

Market Update

SOUTHEAST CORPORATE

Insightful Thinking.
Responsive Actions

Economic Commentary

There have been encouraging signs of a turnaround in the manufacturing sector of the economy in recent weeks. This is critical because it appears that businesses may very well need to be the engine that keeps the economic recovery moving forward. The consumer sector will likely be weak until job growth rebounds, and it is well known that job creation is the ultimate lagging indicator.

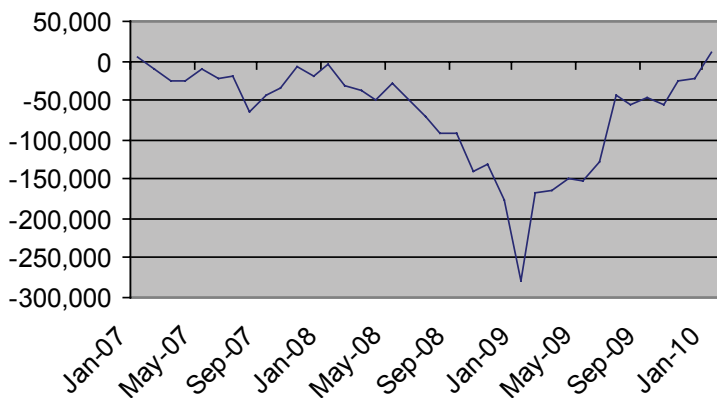
The first positive sign was the news that the economy grew at a 5.7% annual pace in the final three months of 2009. Much of the acceleration in the fourth quarter reflected a major inventory replenishment that added 3.4 percentage points to growth. Inventories plunged through the first three quarters, but as they became depleted, firms ramped up production. As a result, real private inventories fell at a \$33.2 billion pace in the fourth quarter, only about one-fourth as much as in the previous quarter.

A second sign is that orders placed with U. S. factories are increasing. There have been four consecutive monthly gains in factory orders through December 2009. Manufacturers will probably keep boosting production to limit further declines in inventories after the record drawdown last year. In particular, orders for business equipment are strong. Orders for capital goods excluding aircraft and military equipment, a measure of future business investment, increased 2.2% in December after a 3.2% jump the previous month.

Yet another signal that the manufacturing sector may have turned the corner was the news that factories unexpectedly added 11,000 workers to payrolls in January, the first increase since January 2007 and the biggest since April 2006. Manufacturers added hours and increased wages in addition to payrolls last month, bolstering signs production is continuing to gain this year after advancing at the fastest pace in a decade over the second half of 2009.

Chart of the Day

Change in Manufacturing Payrolls



Recent Economic Releases

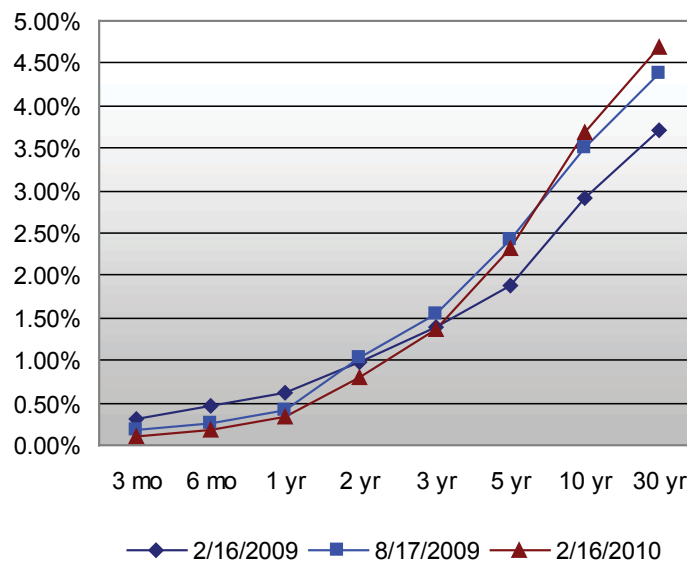
| Date | Release | Expected | Actual | Impact |
|----------|-------------------------|----------|--------|--------|
| 02/12/10 | Retail Sales | 0.3% | 0.5% | ↑ |
| 02/12/10 | Retail Sales Less Autos | 0.5% | 0.6% | ↑ |
| 02/12/10 | Business Inventories | 0.2% | -0.2% | ↔ |
| 02/16/10 | Empire Manufacturing | 18.00 | 24.91 | ↑ |
| 02/17/10 | Housing Starts | 580K | 591K | ↑ |
| 02/17/10 | Building Permits | 620K | 621K | ↑ |
| 02/17/10 | Industrial Production | 0.7% | 0.9% | ↑ |
| 02/17/10 | Capacity Utilization | 72.6% | 72.6% | ↑ |

↑ = positive for economy ↓ = negative for economy ↔ = neutral

Interest Rates as of: Feb. 16, 2010

| | Treasury | Agency | Euros/Swaps |
|------------------|----------|--------|-------------|
| 1 Month | 0.03% | 0.07% | 0.23% |
| 3 Month | 0.10% | 0.12% | 0.25% |
| 6 Month | 0.17% | 0.20% | 0.39% |
| 1 Year | 0.33% | 0.34% | 0.86% |
| 2 Year | 0.81% | 0.92% | 1.11% |
| 3 Year | 1.36% | 1.60% | 1.72% |
| 5 Year | 2.32% | 2.65% | 2.67% |
| 10 Year | 3.69% | 3.95% | 3.82% |
| 30 Year | 4.69% | 5.28% | 4.57% |
| Fed Funds Target | | | 0.25% |
| Prime Rate | | | 3.25% |
| Discount Rate | | | 0.50% |

US Treasury Yield Curve



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