

DAILY GLOBAL
COMMENTARY

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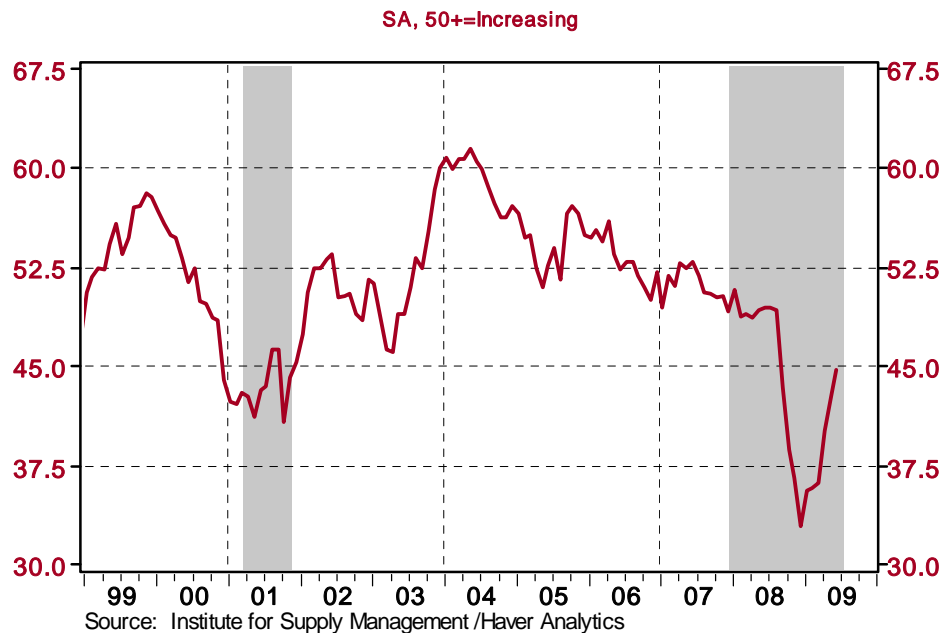
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ISM Factory Survey – Improving at a Gradual Pace

July 1, 2009

The ISM manufacturing survey results of June indicate that the factory sector is contracting but the composite index has advanced for the sixth consecutive month. The composite index of manufacturing was 44.8 in June, up from a cycle low 32.9 in December 2009. Readings above 50.0 denote an expansion and those below 50.0 point to a contraction. In June, indexes tracking production (52.5) and supplier deliveries (50.6) crossed the critical 50-point mark. Indexes measuring employment, new export orders, and imports moved up in June but they remain below the level indicative of an expansion.

Chart 1
ISM Manufacturing: PMI Composite Index



ISM Manufacturing Survey – June 2009

	Jan-2009	Feb-2009	Mar-2009	Apr-2009	May-2009	Jun-2009
Composite Index	35.6	35.8	36.3	40.1	42.8	44.8
New Orders	33.2	33.1	41.2	47.2	51.1	49.2
Production	32.1	36.3	36.4	40.4	46.0	52.5
Employment	29.9	26.1	28.1	34.4	34.3	40.7
Vendor Deliveries	45.3	46.7	43.6	44.9	49.8	50.6
Inventories	37.5	37.0	32.2	33.6	32.9	30.8
Prices	29.0	29.0	31.0	32.0	43.5	50.0
Backlog of Orders	29.5	31.0	35.5	40.5	48.0	47.5
New Export Orders	37.5	37.5	39.0	44.0	48.0	49.5
Imports	36.5	32.0	33.0	42.0	42.5	46.0

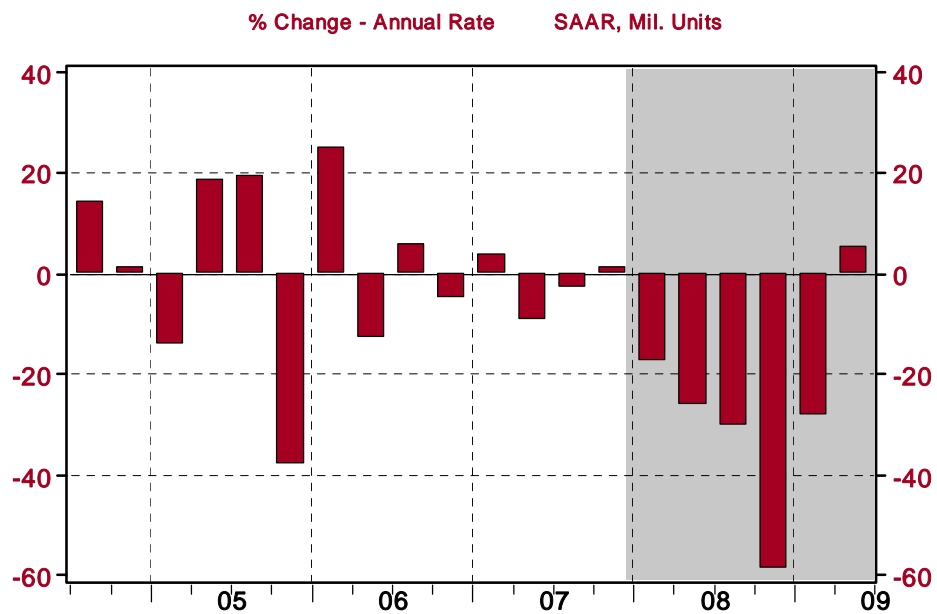
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Auto Sales Fell Slightly in June, But Q2 Sales Rose

