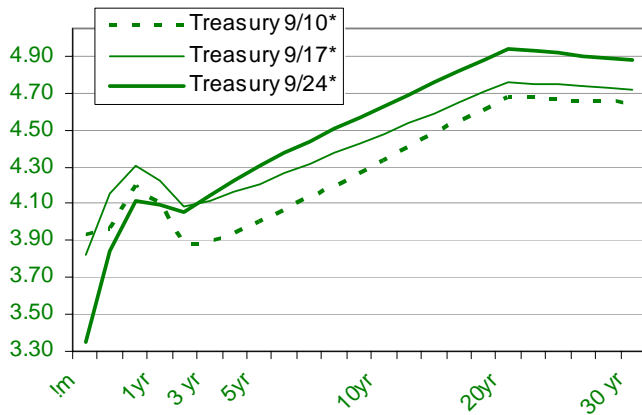
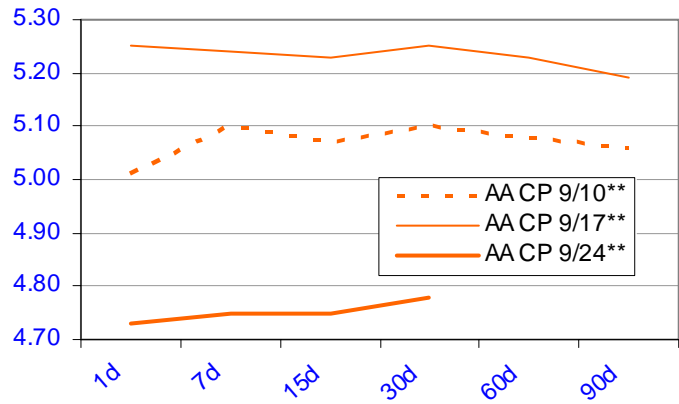




The Big Picture: Cost of Funds



* U.S. Department of the Treasury



** Nonfinancial Commercial Paper—U.S. Federal Reserve

Measure	Numerical Trend	Current Trend	Commentary
Existing Home Sales August 2007 http://www.realtor.org/Research.nsf/Pages/EHSdata	<i>Millions</i> <i>Seasonally Adjusted</i> <i>Annualized Rate</i> Aug 07: 5.50 Jul 07: 5.75 Aug 06: 6.31		The housing slowdown continues. The 4.3% decline in sales from July is the 6 th consecutive decline and 10 th over the past 12 months. Year-to-year home sales are down 12.8%. Existing home sales fell in all 4 census regions, including a 9.8% drop in the West. There are 4.581 million homes available for sale, which represents a 10.0 month supply (in August 2006, there was a 7.3 month supply). A small glimmer of hope is that the median sales price is up slightly (+0.2%) compared to the same time last year. Elsewhere, according to the S&P/Case-Shiller index, home prices are down 3.9% in the 20 metro areas tracked by the index.
CPI August 2007 http://www.bls.gov/news.release/cpi.nr0.htm	<i>Percentage Change</i> <i>from Previous Month</i> Aug 07: -0.1% Jul 07: +0.1% Aug 06: +0.3%		The CPI report, coming out a day after the FOMC announced its 50/50 rate drop, confirms that inflation remains in check. The drop in the headline CPI number for August is the result of declining energy prices—for the past 12 months, CPI has increased 1.9%. Core CPI—sans energy and food—increased 0.2% in August (4 th time in past 5 months) and is up 2.5% over the past year. Core goods CPI was flat (versus +0.1% in July) while core services CPI increased 0.2% (versus +0.3% in July).

