EVERMAY

ECONOMIC & MARKET UPDATE: NOVEMBER 7, 2011
"AN UNEVENTFUL WEEK IF YOU FORGET EUROPE"
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Economic Data - Previous Week

Date	Series	Actual	Forecast	Prior	
11/1	Construction Spending	0.2%	0.3%	1.6%	September uptick small but August revised upward
11/1	ISM Mfg Index	50.8	52.0	51.6	Disappointed but prices and new orders a positive
11/3	ISM Non-Mfg Index	52.9	53.5	53.0	Weaker than expected but employment encouraging
11/3	Factory Orders	0.3%	-0.2%	0.1%	Non-durables strong, September durables revised up
11/4	Nonfarm Payrolls	80K	90K	158K	September and August revised up by 55K and 47K
11/4	Unemployment Rate	9.0%	9.1%	9.1%	Unemployment ticks down, households strengthening

Economic Data - Upcoming Week

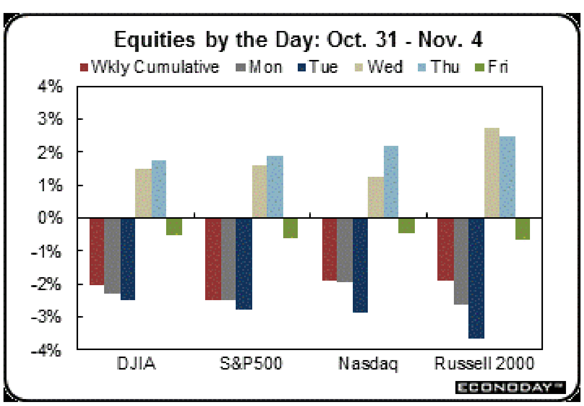
Date	Series	Actual	Forecast	Prior	
11/7	Consumer Credit	--	$5.00B	-$9.50B	Broad forecast range but vehicle sales portend positive
11/8	Sm. Business Optimism	--	89.3	88.9	Small increases expected to continue
11/10	Trade Balance	--	-$46.3B	-$45.6B	Rebound in petroleum prices equates to wider gap
11/11	UMich Confidence	--	61.5	60.9	Recovery from August and July lows expected to carry on

Source: Bloomberg

EUROPE DOMINATES, WHILE THE US CONTINUES TO EXPAND…MODESTLY

Events in Europe left investors feeling conflicted, sending stocks to their steepest decline of the past month. The S&P 500 Index lost 2.5% and the Dow Jones Industrial Average shed 2.0%.

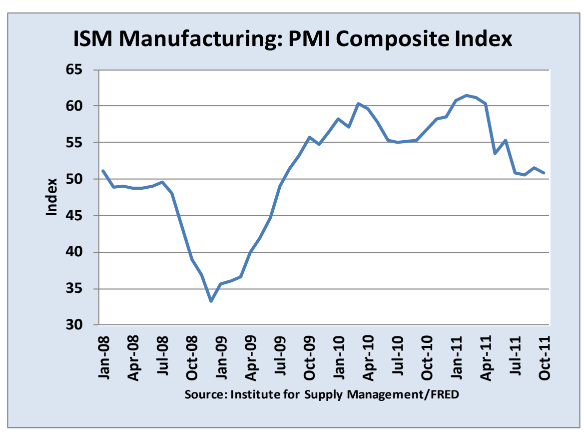
Trading was volatile throughout the week as news that the situation in Greece was not as clear-cut as originally thought sent the markets sharply lower. Those concerns eased somewhat in the last two trading days of the week on news that Greece, and more broadly, Europe, were making progress.



Source: Econoday

Economic data in the US was a mixed batch latest week. A number of positive surprises were offset by weaker-than-expected readings in employment, manufacturing and services.

