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The DE Recession/Recovery Scorecard: Summary Table and Charts

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The DE recession/recovery scorecard saw mixed to positive results in October. Equities rallied through mid-month, though have slipped back of late. Market participants are now focusing on the outlook for 2010. On the credit front, the corporate quality spread eased further. Activity variables are improving, though subdued, and the ISM held above the ever-important 50 level. Initial claims suggest some further improvement in payroll employment numbers, though joblessness is seen remaining high for quite some time. The U of M consumer sentiment measure edged back after a stronger September reading, and the Conference Board indicator lost ground on a drop in the expectations component. The yield curve steepened, and oil and commodity prices advanced.

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	2.9	-3% to -4%	Yes	Higher in September.
Consumer sentiment	96.9	Jan. 07	55.3	Nov. 08	73.5	60 to 80	Yes	Dip in October, but trend still encouraging.
Real retail sales*	6.9	Jun. 05	-8.1	Dec. 08	-2.6	+1% to +2%	Yes	Core sales still stable.
Payroll employment**	239	Mar. 06	-487	Aug. 09	-482	+100K to -100K	Yes	Improvement likely in October.
Initial claims***	291	Feb. 06	658	Mar. 09	525	375K to 400K	Yes	Downward trend a positive sign.
Housing Starts	2273	Jan. 06	479	Apr. 09	590	1200K to 1400K	Yes	Single family starts showing stability.
ISM	61.4	May. 04	32.9	Dec. 08	52.6	38 to 43	Yes	Reading points to expansion in manufacturing.
Yield curve****	-3.72	Jun. 04	0.69	Dec. 06	-3.3	+0.00 to +3.00	Yes	Steepening in October.
Corp. quality spread*****	21.70	Dec. 08	2.66	Jun. 07	6.5	+6.50 plus	Yes	Easing sharply from peak, historically elevated.
Stock prices (S&P500)	1540	Oct. 07	757	Mar. 09	1070(-31%)	-10% plus	Yes	Rebound through mid-Oct., softer recently.
Oil prices (WTI)	134	Jun. 08	15	Feb. 99	about 79	\$30 to \$75	Yes	Strongly higher.

*Percent change year-ago

**Average monthly change over 12 months

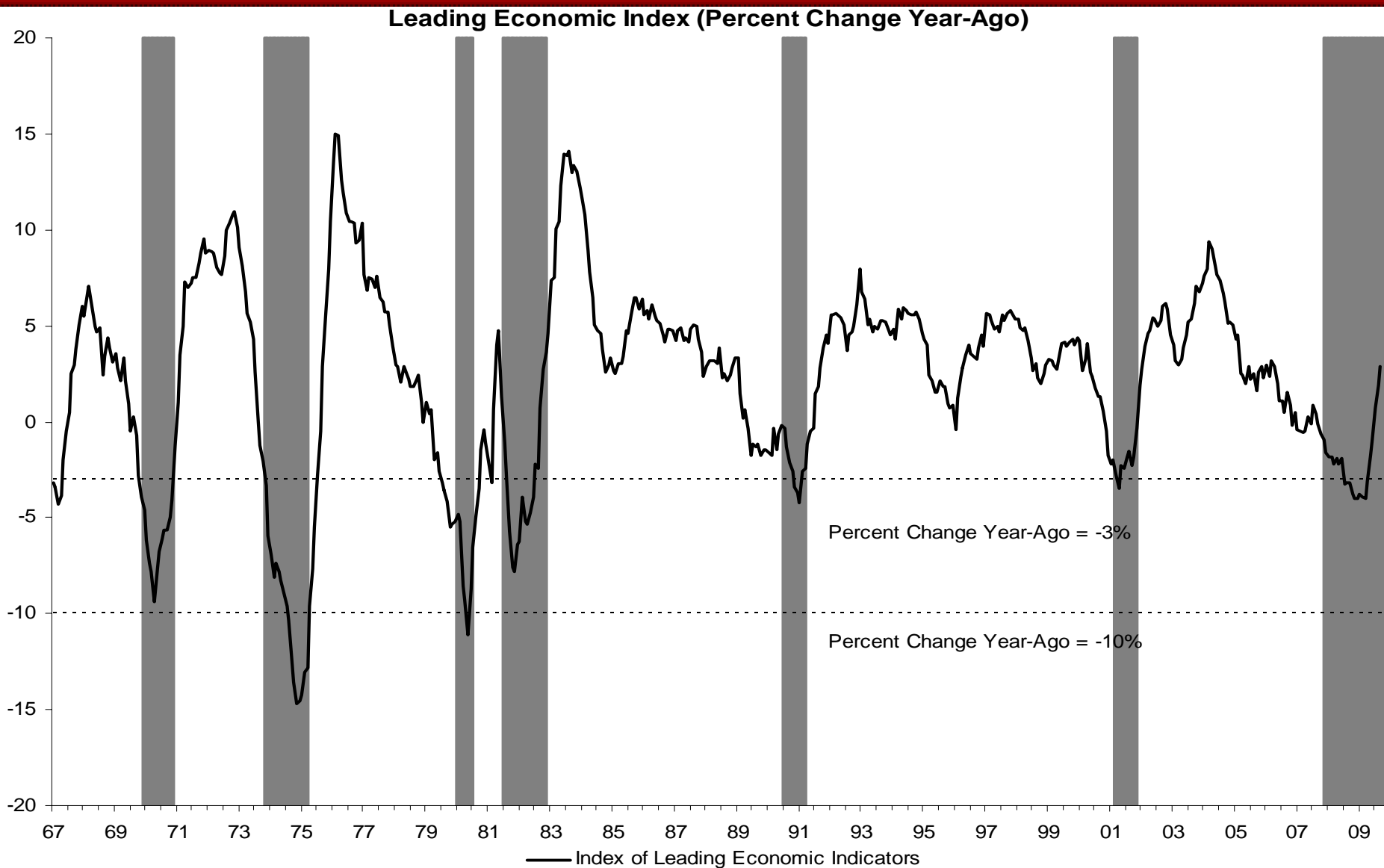
***Avg. of weekly data; series low is cyclical peak

