

Economic Highlights

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Economic Activity

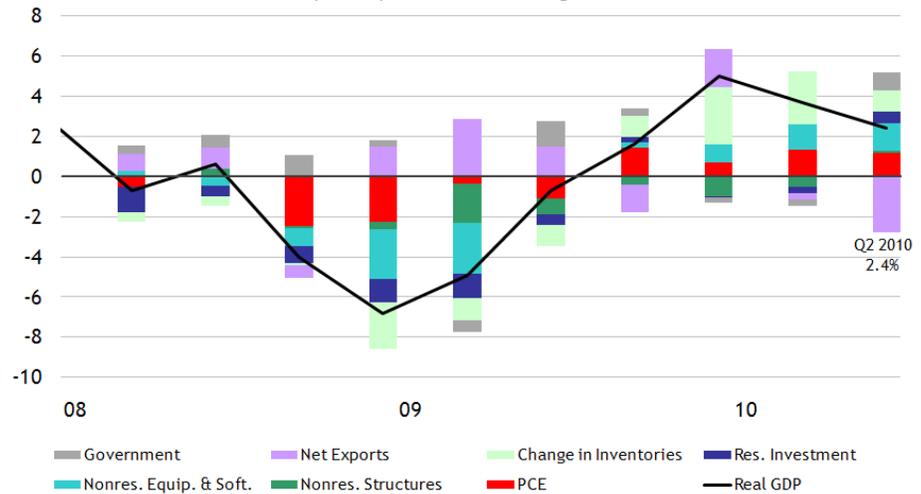
Summary

According to the BEA's first estimate, real GDP grew 2.4% in Q2 2010.

Growth in Q2 showed a drag from strong imports and a slow-down in consumer spending while business and residential investment accelerated.

Contributions to Real GDP Growth

quarterly, annualized % change



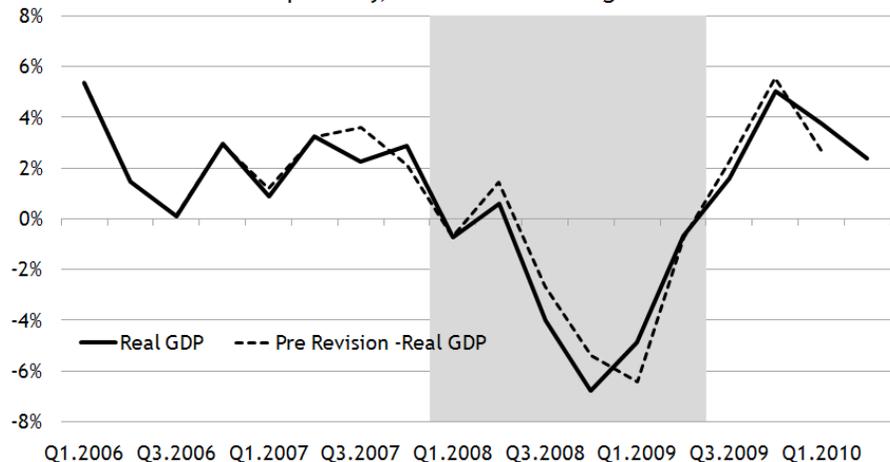
Source: U.S. Bureau of Economic Analysis

- Real GDP grew 2.4% in Q2, below the Bloomberg consensus estimate of 2.6%. This reading follows 3.7% growth in Q1 which was upwardly revised from 2.7%.
- Personal consumption expenditures (PCE) grew 1.6% in Q2, down from 1.9% in Q1.
- Business investment in equipment and software grew 21.9% in Q2, following 20.4% in Q1.
- Nonresidential investment in structures grew 5.2% in Q2, up from the 17.8% decline in Q1.
- Net exports subtracted 2.8 percentage points from real GDP growth in Q2, with exports growing 10.3% and imports growing 28.8%.
- Residential investment grew 27.9% in Q2 following a 12.3% decline in Q1.
- The level of the change in inventories was \$75.7 billion in Q2, adding 1.05 percentage points to Q2 real GDP following a contribution of 2.6 points in Q1 and 2.8 points in Q4 2009.
- For the revision period, annual real GDP was revised down for all three years: from a 2.1% increase to a 1.9% increase for 2007, from an increase of 0.4% to 0.0% for 2008, and from a decrease of 2.4% to a decrease of 2.6% for 2009.

