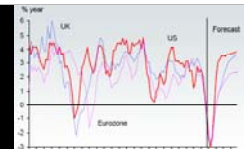


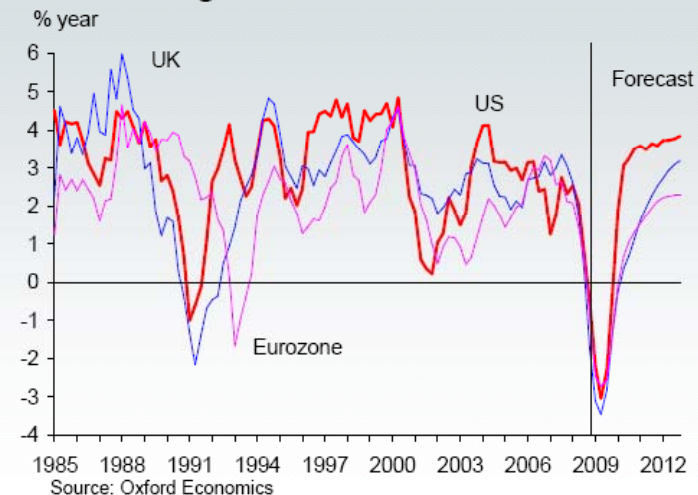


Weekly Economic Chart Book
January 30, 2009



Confirmations of the dire trends in output around the turn of the year continue to come thick and fast. US Q4 GDP fell a smaller than expected 3.8% at an annualised rate, but the details were very unfavourable – growth was supported by stockbuilding while consumption, exports and investment all plunged. New home sales also fell sharply in December, although existing home sales rose. In Japan, industrial output fell almost 10% in the month, on top of an 8.5% drop in November and unemployment also rose markedly in the month. Preliminary price data for January suggest a return to deflation. In Europe, the 56,000 rise in German unemployment in January illustrated that recent sharp drops in orders have quickly translated into a labour market shakeout.

World: GDP growth





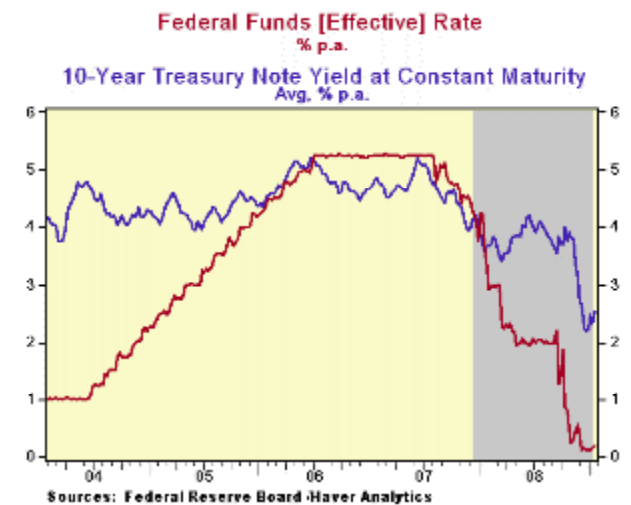
FOMC Leaves Rates Unchanged

The Federal Open Market Committee today left the Federal funds rate in a "range from 0 to 1/4 percent." The discount rate also was left unchanged at 0.50%. The Fed funds rate remained the lowest ever and the lack of action at this meeting was generally anticipated by economists.

Regarding economic growth, the Fed indicated that "the economy has weakened further. Industrial production, housing starts, and employment have continued to decline steeply, as consumers and businesses have cut back spending ... The Committee anticipates that a gradual recovery in economic activity will begin later this year, but the downside risks to that outlook are significant."

Regarding inflation it was indicated that "the Committee sees some risk that inflation could persist for a time below rates that best foster economic growth and price stability in the longer term."

