Outlook and Review– First Quarter 2009

The economy shrank by 6.14% in the first quarter, based on the preliminary announcement by the Bureau of Economic Analysis. The dismal performance of the economy in the first quarter follows a similar decline of 6.34% in the fourth quarter, which was revised downward from its preliminary announcement. The economy has had three negative growth quarters in a row. Unemployment, which normally lags GDP movements, reached 8.9% in April. Capacity utilization in the economy fell below 70% for the first time in the history of the data series. Lower energy prices and sluggish demand have kept inflation low. The core consumer price index (CPI) increased 1.8% and the top of the line CPI actually fell 0.4%. Deflationary pressures along with rapid expansion of the money supply combined to push interest rates to historic lows. The Fed Fund rate has remained stable at 0.13% since October of last year. The current 3-month Treasury bill yield is 0.15% with a 0.85% on the 2-year bond and 1.95% on the 5-year bond.

A slight improvement in sentiment provides the only glimmer of good news in the current economic climate. The University of Michigan Sentiment index has improved as has the ISM manufacturing index. However, there is a long way to go on all sentiment measures to get back out of the contraction zone in the index measures. At best, the economy is approaching a bottom, but a long hard recovery is more likely than a quick response to policy initiatives. The full effect of short-term stimulus plans will take effect later in 2009. Banks stabilization initiatives have had time to show positive results, but the consumer will take a longer time to get on board with the recovery. The second quarter of 2009 is likely to be slightly below zero with positive GDP growth unlikely until the fourth quarter. Even so, the economy is not going to approach the 2.5% long run GDP potential of the economy until 2010. Unemployment is likely to increase throughout 2009 reaching a high of 9.5%. Inflation remains dormant, but specific prices such as gasoline will take a bite out of consumer budgets.

Some Improvement – Long Way to Go

The current recession is severe and unlike a more normal recession that takes about eleven months to run its course. Chart 1 below illustrates the time path of the recession through the first quarter of 2009. The economy has been weak since the fourth quarter of 2007 with a clear contraction since the third quarter of 2008. The key question is: how much longer will the contraction continue? While there are some signs of hope, the overall picture remains gloomy with several quarters of "slower contraction" before the economy can reach its potential of a 2.5% sustainable growth.

There are few improvements in the economy capable of supporting the view that we are turning a corner is consumer confidence. Chart 2 illustrates the recent improvement in the Conference Board's Consumer Confidence Index, but a sustained pattern must occur to validate the view that a recovery is underway. Chart 3 shows the path of sales of new single family houses. Many analysts point to the uptick in the series in 2009 as a sign that home sales have hit bottom and are recovering. Home sales might be expected to improve as policies come on line to lower long term interest rates, allow refinancing options for homeowners, and provide first time home

owner tax breaks. These programs are on line but will take some time to stabilize housing prices and stimulate demand to the point of spurring new construction.

