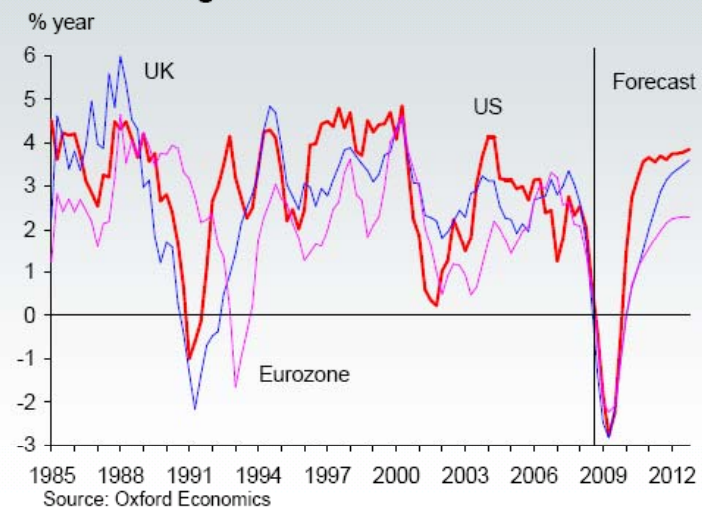




*Weekly Economic Chart Book*  
*January 9, 2009*



The economic releases over the last week once again demonstrated the dramatic deterioration in conditions at the end of 2008. In the US, more than 500,000 jobs were lost in December, taking the fourth quarter tally to 1.3 million – the worst quarter since 1945. US housing data were also once again relatively downbeat. Data from other regions point to a remarkably synchronised and deep downturn. Industrial output data for France and the UK for November were weak, and German factory orders for the same month dropped some 27% on the year. A range of data from key emerging market countries also came out very weak – exports from Taiwan fell 42% year-on-year, with sales to mainland China down a striking 57%, suggesting China is slowing fast, too.

**World: GDP growth**


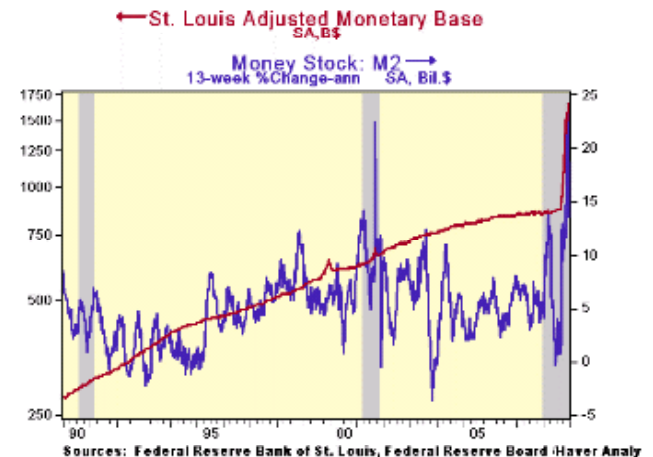
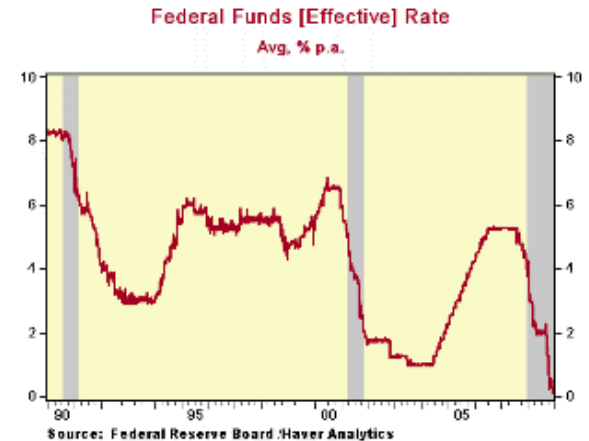


### Monetary Policy: Pushing On A String?

Federal Reserve Board Chairman Ben S. Bernanke recently addressed the effects of the housing market's contraction on the financial markets. In reaction to the market's meltdown, and the depressing effects on consumer & business spending, the U.S. Federal Reserve has eased monetary policy quite aggressively. Though targeted at 0.5% to 1.0%, the effective Federal funds rate now trades near 0.2% or lower, the lowest in fifty years. Also, the Fed created a new lending facility called the Term Asset-Backed Securities Loan Facility (TALF).

In reaction, the adjusted monetary base has surged. It has nearly doubled to \$1.5 trillion as the Federal Reserve has provided banks with billions of added liquidity to shore up balance sheets and provide lending. Moreover, the Fed has accommodated an increase in the demand for cash balances. That has prompted the money stock (M2) to rise at an accelerated 13.6% annual rate during the last three months, up from little growth this passed summer.