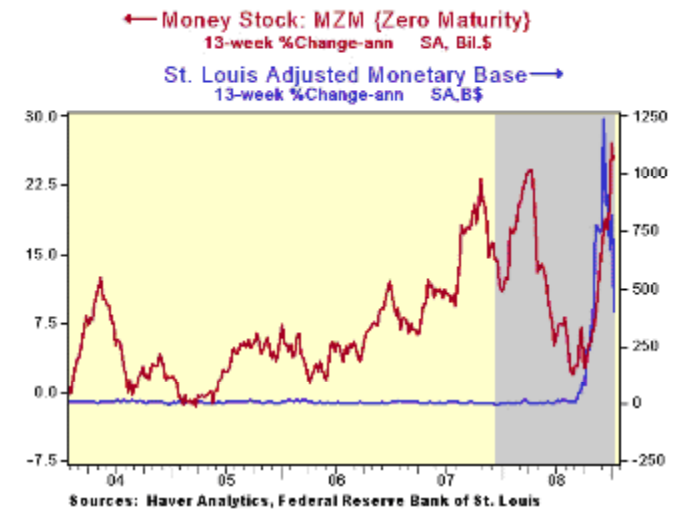
The Fed emphasized its concern about the recent turmoil in the credit markets. "The Federal Reserve will employ all available tools to promote the resumption of sustainable economic growth and to preserve price stability ... The Federal Reserve continues to purchase large quantities of agency debt and mortgage-backed securities to provide support to the mortgage and housing markets, and it stands ready to expand the quantity of such purchases and the duration of the purchase program as conditions warrant. The Committee also is prepared to purchase longer-term Treasury securities if evolving circumstances indicate that such transactions would be particularly effective in improving conditions in private credit markets."





Money Supply Continues to Grow

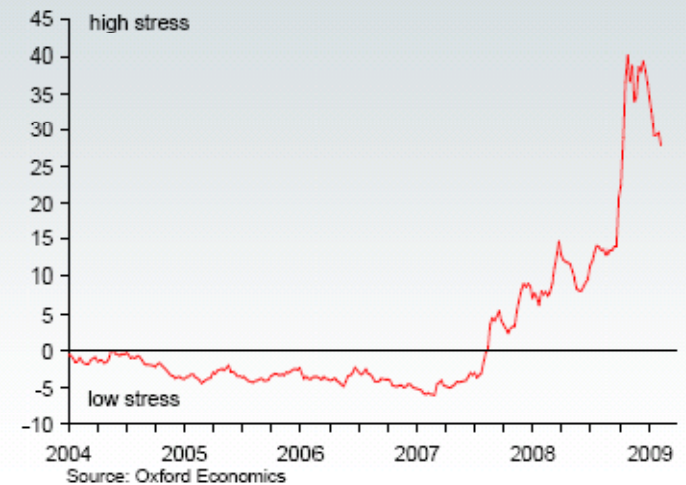
· Growth in economic liquidity has risen. The money stock measure M2 rose at a 17.0% rate over the last three months, up from a 5% growth rate earlier this year. The level of demand deposits has surged by two-thirds since the Spring. In addition, the monetary base has roughly doubled since last Spring. At the same time, inflation expectations have fallen sharply.





The financial stress indicator is a composite index of a number of indicators including risk spreads mortgage spreads, equity volatility, commercial paper and commercial loans outstanding and the spread of LIBOR rates over T-bill rates. Stress levels dropped slightly last week, mostly thanks to a fall in equity volatility and in mortgage spreads. But this latter drop was the result of higher treasury yields rather than lower mortgage rates, and another unfavourable detail was a big drop in commercial paper outstanding of US\$86 billion. Recent data have also shown shrinking bank lending, suggesting the overall supply of financing to the corporate sector continues to be squeezed.

