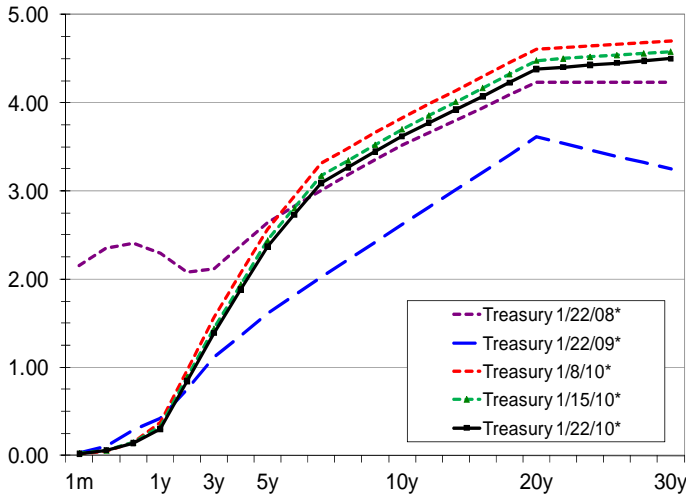
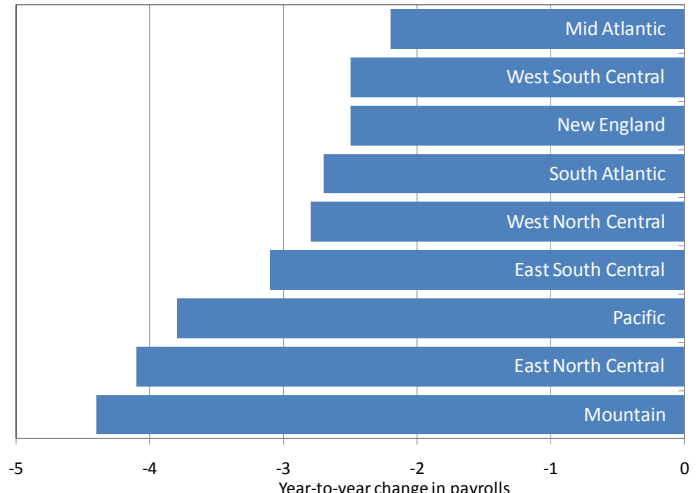




The Big Picture: Yield Curve & Regional Job Losses









U.S. Treasury Yield Curve—Source: U.S. Department of the Treasury



Percentage Change in Payrolls from Previous Year—Source: Bureau of Labor Statistics

Measure	Numerical Trend	Current Trend	Commentary
PPI December 2009 www.bls.gov/news.release/ppi.toc.htm	<i>Finished Goods</i> <i>Percentage Change from Previous Month</i> <i>Seasonally Adjusted</i> Dec 09: +0.2% Nov 09: +1.8% Dec 08: -1.8%		Producer prices for finished goods increased 0.2% as finished food prices surged 4.4% and energy prices declined 0.4%. Excluding food and energy prices, prices for core finished goods were unchanged during the month. Producer prices have increased 4.4% over the past year as core producer prices have grown a more modest 0.9%. Deeper in the production cycle, prices of intermediate goods grew 0.5% (-0.2% for core intermediate goods) while prices of crude goods jumped 5.0% (+28.4% for core finished goods).
Housing Starts December 2009 www.census.gov/const/www/newresconstindex.html	<i>Thousands</i> <i>Seasonally Adjusted</i> <i>Annualized Rate</i> Dec 09: 557 Nov 09: 580 Dec 08: 524		Housing starts fell 4.0% in December to the 2 nd slowest pace since May 2009. Single-family starts dropped 6.9% on a monthly basis even as multi-family starts jumped 12.0%. Regionally, starts increased in the South (3.3%) but contracted in the West (-1.0%), Northeast (-2.4%) and Midwest (-22.7%). On a year-to-year basis, starts dropped 19.4% in the West and 19.0% in the Northeast but have increased 15.8% in the Midwest and 9.5% in the South (10.0%).

