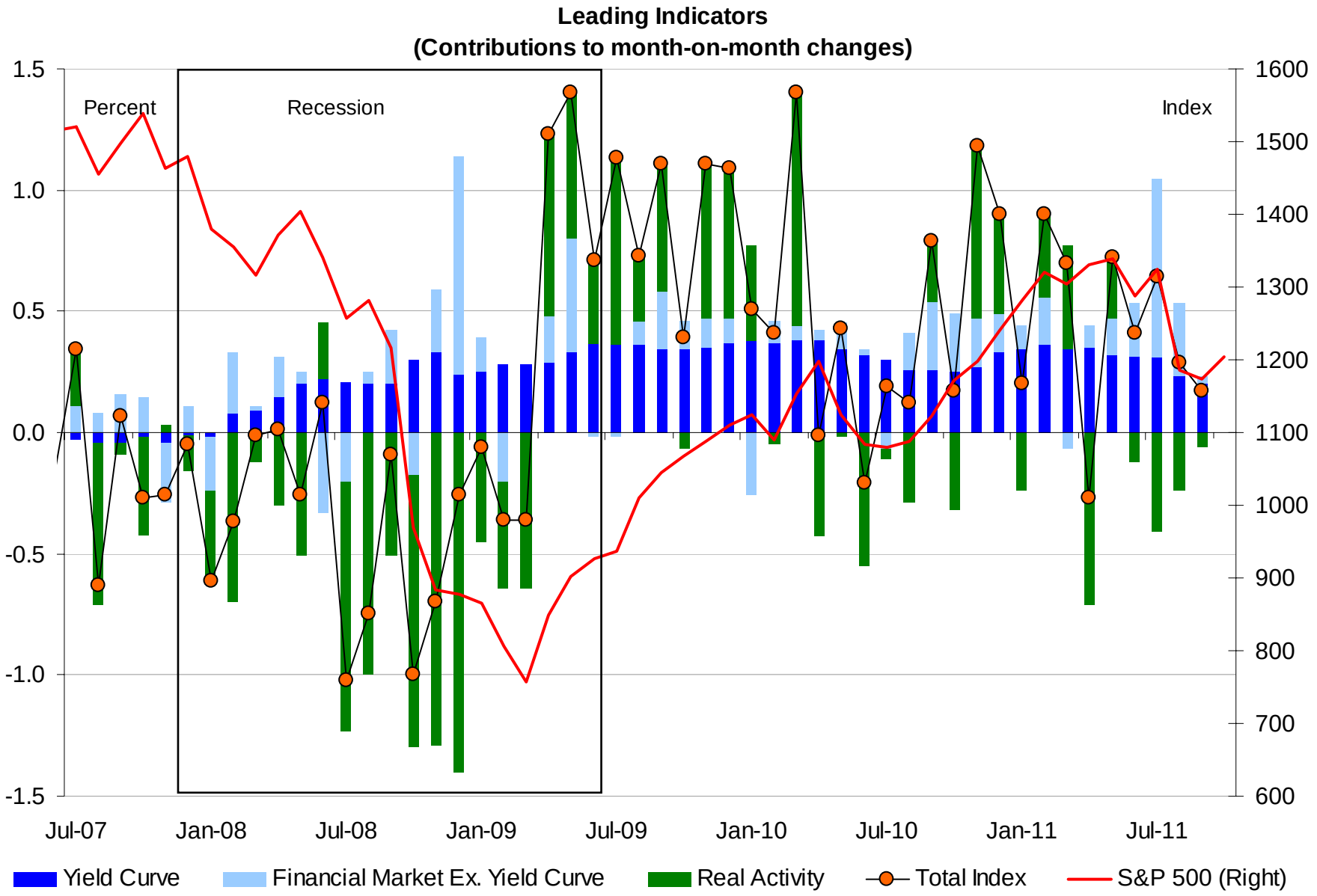
Decision Economics: *Leading Indicators*

Continues to rise in year-ago and three-month ago comparisons.



Source: The Conference Board and Decision Economics

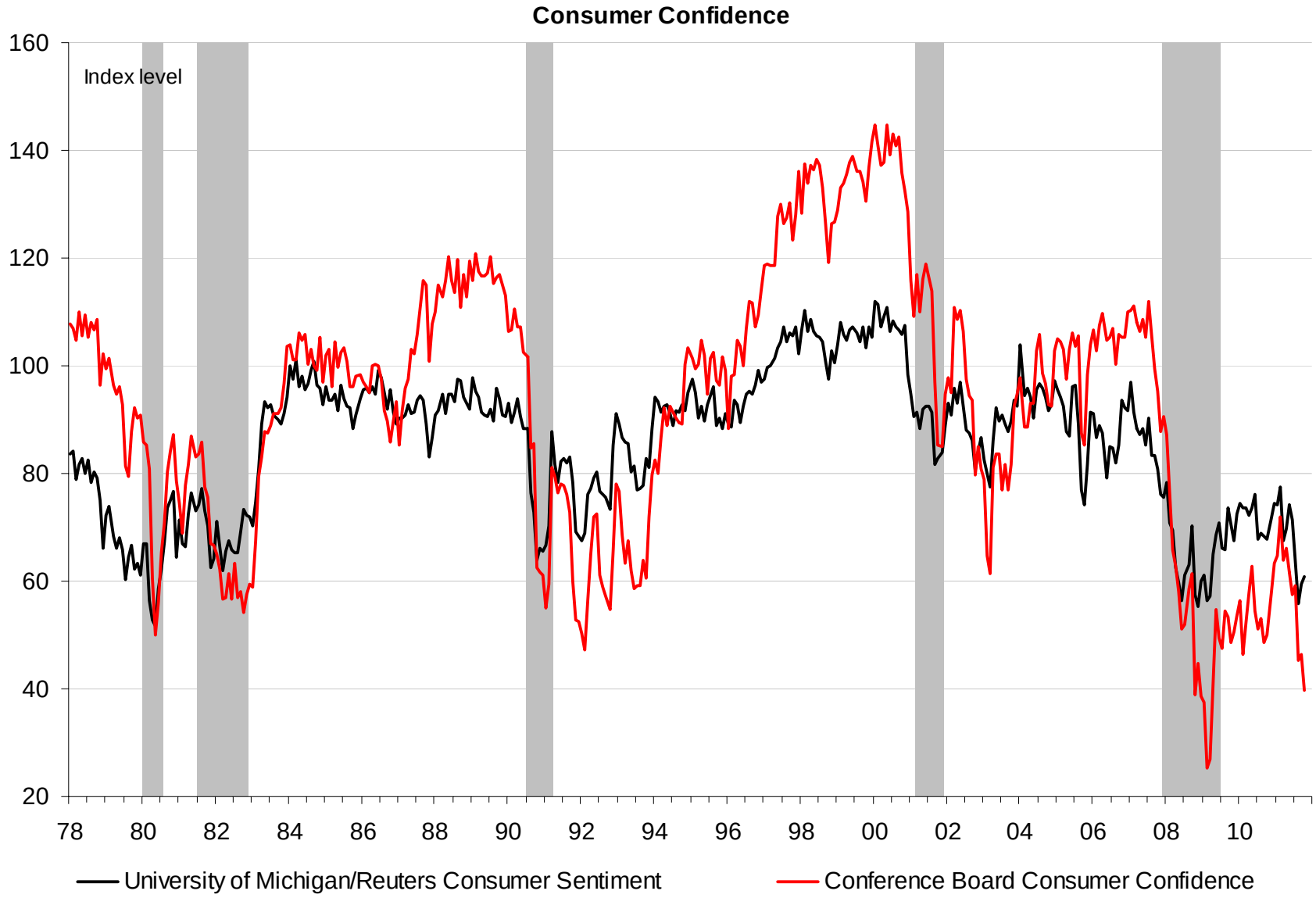
The September LEI was effectively flat excluding the effects of the yield curve, which cannot invert.



