

Observations On The Economy and the Short Term Outlook

**Institute for Supply Management
October 5, 2009**

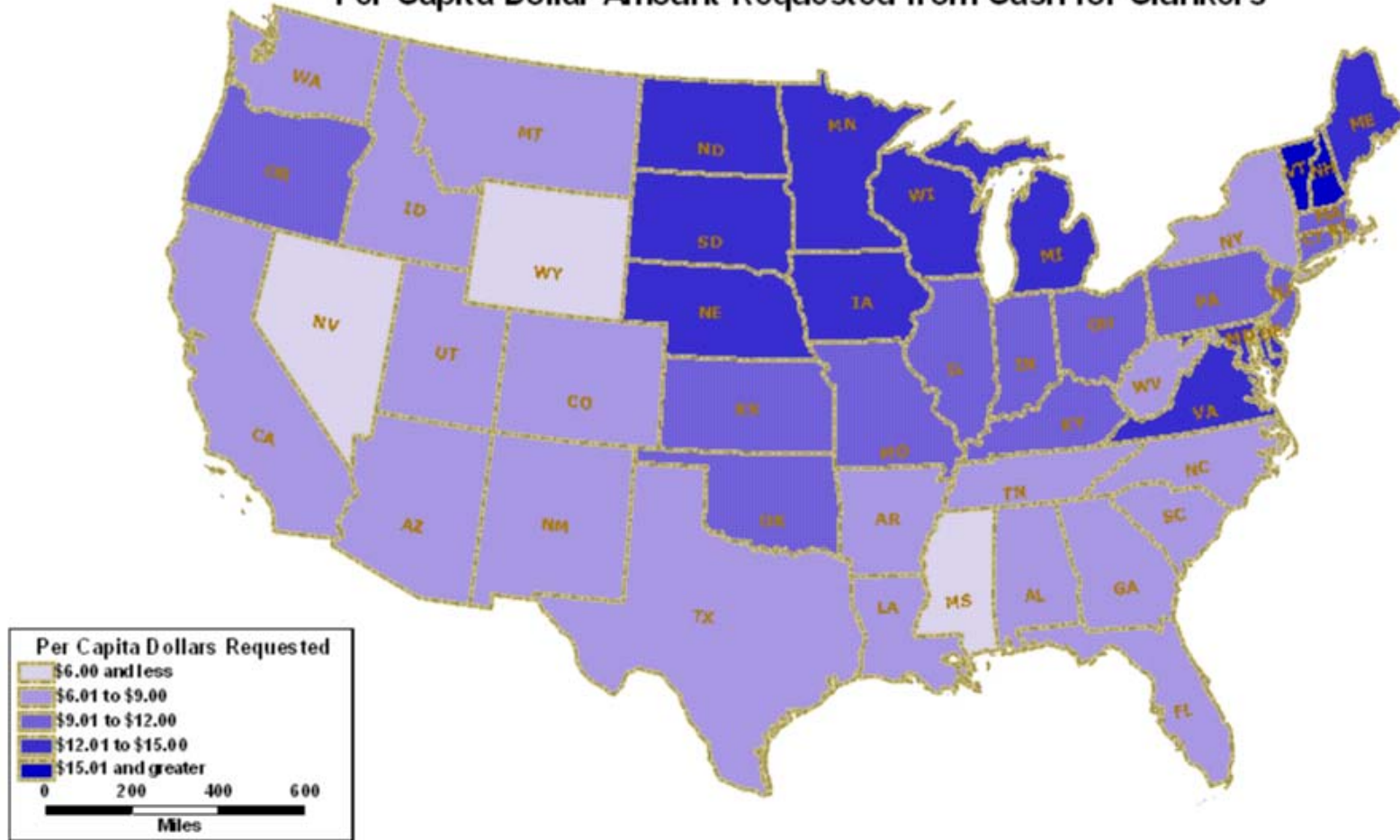
**Best Western Royal Plaza Hotel & Trade
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Marlborough, Massachusetts

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U.S. Situation/Outlook

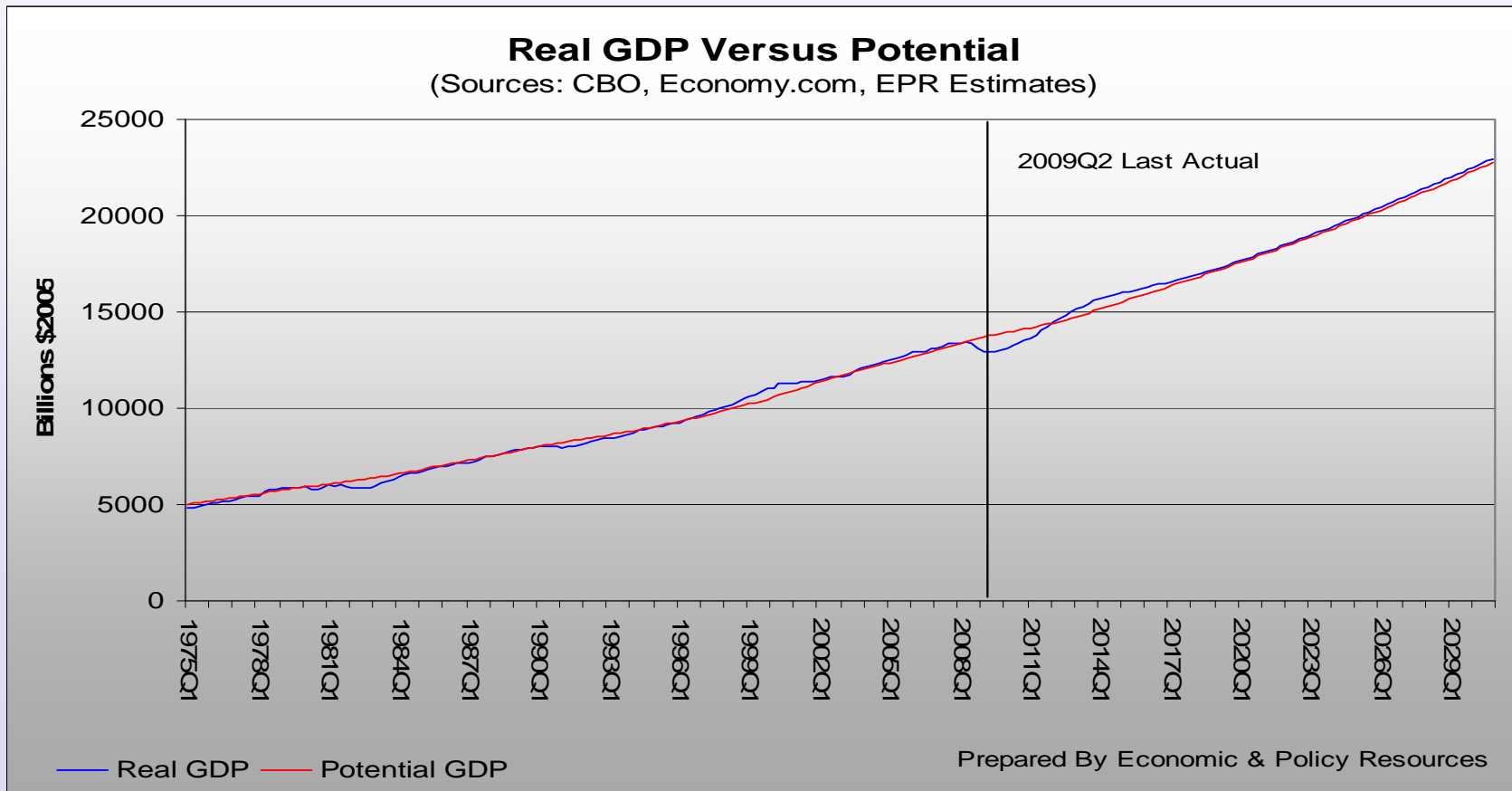
Per Capita Dollar Amount Requested from Cash for Clunkers



