Strategic Investment Perspectives

March 1, 2010

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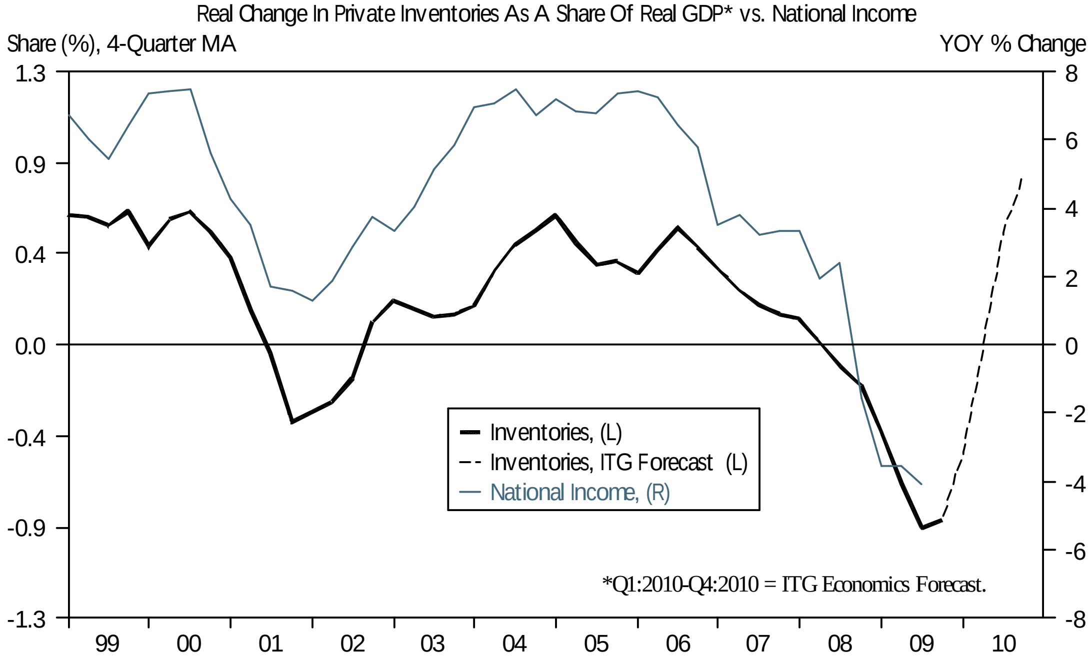
Moderate Consumer Spending And Healthy Trade Improvement 6

Our Confidence About A Rebound For Income, In Part Is A Reflection Of Our Conviction About Additional Inventory Building.

Real Change In Private Inventories As A Share Of Real GDP* vs. National Income



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GLOBAL DATA FLOW

	March 1, 2010 *Monday*	**March 2, 2010** *Tuesday*	**March 3, 2010** *Wednesday*	**March 4, 2010** *Thursday*	**March 5, 2010** *Friday*
United States	8:30 • PCE (Jan) • Personal Income (Jan) 10:00 • ISM Manufacturing (Feb) • Construction Spending (Jan)	Day • Domestic Light Vehicle Sales (Feb)	10:00 • ISM Nonmanufacturing (Feb)	8:30 • Initial Claims (Wk 02/27) • Productivity (fQ4) • Unit Labor Costs (fQ4) 10:00 • Factory Orders (Jan)	8:30 • Average Hourly Earnings (Feb) • Manufacturing Payrolls (Feb) • Nonfarm Payrolls (Feb) • Private Workweek (Feb) • Unemployment Rate (Feb) 3:00 • Consumer Credit (Jan)
Germany	• Bundesbank Monthly Report (Feb) • Final Manufacturing PMI (Feb) • Import Prices (Jan) • Retail Sales (Jan)		• Final Services PMI (Feb)		• OECD Leading Indicator (Jan) • Manufacturing Orders (Jan)
Japan	• New Vehicle Registrations (Feb)	• Real Household Spending (Jan) • Unemployment Rate (Jan)	• Real Wages (Jan)	• Imported Vehicle Sales (Feb) • MOF Corporate Survey (Q4)	
United Kingdom	• CIPS Manufacturing PMI (Feb) • Hometrack House Price Survey (Feb) • Consumer Credit (Jan) • Lending Secured On Dwellings (Jan) • M4 (Jan) • Mortgage Approvals (Jan)	• CIPS Construction PMI (Feb)	• BRC Shop Index (Feb) • CIPS Services PMI (Feb) • Nationwide Consumer Confidence (Feb) • NTC/REC Labor Market Report (Feb) • Official Reserves (Feb)	• BOE Interest Rate Announcement (Mar) • Halifax House Prices (Feb) • SMMT Car Registrations (Feb)	• Producer Prices (Feb) • Construction Output (Q4)

