

ECONOMIC INDICATOR

Executive Summary - As the Economy Tries to Regain Ground, Frozen Credit Markets Continue to “Freeze” Out Non-Residential Construction

As we all know, our country is in the middle of a horrible recession and everyone is looking for any type of sign, data, graph, or chart to signify the end of this downward spiral. Miles•McClellan is no different in the search for answers, and we have decided to share a few important economic indicators with all of you every month so we can all better understand the challenges we face in the near future.

INDICATOR	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
Architectural Billing index (ABI)	-	+	-	+	+	-	+
Initial Claims - Unemployment	+	+	+	+	+	+	+
Continuing Claims - Unemployment	-	-	+	+	+	+	+
Non-residential Construction Index (NRCI)		-			+		
Capacity Utilization (effects Non-residential spending)	-	+	+	+	+	+	+
Auto Sales	-	+	+	-	+	+	+
Housing Starts	+	-	+	+	-	+	-
Future Interest Rate	+	-	-	-	+	-	+
Baltic Dry Index (BDI)	+	-	-	-	+	+	-

Headlines

- The **Architectural Billing Index** inched upward in December to 43.4 from 42.8 in November. Industry professionals state that the frozen credit markets are the main reason the industry is not improving.

- **New Indicator** - The *Future Interest Rate Indicator* was added because industry professionals believe it provides a simple, market-based view of the economy which can give insight to a potential economic recovery. Read more about what can be learned below!!!

- **Initial Claims** continue to fall at a high enough level that some economists believe we are reaching “definite stability and just a hint toward things trying to get better.”

KEY

Positive Change + + + +

Negative Change - - - -

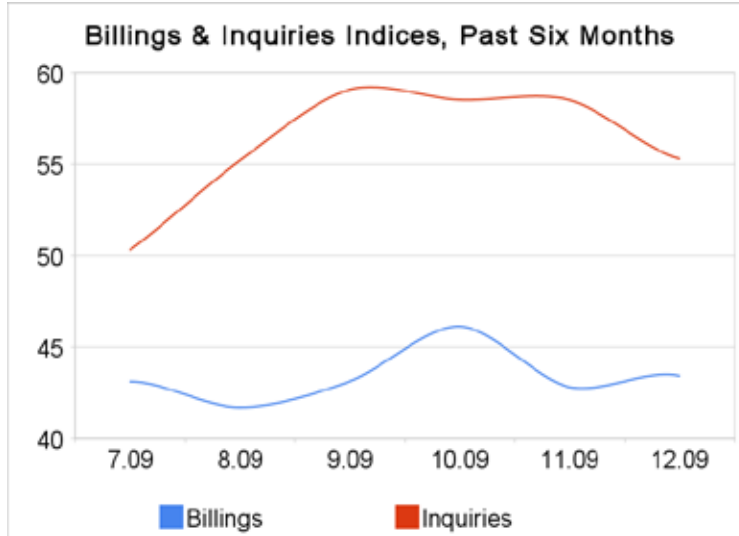
Good Performance 

Average Performance 

Poor Performance 

ECONOMIC INDICATOR

ABI Shows Small Increase; Frozen Credit Markets Limit Industry



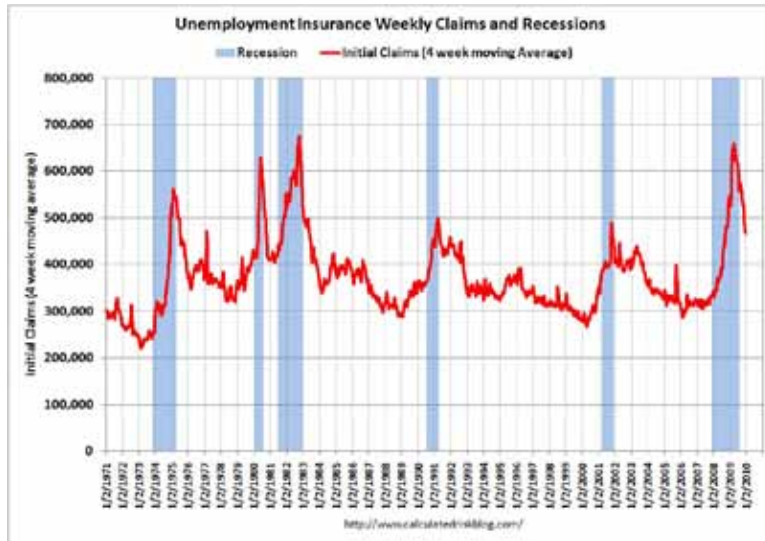
Architectural Billing Index

November Billings: 42.8 December Billings: 43.4
 November Inquiries: 58.5 December Inquires: 55.3