The BEA also released the annual revision covering Q1 2007 through Q1 2010, showing that GDP contracted sooner and deeper than initially estimated.

Real GDP

quarterly, annualized % change



Source: Bureau of Economic Analysis, through Q2 10

Assumes recession ended June 2009

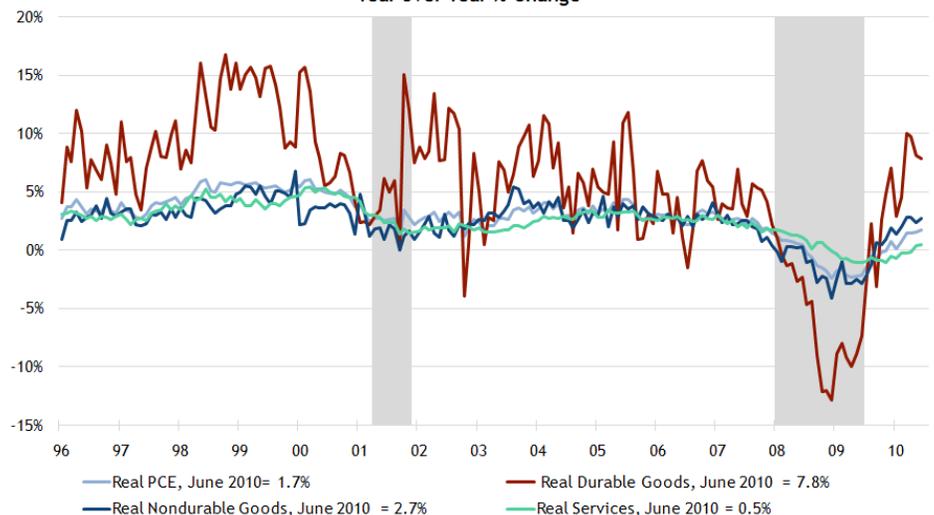
Consumer Spending

Summary

Real personal consumption expenditures (PCE) posted a small increase in June.

Compared with a year earlier, PCE continued to increase but remains below the pace of spending during previous economic expansions.

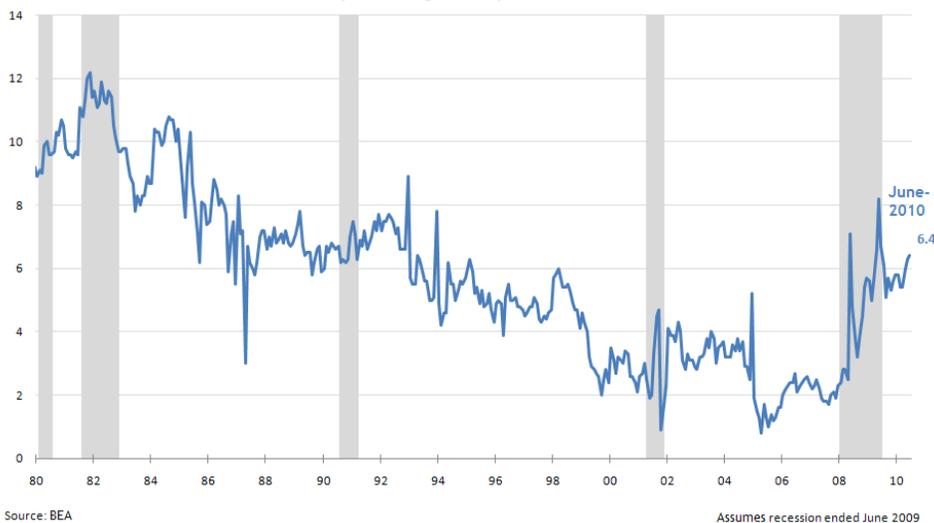
Real Personal Consumption Expenditures
Year over Year % Change



- In June, real PCE rose 0.12% following a 0.16% increase in May. Spending on durable goods increased 0.4% over the month while spending on nondurables and services was essentially flat.
- On a year-over year basis, real PCE increased 1.7% in June, still below the average of consumer spending of close to 3% over the past few expansionary periods.

The savings rate increased for the third consecutive month to 6.4% in June, reaching the highest level since June 2009.

