

ECONOMIC INDICATOR

Executive Summary - Many Think the Recession is Over; For Non-Residential Construction it has Just Begun

As we all know, our country is in the middle of a horrible recession and everyone is looking for any type of sign, data, graph, or chart to signify the end of this downward spiral. Miles-McClellan is no different in the search for answers, and we have decided to share a few important economic indicators with all of you every month so we can all better understand the challenges we face in the near future.

INDICATOR	MAR	APR	MAY	JUNE	JULY	AUG	SEPT
Architectural Billing index (ABI)	+	-	+	-	+	-	+
Initial Claims - Unemployment	-	+	+	+	+	+	+
Continuing Claims - Unemployment	-	-	-	-	-	+	+
Non-residential Construction Index (NRCI)		+			-		
Capacity Utilization (effects Non-residential spending)	-	-	-	-	+	+	+
Auto Sales	+	-	+	-	+	+	-
Housing Starts	+	-	+	+	-	+	+
TED Spread	-	+	+	+	+	+	+
Baltic Dry Index (BDI)	+	-	+	+	-	-	-

Headlines

- The **Architectural Billing Index** increased slightly in September while showing a large increase in its inquiries number. Experts say that it is a positive sign but it also could be caused by companies branching out to build different kinds of projects because the market is so competitive.
- **Auto Sales** completely deflated once the Cash for Clunkers program ended in August. September sales were near the lowest of the entire recession.
- **Housing Starts** are predicted to stay right where they are for the rest of 2009 which bodes well for the government to increase the \$8,000 tax credit into the middle of next year.

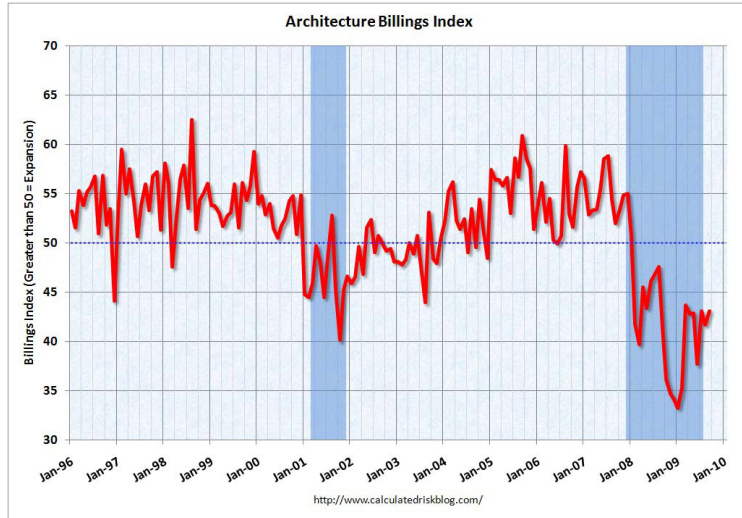
KEY

Positive Change	+	+	+	+
Negative Change	-	-	-	-
Good Performance				
Average Performance				
Poor Performance				

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MILES•MCLELLAN CONSTRUCTION | mmbuildings.com

ABI Billings Improve; Inquires at Highest Point in 2 Years

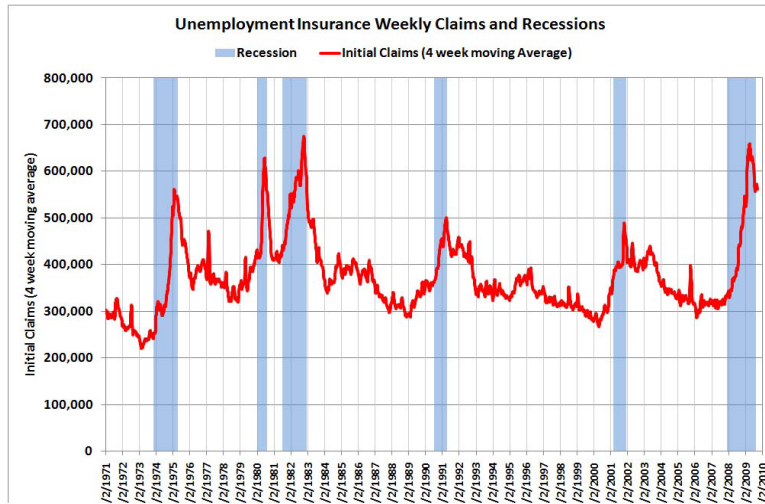


August Billings: 41.7 September Billings: 43.1
 August Inquiries: 55.2 September Inquiries: 59.1

The billing score of 43.1 indicates a decline in demand for design services (any score above 50 indicates an increase in billings). The new projects inquiry score was 59.1, its highest level since September 2007. "The fact that inquiries for new project are so high is an encouraging sign that we may be seeing new construction activity entering the design phase," said AIA Chief Economist Kermit Baker, PhD, Hon. AIA. "But that optimism has to be tempered by the fact that the marketplace is so competitive that firms are broadening their search for new projects, thereby inflating the number of inquiries that they are reporting. However, some larger stimulus-funded building activity should be coming online over the next several months, partially offsetting the steep decline in private commercial construction."

