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The DE Recession/Recovery Scorecard: Summary Table and Charts

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**Andrew Husby
Decision Economics
ahusby@decisioneconomicsinc.com
(212-884-9447)**

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The DE recession/recovery scorecard saw mostly positive results in June. Equities have gained strongly since March, though the rally has ebbed as optimism faces a still-challenging reality. Firms are preparing to report Q2 results and outlooks, sure to move markets in the process. On the credit front, the corporate quality spread eased further below crisis-highs as investors sought to take on some risk. Activity variables remain weak, though the ISM and its components show encouraging signs. Initial claims edged downward, the first step toward a more-positive employment situation. Consumer sentiment continued to improve, the yield curve steepened, and oil and other commodity prices are up from lows set in December.

Recession/Recovery Scorecard

Indicator	Peak Value	Peak Date	Low Value	Low Date	Current Value	Typical Range Entering A Recession	Improvement from Low?	Comments
LEI*	9.4	Mar. 04	-4.0	Mar. 09	-1.8	-3% to -4%	Yes	Up in May on financial mkt. improvement.
Consumer sentiment	96.9	Jan. 07	55.3	Nov. 08	69.0	60 to 80	Yes	June saw a slight increase.
Real retail sales*	7.7	Jun. 05	-7.5	Apr. 09	-6.7	+1% to +2%	Yes	Still weak.
Payroll employment**	239	Mar. 06	-447	May. 09	-447	+100K to -100K	No	No longer deteriorating as sharply.
Initial claims***	291	Feb. 06	658	Mar. 09	607	375K to 400K	Yes	Needs to ease further to indicate recession end.
Housing Starts	2273	Jan. 06	454	Apr. 09	532	1200K to 1400K	Yes	Single family starts stabilizing at low levels.
ISM	61.4	May. 04	32.9	Dec. 08	42.8	38 to 43	Yes	Contraction easing, but still weak.
Yield curve****	-3.72	Jun. 04	0.69	Dec. 06	-3.5	+0.00 to +3.00	Yes	Steepening on recovery or surge in supply?
Corp. quality spread*****	21.70	Dec. 08	2.66	Jun. 07	9.6	+6.50 plus	Yes	Spread easing significantly.
Stock prices (S&P500)	1540	Oct. 07	757	Mar. 09	905(-42%)	-10% plus	Yes	Likely will not re-visit lows.
Oil prices (WTI)	134	Jun. 08	15	Feb. 99	69	\$30 to \$75	Yes	Well off lows, with a recent pullback.

*Percent change year-ago

**Average monthly change over 12 months

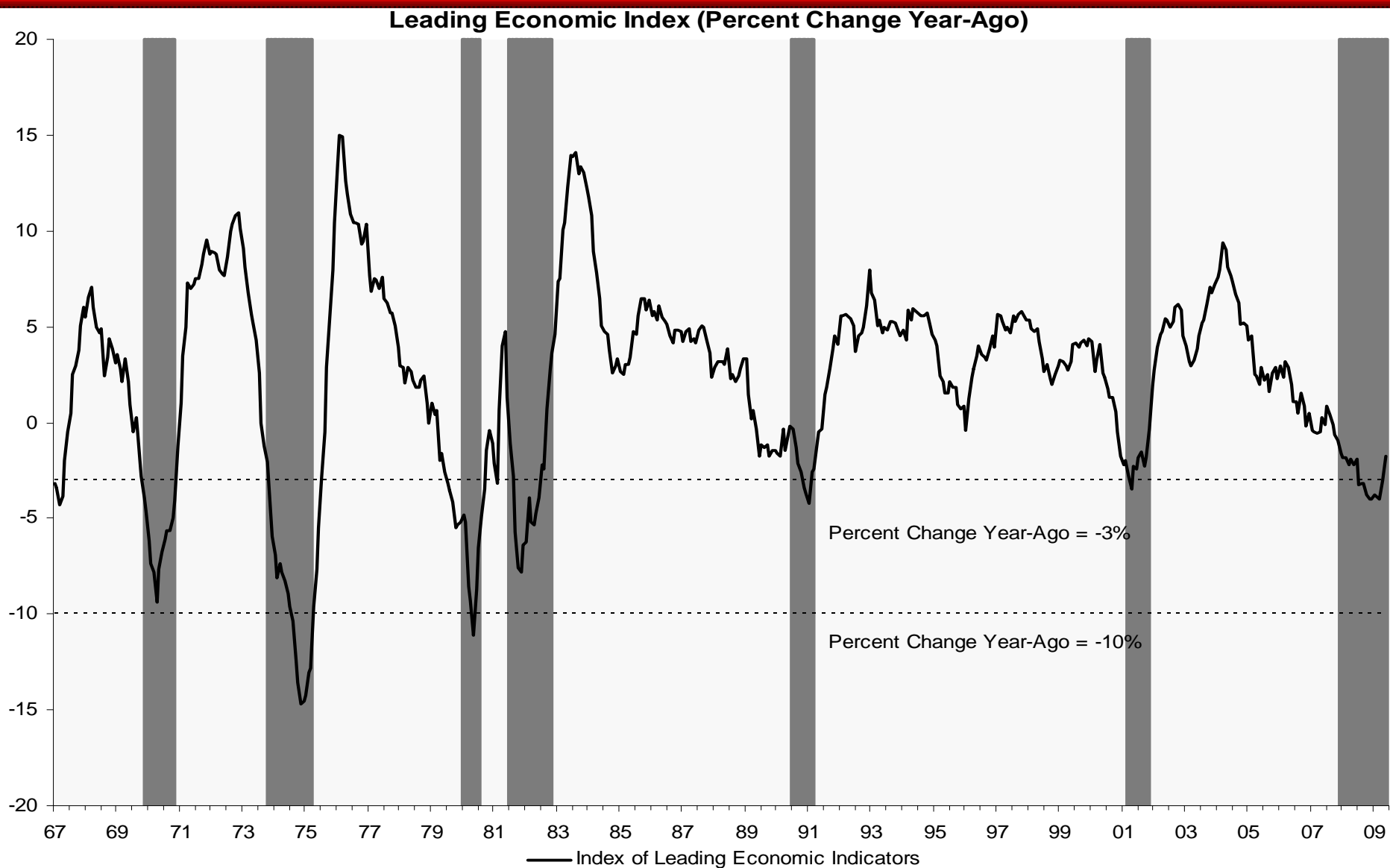
***Avg. of weekly data; series low is cyclical peak