Source: The Conference Board and Decision Economics

Decision Economics: *Sentiment Deeper Into Recession-Like Territory*

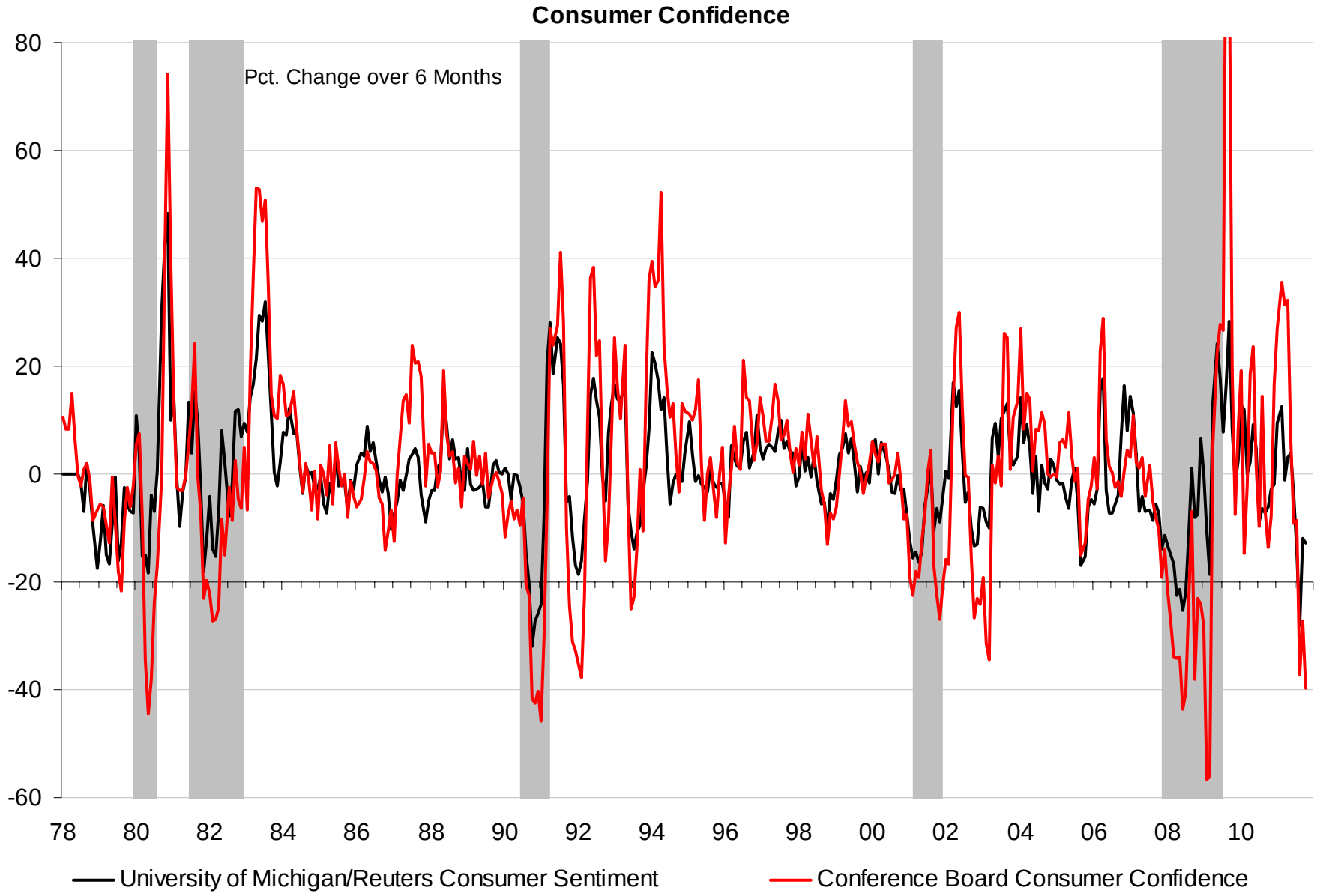
Consumer confidence measures remain deep in recession-like territory. The U of M and Conference Board measures diverged, but spending continues to hold up well. A two(or more)-tiered consumer recovery continues. The longer-term theme is still of deleveraging, and housing and labor market softness, restraining strong growth.



Source: The Conference Board, University of Michigan/Reuters and Decision Economics

Decision Economics: *Confidence (2)*

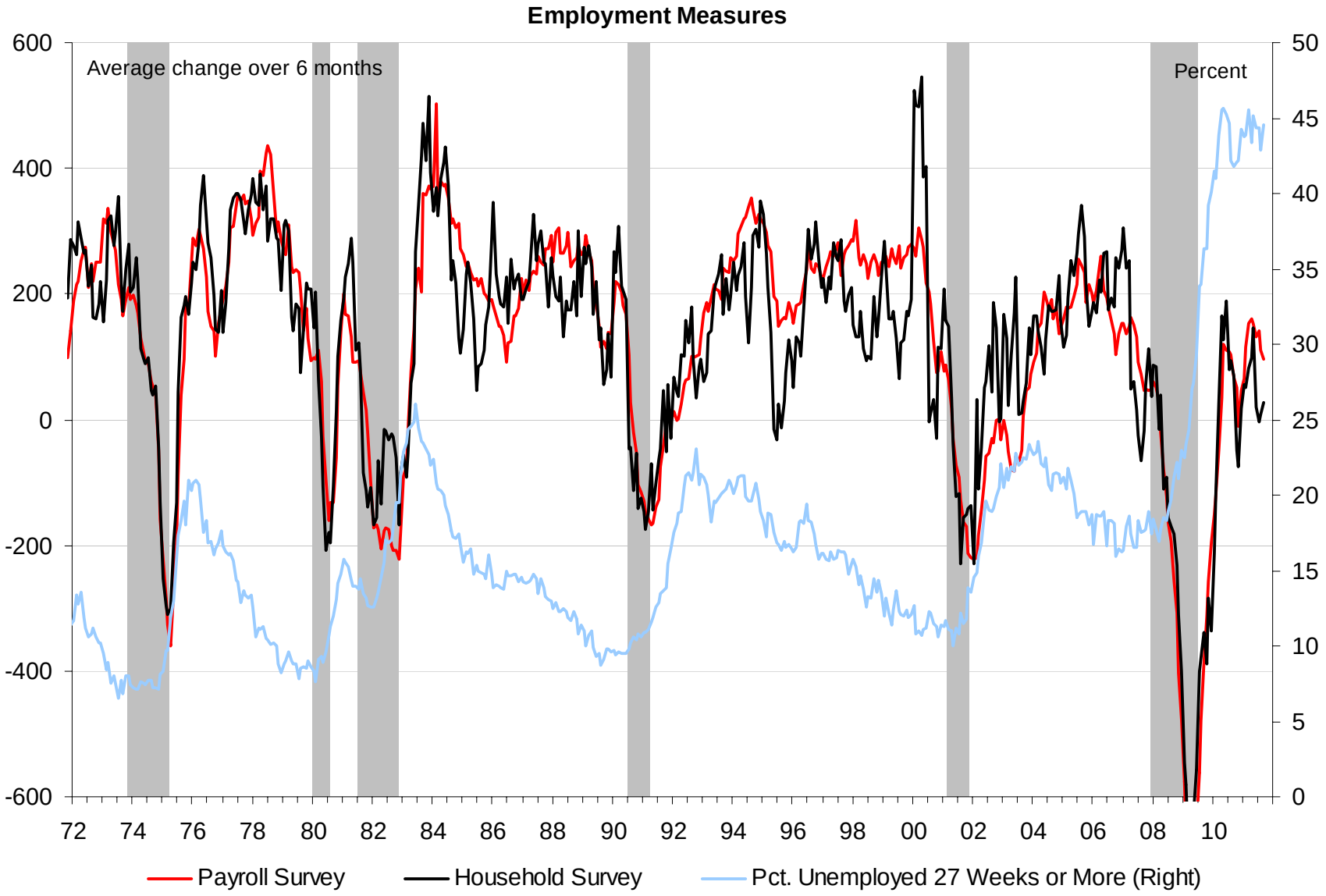
This chart highlights the magnitude of the recent shock to consumer confidence. For both the U of M and Conference Board measures, a six-month decline of the size seen thus far has often been a recession indicator.



