DECISION ECONOMICS, INC.

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August 1, 2011

DE Recession/Recovery Scorecard

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Decision Economics: *Data Still Soft, Economy And Markets Traversing Minefield*

- Weak data again in July, but investors have been consumed with European and U.S. debt crisis policy measures.
- The ISM surveys softened markedly.
- Credit spreads widened and equity prices have moved sideways-to-lower amid shifting risk sentiment.
- Employment growth softened in June, and July appears weak as well. Initial claims filings remain elevated.
- The housing market is still bouncing along a bottom in terms of sales and starts, while prices are flat at best.
- Consumer sentiment measures took another leg down in July, still deep in recession-like territory.
- Oil and other commodity prices remain well down from early-2011 peaks.

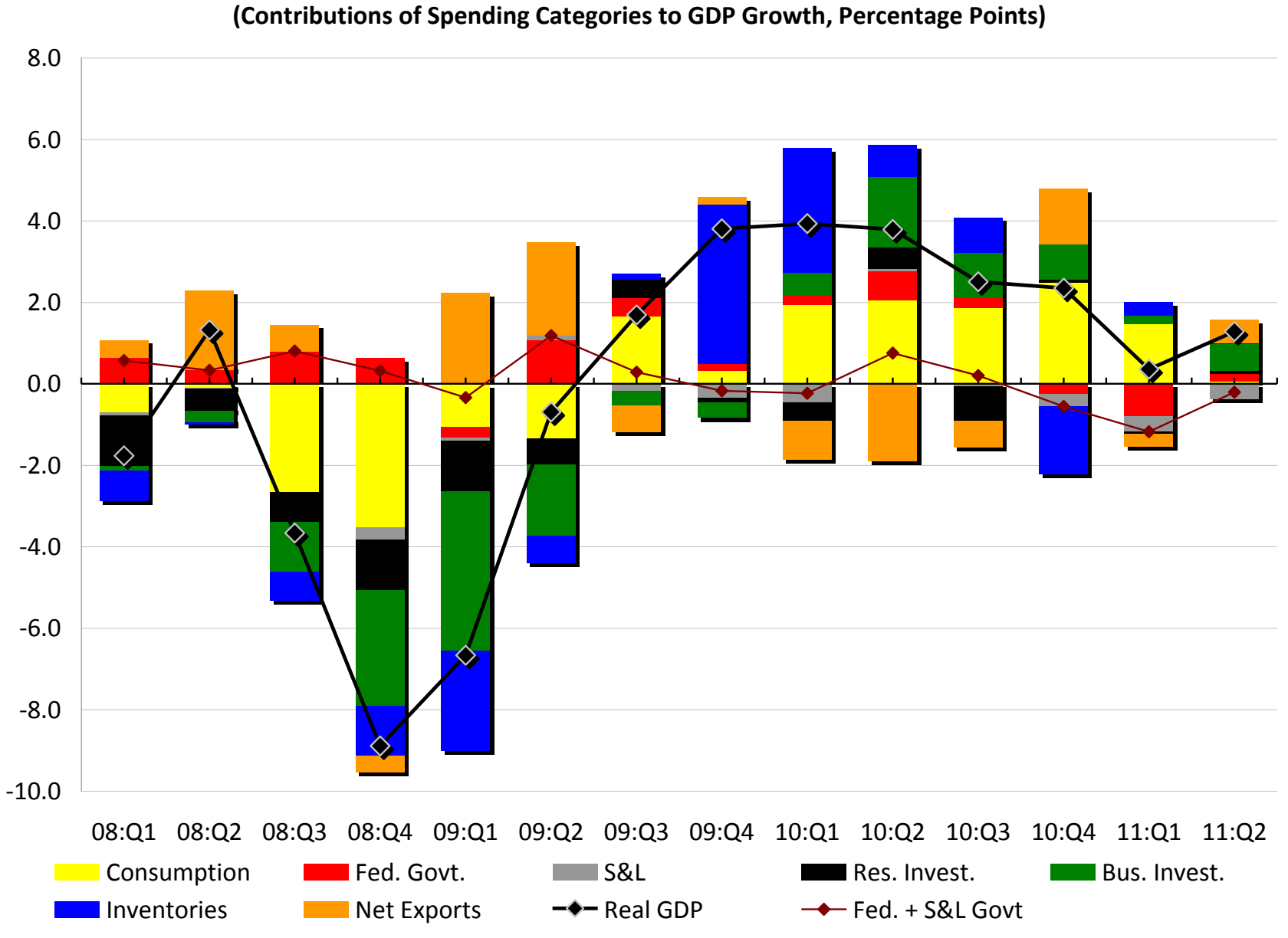
Recession/Recovery Scorecard

Indicator	Peak Value	Peak Date	Low Value	Low Date	Last Month	Current Value	Typical Range Entering A Recession	Recent Performance	Comments
LEI*	11.5	Mar. 10	-5.0	Dec. 08	5.4	6.0	-3% to -4%	Softer	**Decelerating in recent months.**
Consumer sentiment	96.9	Jan. 07	55.3	Nov. 08	71.5	63.7	60 to 80	Softer	**Recession-like for a long time.**
Real retail sales*	6.9	Jun. 05	-8.1	Oct. 08	4.2	3.5	+1% to +2%	Slowing	**Slower growth in recent months.**
Payroll employment**	239	Mar. 06	-568	Jul. 09	69	86	+100K to -100K	Weak	**Hiring and demand…chicken and the egg?**
Initial claims***	291	Feb. 06	653	Mar. 09	428	414	375K to 400K	Lower	**Edges slightly lower.**
Housing Starts	2273	Jan. 06	478	Apr. 09	549	629	1200K to 1400K	Higher	**Little willingness to add to supply overhang.**
ISM	61.4	May. 04	33.3	Dec. 08	55.3	50.9	38 to 43	Weaker	**Needs to rebound soon to support 2011H2 growth.**
Yield curve****	-3.72	Jun. 04	0.69	Dec. 06	-2.74	-2.75	+0.00 to +3.00	Flatter	**QE2 winds down. Soft data prompt a 'what next'?**
Corp. quality spread*****	21.7	Dec. 08	2.7	Jun. 07	4.20	4.15	6.50 plus	Wider	**Credit spreads turning a bit wider recently.**
Stock prices (S&P500)	1540	Oct. 07	757	Mar. 09	1287	1300	-10% plus (y/y)	Lower	**Higher on avg. in July, but lower at month-end.**
Oil prices (WTI, *2010$*)	138	Jun. 08	16	Feb. 99	93	93	--	Lower	**Down from recent peak, a welcome sign.**

*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.

