Signposts of Economic Recovery

Monthly Dashboard of Leading U.S. Economic Indicators – March 2010

Table of Leading Indicators

Executive Summary (March 08, 2010)

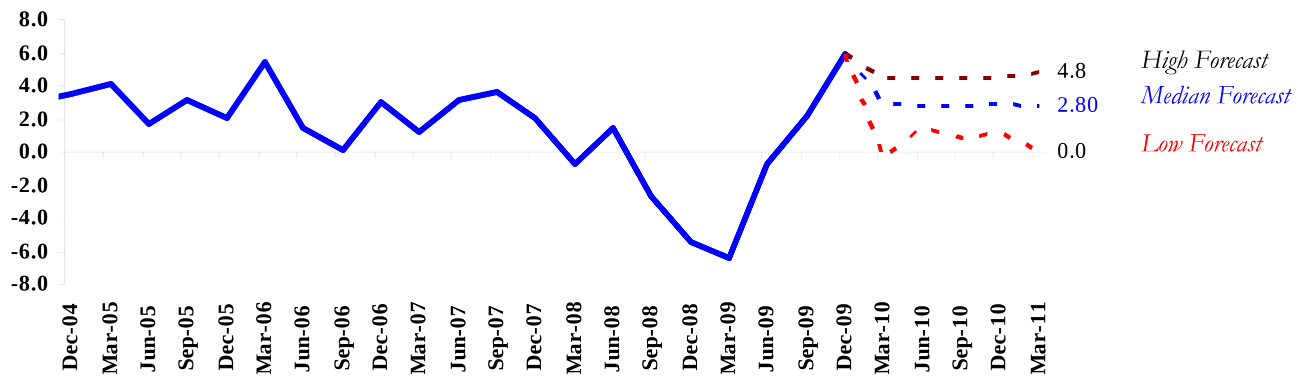
The labor market showed signs of stabilization, as unemployment in February was 9.7%, and U.S. employers cut fewer jobs. However, the labor market remains volatile as the labor force participation rate remained law at 64.8%. In February, consumer sentiment fell by 19%, and producer sentiment declined by 3%. In January, nominal personal consumption grew by 0.5% on a month-on-month basis, while real personal consumption grew by 1.4% on a year-on-year basis. Nominal disposable income declined by 0.4% on a month-on-month basis, while real disposable income remained flat on a year-on-year basis. Annual inflation was 2.6% and consumer prices grew by 0.2% from December to January. Economists expect steady growth of GDP in the next 12 months. Other key changes in the past month include:

✧ *New orders for consumer goods remained flat (a 0.02% month-on-month change) in January.*

✧ *In January, new orders for capital goods declined by 0.4% relative to their level in December.*

✧ *The months' inventory of homes, a measure of how long it would take to sell a new house, grew to 9.1 months, while the number of new building permits grew by 2.8%.*

Real U.S. GDP Growth*, QoQ%



*Forecasts are based on the poll of 77 economists conducted by Bloomberg.

Sources: Bloomberg; Corporate Executive Board research.

