

YENGST ASSOCIATES

Machinery Market Research

MARKET REPORT / SEPTEMBER 2009



MARKET ACTIVITIES

Deere's Board Approves Latest Investment in Russia

Deere & Company has announced that its Board of Directors has approved an investment plan to establish a manufacturing and parts center in Russia. The project will be located near Moscow, in close proximity to the Domodedovo International Airport. This latest development from Deere follows a prior announcement that appeared in our July Market Report, in which Deere said it intended to significantly expand its farm, forestry and construction machinery operations, specifically its manufacturing capacity, in Russia over the next five to seven years.

Deere said the new site will have the capability to manufacture a broad range of its products, including tractors and harvesting equipment, as well as construction and forestry products. At the same time, the company will consolidate several depots into one site to improve parts and after-sales service to customers.

Deere's newly elected president and CEO Samuel R. Allen reiterated the company's commitment to expanding its presence in Russia, which it views as an important growth market. A reciprocal commitment by the Russian government to facilitate and support investment in the country, expressed by Russian President Medvedev in June in preparation for US/Russia summit meetings in July, paved the way for Deere to move forward with its plan.

The investment in a manufacturing and parts center complements Deere's planned investment in a national operations and training center in the Kaluga region and its existing seeding equipment manufacturing facility in Orenburg. As government policies and market conditions allow, Deere intends to expand the company's presence in Russia in its current facilities and in other locations around the country.

Deere Announces Layoffs at Combine Plant

While on the one hand planning investment in a key growth market, Deere is simultaneously faced with having to continue to find ways to scale down its US operations due to reduced demand for its products. On September 10th, the company announced that 367 manufacturing employees of the John Deere Harvester Works in East Moline, Illinois will be placed on indefinite layoff, effective on September 21st.

Deere said the layoffs affect production workers with the least seniority. Consistent with earlier projections, most of the remaining manufacturing employees at Harvester Works also will start four weeks of inventory adjustment shutdown and two weeks of vacation shutdown on September 21st.

Our Comments

The John Deere Harvester Works manufactures combines and front-end equipment for harvesting, sales of which had been relatively unaffected by the economic downturn during 2008 thanks to strong commodities prices in the first half of the year. The latter half of 2008, however, saw a sharp reversal in commodities prices as demand from the domestic biofuel industry bottomed out and the global recession intensified, affecting exports. Commodities prices directly impact farm income, and with farm income projected to be sharply lower this year and in 2010, capital expenditures for large farm equipment such as harvesting combines would likely be curtailed, driving a decline in sales.

Deere's actions are supported by its fiscal third quarter results for the period ending July 31, 2009, shown later in this report, which indicate that sales in the company's agricultural and turf equipment segment are down 21 percent for the quarter and down 9 percent year to date, versus corresponding prior-year periods.

Bobcat to Close Bismarck Plant

More fallout from the economic downturn is taking place at Bobcat. The company has announced that its Bismarck, ND manufacturing plant will be closed permanently and the bulk of the jobs there shifted to its original facility in Gwinner in southeastern North Dakota. All of the company's North American machinery production will now be consolidated at the Gwinner plant. Mini-excavator manufacturing has all been handled by the Bismarck factory. Now, the Gwinner factory will carry production of skid steer loaders, compact track loaders, mini-excavators, and utility work vehicles. Bobcat, now owned by Doosan Infracore, opened its Bismarck plant in 1974 and is the only company in North America producing mini excavators.

A company spokesperson said 475 positions at the Bismarck plant will be phased out by the end of this year, with 390 of those positions to be switched to the larger Gwinner plant for a net loss of 85 jobs. Workers laid off earlier at the Gwinner plant will be given the first opportunity to fill the transferred positions. About 150 engineering, finance, accounts payable and equipment parts jobs at other facilities in Bismarck are unaffected by the plant shutdown.

In August, Bobcat cut 195 jobs at its three North Dakota sites due to slow sales. The company also made cuts earlier, and the plants were idled for part of June and July. Approximately 1,500 people will be employed at Bobcat after the Bismarck plant closure.

LuiGong Opens First Overseas Factory in India

LiuGong Machinery Corp., the China-based heavy equipment manufacturer, has opened its first overseas factory in India, carrying out its multi-year plan to gain a foothold in that market. The plant is located on 177,000 square meters of land in Pritampur near Indore and currently employs approximately 200 people. A grand opening for the plant was held in early July, attended by Indian and Chinese officials and the company's most senior executives.

LiuGong intends to launch the factory in three phases for a total investment of $30 million USD by 2012. By its final phase, the 20,000 square meter facility will be capable of producing up to 2,000 units of wheel loaders per month as well as excavators, backhoes, compactors and forklifts, though no quantities were provided aside from wheel loader production. In addition to supplying markets in India, the company has previously stated its intentions to export to other South Asia countries, the Middle East and Africa.

LiuGong has been doing business in India since 2002, gradually building sales of its 3- and 5-ton wheel loaders and 20-ton excavators to meet the needs of India's booming construction market. The company has 16 manufacturing plants – all but one located in China – reportedly producing more than 36,000 machines annually for the domestic China and worldwide markets. LiuGong also has a worldwide dealer network with locations in all regional markets, as well as four subsidiary companies including one in India, LiuGong India Private limited, which was incorporated in August 2008 and has a registered office located in New Delhi.