US: Financial stress indicator



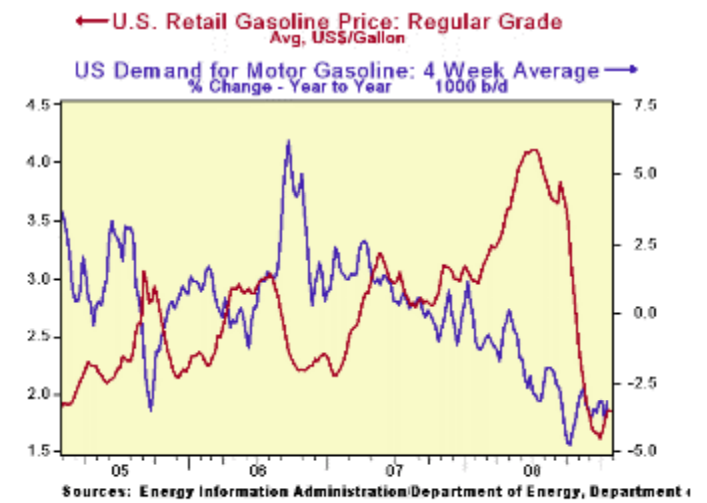


Gasoline Price Rise Stabilized

The recent rise in regular gasoline prices stabilized last week after three consecutive weeks of increase. At an average \$1.84 per gallon prices about matched the prior week's level but that still was up 13 cents from the recent low, according to the U.S. Department of Energy survey. The latest level was near the highest price since late November. Yesterday, the spot market price for regular gasoline held stable with Friday's level of \$1.17 per gallon which also was the average during last week.

Demand continued quite weak for gasoline in reaction to the economy's weakness. The U.S. Department of Energy reported that the demand for gasoline fell by 3.2% during the latest four weeks. While the rate of decline remained nearly the fastest since late-1995 (the latest four weeks versus the same four weeks in 2008) it has been stable since November. The demand for all petroleum products also has been down a sharp 4.7% y/y.

The source for that reduced demand for gasoline is the cutback in vehicle miles driven which have fallen 5.3% year-to-year during the twelve months ended November. The rate of decline has been accelerating since late 2007 and it is nearly unprecedented.

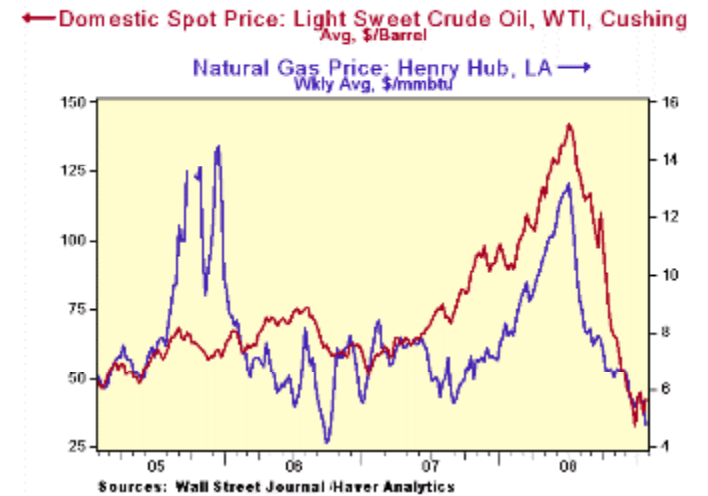




Crude Oil Prices Rise

The price for a barrel of West Texas Intermediate crude moved back up last week to \$42.18 per barrel. Prices reached their high of \$145.66 last July. In futures trading yesterday, the one-month price for crude oil moved higher versus last week to \$45.73 per barrel. The two month futures price was higher still at \$48.49.

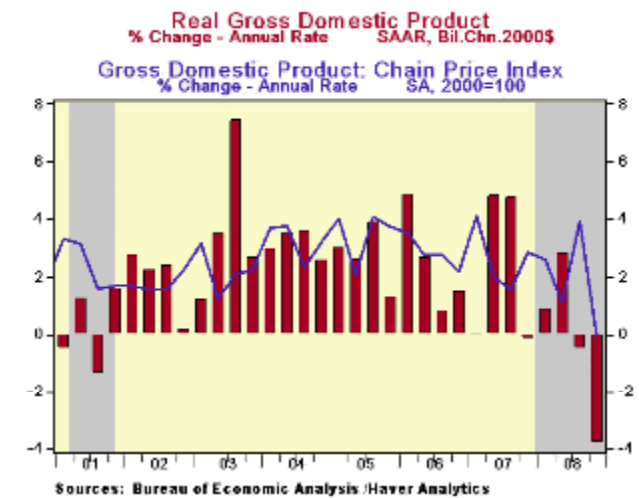
The price of natural gas slipped further to \$4.80 per mmbtu (-39.1% y/y). The latest average price was almost 50% below natural gas prices in early-July of \$13.19/mmbtu.





