



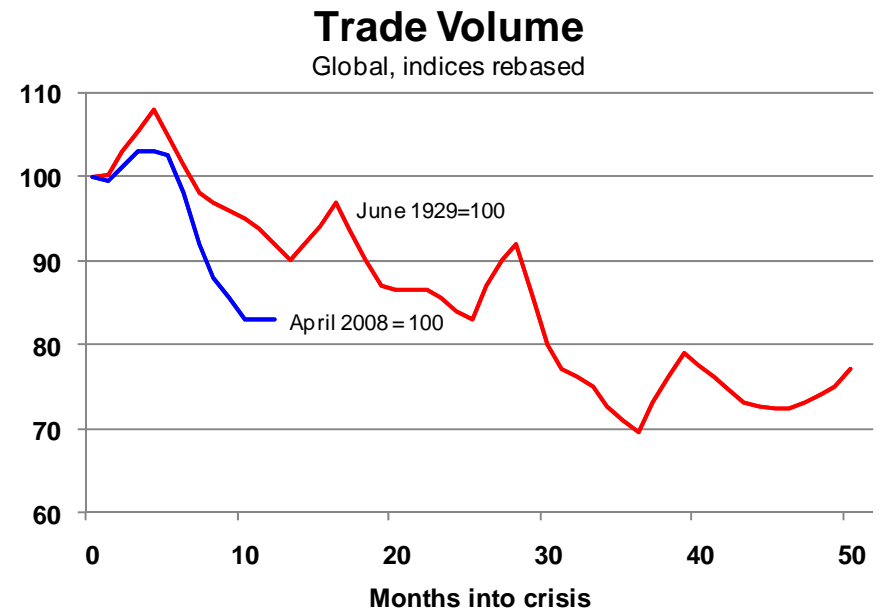
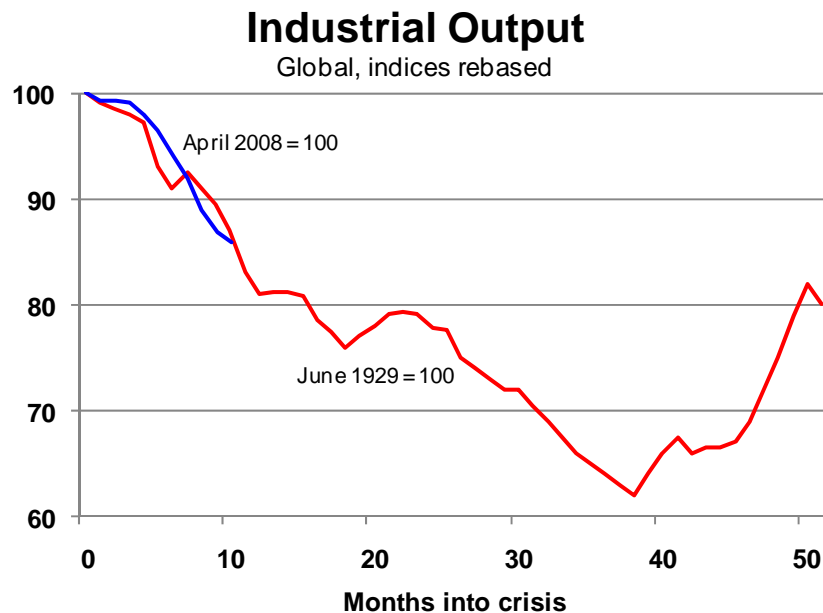
Perspectives on Economic Conditions

July 2009

The Current Recession Tracks the Great Depression ...

