National Economic Review

Sample Report

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National Economic Review (NER)

ValuSource's National Economic Review (NER) is an overview of the major factors affecting the national economy. It includes discussions of the current and expected performance of the economy, along with discussions of interest rates, employment, inflation, the stock and bond markets, construction, housing, and real estate. It consists of five to eight pages of text and five pages of exhibits (annual/quarterly economic indicators and investment trends). NER is offered on a subscription basis and is published quarterly. It is delivered approximately six weeks after the end of each quarter. All sources referenced in the report are listed in each quarter's Review.

Using NER

NER is delivered as a set of Microsoft® Word and Excel files so you can insert the narrative and charts directly into your reports. To use the information in your valuation reports, simply copy and paste. The three key Word documents are a long report, a short report, and a graphs document.

Example Report and Charts

Examples of the long report and charts from NER follow.

THE NATIONAL ECONOMIC REVIEW
Fourth Quarter 2003

General Economic Overview

According to preliminary estimates released by the Department of Commerce's Bureau of Economic Analysis, Real Gross Domestic Product ("GDP"), the output of goods and services produced by labor and property located in the United States, increased at an annualized rate of 4.0% during the fourth quarter of 2003. This is the ninth consecutive rise in GDP after successive declines in the first three quarters of 2001. Annualized growth in GDP for the third quarter of 2003 was revised to 8.2%, higher than the preliminary estimate of 7.2%. Fourth quarter GDP reflected increases in personal consumption expenditures, exports, equipment and software, inventory investment, and residential fixed investment. These increases were partially offset by an increase in imports, which are a subtraction in the calculation of GDP. While GDP slowed considerably from the third quarter to the fourth, many economists believe the 4.0% rate of expansion is sustainable. Consensus expectations among 54 forecasters polled by the *Wall Street Journal* at the start of 2004 call for continued economic growth which many predict will trigger increases in employment and business spending. The forecasters said that strong consumer spending during 2003 resulted in increased business profits, which they predict will compel companies to invest in new equipment, to increase their payrolls, and to slow or reverse their recent inventory reductions. On the other hand, the primary long-term concerns among many analysts were the widening budget and trade deficits.

At its October and December meetings, the Federal Reserve (the "Fed") maintained its target for the federal funds rate at 1.00% (a 45-year low). The information available to the Fed at these policy meetings indicated spending was firming, output had expanded, and the labor market was improving. The Fed issued nearly identical statements from the meetings except in December it indicated the risks were equal between a decline and a rise in inflation. In its statement, the Fed indicated the upside and downside risks were balanced for economic growth. The Fed repeated its policy stance to keep interest rates low "for a considerable period".

The Conference Board ("TCB") reported that the Composite Index of Leading Economic Indicators ("LEI"), the government's primary forecasting gauge, increased 0.2% in December to 114.3 after a 0.2% increase in November and a 0.5% increase for October (all figures recently revised). The index attempts to gauge economic activity six to nine months in advance. Multiple consecutive moves in the same direction are said to be indicative of the general direction of the economy. With seven of the ten leading economic indicators rising during the month, December marked the ninth consecutive monthly increase. The positive contributors were vendor performance, stock prices, building permits, average weekly claims for unemployment insurance, index of consumer expectations, manufacturers' new orders for nondefense capital goods, and manufacturers' new orders for consumer goods and materials. Negative contributors (largest to smallest) were real money supply and average weekly manufacturing hours. The interest rate spread remained unchanged. In December, the Coincident Index increased 0.1% and the Lagging Index rose 0.1%. Collectively, the TCB noted the continued growth in the leading economic indicators during the second half of 2003 is signaling that strong economic growth should persist in the near term.

General Economic Overview ***(continued)***

Near-term economic growth expectations point towards a continuation of the economic expansion which began during the second half of 2003. The economists polled by *The Wall Street* Journal predict GDP to grow at a 4.5% rate in the first quarter, 4.3% in the second quarter, and 4% in the second half of the year. In 2004, business investment - primarily as a result of improving profits, low financing costs, and temporary federal tax incentives - is expected to boost the economic recovery. Although expectations suggest a positive outlook for the near-term, the budget deficit and the trade deficit have many economists concerned regarding the long-term health of the economy.

