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# BLUE CHIP ECONOMIC INDICATORS®

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## Consensus Forecasts Of U.S. Real GDP Growth Continue To Inch Higher

**Domestic Commentary** Consensus forecasts of economic growth in the second half of this year and in 2010 inched up again over the past month despite a recent series of weaker-than-expected readings on economic activity. Among the disappointments: a sharp widening of July's trade deficit and August declines in new orders for durable goods and nondefense capital goods shipments excluding aircraft. August sales of new single-family homes rose just 0.7% while sales of existing homes actually fell 2.7%. Early September data also disappointed. In the absence of the "cash for clunkers" program, unit sales of cars and light trucks plummeted 35% from the August level; the Institute of Supply Management's index of activity in the manufacturing sector slipped; and the Employment Report revealed sharper-than-expected job losses last month.

Nonetheless, our October 5<sup>th</sup>-6<sup>th</sup> survey results indicate the consensus now believes real GDP grew at an annualized rate of 3.2% in Q3, up 0.2 of a percentage point from month earlier. That would snap a four-quarter string of contractions and represent the strongest quarterly advance in two years. Although the forecast of real GDP growth in Q4 remained at 2.4% this month, the consensus now expects slightly less severe year-to-year (y/y) and fourth quarter-over-fourth quarter (Q4/Q4) contractions in real GDP of -2.5% and -0.4%, respectively, in 2009. The improvement results from this month's increase in the consensus forecast of Q3's growth rate coupled with the government's latest estimate that the economy shrank at a -0.7% rate in Q2 rather than the -1.0% clip estimated earlier. The consensus now forecasts that real GDP will expand by 2.5% on a y/y basis in 2010 and register Q4/Q4 growth of 2.8%, both estimates 0.1 of a percentage point higher than a month ago. As for the trajectory of growth in 2010, the consensus looks for real GDP to increase at annualized rates of 2.6% in Q1, 2.7% in Q2, 2.8% in Q3 and 2.9% in Q4 of next year. The Q1 and Q3 estimates rose 0.1 of a point this month while the Q2 and Q4 forecasts went unchanged.

The past month witnessed very modest changes in the consensus outlook for inflation. The chained GDP price index still is expected to register y/y increases of 1.4% both this year and next, but the forecast of the Q4/Q4 change in 2009 slipped 0.1 of a point to 1.1%. The forecast of the Q4/Q4 change in 2010 remained at 1.5%. For a third consecutive month, the consensus predicted the Consumer Price Index (CPI) would contract by -0.5% on a y/y basis in 2009. However, it is now forecast to increase 0.9% on a Q4/Q4 basis. In 2010, the CPI is projected to increase by 1.9% and 1.8%, respectively, on a y/y and Q4/Q4 basis. The former rose 0.1 of a point this month while the latter was unchanged. While overall inflation is expected to be higher in 2010 than in 2009, core inflation may ease further as declines in rents are increasingly reflected in the price data.

The consensus continues to foresee only gradual improvement in the labor market over the coming year. While nonfarm payrolls and private non-agricultural employment fell more than expected in September, coupled with a drop in the average workweek back to its record low, Q3 saw an average monthly decline in nonfarm payrolls of only 256,000 versus average monthly losses of 428,000 in Q2 and 691,000 in Q1 of this year. Most analysts expect the economy to continue shedding jobs through at least the end of this year, though at a diminishing pace. However, the consensus now expects the unemployment rate will average 10% over the next three quarters, receding only modestly from that level in the second half of 2010.

Faced with the extraordinary slack in labor and industry produced by the severity of the recession, expectations of a more modest than usual rebound in economic activity, relatively tame inflation and a banking system that may be slow to recover, the consensus continues to predict the Federal Reserve will move cautiously to raise its target federal funds rate from the current record low. Indeed, consensus forecasts of 3-month Treasury bill rates in 2010 have inched steadily lower since January and slipped again this month. While it appears most analysts

still believe the Fed will begin to hike rates in the second half of next year, the initiation of that tightening continues to be pushed back. Consensus forecasts of 10-year Treasury note yields in 2010 also eased down a smidgen this month.

According to the consensus, the return of positive real GDP growth in Q3 was powered by: a rebound in personal consumption expenditures (PCE) based in large part on a 20% jump in unit sales of cars and light trucks; the first increase in residential investment since the final quarter of 2005; a second straight, albeit smaller increase in federal spending; and a much reduced rate of business inventory liquidation that may account for close to half of the increase in GDP. These factors are expected to offset a fifth consecutive, but smaller contraction in non-residential fixed investment, a decline in state and local government spending and a widening of the real net export deficit.

The consensus expectation of slower real GDP growth in Q4 mostly reflects a belief that the "cash for clunkers" program simply pulled demand for vehicles forward into Q3. The sharp drop in unit sales of cars and light trucks in September appears to bear out that concern. The trade sector also is likely to subtract further from growth in Q4 as imports grow faster than exports. However, continued gains in residential investment and federal spending, coupled with diminishing drag from nonresidential investment and another large contribution from business inventories, is expected to keep GDP growth firmly in the positive column during the final quarter of the year. Underscoring the improvement in activity, the consensus predicts total industrial production rose at an annualized rate of 3.5% in Q3 and will expand at a 4.9% clip in Q4, the strongest two-quarter increase since the first half of 2002.

In the first half of 2010, the consensus assumes the workweek will lengthen and employment will begin growing once again, lifting the pace of growth in personal income and consumer spending. Businesses will react to the upturn in spending by beginning to rebuild depleted inventories, accelerating the recovery in industrial production and eventually encouraging stepped up capital spending as excess capacity is gradually reduced. After shrinking by a predicted -0.7% in 2009, real PCE is expected to grow 1.7% in 2010 on a y/y basis, the increase capped by persistently high unemployment, a projected increase in real disposable income of only 1.6%, tight credit and a desire on the part of many households to continuing paring back debt. Real PCE growth will be strong measured on a Q4/Q4 basis. The consensus now forecasts that nonresidential fixed investment will contract -0.1% on a y/y basis in 2010. That's 0.2 of a point better than last month and considerably stronger than the -2.1% decline predicted last May. The consensus forecasts that total industrial production will grow 3.3% next year on a y/y basis and expand by 4.1% on a Q4/Q4 basis, both estimates up 0.4 of a point over the past month. Housing starts are expected to total 810,000 units in 2010 versus 580,000 units in 2009. Unit sales of light vehicles still are expected to total 11.8 million units next year versus 10.4 million this year. The real net export deficit will widen to \$359.7 billion in 2010 from \$350.7 billion this year, says the consensus, an increase of just 2.6%. However, the deficit will widen by 5.9% from Q4 2009 through Q4 2010. Slashed costs, coupled with better demand, are expected to lift pre-tax corporate profits by 10.6% next year, marking the first annual increase since 2006.

**International Commentary** The consensus forecast of 2010 real GDP growth in the Eurozone improved again this month but the forecast of growth in the U.K. slipped. Also up were forecasts of growth next year in China, Australia, Canada, Mexico, Japan, South Korea, Taiwan and Brazil (see pages 6 and 7 for international forecasts).

**Special Questions** This issue contains our latest long-range survey results. On page 14 are forecasts for the years 2011 through 2015 and an average for the five-year period 2016-2020. Page 15 compares the survey results with those obtained last March and the latest estimates of the Obama Administration and the Congressional Budget Office.

**GREEN** indicates the Blue Chip consensus forecast of near-term U.S. inflation-adjusted economic growth (real GDP) is 3.0 percent or higher.

**YELLOW** cautions that the consensus forecast of near-term real GDP growth is between 1.0 percent and 3.0 percent.

**RED** warns that near-term consensus forecast of real GDP growth is below 1.0 percent.

## 2009 Real GDP Consensus Forecast Improves To -2.5%

<b>OCTOBER 2009</b> <b>Forecast For 2009</b> <b>SOURCE:</b>	Percent Change 2009 From 2008 (Year-Over-Year)									Average For 2009			Total Units-2009 -		-2009-
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Real GDP (Chained) (2005 \$)	GDP Price Index	Nominal GDP (Cur. \$)	Consumer Price Index	Indust. Prod. (Total)	Dis. Pers. Income (2005 \$)	Personal Cons. Exp (2005 \$)	Non-Res. Fix. Inv. (2005 \$)	Corp. Profits (Cur. \$)	Treas. Bills 3-mo.	Treas. Notes 10-Year	Unempl. Rate (Civ.)	Housing Starts (Mil.)	Auto & Light Truck Sales (Mil.)	Net Exports (2005 \$)	
Naroff Economic Advisors*	-1.9 H	1.2	-0.6 H	-0.5	-3.0 H	1.4	-0.3 H	-16.2 H	-9.1	0.3 H	3.4	9.1	0.56	11.8	-340.0
DuPont***	-2.3	1.4	-0.9	-0.5	-9.8	0.9	-0.6	-18.3	-9.0	0.3 H	3.3	9.2	0.58	10.4	-346.0
FedEx Corporation	-2.3	1.3	-1.0	-0.6	-10.1	1.3	-0.4	-17.9	-6.7	0.2	3.4	9.2	0.56	10.3	-357.0
Wells Capital Management	-2.4	1.5	-1.0	-0.4	-10.0	1.2	-0.6	-19.4	-10.2	0.1 L	3.5	9.3	0.57	10.3	-354.0
Economist Intelligence Unit	-2.4	1.4	-1.0	-0.7	-7.7	0.8	-0.9 L	-18.2	na	0.3 H	3.3	9.3	0.56	10.0	L -383.0
Eaton Corporation	-2.4	1.4	-1.0	-0.2 H	-10.3	0.9	-0.8	-18.5	-5.5	0.2	3.3	9.3	0.60	10.4	-361.1
ClearView Economics*	-2.4	1.4	-1.0	-0.4	-10.3	0.8	-0.7	-18.2	-6.9	0.2	3.3	9.3	0.58	10.3	-358.0
J.P. Morgan Chase	-2.4	1.4	-1.0	-0.4	-11.7	0.4	-0.7	-18.0	-6.3	0.2	3.2	9.3	0.58	10.0	-353.2
BMO Capital Markets	-2.4	1.4	-1.0	-0.4	-10.3	0.7	-0.8	-19.6	-6.8	0.2	3.2	9.2	0.57	10.3	-338.3
Barclays Capital	-2.4	1.3	-1.1	-0.4	-9.7	0.5	-0.6	-18.0	-7.5	0.2	3.3	9.2	0.58	10.2	-352.3
Macroeconomic Advisers, LLC**	-2.4	1.2	-1.2	-0.5	-9.8	0.5	-0.6	-18.0	-4.7	0.2	3.2	9.2	0.61 H	10.2	-354.0
Wells Fargo	-2.4	1.2	-1.2	-0.4	-10.4	0.8	-0.8	-18.1	-10.6	0.2	3.2	9.2	0.57	10.0	L -337.4
Bank of America-Merrill Lynch	-2.5	1.7	-0.8	-0.4	-10.1	0.4	-0.6	-17.7	na	0.2	3.4	9.3	0.59	10.2	-350.0
Swiss Re	-2.5	1.6	-1.0	-0.4	-10.1	0.5	-0.8	-18.9	-9.1	0.2	3.3	9.3	0.59	10.2	-336.7
Inforum - Univ. of Maryland	-2.5	1.6	-2.0 L	-0.4	-10.3	0.6	-0.8	-18.0	-8.5	0.2	3.3	9.2	0.57	10.3	-350.0
Credit Suisse	-2.5	1.5	-1.1	-0.5	-10.0	na	-0.6	-17.4	-8.0	na	3.0 L	9.2	na	na	-354.0
Moody's Economy.com	-2.5	1.5	-1.3	-0.5	-10.3	0.2 L	-0.8	-18.3	-9.3	0.2	3.4	9.2	0.56	10.3	-343.1
Societe Generale	-2.5	1.4	-1.1	-0.4	-9.7	0.6	-0.6	-17.7	-7.0	0.2	3.3	9.2	0.60	11.2	-365.0
RDQ Economics	-2.5	1.4	-1.1	-0.4	-10.0	0.6	-0.7	-17.8	-9.3	0.2	3.4	9.2	0.60	10.0	L -356.7
Comerica Bank*	-2.5	1.4	-1.1	-0.5	-10.4	0.7	-0.3 H	-18.2	-7.5	0.2	4.0 H	9.0 L	0.58	11.2	-347.0
Moody's Capital Markets	-2.5	1.4	-1.2	-0.4	-10.2	0.4	-0.6	-18.5	-8.6	0.2	3.2	9.2	0.56	10.1	-344.0
U.S. Chamber of Commerce	-2.5	1.4	-1.2	-0.7	-10.8	1.2	-0.9 L	-18.1	-9.5	0.2	3.4	9.2	0.54	na	-328.0
National Assn. of Home Builders	-2.5	1.3	-1.2	-0.4	-10.2	0.6	-0.8	-18.5	-9.0	0.2	3.3	9.3	0.57	10.3	-368.0
Bank of Tokyo-Mitsubishi UFJ	-2.5	1.3	-1.2	-0.4	-10.2	0.5	-0.6	-18.3	-6.0	0.2	3.3	9.2	0.58	10.2	-364.8
SOM Economics, Inc.	-2.5	1.3	-1.2	-0.5	-10.1	0.7	-0.7	-18.2	-10.0	0.2	3.4	9.2	0.58	10.2	-345.0
Econoclast	-2.5	1.3	-1.2	-0.6	-9.0	0.8	-0.7	-17.9	-4.9	0.2	3.2	9.2	0.59	10.4	-336.0
Conference Board*	-2.5	1.2	-1.3	-0.5	-12.2 L	0.6	-0.8	-17.3	-9.3	0.2	3.3	9.2	0.59	10.3	-369.3
Ford Motor Company*	-2.5	1.2	-1.3	-0.5	-10.2	0.4	-0.6	-18.1	na	0.2	3.2	9.2	0.60	na	-362.0
Fannie Mae	-2.5	1.2	-1.3	-0.5	-9.9	0.5	-0.7	-18.0	-5.6	0.2	3.2	9.2	0.60	10.2	-357.8
Soleil Securities Group*	-2.5	1.2	-1.3	-0.5	-9.7	0.4	-0.7	-18.0	-5.7	0.2	3.2	9.2	0.58	10.2	-357.0
Nomura Securities	-2.5	1.2	-1.3	-0.5	-10.3	0.8	-0.6	-19.1	-0.9 H	0.2	3.2	9.2	0.58	10.7	-347.1
Goldman Sachs & Co.	-2.5	1.2	-1.3	-0.4	-10.1	0.8	-0.7	-18.4	-7.5	0.2	3.3	9.2	0.59	10.1	-345.7
Morgan Stanley	-2.5	1.2	-1.3	-0.4	-10.2	0.6	-0.6	-17.8	-8.5	0.2	3.1	9.2	0.58	10.2	-342.3
J.W. Coons Advisors	-2.5	1.2	-1.3	-1.1 L	-10.2	1.1	-0.7	-17.7	-7.1	0.3 H	3.1	9.3	0.58	10.5	-340.0
Woodley Park Research	-2.5	1.2	-1.4	-0.4	-10.0	0.7	-0.6	-17.3	-8.9	0.2	3.2	9.2	0.59	10.2	-373.2
General Motors Corporation	-2.6	1.8 H	-0.8	-0.5	-9.8	0.6	-0.8	-18.0	-7.2	0.2	3.3	9.2	0.58	na	-358.9
Northern Trust Company*	-2.6	1.7	-1.0	-0.4	na	na	-0.6	-19.1	na	0.2	3.2	9.3	na	na	-325.5 H
Daiwa Securities America	-2.6	1.6	-1.0	-0.4	-10.7	0.6	-0.8	-18.3	-9.9	0.2	3.3	9.2	0.57	10.0	L -346.0
Kellner Economic Advisers	-2.6	1.6	-1.0	-0.5	-10.5	1.8	-0.8	-18.0	-9.5	0.2	3.3	9.4 H	0.55	10.5	-330.0
Argus Research Corp	-2.6	1.5	-1.1	-0.3	-10.2	0.7	-0.9 L	-18.1	-12.0	0.2	3.3	9.3	0.58	10.0	L -331.3
Turning Points (MicroMetrics)	-2.6	1.4	-1.2	-0.6	-11.0	1.1	-0.7	-18.4	-14.5 L	0.2	3.4	9.3	0.58	10.8	-343.3
RBS	-2.6	1.4	-1.3	-0.4	-10.4	0.4	-0.8	-18.6	-9.0	0.2	3.3	9.2	0.57	10.2	-349.0
Mesirow Financial	-2.6	1.2 L	-1.3	-0.5	-10.4	0.4	-0.8	-18.1	-5.6	0.2	3.3	9.2	0.60	10.5	-353.0
Russell Investments	-2.6	1.2 L	-1.3	-0.5	-10.9	1.3	-0.7	-20.0 L	-10.5	0.2	3.3	9.2	0.61 H	10.9	-333.0
Action Economics	-2.7 L	1.3	-1.4	-0.3	-10.4	0.4	-0.6	-18.7	-8.3	0.2	3.3	9.2	0.59	10.0	L -351.0
UCLA Business Forecasting Proj.*	-2.7 L	1.3	-1.4	-0.4	-10.3	0.5	-0.7	-17.6	-7.3	0.2	3.3	9.2	0.59	10.3	-386.4 L
Georgia State University*	-2.7 L	1.3	-1.4	-0.5	-9.9	0.5	-0.7	-19.0	-5.7	0.2	3.3	9.2	0.58	10.2	-350.5
National Assn. of Realtors	-2.7 L	1.3	-1.4	-0.6	-10.4	2.0 H	-0.8	-18.9	-11.0	0.2	3.2	9.3	0.56	12.0	H -350.0
MacroFin Analytics	-2.7 L	1.3	-1.4	-0.6	-11.0	1.2	-0.8	-18.1	-9.9	0.2	3.3	9.2	0.52 L	10.4	-349.6
Wayne Hummer Investments LLC*	-2.7 L	1.3	-1.4	-0.5	-10.6	0.9	-0.9 L	-17.5	-8.0	0.2	3.3	9.3	0.60	10.3	-343.0
Standard & Poors Corp.*	-2.7 L	1.3	-1.5	-0.5	-10.3	0.5	-0.9 L	-18.1	-6.1	0.2	3.3	9.3	0.58	10.3	-368.0
<b>2009 Consensus: October Avg.</b>	<b>-2.5</b>	<b>1.4</b>	<b>-1.2</b>	<b>-0.5</b>	<b>-10.1</b>	<b>0.8</b>	<b>-0.7</b>	<b>-18.2</b>	<b>-8.0</b>	<b>0.2</b>	<b>3.3</b>	<b>9.2</b>	<b>0.58</b>	<b>10.4</b>	<b>-350.7</b>
Top 10 Avg.	-2.3	1.6	-0.9	-0.4	-8.8	1.4	-0.5	-17.4	-5.1	0.2	3.5	9.3	0.60	11.0	-333.6
Bottom 10 Avg.	-2.7	1.2	-1.5	-0.7	-11.0	0.4	-0.9	-19.1	-10.8	0.2	3.2	9.2	0.55	10.1	-370.1
September Avg.	-2.6	1.4	-1.2	-0.5	-10.5	0.8	-0.8	-18.3	-8.1	0.2	3.3	9.2	0.58	10.4	-351.2
Historical Data:	2005	3.1	3.3	6.3	3.4	3.3	1.3	3.4	6.7	3.2	4.3	5.1	2.07	16.9	-722.7
	2006	2.7	3.3	6.0	3.2	2.3	4.0	2.9	7.9	4.7	4.8	4.6	1.80	16.5	-729.2
	2007	2.1	2.9	5.1	2.8	1.5	2.2	2.6	6.2	4.4	4.6	4.6	1.36	16.1	-647.7
	2008	0.4	2.1	2.6	3.8	2.2	0.5	-0.2	1.6	1.4	3.7	5.8	0.90	13.1	-494.3
Number Of Forecasts Changed From A Month Ago:															
Down	4	11	7	4	5	24	2	16	24	6	24	5	8	20	18
Same	12	32	19	31	5	17	15	11	10	40	23	39	30	16	8
Up	35	8	25	16	40	8	34	24	13	4	4	7	11	10	25
October Median	-2.5	1.3	-1.2	-0.5	-10.2	0.6	-0.7	-18.1	-8.3	0.2	3.3	9.2	0.58	10.3	-350.0
October Diffusion Index	80 %	47 %	68 %	62 %	85 %	34 %	81 %	58 %	38 %	48 %	30 %	52 %	53 %	39 %	57 %

