

<u>Date</u>	<u>Indicator</u>	<u>For</u>	<u>Estimate</u>	<u>Consensus*</u>	<u>Previous Period</u>
09-Sep-2008	Wholesale Inventories	JUL	0.9%		1.1%
09-Sep-2008	Pending Home Sales Index	JUL	87.1		89.0
11-Sep-2008	Trade: Goods & Services	JUL	-\$62.5B	-\$58.0B	-\$56.8B
11-Sep-2008	Import Price Index	AUG	-3.0%	-1.0%	1.7%
12-Sep-2008	Retail Sales	AUG	0.2%	0.2%	-0.1%
12-Sep-2008	Retail Sales ex-Auto	AUG	UNCH	0.1%	0.4%
12-Sep-2008	PPI	AUG	-0.6%	-0.4%	1.2%
12-Sep-2008	PPI ex-Food & Energy	AUG	0.1%	0.2%	0.7%
12-Sep-2008	Michigan Sentiment Prelim	SEP	63.0	63.3	63.0

*Consensus from Action Economics

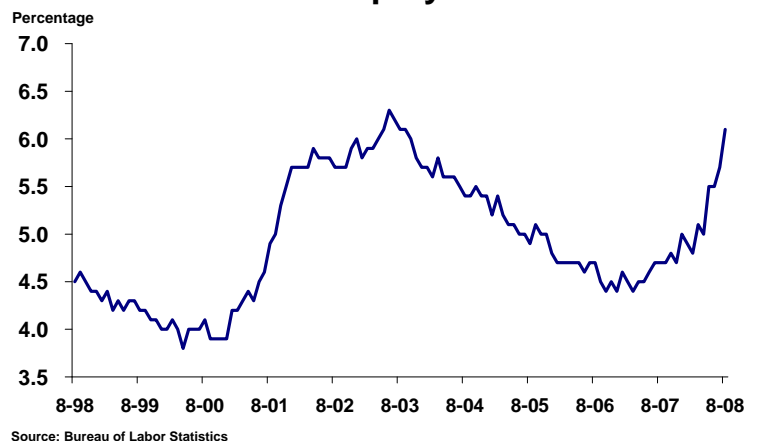
August Payrolls: For Whom the Bell Tolls

Today's employment report signaled the death knell of hope that the U.S. can avoid recession. You could almost hear the bulls on Wall Street throwing themselves on their swords over the past five trading days. The payroll report should end the debate that the economy is doing well and in fact has been rebounding as the headline GDP figures over the last two quarters have suggested. GDP is no longer king; that Emperor has no clothes! It is still early, but I believe the August employment figures could be a game-changing event that shakes the conventional wisdom on Wall Street, the U.S. economy, and the global outlook to its core.

The August employment data looked downright ugly. The 101,000 private sector job losses in August cap nine consecutive months of private sector job losses, but who's counting right? Indeed, private sector job losses have averaged 95 thousand a month over the past six months. Only one major private sector industry—healthcare—has created any net jobs over the past three months, but it's only been a drop in the bucket against the onslaught of net job losses coming from manufacturing, retail and wholesale trade, and business services that have been averaging now -48K, -31K, and -42K, respectively, per month over the last three months. Moreover, if the improvement in the U.S. trade balance is such a wonderful thing, where are all the net new jobs from all that export activity??? Manufacturing job losses accelerated in August and average manufacturing hours of work slipped.

Apart from the lost jobs, more attention will fall on the U.S. unemployment rate, which jumped four tenths of a percentage point in August alone to settle at 6.1 percent. This is a hare's breath away from the peak unemployment rate of 6.3 percent in the last recession, and is already above many economists' forecasts for a peak in this cycle. This is very bad news. The peak unemployment rate could still move far higher before economic conditions stabilize. A 7.0 percent U.S. unemployment rate is now a very real possibility sometime next year. Given the debt burden on U.S. households and spike in inflation, this will lead to another round of upward revisions on potential credit losses as forecasts of delinquencies and foreclosures are pushed higher. Too many households are just one job loss away from default and foreclosure.

