Consumer cools at high debt levels as housing pops.

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U.S. BOND STRATEGY

May 26, 2006

Investment strategy and recommendations for the U.S. fixed income market

Special Report

U.S. CONSUMER SLOWDOWN: IS IT FINALLY HERE?

CHART 6
The Stimulus From Home Equity Extraction Is Over

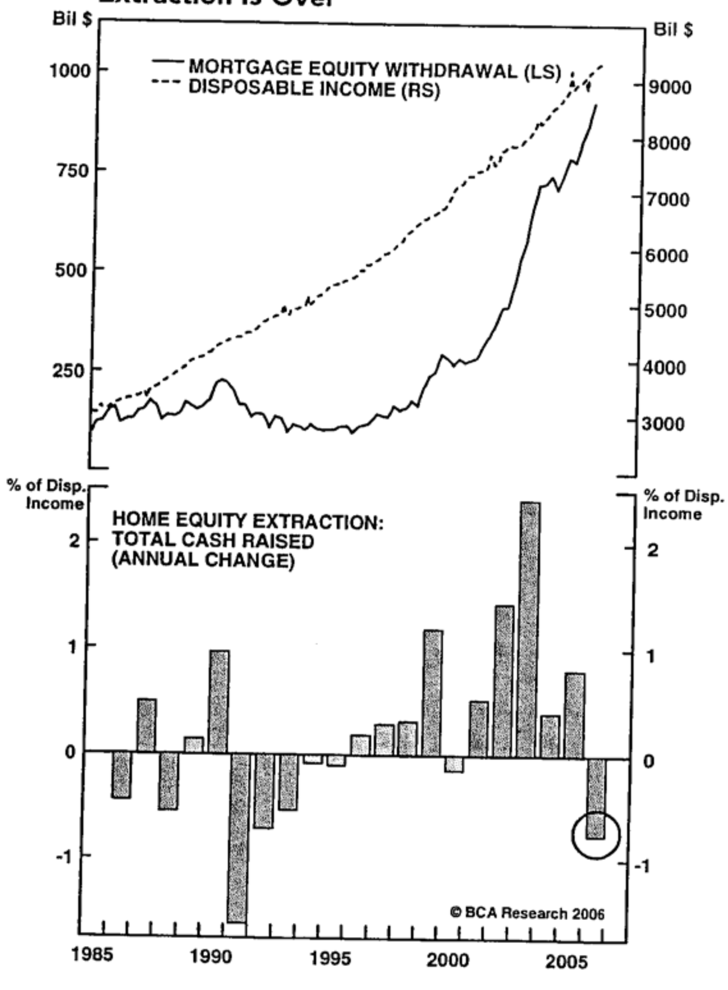
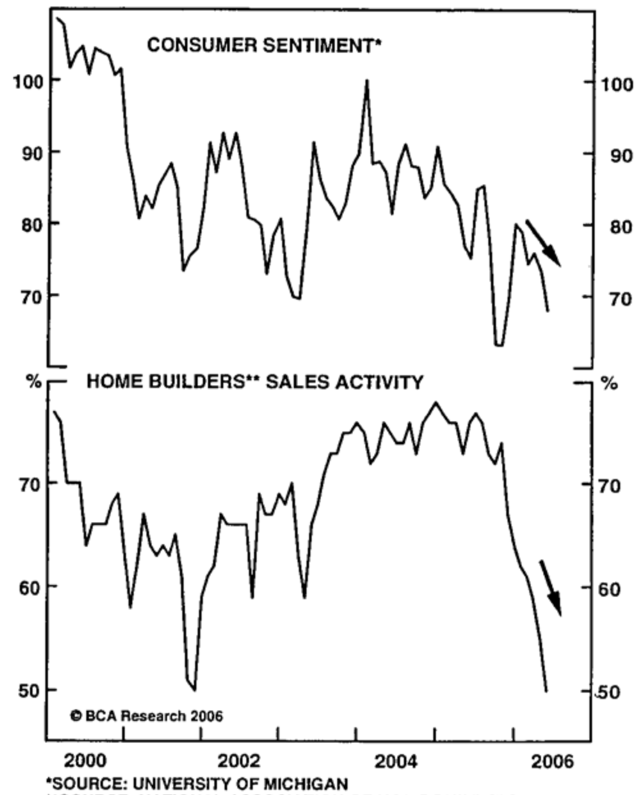


CHART 1
Housing And Consumer Confidence: Look Out Below



*SOURCE: UNIVERSITY OF MICHIGAN
**SOURCE: NATIONAL ASSOCIATION OF HOME BUILDERS

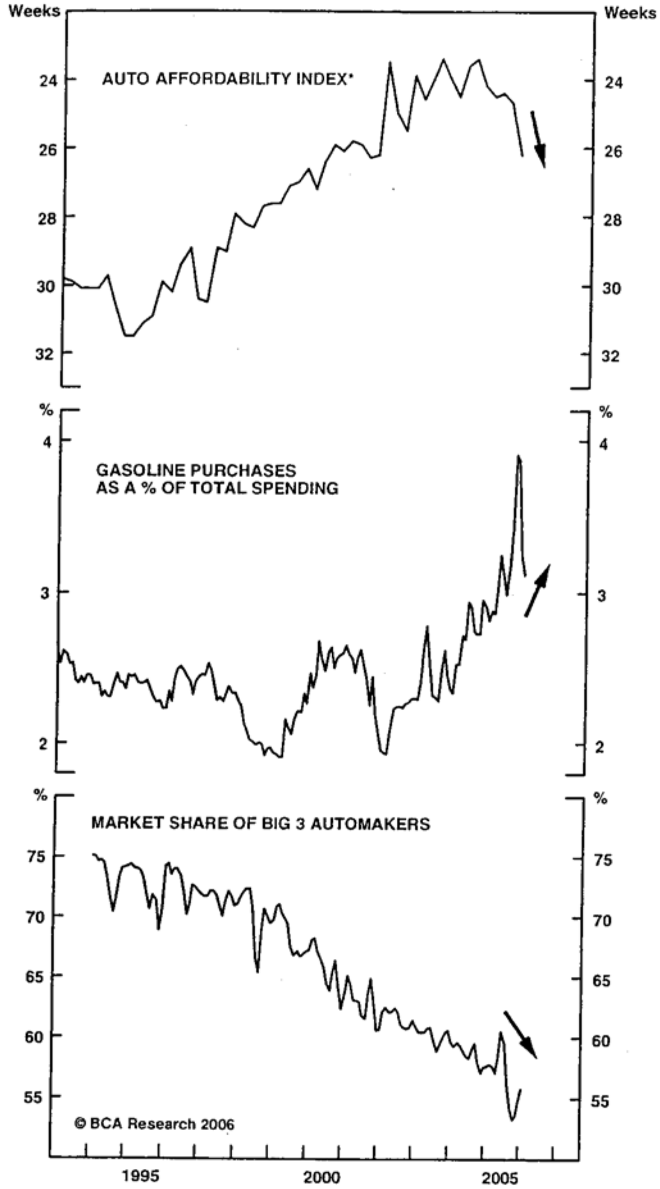
withdrawal hit all-time highs which, in turn, further fueled the consumption binge and contributed to a rundown in savings from income. However, the landscape has changed considerably in the past 6 to 12 months.

Interest rates have now risen significantly across the yield curve, energy prices are near record levels and the stimulus from housing is fading fast. The consumer sector's resilience in the past year in the face of these headwinds was, in large part, due to unusually low bond yields that helped sustain the housing bubble. Consumers felt extremely confident as wealth gains accumulated,

E10

Early 2006: Weak Housing and Autos combined with rising Oil Prices begin to drag on economy.

CHART 5
Auto Sector Outlook Is Bleak

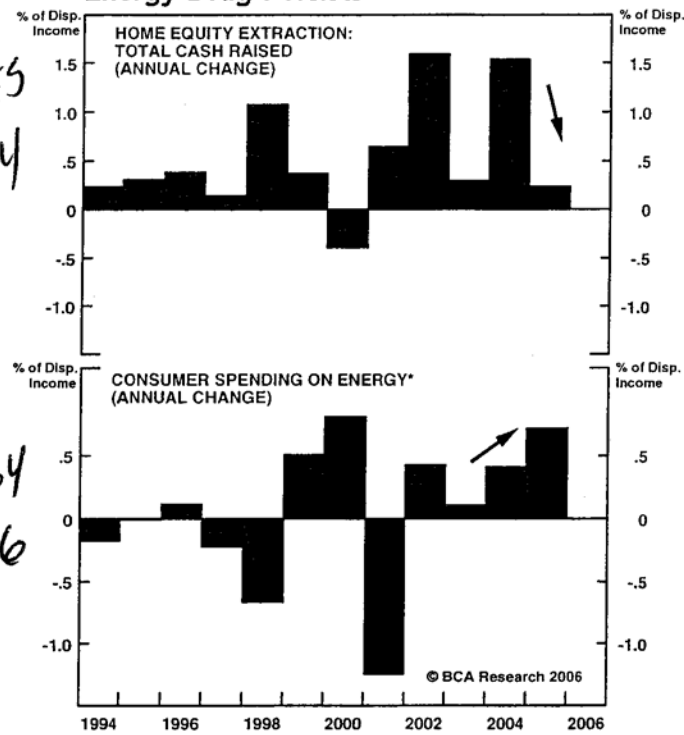


*NUMBER OF WEEKS OF MEDIAN FAMILY INCOME IT WOULD TAKE TO BUY AN AVERAGE-PRICED CAR; SOURCE: COMERICA

CHART 2
Stimulus From Housing Is Fading, Energy Drag Persists

HOMES TOPPY

ENERGY DRAG



*INCLUDES GASOLINE, FUEL OIL, NATURAL GAS, AND ELECTRICITY
NOTE: 2005 IS A BCA ESTIMATE FOR BOTH SERIES

the time the Fed goes on hold. Auto affordability plunged in the third quarter and a further deterioration in Q4 seems likely (**Chart 5**). The high cost of gasoline also threatens to dampen auto sales. Spending on motor fuel as a percentage of total consumer expenditures is up sharply from its average in the early part of the decade (**Chart 5**).

power in recent years. **Chart 2** shows that growth in mortgage equity withdrawal (MEW) fell sharply last year, while the energy burden on consumers' pocketbooks has escalated.

MEW will not be a large contributor to consumer spending this year, and it may turn into an outright drag. The Australian and U.K. experiences offer important lessons for the U.S. In both cases, a deceleration in real estate inflation was quickly followed by a drop in MEW, which sparked a substantial moderation in retail sales growth. This occurred even though their respective central banks achieved a soft landing in the overheated housing sectors. The U.S. is likely headed down the same path, which means that investors should stay overweight bonds.

1

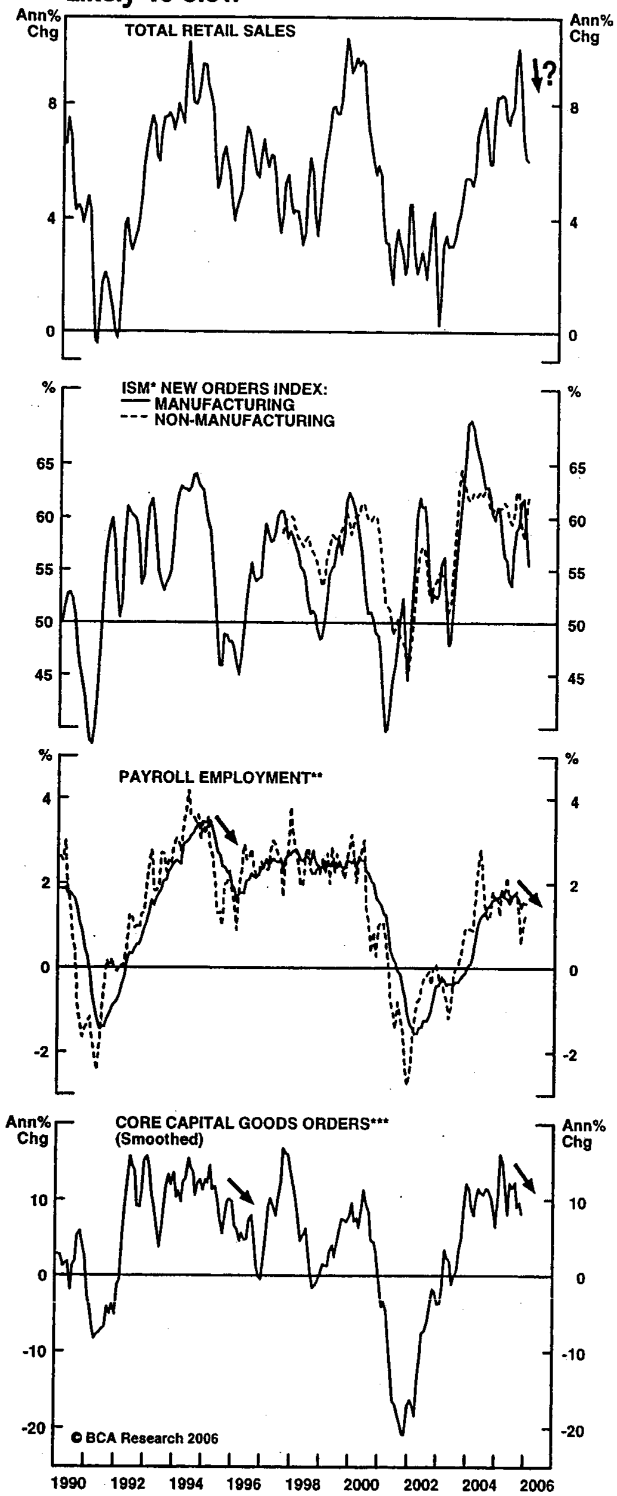
Table 1 and **Chart 3** present U.S. Treasury bond returns relative to cash around the time of the last three peaks in the fed funds rate. Typically, market

editor@BCAresearch.com ■ TEL 514.499.9550 ■ FAX 514.843.1763 ■ www.BCAresearch.com

