SMMA Quarterly Economic Report June 2008

Prepared by the Institute for Trend Research

The Macroeconomic Overview:

ITR® does not take the position that the US economy is in recession, despite what is reported by business pundits and Alan Greenspan. The probabilities are good that the US economy, as measured by the Industrial Production Index, will maintain a mildly positive heading for 2008 as a whole, with weaker months sporadically strewn through the year. *The outlook takes into consideration that the Federal Reserve Board recently revised the Industrial Production Index, with the result that milder annual growth was reported in 2004, 2006 and 2007 than previously stated. The production industry forecasts have been revised as well, almost all to the downside.*

Industries associated with oil/gas, alternative energy sources and bio-fuels, machinery and equipment (exports), metals, food production, nonresidential construction and civilian aircraft production are still in good stead. These industries are projected to move lower as we progress into the second half of 2009 and 2010, as the global slowdown takes hold. New Orders are being buoyed by the weak dollar, but that is not enough to offset the softness in the rest of the US economy. Exports were 12.7% of GDP through the first quarter.

Many industries in the US are expected to experience a mild rising trend for most of 2008, but not all. The US automobile industry is expected to decline through 2008 and 2009. The decline in the housing industry is being felt in every region of the US, with the Southwest, Pacific and Southeast regions the hardest hit. We do not expect to see a recovery in housing until 2010. Retail Sales are flat as consumers are no longer able to spend at 2004 to 2006 levels. Sales in the past 12 months are a very mild 1.5% above the year-earlier level. Financial institutions are still unsettled. The decline in the Fed funds rate has hardly created a ripple with the average consumer or homebuyer. Home prices continue to decline. Credit for both consumers and businesses is more difficult to obtain, requiring greater collateral, an above-average credit rating, and more advanced planning.

Compounding the slowdown in the US, inflationary pressures around the globe are rising even faster than in the US. The costs of material, labor, food, energy and transportation are raising consumer angst, lowering business confidence, reducing profit margins and slowing growth in Europe, Japan, and countries in Southeast Asia.

Capacity Utilization Rates through April are reflecting the sluggishness in the US economy. The *Fabricated Metals Production Utilization* rate has slowed some to 79.9%, down from about 81.0% where it had hovered since June 2007. The *Iron & Steel Products Utilization* rate (90.3%) is down from a high in February (94.2%), but still signaling activity will be busy going forward. The April *Manufacturing Capacity Utilization* (*excluding selected High Tech*) of 77.4% is the lowest in more than two years (Feb 2006) and below the range considered full capacity for the nation's manufacturing base. Confirming what we are seeing in the Capacity Utilization Rates is the decline in the ISM's Purchasing Managers Index that has been below 50 (48.6%) for three of the past four months, reflecting a decline in both new orders and production. [A reading below 50 is a sign of slowing growth among US manufacturers].

Our forecast for an actual recessionary cycle in the overall economy in 2009 and 2010 has not changed.

The most important reality *for all of us to remember is that the future is our decision when we are operating a business in the single largest, most capital rich and capitalist country on the planet. There is a recession here/coming, but what you do about it is entirely up to you. Staying profitable is your first obligation. Lead with optimism and conviction. Share your vision and execute a real plan for how you are going to go out and get new business.* [Quote from *The Executive Summary*, May 2008 issue of our *EcoTrends®* report].

