

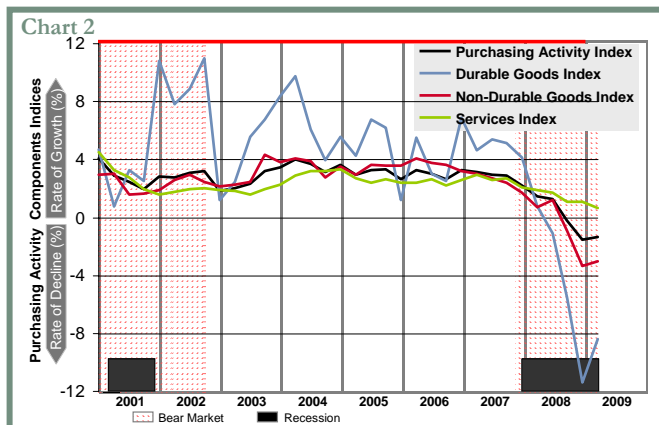
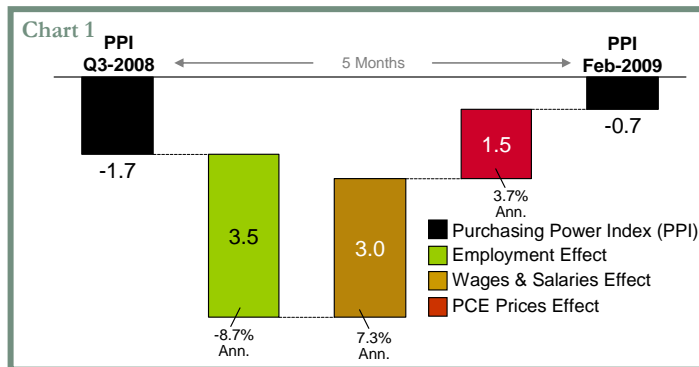
U.S. Economy Trajectory Map – Monthly Update

March 2009

The Broad economic data just released for February continues to support our assessment that the U.S. economy is in its early stages of a turnaround—both Consumer Indices (Purchasing Power Index and Purchasing Activity Index) have improved in an environment of expansive monetary policy, a set of preconditions necessary for a fundamental and sustainable turnaround and subsequent recovery of the U.S. economy¹.

Our Purchasing Power Index (PPI), which measures the broad change in the consumers' ability to purchase goods and services, which turned around in the 4th quarter of 2008, continues to move closer to its recovery point. We have seen a significant improvement in the PPI from a rate of decline of 1.7% during the 3rd quarter of 2008 to a much smaller rate of decline of 0.7% in February of 2009.

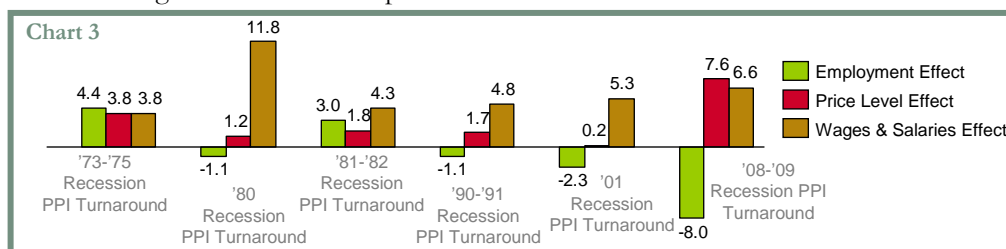
While the number of jobs lost continues to have a significant negative impact on consumption spending, that negative effect is being offset by a noteworthy increase in the real value of the wages and salaries of consumers who remained employed. This noteworthy increase in the real value of wages and salaries is the direct result of deflation driven primarily by a decline in the prices of energy and food and an increase in employees take home pay. Chart 1 shows the relative impact that employment, wages and salaries, and deflation (PCE prices) are having on the turnaround of the Purchasing Power Index since its low point in the 3rd quarter of 2008.



Since the recession of 1973-1975, consumers have taken advantage of broadly available consumer credit to increase spending before their wages and salaries would support such a spending increase. In other words, historically the Purchasing Activity Index (PAI) has tended to turn around before the Purchasing Power Index, which was made possible by consumers going into debt. As we had anticipated with the current “frozen” conditions in consumer credit markets, the turnaround in consumer spending would have to follow the turnaround in the consumers' ability to spend. As Chart 2 shows, the PAI has turned around driven primarily by an improved durable goods and non-durable goods spending, which represent 42% of consumer spending.

We expect that the Real GDP Index will show a turnaround of the U.S. economy between the 1st and 2nd quarter of 2009, which should be followed by a recovery of the U.S. economy between the 3rd and 4th quarter of 2009. We also expect the turnaround in production activity to follow the turnaround in Consumer Indices by one to two quarters.

Given the current situation with credit markets, we believe that the continued improvement in the ability of consumers to spend will be the most significant factor driving the overall U.S. recovery. As Chart 3 shows for each of the last six turnarounds in the consumer's ability to spend after economic recessions, the turnarounds were driven primarily by favorable environments in wages and salaries and prices.



Given, the important role in the current turnaround of a favorable price environment, it will be critical for fiscal and monetary policy to be managed to maintain a favorable pricing environment. It is important, however, to note that the unprecedented level of fiscal and monetary stimulus and the rapidly changing political initiatives on the economy pose a significant risk to the recovery of the economy. Given the current state and direction of the U.S. economy, CEOs should: (1) reassess the overall strength of their balance sheet and the current capital structure relative to capital and liquidity needs, (2) determine their strategic posture and business strength to create value during the early stages of the business recovery cycle, and (3) evaluate their key competitors' situation with respect to (1) and (2) above.

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¹ Turnaround vs. recovery: A turnaround is defined as a change in the direction of the index from an increasing rate of decline to a decreasing rate of decline. A recovery is defined as the point in time when the rate of change becomes positive—indicates growth. CEOs should be mindful that both a turnaround point and a recovery point in the Trajectory Map are important thresholds for their businesses and relevant to their strategic and operational decision making process. Furthermore, from a capital markets perspective, turnaround points have historically been more relevant decision points for investors and lenders.