Source: Bureau of Labor Statistics

Measure	Numerical Trend	Current Trend	Commentary
Housing Starts August 2007 http://www.census.gov/const/newsresconst.pdf <i>Source: Census Bureau</i>	<i>Seasonally Adjusted Annualized Rate Millions</i> Aug 07: 1.331 Jul 07: 1.367 Aug 06: 1.646	↓	This is the 4 th time in the past 5 months in which housing starts decreased as homebuilders continue to work on reducing their inventory of unsold homes. Housing starts were down 2.6% from July and are down 19.1% from a year ago. Even as single family home starts declined 7.1%, multi-family starts increased 12.8%. Starts slowed in the Northeast and West while they grew in the Midwest and South. Permits totaled 1.307 million, down 5.9% from July and have declined 24.5% from a year earlier.
Mass Layoffs August 2007 http://www.bls.gov/news.release/mmls.nr0.htm <i>Source: Bureau of Labor Statistics</i>	<i>Number of Events Seasonally Adjusted</i> Aug 07: 1,189 Jul 07: 1,221 Aug 06: 1,218	↓	A mass layoff "event" is one that impacts at least 50 employees from the same employer. August's events impacted 118,120 workers (seasonally adjusted), down 6,715 in July. There were 325 mass layoff events in the manufacturing sector, impacting 35,676 workers. This is a decline of 58 events and impacted 14,360 fewer manufacturing workers. The top 3 industries in terms of mass layoffs were temporary help services, school and employee bus transportation, and real estate credit.
Investor Optimism September 2007 http://www.ubs.com/investoroptimism <i>Source: UBS/Gallup</i>	<i>Overall Index Oct 1996 = 124</i> Sep 07: 68 Aug 07: 73 Sep 06: 74	↓	The sub-prime crisis and its rippling impact on the credit markets have been weighing on investor confidence over the past few months. This is the index's 4 th straight decline and its lowest reading in 13 months. The index is made of two components: Personal index (70 versus 68 in August) and the economic index (-2 versus 5 in August). Per the press release, 55% of respondents believe the slowdown in housing is hurting the investment climate "a lot" while 81% believe the housing market is worsening.
State Personal Income September 2007 http://www.bea.gov/newsreleases/regional/spi/sqpi_newsrelease.htm <i>Source: Bureau of Economic Analysis</i>	<i>Percentage Change from Previous Quarter</i> Q2 07: +1.2% Q1 07: +2.5% Q2 06: +0.8%	↓	The BEA notes that the growth in personal income slowed in all 4 regions during the 2 nd quarter, in part because the 1 st quarter figures included significant bonus activity. Still, personal incomes are up 6.4% over the past year. Income growth was centered in the professional services, health care, and state and local government sectors. The regions showing the largest increases were the Southwest, Rocky Mountain, Far West and Southeast.
Leading Indicators August 2007 http://www.conference-board.org/economics/bci/pressRelease_output.cfm?cid=1 <i>Source: The Conference Board</i>	<i>Leading Index 1996 = 100</i> Aug 07: 137.8 Jul 07: 138.7 Aug 06: 137.0	↓	Only 1 of the ten components of the index (money supply) increased during August. The negative contributing components were: index of consumer expectations, average weekly initial claims for unemployment insurance, stock prices, building permits, vendor performance, manufacturers' new orders for non-defense capital goods, interest rate spread, and manufacturers' new orders for consumer goods and materials. Despite the drop, the index is up over the past 6 months.

Commentary:

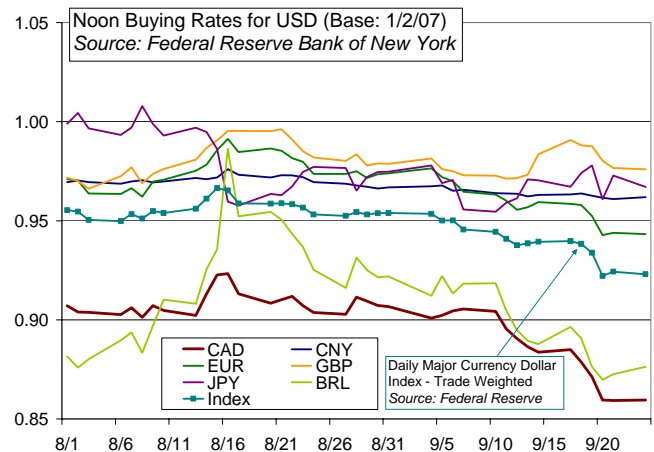
The housing effect once again curdles the economic outlook and calls into question standing predictions that the house market has settled. While existing home sales and housing starts fell, the consumer has experienced a direct impact as personal income growth slowed and consumer confidence gave back gains for the year—and then some. Though it will take time for the lag-effect of the Fed Funds rate cut to impact the economy and inflation, the market is ready for more—Fed Funds futures give an October rate cut a 70 percent chance.

A similar picture can be seen from a broader perspective as the U.S. Leading Index dropped below January levels to hover around the lows of last summer. As the economic situation plays out in the U.S., the U.S. Dollar continues to drop to new lows against most of the majors to reach parity with the Canadian Dollar, 2-for-1 against the British Pound and nearly \$1.50 against the Euro.