As of yet, the current round of easing has paid few economic dividends. Consumer spending has collapsed as have corporate profits and business spending. A crisis of confidence, consumer and business, is in evidence. Is the Fed pushing on the proverbial string? Monetary ease does not usually generate an economic impact for three-to-six months after rates are lowered. But these are not normal times. Credit creation played a large part in the U.S. economy's growth during the last several years and the unwinding of that leverage should similarly take some time. Just how much leverage was created during the last few years and might now need to be unwound? Since the last recession occurred in 2001, and it was a mild one, the growth in assets (debt) held by commercial U.S. banks averaged 9.2% per year. That was the quickest growth since the mid-1980s, a time of faster growth in productive capacity, both of labor and of capital. Finance companies extended credit at an average rate of 11.5% annually. Therefore credit extension could be modest for the foreseeable future.

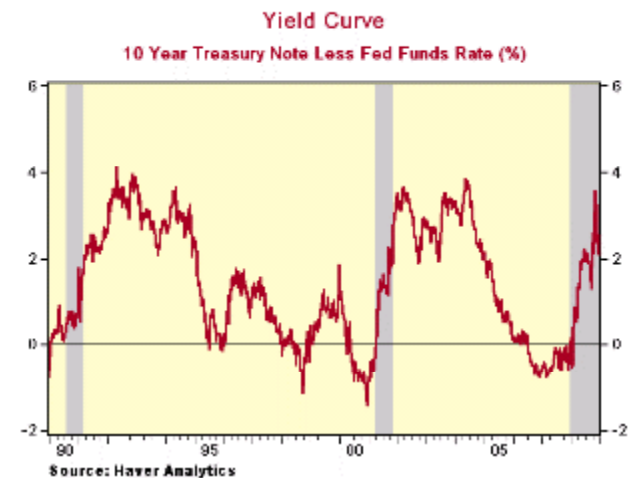




## Yield Curve Steepens – Signs of an Economic Pick-up?

Typically, the Fed might worry that aggressive easing (flooding the economy with money) would eventually spur inflation higher. In fact the credit markets already are worrying. The spread between the yield on 10-year Treasury notes and the Fed funds rate has widened to 207 basis points. Though that's down in recent weeks from its steepest spread of over 300 basis points, it compares to a zero or negative spread during 2006 and 2007.

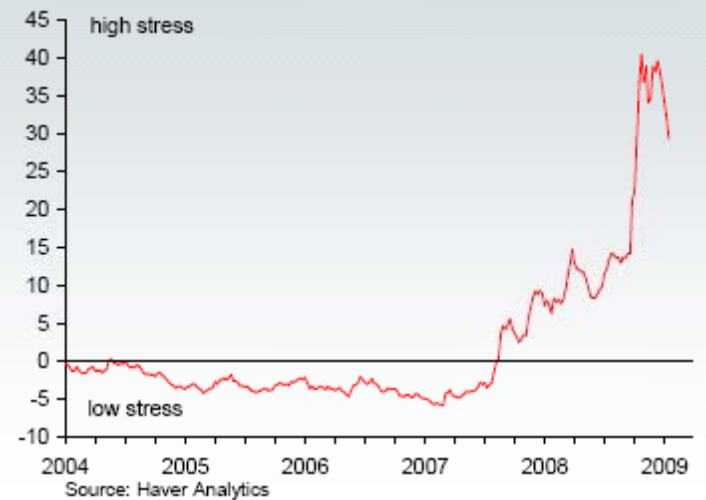
With regard to the more steeply sloped interest rate yield curve, is the market's concern about a rise in inflation justified? The definitive answer is "probably not." A pickup in inflation would normally be expected to appear after economic growth exceeded its "potential" for some time. Current potential growth in GDP, which is labor force growth plus productivity growth, likely is 2.5%. Thus, in this case given the current multi-year period of moderate growth that seems yet to come, inflation should not pick up for years. The recent collapse in oil prices, if sustained, certainly will diffuse inflationary pressure. However, there is a wild card scenario ... one of "stagflation." It could colloquially be described as too much money chasing too few goods. We'll have to keep our eyes open for that is a threat.