Many economic trends are as bad or worse than those of the Great Depression

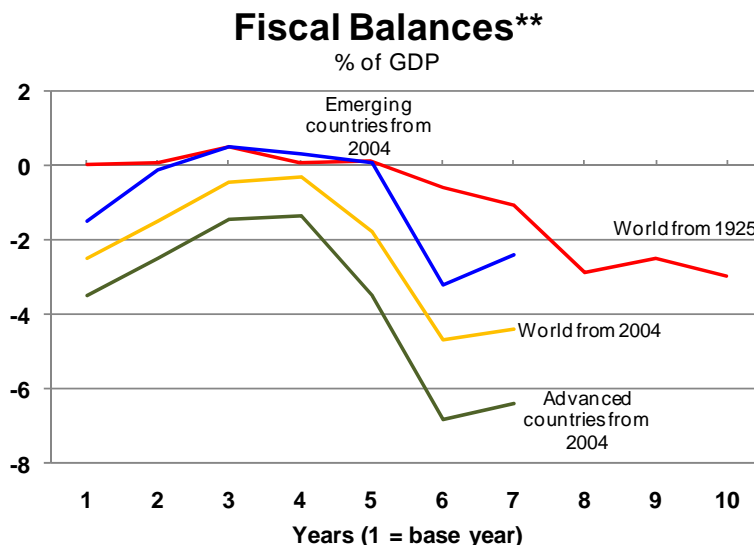
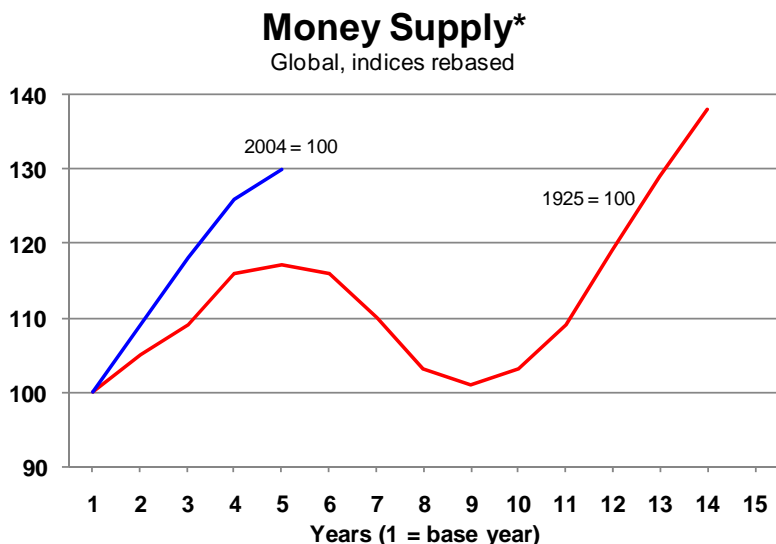
- Global industrial output declines closely track the trends from the 1930s
 - By Feb 2009 Japan's industrial output had declined by approximately 30% vs. 5% at the equivalent stage in the Great Depression. Despite a sharp rebound in March 2009, output remains significantly lower
 - Industrial output in France and Italy have declined by approximately 17% and 26%, respectively. At the equivalent stage in the Great Depression output in France had increased slightly and Italy had experienced approximately a 7% decline
 - Industrial output declines in the U.S., Canada, U.K, and Germany are closely tracking their respective rates of decline in the 1930s
- Global trade volume has collapsed more quickly than in the 1930s



... But “Depression” Risks Appear Exaggerated ...

Poor policy decisions, now discredited, contributed to the Great Depression’s depth and length

- The Federal Reserve allowed the money supply to contract for four years *after* the 1929 stock market crash, partially due to constraints associated with the U.S. dollar being on a gold standard
- The 1930 Smoot-Hawley Tariff Act resulted in substantial increases in worldwide trade tariffs
- New Deal era actions included substantial tax increases and increases in minimum wage



* 19-country aggregate.

