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"Strategies for a New Industrial Era"

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Manufacturing Metrics

Key Points

- Mfg employment declines increase; Led by "blue collar" losses
- Durable mfg profits drop (-47.7%) since last year; Nondurable mfg profits increase 16.2%
- ISM new orders index remains brutally negative; 15 consecutive months
- Manufacturing production output and capacity utilization down dramatically since last year
- PPI at -1.2%; Core CPI at 0.0% for January
- U.S. exports drop significantly
- Trade-weighted dollar continues to rebound

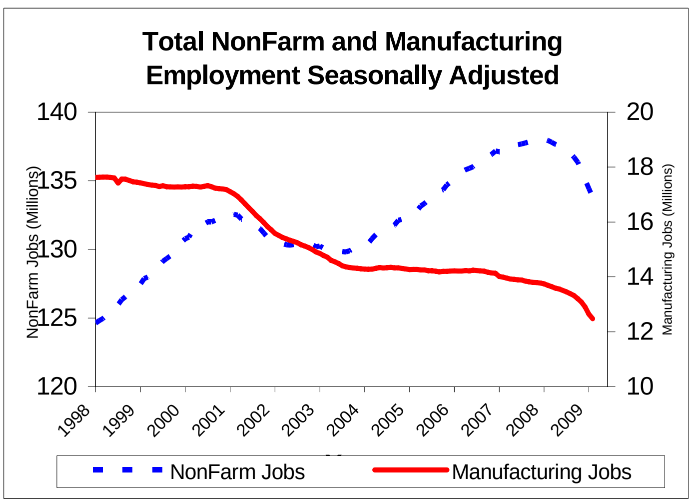

Figure 1

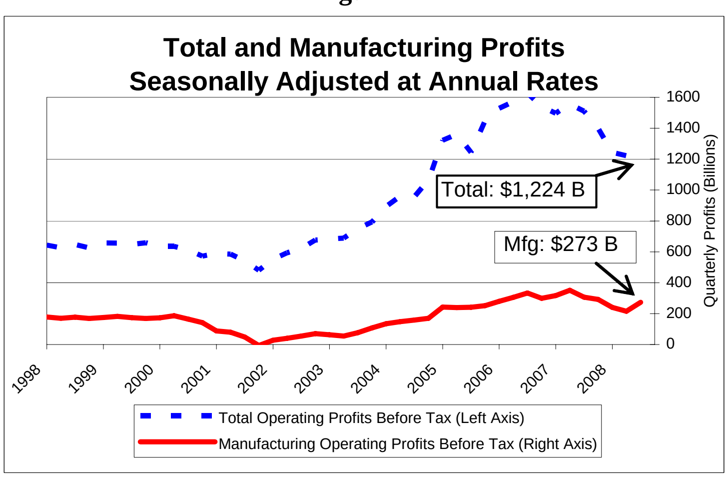

Figure 2

Manufacturing employment declines increase; Led by "blue collar" losses

Seasonally adjusted manufacturing employment was reported at 12.5 million by the Bureau of Labor Statistics on March 6. Manufacturing employment continued its decline in February (down 166,000) and the industry has lost a staggering 1,215,000 or -8.9% over the past year. The previous 12 months lost 296,000 or -2.1%. (**Figure 1**).

Within durable goods, total employment declined 132,000 in February. Since the start of the recession (Dec07), production worker "blue collar" employment decreased 859,000 (-13.8%) as compared to 122,000 (-4.9%) for non-production "white collar" employment in durable goods. Since 1998, the durable goods sector has lost -30.9% and -24.4% in blue and white collar jobs respectfully.

Durable manufacturing profits drop (-47.7%) since last year; Nondurable manufacturing profits increase 16.2%

Third quarter 2008 manufacturing profits rose to $272.9 B (30.2%) as compared to the second quarter but fell (-11.0%) since last year as reported by the Bureau of Economic Analysis on February 27. Total corporate profits with inventory valuation and capital consumption adjustments held steady at $1,224 B. **(Figure 2)**

Durable goods profits fell to 68.4 B (-47.7%), from a year ago. Nondurable goods rose to $204.2 B (up 16.2%).