AIA, Scott Frank
 Graph: Calculated Risk

Initial and Continuous Claims Decrease; Still Very High

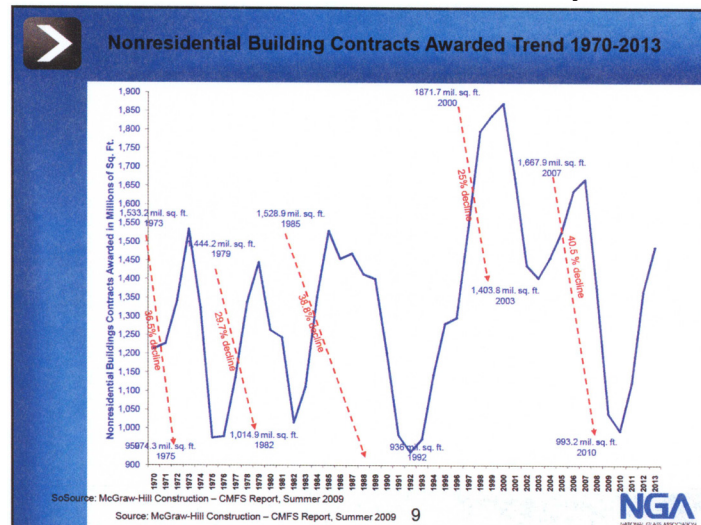


Aug. Initial Claims: 566,250 Sept. Initial Claims: 553,500
 Aug. Cont. Claims: 6.24 M Sept. Cont. Claims: 6.19 M

"As you can see in the chart we are well off the highs set back in April, but after a rapid improvement in May and June, progress has seemed to come to a halt. We are most likely moving to the plateau stage that we experienced following the last two recessions. In both of those cases, initial claims stayed at an elevated level, but off their highs for well after a year past the official end of the recession. While it is nice to be over 100,000 lower than at the peak, a level of 545,000, or even 500,000 is not good enough. A year ago we were at 447,250 (4 week average) and the economy was still on-balance losing jobs. Still, I suspect the market will see the decline in initial claims as being good news. It's simply not yet good enough."

Zacks.com, Dirk Van Dijk
 Graph: Calculated Risk

2010 Will See Non-Residential Construction in Major Decline



Non-Residential Construction Industry

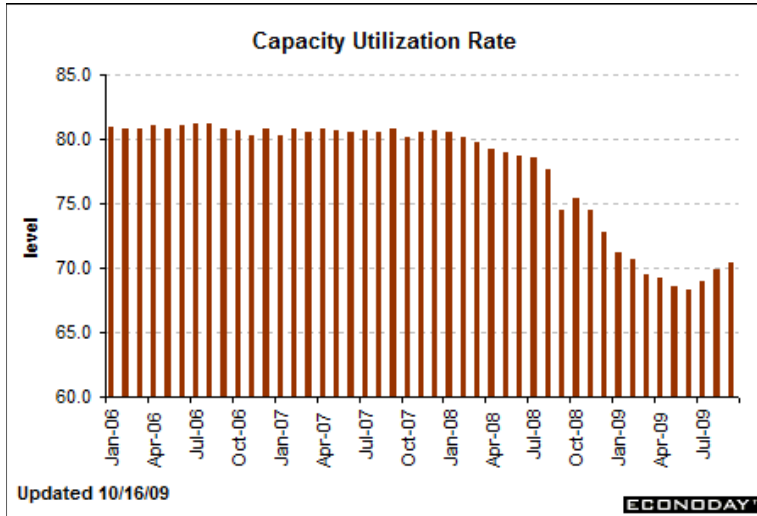
During the "State of the Industry" panel discussion, Kawneer's Henry Taylor shared a chart showing "non-residential building contracts awarded trend 1970-2013." In 2010, the square feet awarded is 993.2 million, a 40.5 percent decline since 2007's 1,667.9 million square feet. "We're still anticipating a 15 percent drop next year," he said. "A potential for a strong recovery's out there if all the projects go through, but recovery's going to be slow." "Economist Jeff Dietrich predicted a similar decline in non-residential construction in 2010 (12%) with a recovery coming in 2011. Jeff's message was very similar to the panel - Conserve cash and implement technology and process improvements to emerge from this downturn stronger than the competition."