** Figures include 2009-10 forecasts.

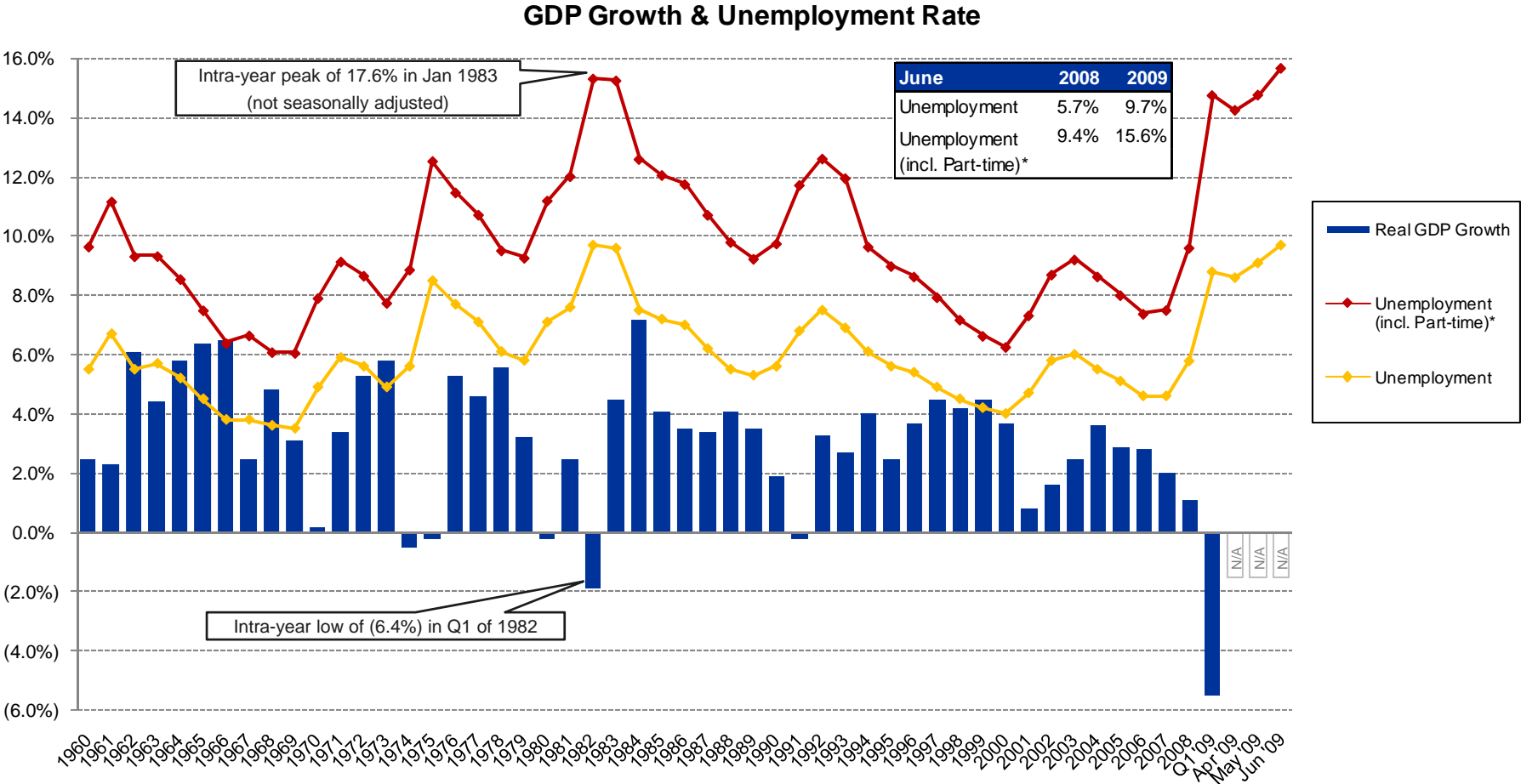
Sources: Financial Times, IMF, Eichengreen & O’Rourke (2009).

Also, housing prices which have been a key driver of the financial instability feeding this recession, have moved to be more in line with incomes. Price-to-Income ratios are now in the high 3’s compared to over 5 in 2005 and 2006. A home purchased using the traditional metrics of 20% down and a 3x income mortgage implies a 3.75x ratio.

