

EcoTrends®



The EcoTrends® sample is representative of the key sectors of the economy that are included in each month's publications. Tracking these sectors allows readers to not only know what is really going on in the world, but also to anticipate changes before competitors, suppliers and others that you come into contact with.

Each page presents

A reliable forecast

Analysis

Clear action items to consider as we look to tomorrow

Stock Prices

Who doesn't want an accurate analysis of the stock market? But more than that, you will be tuned into the financial sector with future trends in interest rates, inflation, bond market movement and changes in the money supply. These last two are invaluable leading indicators to economic change.

Housing

Housing leads the economy, and as such we all need to keep abreast of changes in this all-important industry. Housing also presents great opportunities for many wholesale distributors given the myriad of goods consumed by this industry.

Nondurable Goods New Orders except aircraft

Business-to-business activity is crucial to our well being. EcoTrends® will track New Orders activity for many industries of interest to wholesale distributors. Increased or decreased activity, whichever way it goes, means adjustments to processes, inventory, budgets and expectations.

Electrical equipment new orders

Drill down from Nondefense Capital Goods new orders into the industry segment that you sell into. Electrical equipment new orders is one such industry. Will order activity stay weak in 2010? How long and how strong a recovery? What percent growth should I plan on? These are the questions answered in each EcoTrends®.

Canada

Six of the most important countries in the world are presented each month. We will also be talking about key exchange rates. Export opportunities, sourcing opportunities, and more are discussed each month.

For more information or questions, NAW members please email itr@ecotrends.org or call ITR at 603-796-2500 and ask to speak to Barbara or Jackie.

Executive Summary: It Is Time

Two thoughts dominate our minds this month. 1) We are on the verge of an end to a historic decline in the housing market. 2) Inflation is on the horizon. The window of opportunity regarding when to act on these two realities begins now.

Looking at the good news, the trend status for **Housing Starts** is improving. The 3/12 rate-of-change is up for the third consecutive month and the trend dynamic is normal. Additionally, the 3MMT seasonal rising trend has improved to the point where it is now normal and the best in six years. While we encourage you to wait for a 3/12 upward passing of the 12/12 rate-of-change as confirmation, it looks to us like the bottom of the worst Housing Starts downturn in post World War II history is taking shape.

Suggested action: Conduct the due diligence required and **make your move** - buy residential real estate. We continue to recommend single family dwelling units and land on water, or with a mountain view, or in an urban area. Four compelling reasons for taking action follow. 1) We are establishing a cyclical low that is characterized by the worst year-over-year comparison in 62½ years. 2) The rate on a 30-year fixed mortgage is around 5.22 percent (the lowest level in a generation) and likely to be heading higher in the future. 3) Home prices are bottoming out. 4) Inflation is going to be on the rise.

Regarding **inflation**, we have defined our inflation expectations as measured by the **CPI** through 2012. We are not calling for hyperinflation, but the anticipated trend is nonetheless quite problematic. Notice from the forecast table below that we are looking for CPI inflation to run slightly over 6.0% in 2011 and 2012. The last time inflation occurred in back-to-back years at that level was in the latter part of the 1970s. The 3/12 figures you see for 2010, 2011, and 2012 refer to fourth quarter estimates.

Higher inflation will dictate higher interest rates, including higher mortgage rates. Higher interest rates will make it difficult to earn a decent rate of return from bond funds; you are better off owning the actual bonds rather than the fund. Because of the nature of the inflation trend we are facing, buying hard assets, including commodities, is an effective long-term hedge against the ravages of inflation. It will pay to be proactive regarding this long-term inflation trend. We expect 2011 and 2012 are just the beginning of a trend that will define a generation.