U.S. Situation/Outlook

– A look at the indicators: Actual vs. Potential GDP

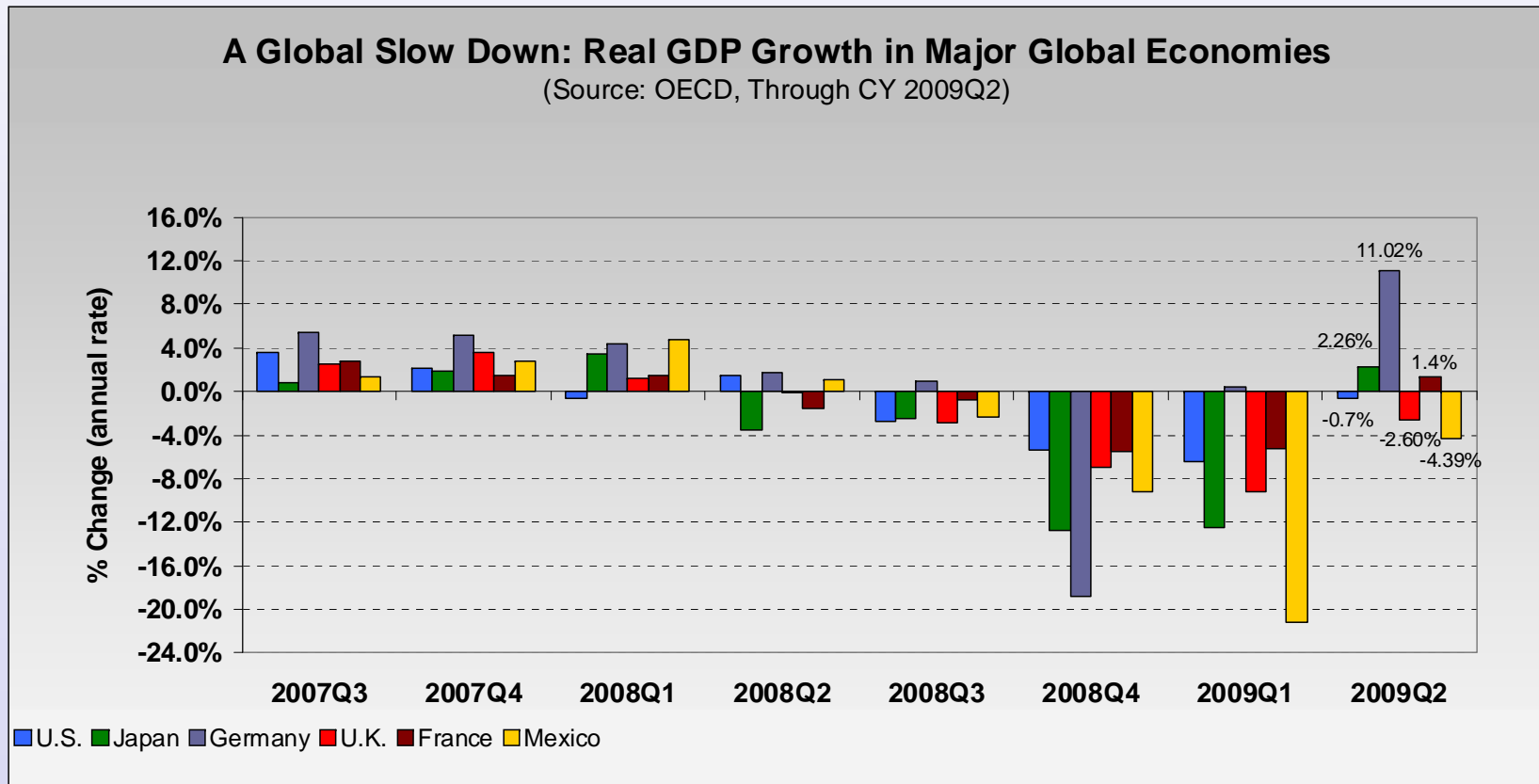
- One of the biggest gaps in modern history...prices will not be a problem for a while...



