

Economic Recap

January 2012 – Week 4

As of January 27, 2012

By DoubleLine Research



About this Economic Recap

This report is a simple recap of economic statistics and events that occurred over the past week. It is not intended to portray DoubleLine's opinion. If you are interested in DoubleLine's views, please review our commentary or listen to our webcasts. You can find the commentary at www.doubleline.com under "Documents & Commentary" and the webcast schedule at www.doublelinefunds.com under "Events".

Week 4 Recap

The Conference Board's (CB's) Index of Leading Indicators increased to 0.4% in December from a revised 0.2% in November, implying the U.S. will continue to grow in the coming months. The Economic Cycle Research Institute (ECRI) Weekly Index Growth Rate showed a contrary picture, however, with its value of -6.50% for the week ending January 20th. This is now the 23rd consecutive negative reading from the ECRI.

Mortgage Bankers Association (MBA) Mortgage Applications slowed 5.0% for the week ending January 20th after a large 23.1% increase the week prior. The MBA also indicated refinancing represented 81.3% of the week's applicants, and activity in this category was 5.4% below the week prior's level. MBA New Purchases, which made up the balance of applications, fell 5.2%. The average 30-year Fixed-Rate Mortgage (FRM) contract rate was 4.11% and the average 15-year FRM contract was 3.40%.

Housing showed some strength with Monday's Federal Housing Finance Agency (FHFA) House Price Index increasing by 1.0% month-over-month (MoM) in November. This came on the back of an upward revision of October's contraction of 0.7% to a contraction of 0.2%.

December saw a slowdown in New Home Sales. December's rate of 307,000 units represents a 2.2% contraction compared with what we saw in November. At this rate the current supply of new homes will last 6.1 months.

Data from the National Association of Realtors (NAR) showed Pending Home Sales decreased by 3.5% in December. In addition, the year-over-year (YoY) figure pace slowed to 4.4% after November's 6.9% YoY rate. These pending sales figures often serve as a proxy for future realized home sales and may indicate a slowing in any recent housing strength.

There was no change the Federal Open Market Committee's (FOMC's) Federal Funds Rate, keeping the target at a range of 0-0.25%. What made news this week, however, was the FOMC lengthening the duration they desire to keep this particular target from mid 2013 to late 2014. There were two new elements debuted in Wednesday's release: the FOMC released individual members' expectations as to future changes in the federal funds rate, and the FOMC named an explicit long-term inflation target of 2.0%.

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Week 4 Recap Continued

New Durable Goods Orders increased at a 3.0% MoM rate in December, albeit at a slower pace than November's 4.3% rate. The best performing sector was Aircraft Orders (increasing 18.9%) and the worst performing sector was Defense Orders (declining by 12.4%). Removing the effects of the Transportation category showed orders increased by 2.1%. Non-defense Capital Goods Orders and Non-defense Capital Goods Shipped both increased by 2.9% in December after contractions of 1.2% and 1.0%, respectively, in November.

The first estimate of Real Fourth Quarter Gross Domestic Product (GDP) showed annualized growth of 2.8%. The largest positive contribution came from a 1.9% contribution from inventory growth, and the largest negative impact came from a 0.9% negative contribution from a drop in government spending. Over this period, Personal Consumption grew by 2.0%. Prices continued to trend down with the GDP Price Index increasing by only 0.4% and the Core Personal Expenditures (PCE) increasing only 1.1%.

Initial Jobless Claims increased for the week ending January 21st to 377,000 from a revised 356,000 the week prior. Ten of the last twelve weeks initial claims have been under 400,000. Continuing Claims also increased in the week ending January 14th and now stand at 3.55 million. Emergency Unemployment Claims fell by 144,900 and Extended Unemployment Claims fell by 1,300 to now account for a combined 3.41 million people. The total number of individuals receiving some form of unemployment benefit now stands at 6.97 million.

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Statistic	Value	Change
Real GDP	\$13,422.4	+0.7%
Real GDP QoQ % Change	2.8%	Last = 1.8%
Real GDP YoY % Change	1.6%	Last = 1.5%
ECRI Weekly Leading Index Growth Rate	-6.5%	Last = -7.6%
Pending Home Sales	96.6k	-3.5%
New Home Sales	307k	-2.2%
New Home Sales Months Supply	6.1 mos	+1.7%
MBA Applications Index	775.6	-5.0%
MBA Purchase Applications Index	184.8	-5.4%
MBA Refinance Applications Index	4,265.3	-5.2%
MBA 15-Year FRM Contract Rate	3.40%	Last = 3.33%
MBA 30-Year FRM Contract Rate	4.11%	Last = 4.06%
Initial Jobless Claims	377k	+21k
Continuing Jobless Claims	3,554.0k	+88k
Extended Jobless Claims	531.9k	-1.3k
Emergency Unemployment Compensation	2,882.0k	-144.9k

Important Information Regarding This Report

DoubleLine has no obligation to provide revised assessments in the event of changed circumstances. While we have gathered this information from sources believed to be reliable, DoubleLine cannot guarantee the accuracy of the information provided. DoubleLine assumes no duty to update this information, which is not a complete discussion of all economic factors reviewed by DoubleLine. DoubleLine reserves the right to change its investment perspective and outlook without notice as market conditions dictate or as additional information becomes available.

Certain data discussed in this report is publicly available only on a time delayed basis. DoubleLine strives to analyze data as it becomes available, but makes no representation that all data is reviewed contemporaneously to its release.

Sources: Bloomberg Financial Services, Bloomberg News, Bureau of Labor Statistics, Conference Board, Department of Labor, Department of Commerce, Economic Cycle Research Institute, Federal Reserve Bank of St. Louis, Mortgage Bankers Association, National Association of Realtors, Redbook Research, U.S. Census Bureau, Bureau of Economic Analysis, Institute of Supply Management, Federal Reserve.

Terms:

CB = Conference Board

ECRI = Economic Cycle Research Institute

FOMC = Federal Open Market Committee

FRM = Fixed-Rate Mortgage

MBA = Mortgage Bankers Association

MoM = month-over-month

NAR = National Association of Realtors

PCE = personal consumption expenditures

YoY = year-over-year