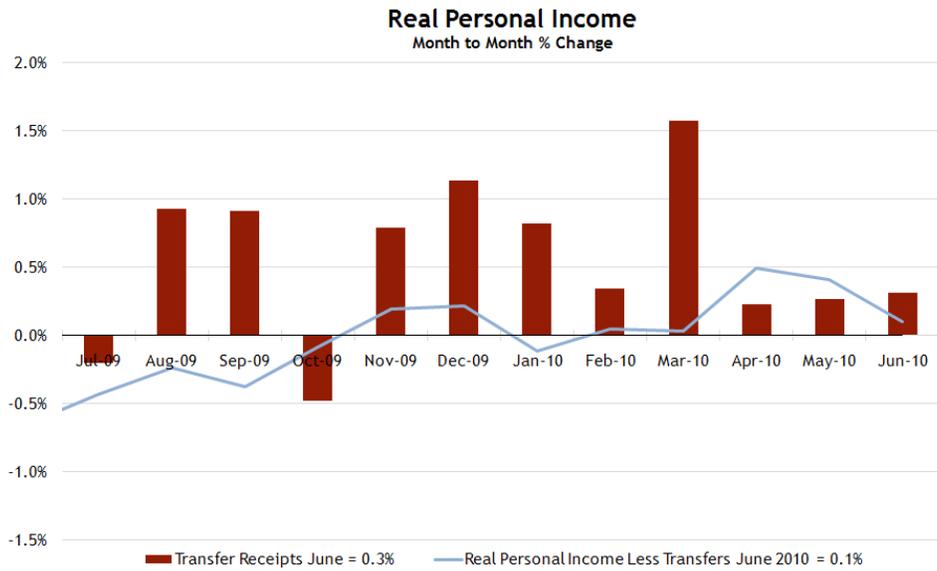
Personal Savings Rate
As a percentage of disposable income



Consumer Spending

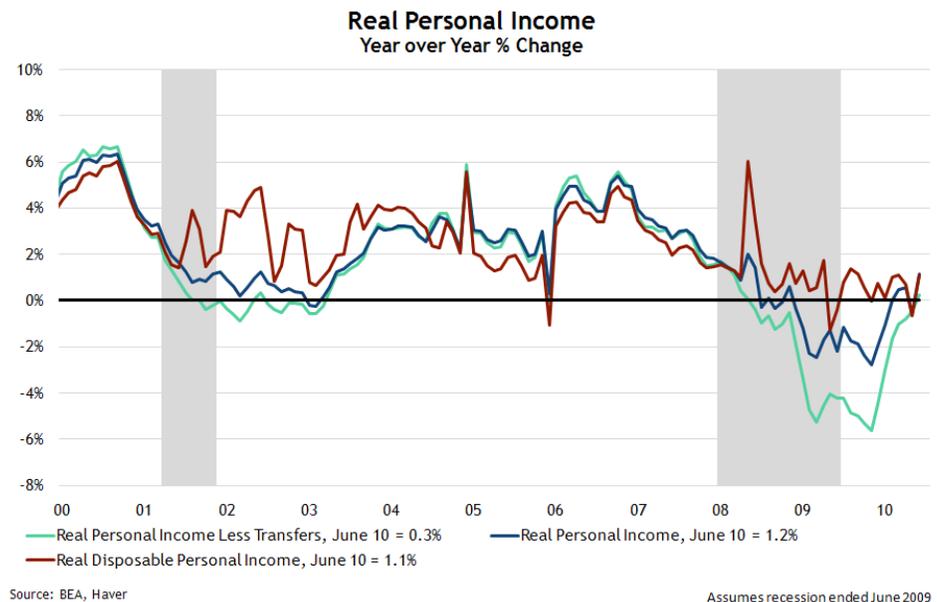
Summary

Real personal income posted a small gain in June.



- Real personal income rose 0.17% and real personal income less transfers grew 0.1% in June. These gains follow two months of increases of above 0.4% in real personal income less transfers.
- On an annual basis, real personal income and real personal disposable income increased by 1.2% and 1.1%, respectively. Real personal income less transfers grew 0.3% over the year, marking the first positive reading since May 2008.

On a year-over-year basis, real personal income increased but remains weak.