Chart 1. Real GDP Growth by Quarter from the Second Quarter of 2007

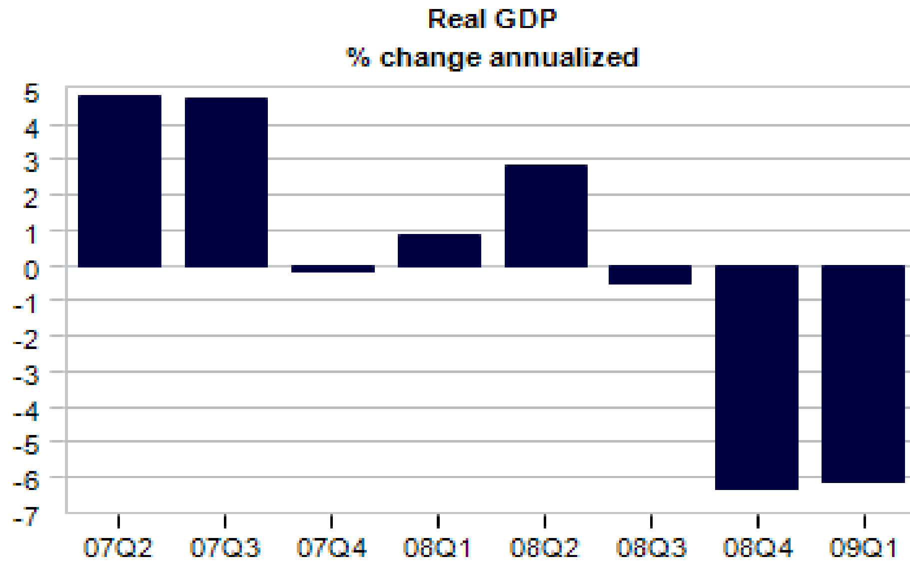


Chart 2. Consumer Confidence Index from May 2008 to May 2009

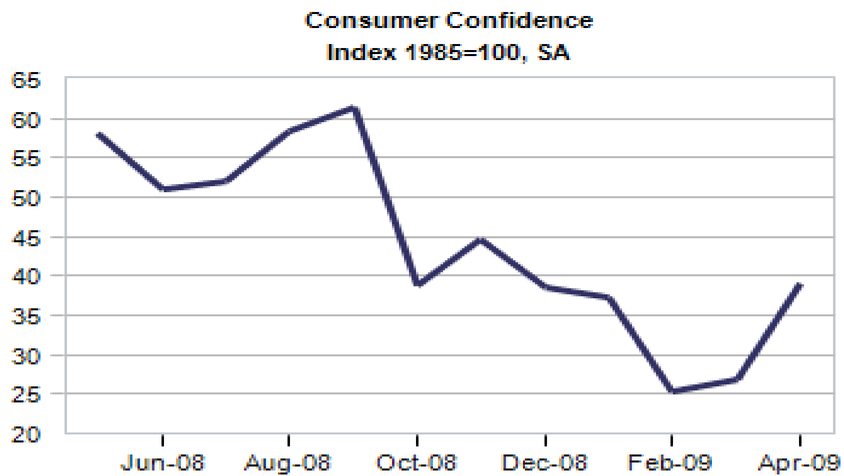
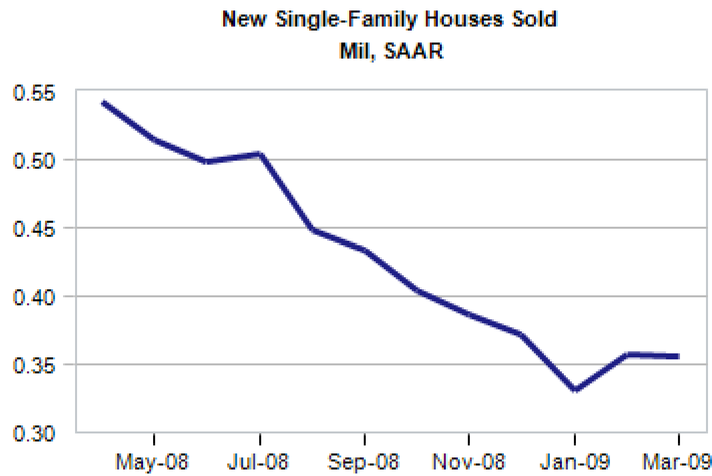


Chart 3: Sales of New Single Family Houses



Consumer spending and corporate profitability are key ingredients in a recovery. As the economy slumps, unemployment builds with a lag. Chart 4 shows the pattern of changes in payrolls through April 2009. We saw a slower reduction in payrolls in April, but unemployment builds even as the reduction in payrolls moderates. The economy simply isn't producing enough new jobs to offset the loss of jobs we see in the data. Unemployment of 8.9% in April is likely to move past 9% and approach 10% before we see true signs of recovery in the economy. This level of unemployment creates a drag on consumer spending and is likely to result in further government stimulus and borrowing. Corporate profits must also improve to allow job creation and build a solid recovery. As shown in Table 1, corporate profits have a long way to go before new investment and additional hiring make sense. Increased employment will not occur until companies have more profit potential, leaving more reliance on the public sector for stimulus.