U.S. Situation/Outlook

– A look at the indicators: GDP

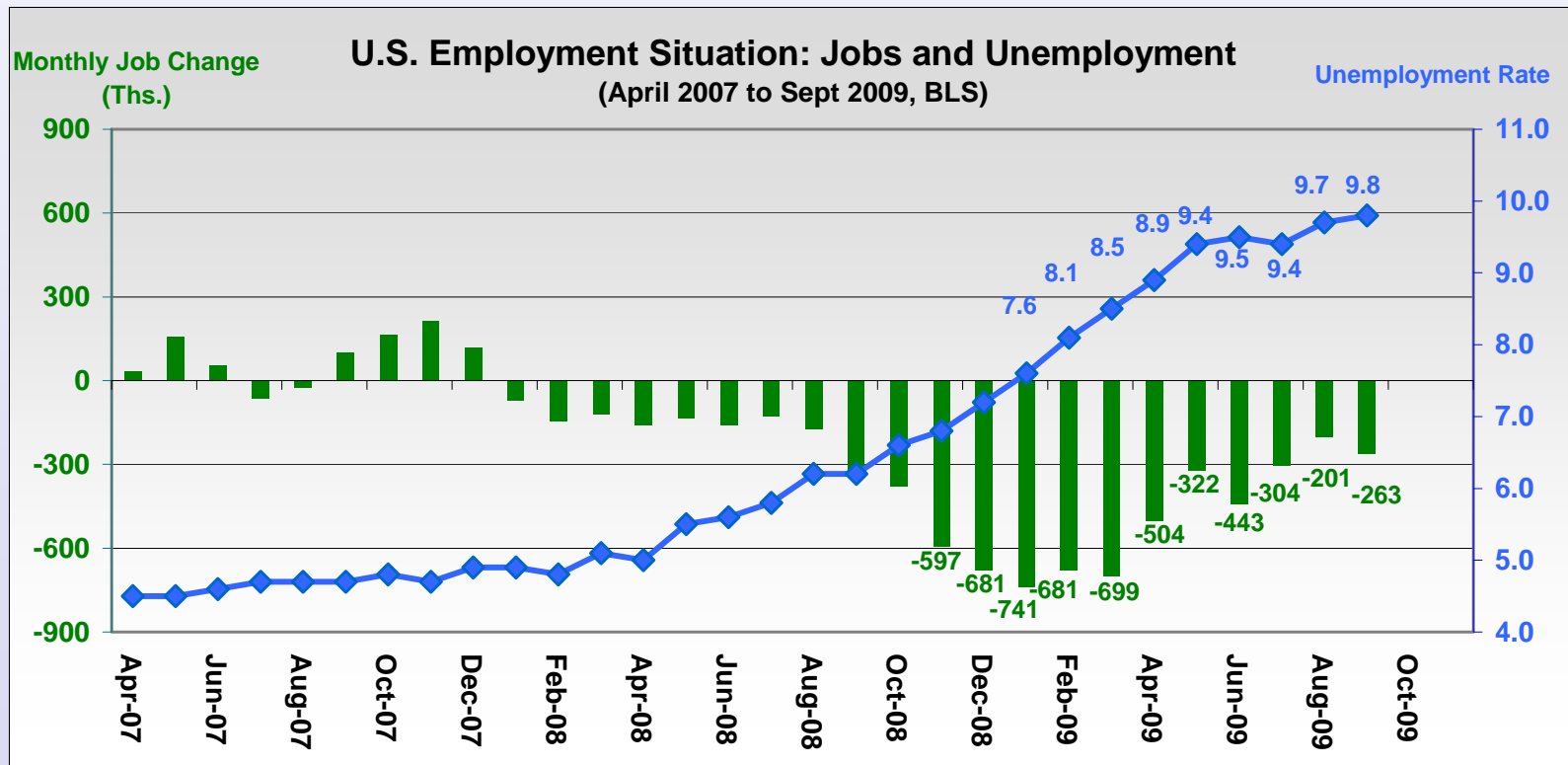
- The 2Q saw mixed performances for the U.S and our major trading partners...but far better than the prior 2 quarters...



U.S. Situation/Outlook

– A look at the indicators: The Labor Market

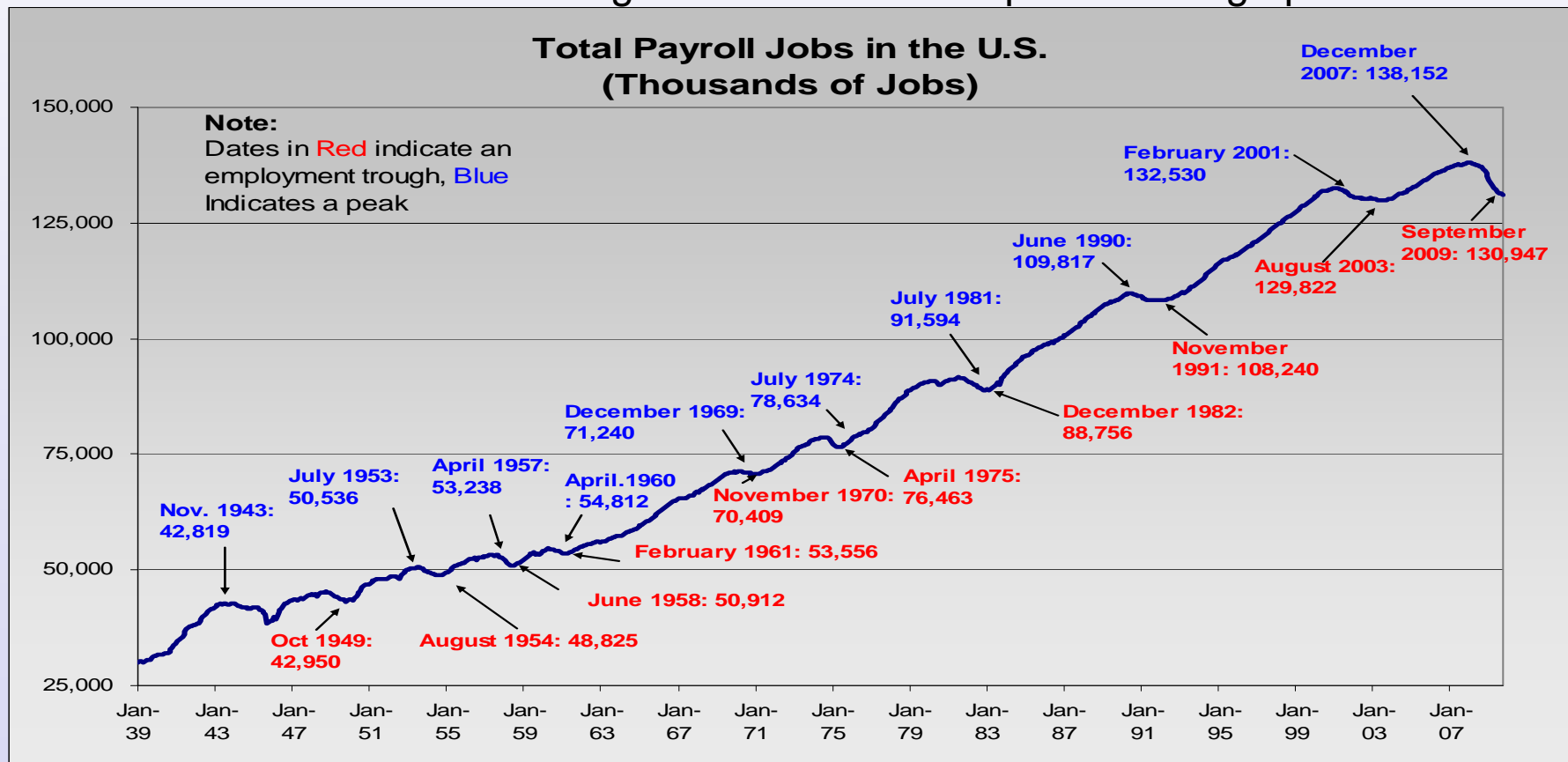
- 7.2 million jobs lost since Dec '07 with over 5.8 million lost since last year,
- The unemployment rate has increased to 9.8% (from 4.9% in Dec '07).



