



## National Economic Indicators

*Jolanta Campion*

*Director of Research*

# State of the Economy

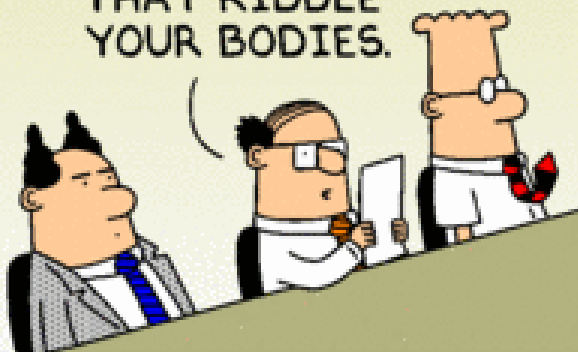
## COMPANY ECONOMIST

IN 2010 THE ECONOMY WILL COLLAPSE AND THE WORLD WILL PLUNGE INTO DARKNESS.



www.dilbert.com  
scottadams@aol.com

YOU WILL ALL BE EATEN BY CANNIBALS WHO WILL, IN TURN, DIE FROM THE DISEASES THAT RIDDLE YOUR BODIES.



4-14-07 © 2009 Scott Adams, Inc./Dist. by UFS, Inc.

PLEASE NEVER TALK AGAIN.

I GET THAT A LOT LATELY.

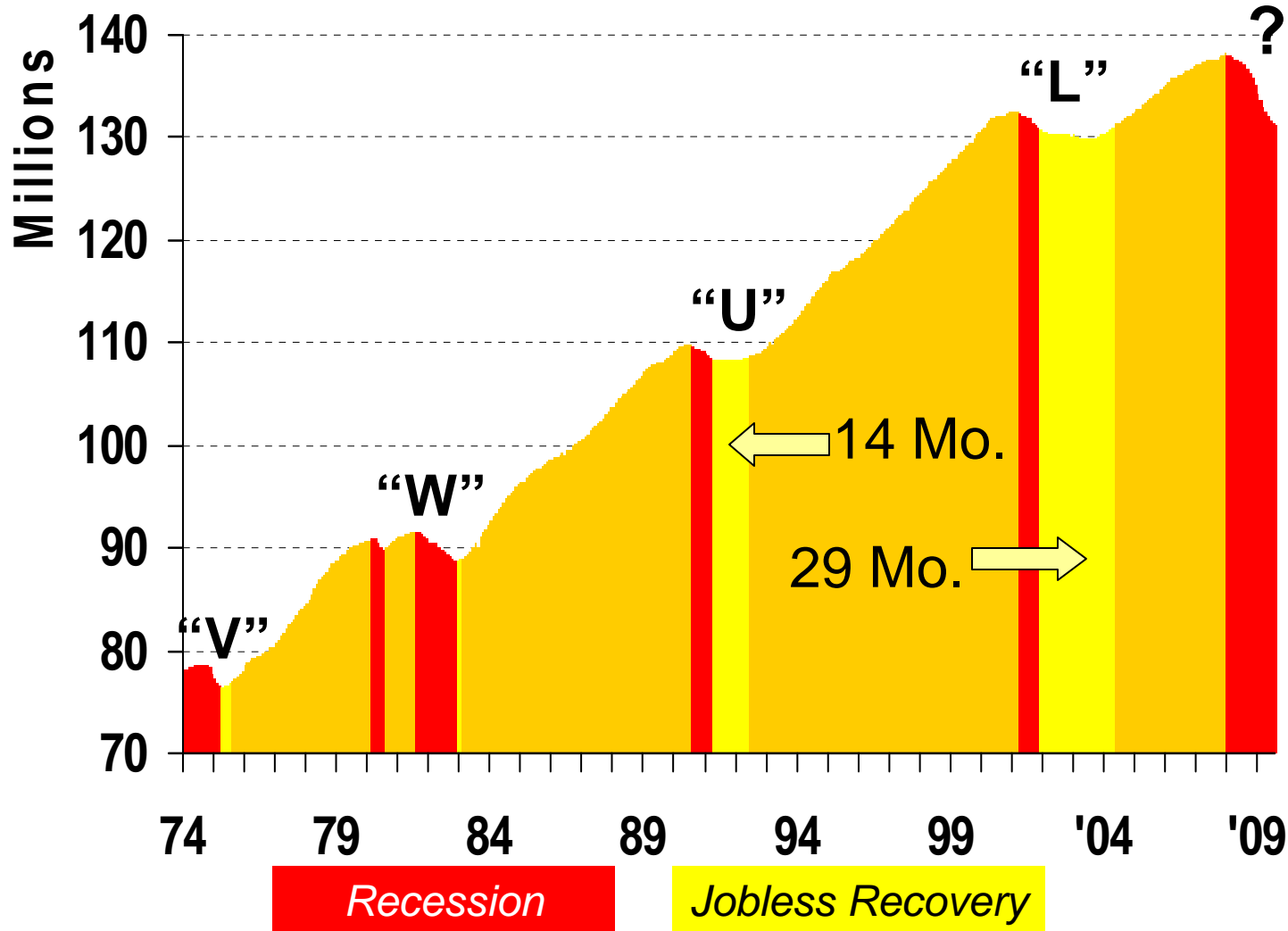


# The Shape of Recoveries

Total Payroll Employment, Seasonally Adjusted



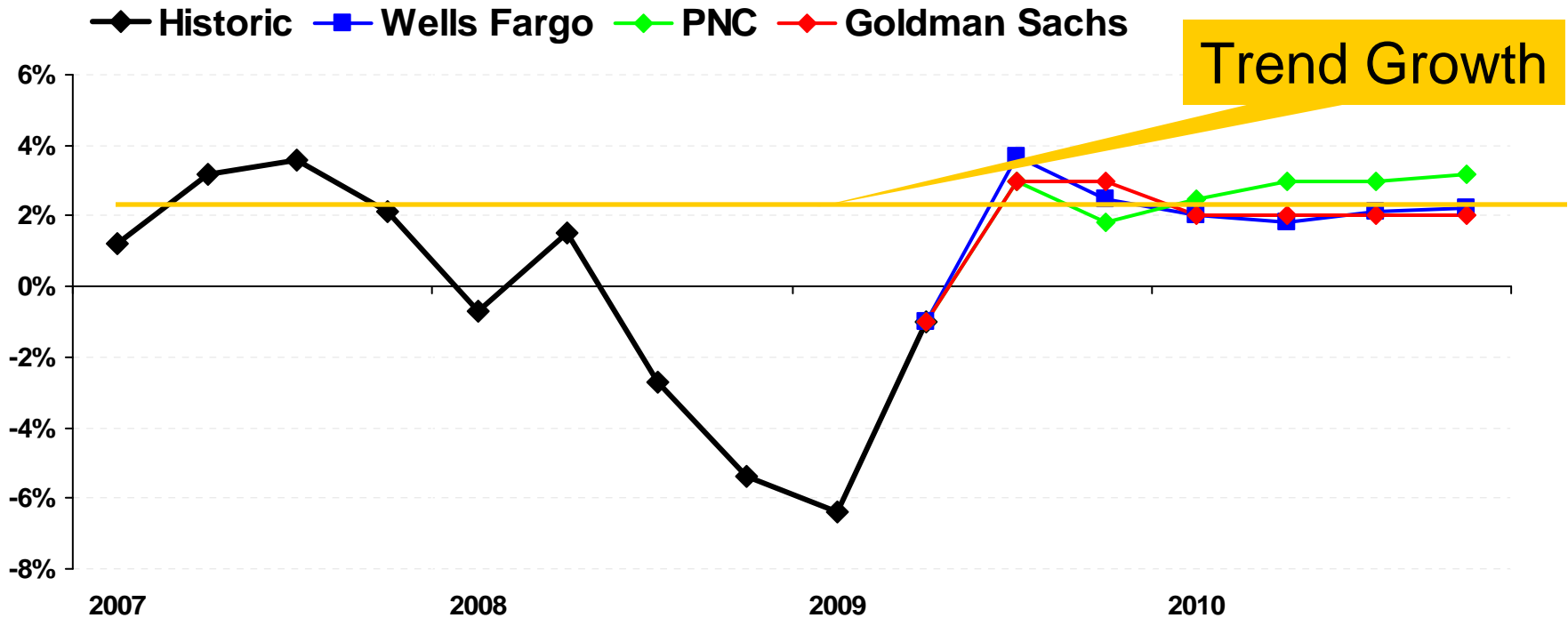
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Source: BLS, Grubb & Ellis