Consumer Price Index

<u>Forecast Period</u>	<u>Year-over-Year % Change</u>	<u>3/12</u>
Sep-09 forecast	-0.9% to 0.0%	-2.1%
Dec-09 forecast	-1.4% to 0.0%	0.6%
Dec-10 forecast	2.8% to 3.9%	4.2%
Dec-11 forecast	5.0% to 7.3%	7.6%
Dec-12 forecast	5.3% to 7.0%	4.6%

Stock Prices

S & P 500 Index, 1941-43 = 10

PHASE D



HIGHLIGHTS:

12/12 shift into Phase A rise probable within next three months ■ Choppiness ahead near term

INDICATIONS:

The S&P 500 posted a fifth straight monthly gain and the upside momentum is compelling. Stock prices are just a few months away from going through a 12/12 rate-of-change low. This indicator is in the ledger column that says the economy gets better in 2010.

The list of positive leading indicators includes:

1. US Leading Indicator
2. Purchasing Managers Index
3. Corporate Bond Prices
4. Money Supply
5. Stock Prices

Five leading indicators in positive trends is a significant occurrence. It means we aren't getting false positives from one or two errant indicators. This looks like a bonafide recovery trend in the making.

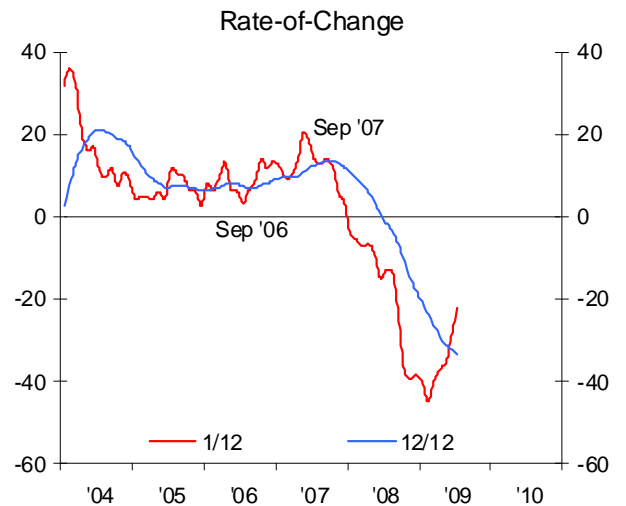
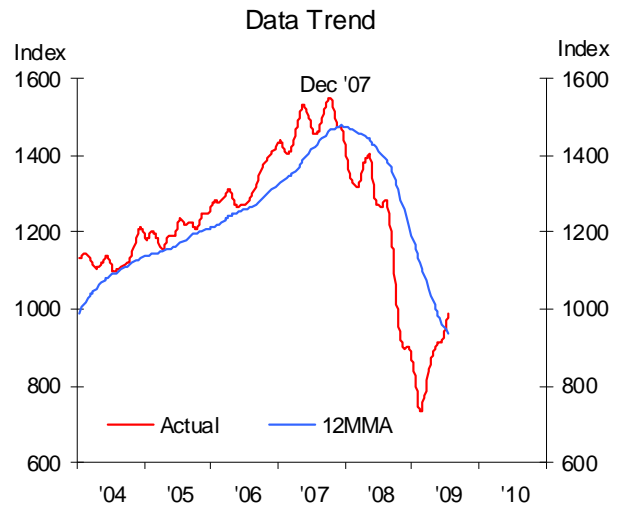
FORECAST NOTE:

Steeper-than-normal ascent is occurring in the 1/12 and the upward passing of the 12/12 looks solid. That suggests more general ascent in prices; however, we think the next three months have the potential to be quite choppy.

MANAGEMENT NOTE:

Our outlook suggests that long-term buy strategies are good-to-go right now and day traders will make some significant short-term profits based on churning.