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 appear to have peaked, having dropped for five weeks in a row to the lowest level since early October. Recent weeks have seen a notable narrowing in credit spreads, the LIBOR-T-Bill spread, and mortgage spreads, and much reduced equity volatility. These improvements can mostly be traced to the Fed's aggressive actions to buy up assets and force down borrowing costs. However, it should be noted that the absolute level of stress remains at extraordinarily high levels compared to any seen prior to September 2008

**US: Financial stress indicator**

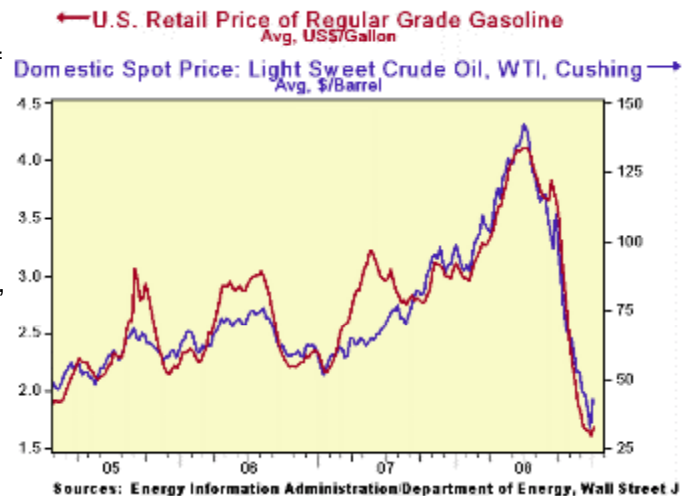




### Gasoline Prices Moved Higher

Regular gasoline prices moved seven cents higher last week and nearly recouped the declines of the prior three periods, according to the U.S. Department of Energy survey. Nevertheless, at \$1.68 per gallon the price was about even with the December average and down from \$2.75 for all of November. Yesterday, the spot market price for a gallon of regular gasoline rose another seven cents to \$1.14 per gallon.

Product demand continues to fall despite lower prices, pulled down by the developing economic recession. The U.S. Department of Energy reported that the demand for gasoline fell by 3.2% y/y, nearly the fastest rate of decline since late-1995 (the latest four weeks versus the same four weeks last year). The demand for all petroleum products also fell 3.7% y/y.

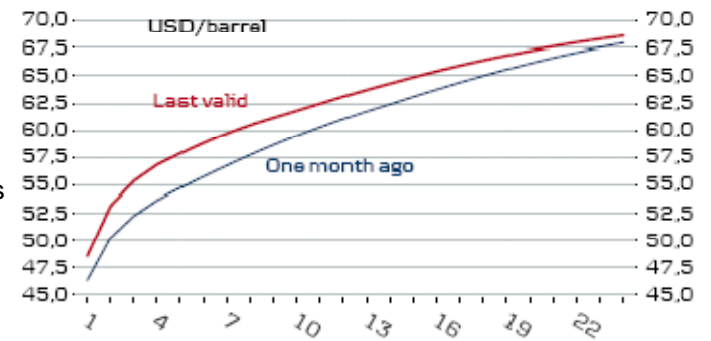




### Oil Prices Should Move Higher in 2009

After the collapse in commodity prices during the second half of 2008, we have seen a number of commodity prices move higher over the last two weeks. Oil has once again taken the limelight, rising from a year low of USD 34 a barrel to just below USD 50. But commodities like nickel and wheat have also jumped significantly. Prices have in general been moving higher in line with equities and improved risk appetite in financial markets. But we note that prices tend to be extra volatile round Christmas and New Year due to thin liquidity. Looking at 2009, the big question is, of course, whether we are finally seeing an end to the six month long bear market in commodities or are we just seeing a dead cat bounce? We argue that commodities have in fact moved into a consolidation phase and that prices will end the current year at a somewhat higher level. The combination of production cut backs, lack of investment and improved economic growth during 2009 should in general lift sentiment, and not least improve the demand and supply balances going forward.

WTI futures curve





## Payrolls Slashed 524,000. Past Data Lowered. 7.2% Jobless Rate Highest Since 1993

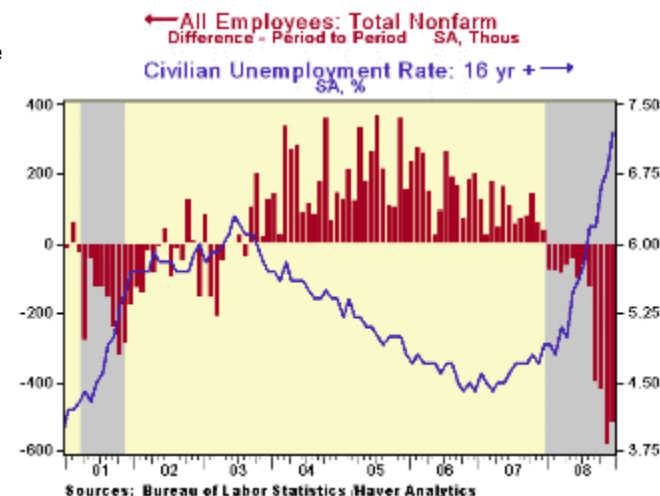
It wasn't bad enough that December nonfarm payrolls were cut 524,000, but downward revisions to prior months left payrolls for the twelve months off 1.9% from one year earlier. That was the weakest performance since the sharp recession of 1982. The latest decline followed cuts of 584,000 and 423,000 during the prior two months resulting in a three-month decline of 1.1%, the worst since the "credit crunch" recession of 1981 according to the Bureau of Labor Statistics. The latest decline exceeded Consensus expectations for a 495,000 drop.