Positive: slowing economy cools inflation worries

2006:
SLOWER GROWTH

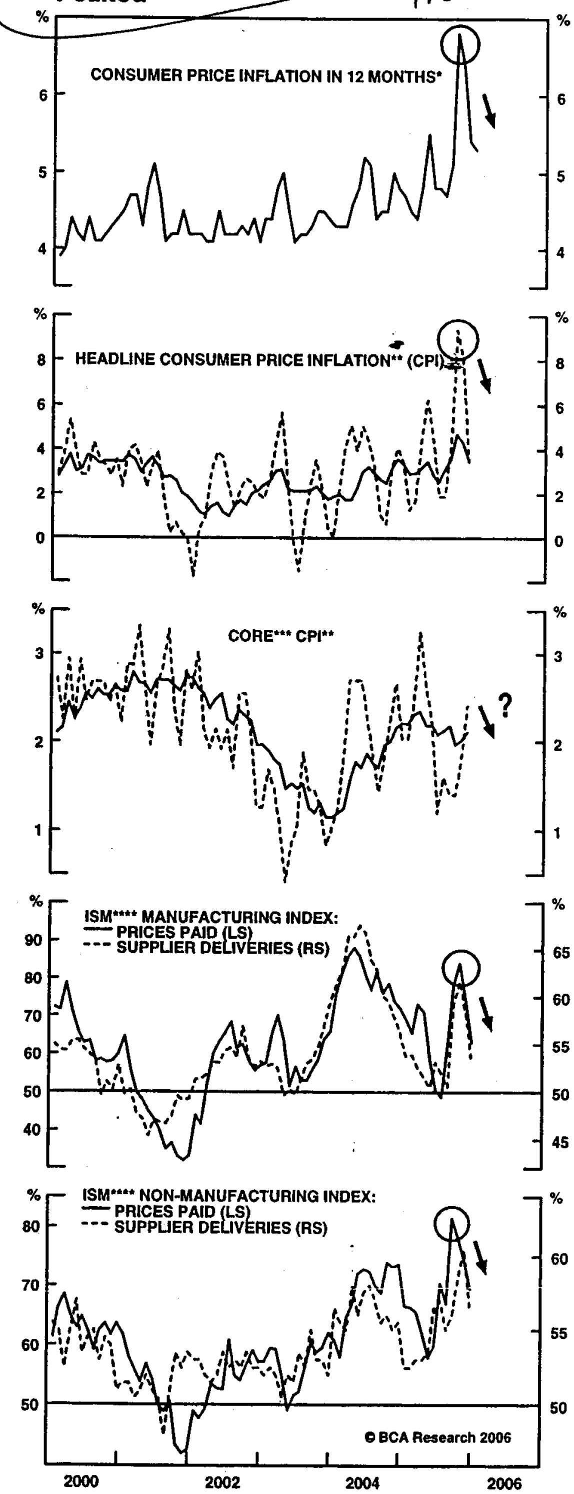
CHART 10
Payrolls And Investment Growth Likely To Slow



*ISM = INSTITUTE FOR SUPPLY MANAGEMENT
** —— ANNUAL GROWTH RATE; ---- 3-MONTH RATE OF CHANGE, ANNUALIZED; ESTABLISHMENT SURVEY
***NEW ORDERS OF NONDEFENSE CAPITAL GOODS EXCLUDING AIRCRAFT AND PARTS

TAMER INFLATION

CHART 11
Inflation Pressures Have Peaked



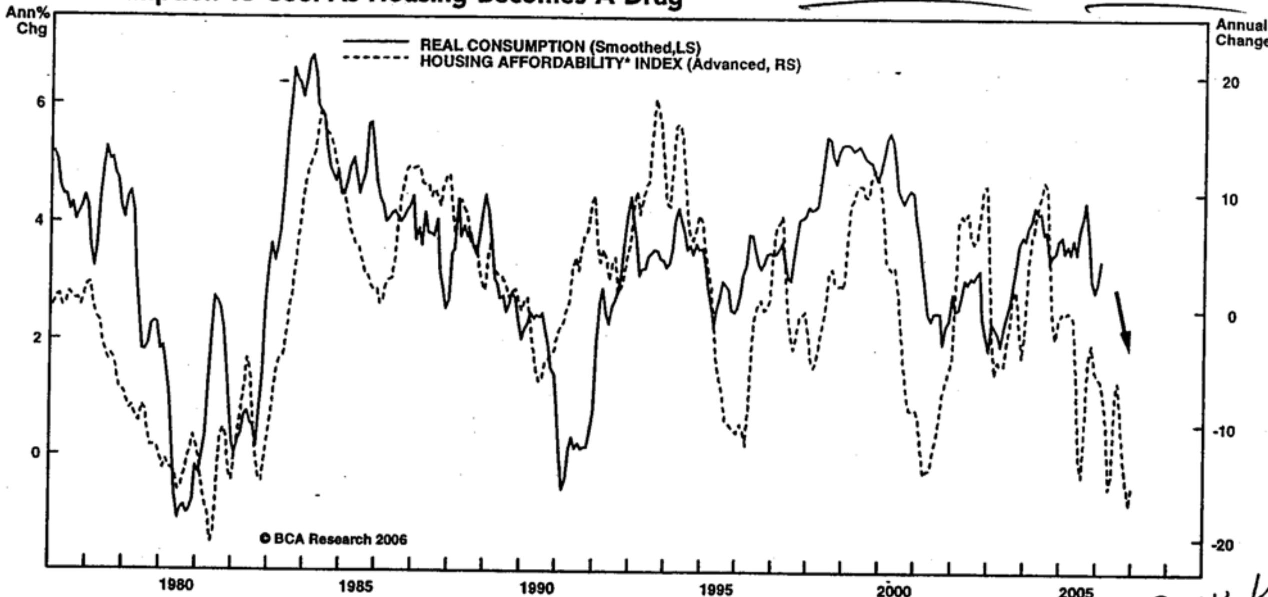
*SOURCE: THE CONFERENCE BOARD
** —— ANNUAL GROWTH RATE; ---- 3-MONTH RATE OF CHANGE, ANNI
***CORE EXCLUDES FOOD AND ENERGY
****ISM = INSTITUTE FOR SUPPLY MANAGEMENT

9

Housing slowdown = consumer slowdown…
The $64 Question: Will corporate spending fill the gap?

CHART 1
Consumption To Cool As Housing Becomes A Drag

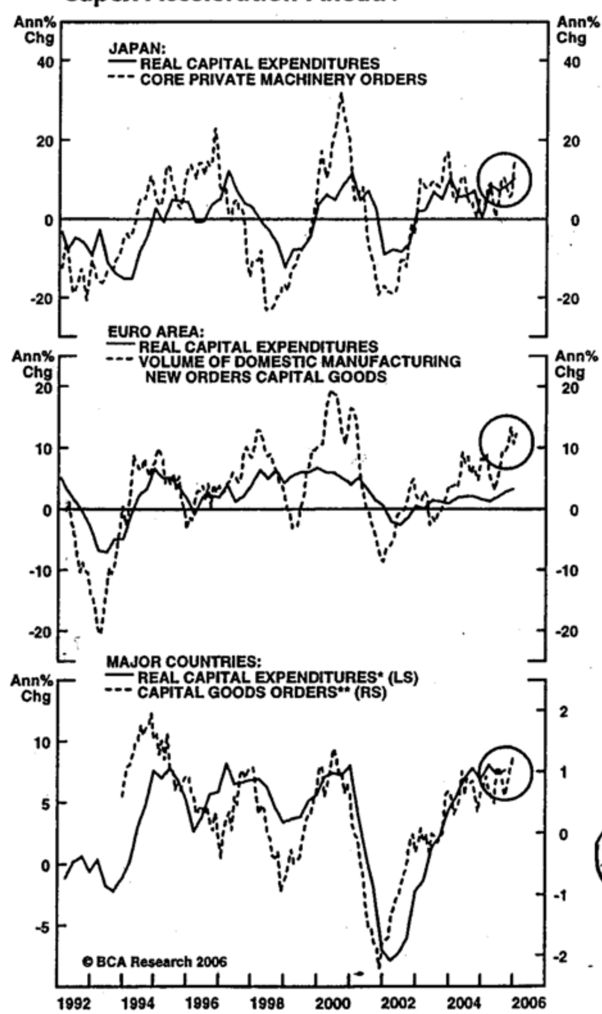
CONSUMER COOLS



*SOURCE: NATIONAL ASSOCIATION OF REALTORS

DOES BUSINESS PICK UP??

CHART 7
Capex Acceleration Ahead?



*GDP WEIGHTED AVERAGE OF U.S., U.K., JAPAN, CANADA & EURO AREA
**GDP WEIGHTED AVERAGE OF U.S., JAPAN, CANADA & EURO AREA

E7

shift to restrictive policy settings looms, and worries about higher inflation and interest rates will melt once investors realize that the key global growth dynamo is slowing.

In the near run, most equity markets, particularly the hot emerging bourses, as well as energy and base/precious metals are vulnerable if investors panic. The fear of massive leveraged trades unwinding rapidly as Japan moves towards lifting rates later this year seems overblown, given that rates will, at worst, creep up towards 50 or 100 basis points in a year's time, i.e. money will still be very cheap.

The bond market is also at short-term risk, but the cracks in the hot economic-sensitive markets in the past week or so indicate that much higher bond yields would prove self-limiting, i.e. would undermine economic growth prospects. In the U.S., the housing market is already under mounting strains, with prices flat over the past six months and activity drying up. Even higher mortgage rates would expedite the downturn and threaten an already mildly vulnerable consumer

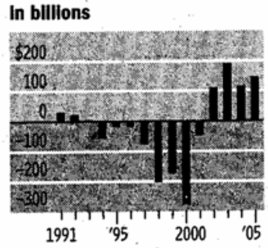
Will businesses start spending their cash stockpiles? Evidence of corporate spending as companies plan large capital investments.

Companies Across U.S. Plan to Put Cash to Work, Giving Possible Boost to Economy

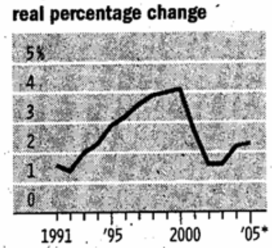
Time to Spend?

In recent years, companies have been scrupulous savers, accumulating cash and investing relatively little. If they loosen up, that could boost the economy.

Corporate saving in the U.S.[1], in billions



Corporate capital stock, real percentage change



[1]Undistributed profits plus depreciation minus gross investment

Sources: Commerce Department; Federal Reserve

*WSJ estimate

New York

A FEW YEARS AGO, one could hardly have found a candidate less likely to lead a new wave of corporate investment than glassmaker **Corning** Inc. Smarting from a multibillion-dollar optical-fiber bet gone wrong, the company had become a model of thrift, accumulating cash and paying down debt.

Now, though, Corning is getting back into the global investment game. This year, the company will spend as much as $1.5 billion as it expands a giant liquid-crystal-display plant in Taichung, Taiwan, and a clean-diesel-products plant in Erwin, New York. In 2003, the company's capital spending amounted to $366 million.

The impetus for the spending rebound: more confidence in the business environment. "We started to see new opportunities," says James Flaws, Corning's chief financial officer.

Across the U.S., companies are starting to put their money to work again, or at least are planning to do so. They have enjoyed strong growth and record profits in the past few years, but as they close in on the limits of their capacity, they face a choice: Stop growing, or start spending on people, plants and equipment.

RECENT DATA suggest they are choosing the latter. They added 2.1 million jobs in the year ended February, and in a recent survey by Duke University's Fuqua School of Business, more than 300 corporate executives said they plan to increase capital spending by an average 6.5% in the coming year—up from 4.7% in September, though still lower than a few years ago.

"Forever it seems like we've been waiting for the purse strings to open," says John Graham, a professor of finance at Fuqua. "They're not opening that wide, but they're moving in the right direction."