Date	Actual	1/12	3MMA	3/12	12MMA	12/12
FEB 09	735.09	-44.8	821.41	-41.0	1119.40	-23.7
MAR 09	797.87	-39.7	786.28	-41.5	1075.67	-26.3
APR 09	872.81	-37.0	801.92	-40.4	1032.93	-28.8
MAY 09	909.14	-35.1	859.94	-37.2	992.00	-31.1
JUN 09	919.32	-28.2	900.42	-33.6	961.94	-32.3
JUL 09	987.48	-22.1	938.65	-28.7	938.62	-33.2



Nondurable Consumer Goods New Orders

Trillions of Dollars

PHASE D



HIGHLIGHTS:

Wholesale Trade Nondurables in recession ■ Quarterly New Orders down 23.8% from 2008

INDICATIONS:

The 12MMT data trend fell in June, bringing annual New Orders to \$1.6 trillion, a 20-month low. Encouragingly, the seasonal rise so far in 2009 is slightly above the historical median, with 7.7% growth since February. This indicates that the market for nondurables is in the process of returning to normal cyclical behavior, albeit at levels not seen in years.

While *Personal Consumption Expenditures on Nondurable Goods* rose from May to June, monthly spending is 7.3% below June 2008. Tightening credit and mounting job losses continue to restrain households to lower levels of aggregate consumption.

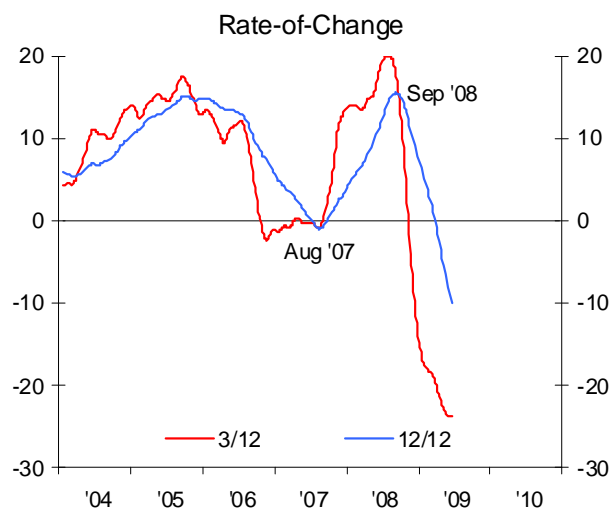
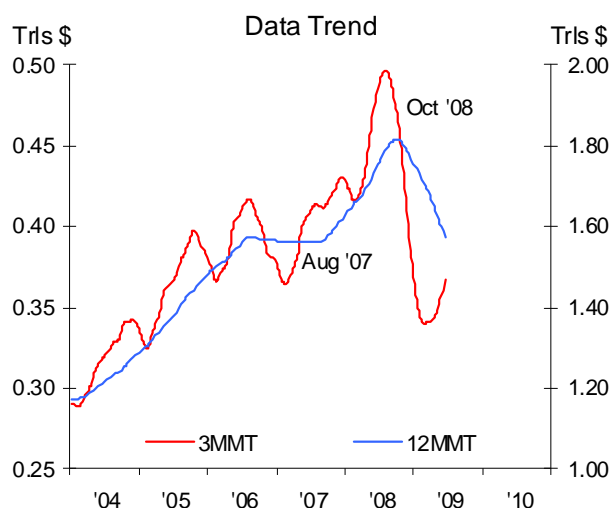
The latest *Wholesale Trade of Nondurable Goods* numbers remain an ominous sign for the nondurables industry. Annual sales are 1.7% below the year-ago level. This is the largest year-to-year decline in trade figures in over 15 years.

FORECAST NOTE:

Plan on a 20.7% drop in New Orders this year compared to 2008 and a flat trend for 2010.

MANAGEMENT NOTE:

Limp consumer spending will continue to squeeze margins in the near term. Trumpet your competitive edge to enhance marketing measures.



Date	Actual	1/12	3MMT	3/12	12MMT	12/12
JAN 09	0.113	-17.2	0.355	-16.4	1.743	6.5
FEB 09	0.111	-19.2	0.341	-18.1	1.717	3.8
MAR 09	0.117	-20.0	0.341	-18.8	1.688	1.1
APR 09	0.116	-24.2	0.344	-21.2	1.651	-2.5
MAY 09	0.122	-25.5	0.355	-23.3	1.609	-6.3
JUN 09	0.129	-21.8	0.367	-23.8	1.573	-9.8

Electrical Equipment New Orders

Billions of Dollars

PHASE D



HIGHLIGHTS

Seasonal rise is mild ■ The rate-of-change trends mean Sales will be challenging going forward

INDICATIONS

The good news is that results through mid year are slightly above the upper side of our forecast. The rest of the news is not so good. Be prepared for another three to four quarters of diminishing opportunities and slimmer margins.