U.S. Recession Intensifies; 3.8% Drop in Real GDP Is Sharpest Since 1982

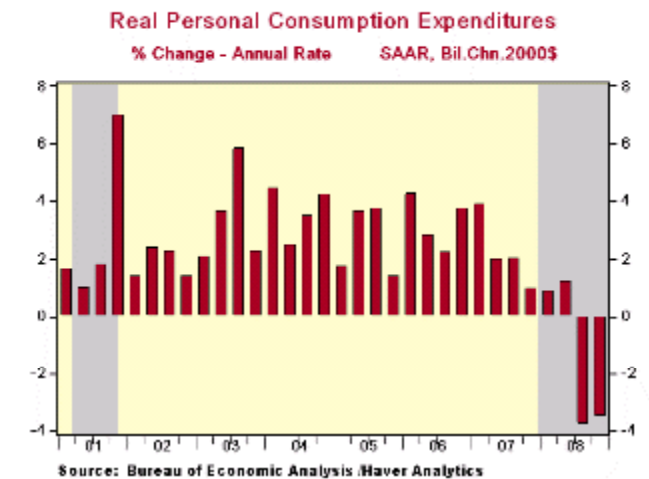
The current recession in economic activity intensified last quarter. Real GDP contracted at a 3.8% annual rate. Although, the rate of decline was less than the generally expected 5.4%, it was the deepest quarterly drop since the last, sharp recession of 1982. Moreover, a run-up in inventories accounted for the upside surprise to growth and that will have limited staying power if demand remains under pressure.





Real U.S. final sales to domestic purchasers contracted at a 4.9% annual rate after the 2.2% 3Q drop. That was the worst decline since the notably sharp, "credit crunch" recession of 1980 when consumers pocketed their credit cards. Personal consumption expenditures fell a sharp 3.5% (AR) after a like decline during 3Q. Business fixed investment fell off a cliff at a 19.1% annual rate. Residential investment fell at a 23.6% rate. Combined, business plus residential investment declined for the tenth quarter out of the last eleven.

- The sharpness of that decline in demand suggests that the strong rate of 4Q inventory accumulation was involuntary. Inventory accumulation added 1.3 percentage points to GDP growth which was the most for one quarter since 2005. The increase then was followed by three consecutive quarters of decumulation or modest accumulation as tight control methods kept inventories under wraps.





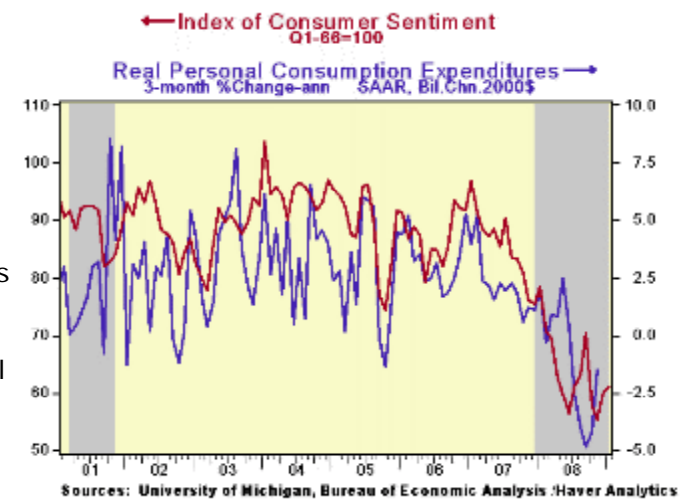
Michigan Consumer Sentiment Up Slightly In January, Yet Still Near Series' Low

The January consumer sentiment index from the University of Michigan rose slightly for the second month. The 1.8% rise was slightly less than indicated in the mid-month report but it followed an 8.7% increase off the cycle's low in December. Nevertheless, at 61.2, the latest level was close to the lows for the series which occurred in the severe recessions of 1973-75 and 1980. Moreover, the figure remained down nearly one-quarter from last year. The latest reading about matched Consensus expectations for a reading of 61.9.