\*Former winner of annual Lawrence R. Klein Award for Blue Chip Forecast Accuracy. \*\*Denotes two-time winner. \*\*\*Denotes three-time winner.

## 2010 Real GDP Consensus Forecast Rises For A Third Month To 2.5%

OCTOBER 2009 Forecast For 2010 SOURCE:	Percent Change 2010 From 2009 (Year-Over-Year)									Average For 2010			- Total Units-2010 -		-2010-
	1 Real GDP (Chained) (2005 \$)	2 GDP Price Index	3 Nominal GDP (Cur. \$)	4 Consumer Price Index	5 Indust. Prod. (Total)	6 Dis. Pers. Income (2005 \$)	7 Personal Cons. Exp (2005 \$)	8 Non-Res. Fix. Inv. (2005 \$)	9 Corp. Profits (Cur. \$)	10 Treas. Bills 3-mo.	11 Treas. Notes 10-Year	12 Unempl. Rate (Civ.)	13 Housing Starts (Mil.)	14 Auto & Light Truck Sales (Mil.)	15 Net Exports (2005 \$)
Comerica Bank*	3.7 H	1.4	5.2	1.5	7.5 H	2.8 H	3.5 H	2.0	13.1	0.8	4.8 H	9.4	0.82	13.1	-365.0
DuPont***	3.6	1.6	5.3	2.0	6.1	2.0	1.9	2.3	10.0	1.5	4.3	9.8	0.85	11.9	-312.0
Barclays Capital	3.6	1.0	4.7	1.9	6.4	2.3	1.9	2.5	14.0	0.5	4.4	9.2	0.91	12.5	-367.0
ClearView Economics*	3.5	1.4	4.9	2.2	5.1	2.1	2.2	1.1	21.5 H	0.9	4.1	9.7	0.85	11.6	-400.0
Macroeconomic Advisers, LLC**	3.5	0.5	4.1	1.2	5.5	1.7	2.8	2.0	15.8	0.2	3.8	9.5	1.05	12.3	-411.7
RBS	3.2	2.0	5.2	2.4	2.2	1.3	1.9	0.8	14.5	1.4	4.6	9.5	1.09 H	12.5	-338.0
J P MorganChase	3.2	0.8	4.1	1.6	3.9	1.5	1.6	1.6	16.6	na	na	9.7	0.77	11.4	-370.9
Wells Capital Management	3.1	2.0	5.1	2.3	4.0	2.6	1.9	-3.6	13.9	0.7	4.2	10.4	0.68	11.4	-312.0
Credit Suisse	3.1	1.6	4.8	1.3	3.7	na	1.6	2.5	11.4	na	3.3	9.6	na	na	-394.4
Bank of America-Merrill Lynch	3.0	3.2 H	6.2 H	2.2	4.6	1.2	1.6	3.3	na	0.3	4.3	9.9	0.86	11.7	-364.0
FedEx Corporation	3.0	1.8	4.8	2.4	4.2	2.7	2.4	6.0 H	12.4	0.9	4.5	8.6 L	0.72	13.1	-432.0
Ford Motor Company*	3.0	0.3	3.3	1.5	4.2	2.2	2.1	0.6	na	1.1	4.1	9.7	0.89	na	-371.0
National Assn. of Home Builders	2.9	1.1	3.9	1.7	2.8	1.6	1.7	-1.2	10.3	0.3	3.8	9.9	0.72	11.8	-385.0
Daiwa Securities America	2.8	1.8	4.6	1.8	2.0	0.9	0.9	0.1	8.4	0.9	4.2	9.8	0.67	12.1	-328.0
Woodley Park Research	2.8	1.1	3.9	1.7	4.1	1.4	2.4	3.3	13.5	0.6	3.5	9.7	0.99	12.1	-477.2 L
J.W. Coons Advisors	2.8	1.1	3.9	1.8	1.9	1.3	1.9	3.9	16.2	1.0	3.6	10.0	0.75	12.6	-381.0
Soleil Securities Group*	2.8	0.7	3.5	1.5	5.6	1.4	2.1	1.5	10.3	0.2	3.6	9.4	0.86	12.3	-402.0
U.S. Chamber of Commerce	2.7	1.6	4.3	1.7	1.0	2.3	1.2	0.5	7.8	1.0	4.2	9.2	0.76	na	-299.2
Morgan Stanley	2.7	1.0	3.1	2.1	3.9	2.0	1.7	0.0	12.9	0.4	4.4	9.9	0.71	11.6	-308.3
Fannie Mae	2.7	0.7	3.5	1.5	5.4	1.4	2.1	1.5	9.7	0.2	3.6	9.4	0.80	12.3	-401.9
Mesirow Financial	2.7	0.6	3.3	1.1	4.5	1.3	2.0	0.3	8.0	0.2	3.9	9.7	0.78	11.8	-381.8
General Motors Corporation	2.6	1.6	4.3	1.9	3.7	1.3	1.6	3.6	11.7	0.5	4.0	9.7	0.79	na	-385.0
Societe Generale	2.6	1.0	3.7	1.5	5.5	1.7	2.3	1.6	9.4	0.2	4.3	10.0	1.00	14.2	-431.0
Moody's Capital Markets	2.5	1.4	4.0	1.9	2.9	0.8	1.7	0.4	10.8	0.3	3.8	9.8	0.71	11.0	-307.0
BMO Capital Markets	2.5	1.3	3.9	2.1	2.1	1.9	0.8	-8.1 L	13.7	0.3	3.7	10.0	0.75	12.8	-295.6
Econoclast	2.5	1.1	3.6	1.6	3.8	1.7	1.6	1.5	10.5	0.5	4.0	9.9	0.88	12.5	-278.0
National Assn. of Realtors	2.4	1.6	4.0	2.2	4.2	1.9	1.4	-1.6	6.5	1.2	3.8	9.8	0.80	12.3	-343.0
Turning Points (Micrometrics)	2.4	1.5	3.9	2.0	2.8	1.6	2.1	-0.4	12.2	0.6	4.0	9.8	0.81	11.2	-378.1
Wells Fargo	2.4	0.9	3.3	1.6	1.6	1.2	1.0	-1.8	7.8	0.6	3.7	10.4	0.66	10.4	-281.4
Naroff Economic Advisors*	2.3	2.1	4.4	2.5	2.3	2.7	2.8	-2.4	7.2	2.1 H	4.7	10.4	0.75	14.8 H	-380.0
Bank of Tokyo-Mitsubishi UFJ	2.3	1.3	3.6	1.5	2.4	1.2	1.9	-2.2	8.0	0.9	3.9	9.6	0.84	11.2	-403.4
Russell Investments	2.3	1.2	3.5	1.9	1.0	2.8 H	2.0	-2.7	9.6	0.3	3.7	10.0	1.00	13.0	-308.0
Nomura Securities	2.3	0.5	2.9	1.4	2.9	2.1	2.0	-2.5	13.5	0.3	3.5	9.7	0.78	11.7	-385.4
Eaton Corporation	2.2	1.8	4.0	2.2	2.9	2.0	1.7	-1.9	10.4	0.6	3.8	9.6	0.80	11.5	-392.2
SOM Economics, Inc.	2.2	1.4	3.6	2.0	4.6	1.3	1.6	-1.5	7.5	0.6	4.0	10.2	0.78	11.4	-352.0
Swiss Re	2.2	1.3	3.6	1.6	4.4	1.4	1.2	-1.5	9.5	0.1 L	3.7	10.1	0.95	12.0	-319.8
Action Economics	2.1	1.7	3.8	1.9	1.7	1.4	2.1	-7.2	10.5	1.2	4.0	10.0	0.76	10.9	-352.0
RDQ Economics	2.0	2.3	4.6	2.7	3.7	1.0	1.0	-0.9	11.4	0.5	4.7	9.9	0.80	10.5	-378.8
Northern Trust Company*	2.0	2.3	4.3	2.5	na	na	1.8	-4.1	na	0.6	3.6	10.6 H	na	na	-267.3 H
Wayne Hummer Investments LLC*	2.0	1.4	3.4	1.8	1.6	1.6	1.4	2.9	9.0	0.9	4.0	9.9	0.82	11.1	-339.0
Conference Board*	2.0	1.0	3.0	2.0	2.1	0.5	1.1	3.5	4.8	0.2	3.8	10.1	0.85	10.9	-409.3
Goldman Sachs & Co.	2.0	0.2 L	2.3 L	1.1	3.7	1.8	1.0	-5.9	6.3	0.2	3.0 L	10.3	0.85	10.9	-305.5
Economist Intelligence Unit	1.9	1.4	3.3	1.0 L	0.3 L	2.2	1.2	1.7	na	0.3	3.7	9.7	0.80	11.0	-419.0
MacroFin Analytics	1.9	1.1	3.0	1.3	0.4	1.3	1.3	2.4	3.9	1.0	4.1	10.0	0.65 L	10.1 L	-362.5
Moody's Economy.com	1.9	0.8	2.4	1.7	1.5	0.3	0.7	-1.4	2.1 L	0.5	4.6	10.2	0.75	11.5	-329.2
Inform - Univ. of Maryland	1.8	2.3	4.2	2.8	1.9	1.1	0.9	-0.7	8.5	0.7	4.1	9.8	0.68	11.9	-366.0
UCLA Business Forecasting Proj.*	1.7	1.0	2.7	1.5	2.2	0.5	1.4	-0.1	11.2	0.6	4.1	10.0	0.83	11.1	-451.3
Standard & Poors Corp.*	1.6	1.1	2.7	1.6	3.3	0.2 L	0.5 L	-1.5	11.2	0.5	3.9	10.3	0.85	10.9	-362.8
Argus Research Corp.	1.4	2.8	4.2	3.7 H	1.8	0.8	0.7	-2.7	10.5	0.9	4.0	10.0	0.73	11.0	-279.3
Georgia State University*	1.4	1.1	2.5	1.4	4.1	0.6	1.0	-5.1	11.6	0.7	3.8	10.1	0.73	11.1	-332.8
Kellner Economic Advisers	1.1 L	1.8	2.9	2.4	2.4	1.7	1.5	0.0	9.5	0.9	4.0	9.9	0.77	11.9	-350.0
<b>2010 Consensus: October Avg.</b>	<b>2.5</b>	<b>1.4</b>	<b>3.9</b>	<b>1.9</b>	<b>3.3</b>	<b>1.6</b>	<b>1.7</b>	<b>-0.1</b>	<b>10.6</b>	<b>0.6</b>	<b>4.0</b>	<b>9.8</b>	<b>0.81</b>	<b>11.8</b>	<b>-359.7</b>
Top 10 Avg.	3.4	2.3	5.1	2.6	5.6	2.5	2.5	3.4	15.3	1.2	4.5	10.3	0.96	13.1	-293.0
Bottom 10 Avg.	1.7	0.6	2.8	1.3	1.3	0.7	0.9	-3.9	6.2	0.2	3.5	9.3	0.69	10.8	-423.9
September Avg.	2.4	1.4	3.8	1.8	2.9	1.7	1.6	-0.3	9.8	0.7	4.1	9.8	0.80	11.8	-362.2
Number Of Forecasts Changed From A Month Ago:															
Down	8	14	15	12	6	22	5	20	18	18	28	6	8	12	16
Same	18	29	11	23	5	14	20	5	11	27	17	23	23	22	14
Up	25	8	25	16	39	13	26	26	18	4	5	22	18	12	21
October Median	2.5	1.3	3.9	1.8	3.5	1.5	1.7	0.1	10.5	0.6	4.0	9.9	0.80	11.7	-365.0
October Diffusion Index	67 %	44 %	60 %	54 %	83 %	41 %	71 %	56 %	50 %	36 %	27 %	66 %	60 %	50 %	55 %

\*Former winner of annual Lawrence R. Klein Award for Blue Chip Forecast Accuracy. \*\*Denotes two-time winner. \*\*\*Denotes three-time winner.

**BASIC DATA SOURCES:** <sup>1</sup>Gross Domestic Product (GDP), chained 2005\$, National Income and Product Accounts (NIPA), Bureau of Economic Analysis (BEA); <sup>2</sup>GDP Chained Price Index, NIPA, BEA; <sup>3</sup>GDP, current dollars, NIPA, BEA; <sup>4</sup>Consumer Price Index-All Urban Consumers, Bureau of Labor Statistics (BLS); <sup>5</sup>Total Industrial Production, Federal Reserve Board (FRB); <sup>6</sup>Disposable Personal Income, 2005\$, NIPA, BEA; <sup>7</sup>Personal Consumption Expenditures, 2005\$, NIPA, BEA; <sup>8</sup>Non-residential Fixed Investment, 2005\$, NIPA, BEA; <sup>9</sup>Corporate Profits Before Taxes, current dollars, with inventory valuation and capital consumption adjustments, NIPA, BEA; <sup>10</sup>Treasury Bill Rate, 3-month, secondary market, bank discount basis, FRB; <sup>11</sup>Treasury note yield, 10-year, constant maturity basis, FRB; <sup>12</sup>Unemployment Rate, civilian work force, BLS; <sup>13</sup>Housing Starts, Bureau of Census; <sup>14</sup>Total U.S. Auto and Light Truck Sales (includes imports), BEA; <sup>15</sup>Net Exports of Goods and Services, 2005\$, NIPA, BEA.