Hitachi to Fully Acquire TCM

Though we have not seen a direct announcement from Hitachi on this subject, there have been reports that Hitachi Construction Machinery (HCM) plans to fully acquire wheel loader and material handling equipment manufacturer TCM Corporation by the end of the year. TCM is currently a 50.1 percent owned subsidiary of Hitachi. According to reports, the acquisition is to be accomplished by means of a share swap in December. The ratio of the swap is expected to be 1 Hitachi share for every 10 TCM shares. Both companies are based in Japan.

According to Thomson Financial, the number of TCM shares not already owned by Hitachi amount to 50.822 million, and Hitachi is giving 5.082 million of its own shares which are valued at JPY 9.727 billion (US$104.638 million), in exchange for the TCM shares. Based on Hitachi Construction’s closing stock price of JPY 1.914 (US$20.59) on the last full trading day prior to the announcement, each TCM share was valued at JPY 191 (US$2.05). TCM is to be delisted on December 17, 2009.

The deal follows a related announcement last October involving Hitachi Construction Machinery, TCM and Kawasaki Heavy Industries, also of Japan, that the three companies were forming an alliance to help meet the challenges of Tier 4/Stage IIIB engine emission requirements that are expected to take effect in 2011. Under the terms of that agreement, Kawasaki will spin off its wheel loader business as an independent subsidiary, and HCM will invest in the new company. Hitachi reportedly has an option to fully acquire the joint venture three years after it is formed, which could result in Hitachi fully acquiring Kawasaki's wheel loader business in 2012, in addition to this year's purchase of TCM.

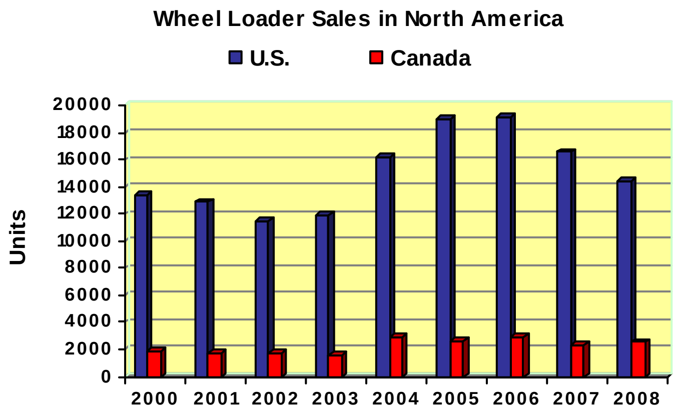
We have not yet seen any updates as to whether or not the wheel loader subsidiary has been created, though this was originally expected to occur in April 2009. The latest announcement suggests that Hitachi is following through on plans to expand into wheel loader markets outside of Japan, and is doing so through consolidation with two former competitors.

EQUIPMENT UPDATE

Our Update of the North American Wheel Loader Market

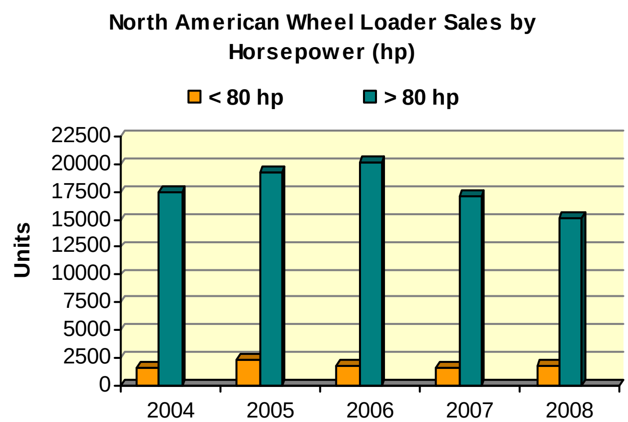
We would like to inform readers that our updated Equipment Analysis on the North American Wheel Loader market is now available. Our last report on this equipment market was published in July 2007, when the collapse of the US housing market was still in its early stages but had already begun to have a detrimental effect on sales of many types of construction equipment. At the time, no one was aware of how severe and far reaching the underlying problems in the housing market actually were, nor did anyone envision the meltdown in financial markets and global economic downturn that would follow in 2008. Our market outlook and sales forecast in July 2007 was based on what was known to us at the time, and our expectations were that housing would return to a stronger position by mid-2008 or 2009, which, of course, was not the case.

The wheel loader market, like all other equipment markets that rely primarily on construction spending in both the residential and non-residential sectors of the economy, has had to weather several years of hardship due to sharply reduced global demand compounded by reduced availability of credit. After rising 66 percent between 2002 and 2006, sales of wheel loaders in North America turned downward in 2007 and have continued falling. Based on our research, we estimate that sales in 2008 were just about where they were ten years ago, and in light of current conditions, we anticipate further decline of approximately 50 percent in 2009.



In terms of production, we expect an even greater drop due to the current oversupply of wheel loaders in the market, particularly among smaller, less global, OEMs that have not been able to export their machines.

There are still a large number of wheel loaders suppliers to the North American market, roughly two dozen at present, with most of these suppliers offering both compact and standard size machines. Our report defines compact wheel loaders as those under 80 horsepower (<80hp) and standard size machines as over-80 horsepower (>80hp). While compact wheel loaders have gained some popularity over the years, they continued to represent only a small percentage of total wheel loader sales, generally staying within a range of 8 to 11 percent from year to year.



With regard to standard wheel loaders, not much has changed with regard to the top tier producers, which are still Caterpillar, Deere, Komatsu, Volvo and Case, in that order, or the fact that they continue to account for an over-80 percent share of the North American market. We have noticed some fluctuation in market share between Caterpillar and Deere over the last few years, with Caterpillar losing a bit to Deere but still retaining its lead position. Balancing out the top five are Kawasaki, New Holland, Hyundai, Doosan, JCB and Terex, which accounted for a combined market share of approximately 12 percent in 2008, while a handful of lesser known suppliers together accounted for less than 100 units sold.