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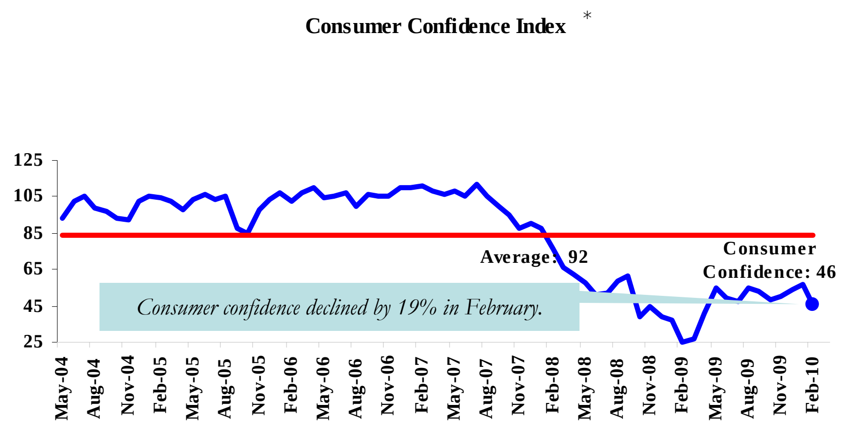
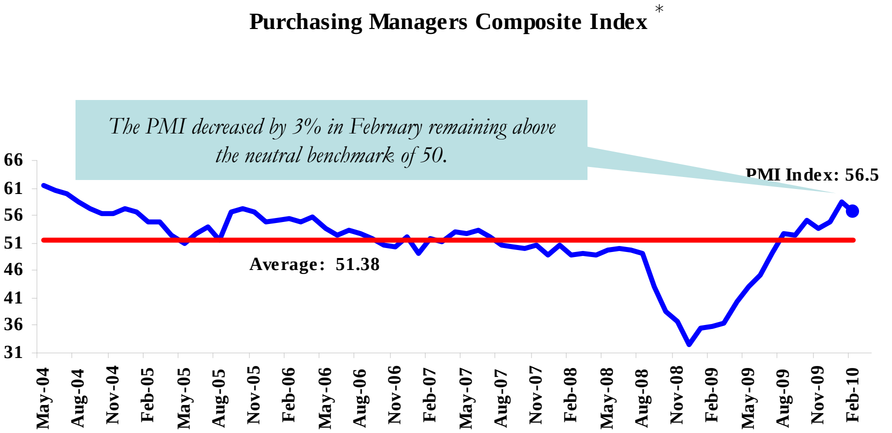
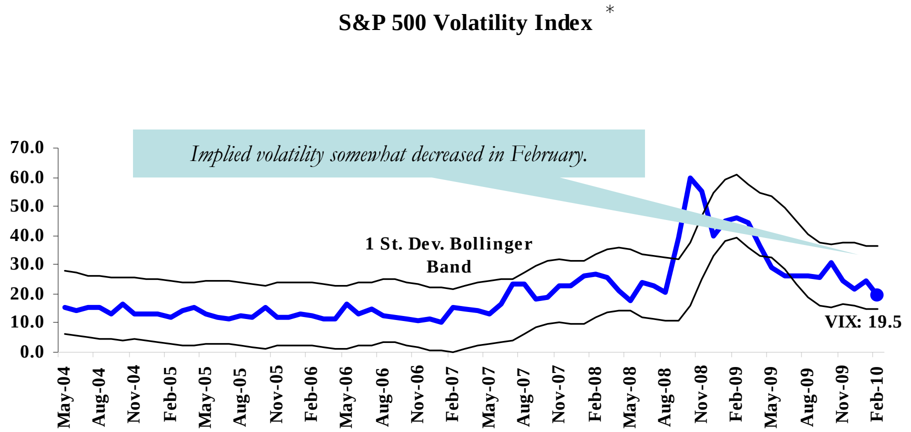
Outlook: Consumer, Producer and Investor Sentiment







In February, ***consumer confidence*** *(six month outlook) in U.S. declined by 19%.*

Further, the ***Purchasing Managers Index*** *fell by 3% but remained above the neutral benchmark, reflecting positive expectations about business conditions in terms of new customer orders, production levels, inventory and employment.*

Investors' *anxiety decreased somewhat in February.*

*Please refer to Glossary for definitions.

Sources: Bloomberg; Corporate Executive Board research.

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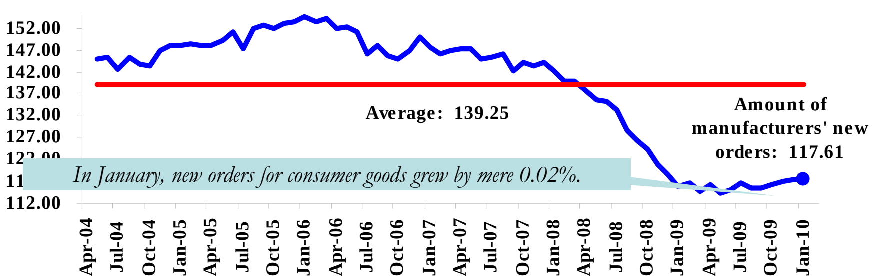
Production Indicators