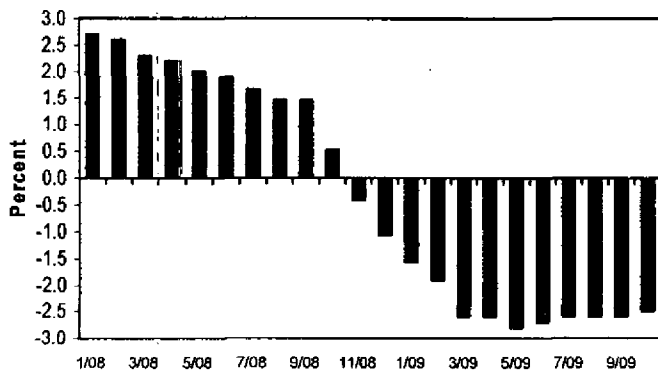
### Previous Consensus Forecasts

Consensus Forecasts For 2009	Real GDP	GDP	Nominal	Consumer	Indust.	Dis. Pers.	Personal	Non-Res.	Corp.	Treas.	Treas.	Unempl.	Housing	Auto/Truck	Net
	Chained (2005\$)	Price Index	GDP (Cur. \$)	Price Index	Prod. (Total)	Income (2005\$)	Cons. Exp. (2005\$)	Fix. Inv. (2005\$)	Profits (Cur. \$)	Bills 3-mo.	Notes 10-Year	Rate (Civ.)	Starts (Mil.)	Sales (Mil.)	Exports (2005\$)
January 2008 Consensus	2.7	2.1	4.8	2.3	2.8	3.1	2.4	3.7	4.0	3.9	4.8	5.0	1.23	16.1	-478.1
February 2008 Consensus	2.6	2.1	4.7	2.2	2.5	2.7	2.3	2.9	4.3	3.1	4.4	5.3	1.17	16.0	-467.1
March 2008 Consensus	2.3	2.2	4.5	2.4	2.3	2.3	2.0	2.0	6.0	2.7	4.3	5.4	1.11	15.8	-453.5
April 2008 Consensus	2.2	2.2	4.5	2.4	2.2	2.1	1.9	1.4	5.2	2.4	4.2	5.6	1.10	15.7	-430.7
May 2008 Consensus	2.0	2.3	4.3	2.5	2.0	2.0	1.8	1.1	5.3	2.3	4.3	5.6	1.05	15.5	-430.7
June 2008 Consensus	1.9	2.3	4.3	2.6	1.9	1.8	1.6	0.9	4.4	2.4	4.3	5.6	1.03	15.3	-417.7
July 2008 Consensus	1.7	2.4	4.1	2.9	1.5	1.4	1.3	0.5	3.3	2.5	4.4	5.9	1.01	14.9	-406.8
August 2008 Consensus	1.5	2.4	3.9	2.9	1.0	1.1	1.0	-0.1	2.7	2.5	4.5	6.1	0.97	14.4	-355.4
September 2008 Consensus	1.5	2.3	3.9	2.9	0.9	1.3	0.9	0.2	2.8	2.4	4.3	6.2	0.98	14.1	-333.9
October 2008 Consensus	0.5	2.2	2.8	2.5	-0.5	0.9	0.2	-2.8	0.1	1.7	3.9	6.9	0.90	13.5	-312.2
November 2008 Consensus	-0.4	2.0	1.6	1.5	-2.5	0.8	-0.6	-5.2	-3.1	1.0	3.9	7.4	0.83	12.4	-310.1
December 2008 Consensus	-1.1	1.7	0.7	0.6	-3.7	0.9	-1.0	-6.7	-5.5	0.7	3.4	7.8	0.78	11.6	-313.5
January 2009 Consensus	-1.6	1.3	-0.2	-0.4	-4.9	1.3	-1.1	-8.0	-9.2	0.3	2.7	8.0	0.72	11.2	-355.3
February 2009 Consensus	-1.9	1.0	-0.7	-0.8	-6.3	1.3	-1.4	-10.4	-10.4	0.3	2.8	8.3	0.66	10.9	-339.4
March 2009 Consensus	-2.6	1.2	-1.4	-0.8	-8.1	1.7	-1.5	-13.0	-12.8	0.3	2.9	8.6	0.56	10.3	-357.9
April 2009 Consensus	-2.6	1.3	-1.2	-0.7	-9.0	1.9	-1.1	-14.6	-16.6	0.3	2.9	8.9	0.56	10.2	-370.7
May 2009 Consensus	-2.8	1.6	-1.2	-0.8	-10.3	2.0	-0.6	-18.5	-17.6	0.3	3.0	9.1	0.56	10.0	-333.5
June 2009 Consensus	-2.7	1.7	-1.0	-0.6	-10.3	2.1	-0.7	-18.8	-13.7	0.3	3.2	9.1	0.55	10.0	-318.4
July 2009 Consensus	-2.6	1.7	-0.9	-0.6	-10.5	2.3	-0.7	-18.5	-12.4	0.2	3.4	9.3	0.55	10.1	-307.4
August 2009 Consensus	-2.6	1.4	-1.2	-0.5	-10.3	1.3	-0.8	-18.2	-11.0	0.2	3.4	9.3	0.57	10.3	-344.7
September 2009 Consensus	-2.6	1.4	-1.2	-0.5	-10.5	0.8	-0.8	-18.3	-8.1	0.2	3.3	9.2	0.58	10.4	-351.2
October 2009 Consensus	-2.5	1.4	-1.2	-0.5	-10.1	0.8	-0.7	-18.2	-8.0	0.2	3.3	9.2	0.58	10.4	-350.7
Difference From Jan. 2008 Forecast	-5.2	-0.7	-6.0	-2.8	-12.9	-2.3	-3.1	-21.9	-12.0	-3.7	-1.5	4.2	-0.65	-5.7	127.4
Forecast High	2.7	2.4	4.8	2.9	2.8	3.1	2.4	3.7	6.0	3.9	4.8	9.3	1.23	16.1	-307.4
Forecast Low	-2.8	1.0	-1.4	-0.8	-10.5	0.8	-1.5	-18.8	-17.6	0.2	2.7	5.0	0.55	10.0	-478.1

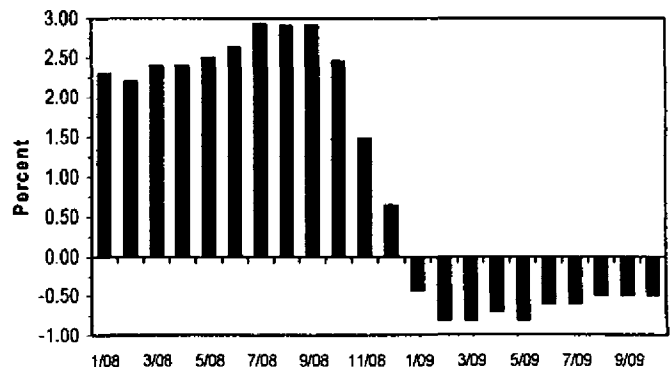
  

Consensus Forecasts For 2010	Real GDP	GDP	Nominal	Consumer	Indust.	Dis. Pers.	Personal	Non-Res.	Corp.	Treas.	Treas.	Unempl.	Housing	Auto/Truck	Net
	Chained (2005\$)	Price Index	GDP (Cur. \$)	Price Index	Prod. (Total)	Income (2005\$)	Cons. Exp. (2005\$)	Fix. Inv. (2005\$)	Profits (Cur. \$)	Bills 3-mo.	Notes 10-Year	Rate (Civ.)	Starts (Mil.)	Sales (Mil.)	Exports (2005\$)
January 2009 Consensus	2.4	1.5	3.9	2.0	2.5	2.1	2.1	0.2	6.1	1.4	3.6	8.2	0.95	13.1	-381.7
February 2009 Consensus	2.1	1.3	3.4	1.8	2.1	2.0	1.9	-1.2	5.9	1.1	3.6	8.7	0.88	12.7	-353.7
March 2009 Consensus	1.9	1.2	3.2	1.6	2.0	2.0	1.8	-2.2	6.0	1.0	3.7	9.1	0.79	12.3	-379.5
April 2009 Consensus	1.8	1.2	3.1	1.6	1.9	1.8	1.7	-2.0	7.0	0.9	3.5	9.4	0.78	12.0	-398.6
May 2009 Consensus	1.9	1.3	3.2	1.7	1.8	1.7	1.7	-2.1	6.6	0.9	3.6	9.7	0.78	11.9	-364.1
June 2009 Consensus	2.0	1.3	3.4	1.8	1.7	1.8	1.8	-1.9	6.9	0.8	4.0	9.7	0.77	11.8	-346.1
July 2009 Consensus	2.0	1.4	3.4	1.8	2.0	1.6	1.7	-1.0	6.7	0.8	4.1	9.9	0.76	11.7	-334.3
August 2009 Consensus	2.3	1.4	3.7	1.9	2.5	1.7	1.7	-0.9	8.5	0.7	4.1	9.9	0.79	11.9	-355.7
September 2009 Consensus	2.4	1.4	3.8	1.8	2.9	1.7	1.6	-0.3	9.8	0.7	4.1	9.8	0.80	11.8	-362.2
October 2009 Consensus	2.5	1.4	3.9	1.9	3.3	1.6	1.7	-0.1	10.6	0.6	4.0	9.8	0.81	11.8	-359.7
Difference From Jan. 2009 Forecast	0.1	-0.1	0.0	-0.1	0.8	-0.5	-0.4	-0.3	4.5	-0.8	0.4	1.6	-0.14	-1.3	22.0
Forecast High	2.5	1.5	3.9	2.0	3.3	2.1	2.1	0.2	10.6	1.4	4.1	9.9	0.95	13.1	-334.3
Forecast Low	1.8	1.2	3.1	1.6	1.7	1.6	1.6	-2.2	5.9	0.6	3.5	8.2	0.76	11.7	-398.6

Consensus Forecasts Of Y/Y % Change In Real GDP In 2009



Consensus Forecasts Of Y/Y % Change In Consumer Price Index In 2009



3. Blue Chip Consensus: Quarterly Annualized Percent Change from Prior Quarter and Averages for Quarter.\*

Actuals <sup>1</sup>	% Change From Prior Quarter At Annualized Rate							Average For Quarter				
	Real GDP	GDP Price Index	CPI	Producer Price Index	Total Industrial Production	Disposable Personal Income	Personal Consum. Expend.	Unemployment Rate	3-Mo. Treas. Bills	10-Yr. Treas. Notes	Change in Business Inventories	Real Net Exports
2008 1Q	-0.7	1.9	4.5	9.2	0.2	-2.4	-0.6	4.9	2.1	3.7	0.6	-550.9
2Q	1.5	1.8	4.5	10.6	-4.6	9.8	0.1	5.4	1.7	3.9	-37.1	-476.0
3Q	-2.7	4.0	6.2	8.6	-9.0	-8.5	-3.5	6.1	1.5	3.9	-29.7	-479.2
4Q	-5.4	0.1	-8.3	-18.9	-13.0	3.4	-3.1	6.9	0.3	3.3	-37.4	-470.9
2009 1Q	-6.4	1.9	-2.4	-6.2	-19.0	0.2	0.6	8.1	0.2	2.7	-113.9	-386.5
2Q	-0.7	0.0	1.3	1.1	-10.5	3.8	-0.9	9.3	0.2	3.3	-160.2	-330.4

Blue Chip Forecasts	% Change From Prior Quarter At Annualized Rate							Average For Quarter				
	Real GDP	GDP Price Index	CPI	Producer Price Index	Total Industrial Production	Disposable Personal Income	Personal Consum. Expend.	Unemployment Rate	3-Mo. Treas. Bills	10-Yr. Treas. Notes	Change in Business Inventories	Real Net Exports
3Q Consensus	3.2	1.5	3.0	4.5	3.5	-2.0	2.5	9.6a	0.2a	3.5a	-99.9	-339.5
Top 10 Avg.	4.2	2.5	3.6	7.1	5.3	1.0	3.4	--	--	--	-53.6	-315.8
Bot. 10 Avg.	2.4	0.7	1.5	0.9	1.2	-3.6	1.4	--	--	--	-139.7	-364.4
4Q Consensus	2.4	1.2	1.7	2.0	4.9	0.9	0.8	10.0	0.2	3.5	-35.8	-346.2
Top 10 Avg.	3.6	2.2	2.7	4.6	9.6	2.5	2.1	10.1	0.3	3.8	14.9	-305.6
Bot. 10 Avg.	1.4	0.2	0.8	-0.1	1.7	-0.7	-0.9	9.9	0.1	3.2	-88.2	-391.1
2010 1Q Consensus	2.6	1.5	1.6	1.3	4.4	1.8	1.7	10.1	0.3	3.7	-9.3	-351.7
Top 10 Avg.	4.0	2.4	2.9	3.5	7.7	3.6	2.9	10.3	0.6	4.0	39.3	-296.8
Bot. 10 Avg.	1.3	0.6	0.5	-1.5	1.7	-0.2	0.5	9.8	0.2	3.3	-65.8	-406.0
2Q Consensus	2.7	1.4	1.6	1.5	3.8	2.4	2.0	10.0	0.5	3.9	5.8	-356.0
Top 10 Avg.	4.0	2.4	3.0	3.5	6.6	3.6	2.8	10.4	1.0	4.4	45.1	-290.8
Bot. 10 Avg.	1.3	0.5	0.3	-0.6	1.2	1.1	1.0	9.6	0.2	3.4	-44.4	-418.7
3Q Consensus	2.8	1.5	1.9	1.8	4.0	2.1	2.3	9.8	0.7	4.1	16.4	-361.2
Top 10 Avg.	3.9	2.6	3.0	3.8	6.8	3.4	3.2	10.3	1.6	4.7	50.3	-288.6
Bot. 10 Avg.	1.6	0.6	0.8	-0.3	1.6	0.6	1.3	9.2	0.2	3.6	-23.4	-431.1
4Q Consensus	2.9	1.6	2.0	1.8	4.3	2.7	2.4	9.6	1.0	4.3	24.6	-366.6
Top 10 Avg.	4.0	2.7	3.2	3.7	7.1	4.0	3.3	10.2	2.0	4.9	52.0	-284.8
Bot. 10 Avg.	1.8	0.6	0.7	-0.3	2.0	1.5	1.4	8.9	0.3	3.7	-10.3	-446.7

4. Blue Chip Consensus: Quarterly Annualized Values and Percent Change from Same Quarter in Prior Year.\*

Real Gross Domestic Product

GDP Chained Price Index

Quarter	Billions Of Chained 2005\$ (SAAR)			% Change From Same Quarter In Prior Year <sup>2</sup>		
	Actual	Forecast <sup>1</sup>		Actual	Forecast	
	2008	2009	2010	2008	2009	2010
1Q	13366.9	12925.4	13166.9	2.0	-3.3	1.9
2Q	13415.3	12901.5	13254.5	1.6	-3.8	2.7
3Q	13324.6	13004.4	13345.7	0.0	-2.4	2.6
4Q	13141.9	13082.9	13443.0	-1.9	-0.4	2.8

Quarter	Index 2005 = 100 (SAAR)			% Change From Same Quarter In Prior Year <sup>2</sup>		
	Actual	Forecast <sup>1</sup>		Actual	Forecast	
	2008	2009	2010	2008	2009	2010
1Q	107.6	109.7	110.8	2.1	1.9	1.0
2Q	108.1	109.7	111.2	1.9	1.5	1.4
3Q	109.1	110.1	111.6	2.5	0.8	1.4
4Q	109.2	110.4	112.0	1.9	1.1	1.5

Total Industrial Production

Consumer Price Index

Quarter	Index 2002 = 100 (SAAR)			% Change From Same Quarter In Prior Year <sup>2</sup>		
	Actual	Forecast <sup>1</sup>		Actual	Forecast	
	2008	2009	2010	2008	2009	2010
1Q	112.0	99.1	99.5	1.4	-11.5	0.4
2Q	110.7	96.4	100.4	-0.4	-12.9	4.2
3Q	108.1	97.2	101.4	-3.2	-10.1	4.3
4Q	104.4	98.4	102.5	-6.8	-5.7	4.1

Quarter	Index 1982-1984 = 100 (SAAR)			% Change From Same Quarter In Prior Year <sup>2</sup>		
	Actual	Forecast <sup>1</sup>		Actual	Forecast	
	2008	2009	2010	2008	2009	2010
1Q	213.0	212.6	216.7	4.2	-0.2	1.9
2Q	215.4	213.3	217.6	4.3	-0.9	2.0
3Q	218.6	214.9	218.7	5.2	-1.7	1.7
4Q	213.9	215.8	219.7	1.5	0.9	1.8

\* See explanatory notes on inside of back cover for details of how this data is compiled