“On the heels of a more than three point drop in November, the Architecture Billings Index (ABI) had a negligible increase of less than one point in December. The American Institute of Architects (AIA) reported the December ABI rating was 43.4, up slightly from 42.8 in November. This score indicates a continued decline in demand for design services (any score above 50 indicates an increase in billings). The new projects inquiry score was 55.3, down more than three points. “The main impediment to an economic turnaround for the design and construction industry remains frozen credit markets. We continue to hear that there are numerous viable projects out there awaiting financing,” said AIA Chief Economist Kermit Baker, PhD, Hon. AIA. “And the longer this situation persists, the more dire the news for the architecture profession which is struggling at unprecedented proportions.”

ArchitectMagazine.com - AIA Report
Graph: ArchitectMagazine.com - AIA Data

Initial Claims Continue To Dive; Unemployment Begins To Stabilize



Initial and Continuous Unemployment Claims

Nov Initial Claims: 496,500 Dec Initial Claims: 460,250
 Nov Cont. Claims: 5.61 M Dec Cont. Claims: 5.10 M

“Dec. 31 (Bloomberg) -- Fewer Americans than anticipated filed claims for unemployment benefits last week, pointing to an improvement in the labor market that will help sustain economic growth next year. Companies are retaining staff as sales improve and production picks up. Gains in consumer spending, which accounts for 70 percent of the economy, may encourage more hiring in coming months, helping to bolster the rebound from the worst recession since the 1930s. “What we’ve seen is definite stability and just a hint toward things trying to get better,” Jeffrey Joerres, chief executive officer of Manpower Inc., said in a Bloomberg Television interview today. The world’s second-largest provider of temporary workers, is experiencing “slow but steady increases in people who are out on assignment,” he said. “It’s a little in every office, which is a good sign because it’s broad-based.”

Bloomberg, Courtney Schlisserman
Graph: Calculated Risk

Nonresidential Construction - A Declining Industry In 2010

	FORECAST 2010 2011 % change	
Nonresidential Total	-13.4	1.8
Commercial Total	-18.8	8.9
Office	-18.6	11.8
Retail/Other Comm.	-17.2	3.2
Hotel	-23.5	5.4
Industrial Total	-24.3	-7.8
Institutional Total	-1.9	3.0
Health	-0.3	2.5
Education	-5.6	6.0
Religious	-5.8	2.0
Public Safety	0.8	-0.1
Amusement/Recreation	-12.9	-4.4

Non-Residential Construction Outlook

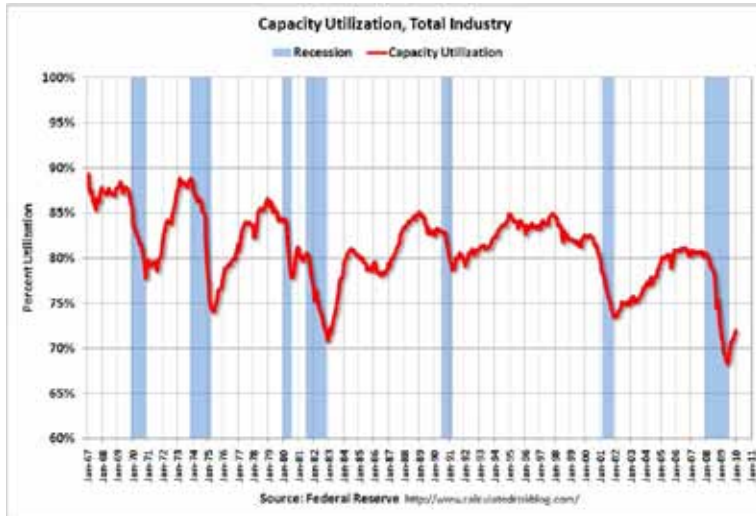
“Nonresidential construction, unfortunately, is still mired in a steep downturn. Overall nonresidential construction spending declined over 10% between October 2008 and October 2009. As such, private nonresidential construction spending declined by over 20% over the past year, with key categories such as retail and office facilities off by more than 30%. The coming year is likely to see further declines in the nonresidential sector. According to the AIA Consensus Construction Forecast Panel, nonresidential construction activity will decline another 13.4% in inflation-adjusted dollars (akin to a square footage concept) in 2010, before finally posting a modest advance of 1.8% in 2011. The commercial and industrial sectors are expected to be uniformly weak in 2010, with declines close to 20% in most major categories. Institutional construction will fare better, with a modest decline of just under 2% projected for 2010 before reversing for a 3% gain in 2011.”