The expectations component of consumer sentiment rose moderately. Still, the series was near its lowest since 1990 and close to the low of 1980. Expectations for business conditions during the next year rose somewhat and expectations for conditions during the next five years also ticked up. The expected change in personal finances rose to the highest level since September.

The current economic conditions index fell after an initial reading that was unchanged from December. The buying conditions index for large household goods fell sharply but the view of current personal finances rose (surprisingly) to the highest level since September. The figure did, however, remain off sharply from the 2007 average.

The opinion of government policy, which apparently influences economic expectations, was about unchanged but off a sharp 28.2% during the last twelve months. Only seven percent of respondents thought that a good job was being done by government and a near-record fifty-one percent thought that a poor job was being done.





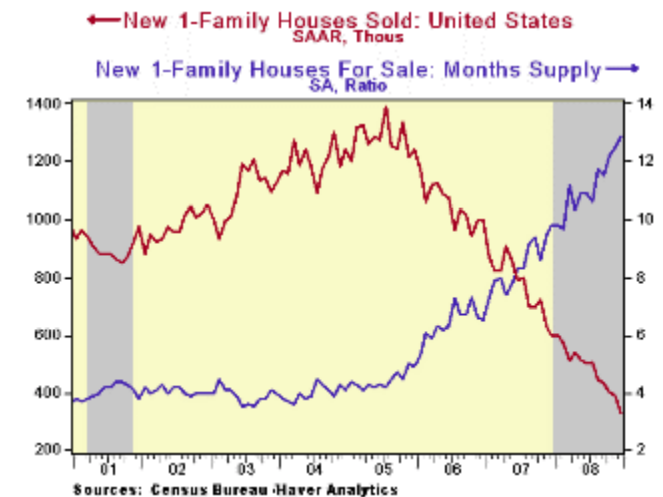
December New Home Sales Lowest Since 1963

Last month, sales of new single-family homes fell to their lowest level in the series' history which dates back to 1963. The 14.7% m/m December decline to 331,000 followed a downwardly revised November. December-to-December, new home sales were off by half and down by three-quarters from their peak during July 2005. They fell short of Consensus expectations for 400,000.

December-to-December sales fell hard around the country, down by one-third to one-half.

The median price for a new single-family home continued to fall hard to \$206,500 as homebuilders attempted to move inventory. In fact, that effort has been quite successful and the inventory of unsold homes is down by more than one-quarter during the last year to its lowest level since 2003. In each of the country's regions, the inventory is down by roughly one-quarter during the last year.

The month's supply of new homes for sale surged to 12.9, a record.





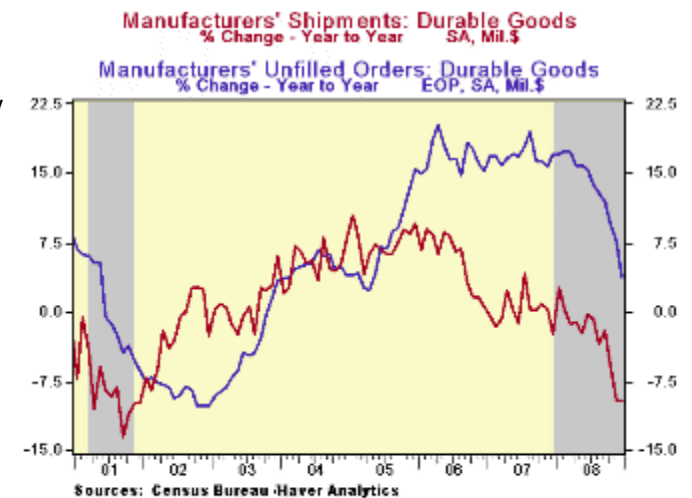
Durable Goods Orders Slumped Further

The factory sector continued to be hard hit by recession last month. New orders for durable goods fell during December for the fourth month in the last five. The 2.6% drop followed declines of 3.7% in November and 8.5% during October. But since July new orders have plummeted 19.0%, the largest five-month drop since 1975. The December decline far exceeded Consensus expectations for a 2.0% shortfall.

Lower new orders for computers & electronic products led last month's decline with a 7.2% drop (-10.0% y/y). Orders for just computers & related products were quite weak, down 3.0% for the month and off 19.6% during the last twelve months. New orders for communications equipment also were down by a significant 4.9% (-9.9% y/y).