CTS Community Protal
 Graph: Henry Taylor Powerpoint Slides, Kawneer

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Capacity Utilization Slowly Making a Comeback



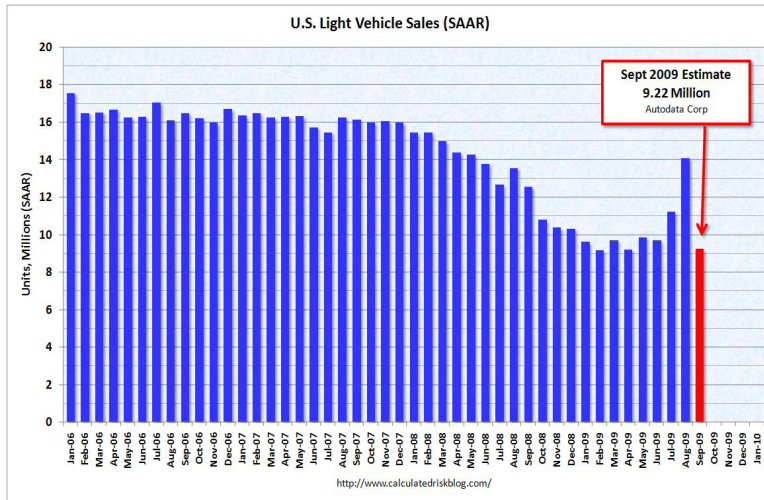
Capacity Utilization Rate

August 2009 Rate: 69.6% Sept. 2009 Rate: 70.5%

“Capacity utilization generally reflects the available productive capacity within an economy. For instance, if an economy is able to produce 100 widgets a year but is only producing 75 widgets it is operating at 75% capacity utilization. The remaining 25% is referred to as slack or excess capacity.” Most of the time, the economy operates with a bit of slack. This gives producers flexibility to meet growing demand before needing to invest in factories and capital equipment. As capacity utilization rises, the probability that manufacturers will need to spend money on capital equipment or “(factories) “also rises. Capacity utilization rises as production increase to meet growing demand for goods.” So, the increase in capacity utilization can be a sign of potential work for non-residential construction but as we said before, it will have to increase at a faster pace than this.

Plan B Exconomics
Graph Data: Econoday

September Auto Sales Nose Dive; Fallout from Cash for Clunkers



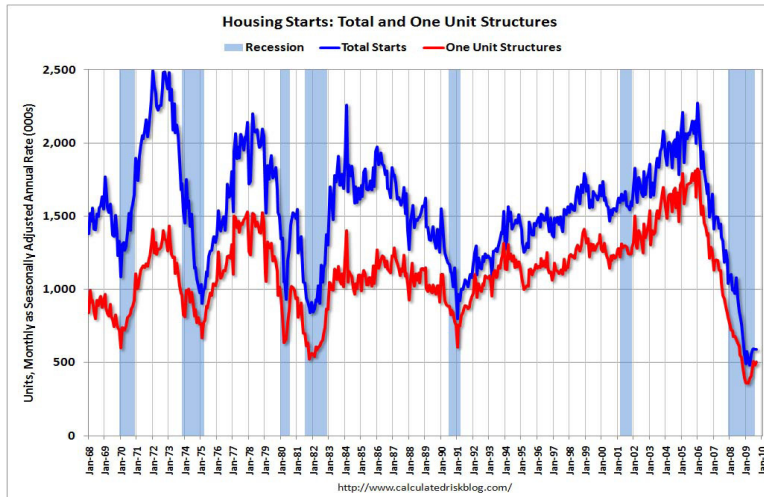
Auto Sales

August 2009: 14.09 M September 2009: 9.22 M

“Industry sales of light vehicles suffered in September from the payback from the cash for clunkers program, and from limited availability of several best-selling models. This took the month’s SAAR down to 9.22M units, predictably well below the 11.2M and 14.1M units generated during the cash for clunkers program, but also below the 9.6M pre-clunkers run rate which was our expectation for the month. That said, Ford and Toyota noted that the pace of auto sales improved throughout the month, as deliveries recovered from the post-clunkers trough, which could be a positive sign for the run rate of sales over the coming months. And while GM didn’t observe the same pattern, the manufacturer estimated that September saw a 100k unit negative impact from the clunkers payback and from limited availability, which would suggest an underlying September SAAR in the low to mid -10M units.”