In the compact wheel loader market, Caterpillar currently holds the lead position but competes very closely with Kubota, which produces only compact units and has in past years been the market leader. Deere ranks third followed by Volvo, with Komatsu and Case about even in fifth place. Terex, New Holland and JCB also supply this market, accounting for a combined market share of 6 percent in 2008, by our estimates.

Of the various market trends discussed in our report, one in particular is the increasing number of Chinese suppliers that have entered the wheel loader market. While the lack of firmly established distribution networks has made it difficult to compete Chinese suppliers continue their efforts toward market penetration. A handful of new names joined larger Chinese players like LiuGong, XCMG (Intensus), Changlin, Foton and Shandong Lingong (Volvo CE) in 2008.

Almost all of the major North American wheel loader suppliers import machines into the US, and the number of imports has increased substantially over the past few years. By our estimate, imports accounted for over 30 percent of sales in 2008, and this is largely due to greater numbers of machines coming from Japan as well as from China. Exports have increased as well through 2007 and part of 2008, due to the weak American dollar, which made domestically produced machines more affordable to some overseas buyers. The overseas market has all but gone away during 2009 because of the world recession, and we look for exports of loaders to remain weak in 2010.

Our forecast for wheel loaders takes into account what is anticipated with regard to the primary end markets for these machines, and this depends on what the future holds for housing, energy and other commodities prices, and other economic factors such as employment and consumer spending which strongly impact housing demand. As previously mentioned, we expect overall sales of wheel loaders to decline by more than 50 percent in 2009 versus 2008, due to sharply reduced industry demand. At present, we feel sales will remain at that level in 2010 while the market stabilizes, followed by modest growth in 2011 which we feel will continue through 2013. We will, of course, monitor this market and adjust our outlook as necessary, as the economy continues to progress through recession to recovery during the next 12 – 15 months.

Our updated Equipment Analysis on the North American Wheel Loader market, including our five-year forecast, is available by request.

FINANCIAL RESULTS

Second Quarter Results

Haulotte Group

- The decline in Haulotte's total revenue for the first half of 2009 resulted primarily from a shortfall in European sales, which declined 71 percent to €69.4 million from €240.4 million in the same period in 2008.
- Revenue outside Europe was slightly improved at €18.5 million versus €18.2 million in the first half of 2008. Total revenue for the first half of 2009 includes €11.8 million from BilJax, acquired in July 2008.
- The company maintained its market share and reduced its fixed costs by more than 25 percent, excluding BilJax; nevertheless, an operating loss was reported for the period due to the drop in volumes.

- Regarding its rental business, Haulotte noted that caution on the part of its customers, due to continued uncertainty throughout global markets, remains a challenge and hinders the company's ability to provide a reliable full year forecast.

Table 1: Haulotte Group
Summary of First Half Data: 2009

(€-Millions)	**6 mos. ended 6/30/09**	**6 mos. ended 6/30/08**	***% Chg***
Total Revenue	99.8	258.7	*(61)*
Equipment Sales	70.8	226.1	*(69)*
Equipment Rental	13.9	15.6	*(11)*
Services	15.1	17.0	*(11)*
Operating Income/(Loss)	(28.4)	66.2	---
Net Income/(Loss)	(32.1)	52.2	---

Source: Haulotte Group

- Haulotte has initiated discussions with its banking partners to negotiate new terms for its loan agreement, noting that it has drawn from all available lines of its loan and has liquid assets of €70 million.

Linamar Corporation (Skyjack)

- Sales of Skyjack, owned by Ontario-based Linamar Corporation, declined further in the second quarter of 2009 and are down by more than 60 percent in the first half of 2009 compared with the first half of 2008. Linamar's Powertrain/Driveline segment, which accounts for the majority of the company's total sales, reported a 32 percent decline in sales for the quarter.

Table 2: Linamar Corporation (Skyjack)
Summary of Second Quarter Data: 2009

(CAN$-Millions)	**2nd Q ended 6/30/09**	**2nd Q ended 6/30/08**	***% Chg***	**6 mos. ended 6/30/09**	**6 mos. ended 6/30/08**	***% Chg***
Sales*	378.0	625.4	*(39.6)*	802.9	1,240.0	*(35.3)*
Industrial Segment (Skyjack)	**53.7**	**150.7**	***(64.4)***	**105.1**	**281.1**	***(62.6)***
Operating Earnings (Loss)	(63.0)	52.3	---	(61.9)	102.3	---
Industrial Segment (Skyjack)	**(10.4)**	**14.2**	**---**	**(10.9)**	**33.0**	**---**
Earnings/(Loss) from Continuing Operations	(48.4)	32.0	---	(61.0)	61.5	---
Net Earnings/(Loss) - Adjusted**	(10.1)	32.0	---	(10.7)	59.7	---

Source: Linamar Corporation. *Also includes Linamar's Powertrain/Driveline segment. **Includes tax impact and unusual items.

- Linamar's adjusted net loss of $10.1 million for the second quarter takes into account unusual charges of $38.3 million—consisting of capital asset impairments related to the bankruptcy filings of General Motors and Chrysler in the Powertrain/Driveline segment, as well as severance costs and plant consolidations.

- Taking into account unusual items in the second quarter of 2009, Skyjack's operating loss of $10.4 million was adjusted to an operating loss of $9.2 million, representing a decrease of $23.4 million or 164.5 percent from the second quarter of 2008.