<p>Leading Indicators December 2009 www.conference-board.org/economics/bci/pres sRelease_output.cfm?cid=1</p> <p><i>Source: Conference Board</i></p>	<p><i>Leading Indicators Index (2004 = 100)</i></p> <p>Dec 09: 106.4 Nov 09: 105.2 Dec 08: 98.9</p>		<p>The index of leading indicators increased for the 9th consecutive month during which the index has grown 8.5 points. 8 of the index's 10 components made a positive contribution to the index (average workweek of production workers and new orders for consumer goods were the exceptions). The coincident index increased 0.1 to 99.9 while the lagging index slipped 0.2 to 108.5.</p>
<p>Treasury International Capital Flows November 2009 www.treas.gov/press/releases/hp763.htm</p> <p><i>Source: Department of the Treasury</i></p>	<p><i>Total Net Purchases of U.S. Securities Billions</i></p> <p>Nov 09: +\$126.8 Oct 09: +\$19.3 Nov 08: -\$25.8</p>		<p>Private foreign investors increased their holdings of long-term U.S. securities by \$96.0 billion while foreign official institutions expanded their holdings by \$33.3 billion. Foreign holdings of Treasury holdings soared by \$118.3 billion, including net purchases of \$87.1 billion by private investors. While agency bond holdings increased \$5.9 billion, corporate bond holdings contracted by \$4.6 billion. Net purchases of U.S. equities grew by \$9.7 billion.</p>
<p>NAHB Housing Market Index January 2010 http://www.nahb.org/</p> <p><i>Source: National Association of Home Builders</i></p>	<p><i>Index</i></p> <p>Jan 10: 15 Dec 09: 16 Jan 09: 9</p>		<p>The homebuilder confidence index slipped by a point in January and has fallen by 4 points since July. Still, the index remained 6 points above the cyclical low of 8 during last winter. The index declined in all 4 regions, with the sharpest drop in the West. While the index for current activity for single-family homes fell by a point to 13, the index for sales 6 months ahead remained at 26.</p>
<p>Jobless Claims January 16, 2010 www.dol.gov/opa/media/press/eta/ui/current.htm</p> <p><i>Source: Employment and Training Administration</i></p>	<p><i>Thousands Seasonally Adjusted</i></p> <p>16 Jan 10: 482 09 Jan 10: 446 17 Jan 09: 585</p>		<p>Initial claims for unemployment benefits rose to their highest level since mid-November with the resulting 4-week moving average increasing by 7,000 to 448,250. The states with the greatest increase in claims were California, Texas, Florida, Pennsylvania and Georgia. Continuing claims for unemployment benefits declined by 18,000 to 4.599 million during the week ending January 9th. The resulting insured unemployment rate was 3.5%.</p>
<p>Oil and Gas Inventories Week ending January 15, 2010 www.eia.doe.gov/pub/oil_gas/petroleum/data_publications/weekly_petroleum_status_repo rt/current/txt/wpsr.txt</p> <p><i>Source: Energy Information Administration</i></p>	<p><i>Crude Oil Millions of Barrels</i></p> <p>15 Jan 10: 330.6 08 Jan 10: 331.0 16 Jan 09: 332.7</p>		<p>Crude oil inventories shrank 0.5% during the week ending January 15th as crude oil imports declined. Even though refinery utilization fell to 78.4%, gas production increased. As a result, gasoline inventories increased by 4.0 million barrels. Distillate stocks shrank by 3.3 million barrels as both production and imports fell. Compared to a year earlier, crude oil inventories were 0.6% larger, distillate inventories grew 8.4% and gasoline stocks were 3.4% larger.</p>
<p>MBA Mortgage Applications Week ending January 15, 2010 www.mortgagebankers.org/NewsandMedia/PressCenter/64512.htm</p> <p><i>Source: Mortgage Bankers Association of America</i></p>	<p><i>Index 3/16/90=100 Seasonally Adjusted</i></p> <p>15 Jan 10: 575.9 08 Jan 10: 528.1 16 Jan 09: 1195.3</p>		<p>The increase in the composite index was the result of solid improvements in both purchase and refinancing application activity. The purchase index increased 4.4% from the previous week while the refinance index jumped 10.7%. Year-to-year, the purchase index was off 26.4% while the refi index was off 59.0%. The contract interest rate for 30-year fixed rate mortgages was at 5.00%, down 13-basis points from the previous week.</p>

