

ECONOMIC INDICATOR

Executive Summary - As the Economy Starts to Regain Ground, Nonresidential Construction Continues to Fade

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	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV
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	+	+	-	+	+	-	+
TED Spread	+	+	+	+	+	-	+
Baltic Dry Index (BDI)	+	+	-	-	-	+	+

Headlines

- **The Architectural Billing Index** faltered in November, dropping 4 points to 42.8. This further enhances the theory that the nonresidential construction industry will be down in 2010.
- The AIA Architect Construction Outlook told a similar story as it stated that Nonresidential Construction will be down 13.4% in 2010, and then finally start to regain ground in 2011.
- **Housing Starts and Auto Sales** both had positive months as auto sales begin to normalize and housing starts try to put an end to the massive decreases in 2009.

KEY

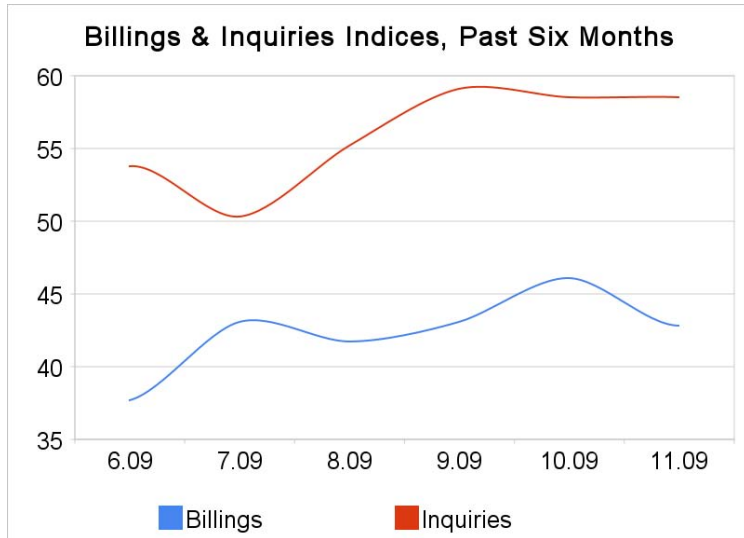
Positive Change	+	+	+	+
Negative Change	-	-	-	-
Good Performance				
Average Performance				
Poor Performance				



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ABI Has Sizeable Decrease; Shows Uncertainty for 2010



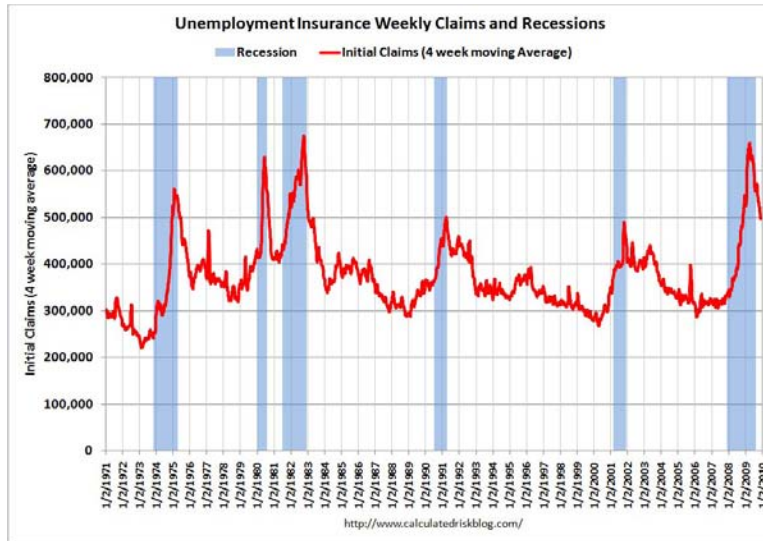
Architectural Billing Index

October Billings: 46.1 November Billings: 42.8
 October Inquiries: 58.5 November Inquiries: 58.5

“The Architectural Billing Index - a key indicator of future commercial construction activity - dropped more than three points in November because of continuing uncertainty in the construction industry, the American Institute of Architects said Wednesday. “There continues to be a lot of uncertainty in the construction industry that likely will delay new projects in the near future,” Kermit Baker, the AIA’s chief economist, said in a statement. “Perhaps [President Barack Obama’s] plan calling for loans for small business, funding for infrastructure projects and rebates for home owners making energy efficient improvements will help speed a recovery in the construction industry.” The November ABI showed institutional projects had the highest rating, at 47, followed by apartments (45.8), mixed practice (42.8) and industrial (40.7). Even though apartments are residences, they’re considered commercial real estate properties because they are generally owned by third-party non-residents.”