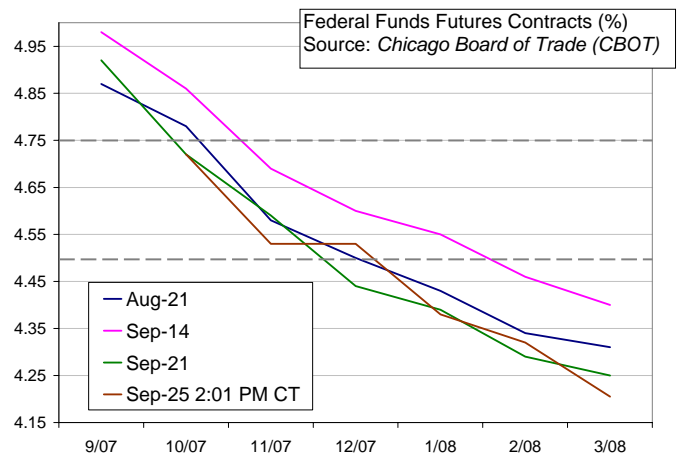
U.S. home value dropped for 12 months ending in July by 3.9 percent, according to the S&P/Case-Shiller home-price index. The index has fallen every month since January when it broke its month-over-month increase streak that ran from the index inception in 2001. The July survey demonstrates that consumer spending in the 20 U.S. metro areas covered was threatened before credit markets leapt into turmoil in late July and early August. Light demand and tighter mortgage lending standards likely will further distend the slouching home market and push prices down. The consumers' proclivity to spend through a soft economy may diminish as falling prices pare home wealth.

Indeed, consumer confidence has been hurt by falling home prices, a fading labor market and the heavily covered tumult in the credit markets. Confidence fell in September further than forecasts expected to retreat back to the lows of

November 2005, according to the Conference Board. The Board's confidence index fell to 99.8 from an upwardly revised 105.6 in August as laborers became less optimistic about their job prospects. The consumer—a vital factor in restoring economic growth—will be watched closely amid growing expectations of a constricting labor market and mounting mortgage defaults.



This week, the dollar deteriorated to a 15-year low against the major currencies, according to *Bloomberg*. The New York Board of Trade's dollar index yesterday reached its lowest since September 1992, falling to 78.213, and the Fed's trade-weighted dollar index on Thursday dropped to 74.7842, its lowest level since it began in 1971.



Fed Funds futures reveal broader market expectations of another cut, which is in line with Federal Reserve rate cut and recession expectations. Futures as 2:01 PM CT Tuesday

reflect a market belief that a 25bps cut is slightly more than 70 percent likely in October and 96 percent likely in November.

What to watch over the next week:

Wednesday September 26, 2007

- GDP (<http://www.bea.gov/national/index.htm#gdp>)
- Oil and Gas Inventories (http://www.eia.doe.gov/pub/oil_gas/petroleum/data_publications/weekly_petroleum_status_report/current/txt/wpsr.txt)
- MBA Mortgage Applications (<http://www.mortgagebankers.org/NewsandMedia/PressCenter.htm>)

Thursday September 27, 2007

- New Home Sales (<http://www.census.gov/const/www/newresalesindex.html>)
- Agricultural Prices (<http://usda.mannlib.cornell.edu/MannUsda/viewDocumentInfo.do?documentID=1003>)

Friday September 28, 2007

- Personal Income (<http://www.bea.gov/newsreleases/national/pi/pinewsrelease.htm>)
- Construction Spending (<http://www.census.gov/const/www/c30index.html>)
- University of Michigan Consumer Confidence (<https://customers.reuters.com/community/university/default.aspx>)

Monday October 1, 2007

- ISM Index (<http://www.ism.ws/ISMReport/MfgROB.cfm?navItemNumber=12942>)

Tuesday October 2, 2007

- Auto Sales (http://www.motorintelligence.com/fileopen.asp?File=SR_SAAR.xls)
- Chain Store Sales (<http://www.icsc.org/cgi/rsrchshow?section=st>)

Get a Faster Start on the Week

AFP EconWatch moves to Mondays starting October 8th and watch for the AFP EconWatch Mid-Week Update, each Wednesday as a part of AFP Online Headlines



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Financial Professionals®

AFP EconWatch (www.AFPonline.org/Research) by:

Kraig Conrad, CTP, Director of Corporate Finance and Risk Management
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We welcome your comments.

Please send them to Research@AFPonline.org