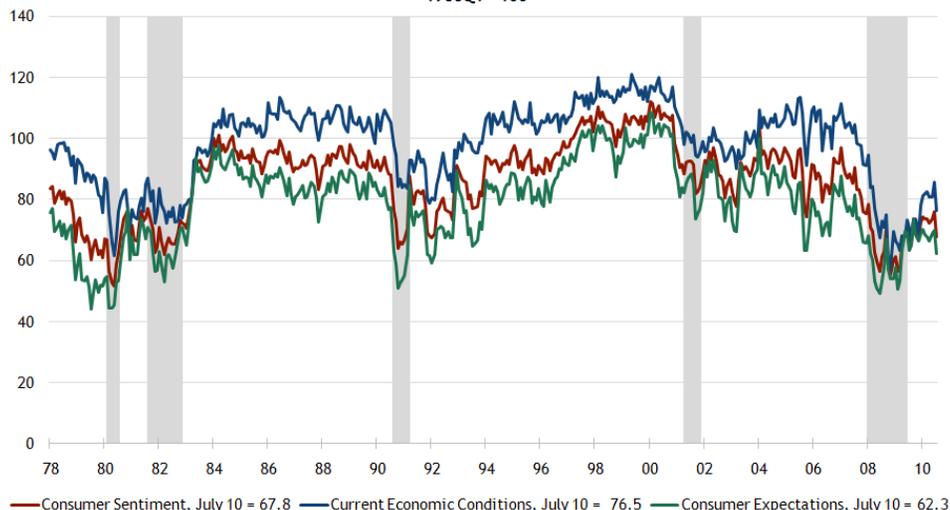


Consumer Spending

Summary

The University of Michigan's Consumer Confidence Index was revised up slightly for July but still remains at a depressed level.

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



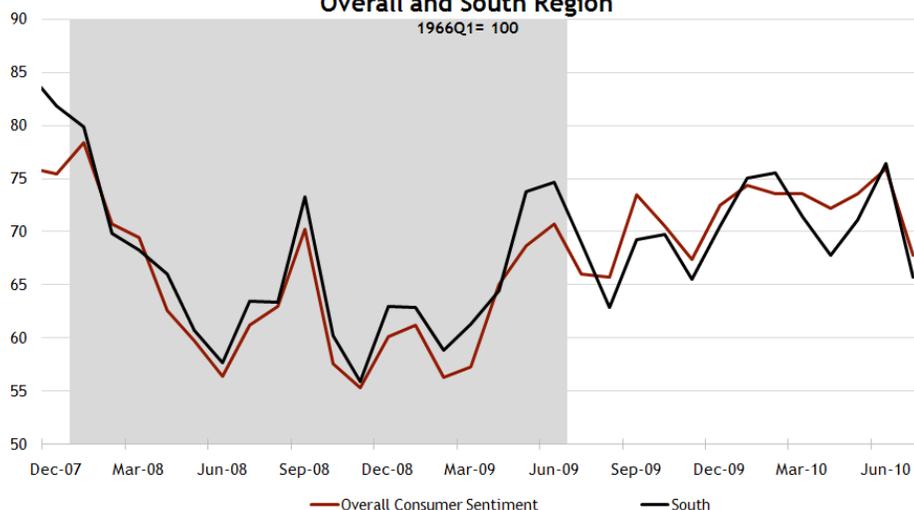
Source: Reuters/University of Michigan

Assumes recession ended June 2009

- Consumer confidence was revised up slightly to 67.8 for July from 66.5 in the preliminary report but still declined from the June reading of 76. The index remained at the lowest level since November 2009.
- Both components of the confidence index were revised up for July but are still down from June. The expectations component was revised up to 62.3 for July from 60.6 in the preliminary report. The current conditions component was revised up to 76.5 for July from 75.5 in the preliminary report.
- Among the four census regions of the confidence index, the upward revision was concentrated in the West, up 4.8 points, while the South and Midwest were revised up 0.9 points. Compared with June, all regions' confidence declined, with the biggest decline in the South (-10.7 points) to 65.8 for July.

Consumer confidence in the South was revised up for July but still shows a decline from June.

