

ECONOMIC & MARKET UPDATE: AUGUST 1, 2011
"A DEAL NEARS, BUT THE ECONOMY REMAINS UNSTABLE"
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Economic Data - Previous Week					
Date	Series	Actual	Forecast	Prior	
7/26	S&P/CS 20 City MoM	-0.05%	0.00%	0.44%	Little change reflects home price stabilization
7/26	New Home Sales	312K	320K	315K	Sales remain depressed but price data is positive
7/26	Consumer Confidence	59.5	56.0	57.6	Future outlook improves, current outlook still weak
7/27	Durable Goods	-2.1%	0.3%	1.9%	Autos and aircraft weak; ex-transp., orders up 0.1%
7/29	GDP - Q2 Adv. Est.	1.3%	1.8%	0.4%	GDP disappointing on weak consumption data
7/29	UMich Confidence	63.7	64.0	63.8	Labor, policy worries weighing on sentiment
Economic Data - Upcoming Week					
Date	Series	Actual	Forecast	Prior	
8/1	Construction Spending	--	0.1%	-0.6%	Improvement in housing starts may point to uptick
8/1	ISM Mfg Index	--	54.5	55.3	ISM expected to moderate on soft new orders data
8/2	Personal Spending	--	0.1%	0.0%	GDP report, retail sales point to slowing consumption
8/3	ISM Non-Mfg Index	--	53.5	53.3	Weaker orders, labor may weigh on service idx
8/5	Nonfarm Payrolls	--	85K	18K	Debt debate may have held up hiring in July
8/5	Unemployment Rate	--	9.2%	9.2%	Jobless rate expected to persist, though claims falling
8/5	Consumer Credit	--	\$5.00B	\$5.08B	Economists see stable expansion of consumer credit

Source: Bloomberg

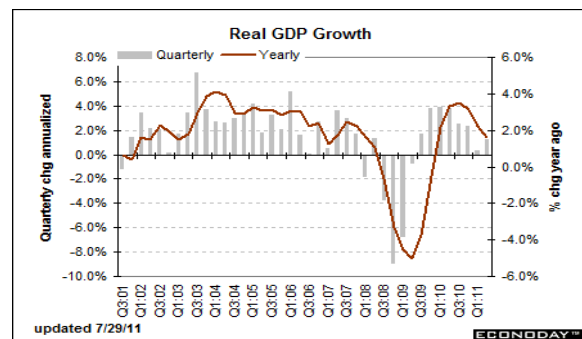
ECONOMIC DATA ADDS TO THE UNCERTAINTY

With fears of an impasse over the debt ceiling, equity markets faced a difficult week. The S&P 500 Index fell 3.9% and the Dow Jones Industrial Average was off 4.2%.

Fortunately, leaders announced on Sunday evening that they reached a deal in principal to raise the debt ceiling. Many pundits have reiterated in recent weeks that a deal would be reached prior to the August 2 deadline, but markets and investors grew nervous over the past week, nonetheless. However, politicians stayed true to form, by posing for the cameras with fewer than three days remaining. They assured the American people that, despite headlines from the past several months, Republicans and Democrats came together in the interest of their constituents to strike the best deal possible.

Outside of debt ceiling headlines, economic news proved to be disappointing last week, particularly the meager second quarter GDP figure.

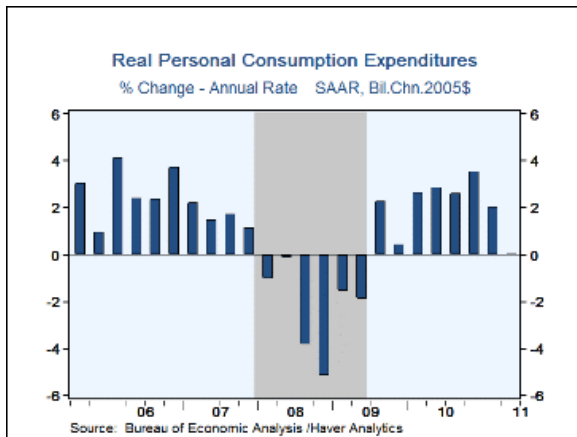
In the second quarter, real GDP grew 1.3%, well below consensus expectations. Even worse, first quarter GDP revised down from 1.9% to 0.4%, signaling an economy in much worse shape than originally believed.