Chart 4. Net Change in Nonfarm Payrolls to April 2009

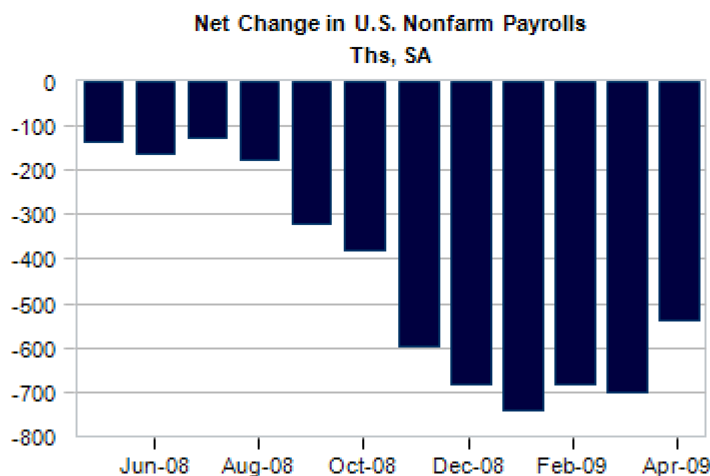


Table 1. Corporate Profits Percentage Change from Quarter to Quarter

	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007
Profits before Tax	na	- 29.47	- 3.22	- 0.05	- 7.57	- 0.15	- 0.92	4.13
Profits after Tax	na	- 28.37	- 3.21	- 0.36	- 7.73	1.02	- 0.01	4.02
Wages and Salaries	-1.2	-0.2	0.4	0.8	1.6	2.5	2.6	3.5

Source: Bureau of Economic Analysis

The data in the Conference Board's Economic Indicators suggest that a recovery is not yet building and will take time. The leading indicators fell throughout the first quarter of 2009 and have been weak going back into 2008. It will take several months of improvement in the leading indicators before we would expect to see real widespread improvement in the economy. Based on history, there is a six month lag between the bottom of the index and the bottom of the economy. There is no evidence of a pending recovery in the data, suggesting that we have not yet hit bottom. The coincident and lagging indicators confirm the economic contraction.

Table 2. Conference Board Economic Indicators

	Mar 2009	Feb 2009	Jan 2009	Dec 2008	Nov 2008	Oct 2008	Sep 2008
Leading Indicators % change	-0.3	-0.2	-0.2	0.0	-0.8	-1.0	0.0
Coincident Indicators % change	-0.4	-0.6	-0.9	-0.8	-0.6	0.2	-1.1
Lagging Indicators % change	-0.4	-0.3	-0.2	-0.1	0.6	0.1	0.4

Taken as a whole, the most likely scenario for the remainder of 2009 is a slower contraction. GDP growth is likely to be negative, but better than the last two quarters. Unemployment will get worse before it gets better and weak demand will keep overall price increases at bay. Government spending is likely to exceed current expectations and any long term initiatives to change health care will add to that growth.

Short Run Deflation and Long Run Inflation

Public policy makers are going for a "quick fix" with massive spending programs and rapid expansion of the money supply. Consumers are resisting with lower spending and higher saving as they try to unwind crushing levels of debt. Investment spending is dormant with capacity utilization at 69.3%, leaving plenty or room for production without net new investment in plant and equipment. Housing is searching for a bottom, but the inventory of 11 months of sales must be worked down before large residential investment is forthcoming. International trade is helping

somewhat, but the weight of low private spending is not reversing soon. Public spending will grow through transfer payments, which are not as likely to be fully spent until consumers repair their financial condition. Public spending to create real permanent jobs appears to be less than originally expected, leaving little long run replacement of the lost jobs in this recession. Meanwhile, public debt is mushrooming. This imbalance will get worse as the solvency of trust funds backing entitlement programs of Medicare and Social Security dwindle. The level of overall leverage in the economy is on a path of expansion that will ultimately require either much more rapid GDP growth than the 2.5% sustainable non-inflationary rate, rapid inflation, much higher tax rates, or dramatic reversal of government spending and Fed policies.