U.S. Situation/Outlook

– A look at the indicators: Payroll jobs...

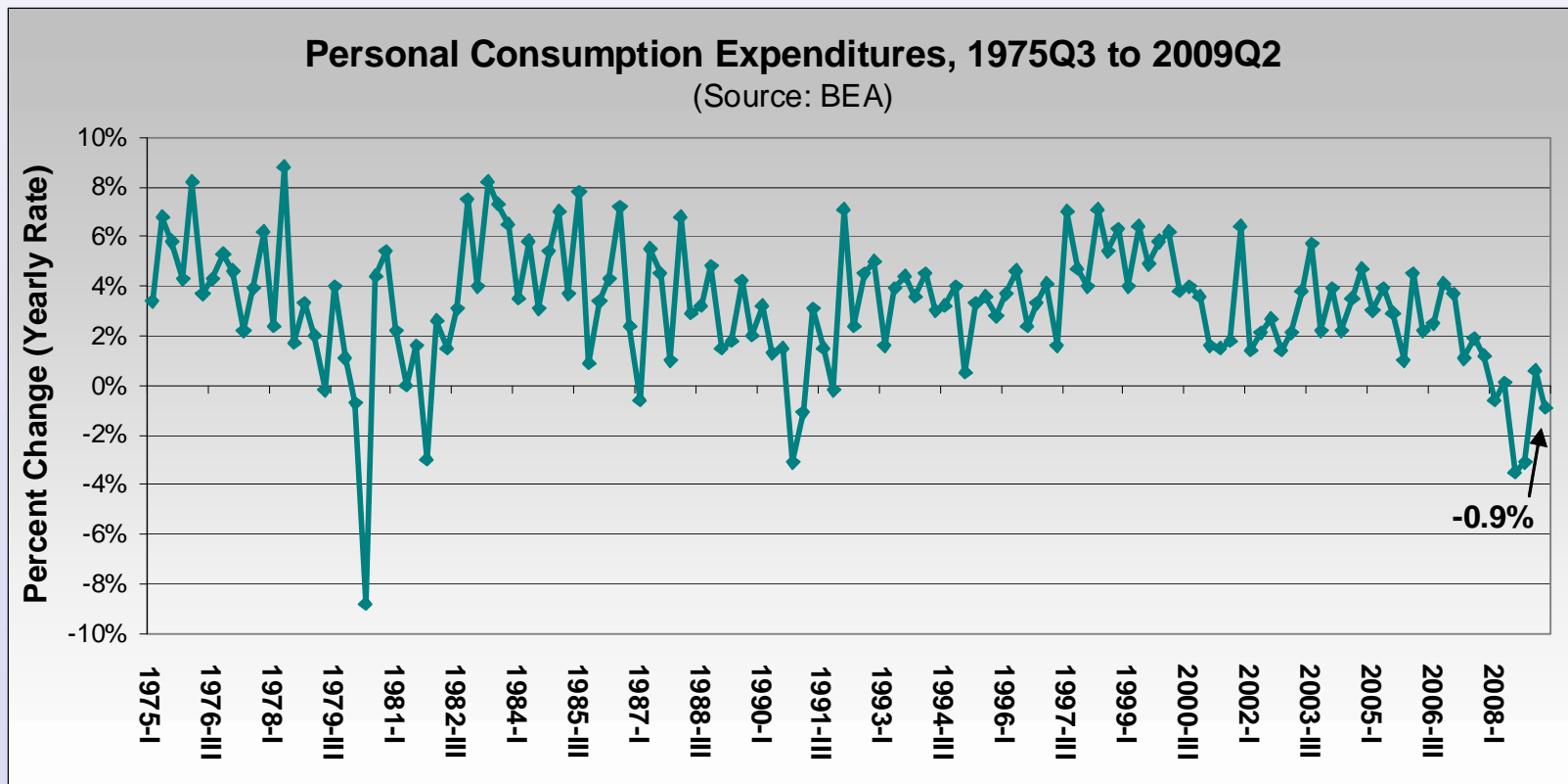
- Close to being the first time in modern history where we have lost more jobs in the recession that were gained in the entire upturn leading up to it...