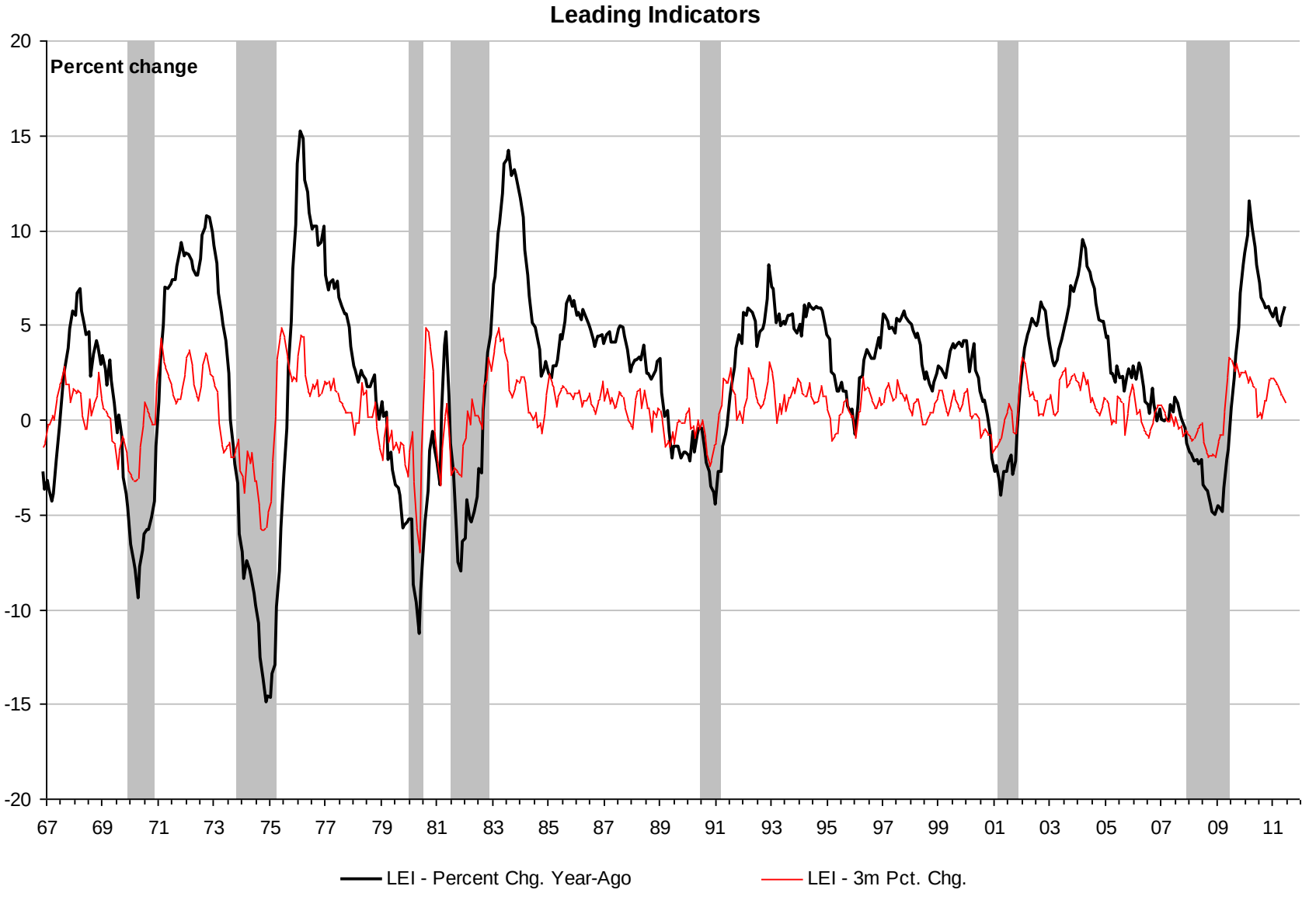
Decision Economics: *Contributions to GDP Growth*

Consumers absent in Q2 as inflation, weak labor market weigh on income. Revision showed much weaker Q1.



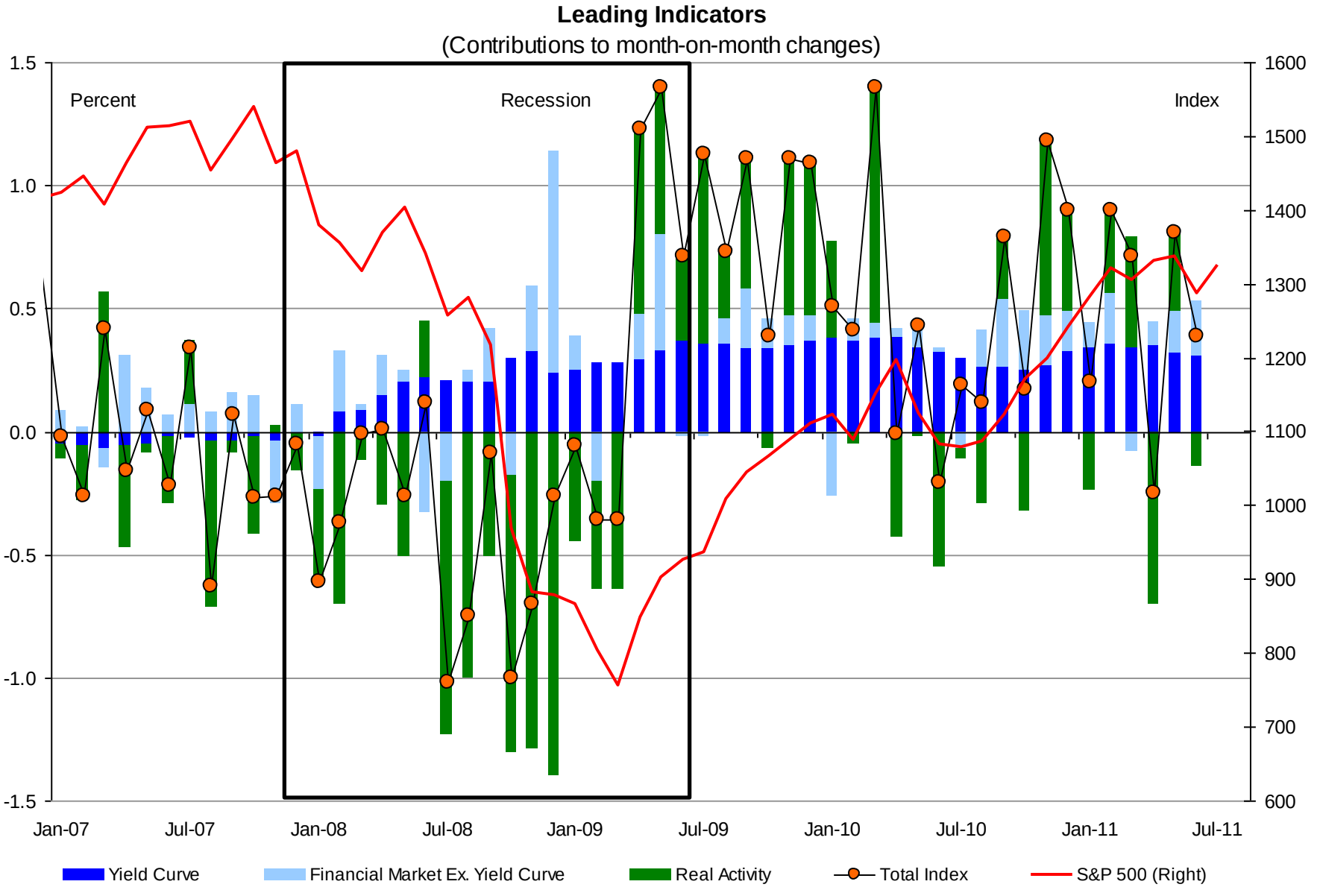
Source: BEA and Decision Economics

Steady in June, though the three-month change edged lower. A modest pickup in growth is still looked-for in Q2,, but far from robust.