Consumer Spending and Inflation

According to the Bureau of Labor Statistics, the Consumer Price Index ("CPI") decreased 0.1% to 184.3 in December (CPI -U all urban consumers, 1982-1984 = 100, *before seasonal adjustment*). The seasonally adjusted annual rate of inflation for the fourth quarter of 2003 was 0%, compared to 5.2%, *negative* 0.7%, and 3.1%, respectively, for the first three quarters of 2003. For the 12 month period ended in December 2003, inflation rose 1.9% compared to a 2.4% rise in 2002. The energy index rose 0.2% in December following declines of 3.9% and 3.0% for October and November, respectively. The energy index increased 6.9% for 2003 compared to an increase of 10.7% for all of 2002. The food index rose 3.6% in 2003 due primarily to a 23.5% increase in beef prices, their largest annual increase since a 28.3% increase in 1978.

The core rate of inflation, which excludes food and energy, rose at a 1.0% SAAR during the fourth quarter following increases of 0.8%, 1.0%, and 1.5% for the first three quarters of 2003. In 2003, the core rate of inflation advanced 1.1% compared to a 1.9% rise in 2002. The Producer Price Index ("PPI"), which is generally recognized as predictive of near-term consumer inflation, increased 0.3% in December (PPI for finished goods, seasonally adjusted), after an increase of 0.8% and a decrease of 0.3% in October and November, respectively. The PPI increased 3.1% for the fourth quarter. The fourth quarter rise in PPI is largely attributable to price increases for finished consumer foods, which rose 8.7% during the period. PPI increased 4.0% for 2003 compared with a 1.2% increase in 2002. After adjustment for seasonal considerations, the core PPI (excluding food and energy) rose 1.3% during the fourth quarter following a 1.3% rise during the third quarter of 2003. Core PPI rose 1.0 in 2003 after declining 0.5% during 2002.

According to the Census Bureau of the Commerce Department, the advance estimates in percentage change in retail and food service sales (adjusted for seasonal, holiday and trading-day differences) for December 2003 were up 0.5% from the previous month and up 6.7% from December 2002. The November 2003 retail sales were up 1.2% from October levels, and total sales for the October to December period were up 6.9% from the same period one year ago. Personal consumption spending represents approximately two-thirds of total economic activity and is a primary component of overall economic growth. Real personal consumption spending increased 2.6% in the fourth quarter of 2003 compared to 6.9% in the third quarter. Economists expected the slowdown in fourth quarter spending as the effects of tax cuts and refinancings wore off near the end of the 2003. According to the Department of Commerce, durable goods purchases increased 0.9% in the fourth quarter of 2003 after a 28.0% increase during the third quarter of 2003. Business (nonresidential) investment continued to show encouraging signs by increasing 6.9% during the fourth quarter following a 12.8% increase in the third quarter. Investment in equipment and software rose 10.0% in the fourth quarter.

Business and Manufacturing Productivity

Productivity has been a primary feature of improved living standards and an important element in relatively low inflation. According to the Bureau of Labor Statistics the seasonally adjusted annual rate of non-farm business productivity as measured by the hourly output of all persons increased 2.7% in the fourth quarter following a revised 9.5% increase during the third quarter. Non-farm business productivity growth was the result of a 4.2% increase in output and a 1.5% increase in hours worked. Productivity rose 1.8% (all figures seasonally adjusted and annualized) for the entire business sector. The business sector productivity growth was the result of output increases (3.7%) combined with increases in hours worked (1.9%). On an annual average basis, productivity rose 4.3% in the business sector and 4.2% in the nonfarm business sector during 2003. Manufacturing productivity, generally more volatile in its quarterly measures, increased 4.8% as output increased 6.6% and hours rose 1.7%. Fourth quarter manufacturing output marked the largest increase since the fourth quarter 1997. On an average basis, output per hour in manufacturing increased 4.3% in 2003.

Industrial Production

Industrial production rose 0.1% in December following a revised 1.0% rise in November. Fourth quarter production increased at an annual rate of 6.2% following a revised 3.8% during the third quarter. Manufacturing production increased 0.3% in December and rose at an annual rate of 6.6% in the fourth quarter. Manufacturing production rose 0.2% and 1.0% in October and November, respectively.

Capacity utilization held steady at 75.8% in December, and was 1.1% above prior year levels. Capacity utilization remained well below the 80%+ levels reported during the 1972-2002 timeframe. The prevailing excess of capacity is considered a hurdle to significant new capital investment by industry.