- Despite the negative effects of production shutdowns on sales and earnings for the quarter, Linamar made positive strides with regard to its cash flow, debt reduction and new business growth.

Ritchie Bros. Auctioneers, Inc.

[Note: Ritchie Bros. defines gross auction proceeds as the total proceeds from all items sold at its auctions, while auction revenues represent revenues earned in the course of conducting its auctions. Auction revenues consist primarily of commissions earned on consigned equipment and net profit on the sale of equipment purchased by the company and sold in the same manner as consigned equipment.]

- During the first half of 2009, Ritchie Bros. conducted 92 industrial auctions in 10 countries throughout North America, Europe, the Middle East and Australia, and the company also opened three auction facilities, continuing its global auction site expansion program.

**Table 3: Ritchie Bros. Auctioneers, Inc.
Summary of Second Quarter Data: 2009**

($-Millions)	2nd Q ended 6/30/09	2nd Q ended 6/30/08	*% Chg*	6 mos. ended 6/30/09	6 mos. ended 6/30/08	*% Chg*
Gross Auction Proceeds	$1,109.3	$1,163.5	*(4.7)*	$1,907.6	$1,945.5	*(1.9)*
Auction Revenues	120.5	115.8	*4.1*	204.1	197.2	*3.5*
Earnings from Operations	55.4	50.7	*9.3*	83.4	74.2	*12.4*
Earnings before Income Taxes	56.1	61.1	*(8.2)*	85.5	86.5	*(1.2)*
Net Earnings	38.8	45.9	*(15.5)*	58.7	62.3	*(5.8)*

Source: Ritchie Bros. Auctioneers, Inc.

- **The company noted two global trends stemming from the economic downturn that are supporting its financial performance: an increase in the amount of used equipment coming to market, and an increase in the number of people turning to public auctions to meet their equipment needs.**

- For both the second quarter and first half of 2009, gross auction proceeds declined compared to their corresponding year-ago periods. The auction revenue rate (auction revenues as a percentage of gross auction proceeds), for both the second quarter and first half of 2009 was 11 percent compared with a rate of 10 percent in the corresponding year-ago periods.

- Ritchie Bros. had over 177,000 bidder registrations at its unreserved industrial auctions in the first half of 2009, of which almost 51,000 were successful buyers. This compares to almost 140,000 bidder registrations in the first half of 2008, of which over 41,000 were buyers.

- In the first half of 2009, the company sold over 148,000 lots on behalf of more than 18,000 consignors, which compares to 123,000 lots sold on behalf of more than 18,000 consignors in the first half of 2008.

- The average Ritchie Bros. industrial auction over the 12-month period ended June 30, 2009 attracted 1,700 bidders, compared with 1,400 bidders over 12 months ended June 30, 2008.

- The company sold nearly $425 million of trucks, equipment and other assets to online bidders during the first half of 2009, representing a 15 percent increase over approximately $370 million sold in the same period in 2008. Internet bidders represented approximately 30 percent of the total registered bidders at the company's industrial auctions for the first half of 2009.

Third Quarter Results

Deere & Company, Inc.

- Global market weakness is reflected in sales declines in Deere's equipment segments for its fiscal third quarter ended July 31, 2009. Though quarterly profit was down 27 percent from the year-ago period, the company said it is continuing to benefit from strength in the US market for large farm machinery and from its tight control of costs and inventories.

Table 4: Deere & Company, Inc.
Summary of Third Quarter Data: Fiscal Year 2009

($-Millions)	3rd Q ended 7/31/09	3rd Q ended 7/31/08	*% Chg*	9 mos. ended 7/31/09	9 mos. ended 7/31/08	*%Chg*
Total Net Sales & Revenues*	$5,885	$7,739	*(24)*	$17,778	$21,036	*(15)*
Total Net Equipment Sales	**5,283**	**7,070**	***(25)***	**16,030**	**19,070**	***(16)***
Agriculture &Turf Equipment	4,651	5,876	*(21)*	14,057	15,500	*(9)*
Constr. & Forestry Equip.	632	1,194	*(47)*	1,973	3,570	*(45)*
Operating Profit – Equipment Operations	**452**	**818**	***(45)***	**1,387**	**2,377**	***(42)***
Agriculture & Turf Equipment	480	725	*(34)*	1,472	2,001	*(26)*
Constr. & Forestry Equip.	(28)	93	---	(85)	376	---
Total Operating Profit*	**552**	**934**	***(41)***	**1,602**	**2,765**	***(42)***
Net Income	420	575	*(27)*	1,096	1,708	*(36)*

Source: Deere & Company, Inc. Note: Overseas equipment operations are included all totals. *Includes Credit and Other revenues.

- **Equipment net sales in the US and Canada declined by 16 percent for the quarter and by 9 percent year to date. Net sales outside the US and Canada were down 37 percent for the quarter and 26 percent for the nine month period**, with an unfavorable currency-translation effect of 7 percent for the quarter and 11 percent year to date.

- Declines in equipment operating profit were due primarily to lower shipment and production volumes, the unfavorable effects of foreign exchange, and higher raw material costs which affected the nine-month results. These factors were partially offset by improved price realization and lower selling, administrative and general expenses.

- Equipment Operations reported net income of $319 million for the quarter and $879 million for the nine month period in 2009, compared with $479 million and $1.408 billion for the corresponding periods in 2008.

- **Deere is projecting its equipment sales to be down by approximately 21 percent for the full year and by approximately 34 percent for the fourth**

quarter, including a negative currency-translation impact of about 4 percent for the year and about 1 percent for the quarter. Net income is expected to be about $1.1 billion for 2009.