Source: The Conference Board and Decision Economics

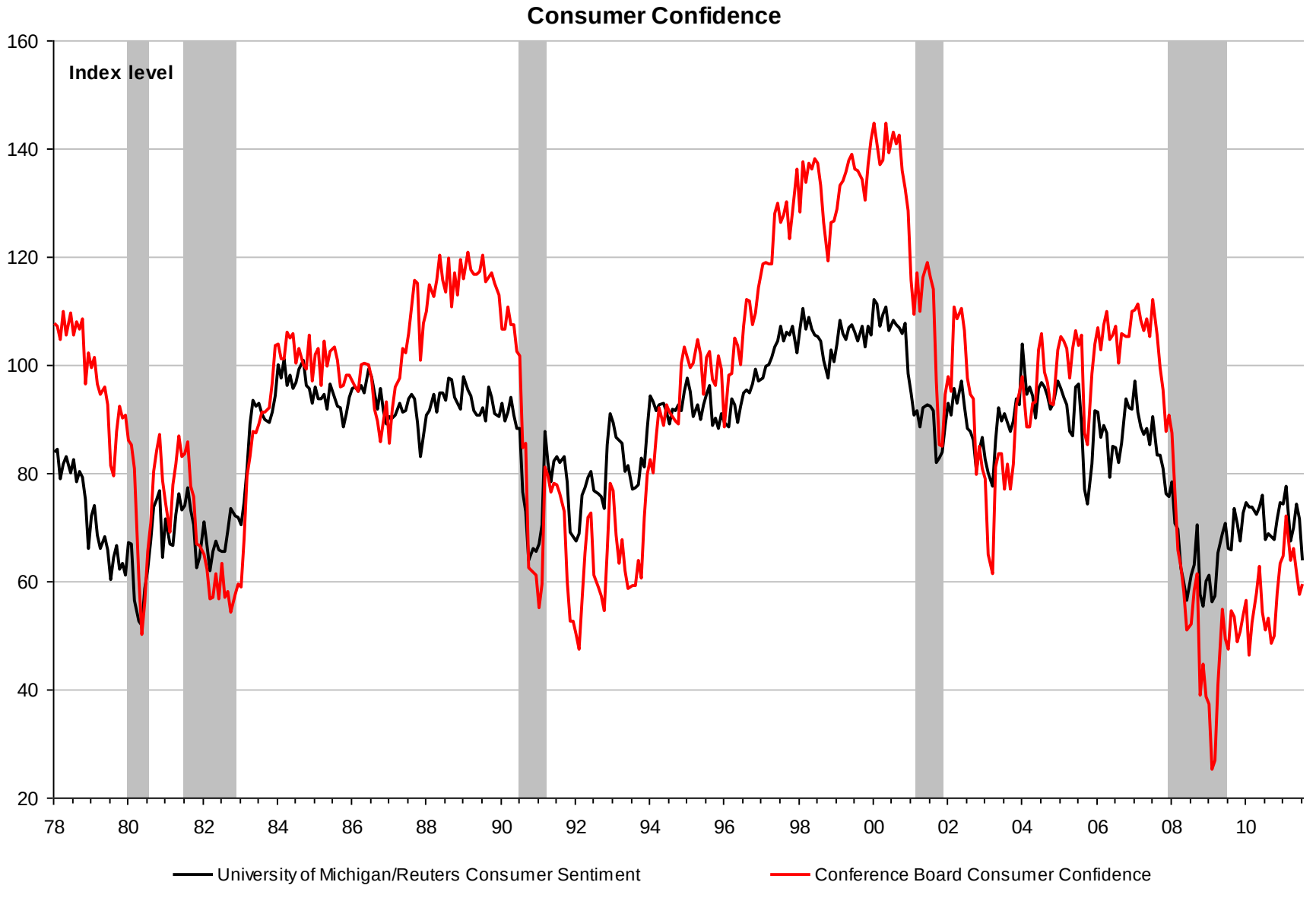
The June LEI was stagnant save for the yield curve and money supply. July will take a hit due to the ISM and consumer confidence.



Source: The Conference Board and Decision Economics

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

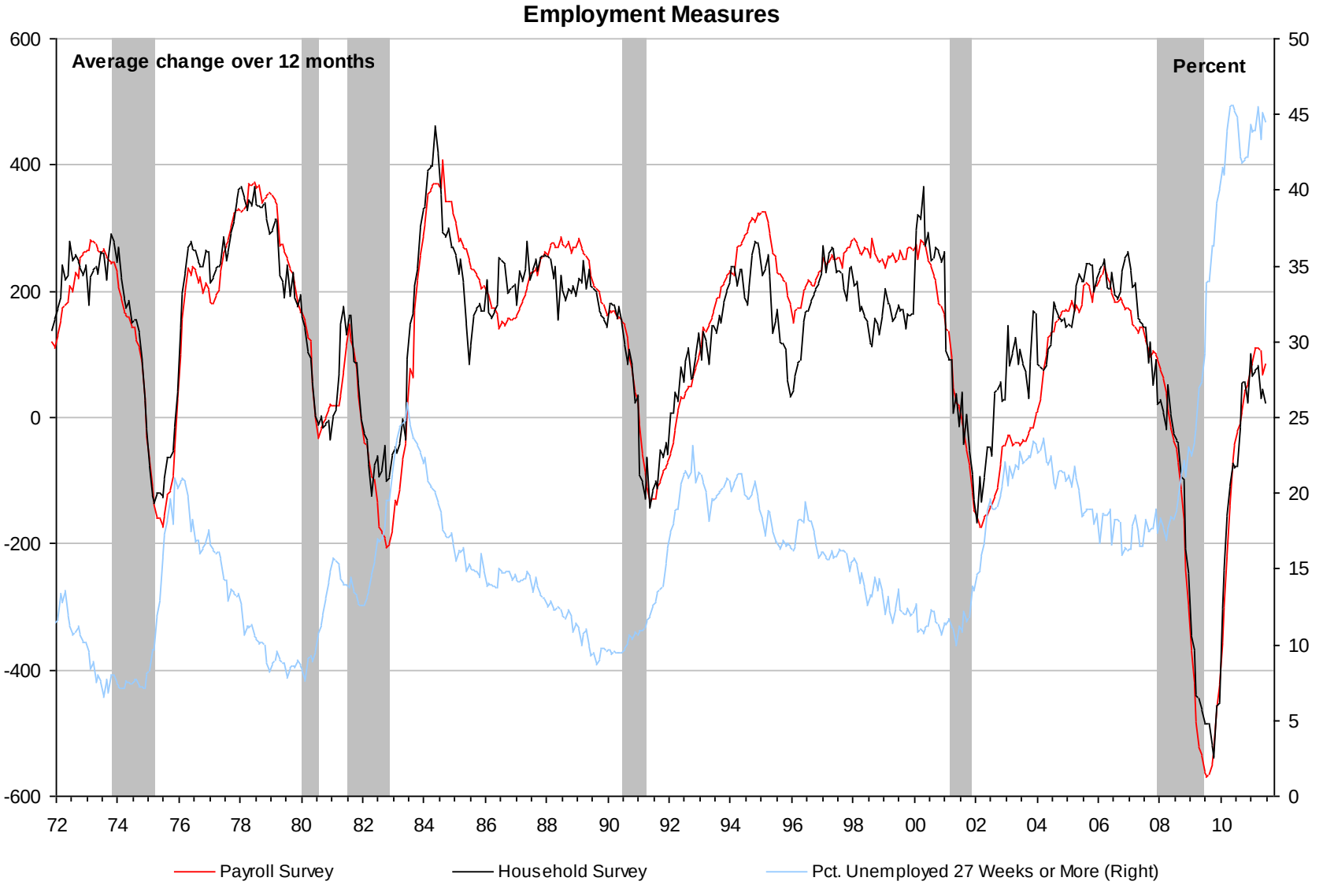
Consumer confidence measures remain deep in recession-like territory. The longer-term theme is still one of household deleveraging, and housing and labor market softness restraining stronger growth.



