DAILY ECONOMIC CALENDAR

July 31, 2008

R=RDQ Economics   C=Consensus   R=Range   L=Last

Real GDP (08Q2 advance) 8:30am
RDQ=3.0% C=2.3% R=0.9% to 4.2% L=1.0%
GDP deflator
RDQ=0.0% C=2.4% R=0.0% to 3.5% L=2.7%
Final sales
RDQ=2.8%   C=NA   L=0.9%

	Q2adv(e)	*Q1*	*Q4*	*4-Quarter Change(e)*
Chain Weight GDP	3.0%	1.0%	0.6%	2.3%
PCE	2.0%	1.1%	2.3%	2.1%
Residential Investment	-21.0%	-24.6%	-25.2%	-22.8%
Bus. Fixed Investment	4.0%	0.6%	6.0%	4.9%
-Bus. Equipment	4.0%	0.2%	3.1%	3.4%
-Non-Res. Structures	4.0%	1.2%	12.4%	8.3%
Inventory Change	-12.8bn	-19.6bn	-18.3bn	-5.0bn*
Government	1.7%	2.1%	2.0%	2.4%
Exports	7.7%	5.4%	6.5%	9.6%
Imports	-1.8%	-0.7%	-1.4%	0.1%
Gross Dom. Purchases	1.7%	0.2%	-0.4%	1.2%
Final Sales	2.8%	0.9%	2.4%	2.5%
Domestic final sales	1.4%	0.1%	1.3%	1.3%
GDP Deflator	0.0%	2.7%	2.4%	1.5%
Nominal GDP	3.0%	3.7%	3.0%	3.9%

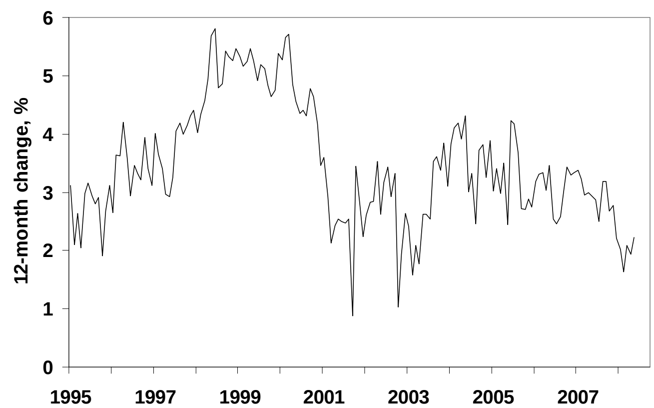
* 4-quarter average

Please see our Weekly Commentary, ***GDP Perspectives*** (July 28th, 2008) for a detailed analysis of today's GDP report (click here to be directed to that piece).

It is not easy to pin down the current state of the economy. On the one hand, data on the labor market and consumer confidence are at readings that are rarely, if ever, seen when the economy is not in recession. On the other hand, measured by real GDP the economy has continued to expand—albeit at a subdued rate of 0.8% from the third quarter of 2007 to the first quarter of this year. In addition, signals from financial markets have been mixed. Through late May, the behavior of the equity market (outside of financials) had been indicative more of slowdown than recession, however, the strains in the financial system remain and the Fed felt the need to extend and add to their current liquidity enhancing programs. Today's GDP report is unlikely, in our opinion, to provide any clarity on the direction of the economy (unless previous readings on GDP are revised lower—see discussion below).

Solid increase in real GDP expected in Q2
The first release of GDP is always subject to large uncertainties as we have only limited inventory data (and no price information for inventories) and no trade data for June—the Commerce Department makes assumptions for these factors. With that caveat in mind, we believe that both the growth and inflation details of today's GDP could

Real Personal Consumption Expenditures



be anomalous. We look for real GDP to have risen 3.0% in the second quarter and we see the GDP deflator unchanged. On growth, housing appears to have remained a substantial drag on GDP, with nominal private residential construction spending in April and May running 16.1% below its first-quarter average at an annual rate (we are projecting a 21.0% decline in real residential investment versus a 24.6% drop in the first quarter). Meanwhile, consumer spending appears to have been boosted by income tax rebates (real disposable income in April and May stands 14.6% ahead of its first-quarter average at an annual rate and real PCE is up 2.3% on the same basis). On the business spending side, monthly data from the factory orders report shows that nondefense capital goods shipments excluding aircraft rose in the second quarter at the fastest rate in a year and the construction spending report points to a pickup in nonresidential structures investment. Also, a narrower trade gap likely added significantly to GDP and business inventories appear to have been drawn down at a slower pace (thus also adding to growth).