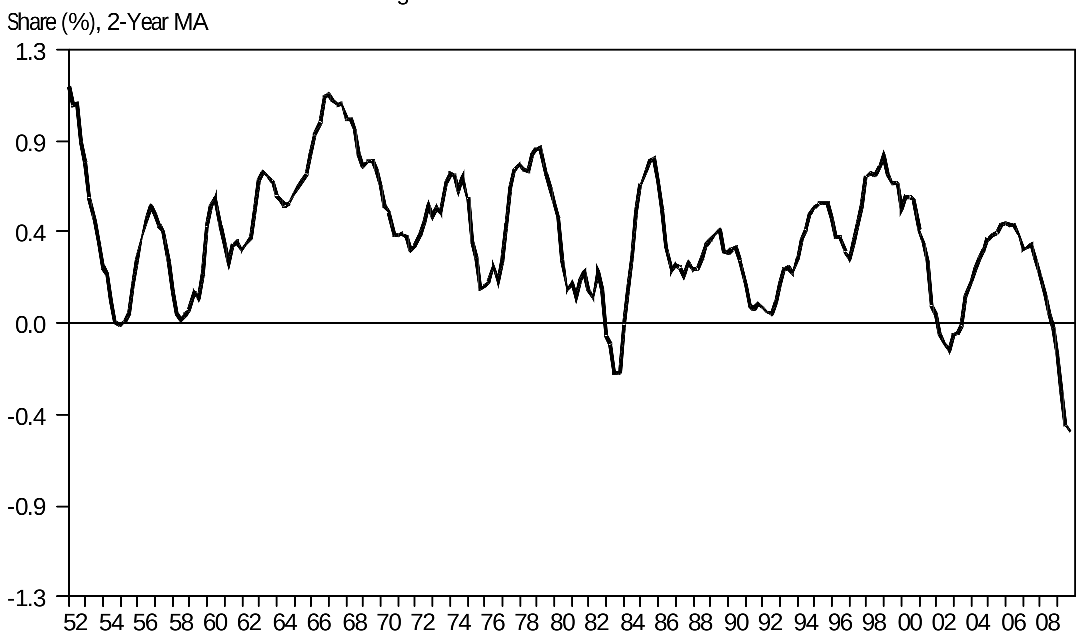
The Inventory Stimulus Has Not Run Its Course

Revised figures on Q4:2009 now reveal a larger contribution from inventory adjustments, as limited reductions in stockpiles added nearly four percentage points to real GDP growth in the quarter. Nonetheless, although destocking came close to ending, the estimated $16.7 billion drawdown was the eighth straight quarter in which no net inventory building occurred. Two years of inventory drawdown, it turns out, is unprecedented in the post-war period. Moreover, the average rate of destocking wildly exceeds any other recession-induced reduction in stockpiles since 1950. And that is the reason we think that a period of outright inventory building is in the cards in the quarters to come. In recessions that register deep inventory drawdown, the rebuild is powerful. Accordingly, we look for inventories to continue to contribute meaningfully to real GDP growth in the coming quarters.

The arithmetic associated with our forecast is straightforward. Inventory drawdown in the second quarter of 2009 ran at a rate of 1.24 percent of real GDP. By the third quarter of 2010 we expect stockpile building will be running at a rate a bit above one percent of GDP. A stepwise move from Q4:2009 through Q3:2010 would involve about a $55 billion contribution to real GDP growth for each of the next three quarters. That would translate, in turn, to 1.7 percentage points of real GDP growth per quarter. Our guess is that about seven tenths of one percentage point will be erased, a reflection of the portion of stockpiles that are comprised of imported products. Thus, real GDP gains, excluding the effects of inventories and imports need only total to 2.8 percentage points, to allow us to achieve our forecast of 3.8% for the next three quarters.

