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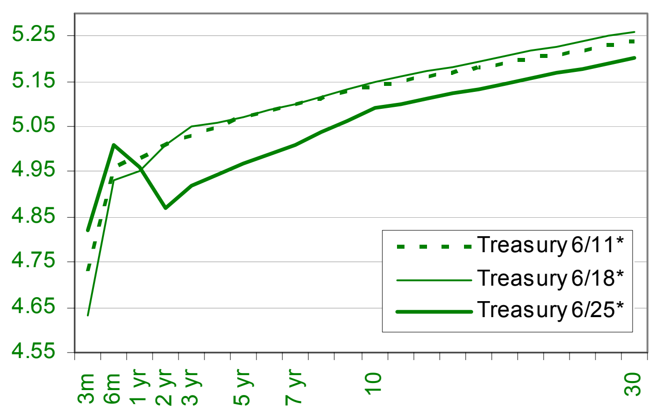
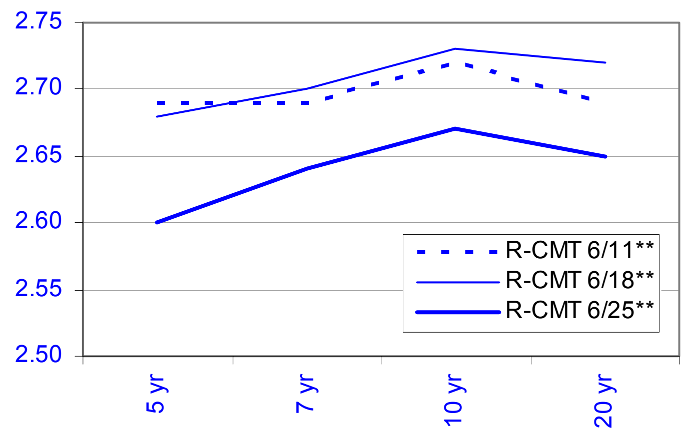
A brief overview of economic events June 27, 2007

The Big Picture: Treasuries



* U.S. Department of the Treasury



** U.S. Department of the Treasury Real Yield Curve Rates, referred to as "Real Constant Maturity Treasury" rates (R-CMT)

Measure	Numerical Trend	Current Trend	Commentary
Existing Home Sales May 2007 http://www.bls.gov/news.release/cpi.toc.htm *Source: National Association of Realtors*	*Seasonally Adjusted Annualized Rate Millions* May 07: 5.99 Apr 07: 6.01 May 07: 6.68	↓	Existing home sales declined 0.3% in May as single family sales declined 0.8% for the month (down 10.8% compared to the previous year) while condo sales improved 2.6% (-6.7% compared to the previous year). Home sales are at their lowest point in 4 years even as sales increased in the Northeast and Midwest. Further, while the median sales price was up 1.8% from April, it was down 2.1% from a year ago. The inventory picture is not much better—at the end of May, there were 4.43 million homes on the market (an 8.9 month supply). Inventories rose 5.0% from April and are up 23.5% from a year ago.
New Home Sales May 2007 http://www.census.gov/const/www/newressalesindex.html *Source: Census Bureau*	*Seasonally Adjusted Annualized Rate Thousands* May 07: 915 Apr 07: 930 May 07: 1,087	↓	New home sales declined 1.6% in May (even after the estimate for April sales was revised downward by 50,000 units). While still above March's abysmal estimate of 827,000, new home sales are down 15.8% from the same time last year. Sales increased only in the Midwest and inventories grew to a 7.1 month supply. The median sales price was $236,100 (down 0.9% from a year ago) and does not reflect many of the incentives builders use to market homes (e.g., financing, upgrades, etc.).

Measure	Numerical Trend	Current Trend	Commentary
Mass Layoffs May 2007 http://www.bls.gov/news.release/mmls.toc.htm *Source: Bureau of Labor Statistics*	*Mass Layoff Events Seasonally Adjusted* May 07: 1,190 Apr 07: 1,218 May 06: 1,098	↓	In May, there were 1,190 mass layoff events (that is, events that involved at least 50 persons from a single establishment), of which 1,084 were in the private sector. These events impacted a total of 119,089 workers, on a seasonally adjusted basis. In manufacturing, there were 363 mass layoff events (24% of all layoff events) that impacted 48,849 employees.
Leading Indicators May 2007 http://www.conference-board.org/economics/bci/pressRelease_output.cfm?cid=1 *Source: The Conference Board*	*Leading Index 1996 = 100* May 07: 138.0 Apr 07: 137.6 May 06: 137.9	↑	While the leading index increased 0.4 points, the coincident index increased 0.2 points and the lagging index increased 0.3 points. Five components drove up the leading index: average weekly initial claims for unemployment insurance, stock prices, building permits, index of consumer expectations, and vendor performance. At the same time, 3 components tempered the increase: real money supply, average weekly manufacturing hours and interest rate spread.
State Personal Income April 2007 http://www.bea.gov/newsreleases/regional/spi/sqpi_newsrelease.htm *Source: Bureau of Economic Analysis*	*Percentage Change from Previous Quarter* Q1 07: +2.2% Q4 06: +1.4% Q1 06: +2.2%	↑	The increases in personal income resulted from the substantial bonuses paid out by securities firms in January. In its press release, the BEA notes that the finance industry alone accounted for 38% of the nation's earnings growth and earnings growth in 5 states with a substantial presence of finance jobs accounted for 36 percent of the nation's income growth (those states are New York, Connecticut, New Jersey, and Illinois). Earnings increased in only 3 industries (mining, information, and finance) and declined in 20 other industries.
Investor Optimism June 2007 http://www.ubs.com/1/e/about/research/indexofinvestoroptimism.html *Source: UBS/Gallup*	*Overall Index Oct 96 = 126* Jun 07: 89 May 07: 95 Jun 06: 58	↓	Investor optimism declined because of concerns over rising energy prices and the soft real estate market. 73% of respondents believe that energy prices are hurting the current investment climate while 71% saying that they believe conditions in the residential real estate market nationwide are getting worse. The overall index is the sum of 2 indices: the economic index (22 versus 20 in May) and the personal index (67 versus 75 in May).
National Activity Index May 2007 http://www.chicagofed.org/economic_research_and_data/cfnai.cfm *Source: Federal Reserve Bank of Chicago*	*Index* May 07: -0.22 Apr 07: -0.30 May 06: -0.07	↑	The CFNAI is a weighted average of 85 indicators drawn from 4 major categories. In May, all 4 major categories made "negative contributions." Still, 3 of the 4 improved; including, employment, housing and consumption, and sales, orders and inventories. The 3-month moving average was -0.20, which is the 9th straight month it has been negative. A negative score suggests less than an economy operating below full potential. Had the 3-month moving average been below -0.70, it would suggest that the economy was moving towards a recession.