The Financial Markets

The Dow closed the fourth quarter at 10453.92, up 12.7% for the quarter. The Dow rose 25.3% in 2003. The S&P 500 index increased 11.6% during the quarter to close at 1111.92. The S&P 500 was up 26.4% in 2003. The NASDAQ Composite Index increased 12.1% during the fourth quarter to close at 2003.37. The NASDAQ was up 50% in 2003. The broad market Wilshire 5000 index closed at 10799.60, up 11.9% for the quarter. The Wilshire 5000 index reflected a gain of 29.4% for 2003.

For 2003, stocks finished with their first year-to-year advance since 1999. The Dow's 12.7% increase for the fourth quarter was the largest quarterly increase in two years. The stock markets advanced favorably in October but remained relatively flat in November before resuming solid growth in December. The economy has reacted favorably to the combination of low interest rates, tax cuts, a weak dollar, and lean inventories. Investor optimism resulted in money managers shifting funds back to stocks in hopes of continued robust gains. Economists expect solid economic growth coupled with rising employment, low inflation, and higher corporate profits to push stock prices higher in 2004. While most analysts don't expect the 20%+ gains of the prior year, 2004 is expected to remain a bull market absent some unforeseen event.

The monthly average yields-to-maturity on the 20-year Treasury bond during the fourth quarter of 2003 were 5.21%, 5.17%, and 5.11%, respectively, for October, November, and December. Bond prices are negatively correlated with their respective yields, which can shift abruptly due to investor reactions to major variances in reported economic data versus market expectations (i.e., expected inflation, growth, monetary policy and other Fed action, etc.). Short-term yields were flat during the fourth quarter, whereas long-term yields fell modestly during the fourth quarter.

Housing Starts and Building Permits

Home building is generally representative of overall economic activity because new home construction stimulates a broad range of industrial, commercial, and consumer spending and investment. Historically low mortgage rates are continuing to have a favorable effect on the housing market. According to the U.S. Commerce Department's Bureau of the Census, new privately owned housing starts were at a seasonally adjusted annualized rate of 2.088 million units in December, 1.7% above the revised November estimate of 2.054 million units, and 15.0% above the December 2002 pace. December starts were the fastest pace for the home starts since February 1984. Single-family housing starts in December were 1.664 million, 0.6% below the November level of 1.674 million units. An estimated 1.848 million privately owned housing units were started in 2003, 8.4% higher than in 2002. It marked the most aggressive construction pace since 1978.

The seasonally adjusted annual rate of private housing units authorized by building permits (considered the best indicator of future housing starts) was 1.924 million units in December, 3.3% above the revised November rate of 1.863 and approximately 0.9% above measures from a year ago. As mortgage rates began rising in July 2003, many analysts believed the peak of the housing market was over. However, mortgage rates fell in the fourth quarter, and as mentioned above, the number of building permits continued to grow. Although the housing market is expected to slow from its record-breaking 2003 pace, many home builders predict that low interest rates will continue driving a healthy housing market in 2004. Economist pointed to rising consumer confidence and a growing pool of immigrant buyers as other favorable factors for 2004.

Unemployment

According to the Labor Department's Bureau of Labor Statistics ("BLS"), the unemployment rate continued to trend downward in the fourth quarter from 6.0% in October to 5.7% in December. However, the decline was not a result of an increase in hiring, but rather a decline in the labor force as workers stopped looking for jobs and therefore stopped being counted as unemployed. While nonfarm payrolls grew by 277,000 from August to November, payrolls grew by just 1,000 in December. Analysts cautioned that the unemployment rate will not decline significantly unless approximately 125,000 new jobs are added per month for several months. While the economy continues to recover and expand, companies are still not hiring in significant numbers. However, many economists believe companies, coming off increased profits in 2003, are poised to begin hiring in 2004.