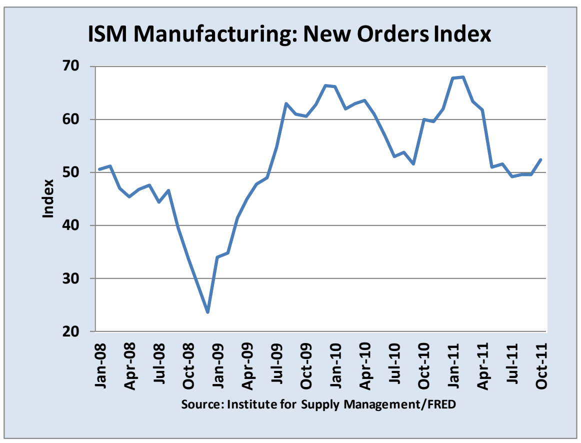
Manufacturing, which held up better than anticipated in recent months, saw a bit of retrenchment in October. The ISM PMI fell from 51.6 to 50.8, slightly above the contractionary line of 50, but indicative of slowing growth in the manufacturing sector.



Source: Federal Reserve Bank of St. Louis

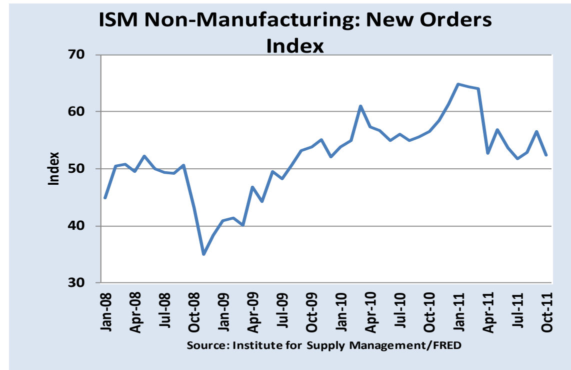
The headline reading hides slight improvements in the underlying manufacturing components, which offer reason to be optimistic about forward momentum.

First, the bulk of the weakness last month was due to a sharp contraction in inventories. Second, the new orders index, which has been stuck below 50, jumped 2.8 points to 52.4. This is good news for the manufacturing space in the next several months and should support modest growth levels moving forward.



Source: Federal Reserve Bank of St. Louis

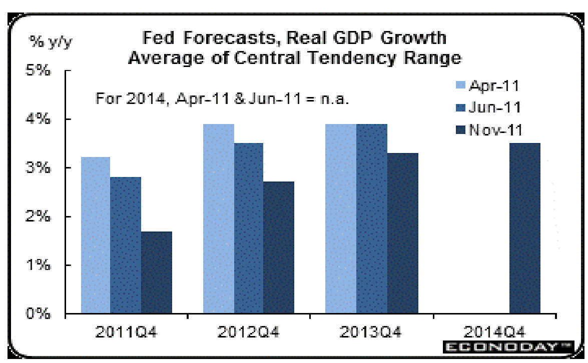
A similar, but more stable, picture emerged in the service sector, where the ISM non-manufacturing composite index lost 0.1 for a reading of 52.9 in October. Contrasting with manufacturing, however, was a weaker-than-expected new orders index, which fell to 52.4, from 56.5 in September. Employment growth is one indication that service sector companies are bullish on the future. The employment index moved back into growth territory after contracting in September.



Source: Federal Reserve Bank of St. Louis

The most closely watched meeting that did not involve Europe occurred in Washington, DC, where the Federal Reserve held its regular Federal Open Market Committee (FOMC) meeting.

The committee enacted relatively little in the way of new policy, but did reiterate that the Fed Funds rate would remain low through at least mid-2013. One move the Fed made that highlighted the ongoing travails of the economy was to ratchet down growth expectations from the remainder of 2011, as well as 2012 and 2013. In a span of only four months, the Fed downgraded growth ranges for this year from 2.7–2.9% to 1.6–1.7%. Growth rates for 2012 dropped from a range of 3.3–3.7% to 2.5–2.9%.