# Gross Domestic Product (GDP), Historic & Forecast

## Annualized Percent Change

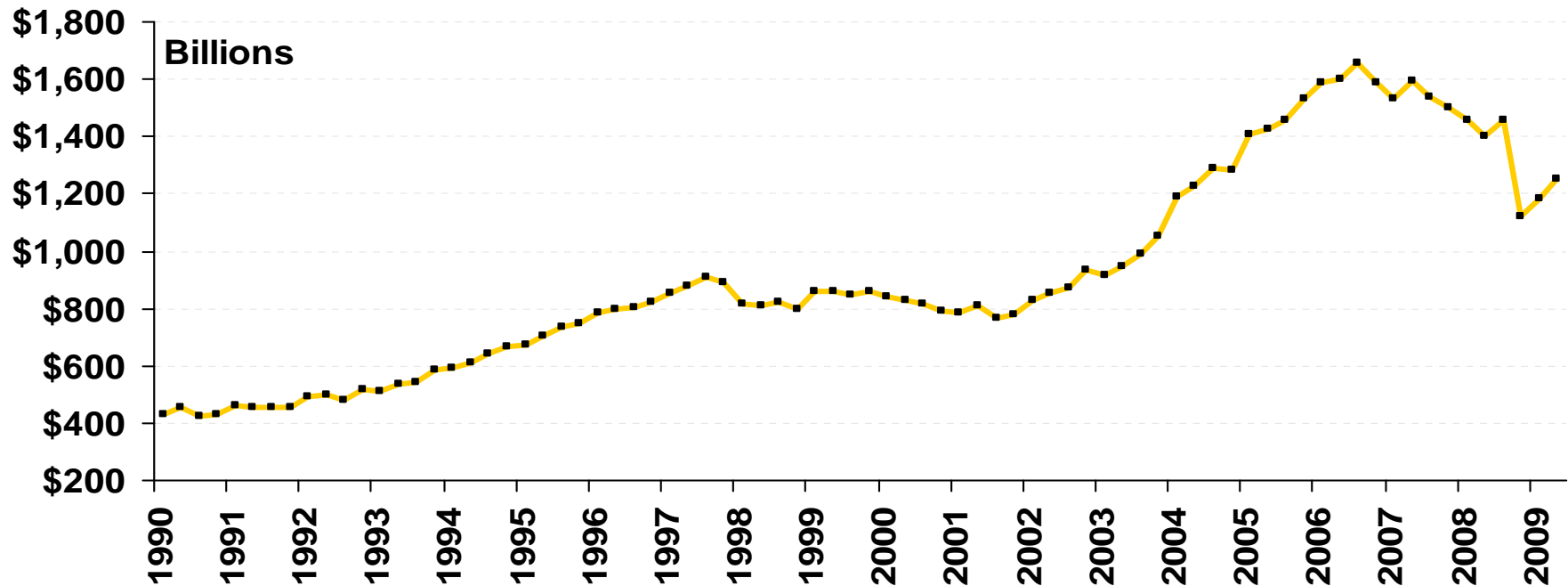


GDP measures how fast or slow the economy is growing. U.S. real GDP growth was a negative 1 percent in the 2<sup>nd</sup> quarter, unchanged from the advance estimate reported last month and a much smaller decline than the deep 5.4 percent and 6.4 percent annualized declines recorded in the 4<sup>th</sup> quarter of 2008 and the 1<sup>st</sup> quarter of 2009, respectively. The 2<sup>nd</sup> quarter figure reflected selling off of inventory and sharply declining residential and nonresidential investment, as well as lower personal consumption expenditures and exports. Partial offsets were contributions from government spending at all levels. In general, the revisions in this second estimate of real GDP were small compared with the advance estimate. The one exception was nonresidential structures, whose decline was significantly deeper. The U.S. recession began in December 2007 and is now in its 17<sup>th</sup> month, making it the longest of the 11 recessions since the end of World War II. The good news is that many mainstream economists think GDP could begin growing again as early as the 3<sup>rd</sup> or 4<sup>th</sup> quarters of this year. The black line in this graph shows historic GDP, and the colored lines show the forecasts by Goldman Sachs, PNC and Wachovia. Let's hope they are correct.

# Corporate Profits



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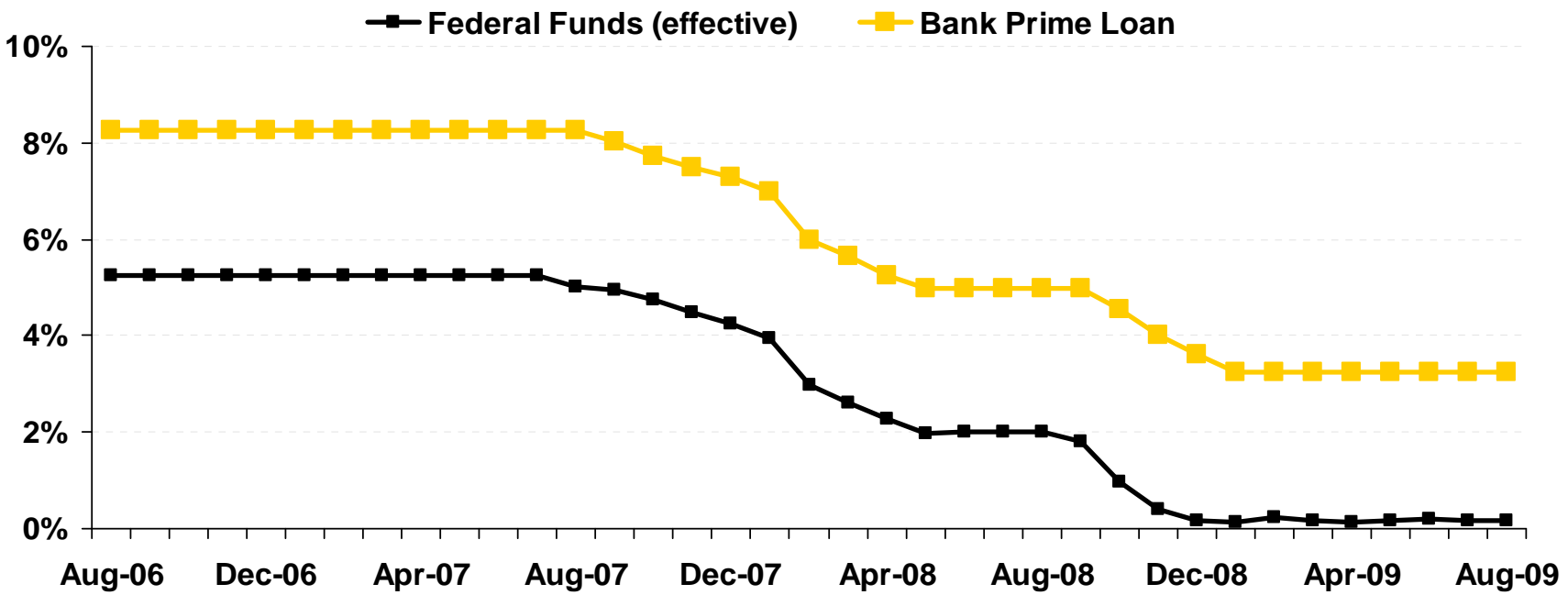


The U.S. Bureau of Economic Analysis (BEA) releases corporate profits measures quarterly. Sometimes the BEA numbers do not appear to jibe with company earnings announcements due to the fact that the BEA accounts for profits across the entire economy – small and large companies, both publicly and privately held. Heavily publicized earnings announcements usually emanate from the nation's largest publicly traded companies. Employment growth is touted as the primary driver of demand for office space and, to a lesser extent, other property types. The primary driver of employment growth is corporate profits. When profits are weak or negative, companies will, at best, keep employment levels stable and, at worst, implement layoffs to conserve cash. Second quarter corporate profits rose 5.7 percent at a quarterly rate. Nonfinancial corporate profits increased 4.5 percent and those of financial corporations rose 16.7 percent. The increase in corporate profits is tied to strong non-farm business productivity. Companies have been quick to implement layoffs, helping to explain why revenues were down while profits were up last quarter at many companies. This means there is little slack left in the labor market, so when demand picks up, companies may need to hire more quickly than many expect.

SAAR, with inventory valuation and capital consumption adjustments.

Source: U.S. Bureau of Economic Analysis, Grubb & Ellis Company. Next release date: 9/30/2009 8:30 A.M. (EST)

# Federal Funds and Bank Prime Loan Rate

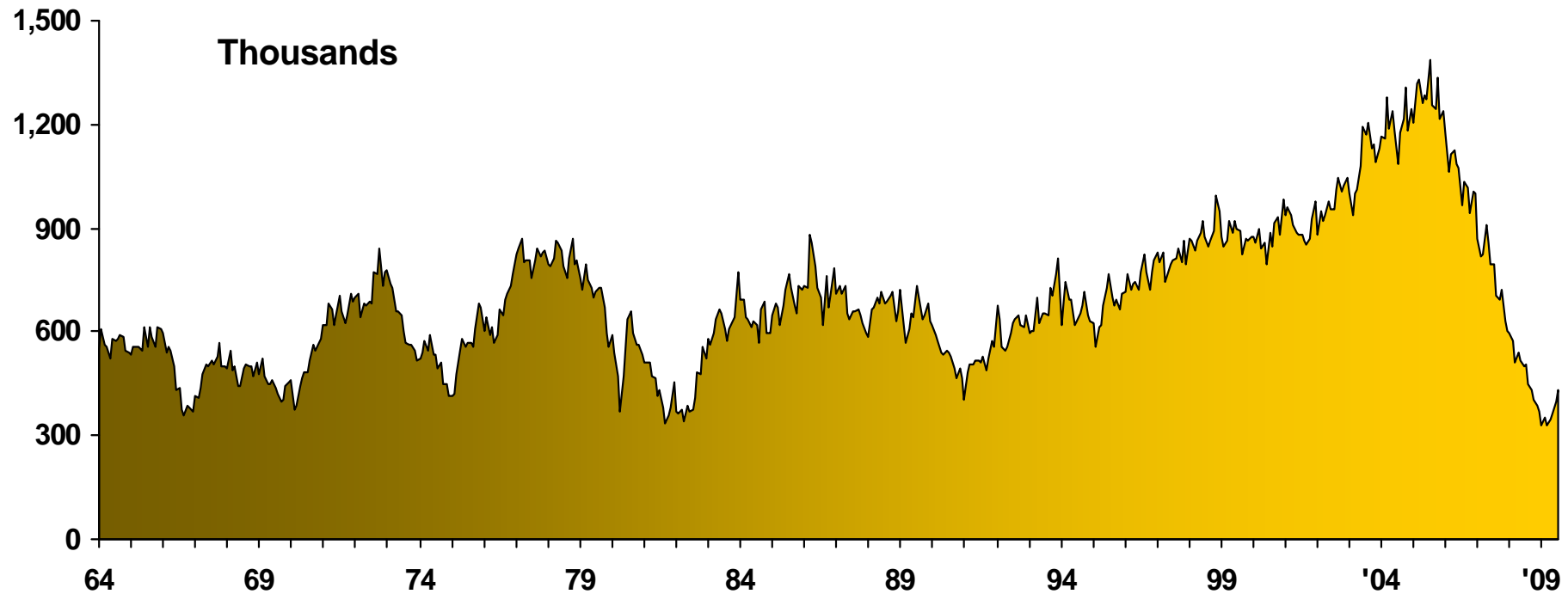


“Information received since the Federal Open Market Committee met in June suggests that economic activity is leveling out. Conditions in financial markets have improved further in recent weeks. Household spending has continued to show signs of stabilizing but remains constrained by ongoing job losses, sluggish income growth, lower housing wealth, and tight credit. Businesses are still cutting back on fixed investment and staffing but are making progress in bringing inventory stocks into better alignment with sales. Although economic activity is likely to remain weak for a time, the Committee continues to anticipate that policy actions to stabilize financial markets and institutions, fiscal and monetary stimulus, and market forces will contribute to a gradual resumption of sustainable economic growth in a context of price stability. The prices of energy and other commodities have risen of late. However, substantial resource slack is likely to dampen cost pressures, and the Committee expects that inflation will remain subdued for some time. In these circumstances, the Federal Reserve will employ all available tools to promote economic recovery and to preserve price stability. The Committee will maintain the target range for the federal funds rate at 0 to 1/4 percent and continues to anticipate that economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period.”