Source: The Conference Board, University of Michigan/Reuters and Decision Economics

Decision Economics: *Slow Employment Growth Helps Explain Fed Actions*

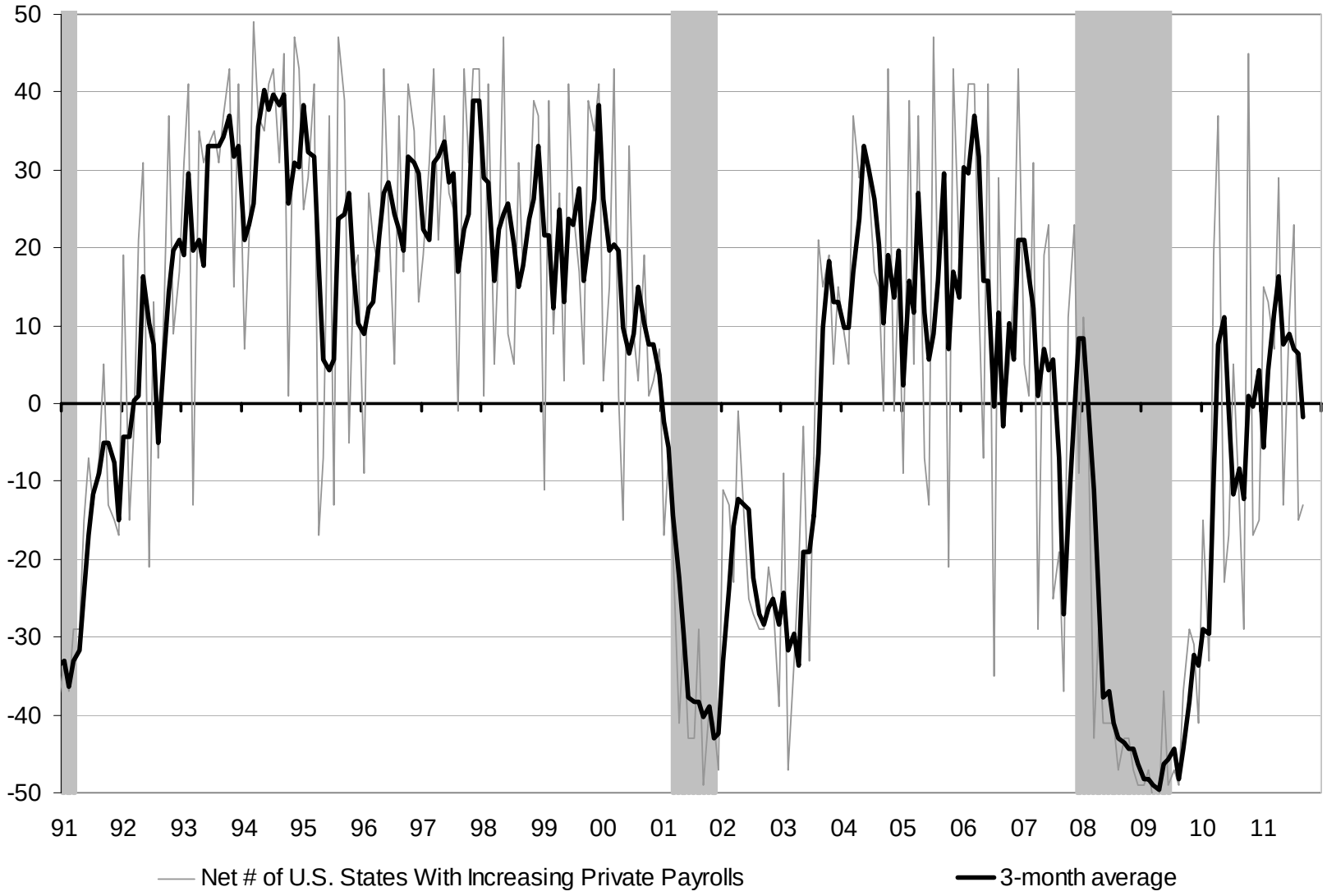
Deceleration in employment growth evident, with the Fed still a long way from meeting the employment half of its mandate. Measures of long-term unemployment and underutilization remain at extremely high levels. That "shadow inventory" has no easy fixes, as firms survey an uncertain demand environment, and find it easier to substitute capital for labor costs where possible.



Source: BLS and Decision Economics

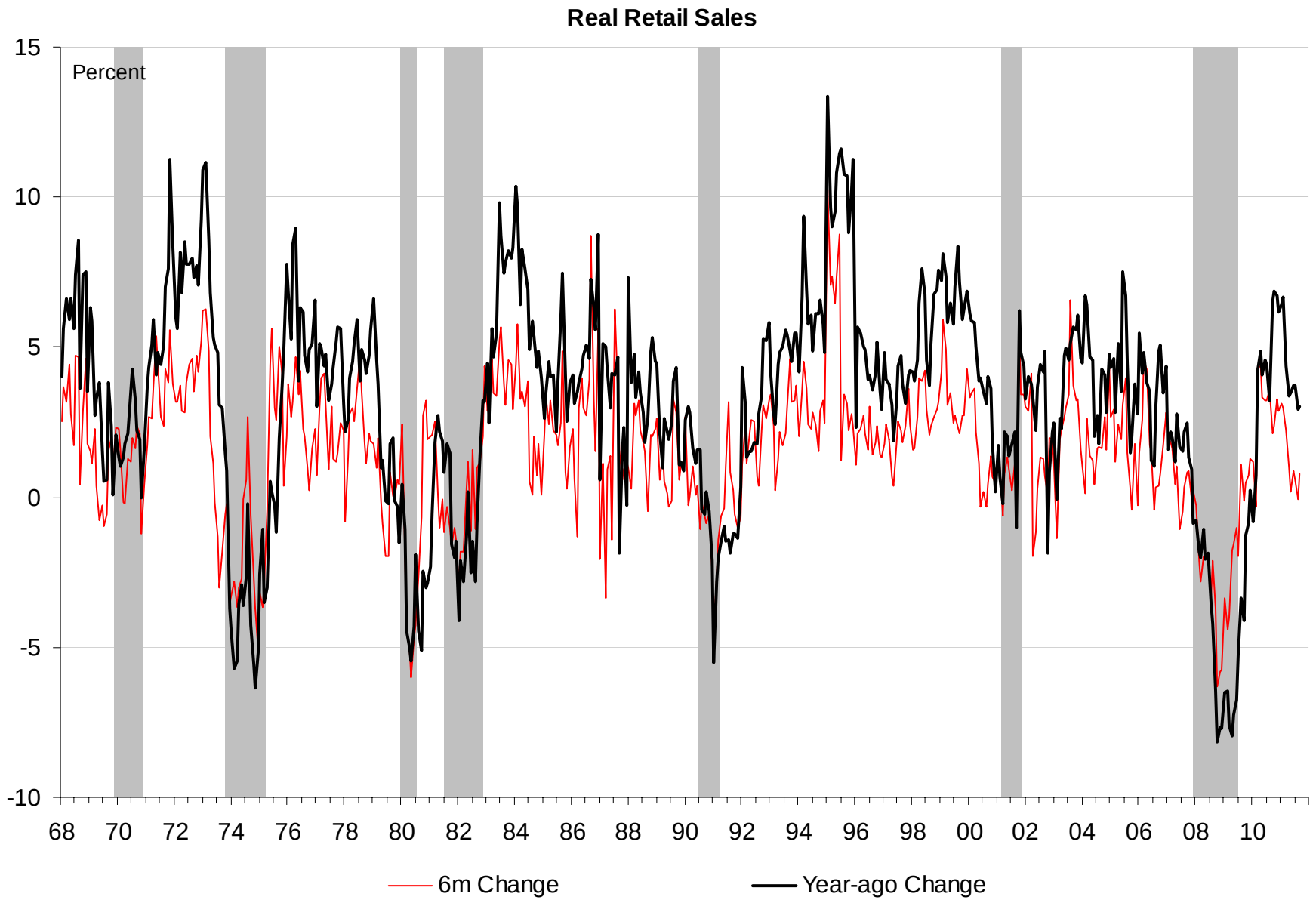
Decision Economics: *How Widespread (Geographically) is Private Employment Growth?*