- **The company is forecasting a 15 percent decline in full-year sales of its agriculture and turf division**, including a negative currency-translation impact of about 5 percent.
  - ⇒ Voluntary employee separations related to the new organizational structure (the combining of its agricultural equipment and commercial and consumer equipment businesses) resulted in pretax charges of $16 million in the third quarter and will be approximately $85 million in the fourth quarter.
  - ⇒ Annual savings from the separation program are expected to be approximately $50 million to $60 million in 2010.
- **Worldwide sales of construction and forestry equipment are forecast to decline by about 47 percent for the year**, due to a slumping global economy, historically low levels of construction activity in the US, and further deterioration in forestry markets worldwide.

TRACKING THE TRENDS

The US Economy

Latest Housing Indicators

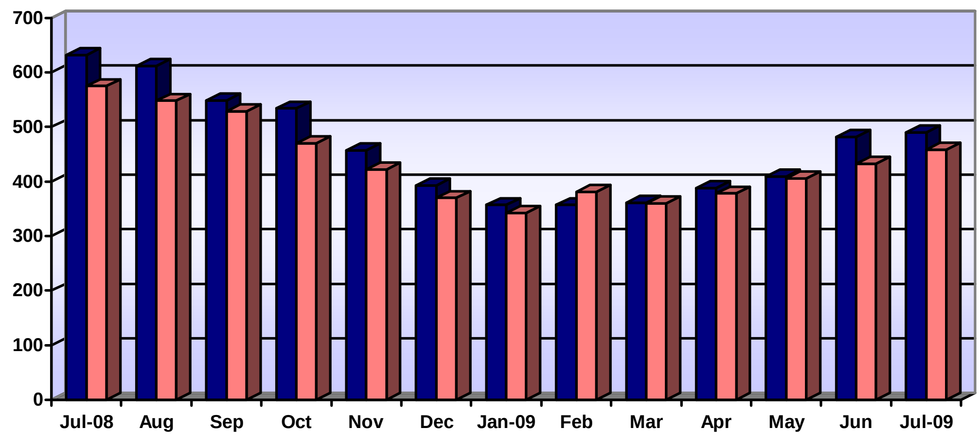
- **Housing starts and building permits slipped in July following strong gains in June. Previous estimates for June were revised higher for both indicators.**
  - ⇒ June housing starts were revised to 587,000 from the previous estimate of 582,000, while June permits were revised to 570,000 from 563,000.
- **The decline in July housing starts was due to a substantial drop in multi-family starts** for the month, which fell almost 17 percent from June.

Table 5: Housing Starts/Building Permits

(Thousands, SAAR)	Jul-09	% Chg Jul-09 vs. Jun-09	% Chg Jul-09 vs. Jul-08
Housing Starts	581	(1.0)	(37.7)
Housing Permits	570	(1.8)	(39.4)

Source: U.S. Census Bureau

- **Single family starts**, however, rose 1.7 percent in July and **have now increased for five straight months**, and **permits for single-family homes rose 5.8 percent July, a fourth consecutive monthly increase** and an encouraging sign for the housing recovery.
- Versus a year ago, housing starts and building permits are each down between 35–40 percent, while last month, both indicators were down between 46–52 percent from year-ago levels.



- **Existing home sales exceeded expectations in July, and for the first time in five years, sales rose for four months in a row.**
- **The year-over-year gain in existing home sales for July (+5.0 percent) was the first gain since November 2005.**
- Driving the strong July data: the first time buyer tax credit and affordability conditions not seen in two decades, including lower priced homes and mortgage rates at near historic lows. Continued weak job numbers, however, remain a threat to home sales.

Table 6: Sales of New and Existing Homes

(Thousands, SAAR)	Jul-09	% Chg Jul-09 vs. Jun-09	% Chg Jul-09 vs. Jul-08
New Home Sales	433	9.6	(13.4)
Existing Home Sales	5,240	7.2	5.0

Source: U.S. Census Bureau, Nat'l Assoc. of Realtors (NAR)

- While inventories are being reduced in certain markets such as San Diego, Las Vegas, Phoenix and Orlando, **the overall national inventory of existing homes for sale remains high at 4.09 million units**, equal to a 9.4 month supply at the current sales pace.
- Still-high **inventories of existing homes for sale**—including distressed and foreclosed properties—are keeping prices down. The **national median existing median home price** was $178,400 in July, down 15 percent from the year-ago level.
- **Both single- and multi-family existing home sales rose in July**; current levels are above year-ago levels by 5 percent and 6 percent, respectively.
- **New home sales advanced for the fourth month in a row to a level not seen since September 2008.** The unexpected gain was attributed to the same factors driving other housing indicators—low mortgage rates, huge price reduction and the first-time homebuyer tax credit.
- **The spike in sales helped reduce new home inventories, which have been steadily dropping, even further to 271,000 in July—the lowest**

level in 16 years—equal to a 7.5 months' supply at the current sales rate, down from 8.8 months in June.

- **The median price of a new home** fell slightly from June to $210,100 and is down about 11 percent from July 2008.

A Review of the Housing Market Index

The NAHB Housing Market Index (HMI) rates the responses of home builders to questions regarding the status of single-family home sales. The overall index is comprised of three separate components: present sales, sales over the next 6 months, and traffic of prospective buyers. Their responses provide economists with a general idea of builder confidence at the present time and six months from now, as well as an idea of the current state of housing demand based on the level of buyer traffic builders are observing.

A rating of 50 indicates that the number of positive responses received from builders is about the same as the number of negative responses. Ratings above 50 indicate more positive responses, while ratings under 50 indicate more negative responses.