Production indicators are generally uncertain: While ***new orders for consumer goods*** *remained essentially flat in January (0.02%),* ***new orders for capital goods*** *fell by 0.4%. Meanwhile in February, the* **Speed of Deliveries** *index grew 2% indicating slower deliveries, which is typically associated with economic growth. At the same time, the number of* ***average working hours worked*** *in January fell to 33.1.*

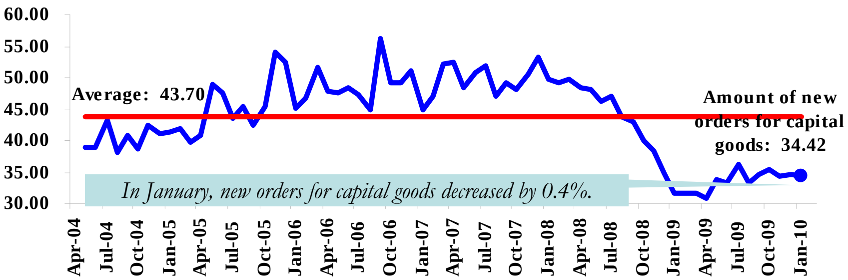
Value of New Orders for Consumer Goods & Materials

Millions, 1982 USD

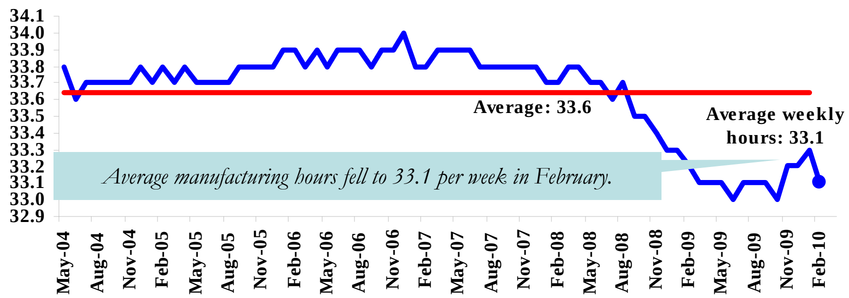


Value of New Orders for Capital Goods Unrelated to Defense

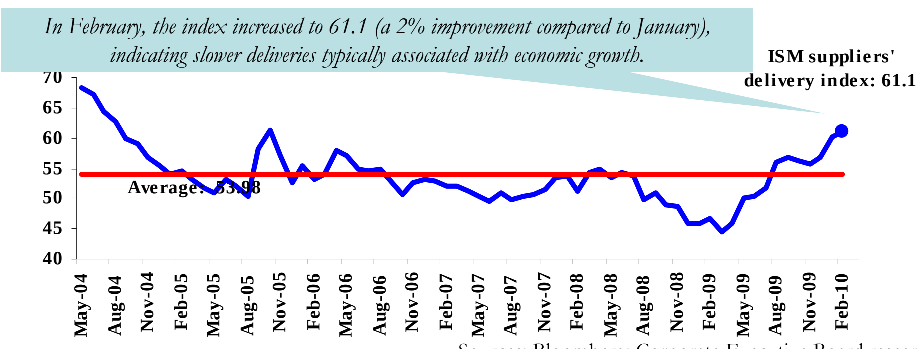
Millions, 1982 USD



Average Weekly Hours Worked by Manufacturing Workers



The Speed of Deliveries Index, %



Sources: Bloomberg; Corporate Executive Board research.

