

## NATIONAL ECONOMIC TRENDS

The temperature of the U.S. economy remained lukewarm over the summer despite the application of all the fiscal and monetary stimulants that Washington and the Federal Reserve could bring to bear. Third quarter GDP growth inched ahead at an anemic (for this stage of the recovery) 2.0%, according to preliminary estimates, constrained by weak growth in the consumption of domestically manufactured goods and decelerating net investment. Private investment increased only 1.5% in the period, the smallest gain recorded in a year, and much of this progress was attributable to a 1.4% rise in investments in business inventories, an ambiguous development if there ever was one.

### Employment, Output, Consumption and Construction Trends

Consumers remained unusually cautious, reducing overall consumer debt at a -1.1% annual rate (the sixth consecutive quarterly consumer debt decline) and revolving credit card debt at an -8.2% pace. Stymied by an uncertain sales environment and lingering threats of federal tax and benefit cost hikes, businesses were reluctant to hire. As a result, payroll job creation fell below expectations, further depressing consumer confidence levels.

Total U.S. payrolls fell -108,000 (seasonally-adjusted) jobs in the third quarter, down from a 570,000-job advance posted during 2Q10. Many 3Q job losses were attributable to the wind down of temporary Census data collection jobs, however. The number of workers employed by private establishments actually increased July to September, rising 367,000 following a 353,000-job gain in the second quarter, bringing net new private sector jobs created since January to 956,000. Still, hiring wasn't robust enough to keep pace with the increase in idle workers seeking employment. Thus, the seasonally-adjusted unemployment rate remained stubbornly high, rising from 9.5% in June to 9.6% in September.

The pace of recovery appeared to accelerate in October, however, catalyzed by expansion at retail trade and business and health care service establishments. The Bureau of Labor Statistics reported that payroll employment increased by 151,000 jobs during the course of the month, the largest pick-up recorded since May. The private sector was entirely responsible for the gain, as private employers added 159,000 jobs over the month. Indeed, monthly private establishment payrolls advanced by the largest number since April 2010, leaving total payrolls hovering at the highest level observed in seventeen months.

Retail sales in 3Q10 were up 5.7% from the same period of 2009, including a 7.3% year-on-year September surge. The September sales gain was largely attributable to strong vehicle purchases, which increased 19.0% from the comparable 2009 period, with the gain coming primarily in truck sales, a market still dominated by domestic manufacturers.

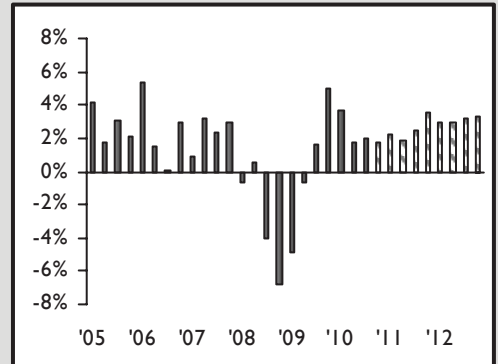
The slump in new and existing home sales didn't abate, leaving this labor intensive industry near recessionary lows. Seasonally-adjusted annualized existing home sales fell -19.1% in September from the year-earlier period, while median prices slipped -2.4%. New home sales declined -21.2% y-o-y, with a notable -33.3% dip recorded in the West.

### Economic Outlook

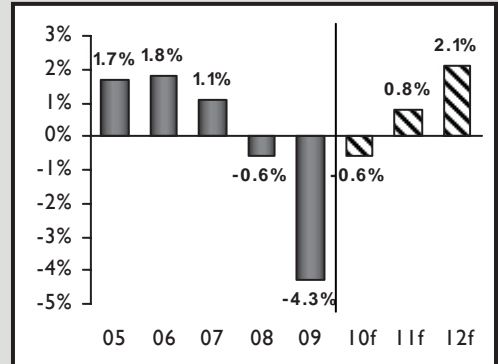
Economists continue to foresee stronger growth ahead but many have moderated their expectations of future output expansion lately. Earlier in the year, the consensus forecast for 2011 GDP growth was in the low-3% range, followed by growth on the order of 4% in 2012. The consensus projection for 2011 is now closer to the low- to mid-2% range, while the 2012 outlook has been dialed back to roughly 3.0% to 3.2%.

**RED CAPITAL Research** now employs a baseline forecast that falls on the conservative side of the broad consensus, a view that we believe is in line with the expectations of most business practitioners. The forecast is published by the Institute of Economic Competitiveness of the University of Central Florida. This econometrically derived forecast projects real GDP growth of 2.0% in 2011; 3.0% in 2012 and 3.1% in 2013. Corresponding payroll job creation rates are 0.8% (850,000); 2.1% (2,250,000) and 2.3% (2,525,000), consistent with average unemployment rates of 9.8%, 9.2% and 8.4%, respectively. Residential construction is projected to rise 5.8% next year and soar 30.7% in 2012.

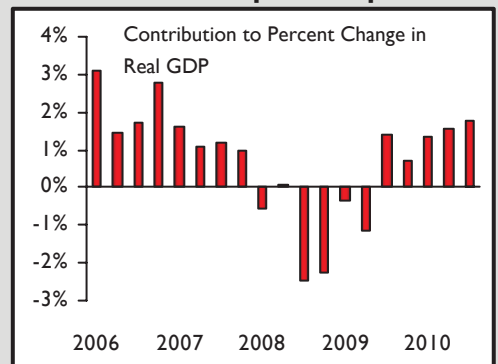
### Real GDP Growth (SAAR)



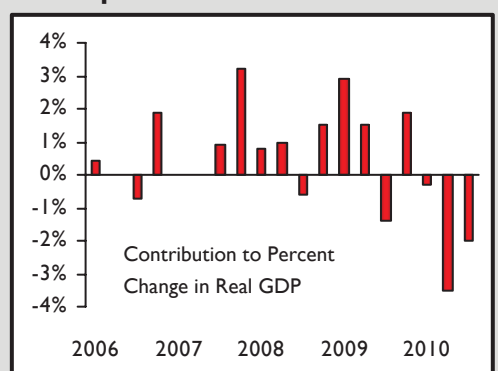
### U.S. Payroll Employment Growth



### Personal Consumption Expenditures



### Net Exports of Goods and Services



Sources: BEA, BLS, Inst. for Econ. Competitiveness / UCF.