The chart below calculates a diffusion-style index for the month-on-month change in private payrolls across the 50 U.S. states and the District of Columbia. For example, 31 month-on-month increases and 20 decreases translates to 11. Unlike the 90s expansion, private employment growth was only briefly broadly-entrenched in the mid-2000s, and has not been broad-based recently.



Source: BLS and Decision Economics

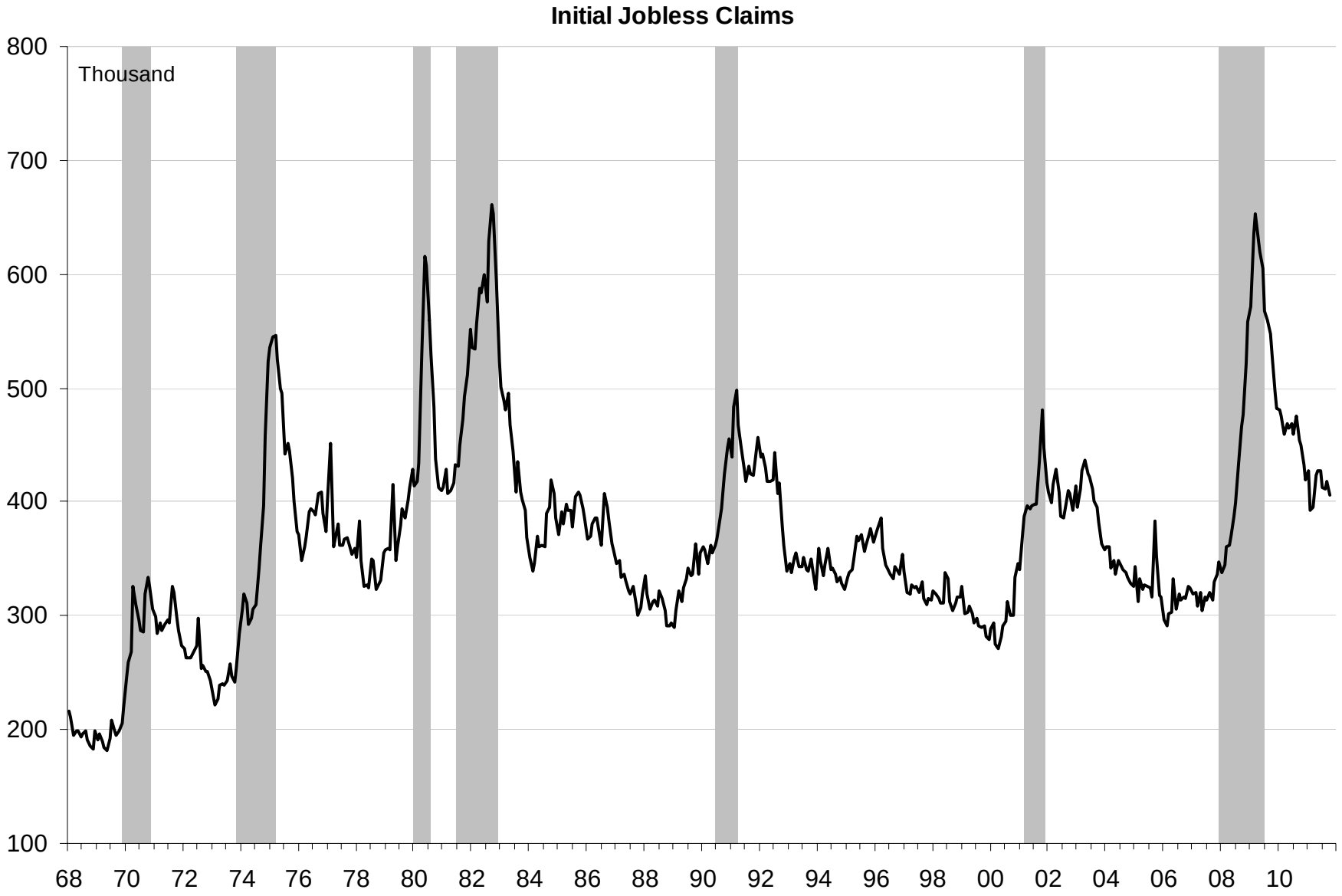
Decision Economics: *Weak Jobs Growth Constraining Real Spending*



Source: BEA and Decision Economics

Decision Economics: *Jobless Claims Still Above 400K*

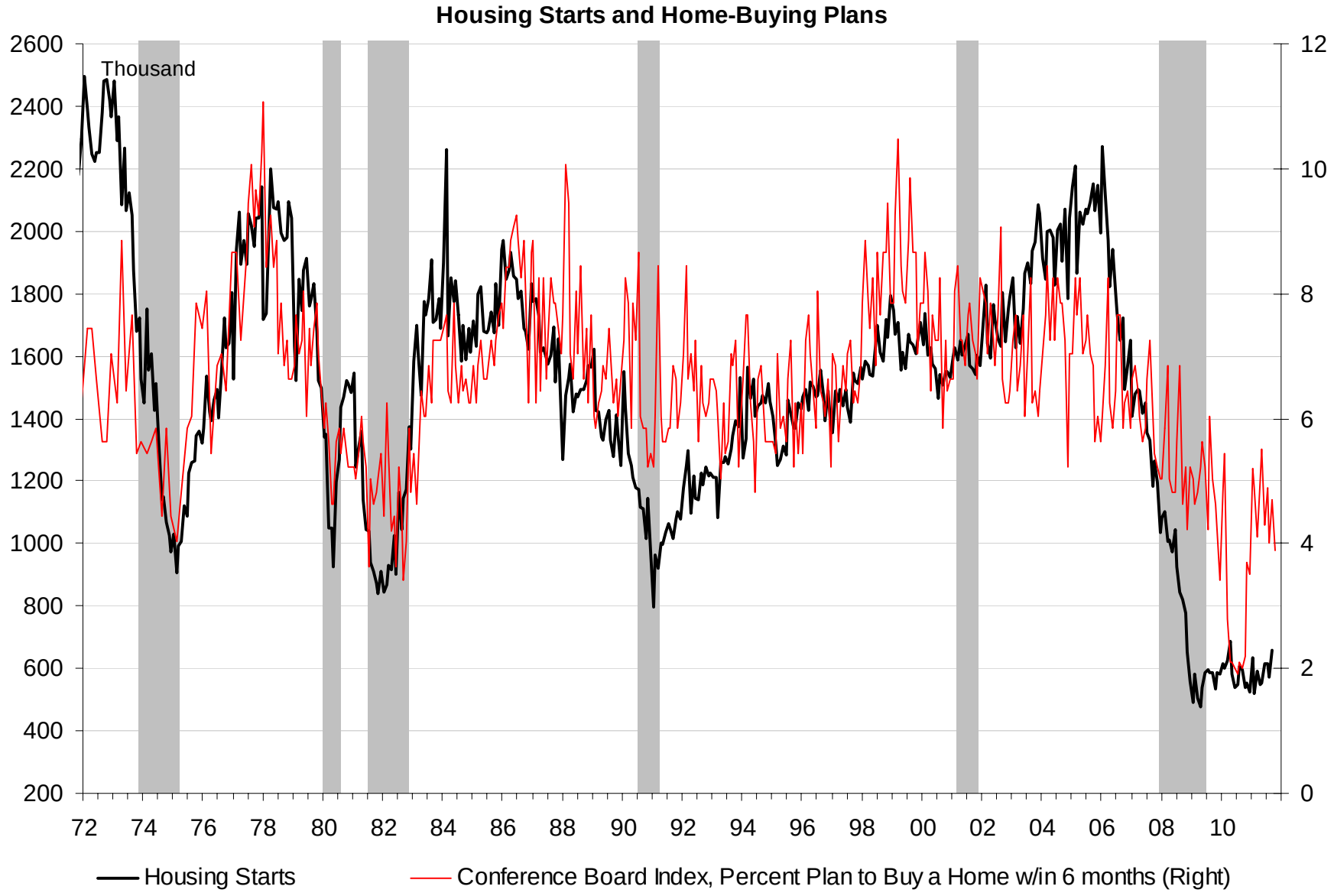
Initial claims filings still well above 400K. Business are searching for a balance between cost-cutting and meeting demand, opting for caution amid downside risks and ongoing uncertainties.