Two important scenarios are being debated. In the short run, a deflation scenario emerges where consumers retrench to repair battered portfolios, increase savings, pay down debt, and struggle to meet basic needs in a period of declining employment. Private investment sinks as few profitable investment opportunities occur even at low interest rates. Excess capacity prevents expansion of plant and equipment. Even with expansionary monetary and fiscal policy, prices fall based on weak demand causing a decline in asset values. The scenario follows the experience in Japan and would make the recession more severe and longer if allowed to develop. At the extreme, people horde cash and interest rates crash.

The deflation scenario has some support in the data. The CPI declined 0.4% since March of 2008. While some prices continue to rise, overall price levels are falling. Rates of return are low and returns on equities continue to be uncertain and low. Asset prices, especially housing, have been falling. Monetary policy has been unable to stem falling prices with expanded growth of the money supply as the velocity of money, driven by borrowing and spending, has declined rapidly. This scenario is being attacked by fiscal spending, essentially borrowing and spending money in place of the private sector. The short run deflation period will run its course until a recovery is in place.

The second scenario is a longer term view that is also supported by the data. To avoid longer term inflation from the current level of massive borrowing and spending requires policy moves that would be unprecedented. When the private sector recovers, the government sector must find the reverse gear and whittle down government spending programs while the Fed reduces money supply growth. Economic growth must be high enough to generate enough tax revenue to pay down the massive debt created during the recession. The proponents of a long run inflation scenario have several key points. First, government creates programs and spending but seldom cuts programs and spending. Once a program is in the budget it is very difficult to find political support needed to cut the program when the economy improves. Second, entitlement programs are rapidly reaching tipping points where payouts exceed collections. The shortfall will exhaust existing trust funds requiring additional government financing and borrowing. Finally, inflation is one way to deal with massive debt without raising tax rates dramatically. GDP growth of 2.5% will not generate anything close to the funds needed to service and retire the debt. By allowing inflation, the government imposes a silent tax. The government owes fixed rate debt, which will be repaid with less valuable dollars under inflation. Tax revenues go up as the taxable base goes up with inflation, even if tax rates remain the same. Inflation provides a way to ease the burden of debt and encourage holding assets rather than liquidity. Debt holders are hurt most, but holders of government debt tend to be China and other foreign entities.

Summary of Recent Data

GDP and its Components

- The Bureau of Economic Analysis reported and advanced estimate of a 6.1% annual rate of decline in real GDP in the first quarter of 2009. The first quarter real GDP growth was well below the negative 5% consensus forecast and follows the revised 6.3% decline in the fourth quarter.

- When the last two quarters are taken together, the 6.2% annualized decline in real GDP represents the steepest two-quarter drop since 1958.

- On a year-ago basis, real GDP fell by 2.6% in the first quarter. The year-ago contraction of the first quarter was well below the 0.8% year-ago contraction in the fourth quarter and was the largest year-ago contraction in real GDP since the steep recession of the early 1980s.

- The personal consumption expenditure component of GDP rose 2.2% at an annualized rate in the first quarter, compared with declines of about 4% in each of the two preceding quarters. Spending on durable goods increased in the first quarter as consumers replaced appliances following a long pent up demand. Consumer spending added 1.5 percentage points to growth in the first quarter. Nevertheless, temporary tax cuts and government spending aided spending. Consumers continue to be in a weak buying position and retail sales remain weak.