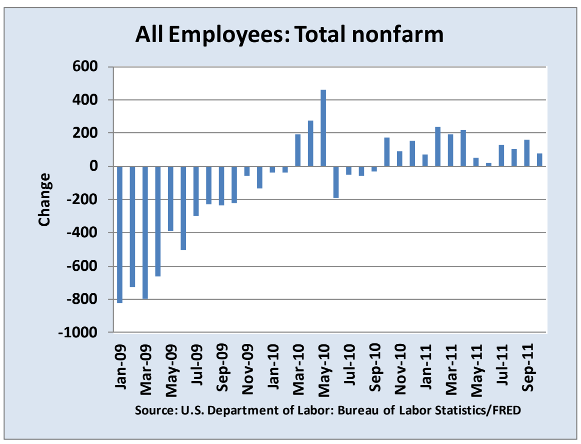


Source: Econoday

STEADY AS SHE GOES

Last week's most closely followed economic release was undoubtedly the employment situation report for October. True to form, employment continued to grow, albeit at a pace that was anything but encouraging.

October nonfarm payrolls grew 80,000, following upwardly revised growth of 158,000 in September and 104,000 in August. Payroll growth for August and September was revised higher by a cumulative 102,000.



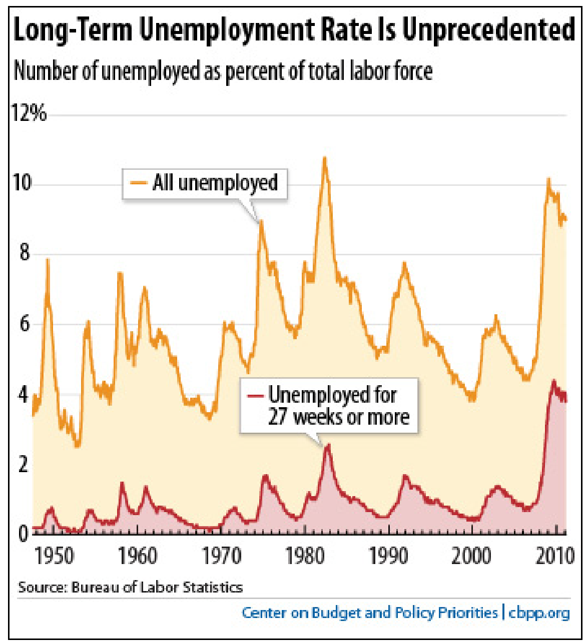
Source: Federal Reserve Bank of St. Louis

While economists were expecting growth of 90,000 for October, the market reacted to the report in muted fashion, trading lower before rebounding throughout the day on Friday.

The private sector added 104,000 jobs last month, with gains widely distributed across industries. The strongest increases were evident in healthcare, leisure/hospitality, trade/transport, and retail.

Economists took solace in the fact that the unemployment rate trended down by 0.1% to 9.0%. The lower unemployment rate was the result of household employment growth of 277,000, and 181,000 entering the labor force.

Approximately 42% of the overall unemployed have been out of work for 27 weeks or longer. That translates into 5.9 million people largely unable to find a new job. There has been a mild degree of improvement in the long-term unemployment rate, but it remains well above any previous recessionary period.



Source: Center on Budget and Policy Priorities

Ultimately, it was another month of sub-par employment growth, but there were signs that labor markets remained steady, despite severe headwinds from Europe and concerns about growth prospects for the US. Although 80,000 jobs is nothing to be ecstatic about, the ability of the economy to stay out of negative territory was a minor victory.

THE WEEK AHEAD

It will be a quieter week in the US, but Europe will stay squarely in the crosshairs. News emerged over the weekend of a coalition government being formed in Greece. European leaders meet on Monday in Brussels to discuss the current situation.

On Tuesday, OPEC will publish its oil outlook in Vienna. The publication is closely watched for its projections of forward growth and production rates.

The European Commission will publish its economic forecasts for each of the 27 European nations on Thursday. Indicators covered include inflation, production and employment.

Corporate earnings season continues this week, with reports due from Olympus, Societe Generale, Toyota, Cisco, General Motors, Macy's, Natixis, Walt Disney, Allianz, Petrobras and Siemens.

The Treasury will conducted several auctions this week, including $32 billion of 3-year notes (Tuesday), $24 billion of 10-year notes (Wednesday) and $16 billion of 30-year bonds (Thursday).