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

Decision Economics: *Slow Progress on the Employment Front*

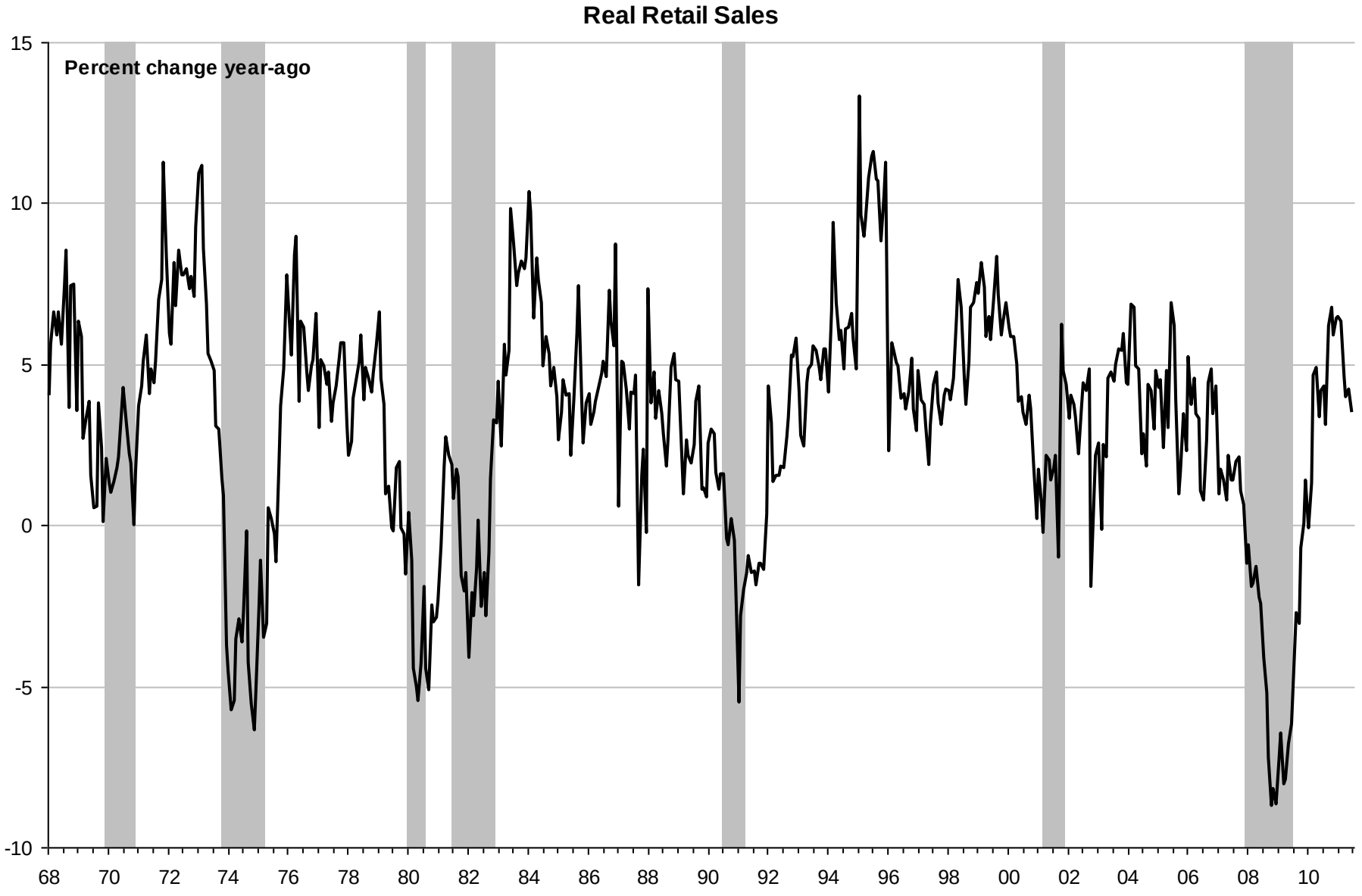
Three consecutive 200K+ gains in payrolls from Feb-Apr were followed by sub-100K reading in May and June. July likely not any better. Measures of long-term unemployment, underutilization, and discouragement remain at extremely high levels. That "shadow inventory" has no easy fixes, especially as firms survey an uncertain demand environment, and as they find it easier to substitute capital for labor costs where possible.



Source: BLS and Decision Economics

Decision Economics: *Spending Weak in Q2, Flat in June*

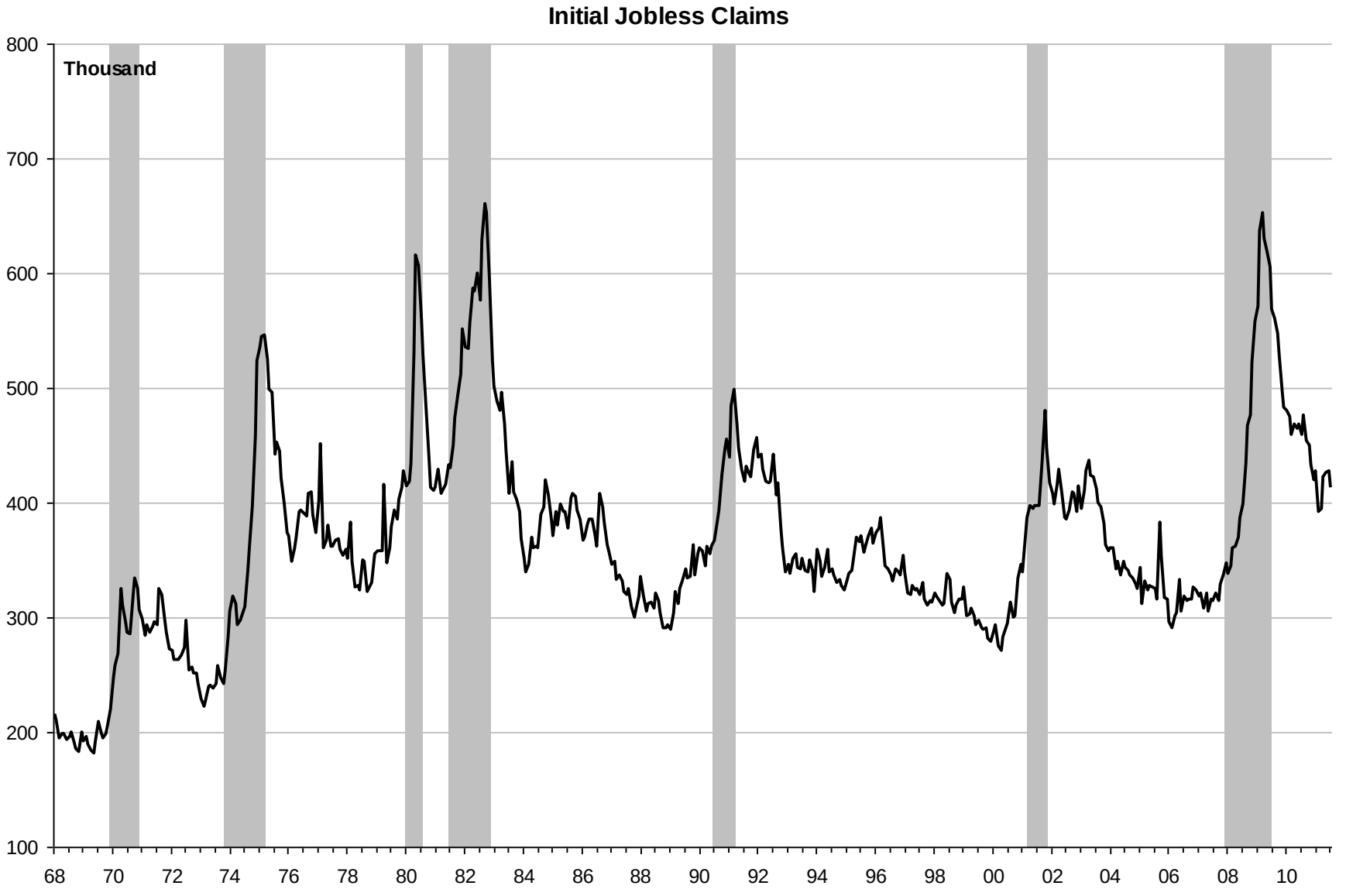
Higher inflation, weak jobs growth constraining real spending.