Unchanged deflator, soft nominal GDP growth
On the GDP deflator, our forecast for unchanged prices is due to the fact that we expect sharply higher consumer prices to have been offset by a massive increase in import prices (the GDP deflator measures the price of domestically produced output; import prices, the source of much of the energy price pressures, are subtracted out of the GDP deflator calculation—again, please see Monday's Weekly Commentary for a detailed discussion of this issue). On our forecasts, nominal GDP would be reported up 3.0% in the second quarter, which underscores the weakness of the economy. As we have noted before, nominal GDP ought to be a better measured variable than real GDP (since people spend actual dollars and this is what the Commerce Department records). Nominal GDP grew by 3.0% at an

annual rate in the fourth quarter of 2007 and by 3.7% in the first quarter of 2008. If we are roughly correct in our estimate of nominal GDP for the second quarter, this would mean that nominal GDP growth has averaged about 3¼% for the last three quarters. This is the same growth rate of nominal GDP that the economy averaged from the fourth quarter of 2000 through the fourth quarter of 2002, which was a period that encompassed a recession and an extremely sub-par first year of economic recovery.

Revisions to prior quarter's data

Today's GDP release will incorporate the annual revision of the national income and product accounts, covering the first quarter of 2005 through the first quarter of 2008. It will be interesting to see if these revisions reconcile the disparate readings on the economy from the expenditure and income sides of the GDP accounts (while expenditure-based real GDP has risen by 2.5% over the last year, income-based real GDP is up only 1.1%).

Market thoughts

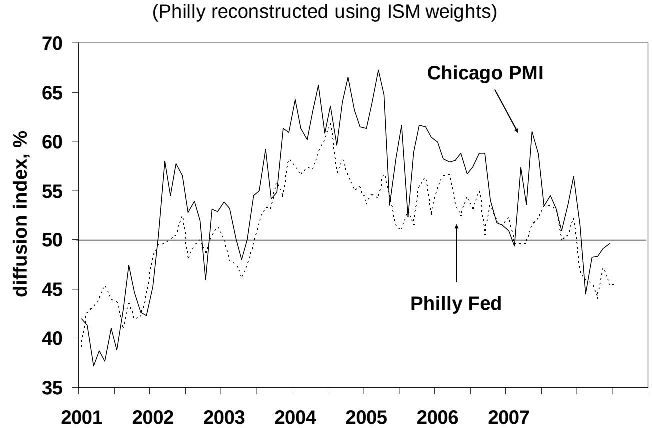
We doubt that this week's economic data will resolve the debate among market participants about the current state of the economy. The optimists will likely be able to seize on the solid growth in real GDP in the second quarter. The pessimists will likely be able to point to the eighth consecutive decline in private payrolls in July when those data are released tomorrow (although the stronger reading on ADP employment casts some uncertainty over this forecast). The debate over the state of the economy will continue and the markets will likely be pushed and pulled by these competing views. The release of the GDP and inflation data today could lead to a false impression that underlying growth is better than expected and that inflation low. In turn, this could lead some to think that a Fed rate hike might be nearer than they previously expected. This would not be our interpretation and we think any such expectations could well be dashed by a weak employment report for July tomorrow. We think that the employment data provide a better reading on underlying economic conditions and the likely direction of Fed policy.

Employment cost index (08Q2) 8:30am
RDQ=0.8% C=0.7% R=0.6% to 0.9% L=0.7%; 3.3% y/y
Wages and salaries
RDQ=0.3% C=NA L=0.8%; 3.2% y/y
Benefit costs
RDQ= C=NA L=0.6%; 3.5% y/y
Average hourly earnings rose 0.8% between March and June, while CPI medical care costs were up only 0.5%. We look for a trend-like 0.8% increase in wage and salaries in the March to June quarter. In addition, we see benefit costs up 0.9%, which would put total employment costs up 0.8% in the second quarter.

Initial jobless claims (July 26th) 8:30am
RDQ=400K C=393K R=375K to 440K L=406K
Continuing claims (July 19th)
C=NA L=3.107ml
Initial unemployment claims jumped 34,000 to 406,000 in the third week of July, supporting our conjecture that the lower jobless claims readings in the first two weeks of the month reflected the usual seasonal volatility associated with temporary summer retooling shutdowns in the auto sector. We look for initial claims to have remained elevated, at 400,000 in the week ending July 26th.

Chicago PM index (July) 9:45am
RDQ=49.5 C=49.0 R=48.0 to 50.7 L=49.6
Employment index
C=NA L=46.7
Prices paid index
C=NA L=85.5
Regional manufacturing indicators released thus far in July have been mixed. Weighting the components of the surveys, the New York Fed's Empire State survey pointed

Chicago PMI and Philly Fed Index
(Philly reconstructed using ISM weights)



to a modest pickup in manufacturing growth early in the third quarter, while the Philly Fed index remained weak. The Richmond Fed's manufacturing composite index was very weak in July, falling to -16 from -12 in June (although the Chicago PMI is very poorly correlated with the Richmond Fed index). Based on the available information, we look for a small deterioration in the Chicago purchasing managers' index, to 49.0 in July from 49.6 in June.

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