AIA Architect, Kermit Baker
Graph: AIA Architect

These projections are based on assumptions of fact which may not occur, and are speculative in nature. These projections have not been reviewed or approved by independent accountants or legal counsel or other advisors. Such assumptions are subject to variations that may arise in the future and which may be beyond the control of the corporation. Any change or variation in any of the assumptions would change the projected financial statements and analysis. No representation or warranty, express or implied, is intended as to the reasonableness or accuracy of these projections.

ECONOMIC INDICATOR

Capacity Rate Heading In Right Direction; Still A Long Way To Go



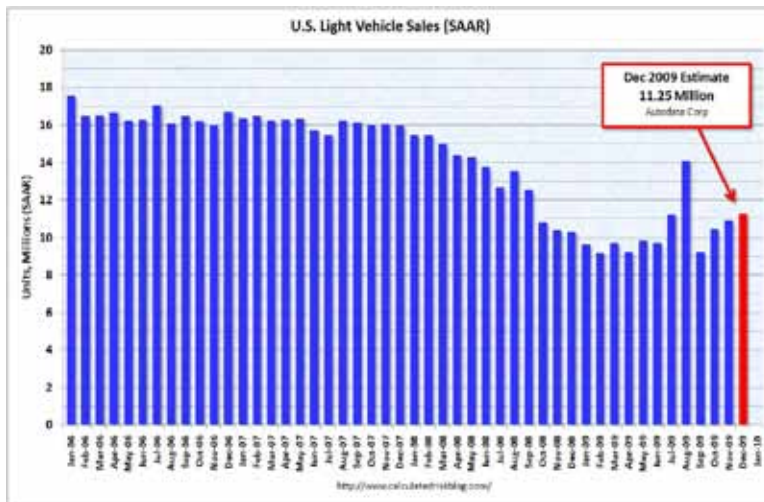
Capacity Utilization Rate

Nov 2009 Rate: 71.5% Dec 2009 Rate: 72.0%

"The graph shows the longer-term history of capacity utilization. It is one of my favorite, and probably most underrated, economic indicators. It is effectively the unemployment rate for our physical capital in the country. Like the employment rate, it never gets to 100%. As a general rule of thumb, 85% generally indicates that the economy is booming, and is in danger of overheating. It is a signal to the Fed that it is time to start tightening up and raise rates. Capacity utilization of 80% indicates a nice healthy economy. A rate of 75% is what you see in a nasty recession. At the bottom of this cycle (in June), we hit 68.3%. Prior to this cycle, the previous record low was 70.9%, hit in December of 1982. As the graph shows, capacity utilization is a very good indicator of when a recession ends, bottoming within a month or two of the official end of a recession just about every time. So overall, it looks like we are still headed in the right direction, but at a slower pace in December than in November, and we are doing so from a very bad place."

Yahoo Finance, Dirk Van Dijk
Graph Data: Calculated Risk

Auto Industry Prepares For A Fragile Recovery In 2010



Auto Sales

November 2009: 10.93 M December 2009: 11.25 M

"Though a brutal year for auto sales, manufacturers continue to see the glimmer of the light at the end of the tunnel, said Jesse Toprak, VP of Trends and Insights for TrueCar. We have come a long way in the last 12 months but it appears that the recovery in 2010 will be slower than we anticipated earlier in the year." (TC) "Many of the automakers can celebrate a bright ending to a tough year this holiday season. For example, Subaru should finally climb back above two percent market share and may even pass Volkswagen in annual sales," observed Jessica Caldwell, Director of Industry Analysis for Edmunds.com. "However, the industry is still far below its comfort zone in terms of sales volume. Case in point: this is the first year since the 1960s in which Chrysler won't sell one million vehicles." (ED) "We're looking at a slow, fragile recovery in 2010," said Mirko Mikelic, senior portfolio manager at Fifth Third Asset Management in Grand Rapids, Michigan. "It will be a slow slog. With the wind down of brands, GM's going to be paying the price. And Ford will benefit." (BB).