U.S. Situation/Outlook

– A look at the indicators: Consumption spending is still tepid

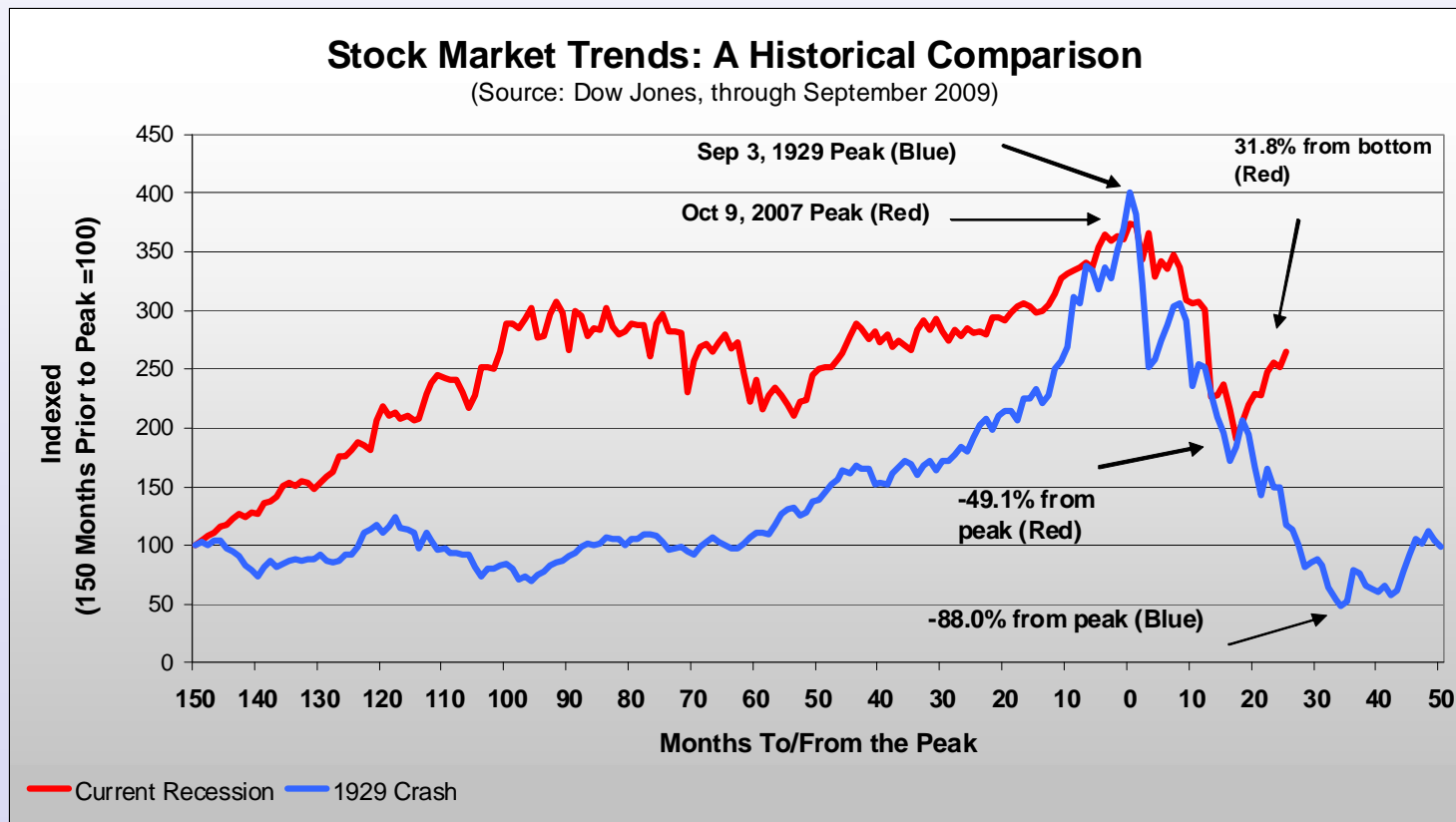
- PCE contracted again in 2009Q2, but this is much improved since 2008Q3 and Q4.



U.S. Situation/Outlook

– A look at the indicators: DJIA

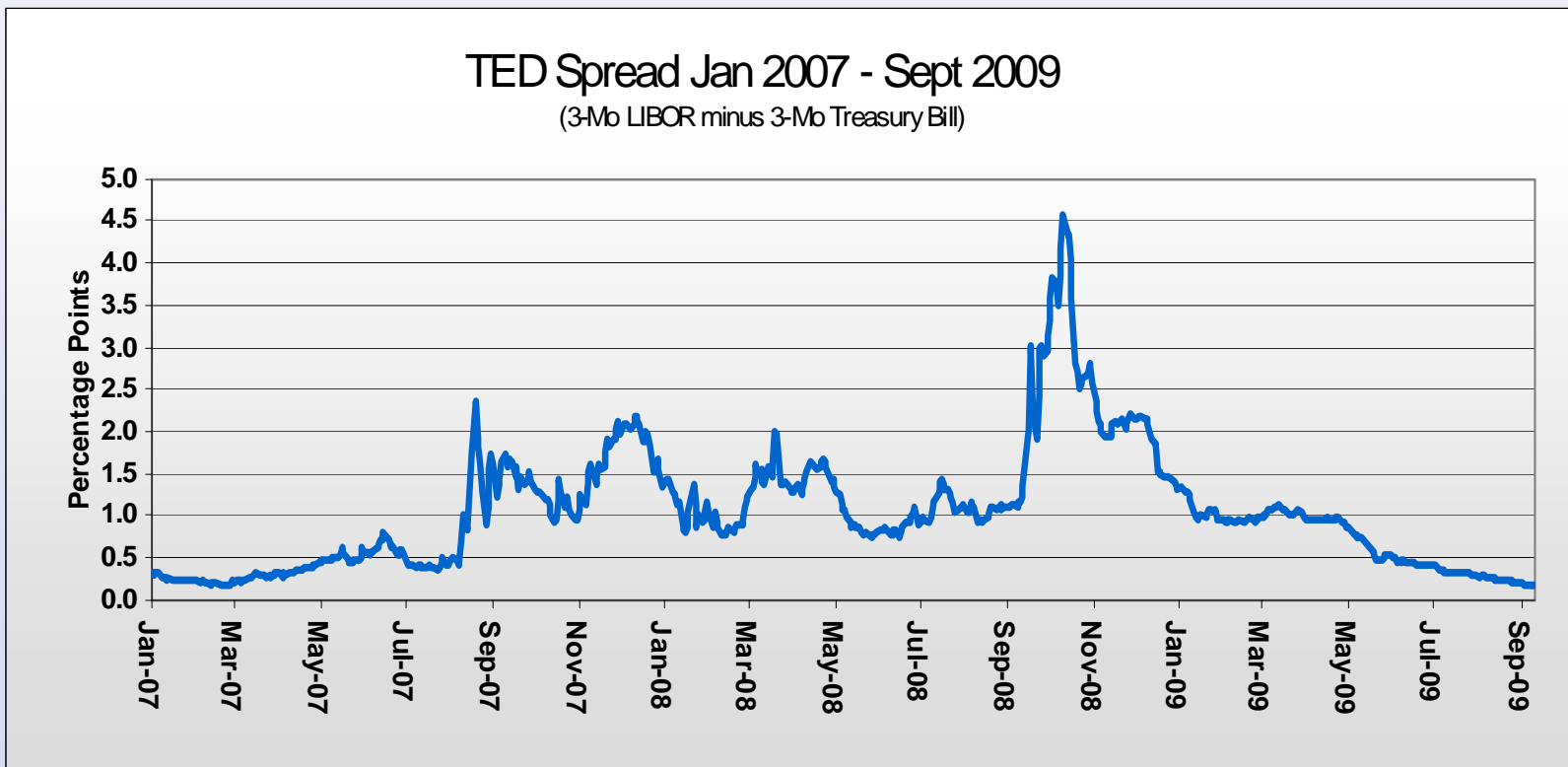
- The U.S. stock market has surged from its March low...and is now well off-the-track of the -88.0% 1930s decline...but well below October 2007 highs...