Interest Rates

The Federal Reserve's Open Market Committee ("FOMC") kept its target for the federal funds rate at 1.00% during the fourth quarter and indicated it will keep rates low and maintain its accommodative policy for a "considerable period" until economic growth appears sustainable. The neutral stance during the fourth quarter follows a neutral stance in the third quarter, a 25-basis point decrease in the second quarter, and a neutral stance during the first quarter. At its December 16th meeting the Fed noted that the risk of deflation had diminished. The FOMC also moved the language "for a considerable period" to more closely associate it with current economic conditions. By using the same language from prior statements, some members feared that the committee's ability to raise rates was limited to a fixed time period. In its staff forecast, stimulative monetary and fiscal policies, accommodative financial conditions, rising business confidence, growth in profits, and the effects of the weakened dollar supported a "sufficiently robust" economic expansion going forward. The Fed indicated the risk remains that growth will slow as the fiscal stimulus from the tax cuts and mortgage refinancings wears off.

The following was taken from the Fed's December 9th statement:

> *The Committee perceives that the upside and downside risks to the attainment of sustainable growth for the next few quarters are roughly equal. The probability of an unwelcome fall in inflation has diminished in recent months and now appears almost equal to that of a rise in inflation. However, with inflation quite low and resource use slack, the Committee believes that policy accommodation can be maintained for a considerable period.*
>
> *The Committee continues to believe that an accommodative stance of monetary policy, coupled with robust underlying growth in productivity, is providing important ongoing support to economic activity. The evidence accumulated over the intermeeting period confirms that output is expanding briskly, and the labor market appears to be improving modestly. Increases in core consumer prices are muted and expected to remain low.*

Summary and Outlook

The economic momentum from the third quarter slowed in the fourth quarter as GDP grew at a 4.0% annual rate, down from the third quarter's 8.2%. Boosted by child tax credits and money from mortgage refinancing, consumer spending played a significant role in the 2003's economic expansion. However, economists expect business investment to be a significant factor in 2004 GDP growth, which is expected to register approximately 4.0%-4.5%. Forecasters are looking to employment and business spending to increase and most believe that rising corporate profits and declining business inventories should boost first quarter GDP as businesses look to restock their shelves. Sustainable economic growth is not possible unless the labor markets begin adding jobs. The economists polled by *The Wall Street Journal* believe unemployment will fall to 5.5% by November 2004, resulting in 1.5 million new jobs over a twelve month period. Overall, economists agree that the economic expansion will continue in 2004 and they are looking toward businesses as the primary stimulus.