When the housing market is booming, it is commonplace to see ratings well above the 50-mark and it's safe to assume that high HMI levels would coincide with other housing indicators suggesting a strong market. The opposite is also true. **Looking over the last ten years, there have only been two times that the overall HMI fell below a reading of 50: the two months following the 9/11 terrorist attacks in 2001, and the current recession.**

The year 2005 was a pivotal year for the HMI. The housing bubble, which had been swelling all through 2002, 2003 and 2004, finally reached a breaking point in mid-2005. The index soared to 72 in June, its highest rating since the start of the current decade, but then began a descent that continued for three years, finally dropping to its lowest level—a reading of 8—in January 2009.

Table 7: NAHB/Wells Fargo Housing Market Index: Jan-08 – Aug-09 (Seasonally Adjusted)

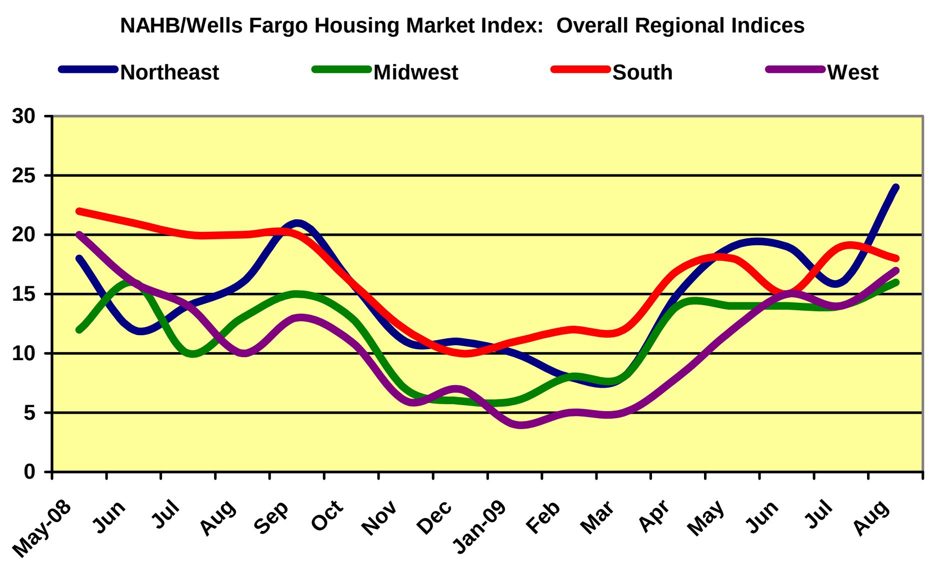
2008												2009							
J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A
Overall Index											Bottoming out					Upward trend			
19	20	20	20	19	18	16	16	17	14	9	9	8	9	9	14	16	15	17	18
Single Family Sales: Present																			
19	20	20	18	17	17	15	16	17	14	9	8	6	7	8	12	14	14	16	16
Single-Family Sales: Next 6 mos.																			
28	27	26	30	28	27	23	24	28	19	18	16	17	15	15	24	27	26	26	30
Traffic of Prospective Buyers																			
14	19	19	19	18	16	12	13	14	11	7	7	8	11	9	13	13	13	13	16

Source: NAHB/Wells Fargo Housing Market Index (HMI)

The table above shows that the bottoming out of the housing market—based on the HMI and its components—occurred from November 2008 to March 2009. Since then, all of the indices have turned upward and appear to have started an upward trend. Current readings for August 2009 are somewhat in line with where they were in late-Spring of 2008.

The most positive aspect of the HMI table, with respect to the measures taken since April 2009, is the strong recovery indicated in the component measuring home builders' expectations for the next six months. Hopefully, all of these measures will continue to steadily increase.

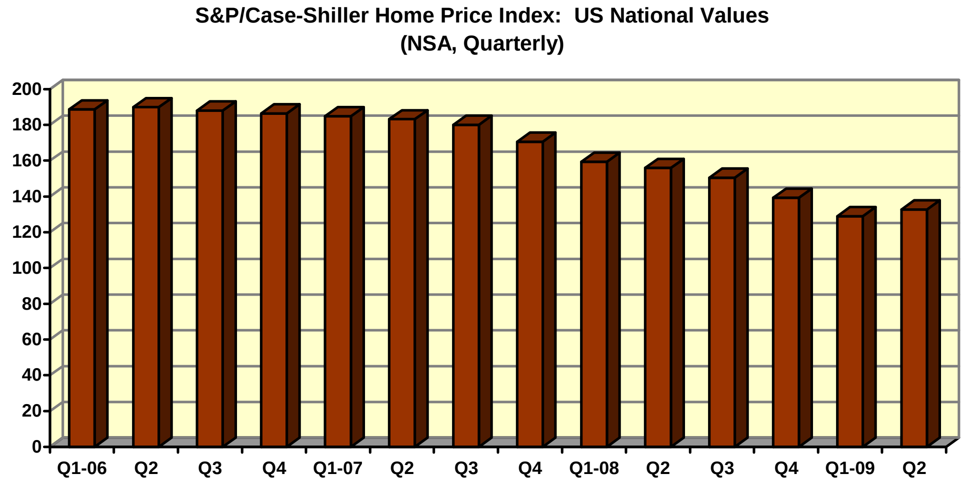
A regional perspective of the HMI, shown in the following line chart, indicates that the same bottoming out period occurred in the four broad US census regions; however, not all regions "hit bottom" in the same month. It appears that the South and the Midwest each hit bottom in December 2008; the West hit bottom in January 2009, and the Northeast hit bottom in March 2009. Considering that states like Florida and Arizona, popular locations for baby boomer purchases of retirement homes, enjoyed the greatest boom in home sales and price appreciation, it follows that the regions in which these states are located would be the first to suffer the effects of the housing market collapse, and therefore the first to "bottom out".