If sustained, companies' newfound willingness to spend could mitigate an anomalous situation: Ever since the turn of the 21st century, U.S. corporations have been scrupulous savers, in sharp contrast to consumers and the government. Combined with resurgent growth in Japan and Europe, the corporate spending could add fuel to the global economy—or at least help it survive if flagging or falling house prices make U.S. consumers feel poorer, something many economists expect to happen this year.

"The fact that corporations are investing and hiring again is certainly an encouraging sign," says David Mackie, an economist at J.P. Morgan in London. "As long as the household sector holds in reasonably well, this provides something of a cushion for growth."

In recent years, companies and people have started acting in ways that defy conventional economics. Typically, companies recycle a country's savings by borrowing the money to invest in new equipment, software, factories and whatever else they need to expand their businesses. That helps keep interest rates in balance, with companies' desire to invest pushing rates up and people's desire to save pushing them down.

In the past five years, though, people and companies in the U.S. have switched roles. Households have been saving less, to the point where they now spend more than they earn—a profligacy that has helped drive huge corporate profits. Meanwhile, companies have been spending a lot less than they earn, building up huge hoards of cash.

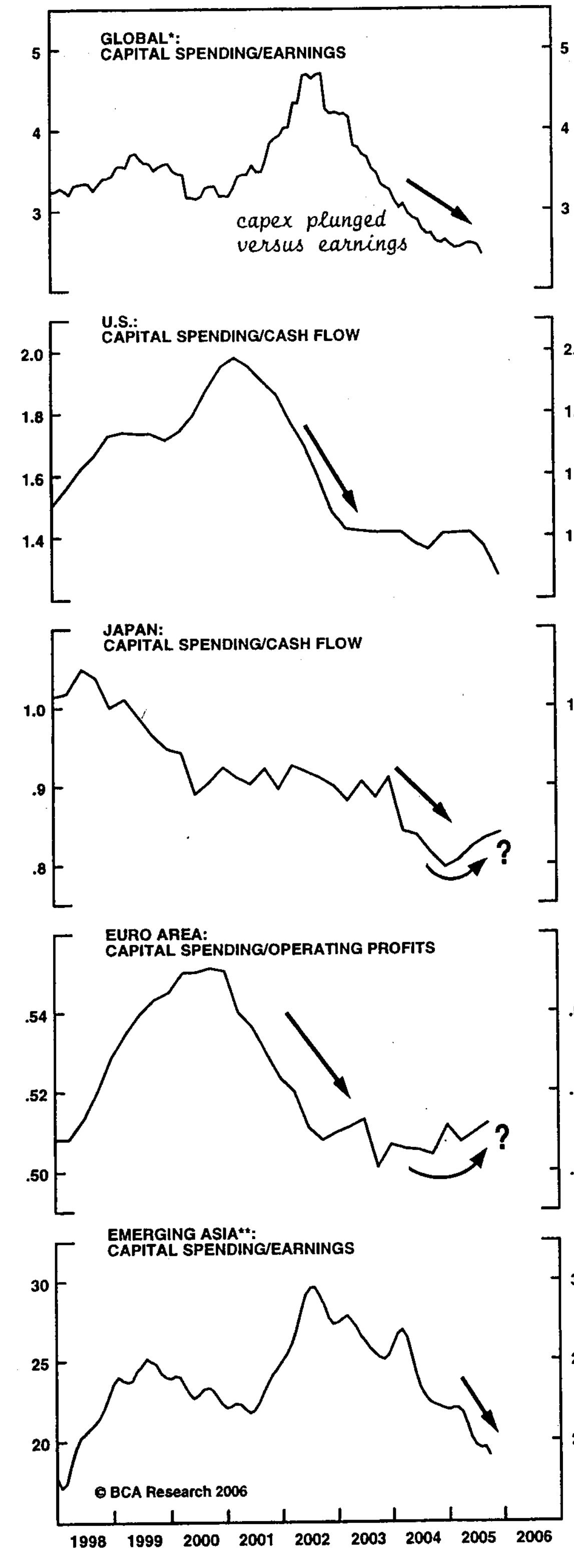
IN THIS WAY, U.S. corporations "saved" about $560 billion in the past four years, according to J.P. Morgan—an often-overlooked contribution to the so-called global savings glut, which some economists believe has helped keep long-term interest rates unusually low. Over the same period, they invested relatively little in their businesses: The total U.S. capital stock increased only about 8% after inflation, just more than half the rate in 1998 through 2001.

Economists offer various explanations for companies' behavior. For one, executives might have been feeling extra cautious after the excesses of the late 1990s, when they borrowed heavily to make huge investments and acquisitions that often proved financially disastrous. "I think there's a much greater level of caution—you could also say it's a much higher level of responsibility,"

6

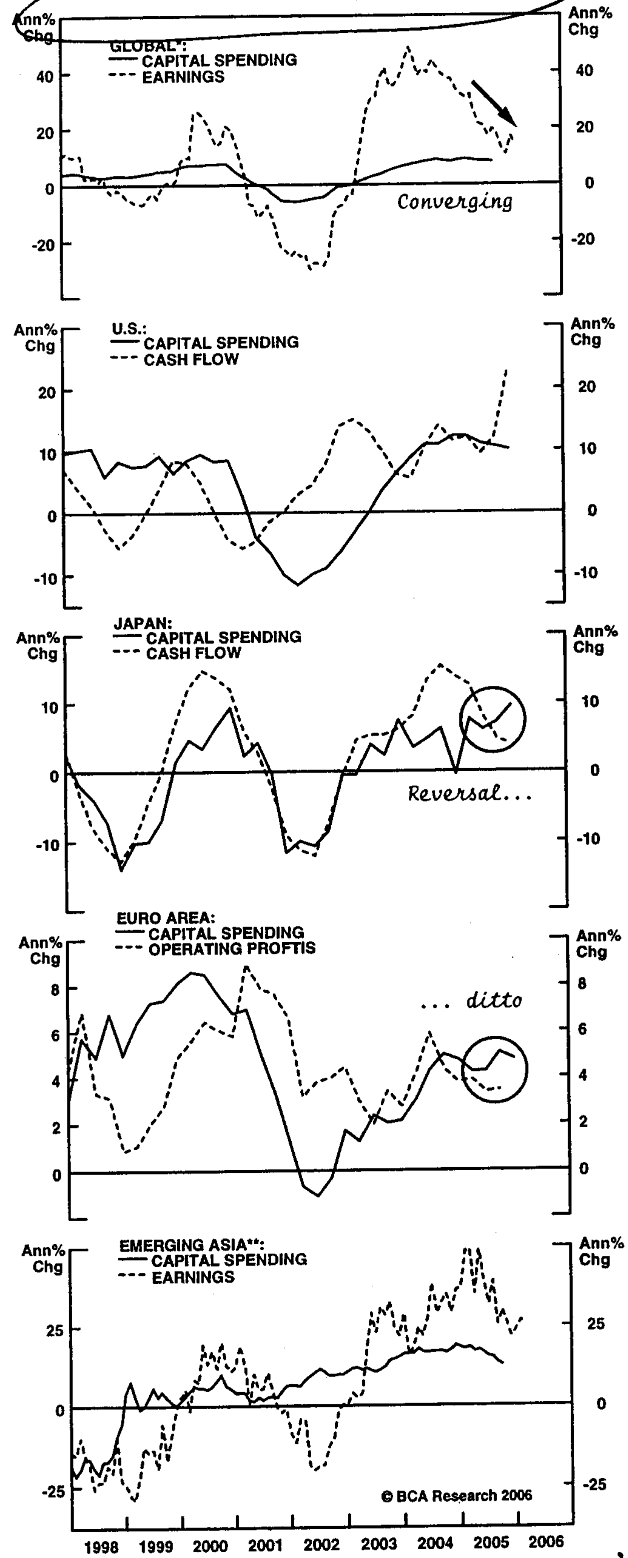
Mar. '06: Hope that business will increase capital expenditures, offsetting a weak consumer.

CHART 1
Investment And Earnings Trends (Part I)



*GDP-WEIGHTED; INCLUDES G7 AND ASIA-9 COUNTRIES
**INCLUDES CHINA, HONG KONG, TAIWAN, KOREA, SINGAPORE, MALAYSIA, THAILAND, INDONESIA & PHILIPPINES

CHART 2
Investment And Earnings Trends (Part II)



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19

But what happens if business trims spending due to a cooling economy?

ABOUT ECRI

Corporate capex spending outlook:
How strong is it??

In the Press

Industrial Slowdown Ahead?

03/01/2006

NEW YORK (Reuters) - The industrial sector could prove an unexpected source of weakness for the economy, and one that risks much slower growth in the second half of the year than is currently expected, according to a new report.

Most economists are predicting a gradual easing of economic growth this year as a housing slowdown makes consumers feel a bit queasier about extending their recent spending spree.

But the Economic Cycle Research Institute, an independent research firm that produces and tracks a cross-section of indicators, says those looking for business investment to pick up the slack from consumers could be in for a rude awakening.

"An industrial slowdown could come when consumer spending growth is already slowing, resulting in much weaker overall growth than generally anticipated this year," said Lakshman Achuthan, ECRI managing director.

The latest figures from the Institute for Supply Management showed a pick up in national manufacturing activity, with its index rising to 56.7 in February from 54.8 in January.

But ECRI argues that may be more of a last gasp for manufacturing in the current economic cycle then the start of a sustainable upward trend in activity.

"The not-too-hot, not-too-cold 'Goldilocks' economy envisaged by many economists could turn out to be a mirage," said Achuthan.

ECRI has come to that conclusion by monitoring a number of its leading indicators, which it says have accurately predicted fluctuations in manufacturing in the past.

The firm has also been watching recent declines in prices of commodities like industrial metals, which also tend to presage slower industrial activity.

"The correction in metals prices appears to be in line with earlier signals of a cyclical slowdown in the industrial sector, and may thus be the early stage of a cyclical downswing rather than just 'noise,'" Achuthan said.

more ECRI press quotes

... IF capex is surprisingly weak:

(A) Bonds likely to rally sharply

AND

(B) Soft-landing risks increase.

E12

4-06: Business spending plans decline…

New-Home Sales Rose in April As Capital-Goods Orders Fell

Data Defy Expectations, But Longer-Term Trends Line Up With Fed Outlook

By Mark Whitehouse

The latest readings on U.S. housing and business investment confounded economists' expectations, but the underlying trends still show the economy acting pretty much as Federal Reserve officials had hoped: Perhaps slowing, but not sinking.

In two separate reports, the Commerce Department said new-home sales rose and businesses' orders for capital goods dropped in April. At first glance, that's at odds with the Fed's main scenario for what the economy will do this year: Consumer spending should slow as a weakening housing market makes people feel poorer, but increased business investment—in the form of capital-goods purchases and hiring—should help keep the deceleration from becoming a disaster.

Economists, however, warned against reading too much into the volatile monthly data, saying that longer-term trends still point toward slowing home sales and growing capital spending. "We all agree that the housing market is cooling off, and some other sector of the economy must take the burden of keeping growth healthy," said Ethan Harris, chief U.S. economist at Lehman Brothers in New York. "Capital spending is a prime candidate."

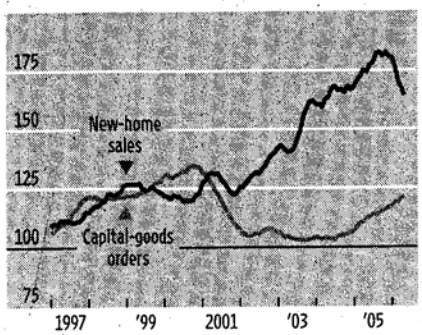
New-home sales rose to a seasonally adjusted annual rate of 1.19 million in April, up 4.9% from the previous month, thanks in part to a surge in Southern states. The number contrasted sharply with expectations of an April drop in home sales, but downward revisions to the previous months' numbers lessened the surprise. After revisions, the rate of new-home sales dropped 7.6% over the first three months of 2006, compared with a previous estimate of 4.2%. April's rate of sales was still 12.4% below the most recent peak in July 2005.

"The overall picture is one of a cooling housing market," said Joshua Shapiro, chief U.S. economist at MFR Inc. a New York consultancy. "It's hard to argue against that." Declining demand, for example, was among the reasons cited by luxury-home builder **Toll Brothers** Inc. when it announced earlier this week that it was lowering its full-year earnings forecast.

Meanwhile, a sharp drop in aircraft business helped U.S. total orders for durable goods, defined as anything intended to last three years or more, fall a larger-than-expected 4.8% to a seasonally adjusted $210 billion in April, after rising

Underlying Trends

Six-month moving average of indexes representing new houses sold and inflation-adjusted orders for nondefense capital goods, excluding aircraft



Note: Jan. 1996 = 100

Sources: Commerce Department; WSJ research

Consumer

Business

an upwardly revised 6.6% in March. One measure of business investment—"core" orders for capital goods such as computers, oil rigs and railroad cars, excluding defense and aircraft—also dropped a larger-than-expected 1.7% in April, compared with a revised 3.6% increase the previous month.