Source: BLS

Decision Economics: *Waiting to Clear Inventories*

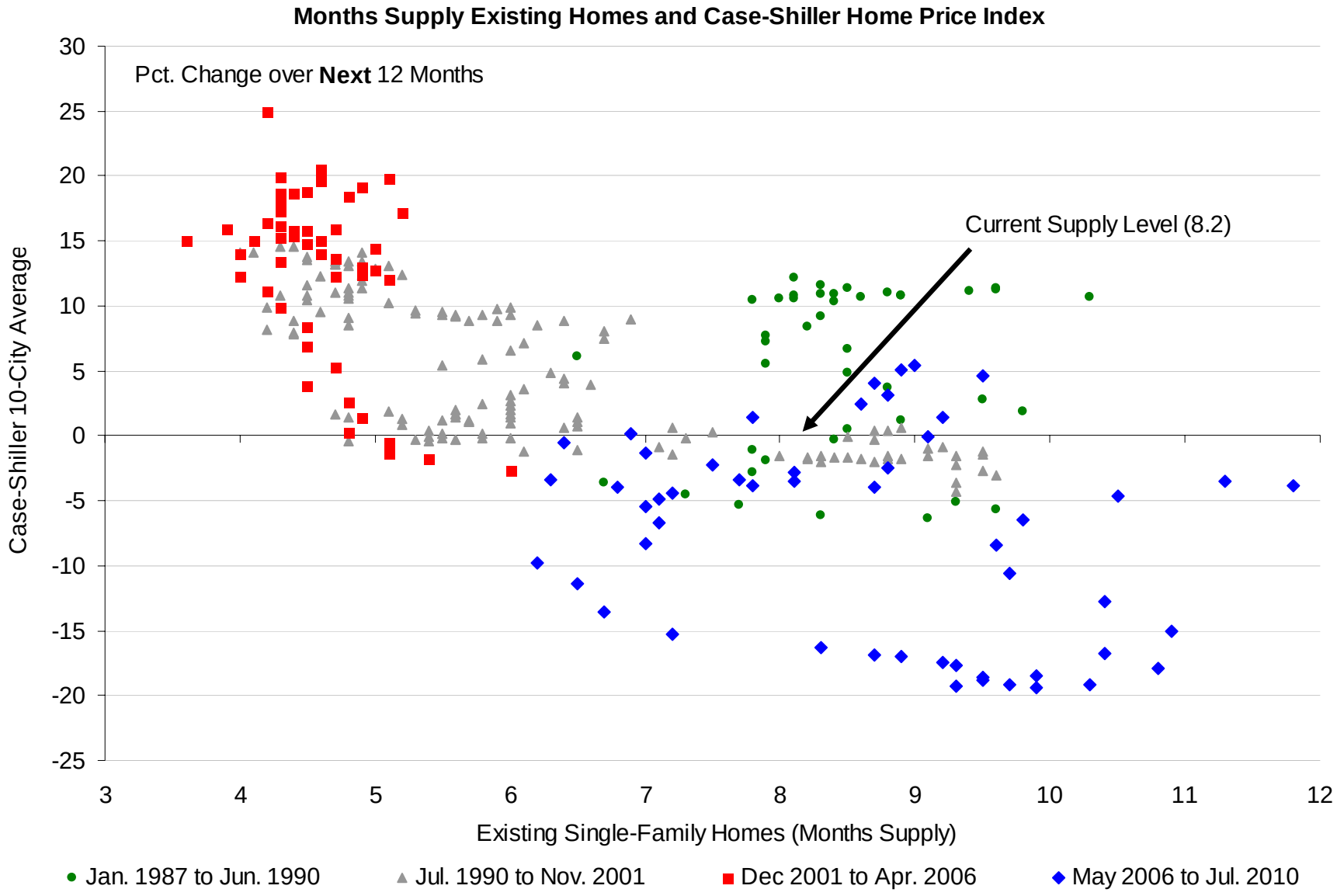
Until sales pick up and supply is worked through, builders will be unwilling to add to existing stocks. Improvement in demand from here on likely to be very gradual. Spike in September was due to multi-family units.