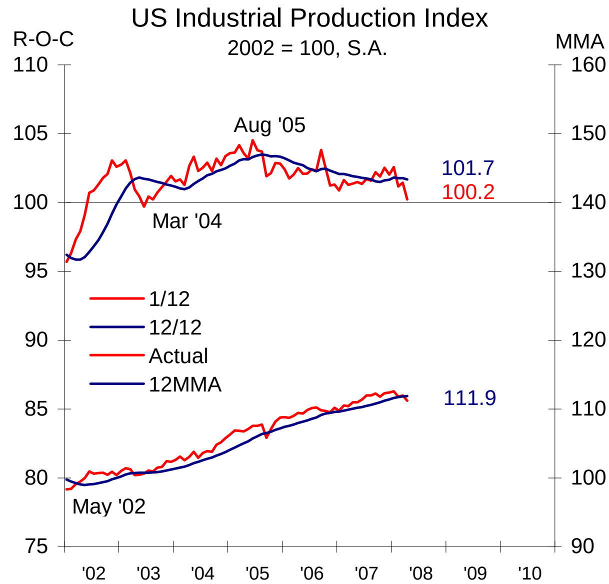
US Industrial Production

Trend: **Positive**

Outlook: 12MMA rise through 2008

Estimated Annual Growth Rates:

2008: 1.5%
2009: -1.7%



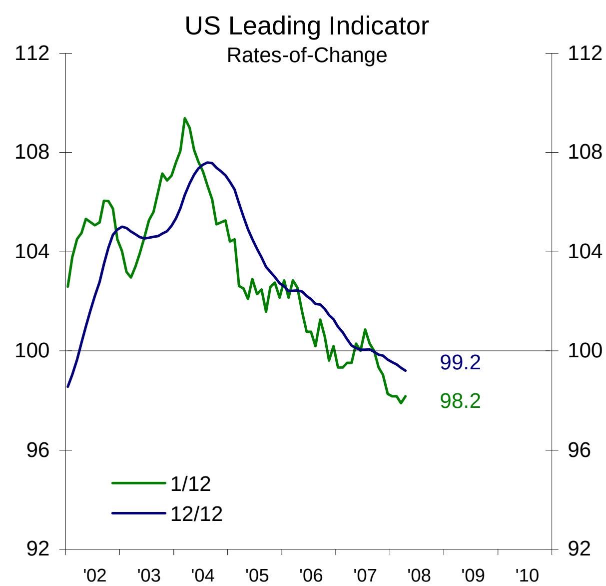
The probabilities are good that the US economy, as measured by the Industrial Production Index, will experience a very mild pace of growth through the second half of 2008. However, the viability of that trend moving into a negative cycle as early as late in 2008 is a concern. Industrial Production growth in Japan and Europe is also slowing and China is expected to see dissipating growth by late 2008. A global slowdown is expected to begin in early 2009, with a global contraction projected for the second half of 2009.

The April 2008 12MMA posted its 45th consecutive record high. The internal signals are suggesting that the present mild pace of growth will continue through the near term. We expect some mild but short-lived improvement to occur in the second half of this year. We have not changed our forecast of a recessionary macroeconomic trend beginning in early 2009 and extending into 2010.

The Industrial Production Index trend stumbled of late. But production is not alone in feeling the impact of this slowdown. GDP grew at an annualized rate of 0.6% in the fourth quarter of 2007 and 0.9% in the first quarter of this year (preliminary). The diminished growth in the economy is broad-based, impacting state and local budgets (declining tax revenues), consumer spending (reduced wealth affect) and business (tightening credit).

Key input for planning: The presidential election will not solve the systemic issues that are leading us into the next macroeconomic negative cycle. Take advantage of every opportunity, diversify away from mature markets, conserve cash and build a backlog through aggressive sales. Strengthen customer service.

US Leading Indicator



The US Leading Indicator is providing no substantive sign of improvement in the near term. This is evident in the rate-of-change trends on the chart; the 1/12 is running well below the 12/12. Not so good.

The only good news for this year from this leading indicator is that short-lived February – July 2007 rise. It is not exactly spellbinding stuff but it does support our projection of mild ascent in Industrial Production. The declining rates-of-change since then are indicative of problems the US economy will likely face beginning in late 2008, unless the monetary and fiscal stimuli work wonders.

A recent data revision by the Conference Board, which produces this index, had no substantial impact on the direction of the Index, the rates-of-change, or the meaning of the trends.

