



Weekly Economic Chart Book
January 2, 2009

Where and when to look for signs of a turnaround?

We expect indicators to look weak in the short term but at some point during 2009 we expect to see some turning signals. As we believe US will turn first this is where we will look for the signals. Below is a small overview of what macro and financial indicators to watch.

Macro signals:

- 1) Weekly retail sales:** The positive effect of lower gasoline prices should show up in consumption. The earliest sign of this will likely be in the ICSC weekly retail statistics. Look for improvement in March/April.
- 2) Car sales** have been hit recently by the credit crunch (on top of all the other headwinds) and have fallen to the lowest levels in 25 years. A stabilisation in car sales would be a sign that the credit crunch is easing on back of the Fed initiative to support the ABS market.
- 3) Consumer confidence:** The boost from lower gasoline prices should show up in consumer confidence. Hence look for a rise in consumer confidence as indication of whether the lower gas prices start to take effect. Expect consumer confidence to be flat in the short term but rebound around February/March.
- 4) ISM:** In the short term we expect ISM to go slightly lower as past headwinds are still dragging down the industry. Expect ISM to stabilise in early 2009 and then rise around March/April
- 5) Building permits:** So far the activity in the housing sector has continued to plummet despite early signs of stabilisation in home sales. Expect a weaker pace of decline in building permits to materialise around February/March
- 6) NAHB:** The NAHB housing index has fallen to new lows recently. As with building permits expect a slight improvement in the NAHB index in February/March
- 7) Jobless claims:** Jobless claims posted new cycle highs recently. Over next few months claims data is likely to worsen a bit further. Look for a turnaround by March/April.

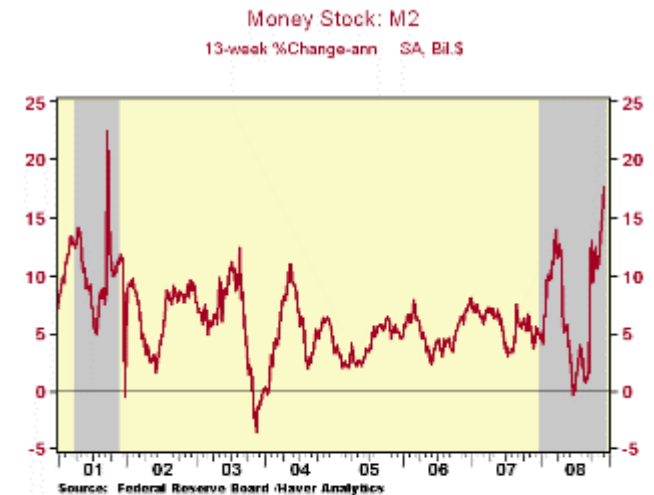
Financial signals:

- 1) Credit spreads:** A decline in credit spreads - including mortgage spreads - would help ease the pressures on investments and the housing market and support a faster turnaround. Watch for some signs that mortgage spreads are narrowing but corporate credit spreads are still very wide. Expect a very gradual improvement here during the first half of 2009.
- 2) Money market spreads:** Lower libor-ois spreads on 3 month maturities and longer would signal an easing of money market tensions and easier financial conditions.
- 3) Equity markets:** A turn in equity markets would improve consumer sentiment adding to the boost from lower gasoline prices. Equity markets are also often a leading indicator for the overall economy.



The Fed Should Forestall Deflation & Recession

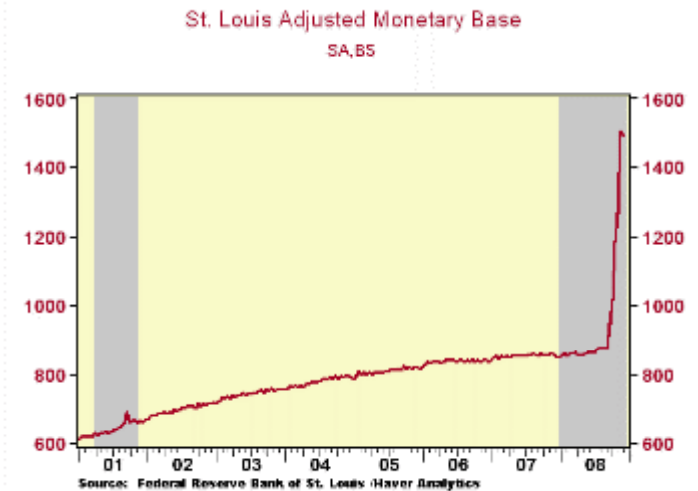
Based on quantitative money measures alone, the Fed has already done enough to forestall deflation and recession, and on these grounds, it might just sit back and wait for its initiatives to take full effect. Instead, chances are that it will continue to seek further policy levers. Treasury rates are down, and money is expanding, but private-sector borrowing rates are still generally far above their pre-crisis levels. In coming months, the Fed will likely seek to further reduce corporate bond yields and residential mortgage rates.