Economists saw April's drop in capital-goods orders largely as payback for the large jump in March. Overall, capital spending remains on an upward trend: In this year's first four months, core capital-goods orders were up 9.7% over the same period last year.

"If we smooth out the vagaries of month-to-month flows, what emerges is a pattern that is wholly consistent with the Fed's belief of how the economy is going to unfold this year," said David Resler, chief economist at Nomura Securities in New York.

Increasing demand for U.S. capital goods might illustrate a second-order effect of globalization, say some economists. The rise of export-oriented producers in China and elsewhere created a flood of cheap consumer goods into the U.S., increasing competition for the U.S. businesses and holding prices down. Now, though, as those same foreign producers invest to boost capacity, they're also boosting demand—and prices—for the kind of capital goods that the U.S. makes.

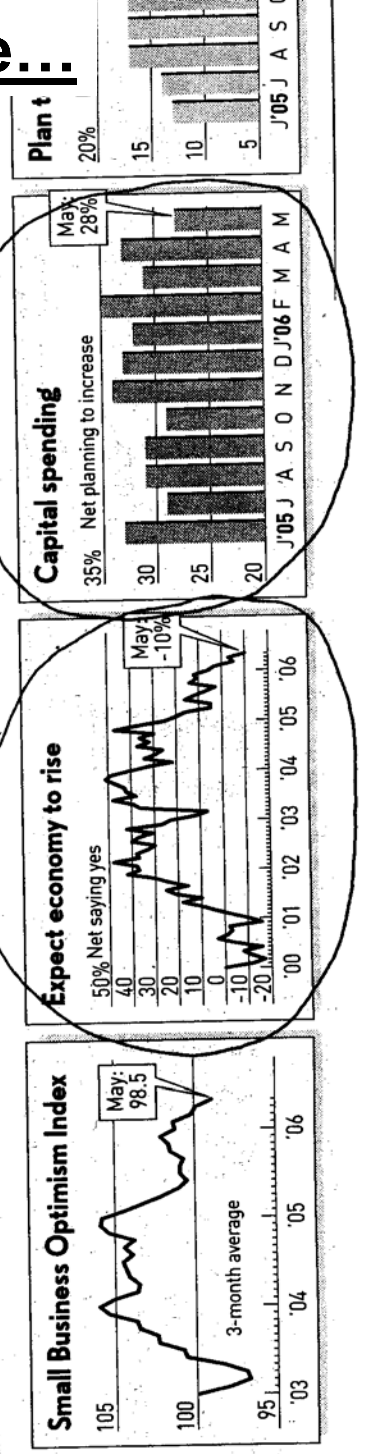
"We're seeing very strong demand for capital goods in Asian markets," both from Western firms building local facilities and from local firms looking to compete with the foreigners, said Edward Campbell, chief executive officer of Nordson Corp., Westlake, Ohio, which makes equipment that applies paint and other coatings to everything from cereal boxes to washing machines. He said his company's Asian orders were up 48% in the most recent quarter from a year earlier.

VITAL SIGNS

Smaller Firms Foresee U.S. Slowdown

The NFIB's Small Business Optimism Index fell 1.6 points in May to 98.5, dropping below the solid 100 level for the 2nd time in 3 months. A net 10% expect the economy to get worse, the worst reading in 5 years. Capital spending plans and sales outlooks eased. But hiring plans and job openings remain high.

Sources: Nat'l Federation of Independent Business, Datastream



will capital spending ramp up if businesses are not optimistic??

lowest in a year

EM

Factory Output Fell Slightly in May

6-16-06

Decline of 0.1% Underlines Signs of Economic Cooling Amid Consumer Restraint

By Christopher Conkey And Greg Ip

WASHINGTON—Factory output fell slightly last month as manufacturers adjusted to milder consumer demand, and Federal Reserve Chairman Ben Bernanke sounded a guardedly optimistic note on inflation.

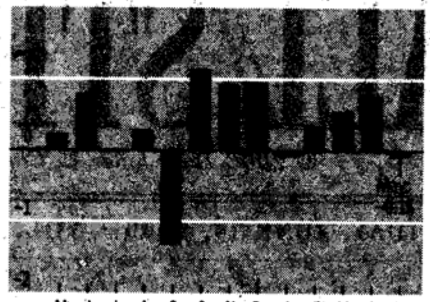
In another sign the economy has entered a period of slower growth, the Fed said industrial production declined 0.1% in May after three consecutive monthly gains, but output at the nation's factories, mines and utilities is still running 4.3% higher than a year earlier. Lower auto production last month spurred a 0.1% decline in the manufacturing sector and mining output dropped as well. Halting a recent upswing, capacity utilization fell to 81.7% in May from 81.9% in April.

The May decline in manufacturing activity was a response to slackening consumer spending after a robust first quarter. "For the first time in more than three years, production of consumer goods, business equipment, construction supplies and business supplies all fell in May," said David Huether, the National Association of Manufacturers' chief economist. "This shows that a broad-based slowdown in the economy is taking place."

After surging at an inflation-adjusted 5.3% annual rate in the first quarter, many analysts say the economy is advancing at a slower pace—around 3%—in the current quarter. Rising interest rates, a gradually cooling real-estate market and elevated gasoline prices are restraining consumer spending, but businesses are picking up some of the slack. Recent trends in exports, investment and productivity all point to further gains in business spending, and economists expect industrial production to resume growth in the months ahead.

Hitting the Brakes

Month-to-month percentage change in industrial production index, seasonally adjusted data



Note: 2002 = 100 Source: U.S. Federal Reserve

"So what if industrial production slid back a shade in May?" said Jason Schenker, an economist at Wachovia Corp. "All major market and industry groups have seen their industrial production rise over the past year...Growth is a go."

Bison Gear & Engineering Corp., based in St. Charles, Ill., is seeing strong demand for the industrial motors it makes for restaurant and health-care equipment. Chief Executive Ron Bullock said a recent investment of "a couple million dollars" in manufacturing gear will enable growth of 15% next year, and exports are accounting for an increasing share of sales. The company's work force, Mr. Bullock added, is up 11% from a year earlier.

Mr. Bernanke, in his speech to the Economic Club of Chicago yesterday, noted that expected inflation, as measured by inflation-protected bonds, had "fallen back somewhat in the past month." He acknowledged that the public's expectations of inflation in surveys and in the bond market had "edged up," developments that "bear watching."

He didn't repeat his stronger warning from a speech last week in which he called recent developments on inflation "unwelcome" and said the Fed would remain "vigilant" to ensure recent increases weren't sustained. That language helped boost expectations for another rise in interest rates later this month and roiled stock markets. But it also appears to have convinced bond investors of his anti-inflation resolve, leading to the recent retreat in their expectations of inflation.

Mr. Bernanke said that while the rise in energy and commodity prices since 2003 hasn't led to the spiral of rising prices and wages of the 1970s, they "have been large enough that they could account for some of the recent pickup in core inflation."

He also said he expects productivity growth—output per worker-hour—to continue at 2.5% to 3% a year "for some years ahead." Such a high rate of productivity growth would enable the U.S. economy to grow at roughly 3% to 4% a year without generating inflation.

Separately, the Labor Department said 295,000 people filed initial unemployment claims last week, 8,000 fewer than the week before. The drop pushed the closely watched four-week moving average of jobless claims down to 315,750, which suggests a robust level of job creation this month.

With the unemployment rate at 4.6%, economists have been searching for signs of wage gains that could add to inflationary pressures. The labor market has been sending mixed signals recently, however, and pay increases are lagging behind the prevailing inflation rate.

Mr. Huether of NAM and other manufacturing groups have called on the Fed to stop raising short-term interest rates, but several Fed officials have recently indicated that the recent rise in prices and inflation expectations are greater concerns than slower growth. Futures markets are all but certain the Fed will opt to raise the federal-funds rate to 5.25% later this month.

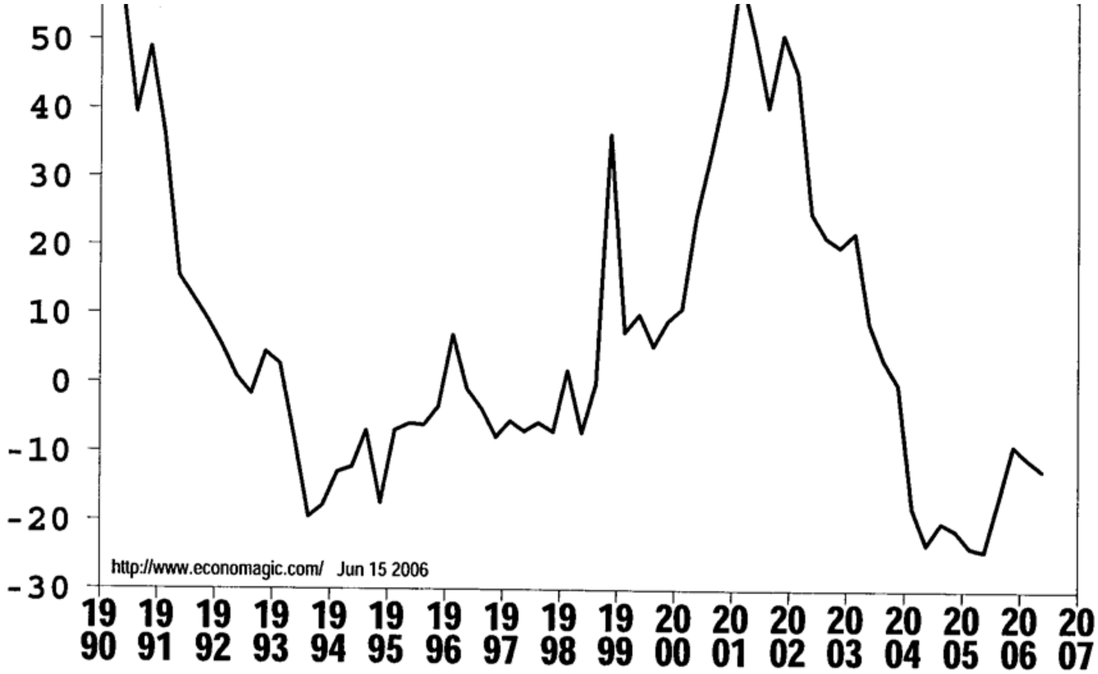
"… Factory output fell slightly last month as manufacturers Adjusted to milder consumer demand…"

"The May decline in manufacturing activity was a response to slackening consumer spending…"

"This shows that a broad-based slowdown in the economy Is taking place…"

tightening standards on C+I loans

6-06: Fear of Central bank tightening may be overblown as Commercial banks have not reduced credit availability….