# New Single-Family Monthly Home Sales



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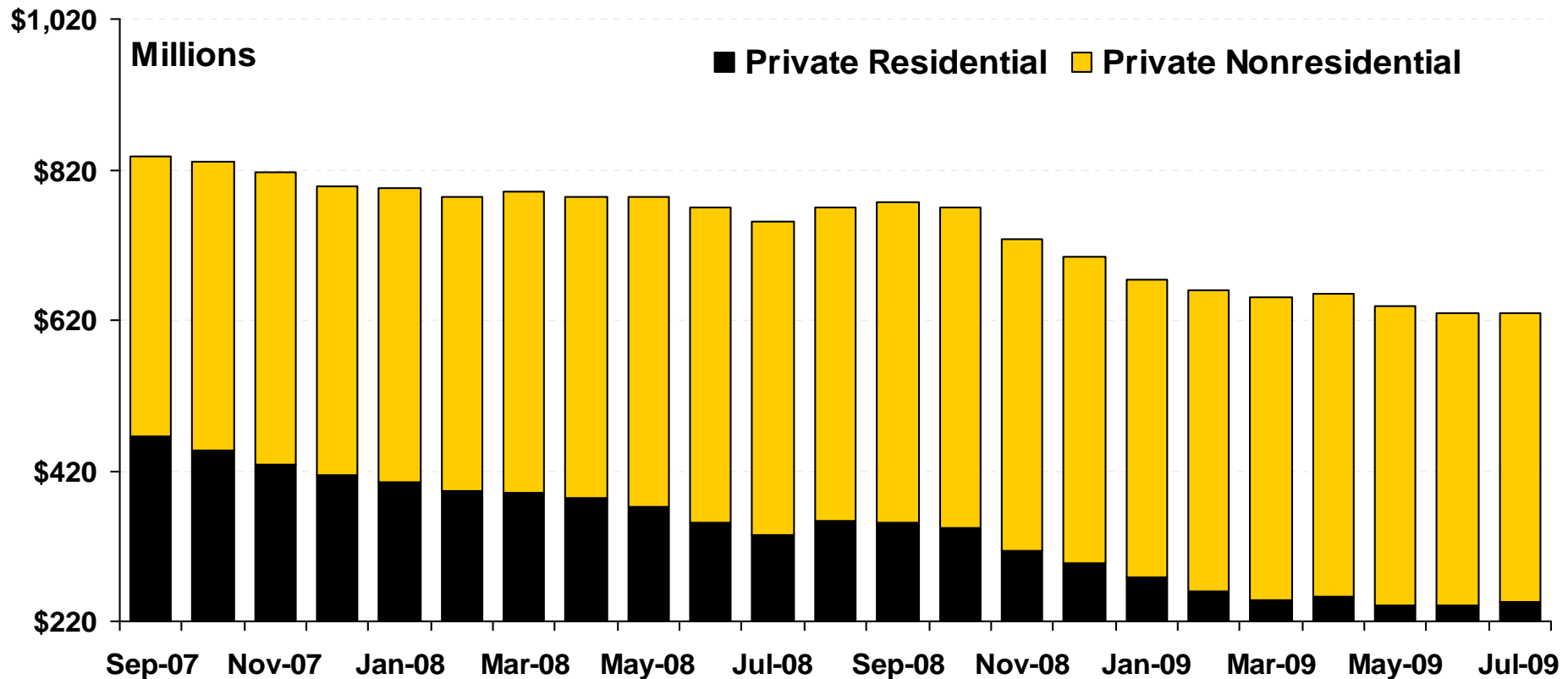
New home sales impact shopping centers and apartments most directly. Developing residential neighborhoods need new shopping centers that will supply goods and services to their residents, and the newly minted homeowner's next stop usually is the local home improvement or furniture store. Conversely, new home sales are not beneficial for apartments because some of the buyers move out of apartments. New home sales also generate demand for office space designed to attract businesses and professionals serving the local population, such as realtors and doctors. Perhaps most importantly for the industrial market and back office space, new home buyers help build the local labor force, an important factor for companies pondering expansion or relocation into an area. Sales of new homes increased more strongly than anticipated again in July, rising 9.6 percent above an upwardly revised June figure. While the 433,000 reading is still below the pace of one year ago, new-home sales are staging a rebound. Discounting is still helping generate sales though the median sale price is down by 11.5 percent year-over-year. Nonetheless, the improvement in sales is another heartening sign that housing is on the mend.

Source: U.S. Census Bureau (Construction/New Residential Sales Data)  
Seasonally Adjusted Annual Rate. Next release date: 9/25/2009

# Private Construction Spending



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Private construction activity can be a telling indicator of business confidence. What separates this report from all the previous releases on real estate activity is that we get to know how much builders are actually spending. Spending on private construction was at a seasonally adjusted annual rate of \$630.4 billion, 0.1 percent above the revised June estimate of \$629.6 billion. Residential construction was at a seasonally adjusted annual rate of \$245.6 billion in July, 2.3 percent above the revised June estimate of \$240.1 billion. Nonresidential construction was at a seasonally adjusted annual rate of \$384.9 billion in July, 1.2 percent below the revised June estimate of \$389.5 billion.

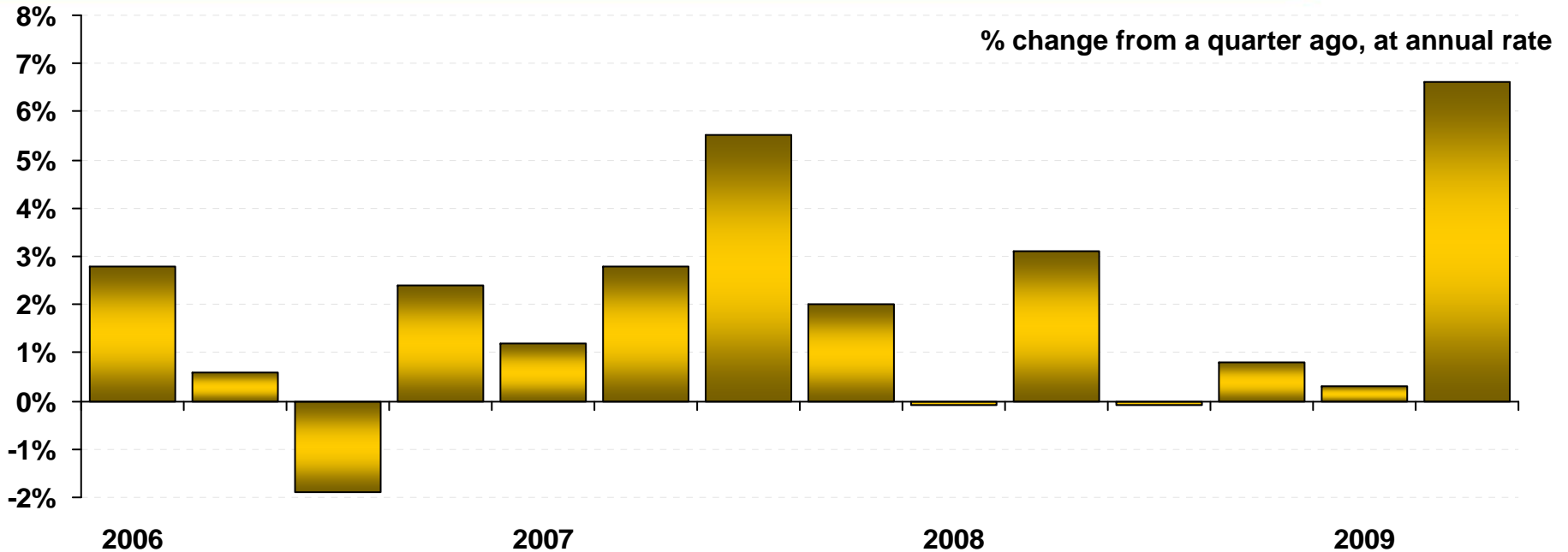
Source: Census Bureau, Department of Commerce

Next release date: 10/1/2009 10:00 A.M. (EST)

# Quarterly Productivity



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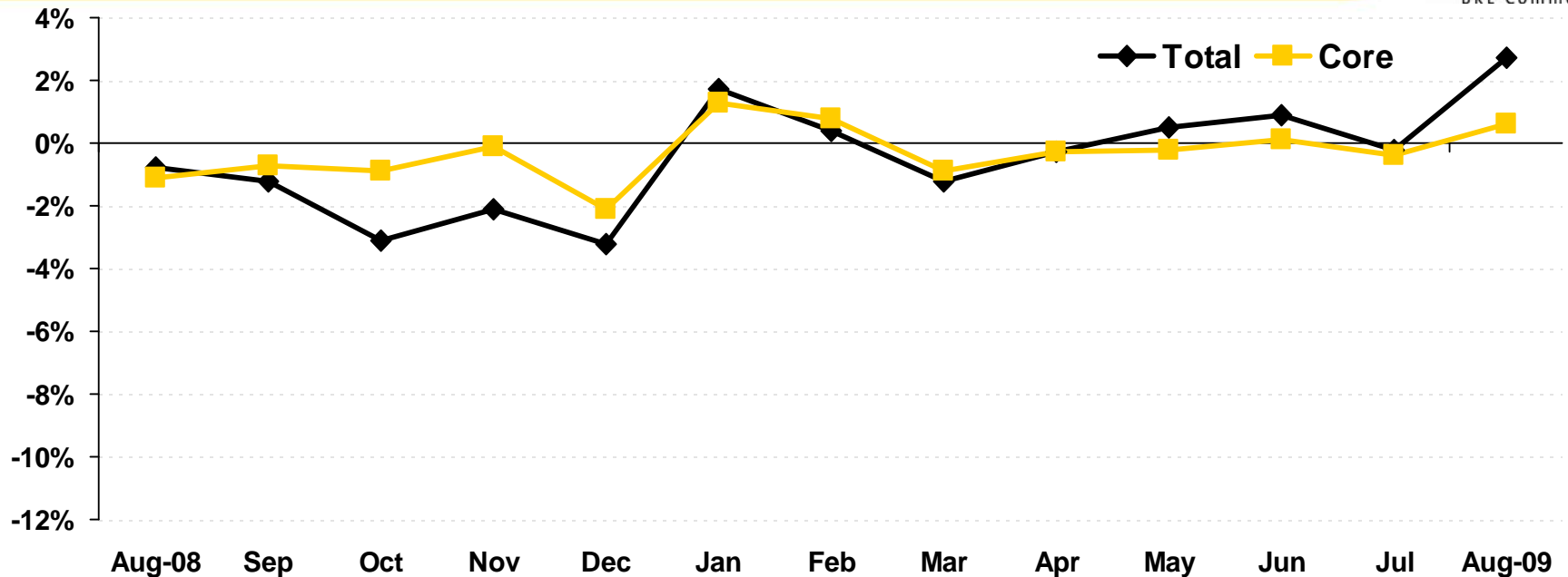


Productivity is important to all sectors of commercial real estate. The industrial sector was the first to benefit from rising productivity as manufacturers retooled their factories and warehouses, creating a demand for millions of square feet of new facilities even as they were paring employment. The office sector is just beginning to benefit from rising productivity through greater use of computers, email, networking, intranets and the like. The technology revolution that is transforming demand for real estate is all about increasing productivity. Productivity growth for the 2<sup>nd</sup> quarter was revised slightly higher, to 6.6 percent (SAAR), slightly above the consensus forecast; this compares with 6.4 percent in the preliminary release. The revision was due to a smaller decline in output. Unit labor costs declined slightly more with the revisions; they fell 5.9 percent (SAAR) in the 2<sup>nd</sup> quarter, compared with the previously reported 5.8 percent drop. Productivity growth is good as the U.S. economy comes out of recession, and no inflationary pressures are coming from the labor market.