****Fed funds less 10-yr. T-notes

*****ML high yield index less 10-yr. T-notes

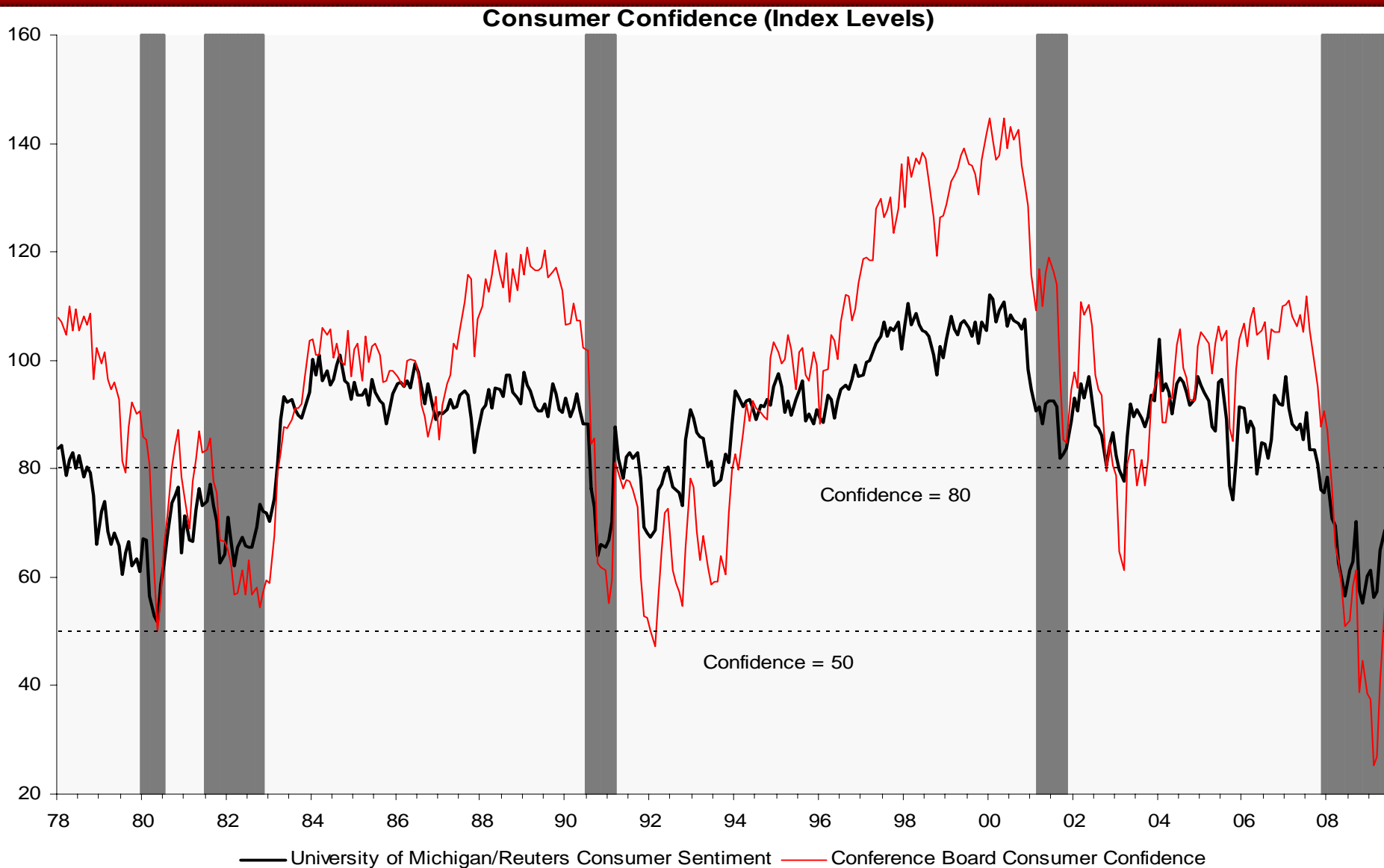
Source: Decision Economics, Inc.

The LEI, composed of ten financial market, employment, production, and other broad economic indicators has been supported in recent months by an increasing money supply and a steeper yield curve. Equity markets pushed the May reading higher, and jobs-related numbers no longer worsened. Ultimately, the contribution from financial market variables will need to be supported by strengthening real economic activity for a sustained recovery to occur.