Source: BEA and Decision Economics

Decision Economics: *Jobless Claims Tick Slightly Lower*

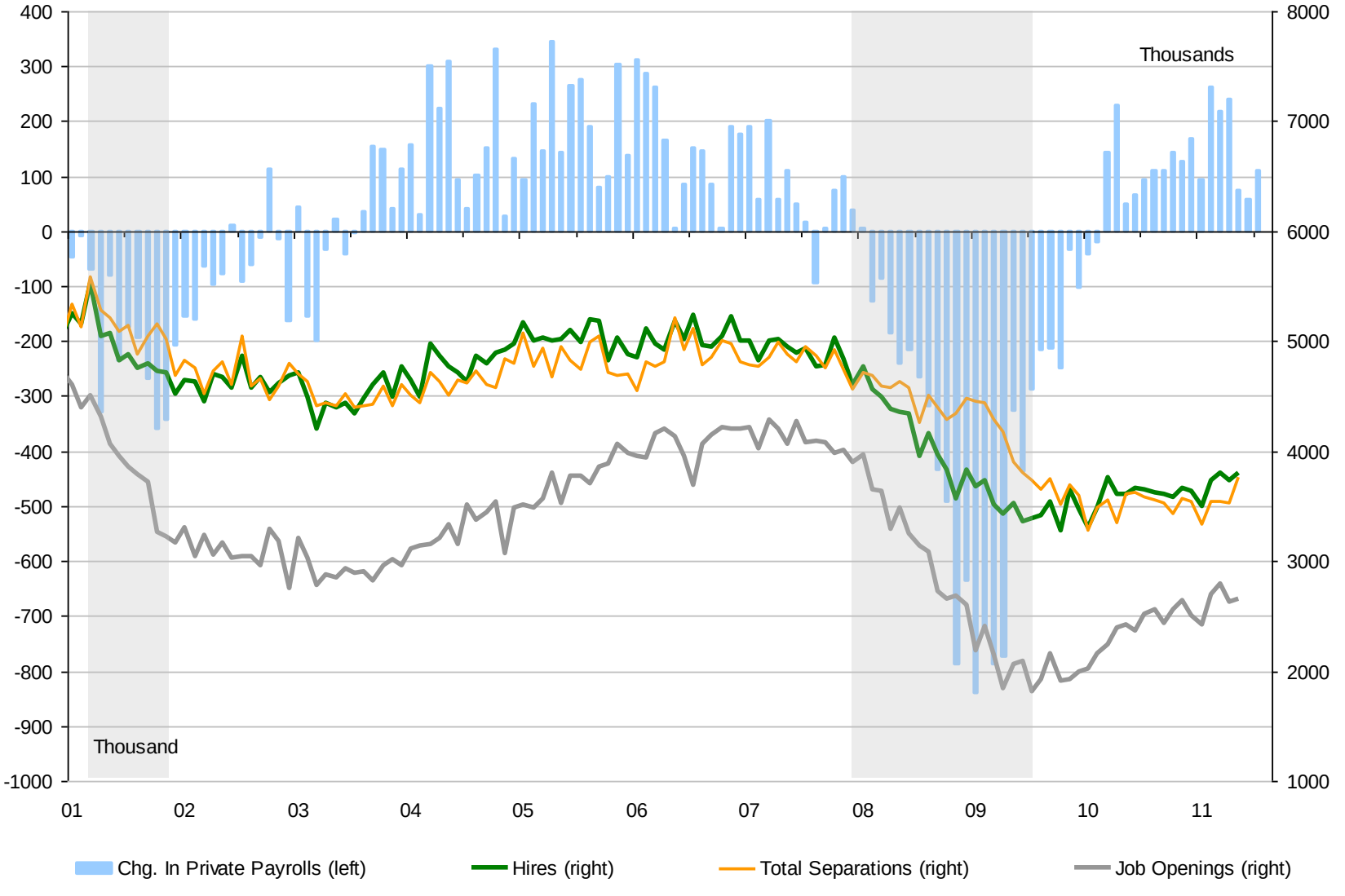
Initial claims filings edged lower toward month end, back near 400K. Business are searching for a balance between cost-cutting and meeting demand, opting for caution amid downside risks and ongoing political/economic uncertainty.



Source: BLS

Decision Economics: *Flows Within the Private Payroll Employment Numbers*

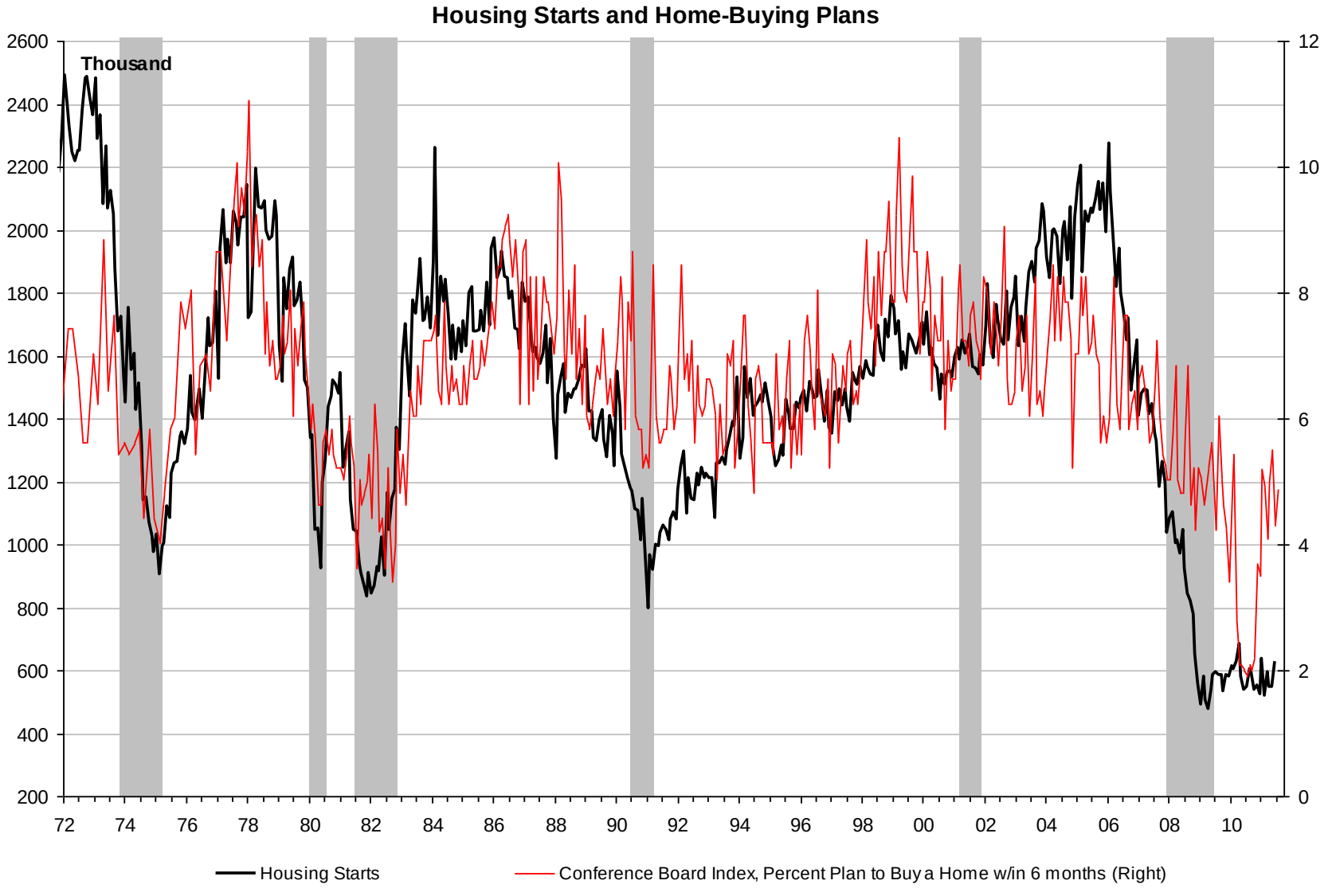
The chart below shows BLS data on job openings and labor turnover in the private sector (JOLTS survey), versus the change in private payrolls from the closely-watched employment report. The JOLTS data are lagged by one month. The general uptrend in openings is encouraging, a development also expressing itself in the NFIB Small Business Survey (not pictured here).