Denver Business Journal
 Graph: *ArchitectMagazine.com - AIA Data*

Initial Claims Continue Decline; But Overall Unemployment Is High



Initial and Continuous Unemployment Claims

Oct Initial Claims: 523,750 Nov. Initial Claims: 496,500
 Oct Cont. Claims: 5.79 M Nov. Cont. Claims: 5.61 M

“As the graph shows, we have seen a dramatic decline in new claims since they peaked up back in April. Clearly the pace of layoffs has slowed down significantly. However, the problems seems to be more on the other side -- it is not people losing jobs, but the inability of people who are unemployed to find a new job. The news was not nearly as good on the continuing claims front. Regular state claims for unemployment totaled 5.61 million. In addition, after 26 weeks those claims run out and people move over to extended claims, which are largely paid for by the Federal government as part of the stimulus package. Combining regular and extended claims, that means there are now 9.922 million people getting unemployment checks in the country. Usually if someone has been out of work for more than six months, when they do find a job, it is at a substantially lower salary than the job they left. This means that one of the most lasting effects of the great recession will be a further hollowing out of the middle class, as those people who suffered bouts of long-term unemployment drop out of it.”

Seeking Alpha, Dirk van Dijk
 Graph: *Calculated Risk*

Nonresidential Construction - A Declining Industry in 2010

	EST. 2009	FORECAST 2010	FORECAST 2011
	\$	% change	% 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		-5.0	6.0
Religious		-5.8	2.0
Public Safety		0.8	-0.1
Amusement/Recreation		-12.9	4.4

Non-Residential Construction Outlook

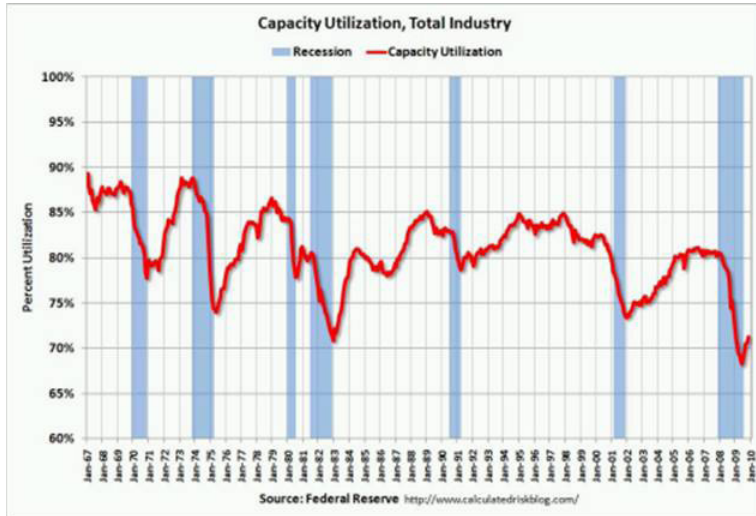
“Nonresidential construction, unfortunately, is still mired in a steep downturn. Overall nonresidential construction spending declined over 10% between October 2008 and October 2009. As such, private nonresidential construction spending declined by over 20% over the past year, with key categories such 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*

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Is Utilization Increasing Or Is Capacity Decreasing?