Sales of autos fell to 9.7 million units in June from 9.9 million in May. However, in the second quarter, auto sales have risen at an annual rate of 5.2% vs. a 28.3% annualized drop in the first quarter. This will mark the first quarterly increase in auto sales since the last quarter of 2007 (+1.1%), which bodes positively for consumer spending and headline GDP of the second quarter.

Chart 2

Total Light Vehicle Retail Sales {Imported+Domestic}

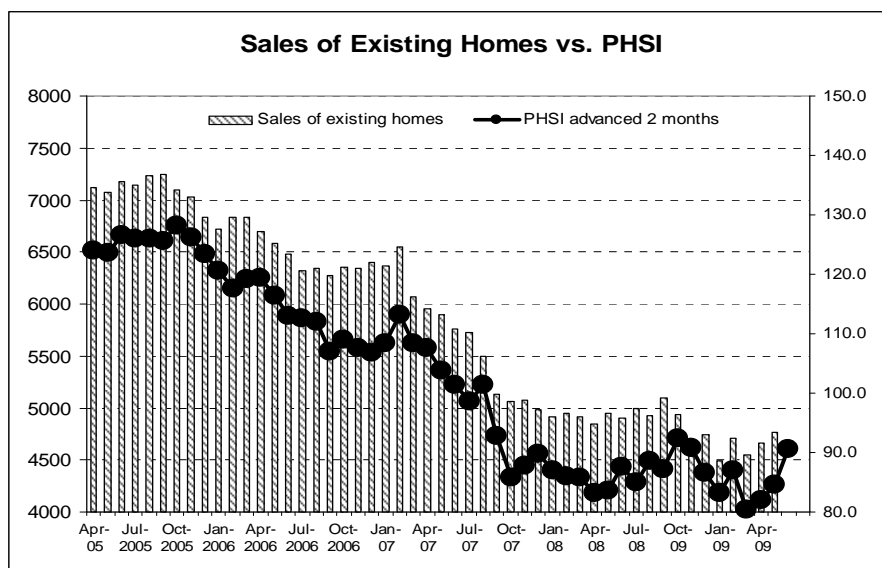


Pending Home Sales Index Advances for Fourth Straight Month

The Pending Home Sales Index (PHSI) of the National Association of Realtors increased 0.1% in May, which is a small but noteworthy fourth consecutive monthly increase. PHSI captures the number of home sales contracts pending to be closed in the following 1-2 month period. The string of four monthly gains of the PHSI augurs positively for sales of existing homes in the June-July months.

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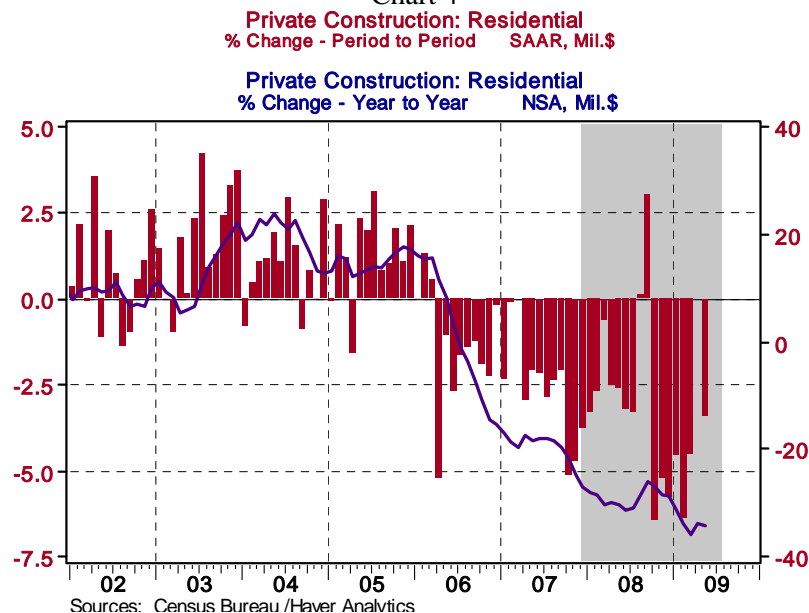
Chart 3



Residential Construction Remains Weak, Reason for Sustained Strength in Non-Residential Construction Spending is Fuzzy

Total construction outlays fell 0.9% in May after a 0.6% increase in the prior month. Both private (-1.0%) and public (-0.6%) declined in May. Within the private sector, residential construction spending dropped 3.4% after holding steady in April.