... Although A Worse Recession Than That of The Early 80's is Likely

	~ Aug 2008 - present 4 quarters & counting	Jul 1981 - Nov 1982 6 quarters	Great Depression Oct 1929 - ~1945 ~60 quarters
<u>FINANCIAL MARKETS</u>			
STOCK MARKET PERFORMANCE	DJIA FELL 53.8% BETWEEN 10/07 AND 3/09	DJIA FELL 23.5% BETWEEN 04/81 AND 08/82	DJIA FELL 89.2% BETWEEN 09/29 AND 07/30
FINANCIAL SYSTEM HEALTH	SYSTEMIC PROBLEMS	SIGNIFICANT NUMBER OF S&L FAILURES	EXTENSIVE FAILURES; CONSUMER DEPOSIT LOSSES
<u>CONSUMER FINANCE & WEALTH</u>			
UNEMPLOYMENT	9.5%+	~8% - ~10%	~19% - ~25%
PRECEDING CONSUMER CREDIT BEHAVIOR AND WEALTH	RAPID INCREASE IN BOTH	STABLE	RAPID INCREASE IN BOTH
<u>MONETARY FACTORS</u>			
CONCURRENT MONETARY POLICY (MAX / MIN FED FUNDS RATE)	EXPANSIONARY (~5.25% / ~0.25%)	INITIALLY CONTRACTIONARY THEN EXPANSIONARY (~19.0% / ~9.0%)	CONTRACTIONARY
GOLD STANDARD CURRENCY	NO	NO	YES
FED PRINTING MONEY	YES	NO	NO
<u>GOVERNMENT POLICY</u>			
TRADE POLICY	MODEST INCREASED RISK OF PROTECTIONISM	BIAS TOWARD FREE TRADE	SHARP MOVE TO PROTECTIONISM
FISCAL POLICY	HIGHLY STIMULATIVE (FED DEFICIT ~12% OF GDP)	STIMULATIVE (FED DEFICIT ~3% to ~4% OF GDP)	EVENTUALLY STIMULATIVE (FED DEFICIT ~(1%) to ~12% OF GDP)
GOVERNMENT PRICE CONTROLS	NO	EXISTING CONTROLS REVERSED	INTRODUCED AND WIDELY APPLIED
TAX POLICY	PROPOSED INCREASES IN HIGHEST EFFECTIVE RATES	SUBSTANTIAL DECREASE IN HIGHEST MARGINAL RATES	SUBSTANTIAL INCREASE IN HIGHEST MARGINAL RATES

Historically, Recovery Begins in Quarters Not Years ...

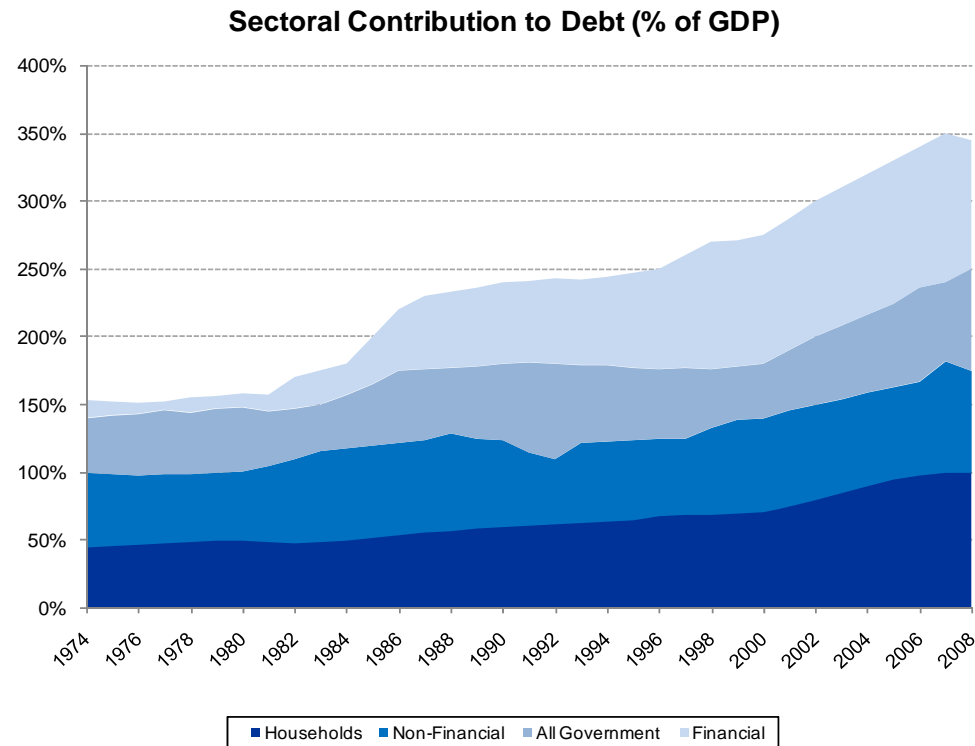


* Includes individuals forced to part-time status due to economic conditions and those seeking full-time employment but only able to obtain part-time positions. Unemployment data has not been seasonally adjusted.
 Source: U.S. Bureau of Labor Statistics and Bureau of Economic Analysis.