While a variety of data give what is arguably conflicting information on the health of the nascent economic recovery, one of the more consistent sources for a positive reading of U.S. business conditions recently has been The Conference Board's Leading Economic Index. In January, the index increased for the ninth consecutive month. The seasonally adjusted reading of 106.4 (2004 = 100) was an 1.2 point increase from December as eight of the index's ten components¹ made a positive contribution to the index. An economist at The Conference Board noted that the results indicated "that the pace of [economic] improvement could pick up this spring." Their index for current conditions edged up slightly to a reading of 99.9 while the lagging index fell 0.2 to 108.5.

Homebuilding activity contracted in December, losing about half of the gain from November. The U.S. Census estimated that housing starts were at a seasonally adjusted annualized rate of 557,000 in December following the 580,000 unit pace the month before. Despite the decline, starts were nearly on par with that of December 2008. Starts declined three of four regions during the month, with the South being the sole region seeing a gain. Single-family home starts fell 6.9 percent while multi-family starts increased 12.2 percent. Even though starts slowed during the month, the positive news in the report was the 10.9 percent increase in permits issued (+15.8 percent above levels of December 2008). Completions, however, plummeted 11.2 percent from November and 25.3 percent from a year earlier.

Even before the release of the Census Bureau report, new survey results indicated that homebuilders remained pessimistic about the state of their industry. The National Association of Home Builders' report showed widespread

pessimism among builders as the nationwide index and the indices in each of the four Census regions declined in January. While the seasonally adjusted reading of 15 remains above the cyclical low of 8 from last January, the index has fallen four points over the past four months. (The index is based on a survey of homebuilders, where a score of 50 is the threshold between a "good" and "poor" market). Also falling in recent months is the traffic of prospective buyers—the index reading of 12 was down five points since September. The NAHB, according to its press release, believes that the "poor job market and large number of foreclosed homes for sale" were the causes for the dismal results.

A few weeks ago, the Bureau of Labor Statistics released disappointing employment data showing that payrolls contracted by -85,000 during December. On Friday, BLS released employment data on a regional and state level that provide greater insight on December's labor market. Payrolls declined in 39 states during the month, with the greatest declines experienced in California, (-38,800), Texas (-23,900), Ohio (-16,700), Illinois (-16,700) and Michigan (-15,700). The largest increases in payrolls were in Virginia (+9,500), Oklahoma (+5,000), Oregon (+2,900), New Hampshire (+2,000) and the state of Washington (+2,000). Over the past 12 months, payrolls have contracted in all 50 states while growing in the District of Columbia. Year-to-year percentage declines in payrolls are presented for each of the nine Census regions on the front page of this report.

The unemployment rate increased in all four major Census regions, with the West suffering the most at 10.7 percent. The unemployment rate in the Midwest was 10.0 percent while that in the South was 9.6 percent. The Northeast recorded the lowest rate (9.2 percent) but experienced the largest month-to-month increase. All four Census regions experienced large year-to-year unemployment rate increases, with the largest in the West (+3.3 percentage points). (www.bls.gov/news.release/laus.nr0.htm)

The Philadelphia Fed Reserve Bank's Business Outlook Survey declined in January as the index's current conditions index fell 7.3 points to a reading

¹ Average weekly hours, manufacturing, average weekly initial claims for unemployment insurance, manufacturers' new orders, consumer goods and materials, index of supplier deliveries – vendor performance, manufacturers' new orders, nondefense capital goods, building permits, new private housing units, stock prices (500 common stocks) money supply (M2), interest rate spread (10-year Treasury bonds less federal funds), and an index of consumer expectations.