## BLUE CHIP INTERNATIONAL CONSENSUS FORECASTS

	ANNUAL DATA						END OF YEAR			
	Real Economic Growth % Change		Inflation % Change		Current Account In Billions Of U.S. Dollars		Exchange Rate Against U.S. \$		Interest Rates 3-Month	
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
<b>CANADA</b>										
<b>October Consensus</b>	-2.4	2.3	0.3	1.7	-29.0	-29.3	1.18	1.08	0.87	1.49
Top 3 Avg.	-2.2	2.8	0.6	2.0	-18.4	-20.8	1.38	1.15	2.43	3.58
Bottom 3 Avg.	-2.6	1.7	0.0	1.4	-37.4	-40.4	1.09	1.02	0.27	0.57
Last Month Avg.	-2.2	2.1	0.4	1.7	-31.1	-33.6	1.15	1.09	0.60	1.13
Actual	2007*	2008**	2007*	2008**	2007*	2008**	Latest	Year Ago	Latest	Year Ago
	2.5	0.4	2.1	2.4	28.5	11.3	1.08	1.08	0.22	1.89
<b>MEXICO</b>										
<b>October Consensus</b>	-6.8	3.1	4.9	3.6	-15.3	-16.7	13.46	13.55	4.87	4.87
Top 3 Avg.	-6.2	4.7	5.4	4.4	-9.2	-10.8	14.06	14.55	5.49	5.43
Bottom 3 Avg.	-7.3	2.2	3.9	3.1	-20.4	-22.8	13.00	12.93	4.35	4.35
Last Month Avg.	-6.6	2.9	4.9	3.5	-17.6	-17.8	13.37	13.51	4.97	5.02
Actual	2007*	2008**	2007*	2008**	2007*	2008**	Latest	Year Ago	Latest	Year Ago
	3.3	1.3	4.0	5.1	-5.4	-12.1	13.63	11.12	4.51	8.12
<b>JAPAN</b>										
<b>October Consensus</b>	-5.7	1.6	-1.2	-0.7	119.5	147.5	92.6	97.2	0.39	0.47
Top 3 Avg.	-5.1	2.5	-1.0	0.0	142.9	190.2	97.7	106.1	0.54	0.79
Bottom 3 Avg.	-6.3	0.8	-1.5	-1.5	92.4	114.9	86.3	90.0	0.17	0.22
Last Month Avg.	-5.8	1.5	-1.1	-0.5	111.6	140.3	95.0	98.9	0.40	0.44
Actual	2007*	2008**	2007*	2008**	2007*	2008**	Latest	Year Ago	Latest	Year Ago
	2.3	-0.7	0.1	1.4	211.0	157.1	89.7	105.8	0.39	0.75
<b>UNITED KINGDOM</b>										
<b>October Consensus</b>	-4.3	1.2	1.8	1.8	-52.4	-42.8	1.63	1.66	1.00	1.35
Top 3 Avg.	-3.9	2.0	2.2	2.3	-36.4	-30.0	1.81	1.75	1.36	2.03
Bottom 3 Avg.	-4.5	0.4	1.4	1.3	-69.7	-54.7	1.55	1.54	0.53	0.97
Last Month Avg.	-4.2	1.2	1.8	1.7	-52.2	-41.5	1.61	1.67	1.08	1.56
Actual	2007*	2008**	2007*	2008**	2007*	2008**	Latest	Year Ago	Latest	Year Ago
	2.6	0.7	2.3	3.6	-111.0	-83.8	1.59	1.77	0.57	6.30
<b>SOUTH KOREA</b>										
<b>October Consensus</b>	-1.5	3.3	2.6	2.6	31.7	27.2	1198	1110	2.25	2.70
Top 3 Avg.	-0.4	5.0	2.8	3.3	45.0	43.7	1282	1281	2.62	3.25
Bottom 3 Avg.	-2.6	1.4	2.2	2.2	20.4	14.6	1105	962	1.96	2.30
Last Month Avg.	-2.0	3.0	2.5	2.6	26.2	23.5	1221	1136	2.29	2.72
Actual	2007*	2008**	2007*	2008**	2007*	2008**	Latest	Year Ago	Latest	Year Ago
	5.1	2.2	2.5	4.7	3.7	-9.4	1174	1220	2.71	5.83
<b>GERMANY</b>										
<b>October Consensus</b>	-5.0	1.7	0.3	1.1	135.0	142.3	1.42	1.47	1.16	1.49
Top 3 Avg.	-4.5	3.0	0.5	1.5	157.0	173.8	1.50	1.58	1.41	2.02
Bottom 3 Avg.	-5.6	0.5	0.1	0.6	108.4	106.2	1.37	1.36	0.93	1.11
Last Month Avg.	-4.9	1.4	0.3	1.0	143.6	150.7	1.40	1.43	1.24	1.68
Actual	2007*	2008**	2007*	2008**	2007*	2008**	Latest	Year Ago	Latest	Year Ago
	2.5	1.2	2.3	2.8	185.1	255.1	1.47	1.38	0.75	5.29
<b>TAIWAN</b>										
<b>October Consensus</b>	-4.3	3.6	-0.9	1.0	26.4	27.0	32.72	32.01	0.63	1.01
Top 3 Avg.	-3.3	5.3	-0.4	1.5	32.9	33.9	34.28	33.80	1.13	1.55
Bottom 3 Avg.	-5.6	2.4	-1.3	0.1	18.7	18.8	31.67	30.62	0.27	0.43
Last Month Avg.	-4.5	3.3	-0.7	1.1	25.1	26.1	32.54	31.67	0.65	1.20
Actual	2007*	2008**	2007*	2008**	2007*	2008**	Latest	Year Ago	Latest	Year Ago
	5.7	0.1	1.8	3.5	23.8	27.2	32.30	32.15	0.85	2.70
<b>NETHERLANDS</b>										
<b>October Consensus</b>	-4.2	1.0	1.2	1.1	38.1	39.0	1.42	1.47	1.16	1.49
Top 3 Avg.	-3.8	2.0	1.5	1.5	48.5	49.1	1.50	1.58	1.41	2.02
Bottom 3 Avg.	-4.6	0.1	1.0	0.6	27.1	27.0	1.37	1.36	0.93	1.11
Last Month Avg.	-4.1	0.8	1.3	1.3	38.9	40.5	1.40	1.43	1.24	1.68
Actual	2007*	2008**	2007*	2008**	2007*	2008**	Latest	Year Ago	Latest	Year Ago
	3.6	2.0	1.6	2.2	59.3	47.8	1.46	1.38	0.75	5.29

\* Best estimates available. † Figures are currency units per U.S. dollar except for U.K., Australia and the Euro.



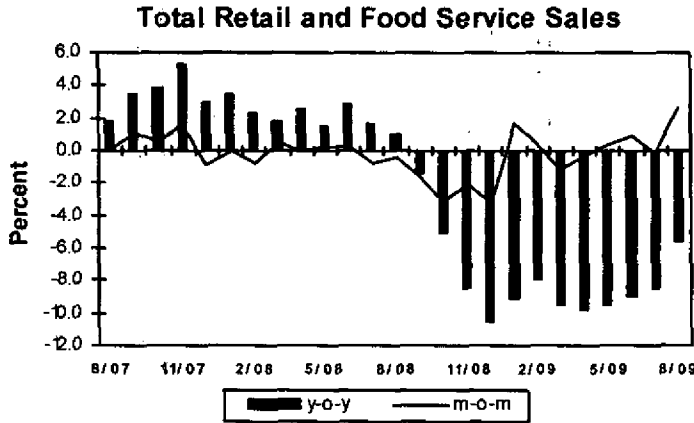
## BLUE CHIP INTERNATIONAL CONSENSUS FORECASTS

	ANNUAL DATA						END OF YEAR			
	Real Economic Growth % Change GDP		Inflation % Change Consumer Prices		Current Account In Billions Of U.S. Dollars		Exchange Rate <sup>1</sup> Against U.S. \$		Interest Rates 3-Month	
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
<b>SINGAPORE</b>										
October Consensus	-4.4	4.3	-0.1	1.3	23.8	26.0	1.44	1.42	0.98	1.42
Top 3 Avg.	-2.1	5.9	0.4	1.7	28.0	31.8	1.50	1.51	1.92	2.33
Bottom 3 Avg.	-6.6	3.2	-0.5	0.7	18.9	19.5	1.40	1.37	0.33	0.63
Last Month Avg.	-4.7	3.8	-0.1	1.3	25.4	27.8	1.46	1.45	1.01	1.54
Actual	2007*	2008**	2007*	2008**	2007*	2008**	Latest	Year Ago	Latest	Year Ago
	7.8	1.1	2.1	6.5	41.4	23.4	1.42	1.45	0.50	1.81
<b>FRANCE</b>										
October Consensus	-2.3	1.4	0.2	1.2	-53.6	-50.0	1.42	1.47	1.16	1.49
Top 3 Avg.	-2.0	2.5	0.6	1.7	-47.2	-43.1	1.50	1.58	1.41	2.02
Bottom 3 Avg.	-2.8	0.5	0.0	0.8	-61.1	-57.3	1.37	1.36	0.93	1.11
Last Month Avg.	-2.4	1.3	0.3	1.2	-54.1	-48.7	1.40	1.43	1.24	1.68
Actual	2007*	2008**	2007*	2008**	2007*	2008**	Latest	Year Ago	Latest	Year Ago
	2.3	0.3	1.6	3.2	-35.9	-35.7	1.46	1.38	0.75	5.29
<b>BRAZIL</b>										
October Consensus	0.0	4.2	4.7	4.3	-15.4	-21.4	1.90	1.87	9.55	9.08
Top 3 Avg.	0.8	5.1	5.0	4.8	-2.5	-2.4	2.09	2.15	10.43	10.07
Bottom 3 Avg.	-0.9	3.4	4.0	3.7	-24.4	-40.2	1.75	1.72	8.67	8.30
Last Month Avg.	-0.4	3.6	4.7	4.3	-19.9	-22.0	1.92	1.92	9.55	9.02
Actual	2007*	2008**	2007*	2008**	2007*	2008**	Latest	Year Ago	Latest	Year Ago
	5.7	5.1	3.6	5.7	10.2	-20.7	1.78	2.01	8.65	13.66
<b>HONG KONG</b>										
October Consensus	-3.5	3.4	0.9	1.7	27.6	26.8	7.74	7.73	0.74	1.72
Top 3 Avg.	-2.6	5.0	2.2	2.4	32.4	30.7	7.80	7.80	1.82	3.35
Bottom 3 Avg.	-4.6	1.7	0.0	0.8	23.5	23.1	7.61	7.58	0.18	0.90
Last Month Avg.	-3.6	3.5	1.0	1.7	25.8	26.6	7.73	7.73	0.87	1.95
Actual	2007*	2008**	2007*	2008**	2007*	2008**	Latest	Year Ago	Latest	Year Ago
	6.4	2.4	2.0	4.3	19.9	22.2	7.75	7.77	0.22	3.66
<b>BELGIUM</b>										
October Consensus	-3.3	0.9	0.2	1.3	-6.7	-5.7	1.42	1.47	1.16	1.49
Top 3 Avg.	-3.0	1.9	0.6	1.7	-3.6	-0.4	1.50	1.58	1.41	2.02
Bottom 3 Avg.	-3.8	-0.1	-0.1	0.7	-9.8	-11.0	1.37	1.36	0.93	1.11
Last Month Avg.	-3.3	0.8	0.4	1.3	-5.4	-3.3	1.40	1.43	1.24	1.68
Actual	2007*	2008**	2007*	2008**	2007*	2008**	Latest	Year Ago	Latest	Year Ago
	2.6	1.0	1.8	4.5	11.0	3.1	1.46	1.38	0.75	5.29
<b>CHINA</b>										
October Consensus	8.1	8.3	-0.7	1.6	302.6	320.0	6.78	6.61	3.26	3.82
Top 3 Avg.	8.6	9.9	-0.3	2.8	329.4	362.9	6.83	6.83	5.24	5.63
Bottom 3 Avg.	7.5	5.1	-1.1	0.1	273.6	264.2	6.66	6.37	1.49	1.98
Last Month Avg.	8.0	8.3	-0.5	1.6	303.2	326.3	6.79	6.60	3.15	3.76
Actual	2007*	2008**	2007*	2008**	2007*	2008**	Latest	Year Ago	Latest	Year Ago
	13.0	9.0	4.8	5.9	363.3	360.6	6.83	6.84	1.77	4.30
<b>AUSTRALIA</b>										
October Consensus	0.4	1.9	1.6	2.1	-38.5	-47.3	0.85	0.90	3.56	3.71
Top 3 Avg.	1.0	2.8	1.7	2.3	-32.4	-37.0	0.97	1.03	4.50	4.33
Bottom 3 Avg.	-0.3	1.2	1.4	1.8	-44.7	-57.2	0.78	0.81	3.04	3.20
Last Month Avg.	0.1	1.7	1.7	2.2	-36.1	-40.8	0.79	0.82	3.15	3.55
Actual	2007*	2008**	2007*	2008**	2007*	2008**	Latest	Year Ago	Latest	Year Ago
	4.0	2.4	2.3	4.4	-51.0	-50.7	0.86	0.78	3.38	6.96
<b>EUROZONE</b>										
October Consensus	-4.0	1.2	0.3	1.2	-79.6	-44.1	1.42	1.47	1.16	1.49
Top 3 Avg.	-3.6	2.5	0.4	1.6	-46.7	25.5	1.50	1.58	1.41	2.02
Bottom 3 Avg.	-4.4	0.2	-0.1	0.9	-106.2	-130.2	1.37	1.36	0.93	1.11
Last Month Avg.	-4.1	1.2	0.3	1.2	-84.5	-23.3	1.40	1.43	1.24	1.68
Actual	2007*	2008**	2007*	2008**	2007*	2008**	Latest	Year Ago	Latest	Year Ago
	2.7	0.7	2.1	3.3	34.4	-92.7	1.46	1.38	0.75	5.29

\* Best estimates available. Contributors to Blue Chip International Survey: HIS Global Insight, US; Federal Express Corporation, USA; Credit Suisse, US; JP Morgan, US; Economist Intelligence Unit, UK; UBS, US; BMO Capital Markets, Canada; Bank of America-Merrill Lynch, US; Standard & Poor's, US; WestLB, Germany; Morgan Stanley, US; Moody's Capital Markets, US; Wells Fargo, US; Moody's Economy.com, US; Swisse Re, U.S.; Barclays Capital, US; General Motors Corp., US; Wayne Hummer Investments, LLC, US; and Grupo de Economistas y Asociados, Mexico.

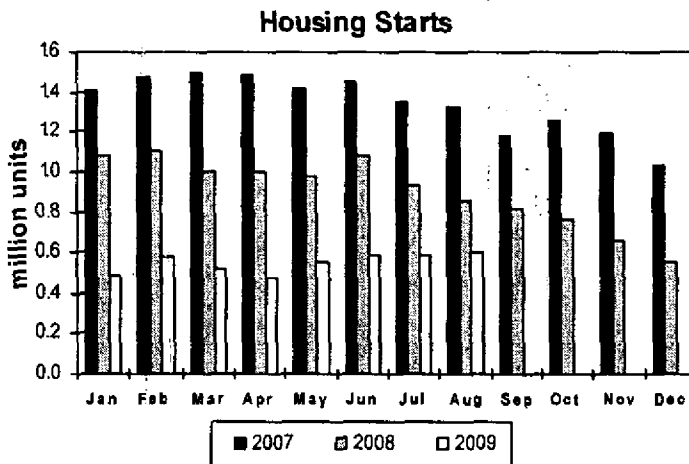
## Recent Developments:

### August Surge In Retail Sales Was Likely Unwound To A Degree In September



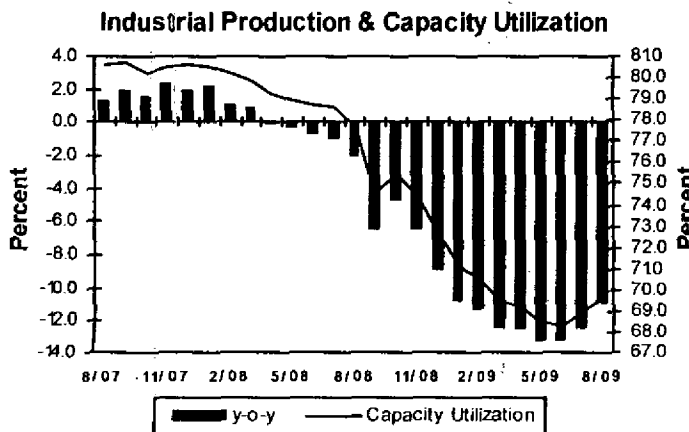
Fueled in part by the “cash for clunkers” program, total retail sales surged 2.7% in August. However, the end of the vehicle sales program likely induced a significant drop in September retail sales. Sales by auto dealers surged 11.9% in August, the biggest monthly increase since the post 9/11 promotion-related surge in October 2001. Sales excluding vehicles were also healthy, rising 1.1%, but about half the gain was accounted for by a price-induced surge in gasoline station sales. Nonetheless, sales of food, apparel and other soft-goods registered solid gains. Core retail sales that exclude vehicles, gasoline and building materials increased 0.7% in August and core sales gains in June and July were revised up. The annualized rate of car and light truck sales fell to 9.2 million units in September, down almost 35% from the August level of 14.1 million. The sharp drop, combined with a likely decline in sales at gasoline stations due to lower petrol prices, has most analysts predicting a large September decline in total retail sales despite what appears to have been a fairly good month for chain store sales, driven in part by seasonal demand for apparel.