Source: Econoday

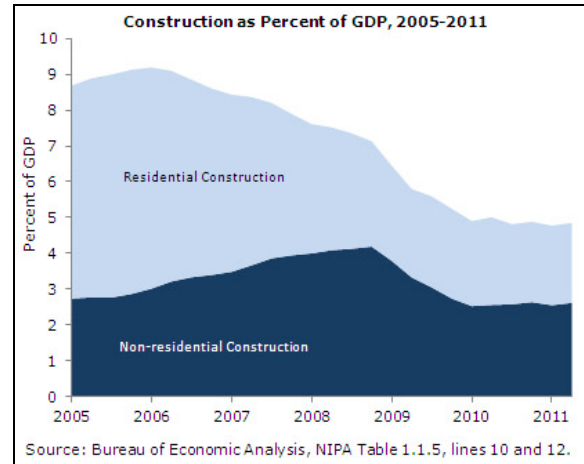
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The key takeaways included news that consumers went into retreat but residential investment became a net positive contributor to economic growth. Personal consumption fell to an annualized 0.1% in the quarter, down from 2.1% in the prior quarter as consumers struggled with high unemployment and concerns about macroeconomic issues in the US and Europe.



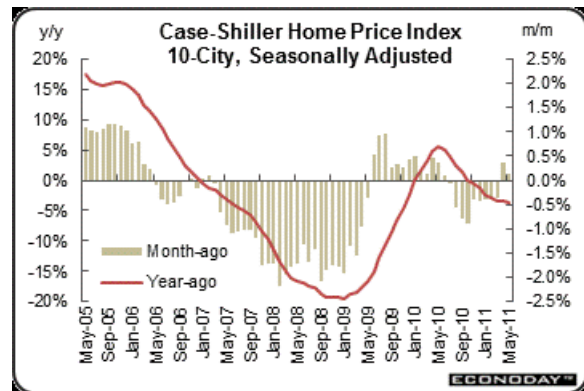
Source: Haver Analytics

Residential investment, which fell 23.9% in 2008 and 22.2% in 2009, expanded 3.8% in the second quarter. Residential investment is down dramatically from its 2005 peak, and is one of the major reasons the recovery has not been stronger. A return to expansion is one of the few positive takeaways from second quarter GDP.



Source: Center for Economic and Policy Research

The other positive development in the housing sector came from the Case-Shiller 10-city home price index, which rose 0.1% in May. Housing is typically strong during the spring and early summer months, so the gain in prices during May was expected. At the very least, home prices are showing signs of leveling out.



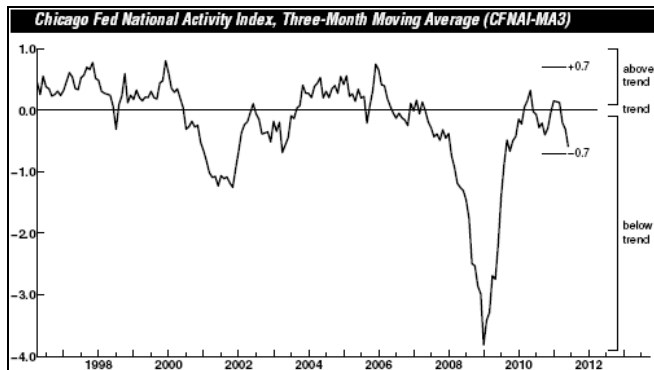
Source: Econoday

One of the less frequently cited indicators released last week was the Chicago Fed National Activity Index, an aggregation of 85 economic indicators designed to measure national economic activity.

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In June, the index rose from -0.55 to -0.46, a slight improvement, but indicative of broader weakness in the economy. Of its 85 indicators, 41 contributed positively. Using a three-month moving average, the index continues to fall and remains well below its long-term trend rate.

Within the index, there are four primary categories: production, employment, consumption/housing and sales/inventories. The only positive contributor of those four was the sales and inventories component, which benefited from a sharp increase in the inventories index of the ISM PMI survey.



Source: Federal Reserve Bank of Chicago

THE WEEK AHEAD

With a deal in place to raise the debt ceiling, the focus will shift to what cuts are set to take place and who will be most impacted. In addition, several important economic indicators are set for release this week.

On Monday, the ISM manufacturing index is expected to decline slightly, but remain in expansionary territory. Tuesday brings the release of personal income and consumption data. Wednesday is the announcement of the ISM non-manufacturing index, which is steadily declining but also still in expansionary territory. Finally, on Friday, nonfarm payrolls for July are announced. After two very

sluggish months of growth, economists only expect a modest pickup in job growth, partially due to July's debt ceiling uncertainty.

Earnings reports to follow this week include Honda, Loews, HSBC, Barclays, BMW, Pfizer, Toyota, KKR, Adidas, AIG, CVS, Kraft, Natixis, Rio Tinto, Southwest, Allianz, Procter & Gamble and Prudential.

On the central bank front, the following central banks will meet: Reserve Bank of Australia, Bank of England, Czech National Bank, European Central Bank and Bank of Japan.



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