The unemployment rate jumped again last month to 7.2% which was its highest level since January 1993. The increase exceeded Consensus expectations for a rise to 7.0%. Household sector employment fell 806,000 (-2.0% y/y) for the worst twelve month performance since 1958. The labor force fell 173,000 but it was still up 0.4% y/y. Regardless, the number of potential workers who were not in labor force but wanted a job, i.e. the "discouraged worker," rose by 17.6% y/y. The number of those who were unemployed last month rose 632,000. The figure was up 3.6 million, or 47.3% December-to-December.

The average duration of unemployment rose to 19.7 weeks after falling during November. The latest was near the highest since the early 1980s. The number of those unemployed for more than 27 weeks surged by 17.4% m/m and it nearly doubled year-to-year.

During 4Q, aggregate hours worked, which is employment times the length of the average workweek, fell at a 3.9% annual rate from 3Q. During the last thirty years there has been a 73% correlation between the growth in aggregate hours worked and real GDP growth. The change in worker productivity should result, as it usually does during a recession, in even weaker 4Q GDP growth.

The private service sector has weakened as in no other period during the last 60 years. Over the last three months, 916,000 jobs were shed, or 1.0% of the total. During that period 339,000 jobs were lost from the professional & business services sector and 69,000 were laid off from the financial services sector. Leisure and hospitality jobs were lost by 119,000 and 234,000 were cut from the retail sector. About the only sector to show growth in jobs was health services where jobs rose 112,200 during the last three months. Even jobs in education fell 1,200 during that period.





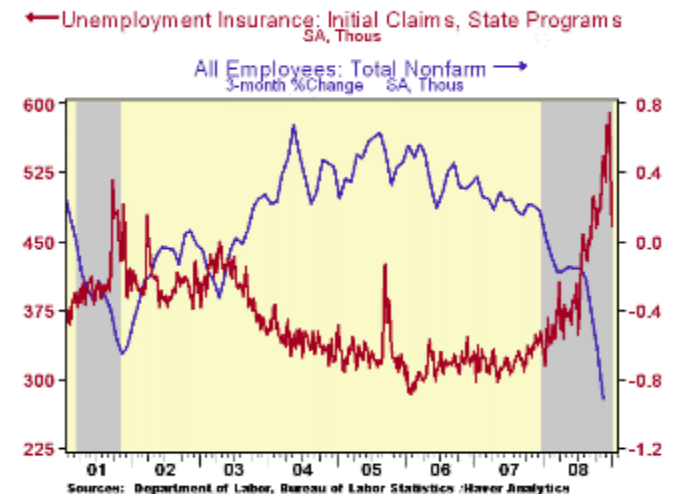
## Weekly Claims For Jobless Insurance Fell Further

Last week, initial claims for unemployment insurance fell again. The 24,000 week-to-week decline to 467,000 followed a revised decline of 98,000 during Christmas week. The latter decline was widely attributed to an aberrant seasonal factor, although a problem near this magnitude has not been observed since 2001. Consensus expectations had been for a snapback last week to 540,000. The latest weekly figure may also have been influenced by the difficulty of seasonal adjustment, due to New Year's.

The latest figure was the lowest since the week ending October 11, when initial claims were at 463,000. The four-week moving average of initial claims fell from the cycle's high to 525,750 (53.4% y/y).

The Labor Department indicated that the largest increases in initial claims for the week ending Dec. 27 were in Wisconsin (+16,081), Michigan (+10,524), Kansas (+10,485), Massachusetts (+10,265), and New Jersey (+7,330), while the largest decreases were in Texas (-13,232), California (-9,702), Florida (-8,566), Virginia (-5,943), and South Carolina (-4,678).