... But Recovery Will Likely Be Slow and Volatile

Consumer and financial services borrowing has been a significant driver of economic activity

- The return of private sector demand requires significant deleveraging on the part of households and businesses. Over the past two quarters U.S. households have reduced their debt at an annualized rate of only 3.1%

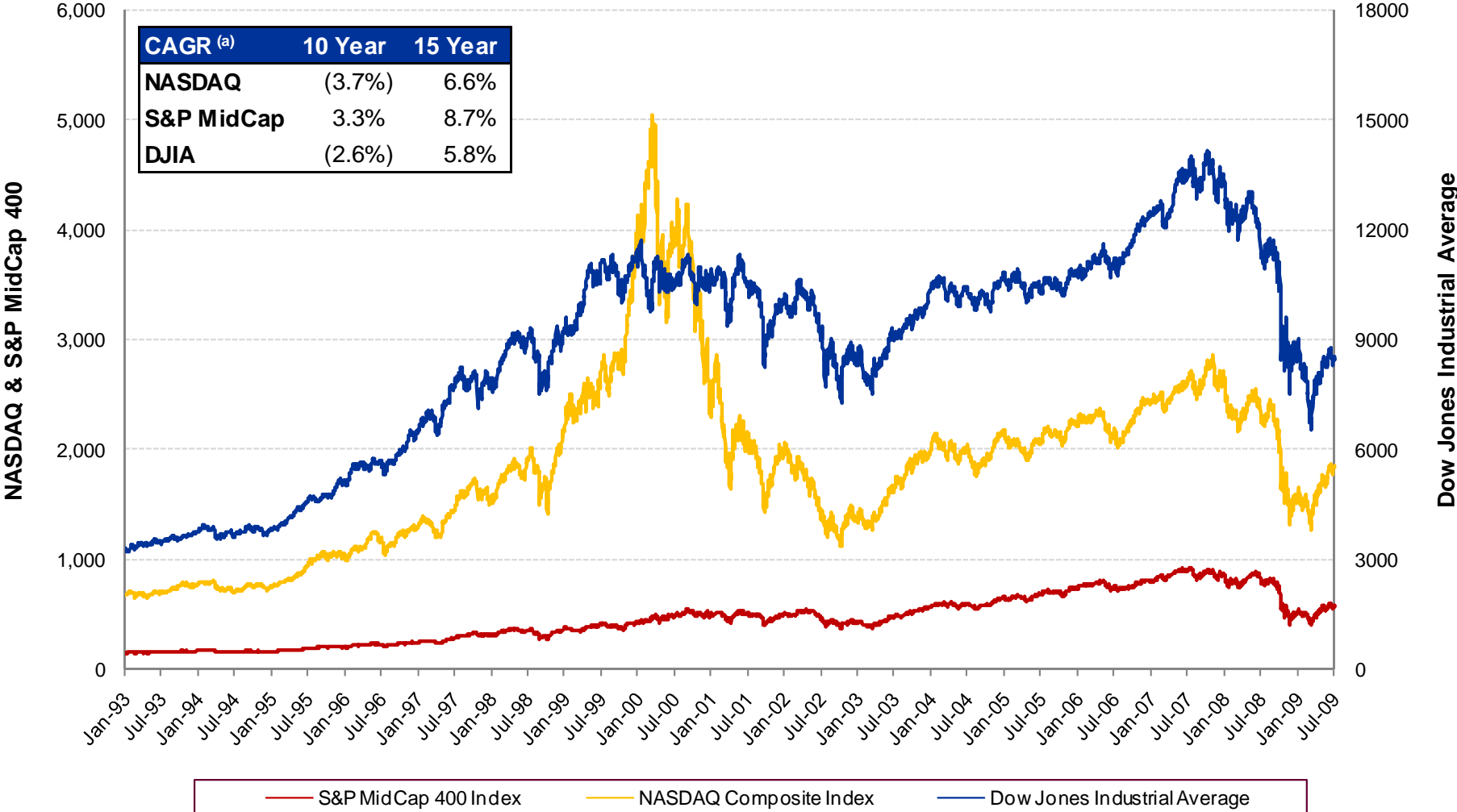


Source: Federal Reserve.

- Furthermore, substantial private sector debt has been and will be absorbed by the Federal Government. The additional borrowing required for deficit/stimulus/bailout financing will increase the cost of capital and likely require higher taxation, depressing growth
- Aggressive Federal Reserve interventions, including “printing” money, increases the range of potential inflation outcomes

Likely Increase in the Cost of Growth Capital

The cost of equity for growth sectors will likely be exacerbated by the poor performance of NASDAQ stocks relative to large cap and industrial benchmarks



(a) CAGR values as of 06/30/09.
Source: Capital IQ / Standard & Poors.