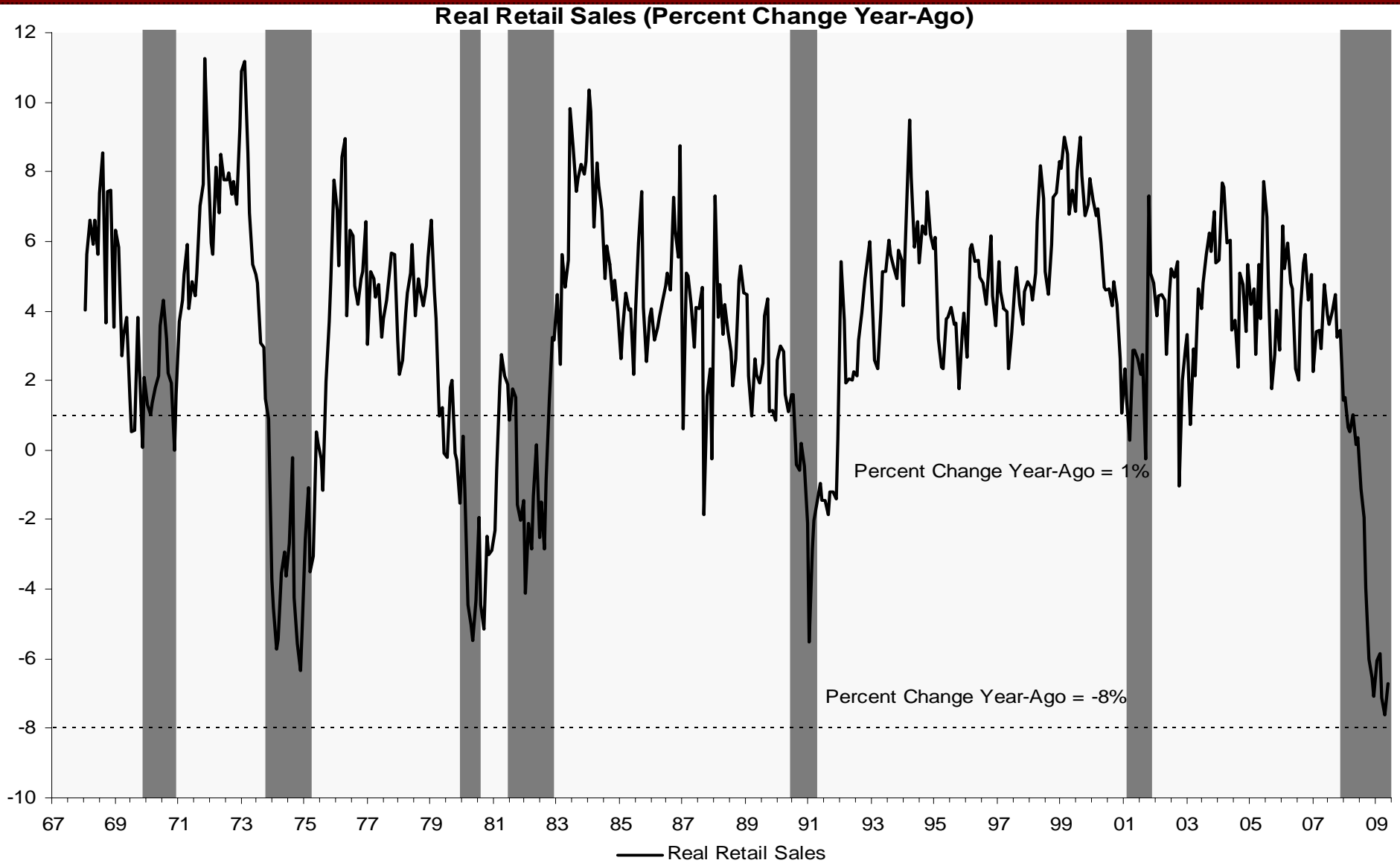
Source: The Conference Board

While the Conference Board indicator finally showed some improvement in April and May, reinforcing somewhat the sign of stabilization seen in the U of M consumer sentiment index. The weight given to “outlook” components in addition to present conditions in the Conference Board measure are a source of the measure’s volatility, with the employment outlook improving despite present conditions remaining strained. Both measures remain at extremely depressed levels.

