

## ECONOMIC INDICATOR

**Executive Summary - Same Old Story, Economy As A Whole Improves, While Nonresidential Construction Continues To Struggle.**




We all have questions about the economy; Are we now in a period of economic recovery? Or are we seeing a mirage as the economy continues to decline? 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	JULY	AUG	SEPT	OCT	NOV	DEC	JAN
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	-	+	+	-	+	-	+
ABC Construction Backlog Indicator - NEW!	+	-	+	-	+	2 Month Delay	
Baltic Dry Index (BDI)	-	-	-	+	+	-	-

**Headlines**

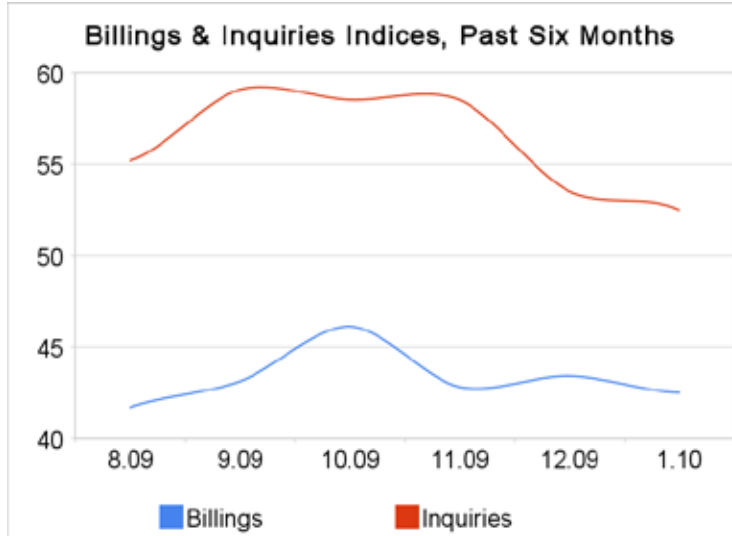
- The **Architectural Billing Index** dropped yet again as delayed projects and uncertain credit markets continue to be a detriment to the struggling construction industry.
- **New Indicator** - The **ABC Construction Backlog Indicator (CBI)** is a forward-looking national economic indicator that reflects the amount of work that will be performed by commercial and industrial contractors in the months ahead. Check out what we can learn from it inside!!!
- The **Nonresidential Construction Index** from FMI was released for the first quarter of 2010 and showed slight improvement, commenting that a slow recovery may be on the way for 2010.

**KEY**

Positive Change	+	+	+	+
Negative Change	-	-	-	-
Good Performance				
Average Performance				
Poor Performance				

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## ABI Decreases; Construction Facing Deteriorating Market Conditions



## Architectural Billing Index

December Billings: 43.4      January Billings: 42.5  
 December Inquires: 55.3      January Inquiries: 52.5

“Projects are being delayed or cancelled because lending institutions are placing unusually stringent equity requirements on new developments. “This is even happening to financially sound companies with strong credit ratings,” said AIA Chief Economist Kermit Baker, PhD, Hon. AIA. “This serious situation is being compounded by a skittish bond market, decreased tax revenues for publicly financed projects and declining property values - all which serve as deterrents for construction activity. Until these factors are resolved, the design and construction industry -- which accounts for roughly 10 percent of GDP and is facing unemployment figures in excess of 20 percent -- will continue to face deteriorating market conditions.”

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

## Initial Claims Continue To Dive; Unemployment Begins To Stabilize



## Initial and Continuous Unemployment Claims

Dec Initial Claims: 460,250      Jan Initial Claims: 448,250  
 Dec Cont. Claims: 5.10 M      Jan Cont. Claims: 4.75 M

“The 4-week moving average of initial claims was 448,250, up 7,000 from the previous week’s revised average of 441,250. “We did see an increase in initial claims and that does counter the recent trend of consistent improvement,” said Robert Dye, a senior economist at PNC Financial Services. The cold weather in December and the first half of January caused industries such as construction, agriculture and retail to suffer, Dye said. “Typically, economic series are seasonally adjusted,” he said. “But when you have unusual weather like this, the adjustments sometimes don’t go far enough to capture it.” Outlook: “We are in the zone where we would expect payroll data to flip from negative into positive territory at the end of the first quarter,” said Dye. “And we’ll see net job creation through the end of this year.” Dye also said he expects jobless claims to fall significantly beginning in February as warmer weather boosts employment. “I think we will continue to see an improving trend in initial claims,” he said. “It seems like we’re getting back into some more seasonal weather patterns.”