The 3MMT seasonal rise stalled this month, as did the 3/12 rising trend. The seasonal trend is well below normal and June is usually the end of the seasonal rise. The chance for a 12MMT or 12/12 reversal this year just got dimmer.

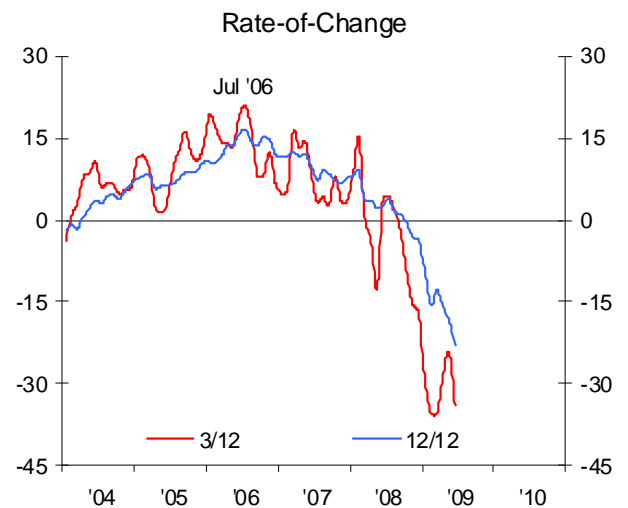
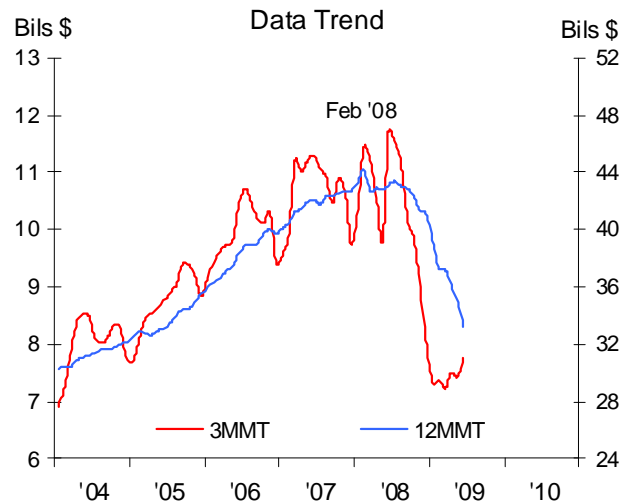
The 12MMT (\$33.3B) has fallen 15.3% since January and is off 24.8% from the February 2008 apex of \$44.2 billion. Look for a 12MMT low in early 2010. We expect the 3/12 to continue to rise and upward pass the 12/12 in 4Q09. This will be a signal that we are on target with our forecast for a recovery in 2010.

FORECAST NOTE:

We are forecasting that the 12MMT will finish this year 33.9% below 2008. 2010 is projected to end up a slim 1.3% *above* 2009 (12MMT).

MANAGEMENT NOTE:

Build strong relationships with vendors and distributors. Be prepared to act aggressively to grab market share when your competitor loses traction.



Date	Actual	1/12	3MMT	3/12	12MMT	12/12
JAN 09	2.304	-45.9	7.315	-29.5	39.237	-9.5
FEB 09	2.501	-43.9	7.382	-35.4	37.277	-15.7
MAR 09	2.428	-2.2	7.233	-35.4	37.222	-12.8
APR 09	2.571	-28.9	7.500	-29.0	36.175	-15.7
MAY 09	2.433	-34.1	7.432	-24.1	34.915	-18.4
JUN 09	2.771	-37.3	7.775	-33.7	33.267	-22.9

Canada

Index, 2000 = 100 S.A.