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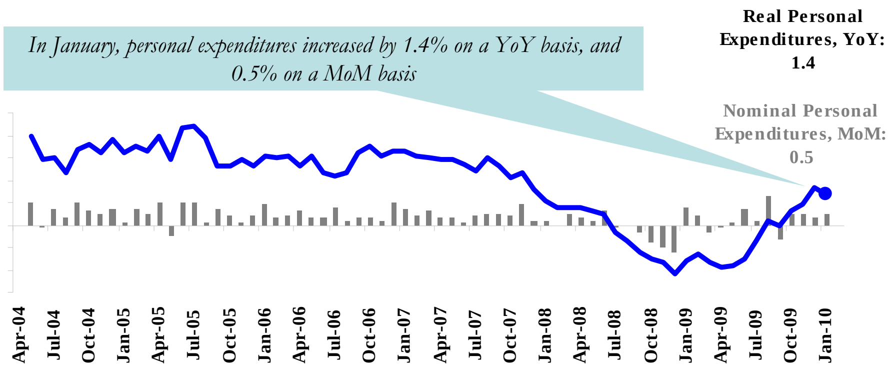
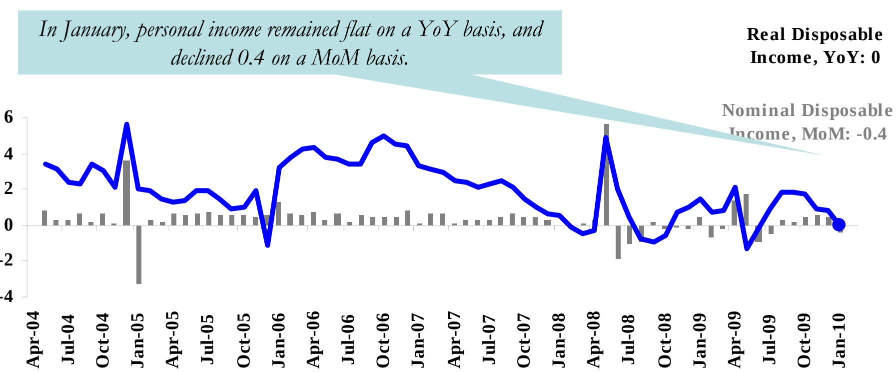
Consumption & Employment Indicators

Consumption and Employment indicators present a somewhat positive picture. While ***unemployment*** *stabilized at 9.7% in February, the growth in new unemployment slowed down. Moreover, the labor force participation rate improved somewhat. In December,* ***personal consumption*** *grew by 1.4% on year-on-year basis and 0.5% on a month-on-month basis. At the same time,* ***real disposable income*** *remained flat on a year-on-year basis and declined by 0.4% on a month-on-month basis.*

US Personal Consumption Expenditures, % YoY

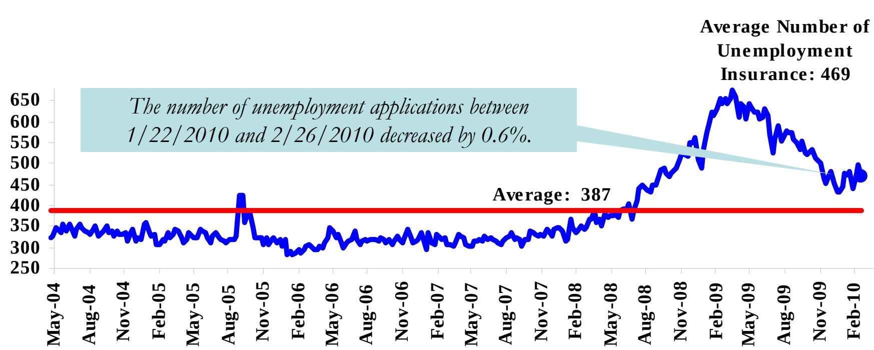


US Personal Disposable Income (% YoY, MoM)

