

# Economic Review

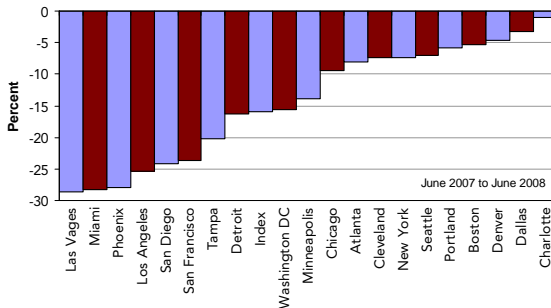
International unrest in Asia contrasted the placid experience of the summer Olympics during August. Following an attempt by former Soviet republic Georgia to regain control of two Russian-sympathizing regions, Russia invaded the country in a pre-planned military campaign. European and U.S. pressure to end the campaign was brushed aside as Russian Prime Minister Putin and President Medvedev vowed to reassert Russian military power. Russian advances in oil and gas production have allowed it to exert control over neighboring countries and Europe, as its coffers have grown along with oil prices. A large number of Chinese factories were idled to lessen air pollution for the Olympics, and may result in a diminished GDP figure for the third quarter. Pakistan's Prime Minister Musharraf resigned, leaving uncertain efforts to eliminate terrorist enclaves in the northwest regions of the country.

## Housing Permits Foretell Continued Building Slump



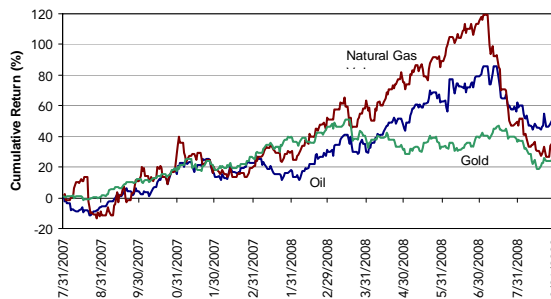
Source: US Census Bureau

## One Year Home Price Declines



Source: Standard & Poor's Case-Schiller

## Oil, Gas, and Gold Prices Retreat



Source: Bloomberg

The U.S. housing market appears to have not yet reached a low point. Building permit applications, an indication of future construction activity, continued at a sluggish pace, although one that is necessary to clear out the inventory of unsold homes. Housing supply, at slightly over ten months, was down from the recent March high of 11.2 months, but indicative of a weak spring and summer in residential real estate.

Mortgage rates remained steady near 6.5%. Buyers have faced excruciatingly difficult approval processes, which have eliminated a large number of potential buyers from the market, further delaying a necessary ingredient for stabilization in home prices. The Case-Schiller home price index of twenty large markets reported a year-over-year decline of nearly 16% through June. Cities with declines of over 10% were Minneapolis, Washington, D.C., Detroit, Las Vegas, and numerous cities in Florida and California. The average decline for the remaining cities was close to 6%.

A milestone was reached in California as electric and gas utility PG&E contracted with two companies to build solar arrays, which would generate 800MW of electricity. The projects will cover 12 square miles with solar panels and arrays. Currently, the largest domestic solar array, located at Nellis Air Force Base, provides 14MW of power. The full viability of the plan rests on Congress to extend tax credits for renewable energy sources, which remain in limbo, pending further reaching energy reform bills that have yet to be debated.

The U.S dollar gained against world currencies. The move was a reflection of weakening fundamentals in Europe and Asia, and not a result of Federal Reserve policies or possible economic expansion. Since its lows in the spring, the dollar has rebounded 8.6%, 12.5%, and 10.8% against the Euro, Yen, and Pound, respectively.

Trumping the recent slide in oil prices, natural gas prices have been cut nearly in half. Limited new supplies have hit the market, and the move may indicate a rotation out of certain commodities. The SEC and other regulatory agencies have also recently bolstered efforts to investigate suspect trading practices in commodities, as well as stocks.

Short-sale restrictions could not avert a sharp slide in Fannie Mae and Freddie Mac stocks, which tumbled 69% and 72% from July 31 to August 21, respectively. Rumors about an impending government takeover sent investors scrambling to exit their positions. Elevated debt costs and lack of access to new capital have left the companies on questionable financial grounds.

### As of August 31, 2008

	August	3 Months	YTD
S&P 500	1.4%	-7.9%	-11.4%
Russell 1000 Value	1.7%	-8.4%	-12.4%
Russell 1000 Growth	1.1%	-8.0%	-9.8%
Russell 2000	3.6%	-0.8%	-2.6%
MSCI EAFE	-4.1%	-14.7%	-17.3%
LB Agg	0.9%	0.8%	2.0%
3-Month T-Bills	0.2%	0.5%	1.5%