FOMC has Reduced Rates to Near 0%

In addition to lowering the cost of credit in the effort to prompt economic growth, the Fed indeed has worked to promote faster growth in financial liquidity. Growth in the money stock measure M2 rose to 17.6% over the last three months, up from a 5% growth rate earlier this year. Growth in demand deposits alone jumped to 40% y/y. Direct injection of liquidity to the financial system is evident in the monetary base which is up by three-quarters versus last year. Also promoting U.S. economic growth these liquidity injections have started to impact the foreign exchange value of the U.S. dollar which is down 6% from its mid-November peak.



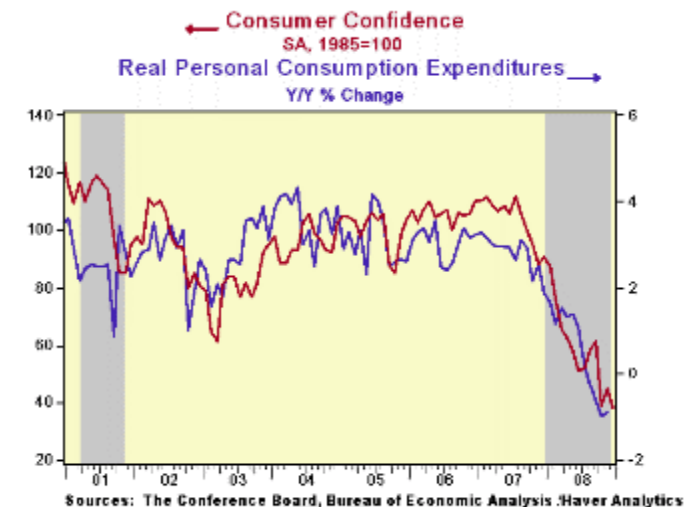


Consumer Confidence Fell Back To A Historic Low

Worry about jobs, income and the future shape of business conditions weighed heavily on consumer psychology. For December, the Conference Board indicated that consumer confidence fell and washed away a slight improvement in November. The 15.0% month-to-month decline in confidence was to an index level of 38.0 which was the lowest in the series' history which extends back to 1967. The decline disappointed Consensus expectations for a modest improvement in the December index to 45.5.

During the last ten years there has been a 82% correlation between the level of consumer confidence and the y/y change in real consumer spending.

A decline in consumers' reading of current economic conditions was responsible for most of the decline in overall confidence this month. The index measure fell by nearly one-third from the November level and the latest reading was down by three-quarters from last December's figure.



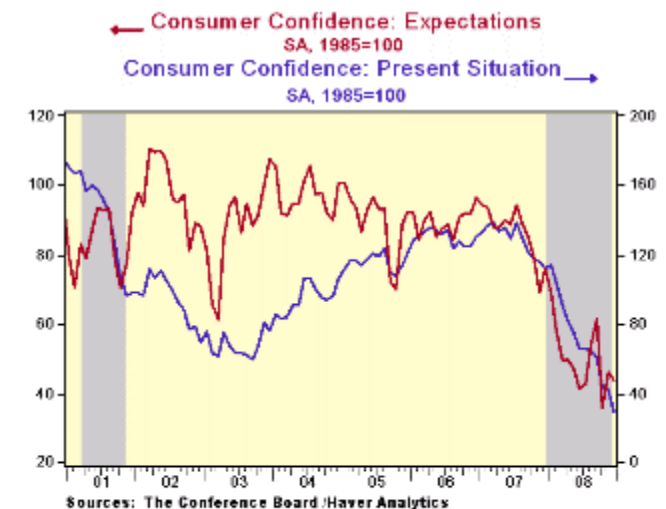


Consumer Expectations – a leading indicator - Falls

The index of consumers' expectations fell a slight 5.2% month-to-month and it has been relatively stable this year near a historically low level.

Only 7.7% of respondents thought that business conditions were good and 46.0% thought they were bad, up from 16.2% during all of last year. A gloomy reading of the current job market was notably evident as 42.0% thought that jobs were hard to get, double last year's percentage and up five percentage points just since last month.