- International trade contributed to positive growth in the first quarter. Net exports added 2 percentage points to growth, after having subtracted 0.2 of a percentage point in the fourth quarter. Imports fell 34% annualized, adding to growth. Exports fell 30%, subtracting from growth; overseas demand is still weak.

- There was an enormous 38% decline in fixed investment in the first quarter. Much of the decline came from business investment in structures and equipment and software and investment in housing. This was the biggest one-quarter decline in fixed investment in the history of the series, going back to 1947. Overall, fixed investment subtracted more than 6 percentage points from growth in the first quarter.

- The change in inventories accounted for a 2.8 percentage point drop in growth for the first quarter, after subtracting just 0.1 of a percentage point in the fourth quarter. Businesses are reluctant to add inventories when facing uncertain consumer demand.

- Real government spending, separate from transfer payments or financial transactions, fell at a 4% annualized rate in the first quarter. Slower government spending on real goods and services subtracting 0.8 of a percentage point from growth.

- Real final sales of domestic product, measured as real GDP minus the change in inventories, is a measure of demand for U.S. goods and services. Real final sales fell at

an annualized rate of 3.4% in the first quarter, better than the 6.2% drop in the fourth quarter. Overall demand for U.S.-produced goods and services continues to decline, but the rate of decline is slowing somewhat.

- Table 3 below provides a complete breakdown of GDP growth and components of GDP growth since the second quarter of 2007. The three successive quarters of negative GDP growth exceeds the technical definition of a recession (two successive negative quarters).

Table 3. Annualized Percentage Changes From Quarter to Quarter in GDPs Components

	Q1 2009	**Q4 2008**	**Q3 2008**	**Q2 2008**	**Q1 2008**	**Q4 2007**	**Q3 2007**	**Q2 2007**
Real GPP	- 6.14	- 6.34	- 0.51	2.83	0.87	- 0.17	4.76	4.79
Consumption	2.16	- 4.29	- 3.81	1.22	0.87	0.96	2.02	1.97
Fixed Investment	- 37.90	- 21.97	- 5.32	- 1.69	- 5.65	- 6.19	- 0.94	3.02
Exports	- 29.95	- 23.58	2.98	12.28	5.09	4.41	23.02	8.78
Imports	- 34.06	- 17.51	- 3.46	- 7.25	- 0.79	- 2.31	3.01	- 3.66
Government	- 3.93	1.27	5.79	3.94	1.93	0.81	3.82	3.94
Implicit Price Deflator	2.85	0.61	3.88	1.26	2.56	2.51	1.51	2.00

Source: Bureau of Economic Analysis

- Factory orders fell 0.9% in March as nondurable goods orders fell 1% and durable goods orders dropped 0.8%, unchanged from the first release. Shipments of manufactured goods fell 1.2%, marking the eighth consecutive month of decline for the series. Both unfilled orders and inventories fell, by 1.5% and 0.8%, respectively. This weaker than expected report illustrates that although the rate of decline may be slowing, manufacturing is not out of the woods yet.

Inflation

- The overall GDP price index increased 2.9% annualized in the first quarter, up sharply from a 0.5% increase in the fourth quarter. The price index for gross domestic purchases, a measure of prices paid by U.S. businesses and consumers, fell at a 1% annualized rate in the first quarter, following a 3.9% drop in the fourth quarter.

- Food prices continued a modest downward trend as the food CPI fell by 0.1% from February; though still up by 4.4% from one year ago. Only nonalcoholic beverages showed a significant increase, their prices increasing by 1% from February, while

significant monthly declines were posted for dairy (2.4%), meats (0.9%), and cereals and bakery products (0.2%).

- The personal consumption expenditure price index (PCE), the Fed's preferred inflation measure, grew 1.5% at an annual rate in the first quarter. The top-line deflator was unchanged in March after rising 0.3% in February. The core PCE increased 0.2% in March, equaling the rates in February and January. The core PCE was up 1.5% in the first quarter following a 0.9% increase in the fourth quarter.