Source: BLS and Decision Economics

Decision Economics: *Starts, Sales Bouncing At Low Levels*

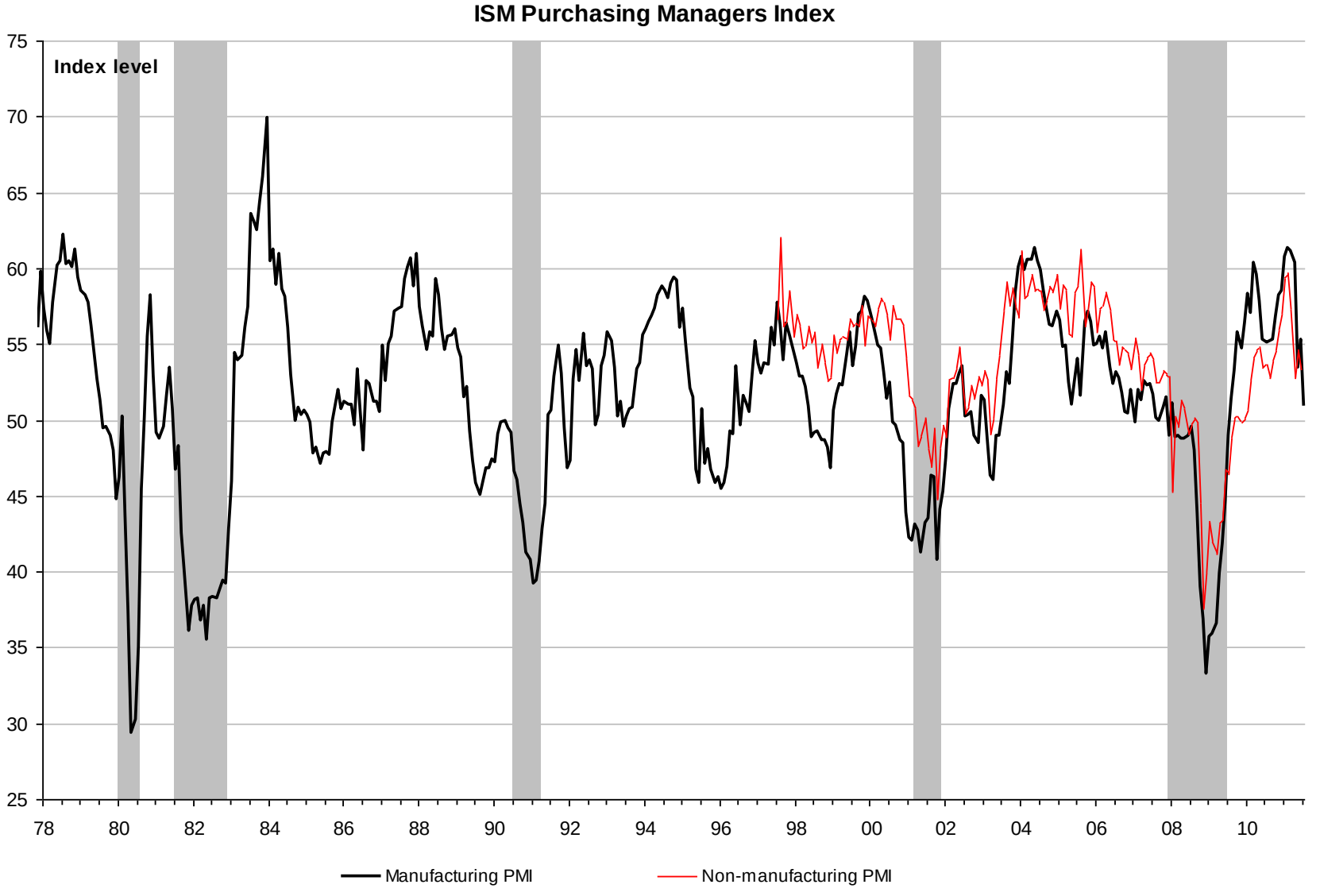
Until sales pick up and supply is worked through, builders will be unwilling to add to existing stocks. Improvement in demand from here on likely to be very gradual at best. And even if demand were to pick up, tight credit conditions are still a significant hurdle. Inventory overhang, both official and "shadow," will remain the major issue for quite some time, holding back a sector that typically provides a boost during recoveries.



Source: Census Bureau, National Association of Realtors

Decision Economics: *ISM Surveys Stumble*

The manufacturing ISM plunged in July, with notable weakening in the orders and employment components, among others. The “temporary slowdown” versus “potential turning point” debate is likely to continue, but to the extent that the latter is becoming increasingly backed by data, even forward-looking data, and the former increasingly on hope in the face of headwinds, talk of Fed stimulus should increase with Congress deadlocked.