Reuters/University of Michigan Consumer Sentiment Index: Overall and South Region
1966Q1= 100

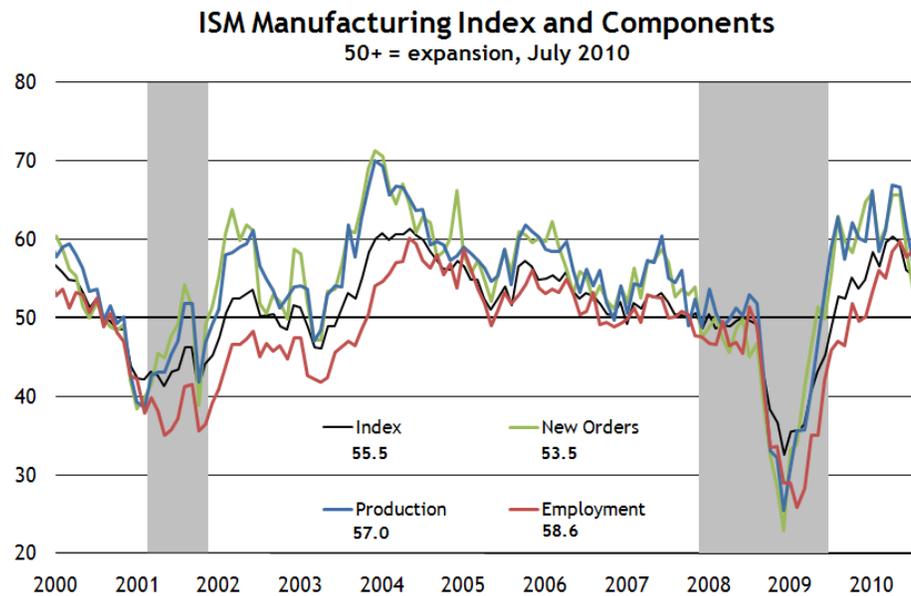


Source: Reuters/University of Michigan

Assumes recession ended June 2009

Summary

Continuing the second quarter trend of decelerating growth, July's Purchasing Managers Index (PMI) from the Institute of Supply Management shed 0.7 index point but remains firmly in the index's expansion range.



Source: Institute for Supply Management

Assumes recession ended June 2009

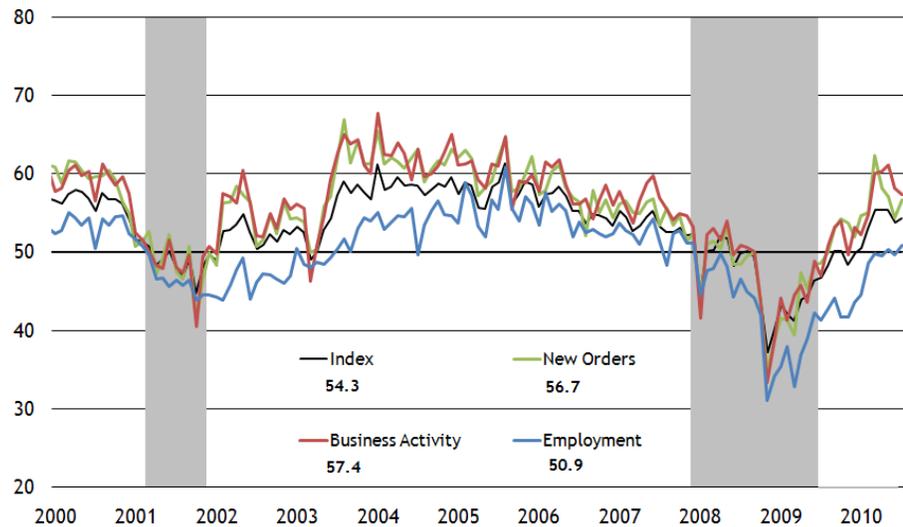
- The ISM's PMI indicates that the manufacturing sector expanded at a slower pace in July. The overall index **dropped 0.7 percentage points** to reach 55.5.
- July's sharpest drop in PMI components came from the new orders index, which **dropped 5 index points** for the month, a result of 27% of survey respondents reporting better new orders from June to July, 53% reporting similar levels of new orders as the previous month, and 20% reporting worse orders figures than in June.
- In July, the ISM PMI's production component remained elevated at 57 but **dropped 4.4 percentage points** from its June reading. Roughly one-third of respondents reported higher production levels in July than June while about half said production levels remained the same month to month.
- Strengthening components for the month included employment, which **gained 0.8 percentage points**. This gain was solely a result of fewer respondents reporting worse employment conditions. The same percentage (26%) of survey participants said manufacturing employment levels were higher in June and July.