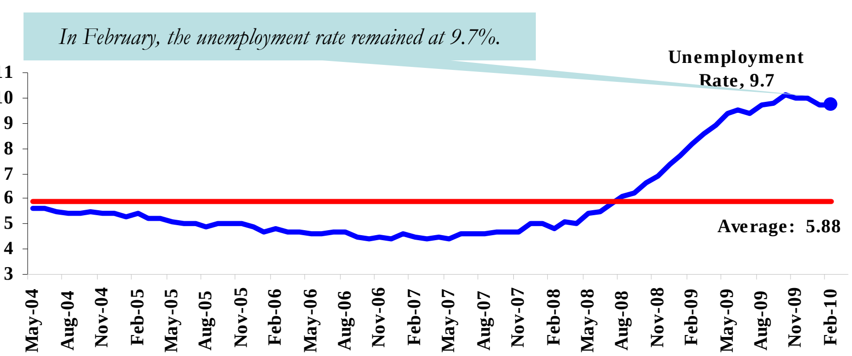


Average Number of Initial Applications for Unemployment Insurance

Applications, Thousands



Unemployment Rate, %

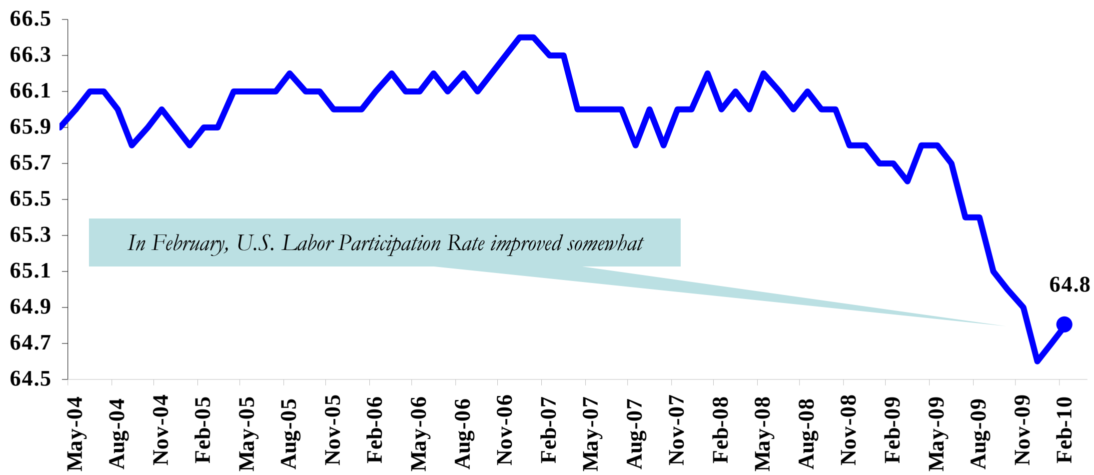


Sources: Bloomberg; Corporate Executive Board research.

Consumption & Employment Indicators

The labor market remains volatile as the labor force participation improved slightly to 64.8% from 64.6% in December, the lowest level in over two decades.

U.S. Labor Participation Rate, %



Sources: Bloomberg; Corporate Executive Board research.