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

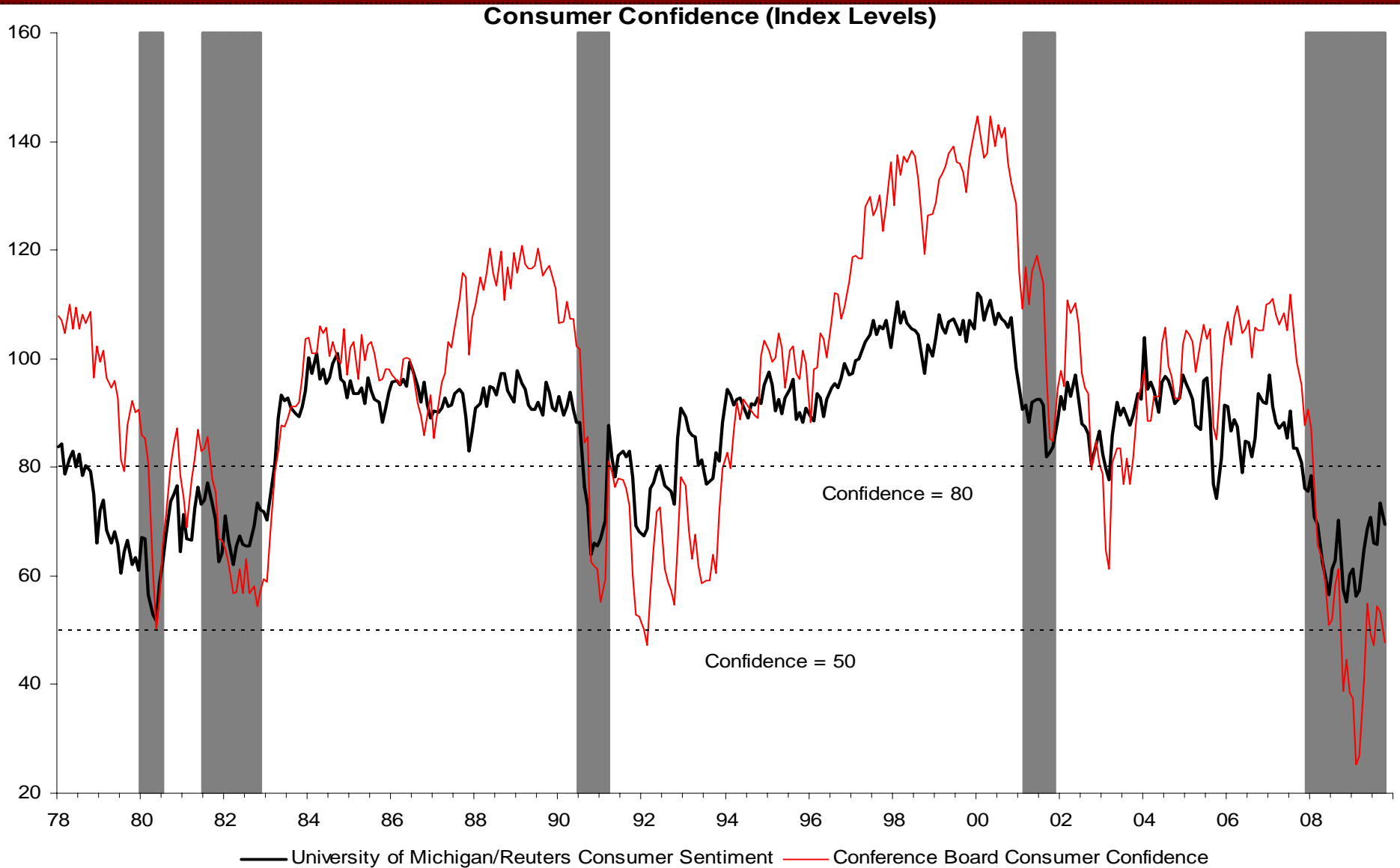
*****ML high yield index less 10-yr. T-notes

Source: Decision Economics, Inc.

Starting in April, the LEI has now recorded six consecutive months of gains. What began as improvement in financial market variables has started to spill over into real activity components, particularly an upturn in the ISM measure. Meanwhile, the employment-related variables have exhibited less of a drag, and in fact have contributed positively to the index in recent months. In year-ago terms, the measure is in positive territory.