Overall Unemployment Rate

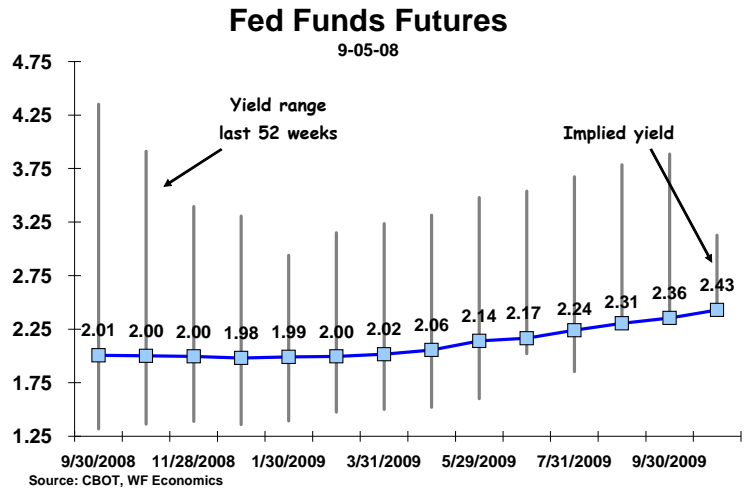


My guess is that there will shortly be a sea change in the consensus economic outlook for early next year, and it won't be an upward revision. The ten-year Treasury has dropped this morning to 3.56 percent from over 4.0 percent last month, a

damning assessment of economic and financial prospects over the near-term. Economic conditions are likely to get worse before they get better. The word double-dip will be rolling off economists' tongues to explain the plunge in GDP growth following the summer hiatus of better GDP numbers. Expect the debate about additional stimulus in Washington, both monetary and fiscal, to ramp up as economic and financial fear rises going into the November election. The Fed funds futures market now places the first Fed rate hike far off into the future, nearly a year away—June 2009.

Global Outlook: Lucy We've Got Company!

Not only is optimism evaporating about U.S. economic prospects, but perhaps the bigger story is the evolving view of the global economy's prospects. While the U.S. was registering a respectable 3.3 percent quarterly GDP growth rate in the second quarter, many of our major trading partners were sucking wind. Japan's economy contracted 0.6 percent (q-o-q) in the second quarter, the Eurozone dropped 0.2 percent, and growth is slowing swiftly in Canada and Mexico as well. The OECD, at the start of September, cut their growth outlook for Japan to 1.2 percent this year from 1.7 percent, and the Eurozone to 1.3 percent from 1.7 percent for this year, and predicted a U.K. recession with contractions in economic output expected in the third and fourth quarter of this year.



So much for the global disconnect story that was so much en vogue on Wall Street over the past year. Surprise, **the global economy will be significantly impacted by the global oil shock and a retrenching U.S. consumer.** This change in view is a major driver behind the sharp drop in global commodity prices we have seen over the past month, more so than the newfound stability of the U.S. dollar. It only took awhile for the global downturn to appear in the economic data due to natural lags. Say goodbye to the 13 percent plus annualized real export growth the U.S. achieved in the second quarter. We won't hit that mark again for a long, long time. Complicating matters further, the rest of the developed world, and to some extent the emerging economies, are also very much exposed to the global financial shock and housing

price declines that are already sweeping over much of the country and wreaking havoc on the U.S. banking system. These countries are doubly handicapped, because their central banks have been fighting the wrong war, more worried about a nascent inflationary threat than a banking and housing crisis. They have been slower than the Fed to cut interest rates and some have even raised them to stem inflation.

Foreign Markets More Expensive

	Home price-to-rent above historical norm (2004)	Home price-to-income above historical norm (2003)
U.S.	32%	23%
U.K.	60%	50%
France	46%	N/A
Australia	60%	33%
Spain	60%	68%