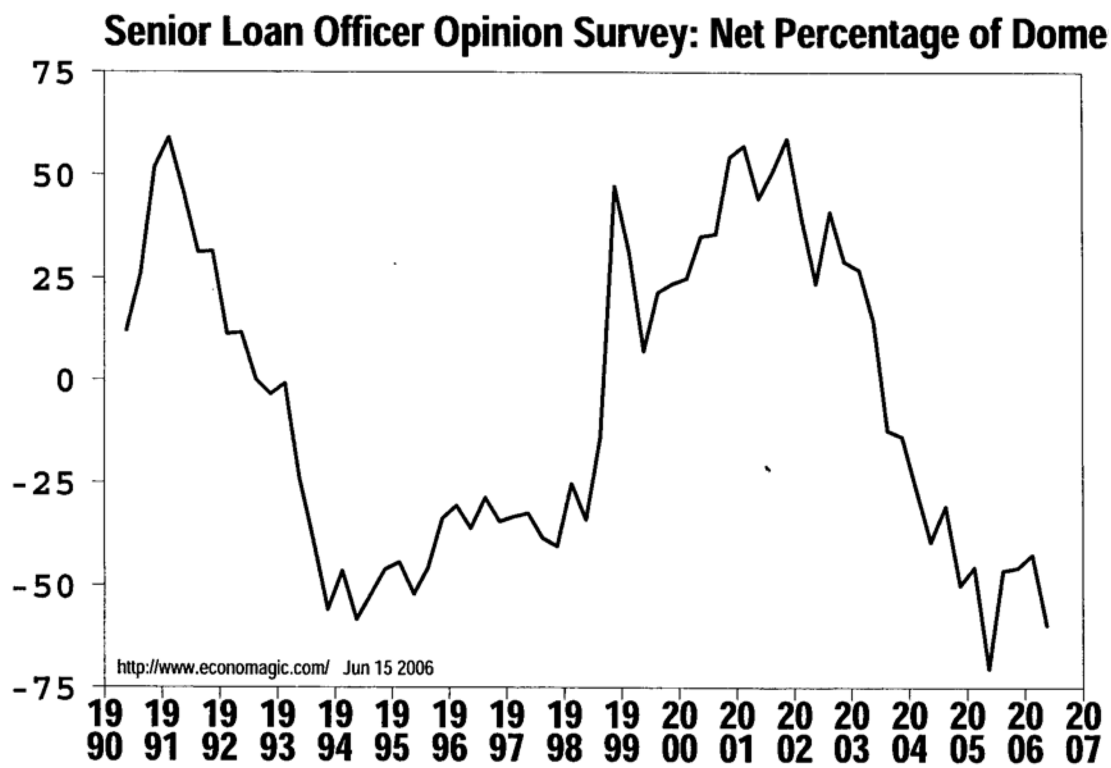


Banks are Still willing to lend…

Not yet Tightening standards on C&I loans …

% of banks tightening standards on C&I loans

increasing spreads on C+I loans

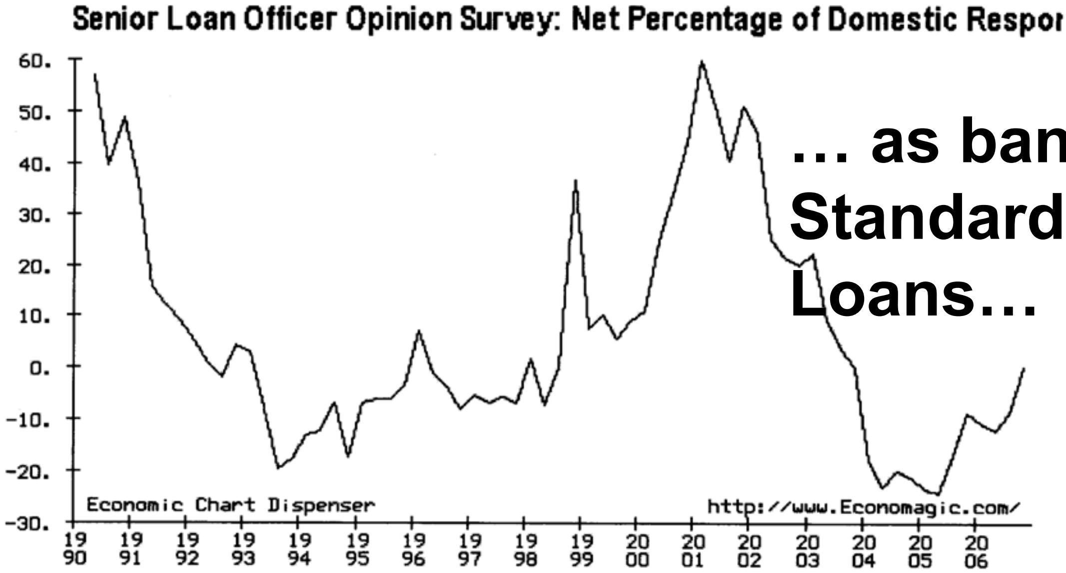


OR increasing spreads …

E22

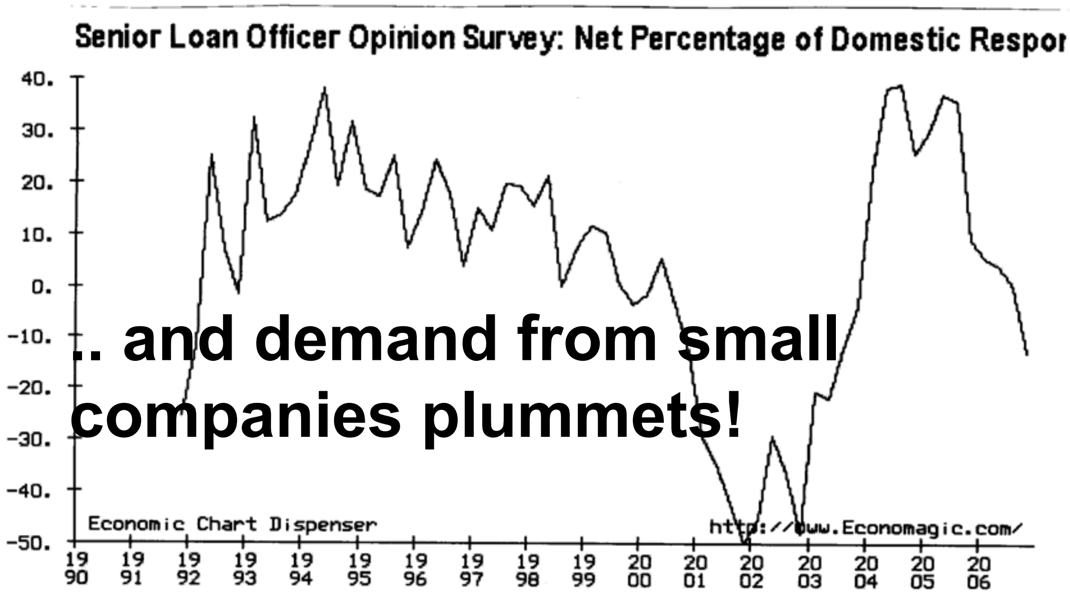
% of banks increasing spreads on C&I loans vs treasuries

12-06: Credit Market Conditions Tighten…



… as banks tighten Standards on C&I Loans…

…credit demand from large companies erodes

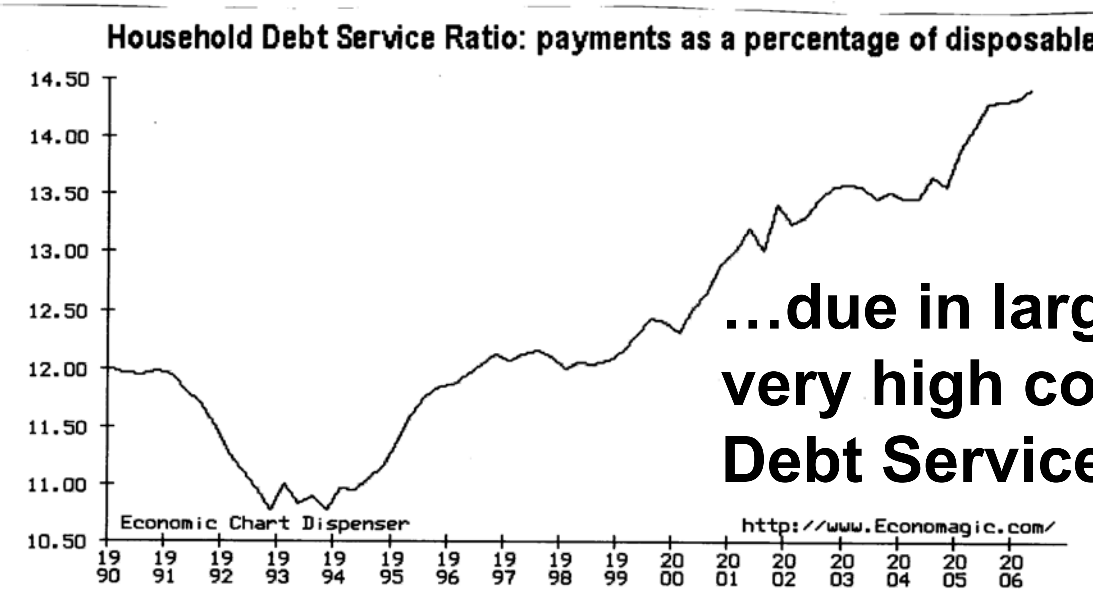


.. and demand from small companies plummets!

Consumer Credit Demand Weakens Also…

…as demand for Mortgages falls..

… and reaches 20 year lows for other consumer loans…



…due in large part to the very high consumer Debt Service Ratio…

1-07: CEO & Manufacturer Surveys show decreased investment plans

Manufacturers' optimism falls to lowest in 4 years

JAN '07

Bloomberg News

Optimism among U.S. manufacturers declined in the fourth quarter to the lowest level in more than four years, according to an industry report released Thursday.

The Manufacturers Alliance/MAPI business outlook index fell to 54 from 64 in the third quarter. Readings above 50 suggest manufacturing is expected to increase over the next three to six months.

Inventory levels at the nation's factories were close to a record high, a result of fewer customer orders and a sign that production will be trimmed early this year. Stronger economies overseas and corporate investment will help mitigate the effects of the inventory build-up and keep manufacturing and the economy growing, the group said.

"The decline in the composite index and most of the individual indexes indicates a slowdown in manufacturing," said Donald Norman, the group's economist and survey coordinator. "Nonetheless, most senior financial executives expect manufacturing activity will expand for all of 2007."

The last time the gauge was this low was in the first quarter of 2002, when it stood at 52. Seven of the 10 components in the survey fell last quarter, with the order backlogs index showing the biggest decline.

MAPI Outlook Index falls to 54. Inventories near record high. Fewer consumer orders. Manufacturing slowdown.

Issue Date: CEO Index, Posted On: 1/22/2007

CEO Confidence Index January 2007

After rising by almost 11% since September, the Chief Executive CEO Confidence Index fell slightly this month. It fell by 3.2 points to 162.0 according to 356 top executives surveyed. CEOs also rated the best and worst states for doing business, weighing in on taxation, regulation, workforce quality, and the living environment among other attributes.

Of the five component sub-indices used to calculate the overall CEO Index, all but one fell this month. The Employment Confidence Index rose modestly by 2.0 points to 177.4. Over half of CEOs polled (50.7%) rated current employment conditions as "good." The Investment Conditions Index, normally very stable, led the losses this month, falling by 6.7 points to 137.5. As a sign of their concern over investment conditions, only 42.7% of CEOs surveyed said they regarded current investment conditions as "good."

CEOs cited interest rates and spending in Washington among their main concerns for the economy. One CEO opined that the "Fed has again (like in '99-'00) over-tightened, swinging at an inflation ghost." Another said "I think the status quo held this past month, but I am still not sold on the future. Until Congress shows it's [sic] serious about deficit and debt reform, our future still looks very dark."

This month Chief Executive Magazine continued for a third straight year its analysis into the best and worst states for doing business. CEOs were asked, in their estimation, to list the 3 best and worst states to do business. For the states listed, respondents were asked to grade them (A-F) on 3 categories: "Taxation & Regulation," "Workforce Quality," and "Living Environment." Texas and Nevada ranked as the two best states for the third straight year. Florida returned to its spot as the third best, after falling to fourth last year. North Carolina and Arizona rounded out the top 5. One CEO pointed out, "Employer friendly states such as Texas and Arizona really allow growth of employment and support of the economy."

As for the worst states to do business, they have remained the same every year: CEOs again rated California, New York, and Massachusetts as the worst states in which to do business. Louisiana and Michigan ranked just above the worst three. Yet, in the minds of CEOs, the living environment does not differ drastically between the best and worst states. Texas and Nevada, ranked as the best two states, got B's on their report card, while California, ranked as the worst state, received a B-. Neither do more business-related

CEO Investment Conditions Index falls 6.7 points. Only 43% Of CEO's said they regard investment conditions as "good".

Numerous companies in all industries announce plans to cut their capital expenditures…

Amazon To Curtail Its Spending

CAPITAL SPENDING SLOWS AS THE ECONOMY SLOWS

By LAURIE J. FLYNN

Going into the critical holiday shopping season, **Amazon.com** said yesterday that it would slow its investment in new technology in a bid to start reaping the rewards of its continuing growth.

Amazon, the huge online retailer based in Seattle, reported that its third-quarter earnings fell by more than a third, dragged down by heavy spending to get new projects off the ground, even as its sales rose 24 percent.

Despite the profit hit, the company's promise to ease up on future spending on new technology came as a relief to investors, who bid up Amazon's shares by more than 14 percent, to $38.38, in the after-hours trading that followed the release of its results.

Amazon shares had risen 75 cents, to close at $33.65, during the regular session.

Executives have long insisted that lower prices, new services and expanded selection are essential to power the company's growth in sales and are necessary in light of the highly competitive market. Amazon faces challenges not only from mer- ...

Wal-Mart Will Slash Capital Outlay Rise; Profits Come First

IBD 10-24-06

Shares Hit 19-Month High

Wall St. applauds effort to curb cannibalization; thinking small in the city

BY LISA SCHMEISER
INVESTOR'S BUSINESS DAILY

Even Wal-Mart thinks it's too big, as the world's largest retailer ...

... nibalization effect, their same-store sales would double," said America's Research Group head Britt Beemer.

In fiscal 2008, Wal-Mart plans to add over 600 locations totaling some 60 million square feet. It forecasts opening, relocating or expanding 557 sites in 2007.

Some 260-270 of Wal-Mart's 305-330 new U.S. stores will be Su- ...

U.S. Steel Sees Year-End Decline On Weak Economy, Rising Supply

By PAUL GLADER 11-1-06

U.S. Steel Corp. predicted an end-of-year downturn amid indications of a weakening economy and rising steel supplies.

Strong economic growth has fueled steel demand and historically high prices for nearly three years. But last week, the Commerce Department said the economy expanded at an inflation-adjusted annual rate of 1.6% from July through September ...

U.S. Steel

Net: ▲ 348% (X)

	3Q'06	3Q'05
Net ($):†	417.0	93.0
EPS ($):	3.42	0.71
Est:‡	3.23	
Rev ($):†	4,106.0	3,200.0

† In millions ‡Analysts consensus estimates provided by Thomson Financial; may exclude certain items or discontinued operations.