Continuing claims for unemployment insurance during the week of December 27 surged 101,000 following the 138,000 jump during the prior week. The latest was the highest level since 1982. The four-week average of continuing claims rose 45,000 to 4,470,000. Continuing claims provide some indication of workers' ability to find employment and they lag the initial claims figures by one week





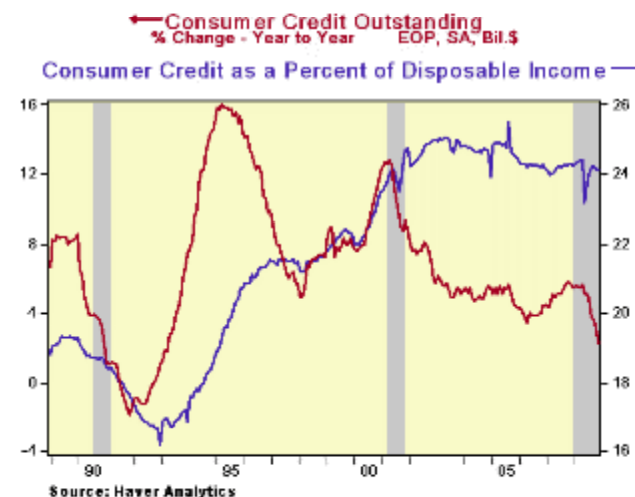
## Credit Cards Pocketed; The Frugal U.S. Consumer

U.S. consumer credit usage dropped during November for the third month in the last four. The Federal Reserve reported that consumer credit outstanding fell \$8.0 billion m/m after a \$2.8B October decline that was slightly shallower than reported initially. On a percentage basis, credit outstanding over the last three months fell at a 0.6% annual rate which was the largest decline since 1992.

Annualized, credit growth averaged 8% during the fifteen years ended 2007. Over an even longer period that increase does not loom particularly large. However, against an average 5% growth in disposable income during those years, it precipitated a rise in the ratio to disposable income to 24% from a longer term norm of 17%. The credit cards are now being put away, certainly with the weakness in the labor market.

Non-revolving credit, which accounts for nearly two-thirds of total consumer credit, dropped sharply for the third month in the last four. The whopping \$5.2B m/m drop was near the largest on record and it reduced annualized growth during the last three months to -0.9%, the weakest since 1992. That followed a 4.4% rise last year.

Revolving credit outstanding fell \$2.8B during November. This dropped the three-month growth in credit card usage to -0.1%. That was down from the 7.4% growth last year and it was the weakest since the recession year of 2001.



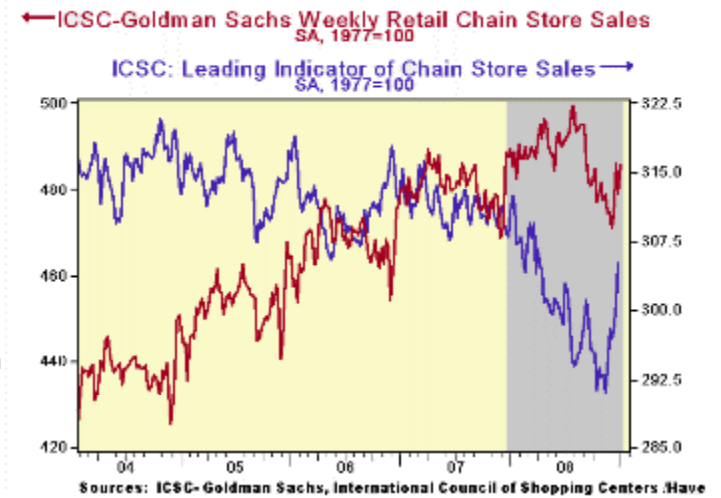


### Chain Store Sales Recovering

Chain store sales last week recovered all of the previous week's decline with a 1.4% increase, according to the International Council of Shopping Centers-Goldman Sachs Index. The rise lifted sales 1.7% above their December average which rose by a scant 0.3% from November. That followed three months of sharp decline.

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 1.4% after a 1.1% rise during the prior week. And since the lows of several weeks ago the index has recovered 4.7%.





## Mortgage Applications Fell Slightly Last Week

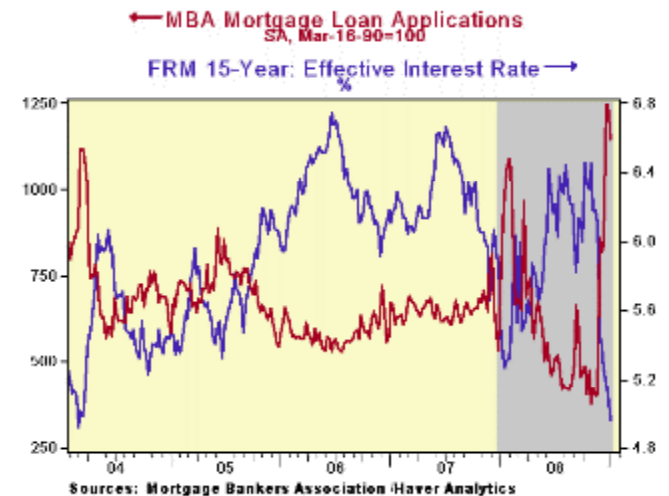
According to the Mortgage Bankers Association, the total number of mortgage applications fell a slight 8.2% last week after having been unchanged during the prior week. Nevertheless, applications remained firm to take advantage of lower interest rates and the Fed's announcement that it would buy the debt of government sponsored enterprises (GSE) and mortgage-backed securities (MBS). They are up by more than from the year ago level.