Source: Census Bureau, National Association of Realtors

Decision Economics: *Waiting to Clear Inventories (2)*

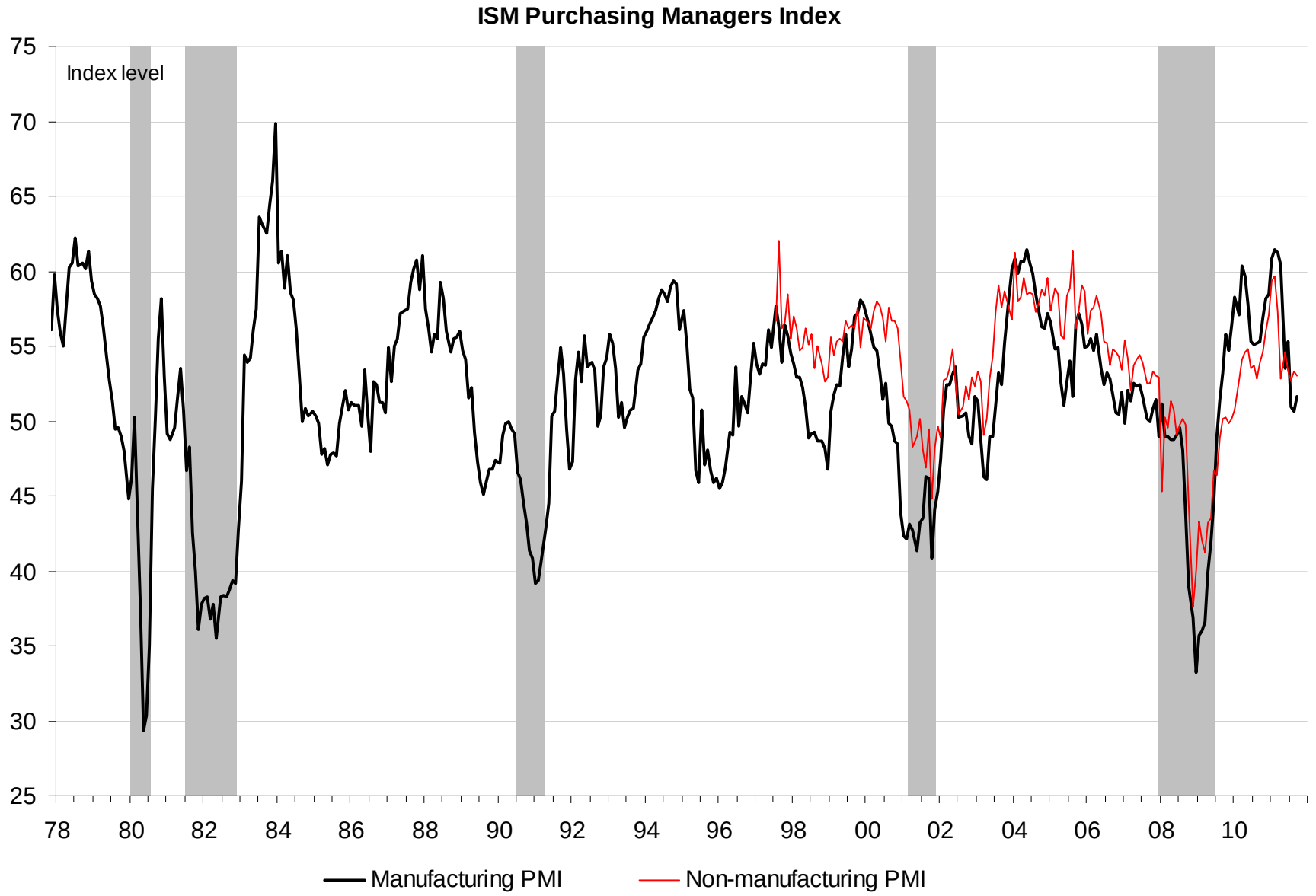
Inventories are only one dimension of current problems in the housing market, but the current level of official supply is at least suggestive of tentative stabilization in prices over the next twelve months, or only modest decline.



Source: Census Bureau, National Association of Realtors

Decision Economics: *ISM Surveys Still Soggy, But Not Indicative Of Downturn*

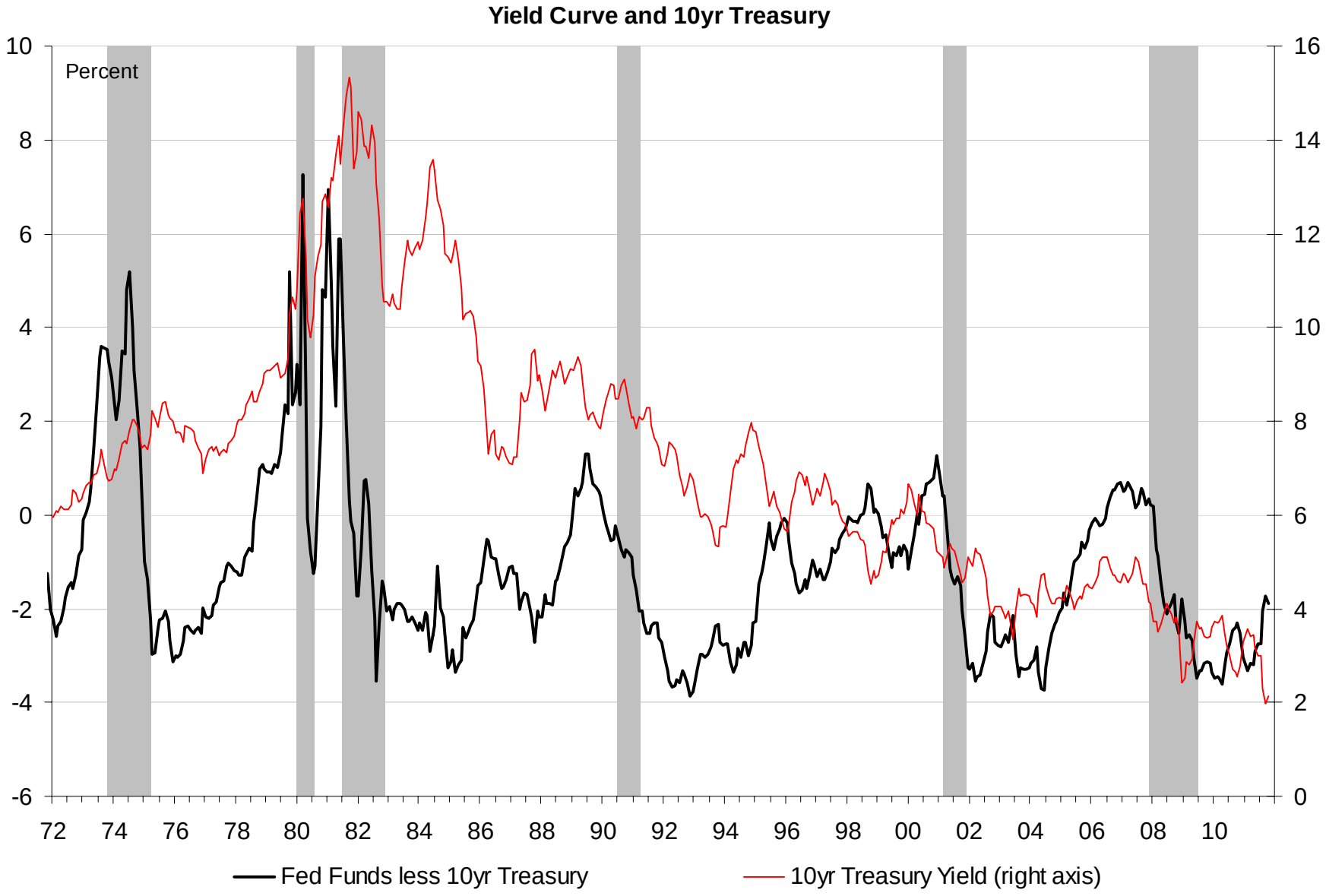
The manufacturing ISM held above 50 in September and expectations are for another soft-but-expansionary print in October. The non-manufacturing index also continues to hint at sideways movement, not decline, but the employment index there is below 50.