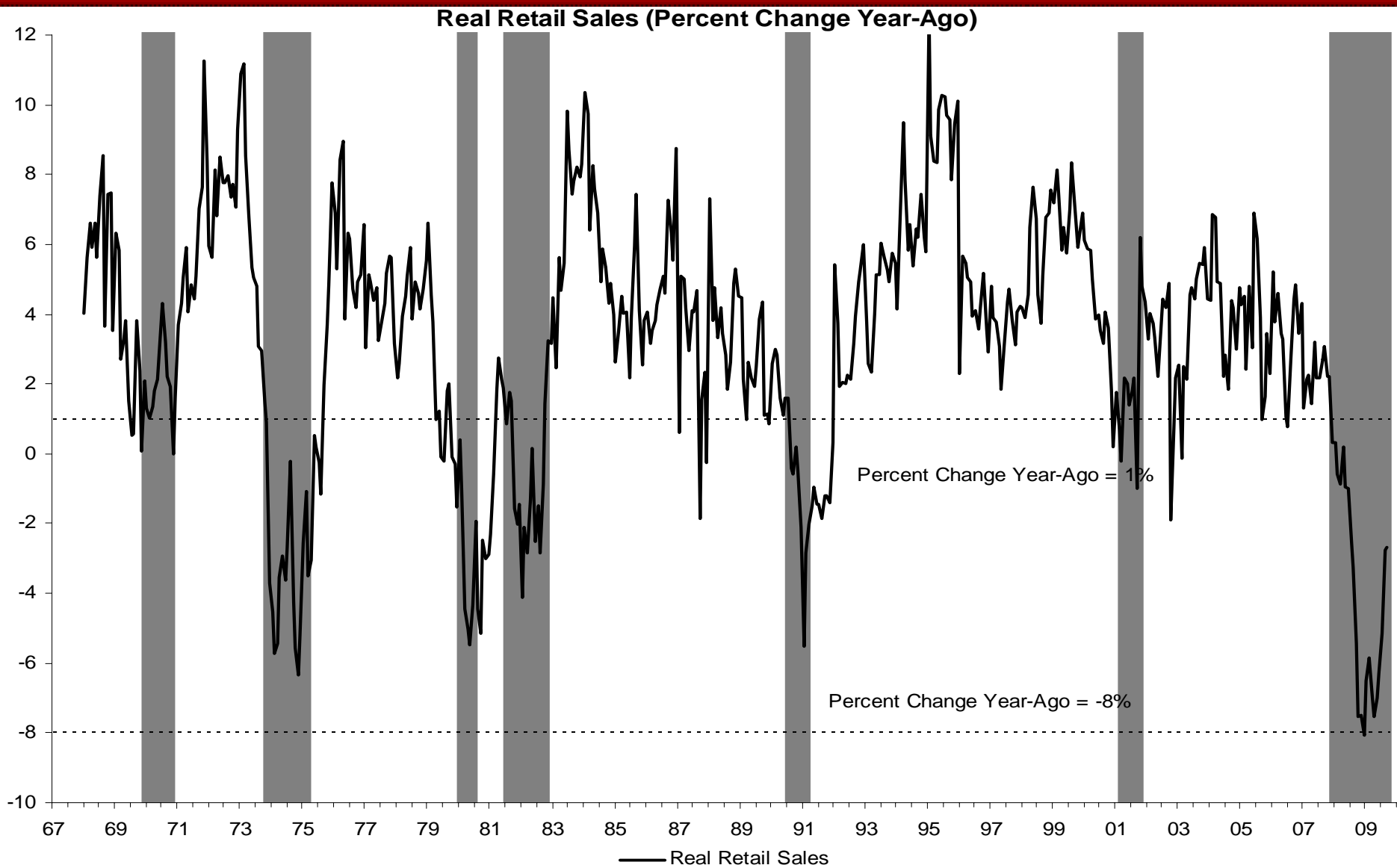


Consumer sentiment slipped in the initial October reading, albeit from a September level boosted by a strong end-of-month result likely impacted by a surging equity market. Overall, the measure, as well as consumer spending, have been trending higher. The Conference Board measure also lost ground in October, on a drop in the expectations component. Both indicators are well up from earlier lows, but they remain well below “normal.”



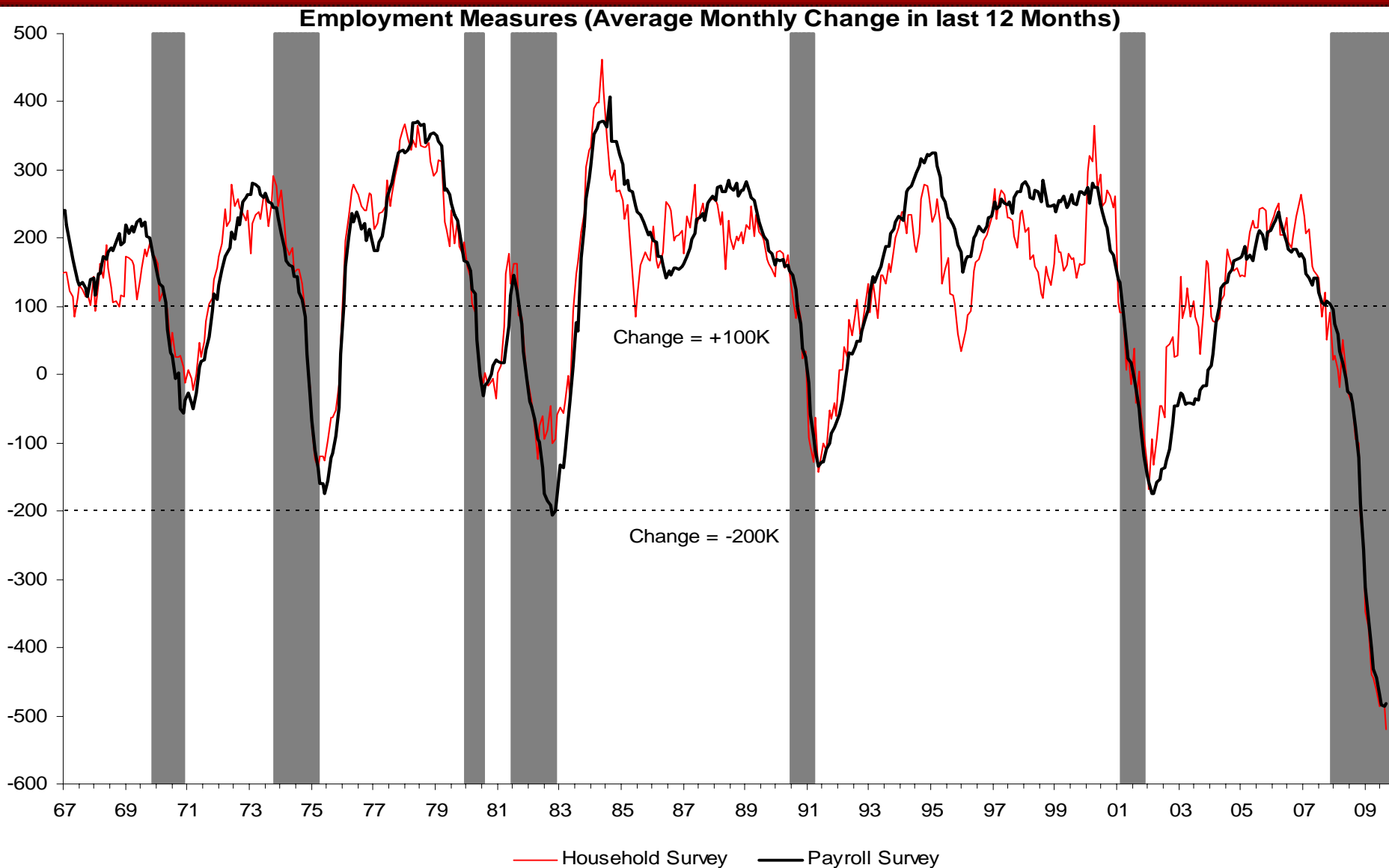
Source: The Conference Board, University of Michigan