### Housing Starts Rose For A Fifth Straight Month In August



Total housing starts increased 1.5% in August to an annualized rate of 598,000, the highest level since last November. However, the gain was attributable to a 25.3% surge in starts of multi-family units that remain in a weakening trend while starts of single-family units fell 3.0% to an annualized rate of 479,000, the first drop in five months. Total housing permits rose 2.7% while permits for single-family homes slipped 0.2%. August sales of existing homes fell 2.7% in August following four months of increases. The decline nevertheless left the annualized sales pace near the highest level since late-2007. Sales of existing single-family homes fell 2.8% but were up 10.6% from the January low. At the current sales rate there was an 8.5 months' supply on the market, the lowest since mid-2007. The median price of an existing home fell for the second straight month. Sales of new single-family homes rose for a fifth month in August, but the annual sales rate was up just 0.7% from a downwardly revised July level. Further improvement in the housing sector may be capped by the looming end to the \$8,000 first-time home buyers tax credit, still rising unemployment and the threat of surging foreclosures as millions of homeowners see monthly payments jump as Option-ARM mortgages are recast in coming quarters.

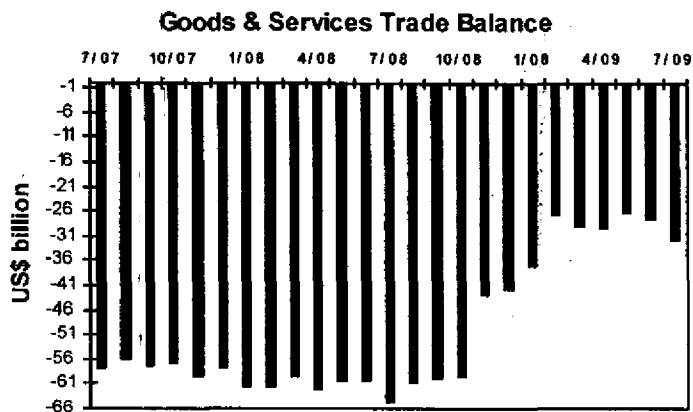
### Industrial Output Continued Its Revival In August, Maybe Not In September



Total industrial production registered a healthy 0.8% in August that followed an upwardly revised 1.0% gain in July. The increase was supported by a 0.6% rise in manufacturing output and increases of 0.5% and 1.9%, respectively in mining and utility. The jump in utility output followed three straight months of decline. The increase in manufacturing was led by a large 5.5% rise in the production of motor vehicles and parts. Manufacturing output excluding the auto sector also registered a respectable increase of 0.4%. However, data from the September ISM and Employment reports suggest some backtracking of the improvement in industrial production. The ISM index slipped back to 52.6 from 52.9 in August with a sharp drop in the production component leading the way. The September Employment report show a 0.1 of an hour drop in the average workweek back to its cyclical low of 33.0 hours, accompanied by identically-sized declines in the factory workweek and factory overtime hours. This data, combined with a likely retracement of the outsized August gain in utility output, hints we will see a slight drop in September industrial production.

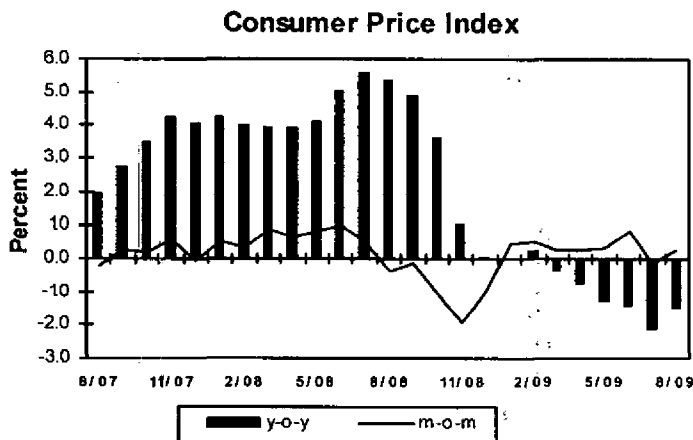
## Recent Developments:

### July Trade Deficit Widened By Largest Percentage Since 1999



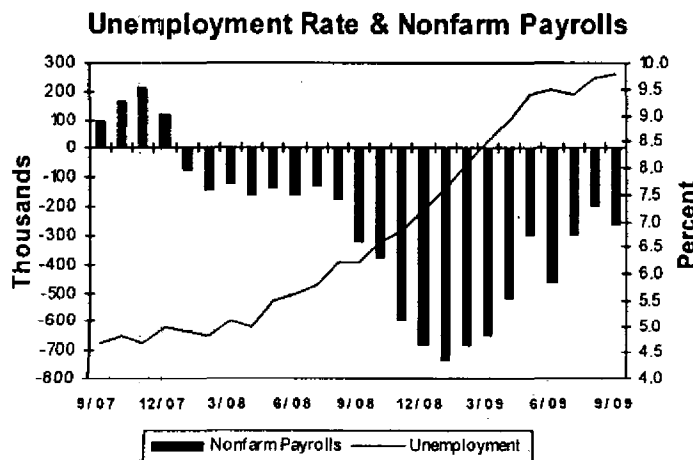
The goods and services deficit widened by a whopping 16% in July to \$32.0 billion, the sharpest one-month increase in a bit more than a decade. The month saw impressive increases in exports and imports. Total imports increased 4.7% to \$159.6 billion while total exports rose 2.2% to \$127.6 billion. Exports were up across the board but shipments of automobiles and parts surged 24.5% while imports of those products jumped 21.5%. The increases likely reflected moves by automakers in anticipation of a sales surge induced by the "cash-for-clunkers" program with exports of parts feeding assembly operations in Canada and Mexico. Both import and exports of autos and related parts may have increased again in August as vehicle sales registered another big gain. Imports of crude oil and related products jumped 3.6% to the highest level since December. Part of the gain reflected a 5.6% increase in the average per barrel price of crude oil. The inflation-adjusted (real) trade deficit widened by 8.4% in July. Analysts generally anticipate another, albeit smaller, widening of the real trade deficit in August that may shave a bit more from their estimates of Q3 real GDP growth.

### Consumer Price Index Up 0.4% in August But Falling Rents Continued To Curb Core CPI Increase



The Consumer Price Index increased 0.4% in August, buoyed by a 4.6% jump in energy prices. Gasoline price jumped 9.1% and fuel oil and other fuel prices rose 3.9%. That followed a 0.4% July drop in energy prices and a 7.4% jump in June. Food prices increased 0.1% in August after falling 0.3% in July and registering no change in June. New vehicle prices fell 1.3% in August reflecting the "cash for clunkers" program. However, the 1.9% rise in used vehicle prices may also reflect the "cash for clunkers" program since it reduced the number of used cars for sale. The 12-month change in the CPI rose to -1.5% versus a -2.1% in July. The CPI excluding food and energy prices (core) rose 0.1% in August lowering its 12-month rate of change to 1.4%. Falling rents remained a major contributor to the softness in the core CPI. Both owners' equivalent and tenant rent registered little net change and both are tracking the slowest y/y growth rates on record (since 1983) with little prospect for a trend reversal. The CPI is expected to increase 0.2% or so in September, the rise partially the result of a further, but smaller, increase in energy costs.

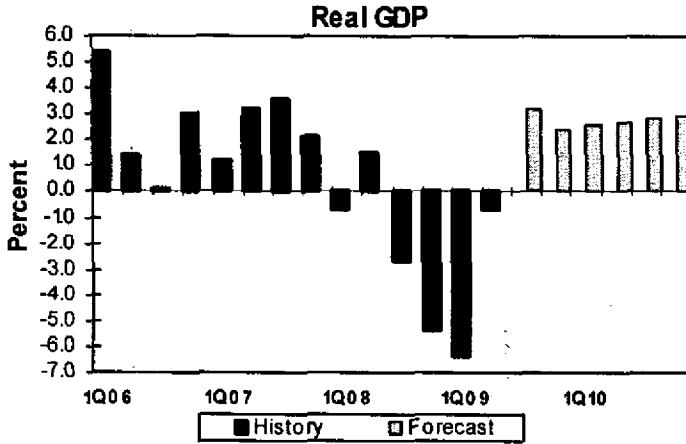
### September Employment Report Was Weaker Than Expected



Nonfarm payrolls fell by a larger-than-expected 263,000 in September and revisions added 13,000 to the payroll losses over the prior two months. The average workweek fell 0.1 of an hour to its record low of 33.0 hours, the drop led by identically-sized declines in the factory workweek and overtime hours. Average hourly earnings increased just a penny, dropping the y/y change to 2.5%, the lowest since 2005. However, the shortening of the workweek saw average weekly earnings decline by 0.2%. The household survey was equally gloomy. Although the unemployment rate rose to an as expected 9.8%, private non-agriculture employment fell by another 573,000 after dropping by 654,000 in August. The Labor Department could be accused of piling on, announcing that its preliminary estimate for the annual benchmark revisions to payrolls showed the economy may have lost an additional 824,000 jobs in the 12 months ended March 2009, most of the drop attributable to an increase in business closings. If there was a silver lining it was that Q3 saw an average monthly loss in nonfarm payrolls of just 256,000 versus 428,000 in Q2 and 691,000 in Q1 of this year.

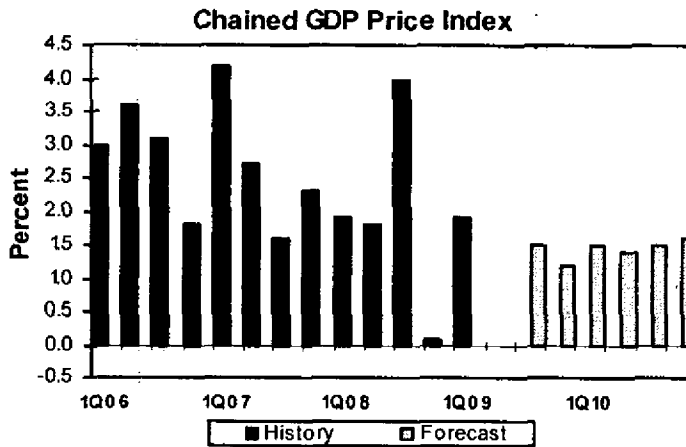
## Quarterly U.S. Forecasts:

### Real GDP



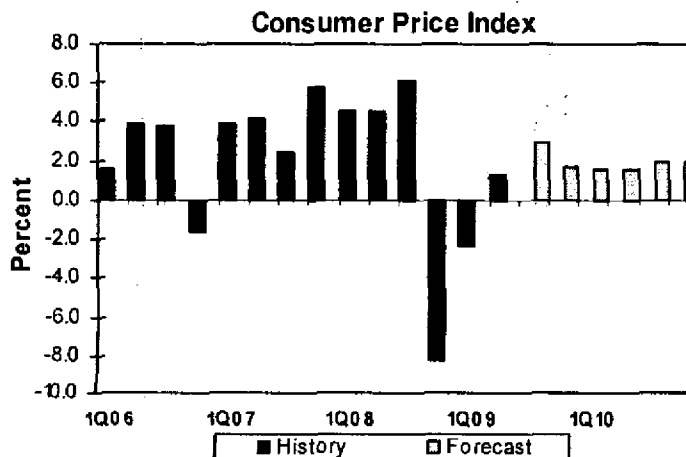
The government's final estimate showed real GDP contracted at an annualized rate of -0.7% in Q2, 0.3 of a percentage point better than the prior estimate. Small upward revisions to consumer spending, fixed investment and net exports accounted for the improvement. This month's survey results shows the consensus predicting that real GDP grew at a 3.2% rate in Q3, supported by a rebound in consumer spending, the first increase in residential investment in more than three years, a positive contribution from business inventories, and less drag from capital spending that offsets drag from net exports and slower growth in government spending. Real GDP growth will slow to 2.4% in the current quarter but registered sequentially stronger growth rates of 2.6%, 2.7%, 2.8% and 2.9% over the four quarters of 2010. On a y/y basis real GDP now is expected to contract by -2.5% this year. It will decline by -0.4% on a Q4/Q4 basis. The consensus now sees y/y real GDP growth of 2.5% in 2010, 0.1 of a point better than estimated a month and 0.7 of a point better than forecast in April. Real GDP growth in 2010 on a Q4/Q4 basis is now forecast to be 2.8%, also 0.1 of a point stronger than estimated a month ago.

### GDP Chain Price Index



The chained GDP price index was unchanged in Q2, according to the government's final estimate. The price index for gross domestic purchases rose at a rate of 0.5% versus contractions over the two prior quarters, while the index for gross domestic purchases excluding food and energy rose at a 0.8% clip in Q2 following a 0.2% increase in Q1. The price index for personal consumption expenditures rose at an upwardly revised annual rate of 1.4% in Q2 following annualized contractions of -1.5% in Q1 and -5.0% in Q4 2008. The core PCE price index increased at an unrevised rate of 2.0% rate in Q2 versus a 1.1% rate in Q1 and a 0.8% clip in Q4 2008. The price index for nonresidential fixed investment fell at a downwardly revised 4.2% clip versus a 1.3% contraction in Q2. The price index for residential investment contracted at an annual rate of -5.2%, 0.2 of a point higher than estimated last month. The chained GDP price index is expected by the consensus to register y/y growth of 1.4% in both 2009 and 2010 and Q4/Q4 growth of 1.1% this year and 1.5% in 2010.

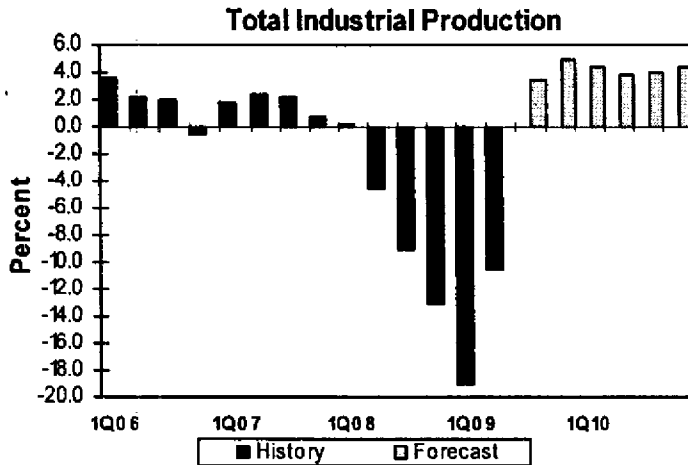
### Consumer Price Index



The Consumer Price Index (CPI) is believed by the consensus to have increased at an annualized rate of 3.0% in Q3, more than double the Q2 pace of 1.3%. However, the bulk of the bounce in Q3 resulted from higher energy prices. In Q4 2009 and the first three quarters of 2010, the rate of change in the CPI is expected by the consensus to remain below 2.0%, the rate of increase held in check by continued softness in owners equivalent rent, restrained consumer spending that forces retailers to hold down prices and lessening upward pressure from energy prices. The CPI excluding food and energy (core CPI) likely increased at a slower pace in Q3 than in Q2 when it rose at a 2.4% clip. Through August, the CPI was down -1.5% on a 12-month basis versus -2.1%, in July. In contrast, the 12-month change in the core CPI was up 1.4% in August versus 1.5% in July. While the 12-month change in the CPI is likely to work its way higher in coming months as y/y comparisons become more favorable, the 12-month change in the core CPI is likely to inch lower. For all of 2009, the CPI is expected by the consensus to contract by -0.5% but to rise 0.9% on a Q4/Q4 basis. In 2010, y/y and Q4/Q4 increases of 1.8% and 1.9%, respectively, are forecast.

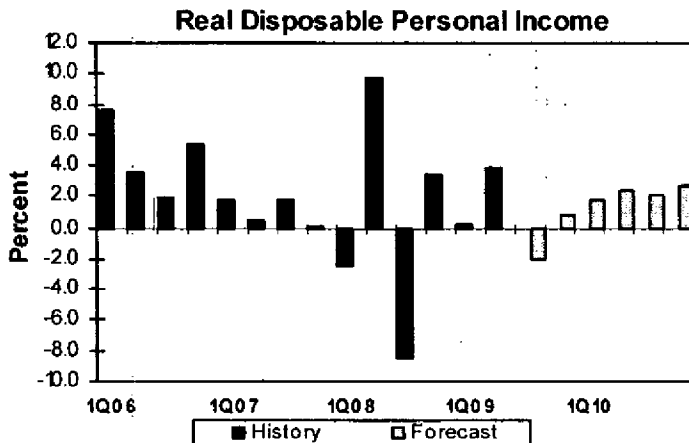
## Quarterly U.S. Forecasts:

### Industrial Production



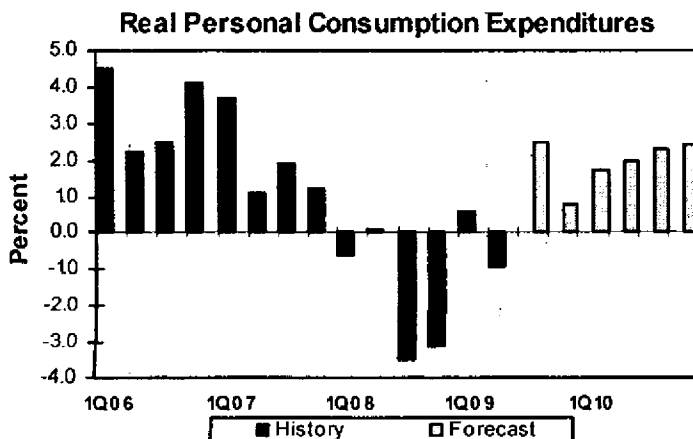
The past month brought more data confirming an upturn in industrial production. Total production increased in both July and August and the ISM's manufacturing index rebounded remained above the 50 level for a second consecutive month in August. Leading the turnaround has been the automotive sector. The emergence of GM and Chrysler from bankruptcy led to a surge in motor vehicle and parts production in July and August. However, the ISM reports that well more than half of the 19 industries its surveys reported stepped up activity during the summer months. Also encouraging, the ISM's order index remained above 60 in July and August, suggesting that the destocking of business inventories may conclude by the end of this year. The consensus now predicts total industrial production will grow at a 3.5% clip in Q3, the first increase in six quarters. Growth of 4.9% is seen in Q4. Although total production is predicted to contract by -10.1% on a y/y basis in 2009, the consensus forecasts it will register a Q4/Q4 decline of just 5.7%. In 2010, total industrial production now is predicted to increase by 3.3% y/y and register Q4/Q4 growth of 4.1%.