of 15.2. Even with the decline, the index, which tracks manufacturing activity within the Philadelphia Fed's region, has remained positive for five consecutive months. Other indices that stayed

positive but showed some deterioration from December include shipments, average workweek and new orders. (<http://www.phil.frb.org/research-and-data/regional-economy/>)

The Week in Corporate Finance edited by Brian Kalish

Uncertainty, the foe of the finance professional, reared its ugly head this week. With a surprising election event in the Commonwealth of Massachusetts and the Administration's new strategy for dealing with systemic risk, the financial markets reacted quite significantly.

After seeing strong debt issuance and tighter spreads to start the year off, the market took a bit of a breather this week. Debt issuance was lighter and credit spreads were wider.

Given the volatility in credit spreads, more than one deal was pulled out of the pipeline this week. Some issuers are waiting to see if this drop in investor appetite is just a temporary blip or if we will continue to see a rising premium for risk.

US Treasuries benefited from a slight flight to quality after the Administration outlined its ideas about limiting depository institutions' ability to execute leveraged trading strategies. When in doubt, the market will tend to buy the safest product available. As a consequence of the increased demand for Treasuries, while at the same time a decreased demand for credit product, both Swap spreads and CDS spreads widened. Any time there is increased uncertainty and risk, spreads tend to widen.

Adding to the general feeling of uncertainty this week, China surprised the market with stronger than expected fourth quarter and full year 2009 GDP numbers. The growth of the Chinese economy has been greater than expected. Somewhat counter-intuitively, people are concerned that this current rate of growth is both unsustainable and actually undesirable. Commodity prices and the companies and countries that are producers saw their prices drop on the possibility of weaker demand from China.

This coming week, the FOMC is conducting its first meeting (of eight) in 2010. There is no expectation that the Fed will change its target of 0.00 – 0.25% for the Fed Funds rate, at this time. The Fed Funds rate has been in this range since December 2008. The market will continue to analyze the text of the Fed's announcement in order to glean any insight as to when the Fed might start to raise interest rates. Currently, the markets are pricing in a 50% chance the Fed will tighten the Funds rate by the September 21st FOMC meeting.

This week has provided corporate practitioners an excellent example of the value of financial planning and risk management. Political and regulatory risk was definitely increased by events in Massachusetts and Washington, D.C. Given the globalization of the worlds' economies, the possibility of any kind of slowdown on the part of China has had an impact on currencies, commodity prices and equity prices around the world.

The ability to react to sudden and unexpected events, such as a change in regulatory policy or the change in demand of a major customer, highlights the need for constantly sweeping the horizon for threats and opportunities that might arise.

Firms that are vigilant, and have developed plans and actions to minimize risks and maximize opportunities are the ones that will thrive in the current environment.

What to watch over the next week:

Monday, January 25, 2010

- Existing Home Sales (www.realtor.org/research/research/ehspage)

Tuesday, January 26, 2010

- S&P/Case Shiller Home Price Index (www.homeprice.standardandpoors.com)
- Consumer Confidence (www.conference-board.org/economics/ConsumerConfidence.cfm)

Wednesday, January 27, 2010

- New Home Sales (www.census.gov/const/www/newressalesindex.html)
- Mass Layoffs (www.bls.gov/news.release/mmls.toc.htm)
-

Thursday, January 28, 2010

- Durable Goods (www.census.gov/indicator/www/m3/)
- Chicago Fed National Activity Index (www.chicagofed.org/economic_research_and_data/cfnai.cfm)
- Jobless Claims (www.census.gov/svsd/www/fullpub.html)

Friday, January 29, 2010

- Gross Domestic Product (www.bea.gov/national/index.htm#gdp)
- U. of Michigan Consumer Survey (customers.reuters.com/community/university/default.aspx)



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