Source: The Economist, NAR

Major Economic Indicators

September 5, 2008

Economic Data	History								Forecast				Q4 to Q4 % Chg or Annual Average			
	2007.1	2007.2	2007.3	2007.4	2008.1	2008.2	2008.3	2008.4	2009.1	2009.2	2009.3	2009.4	2006	2007	2008	2009
Real GDP*	0.1	4.8	4.8	-0.2	0.9	3.3	1.5	-1.0	1.4	1.5	2.7	1.9	2.4	2.3	1.2	1.9
Personal Consumption Expenditures*	3.9	2.0	2.0	1.0	0.9	1.7	-0.4	-2.0	0.5	1.0	1.4	1.4	3.2	2.2	0.0	1.1
Private Housing Starts (000s units)	1,453	1,460	1,298	1,151	1,053	1,023	917	844	863	909	957	1,087	2,073	1,341	959	954
Vehicle Sales (mill. Units, annualized)	16.4	16.0	15.9	16.1	15.2	14.1	13.0	12.8	12.7	12.8	13.0	13.3	16.5	16.1	13.8	13.0
Nonfarm Payroll Employment (mil.)	137.2	137.5	137.8	138.0	137.9	137.7	137.4	137.2	137.1	137.1	137.1	137.2	136.1	137.6	137.6	137.1
Unemployment rate	4.5	4.5	4.6	4.7	4.9	5.3	6.0	6.5	6.7	6.8	6.7	6.6	4.6	4.6	5.7	6.7
CPI* (percent)	3.7	4.6	2.8	5.0	4.3	5.2	5.5	3.2	2.5	2.3	2.2	2.2	1.9	4.0	4.4	2.3
PPI* (percent)	7.6	8.8	1.6	9.1	9.2	14.1	8.9	2.0	1.7	1.6	1.4	1.4	0.3	6.7	8.7	1.5
Compensation Per Hour*	6.4	1.3	3.3	4.6	4.4	3.1	4.1	4.0	4.1	3.8	3.8	4.0	5.0	3.9	3.9	3.9
Productivity*	1.3	2.7	6.0	1.8	2.2	2.1	2.4	-0.1	3.5	3.8	3.0	2.0	0.8	3.0	1.7	3.1

*Quarterly Data Percent Change At Annual rate; Annual Data Q4 to Q4 % Chg.

Financial Data	History								Month-to-Date	Current	Forecast (monthly)						
	2008.03	2008.04	2008.05	2008.06	2008.07	2008.08	2008.09	9/5/2008	2008.10	2008.11	2008.12	2009.01	2009.02	2009.03	2009.04	2009.05	
S & P 500	1,318	1,370	1,402	1,341	1,258	1,281	1,259	1,225									
Dow Jones Industrial Average	12,202	12,657	12,797	12,057	11,321	11,531	11,375	11,093									
NASDAQ	2,255	2,368	2,481	2,427	2,277	2,389	2,310	2,238									
Federal Funds Rate	2.40	2.22	1.73	1.82	1.87	1.76	1.84	2.06	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	
Treasury-3 Month Bills (yield)	1.25	1.31	1.77	1.89	1.66	1.75	1.70	1.67	1.70	1.73	1.78	1.80	1.80	1.80	1.85	1.85	
Treasury-10 Year Notes (yield)	3.50	3.68	3.88	4.10	4.01	3.89	3.71	3.58	3.77	3.90	3.93	3.95	3.95	4.00	4.06	4.06	
Prime Rate	5.64	5.24	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	
Libor 3-Mo. U.S. Dollar	2.77	2.79	2.69	2.77	2.79	2.81	2.80	2.81	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	
Mortgage-15 Year (yield)	5.47	5.45	5.59	5.86	5.96	6.05	5.92	5.90	6.00	6.13	6.16	6.18	6.18	6.23	6.29	6.29	
Mortgage-Adjustable (yield)	5.10	5.19	5.25	5.15	5.24	5.25	5.26	5.15	5.26	5.39	5.42	5.44	5.44	5.49	5.55	5.55	
Mortgage-30 Year (yield)	6.02	5.91	6.03	6.27	6.41	6.50	6.38	6.35	6.45	6.58	6.61	6.63	6.63	6.68	6.74	6.74	
GNMA (yield)	5.42	5.56	5.37	5.51	5.50	5.50	5.44	5.47	5.52	5.65	5.68	5.70	5.70	5.75	5.81	5.81	
BAA Corporate (yield)	6.89	6.97	6.93	7.07	7.15	7.15	7.05	7.01	7.11	7.24	7.27	7.29	7.29	7.34	7.40	7.40	

Source: Wells Fargo Economics, Macroeconomic Advisers, Bloomberg, Federal Reserve