Source: Institute for Supply Management

Decision Economics: *Treasury Yield Curve Steepens As Worst Downside Fears Ebb*

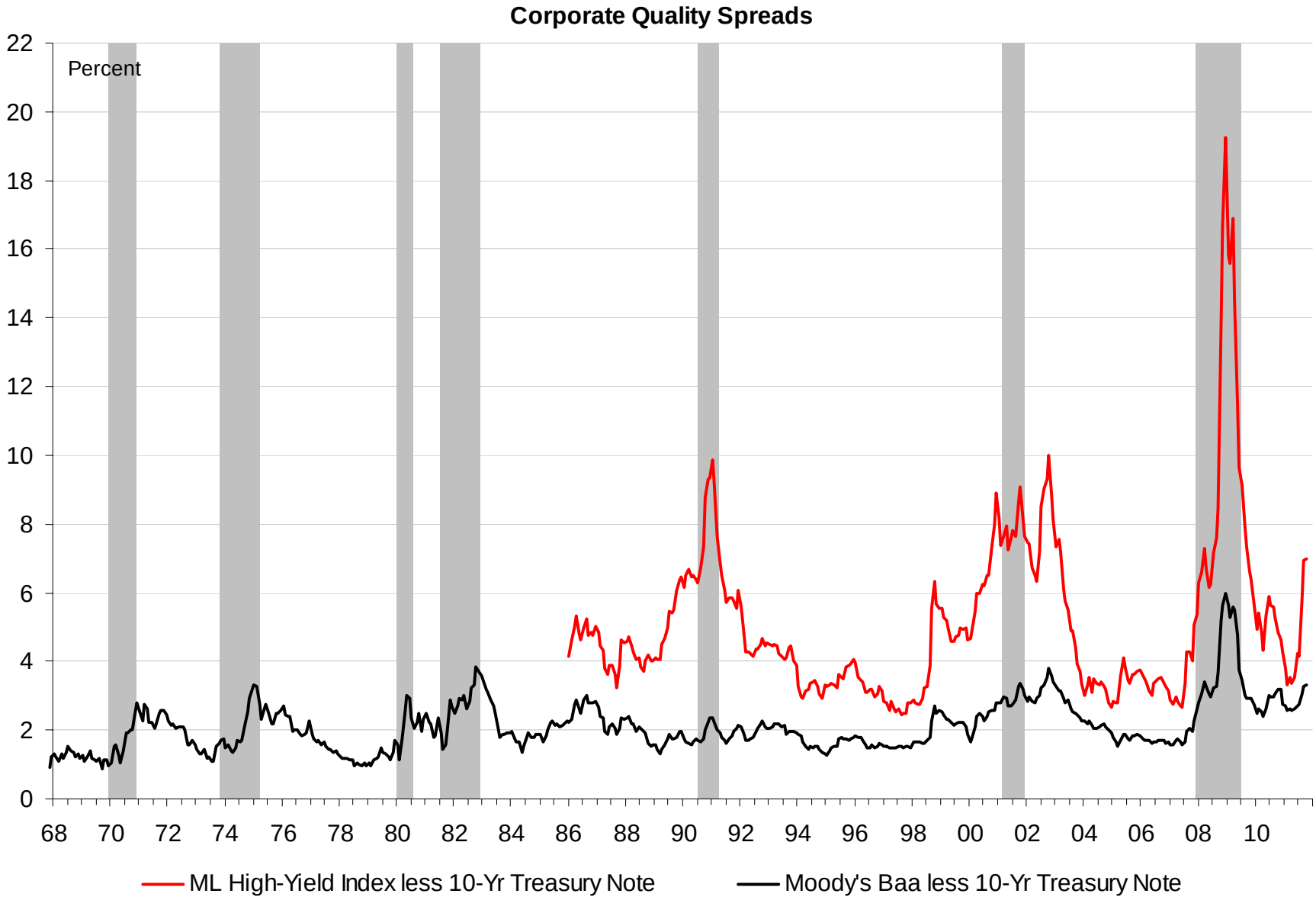
Treasuries continued to see safe-haven demand, but with prices easing off recent highs. Borrowing short and lending long remains less lucrative for banks. Savers depending on fixed income instruments increasingly disappointed.



Source: Federal Reserve

Decision Economics: *Quality Spreads Remain Wide*

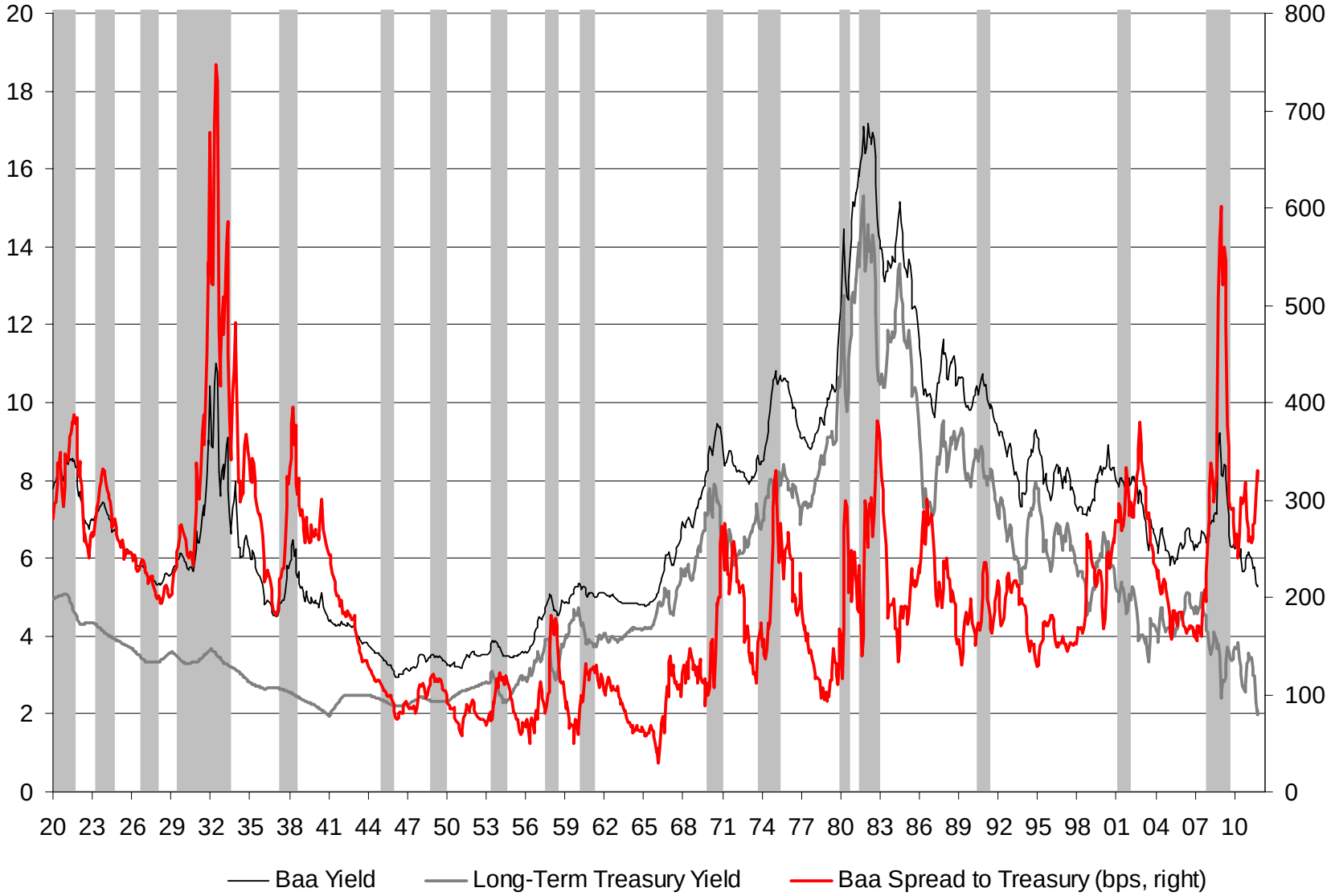
Observed widening suggestive of recession, but Fed impacting Treasury yields more than normally the case. In that sense, spreads are hardly a foolproof indicator, as the next slide shows.