Moving somewhat counter to the increase in gloom about the short-term economy was that 2.5% of respondents planned to buy a home during the next six months, up from 2.1% in November. The reading was, however, still near the series' historic low. Also showing slight m/m improvement were plans to buy an appliance or an automobile, but both measures also still were near their all time lows





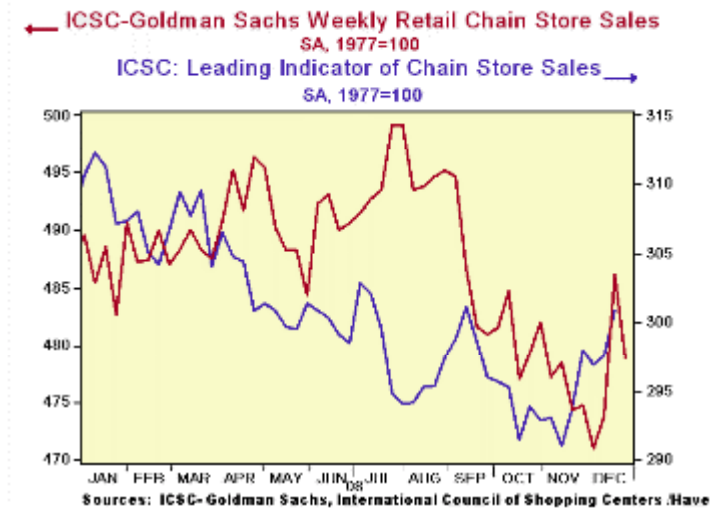
Chain Store Sales Ticked Up But Still Near Lows

Chain store sales during Christmas week gave nothing to cheer about, according to the International Council of Shopping Centers-Goldman Sachs Index. The level of sales last week fell 1.5% and that reversed about half of the prior week's rise. For the month, December sales did rise but only by a scant 0.3% from the November average. That uptick followed declines of between 1.0% and 1.9% during each of the prior three months.

The year-to-year decline in sales of 1.8% was the weakest performance since early 2003. During the last ten years there has been a 59% correlation between the y/y change in chain store sales and the change in nonauto retail sales less gasoline.

The ICSC-Goldman Sachs retail chain-store sales index is constructed using the same-store sales (stores open for one year) reported by 78 stores of seven retailers: Dayton Hudson, Federated, Kmart, May, J.C. Penney, Sears and Wal-Mart.

Perhaps better news on sales are in store. The weekly leading indicator of chain store sales from ICSC-Goldman Sachs jumped another 1.1% after a 0.2% rise during the prior week. And since the lows of several weeks ago the index has recovered 3.4%.

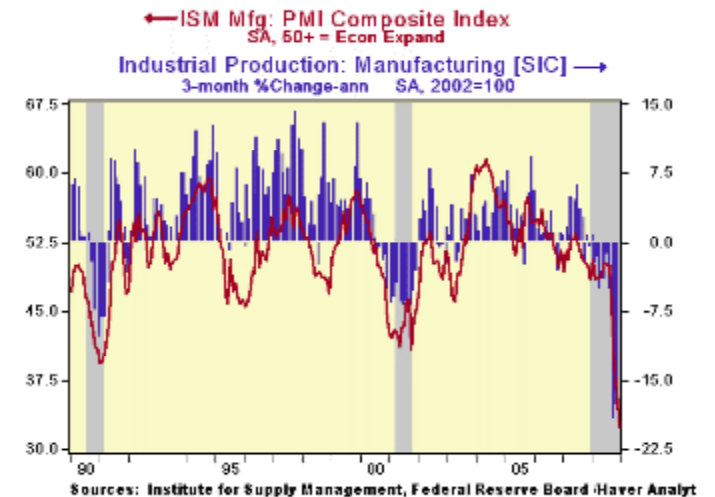




Factories in the US Mired in a Slump

Factory surveys from different corners of the world send a unified message of a slump in factory activity. In the U.S., the ISM manufacturing survey for December paints a picture of severely weak factory conditions. The composite index fell to 32.4 in December from 36.2 in the prior month. Readings below 50.0 denote a contraction in factory activity. The composite index has held below 50.0 during nine months of the year. The 32.4 reading of December is the lowest since June 1980 .

With the exception of the import index, all other subcomponents recorded declines in December. The index tracking new orders dropped to 22.7 in December from 27.9 in November. This is a record low for this index which goes back to 1948.