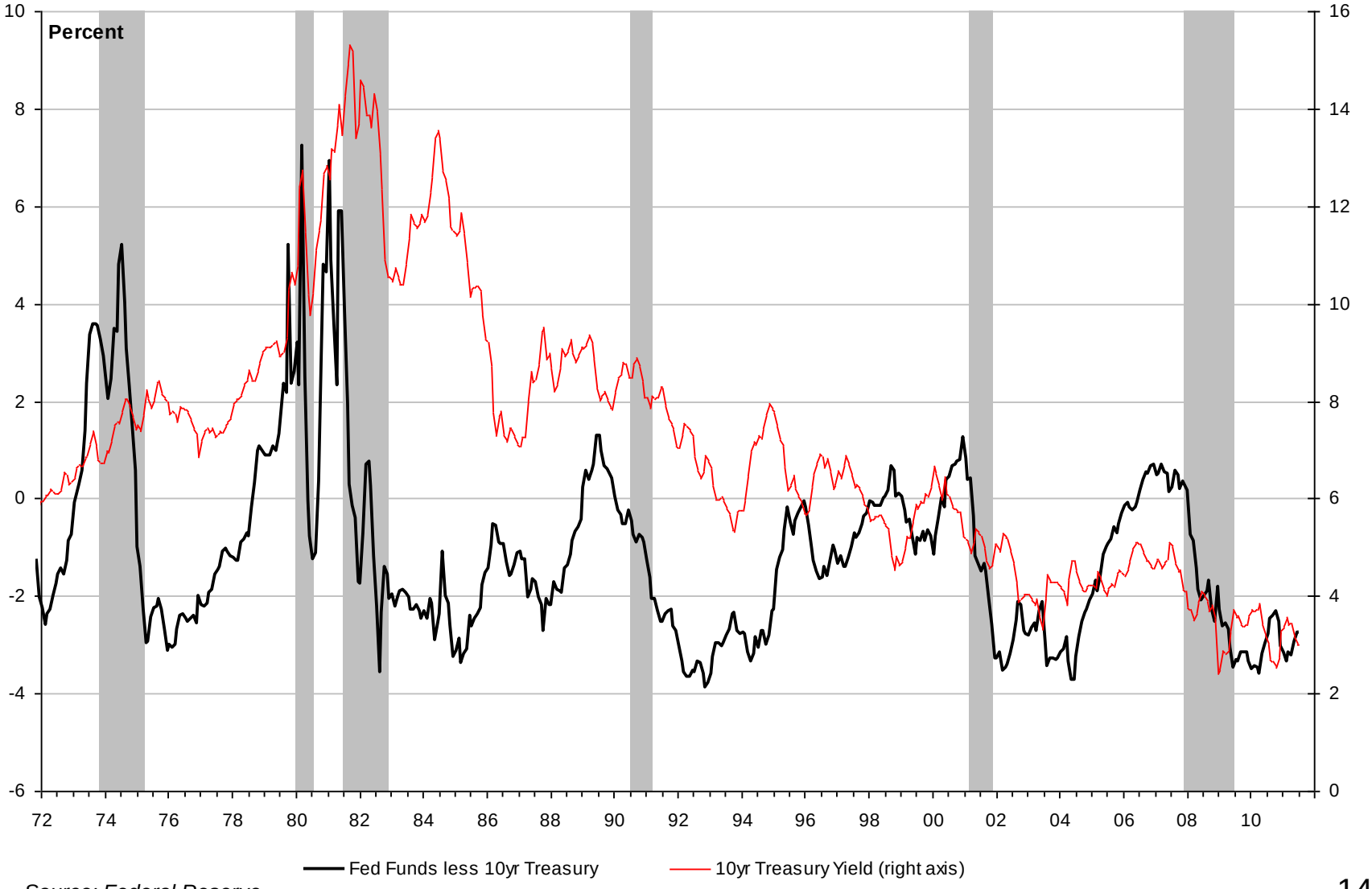


Source: Institute for Supply Management

Decision Economics: *Treasuries and AAA Status – "A Rose By Any Other Name?"*

Even amid talk of default and downgrades, Treasuries continued to see safe-haven demand, the 10yr pushing higher to a near-2.7% yield. Markets might yet see ripples from a downgrade – perhaps through repo or technical credit market effects – but no analogous situation, at least in recent history, exists for problems facing the world's reserve currency. AAA only in name, would a downgrade without another large, liquid market to escape to, matter? In the long run, yes.