Seasonally adjusted annual rate (SAAR) non-farm business output per hour.

Source: U.S. Department of Labor, Bureau of Labor Statistics. Next release date: 11/5/2009 8:30 A.M. (EST)

# Retail Sales



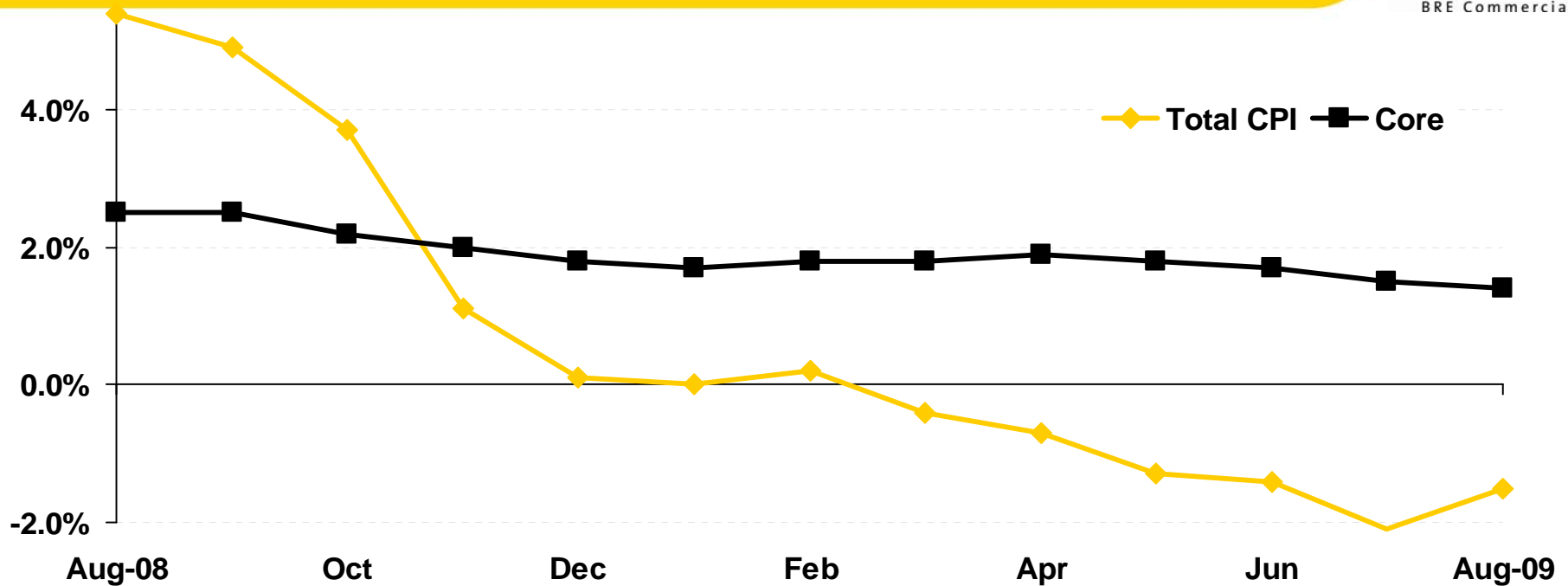
Retail sales, including homes and autos, account for two-thirds of all economic activity in the U.S. Changes in retail sales precede employment changes by about six months, which in turn precede commercial real estate market activity by another six months. The Census Bureau and the Bank of Tokyo-Mitsubishi Chain Store Sales Index track monthly sales at the national level, while banks, university economics departments and state agencies sometimes track local area retail sales. Retail sales is the most important driver of demand for retail space. If retail sales are slowing, landlords have a tough time keeping their tenants and filling vacancies, and they are less likely to collect overages. Retail sales affect the demand for warehouse-distribution facilities, many of which are occupied by the distribution operations of retailers and by logistics companies serving retailers. Retail sales has an indirect impact on the office and apartment markets in that it signifies tenant confidence. Retail sales soared far higher than expected in August, led by autos but on broad-based strength. Sales rose 2.7 percent in total and 0.6 percent excluding autos, which benefited from cash-for-clunkers, and gas stations. Apparel, sporting goods and department stores all posted very strong gains. The only areas of weakness were furniture and building supply stores. The data imply back-to-school sales were stronger than thought.

Percentage change year over year, seasonally adjusted. Core sales exclude motor vehicles & gasoline.  
Source: U.S. Census Bureau (Advance Monthly Retail Sales); Bank of Tokyo-Mitsubishi Chain Store Sales Index  
Next release date: 10/14/2009 10:00 A.M. (EST)

# U.S. Inflation



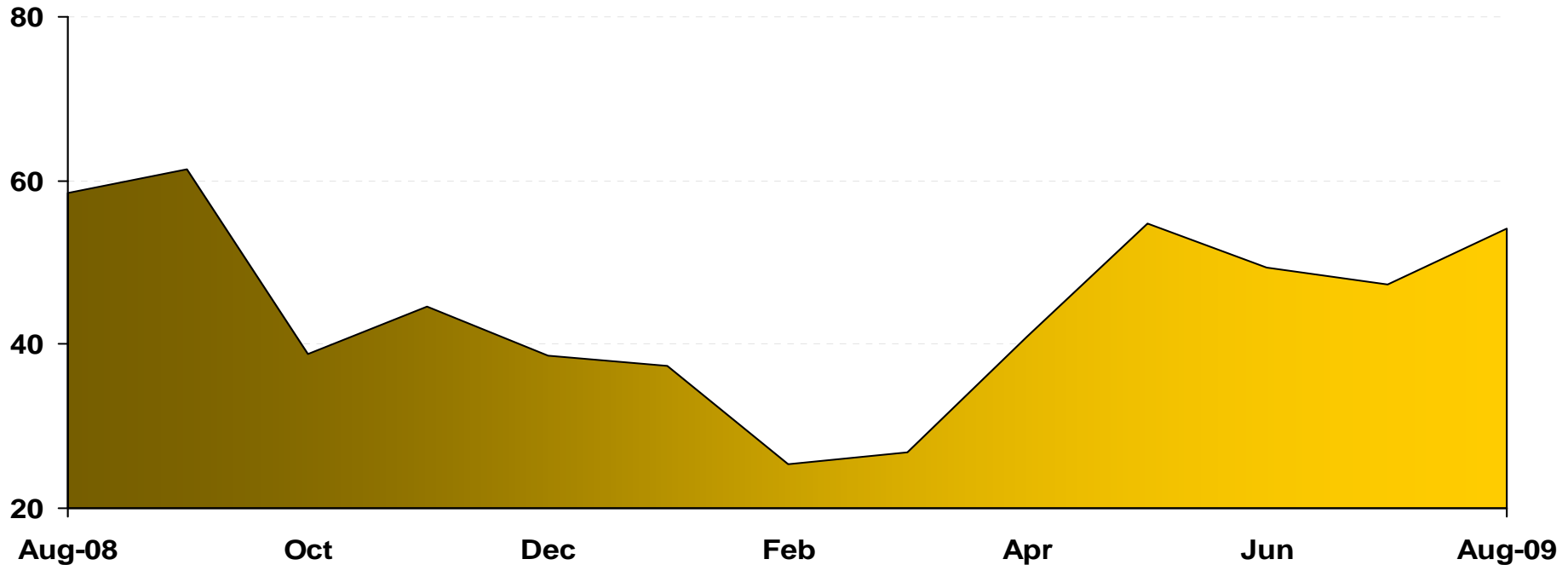
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The CPI reports price changes in over 200 categories, arranged into eight major groups. The Core rate of inflation excludes the volatile food and energy components. Rising inflation can provoke the Federal Reserve into raising interest rates, which negatively impacts real estate markets. In the early 1980s, when inflation and interest rates were very high, it was considered more beneficial to hold hard assets such as commercial real estate, which appreciated along with inflation, than financial assets such as stocks and bonds whose values were eroded by inflation. When the economy gets to that point, however, it is unhealthy and not good for real estate in the long run. Another angle on the CPI is that companies want to locate in areas where the cost of living is reasonable (lower CPI measures) so their employees can enjoy a good quality of life on a lower pay scale. The top-line (total CPI) consumer price index for urban consumers (CPI-U) came in at 215.8 for August, a 0.2% increase from July and down by 1.5% from August 2008. The core CPI-U came in at 219.6 in August, up by 0.1% from July and up by 1.4% from August 2008. The larger than expected increase in the CPI was driven by rising gasoline prices. The gasoline CPI increased by 9.1% in August. Even with the increase in the top-line CPI, core inflation is still below its historical average.