Chart 4



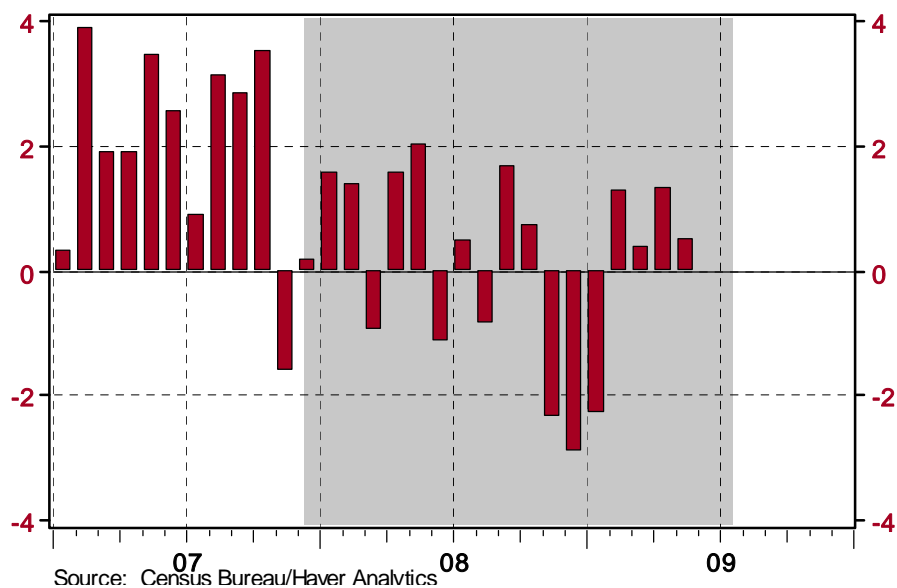
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Construction Outlays – May 2009 (percent change from prior month)

	Total	Private	Residential	Non-residential	Public
Dec-2008	-3.4	-4.2	-5.9	-2.9	-1.6
Jan-2009	-2.8	-3.3	-4.6	-2.3	-1.7
Feb-2009	-0.4	-1.9	-6.4	1.3	3.0
Mar-2009	-0.4	-1.6	-4.6	0.4	2.2
Apr-2009	0.6	0.8	0.0	1.3	0.2
May-2009	-0.9	-1.0	-3.4	0.5	-0.6

The non-residential sector showed a 0.5% gain in spending, making it the fourth monthly increase. In June, construction outlays of educational buildings (+2.2%) accounted for the strength. In the prior three months, non-residential construction expenditures were spread over different components.

Chart 5
Private Construction: Nonresidential
 % Change - Period to Period SAAR, Mil.\$



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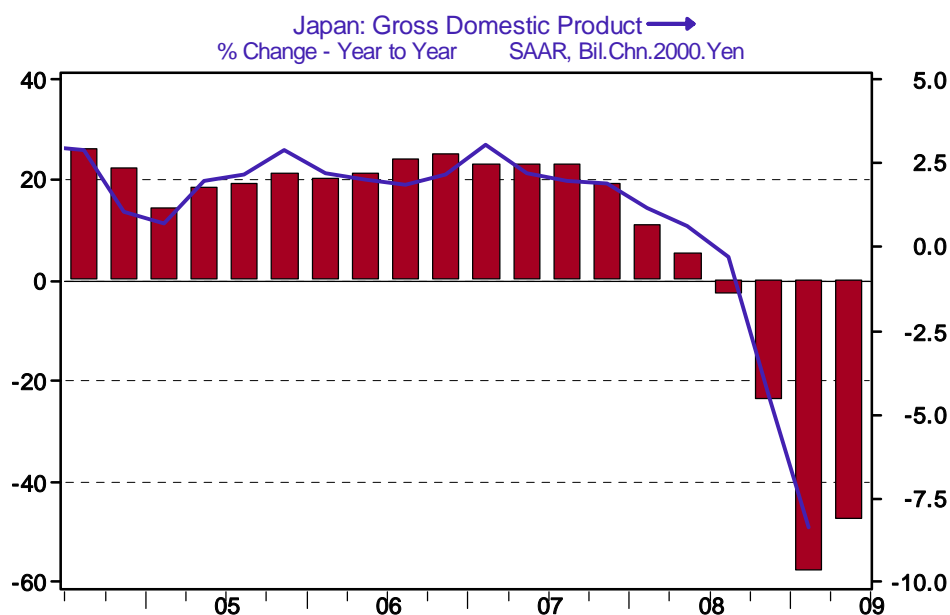
Japan: Is The Worst Truly Over?