*CNNMoney.com, Blake Ellis*  
*Graph: Calculated Risk*

## FMI Shows Slightly Positive Move In First QTR of 2010



## Non-Residential Construction Outlook

4th Quarter 2009: 47.7      1st Quarter 2010: 48.4

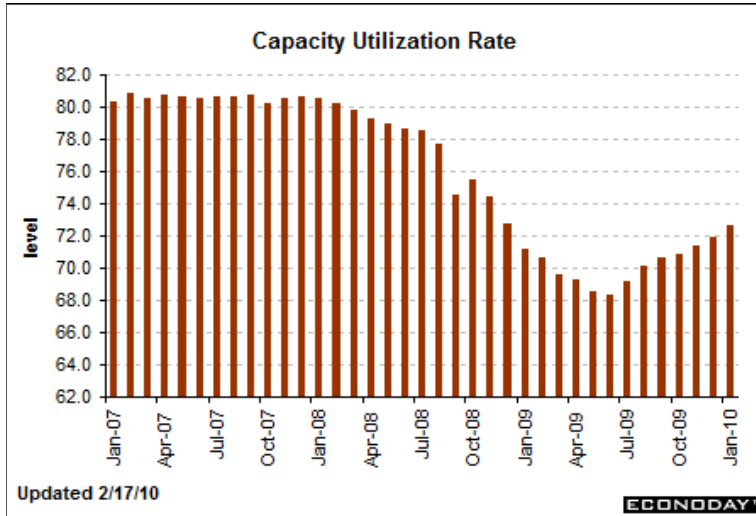
“The NRCI report for the first quarter is 48.4, a slightly positive move from the fourth quarter 2009 reading of 47.7. The improvement may be attributed to the panelists’ trust in a continuing upswing in the economy. While health care construction is the only construction market showing relative strength this year, most panelists predict improvements for next year, with the exception of the lodging and office markets. 52% still expect reductions in staff for 2010, compared with the 64% that were downsizing this time last year; however, those cuts will be less drastic with most being less than 5% of staff. Even though reductions still loom, some construction executives are making strategic hires to prepare for certain market improvement. Overall, we think we are seeing signs of recovery in the responses to this quarter’s survey, but that recovery could be very slow, especially if financial institutions continue to keep a tight reign on loans and owners are reluctant to build once their markets improve.”

*FMI, Philip Warner*  
*Graph: FMI*

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.

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## Industrial Production Improves; Capacity Begins To Fill



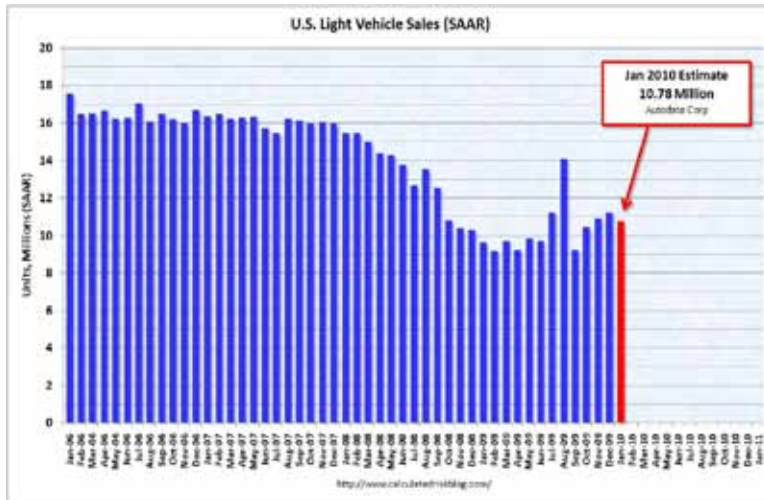
### Capacity Utilization Rate

Dec 2009 Rate: 72.0% Jan 2010 Rate: 72.6%

"This graph shows Capacity Utilization. This series is up 6% from the record low set in June (the series starts in 1967). Capacity utilization at 72.6% is still far below normal - and far below the pre-recession levels of 80.5% in November 2007." (CR) "Industrial production posted another strong gain for January-but this time the strength was real and not weather related. Industrial production in January advanced 0.9%, following a 0.7% jump in December. The January was marginally better than the market projection for a 0.8% gain. Despite the recent gains in production, the Fed yet has much to worry about bottlenecks in the industrial sector creating any inflation pressures (because the capacity utilization rate is still low). (ED)."

CalculatedRisk; Econoday  
Graph Data: Econoday

## Toyota's Problems Stymie The Industry In January 2010



### Auto Sales

December 2009: 11.25 M January 2010: 10.78M

"U.S. auto sales rose 6% in January (over last year's number), although results were generally disappointing. Sales were hurt by weak demand from consumers and the well-publicized problems at Toyota Motor. Toyota said Tuesday that January sales fell 16% from a year earlier, worse than a forecast of a 12% year-over-year decline from sales tracker Edmunds.com. But Toyota's problems didn't appear to provide much of a lift for other automakers. "The halt in sales created more confusion in the market than demand for other automakers' products," according to Ken Czubay, a Ford Motor vice president. Paul Ballew, a consumer economist at financial services company Nationwide, said automakers will continue to face significant trouble because Americans are still not ready to spend big. He doesn't expect a strong recovery in auto sales until the middle of the decade. "Consumers are hesitant for legitimate reasons," he said. "We're expecting the recovery to be very modest and gradual."