The index of applications to refinance a home mortgage dipped for the second week after having risen by two-thirds near the end of last month. They have risen by three times due to lower interest rates and the government's guarantee.

Applications for a mortgage to purchase a home rose for the third consecutive week and were up by one third from their November low.

The effective interest rate on a conventional 15-year mortgage fell again to 4.96% and that left rates down 140 basis points from the October average. For a 30-year mortgage rates also fell to 5.30%. Interest rates on 15 and 30 year mortgages are closely correlated (>90%) with the rate on 10-year Treasury securities. For an adjustable rate 1-Year mortgage the rate fell to 5.98%, 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.





## Factory Inventories Fell Again

Factory inventories fell in November. The decline of 0.3%, along with those during prior months, was disproportionately influenced by the decline in oil prices. Less oil, inventories rose 0.2% after a 0.4% October gain. Moreover, the year-to-year change in nonpetroleum inventories has held constant near 6.0%. Evidence of a change in the management of factory sector inventories is, however, evident in the more recent figures. The three-month change in nonpetroleum inventories has been reduced, as a result of production cuts, to 1.5% from its recent high of 9.0%.

Again, one industry recently has dominated even the nonoil figures. Growth in inventories of commercial aircraft has been running at a near-40% year-to-year rate. Less commercial aircraft production cutbacks have reduced factory inventory growth to 1.6% y/y from the high early in 2007 near 10.0%. Automobile inventories have been reduced by 7.8% versus last year. Electrical equipment & appliance inventories have been growing at a 2.0% rate versus double-digit growth early in 2007 and growth in machinery inventories has been nearly halved to 6%.

Total factory orders fell 4.6% during November but the figure very much reflected the decline in oil prices (orders here equal shipments.) Orders for durable goods orders fell 1.5% and that very much reflected, as it did in the advance report, the 37.7% drop in commercial aircraft orders. Less commercial aircraft, orders for durable goods fell 9.0% y/y, down from a high rate of accumulation near 10%.

Factory shipments dropped 5.3% due to lower oil prices. Less oil, shipments fell a somewhat lesser 3.4% but they still were down 5.6% y/y. Shipments of transportation equipment fell 18.6% y/y as commercial aircraft shipments plunged 28.9% y/y and automobile shipments fell 21.9%. Shipments of electrical equipment were off 8.6% y/y) and electronic computer shipments fell 31.7% y/y with lower prices. Shipments of furniture & related products fell a hard 12.6% y/y.





## Pending Home Sales Lower Still

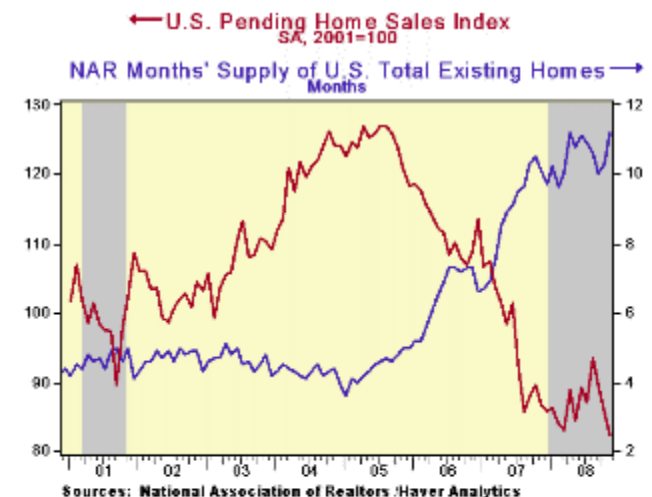
For November, the National Association of Realtors indicated that pending sales of existing homes fell another 4.0%, about as they did during the prior two months. The October drop was revised sharply larger. Consensus expectations were for a 1.0% November decline.

The home sales figures are analogous to the new home sales data from the Commerce Department in that they measure existing home sales when the sales contract is signed, not at the time the sale is closed. The series dates back to 2001.

Sales in the Northeast were the weakest last month and they fell 7.2%. They're down 20.8% during the last three months. Sales in the Midwest suffered from the weakness in the auto industry and fell 6.7%, off 11.6% during the last three months. November sales in the South fell 2.2%, about as they did during October, and they are down 11.7% in the last three months while sales fell 2.4% in the West, 7.6% since August.