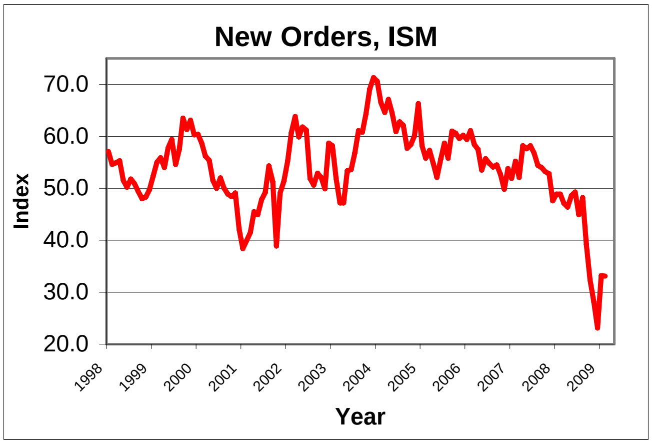

Figure 3

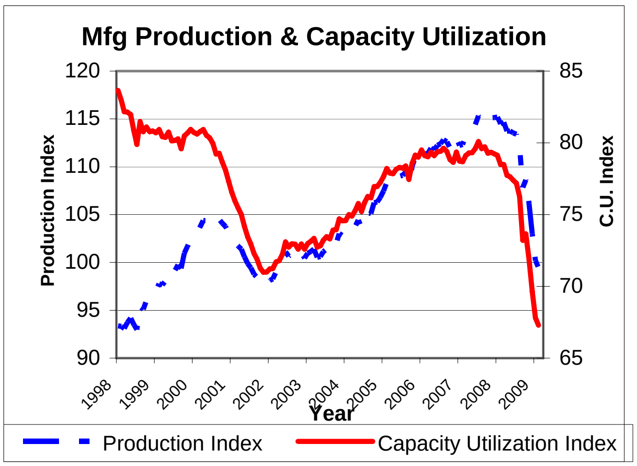

Figure 4

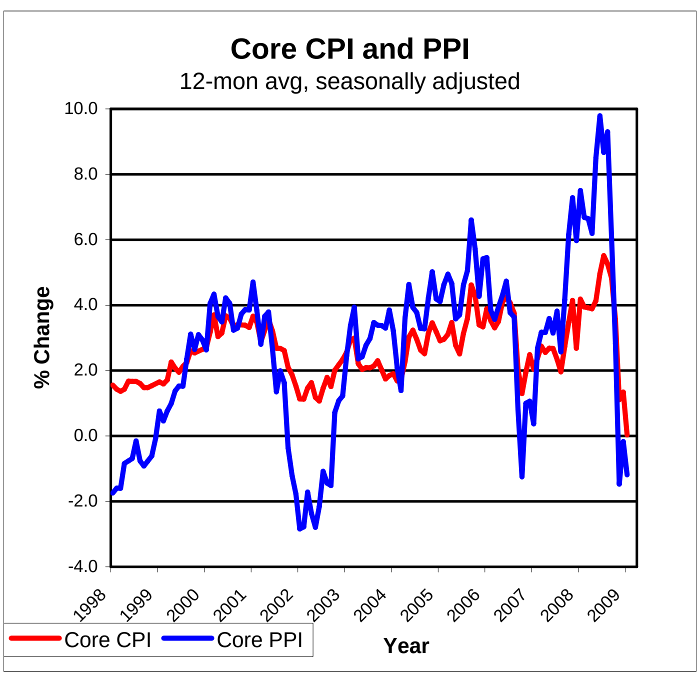

Figure 5

ISM new orders index remains brutally negative; 15 consecutive months

According to the Institute for Supply Management, the New Orders Index registered 33.1% in February, slightly higher than the disastrous 23.1% registered in December. The index has marked contracting orders for the last fifteen months.