Source: Moody's, Federal Reserve, BofA Merrill Lynch via Bloomberg

Decision Economics: *Baa Corporate Spread – The Very Long Term*

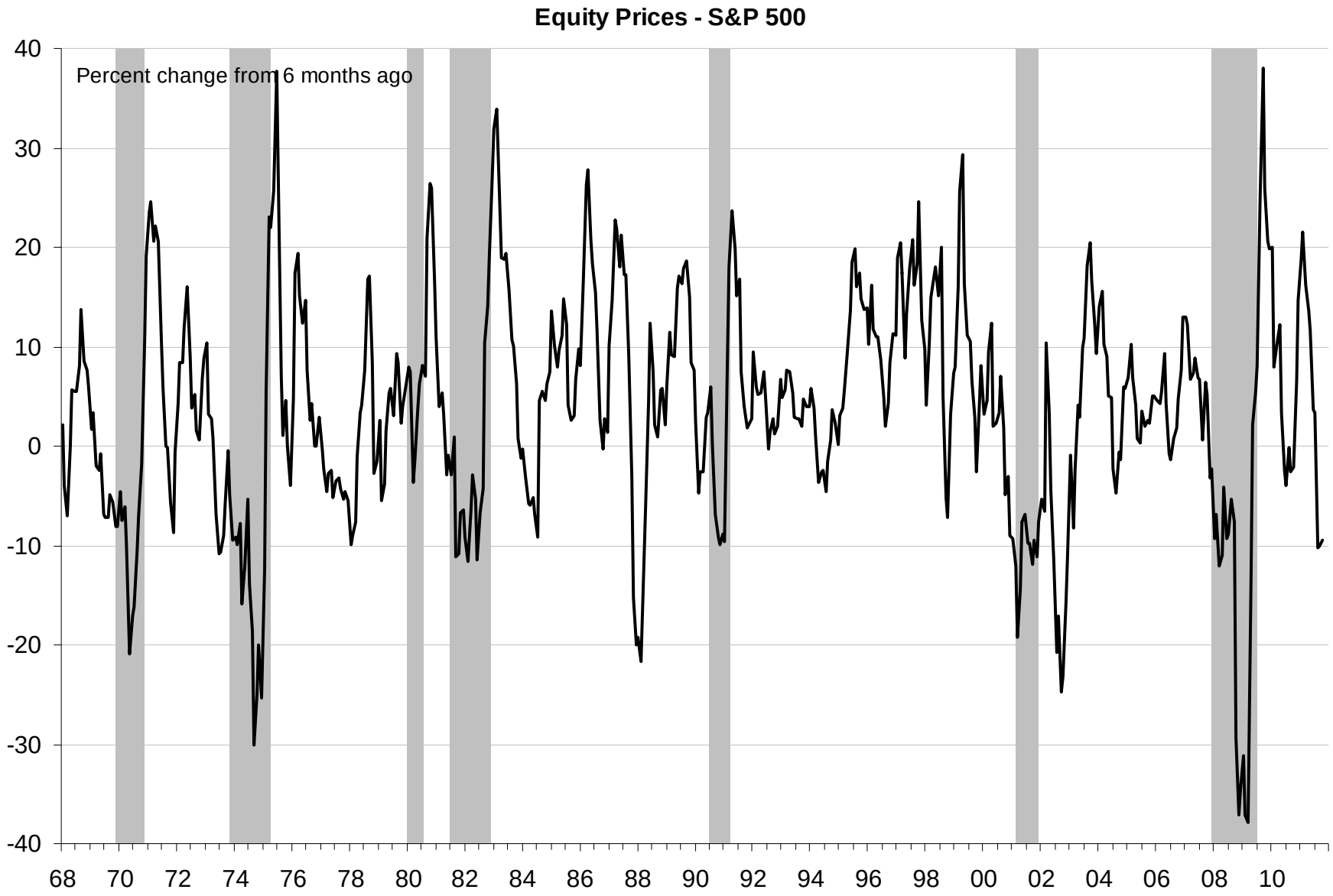
Spikes in Baa corporate spreads at current levels are nearly always associated with recessions. Exceptions include the mid-80s, and the Asian crisis of the late 1990s. But, the spike is also being driven by the Fed's intervention on the long-end. Investors are so far accepting lower absolute yields, which is typically *not* a recession signal, even in the falling-yield environment.



Source: Bloomberg, Moody's, Robert Shiller online database

Decision Economics: *Equity Market Weighing Risks*

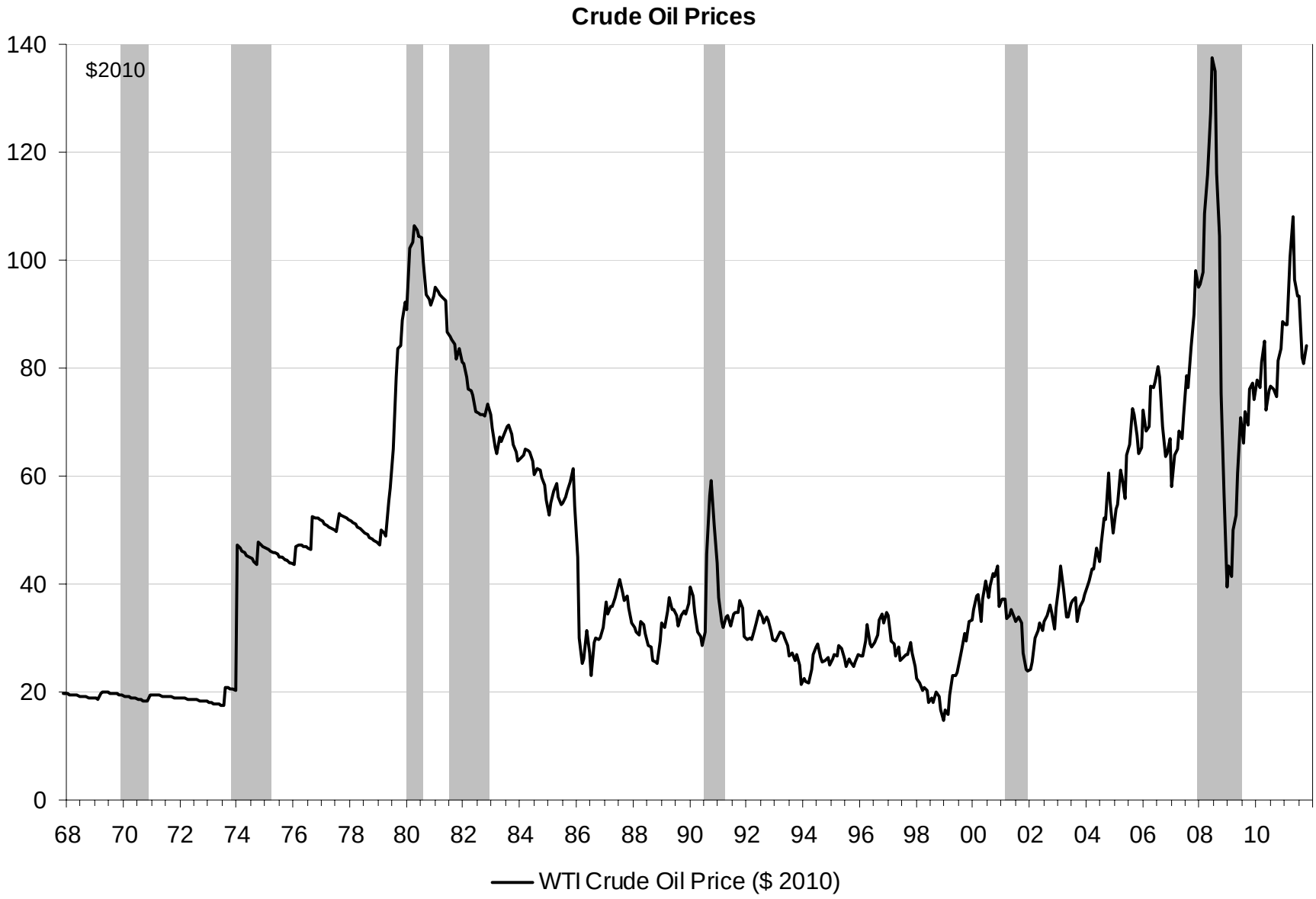
A >10% drop in the S&P 500 index relative to 6 months prior is nearly always indicative of recession. If one takes the view that QE 2.0 boosted late-2010/early-2011 risk sentiment more than warranted, the recent drop looks less severe. Slow growth, not recession, would then still be in the cards.



Source: Standard and Poors

Decision Economics: *Oil and Commodity Prices Decline Hit By Recession Fears*

Dip in oil prices eases some pressure on domestic consumers. Underlying all of the volatility is the story of a secular shift toward commodity-intensive growth in EM countries. In the short-run, however, decelerating EM growth is helping to keep a lid on the near-term supply/demand balance.



Source: Financial Times and Decision Economics