### Real Disposable Personal Income



Real disposable personal income (DPI) increased at an annual rate of 3.8% in Q2, but the growth largely reflected one-off effects of the American Recovery and Reinvestment Act (ARRA) passed early this year. Real DPI jumped sharply in April and May due to the effects of the ARRA, but fell in June, July and August. Current dollar DPI declined -1.1% in June, was unchanged in July and rose just 0.1% in August. Current dollar wage and salary disbursements increased 0.2% in July and August, the first gains this year, but likely fell in September based on the drop in the average workweek last month. Extraordinarily low interest rates and falling stock dividends have also taken a toll on growth in DPI over the past year. The consensus believes that real DPI contracted at a -2.0 rate in Q3 but will rebound at a 0.9% clip in Q4. As economic growth continues to gradually improve over the next year the average workweek will lengthen, job losses will slow and eventually be replaced by job gains early next year, lifting wage and salary disbursements, according to the consensus. As a result, real DPI will grow 1.6% in 2010 versus an increase of 0.8% in 2009.

### Real Personal Consumption Expenditures

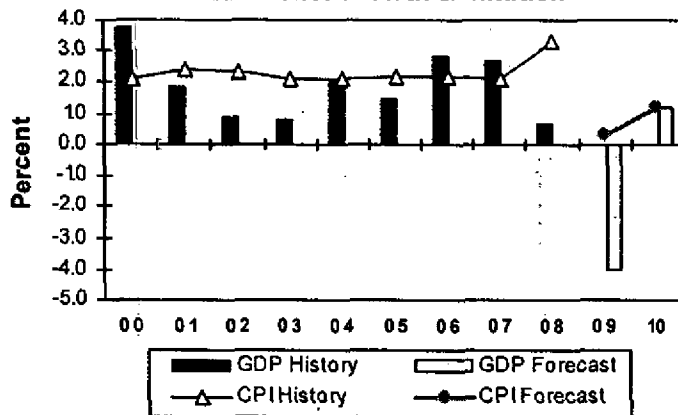


Real personal consumption expenditures (PCE) shrank at an upwardly revised annual rate of 0.9% in Q2. That followed an increase of 0.6% in Q1, and huge respective contractions of 3.5% and 3.1% in Q3 and Q4 of last year. Heavily supported by a sharp jump in vehicles sales during July and August due to the "cash for clunkers" program, the consensus predicts real PCE grew at a 2.5% rate in Q3. However, real PCE is predicted to register growth of only 0.8% in Q4 as the temporary effect of the "cash for clunkers" program is unwound. Real PCE is forecast to post sequentially improving growth of 1.7%, 2.0%, 2.3% and 2.4% over the four quarters of 2010, the gains capped by limited hiring by businesses, tepid gains in wages and salaries and the loss of household wealth over the past couple of years due to falling home values and equity prices (not withstanding the gains since March). The consensus now predicts real PCE will contract by -0.7% on a y/y basis in 2009, about half the drop predicted earlier this year. It will grow 1.7% in 2010. Both estimates are 0.1 of a percentage point better than forecast a month ago by the consensus.

## International Forecasts:

### Eurozone

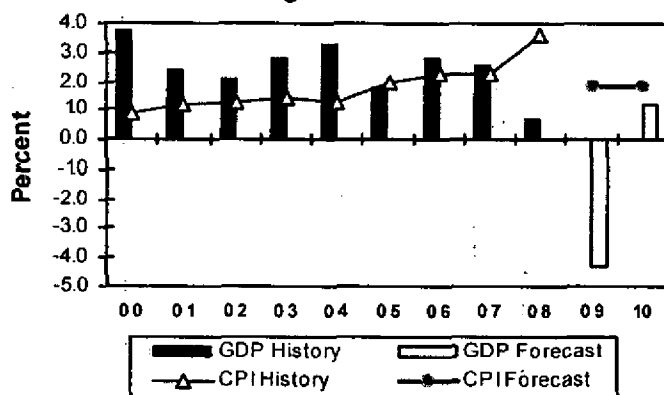
Eurozone: Growth & Inflation



The Eurozone's economy contracted more than previously thought in Q2 due to smaller than originally estimated contributions from household spending and trade. Real GDP fell 0.2% (q/q) versus the 0.1% drop initially estimated. However, September PMI data for the manufacturing and service sectors supported analysts' forecasts that the economy grew modestly in Q3, snapping a five-quarter string of contractions. Factory orders are rising and business sentiment is still increasing. However, retail sales fell in July and August, after being unchanged in June, demand dampened by still rising unemployment and tepid income growth. Eurozone unemployment rose to 9.6% in August and the IMF projects it will climb to 11.7% next year as firms continue to pare costs. The ECB looks for real GDP to shrink 4.1% in 2009 and to grow just 0.2% in 2010. It expects consumer price inflation to increase 0.4% this year and 1.2% in 2010, both below its medium-term goal of "close to, but under 2.0%." The consensus now looks for real GDP to contract 4.0% this year but is more optimistic than the IMF about next year, projecting growth of 1.2%. The consensus sees consumer prices up 0.3% in 2009 and 1.2% in 2010.

### United Kingdom

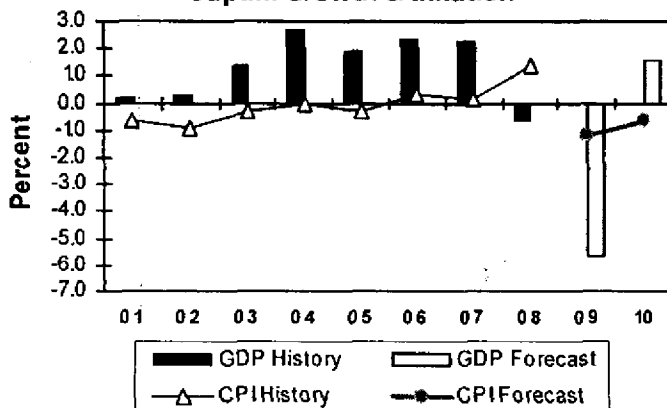
United Kingdom: Growth & Inflation



Real GDP likely grew for the first time in five quarters during Q3 but recent data underscores the tentative nature of the improvement. Manufacturing output fell a sharp 1.9% in August and the manufacturing PMI fell for a second month in September, dropping back below the 50 level last month. Moreover, while the service sector PMI rose in September to its highest level in two years, the employment and outstanding business indices both remained below the 50-mark. Household spending appears to have increased in the quarter just ended, but much of the improvement was likely due to an incentive-driven jump in auto sales. The scheduled January increase in the VAT may support gains in consumer spending during Q4, but succeed only in pulling demand forward, leaving spending susceptible to a pullback after the start of the year. Rising unemployment and tight credit also are expected to dampen consumer demand early next year. The consensus now looks for real GDP to contract by -4.3% this year and to register positive growth of 1.2% in 2010. Consumer price inflation of 1.8% is predicted for this year and next by the consensus.

### Japan

Japan: Growth & Inlation



Real GDP grew at a downwardly revised rate of 2.3% in Q2 versus the 3.7% originally estimated. That nonetheless snapped a five-quarter string of steep declines and most analysts continue to believe the economy continued to grow in Q3. The unemployment rate unexpectedly fell 0.2 of a point to 5.5% in July and household spending jumped a much stronger than expected 1.9%. Moreover, industrial production rose nicely in August, its sixth consecutive increase. However, not everything is rosy. While the latest Tankan survey indicated that confidence among large manufacturers rose for a second straight quarter from a record low in March, firms indicated they planned to cut capital spending at a faster pace than earlier. Continued gains in household spending may also slow on weak income growth and a rebound in the jobless rate. The extraordinary strength of the yen also threatens export demand and deflationary trends remain worrisome. The national core CPI was down a record -2.4% y/y in August. The consensus looks for real GDP to fall -5.7% this year but to grow 1.6% in 2010. Consumer prices are projected to contract -1.2% in 2009 and -0.7% in 2010.

## 2009

Monthly Indicator	Jan	Feb	Mar	Apr	May	Jun	Jly	Aug	Sep	Oct	Nov	Dec
Retail and Food Service Sales (a)	1.7	0.4	-1.2	-0.3	0.5	0.9	-0.2	2.7				
Auto & Light Truck Sales (b)	9.5	9.1	9.8	9.3	9.9	9.7	11.2	14.1	9.2			
Personal Income (a, current \$)	-1.1	-0.8	-0.5	0.2	1.3	-1.1	0.2	0.2				
Personal Consumption (a, current \$)	0.8	0.4	-0.3	-0.1	0.1	0.7	0.3	1.3				
Consumer Credit (e)	3.3	-5.1	-7.3	-8.2	-4.2	-7.4	-9.1	-5.8				
Consumer Sentiment (U. of Mich.)	61.2	56.3	57.3	65.1	68.7	70.8	66.0	65.7	73.5			
Household Employment (c)	-1239	-351	-861	120	-437	-374	-155	-392	-785			
Non-farm Payroll Employment (c)	-741	-681	-652	-519	-303	-463	-304	-201	-263			
Unemployment Rate (%)	7.6	8.1	8.5	8.9	9.4	9.5	9.4	9.7	9.8			
Average Hourly Earnings ('82\$)	8.64	8.61	8.64	8.65	8.65	8.57	8.59	8.58				
Average Hourly Earnings (current \$)	18.43	18.46	18.50	18.50	18.53	18.54	18.59	18.66	18.67			
Non-Farm Workweek (hrs.)	33.3	33.3	33.1	33.1	33.1	33.0	33.1	33.1	33.0			
Industrial Production (d)	-10.9	-11.3	-12.5	-12.4	-13.2	-13.2	-12.6	-11.8				
Capacity Utilization (%)	71.1	70.6	69.5	69.2	68.5	68.3	69.0	69.6				
ISM Manufacturing Index (g)	35.6	35.8	36.3	40.1	42.8	44.8	48.9	52.9	52.6			
ISM Non-Manufacturing Index (g)	42.9	41.6	40.8	43.7	44.0	47.0	46.4	48.4	50.9			
Housing Starts (b)	.488	.574	.521	.479	.551	.590	.589	.598				
Housing Permits (b)	.531	.550	.511	.498	.518	.570	.564	.579				
New Home Sales (1-family, c)	329	354	332	345	371	400	426	429				
Construction Expenditures (a)	-2.8	-0.4	-0.4	0.5	-1.3	-1.4	-1.1	0.8				
Consumer Price Index (nsa., d)	0.0	0.2	-0.4	-0.7	-1.3	-1.4	-2.1	-1.5				
CPI ex. Food and Energy (nsa., d)	1.7	1.8	1.8	1.9	1.8	1.7	1.5	1.4				
Producer Price Index (nsa., d)	-0.9	-1.4	-3.4	-3.5	-5.0	-4.6	-6.8	-4.3				
Durable Goods Orders (a)	-7.8	1.7	-2.2	1.4	1.4	-1.1	4.8	-2.4				
Leading Economic Indicators (g)	-0.3	-0.4	-0.3	1.0	1.3	0.8	0.9	0.6				
Balance of Trade & Services (f)	-37.0	-26.6	-28.9	-29.1	-26.4	-27.5	-32.0					
Federal Funds Rate (%)	0.15	0.22	0.18	0.15	0.18	0.21	0.16	0.16	0.15			
3-Mo. Treasury Bill Rate (%)	0.13	0.30	0.21	0.16	0.18	0.18	0.18	0.17	0.12			
10-Year Treasury Note Yield (%)	2.52	2.87	2.82	2.93	3.29	3.72	3.56	3.59	3.40			

## 2008

Monthly Indicator	Jan	Feb	Mar	Apr	May	Jun	Jly	Aug	Sep	Oct	Nov	Dec
Retail and Food Service Sales (a)	0.0	-0.8	0.5	0.0	0.2	0.2	-0.7	-0.5	-1.5	-3.1	-2.1	-3.2
Auto & Light Truck Sales (b)	15.3	15.3	15.0	14.4	14.3	13.6	12.5	13.7	12.5	10.5	10.1	10.3
Personal Income (a, current \$)	0.0	0.0	0.1	0.1	1.6	-0.1	-0.8	0.4	0.1	-0.3	-0.3	-0.3
Personal Consumption (a, current \$)	0.2	0.0	0.5	0.3	0.2	0.6	-0.1	0.0	-0.3	-0.8	-1.0	-1.2
Consumer Credit (e)	5.8	3.4	5.9	4.2	3.3	4.1	3.5	-3.0	3.1	-1.0	-4.2	-3.5
Consumer Sentiment (U. of Mich.)	78.4	70.8	69.0	62.6	59.8	56.4	61.2	63.0	70.3	57.6	55.3	60.1
Household Employment (c)	23	-242	-52	234	-283	-236	-142	-323	-244	-372	-513	-806
Non-Farm Payroll Employment (c)	-72	-144	-122	-160	-137	-161	-128	-175	-321	-380	-597	-681
Unemployment Rate (%)	4.9	4.8	5.1	5.0	5.5	5.6	5.8	6.2	6.2	6.6	6.8	7.2
Average Hourly Earnings ('82\$)	8.27	8.29	8.30	8.30	8.26	8.18	8.14	8.19	8.21	8.34	8.54	8.65
Average Hourly Earnings (current \$)	17.77	17.83	17.90	17.94	17.99	18.04	18.10	18.18	18.21	18.28	18.34	18.40
Non-farm Workweek (hrs.)	33.7	33.8	33.8	33.8	33.7	33.6	33.6	33.7	33.6	33.5	33.4	33.3
Industrial Production (d)	2.2	1.1	0.9	-0.1	-0.4	-0.7	-1.0	-2.0	-6.4	-4.7	-6.5	-8.9
Capacity Utilization (%)	80.5	80.2	79.8	79.2	78.9	78.7	78.6	77.6	74.5	75.4	74.4	72.7
ISM Manufacturing Index (g)	50.7	48.3	49.0	48.6	49.3	49.5	49.5	49.3	43.4	38.7	36.6	32.9
ISM Non-Manufacturing Index (g)	44.6	49.3	49.6	52.0	51.7	48.2	49.5	50.6	50.2	44.2	37.3	40.6
Housing Starts (b)	1.083	1.100	.993	1.001	.971	1.078	.933	.849	.822	.763	.655	.556
Housing Permits (b)	1.102	1.015	.968	.991	.978	1.174	.924	.857	.806	.729	.630	.564
New Home Sales (1-family, c)	608	576	509	533	509	488	500	444	436	409	390	374
Construction Expenditures (a)	-0.4	-0.9	1.4	-0.5	0.3	-0.2	-2.4	2.4	0.3	-0.7	-3.5	-3.4
Consumer Price Index (nsa., d)	4.3	4.0	4.0	3.9	4.2	5.0	5.6	5.4	4.9	3.7	1.1	0.1
CPI ex. Food and Energy (nsa., d)	2.5	2.3	2.4	2.3	2.3	2.4	2.5	2.5	2.5	2.2	2.0	1.8
Producer Price Index (nsa., d)	7.4	6.5	6.7	6.4	7.3	9.1	9.9	9.7	8.8	5.2	0.4	-0.9
Durable Goods Orders (a)	-4.4	1.1	-0.2	-1.0	0.1	1.4	0.7	-5.5	0.0	-8.5	-3.9	-4.6
Leading Economic Indicators (g)	-0.5	-0.2	0.0	0.1	-0.1	0.1	-0.7	-0.8	0.0	-1.0	-0.6	-0.1
Balance of Trade & Services (f)	-61.5	-61.8	-59.4	-62.1	-60.5	-60.2	-64.9	-60.9	-60.1	-59.4	-43.2	-41.9
Federal Funds Rate (%)	3.94	2.98	2.60	2.28	1.98	2.00	2.01	2.00	1.81	0.97	0.99	0.16
3-Mo. Treasury Bill Rate (%)	2.75	2.12	1.34	1.29	1.73	1.86	1.63	1.72	1.13	0.67	0.19	0.03
10-Year Treasury Note Yield (%)	3.74	3.74	3.51	3.68	3.88	4.10	4.01	3.89	3.69	3.81	3.53	2.42

(a) month-over-month % change; (b) millions, saar; (c) thousands, saar; (d) year-over-year % change; (e) annualized % change; (f) \$ billions; (g) level. Most series are subject to frequent government revisions. Use with care.