ISM also reported "Manufacturing continues to decline at a rapid rate in February. While production has slowed its rate of decline, employment continues to fall precipitously. Prices continue to decline, but price advantages are not sufficient to overcome manufacturers' apparent loss of demand. Survey respondents appear generally pessimistic about recovery in 2009." **(Figure 3)**

Manufacturing production output and capacity utilization down dramatically since last year

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Manufacturing production decreased in February with a year-over-year decrease of 13.1%. The capacity utilization also dropped to 67.27, only the second period in 35 years that capacity fell below 70% (1982-83 the other), according to Federal Reserve data released March 16th. **(Figure 4)**

PPI at -1.2%; Core CPI at 0.0% for January

PPI for finished goods held steady at 171.3 in January, seasonally adjusted, reported the Bureau of Labor Statistics on February 20. The 12-month moving average PPI declined -1.2%. The CPI(U) also held steady in January along with the 12-month moving average CPI (U). **(Figure 5)**

Figure 6

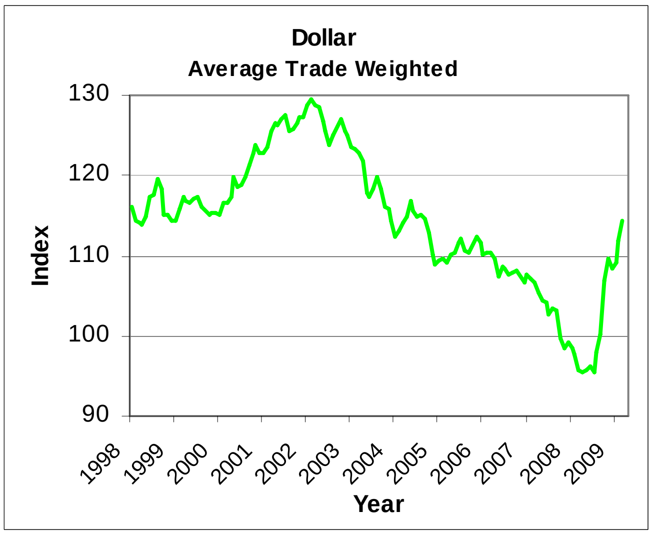

Figure 7

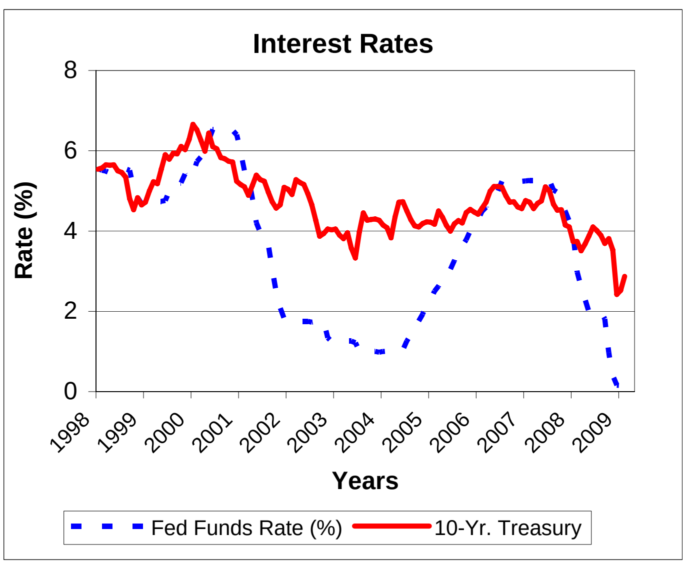

Figure 8

U.S. exports to China and the World drop significantly; Overall trade deficit drops slightly

In January, U.S. exports to China decreased (-28.6%) from a year ago to $4.2 billion while imports decreased (-5.4%) to $24.7 billion. The goods deficit with China averaged nearly $267 billion for the past 12 months, resulting in a 4.4% trade gap increase.

Overall, the U.S. trade deficit averaged $776 billion, a decrease (-2.8%) over last year. The U.S. total goods exports were down $22.6 billion (-21.5%) while imports were down $45.7 billion (-26.2%). **(Figure 6)**

Trade-weighted dollar continues to rebound

As of March 18, the Federal Reserve's trade-weighted broad dollar index increased to 114.42 for a 19.2% increase since bottoming out at 95.8 in April 2008. The dollar remains down from its peak at 129.52 (-11.7%) in February 2002. **(Figure 7)**

The Federal Reserve rate at 0.22%; 10 Year Treasury bills at 2.87%

Remaining close to the bottom zero limit, the Federal Open Market Committee nudged up Federal Funds rate to 0.22% in February, down from 2.98% one year ago. The 10-year treasury bill fell to 2.87%, up from 2.52% in January and down from 3.74% one year ago. **(Figure 8)**