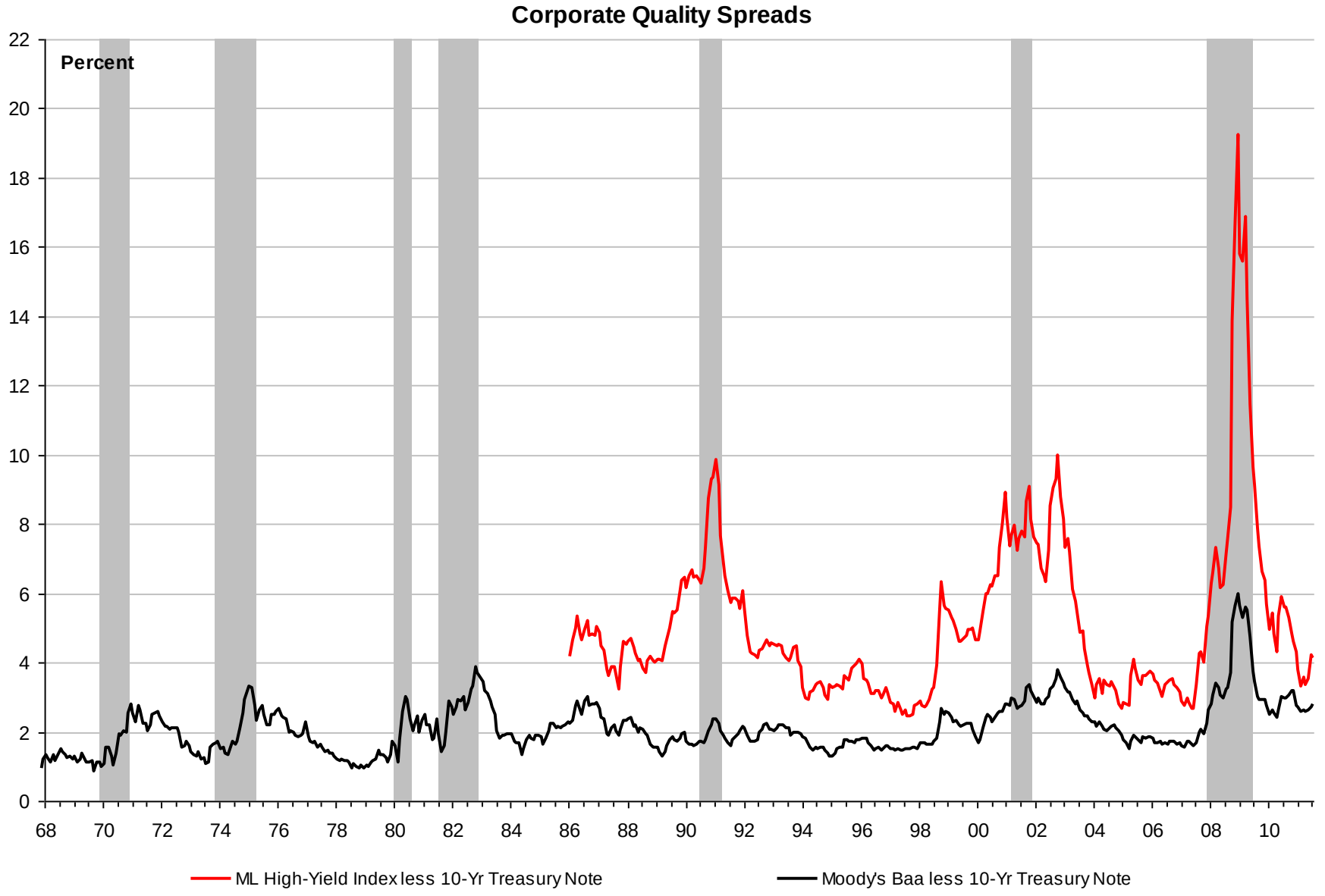
Yield Curve and 10yr Treasury



Source: Federal Reserve

Decision Economics: *Quality Spreads Widened*

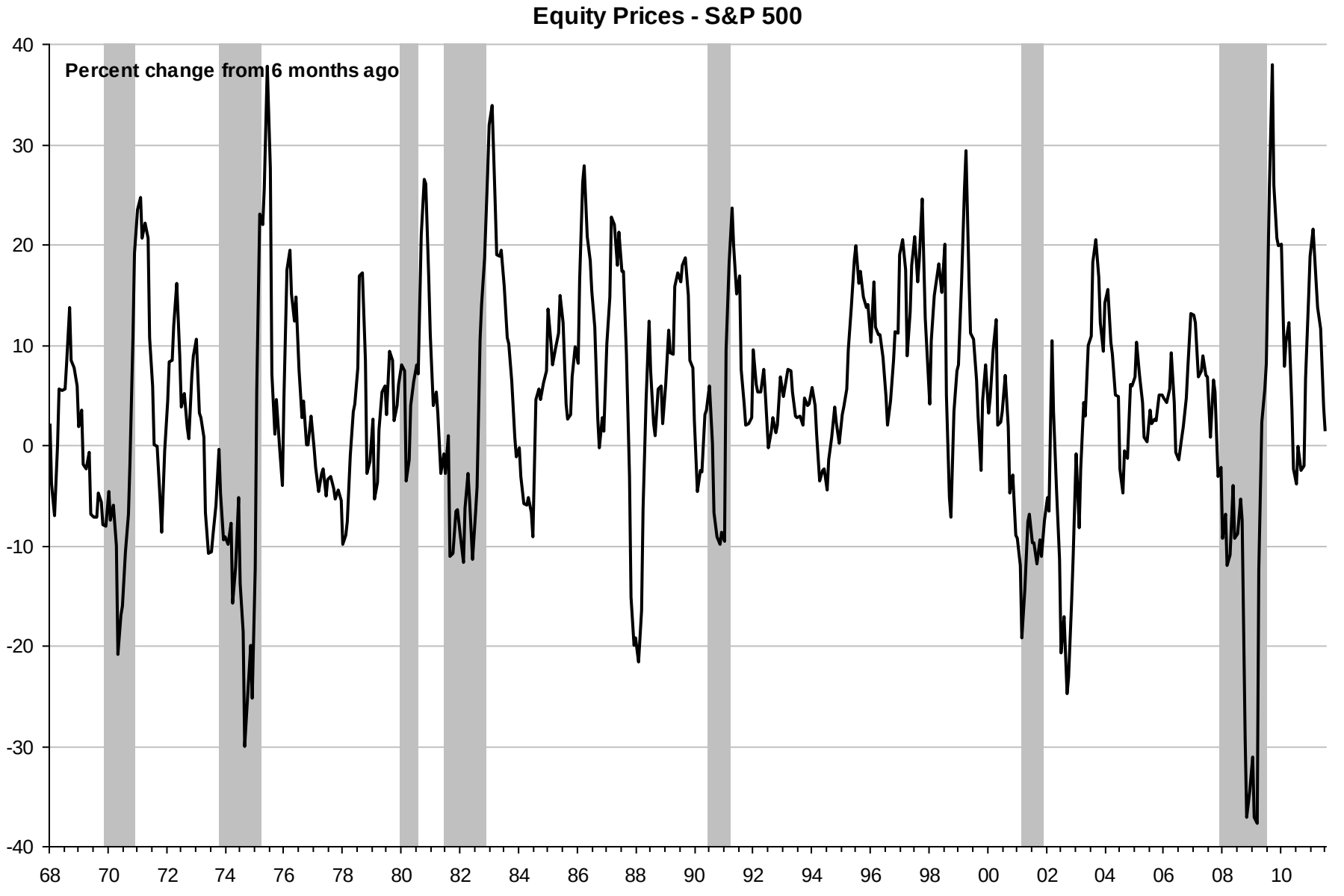
Low rates and no rush to tighten policy at the Fed created a favorable environment for riskier bonds. Low rates are still in play, but risk sentiment remains shaky.



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

Decision Economics: *Equity Market Faces Plenty of Risks, Earnings Still Solid*

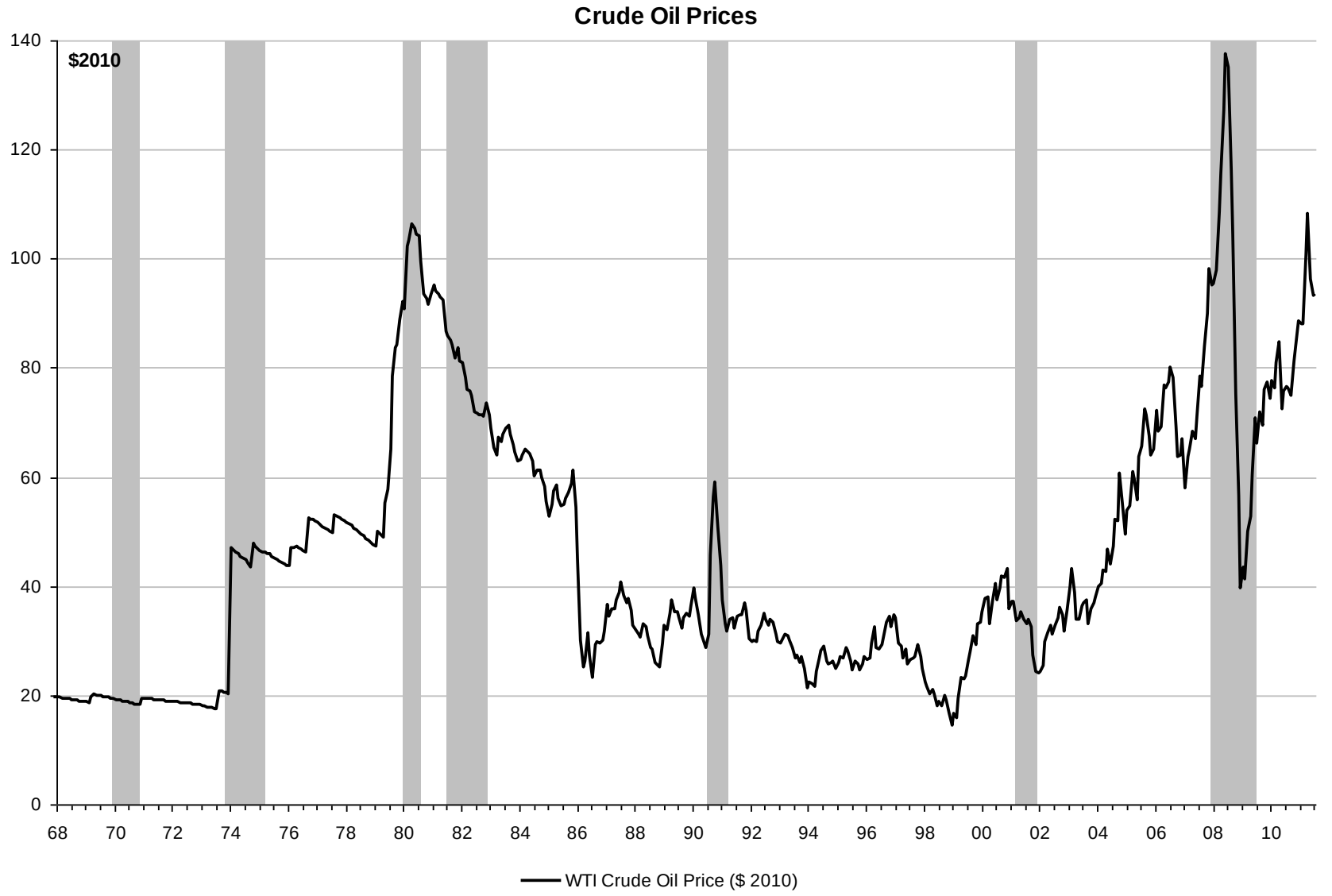
Businesses are still posting solid earnings results, supporting valuations, while interest rates remain extremely low, also favorable to equities. But, macro risks have risen, leaving equities sideways-to-weaker in recent months.



Source: Standard and Poors

Decision Economics: *Respite From Spike in Oil Prices*

A dip in oil prices eases some pressure on domestic consumers, but the summer months in the Northern hemisphere could bring another test as it brings with it a peak in gasoline demand. Underlying all of the volatility is the persuasive story of a secular shift toward commodity-intensive growth in EM countries. In the short-run, however, even EM growth is seeing an uncertain outlook.



Source: Financial Times and Decision Economics