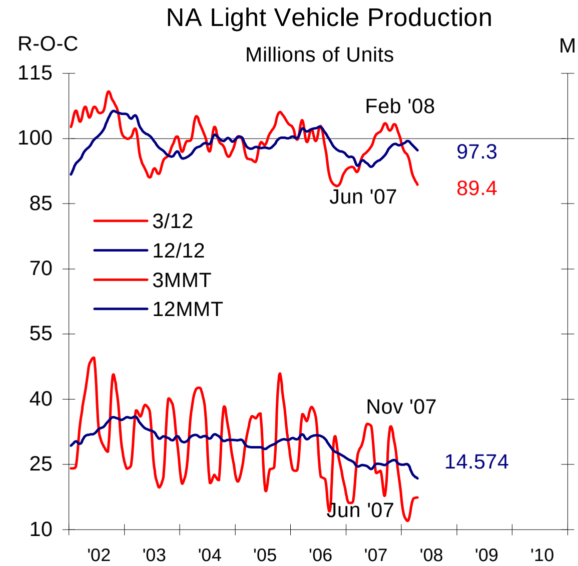
North America Light Vehicle Production

Trend: **Decline**

Outlook: Decline through 2008

Estimated Annual Growth Rates:

2008: -9.0%
2009: -6.7 %



The North America Light Vehicle Production 12MMT fell to the lowest level in 12 years with the release of the April figures. The lethal combination of high gas prices, inefficient gas guzzlers, a strike at American Axle (GM) and tighter credit is having a debilitating affect. *These events, along with the overall slowdown in consumer spending, have pulled down the forecast for 2008.*

The 3MMT (lower red line) has descended 1.1% since September 2007, at a time when it is normal to see a minimal rise of 5.8%. The current trend is better than 1990, but eerily reminiscent of another tough year -1980.

One piece of good news is passenger car production among the new domestics (56.2% of North America production) is 2.5% *ahead* of this time last year. However, total passenger car production is down 4.2%.

Key input for planning: Plan on year-over-year declines for at least the next two years.

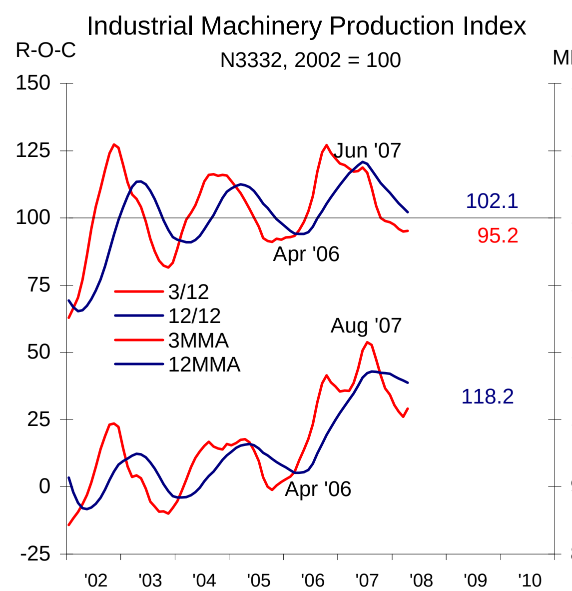
Industrial Machinery Production

Trend: **Decline**

Outlook: Decline through 2008

Estimated Annual Growth Rates:

2008: -3.6%
2009: 1.6%



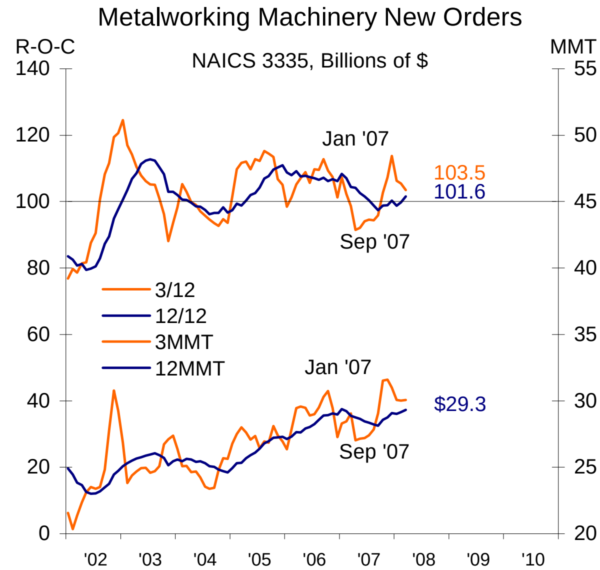
The chart reflects a steeper-than-normal 3MMA decline as well as steeper-than-normal descent in the rates-of-change. Our analysis suggests further 12MMA and 12/12 decline through September, with mild improvement in the fourth quarter of 2008. On an annual basis, production in 2008 will come in -3.6% versus 2007.