Severe weakness showed through in other industries. Orders for primary metals fell 6.9% last month and they're down 28.7% during the last twelve. Machinery orders fell hard for the fourth month in the last five and they are off 18.3% for the year. Electrical equipment bookings actually rose 9.4% last month but they're down by that amount December-to-December.

Capital equipment orders fell just 1.1%, but the 23.8% y/y decline reflected a 27.0% y/y drop in orders for nondefense capital goods. That decline was due to the severe weakness in aircraft orders which nearly halved last year. Still, without aircraft, nondefense capital goods orders were down a sharp 11.2% y/y to their lowest level since 2005. During the last ten years there has been an 80% correlation between the y/y change in nondefense capital goods orders and the change in equipment & software spending in the GDP accounts. The correlation of the GDP figure with capital goods shipments is, as one would expect, a larger 92%.



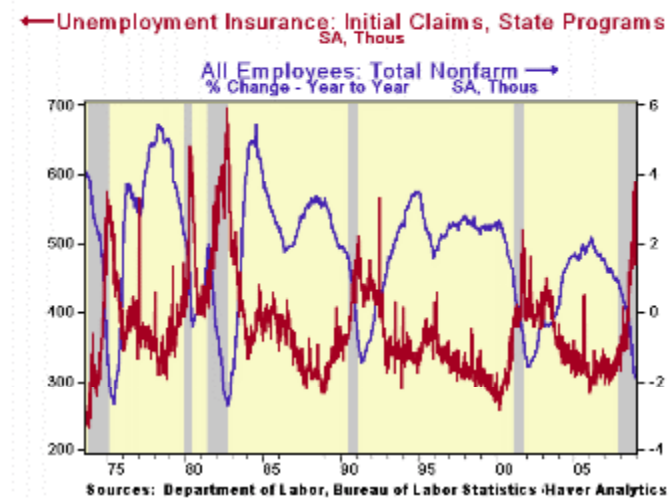


Weekly Continuing Claims For Jobless Insurance At Record High

The labor market remained under pressure last week as indicated by another rise in continuing claims for unemployment insurance. During the week of January 17 they rose 159,000 and that followed an upwardly revised 102,000 increase during the prior period. To emphasize the labor market's weakness, the latest increase raised continuing claims above their 1982 high to a new record for the series which dates back to 1966. The four-week average of continuing claims rose 66,500 to 4,630,000. Continuing claims provide some indication of workers' ability to find employment and they lag the initial claims figures by one week.

Though the latest level of continuing claims was a record, the labor force has grown as well. Therefore, the insured rate of unemployment was not at a new high. It did, however, rise to 3.6%, the highest since 1983. The highest insured unemployment rates in the week ending January 10 were in Michigan (7.3 percent), Oregon (6.7), Idaho (6.5), South Carolina (6.0), Pennsylvania (5.8), Wisconsin (5.7), Indiana (5.5) Nevada (5.3), Montana (5.2), Puerto Rico (5.2), and Rhode Island (5.2).

Initial claims for unemployment insurance also pointed to severe labor market weakness with a 3,000 rise to 588,000 during last week. The prior week's gain was revised down slightly but the latest level surpassed Consensus expectations for 575,000 claims. It was the highest since late during the sharp recession of 1981-82. During that recession, real GDP fell by 2.9% peak-to-trough





Mortgage Applications Fall as Refinancing Boom Ends

According to the Mortgage Bankers Association, the total number of mortgage applications fell by more than one-third last week and since their peak two weeks ago are down by almost one-half. Applications had been boosted by lower interest rates which have risen 25 to 30 basis points on average.

The index of applications to refinance a home mortgage fell by more than one-half during the last two periods.

Applications for a mortgage to purchase a home also fell but the decline only reversed an increase during the prior week. Since their peak early last year applications are down 25%.