Spending held up more firmly than expected in September, lending credence to the view that consumers are willing to do more than make only essential purchases, brightening somewhat the outlook for consumers' contribution to growth moving forward. How much of a role slashed prices and government incentives have played remains to be seen, and the sustainability and underlying strength of the consumer rebound will remain in question for some time.



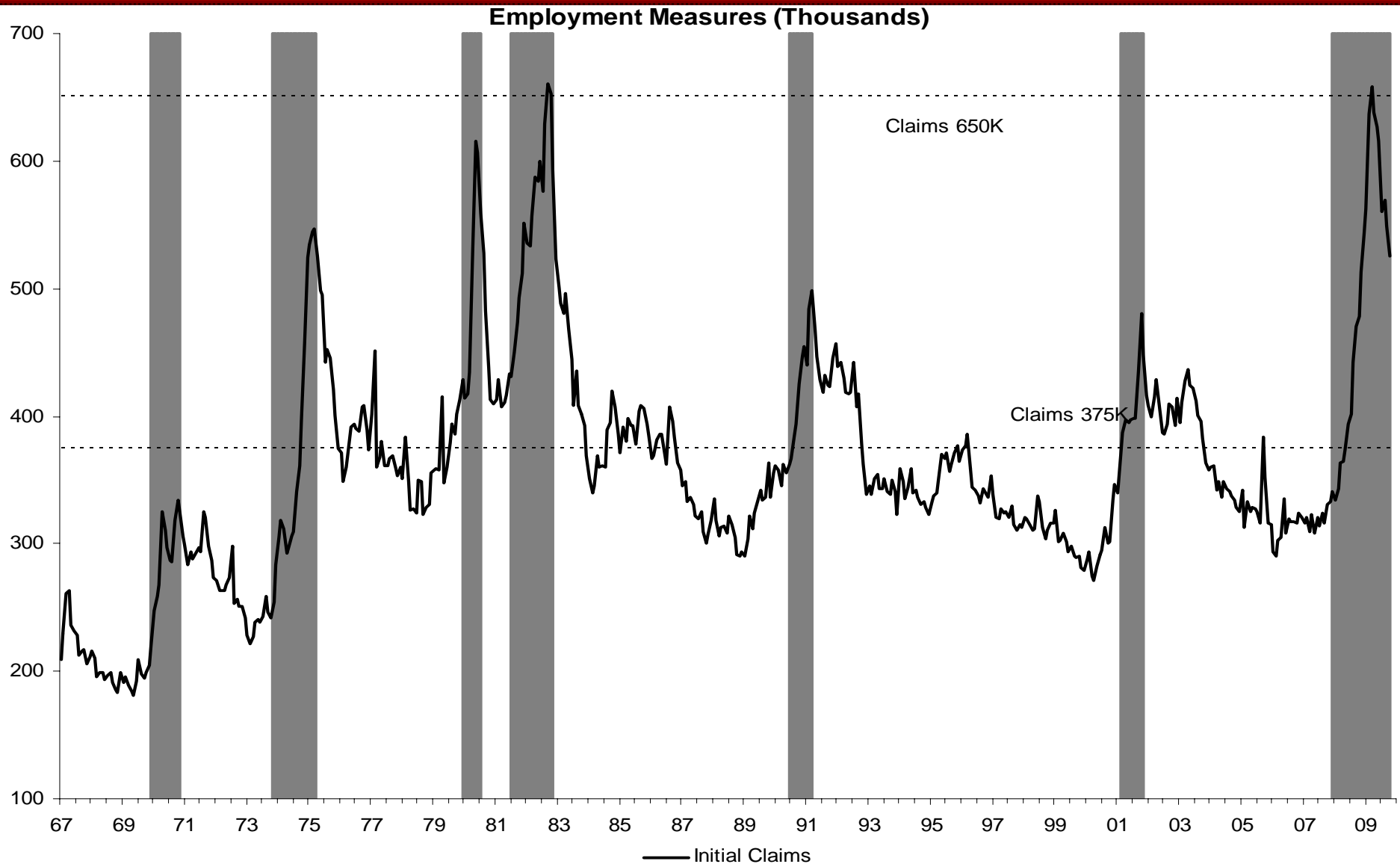
Source: BEA

September payroll data reveal a drop of 263K jobs, worse than the August result but not unsurprising given that deceleration in job cuts tends not to follow a smooth pattern. Weekly claims data suggest a moderation in payroll declines in October. History shows the shedding of jobs can decelerate rapidly, with payroll employment turning higher soon after the recession ends. Indications point to a lengthy spell of joblessness, increasing pressure on consumers and policymakers, jeopardizing the durability of the early recovery.