Summary

The Institute for Supply Management's Purchasing Managers Index for nonmanufacturing organizations indicated a faster rate of growth in July. The index gained 0.5 percentage point to reach 54.3.

ISM Non-Manufacturing Index and Components

50+ = expansion, July 2010



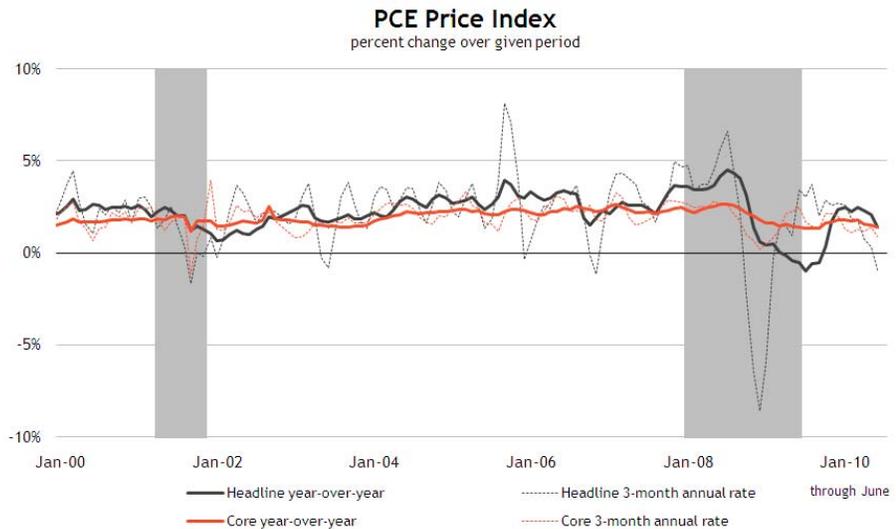
Source: Institute for Supply Management

Assumes recession ended June 2009

- The ISM's Non-Manufacturing PMI gained steam in July, growing 0.5 percentage points from 53.8 to 54.3.
- The business activity component dipped 0.7 percentage points in July but remains at a very high reading relative to the past several years. Comments on business activity from survey participants included "seasonal, plus more consumer confidence" and "economy seems to be recovering."
- Contrasting with the ISM's Manufacturing PMI, the new orders index for nonmanufacturing organizations grew 2.3 percentage points in July.
- In July, nonmanufacturing organizations reported less negative employment sentiment. The percentage of survey participants reporting lower levels of employment dropped from 12% in June to 10% in July, causing the employment index to add 1.2 percentage points.

Summary

PCE inflation measures continue to indicate persistent disinflation.



Source: Bureau of Economic Analysis

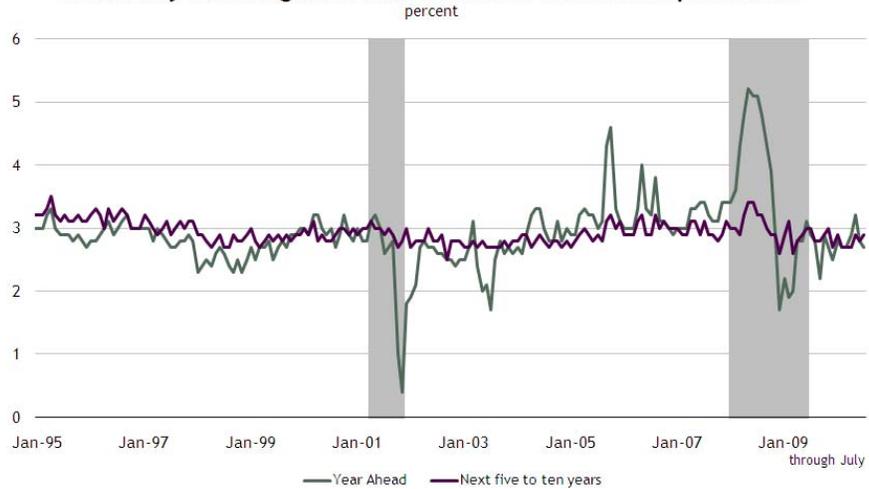
Assumes recession ended June 09.