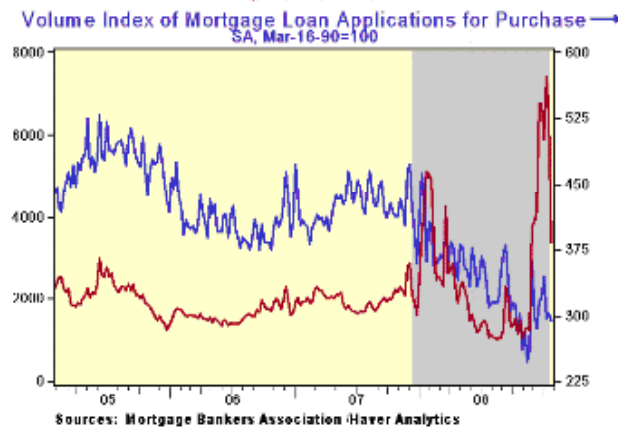
The effective interest rate on a conventional 15-year mortgage was roughly stable week-to-week at 5.27% which was up from the low of 4.92% during the week prior. For a 30-year mortgage, rates also were roughly stable w/w at 5.43%, up from the low of 5.13% two weeks ago. Interest rates on 15 and 30 year mortgages are closely correlated (>90%) with the rate on 10-year Treasury securities. For an adjustable 1-Year mortgage, the rate also held about steady for the fourth week at 5.97%, down a full percentage point from this past Fall.

During the last ten years there has been a (negative) 79% correlation between the level of applications for purchase and the effective interest rate on a 30-year mortgage. Moreover, during the last ten years there has been a 61% correlation between the y/y change in purchase applications and the change in new plus existing single family home sales

MBA: Market Volume Index: All Mortgage Loan Applications
SA, Mar-16-90=100



— Volume Index of Mortgage Loan Applications for Refinancing
SA, Mar-16-90=100





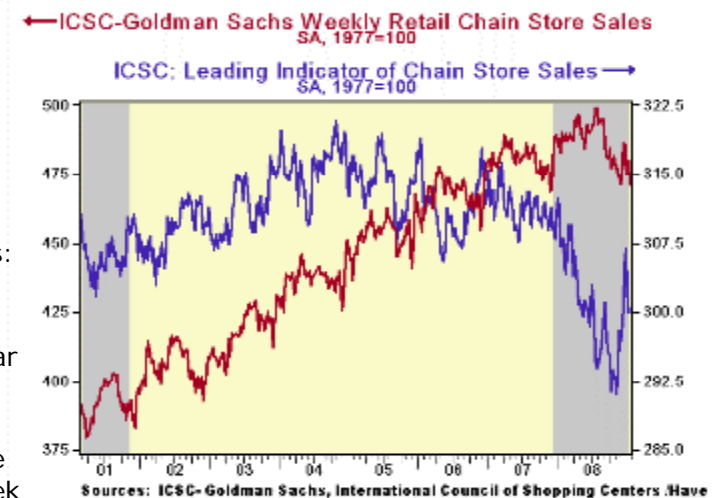
Chain Store Sales Fell Back; 2.4% Yearly Decline a Record

Chain store sales last week retraced the prior week's increase, and more, with a 1.8% decline, according to the International Council of Shopping Centers-Goldman Sachs Index. The drop followed the prior week's 1.1% increase and it left sales in January about even with the December average. The year-to-year change of -2.4% stands as the weakest in the series' history which extends back to 1990.

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.

During the last ten years there has been a 64% correlation between the year-to-year growth in chain store sales and the growth in general merchandise sales.

The outlook for sales weakened recently. The weekly leading indicator of chain store sales from ICSC-Goldman Sachs fell 0.7% after a 1.6% decline during the prior week. The average level so far in January is up 1.0% from December, which rose 2.1% versus November. Since the lows of one month ago the index has recovered 3.1%.