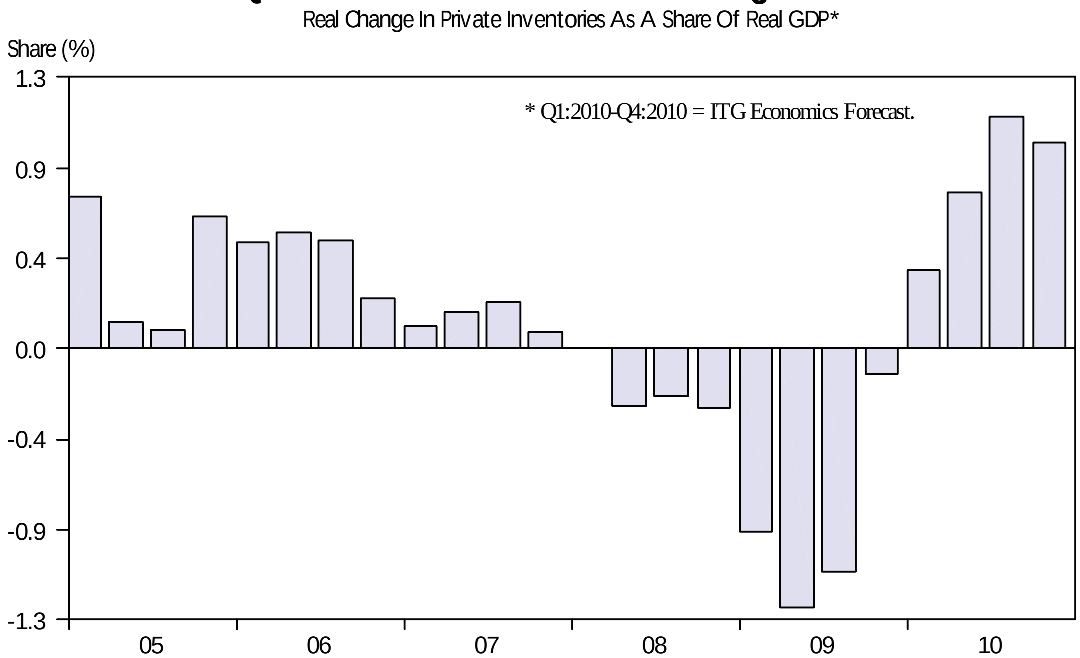
Real Inventory Retrenchment In The Great Recession:
A Two-Year Destocking That Dwarfs Any Other Post-War Contraction.

Real Change In Private Inventories As A Share Of Real GDP

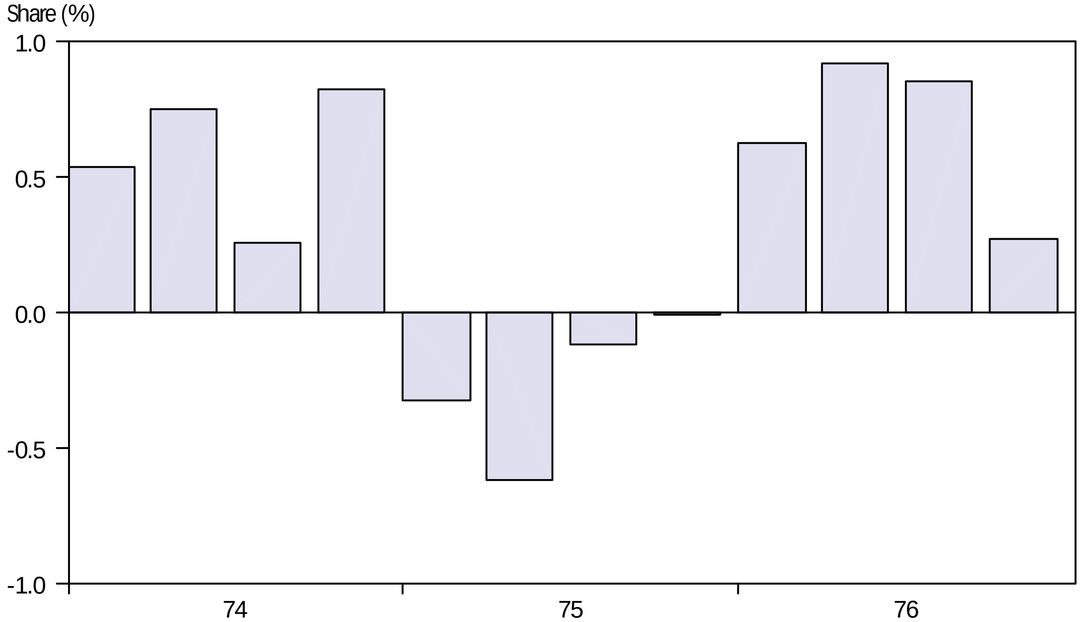


Importantly, however, as inventories climb, income expands. More specifically, a climb for stockpiles lifts some combination of corporate profits and wage and salary income. And rising income, obviously, supports rising demand in future periods. In short, we believe the vicious cycle of slashing inventories, falling incomes, and faltering spending is giving way to a period of building inventories, rising incomes, and improving demand — that is if it ever stops snowing.