... steel-service centers—

Big Worries for Big Oil

As Crude Prices Slip, Profits May Follow; More Mergers Ahead?

By CHIP CUMMINS

11

WITH CRUDE PRICES falling and oil-field costs on the rise, major oil companies have a big problem: sustaining their phenomenal profit growth.

Exxon Mobil Corp., Royal Dutch Shell ...

Price Sensitive

As energy prices dip...
Nymex-traded crude oil, settlement price per barrel on the continuous front-month future contract

$80

Oil companies' profits might take a hit
BP's estimates of how energy-price changes affect its pretax profit

BENCHMARK	CHANGE IN PRICE	EARNINGS IMPACT
		$500 million

Behind Those Stockpiles of Corporate Cash

PUBLICLY traded American companies hold so much cash that, as a group, they could pay off all their debt and still have money left over. According to a new study, this cash-heavy status reflects a major shift over the last two decades, and it isn't necessarily a good sign for stocks.

The study has been circulating since September as a National Bureau of Economic Research working paper. It is titled "Why Do U.S. Firms Hold So Much More Cash Than They Used To?," and its authors are Thomas W. Bates and Kathleen M. Kahle, finance professors at the University of Arizona, and René M. Stulz, a professor of banking and monetary economics at Ohio State. A version is at nber.org/papers/w12534.

The professors found that the average cash-to-assets ratio for corporations more than doubled from 1980 to 2004, to 24 percent from 10.5 percent. Yet until their study, few people tried to analyze the investment implications of this trend because its causes appeared isolated — and therefore seemed to carry little long-term significance.

Mark Hulbert is editor of The Hulbert Financial Digest, a service of MarketWatch. E-mail: strategy@nytimes.com.

For example, it may have appeared that the increase resulted from nothing more than cash hoarding at just a few large companies like Microsoft and Exxon Mobil, each of which has more than $30 billion in cash and short-term securities. But the professors found that the growth of cash was not confined to some big corporations.

In fact, the steepest climbs in cash from 1980 to 2004 occurred among companies with the smallest market capitalizations. And the gains were registered not only in the last few years of the study; they were fairly evenly spaced throughout the period.

Sometimes, a lot of dollars can still mean a lot of risk.

Could it be that corporate cash accumulated because of the surging number of companies that had initial public offerings in the 1980's and 1990's? After all, newly listed companies typically hold large amounts of cash just after their I.P.O.'s, and they often raise even more money in secondary offerings.

But the professors found that this could not explain the long-term trend, because the cash increases were most pronounced at companies that had not recently gone public.

The professors also rejected another possible explanation: that the cash hoards resulted from a growing share of corporate income from foreign operations. During much of the period studied, multinational corporations based in the United States would have incurred hefty tax bills had they repatriated the cash held by their foreign divisions. But the researchers found that cash holdings grew just as quickly among companies with no foreign income.

So what is the main cause of the climb in corporate cash? Upon analyzing a dozen factors that economic theory suggests could play a role, the professors found that the biggest was an increase in risk — as evidenced by factors like unpredictable cash flow. Corporations have become less able to count on steady cash flow from year to year, according to the professors, and despite the growth of a complex derivatives market, companies can't adequately hedge this risk without holding more cash.

This helps to explain why so few companies are paying out their bigger cash hoards as dividends. Because companies are loath to cut or eliminate a dividend once they start paying it, they won't establish or increase a dividend unless they are highly confident that they can stick with it through thick and thin. But that confidence is precisely what is missing at a growing number of companies.

The professors' analysis casts an entirely new light on valuation measures that rely on cash levels — gauges like cash-to-assets or cash-to-sales ratios. An investor who relies on such measures often assumes that companies with more cash are less risky, because they have more of a buffer against rainy days.

But this assumption may well be wrong, Professor Stulz asserted in an interview, if the companies holding more cash have more rainy days than companies holding less cash.

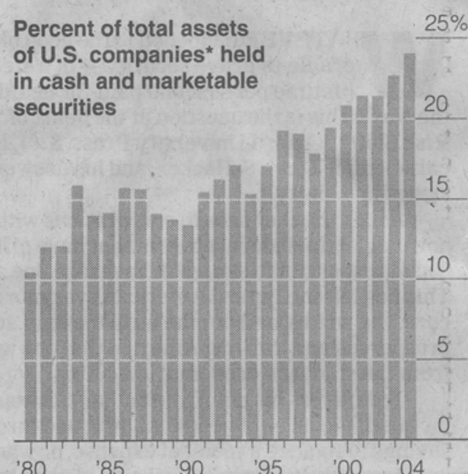
To properly compare two companies on the basis of cash holdings, Professor Stulz says, you should first compare their risk, as measured by factors like the volatility of their cash flows. Only if a company is holding more cash than is justified by its risk can we conclude that it is genuinely more conservative.

Professor Stulz says he is not aware of any investment firms that now conduct the econometric calculations needed to make these assessments. And he concedes that those calculations would be complex. But without them, contrasts of companies' cash levels amount to little more than comparisons of apples and oranges.

NYT 10-22-06

Under the Mattress

The cash position of publicly traded U.S. companies, as gauged by the cash-to-assets ratio, has grown steadily.



*Does not include financial firms or utilities.

Sources: Thomas W. Bates, Kathleen M. Kahle, René M. Stulz

The New York Times

Corporations hoard cash not for capex but for "rainy day" in an increasingly risky world!

Nov '06: Manufacturing reaches the "tipping point"

CORPORATE INVESTMENT AS REFLECTED IN MANUFACTURING IS AT TIPPING POINT (FROM SOFT TO NOT-SO-SOFT LANDING)

Manufacturing Slide Fuels Growth Fears, Hopes For Rate Cut

Stocks, Bond Yields Decline

Market sees March ease after sub-50 ISM index, but Fed officials hawkish

12-1-06

BY SCOTT STODDARD
INVESTOR'S BUSINESS DAILY

U.S. factory output unexpectedly shrank for the first time in over three years last month, raising fears that the economy is slowing too fast while bolstering market views that the Federal Reserve will cut interest rates in early 2007.

The Institute for Supply Management said Friday its manufacturing index fell 2.7 points to 49.5 in November, the first time below the neutral 50 level since April 2003. Autos and building materials were especially weak.

Indexes for orders, output, backlog and jobs also were below 50.

But the prices paid index rose back over that boom-bust level, suggesting inflation remains a worry even as the economy slows.

"This is a very difficult business environment," said John Silvia, chief economist at Wachovia.

U.S. automakers are cutting output to clear out stocks of unsold vehicles. November's auto sales reports were mixed Friday, with Toyota and Chrysler doing well as GM and Ford came up short.

Meanwhile, housing activity continues to be a major drag.

October construction spending fell 1% — the worst in five years — as residential construction fell for a seventh straight month, the Commerce Department said Friday. Economists expected a 0.4% slide.

Stocks fell on the ISM data but closed off their lows. The Nasdaq lost 0.8% and the S&P 500 0.3%. Leading stocks took a beating.

The 10-year Treasury yield fell 4 basis points — 13 for the week — to 4.43%, a 10-month low.

The dollar also fell Friday, ex-

down than was needed," Ian Shepherdson, chief U.S. economist at High Frequency Economics, said in a note to clients.

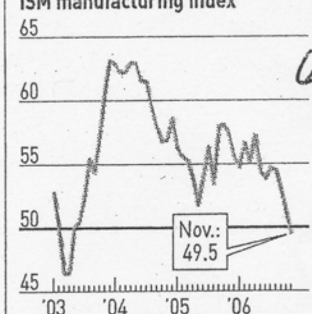
Philadelphia Fed President Charles Plosser and Chicago Fed President Michael Moskow both said Friday that inflation remains the top concern. Moskow said rate hikes may be needed. Plosser cautioned markets not to read too much into the ISM data.

That echoed a Nov. 28 speech by Fed chief Ben Bernanke in which he said the economy was slowing as expected while core inflation "remains uncomfortably high."

But policymakers could start to shift their stance after a week of soft or so-so factory, housing and retail reports.

Manufacturing Contracts

ISM manufacturing index



Sources: Institute for Supply Management, Datastream

The Fed "will slowly change its tune from emphasizing the upside risk to inflation to acknowledging at least an equal downside risk to sustained economic and job growth," said Stuart Hoffman, chief economist at PNC Financial Services.

The economy grew at a revised 2.2% annual rate in the third quarter due to the biggest drop in residential building in over a decade.

Yet few economists see a recession ahead. Unemployment is low, wage gains are strong and consumer spending is holding up. And autos and housing may stabilize.

6

Econ. weakness spills over into non-housing jobs

10-03-06

INSIDE RETAILING BY SANDRA JONES

Housing skid's latest victim: Holiday hiring

If you need a little extra cash for the holidays, finding a temp sales job at the local mall could be tougher this year, says Challenger, Gray & Christmas Inc.

The Chicago-based outplacement firm predicts that seasonal hiring won't keep pace with the 5 percent to 5.5 percent sales increase economists are forecasting for the October through December holiday season.

The reasons: Stores are taking a cautious approach to the holiday in light of the slowdown in housing demand. Rising interest rates means fewer consumers are pulling cash out of their homes. And the spread of self-serve checkout lanes and electronic inventory control means retailers need fewer sales clerks and stockroom workers to sell merchandise.

"The higher cost of gasoline, even with the prices coming down, has had an effect on how people are thinking about their pocketbooks," said John Challenger, chief executive of the firm.

Wal-Mart Stores Inc. plans to keep holiday hiring unchanged from last year at 50,000 workers, the company said.

On the bright side, stores are starting earlier this year to recruit holiday help, said Anne Edmunds, regional director for the Chicago area at Manpower Inc.

The Milwaukee-based staffing firm is getting more calls for help in finding temporary workers for the holiday then it had last year at this time.

"We didn't have as many requests a year ago as early in the season," said Edmunds. "We've had a better response this year. They're placing orders more readily than a year ago."

Last year, many retailers delayed holiday hiring help until November, uncertain of Hurricane Katrina's effect on the economy.

Department stores increase workforces by 12.5 percent on average during the holiday season, according to the National Retail Federation, a Washington-based trade group.

Princess reigns at Halloween: When the trick-or-treaters ring your doorbell this year, chances are you're going to see plenty of princesses and pirates.

Nearly 4 million children plan to dress up as princesses this year and 1.7 million will be pirates, according to an annual survey from BIGresearch, a consumer market research firm.

It's the second year in a row that princesses ranked as the most popu... ith 11.5 percent ... ur-veyed saying they will buy their children a princess costume.

Pirates jumped to No. 2 from 11th last year, thanks to the merchandising efforts of the latest "Pirates of the Caribbean" movie.

Halloween has become the second-biggest holiday for decorating after Christmas, according to the National Retail Federation, the Washington-based trade group that commissioned the survey. Consumers are expected to spend $4.96 billion on Halloween this year, up dramatically from $3.29 billion in 2005.

Roughly two in three Americans will celebrate Halloween this year, up from 52 percent last year.

Target embraces organic foods: Following on the heels of Wal-Mart, Target Corp. is expanding its organic food department. The Minneapolis-based discount chain store began offering organic foods under its in-house Archer Farms label earlier this month.

The line includes frozen pizzas and pastas, dairy products and juices. SuperTarget, which includes a supermarket, also offers organic produce.

Wal-Mart, the nation's largest grocer, introduced organic food at selected stores this spring with plans to expand into the small, but fast-growing market.

smjones@tribune.com

Reporters' notebooks

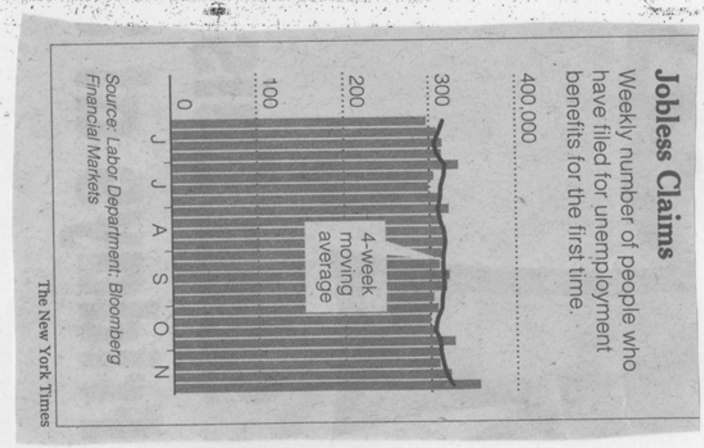
MONDAY
Inside Technology

■ TUESDAY
Inside Retailing

WEDNESDAY
Inside Commercial Real Estate

THURSDAY
Inside Health Care

FRIDAY
Inside Financial Services



Note Jobless Claim uptick above.