CPI-U, % change Y/Y. Core inflation excludes food & energy  
Source: U.S. Bureau of Labor Statistics. Next release date: 10/15/2009

# Consumer Confidence Index

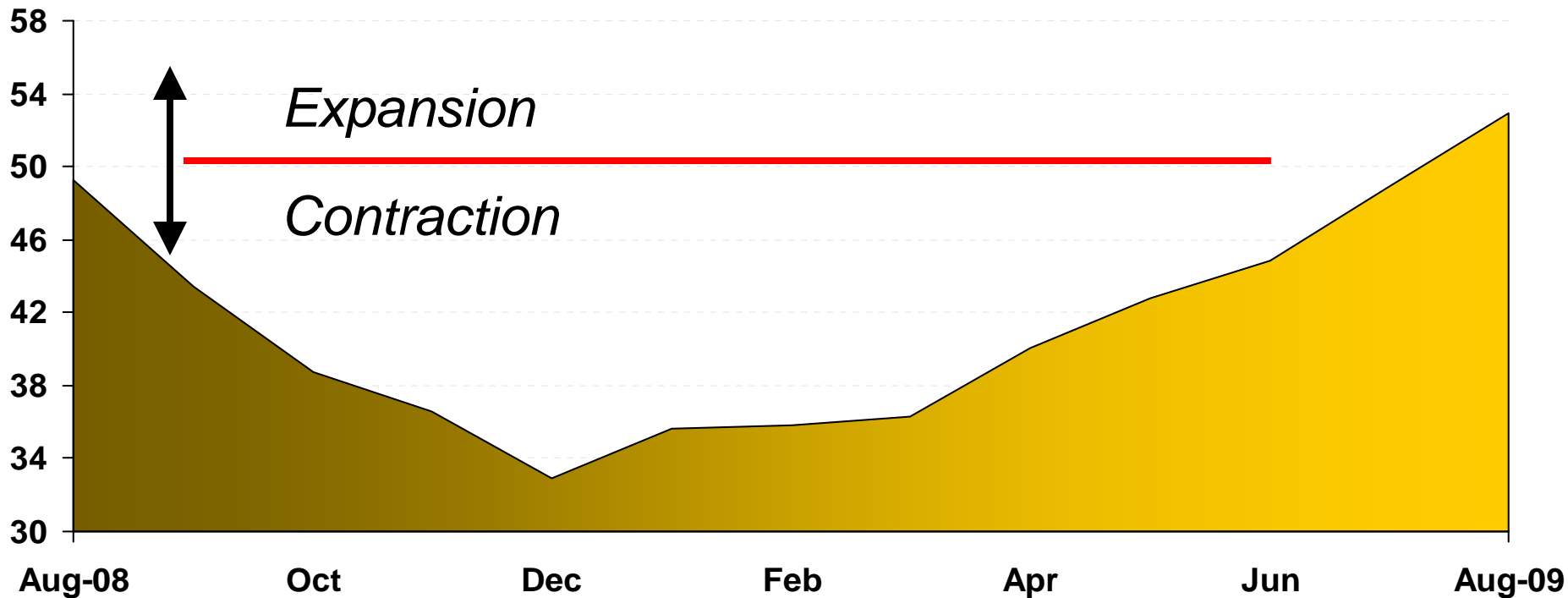


Three surveys track consumer confidence: The Conference Board, University of Michigan Consumer Sentiment Survey, and ABC News/Money Magazine Consumer Comfort Index. Of the three, The Conference Board survey is the most carefully watched. The responses are seasonally adjusted. Expectations account for 60 percent of the index, while the current situation is responsible for 40 percent. Consumer confidence is most closely tied to retail sales and the demand for retail space, followed by apartment leasing activity. It is less closely related to demand for office and industrial space, although it does have an impact to the extent that it influences overall consumer spending, which accounts for two-thirds of all economic activity. If consumers retreat, corporate profits across many industries will be hurt, which will translate into reduced leasing activity for all types of space. The Conference Board Consumer Confidence Index®, which had retreated in July, rebounded in August. The Index now stands at 54.1 (1985=100), up from 47.4 in July. The Present Situation Index increased slightly to 24.9 from 23.3 last month. The Expectations Index improved to 73.5 from 63.4 in July. The Consumer Confidence Survey® is based on a representative sample of 5,000 U.S. households.

\* 1985 = 100 (in the base year, 1985, the value of the index was 100)

Source: The Conference Board's Consumer Research Center. Next release date: 9/29/2009 10:00 A.M. (EST)

# Institute of Supply Management (ISM) Index

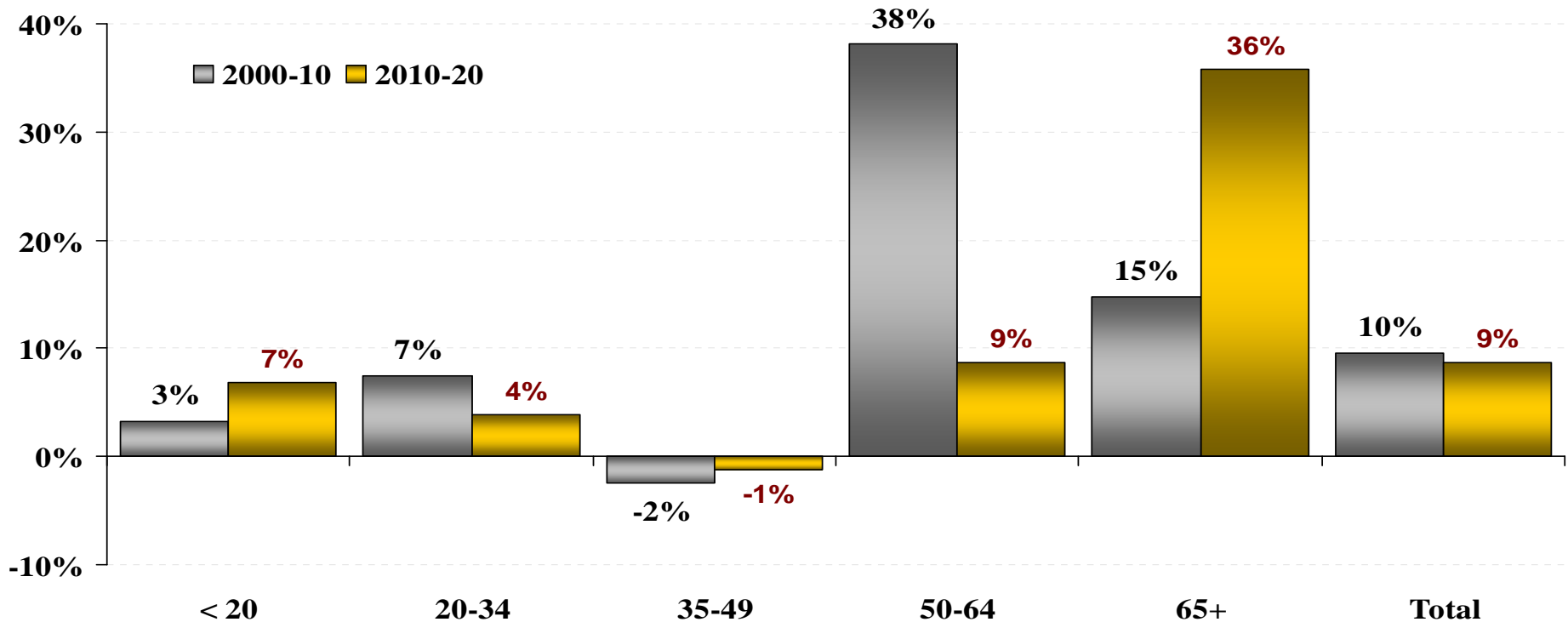


The Institute for Supply Management releases a monthly composite index based on surveys of 300 purchasing managers nationwide representing 20 industries regarding manufacturing activity. Index values above 50 indicate an expanding manufacturing sector, while values below 50 indicate contraction. The index, which is seasonally adjusted, is a composite of nine other indexes including: new orders, production, supplier delivery times, backlogs, inventories, prices, employment, export orders and import orders. The ISM Index is closely linked to the performance of the industrial market. As manufacturers expand, they ship more materials through company supply chains, increasing the demand for space in factories and warehouses. The reverse is true when activity wanes in the manufacturing sector. The Institute for Supply Management's manufacturing index increased 4 points to 52.9 in August. The larger than expected increase puts the index 10.3 points above its second quarter average and above its expansionary threshold of 50 for the first time since January 2008. The details are supportive for future growth as the economy begins to climb out of the deepest recession since the 1930s.

# Population Change by Decade



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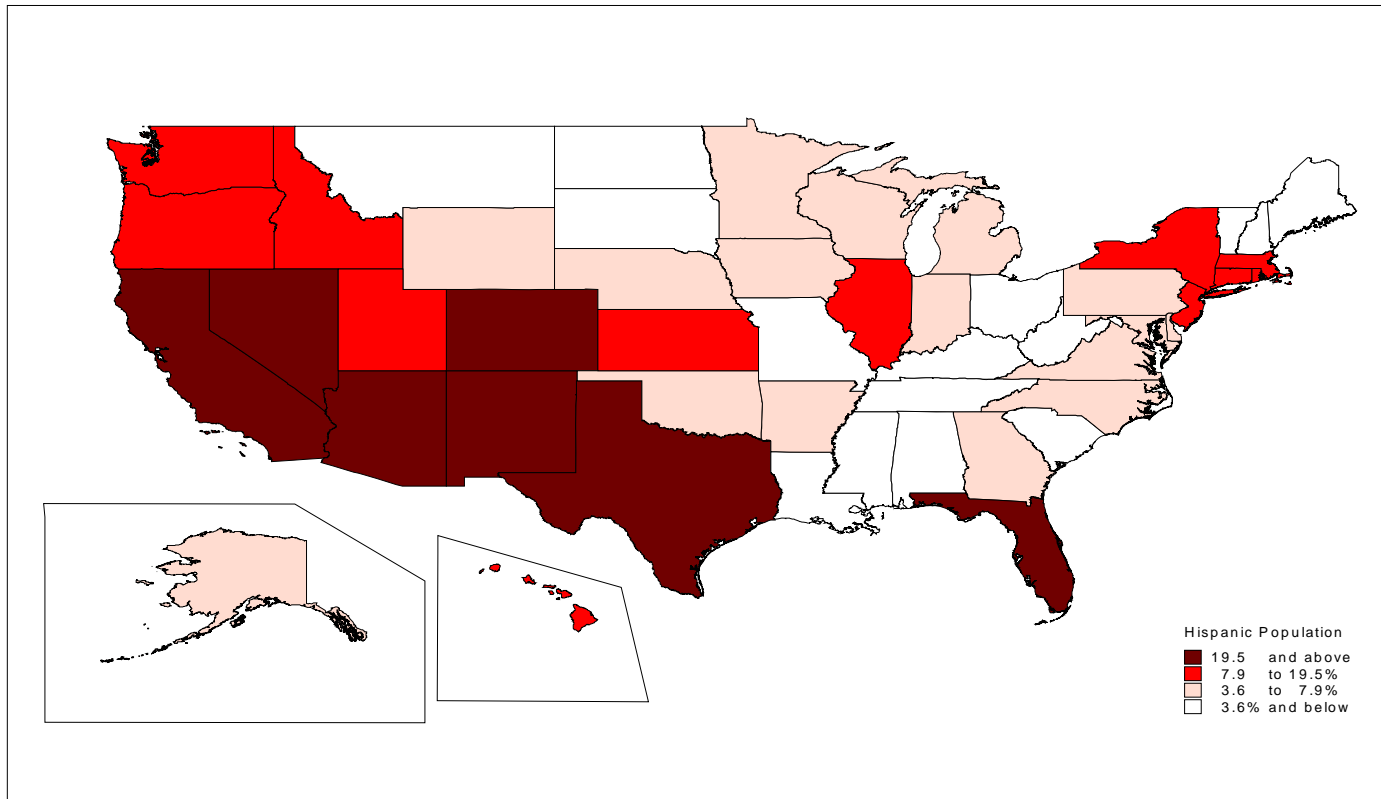
**AGING POPULATION.** A key demographic trend affecting commercial real estate is the aging of the baby boom and the smaller size of the next generation (the baby bust or Generation X). During this decade, the population aged 50 to 64 will expand rapidly, and the 35-to-49 age group will shrink. In the next decade, the giant baby boom generation will move from their 40s and 50s, the highest spending years, into their 60s and 70s, which may create a headwind for high-end retailers and a tailwind for the hospitality industry as this group spends less on accumulating goods and more on travel. As boomers turn into empty nesters, warehouse clubs that depend on selling in bulk may see lower profit margins. The labor force aged 20 to 64, which grew by 11.4 percent in the current decade, will expand by 3.7 percent in the 2010s, limiting demand for office space and increasing the value of skilled labor. The 20 to 34 age group will continue to expand, creating demand for apartments. A growing number of renter households will be headed by an older person, suggesting a demand for larger, more luxurious rental units in locations perceived as safe and accessible to good schools. Productivity, not employment, is the prime driver of industrial space demand, but there may be spot shortages of younger skilled workers.