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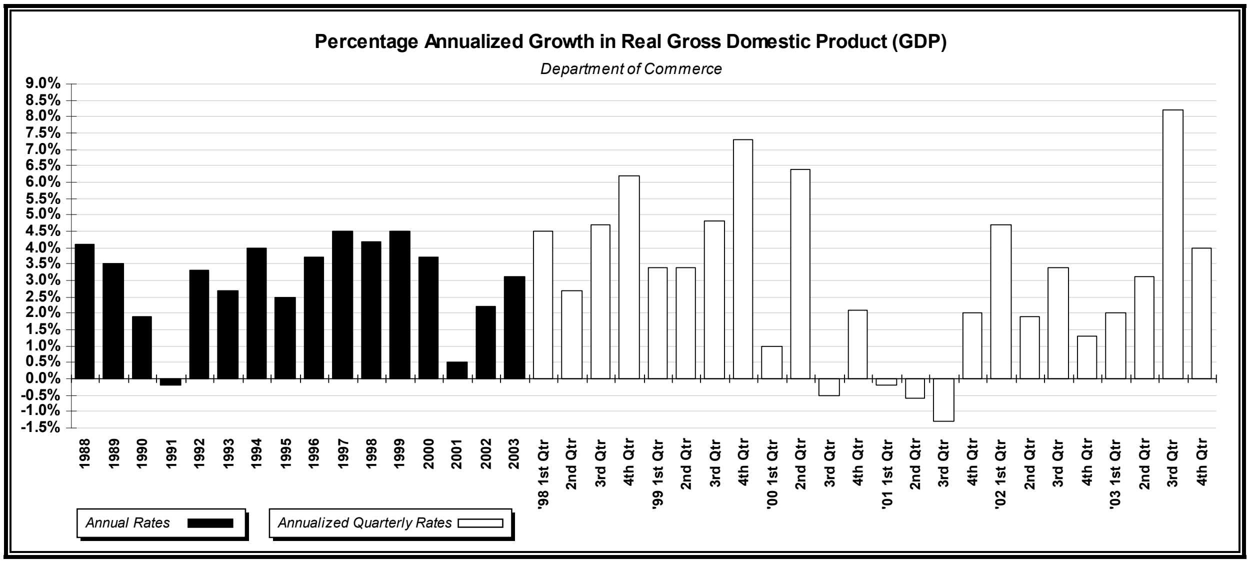
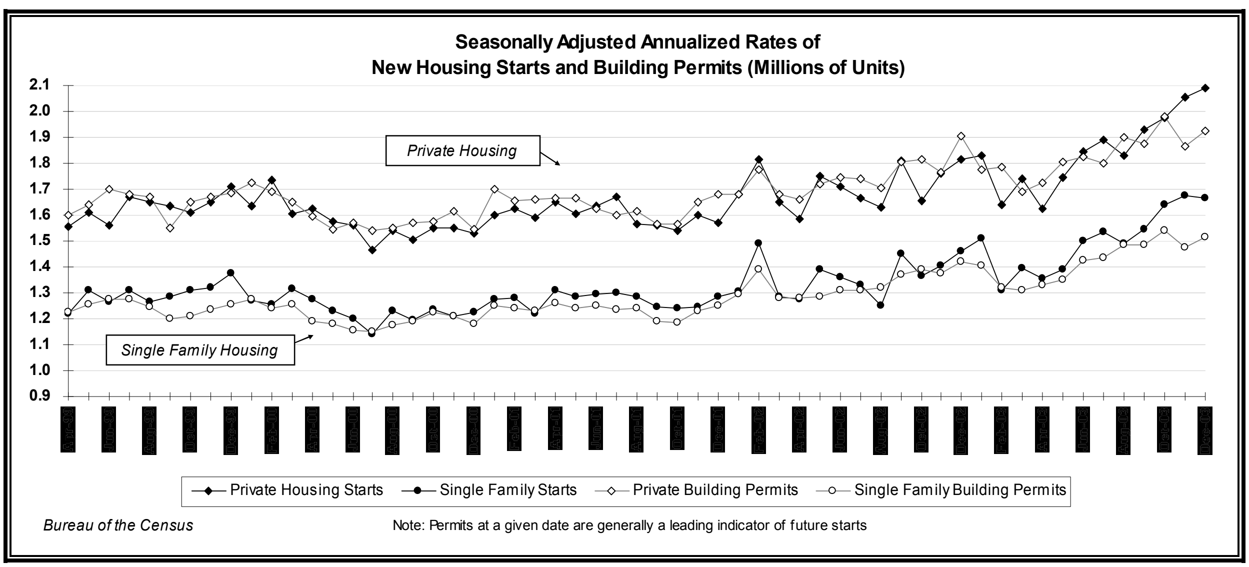
Fourth Quarter 2003 Chart Exhibits





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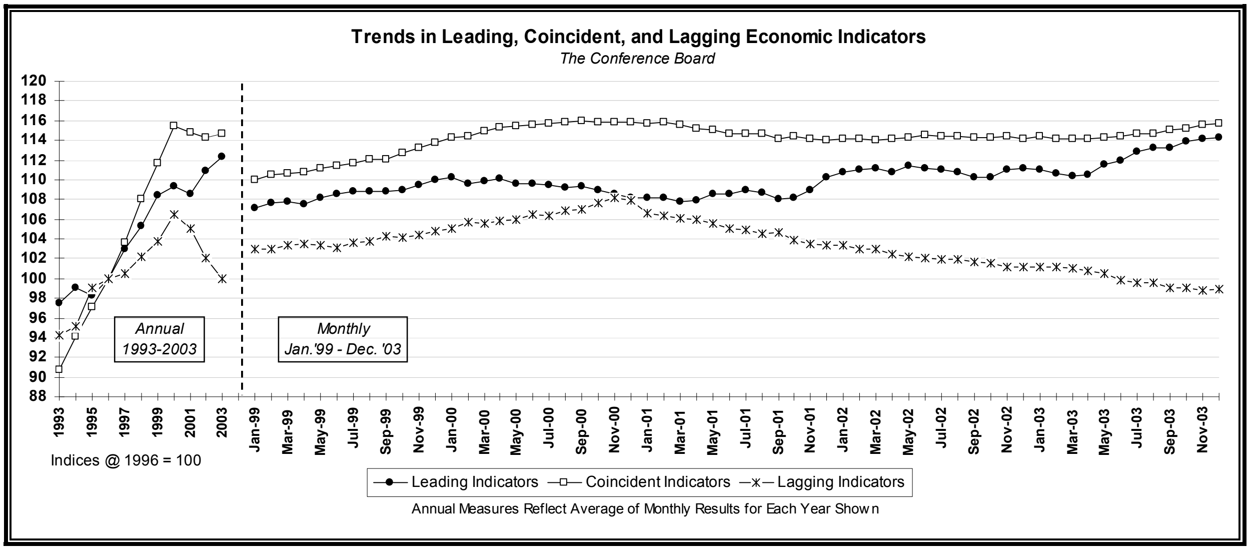