CNNMoney.com  
Graph: Calculated Risk

## Housing Starts Shoot Upward; Credit Market Still A Problem



### Housing Starts

December 2009: 557,000 January 2010: 591,000

"Nationwide housing production hit its strongest pace in the last six months this January, posting a 2.8% gain to a seasonally adjusted annual rate of 591,000 units, according to figures recently released by the U.S. Commerce Department. "As our latest home builder surveys have indicated, today's excellent home buying conditions—including the availability of tax credits for first-time and repeat buyers, very favorable mortgage rates and stabilizing home values—are helping drive potential buyers back to the market," said NAHB Chief Economist David Crowe. However, he said, "A continuing shortfall in available credit for building projects is still producing a drag on new construction and slowing the progress of recovery in housing and the overall economy."

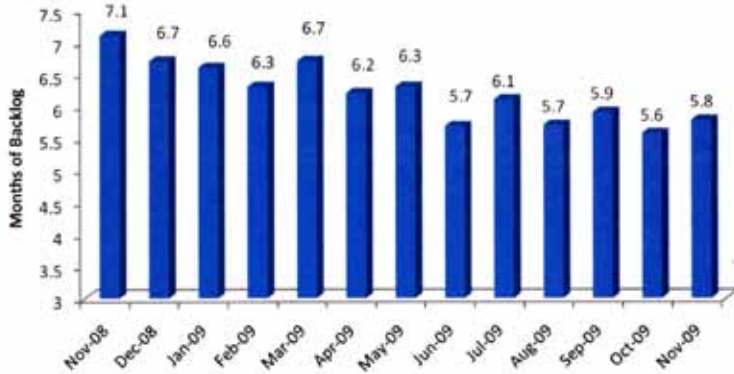
RISMEDIA  
Graph: Calculated Risk

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## Backlog Begins To Bounce Back; Commercial Sector Still Lagging

National Backlog Average  
November 2008 - November 2009



©Associated Builders and Contractors, Construction Backlog Indicator

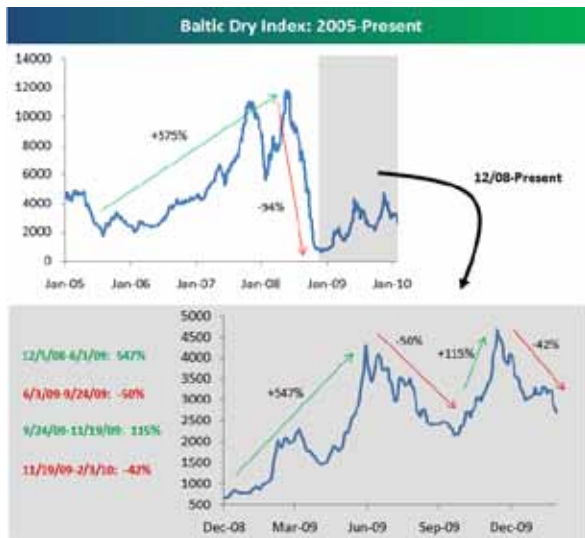
## NEW-ABC Construction Backlog Indicator (CBI)

October 2009: 5.6 months November 2009: 5.8 months

“CBI is a forward-looking measurement of the amount of construction work currently contracted to be completed in the future. “You can summarize three important points from the recent CBI data - the worst is over for the construction industry as a whole; the recovery may not be a sustained one; and the United States is rebuilding its infrastructure capacity,” said ABC Chief Economist Anirban Basu. “Throughout 2009, the CBI for the infrastructure category has risen as stimulus spending began to flow, and that is now the healthiest average backlog at 10.9 months. However, despite the massive amount of federal dollars involved, smaller construction firms continue to suffer abnormally short backlogs, and there is very little evidence of improvement in backlog within the commercial and institutional category,” Basu added. “There is ample evidence that the worst period of decline for nonresidential construction across the United States is now behind us. Though backlog remains well below levels from November 2008, backlog has bounced back from its cyclical low in each region of the nation,” said Basu.”

Associated Builders and Contractors, Inc.  
Graph: ABC

## Baltic Dry Index Bubble May Burst Soon; Further Decline Imminent



## Baltic Dry Index - BDI

December 2009: 3,254 January 2010: 3,200

“The dry bulk shipping vessel order book is so massive over the next two years that even huge cancellation estimates would have trouble making it manageable, and thus saving the Baltic Dry Index. FTAlphaville highlights that broker Icap expects 1,400 vessels to be delivered in 2010, which equates to 120 vessels per month on average. (Even if in reality they won’t be spread out evenly) How bad is 120 ships per month relative to what the market has had to deal with so far? At no point during 2009 did the rate of delivery exceed 60 vessels in one month – but even if this rate of delivery were maintained throughout 2010 it would still equate to slippage of around 50 per cent. However, in light of the sheer size of the order book, and despite high levels of slippage, the market still faces the prospect of continued tonnage growth. This doesn’t mean every dry bulk company is toast, but it does mean that the Baltic Dry Index’s strength can’t be sustained forever, especially with China beginning to tighten its monetary policy and restrict economic growth.”

Vincent Fernando  
Graph: AdvisorAnalyst.com