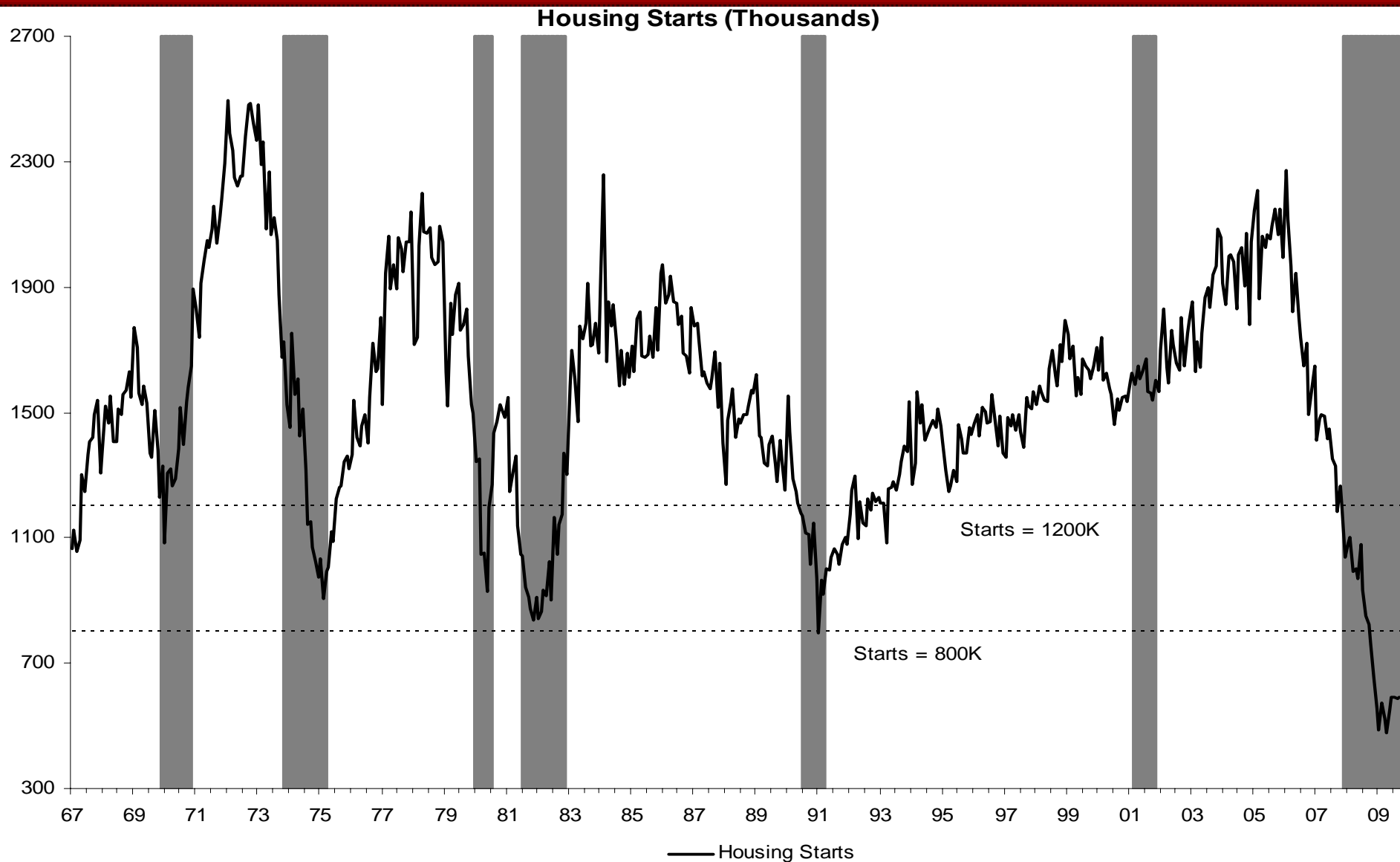
Source: Bureau of Labor Statistics

Initial claims continue to show a generally improving trend, but as seen below, remain quite high in historical terms. Volatility and seasonal adjustment issues tend to make the 4-week moving average the more useful measure. Initial claims tend to peak near the end of recessions, with a sustained drop of 6-10% (which we have seen) in the 4-week average usually needed to signal an exit.