Truecar, Edmunds.com; Bloomberg, Merx and Ramsey
Graph: Calculated Risk

Housing Starts Add A Disappointing Finish To An Already Awful Year



Housing Starts

November 2009: 574,000 December 2009: 557,000

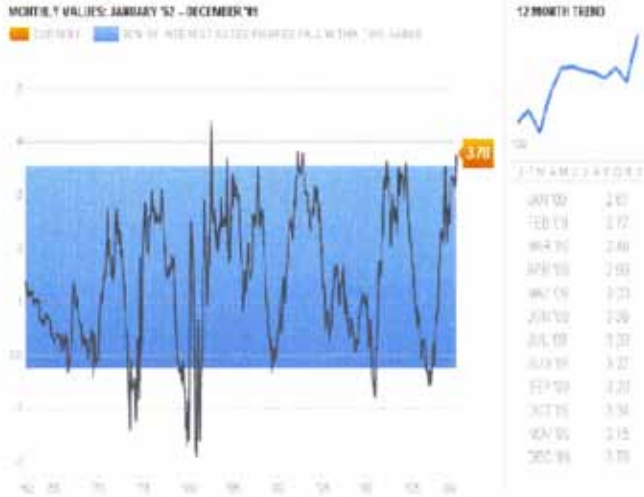
"There's no way to sugar-coat it: 2009 was another difficult year for the U.S. housing sector, with massive declines in housing starts, 39%, and homes completed, 29%, following excesses that occurred during the housing bubble from 2003 to 2007. Further, the adjustment period probably is not over: Single-family housing starts of homes, condos, and apartments have been statistically flat over the past 12 months, and given high inventories and the likely, continuing stream of foreclosed homes for 2010, home builders undoubtedly will be reluctant to increase their construction pace, at least for the first half of 2010. Given this news, the extension through April 30 of the federal government's \$8,000/\$6,500 tax credit for first-time/existing home buyers is prudent: Housing needs demand from all potential sources to increase sales, inventories, and, ultimately, housing starts -- a key factor component of U.S. GDP growth."

Joseph Lazzaro, DailyFinance.com
Graph: Calculated Risk

These projections are based on assumptions of fact which may not occur, and are speculative in nature. These projections have not been reviewed or approved by independent accountants or legal counsel or other advisors. Such assumptions are subject to variations that may arise in the future and which may be beyond the control of the corporation. Any change or variation in any of the assumptions would change the projected financial statements and analysis. No representation or warranty, express or implied, is intended as to the reasonableness or accuracy of these projections.

ECONOMIC INDICATOR

Future Rate Indicator Predicts Economy On The Verge To Grow



NEW-Future Interest Rate Indicator

November 2009: 3.15 December 2009: 3.78

What is it? • The spread between 3 month Treasury bill yields and 10 year Treasury note yields measures the market's outlook for future interest rates. **Why is it important?** • The Interest rates indicator was added because we believe it provides a simple, market-based view of the economy. A "normal," or upward-sloping yield curve, can imply that investors expect the economy to grow and inflation to eat into asset returns. They thus demand a higher yield for long-term Treasuries. A "flat" or "inverted" yield curve has often been an indicator of coming recessions, but not always. For example, reduced inflation expectations could cause the yield curve to flatten. **How do we interpret it?** • An increase in the yield curve spread generally indicates that investors expect interest rates to increase. A decrease in the spread usually means the opposite.

*Russell Investments, Bloomberg Data
Graph: Russell Investments, Bloomberg Data*

Baltic Dry Index Tumbles In December; Still At Acceptable Levels



Baltic Dry Index - BDI

November 2009: 4,381 December 2009: 3,254

"Dry bulk vessel over-supply is finally taking its toll, the Baltic Dry Index (BDI) has gone into a nosedive as shown in the graph. While the current index level is still equivalent to historically strong rates, continued strength in 2010 is entirely predicated on continued growth of Chinese dry bulk raw material imports. While November iron ore imports were encouraging and 2009 was a year of surprising strength, with China it could all disappear in an instant."(VF). "This index is one of the purest leading indicators of economic activity. It measures the demand to move raw materials and precursors to production. Consumer spending and other economic indicators are backward looking, meaning they examine what has already occurred. The BDI offers a real time glimpse at global raw material and infrastructure demand."(WI).

*Vincent Fernando, Business Insider, WIKinvest
Graph: Business Insider*