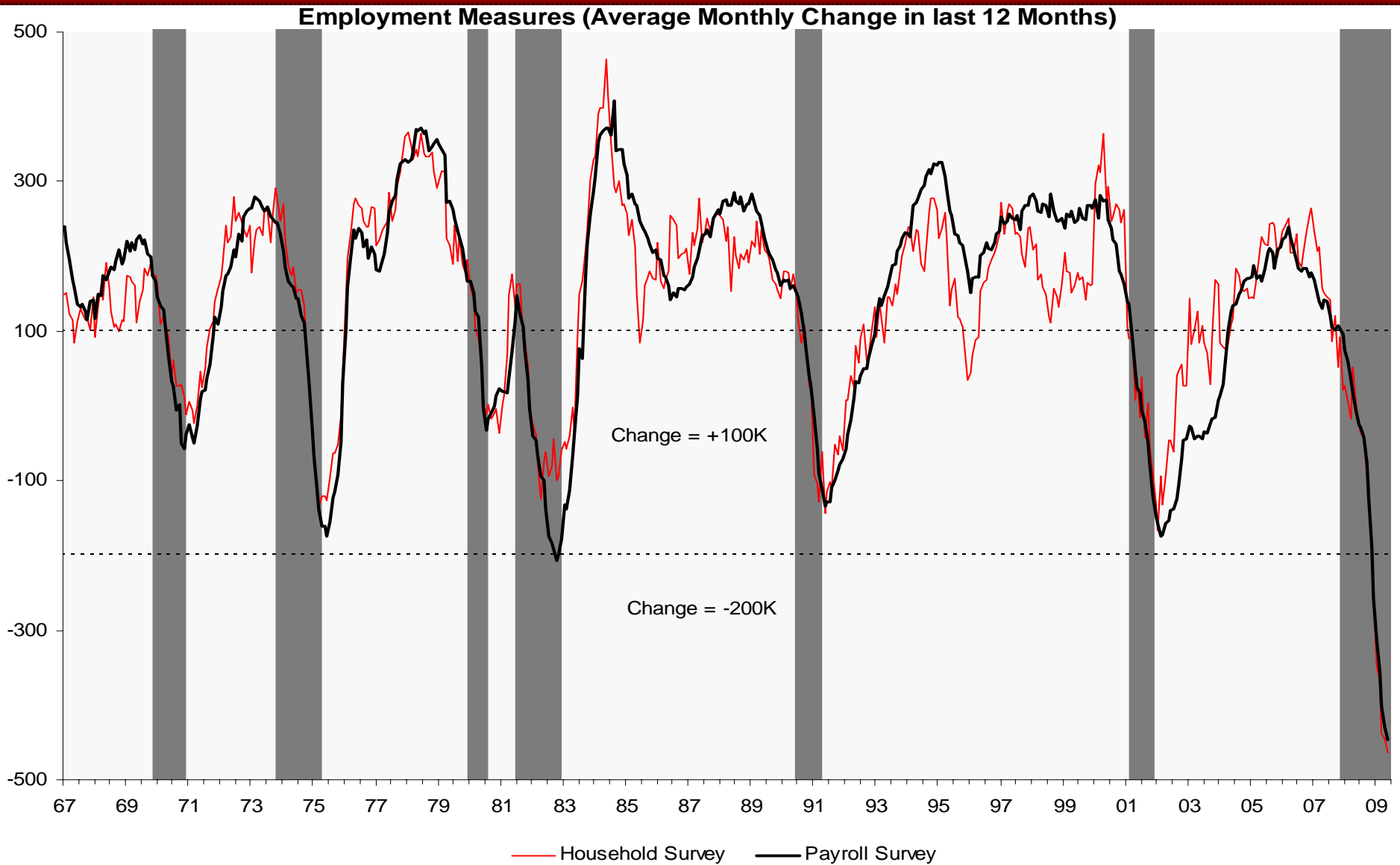


Source: The Conference Board, University of Michigan

Real retail sales growth fell off a cliff in 2008 after holding up well until mid-year. Sales as measured by a year-ago growth rate pushed past series lows in April, but May saw a tentative firming. The bounce in January and February may have been due more to seasonal adjustment issues than material improvement.