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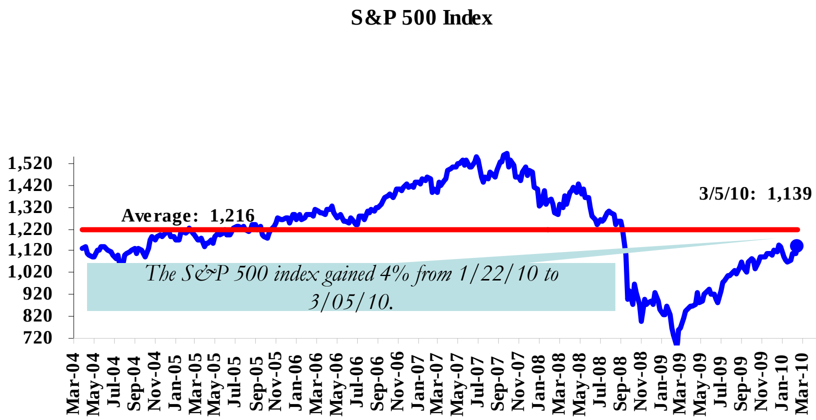
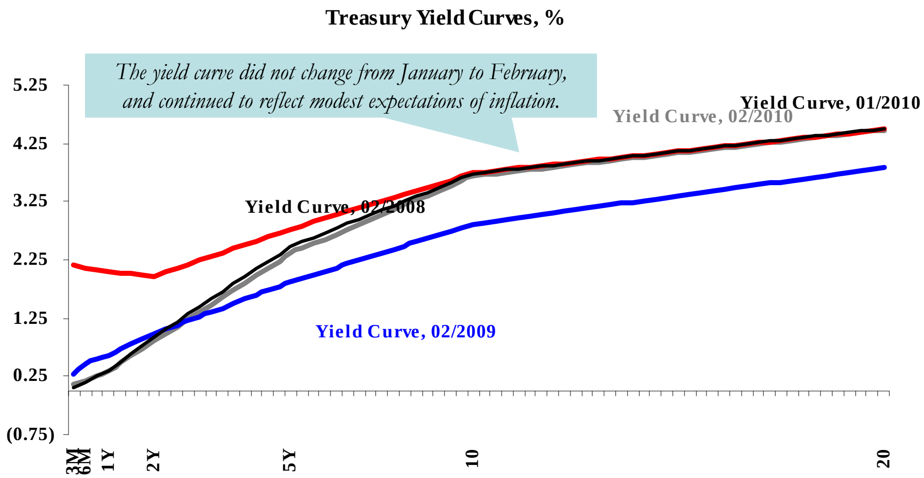
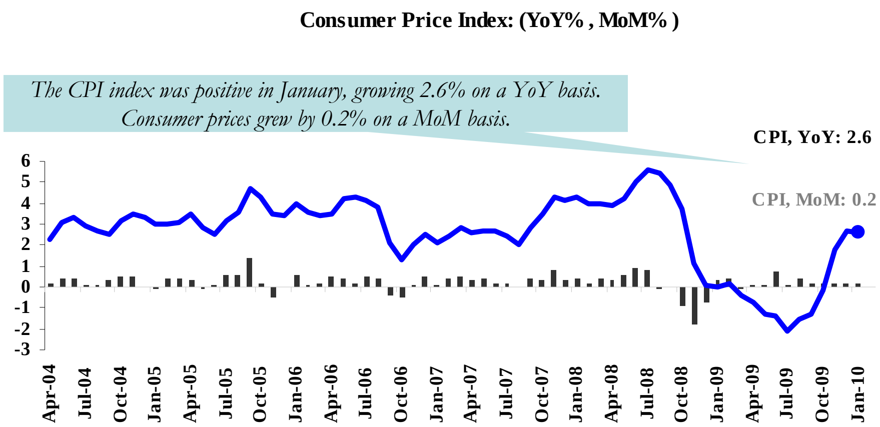
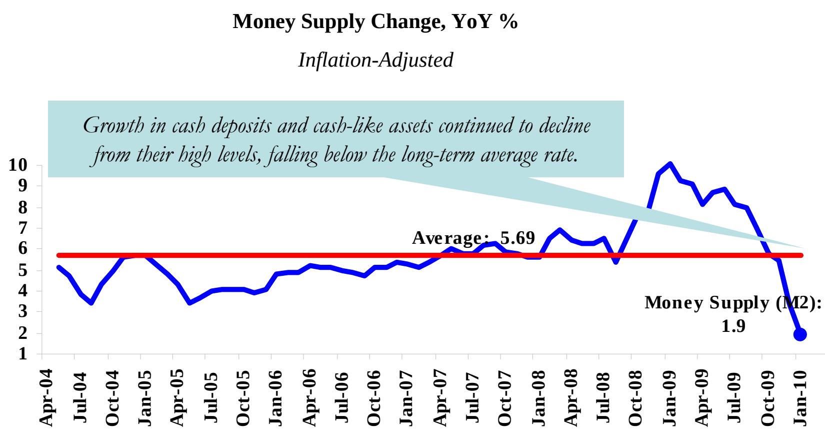
Financial Indicators

*The **Consumer Price Index** has increased by 2.6% percent over the last year. Monthly inflation from October to November was 0.2%. The **yield curve** remained steep reflecting modest expectations about inflation. Inflation-adjusted **money supply change** fell deeper below its long-term average rate.*





