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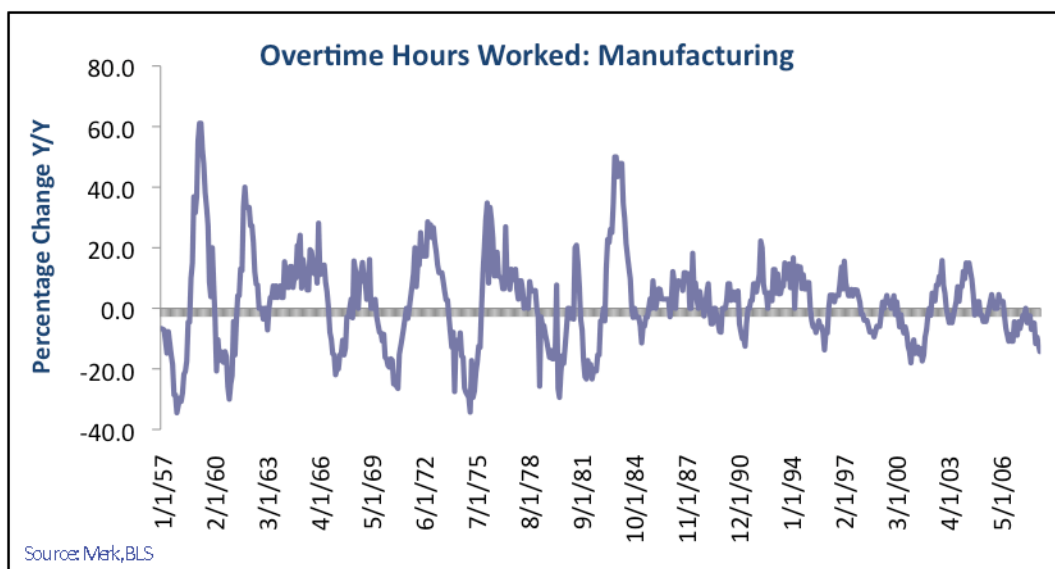
MARKET OUTLOOK

October 09, 2008

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Recession Signals: Industrial Production Looks To Decline Again In September

While, the service sector does account for well over 80% of overall economic activity, industrial production often provides a very timely indicator implying the end of the business cycle and the onset of a recession. The pro-cyclical nature of the report provides a well-timed and sensitive indicator of the current rate of growth in overall output. We expect that the September industrial production report based on our forecast of a -1.4% print will confirm other grim data that the market has observed in the manufacturing sector and looks to provide a strong signal that the business cycle has reached its end and the American economy has entered a recession.



As always, the devil is in the details. On first glance, industrial activity picked up in the early summer due to the increase in production caused by the settlement of the strike at American Axle, a key supplier of parts to the domestic automotive industry. However, during the second quarter of 2008 total industrial production on a year over year basis, contracted at a rate of -3.2%. Moreover, with domestic light auto and truck sales in an advanced state of collapse, this implies that auto assembly going forward will see another round of retrenchment.

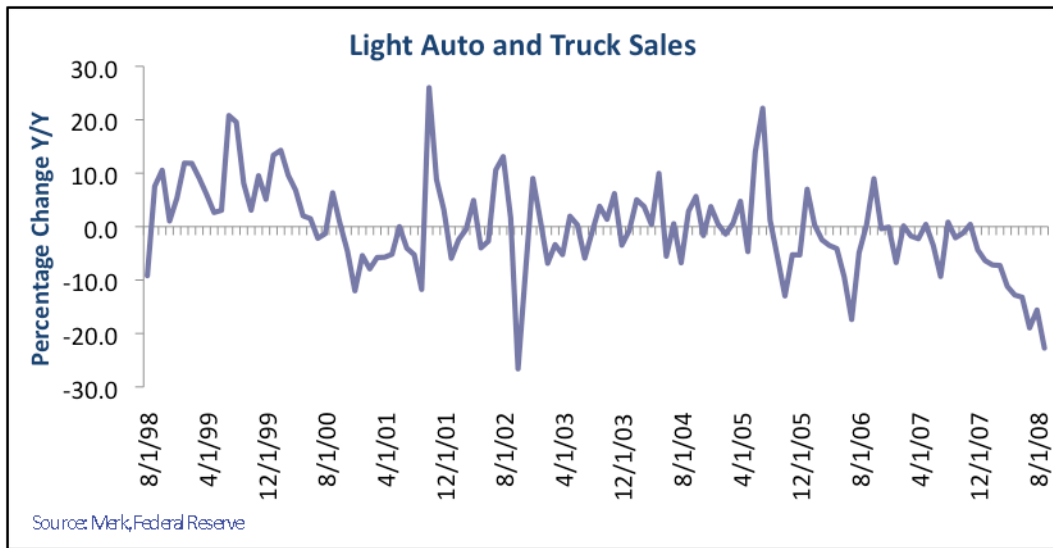


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Looking at the September employment report total hours and overtime hours worked in the manufacturing declined for the third straight month with noticeable declines in the primary metals and fabricated metals sectors. Hours worked in natural resources and mining declined 1.0% on a monthly basis.

Perhaps more troubling is the decline in the September ISM report that saw the overall manufacturing index decline to 43.5 and production collapse to 40.8 even in light of a sharp fall in the prices paid category and still relatively decent demand from the external sector that saw growth during the month. The combined evolution of the data does strongly suggest that the economy has moved into territory consistent with overall contraction.

Thus, we do not anticipate that on a national basis that the manufacturing sector will see any growth during the final two quarters of the year. Our provisional forecast is that industrial production will contract at a rate of -0.7% in Q3'08 and -1.0% in Q4. The risk to that forecast is to the downside due to an expected decline in demand from the external sector going forward and the likely impact caused by a stronger dollar in the coming months.

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