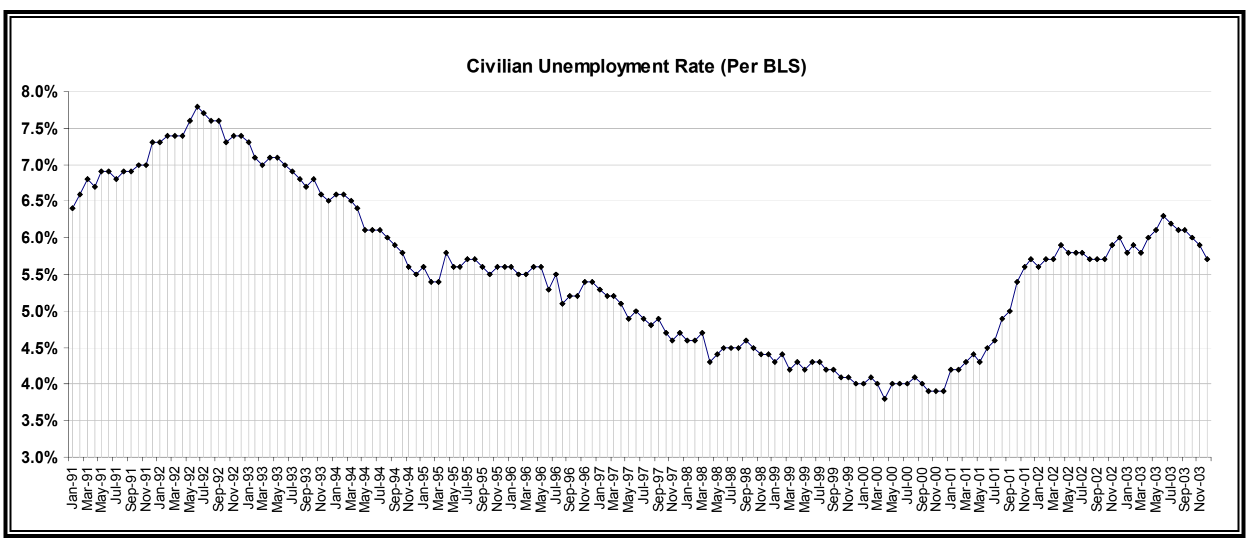

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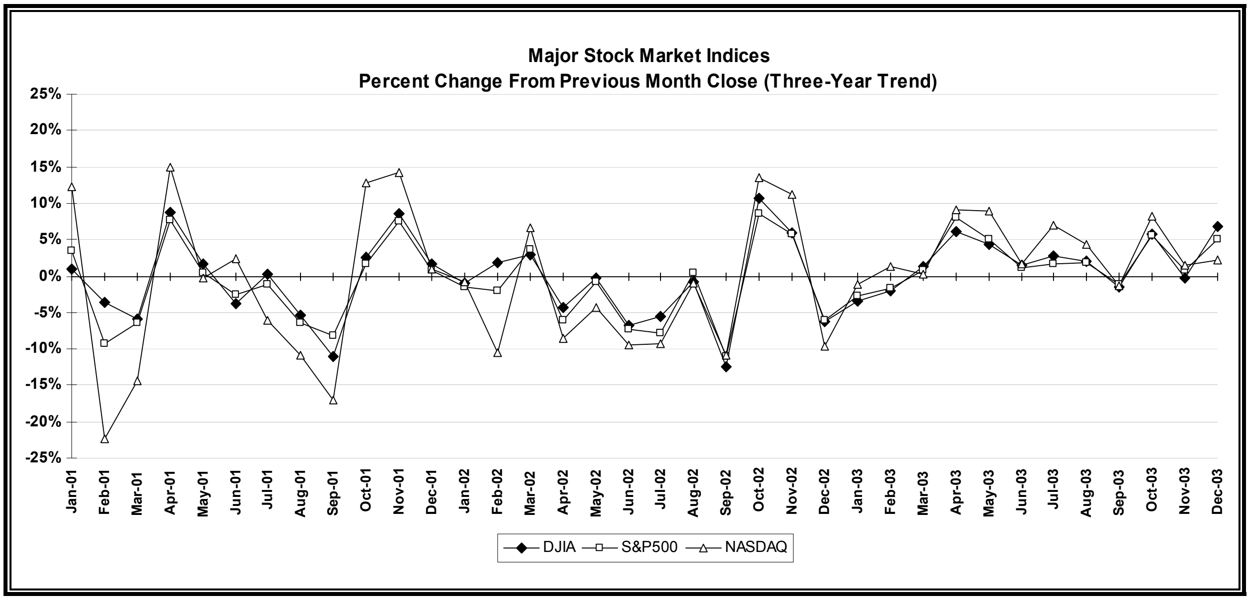