After a very strong showing for *Industrial Machinery New Orders* in January, it has melded into a normal seasonal event.

The good news is that the recent FRB revision, which lowered our projections for 2008, boosted the forecast for 2009, from the previously forecasted year-over-year decline of -6.6% to a revised 1.6% gain over 2008.

Key Input for Planning: Reduce overhead costs, trim the workforce. Put capital expenditures on hold for now, except to improve efficiencies with new energy efficient technology and/or gain market share.

Metalworking Machinery New Orders



Trend: **Positive**

Outlook: Rise in 2008

Estimated Annual Growth Rates:

2008: 9.5%
2009: -5.3%

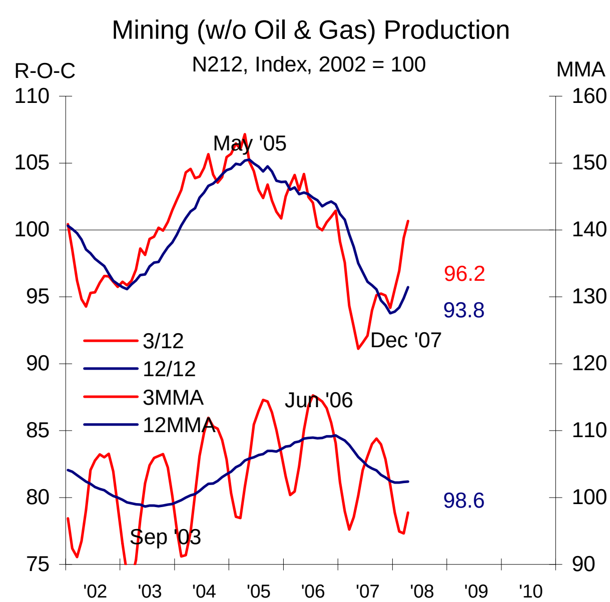
The Metalworking Machinery New Orders upward momentum, evident in the rate-of-change trends, is pointing to ongoing 12MMT rise this year. Metal prices have been driven up by strong demand, strikes, and heightened inflation concerns that have enhanced the allure of metals.

The 12MMT data trend, of $29.3 billion, is 1.6% higher than the year-ago level. Look for the 12MMT to peak around December 2008 near $32.7 billion.

An early signal that the rising trend for new orders will be finite is the downward movement occurring with the 3/12 rate-of-change (upper orange line). This reflects that the normal seasonal rising trend, which often starts in January, has not yet begun, which is an indication that the cyclical strength underpinning the New Orders trend may be waning. Look for the quarterly comparisons to stay above year-earlier levels through 2008.

Key Input for Planning: Clearly delineate your competitive advantages to distinguish your business in what will become a more negative, cost-conscious environment.

Mining Production (w/o Oil & Gas)



Trend: **Mild Rise**

Outlook: Rising through 2008

Estimated Annual Growth Rates:

2008: -0.2%
2009: -0.1%

After a slow start to the year, seasonal and cyclical momentum is underway in production. Currently the 12MMA is 6.2% below the year-earlier level.

Good news is seen in that the 3/12 rate-of-change is soaring above the 12/12, which is a positive signal indicating more 12MMA and 12/12 rise ahead.

Coal Production, 44% of this market, is 0.5% above 2007 and rising (12MMA). *Metal Mining*, 12% of this market, is 0.1% below last year but the internal analysis tells us it will be heading higher. Rising metal prices and iron ore are moving this market upward. The *Aggregate* market (44%) continues to languish around 15% *below* last year.