- June headline inflation, as measured by the consumer spending deflator, was down 1.7% on an annualized monthly basis, a deterioration from a 0.9% decline in May. Headline PCE prices were up 1.4% year over year, the smallest 12-month growth since October 2009.
- Core (less food and energy) PCE prices increased by 0.5% (annual rate) in June, down from 1.5% the month before. Year-over-year core PCE inflation was 1.4%, a slight moderation from 1.5% in June.
- The indices for both durable goods and nondurable goods continued to show monthly declines in June, and the services index dipped 0.1% (annual rate) in June, the first index decline since March 2009.

Summary

Household inflation expectations were revised down in the final release for July, according to the University of Michigan.

University of Michigan Median Consumer Inflation Expectations



Source: University of Michigan

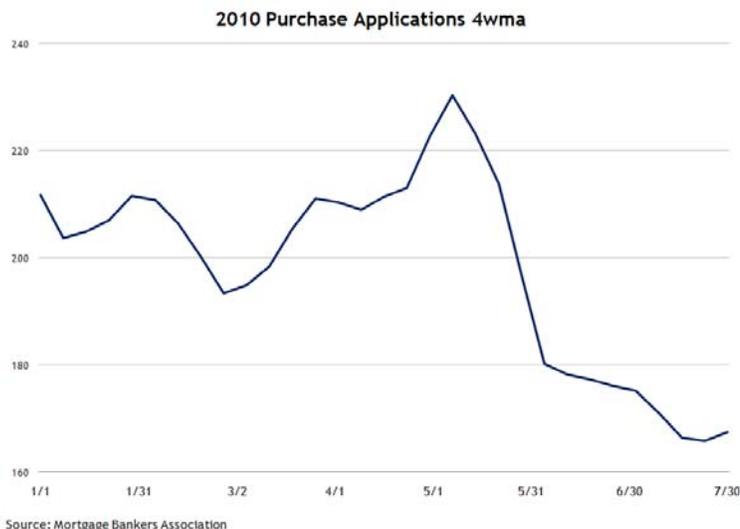
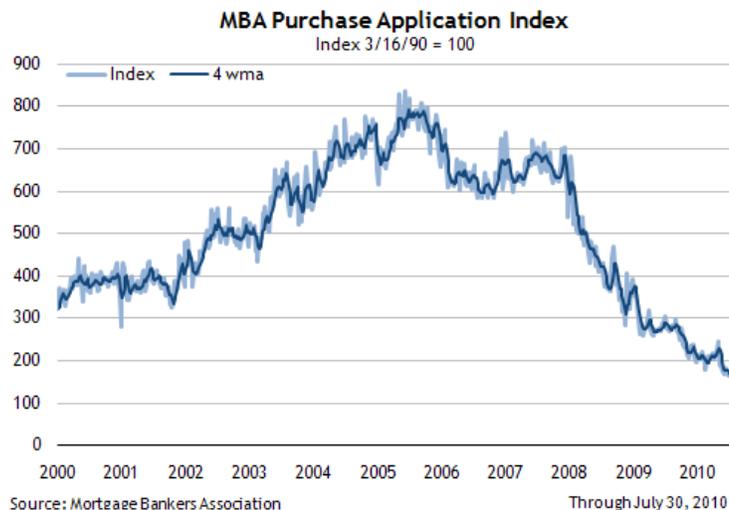
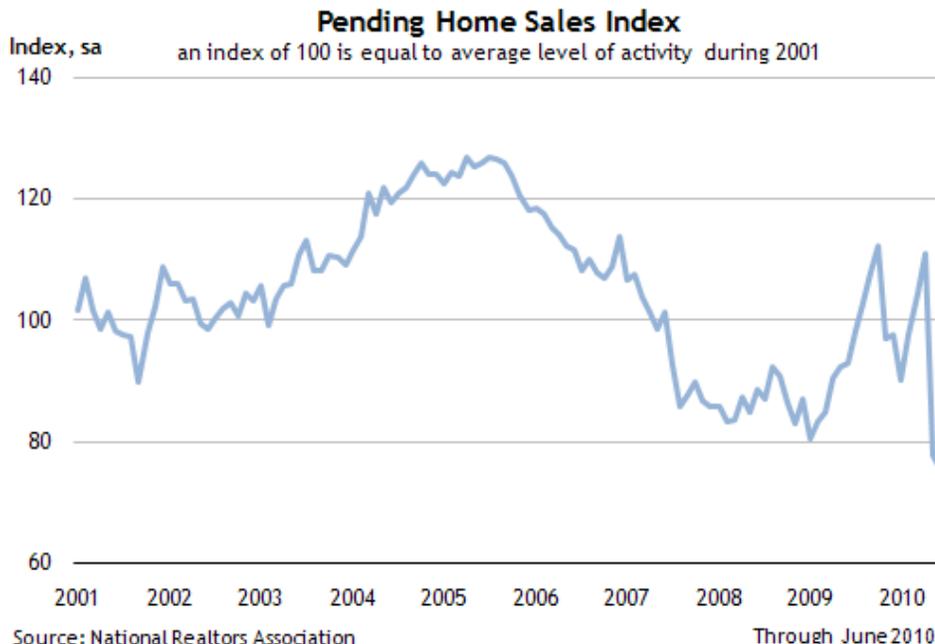
Assumes recession ended June 09.