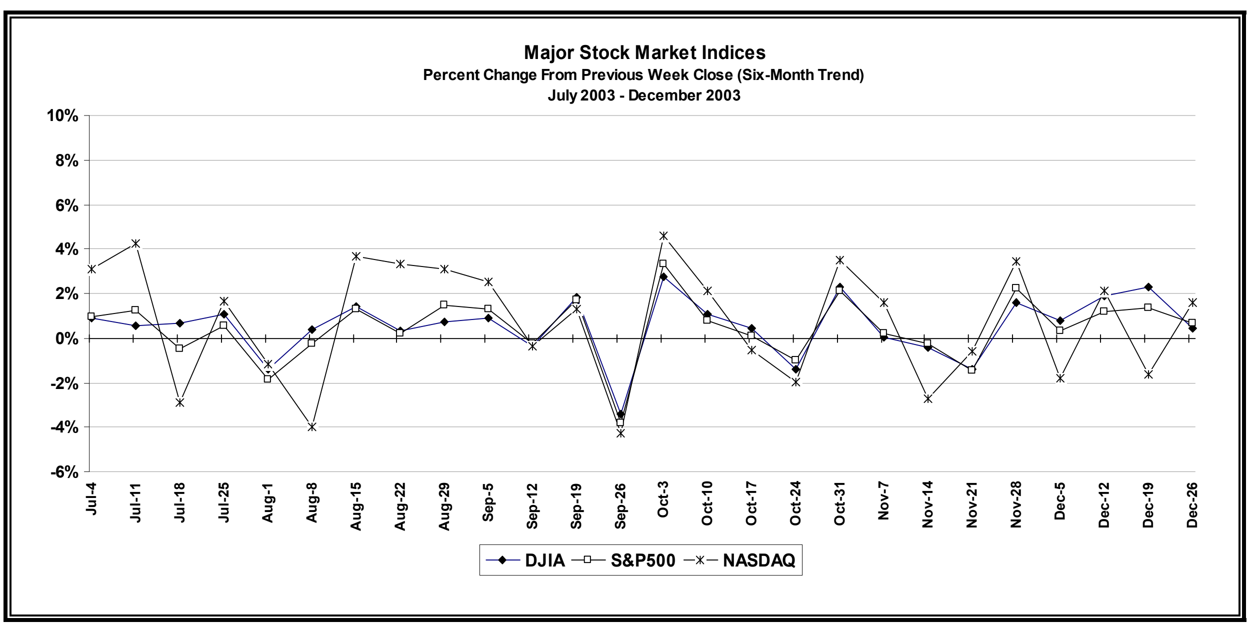

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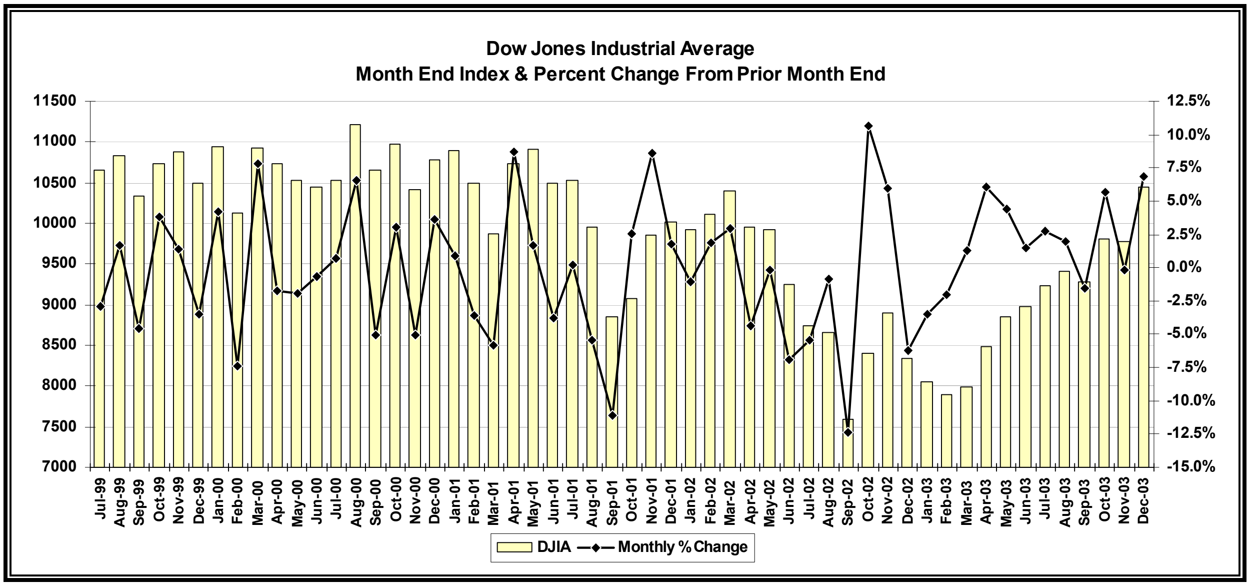