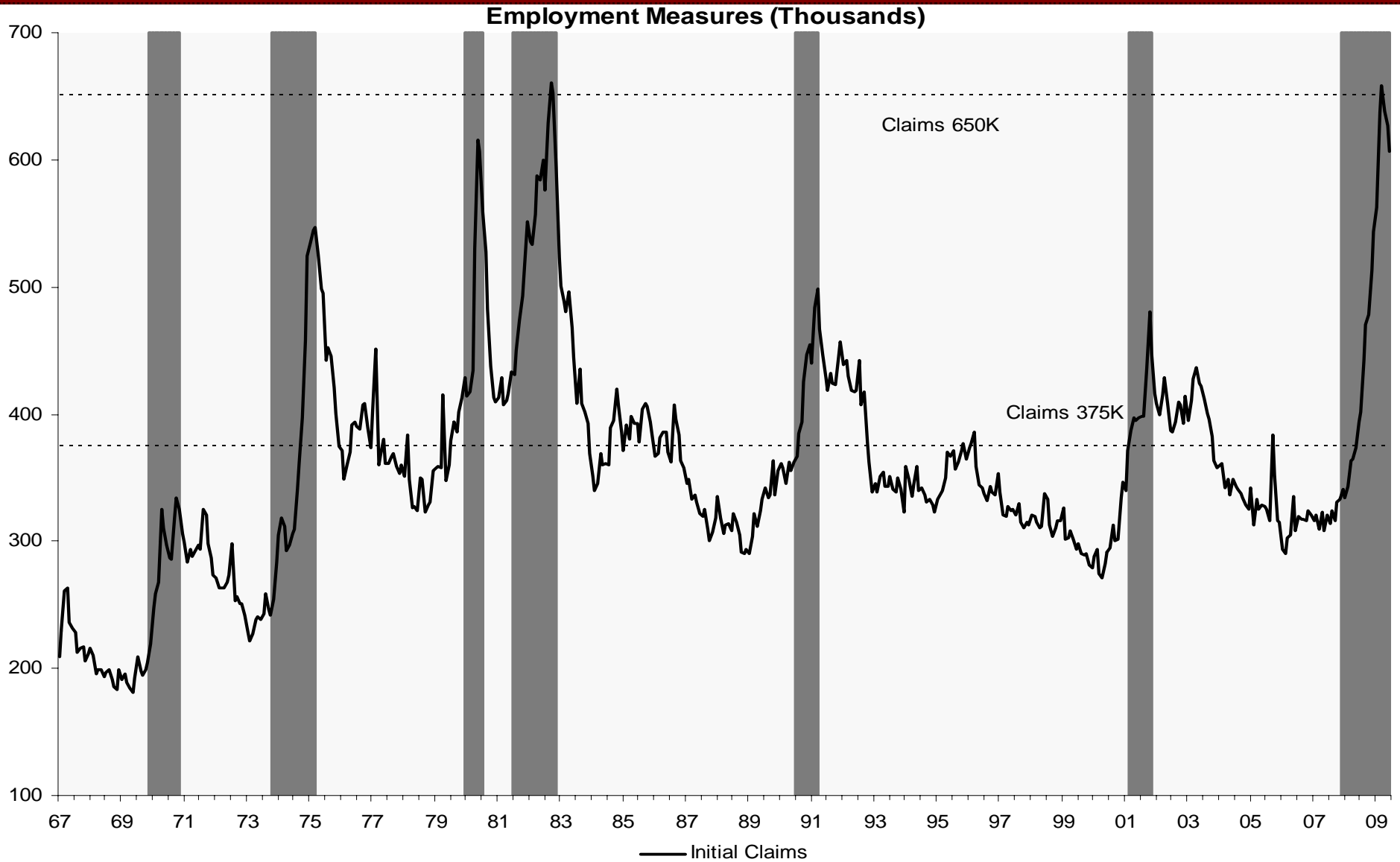


The pace of job declines has lessened in recent months, with May's 345K job losses the lowest since September 2008. History indicates that the shedding of jobs can decelerate rapidly, with payroll employment turning higher soon after the recession ends, an exception being the 2001 downturn.



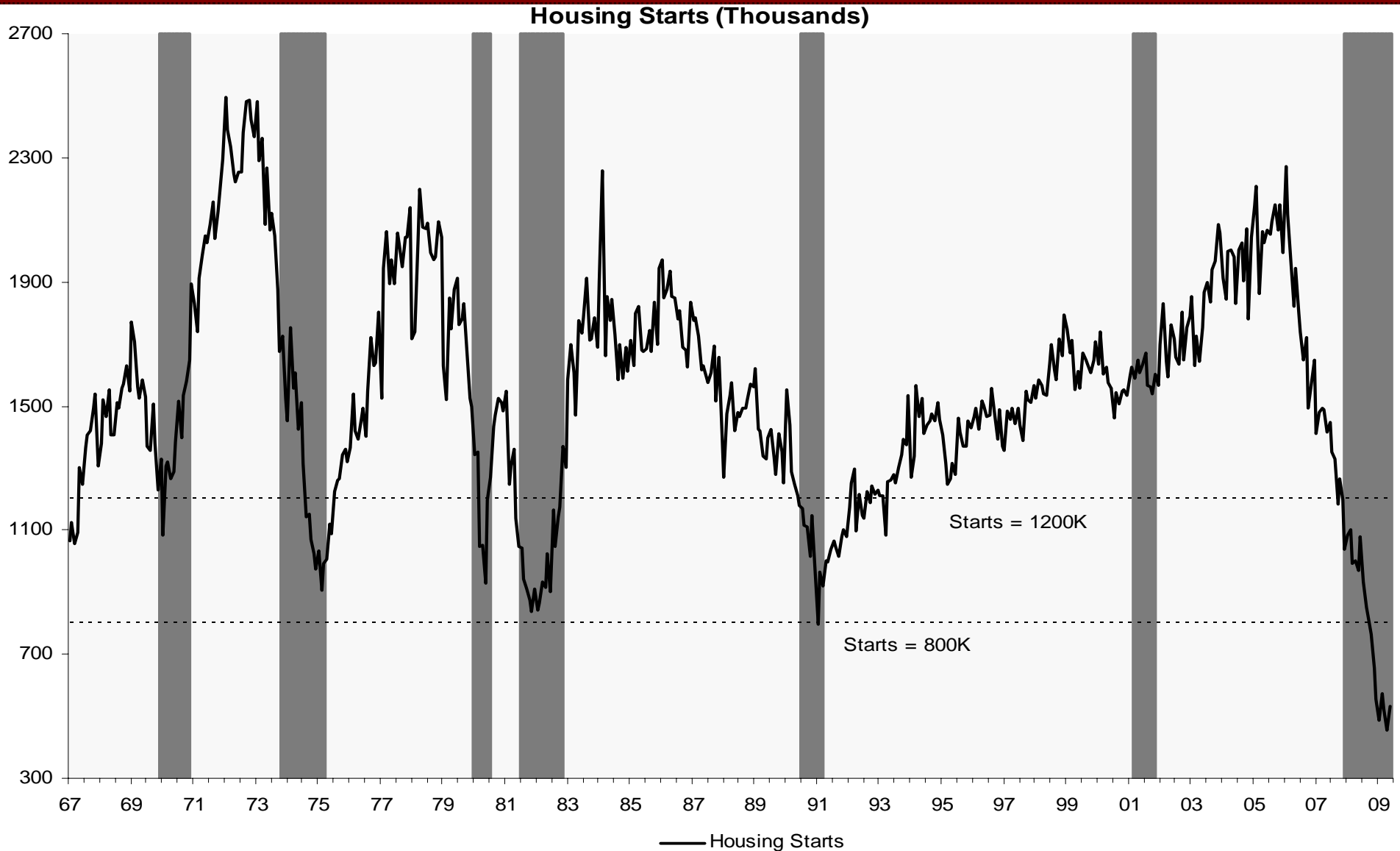
Source: Bureau of Labor Statistics

Initial claims are still in a range that indicates a severe downturn, though signs have improved of late, including a drop in continuing claims. Recent data have seen an easing from cycle highs, and as shown below, initial claims tend to peak near the end of recessions, with a sustained drop of 6-10% in the 4-week average needed to signal the exit. False peaks are certainly possible, as in the '69-'70 and '81-'82 downturns.