## Long-Range Consensus U.S. Economic Projections

I. The table below shows the latest U.S. Blue Chip Consensus<sup>1</sup> projections by years for 2011 through 2015, an average for the five-year period 2011-2015, and an average for the next five-year period: 2016-2020. There are also Top 10 and Bottom 10 averages for each variable. Apply these projections cautiously. For the most part economic and political forces cannot be evaluated over such long time spans.

ECONOMIC VARIABLE		YEAR					Five-Year Averages	
		2011	2012	2013	2014	2015	2011-15	2016-20
		Percent Change, Full Year-Over-Prior Year						
1. Real GDP (chained, 2005 dollars)	CONSENSUS	3.1	3.3	3.0	2.8	2.7	3.0	2.6
	Top 10 Avg.	4.0	4.1	3.8	3.5	3.3	3.7	3.0
	Bottom 10 Avg.	2.2	2.4	2.3	2.3	2.3	2.3	2.3
2. GDP Chained Price Index	CONSENSUS	1.7	1.8	1.9	2.1	2.1	1.9	2.1
	Top 10 Avg.	2.6	2.5	2.7	2.7	2.7	2.6	2.7
	Bottom 10 Avg.	0.8	0.9	1.1	1.4	1.5	1.1	1.6
3. Nominal GDP (current dollars)	CONSENSUS	4.7	5.1	5.0	4.9	4.8	4.9	4.7
	Top 10 Avg.	6.0	6.3	6.1	5.7	5.5	5.9	5.4
	Bottom 10 Avg.	3.4	4.0	4.1	4.2	4.1	4.0	4.2
4. Consumer Price Index (for all urban consumers)	CONSENSUS	2.0	2.1	2.2	2.3	2.4	2.2	2.4
	Top 10 Avg.	2.9	3.0	3.0	3.0	3.1	3.0	3.0
	Bottom 10 Avg.	1.1	1.2	1.4	1.6	1.7	1.4	1.9
5. Industrial Production (total)	CONSENSUS	4.2	4.1	3.6	3.2	2.9	3.6	2.8
	Top 10 Avg.	5.9	5.4	5.0	4.3	3.9	4.9	3.8
	Bottom 10 Avg.	2.7	2.8	2.6	2.4	2.1	2.5	1.9
6. Disposable Personal Income (chained, 2005 dollars)	CONSENSUS	2.8	2.9	2.9	2.9	2.7	2.8	2.6
	Top 10 Avg.	3.9	3.6	3.5	3.5	3.3	3.6	3.2
	Bottom 10 Avg.	1.5	2.3	2.3	2.3	2.2	2.1	2.1
7. Personal Consumption Expenditures (chained, 2005 dollars)	CONSENSUS	2.6	2.7	2.6	2.6	2.6	2.6	2.5
	Top 10 Avg.	3.5	3.5	3.3	3.3	3.1	3.3	2.9
	Bottom 10 Avg.	1.6	2.0	1.9	2.1	2.1	1.9	2.1
8. Non-Residential Fixed Investment (chained, 2005 dollars)	CONSENSUS	6.1	7.0	5.4	4.6	3.9	5.4	3.7
	Top 10 Avg.	11.0	11.1	8.4	6.8	5.7	8.6	5.4
	Bottom 10 Avg.	1.1	3.0	2.5	2.6	2.5	2.3	2.2
9. Corporate Profits, Pretax (current dollars)	CONSENSUS	9.1	7.0	5.9	5.2	4.7	6.4	5.0
	Top 10 Avg.	12.9	9.9	8.5	7.8	7.0	9.2	7.1
	Bottom 10 Avg.	5.4	4.5	3.4	2.3	2.2	3.6	2.8
<b>Annual Average</b>								
10. Treasury Bills, 3-Month (percent per annum)	CONSENSUS	2.3	3.3	3.7	4.0	4.2	3.5	4.2
	Top 10 Avg.	3.9	4.6	4.8	4.8	4.9	4.6	4.9
	Bottom 10 Avg.	0.8	1.6	2.3	3.1	3.4	2.2	3.5
11. Treasury Notes, 10-Year (yield per annum)	CONSENSUS	4.6	5.0	5.1	5.2	5.3	5.3	5.4
	Top 10 Avg.	5.5	5.8	5.8	6.0	6.1	6.8	6.2
	Bottom 10 Avg.	3.9	4.3	4.5	4.5	4.7	4.4	4.6
12. Unemployment Rate (% of civilian labor force)	CONSENSUS	9.0	8.1	7.3	6.7	6.2	7.5	5.8
	Top 10 Avg.	9.7	9.1	8.4	7.9	7.4	8.5	6.7
	Bottom 10 Avg.	8.2	7.0	6.2	5.6	5.1	6.4	4.9
<b>Total Units, Millions</b>								
13. Housing Starts (millions of units)	CONSENSUS	1.09	1.29	1.44	1.51	1.53	1.37	1.52
	Top 10 Avg.	1.35	1.63	1.76	1.84	1.83	1.68	1.81
	Bottom 10 Avg.	0.84	0.95	1.09	1.17	1.20	1.05	1.21
14. Total Auto & Light Truck Sales (millions of units)	CONSENSUS	13.4	14.4	15.0	15.2	15.3	14.6	15.4
	Top 10 Avg.	15.0	16.0	16.6	16.8	17.0	16.2	17.1
	Bottom 10 Avg.	11.7	12.7	13.2	13.4	13.4	12.9	13.2
<b>Billions of Chained, 2000 Dollars</b>								
15. Net Exports (billions of chained, 2005 dollars)	CONSENSUS	-380.2	-381.6	-371.2	-356.3	-345.1	-366.9	-324.6
	Top 10 Avg.	-305.1	-286.0	-251.8	-198.5	-170.8	-242.4	-92.2
	Bottom 10 Avg.	-462.0	-476.4	-506.0	-525.4	-546.0	-503.2	-590.5



## Long-Range Consensus U.S. Economic Projections

II. For comparison, this table includes some of the long-range consensus projections found on the preceding page, plus the latest long-range projections from the Obama Administration<sup>1,3</sup> and the Congressional Budget Office (CBO)<sup>2,3</sup>.

ECONOMIC VARIABLE		YEAR					Five-Year Averages	
		2011	2012	2013	2014	2015	2011-15	2016-20
		Percent Change, Full Year-Over-Prior Year						
1. Real GDP (chained, 2005 dollars)	CONSENSUS	3.1	3.3	3.0	2.8	2.7	3.0	2.6
	Obama Admin. <sup>1,3</sup>	3.8	4.3	4.3	4.1	3.6	4.0	2.8
	CBO <sup>2,3</sup>	3.5	5.0	4.5	3.0	2.7	3.7	2.3
2. GDP Chained Price Index	CONSENSUS	1.7	1.8	1.9	2.1	2.1	1.9	2.1
	Obama Admin. <sup>1,3</sup>	1.3	1.6	1.7	1.7	1.7	1.6	1.8
	CBO <sup>2,3</sup>	0.4	0.4	0.7	1.1	1.4	0.8	1.7
3. Nominal GDP (current dollars)	CONSENSUS	4.7	5.1	5.0	4.9	4.8	4.9	4.7
	Obama Admin. <sup>1,3</sup>	5.1	6.0	6.1	5.9	5.4	5.7	4.7
	CBO <sup>2,3</sup>	4.0	5.4	5.2	4.1	4.1	4.6	4.1
4. Consumer Price Index (for all urban consumers)	CONSENSUS	2.0	2.1	2.2	2.3	2.4	2.2	2.4
	Obama Admin. <sup>1,3</sup>	1.5	1.9	2.0	2.0	2.0	1.9	2.1
	CBO <sup>2,3</sup>	1.3	1.0	1.1	1.5	1.8	1.3	2.0
<b>Annual Average</b>								
5. Treasury Bills, 3-Month (percent per annum)	CONSENSUS	2.3	3.3	3.7	4.0	4.2	3.5	4.2
	Obama Admin. <sup>1,3</sup>	8.6	7.7	6.8	5.9	5.6	6.9	5.3
	CBO <sup>2,3</sup>	9.1	7.2	5.6	4.9	4.8	6.3	4.8
6. Treasury Notes, 10-Year (yield per annum)	CONSENSUS	4.6	5.0	5.1	5.2	5.3	5.3	5.4
	Obama Admin. <sup>1,3</sup>	2.6	3.8	4.0	4.0	4.0	3.7	4.0
	CBO <sup>2,3</sup>	1.7	3.1	4.1	4.5	4.6	3.6	4.8
7. Unemployment Rate (% of civilian labor force)	CONSENSUS	9.0	8.1	7.3	6.7	6.2	7.5	5.8
	Obama Admin. <sup>1,3</sup>	4.9	5.2	5.2	5.2	5.2	4.1	5.2
	CBO <sup>2,3</sup>	4.4	4.7	5.0	5.3	5.4	5.0	5.6

III. In this table, we compare the results of our most recent survey with those of our survey in March 2009<sup>4</sup>.

ECONOMIC VARIABLE		YEAR					Five-Year Averages	
		2011	2012	2013	2014	2015	2011-15	2016-20
		Percent Change, Full Year-Over-Prior Year						
1. Real GDP (chained, 2005 dollars)	October Consensus	3.1	3.3	3.0	2.8	2.7	3.0	2.6
	March Consensus	3.4	3.4	3.0	2.9	2.7	3.1	2.6
2. GDP Chained Price Index	October Consensus	1.7	1.8	1.9	2.1	2.1	1.9	2.1
	March Consensus	1.7	1.9	2.2	2.2	2.3	2.1	2.3
3. Nominal GDP (current dollars)	October Consensus	4.7	5.1	5.0	4.9	4.8	4.9	4.7
	March Consensus	5.1	5.3	5.3	5.1	5.0	5.2	4.9
4. Consumer Price Index (for all urban consumers)	October Consensus	2.0	2.1	2.2	2.3	2.4	2.2	2.4
	March Consensus	2.1	2.3	2.4	2.5	2.5	2.4	2.5
<b>Annual Average</b>								
5. Treasury Bills, 3-Month (percent per annum)	October Consensus	2.3	3.3	3.7	4.0	4.2	3.5	4.2
	March Consensus	2.8	3.6	4.0	4.2	4.3	3.8	4.2
6. Treasury Notes, 10-Year (yield per annum)	October Consensus	4.6	5.0	5.1	5.2	5.3	5.3	5.4
	March Consensus	4.5	4.9	5.2	5.4	5.4	5.1	5.4
7. Unemployment Rate (% of civilian labor force)	October Consensus	9.0	8.1	7.3	6.7	6.2	7.5	5.8
	March Consensus	8.1	7.1	6.4	5.9	5.7	6.6	5.5

<sup>1</sup>Mid-Session Review of the Budget, Fiscal Year 2010, Office of Management and Budget, August 2009. <sup>2</sup>The Budget and Economic Outlook: An Update, Fiscal Years 2010-2019, Congressional Budget Office, August, 2009. <sup>3</sup>The Obama Administration's forecasts only extend through 2019, so averages for the 2016-2020 period are based on the forecast for the four-year period 2016-2019. CBO's forecast only extends through 2019, so averages for the 2016-2020 period are based on the forecast for the four-year period 2016-2019. <sup>4</sup>Blue Chip Economic Indicators, March 10, 2009.

## Viewpoints:

**A Sampling Of Views On The Economy, Financial Markets And Government Policy  
Excerpted From Recent Reports Issued By Our Blue Chip Panel Members And Others**

### Here Comes Another Jobless Recovery

The September labor market data were noticeably weaker than we expected. However, we maintain our projections that real GDP grew at a +2.5% annual rate in Q309 and that it will grow at a 3.0% annual rate in the current Q409, followed by 2.6% growth in calendar 2010. Labor market conditions usually are a lagging indicator. In the current setting, what we are witnessing is very strong labor productivity growth similar to what has been observed around past business cycle troughs and in the initial stages of real GDP recoveries. While this restrains the wage income component of personal income, continued strong productivity growth is favorable for the profits of employers, who should renew hiring by Q210.

Better productivity is quite constructive for corporate profits. We continue to forecast S&P 500 operating EPS to rise 20% in 2010 to \$74.00 from an estimated \$61.50 this year. However, higher productivity is adverse for jobs in the near term. Reflecting surprisingly fast recent productivity gains and a related increase in our own productivity forecasts, we are raising our expected peak quarterly average unemployment rate from 9.7% to 10.3%, which we expect in Q110. (Note: Following an estimated 5.5% rise in nonfarm business productivity in Q309 after 6.6% annualized growth in Q209, we now expect productivity growth of 4.3% in Q409 and 2.3% in 2010 versus our earlier 1.8% forecast for 2010.)

Timing a peak in the jobless rate depends on when employers will regain enough confidence to start hiring again. Real final sales (GDP less inventory spending) apparently have stabilized. They edged up at a 0.7% annual rate in Q209 and we believe they inched up a bit more (0.3% annual pace) in the just completed Q309, when we believe overall real GDP grew at a 2.5% pace. However, stable demand has yet to convince enough employers to cease reducing their headcounts. And our unemployment rate forecast now builds in four quarters of stable to slightly rising final sales before aggregate hiring revives.

The last two US economic recoveries illustrated that initially "jobless recoveries" eventually can evolve into more broad-based economic expansions with renewed job formation. For this to occur, there must be both some support other than job creation for household purchasing power and support for aggregate demand from outside of the household sector.

Personal income depends on more than jobs. Earnings changes on existing jobs also matter. Thus, reflecting still rising average hourly earnings, wage and salary incomes in July and August posted back-to-back 0.2% monthly gains despite further job losses, which were less than earlier in the year. Over the year ended in September, private sector average hourly earnings rose 2.5% even with a 3.6 percentage point jump in the unemployment rate over that period. Apparently many employers remain concerned about the adverse impacts of wage and salary cuts on retention and morale. Outside of wages and salaries, other sources of personal income—collectively representing 52% of personal income—also rose 0.2% in both July and August. (Rising proprietors' incomes, rents, transfer payments, and employer supplements to wages and salaries together more than offset further declines in dividend and interest incomes.)

The stock market recovery is aiding purchasing power. From its trough in March through October 1, the Wilshire 5000 stock price index jumped 55%. To be sure, the change from a year ago still is -14%. However, for half a year, stock investors have experienced incremental improvement. Borrowing has helped boost home and durables sales despite declines in outstanding household debt. Overall home sales in the three months ended in August were up 10.1% from the previous three-month period. In August, overall real household durables spending jumped 5.8%, including a 2.8% rise in durables spending outside of

autos, which were boosted by the temporary "cash for clunkers" program. At the same time, outstanding debt can still decline, as new borrowing, although apparently recovering somewhat recently, remains under debt repayments based on earlier higher levels of borrowing and credit sensitive spending in recent years.

In the near term, business inventory rebuilding and exports will help spur nonhousehold demand for goods and services. Manufacturers continue reporting that their customers' inventories are too low. Therefore, there should be less inventory liquidation, with orders recovering as re-order rates return closer to sales and input utilization rates. Export orders are recovering sharply, which bodes well for merchandise exports—6.9% of US nominal GDP.

*Maury Harris, UBS, New York*

### Weak But No Double-Dip

After the disappointing September employment data, we want to affirm our three key themes: first, we believe a 3%-plus GDP recovery still remains likely; second, despite the recovery in growth, core inflation is likely to continue to fall; and third, we think the Fed will likely be on hold until 2011.

September's report was ugly. The 260,000 job loss is the kind of number you usually get in the middle of a recession. The pace of job losses had been slowing over the last six months or so, but this number was actually 60,000 worse than in August. The rest of the report was also weak: the unemployment rate rose a tenth to 9.8%, wage growth continued to slow, and those people still employed worked fewer hours.

We don't think this is a sign of the dreaded double dip. Instead, we regard it as a reminder of two things. First, this is going to be a relatively slow, choppy recovery. Normally coming out of a major recession we would expect about 7% GDP growth in the first year; we are looking for 3.3% in the year ahead. That's about half the normal recovery. Second, the labor market is a lagging indicator. The last two economic recoveries were also slow and choppy and the unemployment rate did not peak until more than a year into the recovery. For this cycle, we still expect the unemployment rate to peak at 10.2% in the first quarter of next year.