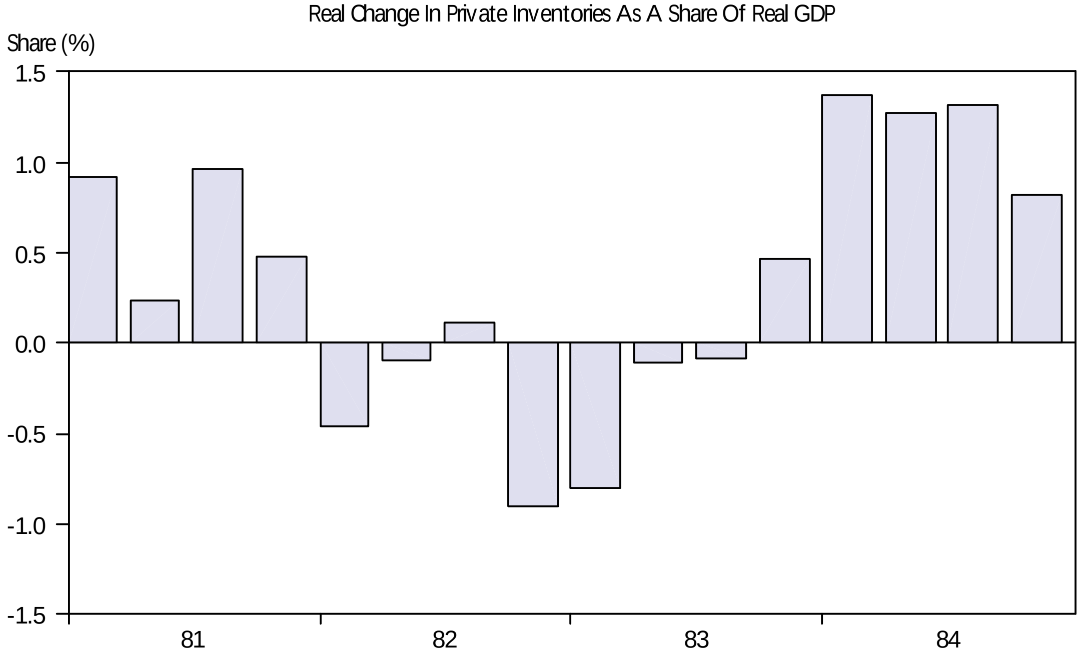
The Real Inventory Rebound We Expect:
Two-Quarters Of Above One Percentage Point Build.



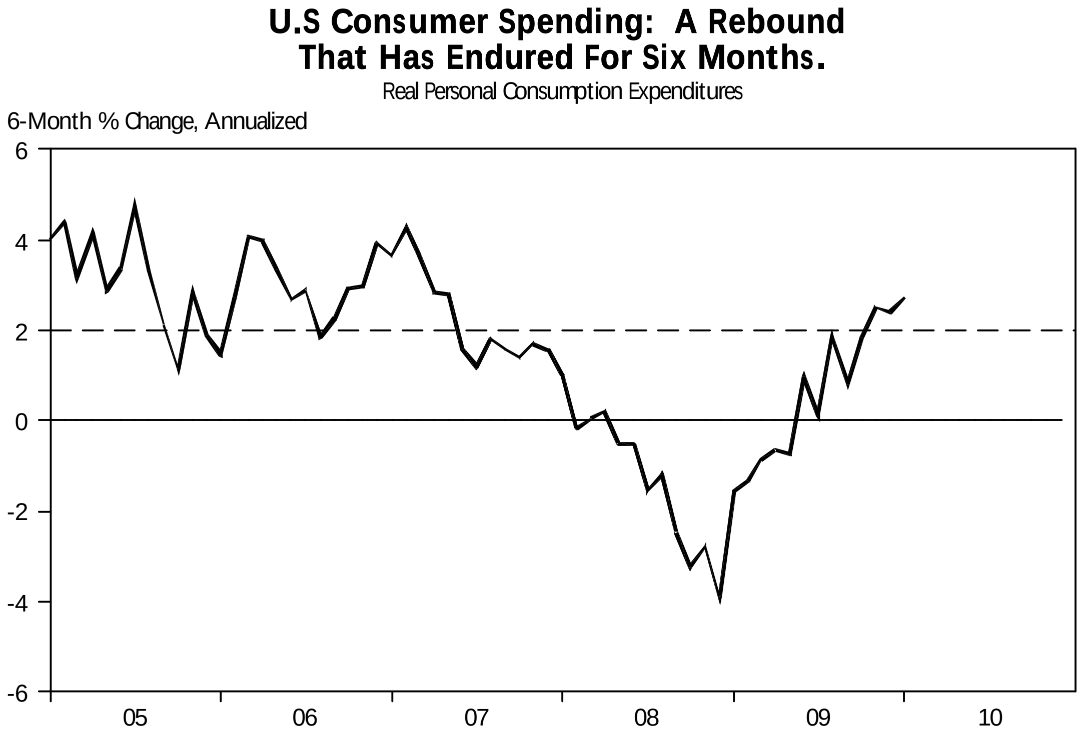
The Real Inventory Rebound, Mid-1970s:
Two-Quarters Of Near One Percengtage Point Build.
Real Change In Private Inventories As A Share Of Real GDP