Source: U.S. Census Bureau, Grubb & Ellis

# Hispanic Concentration by State, 2011

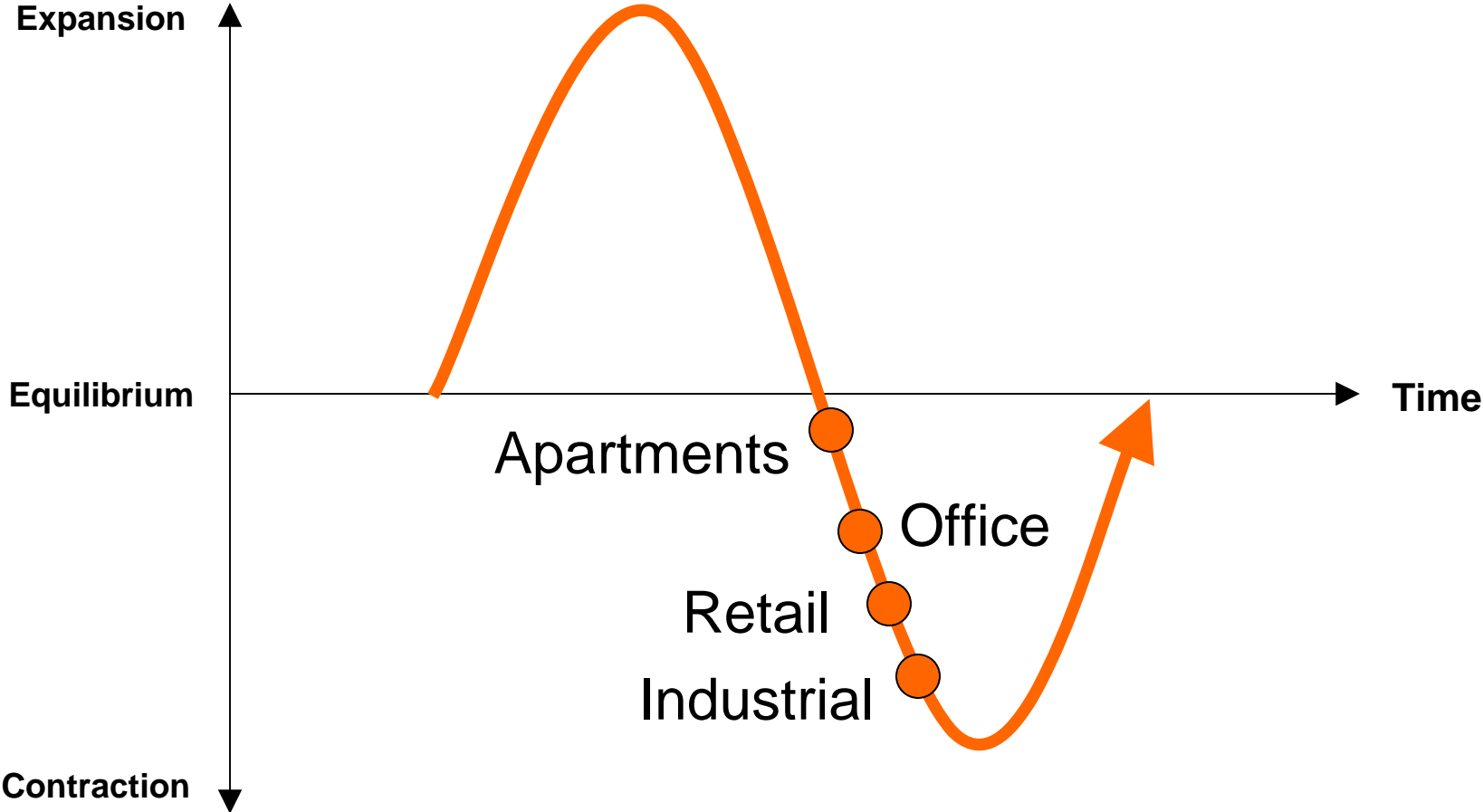


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**CHANGING ETHNIC COMPOSITION.** Forecasts of population ethnicity in the U.S. illustrate the dramatic impact of foreign immigration as well as the higher birthrate among non-Anglos. Hispanic population growth will be most heavily concentrated in the band of border states stretching from Texas to California and in Colorado, Nevada and Florida. Commercial Real Estate Impact. Immigration helps fill the void of workers left by the aging Caucasian population, benefiting the office, industrial and retail markets. Demographics favor retailers who target the ethnic groups that will grow most rapidly. The larger household sizes characteristic of both Hispanic and Asian-American households should fuel the demand for family-oriented apartments. Some institutional investors focus only on so-called Gateway Cities like Los Angeles, San Francisco, Houston, Chicago, Miami, New York and a few other markets. Immigration into these areas creates expanding pools of labor and consumers, boosting demand for all types of real estate.

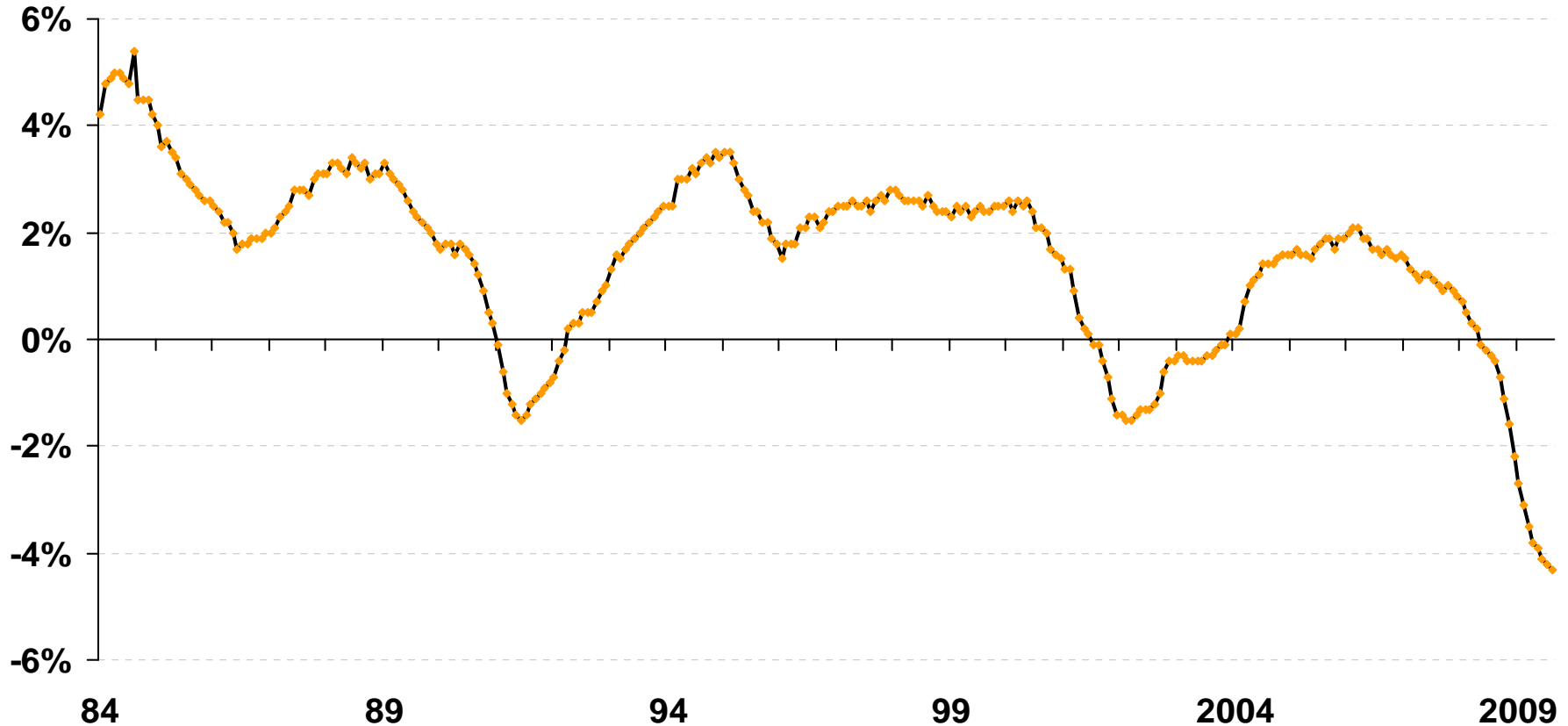
# Where Are Property Leasing Markets?