- The top-line consumer price index (CPI) fell in March by 0.1% from February after seasonal adjustment. The top-line CPI is now down by 0.4% from March 2008 after seasonal adjustment. The core CPI increased by 0.2% from February and is up by 1.8% compared to one year ago. The decline in top-line CPI inflation is due to falling energy prices. In March the energy CPI fell by 3% compared with February.

- The top-line CPI fell 0.1% from February, down from a 0.4% rate in February. The seasonally adjusted top-line CPI is still down by 0.4% from March 2008. The core CPI increased 0.2% in March after seasonal adjustment. The core CPI increased 1.8% from March 2008.

- A summary of movements for different inflation measures appears in Table 4.

Table 4. Consumer Price Index (CPI), Personal Consumption Expenditure (PCE), and Producer Price Index (PPI)

	Mar 2009	**Feb 2009**	**Jan 2009**	**Dec 2008**	**Nov 2008**	**Oct 2008**	**Sep 2008**	**Aug 2008**
CPI								
% Change Month-ago	- 0.1	0.4	0.3	-0.8	-1.7	-0.8	0.0	0.0
% Change Year-ago	-0.4	0.1	-0.2	-0.1	1.0	3.7	4.9	5.3
% Change 3 Month annualized	2.2	-0.5	-8.5	-12.4	-9.3	-3.1	3.1	6.7
Core CPI								
% Change Month-ago	0.2	0.2	0.2	0.0	0.1	0.0	0.1	0.2
% Change Year-ago	1.8	1.8	1.7	1.7	2.0	2.2	2.5	2.5
% Change 3 Month annualized	2.2	1.5	0.9	0.2	0.6	1.1	2.3	3.0
PCE Deflator								
% Change Year-ago	0.6	0.9	0.7	0.8	1.6	3.3	4.1	4.4
Core PCE Deflator								
% Change Year-ago	1.8	1.8	1.7	1.8	2.0	2.1	2.3	2.4
PPI – Finished Goods								
% Change Year-ago	-1.2	0.1	0.8	-1.8	-2.7	-2.6	-0.1	-0.5
% Change Month –ago	-3.6	-1.6	-1.3	-1.2	0.1	5.3	8.9	9.8

Personal Income, Unemployment, and Wages

- Personal income fell 0.3% in March following an unrevised decline of 0.2% in February. The decline in personal income in March is the fifth decline in the last six months.

- Wage income fell in March for the fifth consecutive month, driven by large job losses.

- Spending fell 0.2% n March following an upwardly revised gain of 0.4% in February. Real spending fell 0.2% but was upwardly revised for February. The expected lift in spending from increased unemployment insurance benefits did not appear in the data.

- The saving rate continues to increase. Personal saving increased 4.2% on a year-ago basis in March, continuing a series of monthly increases. For example, the year-ago saving rate in August 2008 was only 0.8.

- Job losses were lower in April but still reached 539,000. Job loss in April is the smallest since last October. The lower job loss was due to federal government hiring and smaller job losses across most private industries. The job loss was still substantial, causing the unemployment rate to go up by 0.4 of a percentage point, to 8.9%.

- Job losses for February and March were larger than the preliminary estimates had indicated, reaching 681,000 in February and 699,000 in March.

- The weak economy has taken a toll on worker earnings. Average hourly earnings and average weekly earnings increased only 0.05% in April. Average weekly earnings increased 3.18% over the past 12 months. The average workweek is at a record low of 33.2 hours but did not fall further in April.

- Payroll employment declined by 539,000 in April. While still very large, the loss was the smallest since last October. However, revisions increased the losses for February and March by 66,000. So far this year, the labor market has contracted by 2.66 million jobs.

- Personal income fell 0.3% in March, after falling an unrevised 0.2% in February. Wage income fell for the fifth consecutive month, driven by large job losses. Spending fell 0.2% following an upwardly revised gain of 0.4% in February. Real spending fell 0.2% but was upwardly revised for February.