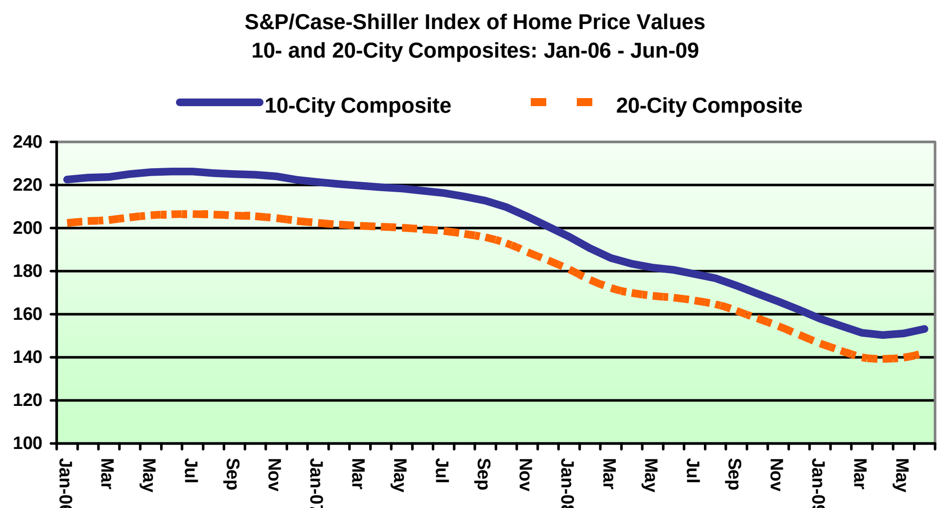
The S&P/Case-Shiller Home Price Index

The S&P/Case-Shiller Home Price Indices are considered the leading measures of US single family home prices and are therefore widely referred to by economists and analysts. Their most recent indices, which included data through June 2009, got a lot of attention due to the fact that **for the first time since 2006, there were signs of improvement in the data that suggested an upward turn from a bottom**.

The US National Composite Index, which is depicted in the bar chart below, rose 2.9 percent in the 2nd quarter compared to the first quarter of 2009. This was the first positive quarter-over-quarter result in three years.



Case-Shiller also generates indices of home price data for US metro areas as well as two composites—a ***10-City Composite and a 20-City Composite***—which are value-weighted averages of the metro areas. Both indices posted their second consecutive monthly increases in June, increasing 1.4 percent over May following a 0.5 percent increase in May over April.



With regard to the annual rates of return for the above indices, results are still substantially negative but there's at least some improvement in the fact that there is less of a decline. The US National Home Price Index recorded a 14.9 percent decline in the 2^{nd} quarter of 2009 versus the 2^{nd} quarter of 2008, an improvement over the record decline of 19.1 percent reported in the 1^{st} quarter of the year. The 10-City and 20-City Composites recorded annual declines of 15.1 percent and 15.4 percent, respectively, both improved from recent record losses of 19.4 percent and 19.1 percent.

To keep things in perspective, it's important to note that average home prices for the 2nd quarter of 2009 are at similar levels to what they were in early 2003, and they are down 30.2 percent from a peak level in the second quarter of 2006.

Falling Non-Residential Construction Offsets Residential Gain

- **Despite the best showing for residential construction spending in 10 months, overall spending edged down slightly in July due to a decline in non-residential spending in the month.**

- A solid increase in **residential construction**—the first since September 2008—drove the slight gain in private construction spending for July, partly offset by the decline in non-residential construction.

Table 8: Construction Spending

($Bil, SAAR)	Jul-09	% Chg Jul-09 vs. Jun-09	Jul-08
Total Construction	**$958**	**(0.2)**	**(10.5)**
Private Construction	630	0.1	(17.0)
Residential	246	2.3	(27.8)
Non-Residential	385	(1.2)	(8.3)
Public	328	(0.7)	5.5

Source: U.S. Census Bureau

- The gain in residential construction spending correlates with strong gains in both housing starts and building permits for the months of May and June, although both indicators showed declines in July.

- **Non-residential construction spending fell for the third straight month**, primarily driven by a substantial drop in the lodging category, as well as declines in office and commercial construction spending.

- Following a 3.6-percent gain in June, **public construction spending** fell slightly in July—the first decline in seven months.

- **Federal construction spending** rose 0.8 percent to $29.6 billion while **State and local construction** fell by 0.8 percent to $298.0 billion in July. The previous June estimates for both federal and state & local spending, however, were revised higher, with both categories showing gains over May.

- **Year-to-date through July 2009,** total construction spending totaled $543.8 billion, down 11.4 percent from $613.5 billion for the same period in 2008.

The Canadian Economy

Toronto Strike Impacts July Building Permits

- The July data on building permits in Canada was skewed by a strike by city employees in Toronto, Ontario, which prevented permits from being issued for most of the month. As shown in the table, this impacted July data significantly and caused an unexpectedly large drop in total building intentions, the first decline in three months.

- Excluding Toronto from the July data, total building permits fell 1.8 percent, residential permits increased 7.4 percent instead of declining by 4.1 percent, and non-residential permits declined by 11.6 percent instead of the 19.3 percent decline shown in the table.