A fan of US dollar bills (one, five, and ten) is shown against a blurred American flag background. The bills are fanned out from the bottom left towards the top right. The text "National Employment Indicators" is overlaid in the center in a bold, white, sans-serif font with a black outline.

# National Employment Indicators

# U.S. Employment Change Year-Over-Year



Another way to analyze job growth is to graph so-called year-over-year (sometimes abbreviated as Y/Y) percent change in employment levels. This type of analysis shows inflection points, and it allows comparison of differently sized geographic areas, such as a metropolitan area with the U.S. The graph uses employment levels that are not seasonally adjusted. The 4.3% decline in payroll employment from August 2008 to August 2009 is the steepest year-over-year decline since October 1949.

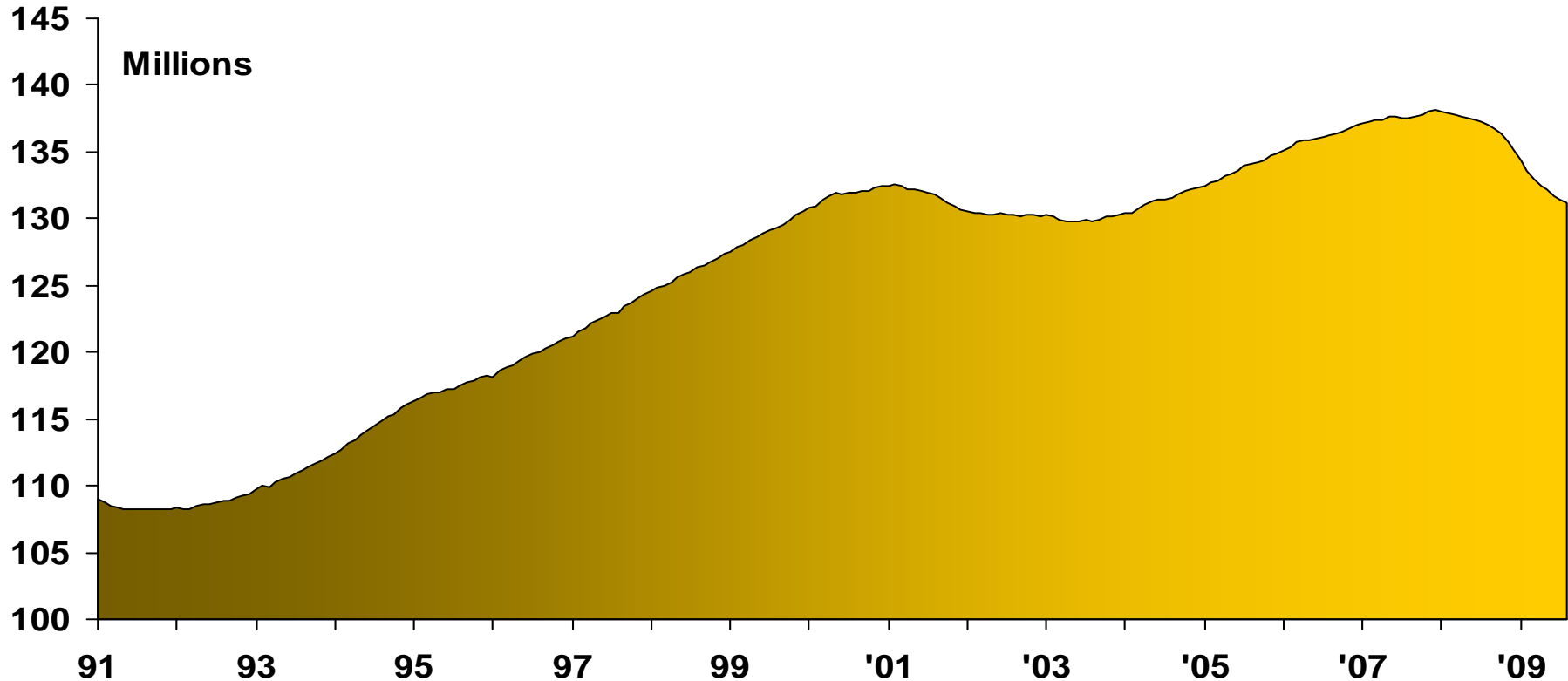
Source: U.S. Department of Labor, Bureau of Labor Statistics Labor Dept.

Next release date: 10/2/2009 8:30 A.M. (EST)

# U.S. Total Payroll Employment



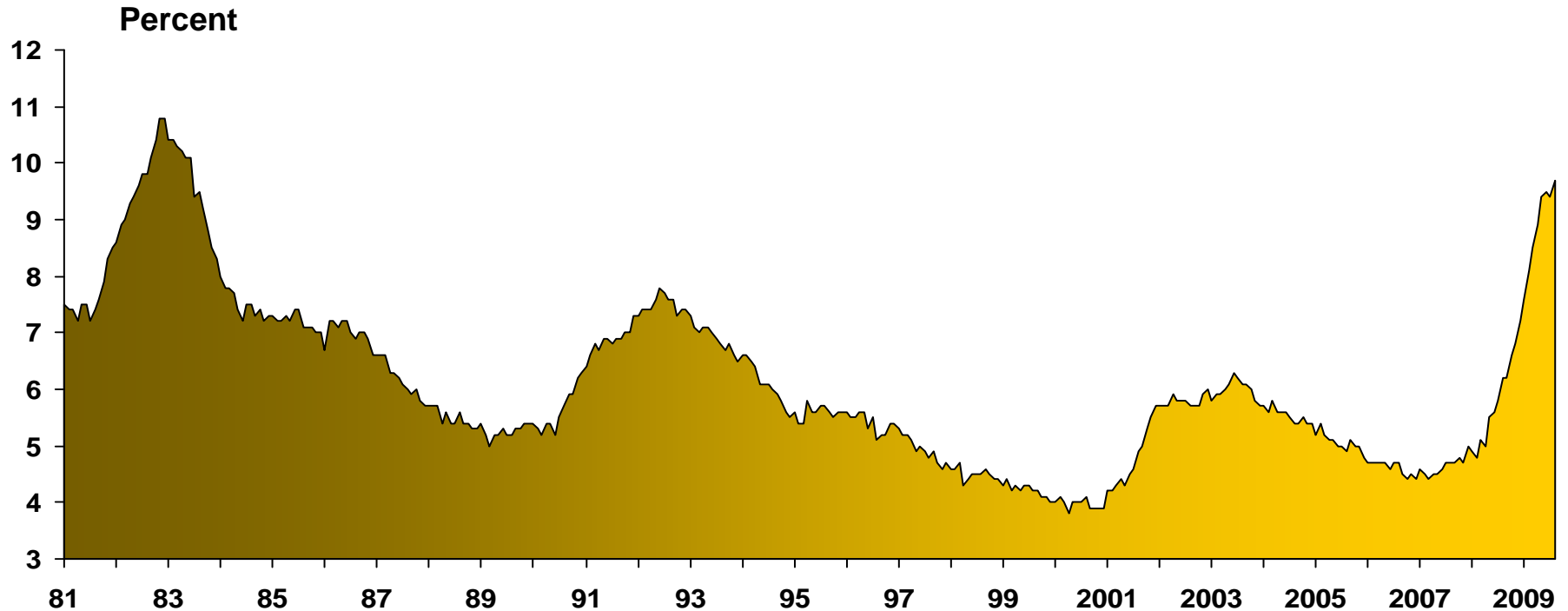
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Another way to analyze job growth is to graph total employment. Inflection points such as the recessions of 1990-91 and 2001 are clearly visible. This graph uses seasonally adjusted employment data. Seasonally adjusted payroll employment totaled 131.2 million in August. Nonfarm payroll employment continued to decline in August (-216,000), and the unemployment rate rose to 9.7 percent. Although job losses continued in many of the major industry sectors in August, the declines have moderated in recent months.

Source: U.S. Department of Labor, Bureau of Labor Statistics Labor Dept.  
Next release date: 10/2/2009 8:30 A.M. (EST)

# U.S. Unemployment Rate



The proportion of unemployed workers shows how well a nation's human resources are used and serves as an index of economic activity. Low unemployment can exert a significant influence on industrial and office site locations and expansions as companies compete for a shrinking number of skilled workers. The result can lead to either the consolidation or decentralization of existing operations, relocation to areas of (relatively) higher unemployment or the adoption of labor saving technologies that can influence space needs. The unemployment rate increased to 9.7%, the highest rate since 1983. While more people entered the labor force in contrast to the large defections in July, the number of unemployed workers increased by a large 466,000, and household employment (from a different survey than payroll employment) declined by 392,000.

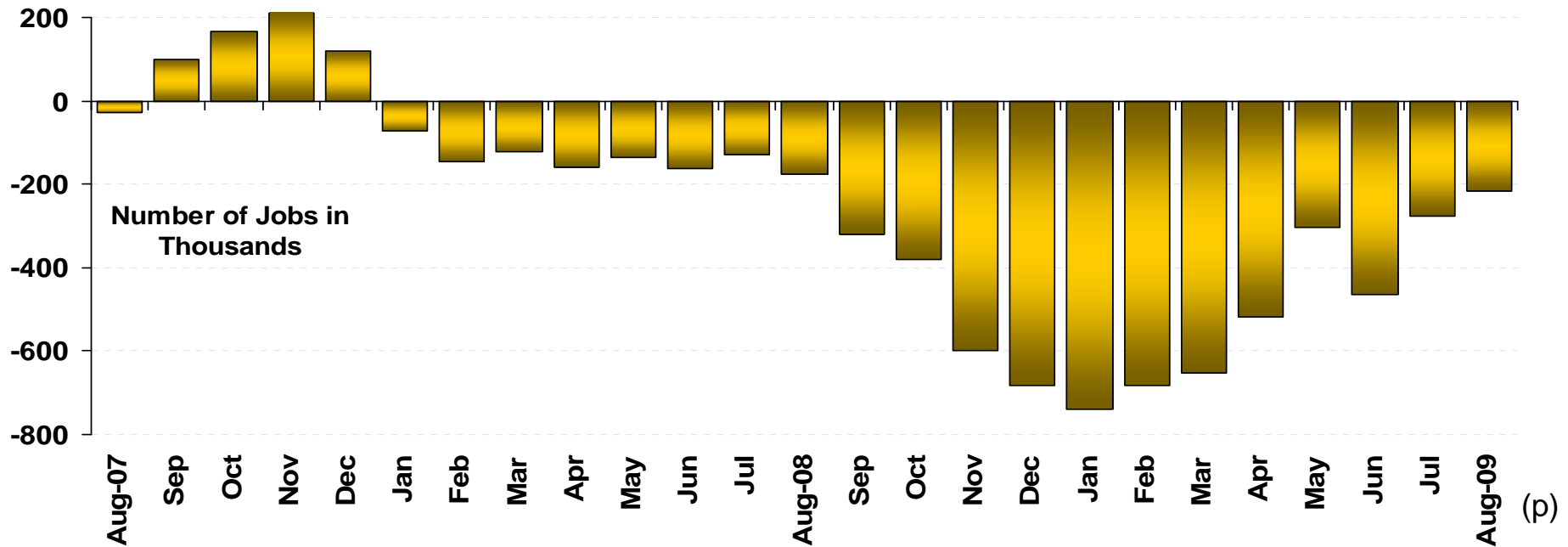
Source: U.S. Department of Labor, Bureau of Labor Statistics Labor Dept.