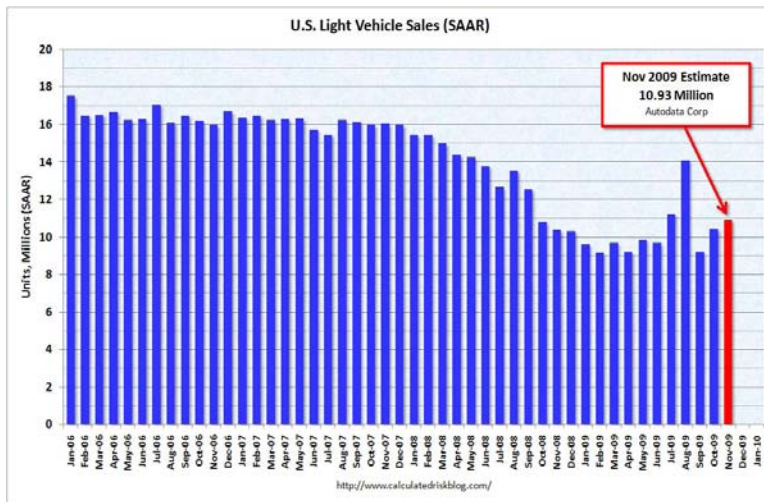


Capacity Utilization Rate

“Total capacity utilization rose to 71.3% from 70.6% in October. A year ago, the nation’s factories, mines and power plants were operating at 74.4% of capacity. That was already a low figure. Historically, as shown in the graph, total capacity utilization of around 80% represents a normal healthy economy (the long term average is 80.9%); if it rises to 85% or above it indicates that the economy is booming and might be in danger of overheating, and thus igniting inflation. A reading of 75% normally indicates recessionary conditions. This cycle, we hit a low of 68.3% in June, so the rebound since then has been very significant, but we are still just a little bit higher than we were at the previous record low set in December 1982, at 70.9%. Also consider that some of the improvement we have seen is ephemeral — some of our capacity is not only sitting idle, it has been destroyed forever. Total production capacity is down 0.9% from a year ago, which is one way of getting capacity utilization up, but does not really add to long-term economic strength.”

Zachs Investment Research, Straight Stocks
Graph Data: Calculated Risk

Vehicle Industry Starting To Make Its Comeback



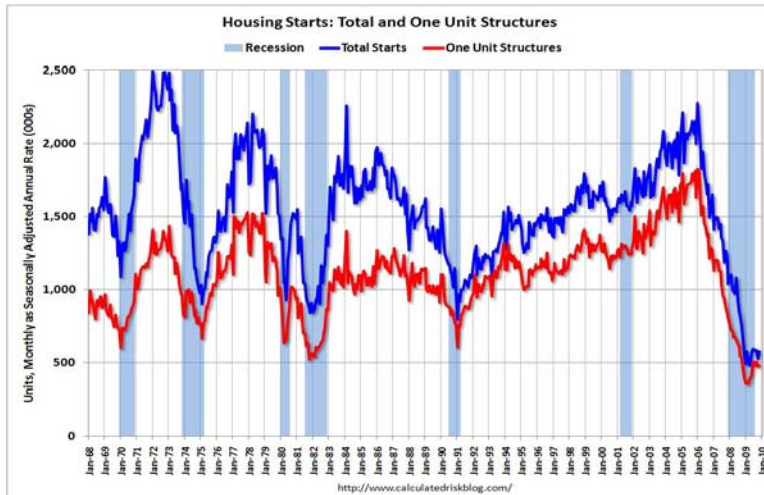
Auto Sales

October 2009: 10.46 M November 2009: 10.93 M

“Many manufacturers saw upticks in new vehicle shopping activity during the month on AutoTrader.com. Additionally, asking prices continued to rise as consumers begin to return to the nation’s showrooms, lured by exciting new vehicles rather than high-cost rebates and significant dealer discounts. “After the wild ride of the 2009, manufacturers, dealers and consumers alike are starting to see inventories and prices normalize,” said AutoTrader.com President and CEO Chip Perry. “More importantly, consumers are generally beginning to open their wallets again, and are moving forward with that new vehicle purchase that they had been delaying up until now.”(AT) “Many of the automakers can celebrate a bright ending to a tough year this holiday season,” 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)

AutoTrader.com; Edmunds.com
Graph: Calculated Risk

Housing Starts Rebound; Still Uncertain Times Ahead



Housing Starts

“The fact that both starts and permits for new housing production rose last month is a good sign that we’re headed in the right direction, albeit slowly, on the road to a housing recovery, said Joe Robson, chairman of the National Association of Home Builders (NAHB) and a home builder from Tulsa, Okla. “That said, the November improvement was primarily on the multifamily side, and poor job markets and other economic factors are still keeping many potential buyers on the fence for the time being.” “Home builders remain very cautious about starting new homes, and overall housing production is still down on a three-month average basis,” noted NAHB Chief Economist David Crowe. “ However, the fact that permits increased in November is a hopeful indication that the desired impact of the tax credit on housing demand may be forthcoming early in 2010. In the meantime, credit for new housing production remains extremely difficult to come by, posing significant obstacles to builders with viable projects.”