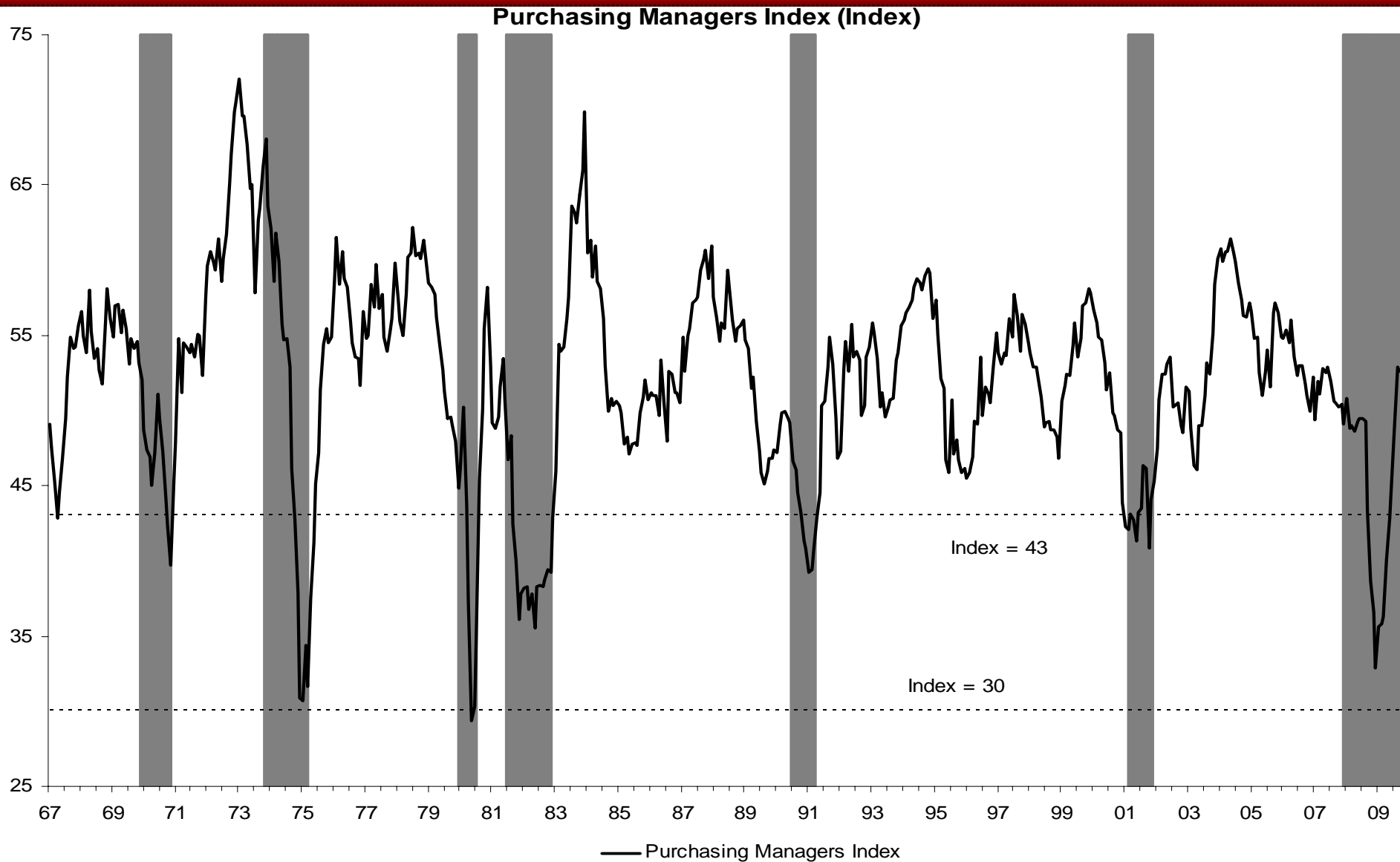


Source: Bureau of Labor Statistics

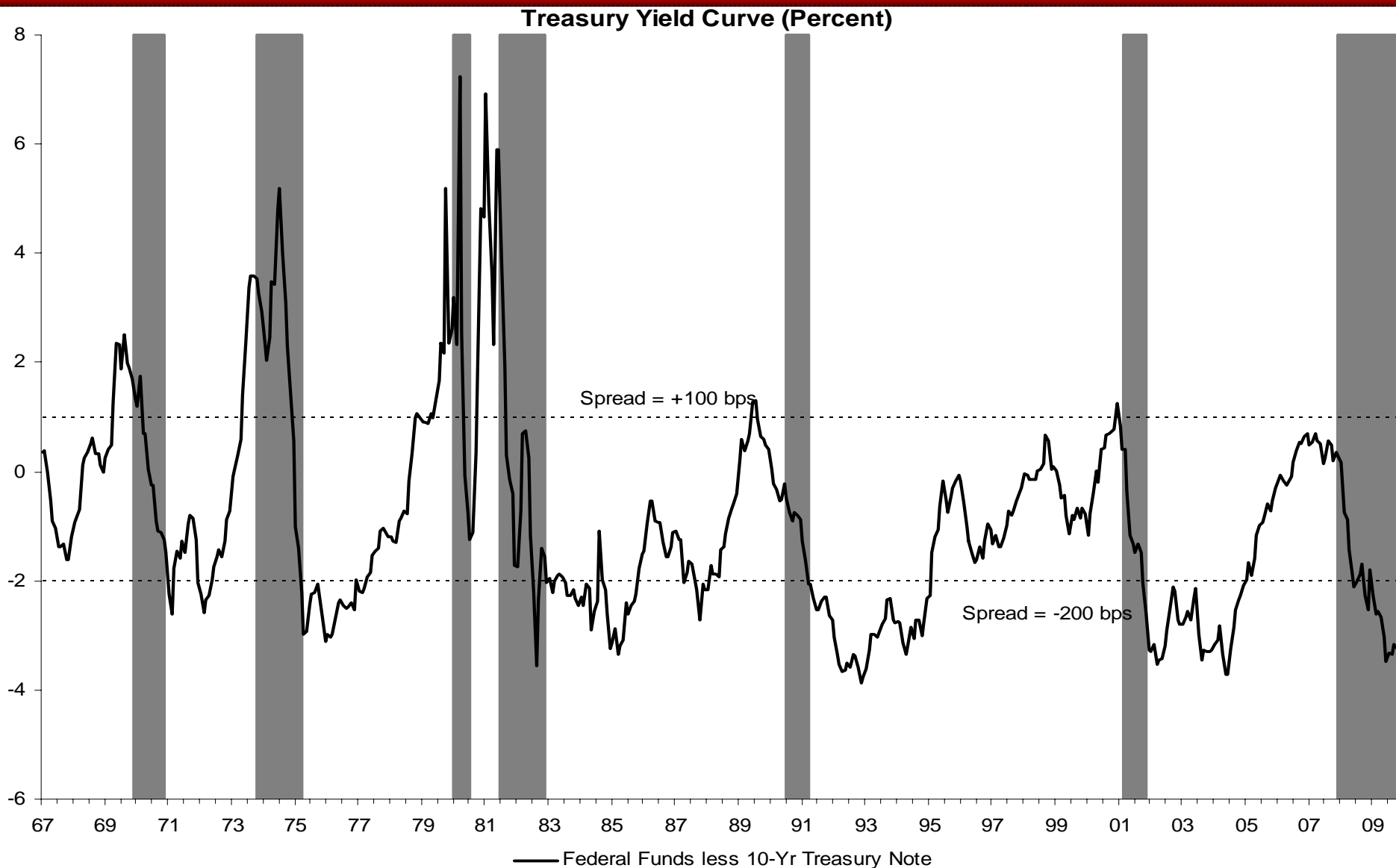
Housing starts likely have reached a level that better matches current supply and demand, with builders sensing stabilization, albeit at depressed levels. Recovery in the housing sector still faces challenges, and reducing the inventory overhang will be the first step. September existing homes data saw improvement on that front. But, not only do present inventories need to come down, but there is likely a latent supply of homeowners still waiting to test the market, representing a headwind to prices as we move ahead.