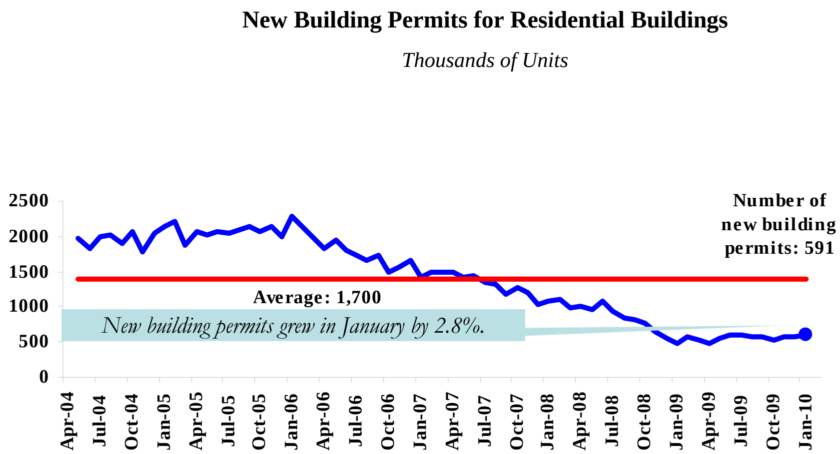


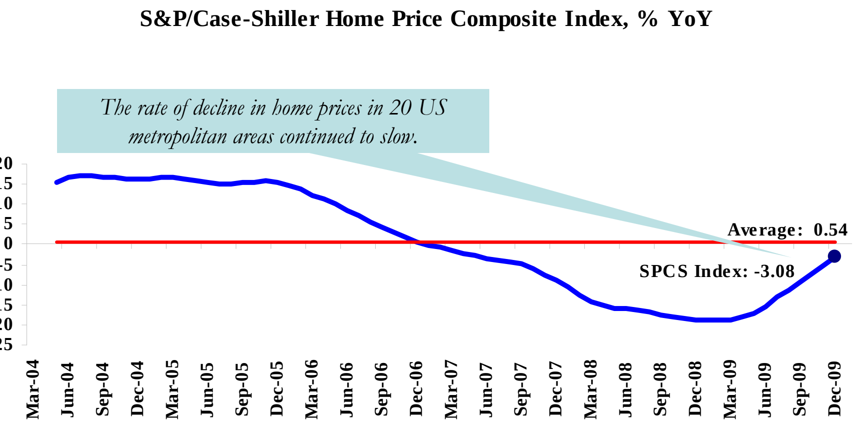


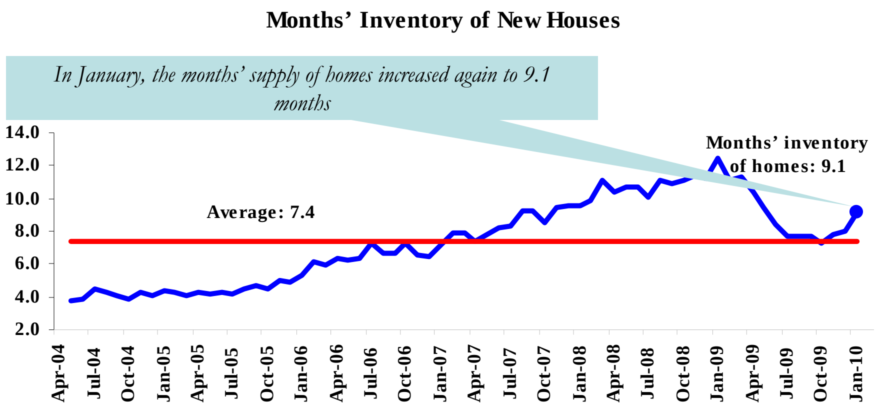
Sources: FRB of New York; Bloomberg; Corporate Executive Board research.

Real Estate Indicators

The real estate market showed moderate signs of improvement.







Sources: Bloomberg; Corporate Executive Board research.

Economic News

Payrolls data buoy job creation hopes

(*Reuters*) March 8 – U.S. employers cut fewer jobs than expected during snow-battered February and the unemployment rate held steady at 9.7 percent, bolstering views the economy was on the brink of creating jobs.

New Normal Becomes Old Normal as Exports Propel U.S. Recovery

(*Bloomberg*) March 8 – The "new mix" is out to topple the "new normal" as the paradigm for America's economic future.
The 5.9 percent annualized surge in fourth-quarter growth -- the fastest since 2003 -- was powered more by exports and business investment than the traditional drivers of consumption and housing.

Economists see Fed rate hike in 6 months

(*Reuters*) March 8 – Most U.S. business economists expect the Federal Reserve to raise benchmark interest rates within six months by between a quarter and a half percentage point, according to a survey released on Monday.

China's Shrinking Trade Surplus to Ease Yuan Pressure

(*Bloomberg*) March 8 – Top Chinese officials said the nation's trade surplus is shrinking and urged caution in exiting crisis policies, suggesting that the Yuan may not appreciate soon against the dollar.