During the last quarter of 2008 and the first quarter of this year, Japan's economic performance has truly been abysmal, and not to many people's surprise. Exports accounted for almost 20% of the Japanese economy as of Q3 2008 (the highest level in over 30 years), so when global demand suddenly seized up, one-fifth of the economy took it right on the chin. Now after two quarters of severe contraction, the recent Tankan report suggests that the situation is looking up – albeit from a very low point.

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The Tankan survey focuses on manufacturers, thus providing an excellent look into the export sector. Not surprisingly, the headline index has hit all-time lows of late, but the Q2 reading rose just a touch – to -48 from -58 in Q1 and from +5 in Q2 2008. Not a huge gain in itself, but compared with the economy’s trajectory of late, any good news is appreciated.

Chart 6
 ← Japan: TANKAN: Large Ent's: Actual Business Conditions: Manufacturing NSA, %

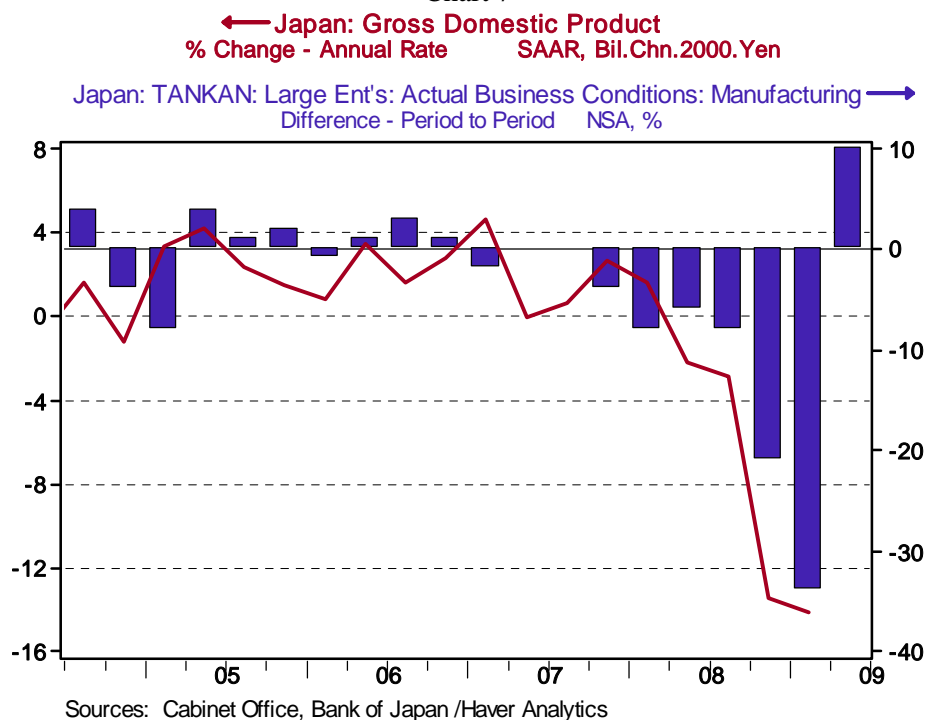


Sources: Bank of Japan, Cabinet Office /Haver Analytics

More importantly perhaps, this rise between Q1 and Q2 signals a brief respite for the manufacturing sector and for the economy in general, even though the figure came in below the consensus forecast of -43. It appears that this slight recovery had something to do with companies replenishing some of their inventories last quarter, perhaps related to fiscal stimulus measures implemented in the new fiscal year that started in April, and perhaps spurred by some of the talk about ‘the worst is over for the global economy’ and ‘green shoots of recovery.’ Whatever the reason, analysts are now forecasting that Japan’s Q2 GDP on a quarter-on-quarter basis *grew* by 0.4%. And as surprising as that may sound, we generally agree with the consensus. A reading of -48 still suggests a manufacturing sector truly in dire straits, but viewed in isolation the difference between quarters is still +10, and that difference tracks quite nicely with the quarterly change in GDP.

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Chart 7



Looking past this brief burst of growth, however, we are definitely not as bullish as Japanese manufacturers. The Tankan's forecast index suggests that in Q3, business conditions will rise another 20+ points, furthering the gains already witnessed last quarter, and we just do not see it. Last quarter, economies across the globe felt the rush of huge fiscal stimulus packages being initiated and dramatic monetary easing, and they showed up in plenty of indicators. However, most of the effects were sharp, one-off jolts rather than the resumption of economic activity, and of late analysts are recognizing that the burst of fiscal energy is being replaced with a sobering recognition that even if the worst is over, any type of self-sustaining recovery is still a long way away.

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