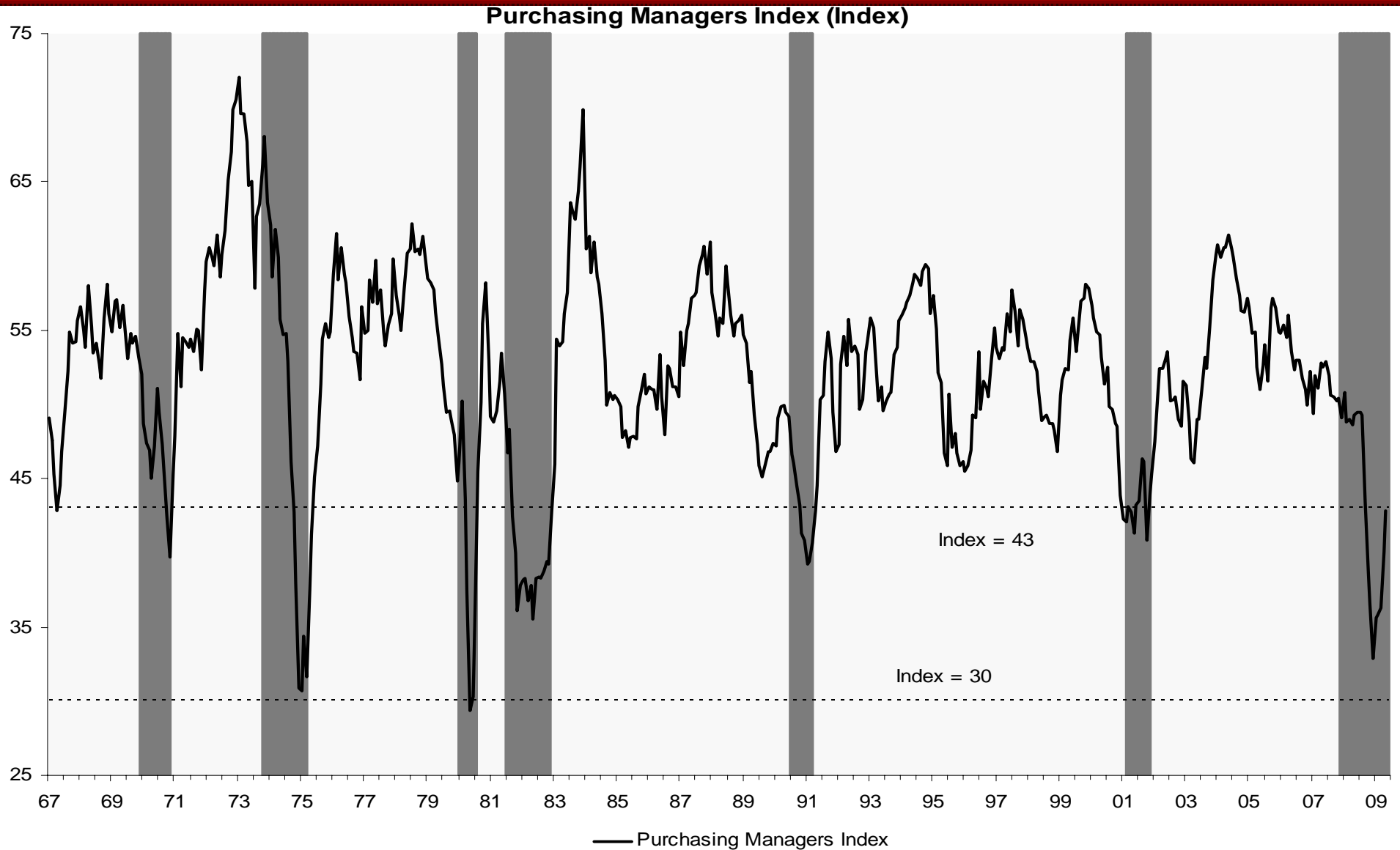


Source: Bureau of Labor Statistics

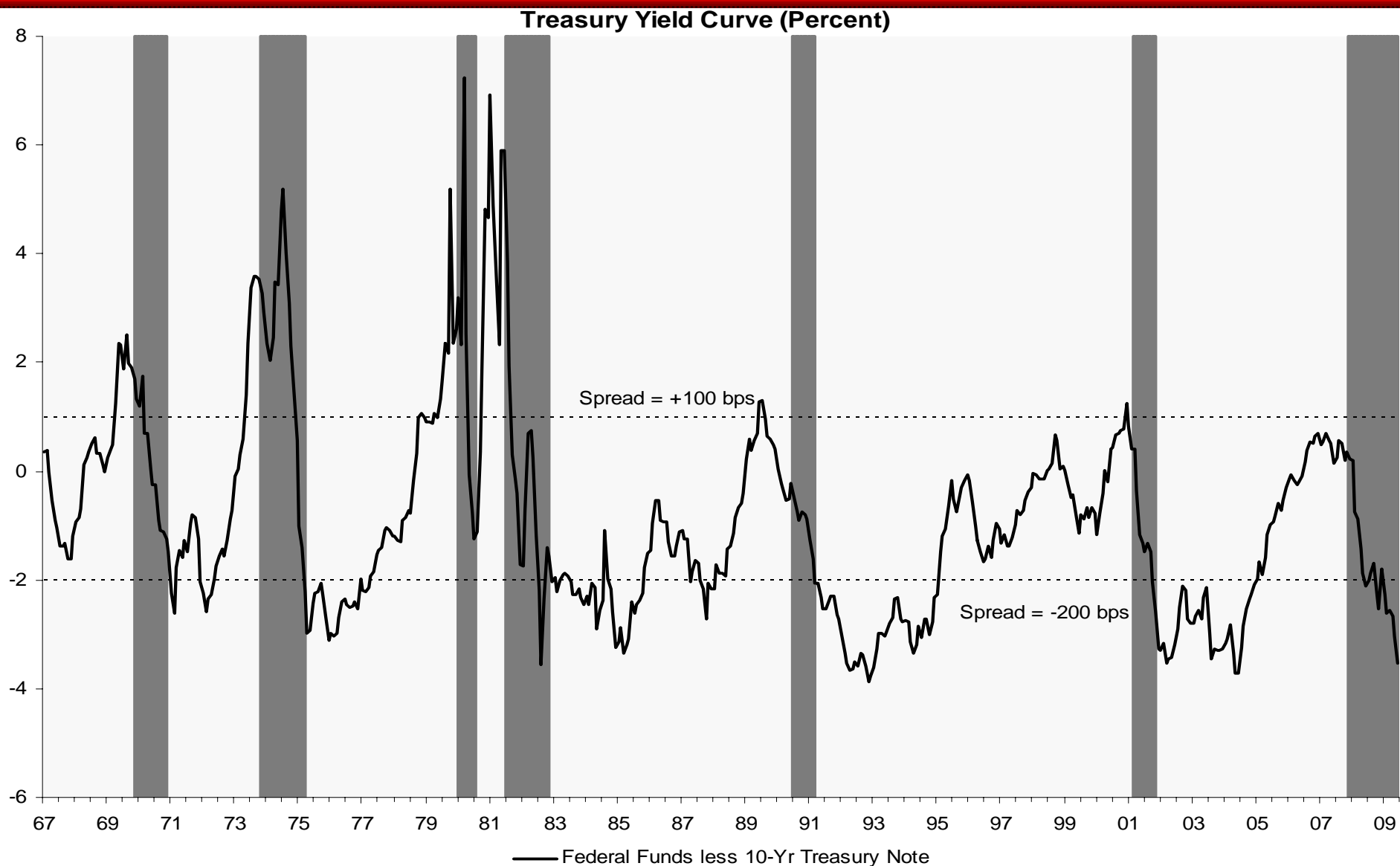
Housing starts likely have reached a level that better matches current supply and demand, with builders sensing some stabilization. However, a recovery in the housing sector still faces significant hurdles, since reducing the inventory overhang will be the first step. Not only do current inventories need to come down, but there are likely a number of homeowners waiting for conditions to improve before testing markets, meaning there is some pent-up supply that will need to be drawn down as well.