Commentary:

Mixed data this week on near-term economic views and financial system stability return with the Summer heat. Equities markets are responding well to news that sub-prime market pain may be "officially" contained. While this supports other data that sub-prime ills have not spilled out into the broader economy, the broader real estate market still may have more downside to experience. Leading indicators suggest continued modest economic growth as consumer and investor confidence retreats. Yields appear to stabilize while financial system custodians revive concern over investors who ignore global risk and the potential impact should liquidity dynamics abruptly change.

The treasurer from Freddie Mac this week told a group that sub-prime issues are "very well defined" and confined to a narrow borrower segment in seven U.S. states. This news was taken as a positive sign, easing concerns of sub-prime mortgage losses breaking out and restraining financial company returns. Though the news supports existing data of sub-prime containment, it should not be considered a sign that this market segment is out of the woods…at least not yet.

The broader real estate market has yet to see signs that its downside has been contained. New and existing homes sales were both down in May amid downward revisions of monthly data back to February. Inventories continue to grow in this down market as new home inventory rose to a little over a seven-month supply and existing homes grew to nearly a nine-month supply. In addition, home prices continue to fall, according to the S&P/Case- Shiller Home Price Indices released on Tuesday. Existing home prices in 20 major U.S. metropolitan areas declined 2.1 percent from February to April. This is the fourth straight fall in the index and the greatest decline in roughly six years. Existing home prices in the top-10 major U.S. cities fell 2.7 percent in April.

Indications of the broader economy direction, as measured by The Conference Board index of leading and lagging indicators, may signal continued near-term low economic growth. While The Conference Board indictors were up slightly in May, The Conference Board measure of consumer confidence was down in June. According to The Conference Board, confidence fell more sharply than expected, falling 4.6 points from May. The fall was marked by a 2.2 point decline in expectations and an 8.3 point drop in present conditions.

Rumblings of concern return over possible destabilizing factors in the global economy. Financial system monitors are reviving their calls for vigilance and preparation for a shock to the system. This week ECB President Trichet and U.S. Federal Reserve Chairman Bernanke meet other central bankers at the Bank of International Settlements headquarters to discuss mechanism to maintain financial system stability. U.S. Federal Reserve Bank of New York President Geithner at the meeting further advanced Trichet and Bernanke's concern over the global market's aggressive appetite for risk. Geithner reflected on past Asian financial crises in which he suggested that future crises in the global system will be harder to manage and argued that preparing to respond to these crises should be the "principal preoccupation" of central bankers.

Repetitious global system warnings of similar tone were put forth late last year and early this year, prompting some pessimism among consumers and investors. Though the current round of mixed data does not yet define an inflection point, a prolonged revival of financial system stability concerns may harm consumer and investor psyche and even threaten the U.S.'s slow economic growth prospects.

What to watch over the next week:

Wednesday June 27, 2007

- Durable Orders (http://www.census.gov/indicator/www/m3/)

Thursday June 28, 2007

- GDP (http://www.bea.gov/national/index.htm#gdp)
- FOMC Meeting (http://www.federalreserve.gov/fomc/)
- Agricultural Prices (http://usda.mannlib.cornell.edu/MannUsda/viewDocumentInfo.do?documentID=1002)

Friday June 29, 2007

- Personal Income (http://www.bea.gov/newsreleases/national/pi/pinewsrelease.htm)
- U. of Mich Consumer Confidence (https://customers.reuters.com/community/university/default.aspx)

Monday July 2, 2007

- ISM Index-Manufacturing (http://www.ism.ws/ISMReport/MfgROB.cfm?navItemNumber=12942)

Tuesday July 3, 2007

- Factory Orders (http://www.census.gov/indicator/www/m3/)
- New Vehicle Sales (http://www.motorintelligence.com/fileopen.asp?File=SR_SAAR.xls)

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