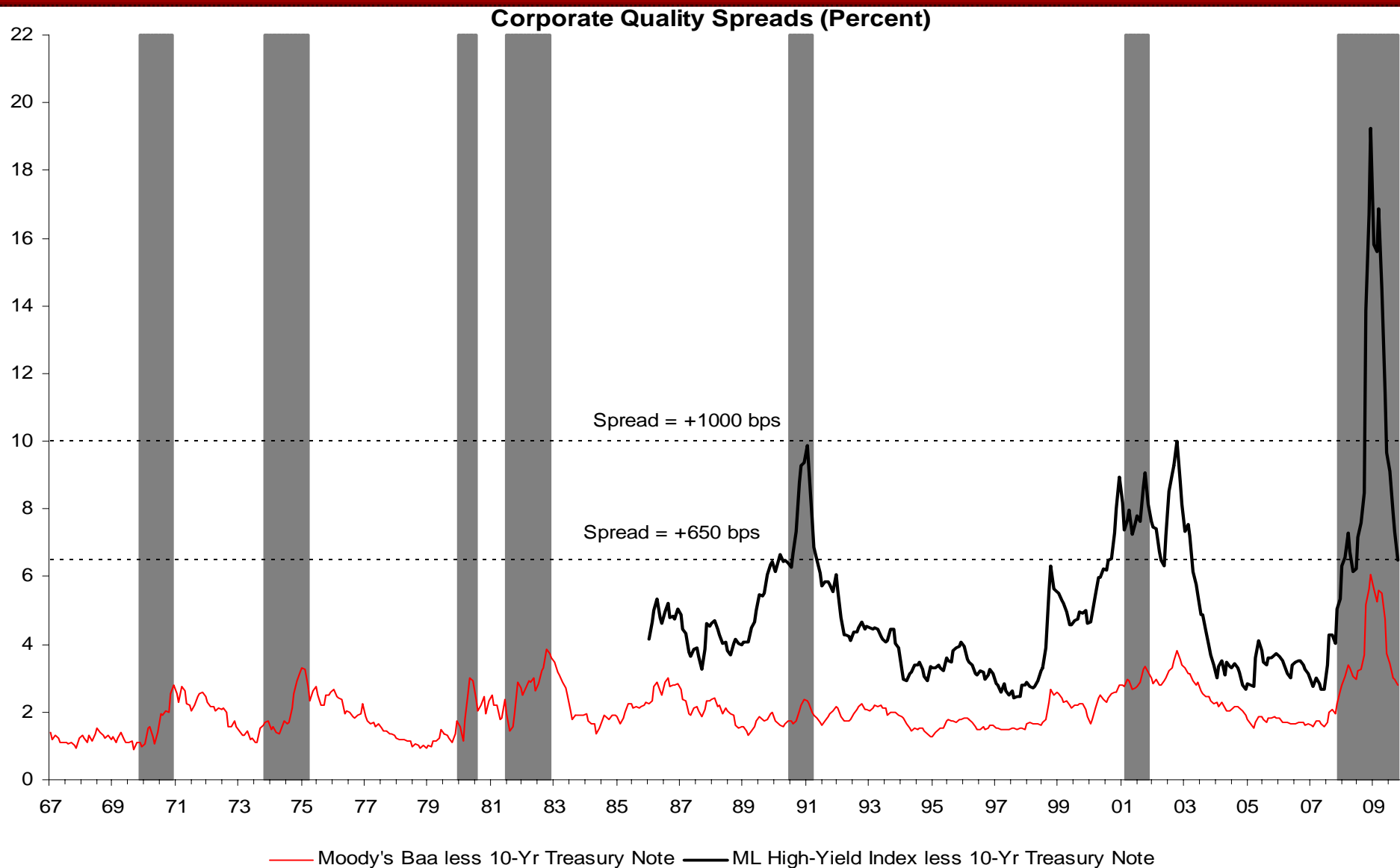
The ISM's manufacturing index fell slightly to 52.3 in September, though remains above the expansion/contraction breakeven level of 50. The result still points to stabilization in the sector, though the turn down in the orders index, to 60.8 from 64.9, adds to a bit of uncertainty moving forward. Meanwhile, the employment index remained weak but well up from earlier lows, down 0.2 points to 46.2.