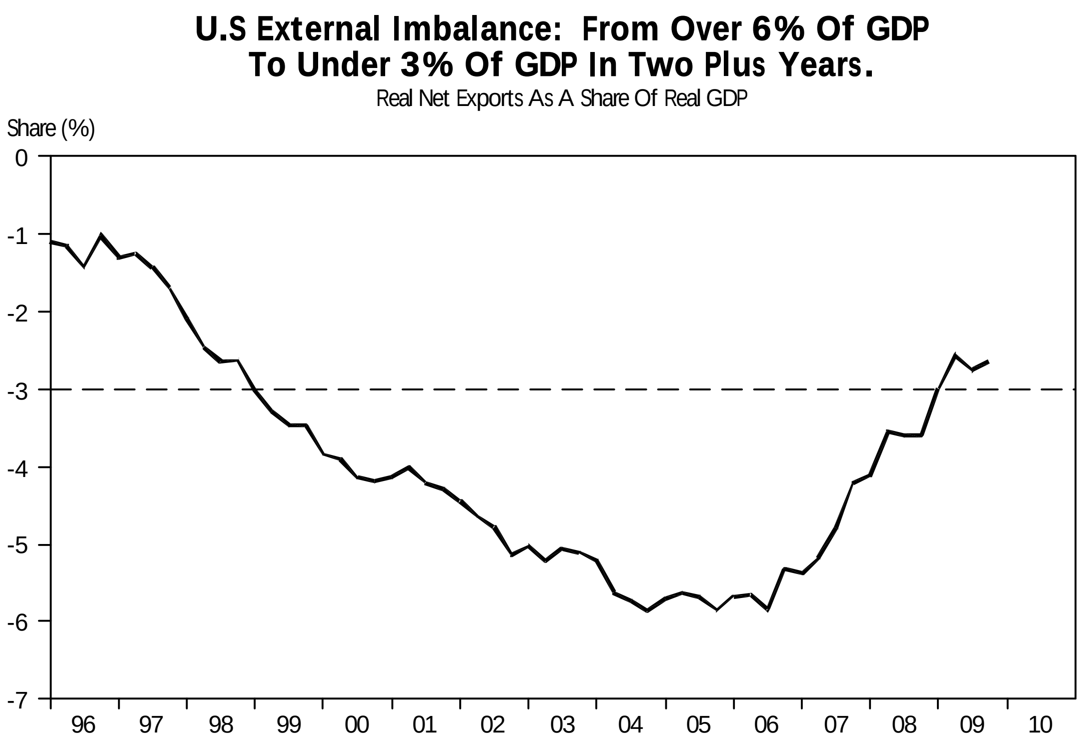


The Real Inventory Rebound, Early-1980s:
Three-Quarters Of Above One Percengtage Point Build.
Real Change In Private Inventories As A Share Of Real GDP