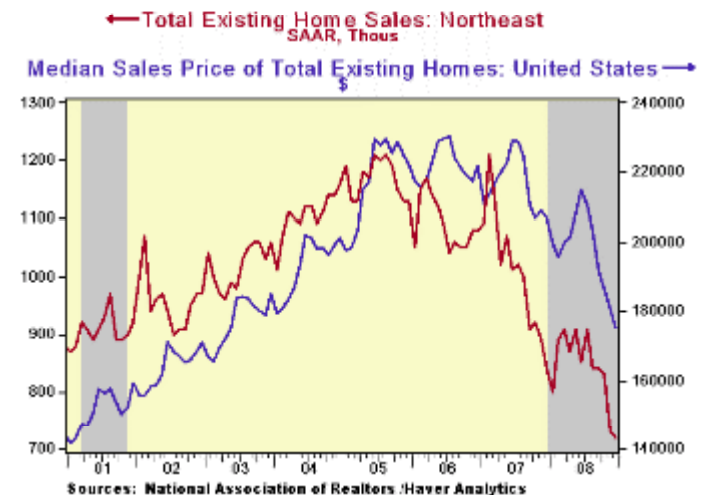
Existing Home Sales Rose Last Month

Could the decline in home sales be stabilizing, perhaps due to lower prices? According to the National Association of Realtors, sales of existing homes rose 6.5% last month to 4.740M. The 9.4% November decline was slightly deeper than reported initially. Consensus expectations had been for sales of 4.40M homes. Total sales include sales of condos and co-ops.

Median home prices fell yet again during December. The 2.7% (NSA) decline followed a 3.3% November drop that was slightly deeper than initially reported. It was the sixth consecutive monthly drop and it lowered prices by 15.3% from December of 2007. Prices have fallen 23.4% since their peak in June 2007.

The number of unsold homes (condos & single-family) on the market dropped a sharp 11.7% (-7.5% y/y). At the current sales rate there was a 9.3 months' supply on the market which was the lowest since early during 2007. For single-family homes the inventory fell m/m to an 8.7 months supply at the current sales rate which also was the lowest since 2007.

Last month, sales of existing single-family homes recovered nearly all of the November decline with a 7.0% increase. Nevertheless, sales of existing homes remained down by nearly one-third from their peak in mid-2005.





Leading Indicators Rose Slightly

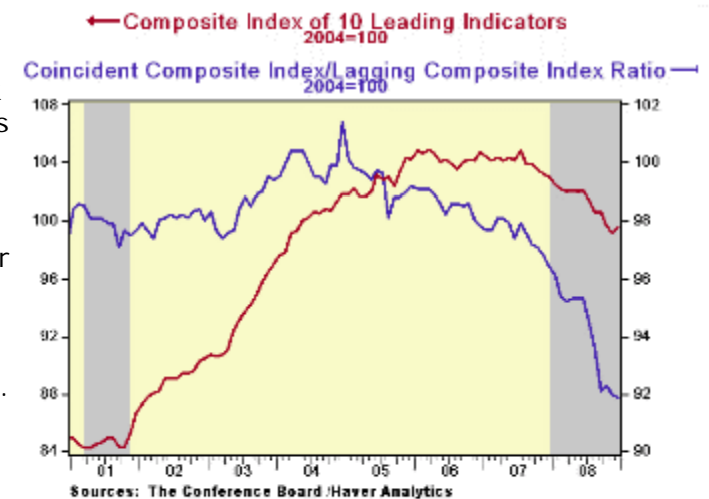
The Conference Board reported that the December composite index of leading economic indicators rose 0.3% after an unrevised 0.4% November decline. The peak for the index was in July of last year and the six-month percent change of -5.0% was near the largest rate of decline since 1990.

Five of the ten components of the leading index fell last month with the largest declines coming from lower building permits, shorter hours worked and easier vendor performance. Higher initial claims for jobless insurance also subtracted a sharp 0.15 percentage points from the leaders and consumer expectations were about unchanged. Faster money supply growth added back one percentage point to the m/m change in the leading index and a steeper yield curve added another 0.2 points.

The breadth of one-month increase amongst the leaders' 10 components improved to 50% but over a six-month period the breadth of gain amongst the components remained stuck at a quite low 30%.

The leading index is based on actual reports for eight economic data series. The Conference Board initially estimates two series, orders for consumer goods and orders for capital goods.

The coincident indicators fell again. The 0.5% decline followed an unrevised 0.3% November drop and it was the tenth of the year. Three quarters of the index components fell m/m but over six months 25.0% rose. Year-to-year the coincident indicators fell 2.8% and over the last ten years there has been a 76% correlation between this y/y change and real GDP.





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