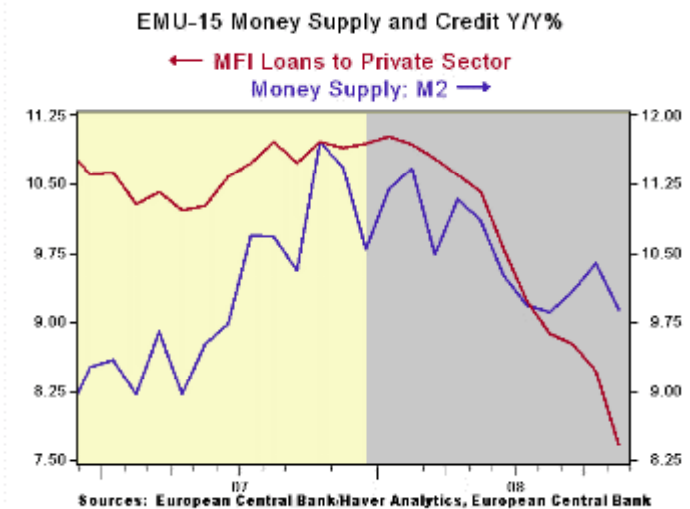




Various Money Supplies are Showing the Impact of Stimulus

European money supply trends show that Yr/Yr money supply growth is steady or slowing slightly on a Yr/Yr basis (chart). Over other time horizons (see table) some stimulus is indicated. Inflation adjusted 'real balances' show a bit more stimulus. But credit growth in EMU is clearly slowing. If the objective of monetary stimulus has been to get credit growth higher, it is not working.

Across other select G-7 countries the same trends with money hold forth – Japan is an exception of sorts. The US and the UK show sharply escalating money growth rates over more recent periods. Japan shows nominal money growth is decelerating. But in terms of real balances US, UK and Japan real balance growth is expanding.



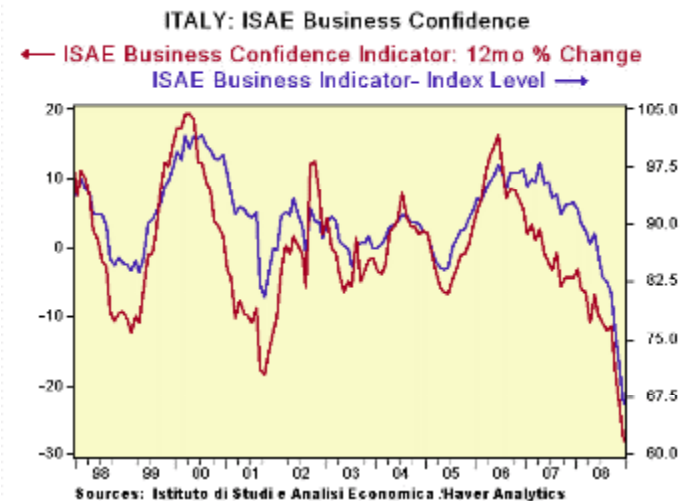


Italian Business Confidence Drops Like Stone

Italian business confidence has been weakening but has now hit extreme proportions. We are day by day getting confirmation that the economic signals are every bit as bad as the worst of our expectations for recession. We are looking at recession forces much more like 1973-75 and 1981-82 than like in 1990 or 2001.

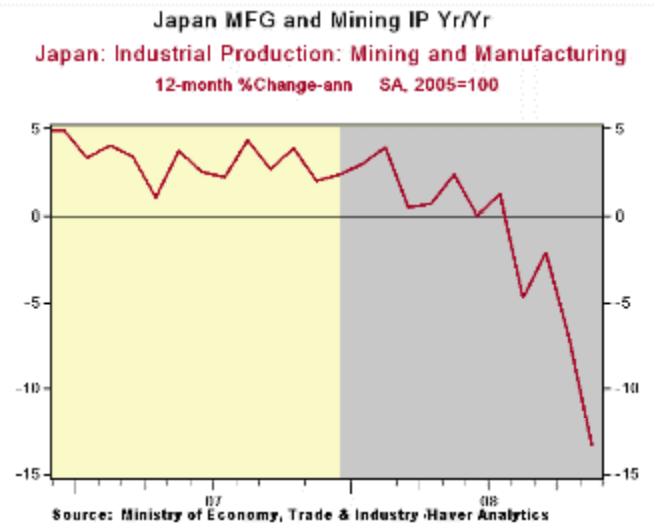
For Italian business, the readings across categories are the worst we have seen since 1996 except for inventories which are not the highest seen but still high readings and clearly into the undesirable range.

Domestic and foreign readings are showing extreme weakness as the year draws to a close.





Japan 's Industrial output fell sharply in November. The 8.1% drop has driven the three-month growth rate to -24% at an annual rate. Declines sweep across the various categories. Transportation is down especially sharply given the trouble in the worldwide auto market.





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