PHASE D**HIGHLIGHTS:**

Production down 6.4% ■ Recession into 2010 ■ Retail Sales showing early signs of life

INDICATIONS:

Canada is still in a full-fledged recession. The quarterly Industrial Production figures have yet to show any improvement, a bad sign for overall economic health in the second half of 2009. Production is down 6.4% and recovery is not anticipated until early 2010.

Retail Sales (unadjusted) increased by 10.6% in May. Seasonal rise is in place and we now have one month of 3/12 rise. If the rising trend proves to be sustainable, it may very well mark the beginning of an eventual Retail Sales cyclical recovery. Annual Retail Sales remain at a record-low 1.3% below the year-ago level despite the mild monthly improvement.

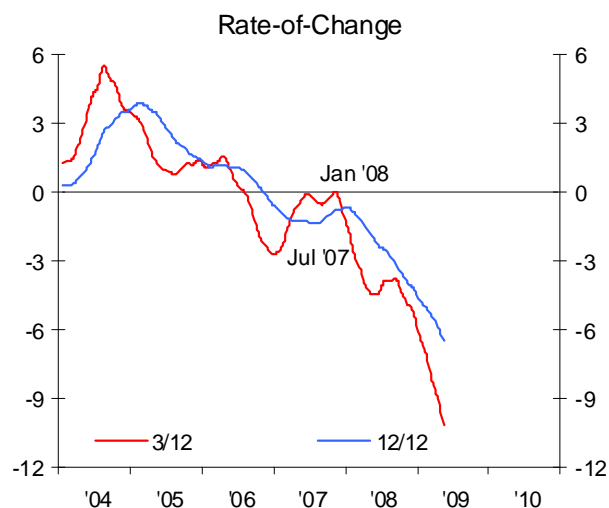
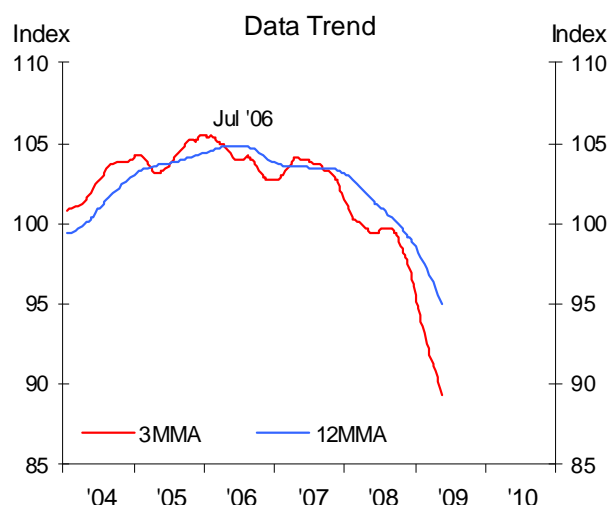
Canada Mining, Oil & Gas Extraction is in recession and shows no sign of recovery. This market will not likely improve until the recession ends, global demand picks up, and commodity prices stabilize.

FORECAST NOTE:

2009 will come in 8.1% below 2008. In 2010, recovery will begin late in the year with Production for the year as a whole coming in 4.3% below 2009.

MANAGEMENT NOTE:

Expect a long, slow recovery beginning in 2010. Cash will be essential. Stay conservative.



Date	Actual	1/12	3MMA	3/12	12MMA	12/12
DEC 08	94.6	-5.4	96.5	-5.3	98.9	-4.2
JAN 09	92.8	-7.8	94.7	-6.3	98.2	-4.7
FEB 09	92.2	-8.0	93.2	-7.1	97.6	-5.0
MAR 09	90.6	-8.8	91.9	-8.2	96.8	-5.4
APR 09	89.6	-10.2	90.8	-9.0	96.0	-5.9
MAY 09	87.9	-11.4	89.4	-10.1	95.0	-6.4