Rismedia
Graph: Calculated Risk

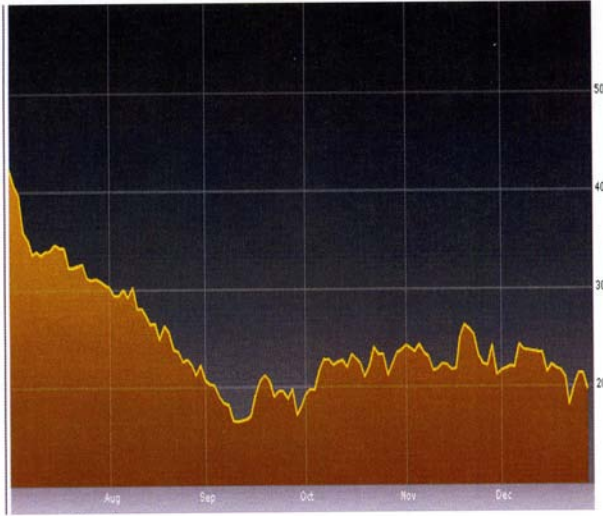
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TED Spread Stays Normal; Banks Too Shellshocked To Lend



TED Spread

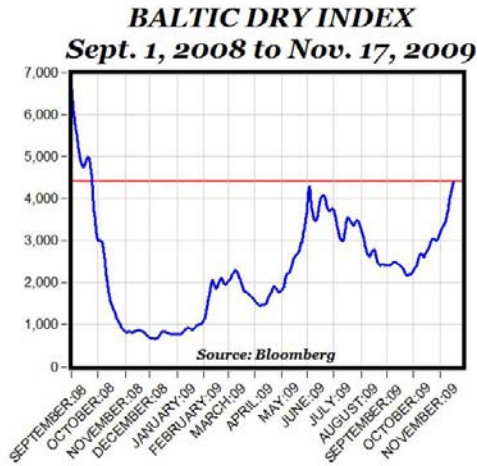
October 2009: 0.23% November 2009: 0.21%

“The Ted Spread is back to the “good old days” as well. Last November, the gap between the 3-month Treasury securities and 3-month Libor was 199 basis points. Today, it is just 21 basis points. But the mispricing of risk that helped bring the financial sector down in 2007 and 2008 is not boosting bank lending to private industry. Bank lending is plummeting for the creation of capital goods and new businesses. “(PB). “The FDIC reported today that there are 552 banks on their problem list. Banks have been charging off \$40 to \$50 billion per quarter in loans for a year now. Capital has been eroded, and banks are way overleveraged, in part because of excessive risk taking. You think that maybe banks should be more risk averse today? You think that maybe there is a rational reason for banks to lend less to business and purchase more government securities?”(BW) So, to summarize, even though the TED spread is at the acceptable levels for banks to lend, the banks are not lending because the recession has shellshocked them into being very risk averse.

PrudentBear, Michael Pento; Bill Watkins

Graph: Bloomberg.com

Baltic Dry Index Still Rolling; Reaches Highest Level Since Sept. 08'



Baltic Dry Index - BDI

October 2009:3,043 November 2009: 4,381

“The Baltic Dry Index closed today at 4381, advancing for the 14th straight day, and registering positive gains in 31 out of the last 35 days. From the late-September low of 2163, the benchmark index for freight costs to ship dry bulk commodities such as iron ore, coal and grains has more than doubled in just 39 days, and has reached the highest level since September 24, 2008, almost 14 months ago. The global economic recovery is underway and gaining momentum.”

CarpeDiem blogspot

Graph: Bloomberg.com



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