Barclays Capital
Graph: Calculated Risk

Housing Starts Move Sideways; \$8,000 Credit Extension Possible



Housing Starts

August 2009: 598,000 September 2009: 590,000

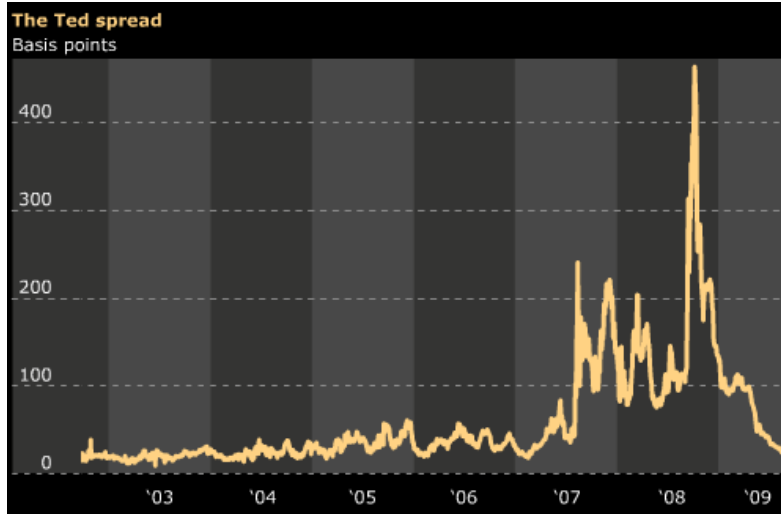
“September’s housing start stat was statistically neutral, but will probably support Congressional lawmakers who are pushing for an extension of the \$8,000 federal income tax credit for first-time home buyers.” “Further, the National Association of Realtors is lobbying for an extension of the program into 2010, arguing that the still-fragile U.S. housing market needs the purchase incentive program. Bottom line: Given the likely mild U.S. recovery in the next three quarters, the housing sector and the nation could benefit from an extension of the \$8,000 credit through at least June 2010.” “Economists follow the housing start statistic because of the large role residential real estate has played historically in the U.S. economy. Housing affects commerce in companion sectors, such as furniture, appliances, insurance, and landscaping, among others. Hence, a sustained increase in housing starts usually puts upward pressure on U.S. GDP.”

Daily Finance, Joseph Lazzaro
Graph: Calculated Risk

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TED Drops Close to Historical Lows; Why Aren't Banks Lending?



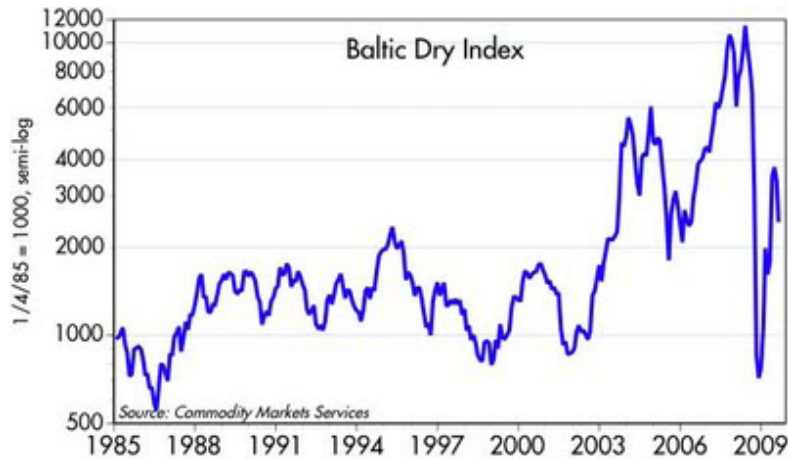
TED Spread

August 2009: 0.26% September 2009: 0.16%

“The TED spread measures the difference that the US government pays (Treasury) to borrow money vs. private banks (Eurodollar rate). It is a direct measure of confidence within the global financial system so seeing it close to its historical low is reassuring. However, before we get too comfortable, we should also keep in mind that the last time it was this low the world looked a lot different than it does now: unemployment was not a concern, the economy was humming along, the housing market was healthy and the stock market was in a bull market.”(SO). Another thought: “What’s interesting to me about this chart is the complete lack of volatility in 2009. Since March 2009, however, we see a very docile curve marching linearly toward zero as though it were being controlled in some fashion. For the TED spread to be valuable in predicting the end to the recession, it must actually be free to change based on independent risk assessment. Is it?”(RW).

Sentiment Overview; Russ Weherill

Baltic Dry Index On a Decline Since June



Baltic Dry Index - BDI

August 2009: 2,500 September 2009: 2,318

“If you compare the S&P 500 index for the past few years with the Baltic Dry Index (BDI), it would seem that shipping rates have lead the equities from 1 to 3 months in both rallies and tops. Of course, the relationship is fuzzy and not a one to one, up and down, direct correlation. But in all its fuzziness, you can still make it out rather clearly. You can even see that about a month before the stock market went into a waterfall decline last year, the BDI broke down below its low and started on its head first dive. So what is it saying now? The BDI topped out in early June 2009 at 4291 and has since been in a downtrend. In keeping with the same approximate time lag, we would expect the stock market to top out in late August or early September. “

*Trader's Narrative
Graph: Thechartstore.com*