10

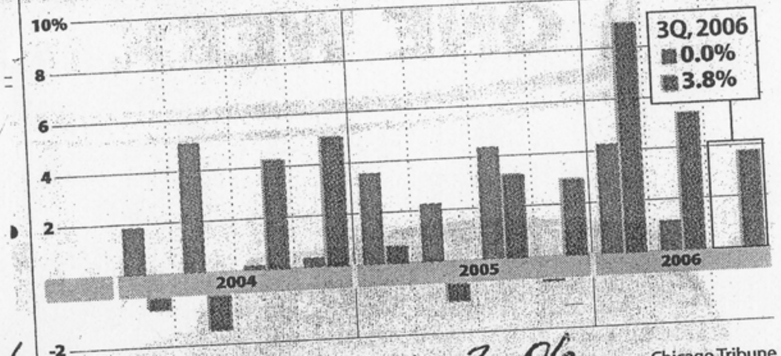
11-06: Will labor cost increases lead to a hiring slowdown?

Wages increase, productivity stalls

Third quarter data showed higher-than-expected wage increases and flat worker productivity, which generated fears of inflation.

PRODUCTIVITY WAGES

Percent change from previous quarter



Source: Bureau of Labor Statistics — Chicago Tribune

11-3-06

Labor costs raise inflation concerns

Bloomberg News

WASHINGTON—U.S. labor costs rose in the third quarter as worker productivity unexpectedly stalled, posing a risk to Federal Reserve forecasts that inflation will subside.

The Labor Department said Thursday that productivity, a measure of how much an employee produces per hour, was unchanged after a 1.2 percent gain in the second quarter. Economists expected a 1 percent gain in the last quarter.

Labor costs rose at a 3.8 percent pace and were up 5.3 percent in the 12 months through September, an increase not exceeded since 1982.

"The magic inflation elixir, productivity, may have run out, and that does not bode well for inflation," said Joel Naroff, president of Naroff Economic Advisors in Holland, Pa. "The labor cost numbers raise concerns that it may take quite a long time for inflation to settle down

The figures, coming a day before the October unemployment report, might not be welcomed by Fed policymakers, who predicted last week that inflation is "likely to moderate over time." Smaller gains in efficiency and rising labor costs could prompt companies to raise prices to protect profits.

"It is a reminder to the Fed that with energy prices coming down, and other commodity prices, the biggest threat to inflation is wages," said Stuart Hoffman, chief economist at PNC Financial Services in Pittsburgh. "It is unmistakable, businesses are under some greater labor cost pressures."

Labor expenses represent about two-thirds of the cost of producing a good or service, and an acceleration would offset some of the recent declines in raw-material prices.

Compensation for each hour worked rose to an annual rate of

SEE ... PAGE 6

COSTS OF HIRING NEW WORKERS INCREASES ... AS THEIR PRODUCTIVITY DECREASES

HIRING SLOWDOWN AHEAD??

9

Labor Costs Climb, But Weak Factories, Confidence Weigh

Treasury Yields Extend Slide

Employers' costs pick up, but ISM industry report, jobs data out this week

11-1-06

BY KIRK SHINKLE
INVESTOR'S BUSINESS DAILY

The latest signs of slowing in the economy Tuesday overshadowed fatter pay envelopes in the third quarter.

Labor costs posted their biggest quarterly jump since early 2005. Traders focused instead on the latest signs of slower economic growth. Stocks were mixed and bonds strengthened after a surprising drop in consumer confidence and weaker-than-expected readings from Midwest factories.

The employment cost index climbed 1% in the third quarter after a 0.9% rise in the second, led by rising public-sector wages, the Labor Department said.

The index's gauge of wages and salaries rose 0.9%. Year over year, wages rose 3.2%, the most in four years.

Health care and other benefit cost hikes slowed to 3.3% year over year, the lowest since late 1999 and less than half the 7.1% jump in mid-2004.

But benefit costs are re-accelerating, rising 1.1% vs. the second quarter.

While employment costs rose more than expected, economists

Advisors noted that negative ads in election years typically sour Americans' mood in October, but they usually recover in November.

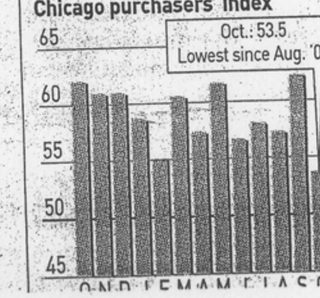
In the factory sector Tuesday, the Chicago purchasing managers' index fell to 53.5 from 62.1 in September, the NAPM-Chicago said, below an expected 58. Inventories soared to the highest level since 1973, on falling orders and weakness in the auto sector.

Bonds soared on the weak report. The 10-year Treasury yield fell 7 basis points to 4.61%, the lowest since Oct. 5. The yield has fall-

Wages Up, Factories Down

Employment cost index

Chicago purchasers' index



1-07: NFIB Survey: Unemployment Is likely to uptick in 2007 *

Unemployment Rate will creep closer to 5.0% *

Only 14% of firms plan to create new jobs, down 3% from the Nov. survey.

by Jim McTague

A SHARP-EYED INFLATION HAWK IS SUDDENLY COOING LIKE a dove. William Dunkelberg, chief economist for the National Federation of Independent Business, has been closer than most to the bull's eye with his predictions for higher-than-expected core inflation and employment over the past year-and-a-half. Now he sees both measures falling in 2007—good news for the inflation fighters at the Federal Reserve.

Dunkelberg thinks the core rate, which excludes food and energy prices, looks as though it will drop from 2.6% to below 2%, within the Fed's so-called comfort zone. Back in July, the economist saw the core rate headed above 4%. Wage pressures will ease as the unemployment rate this quarter creeps closer to 5% from its current level of 4.5%. These trends portend a probable decline in interest rates.

Dunkelberg, who also teaches economics at Temple University in Philadelphia, produces a Small Business Optimism Index on a monthly and a quarterly basis for his trade group. His 33-year-old survey has an outstanding track record of anticipating inflation and employment trends, and thus is considered "must reading" by the investing, business and economics cognoscenti.

The Federal Reserve Board gets the first look at the coveted data before Dunkelberg posts it on the Web. "I used to share it personally with the chairman of the board," says Dunkelberg, a good-natured, self-effacing man and a fine bass fisherman. (He's one of 15 financial experts with whom we drop a hook and line each summer at Grand Lake Stream, Maine.) "I expect this will continue under Fed Chairman Ben Bernanke—or maybe not," he chuckles.

When the Fed was being lambasted by pundits for raising rates instead of cutting them, Dunkelberg's data supported the view of the central bankers that core inflation was running higher than indicated by the Bureau of Labor Statistics. Government economists, he contends, were overweighting falling rents while underweighting a historical increase in home ownership and its impact on housing prices.

Dunkelberg's December survey, based on responses from more than 400 small businesses across the U.S., indicates a slower domestic economy ahead. December's survey shows that the number of firms raising average selling prices fell to 8% from 17% in the November survey, representing a major reduction in inflationary pressure if it holds up in the January data.

"Hedonics, imputations and all that fancy stuff aside, inflation is about firms raising or cutting their selling prices," says Dunkelberg. Back in 2003, when the inflation rate shown by the consumer-price index was 2%, some 35% of small business owners were raising average selling prices. When the economy was experiencing double-digit inflation in the late '70s and early '80s, as many as 70% of owners reported raising prices. Last year, the portion of owners raising prices peaked in April at 26%.

Dunkelberg's survey indicates that over the next three months, only 14% of firms plan to create new jobs, down three points from November and nine points from October. This, he says, is a clear signal that the unemployment rate will start to rise in the current quarter.

It's further confirmation that the economy is headed for a soft landing. Chairman Bernanke should start cooing, too. ■

*** NFIB: National Federation of Independent Business, survey of more than 400 small U.S. businesses.**

Hopeful forecast for stabilizing U.S. economy in 2007: GDP Growth Avg. Forecast 2.3%, Median 2.7%

Weakness in Housing, Manufacturing Is Likely To Take a Lighter Toll

By Mark Whitehouse

The U.S. economy is poised to shake off the housing slump and regain momentum by the end of this year, and the credit goes to techies, bankers, chefs and shoppers, according to a Wall Street Journal survey of economists.

The panel of 60 economists who participated in the Journal's latest semiannual economic forecasting survey offered an optimistic outlook for 2007: The service sector should keep humming along as the recent weakness in housing and manufacturing abates and the Federal Reserve begins to reduce interest rates. That would allow the economy to expand at a rate fast enough to keep investors happy, but slow enough to keep inflation at bay. (See related article on page A2.)

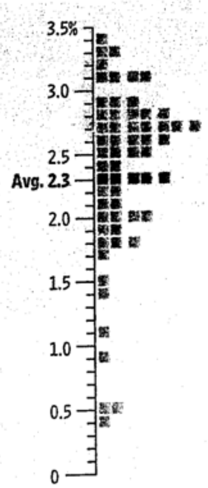
Even so, economists haven't stopped worrying about what could happen if the current slowdowns in housing and manufacturing spread further—a pattern that has characterized previous recessions. In another potentially ominous sign, they increasingly differ about the economy's trajectory.

On average, the economists predict that inflation-adjusted gross domestic

Please turn to page A19

Gauging Growth

Each square (■) shows an economist's forecast for GDP growth in the first half of 2007.



Note: Data average for the first and second quarters; at an annualized rate

Source: WSJ survey of 60 economists

Economy Is Poised for a Rebound in 2007, Fo

Continued from Page One

product, a broad measure of economic activity, will grow at an annualized rate of 2.3% in the first half of 2007 and 2.8% in the second half. That's up from a sluggish 2% in the third quarter of 2006, but still far below the robust annual growth rates of 3.2% for 2005 and 4.1% for early 2006.

"As long as you don't think the labor market is going to collapse or financial conditions are going to change, then you're starting to have the conditions for better growth down the road," says Bruce Kasman, head of economic research at J.P. Morgan Chase & Co. in New York.

The rapid expansion of technology companies such as Google Inc. and the huge bonuses lavished on New York investment bankers are just a couple of signs of the service sector's strength. Across the country, restaurants, hospitals, software makers and consulting firms are growing and hiring. All told, service businesses, which make up about 80% of the nation's economy, added 1.1 million jobs from May through November.

"We've been extremely busy," says Anthony Kolton, president and chief executive of Logical Information Machines, a Chicago company that provides research software to hedge funds, trading firms and investment banks. "There's a lot of money out there, and people have to put it to work."

The upbeat attitude in services contrasts sharply with the recent pain in the housing and manufacturing sectors. Builders have been slashing prices and production as they attempt

In Summary

The News: The economy is expected to shake off the housing slump and regain momentum by the end of 2007.

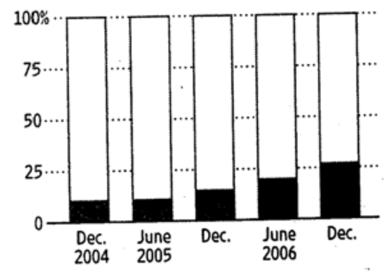
What's at Stake: A recession is possible if housing and manufacturing slowdowns spread, but the service sector is buoying the economy for now.

The Bottom Line: Growth is expected ... fast enough to please investors

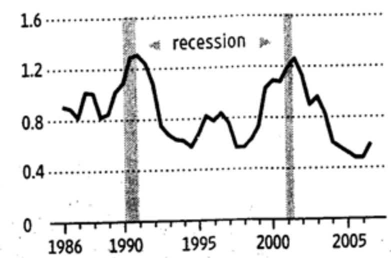
Tough Calls Get Tougher

As 2006 drew to a close, the percentage of economists who were predicting a recession in the next 12 months increased to 27%. But history shows that the closer the economy gets to recession, the harder it is for economists to reach a consensus on what the economy will do, and their forecasts show the widest divergence.

Percentage of economists predicting a recession in the next 12 months



How far apart economists' forecasts for GDP growth have been; the larger the number, the greater the difference*



*Standard deviation of real GDP forecasts for the nearest half year

Sources: WSJ survey of 60 economists; National Bureau of Economic Research

bite out of consumer spending.

Along with slumping auto sales, the drop in housing activity has affected all kinds of manufacturers, from drywall factories to furniture makers. The Institute for Supply Management, a purchasing managers' trade group, said that its index of manufacturing activity for November fell to 49.5, the lowest point since April 2003. (Any number below 50 indicates contraction.) By contrast, the ISM's index of service-sector activity for the same month rose.

"It's really two very different economies, depending on whether you're looking at the goods or service industries," says J.P. Morgan's Mr. Kasman.

The bottom line is that the strength in services will help to keep the job market relatively healthy. In the consensus scenario, nonfarm businesses will add about 100,000 jobs a month in 2007. That should be strong enough to slowly lift wages, but not to keep the unemployment rate from creeping up to 4.9% from 4.5% in November.

The economists surveyed expect year-to-year inflation to decline to 1.7% in May from 2.0% in November. As

Most forecasters expect 2007 to be a good—not great—year for the economy. While six in 10 said they think the worst of the housing downturn's impact on the broader economy had passed, they still see a deeper housing slump as the biggest risk looming over the economy. That concern was reflected in the odds they placed on a recession in the next 12 months, which rose to 27% from 20% in June.