Weak home sales are encouraging potential sellers to keep their homes off the market. The Realtors Association indicated in an earlier report that the number of homes on the market and available for sale was about unchanged (-0.3% y/y) after three months of sharp decline.

At the current sales rate there was an 11.2 months' supply of homes on the market, higher than 8.9 months last year and 6.5 months during 2006. For single-family homes the months' supply rose sharply to 10.6, well above the 8.7 average of last year.





## ISM Non-manufacturing Index Improved Slightly

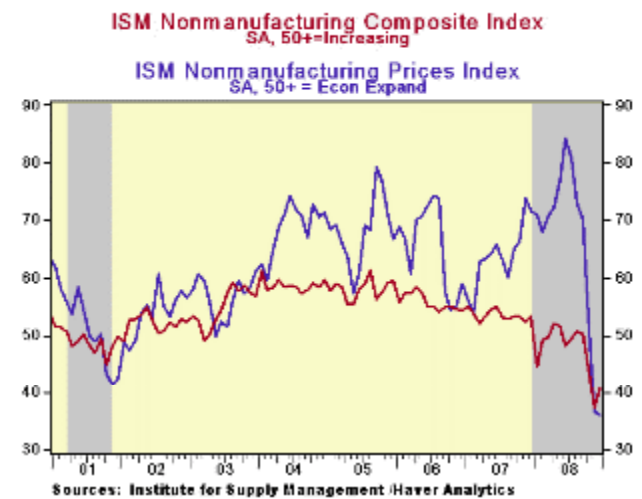
For December, the Composite Index for the nonmanufacturing sector from the Institute for Supply Management (ISM) improved slightly to 40.6 from an unrevised 37.3 during November. The figure was firmer than Consensus expectations for a reading of 37.0 but it was still near the lowest in the series' relatively brief ten year history. A level of these ISM indices below 50 indicates declining activity.

The nonmanufacturing business activity sub-index also made a bit more than half of the sharp November decline, but at 39.6 it was still near the record low for the series. Since the series' inception in 1997 there has been a 48% correlation between the level of the business activity index for the nonmanufacturing sector and the Q/Q change in real GDP for the services and the construction sectors.

In addition, the employment index also edged higher to a reading of 34.7. However, that still indicated sharp layoffs and was near the low for the series. Since the series' inception in 1997 there has been a 56% correlation between the level of the ISM nonmanufacturing employment index and the m/m change in payroll employment in the service-producing plus the construction industries.

The new orders sub-index edged up to a still low 39.9.

Pricing power fell further last month and the reading of 36.0 was a new record low for the series. Since its inception ten years ago, there has been a 60% correlation between the price index and the q/q change in the GDP services chain price index.



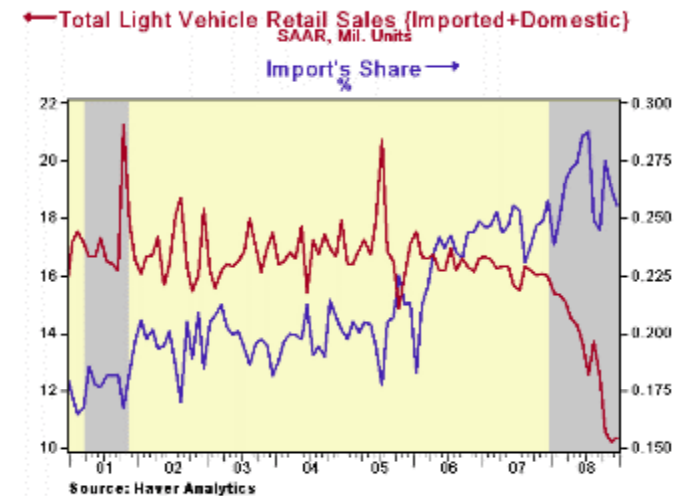


## Light Vehicle Sales Inched Up in December; Down 18.5% For The Full Year

U.S. sales of light vehicles inched slightly higher last month but not by enough to prevent the twelve-month sales average from falling 18.5% to 13.18M, their lowest since 1993 according to the Autodata Corporation and Ward's Automotive News. (Seasonal adjustment of the figures is provided by the U.S. Bureau of Economic Analysis). The December-to-December figures were even bleaker. The 35.5% decline dropped sales to 10.32M, their lowest level since the recession year of 1982. The level of sales for December vehicle purchases was slightly better than Consensus expectations for sales of 10.0M.

Sales of domestically-made light vehicles edged 2.4% higher to 7.68M units and that recouped the November drop. Nevertheless, domestic vehicle sales are off 35.3% December-to-December and they fell 20.2% for the full year to their lowest since 1983. Continuing to show the effects from higher gasoline prices, sales of domestically made light trucks gave back most of their November gain to end the year down 39.6% December-to-December. They were down by one quarter for the full year. Doing a little better, sales of U.S. made cars recovered their November decline and rose 10.6%. That was not enough, however, to make up past declines. For the full year, sales of domestically made cars fell 12.7% to 4.42M units and that was down 41.3% from the peak during 1996.