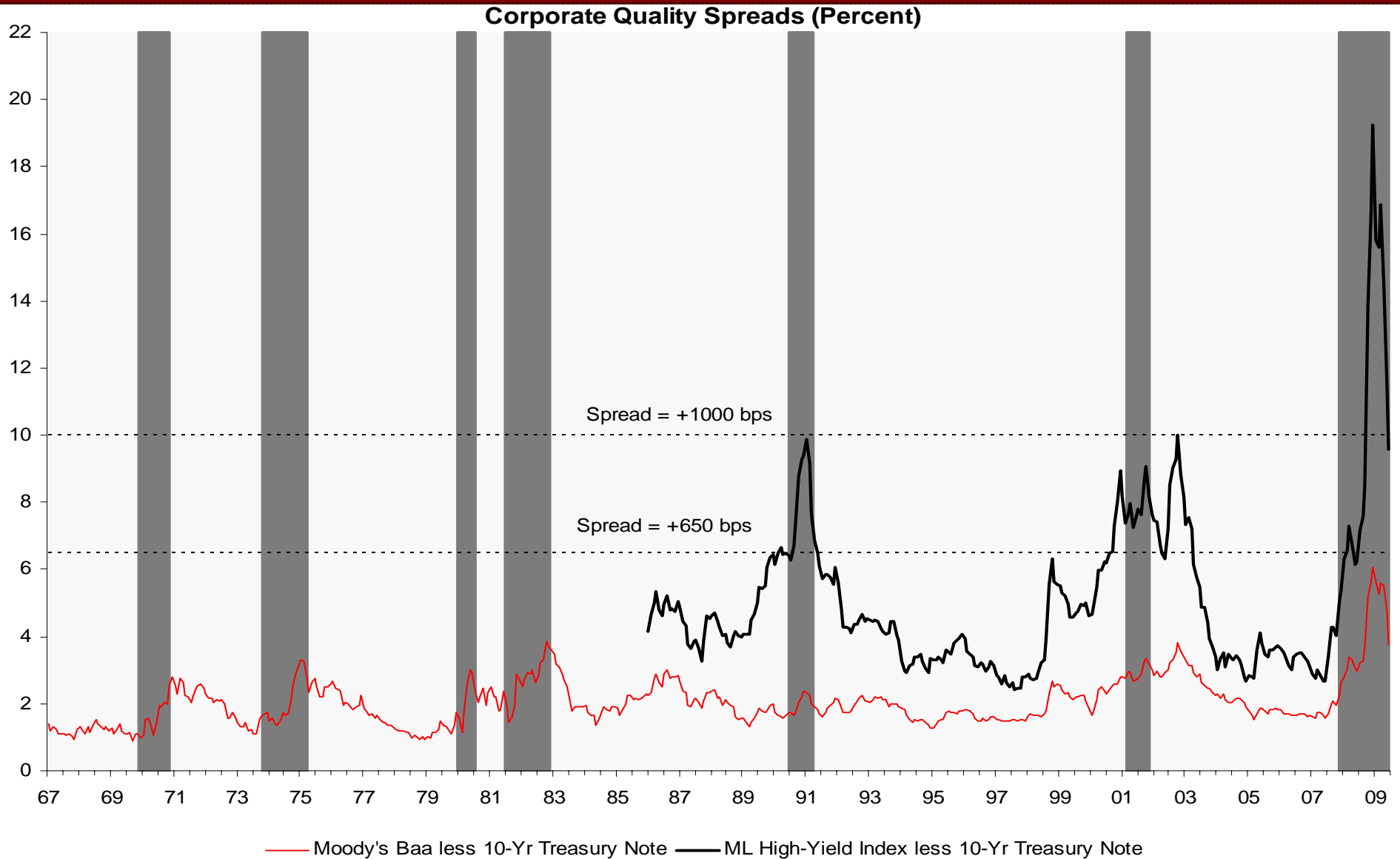
The PMI continued to edge higher in May, up to 42.8. While readings below 50 translate to contraction, the measure is well off of lows, and several of the sub-components are showing increased strength, particularly “new orders,” which showed a slight increase from the prior month, the first time that has happened since November 2007. The “employment” component remained weak, indicating little willingness to hire new workers.