U.S. Situation/Outlook

– A look at the indicators: Credit Markets

- Credit markets have stabilized since the “thick of the financial crisis” in 2008:Q4. Despite the decline in the cost of credit and perceived risk since then, lending standards remain tight...



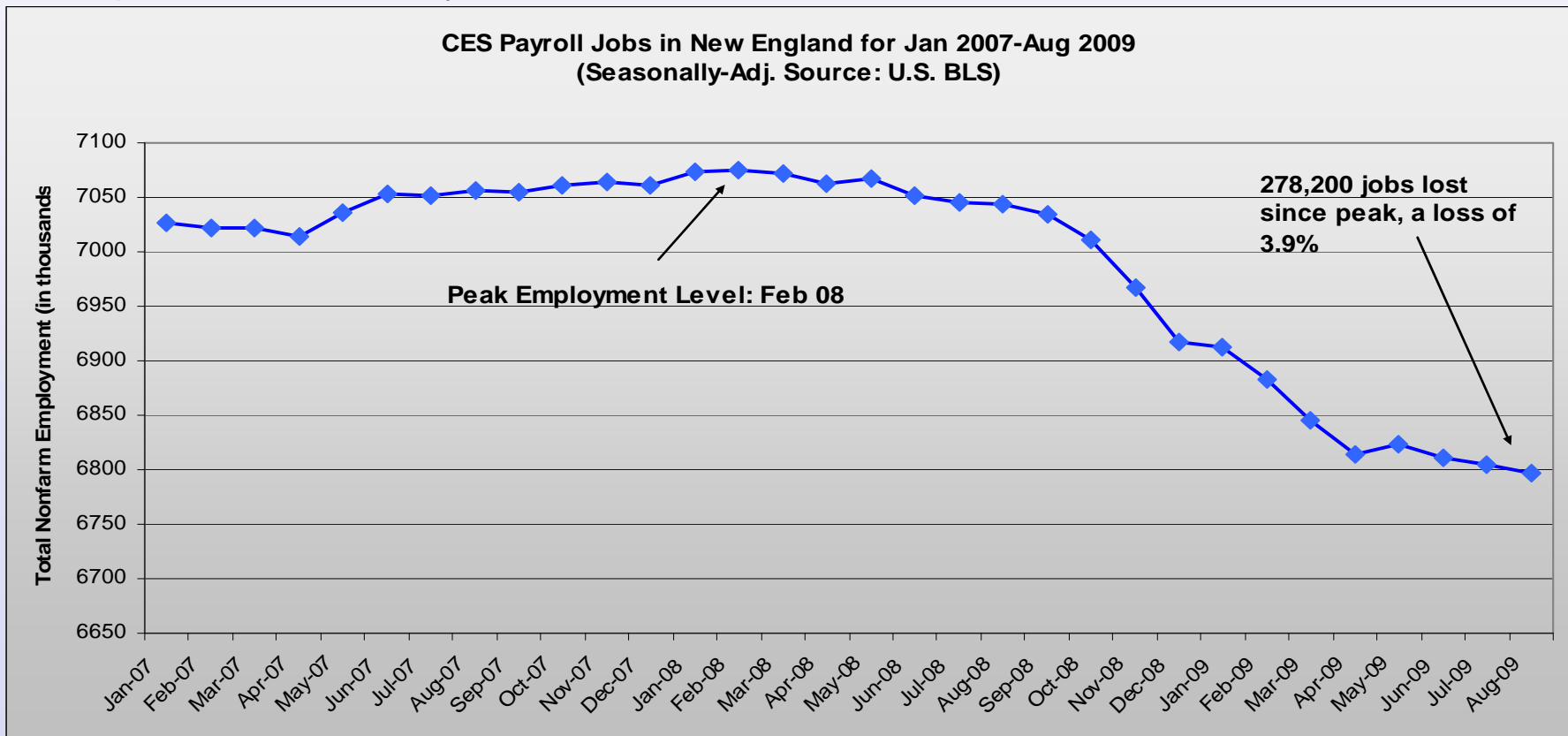
U.S. Outlook-In Detail

- Outlook:
 - **Most indicators point to a U.S. economy that is at or near a bottom, but a strong recovery going forward seems unlikely:**
 - GDP showed only a modest decline of -0.7% in Q2 (Apr to Jun) of 2009, after cliff-diving in the prior 2 quarters,
 - Most major economies, our trading partners, are also reaching bottom and in some cases, beginning their respective recoveries (e.g. China),
 - Consumer and business confidence remain weak—but have improved,
 - Employers have continued to shed jobs across almost all sectors and in nearly every state, and more job losses are surely coming,
 - The U.S. unemployment rate has increased to 9.8% (with 10 states and DC at more than 10%), and is expected to peak at around 10.3% in calendar 2010Q2 or Q3,
 - House prices appear to have reached some degree of stabilization, but the effects of built up inventory the prospect of more foreclosures are unknown and pose downside risk,
 - Credit markets have stabilized, several banks reported big profits in 2009Q1 and Q2, but financial markets are clearly still “very vulnerable,”
 - Recovery will be choppy, series of stutter-steps...wealth has been lost and we still have possibility of a “W”...depends on policy withdrawal!