Recent data have been friendlier to our inflation and Fed forecasts. Frankly, we can't understand why people worry about inflation in the next couple of years. Inflation usually falls in the first several years of an economic expansion because it takes time before growth restores normal business activity. This cycle is no exception. As we saw in the September data, in the face of high unemployment, wage growth continues to slow. Back in 2007 wages were growing at a 4.2% pace; now they are growing just 2.5%. The same applies to core consumer price inflation; it has dropped in half to just 1.3% in August. We are headed for very low inflation before those trends reverse.

Finally, we also reiterate our call on the Fed. Yes, the Fed could tighten quickly once there is a strong recovery in the economy and capital markets. However, such a recovery remains a long way off, in our view. With a slow recovery in the economy, a long healing process in capital markets and with core inflation trending lower, we expect the Fed to wait until 2011 before hiking rates. Let us leave you with one final thought: in each of the last two business cycles the Fed did not hike interest rates until 2 ½ years into the recovery when the unemployment rate was on a steady downward trajectory.

*Ethan S. Harris, Bank of America-Merrill Lynch, New York, NY*

### One Step Back

Incoming economic data still seem to be in line with the forecast that real GDP growth rebounded to about 4.0% last quarter. But the key September labor and ISM manufacturing (*continued on next page*)

## Viewpoints:

### A Sampling Of Views On The Economy, Financial Markets And Government Policy Excerpted From Recent Reports Issued By Our Blue Chip Panel Members And Others

reports were weaker than in August, raising questions about the pace of expansion going forward.

The forecast still looks for a relatively modest downshift to 3.0% real GDP growth both this quarter and in 1Q10 as the economy benefits from such positives as sharply improved financial markets (higher equity prices and lower financing costs), much more moderate inventory liquidation, improving export markets, and the upturn in housing. But the forecast for sustained growth depends critically on business behavior, whether the combination of rising profits and improved financial conditions leads to a gradual moderation in layoffs over the next few months, and a return to positive job growth before too long. The September data in hand have shifted the balance of risks around the near-term forecast, reducing the chances of a vibrant near-term cyclical lift and raising concerns about the possibility of more pronounced slowing.

The key release from the week of September 28<sup>th</sup>-October 2<sup>nd</sup> for adding up 3Q09 real GDP prompted an upward revision to the forecast of real consumer spending to 3.0% (from 2.5%). The 0.9% increase in August real consumer spending was slightly stronger than expected, and there was a modest upward revision to the previously reported June figure. Next Friday's foreign trade report for August will be important in refining last quarter's growth forecast.

But September reports in hand showed some loss of momentum at the end of the quarter. Nonfarm payrolls and hours-worked declined more in September than in August. And though the increase to a 9.8% unemployment rate was as expected, details of the more volatile household survey were alarmingly weak. Household employment declined 785,000, and the rise in the unemployment rate was only limited by a sharp 0.3% drop in the labor force participation rate to 65.2%, a 20-year low.

The September ISM manufacturing survey also points to moderation in growth momentum. While results were in line with continued expansion, respondents report that the growth rate of both production and new orders slipped in September from the prior month's pace.

*Robert Mellman, JP Morgan Chase, New York, NY*

#### The Hockey-Stick Recovery

Although the data remain choppy, a modest recovery is unfolding on both sides of the border. U.S. home sales have risen since the spring, putting a floor under prices, while Canada's housing market has made a complete recovery in both sales and (remarkably) prices. The lengthy slide in residential construction has ended. Consumer spending has turned up in the U.S., even beyond the cash-for-clunkers boost to autos, while spending has trended modestly higher in Canada since the spring. Job losses have slowed in the U.S. and all but stopped in Canada. Led by automakers, manufacturers have raised production to replenish depleted inventories, with an upturn in exports providing extra support for U.S. factories. An increase in capital goods orders suggests business spending is steadying in both countries.

Record-low interest rates, massive fiscal stimulus and much-improved financial conditions (to above pre-credit crisis levels in Canada) have ended the recession. Canada's economy has been supported further by higher commodity prices, which reflect the V-shaped recoveries in China and other East Asian economies. The marked improvement in private capital markets has even allowed the U.S. government to wind down its backstop programs for money market funds and bank debt.

In Q3, U.S. real GDP likely grew more than 3% annualized after declining 0.7% in Q2, while Canada's economy probably expanded more than 1% after shrinking 3.4%. The growth discrepancy in the two countries largely reflects a larger swing in U.S. inventory investment and the one-off boost from the cash-for-clunkers program.

Although American households have reduced their debts in the past year (for the first time in 56 years of record-keeping), the current ratio of 114% of personal income remains near record highs, and is up one-third in the past decade. A recent survey suggests that the Great Recession has permanently changed the spending patterns of a majority of Americans towards increased thriftiness. We still believe households need to double their rate of savings from the current 3% of disposable income to restore finances to pre-credit boom conditions. But it won't be easy trying to rebuild savings given the current high jobless rate (at an effective rate of 17% when you consider the discouraged and underemployed) and the record length of unemployment. And, with the length of the workweek at a record low, work hours will likely be expanded before new workers can be hired. In coming months, over one million Americans will exhaust their unemployment insurance benefits, leading to even more foreclosures. The government's mortgage modification program has had only limited success, with just one-in-eight distressed households benefitting. About \$900 billion in interest-only mortgages will reset higher in coming years, and a record one-in-eight mortgaged households are already in foreclosure or behind on payments. No wonder consumer confidence is so fragile.

Unlike housing, U.S. commercial real estate markets continue to weaken amid rising vacancy rates (at 16% for office buildings versus just over 9% in Canada) and rapidly rising delinquency rates. Business spending in both countries will be constrained in the near term by record amounts of spare industrial capacity. Meantime, state governments are dealing with record declines in revenue by slashing jobs and services, mitigating some of the push from the federal stimulus plan. Private credit is still contracting, as U.S. banks continue to tighten credit standards, and a recent Fed survey suggested they will remain tight-fisted well into 2010. About 5% of the nation's banks are on the FDIC's "problem list", and the IMF estimates that, while American banks are further ahead than their European peers in writing off bad loans, there's still more pain to come.

Consumer deleveraging will not only restrain the U.S. recovery but Canada's as well. However, Canadian households, with a lower debt ratio of 102% of personal income (though up more than one-third in the past decade), have a little more scope to continue spending compared with Americans. As well, proportionately half as many unemployed Canadians have been jobless for over four months.

Still, with the aggressive monetary and fiscal stimulus likely to remain in place for a while, both economies should manage to pick themselves off the ice and sustain a recovery in 2010. The WSJ estimates that only one-fifth of the \$787 billion fiscal stimulus package was allocated as of early September. The bottoming in U.S. house prices should stop the rise in negative homeowner equity, removing a key downside risk to the outlook. Outside of financial firms, American businesses are fiscally fit after years of cutbacks. Cash flow remains strong and debts low, suggesting good potential to spend and hire, once demand picks up. Canada will enjoy the extra benefit of firmer commodity prices, with oil expected to top \$75/bbl next year. All in, the U.S. economy should grow a moderate 2.5% in 2010, while Canada will likely expand a little faster, led by domestic demand.

Because of the vast improvement in private credit markets, the Fed and the Bank of Canada have ended some emergency lending programs. But this shouldn't be confused with a shift towards tighter policy. Both banks have affirmed that, despite tentative signs of improvement, the economy still requires hefty doses of monetary (and fiscal) medicine, and likely will for some time. In our view, neither central bank will begin raising overnight rates until the second half of next year, though the BoC will likely move first.

*Saul Guaterti, BMO Capital Markets, Toronto, Canada*

## Calendar Of Upcoming Economic Data Releases

<b>Monday</b>	<b>Tuesday</b>	<b>Wednesday</b>	<b>Thursday</b>	<b>Friday</b>
<b>October 12</b> <b>Columbus Day</b> <b>U.S. bond market closed</b> <b>but U.S. equity markets</b> <b>open</b>	<b>13</b> Treasury Budget (Sep) NFIB Survey (Sep) FOMC Minutes (Sep 22 meeting) Weekly Store Sales ABC Consumer Comfort Index	<b>14</b> Retail Sales (Sep) Trade Price Indexes (Sep) Business Inventories (Aug) FOMC minutes (Sep. 22-23 meeting) EIA Crude Oil Stocks Mortgage Applications	<b>15</b> Consumer Price Index (Sep) Empire State Index (Oct) Philadelphia Fed Index (Oct) Weekly Jobless Claims Weekly Money Supply	<b>16</b> Industrial Production (Sep) Consumer Sentiment (Oct, Preliminary, University of Michigan) Treasury International Capital Flows (Aug)
<b>19</b> NAHB Housing Index (Oct)	<b>20</b> Housing Starts (Sep) Producer Price Index (Sep) Weekly Store Sales ABC Consumer Comfort Index	<b>21</b> Beige Book EIA Crude Oil Stocks Mortgage Applications	<b>22</b> Leading Economic Indicators (Sep) Weekly Jobless Claims Weekly Money Supply	<b>23</b> Existing Home Sales (Sep)
<b>26</b> Dallas Fed Survey (Oct)	<b>27</b> Case-Shiller Home Price Index (Aug) Richmond Fed Survey (Oct) Consumer Confidence (Oct, Conference Board) ABC Consumer Comfort Index Weekly Store Sales	<b>28</b> New Home Sales (Sep) Durable Goods Orders (Sep) EIA Crude Oil Stocks Mortgage Applications	<b>29</b> Gross Domestic Product (Q3, Advance) Kansas City Fed survey (Oct) Weekly Jobless Claims Weekly Money Supply	<b>30</b> Personal Income and Outlays (Sep) Consumer Sentiment (Oct, University of Michigan) Chicago PMI (Oct) Employment Cost Index (Q3)
<b>November 2</b> ISM Manufacturing (Oct) Construction Spending (Sep) Pending Home Sales (Sep)	<b>3</b> <b>FOMC Meeting</b> Vehicle Sales (Oct) Factory Orders (Sep) ABC Consumer Comfort Index Weekly Store Sales	<b>4</b> <b>FOMC Meeting</b> ISM Non-Manufacturing Index (Oct) ADP Employment (Oct) Challenger Layoffs (Oct) Consumer Credit (Aug) EIA Crude Oil Stocks Mortgage Applications	<b>5</b> Productivity and Costs (Q3, Preliminary) Wholesale Trade (Aug) Weekly Jobless Claims Weekly Money Supply	<b>6</b> Employment Report (Oct) Wholesale Inventories (Sep) Consumer Credit (Sep)
<b>9</b>	<b>10</b> ABC Consumer Comfort Index Weekly Store Sales	<b>11</b> <b>Veterans Day</b> <b>U.S. bond market closed</b> <b>but U.S. equity markets</b> <b>open</b>	<b>12</b> Treasury Budget (Oct) EIA Crude Oil Stocks Mortgage Applications Weekly Jobless Claims Weekly Money Supply	<b>13</b> Trade balance (Sep) Trade Price Indexes (Oct) Consumer Sentiment (Univ. of Michigan, Preliminary, Nov)
<b>16</b> Empire State Index (Nov) Retail Sales (Oct) Business Inventories (Sep)	<b>17</b> Producer Price Index (Oct) Industrial Production (Oct) NAHB Housing Market Index (Nov) Treasury International Capital Flows (Sep) ABC Consumer Comfort Index Weekly Store Sales	<b>18</b> Consumer Price Index (Oct) Housing Starts (Oct) Mortgage Applications EIA Crude Oil Stocks	<b>19</b> Philadelphia Fed Index (Nov) Leading Economic Indicators (Oct) Weekly Jobless Claims Factors Affecting Monetary Weekly Money Supply	<b>20</b>

## EXPLANATORY NOTES

For 33 years, *Blue Chip Economic Indicators'* monthly survey of leading business economists has provided private and public sector decision-makers timely and accurate forecasts of U.S. economic growth, inflation and a host of other critical indicators of business activity. The newsletter utilizes a standardized format that provides a fast read on the prevailing economic outlook. The survey is conducted over two days, generally beginning on the first working day of each month. Forecasts of U.S. economic activity are collected from more than 50 leading business economists each month. The newsletter is generally finished on the third day following completion of the survey and delivered to subscribers via e-mail or first class mail.

The hallmark of *Blue Chip Economic Indicators* is its *consensus forecasts*. Numerous studies have shown that by averaging the opinions of many experts, the resulting consensus forecasts tend to be more accurate over time than those of any single forecaster.

**Annual Forecasts** On pages 2 and 3 of the newsletter are individual and consensus forecasts of U.S. economic performance for this year and next. The names of the institutions that contribute forecasts to these pages are listed on the left of the page. They are ranked from top to bottom based on how fast they expect the U.S. economy to expand in the current year. Some of these institutions have one or more asterisks (\*) after their names, denoting how many times they have won the annual *Lawrence R. Klein Award for Blue Chip Forecast Accuracy*.

Across the top of pages 2 and 3 is a list of the variables for which the individual cooperators have provided forecasts. Definitions and organizations that issue estimates for these variables are found at the bottom of page 3. For columns 1-9, the forecasts are for the year-over-year percent change in each variable. Columns 10-12 represent average percentage levels of the year in question. Column 15 is an inflation-adjusted dollar level, measured in billions of chained 2000 dollars. High and low forecasts from the panel members for each variable are denoted with an "H" or "L".

Immediately below the forecasts of the individual contributors are this month's consensus forecasts. The consensus is derived by averaging our panel members' forecasts for each variable. Below the consensus forecasts are averages of this month's ten highest and ten lowest forecasts for each variable. Below them are last month's consensus forecasts. To put the forecasts in context, we include four years of historical data for each variable at the bottom of page 2. Please note that these figures can change due to government revisions of previously released estimates. Below the historical data are the number of forecasts changed from a month ago for each variable, the median forecast for each variable and a diffusion index. The diffusion index serves as a leading indicator of future changes in the consensus forecast. A reading above 50% hints of future increases in the consensus; a reading below 50% hints of future declines. The diffusion index is calculated by adding to the number of forecasters who raised their forecasts for a particular variable this month, half the number of those who left their forecasts unchanged, then dividing the sum by the total number of those contributing forecasts.

**Historical Annual Consensus Forecasts** Page 4 contains the forecasts from previous issues for the current and subsequent year so that subscribers can see how the outlook has changed over time. Each issue also includes graphs and analysis focusing on noteworthy changes and trends in the consensus outlook.

**Quarterly Forecasts** Page 5 contains quarterly historical data and consensus forecasts of the U.S. economy's performance. For columns 1-7, the forecasts are for the quarter-over-quarter, seasonally-adjusted, annualized percent change in each variable. Columns 8-10 represent average percentage levels for the quarter in question. Columns 11 and 12 represent seasonally-adjusted, annualized levels for the quarter, measured in billions of inflation-adjusted dollars. As is the case on pages 2-3, the consensus quarterly forecasts on the top half of page 5 are simple averages of our contributors' forecasts. The high-10 and low-10 forecasts are averages of the 10 highest and 10 lowest forecasts for each variable. At the bottom of page 5 are additional quarterly consensus forecasts for Real GDP, GDP Price Index, Industrial Production and Consumer Price Index. These figures are produced by taking the annualized quarterly consensus forecasts found on the top of page 5 and computing a quarterly dollar value for Real GDP, and average quarterly index levels for the GDP Price Index, Industrial Production and the Consumer Price Index. We then compute a year-over-year percentage change between the relevant quarter and the corresponding quarter of the previous year.

**International Forecasts** Pages 6-7 contain historical data and consensus forecasts of five key economic variables for 15 of the U.S.'s largest trading partners. A list of the institutions contributing forecasts to these pages can be found at the bottom of page 7. Columns 1 and 2 are forecasts of the year-over-year percent change in inflation-adjusted economic growth and consumer price inflation for this year and next. Column 3 is each nation's estimated current account surplus or deficit, reported in billions of current U.S. dollars. Column 4 is the estimated value of each nation's currency versus the U.S. dollar at the end of this year and next. Column 5 is the estimated level of interest rates on 3-month interest rates in each nation at the end of this year and next. Immediately below this month's consensus and the highest and lowest estimates for each variable are last month's forecasts and a limited amount of historical data. The historical data may change from month-to-month due to government revisions.

**Special Questions** On page 14, we report on panel members' answers to our special questions. Individuals' responses to the special questions are never displayed, only consensus, top-10 and bottom-10 results. *In March and October, we publish our semi-annual, long-range surveys.* In addition to our usual forecasts for this year and next, the semiannual, long-range survey results provide subscribers with consensus forecasts of all the variables found on pages 2 and 3 for each of the following five years, plus an average for the five-year period after that.

**Blue Chip Econometric Detail** With the March, June, September and December issues, subscribers also receive a four-page quarterly supplement entitled *Blue Chip Econometric Detail*. The supplement contains forecasts of an expanded list of economic and financial variables that are derived from the consensus forecasts found in *Blue Chip Economic Indicators*. Macroeconomic Advisers, LLC of St. Louis, Missouri produces this forecast detail based on a simulation of its econometric model of the U.S. economy.

*Should you have questions about the contents, or methods used to produce Blue Chip Economic Indicators, please contact Randell Moore at (816) 931-0131 or email him at [randy.moore@wolterskluwer.com](mailto:randy.moore@wolterskluwer.com).*