- Savings rates have trended up from 0.8% in August of 2008 and 1.4% in September. Average savings rate in the IV Quarter of 2008 was 3.1%.

- A summary of personal income, employment, and savings appears in Table 5 below.

Table 5. Personal Income, Employment, and Saving since 2008

	Units of Measure	April 2009	March 2009	February 2009	January 2009
Labor Market					
Unemployment Rate	%	8.9	8.5	8.1	7.6
Average Hourly Earnings	m/m %	0.1	0.2	0.2	0.2
Aggregate Weekly Hours	m/m %	-0.6	-1.0	-0.6	0.0
Income					
Personal Income	m/m %		-0.3	-0.2	0.1
Wages and Salaries	m/m %		-0.5	-0.4	-0.3
Savings			4.2	4.0	4.4

Productivity and Costs

- According to the Bureau of Labor Statistics, nonfarm business productivity in the first quarter rose 0.8% at an annualized rate. Hours worked fell more sharply than output during the quarter, leading to the gain in productivity. In the fourth quarter of 2008 nonfarm business productivity fell 0.5%, revised downward from 0.4%. Over the past year, nonfarm business productivity increased 1.8%.

- Manufacturing productivity fell 3.4% (SAAR) in the first quarter as output plunged more than 22%.

- Durables manufacturing productivity fell 10% in the first quarter, with output falling 31%.

- Nondurables productivity fell 0.1%, with output down 13%.

- Unit labor costs increased at a 3.3% pace in the first quarter. Unit labor costs were up 2.4% over the previous year. In the fourth quarter, unit labor costs rose 5.7%, unchanged from the previous report. The increase in unit labor costs was stronger than expected and will weigh on corporate profits and employment.

- Hourly compensation in the nonfarm business sector rose 4.1% in the first quarter (SAAR). Nonfarm business real hourly compensation rose 6.6% in the first quarter as overall prices fell.

- Manufacturing unit labor costs rose 16.7% for the quarter, including a 28.5% increase in durables manufacturing.

- Quarterly Productivity and unit cost data for 2008 and first quarter 2009 appear in Table 6 below.

Table 6. Productivity and Unit Labor Costs

	QI 2009	QIV 2008	QIII 2008	QII 2008	QI 2008
Non-farm					
Productivity	3.3	5.7	3.5	-2.8	1.1
Unit Labor Cost	0.8	-0.6	2.2	4.7	2.6
Non-Financial					
Productivity	NA	-3.9	6.4	8.5	-0.4
Unit Labor Cost	NA	9.6	-0.3	-5.0	3.2
Manufacturing					
Productivity	-3.4	-4.2	-2.9	-2.5	2.6
Unit Labor Cost	16.7	15.0	8.6	6.2	0.8

Consumer Credit

- The decline in consumer credit balances continued in March. Total consumer credit declined by $11.1 billion for a 5.1% annualized rate of decline. March was the sharpest one-month drop since 1990.

- Revolving credit balances fell by $5.4 billion in March for a 6.6% annualized decline. The reduction in revolving credit balances in 2009 is the fastest rate of decline since the1970s. The uncertain future and poor economy have consumers saving much more and using cash rather than credit when they do spend.

- Nonrevolving credit fell by $5.7 billion in March for a 4.2% annualized decline. Numbers

Construction Spending

- Construction spending for March increased by 0.3% from February. Total construction spending is still down by 11.1% from March 2008.

- Private construction spending fell by 0.1% from February to March while private nonresidential construction spending increased by 2.7%. Residential construction fell by 4.2% from February to March.

- Public construction spending for March came in at 1.1% above the revised February level as ARRA funds begin to have an impact on public construction.

- Private residential construction spending was down by 34% from the March 2008 level.