New England Situation/Outlook

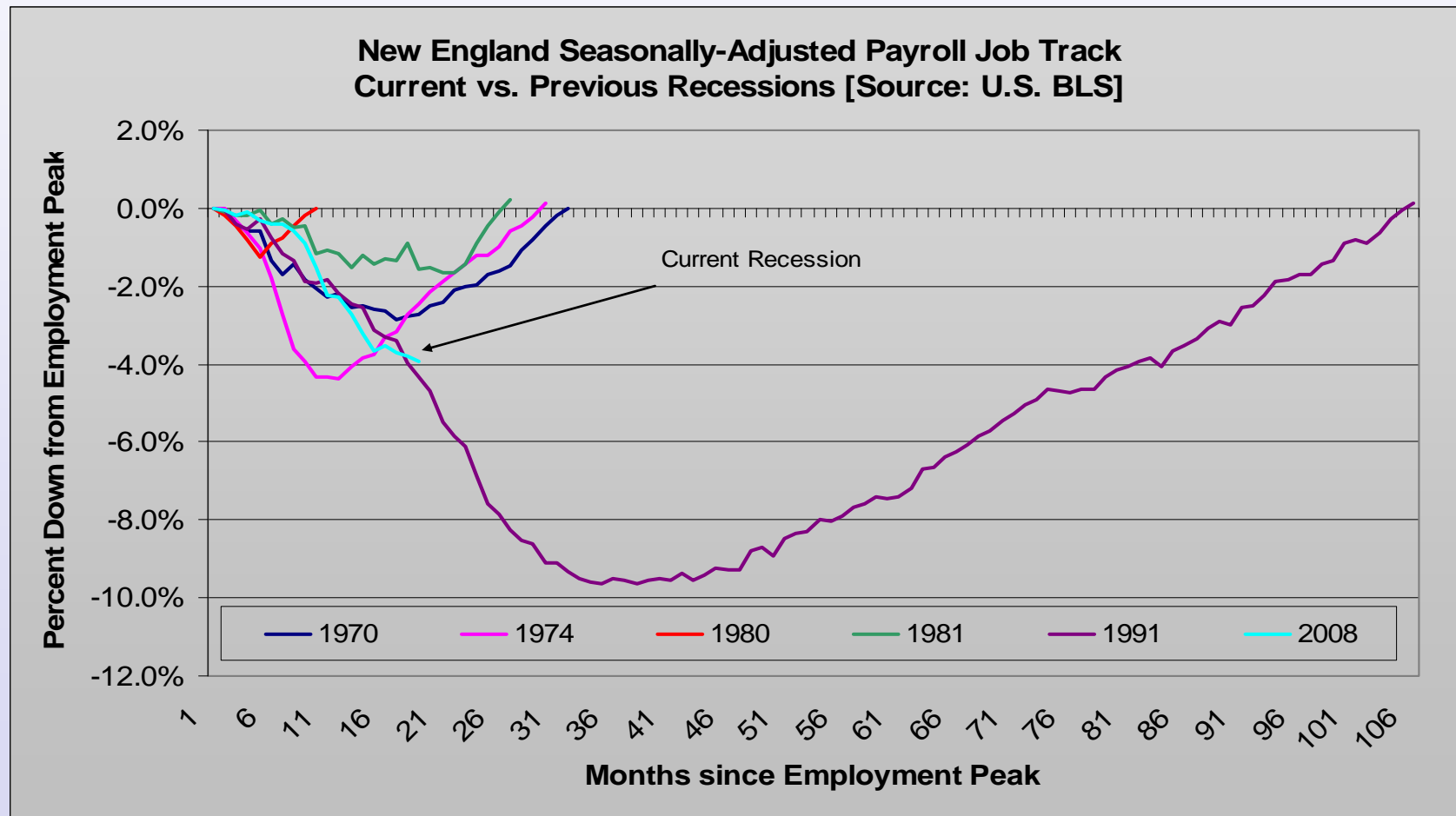
– A look at the indicators: Employment

- New England has shed 278,000 payroll jobs since the employment peak in February 2008 with some stabilization in recent times...



New England Situation/Outlook

– A look at the indicators: Job Losses in Context



New England Situation/Outlook

- Recent Developments:
 - Even though there has been some degree of “leveling off” but the labor market remains “ugly...”

Payroll Job Performance By NAICS Supersector Aug 2008 vs. Aug 2009

Industry Supersector	% Change in US	Highest Ranked New England State	# of States Reporting Job Losses
Total Nonfarm	-4.3%	NH (10th)	49
Total Private	-5.0%	NH (10th)	50
Construction	-15.1%	ME (15th)	48
Manufacturing	-12.1%	MA (6th)	50
Information	-5.7%	NH (21st)	44
Financial Activities	-5.3%	RI (12th)	48
Trade, Transportation, Utilities	-4.6%	NH (4th)	48
Leisure & Hospitality	-2.2%	MA (4th)	40
Education and Health Services	2.0%	VT (6th)	5
Professional & Business Services	-6.4%	ME (3rd)	49
Government	-0.3%	VT (12th)	23

Notes:

NAICS means North American Industry Classification System

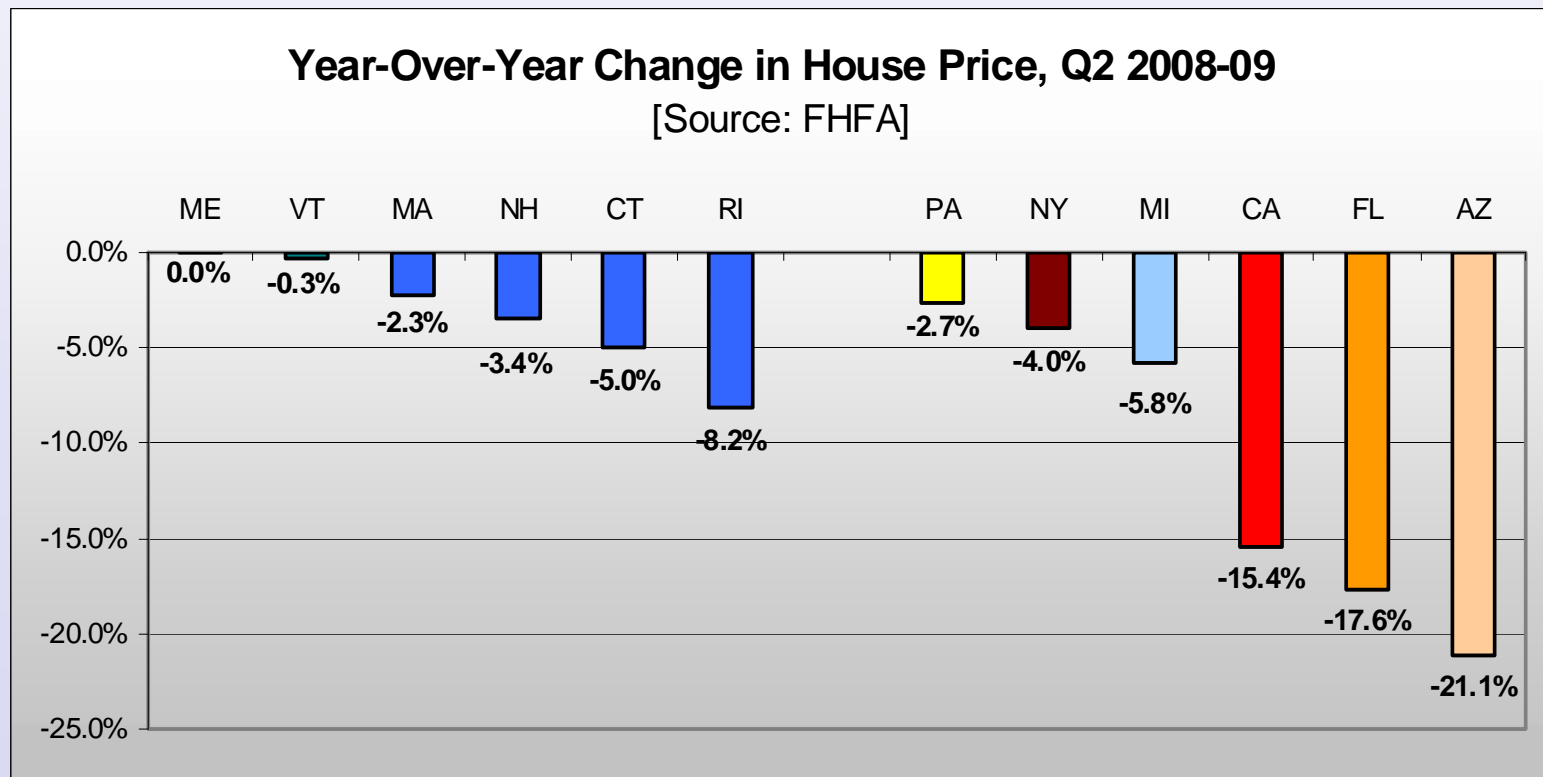
Source: U.S. Bureau of Labor Statistics

Prepared by: Economic & Policy Resources, Inc.

New England Situation/Outlook

– A look at the indicators: House Prices in New England

- On a Yr-Over-Yr basis, New England has been restrained, but CT and RI have seen significant declines...even though they are not anywhere near the declines experienced elsewhere...



New England Outlook

– By the numbers...

Calendar Year Forecast Comparison: United States and New England (Adjusted-May 2009 NEEP Forecast) [1]

	-----Actual-----					-----Forecast-----				
	2004	2005	2006	2007	2008 [2]	2009	2010	2011	2012	2013
Real Output (\$2000-% Change)										
U.S. Gross Domestic Product	3.6	2.9	2.8	2.0	1.1	-3.0	1.2	4.4	5.8	4.1
N.E. Gross Domestic Product	3.0	1.5	2.8	2.1	0.4	-2.7	0.3	3.4	4.3	3.3
Non-Farm Payroll Jobs (% Change)										
U.S.	1.1	1.7	1.8	1.1	-0.4	-3.7	-0.8	2.4	3.6	2.7
New England	0.4	0.6	0.9	0.9	-0.1	-3.9	-1.6	1.9	2.6	1.9
Real Personal Income %Change (2000 Dollars)										
U.S.	3.4	2.6	4.2	3.4	0.5	1.2	1.1	2.9	4.3	3.3
New England	3.0	1.2	4.1	3.5	0.3	1.1	0.8	1.7	2.4	3.5
Unemployment (Percent)										
U.S.	5.5	5.1	4.6	4.6	5.8	9.3	9.9	8.6	6.6	5.5
New England	4.9	4.7	4.5	4.5	5.4	8.1	9.1	7.9	6.2	5.3
FHFA Housing Price Index [2]										
U.S.	9.5	11.6	7.7	2.4	-2.5	-5.5	-9.9	0.0	4.0	6.8
New England	12.0	11.0	3.6	-0.5	-2.8	-7.7	-4.5	-1.1	0.3	5.5

Notes:

[1] U.S. data reflect the March S2 Moody's Economy.com forecast.

[2] FHFA refers to the Federal Housing Finance Agency (formerly the Office of Federal Housing and Enterprise Oversight).

Sources: Moody's Economy.com (U.S.), Adjusted New England Economic Partnership May 2009 Forecast Update (New England)

U.S./NE Situation/Outlook

- If all works out, expect a weak recovery to start in late 2009 and 2010...and it is likely to be a long, slow journey...