Sharing the pain

(*The Economist*) March 4 – Increasing budget deficits and rising government debts are likely to entail fierce political battles – not least between taxpayers and public-sector workers.

GLOSSARY

✧ **Average weekly hours worked by manufacturing workers** - *Average weekly hours of production or non-supervisory workers on private non-farm payrolls by industry. Seasonally adjusted. Compiled monthly by the Bureau of Labor Statistics.*

✧ **Consumer Confidence Index**: - *The Consumer Confidence Survey is based on a monthly survey of a representative sample of 5,000 U.S. households. This index is an average of responses to the following questions: 1. Respondents appraisal of current business conditions; 2. Respondents expectations regarding business conditions six months hence; 3. Respondents appraisal of the current employment conditions; 4. Respondents expectations regarding employment conditions six months hence; 5. Respondents expectations regarding their total family income six months hence.*

✧ **GDP** – *Gross domestic product includes the total income of everyone in the economy or the total expenditure on the economy's goods and services. GDP includes only the value of final goods and services. Compiled quarterly by the Bureau of Economic Analysis.*

✧ **Inflation-adjusted monetary supply (M2)** - *M2 is a measure of money supply. It consists of currency, traveler's checks, demand deposits, and other checkable deposits, savings deposits, small-denomination time deposits, and retail money funds – each seasonally adjusted. Compiled monthly by the Federal Reserve.*

✧ **Initial applications for unemployment insurance** – *Average number of people who have filed for unemployment benefits for the first time. Compiled weekly by the Department of Labor.*

✧ **New building permits for residential buildings** – *An index, from the U.S. Commerce Department Bureau of the Census, tracking privately-owned new housing starts. Compiled monthly by the US Department of Commerce.*

✧ **New orders for capital goods unrelated to defense** – *The inflation-adjusted value of new orders for capital goods received by manufacturers for non-defense capital goods industries. Compiled monthly by the Conference Board.*

✧ **New orders for consumer goods and materials** – *The inflation-adjusted value of new orders received by manufacturers for consumer goods and materials primarily used by consumers. Compiled monthly by the Conference Board.*

✧ **Personal income** - *Income received by persons from all sources including: participation in production, from both government and business transfer payments, and from government interest. "Persons" consist of individuals, nonprofit institutions that primarily serve individuals, private noninsured welfare funds, and private trust funds. Personal income is calculated as the sum of wage and salary disbursements, other labor income, proprietors' income with inventory valuation and capital consumption adjustments, rental income of persons with capital. Compiled monthly by the Bureau of Economic Analysis.*

GLOSSARY (CONTINUED)

✧ **Purchasing Managers Index (PMI) –** *This is a monthly composite index, released monthly by the Institute for Supply Management, based on surveys of 300 purchasing managers throughout the United States in 20 industries in the manufacturing area. If the index is above 50, it indicates that the economy is expanding. Values below 50 indicate a contraction. It comprises the following sub-indices: 1) Production level; 2) New orders (from customers); 3) Speed of supplier deliveries; 4) Inventories; and 5) Employment level.*

✧ **Speed of delivery of new merchandise to vendors from suppliers** – *The supplier deliveries index compares the current month rate at which orders are filled with the prior month. A Supplier Deliveries Index above 50 percent indicates slower deliveries and below 50 percent indicates faster deliveries. Slower deliveries are indicative of rapid economic growth. In contrast, faster deliveries suggest a excess capacity. Compiled monthly by the Institute for Supply Management*

✧ **S&P/Case-Shiller Home Price Index** – *A composite index comprised of price changes within 20 metropolitan markets. Compiled monthly by S&P.*

✧ **S&P 500 Volatility Index (VIX) –** *this index reflects a market estimate of future volatility, based on the weighted average of the implied volatilities for a wide range of option strikes. Calculated daily by the Chicago Board Options Exchange.*

Corporate Finance Division
Quantitative Research Team

Oleg Polishchuk – Practice Manager

David Lee – Analyst
Jian Chen – Project Manager
Anil Prahlad – Managing Director
Scott Bohannon – General Manager