More so than in recent surveys, forecasters differ on the economic outlook. One measure of their disagreement—the standard deviation of their forecasts for inflation-adjusted GDP for the coming half year—widened to about 0.7 percentage point in December, up from a 20-year low of 0.5 percentage point in June. Each of the past two recessions have been preceded by

Biggest Wild Ca

By Mark Whitehouse

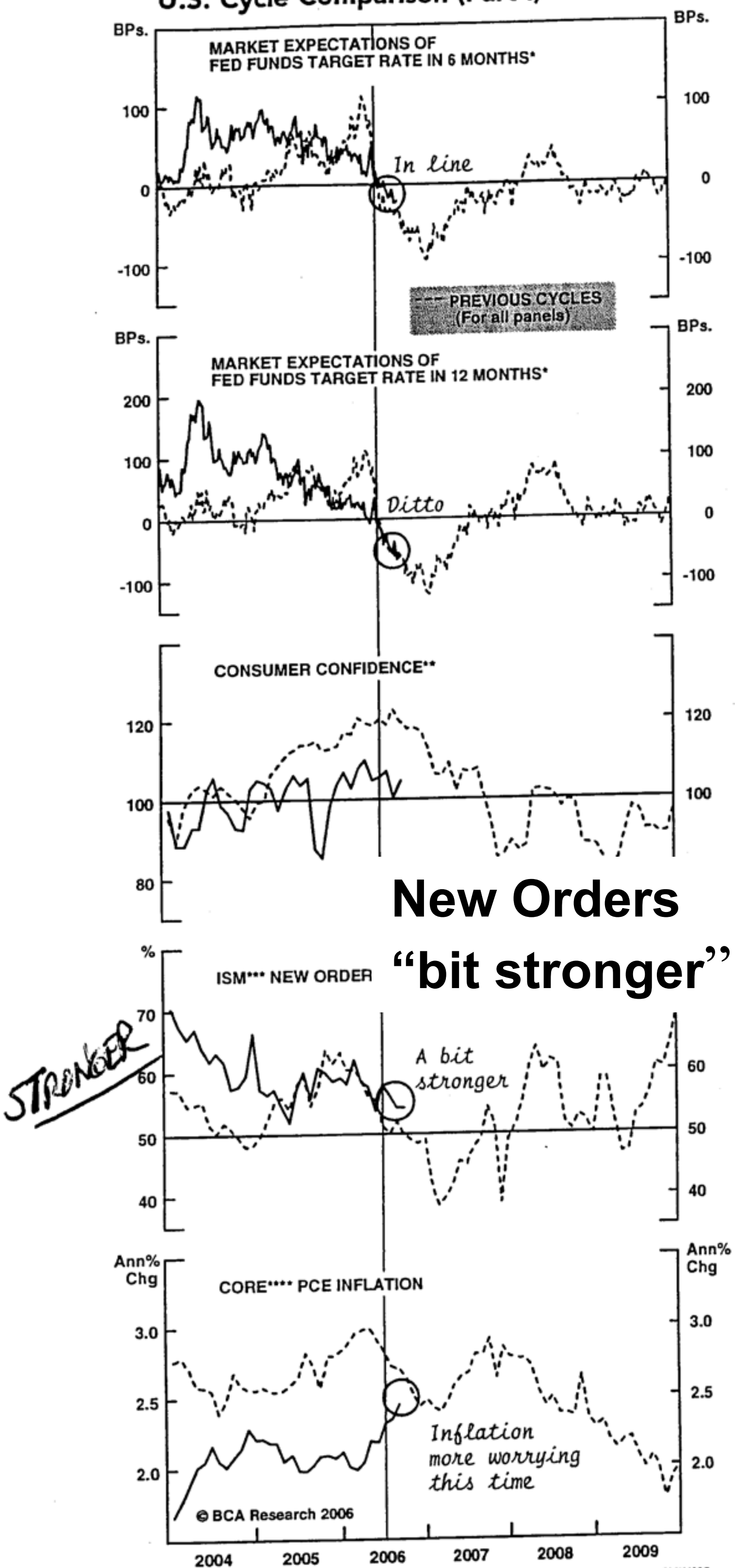
Six months ago, Robert McGee, chief economist at money manager U.S. Trust Co., was languishing at the

cally opposed forecast that prices and rates

Comparison of current & past Econ Cycles, Oct. 2006

CHART 5

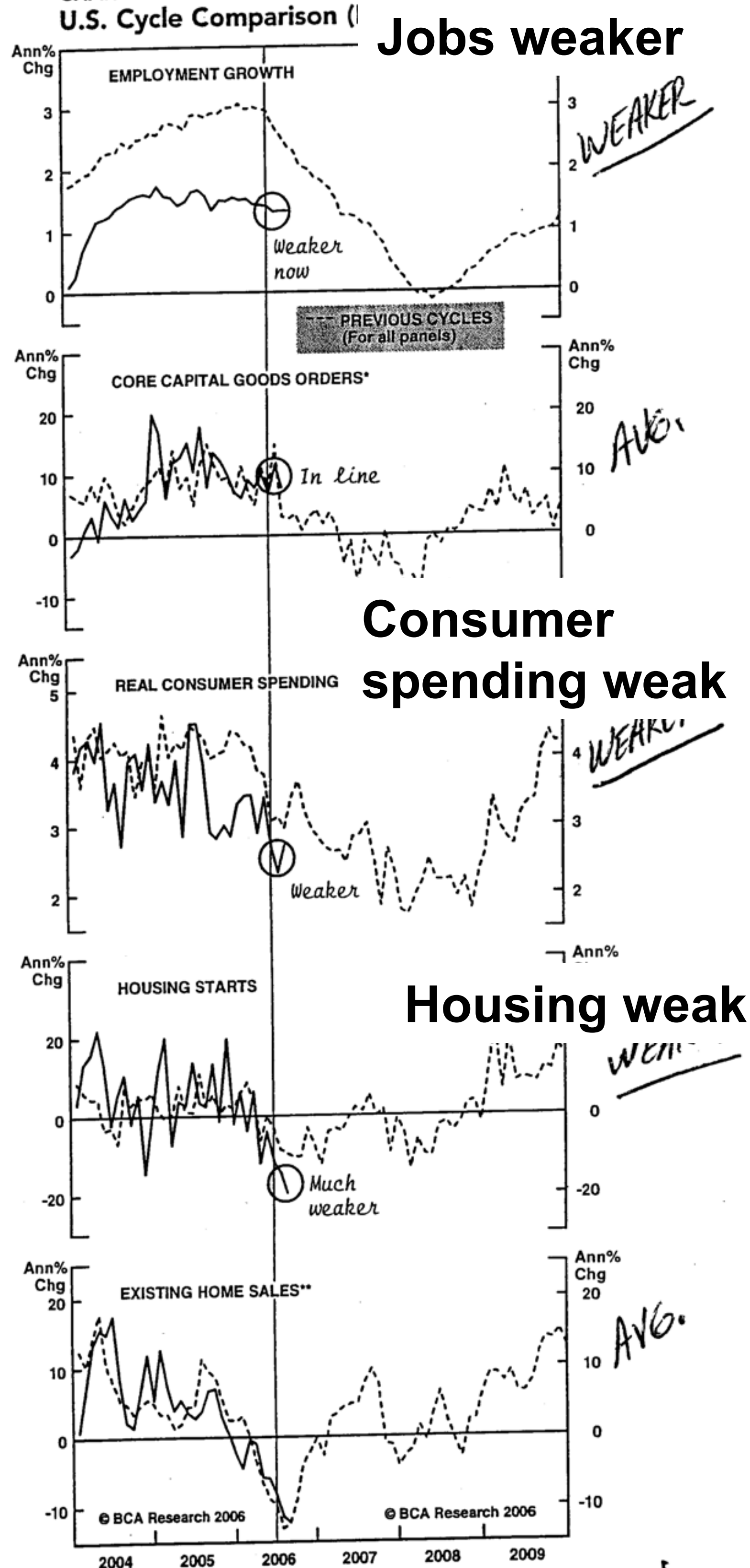
U.S. Cycle Comparison (Part I)



*BASED ON EURODOLLAR CURVE ADJUSTED FOR CREDIT AND TERM PREMIUMS
**SOURCE: THE CONFERENCE BOARD
***ISM = INSTITUTE FOR SUPPLY MANAGEMENT
****CORE = EXCLUDES FOOD AND ENERGY
NOTE: PREVIOUS CYCLES ALIGNED TO LAST FED RATE HIKE, JUNE 29 2006 DENOTED BY VERTICAL LINE

CHART 6

U.S. Cycle Comparison (I



*NEW ORDERS OF NONDEFENSE CAPITAL GOODS EXCLUDING AIRCRAFT AND PARTS
**NATIONAL ASSOCIATION OF REALTORS
NOTE: VERTICAL LINE DENOTES ALIGNMENT OF AVERAGE OF PREVIOUS RATE HIKE CYCLES TO CURRENT CYCLE

6

12-06: Both Housing & Mftg at "Tipping or Balance Point" !

THE ECONOMIC OUTLOOK

← WEAK ECON.

	Dec Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug
GROWTH	W	VW	VW	W	W	S	S	N	W	VS	W	N	S	N	L	S
INFLATION	L	L	L	N	L	R	VH	R	L	R	N	L	N	R	N	R

Growth key:	Very Weak	Weak	Neutral	Strong	Very Strong
Inflation key:	Deflation	Low	Neutral	Rising	Very High

ECONOMIC REPORT TRENDS AT-A-GLANCE

his table tracks the bond market implications of all major U.S. economic reports. The reports are divided into two categories: Economic Strength and Inflation. Weak economic reports are considered "Bullish" for bonds while strong reports are "Bearish"

Date	ECONOMY	Bull	NA	Bear	INFLATION	Bull	NA	Bear
12/13/06	Ret Sales Nov up 1.0%			X				
	Ret Sale ex auto up 1.1%			XX				
	Bus Inventories up .4%		X					
12/11/06	Whlse Inventory Oct up .8%			X				
12/8/06	Avg workweek unch 33.9hr		X					
	Payrolls up 132,000 jobs		X					
	Unemp Rate up to 4.5%	X						
	Hour Earnings up .2%		X					
12/7/06	Consumer Credit dn 1.2bn *	X						
	ISM Service up to 58.9			X				
	Factory Order Oct down 4.7%	X						
12/1/06	Const Spend Oct down .1%	X						
	ISM Idx Nov down to 49.5	X						
11/30/06	Help Wtd Idx Oct up 1 to 30		X					
	Chicago PMI Nov down to 49.9	X						
	Pers Inc Oct up .4%		X					
	Pers Spend up .2% *	X						
	Pers savings Oct up .2%	X						
11/29/06	GDP PreQ3 up 2.2%		X		GDP Deflator up 1.8%	X		
	New Home Sale down 3.5%	X						

MFTG AT MID-POINT

* CONSUMER STILL WEAK

INFLATION TAME

1

Date	ECONOMY	Bull	NA	Bear	INFLATION	Bull
11/28/06	Exist Home Sale up .5% oct		X			
	Durables Oct down 8.3%	XX				
	Cons Conf Nov @102.9		X			
11/20/06	Leading Indic Oct up .2%		X			
11/17/06	House Starts Oct dn 15%	XX				
	Starts at 1.49mm units SAAR		XX			
	Bldg Permits down 6%	X				
	Permits at 1.535mm units		XX			
11/16/06	Phila Fed Idx Nov up to 5.1		X			
	Ind Prod Oct up .2%		X			
	Cap Util Oct unch		X			
	NY Empire Idx Nov +@26.7			X	CPI Oct down .5%	X
	Bus Inv Sep up .4%		X		CPI Core up .1%	X
11/14/06	Ret Sales Oct down .2% *	X			PPI Oct down 1.6%	X
	Ret ex auto down .4%	XX			Core PPI down .9%	XX
	Whlse Inventory Sep up .8%			X		
11/9/06	Mich Sentiment Pre Nov 92.3	X			Import Prices Oct down .6%	X
11/7/06	Cons Credit Sep up only 1.2bn	X				
11/3/06	Payrolls Oct up 92,000 jobs	X			Hour Earnings up .4%	
	Unemployment Rate dn to 4.4%			X		
	Avg Workwk unch at 33.9		X			
	ISM Services up to 57.1			X		
11/2/06	Factory Orders Sep up 2.1%			X	Unit Labor Costs Pre Q3 +3.8%	
					Productivity Q3 unch	
11/1/06	Const Spend Sep down .3%		X			
	Auto Sales Domestic Oct dn 5%	X				
	ISM Idx Oct dn slight to 51.2		X			
10/31/06	Chicago PMI Oct dn to 53.5		X		Emp Cost Idx Q3 up 1.0% q-q	
	Cons Conf Oct dn slight 105.4		X			
10/30/06	Pers Disp Income Sep up .5%			X		
	Pers Spending up .1%	X				
	Pers Savings up .4%	X				
10/28/06	GDP Q3 Advance up 1.6%	X			GDP Deflator Adv +1.8%	X

HOUSING AT ECON BALANCE POINT!