Key Input for Planning*:* Sell aggressively while commodity prices are high. 2009 will likely see prices decline.

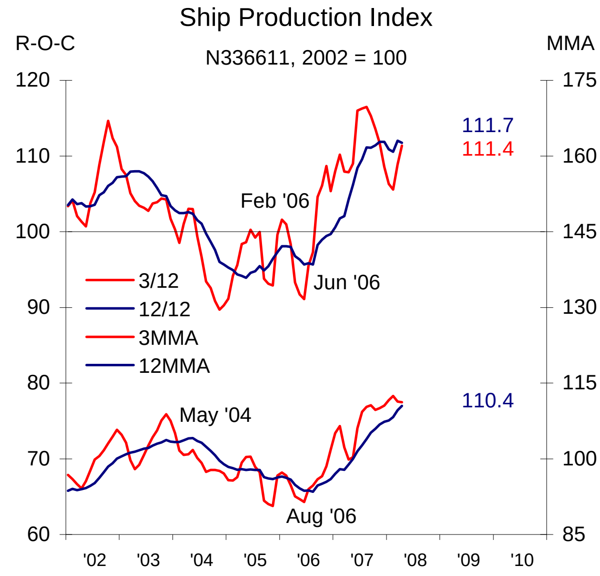
Ship Production

Trend: **Positive**

Outlook: Growth through 2009

Estimated Annual Growth Rates:

2008: 6.5%
2009: 4.5%



A glimpse at the chart (upper portion) shows both the 3/12 and 12/12 trends are at lofty amplitudes. Good growth is the indication.

The 12MMA, already at a 23-year high, is 11.7% higher than the year-earlier. More gains are ahead, albeit at a decelerating pace. The mild rate-of-change declining trend projected going forward is being signaled by the fact that 3/12 is below the 12/12 for the fourth consecutive month.

The 3MMA is 8.8% above the same quarter last year. Global growth in Southeast Asia, the Middle East and South America should keep production busy through 2009 and possibly into early 2010.

Key Input for Planning: Use increased profits to add new products and new customers.

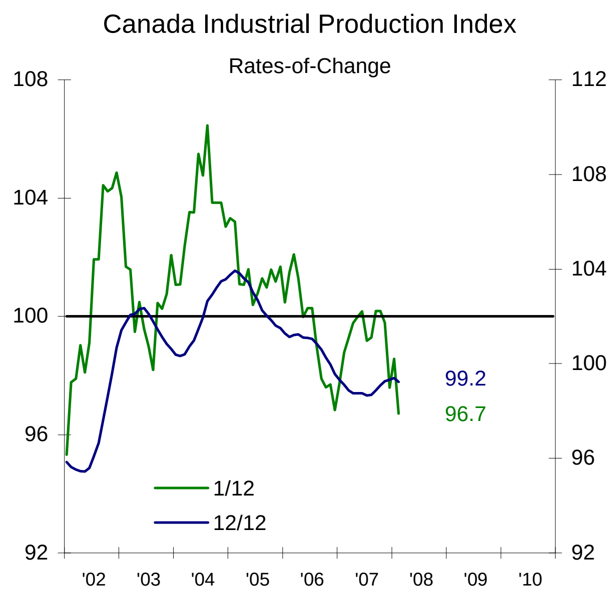
Canada

Trend: **Weakening**

Outlook: Mild decline in 2008

Estimated Annual Growth Rates:

2008: - 1.8%
2009: - 0.6%



Canada Industrial Production is having a difficult time moving upward. Production levels are 0.8% below last year and slightly worse than the previous month (-0.6%). The collapsing 1/12 hardly engenders confidence in a fast turnaround.

The 3MMA has moved lower for 10 straight months. The outlook for the development of an appreciable sustained rising trend dims each month.