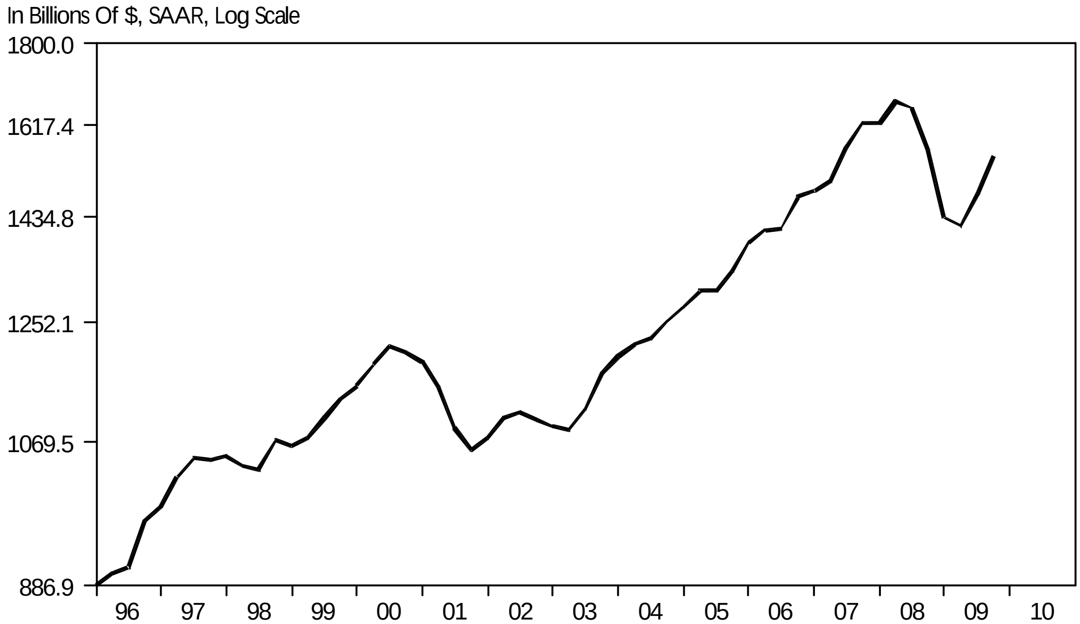
Moderate Consumer Spending And Healthy Trade Improvement





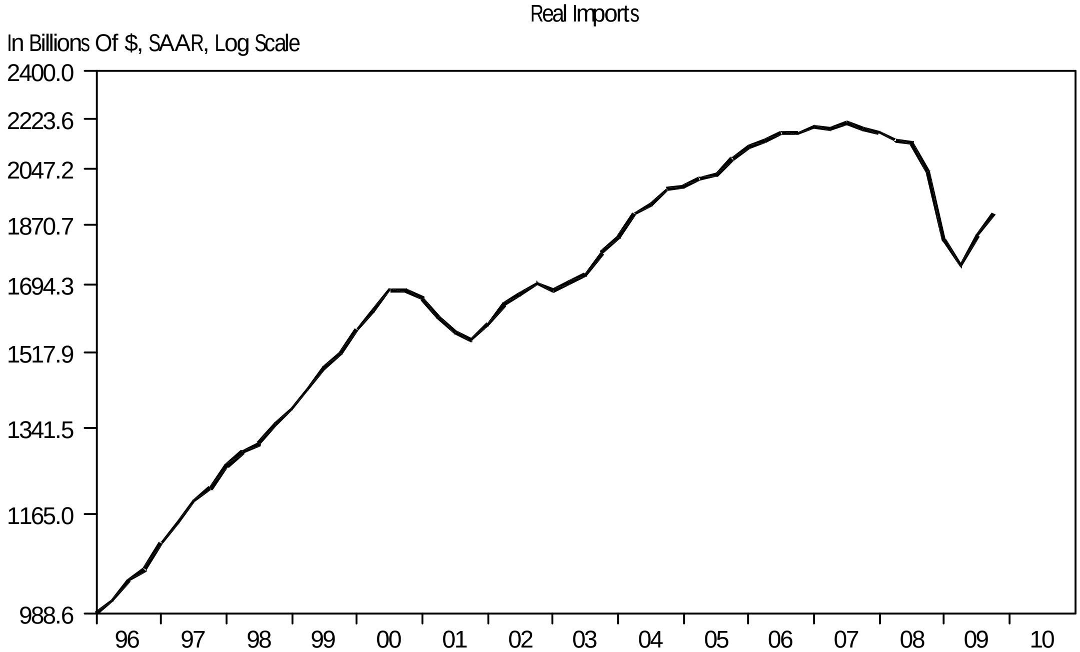
U.S Exports Are Halfway Back To Their 2007 Peak.

Real Exports



U.S Imports Have Regained One Third Of Their 2007 Peak.

Real Imports



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