Sales of imported light vehicles continued to reflect economic recession in the U.S. and they fell 1.3% last month. The 36.0% y/y decline pulled sales for the full year down 13.2%, the first full year decline since 1996. The latest was the lowest level since December 1999. Sales of imported light vehicles fell another 5.0% (-38.4% y/y) to 1.62M units and they were down 9.1% for the full year. Sales of imported light trucks rose 5.2% (-31.8% y/y) but they were off 20.1% for 2008. For last year, imported car sales fell 9.1% from 2007 but at 2.29M they still were up 79.7% from the low in 1996.





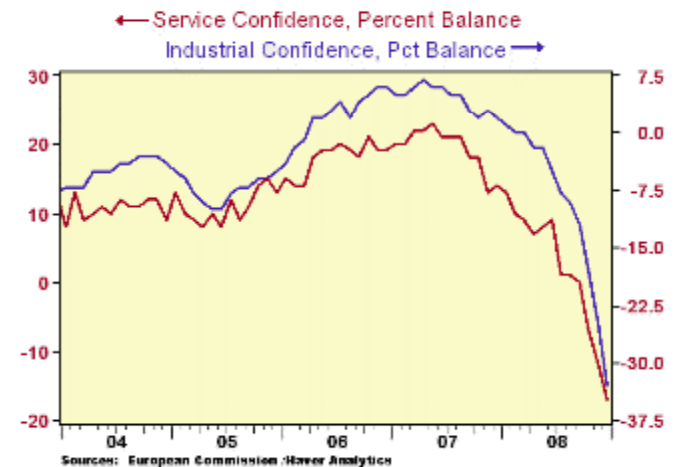
### EMU is on an All-time Low for Sentiment Manufacturing and Services Plunge

Overall EU and EMU sentiment are on all time lows: the zero percentile. Most large EU countries are on their worst ever reading as well – or close to it (France).

The percentage drops in the sentiment reading across countries are still huge; for EMU as a single entity the drop is 10% in December.

In addition all major sectors are their lows (since 1990) for the EU.

EMU Services and Industry Confidence EU Indices





## Euro Area PPI Inflation Drops Sharply... or Does It?

### Short term inflation: dropping like a stone

Like the HICP report the EMU PPI report shows a sharp ongoing drop in prices. Inflation has been cut sharply over short horizons. The headline (X construction) is dropping at an 11% annualized pace over three months and at a pace of -2.3% over six months. Yr/Yr the rate is still positive at 2.3%.

### Short term Ex energy trends are solid

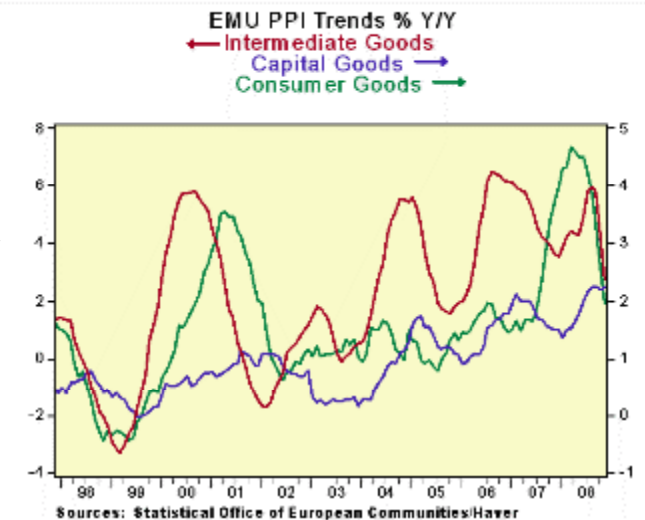
Ex energy inflation at the PPI level in November is at a -4.9% rate over 3-mos, a -0.2% pace over 6-mos and at +2.3% over 12-mos. The trending is the same: over shorter horizons the pace of decline is more severe. This is what confirms that inflation is still decelerating and has not yet stopped decelerating. In November both total and ex energy inflation fell sharply month-to-month.

### However...

For those who want to be more cautious, or even fearful of what may lie in store over longer periods, the Yr/Yr charts are telling a different story.

### For the PPI inflation's TREND is still...RISING

The chart shows that inflation viewed over long spans of time also has cycles and the various sectors show there has been some inflation percolating, cycling around an upward trend going back to the sector lows around 1999. For ex energy inflation (not pictured) the low dates from early 2002.





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