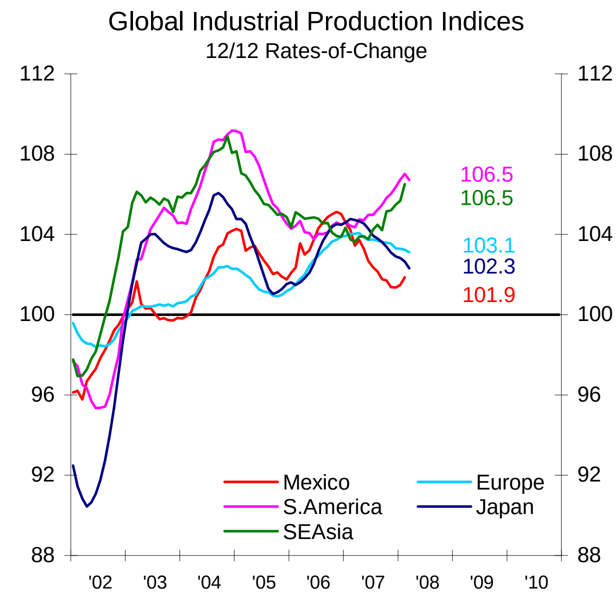
Domestic conditions are generally good. Unemployment (6.0%) is near a 30-year low and wages are rising three times faster than consumer prices. It is industries dependent on slumping US demand (autos, machinery and lumber) that are facing a stiff headwind.

Key Input for Planning: Plan on a more negative cycle in 2009 consistent with the US economy.

The Global Economy:

Europe: The Industrial Production Index in the European economies (EU25) is at a record high, but the rate of growth has been slowing for 10 months. The good news is that the decline has stalled at 3.1%, unchanged for three straight months.

We are projecting that the year will come in 2.8% to 3.3% above 2007. We suggest that the company be aggressive in planning for taking share in Europe. We are forecasting that 2009 will come in a thin 0.5% ahead of 2008. A 2.7% decline is anticipated for 2010.



Southeast Asia: The Production Indices for the eight countries are showing increasing levels of activity and is currently 6.5% ahead of last year, despite increasing inflationary pressures for food, energy and raw materials. Slower growth in the US, Europe and Japan will likely begin to impact this region in late 2008 or early 2009.

Seasonal decline is the mildest since 2003. The seasonal low for 2008 occurred in February and it was 9.2% higher than the 2007 seasonal low. The positive momentum in the rates-of-change indicate continued cyclical rise for the near term.

Japan: Japan's Industrial Production slipped off its record high streak in March (12MMA) but is still 2.3% ahead of last year. Production for the first quarter of 2008 was 1.2% above the same quarter last year. The quarterly activity suggests that the economy is slowing down and lateral movement in the 12MMA should be expected going forward. This is supported by the declining rate-of-change trends that are clearly pointing to decelerating growth as we traverse 2008.

Household spending fell 1.6% in March. Years of deflation have given way to rising consumer and manufacturing prices. Rising material prices pushed the wholesale inflation rate to a 27-year high. Consumer Confidence is the lowest in more than five years.

South America: The Industrial Production 12MMA for South America is at a record high, but the annual rate of growth is slowing as Production levels declined in Argentina, Brazil, and Chile. Seasonal rise is also weak and running below the normal range. The rates-of-change have all moved lower.

Argentina's official inflation rate is 8.0% but is probably higher by a factor of three driven by rising food prices and unchecked government spending. The government continues to utilize price and export controls in an ineffective attempt to lower inflation. Brazil's Industrial Production expanded in March at its slowest pace since late 2006, largely due to a 10% drop in exports to the US. Inflation in Brazil is at 4.9%.

Mexico: Mexico Industrial Production began moving higher in January, ending a 13-month period of slowing growth. Results through February are 1.9% ahead of last year with more rise projected.

We expect the first quarter of 2008 will be reported to have come in about 4.0% better than the same period last year.

Food, clothing and housing costs rose as inflation moved to a 17- month high in March at 4.25%. This prompted the central bank to hold the overnight lending rate at 7.25%.