Next release date: 10/2/2009 8:30 A.M. (EST)

# U.S. Monthly Job Creation



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Job growth is one of the most important indicators of economic health, and it underpins the demand for real estate. Although job growth is a lagging economic indicator, it is a leading indicator of office leasing activity. The demand for industrial space depends on the ability of manufacturers and distributors to improve their bottom lines by investing in new plant, equipment and technology while holding employment steady or even reducing payrolls. The demand for retail space depends on retail sales; if people are not employed, they won't spend. The demand for apartments depends on household formation, particularly households headed by people in their 20s and early 30s. Job growth plays a critical role in the timing of household formations. Younger renters are likely to take a roommate or move home with mom and dad if their job prospects appear shaky. Net payroll job losses for the month of August totaled 216,000 while revisions to the June and July numbers wiped away another 49,000 jobs. The trend line is headed in the right direction. The average monthly job loss in the first quarter of this year was 691,000, declining to 428,000 in the second quarter and 246,000 thus far in the third quarter. The labor market is a lagging indicator, meaning that it may soften for several more months even as other parts of the economy begin to grow again.

2009 August Preliminary. Total Non-Farm Wage and Salary Employment

Source: U.S. Department of Labor, Bureau of Labor Statistics Labor Dept.

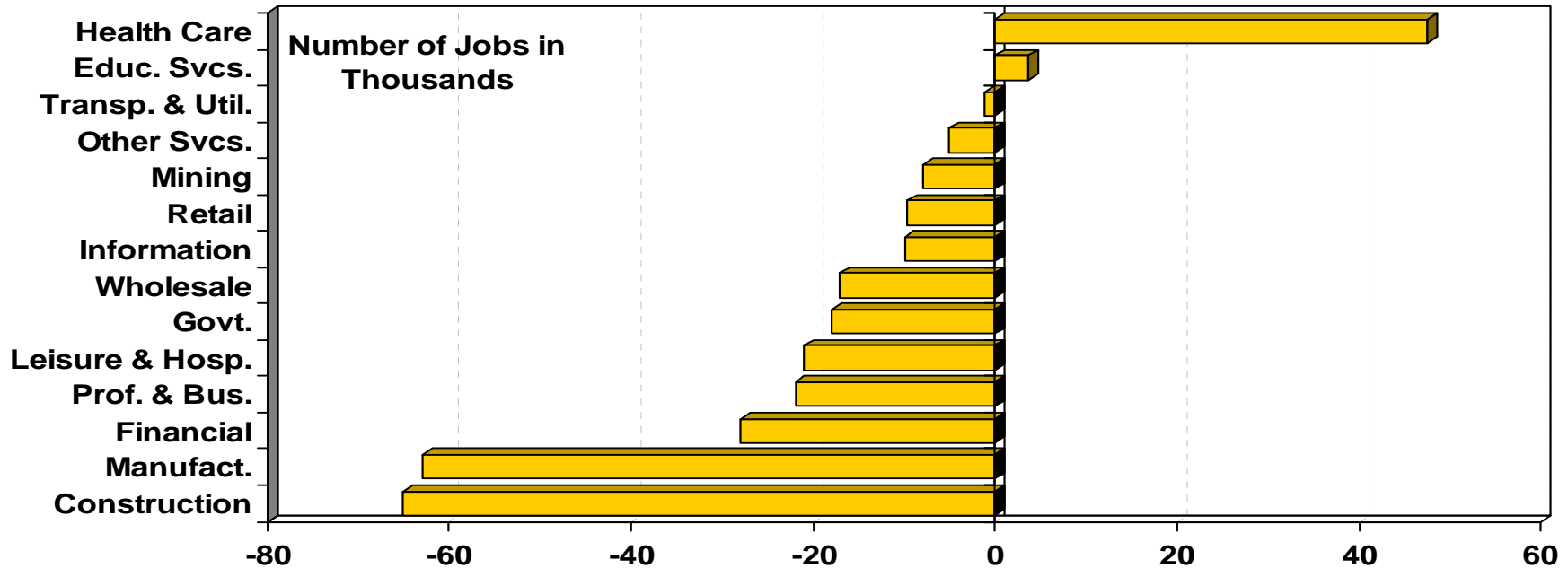
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# Job Change by Industry

August 2008 – August 2009



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Any discussion of job growth should include analysis of the types of jobs being created. This graph displays job creation over the past 12 months by NAICS (North American Industry Classification System) Super Sectors. Office demand comes directly from job growth in the sectors of information, financial services and professional and business services. Other sectors also generate demand for office space but to a lesser degree. Employment sectors most likely to require industrial space include manufacturing, wholesale trade and transportation and warehousing. The demand for retail space depends on retail sales. Retail employment is a lagging indicator, not a leading indicator, of retail sales and the demand for retail space. The demand for apartments is affected by job growth in all sectors. Only the health care and educational services sectors added jobs in August 47,400 and 3,700, respectively. Even the government lost jobs in August – federal, state and local – despite massive spending.

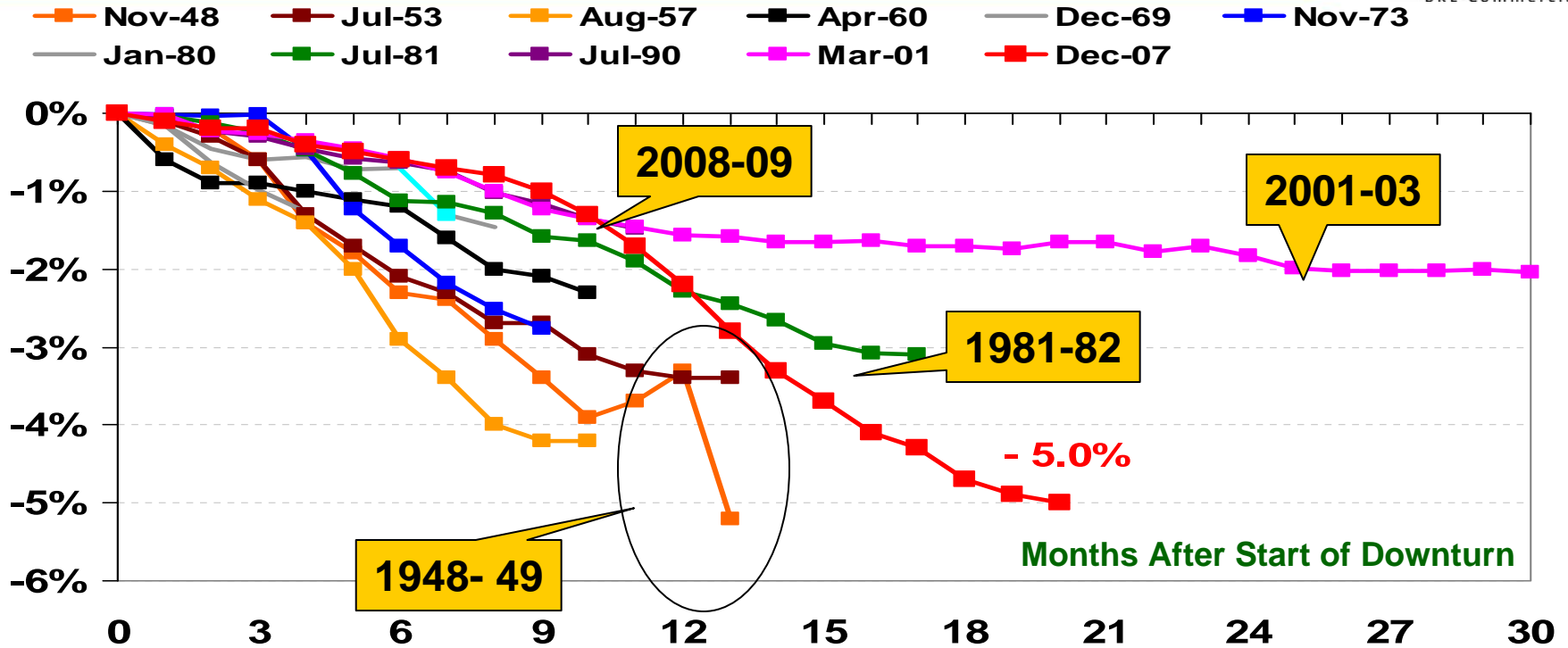
Source: U.S. Department of Labor, Bureau of Labor Statistics Labor Dept.

Next release date: 10/2/2009 8:30 A.M. (EST)

# Payroll Job Losses Related to Post-War Recessions



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This graph compares monthly job losses related to the 11 post-World War II recessions. This graph compares monthly job losses related to the 11 post-World War II recessions. The starting point for each downturn is not necessarily the month when the expansion cycle peaked (the start date of each recession) but the month when total employment peaked before turning downward. These two months are always close to one another but not necessarily synonymous. The labor market shrank for the 20th consecutive month in August as employers eliminated 216,000 net payroll jobs. Cumulative job losses total nearly 7 million, a decline of 5.0 percent since the recession began in December 2007. On a percentage basis, this decline already is steeper than all but one of the 11 post-war recessions, while the 20-month span is the second longest. The recession that began in March 2001 ended just eight months later in November, but employment did not bottom until August 2003, creating a lengthy jobless recovery. Looking ahead, job losses are likely to extend through the first half of 2010 but at a diminishing pace, and the recovery, when it comes, is likely to be tepid.

Source: U.S. Department of Labor, Bureau of Labor Statistics Labor Dept.; Grubb & Ellis Company

Next release date: 10/2/2009 8:30 A.M. (EST)