Sentiment and Confidence

- The April ISM survey presents one of the more optimistic indicators of sentiment. The ISM nonmanufacturing report moved up to 43.7 from 40.8. The April index is the highest level since October. The new orders and employment components show the most substantial gains. The former had its biggest gain since the series began in 1997. The business activity index rose to 45.2 from 44.1, but new orders surged to 47 from 38.8, and employment increased to 37 from 32.3. The record low for employment was November's 31.1. While April showed significant improvement in the index, there is still a lot of room for the economy to make up. The index of 50 is generally believed to be the level where the economy leaves a contraction stage.

- The Institute for Supply Management's manufacturing index increased a larger than expected 3.8 points in April to 40.1. This was the fourth consecutive increase, putting the index 7.2 points above its December 2008 low. The slight improvement in the ISM index over the past few months is consistent with a slower decline in manufacturing production for the next two quarters with potential for resumed growth next year.

- The Conference Board's index of leading indicators declined 0.3% in March, following a 0.2% decrease in February. The index has not had a positive increase since last June. Lower stock prices and fewer building permits subtracted half of a percentage point from growth. Still, the recent trend of small declines in the leading index validates the view that the downturn is no longer intensifying, even if the end of the recession is not yet in sight.

- The Conference Board index of consumer confidence recovered further in April. The index soared to 39.2 from March's 26.9 (upwardly revised from 26). The April index reading is the highest since last November. The expectations component led the rise, increasing to 49.5 from 30.2 (previously 28.9). The present situation component rose much more modestly to 23.7 from 21.9 (previously 21.5). Assessments of current labor market conditions improved slightly, but views of future labor market conditions improved markedly.

- The University of Michigan consumer sentiment index gained 7.8 points to reach 65.1 in April compared with 57.3 in March. The index reached the top of a narrow range set early last year. The gain from March was led by improved expectations. Nevertheless, while it remains at a level consistent with a deep recession, the increase is a positive for the outlook.

- Inflation expectations in the University of Michigan consumer sentiment index rose sharply. One-year expectations jumped to 2.8% from 2% and the five-year outlook rose to 2.8%, from 2.6% in March.

Fed Policy

- No change in monetary policy was announced at the conclusion of the Federal Open Market Committee's April 29 meeting. The committee expects to keep the fed funds rate target in the 0% to 0.25% range "for an extended period." The Fed's remarks on current economic conditions were less pessimistic than in recent months. The statement said that the pace of economic contraction "appears to be somewhat slower," and that "the economic outlook has improved modestly" since March.

- The statement said that the combination of monetary and fiscal policy and efforts to fix the financial system should "contribute to a gradual resumption of sustainable economic growth in context of price stability." The reference to price stability was not in the FOMC's previous statement, indicating that the committee wants to make it clear that it will not let inflation get out of hand once the economy picks up.

- Given the slack in the economy, the FOMC expects inflation to remain subdued, and there is "some risk that inflation could persist for a time below rates that best foster economic growth and price stability in the longer term." This promises continued aggressive action to prevent deflation.

Housing

- Existing-house prices fell at a slower rate during the three months ending in February. The S&P/Case-Shiller 20-city house price index fell 18.6% from a year ago. In January, the 20-city index had fallen 19% from a year ago. As measured by the 10-city index, the rate of decline slowed to 18.8% in February from 19.4% in January. The slower pace of decline in February is the first such improvement recorded since existing-house prices began falling on a year-ago basis in January 2007.

- Sales of new homes were down slightly in March from the upward revision in sales for February. A 0.6% m/m decline in March brings sales down to 356,000 annualized units. New home inventory declined below 11 months of sales. The median sales price is down by 12% y/y. Demand for new homes should improve as the Fed buys longer term securities and mortgages to bring longer term rates down.

- Improving inventories, high affordability, and the implementation of fiscal stimulus measures and HASP will all support demand for housing this year. Thus, on balance, new-home sales are probably at a bottom.