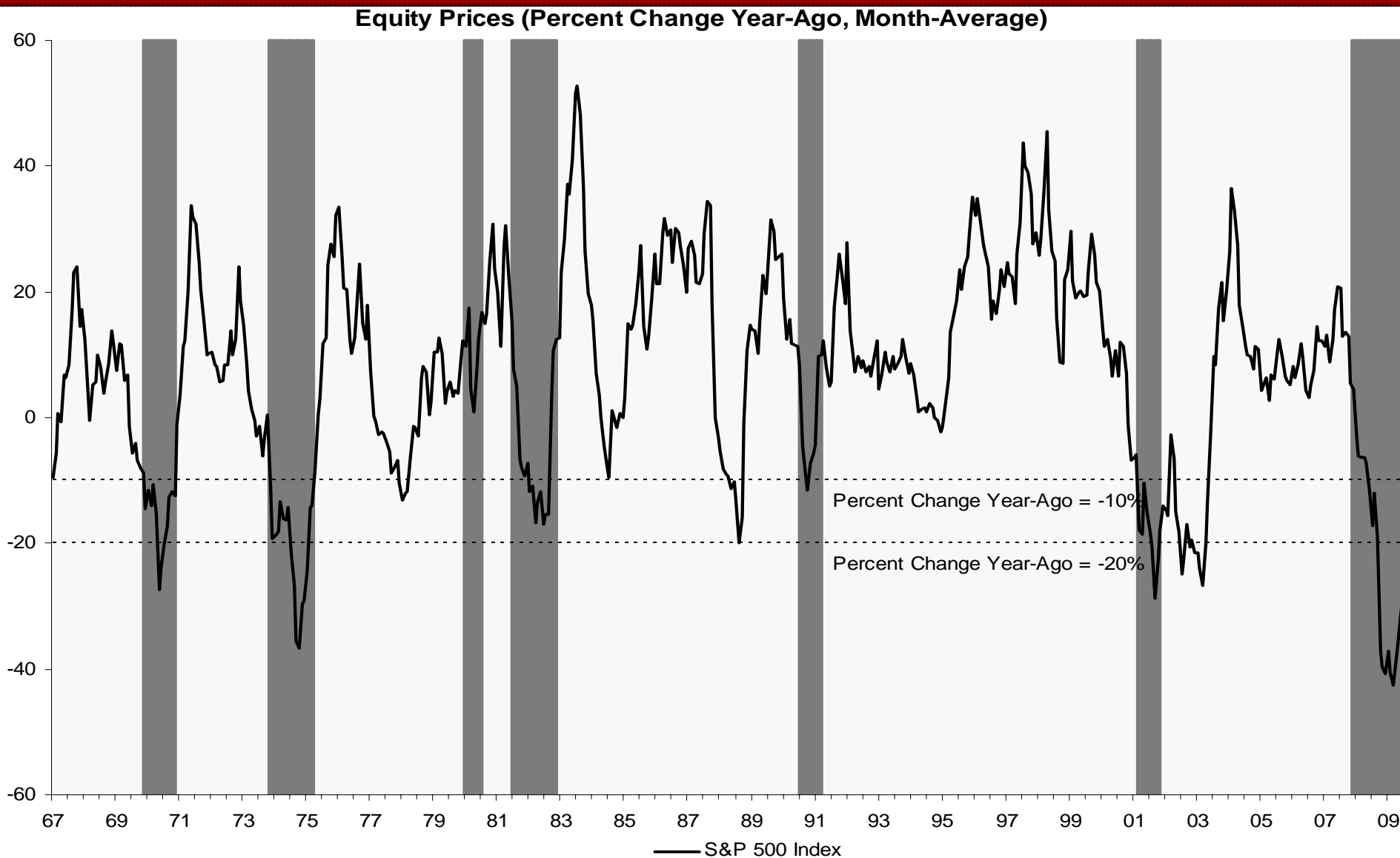
The steepening of the yield curve in recent months is encouraging in that it suggests recovery, but it will be unsettling to some officials who worry that it points to higher borrowing costs for consumers and higher inflation. The supply of Treasury debt is only set to surge higher, helping to push up yields.



Quality spreads have come well down from highs during peak market stresses, as risk-taking becomes more attractive. However, spreads still remain quite high in historical terms, indicating that while conditions have improved, there are still real concerns about corporate defaults.



After searching for direction in early June, equity markets have edged lower as the relatively uninterrupted rally since March may have stretched fair-value levels. Investors may have been looking for a strong V-shaped recovery, the odds of which are held down by a still-weak consumer and battered household balance sheets.



Source: Standard and Poor's

The rally in crude and other commodity prices in 2009 has been in large part a reflection of an eventual upturn, and global stimulus plans. Prices have pulled back about 10% from highs near \$75 in the early weeks of June, on indications that the recovery could be weaker than hoped. Should crude and gas prices shrug off this correction and continue higher, it would be unwelcome news for consumers already squeezed by high unemployment.