After rallying into October, Treasuries fell toward month-end, taking the curve steeper once again. The overall steepness of the curve is encouraging in that it augurs recovery, but is unsettling to some who worry that it points to higher borrowing costs for consumers, and higher inflation.

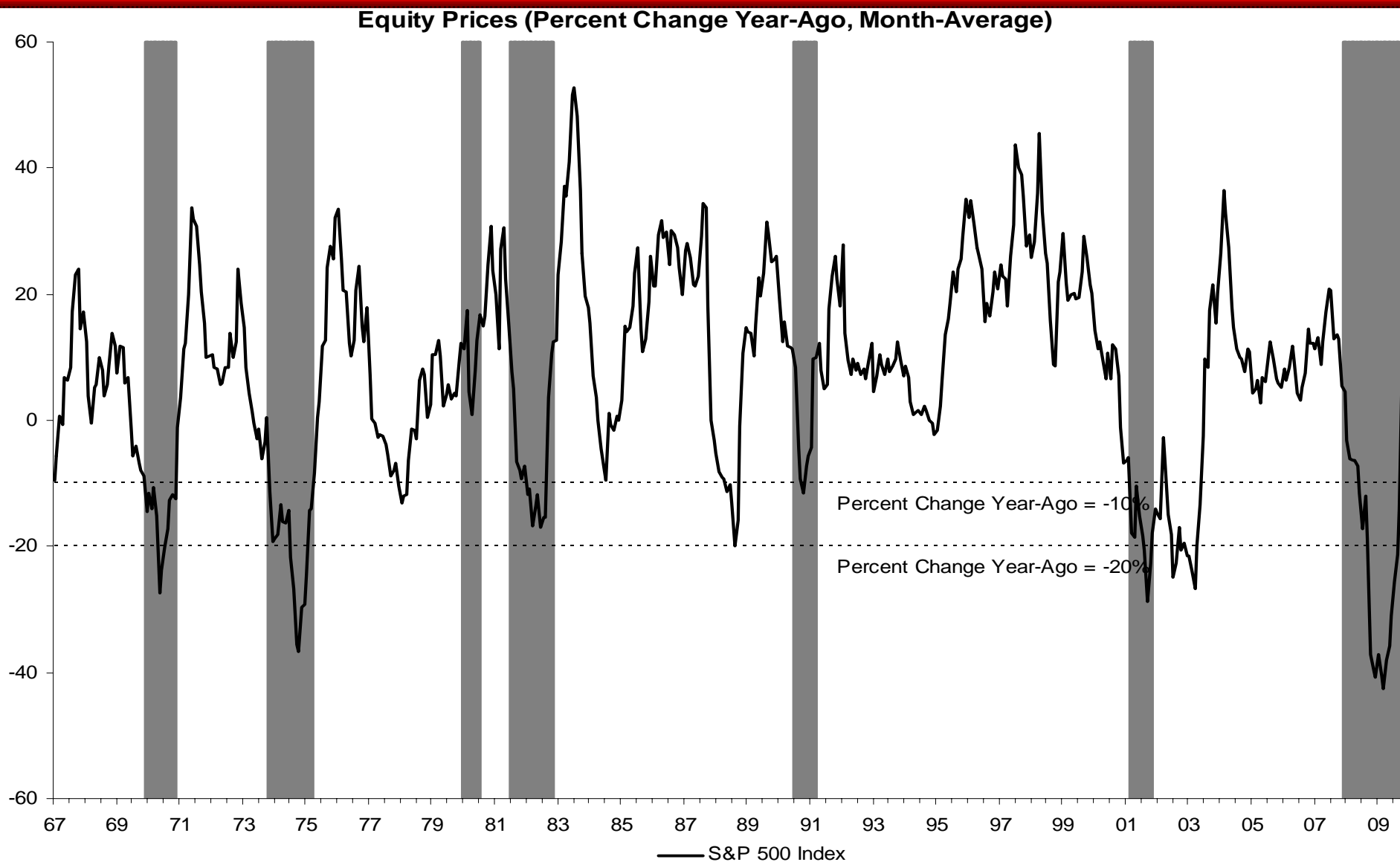


Quality spreads have eased dramatically from their highs during peak market stresses, as risk-taking returned. Spreads remain quite high in historical terms, indicating that while conditions have improved, there are still concerns about corporate defaults.



Source: Moody's Investor's Service, Federal Reserve

Equity markets regained ground in October after having weakened from late September into early October. Trading remains volatile as earnings reports and outlooks hit the tape. Investors are seeking greater clarity about 2010, and what form a recovery will take. A still-weak consumer and battered household balance sheets hold down the odds of a strong, V-shaped recovery in the economy, though profits seem to be tacking in that direction.



Expectations of a further resumption in demand in emerging markets have been key to sustaining the 2009 rally in oil and other commodity prices. Oil prices rose strongly in October, raising the odds OPEC will increase supply hoping to head off the scenario where high prices stifle a nascent recovery. Should oil prices continue higher, it would be unwelcome news for consumers already squeezed by high unemployment.