Table 9: Value of Building Permits in Canada

(C$-Millions, SAAR)	Jul-09	Jun-09	Jul-08	% Chg Jul-09 vs. Jun-09	% Chg Jul-09 vs. Jul-08
Canada	4,611	5,201	6,416	(11.4)	(28.1)
Residential	2,595	2,704	3,712	(4.1)	(30.1)
Non-Residential	2,016	2,497	2,704	(19.3)	(25.4)

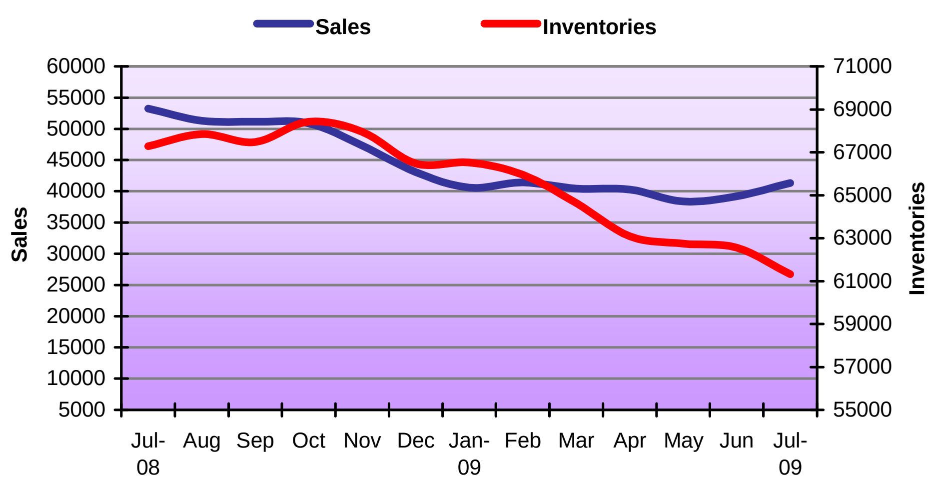
Source: Statistics Canada

- Since the strike of civic workers in Toronto has a direct effect on the issuance of building permits, we will postpone further discussion of this indicator until the strike is over.

Manufacturing Sales Rise for Two Straight Months

- Canada's manufacturing sales have increased for two consecutive months, rising 2.2 percent in June and 5.5 percent in July. A 48-percent gain in motor vehicles sales was a key driver of the July gain; however, manufacturing sales still rose 2.1 percent excluding the motor vehicle category.
- Manufacturing sales are still well below the year-ago level, down by 22.4 percent from $53.3 billion in July 2008. Sales in the motor vehicle industry are also down by about 22 percent from their year-ago level.
- Inventories, which have been decreasing since January 2009, fell 2.0 percent in July to $61.3 billion.
- The rise in overall manufacturing sales combined with the decline in inventories caused the inventory-to-sales ratio to drop from 1.60 to 1.48 in July, though this remains above values seen in 2007 and 2008.

Canada's Manufacturing Sales & Inventories ($Mill., SA)



Global Indicators Snapshot

Output & Prices - % change at annual rate

Country	-----GDP-----		GDP Forecasts†		Consumer Prices		Consumer Prices† Forecasts
	latest	qtr*	2009	2010	latest	year ago	2009
Australia	+0.6 Q2	+2.5	+0.5	+2.0	+1.5 Q2	+4.5	+1.6
Britain	-5.5 Q2	-2.6	-4.3	+1.1	+1.8 Jul**	+4.4	+1.7
Canada	-3.2 Q2	-3.4	-2.2	+2.1	-0.9 Jul	+3.4	+0.6
France	-2.6 Q2	+1.4	-2.1	+1.5	-0.7 Jul	+3.6	+0.2
Germany	-5.9 Q2	+1.3	-5.0	+1.6	nil Aug	+3.1	+0.2
Italy	-6.0 Q2	-1.9	-4.9	+0.7	+0.2 Aug	+4.1	+0.8
Japan	-6.4 Q2	+3.7	-5.5	+1.4	-2.2 Jul	+2.3	-1.1
Sweden	-6.2 Q2	-0.1	-4.8	+1.7	-0.8 Aug	+4.3	-0.2
United States	-3.9 Q2	-1.0	-2.6	+2.5	-2.1 Jul	+5.6	-0.4

Source: The Economist, September 12th, 2009. *% chg. on previous quarter, annual rate. †*The Economist* Poll. **RPI inflation -1.4 in July.

Emerging-Market Indicators

Country	------% Change on year earlier-------		
	GDP	Industrial Production	Consumer Prices
China	+7.9 Q2	+10.8 Jul	-1.8 Jul
India	+6.1 Q2	+7.0 Jul	+11.9 Jul
Indonesia	+4.0 Q2	+0.2 Jun	+2.8 Aug
Malaysia	-3.9 Q2	-9.6 Jun	-2.4 Jul
South Korea	-2.5 Q2	+0.7 Jul	+2.2 Aug
Argentina	+2.0 Q1	-9.0 Jul	+5.5 Jul
Brazil	-1.8 Q1	-9.9 Jul	+4.5 Jul
Chile	-4.5 Q2	-7.4 Jul	-1.0 Aug
Columbia	-0.6 Q1	-6.6 Jun	+3.1 Aug
Mexico	-10.3 Q2	-10.6 Jun	+5.1 Aug
Venezuela	-2.4 Q2	+11.4 Mar	+28.8 Aug
South Africa	-2.8 Q2	-17.1 Jun	+6.7 Jul
Russia	-10.9 Q2	-10.8 Jul	+11.6 Aug

Source: The Economist, September 12th, 2009

Charles Yengst, President

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