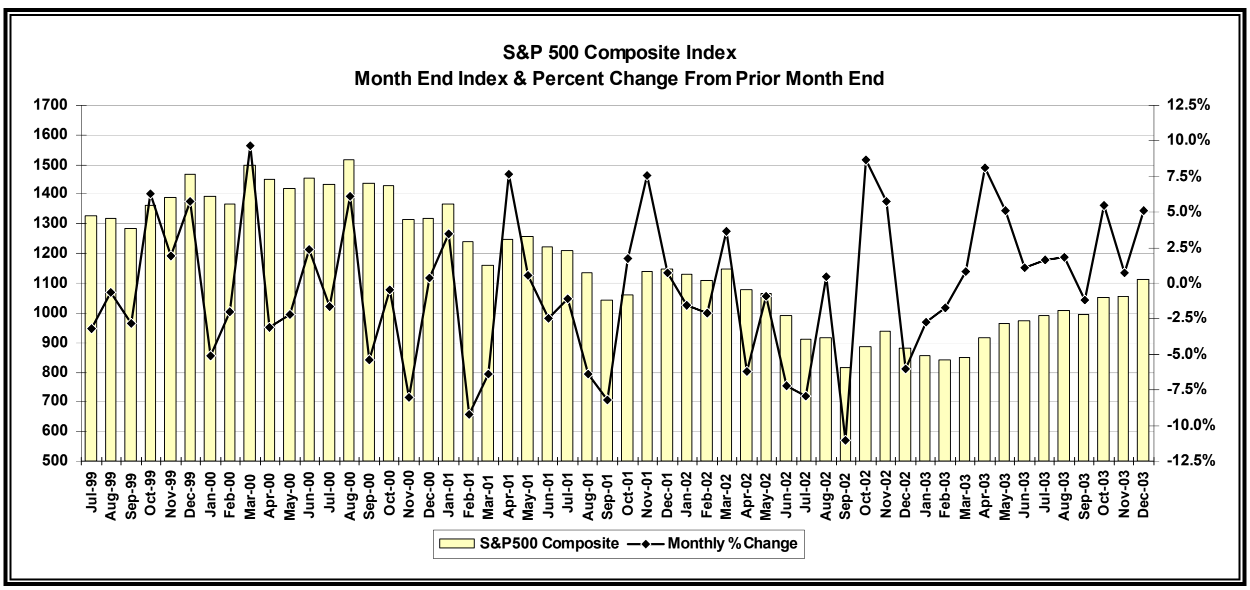

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