- According to the University of Michigan's inflation expectations survey, inflation expectations for 12 months out were revised down from 2.9% in the preliminary report to 2.7% in the final report for July. This level follows readings of 2.8% in June and 3.2% in May.
- Longer-term inflation expectations—for the next five to ten years—remained unchanged at 2.9% for July, following 2.8% in June.

Summary

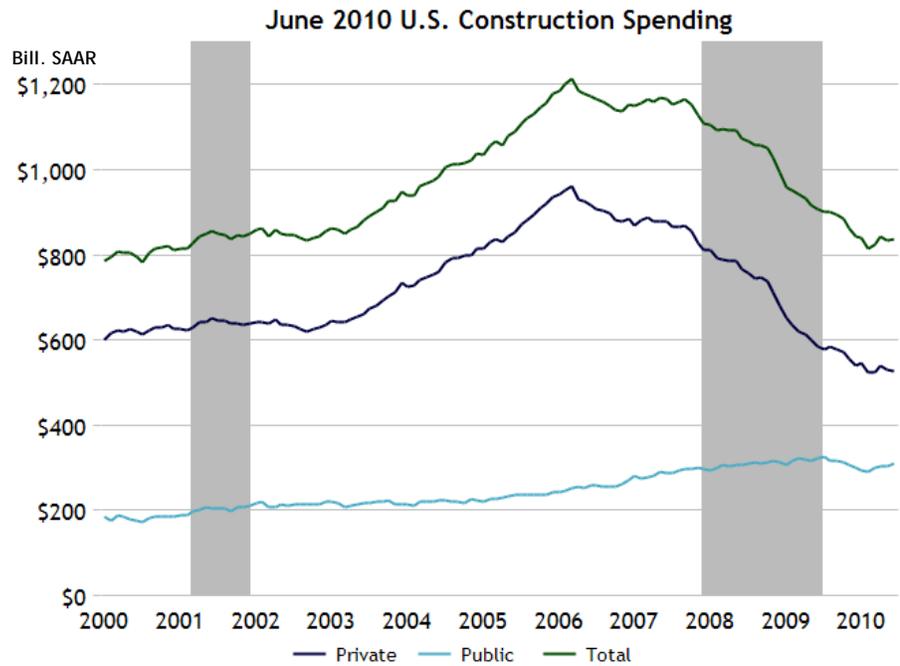
The National Association of Realtors reported that the pending home sales index in June declined to 76, the lowest level since the series began in January 2001.

According to data from the Mortgage Bankers Association, mortgage applications for home purchase softened from the end of June to the end of July.



Summary

According to the U.S. Census Bureau, construction spending exceeded consensus expectations in June, up slightly from May. Public construction spending increased while private construction spending weakened again.



Source: U.S. Census Bureau

June 2010 Construction Spending Put in Place

	billions, SAAR	yr/yr change	mo/mo change
Total	836.0	-7.9%	0.1%
Total private	527.6	-10.0%	-0.6%
Total public	308.4	-4.1%	1.5%
Total nonresidential	567.5	-15.2%	0.4%
Private nonresidential	269.3	-24.1%	-0.5%
Public nonresidential	298.2	-5.0%	1.2%
Total residential	268.0	-7.9%	0.1%